

BancWest

2016 Dodd Frank Act Company-Run Capital Stress Test Disclosure



BANCWEST
BNP PARIBAS GROUP

BancWest Corporation
including Bank of the West and First Hawaiian Bank

BancWest Overview

Incorporated in this disclosure are the annual stress test results of BancWest Corporation and its two subsidiary banks.

BancWest Corporation

- BancWest Corporation (BancWest), as of December 31, 2015, was the bank holding company (BHC) for Bank of the West (BOW) and First Hawaiian Bank (FHB).¹ As of December 31, 2015, BancWest had \$95.0 BN in assets. BancWest is a wholly owned subsidiary of BNP Paribas (BNPP), a global financial institution headquartered in Paris, France.

Subsidiary Banks

- Bank of the West (BOW) is a regional financial services company chartered in California and headquartered in San Francisco. It has more than 600 branch and office locations in 23 states. It has representative offices in Chicago, Dallas and Atlanta and a branch in New York. Bank of the West has more than 2.9 million personal banking, commercial and wealth management customers.
- First Hawaiian Bank (FHB) is headquartered in Honolulu and is Hawaii's oldest and largest financial institution. It holds a 36.5% deposit market share in Hawaii with 57 branches throughout Hawaii, three in Guam and two in Saipan.

BNP Paribas (BNPP)

- BNPP is a leading bank in the Eurozone with a strong global presence. It is active in 75 countries with approximately 190,000 global employees. BNPP maintains leading businesses in Europe, a significant presence in the United States and strong positions in Asia and emerging markets in retail banking, corporate institutional banking and wealth management.

¹ Effective July 1, 2016, a new BancWest Corporation will become the holding company for Bank of the West, under BancWestHolding Inc., and First Hawaiian Bank, under First Hawaiian, Inc. The new BancWest Corporation will be a subsidiary of BNP Paribas USA, Inc., the U.S. Intermediate Holding Company for BNP Paribas.

BancWest Company-Run Stress Test Results and Process

The Federal Reserve and the Federal Deposit Insurance Corporation conduct tests every year to ensure that banks have enough capital to sustain a severe economic downturn.

BancWest is subject to the Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Test (DFAST) requirements under the Federal Reserve's (FRB) capital planning rules and the Dodd-Frank Wall Street Reform and Consumer Protection Act.

This report shows the results of BancWest's DFAST stress-test results under the hypothetical supervisory severely adverse scenario for BancWest and its two subsidiary banks.² The report uses Dodd-Frank Capital Action assumptions, and the results disclosed may differ from BancWest's own internal results due to differences in methodology.

BancWest projects capital and financial results over a nine-quarter forecast horizon, starting January 1, 2016. The projection is not a forecast of economic conditions or financial results, but rather a hypothetical scenario designed by regulators to help assess the strength and resilience of financial institutions in the event of a severe economic downturn. The disclosure includes results for BWE and its subsidiaries, BOW and FHB.

Disclosure requirements include:

- Description of risks included and methodologies used in stress testing
- Aggregate cumulative financial estimates of major income statement categories
- Cumulative dollar loss and loss rates by portfolio
- Explanation of the most significant causes for changes in capital ratios
- Beginning, ending and minimum values of capital ratios

²FHB's individually disclosed DFAST results may differ from the FHB stress test results disclosed here in BancWest's CCAR exercise.

Stress Test Scenarios

Stress Test Scenarios:

BHCs and banks are required to run at least five economic scenarios which includes an internal stress and a supervisory stress scenario to make sure that the BHC and the subsidiary banks have sufficient regulatory capital to continue lending and serving their customers during an economic downturn. Capital is an important measure of a bank's strength; it is a bank's cushion against various types of unexpected losses and protects depositors' money.

BHCs and banks are given the same three economic scenarios by their regulators, one of which reflects a severe economic crisis. Banks are also required to design two scenarios on their own, including an economic downturn. The supervisory severely adverse scenario, the most severe of the three regulatory scenarios, is characterized by a severe global recession, accompanied by a period of heightened corporate financial stress and negative interest rates.

