BANK OF HAWAII CORP
Form 10-Q
October 24, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period
ended September 30, 2016

or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission File Number: 1-6887

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

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

As of October 18, 2016, there were 42,692,883 shares of common stock outstanding.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share amounts)	2016	2015	2016	2015
Interest Income				
Interest and Fees on Loans and Leases	$ 83,489	$ 75,874	$ 246,707	$ 220,400
Income on Investment Securities				
Available-for-Sale	10,313	10,192	31,648	30,663
Held-to-Maturity	19,315	20,689	59,874	67,928
Deposits	1	2	7	7
Funds Sold	695	291	2,066	818
Other	166	312	531	924
Total Interest Income	113,979	107,360	340,833	320,740
Interest Expense				
Deposits	3,232	2,410	9,199	7,183
Securities Sold Under Agreements to Repurchase	5,713	6,307	18,000	19,118
Funds Purchased	3	3	9	9
Other Debt	1,119	749	3,139	1,987
Total Interest Expense	10,067	9,469	30,347	28,297
Net Interest Income	103,912	97,891	310,486	292,443
Provision for Credit Losses	2,500	—	1,500	—
Net Interest Income After Provision for Credit Losses	101,412	97,891	308,986	292,443
Noninterest Income				
Trust and Asset Management	11,008	11,907	34,971	36,442
Mortgage Banking	6,362	3,291	13,639	8,453
Service Charges on Deposit Accounts	8,524	8,669	25,117	25,409
Fees, Exchange, and Other Service Charges	14,023	13,340	41,445	39,589
Investment Securities Gains (Losses), Net	(328)	24	10,540	10,341
Annuity and Insurance	1,653	1,721	5,560	5,650
Bank-Owned Life Insurance	1,911	1,609	5,010	5,431
Other	4,961	2,660	14,558	10,138
Total Noninterest Income	48,114	43,221	150,840	141,453
Noninterest Expense				
Salaries and Benefits	49,725	46,576	150,528	143,966
Net Occupancy	8,510	7,403	22,671	25,341
Net Equipment	4,913	4,804	15,387	14,918
Data Processing	3,620	3,920	11,543	11,366
Professional Fees	2,396	2,258	7,082	6,857
FDIC Insurance	2,104	2,139	6,600	6,347
Other	16,264	24,788	47,178	53,582
Total Noninterest Expense	87,532	91,888	260,989	262,377
Income Before Provision for Income Taxes	61,994	49,224	198,837	171,519
Provision for Income Taxes	18,501	14,948	60,889	53,647
Net Income	$ 43,493	$ 34,276	$ 137,948	$ 117,872
Basic Earnings Per Share	$ 1.02	$ 0.79	$ 3.23	$ 2.72
Diluted Earnings Per Share	$ 1.02	$ 0.79	$ 3.21	$ 2.71
Dividends Declared Per Share	$ 0.48	$ 0.45	$ 1.41	$ 1.35
Basic Weighted Average Shares	42,543,122	43,181,233	42,730,571	43,290,137

Diluted Weighted Average Shares	42,778,346	43,427,730	42,947,059	43,514,898

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2016	2015	2016	2015
Net Income	$ 43,493	$ 34,276	$ 137,948	$ 117,872
Other Comprehensive Income (Loss), Net of Tax:				
Net Unrealized Gains (Losses) on Investment Securities	(5,528)	7,051	8,323	4,735
Defined Benefit Plans	140	219	422	659
Total Other Comprehensive Income (Loss)	(5,388)	7,270	8,745	5,394
Comprehensive Income	$ 38,105	$ 41,546	$ 146,693	$ 123,266

