BANK OF HAWAII CORP
Form 10-K
March 01, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2018
	OR
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	for the transition period from _________ to __________

Commission File Number 1-6887
BANK OF HAWAII CORPORATION
(Exact name of registrant as specified in its charter)

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

1-888-643-3888
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 Par Value	New York Stock Exchange

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 x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark 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 amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o

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

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

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

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2018 (the last business day of the registrant's most recently completed second fiscal quarter), determined using the per share closing price on that date on the New York Stock Exchange of $83.42, was approximately $3,422,918,887. There was no non-voting common equity of the registrant outstanding on that date.

As of February 15, 2019, there were 41,212,202 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the 2019 Annual Meeting of Shareholders to be held on April 26, 2019, are incorporated by reference into Part III of this Report.

Table of Contents

Bank of Hawaii Corporation
2018 Form 10-K Annual Report
Table of Contents

	Item Number		Page
Part I	Item 1.	Business	2
	Item 1A.	Risk Factors	8
	Item 1B.	Unresolved Staff Comments	15
	Item 2.	Properties	15
	Item 3.	Legal Proceedings	15
	Item 4.	Mine Safety Disclosures	15
Part II	Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
	Item 6.	Selected Financial Data	18
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	58
	Item 8.	Financial Statements and Supplementary Data	59
	Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	130
	Item 9A.	Controls and Procedures	130
	Item 9B.	Other Information	132
Part III	Item 10.	Directors, Executive Officers and Corporate Governance	132
	Item 11.	Executive Compensation	132
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	132
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	132
	Item 14.	Principal Accounting Fees and Services	132
Part IV	Item 15.	Exhibits, Financial Statement Schedules	133
Signatures			137

Table of Contents

Part I
Item 1. Business

General

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company ("BHC") headquartered in Honolulu, Hawaii. The Parent's principal operating subsidiary, Bank of Hawaii (the "Bank"), was organized on December 17, 1897 and is chartered by the State of Hawaii. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") and the Bank is a member of the Federal Reserve System.

The Bank, directly and through its subsidiaries, provides a broad range of financial products and services primarily to customers in Hawaii, Guam, and other Pacific Islands. References to "we," "our," "us," or "the Company" refer to the Parent and its subsidiaries and are consolidated for financial reporting purposes. The Bank's subsidiaries include Bank of Hawaii Leasing, Inc., Bankoh Investment Services, Inc., and Pacific Century Life Insurance Corporation. The Bank's subsidiaries are engaged in equipment leasing, securities brokerage, investment advisory services, and providing credit insurance.

We are organized into four business segments for management reporting purposes: Retail Banking, Commercial Banking, Investment Services and Private Banking, and Treasury and Other. See Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and Note 13 to the Consolidated Financial Statements for more 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.boh.com as soon as reasonably practicable after such material is electronically filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). The SEC maintains a website, www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our Corporate Governance Guidelines; charters of the Audit and Risk Committee, the Human Resources and Compensation Committee, and the Nominating and Corporate Governance Committee; and our Code of Business Conduct and Ethics are available on our website at www.boh.com. Printed copies of this information may be obtained, without charge, by written request to the Corporate Secretary at 130 Merchant Street, Honolulu, Hawaii, 96813.

Competition

The Company operates in a highly competitive environment subject to intense competition from traditional financial service providers including banks, savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies, and other non-traditional providers of financial services including financial service subsidiaries of commercial and manufacturing companies. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and BHCs, and receive favorable tax treatment. As a result, some of our competitors may have lower cost structures. Also, some of our competitors, through delivery channels such as the Internet, may be based outside of the markets that we serve. By emphasizing our extensive branch network, exceptional service levels, and knowledge of local trends and conditions, the Company has developed an effective competitive advantage in its market.

Supervision and Regulation

Our operations are subject to extensive regulation by federal and state governmental authorities. The regulations are primarily intended to protect depositors, customers, and the integrity of the U.S. banking system and capital markets.

The following information describes some of the more significant laws and regulations applicable to us. The descriptions below are qualified in their entirety by reference to the applicable laws and regulations. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and with the various bank regulatory agencies. Changes in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business, operations, and earnings.

The Parent

The Parent is registered as a BHC under the Bank Holding Company Act of 1956, as amended (the “BHC Act”), and is subject to the supervision of and to examination by the Board of Governors of the Federal Reserve (the “FRB”). The Parent is also registered as a financial institution holding company under the Hawaii Code of Financial Institutions (the “Code”) and is subject to the registration, reporting, and examination requirements of the Code.

Table of Contents

The BHC Act prohibits, with certain exceptions, a BHC from acquiring direct or indirect beneficial ownership or control of either a company that is not a bank, or more than 5% of the voting shares of any bank, without the FRB's prior approval. A BHC is generally prohibited from engaging in any activity other than banking, managing or controlling banks or other subsidiaries authorized under the BHC Act, or an activity that the FRB has determined to be so closely related to those activities as to be a proper incident to one of them.

Under FRB policy, a BHC is expected to serve as a source of financial and management strength to its subsidiary bank. A BHC is also expected to commit resources to support its subsidiary bank in circumstances where it might not do so absent such a policy. Under this policy, a BHC is expected to maintain reliable funding and contingency plans to stand ready to provide adequate capital funds to its subsidiary bank during periods of financial adversity and to maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary bank.

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") banks and BHCs from any state are permitted to acquire banks located in any other state, subject to certain conditions, including certain nationwide and state-imposed deposit concentration limits. Banks also have the ability, subject to certain restrictions, to acquire branches outside their home states by acquisition or merger. The establishment of new interstate branches is also possible in those states with laws that expressly permit de novo branching. Because the Code permits de novo branching by out-of-state banks, those banks may establish new branches in Hawaii.

Bank of Hawaii

The Bank is subject to extensive federal, state, territorial and foreign regulations that significantly affect its business and activities. The Bank is subject to supervision and examination by the FRB of San Francisco, the Consumer Financial Protection Bureau (the "CFPB"), and the State of Hawaii Department of Commerce and Consumer Affairs' ("DCCA") Division of Financial Institutions. These regulatory bodies have broad authority to implement standards and to initiate proceedings designed to prohibit depository institutions from engaging in activities that may represent "unsafe" or "unsound" banking practices or constitute violations of applicable laws, rules, regulations, administrative orders, or written agreements with regulators. The standards relate generally to operations and management, asset quality, interest rate exposure, capital, executive compensation, and consumer protection. The regulatory bodies are authorized to take action against institutions that fail to meet such standards, including the assessment of civil monetary penalties and restitution, the issuance of cease-and-desist orders, and other actions, up to and including revocation of a bank's charter for the most severe infractions, or putting such a bank into receivership if it is not financially viable.

Bankoh Investment Services, Inc., the broker-dealer and investment adviser subsidiary of the Bank, is incorporated in Hawaii and is regulated by the SEC, the Financial Industry Regulatory Authority, and the DCCA's Insurance Division. Pacific Century Life Insurance Corporation is incorporated in Arizona and is primarily regulated by the State of Arizona Department of Insurance.

The Dodd Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and its regulations implemented sweeping changes to the financial regulatory landscape aimed at strengthening the sound operation of the financial services sector by mandating higher capital and liquidity requirements, establishing new standards for mortgage lenders, increasing regulation of executive and incentive-based compensation and numerous other provisions. Provisions also limit or place significant burdens and costs on activities traditionally conducted by banking organizations, such as arranging and participating in swap and derivative transactions, proprietary trading and

investing in private equity and other funds.

Several provisions of the Dodd-Frank Act were significantly changed by enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act in May 2018, notably by eliminating the requirement for institutions like the Company to perform and publicly disclose periodic stress tests. The Company continues to monitor and implement rules, regulations, and interpretations of the Dodd-Frank Act as they are adopted and modified, and to evaluate their application to our current and future operations.

Table of Contents

Capital Requirements

In July, 2013, the FRB, the Office of the Comptroller of the Currency (the “OCC”) and the FDIC adopted new capital rules (the “Rules”). These Rules were designed to help ensure that banks maintain strong capital positions by increasing both the quantity and quality of capital held by U.S. banking organizations. The Rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which are commonly called “Basel III” standards) as well as requirements by the Dodd-Frank Act.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) identifies five capital categories for insured depository institutions: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.”

The federal banking agencies are authorized by FDICIA to impose progressively more restrictive constraints on operations, management and capital distributions, depending on the capital category in which an institution is classified. These “prompt corrective actions” can include: requiring an insured depository institution to adopt a capital restoration plan guaranteed by the institution’s parent company; placing limits on asset growth and restrictions on activities, including restrictions on transactions with affiliates; restricting the interest rates the institution may pay on deposits; prohibiting the payment of principal or interest on subordinated debt; prohibiting the holding company from making capital distribution without prior regulatory approval; and ultimately appointing a receiver for the institution.

A “well capitalized” institution must have a Common Equity Tier 1 Capital Ratio of at least 6.5%, a Tier 1 Capital Ratio of at least 8%, a Total Capital Ratio of at least 10%, a Tier 1 Leverage Ratio of at least 5%, and not be subject to a capital directive order. As of December 31, 2018, the Bank was classified as “well capitalized.” The classification of a depository institution under one of the categories set out above is primarily for the purpose of applying the prompt corrective action, and is not intended to be, nor should it be interpreted as, a representation of the overall financial condition or the prospects of that financial institution. See Note 11 to the Consolidated Financial Statements for more information.

Dividend Restrictions

The Parent is a legal entity separate and distinct from the Bank. The Parent’s principal source of funds to pay dividends on its common stock and to service its debt is dividends from the Bank. Various federal and state laws and regulations limit the amount of dividends the Bank may pay to the Parent without regulatory approval. The FRB is authorized to determine the circumstances when the payment of dividends would be an unsafe or unsound practice and to prohibit such payments. The right of the Parent, its shareholders, and creditors to participate in any distribution of the assets or earnings of its subsidiaries is also subject to the prior claims of creditors of those subsidiaries. For information regarding the limitations on the Bank’s ability to pay dividends to the Parent, see Note 11 to the Consolidated Financial Statements.

Transactions with Affiliates and Insiders

Transactions between the Bank and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of the Bank is any company or entity which controls, is controlled by or is under common control with the Bank which is not a subsidiary of the Bank. Under federal law, the Bank is subject to restrictions that limit the transfer of funds or other items of value to the Parent, and any other non-bank affiliates in “covered transactions.” In general, covered transactions include making loans to an affiliate, the purchase of or investment in the securities issued by an affiliate, the purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral security for a loan or extensions of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit

on behalf of an affiliate, or certain transactions with an affiliate that involve the borrowing or lending of securities and certain derivative transactions with an affiliate.

Unless an exemption applies, covered transactions by the Bank with a single affiliate are limited to 10% of the Bank’s capital and surplus, and with respect to all covered transactions with affiliates in the aggregate, they are limited to 20% of the Bank’s capital and surplus. Section 23B of the Federal Reserve Act and Federal Reserve Regulation W also require that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other non-affiliated persons.

The Federal Reserve Act and Federal Reserve Regulation O place restrictions and certain reporting requirements on any extension of credit made by a member bank to (a) an executive officer, director, or principal shareholder of the bank, or any company of which the bank is a subsidiary, and of any other subsidiary of that company, and (b) a company controlled by such a person, or to a political or campaign committee that benefits or is controlled by such a person (collectively referred to as "insiders"). These restrictions include limits on loans to one borrower and conditions that must be met before such loans can be made. There is also an aggregate limitation on all loans to insiders and their related interests. Certain restrictions also extend to extensions of credit made to an executive officer, directors, or principal shareholder of a bank (or to a related interest of such person) by a correspondent bank.

The Volcker Rule

In December 2013, the Federal Reserve, the OCC, the FDIC, the SEC, and the Commodities Futures Trading Commission issued final rules to implement certain provisions of the Dodd-Frank Act commonly known as the "Volker Rule." The Volcker Rule generally prohibits U.S. banks from engaging in proprietary trading and restricts those banking entities from sponsoring, investing in, or having certain relationships with hedge funds and private equity funds. The prohibitions under the Volcker Rule are subject to a number of statutory exemptions, restrictions, and definitions. The Volcker Rule has not had a material impact on the Company's Consolidated Financial Statements, but we continue to evaluate its application to our current and future operations.

FDIC Insurance

The FDIC provides insurance coverage for certain deposits through the Deposit Insurance Fund, which the FDIC maintains by assessing depository institutions an insurance premium. The Company is assessed deposit insurance premiums by the FDIC using a base rate, to which is added temporary surcharges that are used to establish a FDIC reserve fund and pay certain bond obligations. The Bank's FDIC insurance assessment was $7.7 million in 2018, $8.7 million in 2017, and $8.6 million in 2016.

A depository institution's deposit insurance may be terminated by the FDIC upon a finding that the institution's financial condition is unsafe or unsound, or that the institution has engaged in unsafe or unsound practices, or has violated any applicable rule, regulation, or order or condition enacted or imposed by a regulatory agency. Termination of the Bank's deposit insurance would end its ability to function as a commercial bank in Hawaii.

Depositor Preference

In the event of the "liquidation or other resolution" of an insured depository institution, claims of insured and uninsured depositors for deposits payable in the United States (including the claims of the FDIC as subrogee of insured depositors), plus certain claims for administrative expenses of the FDIC as a receiver will have priority in payment ahead of unsecured creditors including, in the case of the Bank, its Parent.

Other Safety and Soundness Regulations

The federal banking agencies also have adopted guidelines prescribing safety and soundness standards. These guidelines establish general standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings standards, compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines before capital becomes impaired.

Community Reinvestment and Consumer Protection Laws

Community Reinvestment. The Community Reinvestment Act of 1977 (“CRA”) requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank’s record in meeting the credit needs of the communities served by the bank, including low and moderate income neighborhoods. Under the CRA, institutions are assigned a rating of “outstanding,” “satisfactory,” “needs to improve,” or “substantial non-compliance.” The regulatory assessment of the bank’s record is made available to the public. Further, these assessments are considered by regulators when evaluating mergers, acquisitions and applicants to open or relocate a branch or facility. The Bank’s current CRA rating is “outstanding”.

Table of Contents

Consumer Protection Laws. In addition to the CRA, the Bank is subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population in connection with its lending activities. These include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act and the Real Estate Settlement Procedures Act.

Federal banking regulators, pursuant to the Gramm-Leach-Bliley Act, have enacted regulations limiting the ability of banks and other financial institutions to disclose nonpublic consumer information to non-affiliated third parties. The regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with non-affiliated third parties. The Fair and Accurate Credit Transaction Act ("FACT Act") requires financial institutions to develop and implement an identity theft prevention program to detect, prevent and mitigate identity theft "red flags" to reduce the risk that customer information will be misused to conduct fraudulent financial transactions.

A number of other federal and state consumer protection laws extensively govern the Bank's relationship with its customers. These laws include 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 Fair Debt Collection Practices Act, Telephone Consumer Protection Act, the Service Members Civil Relief Act and these laws' respective state-law counterparts, as well as state and territorial usury laws and laws regarding unfair and deceptive acts and practices. These and other laws subject the Bank to substantial regulatory oversight and, among other things, require 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 restrict the Bank's ability to raise interest rates.

The CFPB was created under the Dodd-Frank Act as an agency responsible for promulgating and enforcing regulations designed to protect consumers including adding prohibitions on unfair, deceptive and abusive acts and practices. The CFPB, along with other prudential regulators and the Department of Justice, have also expanded the focus of their regulatory examinations and investigations to include "fair and responsible banking." Fair and responsible banking strives to provide equal credit opportunities to all applicants of a community, to prohibit discrimination by lenders on the basis of certain borrower characteristics, and to ensure that a bank's practices are not deceptive, unfair, or take unreasonable advantage of consumers or businesses. The enhanced focus encompasses the entire loan life cycle, including post-closing activities such as collections and servicing, and pre-application activities such as marketing and loan solicitation and origination.

Violations of applicable consumer protection laws and regulations 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, and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain required bank regulatory approvals for transactions the Bank may wish to pursue, or prohibit us from engaging in such transactions even if approval is not required.

Bank Secrecy Act / Anti-Money Laundering Laws

The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. The USA PATRIOT Act created new laws, regulations, and penalties, imposed significant new compliance and due diligence obligations, and expanded the application of those laws outside the U.S. Additionally, like all U.S. companies and individuals, the Company is prohibited from transacting business with

certain individuals and entities named on the Office of Foreign Asset Control's list of Specially Designed Nationals and Blocked Persons.

The Bank has been required to implement policies, procedures, and controls to detect, prevent, and report potential money laundering and terrorist financing and to verify the identity of its customers. The Company maintains procedures and systems to identify its customers, and to monitor and block transactions related to prohibited persons and entities. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, the federal financial institution regulatory agencies consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and BHC acquisitions.

Employees

As of December 31, 2018, we employed 2,122 full-time equivalent employees.

Table of Contents

Executive Officers of the Registrant

Listed below are executive officers of the Parent as of December 31, 2018.

Peter S. Ho, 53
Chairman and Chief Executive Officer since July 2010 and President since April 2008.

Dean Y. Shigemura, 55
Vice Chair since December 2017, and Chief Financial Officer since March 2017; Senior Executive Vice President and Controller from August 2014 to February 2017; Senior Executive Vice President and Treasurer from May 2008 to July 2014.

Sharon M. Crofts, 53
Vice Chair, Client Solutions Group since April 2016; Vice Chair, Operations and Technology from October 2012 to March 2016.

Wayne Y. Hamano, 64
Vice Chair since December 2008 and Chief Commercial Officer since September 2007.

Kent T. Lucien, 65
Vice Chair and Chief Strategy Officer since March 2017; Vice Chair and Chief Financial Officer from April 2008 to February 2017.

James C. Polk, 52
Vice Chair, Consumer Lending and Deposit Product Group since September 2018 and Consumer and Residential Lending since April 2018; Vice Chair, Mortgage Banking from July 2017 to March 2018; Vice Chair, The Private Bank from June 2016 to June 2017; Senior Executive Vice President, Consumer Banking from January 2016 to May 2016; Senior Executive Vice President, Mortgage Banking from August 2014 to January 2016; Senior Executive Vice President, Commercial Banking from September 2010 to July 2014.

Mark A. Rossi, 69
Vice Chair, Chief Administrative Officer, General Counsel, and Corporate Secretary since February 2007.

Mary E. Sellers, 62
Vice Chair and Chief Risk Officer since July 2005.

Brent T. Flygar, 51
Senior Vice President and Controller since March 2017.

Table of Contents

Item 1A. Risk Factors

There are a number of risks and uncertainties that could negatively affect our business, financial condition or results of operations. We are subject to various risks resulting from changing economic, environmental, political, industry, business, financial and regulatory conditions. The risks and uncertainties described below are some of the important inherent risk factors that could affect our business and operations, although they are not the only risks that may have a material adverse effect on the Company.

Changes in business and economic conditions, in particular those of Hawaii, Guam and other Pacific Islands, could lead to lower revenue, lower asset quality, and lower earnings.

Unlike larger national or other regional banks that are more geographically diversified, our business and earnings are closely tied to the economies of Hawaii and the Pacific Islands. These local economies rely heavily on tourism, the U.S. military, real estate, construction, government, and other service-based industries. Lower visitor arrivals or spending, real or threatened acts of war or terrorism, increases in energy costs, the availability of affordable air transportation, climate change, natural disasters and adverse weather, public health issues including Asian air pollution, and Federal, State of Hawaii and local government budget issues may impact consumer and corporate spending. As a result, such events may contribute to a significant deterioration in general economic conditions in our markets which could adversely impact us and our customers' operations.

General economic conditions in Hawaii remained healthy in 2018, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an active construction industry. However, deterioration of economic conditions, either locally, nationally, or internationally could adversely affect the quality of our assets, credit losses, and the demand for our products and services, which could lead to lower revenues and lower earnings. The level of visitor arrivals and spending, housing prices, and unemployment rates are some of the metrics that we continually monitor. We also monitor the value of collateral, such as real estate, that secures the loans we have made. The borrowing power of our customers could also be negatively impacted by a decline in the value of collateral.