Supervisory Severely Adverse Scenario

- U.S. real GDP begins to decline in Q1 2016 and reaches a trough in Q1 2017 that is 6.25% below the pre-recession peak
- Unemployment rate increases by 5 percentage points by the middle of 2017
- Equity prices fall approximately 50% through the end of 2016, accompanied by a surge in market volatility
- Residential and commercial real estate property prices experience considerable declines, with the former declining by 25% through Q3 2018 and the latter falling 30% through Q2 2018
- Corporate financial conditions are under severe stress, reflecting rising loan defaults, heightened investor risk aversion, and strained market liquidity conditions
- Short-term Treasury rates fall to negative 0.5% by mid-2016 and remain at that level through the end of the scenario as the result of a severe decline in real activity and subdued inflation

Description of Risks

CREDIT	Risk that borrower or counterparty will fail to meet the terms of an obligation in accordance with agreed terms.
OPERATIONAL	Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes regulatory, compliance, technology and legal risk, but excludes strategic and reputation risk.
MARKET/ INTEREST RATE	Risk resulting from adverse movement in market rates or prices, such as interest rates, foreign exchange rates or equity prices.
LIQUIDITY	Risk of the BHC's inability to meet its obligations as they come due because of inability to liquidate assets or obtain adequate funding or because it cannot easily unwind or offset specific exposures without significant compromise to pricing.
OTHER RISKS	Business/Strategic Risk is the risk that arises from adverse business decisions or business plans. Reputational risk is related to the confidence placed on the BHC by its customers, clients, providers, counterparts, shareholders and regulators. Model Risk is the risk resulting from the use of models that fail to perform the tasks or capture the risks for which they were designed.

Summary of Capital and Risk Components Captured in CCAR Projections

	Capital Components	Key Risks Captured
Pre-Provision Net Revenue (PPNR)	<ul style="list-style-type: none"> Projections based on macroeconomic factors Major assumptions for growth and runoff are reviewed with lines of business 	<ul style="list-style-type: none"> Business Interest rate and Liquidity Operational Prepayment and other optionality
Other Income Related Items	<ul style="list-style-type: none"> Net realized gains and losses on sales of securities and other-than-temporary impairment (OTTI) 	<ul style="list-style-type: none"> Credit Interest rate Market valuation
Provisions for Credit Losses	<ul style="list-style-type: none"> Projections of expected losses, allowance for loan and lease losses, non-performing assets Function of underlying commercial and consumer loan characteristics as well as macroeconomic factors 	<ul style="list-style-type: none"> Credit: Changes in probability of default or loss given default (loss severity) Changes in reserve levels Changes in commitment utilization
Capital Ratios and Projections	<ul style="list-style-type: none"> Risk-weighted assets computation with correlation to historical Call Report trends 	<ul style="list-style-type: none"> Capital adequacy process including governance and challenge Internal controls, data quality, process maturity and model risk

PPNR Risks and Methodologies

Supervisory Severely Adverse Scenario
 Nine-Quarter Cumulative PPNR 1.0 billion
 (January 1, 2016 – March 31, 2018)

<p>Scope</p>	<ul style="list-style-type: none"> ▪ Net interest income ▪ Noninterest income and other fee-related revenues excluding realized gains and losses on investment securities ▪ Noninterest expense includes losses associated with operational risk
<p>Approach</p>	<ul style="list-style-type: none"> ▪ Net interest income components are based upon product level forecast for interest-earning assets and interest-bearing liabilities by scenario ▪ Loan yields and portfolio balances include assumptions for new business volumes, prepayments and runoff ▪ Available funding includes wholesale funds and advances from the Federal Home Loan Bank ▪ Fee revenues are tied to certain balance sheet forecasts and bank initiatives ▪ Major components of noninterest expense are based upon economic scenarios and management's expectations
<p>Types of Risks Identified and Captured</p>	<ul style="list-style-type: none"> ▪ Business ▪ Interest rate and Liquidity ▪ Operational ▪ Prepayment and optionality
<p>Methodologies</p>	<ul style="list-style-type: none"> ▪ Statistical models are used for major line item forecasts that link macroeconomic variables ▪ Net interest income output includes scheduled principal and projected prepayments based on balance sheet forecast by scenario ▪ Operational losses are based on historical experience and scenario analysis

