

BANK OF HAWAII CORP
Form 10-K
February 25, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from _____ to _____
Commission File Number 1-6887**

BANK OF HAWAII CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

99-0148992
(IRS Employer Identification No.)

130 Merchant Street, Honolulu, Hawaii
(Address of principal executive offices)

96813
(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 No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark 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.

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 29, 2007 (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 \$51.64, was approximately \$2,525,188,977. There was no non-voting common equity of the registrant outstanding on that date.

As of February 20, 2008, there were 48,197,270 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 25, 2008, are incorporated by reference into Part III of this Report.

Bank of Hawaii Corporation**Form 10-K**

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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 and only 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 "FRB").

The Bank provides a broad range of financial services and products primarily to customers in Hawaii and the Pacific Islands (Guam, nearby islands, and American Samoa). References to "we," "our," "us," or "the Company" refer to the holding company and its subsidiaries that are consolidated for financial reporting purposes.

The Bank's subsidiaries include Bank of Hawaii Leasing, Inc., Bankoh Investment Services, Inc., Pacific Century Life Insurance Corporation, Triad Insurance Agency, Inc., Bank of Hawaii Insurance Services, Inc., Pacific Century Insurance Services, Inc., Bankoh Investment Partners, LLC, and Bank of Hawaii International, Inc. The Bank's subsidiaries are engaged in equipment leasing, securities brokerage and investment services, and insurance and insurance agency services.

We are aligned into four business segments for management reporting purposes: Retail Banking, Commercial Banking, Investment Services, and Treasury. See Table 9 of Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") and Note 12 to the Consolidated Financial Statements for more information.

Information on the Bank's limited foreign activities is presented in Table 14 of MD&A.

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 <http://www.boh.com> as soon as reasonably practicable after such material is electronically filed with or furnished to the United States Securities and Exchange Commission (the "SEC"). The SEC maintains a website, <http://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 Committee, the Executive and Strategic Planning 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. Upon written request to the Corporate Secretary at 130 Merchant Street, Honolulu, Hawaii, 96813, this information is available in print form.

The Parent's other subsidiaries include BOHC Investment Fund, LLC (the "Fund") and Bancorp Hawaii Capital Trust I (the "Trust"). The Fund was organized in September 2007, to invest in and hold securities of Qualified High Technology Businesses, as defined in the Hawaii Revised Statutes. The Trust, a grantor trust, was organized to issue trust preferred securities.

We have included the Chief Executive Officer and the Chief Financial Officer certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 of this report. Additionally, we filed with the New York Stock Exchange (the "NYSE") the Chief Executive Officer certification regarding our compliance with the NYSE's Corporate Governance Listing Standards (the "Listing Standards") pursuant to Section 303A.12(a) of the Listing Standards. The certification was dated May 20, 2007 and indicated that the Chief Executive Officer was not aware of any violations of the Listing Standards by the Company.

Competition

We are subject to substantial competition from banks, savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies, and other providers of financial services, including financial service subsidiaries of commercial and manufacturing companies. We also compete with non-financial

institutions that offer financial products and services. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and BHCs. As a result, some of our competitors may have lower cost structures. Also, some of our competitors, through alternative delivery channels such as the internet, may be based outside of the markets that we serve. Our extensive branch network, exceptional service levels, and knowledge of local trends and conditions contribute to our competitive advantage.

Supervision and Regulation

We are extensively regulated under both federal and state laws. The following information describes significant laws and regulations applicable to us. The description is qualified in its 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. A change 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 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.

The BHC Act prohibits, with certain exceptions, a BHC from acquiring beneficial ownership or control of more than 5% of the voting shares of any company, including a bank, without the FRB's prior approval. The Act also prohibits a BHC from engaging in any activity other than banking, managing or controlling banks or other subsidiaries authorized under the BHC Act, or furnishing services to or performing services for its subsidiaries.

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 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, banks and bank holding companies 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. The Bank also has the ability, subject to certain restrictions, to acquire branches outside its home state 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. Interstate branches are subject to certain laws of the states in which they are located.