Any reduction in defense spending by the federal government could adversely impact the economy in Hawaii and the Pacific Islands.

The U.S. military has a major presence in Hawaii and the Pacific Islands. As a result, the U.S. military is an important aspect of the economies in which we operate. The funding of the U.S. military is subject to the overall U.S. Government budget and appropriation decisions and processes which are driven by numerous factors, including geo-political events, macroeconomic conditions, and the ability and willingness of the U.S. Government to enact legislation. U.S. Government appropriations have been and likely will continue to be affected by larger U.S. Government budgetary issues and related legislation. Cuts in defense and other security spending could have an adverse impact on the economies in which we operate, which could adversely affect our business, financial condition, and results of operations.

Changes in interest rates could adversely impact our results of operations and capital.

Our earnings are highly dependent on the spread between the interest earned on loans, leases, and investment securities and the interest paid on deposits and borrowings. We primarily rely on customer deposits as a sizable source of relatively stable and low-cost funds. Changes in market interest rates impact the rates earned on loans, leases, and investment securities and the rates paid on deposits and borrowings. In addition, changes to market interest rates could impact the level of loans, leases, investment securities, deposits, and borrowings, and the credit profile of our current borrowers. Interest rates are affected by many factors beyond our control, and fluctuate in response to general

economic conditions, currency fluctuations, and the monetary and fiscal policies of various governmental and regulatory authorities.

Changes in monetary policy, including changes in interest rates, will influence the origination of loans and leases, the purchase of investments, the generation of deposits, and the rates received on loans and investment securities and paid on deposits. Any substantial prolonged change in market interest rates may negatively impact our ability to attract deposits, originate loans and leases, and achieve satisfactory interest rate spreads. If we are unable to continue to fund loans and other assets through customer deposits or access capital markets on favorable terms or if we otherwise fail to manage our liquidity effectively, our liquidity, net interest margin, financial results and conditions may be adversely affected.

Table of Contents

Fiscal and Monetary Policies

The Company's business and earnings are significantly affected by the fiscal and monetary policies of the Federal Government and its agencies. The Bank is particularly affected by the policies of the Federal Reserve, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve are (a) conducting open market operations in U.S. government securities, (b) changing the discount rates of borrowings of depository institutions, (c) imposing or changing reserve requirements against depository institutions' deposits, and (d) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. Changes to these policies of the Federal Reserve may have a material effect on our business, results of operations and financial condition.

Credit losses could increase if economic conditions stagnate or deteriorate.

Although economic conditions are currently healthy nationally and in Hawaii, increased credit losses for us could result if economic conditions stagnate or deteriorate. The risk of nonpayment on loans and leases is inherent in all lending activities. We maintain a reserve for credit losses to absorb estimated probable credit losses inherent in the loan, lease, and commitment portfolios as of the balance sheet date. Management makes various assumptions and judgments about the loan and lease portfolio in determining the level of the reserve for credit losses. Many of these assumptions are based on current economic conditions. Should economic conditions stagnate or deteriorate nationally or in Hawaii, we may experience higher credit losses in future periods.

Inability of our borrowers to make timely repayments on their loans, or decreases in real estate collateral values may result in increased delinquencies, foreclosures, and customer bankruptcies, any of which could have a material adverse effect on our financial condition or results of operations.

Legislation and regulatory initiatives affecting the financial services industry, including new interpretations, restrictions and requirements, could detrimentally affect the Company's business.

The Dodd-Frank Act, enacted in July 2010, triggered sweeping reforms to the financial services industry. Although almost all of the rules and regulations implementing the Dodd-Frank Act have already gone into effect, some of the rules have yet to be implemented and others are being interpreted by federal regulators and the courts. The Dodd-Frank Act, other consumer protection laws, and their implementing rules and regulations are likely to continue to result in increased compliance costs, along with possible restrictions on our products, services and manner of operations, any of which may have a material adverse effect on our operating results and financial condition.

The CFPB has exercised its broad rule-making, supervisory, and examination authority of consumer financial products, as well as expanded data collection and enforcement powers, over depository institutions with more than $10.0 billion in assets. Regulation of overall safety and soundness, the CRA, federal housing and flood insurance, as they pertain to consumer financial products and services, remains with the FRB. As a result of greater regulatory scrutiny of consumer financial products as a whole, the Company has become subject to more and expanded regulatory examinations, which also could result in increased costs as well as harm to our reputation in the event of a finding that we have not complied with the increased regulatory requirements.

New laws, regulations, and changes, and the uncertainty surrounding whether such laws, regulations and changes will be implemented, interpreted, repealed or reinstated, in the current regulatory and political climate, may continue to increase our costs of regulatory compliance. They may significantly affect the markets in which we do business, the markets for and value of our investments, and our ongoing operations, costs, and profitability.

Changes in the capital, leverage, liquidity requirements for financial institutions could materially affect future requirements of the Company.

Under Basel III, financial institutions are required to have more capital and a higher quality of capital. Under the final rules issued by the banking regulators, minimum requirements increased for both the quantity and quality of capital held by the Company.

Compliance with Basel III may result in increased capital, liquidity, and disclosure requirements. See the "Regulatory Initiatives Affecting the Banking Industry" section in MD&A for more information.

Table of Contents

Consumer protection initiatives and court decisions related to the foreclosure process could affect our remedies as a creditor.

Proposed consumer protection initiatives related to the foreclosure process, including voluntary and/or mandatory programs intended to permit or require lenders to consider loan modifications or other alternatives to foreclosure, could increase our credit losses or increase our expense in pursuing our remedies as a creditor.

In addition, Hawaii's appellate courts have made rulings that increase the complexity and risk of nonjudicial, or out-of-court, foreclosures. At the same time, a chronic backlog of cases in the Hawaii courts has slowed the judicial foreclosure process, which may significantly delay the Bank's ability to take over, preserve and sell the mortgaged property. The manner in which these issues are ultimately resolved could impact our foreclosure procedures and costs, which in turn could affect our financial condition or results of operations.

Competition may adversely affect our business.

Our future depends on our ability to compete effectively. We compete for deposits, loans, leases, and other financial services with a variety of competitors, including banks, thrifts, savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies, and other non-traditional providers of financial services, including financial service subsidiaries of commercial and manufacturing companies. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and BHCs, and may benefit from tax exemptions or lower tax rates. As a result, some of these competitors may have lower cost structures.

We expect competitive conditions to intensify as consolidation in the financial services industry continues. The financial services industry is also likely to become more competitive as further technological advances enable more companies, including non-depository institutions, to provide financial services. Also, some of our competitors, through delivery channels such as the Internet, may be based outside of the markets that we serve.

Both federal and local laws provide mechanisms for out-of-state banks and their holding companies to acquire or open branches in our service territories. Failure to effectively address this competitive risk by competing, innovating and making effective use of new and existing channels to deliver our products and services could adversely affect our financial condition or results of operations.

A failure in or breach of our operational systems, information systems, or infrastructure, or those of our third party vendors and other service providers, may result in financial losses, loss of customers, or damage to our reputation.

We rely heavily on communications and information systems to conduct our business. In addition, we rely on third parties to provide key components of our infrastructure, including loan, deposit and general ledger processing, internet connections, and network access. These types of information and related systems are critical to the operation of our business and essential to our ability to perform day-to-day operations, and, in some cases, are critical to the operations of certain of our customers. These third parties with which we do business or that facilitate our business activities, including exchanges, clearing firms, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including breakdowns or failures of their own systems or capacity constraints. Although we have safeguards and business continuity plans in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our business and our customers, resulting in financial losses, loss of customers, or damage to our reputation.

Table of Contents

An interruption or breach in security of our information systems or those related to merchants and third party vendors, including as a result of cyber attacks, could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, or result in financial losses.

Our business requires the collection and retention of large volumes of customer data, including payment card numbers and other personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The integrity and protection of that customer and company data is important to us. As customer, public, legislative and regulatory expectations and requirements regarding operational and information security have increased, our operations systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns.

Our technologies, systems, networks and software, and those of other financial institutions have been, and are likely to continue to be, the target of cybersecurity threats and attacks, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at us. These cybersecurity threats and attacks may include, but are not limited to, attempts to access information, including customer and company information, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service or other events. These types of threats may result from human error, fraud or malice on the part of external or internal parties, intelligence-gathering by foreign governments, or from accidental technological failure internally or by our vendors. Further, to access our products and services our customers may use computers and mobile devices that are beyond our security control systems. The risk of a security breach or disruption, particularly through cyber-attack or cyber intrusion, including by computer hackers, has increased as the number, intensity and sophistication of attempted attacks and intrusions around the world have increased.

Our customers and employees have been, and will continue to be, targeted by parties using fraudulent E-mails and other communications in attempts to misappropriate passwords, payment card numbers, bank account information or other personal information or to introduce viruses or other malware through “trojan horse” programs to our customers’ computers. These communications may appear to be legitimate messages sent by the Bank or other businesses, but direct recipients to fake websites operated by the sender of the E-mail or request that the recipient send a password or other confidential information via E-mail or download a program. Despite our efforts to mitigate these threats through product improvements, use of encryption and authentication technology to secure online transmission of confidential consumer information, and customer and employee education, such attempted frauds against us or our merchants and our third party service providers remain a serious issue. The pervasiveness of cyber security incidents in general and the risks of cyber-crime are complex and continue to evolve. In light of several recent high-profile data breaches involving other companies’ losses of customer personal and financial information, we believe this risk could cause customer and/or Bank losses, damage to our brand, and increase our costs through the ongoing cost of technology investments to improve security, as well as the potential financial ad reputational impact of a cyber security incident involving the Company.

Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well-protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber-attacks and intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected.

Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is virtually impossible for us to entirely mitigate this risk. A security breach or other significant disruption could: 1) disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our customers; 2) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers, including account numbers and other financial information; 3) result in a violation of applicable privacy, data breach and other laws, subjecting the Bank to additional regulatory scrutiny and exposing the Bank to civil litigation, governmental fines and possible financial liability; 4) require significant management attention and resources to remedy the damages that result; or 5) harm our reputation or cause a decrease in the number of customers that choose to do business with us or reduce the level of business that our customers do with us. The occurrence of any such failures, disruptions or security breaches could have a negative impact on our results of operations, financial condition, and cash flows as well as damage our brand and reputation.

Table of Contents

Negative public opinion could damage our reputation and adversely impact our earnings and liquidity.

Reputational risk, or the risk to our business, earnings, liquidity, and capital from negative public opinion, could result from our actual or alleged conduct in a variety of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, ethical issues, or inadequate protection of customer information. We expend significant resources to comply with regulatory requirements. Failure to comply could result in reputational harm or significant legal or remedial costs. Damage to our reputation could adversely affect our ability to retain and attract new customers, and adversely impact our earnings and liquidity.

We are subject to certain litigation, and our expenses related to this litigation may adversely affect our results.

We are, from time-to-time, involved in various legal proceedings arising from our normal business activities. These claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and significant defense costs. The outcome of these cases is uncertain. Substantial legal liability or significant regulatory action against us could have material financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. We may be exposed to substantial uninsured liabilities, which could materially affect our results of operations and financial condition. Based on information currently available, we believe that the eventual outcome of known actions against us will not be materially in excess of such amounts accrued by us. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters may be material to our financial results for any particular period. See the Contingencies section of Note 20 to the Consolidated Financial Statements for more information.

Changes in income tax laws and interpretations, or in accounting standards, could materially affect our financial condition or results of operations.

Further changes in income tax laws could be enacted, or interpretations of existing income tax laws could change, causing an adverse effect on our financial condition or results of operations. Similarly, our accounting policies and methods are fundamental to how we report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the value of our assets, liabilities, and financial results. Periodically, new accounting standards are issued or existing standards are revised, changing the methods for preparing our financial statements. These changes are not within our control and may significantly impact our financial condition and results of operations.

Our performance depends on attracting and retaining key employees and skilled personnel to operate our business effectively.

Our success is dependent on our ability to recruit qualified and skilled personnel to operate our business effectively. Competition for these qualified and skilled people is intense. There are a limited number of qualified personnel in the markets we serve, so our success depends in part on the continued services of many of our current management and other key employees. Failure to retain our key employees and maintain adequate staffing of qualified personnel could adversely impact our operations and our ability to compete.

The soundness of other financial institutions may adversely impact our financial condition or results of operations.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, lending, counterparty, or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions or the financial services industry in general have led to market-wide liquidity problems

and could lead to losses or defaults by us or by other institutions. We have exposure to many different industries and counterparties, and we routinely execute transactions with brokers and dealers, commercial banks, investment banks, mutual funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. Such losses could materially affect our financial condition or results of operations.

Table of Contents

Changes in the capital markets could materially affect the level of assets under management and the demand for our other fee-based services.

Changes in the capital markets could affect the volume of income from and demand for our fee-based services. Our investment management revenues depend in large part on the level of assets under management. Market volatility that leads customers to liquidate investments, move investments to other institutions or asset classes, as well as lower asset values can reduce our level of assets under management and thereby decrease our investment management revenues.

Our mortgage banking income may experience significant volatility.

Our mortgage banking income is highly influenced by the level and direction of mortgage interest rates, real estate activity, and refinancing activity. Interest rates can affect the amount of mortgage banking activity and impact fee income and the fair value of our derivative financial instruments and mortgage servicing rights. Mortgage banking income may also be impacted by changes in our strategy to manage our residential mortgage portfolio. For example, we may occasionally decide to add more conforming saleable loans to our portfolio (as opposed to selling the loans in the secondary market) which would reduce our gains on sales of residential mortgage loans. These variables could adversely affect mortgage banking income.

Our mortgage loan servicing business may be impacted if we do not meet our obligations, or if servicing standards change.

We act as servicer for mortgage loans sold into the secondary market, primarily to government sponsored entities (GSEs) such as Fannie Mae. As a seller and servicer for those loans, we make warranties about their origination and are required to perform servicing according to complex contractual and handbook requirements. We maintain systems and procedures intended to ensure that we comply with these requirements. We may be penalized and, in limited instances required to repurchase certain mortgages, due to alleged failures to adhere to these requirements. Should GSEs change the requirements in their servicing handbooks, we may sustain higher compliance costs.

The requirement to record certain assets and liabilities at fair value may adversely affect our financial results.

We report certain assets, including available-for-sale investment securities, at fair value. Generally, for assets that are reported at fair value we use quoted market prices or valuation models that utilize market data inputs to estimate fair value. Because we record these assets at their estimated fair value, we may incur losses even if the asset in question presents minimal credit risk. The level of interest rates can impact the estimated fair value of investment securities. Disruptions in the capital markets may require us to recognize other-than-temporary impairments in future periods with respect to investment securities in our portfolio. The amount and timing of any impairment recognized will depend on the severity and duration of the decline in fair value of our investment securities and our estimation of the anticipated recovery period.

The Parent's liquidity is dependent on dividends from the Bank.

The Parent is a separate and distinct legal entity from the Bank. The Parent receives substantially all of its cash in the form of dividends from the Bank. These dividends are the principal source of funds to pay, for example, dividends on the Parent's common stock or to repurchase common stock under the Parent's share repurchase program. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to the Parent. If the amount of dividends paid by the Bank is further limited, the Parent's ability to meet its obligations, pay dividends to shareholders, or repurchase stock, may be further limited as well.

13

Table of Contents

There can be no assurance that the Parent will continue to declare cash dividends or repurchase stock.

During 2018, the Parent repurchased 1,079,397 shares of common stock at a total cost of $88.3 million under its share repurchase program. The Parent also paid cash dividends of $98.5 million during 2018. In January 2019, the Parent's Board of Directors declared a quarterly cash dividend of $0.62 per share on the Parent's outstanding shares. In addition, from January 1, 2019 through February 15, 2019, the Parent repurchased an additional 298,500 shares of common stock at an average cost of $75.46 per share and a total cost of $22.5 million.

Our dividend payments and/or stock repurchases may change from time-to-time, and we cannot provide assurance that we will continue to declare dividends and/or repurchase stock in any particular amounts or at all. Dividends and/or stock repurchases are subject to capital availability and periodic determinations by our Board of Directors. We continue to evaluate the potential impact that regulatory proposals may have on our liquidity and capital management strategies, including Basel III and those required under the Dodd-Frank Act. The actual amount and timing of future dividends and share repurchases, if any, will depend on market and economic conditions, applicable SEC rules, federal and state regulatory restrictions, and various other factors. In addition, the amount we spend and the number of shares we are able to repurchase under our stock repurchase program may further be affected by a number of other factors, including the stock price and blackout periods in which we are restricted from repurchasing shares. A reduction in or elimination of our dividend payments and/or stock repurchases could have a negative effect on our stock price.

Natural disasters and adverse weather could negatively affect real estate property values and bank operations.
Real estate and real estate property values play an important role for the Bank in several ways. The Bank owns or leases many real estate properties in connection with its operations, primarily located in Hawaii with its unique weather and geology. Our business operations could suffer to the extent the Bank cannot utilize its branch network due to damage from weather or other natural disasters. Real estate is also utilized as collateral for many of our loans. A natural disaster in Hawaii or the Pacific Islands could cause property values in the affected areas to fall, which could require the Bank to record an impairment on its financial statements. A natural disaster could also impact borrowers' ability to pay their financial obligations, which would increase our exposure to loan defaults.

Table of Contents

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal offices are located in the Financial Plaza of the Pacific in Honolulu, Hawaii. We own and lease other branch offices and operating facilities located throughout Hawaii and the Pacific Islands. Additional information with respect to premises and equipment is presented in Notes 6 and 20 to the Consolidated Financial Statements.

Item 3. Legal Proceedings

We are from time to time subject to lawsuits, investigations and claims arising out of the conduct of our business. Management believes that the ultimate resolution of these matters is not likely to materially affect our financial position and results of operations. For additional information, see Note 20 to the Consolidated Financial Statements, under the discussion related to Contingencies.

Item 4. Mine Safety Disclosures

Not Applicable.

Table of Contents

Part II
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information, Shareholders, and Dividends

Information regarding the historical market prices of the Parent's common stock, book value, and dividends declared on that stock are shown below.

Market Prices, Book Values, and Common Stock Dividends Per Share

	Market Price Range			Book	Dividends
Year/Period	High	Low	Close	Value	Declared
2018	$89.09	$63.64	$67.32	$30.56	$ 2.34
First Quarter	89.09	78.40	83.10		0.52
Second Quarter	88.92	80.20	83.42		0.60
Third Quarter	86.53	78.30	78.91		0.60
Fourth Quarter	82.80	63.64	67.32		0.62
2017	$90.80	$74.72	$85.70	$29.05	$ 2.04
First Quarter	90.80	77.03	82.36		0.50
Second Quarter	84.99	75.92	82.97		0.50
Third Quarter	86.19	74.72	83.36		0.52
Fourth Quarter	88.38	77.71	85.70		0.52

The common stock of the Parent is traded on the New York Stock Exchange (NYSE Symbol: BOH) and quoted daily in leading financial publications. As of February 15, 2019, there were 5,773 common shareholders of record.

The Parent's Board of Directors considers on a quarterly basis the feasibility of paying a cash dividend to its shareholders and the level and feasibility of repurchasing shares of the Parent's common stock. Under the Parent's historical practice, dividends declared are paid within the quarter. See "Dividend Restrictions" under "Supervision and Regulation" in Item 1 of this report and Note 11 to the Consolidated Financial Statements for more information.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
October 1 - 31, 2018	111,462	$ 78.21	109,850	$ 48,070,958
November 1 - 30, 2018	121,630	79.32	121,500	38,433,465
December 1 - 31, 2018	94,027	71.34	94,027	31,725,792
Total	327,119	$ 76.65	325,377	

[1] During the fourth quarter of 2018, 1,742 shares were acquired from employees in connection with income tax withholdings related to the vesting of restricted stock and acquired by the trustee of a trust established pursuant to the Bank of Hawaii Corporation Director Deferred Compensation Plan (the "DDCP") directly from the Parent in satisfaction of the Company's obligations to participants under the DDCP. The issuance of these shares was made in reliance upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") by

Section 4(a)(2) thereof. The trustee under the trust and the participants under the DDCP are accredited investors, as defined in Rule 501(a) under the Securities Act. The transaction did not involve a public offering and occurred without general solicitation or advertising. The shares were purchased at the closing price of the Parent's common stock on the dates of purchase.