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

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

(dollars in thousands)	September 30, 2016	December 31, 2015
Assets		
Interest-Bearing Deposits in Other Banks	$4,181	$4,130
Funds Sold	506,604	592,892
Investment Securities		
Available-for-Sale	2,213,482	2,256,818
Held-to-Maturity (Fair Value of $3,893,542 and $4,006,412)	3,815,915	3,982,736
Loans Held for Sale	68,066	4,808
Loans and Leases	8,694,097	7,878,985
Allowance for Loan and Lease Losses	(104,033)	(102,880)
Net Loans and Leases	8,590,064	7,776,105
Total Earning Assets	15,198,312	14,617,489
Cash and Due From Banks	127,326	158,699
Premises and Equipment, Net	110,288	111,199
Accrued Interest Receivable	46,925	44,719
Foreclosed Real Estate	1,747	824
Mortgage Servicing Rights	20,991	23,002
Goodwill	31,517	31,517
Bank-Owned Life Insurance	272,637	268,175
Other Assets	204,900	199,392
Total Assets	$16,014,643	$15,455,016
Liabilities		
Deposits		
Noninterest-Bearing Demand	$4,437,963	$4,286,331
Interest-Bearing Demand	2,777,095	2,761,930
Savings	5,306,880	5,025,191
Time	1,286,427	1,177,651
Total Deposits	13,808,365	13,251,103
Funds Purchased	9,616	7,333
Securities Sold Under Agreements to Repurchase	551,683	628,857
Other Debt	267,954	245,786
Retirement Benefits Payable	47,522	47,374
Accrued Interest Payable	6,115	5,032
Taxes Payable and Deferred Taxes	24,922	17,737
Other Liabilities	134,607	135,534
Total Liabilities	14,850,784	14,338,756
Shareholders' Equity		
Common Stock ($.01 par value; authorized 500,000,000 shares; issued / outstanding: September 30, 2016 - 57,854,843 / 42,733,513 and December 31, 2015 - 57,749,071 / 43,282,153)	576	575
Capital Surplus	549,064	542,041
Accumulated Other Comprehensive Loss	(14,812)	(23,557)
Retained Earnings	1,393,231	1,316,260
Treasury Stock, at Cost (Shares: September 30, 2016 - 15,121,330 and December 31, 2015 - 14,466,918)	(764,200)	(719,059)

Total Shareholders’ Equity	1,163,859	1,116,260
Total Liabilities and Shareholders’ Equity	$ 16,014,643	$ 15,455,016

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

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

(dollars in thousands)	Common Shares Outstanding	Common Stock	Capital Surplus	Accum. Other Compre-hensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance as of December 31, 2015	43,282,153	$ 575	$542,041	$(23,557)	$1,316,260	$(719,059)	$1,116,260
Net Income	—	—	—	—	137,948	—	137,948
Other Comprehensive Income	—	—	—	8,745	—	—	8,745
Share-Based Compensation	—	—	5,020	—	—	—	5,020
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	224,018	1	2,003	—	(314)	6,224	7,914
Common Stock Repurchased	(772,658)	—	—	—	—	(51,365)	(51,365)
Cash Dividends Declared ($1.41 per share)	—	—	—	—	(60,663)	—	(60,663)
Balance as of September 30, 2016	42,733,513	$ 576	$549,064	$(14,812)	$1,393,231	$(764,200)	$1,163,859
Balance as of December 31, 2014	43,724,208	$ 574	$531,932	$(26,686)	$1,234,801	$(685,535)	$1,055,086
Net Income	—	—	—	—	117,872	—	117,872
Other Comprehensive Income	—	—	—	5,394	—	—	5,394
Share-Based Compensation	—	—	5,698	—	—	—	5,698
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	246,851	1	1,482	—	(376)	11,011	12,118
Common Stock Repurchased	(628,119)	—	—	—	—	(38,933)	(38,933)
Cash Dividends Declared ($1.35 per share)	—	—	—	—	(58,881)	—	(58,881)
Balance as of September 30, 2015	43,342,940	$ 575	$539,112	$(21,292)	$1,293,416	$(713,457)	$1,098,354

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

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

	Nine Months Ended September 30,	
(dollars in thousands)	2016	2015
Operating Activities		
Net Income	$137,948	$117,872
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	1,500	—
Impairment on Equipment Held for Sale	—	9,453
Depreciation and Amortization	9,734	9,541
Amortization of Deferred Loan and Lease Fees	(1,089)	(1,282)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	33,234	38,753
Share-Based Compensation	5,020	5,698
Benefit Plan Contributions	(929)	(1,413)
Deferred Income Taxes	6,465	(10,618)
Net Gains on Sales of Loans and Leases	(8,061)	(2,510)
Net Gains on Sales of Investment Securities	(10,540)	(10,341)
Proceeds from Sales of Loans Held for Sale	268,752	142,391
Originations of Loans Held for Sale	(323,837)	(137,293)
Tax Benefits from Share-Based Compensation	(916)	(403)
Net Change in Other Assets and Other Liabilities	(14,231)	9,719
Net Cash Provided by Operating Activities	103,050	169,567
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	288,928	256,581
Proceeds from Sales	10,766	68,166
Purchases	(248,839)	(317,458)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	545,133	715,776
Purchases	(394,547)	(389,213)
Net Change in Loans and Leases	(816,440)	(800,482)
Premises and Equipment, Net	(8,823)	(8,673)
Net Cash Used in Investing Activities	(623,822)	(475,303)
Financing Activities		
Net Change in Deposits	557,262	303,873
Net Change in Short-Term Borrowings	(74,891)	(56,463)
Proceeds from Long-Term Debt	75,000	100,000
Repayments of Long-Term Debt	(50,000)	—
Tax Benefits from Share-Based Compensation	916	403
Proceeds from Issuance of Common Stock	6,903	7,244
Repurchase of Common Stock	(51,365)	(38,933)
Cash Dividends Paid	(60,663)	(58,881)
Net Cash Provided by Financing Activities	403,162	257,243
Net Change in Cash and Cash Equivalents	(117,610)	(48,493)
Cash and Cash Equivalents at Beginning of Period	755,721	535,576