Under the BHC Act, a BHC may elect to become a financial holding company and thereby engage in a broader range of financial and other activities than are permissible for traditional BHCs. In order to qualify for the election, all of the depository institution subsidiaries of the BHC must be well capitalized and well managed. Additionally, all of its insured depository institution subsidiaries must have achieved a rating of "satisfactory" or better under the Community Reinvestment Act (the "CRA"). Financial holding companies are permitted to engage in activities that are "financial in nature"; activities incidental to or complementary of the financial activities of traditional BHCs, as determined by the FRB. The Parent has not elected to become a financial holding company.

Bank of Hawaii

The Bank is subject to supervision and examination by the Federal Reserve Bank of San Francisco and the State of Hawaii Department of Commerce and Consumer Affairs ("DCCA"), Division of Financial Institutions. The Bank is subject to extensive federal and state regulations that significantly affect business and activities. Regulatory bodies have broad authority

to implement standards and to initiate proceedings designed to prohibit depository institutions from engaging in activities that represent unsafe and 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, and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards, including the assessment of civil monetary penalties, the issuance of cease-and-desist orders, and other actions.

Bankoh Investment Services, Inc., the broker dealer subsidiary of the Bank, is incorporated in Hawaii and is regulated by the Financial Industry Regulatory Authority, formerly the National Association of Securities Dealers, and the DCCA's Business Registration Division. The insurance subsidiaries, Bank of Hawaii Insurance Services, Inc., Triad Insurance Agency, Inc., and Pacific Century Insurance Services, Inc., are incorporated in Hawaii and are regulated by the DCCA's Division of Insurance. Pacific Century Life Insurance Corporation is incorporated in Arizona and is regulated by the State of Arizona Department of Insurance.

Capital Requirements

The federal bank regulatory agencies have issued substantially similar risk-based capital ratio and leverage capital ratio guidelines applicable to BHCs and the banks they supervise. Under the risk-based capital requirements, the Company and the Bank are each generally required to maintain a minimum ratio of total capital to risk-weighted assets of 8%. At least half of the total capital is to be composed of common equity, retained earnings, and qualifying perpetual preferred stock, less certain intangibles ("Tier 1 Capital"). The remainder may consist of certain subordinated debt, certain hybrid capital instruments and other qualifying preferred stock, and a limited amount of the allowance for loan and lease losses ("Tier 2 Capital") and, together with Tier 1 Capital, equals total capital ("Total Capital"). Risk weighted assets are calculated by taking assets and credit equivalent amounts of off-balance-sheet items and assigning them to one of several broad risk categories. The risk categories are assigned according to the obligor, or, if relevant, to the guarantor, or to the nature of the collateral. The aggregate dollar value of the amount in each category is then multiplied by the risk weight associated with that category.

BHCs and banks are also required to maintain minimum leverage ratios established by the federal bank regulatory agencies. These requirements provide for a minimum leverage ratio of Tier 1 Capital to adjusted quarterly average assets equal to 3% for BHCs and banks that have the highest regulatory rating and are not experiencing significant growth or expansion. All other BHCs and banks will generally be required to maintain a leverage ratio of at least 100 to 200 basis points above the stated minimum. See Note 10 to the Consolidated Financial Statements for capital ratios for the Company and the Bank.

The risk-based capital standards identify concentrations of credit risk and the risk arising from non-traditional banking activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agencies in assessing an institution's overall capital adequacy. The capital guidelines also provide that exposure to a decline in the economic value of an institution's capital due to changes in interest rates is a factor to be considered in evaluating a bank's capital adequacy. We do not believe that consideration of these additional factors will affect the regulator's assessment of the Parent's or the Bank's capital position.

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.

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For information regarding the limitations on the Bank's ability to pay dividends to the Parent, see Note 10 to the Consolidated Financial Statements.

Transactions with Affiliates

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 so-called "covered transactions." In general, covered transactions include loans, leases, other extensions of credit, investments and asset purchases, as well as other transactions involving the transfer of value from the Bank to an affiliate or for the benefit of an affiliate. Unless an exemption applies, 1) covered transactions by the Bank with a single affiliate are limited to 10% of the Bank's capital and surplus, and 2) with respect to all covered transactions with affiliates in the aggregate, to 20% of the Bank's capital and surplus.