[2] The share repurchase program was first announced in July 2001. The program has no set expiration or termination date. The actual amount and timing of future share repurchases, if any, will depend on market and economic conditions, regulatory rules, applicable SEC rules, and various other factors.

16

Table of Contents

Performance Graph

The following graph shows the cumulative total return for the Parent's common stock compared to the cumulative total returns for the Standard & Poor's ("S&P") 500 Index and the S&P Banks Index. The graph assumes that $100 was invested on December 31, 2013 in the Parent's common stock, the S&P 500 Index, and the S&P Banks Index. The cumulative total return on each investment is as of December 31 of each of the subsequent five years and assumes reinvestment of dividends.

	2013	2014	2015	2016	2017	2018
Bank of Hawaii Corporation	$100	$103	$113	$163	$162	$131
S&P 500 Index	$100	$114	$115	$129	$157	$150
S&P Banks Index	$100	$114	$115	$142	$174	$145

Table of Contents

Item 6. Selected Financial Data

Summary of Selected Consolidated Financial Data

(dollars in millions, except per share amounts)	2018	2017	2016	2015	2014
Year Ended December 31,					
Operating Results					
Net Interest Income	$ 486.4	$ 457.2	$ 417.6	$ 394.1	$ 379.7
Provision for Credit Losses	13.4	16.9	4.8	1.0	(4.9)
Total Noninterest Income	168.9	185.4	197.3	186.2	180.0
Total Noninterest Expense	371.6	357.7	350.6	348.1	326.9
Net Income	219.6	184.7	181.5	160.7	163.0
Basic Earnings Per Share	5.26	4.37	4.26	3.72	3.71
Diluted Earnings Per Share	5.23	4.33	4.23	3.70	3.69
Dividends Declared Per Share	2.34	2.04	1.89	1.80	1.80
Performance Ratios					
Net Income to Average Total Assets (ROA)	1.29 %	1.10 %	1.15 %	1.06 %	1.14 %
Net Income to Average Shareholders' Equity (ROE)	17.63	15.27	15.79	14.82	15.50
Efficiency Ratio [1]	56.71	55.66	57.01	59.99	58.41
Net Interest Margin [2]	3.05	2.93	2.83	2.81	2.85
Dividend Payout Ratio [3]	44.49	46.68	44.37	48.39	48.52
Average Shareholders' Equity to Average Assets	7.34	7.22	7.26	7.16	7.35
Average Balances					
Average Loans and Leases	$ 10,043.7	$ 9,346.8	$ 8,362.2	$ 7,423.6	$ 6,405.4
Average Assets	16,971.0	16,749.2	15,825.4	15,136.5	14,317.5
Average Deposits	14,757.7	14,505.4	13,619.5	12,925.2	12,122.1
Average Shareholders' Equity	1,245.7	1,209.1	1,149.3	1,084.1	1,052.2
Weighted Average Shares Outstanding					
Basic Weighted Average Shares	41,714,770	42,280,931	42,644,100	43,217,818	43,899,208
Diluted Weighted Average Shares	41,999,399	42,607,057	42,879,783	43,454,877	44,125,456
As of December 31,					
Balance Sheet Totals					
Loans and Leases	$ 10,448.8	$ 9,797.0	$ 8,949.8	$ 7,879.0	$ 6,897.6
Total Assets	17,144.0	17,089.1	16,492.4	15,455.0	14,787.2
Total Deposits	15,027.2	14,884.0	14,320.2	13,251.1	12,633.1
Other Debt	135.6	260.7	267.9	245.8	173.9
Total Shareholders' Equity	1,268.2	1,231.9	1,161.5	1,116.3	1,055.1
Asset Quality					
Allowance for Loan and Lease Losses	$ 106.7	$ 107.3	$ 104.3	$ 102.9	$ 108.7
Non-Performing Assets	12.9	16.1	19.8	28.8	30.1
Financial Ratios					
Allowance to Loans and Leases Outstanding	1.02 %	1.10 %	1.17 %	1.31 %	1.58 %
Tier 1 Capital Ratio [4]	13.07	13.24	13.24	13.97	14.69

Total Capital Ratio [4]	14.21	14.46	14.49	15.22	15.94
Tier 1 Leverage Ratio [4]	7.60	7.26	7.21	7.26	7.13
Total Shareholders' Equity to Total Assets	7.40	7.21	7.04	7.22	7.14
Tangible Common Equity to Tangible Assets [5]	7.23	7.04	6.86	7.03	6.94
Tangible Common Equity to Risk-Weighted Assets [4, 5]	12.52	12.84	12.81	13.62	14.46
Non-Financial Data					
Full-Time Equivalent Employees	2,122	2,132	2,122	2,164	2,161
Branches and Offices	69	69	69	70	74
ATMs	382	387	449	456	459
Common Shareholders of Record	5,797	5,982	6,121	6,279	6,421

1 Efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

2 Net interest margin is defined as net interest income, on a taxable-equivalent basis, as a percentage of average earning assets.

3 Dividend payout ratio is defined as dividends declared per share divided by basic earnings per share.

4 December 31, 2018, 2017, 2016, and 2015 calculated under Basel III rules, which became effective January 1, 2015.

5 Tangible common equity to tangible assets and tangible common equity to risk-weighted assets are Non-GAAP financial measures. See the "Use of Non-GAAP Financial Measures" section below.

Table of Contents

Use of Non-GAAP Financial Measures

The ratios “tangible common equity to tangible assets” and “tangible common equity to risk-weighted assets” are Non-GAAP financial measures. The Company believes these measurements are useful for investors, regulators, management and others to evaluate 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.

GAAP to Non-GAAP Reconciliation

	December 31,				
(dollars in thousands)	2018	2017	2016	2015	2014
Total Shareholders’ Equity	$1,268,200	$1,231,868	$1,161,537	$1,116,260	$1,055,086
Less: Goodwill	31,517	31,517	31,517	31,517	31,517
Tangible Common Equity	$1,236,683	$1,200,351	$1,130,020	$1,084,743	$1,023,569
Total Assets	$17,143,974	$17,089,052	$16,492,367	$15,455,016	$14,787,208
Less: Goodwill	31,517	31,517	31,517	31,517	31,517
Tangible Assets	$17,112,457	$17,057,535	$16,460,850	$15,423,499	$14,755,691
Risk-Weighted Assets, determined in accordance with prescribed regulatory requirements [1]	$9,878,904	$9,348,296	$8,823,485	$7,962,484	$7,077,035
Total Shareholders’ Equity to Total Assets	7.40 %	7.21 %	7.04 %	7.22 %	7.14 %
Tangible Common Equity to Tangible Assets (Non-GAAP)	7.23 %	7.04 %	6.86 %	7.03 %	6.94 %
Tier 1 Capital Ratio [1]	13.07 %	13.24 %	13.24 %	13.97 %	14.69 %
Tangible Common Equity to Risk-Weighted Assets (Non-GAAP) [1]	12.52 %	12.84 %	12.81 %	13.62 %	14.46 %

[1] December 31, 2018, 2017, 2016, and 2015 calculated under Basel III rules, which became effective January 1, 2015.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts and may include statements concerning, among other things, the anticipated economic and business environment in our service area and elsewhere, credit quality and other financial and business matters in future periods, our future results of operations and financial position, our business strategy and plans and our objectives and future operations. We also may make forward-looking statements in our other documents filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). In addition, our senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others. Our forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate, and actual results may differ materially from those projected because of a variety of risks and uncertainties, including, but not limited to: 1) general economic conditions either nationally, internationally, or locally may be different than expected, and particularly, any event that negatively impacts the tourism industry in Hawaii; 2) unanticipated changes in the securities markets, public debt markets, and other capital markets in the U.S. and internationally; 3) competitive pressures in the markets for financial services and products; 4) the impact of legislative and regulatory initiatives, particularly the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018; 5) changes in fiscal and monetary policies of the markets in which we operate; 6) the increased cost of maintaining or the Company's ability to maintain adequate liquidity and capital, based on the requirements adopted by the Basel Committee on Banking Supervision and U.S. regulators; 7) actual or alleged conduct which could harm our reputation; 8) changes in accounting standards; 9) changes in tax laws or regulations, including Public Law 115-97, commonly known as the Tax Cuts and Jobs Act, or the interpretation of such laws and regulations; 10) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 11) changes in market interest rates that may affect credit markets and our ability to maintain our net interest margin; 12) the impact of litigation and regulatory investigations of the Company, including costs, expenses, settlements, and judgments; 13) any failure in or breach of our operational systems, information systems or infrastructure, or those of our merchants, third party vendors and other service providers; 14) any interruption or breach of security of our information systems resulting in failures or disruptions in customer account management, general ledger processing, and loan or deposit systems; 15) changes to the amount and timing of proposed common stock repurchases; and 16) natural disasters, public unrest or adverse weather, public health, and other conditions impacting us and our customers' operations or negatively impacting the tourism industry in Hawaii. Given these risks and uncertainties, investors should not place undue reliance on any forward-looking statement as a prediction of our actual results. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included under the section entitled "Risk Factors" in Part I of this report. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. We undertake no obligation to update forward-looking statements to reflect later events or circumstances, except as may be required by law.

Critical Accounting Policies

Our Consolidated Financial Statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and follow general practices within the industries in which we operate. The most significant accounting policies we follow are presented in Note 1 to the 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 reserve for credit losses, fair value estimates, leased asset residual values, and income taxes.

Reserve for Credit Losses

A consequence of lending activities is that we may incur credit losses. The amount of such losses will vary depending upon the risk characteristics of the loan and lease portfolio as affected by economic conditions such as rising interest rates and the financial performance of borrowers. The reserve for credit losses consists of the allowance for loan and lease losses (the “Allowance”) and the reserve for unfunded commitments (the “Unfunded Reserve”). The Allowance provides for probable and estimable losses inherent in our 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 segments of the loan and lease portfolio. The Unfunded Reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense.

Management’s evaluation of the adequacy of the reserve for credit losses is often the most critical of accounting estimates for a financial institution. Our determination of the amount of the reserve for credit losses 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 reserve for credit losses attributes portions of the Allowance and Unfunded Reserve to the commercial and consumer portfolio segments, the entire Allowance and Unfunded Reserve is available to absorb credit losses inherent in the total loan and lease portfolio and total amount of unfunded credit commitments, respectively.

The reserve for credit losses related to our commercial portfolio segment 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 reserve for credit losses related to our consumer portfolio segment is generally most sensitive to economic assumptions and delinquency trends. The reserve for credit losses attributable to each portfolio segment also includes an amount for inherent risks not reflected in the historical analyses. Relevant factors include, but are not limited to, concentrations of credit risk (geographic, large borrower, and industry), economic trends and conditions, changes in underwriting standards, experience and depth of lending staff, trends in delinquencies, and the level of criticized and classified loans.

See Note 4 to the Consolidated Financial Statements and the “Corporate Risk Profile – Credit Risk” section in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) for more information on the Allowance and the Unfunded Reserve.

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.

Table of Contents

Financial assets that are recorded at fair value on a recurring basis include available-for-sale investment securities, loans held for sale, mortgage servicing rights, investments related to deferred compensation arrangements, and derivative financial instruments. As of December 31, 2018 and 2017, $2.1 billion or 12% and $2.3 billion or 13%, 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 mortgage-backed securities were all classified in either Levels 1 or 2 of the fair value hierarchy. Financial liabilities that are recorded at fair value on a recurring basis are comprised of derivative financial instruments. As of December 31, 2018 and 2017, $9.7 million or less than 1% of our total liabilities consisted of financial liabilities recorded at fair value on a recurring basis. As of December 31, 2018 and 2017, Level 3 financial assets recorded at fair value on a recurring basis were $15.1 million and $11.8 million, respectively, or less than 1% of our total assets, and were comprised of mortgage servicing rights and derivative financial instruments. As of December 31, 2018 and 2017, Level 3 financial liabilities recorded at fair value on a recurring basis were $9.4 million and $9.5 million, respectively, or less than 1% of our total liabilities, and were comprised of derivative financial instruments.

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 such as: 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. 2) On a quarterly basis, management also selects a sample of securities priced by the Company's third-party pricing service and reviews the significant assumptions and valuation methodologies used by the pricing service with respect to those securities. The information provided is comprised of market reference data, which may include reported trades; bids, offers, or broker-dealer dealer quotes; benchmark yields and spreads; as well as other reference data as appropriate. Periodically, based on these reviews, management determines whether the current placement of the security in the fair value hierarchy is appropriate or whether transfers may be warranted. 3) On a quarterly basis, management reviews the pricing information received from our third-party pricing service. This review process includes a comparison to a second source. 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. Generally, we do not adjust the price from the third-party service provider. 5) On an annual basis, we obtain and review the third-party's most recently issued Service Organization Controls report. related to controls placed in operation and tests of operating effectiveness, to update our understanding of the third-party pricing service's control environment.

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. See Note 21 to the Consolidated Financial Statements for more information on our fair value measurements.

Income Taxes

We determine our liabilities for income taxes based on current tax regulations and interpretations in tax jurisdictions where our income is subject to taxation. Currently, we file tax returns in seven federal, state and local domestic jurisdictions, and four foreign jurisdictions. 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 statements of income and condition.

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. As of December 31, 2018 and 2017, we carried a valuation allowance of $1.1 million and $1.0 million, respectively, related to our deferred tax assets established in connection with our low-income housing investments.

Table of Contents

We are also required to record a liability, referred to as an unrecognized tax benefit ("UTB"), for the entire amount of 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, 2018 and 2017, our liabilities for UTBs were $5.5 million and $5.3 million, respectively.

In 2018, the Company recognized federal and State of Hawaii investment tax credits from energy investments. The Company uses the deferral method of accounting for its investment tax credit with the benefit recognized in the provision for income taxes. These credits reduced the Company's provision for income taxes by $5.0 million, 5.4 million, and 4.7 million in 2018, 2017 and 2016, respectively.

Public law No. 115-97, known as the Tax Cuts and Jobs Act (the "Tax Act"), which was enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. Also on December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for tax effects of the Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period were included in net earnings from continuing operations as
an adjustment to income tax expense in the reporting period when such adjustments were determined. Based on the information available and current interpretation of the rules, the Company calculated the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities. The provisional amount recorded in the fourth quarter of 2017 related to the remeasurement of the Company's deferred tax balance resulted in additional income tax expense of $3.6 million. An additional $0.1 million was expensed in the first quarter of 2018 due to the remeasurement of the Company’s deferred tax balance. In addition, during the first quarter of 2018, the Company recorded a $2.0 million basis adjustment on its low income
housing partnership investments, which consequently reduced income tax expense by the same amount. The remeasurement of the Company’s deferred tax balance in the third quarter of 2018 resulted in an income tax expense reduction of $0.3 million. The Company finalized the impact of the Tax Act in the third quarter of 2018.

Table of Contents

Overview

We are a regional financial services company serving businesses, consumers, and governments in Hawaii, Guam, and other Pacific Islands. Our principal operating subsidiary, the Bank, was founded in 1897 and is the largest independent financial institution in Hawaii.

Our business strategy is to use our unique market knowledge, prudent management discipline and brand strength to deliver exceptional value to our stakeholders. Our business plan is balanced between growth and risk management while maintaining flexibility to adjust to economic changes. We will continue to focus on providing customers with best-in-class service and an innovative mix of products and services. We will also remain focused on continuing to deliver strong financial results while maintaining prudent risk and capital management strategies as well as our commitment to support our local communities.

Hawaii Economy

General economic conditions in Hawaii remained healthy during 2018, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an active construction industry. Total visitor arrivals increased 5.9% and visitor spending increased 6.8% during 2018 compared to 2017. The statewide seasonally-adjusted unemployment rate was 2.5% in December 2018 compared to 3.9% nationally. The volume of single-family home sales on Oahu decreased 7.7% in 2018 compared to 2017, while the volume of condominium sales on Oahu decreased 2.5% in 2018 compared to 2017. The median price of single-family home sales and condominium sales on Oahu increased 4.6% and 3.7%, respectively, in 2018 compared to 2017. As of December 31, 2018, months of inventory of single-family homes and condominiums on Oahu remained low at approximately 2.8 months and 2.9 months, respectively.

Earnings Summary

Net income for 2018 was $219.6 million, an increase of $34.9 million or 19% compared to 2017. Diluted earnings per share were $5.23 in 2018, an increase of $0.90 or 21% compared to 2017. Our return on average assets was 1.29% in 2018, an increase of 19 basis points from 2017, and our return on average shareholders' equity was 17.63% in 2018, an increase of 236 basis points from 2017.

Our higher net income in 2018 was primarily due to the following:

- The provision for income taxes was $50.6 million in 2018, a decrease of $32.8 million or 39% compared to 2017 primarily due to the federal corporate tax rate changing from 35% to 21% as a result of the passage of the Tax Act. The effective tax rate was 18.73% in 2018 compared to 31.11% in 2017.

- Net interest income was $486.4 million in 2018, an increase of $29.1 million or 6% compared to 2017. On a taxable-equivalent basis, net interest income was $491.5 million in 2018, an increase of $22.4 million or 5% compared to 2017. This increase was primarily due to a higher level of earning assets, including growth in both our commercial and consumer lending portfolios, and higher net interest margin. The higher level of earning assets was primarily funded by higher deposit balances. Net interest margin was 3.05% in 2018, a 12 basis point increase from 2017, primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2017. In addition, yields increased for our commercial loans and investment portfolio. Yields on our loan portfolios increased primarily due to higher yields on floating rate loans. This was partially offset by an increase in rates offered on our deposit products.

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We recorded a $13.4 million provision for credit losses in 2018 compared to a $16.9 million provision recorded in 2017. The provision recorded was based on our determination that the allowance for loan and lease losses should be $106.7 million as of December 31, 2018.

These items were partially offset by the following:

- Investment securities gains (losses), net totaled $(3.9) million in 2018 compared to $10.4 million in 2017. The net losses in 2018 were due to fees paid to the counterparties of our prior Visa Class B share sale transactions combined with a $1.0 million payment related to a change in the Visa Class B share conversion ratio. The net gain in 2017 was primarily due the sale of 90,000 Visa Class B shares.

Table of Contents

- Salaries and benefits expense was $213.2 million in 2018, an increase of $9.5 million or 5% compared to 2017 primarily due to $9.8 million increase in merit and minimum wage increases. Medical, dental, and life insurance increased by $3.8 million primarily due to higher expenses related to our self-insured medical plans coupled with increased group medical insurance costs. These increases were partially offset by a $2.1 million decrease in incentive compensation. During the fourth quarter of 2017, the Company paid a $2.2 million bonus, inclusive of payroll taxes, partly due to anticipated future tax expense reductions resulting from the Tax Act. In addition, share-based compensation decreased by $2.1 million as a result of the Company's lower share price. Commission expense also decreased by $2.1 million primarily due to a decrease in loan origination and refinancing activity.

- Mortgage banking income was $8.4 million in 2018, a decrease of $4.5 million or 35% compared to 2017. This decrease was primarily due to reduced sales and margins on sales of conforming saleable loans from current production and from our mortgage loan portfolio.

We maintained a strong balance sheet throughout 2018, with what we believe are adequate reserves for credit losses, and high levels of liquidity and capital.

- Total loans and leases were $10.4 billion as of December 31, 2018, an increase of $0.7 billion or 7% from December 31, 2017 primarily due to growth in our consumer lending portfolios.