Cash and Cash Equivalents at End of Period	$638,111	$487,083
Supplemental Information		
Cash Paid for Interest	$28,952	$27,168
Cash Paid for Income Taxes	51,257	52,808
Non-Cash Investing Activities:		
Transfer from Loans to Foreclosed Real Estate	1,058	787
Transfers from Loans to Loans Held for Sale	143,918	93,539

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

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

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and accompanying notes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Use of Estimates in the Preparation of Financial Statements

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

Variable Interest Entities

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

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

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

Unfunded commitments to fund these low-income housing partnerships were $22.4 million and $25.3 million as of September 30, 2016 and December 31, 2015, respectively. These unfunded commitments are unconditional and legally binding

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and are recorded in other liabilities in the consolidated statements of condition. See Note 5 Affordable Housing Projects Tax Credit Partnerships for more information.

The Company also has limited partnership interests in solar energy tax credit partnership investments. These partnerships develop, build, own and operate solar renewable energy projects. Over the course of these investments, the Company expects to receive federal and state tax credits, tax-related benefits, and excess cash available for distribution, if any. The Company may be called to sell its interest in the limited partnerships through a call option once all investment tax credits have been recognized. Tax benefits associated with these investments are generally recognized over 6 years.
These entities meet the definition of a VIE; however, the Company is not the primary beneficiary of the entities, as the general partner has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. While the partnership agreements allow the limited partners, through a majority vote, to remove the general partner, this right is not deemed to be substantive as the general partner can only be removed for cause.

The investments in these entities are initially recorded at cost, which approximates the maximum exposure to loss as a result of the Company's involvement with these unconsolidated entities. The balance of the Company's investments in these entities was $78.0 million and $79.0 million as of September 30, 2016 and December 31, 2015, respectively, and is included in other assets in the consolidated statements of condition.

Accounting Standards Adopted in 2016

In February 2015, the FASB issued ASU No. 2015-02, “Amendments to the Consolidation Analysis.” This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The Company adopted ASU No. 2015-02 effective January 1, 2016. The adoption of ASU No. 2015-02 did not have a material impact on the Company's Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-05, “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer’s accounting for service contracts. The purpose of ASU 2015-05 is to clarify which fees paid in a cloud computing arrangement should be capitalized and which fees should be expensed as incurred. The Company prospectively adopted ASU No. 2015-05 effective January 1, 2016. The adoption of ASU No. 2015-05 did not have a material impact on the Company's Consolidated Financial Statements.

Accounting Standards Pending Adoption

In May 2014, the FASB and the International Accounting Standards Board (the "IASB") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards ("IFRS"). Previous revenue recognition guidance in

GAAP consisted of broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) provide more useful information to users of financial statements through improved disclosure requirements; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard was initially effective for public entities for interim and annual reporting periods beginning after December 15, 2016; early adoption was not permitted. However, in August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers - Deferral of the Effective Date" which deferred the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. In addition, the FASB has begun to issue targeted updates to clarify specific implementation issues of ASU 2014-09. These updates include ASU No. 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU No. 2016-10, “Identifying Performance Obligations and Licensing,” and ASU No. 2016-12 “Narrow-Scope Improvements and Practical Expedients.” The Company is currently evaluating the provisions of ASU No. 2014-09 and its related updates and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. ASU No. 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017. Early application is permitted as of the beginning of the fiscal year of adoption only for provisions (3) and (6) above. Early adoption of the other provisions mentioned above is not permitted. The Company has performed a preliminary evaluation of the provisions of ASU No. 2016-01. Based on this evaluation, the Company has determined that ASU No. 2016-01 is not expected to have a material impact on the Company's Consolidated Financial Statements; however, the Company will continue to closely monitor developments and additional guidance.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity’s leasing activities. ASU No. 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. They have the option to use certain relief; full retrospective application is prohibited. The Company is currently evaluating the provisions of

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ASU No. 2016-02 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The new guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. ASU No. 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Company expects adoption of ASU No. 2016-09 could result in increased volatility to reported income tax expense related to excess tax benefits and tax deficiencies for employee share-based transactions, however, the actual amounts recognized in income tax expense will be dependent on the amount of employee share-based transactions and the stock price at the time of vesting.