Provision for Credit Losses Risks and Methodologies

Supervisory Severely Adverse Scenario
 Nine-Quarter Cumulative Provision for Credit Losses 3.0 billion
 (January 1, 2016 – March 31, 2018)

Scope	<ul style="list-style-type: none"> Represents credit-related loss retained in BancWest's loan and leases portfolios and related commitments through the planning horizon
Approach	<ul style="list-style-type: none"> Expected losses (EL) are based on the composition and characteristics of loans and lines in the BHC's portfolio. Credit quality is modeled using a loan-level EL-approach by projecting and combining Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) for each outstanding exposure. <ul style="list-style-type: none"> Commercial loans and lines are assessed based upon the BHC's internal credit risk ratings, estimated values of collateral, utilization rate, and other product-specific characteristics. Consumer loans are assessed for credit quality based upon delinquency status, FICO score, loan-to-value deterioration, and a few other product-specific characteristics. Credit loss models also use a set of portfolio-specific macroeconomic drivers as predictors.
Types of Risks Identified and Captured	<p>Credit risks, which are impacted by:</p> <ul style="list-style-type: none"> Evolution and current state of BancWest's internal risk grade for commercial exposures Consumer loan delinquency status (current, delinquent, default) Loss severity Changes in reserves Collateral type and collateral valuation Obligor/product-specific characteristics Changes in commitment utilization
Methodologies	<ul style="list-style-type: none"> Statistical analyses that consider the idiosyncratic characteristics of BancWest's portfolio Reflects stress reserve levels estimated in accordance with accounting standards, regulatory guidance and BancWest's internal accounting policies Losses are computed at the loan-level based upon BHC specific characteristics such as credit quality, geography, product mix and collateral requirements, and then aggregated

Capital Ratios and Projections Risks and Methodologies

Supervisory Severely Adverse Scenario
Ending Projection Period Tier 1 Capital 7.6 billion
(January 1, 2016 – March 31, 2018)

<p>Scope</p>	<ul style="list-style-type: none"> ▪ Common Equity Tier 1 (CET 1), Tier 1 Capital, Total Risk Based Capital and Tier 1 Leverage Ratios are computed on a quarterly basis ▪ Granular forecast of risk-weighted assets
<p>Approach</p>	<ul style="list-style-type: none"> ▪ Full projection of balance sheet and income statement for each scenario ▪ Projections reflect management’s decision to opt out of including impact of Accumulated Other Comprehensive Income (AOCI) in capital ▪ Based upon Standardized Approach for Revised Regulatory Capital Guidelines (Basel III Standardized) ▪ On and off-balance sheet exposures were risk-weighted taking into account the prepayment, new volume and other outputs from the modeling process • Robust internal controls and governance review
<p>Types of Risks Identified and Captured</p>	<ul style="list-style-type: none"> ▪ Covers all material risks identified throughout the enterprise, which were subject to governance that includes challenge from business units, executive management and the Board ▪ Model risk, data limitations and process maturity covered in capital buffer and based on material risk assessment ▪ Internal controls framework overseeing all elements of Capital Planning Process
<p>Methodologies</p>	<ul style="list-style-type: none"> ▪ Accumulation of all of the BHC's modeling processes for the forecast of the balance sheet, PPNR, losses and other elements

Supervisory Severely Adverse Scenario Results (1 of 2)