- The allowance for loan and lease losses (the "Allowance") was $106.7 million as of December 31, 2018, a decrease of $0.7 million or 1% from December 31, 2017. The ratio of our Allowance to total loans and leases outstanding decreased to 1.02% as of December 31, 2018, compared to 1.10% as of December 31, 2017. The level of our Allowance was commensurate with the Company's credit risk profile, loan portfolio growth and composition, and a healthy Hawaii economy.

- The total carrying value of our investment securities portfolio was $5.5 billion as of December 31, 2018, a decrease of $671.1 million or 11% from December 31, 2017. In 2018, we reduced our positions primarily in mortgage-backed securities, municipal debt securities, and corporate debt securities. Government National Mortgage Corporation ("Ginnie Mae") mortgage-backed securities continue to be our largest concentration in our portfolio.

- Total deposits were $15.0 billion as of December 31, 2018, an increase of $0.1 billion or 1% from December 31, 2017 primarily due to higher consumer core and time deposits. These increases were partially offset by a decrease in public and other deposits largely due to the strategic decision to reduce public time deposits.

- Total shareholders' equity was $1.3 billion as of December 31, 2018, an increase of $36.3 million or 3% from December 31, 2017. We continued to return capital to our shareholders in the form of share repurchases and dividends. During 2018, we repurchased 1,120,755 shares of common stock at a total cost of $92.0 million under our share repurchase program and from employees and/or directors in connection with income tax withholdings related to the vesting of restricted stock, shares purchased for a deferred compensation plan, and stock swaps, less shares distributed from the deferred compensation plan. We also paid cash dividends of $98.5 million during 2018.

Table of Contents

Analysis of Statements of Income

Average balances, related income and expenses, and resulting yields and rates are presented in Table 1. An analysis of the change in net interest income, on a taxable-equivalent basis, is presented in Table 2.

Average Balances and Interest Rates – Taxable-Equivalent Basis Table 1

(dollars in millions)	2018 Average Balance	Income/ Expense	Yield/ Rate	2017 Average Balance	Income/ Expense	Yield/ Rate	2016 Average Balance	Income/ Expense	Yield/ Rate
Earning Assets									
Interest-Bearing Deposits in Other Banks	$3.2	$—	1.05 %	$3.4	$—	0.45 %	$4.1	$—	0.22 %
Funds Sold	200.0	3.7	1.86	423.0	3.9	0.92	595.9	2.8	0.48
Investment Securities									
Available-for-Sale									
Taxable	1,537.7	37.6	2.44	1,659.3	33.1	2.00	1,579.1	27.7	1.75
Non-Taxable	577.9	15.9	2.76	643.7	21.0	3.27	690.6	21.9	3.17
Held-to-Maturity									
Taxable	3,468.4	78.4	2.26	3,648.6	75.7	2.07	3,615.2	72.9	2.02
Non-Taxable	236.5	7.5	3.17	240.4	9.3	3.88	244.1	9.5	3.90
Total Investment Securities	5,820.5	139.4	2.39	6,192.0	139.1	2.25	6,129.0	132.0	2.15
Loans Held for Sale	14.0	0.6	4.31	22.6	0.9	3.99	32.3	1.2	3.59
Loans and Leases [1]									
Commercial and Industrial	1,304.8	51.9	3.98	1,262.8	44.5	3.52	1,179.9	40.3	3.42
Commercial Mortgage	2,164.6	89.7	4.14	1,977.1	75.7	3.83	1,735.2	64.5	3.72
Construction	184.9	8.6	4.68	238.4	11.2	4.69	224.2	10.0	4.43
Commercial Lease Financing	176.8	4.1	2.29	205.9	4.8	2.32	198.6	4.8	2.40
Residential Mortgage	3,546.5	136.0	3.84	3,307.6	126.4	3.82	3,037.0	120.6	3.97
Home Equity	1,620.9	61.1	3.77	1,467.7	53.2	3.62	1,211.9	43.7	3.61
Automobile	591.1	23.2	3.92	486.5	23.2	4.78	416.8	21.5	5.16
Other [2]	454.1	35.6	7.85	400.8	31.8	7.93	358.6	27.7	7.72
Total Loans and Leases	10,043.7	410.2	4.08	9,346.8	370.8	3.97	8,362.2	333.1	3.98
Other	39.0	1.4	3.48	40.5	0.9	2.33	39.2	0.8	2.07
Total Earning Assets [3]	16,120.4	555.3	3.44	16,028.3	515.6	3.22	15,162.7	469.9	3.10
Cash and Due from Banks	241.6			158.7			129.0		
Other Assets	609.0			562.2			533.7		
Total Assets	$16,971.0			$16,749.2			$15,825.4		
Interest-Bearing Liabilities									
Interest-Bearing Deposits									
Demand	$2,958.8	$ 4.7	0.16 %	$2,871.7	$ 1.7	0.06 %	$2,757.6	$0.9	0.03 %
Savings	5,434.3	13.6	0.25	5,388.5	6.7	0.12	5,217.9	4.6	0.09
Time	1,725.9	22.8	1.32	1,589.4	13.9	0.88	1,254.9	7.1	0.57
Total Interest-Bearing Deposits	10,119.0	41.1	0.41	9,849.6	22.3	0.23	9,230.4	12.6	0.14
Short-Term Borrowings	35.5	0.8	2.13	17.7	0.2	1.05	8.4	—	0.15
Securities Sold Under Agreements to Repurchase	504.7	18.5	3.67	507.0	19.6	3.86	569.8	23.4	4.11

Other Debt	211.3	3.4	1.61		267.9	4.4	1.66		248.8	4.3	1.71	
Total Interest-Bearing Liabilities	10,870.5	63.8	0.59		10,642.2	46.5	0.44		10,057.4	40.3	0.40	
Net Interest Income		$ 491.5				$ 469.1				$429.6		
Interest Rate Spread			2.85	%			2.78	%			2.70	%
Net Interest Margin			3.05	%			2.93	%			2.83	%
Noninterest-Bearing Demand Deposits	4,638.7				4,655.8				4,389.1			
Other Liabilities	216.1				242.1				229.6			
Shareholders' Equity	1,245.7				1,209.1				1,149.3			
Total Liabilities and Shareholders' Equity	$16,971.0				$16,749.2				$15,825.4			

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

[3] Interest income includes taxable-equivalent basis adjustments, based upon a federal statutory tax rate of 21% for 2018 and 35% for 2017 and 2016, of $5.2 million for 2018, $11.8 million for 2017, and $12.0 million for 2016.

Table of Contents

Analysis of Change in Net Interest Income – Taxable-Equivalent Basis — Table 2

	Year Ended December 31, 2018 Compared to 2017			Year Ended December 31, 2017 Compared to 2016		
(dollars in millions)	Volume [1]	Rate [1]	Total	Volume [1]	Rate [1]	Total
Change in Interest Income:						
Funds Sold	$(2.8)	$2.6	$(0.2)	$(1.0)	$2.1	$1.1
Investment Securities						
Available-for-Sale						
Taxable	(2.5)	7.0	4.5	1.4	4.0	5.4
Non-Taxable	(2.0)	(3.1)	(5.1)	(1.5)	0.6	(0.9)
Held-to-Maturity						
Taxable	(3.9)	6.6	2.7	0.7	2.1	2.8
Non-Taxable	(0.1)	(1.7)	(1.8)	(0.1)	(0.1)	(0.2)
Total Investment Securities	(8.5)	8.8	0.3	0.5	6.6	7.1
Loans Held for Sale	(0.4)	0.1	(0.3)	(0.4)	0.1	(0.3)
Loans and Leases						
Commercial and Industrial	1.5	5.9	7.4	2.9	1.3	4.2
Commercial Mortgage	7.6	6.4	14.0	9.2	2.0	11.2
Construction	(2.5)	(0.1)	(2.6)	0.6	0.6	1.2
Commercial Lease Financing	(0.7)	—	(0.7)	0.2	(0.2)	—
Residential Mortgage	9.1	0.5	9.6	10.5	(4.7)	5.8
Home Equity	5.7	2.2	7.9	9.3	0.2	9.5
Automobile	4.5	(4.5)	—	3.4	(1.7)	1.7
Other [2]	4.1	(0.3)	3.8	3.3	0.8	4.1
Total Loans and Leases	29.3	10.1	39.4	39.4	(1.7)	37.7
Other	0.1	0.4	0.5	—	0.1	0.1
Total Change in Interest Income	17.7	22.0	39.7	38.5	7.2	45.7
Change in Interest Expense:						
Interest-Bearing Deposits						
Demand	0.1	2.9	3.0	0.1	0.7	0.8
Savings	0.1	6.8	6.9	0.2	1.9	2.1
Time	1.3	7.6	8.9	2.2	4.6	6.8
Total Interest-Bearing Deposits	1.5	17.3	18.8	2.5	7.2	9.7
Short-Term Borrowings	0.3	0.3	0.6	—	0.2	0.2
Securities Sold Under Agreements to Repurchase	(0.1)	(1.0)	(1.1)	(2.5)	(1.3)	(3.8)
Other Debt	(0.9)	(0.1)	(1.0)	0.3	(0.2)	0.1
Total Change in Interest Expense	0.8	16.5	17.3	0.3	5.9	6.2
Change in Net Interest Income	$16.9	$5.5	$22.4	$38.2	$1.3	$39.5

[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.

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

Table of Contents

Net Interest Income

Net interest income is affected by the size and mix of our balance sheet components as well as the spread between interest earned on assets and interest paid on liabilities. Net interest margin is defined as net interest income, on a taxable-equivalent basis, as a percentage of average earning assets.

Net interest income was $486.4 million in 2018, an increase of $29.1 million or 6% compared to 2017. On a taxable-equivalent basis, net interest income was $491.5 million in 2018, an increase of $22.4 million or 5% compared to 2017. This increase was primarily due to a higher level of earning assets, including growth in both our commercial and consumer lending portfolios, and higher net interest margin. The higher level of earning assets was primarily funded by higher deposit balances. Net interest margin was 3.05% in 2018, a 12 basis point increase from 2017, primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2017. In addition, yields increased for our commercial loans and investment portfolio. Yields on our loan portfolios increased primarily due to higher yields on floating rate loans. Yields on our earning assets increased by 22 basis points in 2018 compared to 2017 primarily due to the shift in the mix of our earning assets from investment securities to loans, which generally have higher yields. Yields on our commercial and industrial and commercial mortgage portfolios increased by 46 basis points and 31 basis points, respectively, primarily due to higher yields on floating rate loans. In addition, yields on our investment securities portfolio increased by 14 basis points primarily due to the higher interest rate environment and lower premium amortization. These yield increases were partially offset by an 86 basis point decrease in yield for our automobile loans portfolio.

Interest rates paid on our interest-bearing liabilities increased 15 basis points in 2018 compared to 2017. Increases to our funding costs were primarily due to higher rates paid on our interest-bearing deposits, a reflection of the higher rate environment. The increase in our funding costs was partially offset by a lower average balance of our public time deposits which decreased by $209.2 million. Interest rates paid on our securities sold under agreements to repurchase decreased by 19 basis points from 2017 primarily due to the restructuring of three repurchase agreements with private institutions with an aggregate total of $200.0 million. These repurchase agreements had a weighted-average interest rate of 3.94%. The restructuring of the agreements extended the maturity dates to June 2022 and lowered the weighted-average interest rate to 2.70% effective June 2017.

Average balances of our earning assets increased by $92.1 million or 1% in 2018 compared to 2017 primarily due to loan growth as the average balances of our loans and leases portfolio increased by $696.9 million. Offsetting this increase in the average balance of our loans and leases portfolio were a $371.5 million decrease in the average balance of investment securities and a $223.0 million decrease in the average balance of funds sold. The average balance of our residential mortgage portfolio increased by $238.9 million primarily due to a relatively constant level of loan originations combined with a slowdown in payoff activity. The average balance of our commercial mortgage portfolio increased by $187.5 million primarily due to continued demand from new and existing customers as a result of healthy Hawaii economy. The average balance of our home equity portfolio increased by $153.2 million as a result of continued loan demand in light of a healthy Hawaii economy and stable real estate market conditions. Additionally, utilization on new and existing home equity lines was strong during 2018.

Average balances of our interest-bearing liabilities increased by $228.3 million or 2% in 2018 compared to 2017 primarily due to growth in our consumer and commercial time deposits, along with continued growth in our relationship checking and savings products, offset by the aforementioned lower average balance in our public time deposits. Average balances in our time deposits and core deposits increased by $136.5 million and $132.9 million, respectively.

Net interest income was $457.2 million in 2017, an increase of $39.7 million or 9% compared to 2016. On a taxable-equivalent basis, net interest income was $469.1 million in 2017, an increase of $39.5 million or 9% compared to 2016. This increase was primarily due to a higher level of earning assets, including growth in both our commercial and consumer lending portfolios, and higher net interest margin. The higher level of earning assets was primarily funded by higher deposit balances. Net interest margin was 2.93% in 2017, a 10 basis point increase from 2016,

primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2016. In addition, yields increased for our commercial loans and investment portfolio. Yields on our loan portfolios increased primarily due to higher yields on floating rate loans. This was partially offset by an increase in rates offered on our deposit products.

Table of Contents

Yields on our earning assets increased by 12 basis points in 2017 compared to 2016 primarily due to the shift in the mix of our earning assets from funds sold to loans which generally have higher yields. Yields on our commercial and industrial and commercial mortgage portfolios increased by 10 basis points and 11 basis points, respectively, primarily due to higher yields on floating rate loans. In addition, yields on our investment securities portfolio increased by 10 basis points primarily due to the higher interest rate environment and lower premium amortization. These yield increases were partially offset by a 15 basis point yield decrease in our residential mortgage loan portfolio, primarily due to continued payoff activity of higher-rate mortgage loans and the addition of lower-rate mortgage loans to our portfolio.

Interest rates paid on our interest-bearing liabilities increased four basis points in 2017 compared to 2016. Interest rates paid on our time deposits increased by 31 basis points due to new public time deposits at higher rates. Interest rates paid on our securities sold under agreements to repurchase decreased by 25 basis points from 2016 due to the restructuring of three repurchase agreements with private institutions with an aggregate total of $200.0 million during the second quarter of 2017. These repurchase agreements were to mature in 2018 and had a weighted-average interest rate of 3.94%. The restructuring of the agreements extended the maturity dates to June 2022 and lowered the weighted-average interest rate to 2.70% effective June 2017. The remaining balance in our repurchase agreements consists mainly of those with private entities which have relatively longer terms at higher interest rates. The increases to our funding costs were largely offset by growth in our demand and savings deposits, which generally have lower rates than other funding sources. The average balance of these core deposits increased by $284.7 million or 4% in 2017 compared to 2016.

Average balances of our earning assets increased by $865.6 million or 6% in 2017 compared to 2016 primarily due to loan growth as the average balances of our loans and leases portfolio increased by $984.6 million. The average balance of our commercial and industrial portfolio increased by $82.9 million due to increase in corporate demand for funding. The average balance of our commercial mortgage portfolio increased by $241.9 million as a result of continued demand from new and existing customers as the Hawaii economy continued to be strong coupled with the transfer of construction loans into this loan portfolio upon project completion. The average balance of our residential mortgage portfolio increased by $270.6 million primarily due to a relatively constant level of loan originations combined with a slowdown in payoff activity. The average balance of our home equity portfolio increased by $255.8 million as a result of healthy loan demand in light of a strong Hawaii economy and improved real estate market conditions. Additionally, utilization on new and existing home equity lines remained steady during 2017. In addition to the increase in the average balances of our loan and lease portfolio, there was a $63.0 million increase in the average balance of our investment securities portfolio in 2017.

Average balances of our interest-bearing liabilities increased by $584.8 million or 6% in 2017 compared to 2016 primarily due to growth in our time deposits, along with continued growth in our relationship checking and savings products.

Provision for Credit Losses

The provision for credit losses (the "Provision") reflects our judgment of the expense or benefit necessary to achieve the appropriate amount of the Allowance. We maintain the Allowance at levels adequate to cover our estimate of probable credit losses as of the end of the reporting period. The Allowance is determined through detailed quarterly analyses of our loan and lease portfolio. The Allowance is based on our loss experience and changes in the economic environment, as well as an ongoing assessment of our credit quality. We recorded a Provision of $13.4 million in 2018, $16.9 million in 2017, and $4.8 million in 2016. For further discussion on the Allowance, see the "Corporate Risk Profile – Credit Risk" section in MD&A.

Table of Contents

Noninterest Income

Table 3 presents the major components of noninterest income for 2018, 2017, and 2016.

Noninterest Income Table 3

(dollars in thousands)	Year Ended December 31, 2018	2017	2016	Dollar Change 2018 to 2017	2017 to 2016	Percent Change 2018 to 2017	2017 to 2016
Trust and Asset Management	$43,877	$45,430	$46,203	$(1,553)	$(773)	(3)%	(2)%
Mortgage Banking	8,437	12,949	19,895	(4,512)	(6,946)	(35)	(35)
Service Charges on Deposit Accounts	28,811	32,575	33,654	(3,764)	(1,079)	(12)	(3)
Fees, Exchange, and Other Service Charges	57,482	54,845	55,176	2,637	(331)	5	(1)
Investment Securities Gains (Losses), Net	(3,938)	10,430	10,203	(14,368)	227	(138)	2
Annuity and Insurance	5,822	6,858	7,017	(1,036)	(159)	(15)	(2)
Bank-Owned Life Insurance	7,199	6,517	6,561	682	(44)	10	(1)
Other	21,233	15,813	18,634	5,420	(2,821)	34	(15)
Total Noninterest Income	$168,923	$185,417	$197,343	$(16,494)	$(11,926)	(9)%	(6)%

Trust and asset management income is comprised of fees earned from the management and administration of trusts and other customer assets. These fees are largely based upon the market value of the assets that we manage and the fee rate charged to customers. Total trust assets under administration were $9.4 billion, $9.3 billion, and $8.8 billion as of December 31, 2018, 2017, and 2016, respectively. Trust and asset management income decreased by $1.6 million or 3% in 2018 compared to 2017 due to a decrease in special service fees ($0.6 million), employee benefit trust fees ($0.5 million), and other trust fees ($0.3 million) primarily due to a decline in the number of customer accounts under administration. Trust and asset management income decreased by $0.8 million or 2% in 2017 compared to 2016 primarily due to a $1.2 million decrease in special service fees mainly the result of a service fee received from the sale of real estate in second quarter of 2016. This increase was partially offset by a $0.7 million increase in agency fees primarily due to an increase in market value of accounts.

Mortgage banking income is highly influenced by mortgage interest rates, the housing market, the amount of our loan sales, and our valuation of mortgage servicing rights. Mortgage banking income decreased by $4.5 million or 35% in 2018 compared to 2017. This decrease was primarily due to reduced sales of conforming saleable loans from current production. There were no sales from our mortgage loan portfolio in 2018. Mortgage banking income decreased by $6.9 million or 35% in 2017 compared to 2016. This decrease was primarily due to reduced sales and margins on sales of conforming saleable loans from current production and from our mortgage loan portfolio.

Service charges on deposit accounts decreased by $3.8 million or 12% in 2018 compared to 2017. This decrease was primarily due to a $2.3 million decrease in account analysis fees and a $1.7 million decrease in overdraft fees, partially offset by an increase in other service and monthly fees. Service charges on deposit accounts decreased by $1.1 million or 3% in 2017 compared to 2016. This decrease was primarily due to a $0.8 million decrease in overdraft fees due in part to higher customer deposit balances and a $0.7 decrease in account analysis fees.

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, fees from ATMs, merchant service activity, and other loan fees and special charges. Fees, exchange, and other service charges increased by $2.6 million or 5% primarily due to $2.3 million increase in merchant income, which was recorded as a reduction of other noninterest expense in 2017. This accounting change was related to the 2018 adoption of the new revenue recognition accounting guidance. Fees, exchange, and other service charges decreased $0.3 million or 1% in 2017

compared to 2016 primarily due to decreases in other loan fees ($0.8 million) and ATM fees ($0.5 million), largely offset by a $0.9 million increase in debit card fees primarily due to increased transaction volume.