FDIC Insurance

The Deposit Insurance Fund ("DIF") of the FDIC insures deposit accounts in the Bank generally up to a maximum of \$100,000 per separately insured depositor, and up to a maximum of \$250,000 per separately insured depositor for certain retirement accounts. FDIC-insured depository institutions are required to pay deposit insurance premiums based on the risk an institution poses to the DIF. The current annual risk based assessment rates range from \$0.05 per \$100 of domestic deposits for well-managed, well capitalized banks with the highest credit ratings, to \$0.43 per \$100 of domestic deposits for institutions posing the most risk to the DIF. The FDIC may increase or decrease the assessment rate schedule quarterly. The Federal Deposit Insurance Reform Act of 2005 ("FDIRA") provided for a one-time assessment credit to be allocated among member institutions. As of December 31, 2007, the remaining assessment credit available to offset our future deposit insurance assessments was \$6.5 million.

In addition to DIF assessments, all FDIC-insured depository institutions must pay an annual assessment to provide funds for the repayment of debt obligations of the Financing Corporation. The Financing Corporation is a government-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation. As of January 1, 2008, the annualized rate of risk-adjusted deposits, established by the FDIC for all DIF-assessable deposits was 1.14 basis points. For 2007, the Bank's Financing Corporation insurance assessment expense was approximately \$1.0 million.

The FDIRA also provides that, in the event of the liquidation or insolvency of an insured depository institution, the claims of depositors and the FDIC, where the FDIC succeeds to the claims of depositors or has been appointed as a receiver, will be afforded priority over other general unsecured claims against such an institution.

Other Safety and Soundness Regulations

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. FDICIA identifies five capital categories for insured depository institutions: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Under regulations established by the federal banking agencies, a "well capitalized" institution must have a Tier 1 Capital Ratio of at least 6%, a Total Capital Ratio of at least 10%, a Leverage Ratio of at least 5%, and not be subject to a capital directive order. As of December 31, 2007, the Bank was classified as "well capitalized." The classification of a depository institution under FDICIA is primarily for the purpose of applying the federal banking agencies' prompt corrective action provisions, and is not intended to be, nor should it be interpreted as, a representation of the overall financial condition or the prospects of any financial institution.

The federal banking agencies' prompt corrective action powers impose progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. These 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 distributions without prior regulatory approval; and, ultimately, appointing a receiver for the institution.

As required by FDICIA, the federal banking agencies also have adopted guidelines prescribing safety and soundness standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation and benefits. The federal regulatory agencies may take action against a financial institution that does not meet such standards.

Community Reinvestment and Consumer Protection Laws

In connection with its lending activities, 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. These include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, and the CRA. In addition, 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 parties.

The 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 Bank received an "outstanding" rating in its most recent CRA evaluation.

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 substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and BHC acquisitions.

Employees

As of January 31, 2008, we had approximately 2,600 employees.

Item 1A. Risk Factors

There are a number of risks and uncertainties that could cause our financial results and condition to differ materially from expected results.

Changes in business and economic conditions, in particular those of Hawaii and the Pacific Islands (Guam, nearby islands, and American Samoa) could lead to lower revenue, lower asset quality, and lower earnings.

Our business and earnings are closely tied to general business and economic conditions, particularly the economies of Hawaii and the Pacific Islands. These economies are heavily influenced by tourism, real estate, government, and other service-based industries. Factors that could affect the general economy include geopolitical risks, such as real or threatened acts of war or terrorism, higher energy costs, reduced consumer or corporate spending, natural disasters or adverse weather, public health issues, and the normal cyclical nature of the economy. A sustained economic downturn could adversely affect the quality of our assets, credit losses, and the demand for our products and services, which could lead to lower revenue and lower earnings. We continually monitor changes in the economy, including level of visitor arrivals, changes in housing prices, and unemployment rates. We also

monitor the value of collateral, such as real estate, that secures loans we have made. A decline in the value of collateral could also reduce a customer's borrowing power.

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

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. 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 existing loans and leases. Interest rates are affected by many factors beyond our control, including general economic conditions, and the monetary and fiscal policies of various governmental and regulatory authorities. Changes in interest rates may negatively impact our ability to attract deposits, originate loans and leases, and achieve satisfactory interest rate spreads which could adversely affect our financial condition or results of operations.