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments." This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

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

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Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of September 30, 2016 and December 31, 2015 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$421,460	$ 2,999	$(1,325)	$423,134
Debt Securities Issued by States and Political Subdivisions	669,062	28,026	(28)	697,060
Debt Securities Issued by Corporations	273,057	36	(4,026)	269,067
Mortgage-Backed Securities:				
Residential - Government Agencies	228,422	5,712	(762)	233,372
Residential - U.S. Government-Sponsored Enterprises	493,409	5,169	(71)	498,507
Commercial - Government Agencies	94,523	—	(2,181)	92,342
Total Mortgage-Backed Securities	816,354	10,881	(3,014)	824,221
Total	$2,179,933	$ 41,942	$(8,393)	$2,213,482
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$530,167	$ 4,076	$—	$534,243
Debt Securities Issued by States and Political Subdivisions	243,226	19,553	—	262,779
Debt Securities Issued by Corporations	139,569	2,106	(229)	141,446
Mortgage-Backed Securities:				
Residential - Government Agencies	1,917,954	38,056	(3,845)	1,952,165
Residential - U.S. Government-Sponsored Enterprises	740,467	12,514	(87)	752,894
Commercial - Government Agencies	244,532	5,689	(206)	250,015
Total Mortgage-Backed Securities	2,902,953	56,259	(4,138)	2,955,074
Total	$3,815,915	$ 81,994	$(4,367)	$3,893,542
December 31, 2015				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$356,260	$ 3,472	$(838)	$358,894
Debt Securities Issued by States and Political Subdivisions	709,724	22,498	(304)	731,918
Debt Securities Issued by Corporations	313,136	236	(4,502)	308,870
Mortgage-Backed Securities:				
Residential - Government Agencies	310,966	6,546	(1,267)	316,245
Residential - U.S. Government-Sponsored Enterprises	442,760	1,368	(2,264)	441,864
Commercial - Government Agencies	103,227	—	(4,200)	99,027
Total Mortgage-Backed Securities	856,953	7,914	(7,731)	857,136
Total	$2,236,073	$ 34,120	$(13,375)	$2,256,818
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$489,747	$ 1,359	$(1,139)	$489,967
Debt Securities Issued by States and Political Subdivisions	245,980	17,114	—	263,094
Debt Securities Issued by Corporations	151,301	368	(2,041)	149,628
Mortgage-Backed Securities:				
Residential - Government Agencies	2,191,138	27,893	(19,067)	2,199,964
Residential - U.S. Government-Sponsored Enterprises	647,762	1,656	(2,616)	646,802
Commercial - Government Agencies	256,808	2,381	(2,232)	256,957

Total Mortgage-Backed Securities	3,095,708	31,930	(23,915)	3,103,723
Total	$3,982,736	$ 50,771	$(27,095)	$4,006,412

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The table below presents an analysis of the contractual maturities of the Company's investment securities as of September 30, 2016. Debt securities issued by government agencies (Small Business Administration securities) and mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-Sale:		
Due in One Year or Less	$28,664	$28,814
Due After One Year Through Five Years	578,537	584,235
Due After Five Years Through Ten Years	292,485	307,096
Due After Ten Years	42,984	46,532
	942,670	966,677
Debt Securities Issued by Government Agencies	420,909	422,584
Mortgage-Backed Securities:		
Residential - Government Agencies	228,422	233,372
Residential - U.S. Government-Sponsored Enterprises	493,409	498,507
Commercial - Government Agencies	94,523	92,342
Total Mortgage-Backed Securities	816,354	824,221
Total	$2,179,933	$2,213,482
Held-to-Maturity:		
Due in One Year or Less	$104,990	$105,116
Due After One Year Through Five Years	460,841	466,200
Due After Five Years Through Ten Years	276,259	289,962
Due After Ten Years	70,872	77,190
	912,962	938,468
Mortgage-Backed Securities:		
Residential - Government Agencies	1,917,954	1,952,165
Residential - U.S. Government-Sponsored Enterprises	740,467	752,894
Commercial - Government Agencies	244,532	250,015
Total Mortgage-Backed Securities	2,902,953	2,955,074
Total	$3,815,915	$3,893,542

Investment securities with carrying values of $2.4 billion and $2.5 billion as of September 30, 2016 and December 31, 2015, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

The table below presents the gains and losses from the sales of investment securities for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2016	2015	2016	2015
Gross Gains on Sales of Investment Securities	$—	$1,504	$11,180	$11,821
Gross Losses on Sales of Investment Securities	(328)	(1,480)	(640)	(1,480)
Net Gains (Losses) on Sales of Investment Securities	$(328)	$24	$10,540	$10,341

The losses during the three and nine months ended September 30, 2016 were due to fees paid to the counterparties of our prior Visa Class B share sale transactions.