Table of Contents

Net gains (losses) on sales of investment securities totaled $(3.9) million, $10.4 million, and $10.2 million, in 2018, 2017, and 2016, respectively. The net loss in 2018 was primarily due to fees paid to the counterparties of our prior Visa Class B share sale transactions. In addition, in June 2018, Visa announced a reduction of the conversion ratio of its Class B shares from 1.6483 to 1.6298 effective June 28, 2018. As a result, the Company recorded a $1.0 million liability in June 2018, which was paid to previous buyers of our Visa Class B shares in July 2018. The net gains in 2017 and 2016 were due to gains on the sale of 90,000 and 100,000 Visa Class B restricted shares in 2017 and 2016, respectively. We received these Class B shares in 2008 as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members such as the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. Concurrent with the sale of these Visa Class B shares, we entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. Based on the existing transfer restriction and the uncertainty of the covered litigation, the remaining 83,014 Visa Class B shares (135,296 Class A equivalent shares) that we own are carried at a zero cost basis as of December 31, 2018. We also contributed to the Bank of Hawaii Foundation 3,600, 4,300, and 7,800, Visa Class B shares during 2018, 2017, and 2016, respectively.

Annuity and insurance income decreased by $1.0 million or 15% in 2018 compared to 2017 primarily due to a $0.7 million decrease in income related to our annuity products. Annuity and insurance income decreased by $0.2 million or 2% in 2017 compared to 2016 primarily due to a decrease in income related to our annuity products.

Bank-owned life insurance increased by $0.7 million or 10% in 2018 compared to 2017 primarily due to death benefits received. Bank-owned life insurance remained relatively unchanged in 2017 compared to 2016.

Other noninterest income increased by $5.4 million or 34% in 2018 compared to 2017 primarily due to a distribution received in the first quarter of 2018 from a low-income housing investment sale totaling $2.8 million combined with a $1.1 million increase in fees from our customer interest rate swap derivatives and a $0.8 million increase in net gain on sale of leased assets. Other noninterest income decreased by $2.8 million or 15% in 2017 compared to 2016. This decrease was primarily due to a $2.3 million decrease in fees from our customer interest rate swap derivatives, and a $0.9 million decrease in net gain on sale of leased assets.

Table of Contents

Noninterest Expense

Table 4 presents the major components of noninterest expense for 2018, 2017, and 2016.

Noninterest Expense — Table 4

(dollars in thousands)	Year Ended December 31, 2018	2017	2016	Dollar Change 2018 to 2017	Dollar Change 2017 to 2016	Percent Change 2018 to 2017	Percent Change 2017 to 2016
Salaries and Benefits:							
Salaries	$132,884	$122,334	$116,721	$10,550	$5,613	9 %	5 %
Incentive Compensation	20,687	22,834	23,409	(2,147)	(575)	(9)	(2)
Share-Based Compensation	8,074	10,184	12,150	(2,110)	(1,966)	(21)	(16)
Commission Expense	4,418	6,493	7,514	(2,075)	(1,021)	(32)	(14)
Retirement and Other Benefits [1]	17,313	16,347	15,465	966	882	6	6
Payroll Taxes	11,389	11,025	10,133	364	892	3	9
Medical, Dental, and Life Insurance	16,134	12,362	13,038	3,772	(676)	31	(5)
Separation Expense	2,309	2,150	923	159	1,227	7	133
Total Salaries and Benefits	213,208	203,729	199,353	9,479	4,376	5	2
Net Occupancy	34,742	32,536	30,252	2,206	2,284	7	8
Net Equipment	23,852	22,078	20,578	1,774	1,500	8	7
Data Processing	17,846	15,483	15,208	2,363	275	15	2
Professional Fees	9,992	11,681	10,072	(1,689)	1,609	(14)	16
FDIC Insurance	7,732	8,666	8,615	(934)	51	(11)	1
Other Expense:							
Delivery and Postage Services	8,535	8,963	9,909	(428)	(946)	(5)	(10)
Mileage Program Travel	4,697	4,822	4,712	(125)	110	(3)	2
Merchant Transaction and Card Processing Fees	5,247	4,052	4,344	1,195	(292)	29	(7)
Advertising	5,987	5,982	5,992	5	(10)	—	—
Amortization - Solar Energy Partnership Investments	3,665	3,311	4,072	354	(761)	11	(19)
Other [1]	36,121	36,388	37,471	(267)	(1,083)	(1)	(3)
Total Other Expense	64,252	63,518	66,500	734	(2,982)	1	(4)
Total Noninterest Expense	$371,624	$357,691	$350,578	$13,933	$7,113	4 %	2 %

[1] The Company adopted ASU No. 2017-07 and applied the guidance retrospectively. As such $1.8 million previously reported in retirement and other benefits were reclassified to other noninterest expense for the year ended December 31, 2017 and 2016.

Total salaries and benefits increased by $9.5 million or 5% in 2018 compared to 2017 primarily due to $9.8 million in merit and minimum wage increases. Medical, dental, and life insurance increased by $3.8 million primarily due to higher expenses related to our self-insured medical plans coupled with increased group medical insurance costs. These increases were partially offset by a $2.1 million decrease in incentive compensation. During the fourth quarter of 2017, the Company paid a $2.2 million bonus, inclusive of payroll taxes, partly due to anticipated future tax expense reductions resulting from the Tax Act. In addition, share-based compensation decreased by $2.1 million as a result of the Company's lower share price. Commission expense also decreased by $2.1 million primarily due to a decrease in loan origination and refinancing activity. Total salaries and benefits increased by $4.4 million or 2% in 2017 compared to 2016 due in part to the aforementioned $2.2 million bonus, paid in the fourth quarter 2017. In addition, separation expense increased by $1.2 million. These increases were partially offset by a $2.0 million decrease in

share-based compensation. Commission expense also decreased by $1.0 million primarily due to a decrease in loan origination and refinancing activity.

Net occupancy expense increased by $2.2 million or 7% in 2018 compared to 2017 due to a $1.0 million increase in ATM lease space rental costs in 2018. These ATM lease space rental costs were recorded as a reduction of ATM fee income in 2017. This accounting change was related to the 2018 adoption of the new revenue recognition accounting guidance. In addition, this increase was due to the increases in utilities and depreciation expenses by $0.6 million and $0.3 million, respectively. Net occupancy expense increased by $2.3 million or 8% in compared to 2016 primarily due to a $3.4 million decrease in net gain on sale of real estate from $3.7 million in 2016 to $0.3 million in 2017. This increase was offset by a $0.9 million decrease in net rental expense.

Net equipment expense increased by $1.8 million or 8% 2018 compared to 2017 primarily due to a $1.1 million increase in depreciation expense. In addition, branches and information technology rent expense increased by $0.6 million. Net equipment expense increased by $1.5 million or 7% in 2017 compared to 2016 primarily due to a $0.8 million increase in software license fees and maintenance and a $0.5 million increase in depreciation expense.

Table of Contents

Data processing expense increased by $2.4 million or 15% in 2018 compared to 2017 due to ongoing information technology projects. Data processing expense remained relatively unchanged in 2017 compared to 2016.

Professional fees decreased by $1.7 million or 14% in 2018 compared to 2017 primarily due to a decrease in professional services in our mortgage division. Professional fees increased by $1.6 million or 16% in 2017 compared to 2016 primarily due to a $0.9 million increase in legal fees and a $0.8 million increase in professional services primarily in our mortgage division.

Other noninterest expense increased by $0.7 million or 1% in 2018 compared to 2017 due to $2.7 million in legal reserves recorded during 2018. Operating losses, which include losses as a result of bank error, fraud, items processing, or theft, increased by $1.2 million, partially offset by a decrease in business travel of $0.9 million, a $0.9 million decrease in credit card expense due to the completed sale of our MyBankoh Rewards Credit Card portfolio on November 1, 2018, and a decrease in temporary services of $0.7 million. Other noninterest expense decreased by $3.0 million or 5% in 2017 compared to 2016 due to a $0.9 million decrease in delivery and postage services and a $0.8 million decrease in solar energy tax credit partnership amortization expense.

Income Taxes

Table 5 presents our provision for income taxes and effective tax rates for 2018, 2017, and 2016:

Provision for Income Taxes and Effective Tax Rates Table 5

(dollars in thousands)	Provision for Income Taxes	Effective Tax Rates	
2018	$50,624	18.73	%
2017	83,392	31.11	%
2016	78,133	30.10	%

The provision for income taxes was $50.6 million in 2018, a decrease of $32.8 million or 39% compared to 2017. The effective tax rate was 18.73% in 2018 compared to 31.11% in 2017. The lower effective tax rate in 2018 compared to 2017 was due primarily to the Tax Act enacted into law on December 22, 2017. The Tax Act made changes to the U.S. tax code, including reducing the U.S. federal tax rate from 35% to 21% effective January 1, 2018.

A reduction in the corporate tax rate set forth in the Tax Act discussed above also affected the Company’s primary benefits received from low income housing investments. The impact of the change in tax rate on the Company’s accounting for such investments was reevaluated, resulting in a $2 million reduction in the amortization of the net investment, which also favorably impacted the effective tax rate in 2018. These items were partially offset by a $3.3 million decrease in the release of valuation allowances for low income housing investments in 2018 compared to 2017.

The provision for income taxes was $83.4 million in 2017, an increase of $5.3 million or 7% compared to 2016. The effective tax rate was 31.11% in 2017 compared to 30.10% in 2016. The higher effective tax rate in 2017 compared to 2016 was primarily due to a $3.6 million charge for the write down of net deferred tax assets as a result of the Tax Act discussed above. A $3.0 million state tax reserve release in 2016 due to the lapse in the statute of limitations related to prior tax years also favorably impacted the effective tax rate in 2016. These items were partially offset by a $2.5 million tax benefit from the exercise of stock options and the vesting of restricted stock in 2017 and a $2.1 million increase in the release of valuation allowances for low income housing investments in 2017 compared to 2016.

Table of Contents

Analysis of Business Segments

Our business segments are Retail Banking, Commercial Banking, Investment Services and Private Banking, and Treasury and Other. Table 6 summarizes net income from our business segments for 2018, 2017, and 2016. Additional information about segment performance is presented in Note 13 to the Consolidated Financial Statements.

Business Segment Net Income Table 6

	Year Ended December 31,		
(dollars in thousands)	2018	2017	2016
Retail Banking	$87,632	$80,723	$74,635
Commercial Banking	94,230	76,862	77,297
Investment Services and Private Banking	22,661	15,842	14,081
Total	204,523	173,427	166,013
Treasury and Other	15,079	11,245	15,448
Consolidated Total	$219,602	$184,672	$181,461

Retail Banking

Net income increased by $6.9 million or 9% in 2018 compared to 2017 primarily due to a decrease in the effective income tax rate used to allocate the provision for income taxes. This was partially offset by a decrease in noninterest income, an increase in noninterest expense, and an increase in the Provision. The decrease in noninterest income was primarily due to reduced sales of conforming saleable loans from our mortgage portfolio and lower margins on those sales. In addition, overdraft fees decreased. Noninterest expense increased primarily due to a $2.0 million increase in legal reserves recorded in the first quarter of 2018 and higher allocated technology, operations, and finance expense. This was partially offset by the reclassification of certain ATM and debit transaction processing fees, in 2018, as contra revenue, and decreases in professional fees and salaries and benefits. The increase in the Provision was primarily due to higher net charge-offs in our credit card portfolio, which was sold on November 1, 2018, our home equity portfolio due to lower recoveries, as well as overdrafts; this was partially offset by lower net charge-offs in our residential mortgage portfolio.

Net income increased by $6.1 million or 8% in 2017 compared to 2016 primarily due to an increase in net interest income, partially offset by a decrease in noninterest income and an increase in the Provision. The increase in net interest income was primarily due to higher volume in both the lending and deposit portfolios as well as higher earnings credits on the segment’s deposit portfolio. The decrease in noninterest income is primarily due to lower mortgage loan sales and reduced margins on those sales. The increase in the Provision was primarily due to higher net charge-offs in our installment loan, credit card, auto loan, and mortgage loan portfolios, partially offset by lower net charge-offs in our home equity loan and personal credit line portfolios.

Commercial Banking

Net income increased by $17.4 million or 23% in 2018 compared to 2017 primarily due to increases in net interest income and noninterest income, and a decrease in the provision for income taxes. These were partially offset by an increase in noninterest expense. The increase in net interest income was primarily due to higher earnings credits on the segment’s deposit portfolio. The increase in noninterest income was primarily due to higher merchant income stemming from the adoption of ASU No. 2014-09 “Revenue from Contracts with Customers: (Topic 606), higher fees related to our customer interest rate swap derivative program, and to higher net gains on sale of leased equipment. This increase was partially offset by lower account analysis fees as a result of higher earnings credit rates on customer accounts. The decrease in the Provision was due to higher net recovery of loans and leases in 2018. The increase in

noninterest expense was primarily due to higher salaries, operating and allocated expenses. The increase in operating expenses was due to the aforementioned adoption of ASU No. 2014-09s. The decrease in the provision for income taxes was due to the lower effective tax rate allocated to the segment.

Net income decreased by $0.4 million or 1% in 2017 compared to 2016 primarily due to a decrease in noninterest income, and increases to the Provision and noninterest expense. This was partially offset by an increase in net interest income. The decrease in noninterest income was primarily due to lower net gains on sale of leased equipment, lower fees related to our customer interest rate swap derivatives and lower non-recurring loan fees. The increase in the Provision was due to lower net recoveries of loans and leases in 2017. The increase in noninterest expense was primarily due to higher salaries and benefits expense and to higher allocated expenses. The increase in net interest income was primarily due to higher volume in both the lending and deposit portfolios, and partially due to higher earnings credits on the segment's deposit portfolio.

Investment Services and Private Banking

Net income increased by $6.8 million or 43% in 2018 compared to 2017 primarily due to an increase in net interest income, partially offset by an increase in noninterest expense and a decrease in noninterest revenue. The increase in net interest income was primarily driven by the transfer of deposits and loans from the Retail Banking segment and growth of the segment's deposit portfolio. The increase in noninterest expense was primarily due to higher salaries and benefits expense, a one-time charge-off, and higher allocated expenses. The decrease in noninterest revenue was driven by lower annuity sales and lower trust service fees.

Net income increased by $1.8 million or 13% in 2017 compared to 2016 primarily due to an increase in net interest income, partially offset by increases in noninterest expense. The increase in net interest income was primarily driven by the transfer of deposits from the Retail Banking segment and growth of the segment's deposit portfolio. The increase in noninterest expense was primarily due to higher salaries and benefits expense and an operational recovery in the second quarter of 2016.

Treasury and Other

Net income increased by $3.8 million or 34% in 2018 compared to 2017 primarily due to an increase in net interest income, a decrease in the provision for loan losses and an decrease in the provision for taxes. The increase in net interest income was primarily due to an increase in funding income related to lending activities and an increase interest income from investment securities and funds sold resulting from an increase in associated yields partially offset by higher deposit funding costs. The Provision in this business segment represents the residual provision for credit losses to arrive at the total Provision for the Company. The decrease in noninterest income was primarily due to the sale of 90,000 Visa Class B shares amounting to $12.5 million in the first quarter of 2017. Partially offsetting this was a $2.8 million distribution from a low-income housing partnership in the first quarter of 2018. The provision for income taxes in this business segment represents the residual amount to arrive at the total tax expense for the Company. The overall effective tax rate decreased to 18.73% in 2018 compared to 31.11% in 2017.

Net income decreased by $4.2 million or 27% in 2017 compared to 2016 primarily due to a decrease in net interest income, an increase in the provision for loan losses, and an increase in the provision for taxes. The decrease in net interest income was primarily due to higher deposit funding costs, partially offset by an increase in interest income from investment securities and funds sold under agreements to repurchase resulting from an increase in associated yields and an increase in funding income related to lending activities. The Provision in this business segment represents the residual provision for credit losses to arrive at the total Provision for the Company. The provision for income taxes in this business segment represents the residual amount to arrive at the total tax expense for the Company. The overall effective tax rate increased to 31.11% in 2017 compared to 30.10% in 2016.

Other organizational units (Technology, Operations, Marketing, Human Resources, Finance, Credit and Risk Management, and Corporate and Regulatory Administration) included in Treasury and Other 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.

Table of Contents

Analysis of Statements of Condition

Investment Securities

Table 7 presents the maturity distribution at amortized cost, weighted-average yield to maturity, and fair value of our investment securities.

Maturities and Average Yield on Securities Tabl

(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	Weig Aver Yiel
As of December 31, 2018														
Available-for-Sale														
Debt Securities Issued by the U.S. Treasury and Government Agencies [2]	$0.8	2.6	%	$114.5	3.9	%	$279.2	2.7	%	$—	—	%	$394.5	3.1
Debt Securities Issued by States and Political Subdivisions [1]	56.8	1.8		387.9	2.7		92.3	4.6		22.8	5.1		559.8	3.0
Debt Securities Issued by U.S. Government-Sponsored Enterprises	—	—		0.1	2.8		—	—		—	—		0.1	2.8
Debt Securities Issued by Corporations	—	—		225.0	3.3		—	—		—	—		225.0	3.3
Mortgage-Backed Securities [2]														
Residential - Government Agencies	5.0	3.1		100.9	3.0		83.7	3.3		—	—		189.6	3.1
Residential - U.S. Government-Sponsored Enterprises	—	—		213.0	2.3		376.3	2.6		—	—		589.3	2.5
Commercial - Government Agencies	—	—		63.9	1.7		—	—		—	—		63.9	1.7
Total Mortgage-Backed Securities	5.0	3.1		377.8	2.4		460.0	2.8		—	—		842.8	2.6
Total	$62.6	2.0	%	$1,105.3	2.8	%	$831.5	3.0	%	$22.8	5.1	%	$2,022.2	2.9
Held-to-Maturity														
Debt Securities Issued by the U.S. Treasury and Government Agencies [2]	$154.7	1.9	%	$198.4	2.3	%	$—	—	%	$—	—	%	$353.1	2.1
Debt Securities Issued by States and Political Subdivisions [1]	10.2	2.4		110.7	3.4		106.0	5.0		7.7	5.2		234.6	4.1
Debt Securities Issued by Corporations	—	—		1.9	2.5		95.4	2.1		—	—		97.3	2.1

Mortgage-Backed Securities [2]															
Residential - Government Agencies	12.7	2.6		1,138.7	2.2		710.5	2.9		—	—		1,861.9	2.5	
Residential - U.S. Government-Sponsored Enterprises	—	—		295.9	2.1		462.9	2.7		—	—		758.8	2.5	
Commercial - Government Agencies	8.2	3.4		161.9	2.8		6.3	4.0		—	—		176.4	2.9	
Total Mortgage-Backed Securities	20.9	2.9		1,596.5	2.3		1,179.7	2.8		—	—		2,797.1	2.5	
Total	$185.8	2.0	%	$1,907.5	2.3	%	$1,381.1	2.9	%	$7.7	5.2	%	$3,482.1	2.6	
Total Investment Securities															
As of December 31, 2018	$248.4			$3,012.8			$2,212.6			$30.5			$5,504.3		
As of December 31, 2017	$384.3			$3,655.1			$2,074.3			$50.6			$6,164.3		

[1] Weighted-average yields on obligations of states and political subdivisions are generally tax-exempt and are computed on a taxable-equivalent basis using a federal statutory tax rate of 21%.

[2] Maturities for Small Business Administration debt securities and mortgage-backed securities anticipate future prepayments.

The carrying value of our investment securities portfolio was $5.5 billion as of December 31, 2018, a decrease of $671.1 million or 11% compared to December 31, 2017. As of December 31, 2018, our investment securities portfolio was comprised of securities with an average base duration of approximately 3.4 years.

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, change the composition of our investment securities portfolio, and change the proportion of investments made into the available-for-sale and held-to-maturity investment categories.