Projected Loan Losses by Type of Loans for Q1 2016 through Q1 2018 under the Supervisory Severely Adverse Scenario						
Loan losses (\$ in Billions)	BANCWEST		BOW		FHB	
	9-Quarter losses	Loss rate ³	9-Quarter losses	Loss rate	9-Quarter losses	Loss rate
	2.25	3.4%	2.09	3.8%	0.15	1.4%
First Lien Mortgages, Domestic	0.06	0.7%	0.05	0.8%	0.02	0.6%
Junior Liens and HELOCs, Domestic	0.08	1.9%	0.07	2.2%	0.01	1.0%
Commercial and Industrial	0.81	5.7%	0.77	6.9%	0.04	1.2%
Commercial Real Estate, Domestic	0.43	2.7%	0.42	3.0%	0.01	0.5%
Credit Cards	0.06	14.3%	0.03	18.4%	0.03	12.2%
Other Consumer	0.53	3.3%	0.49	3.3%	0.04	3.3%
Other Loans ⁴	0.27	4.8%	0.26	5.3%	0.01	1.2%

Cumulative P&L Metrics (1Q16 through 1Q18)			
(\$ in Billions)	BANCWEST	BOW	FHB
Pre-Provision Net Revenue ⁵	1.0	1.0	0.5
Other Revenues ⁶	0.0	0.0	0.0
Provision for Loan and Lease Losses	(3.0)	(2.7)	(0.3)
Net Income (loss) Before Taxes	(2.0)	(1.7)	0.2

Note: Totals may not sum due to rounding

³ Loss rates are calculated by summing the nine quarters of losses and dividing by the nine-quarter average balance for a given loan portfolio. Average loan balances used to calculate portfolio loss rates exclude loans held for sale and loans held for investment under the fair-value option.

⁴ Other Loans include primarily Loans Secured by Farmland and some International Real Estate Loans.

⁵ PPNR for BOW and FHB do not add up to BWE's PPNR primarily due to interest expense, non-interest expenses and consolidating entries of \$0.5 BN at the holding company level

⁶ Other Revenues include net realized gains and losses on securities

Supervisory Severely Adverse Scenario Results (2 of 2)

BANCWEST Basel III Capital Ratios				Regulatory Minimum ⁸
Capital Ratios ⁷	Actual	Stressed Capital Ratios		
	4Q15	1Q18	Lowest (over the projection horizon)	
BANCWEST				
CET 1 Ratio	12.3%	10.3%	10.3%	4.5%
Tier 1 Capital Ratio	12.3%	10.3%	10.3%	6.0%
Total Risk-Based Capital Ratio	14.6%	12.8%	12.8%	8.0%
Tier 1 Leverage Ratio	10.1%	8.5%	8.5%	4.0%
BOW				
CET 1 Ratio	13.2%	9.8%	9.8%	4.5%
Tier 1 Capital Ratio	13.2%	9.8%	9.8%	6.0%
Total Risk-Based Capital Ratio	14.2%	11.1%	11.1%	8.0%
Tier 1 Leverage Ratio	11.4%	8.6%	8.6%	4.0%
FHB				
CET 1 Ratio	15.2%	12.9%	12.9%	4.5%
Tier 1 Capital Ratio	15.2%	12.9%	12.9%	6.0%
Total Risk-Based Capital Ratio	16.4%	14.2%	14.2%	8.0%
Tier 1 Leverage Ratio	9.8%	8.2%	8.2%	4.0%