Credit losses may increase due to weaker economic conditions.

The risk of nonpayment of 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 economic conditions. If our assumptions are incorrect or economic conditions change, the reserve for credit losses may not be sufficient to cover losses, which could adversely affect our financial condition or results of operations.

Many of our loans are secured by real estate in Hawaii and Guam. If these locations experience an economic downturn that impacts real estate values and customers' ability to repay, loan and lease losses could exceed the estimates that are currently included in the reserve for credit losses.

Our operations are subject to extensive 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 banking system as a whole and not for the protection of shareholders. Failure to comply with applicable regulations could lead to penalties and damage to our reputation. Furthermore, the regulatory environment is constantly undergoing change and the impact of changes to laws and regulations, the interpretation of such laws or regulations, or other actions by regulatory agencies could make regulatory compliance more difficult or expensive.

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, credit unions, mortgage companies, broker dealers, and insurance companies all of which may be based in or out of Hawaii and the Pacific Islands. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. Failures to effectively compete, innovate, and make effective use of available channels to deliver our products and services could adversely affect our financial condition or results of operations.

Our 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 dividends on the Parent's common stock. 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.

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An interruption or breach in security of our information systems may result in a loss of customers.

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. Any disruption in service of these key components could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our operations. Furthermore, security breaches of our information systems or data, whether managed by us or by third parties, could harm our reputation or cause a decrease in the number of customers that choose to do business with us.

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

Reputational risk, or the risk to our business, earnings 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.

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

Changes in income tax laws could be enacted or interpretations of existing income tax laws could change causing an adverse effect to 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 imposed or existing standards are revised, changing the methods for preparing our financial statements.

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

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. Hawaii's low unemployment rate contributes to the difficulty of attracting and retaining qualified employees at all levels. Failure to retain our key employees and maintain adequate staffing of qualified personnel, could adversely impact our operations and our ability to compete.

Item 1B. Unresolved Staff Comments

Not Applicable.

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.

Item 3. Legal Proceedings

We are involved in various legal proceedings arising from normal business activities. In the opinion of management, after reviewing these proceedings with counsel, the aggregate liability, if any, resulting from these proceedings is not expected to have a material effect on our consolidated financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of 2007 to a vote of security holders through solicitation of proxies or otherwise.

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Executive Officers of the Registrant:

Listed below are executive officers of the Parent as of February 20, 2008.

Allan R. Landon, 59

Chairman and Chief Executive Officer since September 2004; President since December 2003; Chief Operating Officer from May 2004 to August 2004; Vice Chairman from February 2001 to December 2003; Chief Financial Officer from February 2001 to April 2004.

Peter S. Ho, 42

Vice Chairman and Chief Banking Officer since January 2006; Vice Chairman, Investment Services from April 2004 to December 2005; Executive Vice President, Hawaii Commercial Banking Group from February 2003 to April 2004; Executive Vice President, Corporate Banking Division Manager from January 2002 to January 2003.

Mark A. Rossi, 59

Vice Chairman, Chief Administrative Officer, General Counsel, and Corporate Secretary since February 2007; President of Lane Powell from July 2004 to January 2007; Partner of Lane Powell Spears Lubersky, LLP from April 1996 to July 2004.

Mary E. Sellers, 51

Vice Chairman and Chief Risk Officer since July 2005; Executive Vice President, Director of Risk Management from June 2003 to June 2005; Executive Vice President, Credit Review Manager from January 2002 to June 2003.

Daniel C. Stevens, 52

Vice Chairman and Chief Financial Officer since May 2007; Independent Consultant from November 2006 to April 2007; Chief Financial Officer of Taylor Capital Group from January 2004 to October 2006; Chief Financial Officer and Chief Administrative Officer at UMB Financial Corporation from January 2001 to January 2004.

Donna A. Tanoue, 53

Vice Chairman since February 2007; Vice Chairman, Corporate and Regulatory Administration and Chief Administrative Officer from April 2004 to January 2007; Vice Chairman, Investment Services from April 2002 to April 2004.

Brian T. Stewart, 40

Executive Vice President and Controller since May 2004; Senior Vice President, Management Reporting from July 2002 to April 2004.