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The Company’s investment securities in an unrealized loss position, segregated by continuous length of impairment, were as follows:

	Less Than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2016						
Available-for-Sale:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$190,291	$(841)	$33,670	$(484)	$223,961	$(1,325)
Debt Securities Issued by States and Political Subdivisions	2,425	(4)	6,745	(24)	9,170	(28)
Debt Securities Issued by Corporations	63,316	(1,695)	172,662	(2,331)	235,978	(4,026)
Mortgage-Backed Securities:						
Residential - Government Agencies	8,300	(13)	12,773	(749)	21,073	(762)
Residential - U.S. Government-Sponsored Enterprises	39,245	(71)	—	—	39,245	(71)
Commercial - Government Agencies	5,195	(80)	87,147	(2,101)	92,342	(2,181)
Total Mortgage-Backed Securities	52,740	(164)	99,920	(2,850)	152,660	(3,014)
Total	$308,772	$(2,704)	$312,997	$(5,689)	$621,769	$(8,393)
Held-to-Maturity:						
Debt Securities Issued by Corporations	$30,524	$(7)	$16,751	$(222)	$47,275	$(229)
Mortgage-Backed Securities:						
Residential - Government Agencies	193,359	(327)	255,196	(3,518)	448,555	(3,845)
Residential - U.S. Government-Sponsored Enterprises	20,489	(87)	—	—	20,489	(87)
Commercial - Government Agencies	52,574	(110)	18,923	(96)	71,497	(206)
Total Mortgage-Backed Securities	266,422	(524)	274,119	(3,614)	540,541	(4,138)
Total	$296,946	$(531)	$290,870	$(3,836)	$587,816	$(4,367)
December 31, 2015						
Available-for-Sale:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$144,260	$(822)	$5,452	$(16)	$149,712	$(838)
Debt Securities Issued by States and Political Subdivisions	72,248	(252)	6,798	(52)	79,046	(304)
Debt Securities Issued by Corporations	101,269	(1,747)	162,304	(2,755)	263,573	(4,502)
Mortgage-Backed Securities:						
Residential - Government Agencies	30,679	(130)	9,117	(1,137)	39,796	(1,267)
Residential - U.S. Government-Sponsored Enterprises	346,603	(2,264)	—	—	346,603	(2,264)
Commercial - Government Agencies	—	—	99,026	(4,200)	99,026	(4,200)
Total Mortgage-Backed Securities	377,282	(2,394)	108,143	(5,337)	485,425	(7,731)
Total	$695,059	$(5,215)	$282,697	$(8,160)	$977,756	$(13,375)
Held-to-Maturity:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$264,747	$(1,139)	$—	$—	$264,747	$(1,139)
Debt Securities Issued by Corporations	28,218	(66)	71,208	(1,975)	99,426	(2,041)
Mortgage-Backed Securities:						

Residential - Government Agencies	562,502	(5,828)	414,207	(13,239)	976,709	(19,067)
Residential - U.S. Government-Sponsored Enterprises	450,147	(2,616)	—	—	450,147	(2,616)
Commercial - Government Agencies	74,040	(958)	52,207	(1,274)	126,247	(2,232)
Total Mortgage-Backed Securities	1,086,689	(9,402)	466,414	(14,513)	1,553,103	(23,915)
Total	$1,379,654	$(10,607)	$537,622	$(16,488)	$1,917,276	$(27,095)

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The Company does not believe that the investment securities that were in an unrealized loss position as of September 30, 2016, which were comprised of 120 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. As of September 30, 2016 and December 31, 2015, the gross unrealized losses were primarily related to investment securities issued by Ginnie Mae and corporate debt securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

Interest income from taxable and non-taxable investment securities for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2016	2015	2016	2015
Taxable	$24,558	$25,569	$76,112	$82,638
Non-Taxable	5,070	5,312	15,410	15,953
Total Interest Income from Investment Securities	$29,628	$30,881	$91,522	$98,591

As of September 30, 2016, included in the Company's investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $543.8 million, representing 57% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 94% were credit-rated Aa2 or better by Moody's while the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Of the Company's total Hawaii municipal bond holdings, 77% were general obligation issuances. As of September 30, 2016, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.