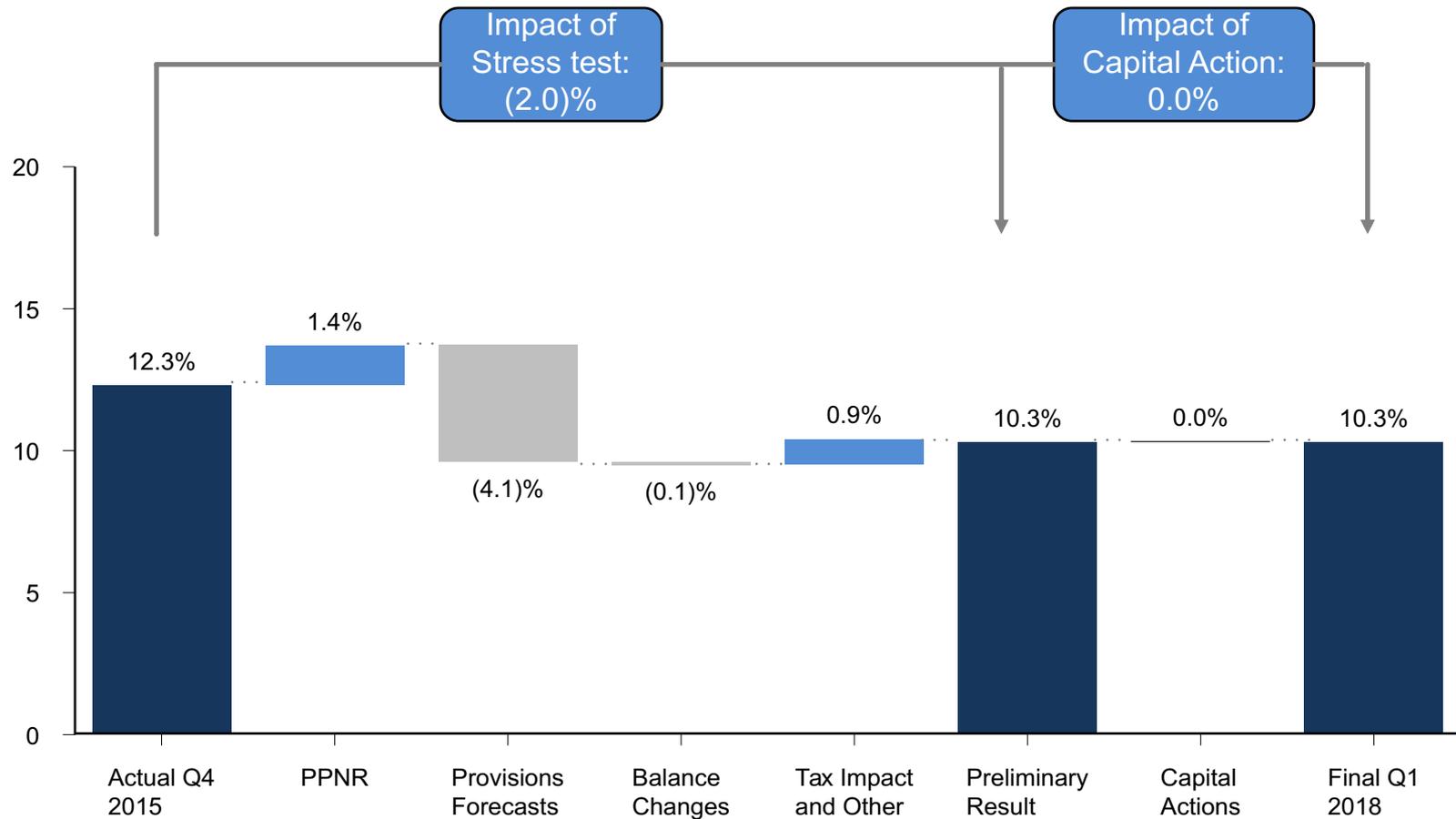
RWA (\$'s in Billions) ⁹	Actual RWA Q4, 2015	RWA Projection Q1, 2018
BWE	72.6	73.3
BOW	60.8	61.2
FHB	11.7	12.1

⁷ Capital Ratios include any capital action across the forecasting horizon under DFAST capital actions assumptions

⁸ Regulatory minimums as defined in the Comprehensive Capital Analysis Review 2016 Summary Instructions

⁹ Risk Weighted Assets calculated under Basel III Standardized Approach

Significant Drivers of Changes to the Projected Tier 1 Capital Ratio under the Supervisory Severely Adverse Scenario for BancWest



Note: Totals may not sum due to rounding

Cautionary Statements

- This disclosure contains statements related to stress tests conducted by BancWest under the Dodd-Frank Act Stress Testing (DFAST). The stress test projections are based on hypothetical scenarios under severely stressed economic conditions. These estimates are not forecasts of BancWest's actual expected losses, revenues, net income before taxes, or capital ratios.
- FRB conducts its own stress testing, based on its internally developed models and methodologies. BancWest may not be able to explain variances between its own internal stress test results and the FRB's projections.
- This disclosure does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities from any of the entities herein.