Table of Contents

In 2018, we reduced our positions primarily in mortgage-backed securities, municipal debt securities, and corporate debt securities. We re-invested these proceeds primarily into higher yielding loan products. Ginnie Mae mortgage-backed securities continue to be the largest concentration in our portfolio. As of December 31, 2018, our portfolio of Ginnie Mae mortgage-backed securities was primarily comprised of securities issued in 2008 or later. As of December 31, 2018, these mortgage-backed securities were all AAA-rated, with a low probability of a change in their credit ratings in the near future. As of December 31, 2018, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.3 years.

Gross unrealized gains in our investment securities portfolio were $21.2 million as of December 31, 2018 and $36.6 million as of December 31, 2017. Gross unrealized losses on our temporarily impaired investment securities were $103.5 million as of December 31, 2018 and $73.9 million as of December 31, 2017. The gross unrealized loss positions were primarily related to mortgage-backed securities issued by Ginnie Mae, Fannie Mae and Freddie Mac, and corporate debt securities. See Note 3 to the Consolidated Financial Statements for more information.

As of December 31, 2018, included in our investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $451.1 million, representing 56% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 96% were credit-rated Aa2 or better by Moody's while the remaining Hawaii municipal bonds were credit-rated A1 or better by at least one nationally recognized statistical rating organization. Also, approximately 79% of the Company's Hawaii municipal bond holdings were general obligation issuances. As of December 31, 2018, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.
The Company's corporate bond holdings as of December 31, 2018 had a fair value of $318.7 million. Of this total, $95.5 million or 30% was fully guaranteed by the Export-Import Bank of the United States, an agency of the U.S. government. Of the remaining $223.2 million of corporate bonds, 49% were credit-rated A or better by Standard & Poor's while all of the remaining corporate bonds were credit-rated A- or better by at least one nationally recognized statistical rating organization.
Loans and Leases

Table 8 presents the composition of our loan and lease portfolio by major categories.

Loans and Leases Table 8

	December 31,				
(dollars in thousands)	2018	2017	2016	2015	2014
Commercial					
Commercial and Industrial	$1,331,149	$1,279,347	$1,249,791	$1,115,168	$1,055,243
Commercial Mortgage	2,302,356	2,103,967	1,889,551	1,677,147	1,437,513
Construction	170,061	202,253	270,018	156,660	109,183
Lease Financing	176,226	180,931	208,332	204,877	226,189
Total Commercial	3,979,792	3,766,498	3,617,692	3,153,852	2,828,128
Consumer					
Residential Mortgage	3,673,796	3,466,773	3,163,073	2,925,605	2,571,090
Home Equity	1,681,442	1,585,455	1,334,163	1,069,400	866,688
Automobile	658,133	528,474	454,333	381,735	323,848
Other [1]	455,611	449,747	380,524	348,393	307,835
Total Consumer	6,468,982	6,030,449	5,332,093	4,725,133	4,069,461
Total Loans and Leases	$10,448,774	$9,796,947	$8,949,785	$7,878,985	$6,897,589

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

Total loans and leases were $10.4 billion as of December 31, 2018. This represents a $0.7 billion or 7% increase from December 31, 2017 primarily due to growth in our consumer lending portfolio.

The commercial loan and lease portfolio is comprised of commercial and industrial loans, commercial mortgages, construction loans, 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. Commercial mortgages and construction loans are offered to real estate investors, developers, and builders primarily domiciled in Hawaii. Commercial mortgages are secured by first mortgages on commercial real estate at loan-to-value ratios generally not exceeding 75%. The commercial properties are predominantly developments such as retail centers, apartments, industrial properties, 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. Construction loans are for the purchase or construction of a property for which repayment will be generated by the property. We classify loans as construction until the completion of the construction phase. Following construction, if a loan is retained, the loan is reclassified to the commercial mortgage category. Lease financing consists of direct financing leases and leveraged leases and are used by commercial customers to finance capital purchases. Although our primary market is Hawaii, the commercial portfolio contains loans to some borrowers based on the U.S. Mainland, including some Shared National Credits.

Commercial loans and leases were $4.0 billion as of December 31, 2018, an increase of $213.3 million or 6% from December 31, 2017. Commercial and industrial loans increased by $51.8 million or 4% from December 31, 2017. Commercial mortgage loans increased by $198.4 million or 9% from December 31, 2017 primarily due to continued demand from new and existing customers as the Hawaii economy continues to be strong. Construction loans decreased by $32.2 million or 16% from December 31, 2017 primarily due to paydowns and successful completion of construction projects such as condominiums and low-income housing, partially offset by increased activity in our portfolio.

The consumer loan and lease portfolio is comprised of residential mortgage loans, home equity lines and loans, indirect auto loans and leases, and other consumer loans including personal credit lines, direct installment loans, and rewards-based consumer credit cards. These products are generally offered in the geographic markets we serve. Although we offer a variety of products, our residential mortgage loan portfolio is primarily comprised of fixed-rate loans concentrated in Hawaii. We also offer a variety of home equity lines and loans, usually secured by second mortgages on residential property of the borrower. Automobile lending activities include loans and leases secured by new or used automobiles. We originate automobile loans and leases on an indirect basis through selected dealerships. Direct installment loans are generally unsecured and are often used for personal expenses or for debt consolidation.

Consumer loans and leases were $6.5 billion as of December 31, 2018, an increase of $438.5 million or 7% from December 31, 2017. Residential mortgage loans increased by $207.0 million or 6% from December 31, 2017 primarily due to a relatively constant level of loan originations combined with a slowdown in payoff activity. Automobile loans increased by $129.7 million or 25% from December 31, 2017 primarily driven by steady automobile loan demand and competitive loan programs. Home equity lines and loans increased by $96.0 million or 6% from December 31, 2017 as a result of continued loan demand in light of a healthy Hawaii economy and stable real estate market conditions. Additionally, utilization on new and existing home equity lines was strong during 2018.

See Note 4 to the Consolidated Financial Statements and the "Corporate Risk Profile – Credit Risk" section of MD&A for more information on our loan and lease portfolio.

Table of Contents

Table 9 presents the geographic distribution of our loan and lease portfolio.

Geographic Distribution of Loan and Lease Portfolio — Table 9

	December 31, 2018					
(dollars in thousands)	Hawaii	U.S. Mainland [1]	Guam	Other Pacific Islands	Foreign [2]	Total
Commercial						
Commercial and Industrial	$1,142,172	$100,786	$86,763	$1,277	$151	$1,331,149
Commercial Mortgage	1,926,172	115,209	260,501	474	—	2,302,356
Construction	170,061	—	—	—	—	170,061
Lease Financing	61,813	109,933	786	—	3,694	176,226
Total Commercial	3,300,218	325,928	348,050	1,751	3,845	3,979,792
Consumer						
Residential Mortgage	3,596,908	—	75,373	1,515	—	3,673,796
Home Equity	1,643,529	161	36,571	1,181	—	1,681,442
Automobile	513,836	—	131,967	12,330	—	658,133
Other [3]	372,767	—	53,992	28,852	—	455,611
Total Consumer	6,127,040	161	297,903	43,878	—	6,468,982
Total Loans and Leases	$9,427,258	$326,089	$645,953	$45,629	$3,845	$10,448,774
Percentage of Total Loans and Leases	90 %	3 %	6 %	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.

[2] Loans classified as Foreign represent those which are recorded in the Company's international business units.

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

Our commercial and consumer lending activities are concentrated primarily in Hawaii and the Pacific Islands. Our commercial loan and lease portfolio to borrowers based on the U.S. Mainland includes leveraged lease financing and participation in Shared National Credits. Our consumer loan and lease portfolio includes limited lending activities on the U.S. Mainland.

Our Hawaii loan and lease portfolio increased by $499.5 million or 6% from December 31, 2017, reflective of a healthy Hawaii economy.

Table 10 presents a maturity distribution for selected loan categories.

Maturities for Selected Loan Categories [1] — Table 10

	December 31, 2018			
(dollars in thousands)	Due in One Year or Less	Due After One to Five Years [2]	Due After Five Years [2]	Total
Commercial and Industrial	$348,595	$476,451	$506,103	$1,331,149
Construction	45,589	51,798	72,674	170,061
Total	$394,184	$528,249	$578,777	$1,501,210

[1] Based on contractual maturities.

[2] As of December 31, 2018, loans maturing after one year consisted of $633.2 million in variable rate loans and $473.8 million in fixed rate loans.

Goodwill

Goodwill was $31.5 million as of December 31, 2018 and 2017. As of December 31, 2018, based on our qualitative assessment, there were no reporting units where we believed it was more likely than not that the fair value of a reporting unit was less than its carrying amount, including goodwill. As a result, we had no reporting units where there was a reasonable possibility of failing Step 1 of the goodwill impairment test. See Note 1 to the Consolidated Financial Statements for more information on our goodwill impairment policy.

Table of Contents

Other Assets

Other assets were $230.9 million as of December 31, 2018, a decrease of $21.7 million or 9% from December 31, 2017. This decrease was primarily due to a $30.3 million decrease in accounts receivable, which was primarily due to a $20.0 million decrease related to the settlement of a matured security coupled with a $16.4 million early buy-out on an equipment lease in the first quarter of 2018. These decreases were partially offset by a $7.8 million increase in other assets. The fair value of our interest rate swap agreements increased by $3.6 million, which is affected by prevailing interest rates. In addition, dealer advances increased by $3.3 million. See Note 7 to the Consolidated Financial Statements for more information on the composition of our other assets.

Deposits

Table 11 presents the components of our deposits by major customer categories as of December 31, 2018 and 2017.

Deposits Table 11

	December 31,	
(dollars in thousands)	2018	2017
Consumer	$7,726,731	$7,478,228
Commercial	6,098,186	5,973,763
Public and Other	1,202,325	1,431,977
Total Deposits	$15,027,242	$14,883,968

Total deposits were $15.0 billion as of December 31, 2018, a $143.3 million or 1% increase from December 31, 2017. This increase was primarily due to a $248.5 million increase in consumer deposits due to an increase in time deposits and core deposits of $237.3 million and $11.2 million respectively. In addition, commercial deposits increased by $124.4 million primarily due to a $95.1 million increase in core deposits and a $29.3 million increase in time deposits. These increases were partially offset by a $230.0 million decrease in public and other deposits largely due to the strategic decision to reduce public time deposits.

Table 12 presents the components of our savings deposits as of December 31, 2018 and 2017.

Savings Deposits Table 12

	December 31,	
(dollars in thousands)	2018	2017
Money Market	$1,973,979	$1,827,090
Regular Savings	3,565,220	3,561,923
Total Savings Deposits	$5,539,199	$5,389,013

Table of Contents

Securities Sold Under Agreements to Repurchase

Table 13 presents the composition of our securities sold under agreements to repurchase.

Securities Sold Under Agreements to Repurchase		Table 13
	December 31,	
(dollars in thousands)	2018	2017
Private Institutions	$500,000	$500,000
Government Entities	4,296	5,293
Total Securities Sold Under Agreements to Repurchase	$504,296	$505,293

Securities sold under agreements to repurchase as of December 31, 2018 remained relatively unchanged from December 31, 2017. As of December 31, 2018, the weighted-average maturity was 133 days for our repurchase agreements with government entities and 2.6 years for our repurchase agreements with private institutions. Some of our repurchase agreements with private institutions may be terminated at earlier specified dates by the private institution or in some cases by either the private institution or the Company. If all such agreements were to terminate at the earliest possible date, the weighted-average maturity for our repurchase agreements with private institutions would decrease to 2.0 years. As of December 31, 2018 and 2017, the weighted-average interest rate for repurchase agreements with government entities was 1.19% and 0.61%, respectively, while the weighted-average interest rate for repurchase agreements with private institutions as of December 31, 2018 and 2017 was 3.64%, with all rates being fixed. Each of our repurchase agreements is accounted for as collateralized financing arrangements (i.e., a secured borrowing) and not as a sale and subsequent repurchase of securities. See Note 9 and 19 to the Consolidated Financial Statements for more information.

Other Debt

Other debt was $135.6 million as of December 31, 2018, a decrease of $125.1 million or 48% from December 31, 2017. This decrease was primarily due to seven FHLB advances totaling $175.0 million which matured during 2018. As of December 31, 2018, this balance was mainly comprised of $125.0 million in FHLB advances with a weighted-average interest rate of 1.93% and maturity dates ranging from 2019 to 2020. These advances were primarily for asset/liability management purposes. As of December 31, 2018, our remaining line of credit with the FHLB was $2.2 billion.

Pension and Postretirement Plan Obligations

Retirement benefits payable were $40.5 million as of December 31, 2018, an $3.2 million or 9% increase from December 31, 2017. Our pension and postretirement benefit obligations and net periodic benefit cost are actuarially determined based on a number of key assumptions, including the discount rate, the expected return on plan assets, and the health-care cost trend rate. The accounting for pension and postretirement benefit plans reflect the long-term nature of the obligations and the investment horizon of the plan assets. The increase in retirement benefits payable was primarily due to a net investment loss on assets during the year.

Table of Contents

The discount rate is used to determine the present value of future benefit obligations and the net periodic benefit cost. The discount rate used to value the present value of future benefit obligations as of each year-end is the rate used to estimate the net periodic benefit cost for the following year. Table 14 presents a sensitivity analysis of a 25 basis point change in discount rates to the pension and postretirement benefit plan's net periodic benefit cost and benefit obligations:

Discount Rate Sensitivity Analysis | Table 14

	Base Discount Rate		Impact of Discount Rate 25 Basis Point Increase		Discount Rate 25 Basis Point Decrease	
(dollars in thousands)	Pension Benefit	Postretirement Benefits	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
2018 Net Periodic Benefit Cost	3.90 %	3.96 %	$38	$ (72)	$(46)	$ 72
Benefit Plan Obligations as of December 31, 2018	4.41 %	4.48 %	(2,501)	(714)	2,563	736
Estimated 2019 Net Periodic Benefit Cost	4.41 %	4.48 %	31	(66)	(38)	66

See Note 14 to the 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, 2018, 2017 and 2016, we did not have cross-border outstandings to any foreign country which exceeded 0.75% of our total assets.

Corporate Risk Profile

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.

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 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.

Commercial and industrial loans are made primarily for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes. Lease financing consists of direct financing leases and leveraged leases that are used by commercial customers to finance capital purchases ranging from computer equipment to transportation equipment. The credit decisions for these transactions are based upon an assessment of the overall financial capacity of the applicant. A determination is made as to the applicant's ability to repay in accordance with the proposed terms as well as an overall assessment of the risks involved. In addition to an evaluation of the applicant's financial condition, a determination is made of the probable adequacy of the primary and secondary sources of repayment, such as additional collateral or personal guarantees, to be relied upon in the transaction. Credit agency reports of the applicant's credit history supplement the analysis of the applicant's creditworthiness.

Commercial mortgages and construction loans are offered to real estate investors, developers, builders, and owner-occupants primarily domiciled in Hawaii. These loans are secured by first mortgages on real estate at loan-to-value ("LTV") ratios deemed appropriate based on the property type, location, overall quality, and sponsorship. Generally, these LTV ratios do not exceed 75%. The commercial properties are predominantly developments such as retail centers, apartments, industrial properties and, to a lesser extent, more specialized properties such as hotels. Substantially our entire commercial mortgage loans are secured by properties located in our primary market area.

In the underwriting of our commercial mortgage loans, we obtain appraisals for the underlying properties. Decisions to lend are based on the economic fundamentals of the property and the creditworthiness of the borrower. In evaluating a proposed commercial mortgage loan, we primarily emphasize the ratio of the property's projected net cash flows to the loan's debt service requirement. The debt service coverage ratio normally is not less than 120% and it is computed after deducting for a vacancy factor and property expenses as appropriate. In addition, a personal guarantee of the loan or a portion thereof is sometimes required from the principal(s) of the borrower. We typically require title insurance insuring the priority of our lien, fire, and extended coverage casualty insurance, and flood insurance, if appropriate, in order to protect our security interest in the underlying property. In addition, business interruption insurance or other insurance may be required. Owner-occupant commercial mortgage loans are underwritten based upon the cash flow of the business provided that the real estate asset is utilized in the operation of the business. Real estate is evaluated independently as a secondary source of repayment. As noted above, LTV ratios generally do not exceed 75%.

Construction loans are underwritten against projected cash flows derived from rental income, business income from an owner-occupant, or the sale of the property to an end-user. We may mitigate the risks associated with these types of loans by requiring fixed-price construction contracts, performance and payment bonding, controlled disbursements, and pre-sale contracts or pre-lease agreements.

Table of Contents

We offer a variety of first mortgage and junior lien loans to consumers within our markets with residential home mortgages comprising our largest loan category. These loans are generally secured by a primary residence 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 variable rate mortgage loans with interest rates that are subject to change every year after the first, third, fifth, or seventh year, depending on the product and are based on the London Interbank Offered Rate (“LIBOR”). Variable rate mortgage loans are underwritten at fully-indexed interest rates. We do not offer payment-option facilities, sub-prime or Alt-A loans, or any product with negative amortization. We selectively offer interest-only mortgage loans to Private Banking clients.”

Home equity loans are secured by both first and second liens on residential property of the borrower. The underwriting terms for the home equity product generally permits borrowing availability, in the aggregate, up to 85% of the value of the collateral property at the time of origination. 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 LTV ratios, DTI ratios, and credit scores. Maximum amount and LTVs are determined by collateral value and channel.

Automobile lending activities include loans and leases secured by new or used automobiles. We originate automobile loans and leases on an indirect basis through selected dealerships in Hawaii, Guam and Saipan. 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. 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.

General economic conditions in Hawaii remained healthy during 2018, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an active construction industry. Our overall credit risk position reflects these positive economic trends and our loan portfolio growth and composition.

Table of Contents

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

Table 15 presents a five-year history of non-performing assets and accruing loans and leases past due 90 days or more.

Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More Table 15

	December 31,				
(dollars in thousands)	2018	2017	2016	2015	2014
Non-Performing Assets					
Non-Accrual Loans and Leases					
Commercial					
Commercial and Industrial	$542	$448	$151	$5,829	$9,088
Commercial Mortgage	2,040	1,398	997	3,469	745
Total Commercial	2,582	1,846	1,148	9,298	9,833
Consumer					
Residential Mortgage	5,321	9,243	13,780	14,598	14,841
Home Equity	3,671	3,991	3,147	4,081	3,097
Total Consumer	8,992	13,234	16,927	18,679	17,938
Total Non-Accrual Loans and Leases	11,574	15,080	18,075	27,977	27,771
Foreclosed Real Estate	1,356	1,040	1,686	824	2,311
Total Non-Performing Assets	$12,930	$16,120	$19,761	$28,801	$30,082
Accruing Loans and Leases Past Due 90 Days or More					
Commercial					
Commercial and Industrial	$10	$—	$—	$—	$2
Total Commercial	10	—	—	—	2
Consumer					
Residential Mortgage	2,446	2,703	3,127	4,453	4,506
Home Equity	2,684	1,624	1,457	1,710	2,596
Automobile	513	886	894	315	616
Other [1]	914	1,934	1,592	1,096	941
Total Consumer	6,557	7,147	7,070	7,574	8,659
Total Accruing Loans and Leases Past Due 90 Days or More	$6,567	$7,147	$7,070	$7,574	$8,661
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	$48,731	$55,672	$52,208	$49,430	$45,474
Total Loans and Leases	$10,448,774	$9,796,947	$8,949,785	$7,878,985	$6,897,589
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.11 %	0.15 %	0.20 %	0.36 %	0.40 %
Ratio of Non-Performing Assets to Total Loans and Leases and Foreclosed Real Estate	0.12 %	0.16 %	0.22 %	0.37 %	0.44 %
Ratio of Commercial Non-Performing Assets to Total Commercial Loans and Leases and Commercial Foreclosed Real Estate	0.06 %	0.05 %	0.03 %	0.29 %	0.38 %
Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases	0.16 %	0.24 %	0.35 %	0.41 %	0.47 %

and Consumer Foreclosed Real Estate										
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases and Foreclosed Real Estate	0.19	%	0.24	%	0.30	%	0.46	%	0.56	%

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

45

Table of Contents

Table 16 presents the activity in Non-Performing Assets ("NPAs") for 2018:

Non-Performing Assets (dollars in thousands)	Table 16
Balance at Beginning of Year	$16,120
Additions	10,820
Reductions	
Payments	(7,272)
Return to Accrual Status	(3,421)
Sales of Foreclosed Real Estate	(2,375)
Charge-offs/Write-downs	(942)
Total Reductions	(14,010)
Balance at End of Year	$12,930

NPAs consist of non-accrual loans and leases, and foreclosed real estate. 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 foreclosed real estate, or are no longer classified as non-accrual because they have returned to accrual status.