As of September 30, 2016 and December 31, 2015, the carrying value of the Company’s Federal Home Loan Bank of Des Moines stock and Federal Reserve Bank stock was as follows:

(dollars in thousands)	September 30, 2016	December 31, 2015
Federal Home Loan Bank Stock	$ 20,000	$ 19,000
Federal Reserve Bank Stock	19,958	19,836
Total	$ 39,958	$ 38,836

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

Visa Class B Restricted Shares

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

Should this escrow account 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. As of September 30, 2016, the conversion ratio was 1.6483.

During the first quarter of 2016, the Company recorded an $11.2 million net gain on the sale of 100,000 Visa Class B shares. Concurrent with every sale of Visa Class B shares, the Company has entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the remaining 184,814 Class B shares (304,629 Class A equivalents) that the Company owns are carried at a zero cost basis.

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Note 3. Loans and Leases and the Allowance for Loan and Lease Losses

Loans and Leases

The Company’s loan and lease portfolio was comprised of the following as of September 30, 2016 and December 31, 2015:

(dollars in thousands)	September 30, 2016	December 31, 2015
Commercial		
Commercial and Industrial	$ 1,217,849	$ 1,115,168
Commercial Mortgage	1,807,190	1,677,147
Construction	263,079	156,660
Lease Financing	201,436	204,877
Total Commercial	3,489,554	3,153,852
Consumer		
Residential Mortgage	3,098,936	2,925,605
Home Equity	1,295,993	1,069,400
Automobile	437,659	381,735
Other [1]	371,955	348,393
Total Consumer	5,204,543	4,725,133
Total Loans and Leases	$ 8,694,097	$ 7,878,985

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

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

Net gains related to sales of residential mortgage loans, recorded as a component of mortgage banking income were $3.6 million and $1.8 million for the three months ended September 30, 2016 and 2015, respectively, and $9.8 million and $4.1 million for the nine months ended September 30, 2016 and 2015, respectively.

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

The following presents by portfolio segment, the activity in the Allowance for the three and nine months ended September 30, 2016 and 2015. The following also presents by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans and leases as of September 30, 2016 and 2015.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended September 30, 2016			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$62,029	$41,903	$103,932
Loans and Leases Charged-Off	(209)	(4,707)	(4,916)
Recoveries on Loans and Leases Previously Charged-Off	296	2,221	2,517
Net Loans and Leases Recovered (Charged-Off)	87	(2,486)	(2,399)
Provision for Credit Losses	442	2,058	2,500
Balance at End of Period	$62,558	$41,475	$104,033
Nine Months Ended September 30, 2016			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$60,714	$42,166	$102,880
Loans and Leases Charged-Off	(670)	(12,888)	(13,558)
Recoveries on Loans and Leases Previously Charged-Off	7,619	5,592	13,211
Net Loans and Leases Recovered (Charged-Off)	6,949	(7,296)	(347)
Provision for Credit Losses	(5,105)	6,605	1,500
Balance at End of Period	$62,558	$41,475	$104,033
As of September 30, 2016			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$11	$3,436	$3,447
Collectively Evaluated for Impairment	62,547	38,039	100,586
Total	$62,558	$41,475	$104,033
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$21,793	$38,450	$60,243
Collectively Evaluated for Impairment	3,467,761	5,166,093	8,633,854
Total	$3,489,554	$5,204,543	$8,694,097
Three Months Ended September 30, 2015			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$67,005	$39,001	$106,006
Loans and Leases Charged-Off	(160)	(4,233)	(4,393)
Recoveries on Loans and Leases Previously Charged-Off	504	1,921	2,425
Net Loans and Leases Recovered (Charged-Off)	344	(2,312)	(1,968)
Provision for Credit Losses	(2,708)	2,708	—
Balance at End of Period	$64,641	$39,397	$104,038
Nine Months Ended September 30, 2015			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$64,551	$44,137	$108,688
Loans and Leases Charged-Off	(650)	(11,327)	(11,977)
Recoveries on Loans and Leases Previously Charged-Off	1,726	5,601	7,327
Net Loans and Leases Recovered (Charged-Off)	1,076	(5,726)	(4,650)
Provision for Credit Losses	(986)	986	—

Balance at End of Period	$64,641	$39,397	$104,038
As of September 30, 2015			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$1,977	$3,336	$5,313
Collectively Evaluated for Impairment	62,664	36,061	98,725
Total	$64,641	$39,397	$104,038
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$29,016	$39,013	$68,029
Collectively Evaluated for Impairment	3,094,229	4,527,514	7,621,743
Total	$3,123,245	$4,566,527	$7,689,772

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Credit Quality Indicators

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

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

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

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The Company's credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Company's loans and leases as of September 30, 2016 and December 31, 2015.