Total NPAs were $12.9 million as of December 31, 2018, a decrease of $3.2 million or 20% from December 31, 2017. The decrease was experienced primarily in the consumer lending portfolio. The ratio of our NPAs to total loans and leases, and foreclosed real estate was 0.12% as of December 31, 2018 and 0.16% as of December 31, 2017.

Commercial mortgage non-accrual loans increased by $0.6 million or 46% from December 31, 2017 primarily due to the addition of one loan. Although three loans were removed, the one loan addition has an amount greater than the three loans combined. We have individually evaluated the two commercial mortgage non-accrual loans for impairment and have no cumulative net charge-offs.

Commercial and industrial non-accrual loans increased by $0.1 million or 21% from December 31, 2017 due to the addition of two loans. We have evaluated the two borrowers for impairment and have recorded a $0.2 million partial charge-off in 2018. As of December 31, 2018, the non-accrual balance in this category was comprised of six commercial borrowers.

The largest component of our NPAs continues to be residential mortgage loans. Residential mortgage non-accrual loans decreased by $3.9 million or 42% from December 31, 2017 primarily due to paydowns and payoffs. In addition, three loans modified in a troubled debt restructuring ("TDR") were returned to accrual status. As of December 31, 2018, our residential mortgage non-accrual loans were comprised of 21 loans with a weighted average current LTV ratio of 57%.

Foreclosed real estate represents property acquired as the result of borrower defaults on loans. Foreclosed real estate is recorded at fair value, less estimated selling costs, at the time of foreclosure. On an ongoing basis, properties are appraised as required by market conditions and applicable regulations. Foreclosed real estate increased by $0.3 million or 30% from December 31, 2017 primarily due to the addition of two residential properties as of December 31, 2018.

Loans and Leases Past Due 90 Days or More and Still Accruing Interest

Loans and leases in this category are 90 days or more past due, as to principal or interest, and are still accruing interest because they are well secured and in the process of collection. Loans and leases past due 90 days or more and still accruing interest were $6.6 million as of December 31, 2018, a $0.6 million or 8% decrease from December 31, 2017.

This decrease was primarily in our other and automobile portfolios, which was offset by an increase in the home equity portfolio.

Table of Contents

Impaired Loans

Impaired loans are defined as loans for which we believe it is probable we will not collect all amounts due according to the contractual terms of the loan agreement. Included in impaired loans are all classes of commercial non-accruing loans (except lease financing and small business loans), all loans modified in a TDR (including accruing TDRs), and other loans where we believe that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans exclude lease financing and smaller balance homogeneous loans (consumer and small business non-accruing loans) that are collectively evaluated for impairment. Impaired loans were $54.6 million as of December 31, 2018 and $61.2 million as of December 31, 2017, and had a related Allowance of $4.0 million as of December 31, 2018 and $3.9 million as of December 31, 2017. The change in impaired loans was primarily due to the decrease in impaired Commercial Mortgage, Commercial and Industrial, and Residential Mortgage loans, which was partially offset by the increase in impaired Automobile, and Home Equity loans. As of December 31, 2018, we recorded cumulative net charge-offs of $7.6 million related to our total impaired loans. Our impaired loans are considered in management's assessment of the overall adequacy of the Allowance.

If interest due on the balances of all non-accrual loans as of December 31, 2018 had been accrued under the original terms, approximately $0.8 million in total interest income would have been recorded in 2018, compared to less than $0.1 million actually recorded as interest income on those loans.

Loans Modified in a Troubled Debt Restructuring

Table 17 presents information on loans whose terms have been modified in a TDR:

Loans Modified in a Troubled Debt Restructuring — Table 17

	December 31,	
(dollars in thousands)	2018	2017
Commercial		
Commercial and Industrial	$6,198	$8,486
Commercial Mortgage	4,144	9,205
Construction	1,321	1,416
Total Commercial	11,663	19,107
Consumer		
Residential Mortgage	19,753	21,581
Home Equity	3,359	1,965
Automobile	17,117	14,811
Other [1]	2,098	2,645
Total Consumer	42,327	41,002
Total	$53,990	$60,109

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

Loans modified in a TDR decreased by $6.1 million from December 31, 2017. The decrease was primarily due to the full repayments of commercial mortgage loans during the second quarter of 2018. Residential mortgage loans remain our largest TDR loan class. As of December 31, 2018, $48.7 million or 90% of 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 at least six consecutive payments. See Note 4 to the Consolidated Financial

Statements for a description of the modification programs that we currently offer to our customers.

Table of Contents

Reserve for Credit Losses

The Company’s reserve for credit losses is comprised of two components, the Allowance and the reserve for unfunded commitments (the “Unfunded Reserve”). Table 18 presents the activity in the Company’s reserve for credit losses for the years ended December 31:

Reserve for Credit Losses — Table 18

(dollars in thousands)	2018	2017	2016	2015	2014
Balance at Beginning of Period	$114,168	$110,845	$108,952	$114,575	$121,521
Loans and Leases Charged-Off					
Commercial					
Commercial and Industrial	(1,505)	(1,408)	(865)	(954)	(2,002)
Lease Financing	—	—	—	—	(66)
Consumer					
Residential Mortgage	(101)	(729)	(723)	(613)	(771)
Home Equity	(665)	(995)	(1,104)	(1,330)	(1,672)
Automobile	(8,218)	(7,737)	(6,355)	(5,860)	(3,961)
Other [1]	(14,075)	(12,386)	(9,462)	(7,682)	(6,967)
Total Loans and Leases Charged-Off	(24,564)	(23,255)	(18,509)	(16,439)	(15,439)
Recoveries on Loans and Leases Previously Charged-Off					
Commercial					
Commercial and Industrial	2,039	1,482	8,058	1,948	4,625
Commercial Mortgage	—	—	53	61	57
Construction	—	—	23	32	29
Lease Financing	—	3	3	132	10
Consumer					
Residential Mortgage	807	639	1,151	1,297	3,448
Home Equity	2,001	2,681	1,776	2,489	1,637
Automobile	2,902	2,495	2,207	1,917	1,577
Other [1]	2,737	2,128	1,881	1,755	2,154
Total Recoveries on Loans and Leases Previously Charged-Off	10,486	9,428	15,152	9,631	13,537
Net Loans and Leases Charged-Off	(14,078)	(13,827)	(3,357)	(6,808)	(1,902)
Provision for Credit Losses	13,425	16,900	4,750	1,000	(4,864)
Provision for Unfunded Commitments	—	250	500	185	(180)
Balance at End of Period [2]	$113,515	$114,168	$110,845	$108,952	$114,575
Components					
Allowance for Loan and Lease Losses	$106,693	$107,346	$104,273	$102,880	$108,688
Reserve for Unfunded Commitments	6,822	6,822	6,572	6,072	5,887
Total Reserve for Credit Losses	$113,515	$114,168	$110,845	$108,952	$114,575
Average Loans and Leases Outstanding	$10,043,661	$9,346,828	$8,362,210	$7,423,572	$6,405,431
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding	0.14%	0.15%	0.04%	0.09%	0.03%
Ratio of Allowance for Loan and Lease Losses to Loans and Leases Outstanding	1.02%	1.10%	1.17%	1.31%	1.58%

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

[2] Included in this analysis is activity related to the Company's reserve for unfunded commitments, which is separately recorded in other liabilities in the consolidated statements of condition.

Table of Contents

Allowance for Loan and Lease Losses

Table 19 presents the allocation of the Allowance by loan and lease category.

Allocation of Allowance for Loan and Lease Losses Table 19

(dollars in thousands)	December 31, 2018	2017	2016	2015	2014
Commercial					
Commercial and Industrial	$26,408	$24,750	$22,797	$22,052	$26,822
Commercial Mortgage	34,869	34,890	33,893	31,889	31,118
Construction	4,398	5,109	7,771	5,541	4,927
Lease Financing	1,199	1,073	1,219	1,232	1,684
Total Commercial	66,874	65,822	65,680	60,714	64,551
Consumer					
Residential Mortgage	6,870	6,515	6,435	11,151	14,069
Home Equity	11,240	12,520	13,442	13,118	14,798
Automobile	11,576	10,940	9,763	8,516	4,251
Other [1]	10,133	11,549	8,953	9,381	11,019
Total Consumer	39,819	41,524	38,593	42,166	44,137
Total Allocation of Allowance for Loan and Lease Losses	$106,693	$107,346	$104,273	$102,880	$108,688

	December 31, 2018		2017		2016		2015		2014
	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category
Commercial									
Commercial and Industrial	1.98 %	12.74 %	1.93 %	13.06 %	1.82 %	13.96 %	1.98 %	14.15 %	2.54
Commercial Mortgage	1.51	22.03	1.66	21.48	1.79	21.11	1.90	21.29	2.16
Construction	2.59	1.63	2.53	2.06	2.88	3.02	3.54	1.99	4.51
Lease Financing	0.68	1.69	0.59	1.85	0.59	2.33	0.60	2.60	0.74
Total Commercial	1.68	38.09	1.75	38.45	1.82	40.42	1.93	40.03	2.28
Consumer									
Residential Mortgage	0.19	35.16	0.19	35.39	0.20	35.34	0.38	37.13	0.55
Home Equity	0.67	16.09	0.79	16.18	1.01	14.91	1.23	13.57	1.71
Automobile	1.76	6.30	2.07	5.39	2.15	5.08	2.23	4.85	1.31
Other [1]	2.22	4.36	2.57	4.59	2.35	4.25	2.69	4.42	3.58
	0.62	61.91	0.69	61.55	0.72	59.58	0.89	59.97	1.08

Total Consumer									
Total	1.02 %	100.00 %	1.10 %	100.00 %	1.17 %	100.00 %	1.31 %	100.00 %	1.58

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

As of December 31, 2018, the Allowance was $106.7 million or 1.02% of total loans and leases outstanding, compared with an Allowance of $107.3 million or 1.10% of total loans and leases outstanding as of December 31, 2017. The level of the Allowance was commensurate with the Company's stable credit risk profile, loan portfolio growth and composition, and a healthy Hawaii economy.

Net charge-offs of loans and leases were $14.1 million or 0.14% of total average loans and leases in 2018 compared to $13.8 million or 0.15% of total average loans and leases in 2017. Net charge-offs in our consumer portfolios were $14.6 million in 2018 compared to $13.9 million in 2017. This increase was primarily reflected in our credit card portfolio, which was sold on November 1, 2018, our home equity portfolio due to lower recoveries, as well as overdrafts. Net recoveries in our commercial portfolios were $0.5 million in 2018 compared to net recoveries of $0.1 million in 2017.

Table of Contents

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, 2018 based on our ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios, and other relevant factors.

The allocation of the Allowance to our commercial portfolio segment increased by $1.1 million or 2% from December 31, 2017. This increase was primarily due to a $1.7 million increase in the Allowance allocated to the commercial and industrial portfolio due to loan growth. The increase was offset by a $0.7 million decrease in the Allowance allocated to the construction portfolio due to the completion of major construction projects and the resultant decline in construction outstandings.
The allocation of the Allowance to our consumer portfolio segment decreased by $1.7 million or 4% from December 31, 2017 and is consistent with current asset quality metrics and economic conditions.

See Note 4 to the Consolidated Financial Statements for more information on the Allowance and credit quality indicators.

Reserve for Unfunded Commitments

The Unfunded Reserve was $6.8 million as of December 31, 2018 and December 31, 2017. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities.

Other Credit Risks

In the normal course of business, we serve the needs of state and political subdivisions in multiple capacities, including traditional banking products such as deposit services, and by investing in municipal debt securities. The carrying value of our municipal debt securities was $798.6 million as of December 31, 2018 and $865.5 million as of December 31, 2017. We also maintained investments in corporate bonds with a carrying value of $320.4 million as of December 31, 2018 and $385.7 million as of December 31, 2017. We are exposed to credit risk in these investments should the issuer of a security be unable to meet its financial obligations. This may result in the issuer failing to make scheduled interest payments and/or being unable to repay the principal upon maturity. See the “Analysis of Statements of Condition - Investment Securities” section in MD&A for more information.

Our use of derivative financial instruments has been very limited in recent years. However, these financial instruments do expose the Company to counterparty credit risk. See Note 17 to the Consolidated Financial Statements for more information.

Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates and prices. We are exposed to market risk as a consequence of the normal course of conducting our business activities. Our market risk management process involves measuring, monitoring, controlling, and mitigating risks that can significantly impact our statements of income and condition. In this management process, market risks are balanced with expected returns in an effort to enhance earnings performance while limiting volatility.

Our primary market risk exposure is interest rate risk.

Interest Rate Risk

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. 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. This interest rate risk arises primarily from our core business activities of extending loans and accepting deposits. Our investment securities portfolio is also subject to significant interest rate risk.

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 U.S. and its agencies, particularly the Federal Reserve Bank (the "FRB"). The monetary policies of the FRB can influence the overall growth of loans, investment securities, and deposits and the level of interest rates earned on assets and paid for liabilities.

Table of Contents

In managing interest rate risk, we, through the Asset/Liability Management Committee ("ALCO"), measure short and long-term sensitivities to changes in interest rates. The ALCO, which is comprised of members of executive management, utilizes several techniques to manage interest rate risk, which include:

- adjusting the statement of condition mix or altering the interest rate characteristics of assets and liabilities;
- changing product pricing strategies;
- modifying characteristics of the investment securities portfolio; and
- using derivative financial instruments.

Our use of derivative financial instruments, as detailed in Note 17 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.

A key element in our ongoing process to measure and monitor interest rate risk is the utilization of an asset/liability simulation model that attempts to capture the dynamic nature of the statement of condition. The model is used to estimate and measure the statement of condition sensitivity to changes in interest rates. These estimates are based on assumptions about the behavior of loan and deposit pricing, repayment rates on mortgage-based assets, and principal amortization and maturities on other financial instruments. The model's analytics include the effects of standard prepayment options on mortgages and customer withdrawal options for deposits. While such assumptions are inherently uncertain, we believe that our assumptions are reasonable.

We utilize net interest income simulations to analyze short-term income sensitivities to changes in interest rates. Table 20 presents, for the twelve months subsequent to December 31, 2018 and 2017, an estimate of the change in net interest income that would result from a gradual and immediate change in interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. The base case scenario assumes the statement of condition and interest rates are generally unchanged. Based on our net interest income simulation as of December 31, 2018, net interest income is expected to increase as interest rates rise. This is due in part to our strategy to maintain a relatively short investment portfolio duration. In addition, rising interest rates would drive higher rates on loans and investment securities, as well as induce a slower pace of premium amortization on certain securities within our investment portfolio. However, lower interest rates would likely cause a decline in net interest income as lower rates would lead to lower yields on loans and investment securities, as well as drive higher premium amortization on existing investment securities. Based on our net interest income simulation as of December 31, 2018, net interest income sensitivity to changes in interest rates for the twelve months subsequent to December 31, 2018 was slightly less sensitive in comparison to the sensitivity profile for the twelve months subsequent to December 31, 2017.

Net Interest Income Sensitivity Profile — Table 20

	Impact on Future Annual Net Interest Income					
(dollars in thousands)	December 31, 2018			December 31, 2017		
Gradual Change in Interest Rates (basis points)						
+200	$11,014	2.2	%	$12,420	2.6	%
+100	5,673	1.1		6,622	1.4	

-100	(6,289)	(1.2)	(6,789)	(1.4)
Immediate Change in Interest Rates (basis points)				
+200	$23,309	4.6 %	$29,876	6.2 %
+100	12,517	2.5	16,328	3.4
-100	(17,665)	(3.5)	(21,653)	(4.5)

To analyze the impact of changes in interest rates in a more realistic manner, non-parallel interest rate scenarios are also simulated. These non-parallel interest rate scenarios indicate that net interest income may decrease from the base case scenario should the yield curve flatten or become inverted for a period of time. Conversely, if the yield curve were to steepen, net interest income may increase.

Table of Contents

Other Market Risks

In addition to interest rate risk, we are exposed to other forms of market risk in our normal business transactions. Foreign currency and foreign exchange contracts expose us to a small degree of foreign currency risk. These transactions are primarily executed on behalf of customers. Our trust and asset management income is at risk to fluctuations in the market values of underlying assets, particularly debt and equity securities. Also, our share-based compensation expense is dependent on the fair value of our stock options, restricted stock units, and restricted stock at the date of grant. The fair value of stock options, restricted stock units, and restricted stock is impacted by the market price of the Parent's common stock on the date of grant and is at risk to changes in equity markets, general economic conditions, and other factors.

Liquidity Risk Management

The objective of our liquidity risk management process is to manage cash flow and liquidity in an effort to provide continuous access to sufficient, reasonably priced funds. 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 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 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.

In an effort to satisfy our liquidity needs, we actively manage our assets and liabilities. We have access to immediate liquid resources in the form of cash which is primarily on deposit with the FRB. Potential sources of liquidity also include investment securities in our available-for-sale securities portfolio, our ability to sell loans in the secondary market, and to secure borrowings from the FRB and FHLB. Our held-to-maturity securities, while not intended for sale, may also be utilized in repurchase agreements to obtain funding. Our core deposits have historically provided us with a long-term source of stable and relatively lower cost source of funding. Additional funding is available through the issuance of long-term debt or equity.

Maturities and payments on outstanding loans and investment securities also provide a steady flow of funds. Liquidity is further enhanced by our ability to pledge loans to access secured borrowings from the FHLB and FRB. As of December 31, 2018, we could have borrowed an additional $2.2 billion from the FHLB and an additional $538.5 million from the FRB based on the amount of collateral pledged.

We continued our focus on maintaining a strong liquidity position throughout 2018. As of December 31, 2018, cash and cash equivalents were $526.0 million, the carrying value of our available-for-sale investment securities was $2.0 billion, and total deposits were $15.0 billion. As of December 31, 2018, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.3 years.

Capital Management

We actively manage capital, commensurate with our risk profile, in our efforts to enhance shareholder value. We also seek to maintain capital levels for the Company and the Bank at amounts in excess of the regulatory "well-capitalized" thresholds. Periodically, we may respond to market conditions by implementing changes to our overall balance sheet positioning to manage our capital position.

The Company and the Bank are each subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements could cause certain mandatory and discretionary actions by regulators that, if undertaken, would likely have a material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative and qualitative measures. These measures were established by regulation intended to ensure capital adequacy. As of December 31, 2018, the Company's capital levels remained characterized as "well-capitalized." The Company's regulatory capital ratios are presented in Table 21 below. There have been no conditions or events since December 31, 2018 that management believes have changed either the Company's or the Bank's capital classifications.

Table of Contents

As of December 31, 2018, shareholders' equity was $1.3 billion, an increase of $36.3 million or 3% from December 31, 2017. Earnings for 2018 of $219.6 million, common stock issuances of $7.9 million, and share-based compensation of $8.1 million were offset by cash dividends paid of $98.5 million, common stock repurchases of $92.0 million, and other comprehensive loss of $8.9 million. In 2018, included in the amount of common stock repurchased were 1,079,397 shares repurchased under our share repurchase program. These shares were repurchased at an average cost per share of $81.80 and a total cost of $88.3 million. From the beginning of our share repurchase program in July 2001 through December 31, 2018, we repurchased a total of 55.3 million shares of common stock and returned total over $2.1 billion to our shareholders at an average cost of $39.14 per share.