	September 30, 2016				
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	$1,164,869	$1,707,003	$ 250,918	$200,701	$3,323,491
Special Mention	20,880	60,080	10,625	6	91,591
Classified	32,100	40,107	1,536	729	74,472
Total	$1,217,849	$1,807,190	$ 263,079	$201,436	$3,489,554
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other [1]	Total Consumer
Pass	$3,085,868	$1,292,916	$ 437,081	$371,359	$5,187,224
Classified	13,068	3,077	578	596	17,319
Total	$3,098,936	$1,295,993	$ 437,659	$371,955	$5,204,543
Total Recorded Investment in Loans and Leases					$8,694,097

	December 31, 2015				
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	$1,059,475	$1,591,696	$ 154,976	$204,348	$3,010,495
Special Mention	28,076	43,674	80	76	71,906
Classified	27,617	41,777	1,604	453	71,451
Total	$1,115,168	$1,677,147	$ 156,660	$204,877	$3,153,852
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other [1]	Total Consumer
Pass	$2,910,667	$1,064,253	$ 381,420	$347,710	$4,704,050
Classified	14,938	5,147	315	683	21,083
Total	$2,925,605	$1,069,400	$ 381,735	$348,393	$4,725,133
Total Recorded Investment in Loans and Leases					$7,878,985

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

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Aging Analysis

The following presents by class, an aging analysis of the Company's loan and lease portfolio as of September 30, 2016 and December 31, 2015.

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current [2]
As of September 30, 2016								
Commercial								
Commercial and Industrial	$197	$423	$—	$ 201	$ 821	$1,217,028	$1,217,849	$ 111
Commercial Mortgage	—	20	—	1,023	1,043	1,806,147	1,807,190	429
Construction	—	—	—	—	—	263,079	263,079	—
Lease Financing	—	—	—	—	—	201,436	201,436	—
Total Commercial	197	443	—	1,224	1,864	3,487,690	3,489,554	540
Consumer								
Residential Mortgage	3,100	2,271	2,583	12,735	20,689	3,078,247	3,098,936	1,581
Home Equity	2,751	756	1,210	2,966	7,683	1,288,310	1,295,993	867
Automobile	8,663	1,364	578	—	10,605	427,054	437,659	—
Other [1]	2,449	1,260	1,273	—	4,982	366,973	371,955	—
Total Consumer	16,963	5,651	5,644	15,701	43,959	5,160,584	5,204,543	2,448
Total	$17,160	$6,094	$5,644	$ 16,925	$ 45,823	$8,648,274	$8,694,097	$ 2,988
As of December 31, 2015								
Commercial								
Commercial and Industrial	$1,118	$359	$—	$ 5,829	$ 7,306	$1,107,862	$1,115,168	$ 452
Commercial Mortgage	1,245	27	—	3,469	4,741	1,672,406	1,677,147	2,890
Construction	2,120	—	—	—	2,120	154,540	156,660	—
Lease Financing	—	—	—	—	—	204,877	204,877	—
Total Commercial	4,483	386	—	9,298	14,167	3,139,685	3,153,852	3,342
Consumer								
Residential Mortgage	7,148	3,993	4,453	14,598	30,192	2,895,413	2,925,605	2,056
Home Equity	3,856	1,906	1,710	4,081	11,553	1,057,847	1,069,400	1,710
Automobile	8,103	1,803	315	—	10,221	371,514	381,735	—
Other [1]	2,281	1,448	1,096	—	4,825	343,568	348,393	—
Total Consumer	21,388	9,150	7,574	18,679	56,791	4,668,342	4,725,133	3,766
Total	$25,871	$9,536	$7,574	$ 27,977	$ 70,958	$7,808,027	$7,878,985	$ 7,108

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

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

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Impaired Loans

The following presents by class, information related to impaired loans as of September 30, 2016 and December 31, 2015.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
September 30, 2016			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 9,528	$ 16,490	$ —
Commercial Mortgage	9,634	13,134	—
Construction	1,536	1,536	—
Total Commercial	20,698	31,160	—
Total Impaired Loans with No Related Allowance Recorded	$ 20,698	$ 31,160	$ —
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 707	$ 707	$ 7
Commercial Mortgage	388	388	4
Total Commercial	1,095	1,095	11
Consumer			
Residential Mortgage	26,585	32,102	3,168
Home Equity	1,349	1,349	15
Automobile	8,356	8,356	189
Other [1]	2,160	2,160	64
Total Consumer	38,450	43,967	3,436
Total Impaired Loans with an Allowance Recorded	$ 39,545	$ 45,062	$ 3,447
Impaired Loans:			
Commercial	$ 21,793	$ 32,255	$ 11
Consumer	38,450	43,967	3,436
Total Impaired Loans	$ 60,243	$ 76,222	$ 3,447
December 31, 2015			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 14,650	$ 28,212	$ —
Commercial Mortgage	10,407	13,907	—
Construction	1,604	1,604	—
Total Commercial	26,661	43,723	—
Total Impaired Loans with No Related Allowance Recorded	$ 26,661	$ 43,723	$ —
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 1,289	$ 1,289	$ 205
Total Commercial	1,289	1,289	205

Consumer			
Residential Mortgage	28,981	34,694	3,171
Home Equity	1,089	1,089	12
Automobile	7,012	7,012	143
Other [1]	1,665	1,665	47
Total Consumer	38,747	44,460	3,373
Total Impaired Loans with an Allowance Recorded	$ 40,036	$ 45,749	$ 3,578
Impaired Loans:			
Commercial	$ 27,950	$ 45,012	$ 205
Consumer	38,747	44,460	3,373
Total Impaired Loans	$ 66,697	$ 89,472	$ 3,578

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

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 9,762	$ 115	$ 13,368	$ 96
Commercial Mortgage	9,848	90	7,155	67
Construction	1,548	25	1,637	26
Total Commercial	21,158	230	22,160	189
Total Impaired Loans with No Related Allowance Recorded	$ 21,158	$ 230	$ 22,160	$ 189
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 681	$ 27	$ 6,105	$ 24
Commercial Mortgage	194	5	—	—
Total Commercial	875	32	6,105	24
Consumer				
Residential Mortgage	27,172	235	30,719	265
Home Equity	1,428	15	1,191	9
Automobile	7,908	129	6,013	104
Other [1]	2,064	44	1,218	28
Total Consumer	38,572	423	39,141	406
Total Impaired Loans with an Allowance Recorded	$ 39,447	$ 455	$ 45,246	$ 430
Impaired Loans:				
Commercial	$ 22,033	$ 262	$ 28,265	$ 213
Consumer	38,572	423	39,141	406
Total Impaired Loans	$ 60,605	$ 685	$ 67,406	$ 619

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 11,061	$ 333	$ 12,074	$ 304
Commercial Mortgage	10,040	252	6,799	198
Construction	1,570	76	1,658	80
Total Commercial	22,671	661	20,531	582
Total Impaired Loans with No Related Allowance Recorded	$ 22,671	$ 661	$ 20,531	$ 582
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 983	$ 59	$ 6,401	$ 78
Commercial Mortgage	97	5	—	—

Total Commercial	1,080	64	6,401	78
Consumer				
Residential Mortgage	27,889	736	31,374	796
Home Equity	1,365	50	1,149	28
Automobile	7,553	376	5,737	319
Other [1]	1,922	126	1,082	77
Total Consumer	38,729	1,288	39,342	1,220
Total Impaired Loans with an Allowance Recorded	$ 39,809	$ 1,352	$ 45,743	$ 1,298
Impaired Loans:				
Commercial	$ 23,751	$ 725	$ 26,932	$ 660
Consumer	38,729	1,288	39,342	1,220
Total Impaired Loans	$ 62,480	$ 2,013	$ 66,274	$ 1,880

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

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For the three and nine months ended September 30, 2016 and 2015, the amounts of interest income recognized by the Company within the periods that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that remained on accrual status. For the three and nine months ended September 30, 2016 and 2015, the amount of interest income recognized using a cash-basis method of accounting during the periods that the loans were impaired was not material.

Modifications

A modification of a loan constitutes a troubled debt restructuring ("TDR") when the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Loans modified in a TDR were $59.4 million and $65.0 million as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, there were $0.7 million commitments to lend additional funds on loans modified in a TDR. As of December 31, 2015, there were no commitments to lend additional funds on loans modified in a TDR.

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

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

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The following presents by class, information related to loans modified in a TDR during the three and nine months ended September 30, 2016 and 2015.

Loans Modified as a TDR for the Three Months Ended September 30, 2016			Loans Modified as a TDR for the Three Months Ended September 30, 2015
	Recorded	Increase in	