In January 2019, the Parent's Board of Directors increased the authorization under the share repurchase program by an additional $130.0 million. From January 1, 2019 through February 15, 2019, the Parent repurchased an additional 298,500 shares of common stock at an average cost of $75.46 per share and a total cost of $22.5 million. Remaining buyback authority was $139.2 million as of February 15, 2019. The actual amount and timing of future share repurchases, if any, will depend on market and economic conditions, regulatory rules, applicable SEC rules, and various other factors.

In January 2019, the Parent's Board of Directors declared a quarterly cash dividend of $0.62 per share on the Parent's outstanding shares. The dividend will be payable on March 14, 2019 to shareholders of record at the close of business on February 28, 2019.

Table 21 presents a five-year history of activities and balances in our capital accounts, along with key capital ratios.

Shareholders' Equity and Regulatory Capital — Table 21

	December 31,				
(dollars in thousands)	2018	2017	2016	2015	2014
Change in Shareholders' Equity					
Net Income	$219,602	$184,672	$181,461	$160,704	$163,042
Cash Dividends Paid	(98,496)	(87,066)	(81,157)	(78,367)	(79,660)
Dividend Reinvestment Program	4,689	4,360	4,271	4,316	4,479
Common Stock Repurchased	(91,988)	(47,076)	(61,807)	(52,981)	(64,046)
Other[1]	2,525	15,441	2,509	27,502	19,295
Increase in Shareholders' Equity	$36,332	$70,331	$45,277	$61,174	$43,110
Regulatory Capital [2]					
Shareholders' Equity	$1,268,200	$1,231,868	$1,161,537	$1,116,260	$1,055,086
Less: Goodwill [3]	28,718	28,718	27,413	27,416	31,517
Postretirement Benefit Liability Adjustments	(36,010)	(27,715)	(28,892)	(28,860)	(34,115)
Net Unrealized Gains (Losses) on Investment Securities [4]	(15,033)	(7,000)	(5,014)	5,304	15,984
Other	(198)	(198)	(198)	(198)	2,069
Common Equity Tier 1 Capital	1,290,723	1,238,063	1,168,228	1,112,598	N/A
Tier 1 Capital	1,290,723	1,238,063	1,168,228	1,112,598	1,039,631
Allowable Reserve for Credit Losses	113,515	114,168	110,300	99,647	88,785
Total Regulatory Capital	$1,404,238	$1,352,231	$1,278,528	$1,212,245	$1,128,416
Risk-Weighted Assets [2]	$9,878,904	$9,348,296	$8,823,485	$7,962,484	$7,077,035
Key Regulatory Capital Ratios [2]					
Common Equity Tier 1 Capital Ratio	13.07 %	13.24 %	13.24 %	13.97 %	N/A%

Tier 1 Capital Ratio	13.07	13.24	13.24	13.97	14.69
Total Capital Ratio	14.21	14.46	14.49	15.22	15.94
Tier 1 Leverage Ratio	7.60	7.26	7.21	7.26	7.13

[1] Includes unrealized gains and losses on available-for-sale investment securities, minimum pension liability adjustments, and common stock issuances under share-based compensation and related tax benefits.
[2] December 31, 2018, 2017, 2016, and 2015 calculated under Basel III rules, which became effective January 1, 2015.
[3] December 31, 2018, 2017, 2016, and 2015 calculated net of deferred tax liabilities.
[4] December 31, 2018, 2017, 2016, and 2015 includes unrealized gains and losses related to the Company's reclassification of available-for-sale investment securities to the held-to-maturity category.

Regulatory Initiatives Affecting the Banking Industry

Basel III

Under final FRB and FDIC approved rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks minimum requirements increased for both the quantity and quality of capital held by the Company. The Basel III capital standards substantially revised the risk based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the definitions and the components of Tier 1 capital and Total Capital, the method of evaluating risk-weighted assets, institutions of a capital conservation buffer, and other matters affecting regulatory capital ratios. Strict eligibility criteria for regulatory capital instruments were also implemented under the rules.

The phase-in period for the final rules became effective for the Company on January 1, 2015, with full compliance with all of the final rules' requirements phased in over a multi-year schedule, to be fully implemented earlier this year on January 1, 2019. As of December 31, 2018, the Company's capital levels remained characterized as "well-capitalized" under the new rules.

Management continues to monitor regulatory developments and their potential impact to the Company's liquidity requirements.

Stress Testing

Enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act in May 2018 significantly altered several provisions of the Dodd-Frank Act, including how stress tests are run. Bank holding companies with assets of less than $100 billion, such as the Company, are no longer subject to company-run stress testing requirements in section 165(i)(2) of the Dodd-Frank Act, including publishing a summary of results. At this time, the Company continues to run internal stress tests as a component of our comprehensive risk management and capital planning process.

Deposit Insurance Fund ("DIF") Assessment

In March 2016, the FDIC approved a final rule that imposes on banks with at least $10 billion in assets, such as the Company, a surcharge of 4.5 cents per $100 of their assessment base, after making certain adjustments. The surcharge became effective for the third quarter of 2016 and the FDIC estimated the surcharge would be imposed for approximately two years. The surcharge took effect at the same time that the regular FDIC insurance assessment rates for all banks declined under a rule adopted by the FDIC in 2011. The surcharge ended on September 30, 2018. A further reduction in assessment rates will occur if and when the FDIC's Deposit Insurance Fund Reserve Ratio reaches 2.0 percent.

Operational Risk

Operational risk represents the risk of loss resulting from our operations, including, but not limited to, the risk of fraud by employees or persons outside the Company, errors relating to transaction processing and technology, failure to adhere to compliance requirements, and the risk of cyber attacks. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to perform operational functions necessary to our business. The risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and

customer attrition due to potential negative publicity. Operational risk is inherent in all business activities, and management of this risk is important to the achievement of Company goals and objectives.

Our Operating Risk Committee (the "ORC") provides oversight and assesses the most significant operational risks facing the Company. We have developed a framework that provides for a centralized operating risk management function through the ORC, supplemented by business unit responsibility for managing operational risks specific to their business units. Our internal audit department also validates the system of internal controls through ongoing risk-based audit procedures and reports on the effectiveness of internal controls to executive management and the Audit and Risk Committee of the Board of Directors.

We continuously strive to strengthen our system of internal controls to improve the oversight of operational risk. While our internal controls have been designed to minimize operational risks, there is no assurance that business disruption or operational losses will not occur. On an ongoing basis, management reassesses operational risks, implements appropriate process changes, and invests in enhancements to our systems of internal controls.

Table of Contents

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 partnerships and solar energy tax credit partnership investments. 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. We have determined that the Company is not the primary beneficiary of these entities. As a result, we do not consolidate these VIEs. See discussion of our accounting policy related to VIEs in Note 1 to the Consolidated Financial Statements.

Guarantees

We pool Federal Housing Administration (“FHA”) insured and U.S. Department of Veterans Affairs (“VA”) guaranteed residential mortgage loans for sale to Ginnie Mae. We also sell residential mortgage loans in the secondary market to Fannie Mae. The agreements under which we sell residential mortgage loans to Ginnie Mae or Fannie Mae and the insurance or guaranty agreements with the FHA and VA contain provisions that include various representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although these loans are primarily sold on a non-recourse basis, we may be obligated to repurchase residential mortgage loans or reimburse the respective investor if it is found that required documents were not delivered or were defective.

We also service substantially all of the loans we sell to investors in the secondary market. Each agreement under which we act as servicer generally specifies a standard of responsibility for our actions and provides protection against expenses and liabilities incurred by us 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 various penalties which may include the repurchase of an affected loan or a reimbursement to the respective investor.

See discussion of our risks related to representation and warranty provisions as well as our risks related to residential mortgage loan servicing activities in Note 20 to the Consolidated Financial Statements.

Contractual Obligations

Our contractual obligations as of December 31, 2018 were as follows:

Contractual Obligations [1] — Table 22

(dollars in thousands)	Less Than One Year	1-3 Years	4-5 Years	After 5 Years	Total
Deposits with No Stated Maturity	$13,281,720	$—	$—	$—	$13,281,720
Time Deposits	1,441,580	235,422	60,916	7,604	1,745,522
Securities Sold Under Agreements to Repurchase	4,296	275,000	225,000	—	504,296
Other Debt	50,000	75,000	—	—	125,000
Banker’s Acceptances Outstanding	51	—	—	—	51
Capital Lease Obligations	825	1,650	1,650	23,930	28,055
Non-Cancelable Operating Leases	12,455	22,291	19,898	104,877	159,521
Purchase Obligations	14,279	22,647	4,658	4,162	45,746
Affordable Housing Commitments	5,506	8,411	163	1,118	15,198
Pension and Postretirement Benefit Contributions [2]	1,331	2,821	3,103	9,264	16,519
Total Contractual Obligations	$14,812,043	$643,242	$315,388	$150,955	$15,921,628

[1] Our liability for UTBs as of December 31, 2018 was $5.5 million. We were unable to reasonably estimate the period of cash settlement with the respective taxing authority. As a result, our liability for UTBs is not included in this disclosure.

[2] Amounts only include obligations related to the unfunded non-qualified pension plan and postretirement benefit plan.

Table of Contents

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 above table (see Note 20 to the Consolidated Financial Statements for more information). Our non-cancelable operating leases and capital lease obligations are primarily related to branch premises, equipment, and a portion of the Company's headquarters' building with lease terms extending through 2052. 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. Pension and postretirement benefit contributions represent the minimum expected contribution to the unfunded non-qualified pension plan and postretirement benefit plan. Actual contributions may differ from these estimates.

See discussion of credit, lease, and other contractual commitments in Note 20 to the Consolidated Financial Statements.

Future Application of Accounting Pronouncements

See discussion of the expected impact of accounting pronouncements recently issued but that we have not adopted as of December 31, 2018 in Note 1 to the Consolidated Financial Statements.

Selected Quarterly Consolidated Financial Data

Table 23 presents our selected quarterly financial data for 2018 and 2017.

Condensed Statements of Income — Table 23

	Three Months Ended 2018				Three Months Ended 2017			
(dollars in thousands, except per share amounts)	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Interest Income	$143,018	$139,424	$135,585	$132,146	$131,613	$128,761	$123,568	$119,852
Interest Expense	19,045	16,497	15,089	13,190	12,843	12,444	11,289	9,980
Net Interest Income	123,973	122,927	120,496	118,956	118,770	116,317	112,279	109,872
Provision for Credit Losses	2,000	3,800	3,500	4,125	4,250	4,000	4,250	4,400
Investment Securities Gains (Losses), Net	(841)	(729)	(1,702)	(666)	(617)	(566)	(520)	12,133
Noninterest Income	42,949	42,211	43,000	44,701	42,472	42,976	45,756	43,783
Noninterest Expense	95,911	90,538	90,791	94,384	92,336	88,598	88,189	88,568
	68,170	70,071	67,503	64,482	64,039	66,129	65,076	72,820

Income Before Provision for Income Taxes								
Provision for Income Taxes	14,259	13,138	12,785	10,442	21,086	20,248	20,414	21,644
Net Income	$53,911	$56,933	$54,718	$54,040	$42,953	$45,881	$44,662	$51,176
Per Common Share								
Basic Earnings Per Share	$1.30	$1.37	$1.31	$1.29	$1.02	$1.09	$1.05	$1.21
Diluted Earnings Per Share	$1.30	$1.36	$1.30	$1.28	$1.01	$1.08	$1.05	$1.20
Dividends Declared Per Share	$0.62	$0.60	$0.60	$0.52	$0.52	$0.52	$0.50	$0.50
Performance Ratios								
Net Income to Average Total Assets (ROA)	1.26%	1.33%	1.30%	1.29%	1.00%	1.07%	1.09%	1.26%
Net Income to Average Shareholders' Equity (ROE)	17.05	18.06	17.68	17.74	13.85	14.89	14.87	17.63
Efficiency Ratio [1]	57.75	55.07	56.12	57.91	57.49	55.82	55.99	53.42
Net Interest Margin [2]	3.10	3.07	3.04	3.00	2.98	2.92	2.92	2.89

[1] The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

[2] The net interest margin is defined as net interest income, on a taxable-equivalent basis, as a percentage of average earning assets.

Table of Contents

Fourth Quarter Results and Other Matters

Net Income

Net income for the fourth quarter of 2018 was $53.9 million, an increase of $11.0 million or 26% compared to the fourth quarter of 2017. Diluted earnings per share were $1.30 for the fourth quarter of 2018, an increase of $0.29 or 29% compared to the fourth quarter of 2017.

Net Interest Income

Net interest income, on a taxable-equivalent basis, for the fourth quarter of 2018 was $125.2 million, an increase of $3.7 million or 3% compared to the fourth quarter of 2017. The increase was primarily due to the shift in the mix of our earning assets to loans, which generally have higher yields. Net interest margin was 3.10% for the fourth quarter of 2018, an increase of 12 basis point compared to the fourth quarter of 2017, primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2017. In addition, yields increased for our commercial loans and investment portfolio. Yields on our loan portfolios increased primarily due to higher yields on floating rate loans.

Provision for Credit Losses

We recorded a Provision of $2.0 million in the fourth quarter of 2018 compared to a Provision of $4.3 million recorded in the fourth quarter of 2017, while recording net charge-offs of loans and leases of $4.0 million and $3.8 million in the fourth quarters of 2018 and 2017, respectively. The Provision recorded was based on our determination that the allowance for loan and lease losses should be $106.7 million as of December 31, 2018.

Noninterest Income

Noninterest income, other than net gains on sales of investment securities, was $42.9 million in the fourth quarter of 2018, an increase of $0.5 million or 1% compared to the fourth quarter of 2017. This increase was primarily due to fees, exchange, and other service charges of $0.6 million in merchant income, which was recorded as a reduction of other noninterest expense in 2017. This accounting change was related to the 2018 adoption of the new revenue recognition accounting guidance. This increase was partially offset by a $0.4 decrease in mortgage banking income. This decrease was primarily due to reduced sales and margins on sales of conforming saleable loans from current production and from our mortgage loan portfolio.

Noninterest Expense

Noninterest expense was $95.9 million in the fourth quarter of 2018, an increase of $3.6 million or 4% compared to the fourth quarter of 2017. Salaries and benefit expense increased by $3.2 million primarily due to a $2.7 million increase in expenses related to our self-insured medical plans, a $2.5 million increase in merit and minimum wage increases, and a $1.0 million increase in separation expense. These increases were partially offset by a $0.9 million decrease in FDIC fees. In addition, during fourth quarter 2017 a one-time $2.2 million holiday bonus, inclusive of payroll taxes was paid.

Provision for Income Taxes

The provision for income taxes was $14.3 million in the fourth quarter of 2018, a decrease of $6.8 million or 32% compared to the fourth quarter of 2017. The effective tax rate for the fourth quarter of 2018 was 20.92% compared

with an effective tax rate of 32.93% for the fourth quarter of 2017. The lower effective rate in the fourth quarter of 2018 compared to the same period of 2017 was primarily due to the federal corporate tax rate changing from 35% to 21% as a result of the passage of the Tax Act, which was signed into law on December 22, 2017.

Common Stock Repurchase Program

In the fourth quarter of 2018, we repurchased 325,377 shares of our common stock under our share repurchase program at an average cost per share of $76.63 and a total cost of $24.9 million. See Note 11 to the Consolidated Financial Statements for more information related to our common stock repurchase program.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See the Market Risk section in Management’s Discussion and Analysis of Financial Condition and Results of Operation included in Item 7 of this report.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Bank of Hawaii Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of condition of Bank of Hawaii Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have 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, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 1, 2019 expressed an unqualified opinion thereon.

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/ Ernst & Young LLP

We have served as the Company's auditor since 1971.
Honolulu, Hawaii
March 1, 2019

Table of Contents

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Income

(dollars in thousands, except per share amounts)	Year Ended December 31, 2018	2017	2016
Interest Income			
Interest and Fees on Loans and Leases	$410,597	$ 370,441	$ 333,239
Income on Investment Securities			
Available-for-Sale	50,152	46,772	41,892
Held-to-Maturity	84,310	81,740	79,087
Deposits	34	15	9
Funds Sold	3,723	3,882	2,861
Other	1,357	944	812
Total Interest Income	550,173	503,794	457,900
Interest Expense			
Deposits	41,143	22,332	12,647
Securities Sold Under Agreements to Repurchase	18,519	19,592	23,406
Funds Purchased	609	123	12
Short-Term Borrowings	145	64	—
Other Debt	3,405	4,445	4,256
Total Interest Expense	63,821	46,556	40,321
Net Interest Income	486,352	457,238	417,579
Provision for Credit Losses	13,425	16,900	4,750
Net Interest Income After Provision for Credit Losses	472,927	440,338	412,829
Noninterest Income			
Trust and Asset Management	43,877	45,430	46,203
Mortgage Banking	8,437	12,949	19,895
Service Charges on Deposit Accounts	28,811	32,575	33,654
Fees, Exchange, and Other Service Charges	57,482	54,845	55,176
Investment Securities Gains (Losses), Net	(3,938)	10,430	10,203
Annuity and Insurance	5,822	6,858	7,017
Bank-Owned Life Insurance	7,199	6,517	6,561
Other	21,233	15,813	18,634
Total Noninterest Income	168,923	185,417	197,343
Noninterest Expense			
Salaries and Benefits	213,208	203,729	199,353
Net Occupancy	34,742	32,536	30,252
Net Equipment	23,852	22,078	20,578
Data Processing	17,846	15,483	15,208
Professional Fees	9,992	11,681	10,072
FDIC Insurance	7,732	8,666	8,615
Other	64,252	63,518	66,500
Total Noninterest Expense	371,624	357,691	350,578
Income Before Provision for Income Taxes	270,226	268,064	259,594
Provision for Income Taxes	50,624	83,392	78,133
Net Income	$219,602	$ 184,672	$ 181,461
Basic Earnings Per Share	$5.26	$ 4.37	$ 4.26
Diluted Earnings Per Share	$5.23	$ 4.33	$ 4.23
Dividends Declared Per Share	$2.34	$ 2.04	$ 1.89

Basic Weighted Average Shares	41,714,770	42,280,931	42,644,100
Diluted Weighted Average Shares	41,999,399	42,607,057	42,879,783

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

Table of Contents

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
(dollars in thousands)	2018	2017	2016
Net Income	$219,602	$184,672	$181,461
Other Comprehensive Loss, Net of Tax:			
Net Unrealized Losses on Investment Securities	(6,525)	(1,986)	(10,318)
Defined Benefit Plans	(2,326)	1,177	(31)
Other Comprehensive Loss	(8,851)	(809)	(10,349)
Comprehensive Income	$210,751	$183,863	$171,112

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

Table of Contents

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Condition

(dollars in thousands)	December 31, 2018	December 31, 2017
Assets		
Interest-Bearing Deposits in Other Banks	$3,028	$3,421
Funds Sold	198,860	181,413
Investment Securities		
Available-for-Sale	2,007,942	2,232,979
Held-to-Maturity (Fair Value of $3,413,994 and $3,894,121)	3,482,092	3,928,170
Loans Held for Sale	10,987	19,231
Loans and Leases	10,448,774	9,796,947
Allowance for Loan and Lease Losses	(106,693)	(107,346)
Net Loans and Leases	10,342,081	9,689,601
Total Earning Assets	16,044,990	16,054,815
Cash and Due From Banks	324,081	263,017
Premises and Equipment, Net	151,837	130,926
Accrued Interest Receivable	51,230	50,485
Foreclosed Real Estate	1,356	1,040
Mortgage Servicing Rights	24,310	24,622
Goodwill	31,517	31,517
Bank-Owned Life Insurance	283,771	280,034
Other Assets	230,882	252,596
Total Assets	$17,143,974	$17,089,052
Liabilities		
Deposits		
Noninterest-Bearing Demand	$4,739,596	$4,724,300
Interest-Bearing Demand	3,002,925	3,082,563