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 and dividends declared on that stock are shown below.

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

Year/Period	Market Price Range			Book Value	Dividends Declared
	High	Low	Close		
2007	\$ 55.94	\$ 46.05	\$ 51.14	\$ 15.44	\$ 1.67
First Quarter	54.81	50.11	53.03		0.41
Second Quarter	55.00	50.64	51.64		0.41
Third Quarter	55.84	46.05	52.85		0.41
Fourth Quarter	55.94	47.56	51.14		0.44
2006	\$ 55.15	\$ 47.00	\$ 53.95	\$ 14.45	\$ 1.52
First Quarter	55.15	51.40	53.31		0.37
Second Quarter	54.51	48.33	49.60		0.37
Third Quarter	50.75	47.00	48.16		0.37
Fourth Quarter	54.59	47.54	53.95		0.41
2005	\$ 54.44	\$ 43.82	\$ 51.54	\$ 13.52	\$ 1.36

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 20, 2008, there were 7,680 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. Under the Parent's general practice, dividends are declared upon completion of a quarter and are paid prior to the end of the subsequent quarter. Dividends declared consider future expected earnings. See "Dividend Restrictions" under "Supervision and Regulation" in Item 1 of this report and Note 10 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, 2007	127,342	\$ 52.18	127,100	\$ 117,715,883
November 1 - 30, 2007	195,836	50.26	194,500	107,939,625
December 1 - 31, 2007	275,481	50.49	269,500	94,323,326

Total	598,659	\$	50.77	591,100
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1 The months of October, November, and December 2007 included 242, 1,336, and 5,981 mature shares, respectively, purchased from employees in connection with stock option exercises. These shares were not purchased as part of the publicly announced program. The shares were purchased at the closing price of the Parent's common stock on the dates of purchase.

2 The Parent repurchased shares during the fourth quarter of 2007 pursuant to its ongoing share repurchase program that was first announced in July 2001. The Parent announced an additional authorization for share repurchases of \$100.0 million on October 19, 2007. As of February 20, 2008, \$76.1 million remained of the total \$1.65 billion total repurchase amount authorized by the Parent's Board of Directors under the share repurchase program. The program has no set expiration or termination date.

Employee Compensation Plan Information

See Item 12 for information on the Company's Equity Compensation Plan.

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 Banking Index. The graph assumes that \$100 was invested on December 31, 2002 in the Parent's common stock, the S&P 500 Index, and the S&P Banking 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.

CUMULATIVE TOTAL RETURN
Based upon an initial investment of \$100 on December 31, 2002
with dividends reinvested

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
Bank of Hawaii Corporation	100 \$	142 \$	176 \$	184 \$	198 \$	194
S&P 500 Index	100 \$	129 \$	143 \$	150 \$	173 \$	183
S&P Banking Index	100 \$	127 \$	145 \$	143 \$	166 \$	116

Item 6. Selected Financial Data

Summary of Selected Financial Data

(dollars in millions, except per share amounts)	2007	2006	2005	2004	2003
Year Ended December 31,					
Operating Results					
Net Interest Income	\$ 395.0	\$ 402.6	\$ 407.1	\$ 390.6	\$ 365.9
Provision for Credit Losses	15.5	10.8	4.6	(10.0)	
Net Income	183.7	180.4	181.6	173.3	135.2
Basic Earnings Per Share	3.75	3.59	3.50	3.26	2.32
Diluted Earnings Per Share	3.69	3.52	3.41	3.08	2.21
Dividends Declared Per Share	1.67	1.52	1.36	1.23	0.87
Performance Ratios					
Net Income to Average Total Assets (ROA)	1.75%	1.76%	1.81%	1.78%	1.44%
Net Income to Average Shareholders' Equity (ROE)	25.15	25.90	24.83	22.78	15.02
Efficiency Ratio ¹	52.78	51.87	53.15	56.14	63.38
Operating Leverage ²	0.76	3.13	10.54	26.33	3.75
Net Interest Margin ³	4.08	4.25	4.38	4.32	4.23
Dividend Payout Ratio ⁴	44.53	42.34	38.86	37.73	37.50
Average Shareholders' Equity to Average Assets	6.97	6.80	7.29	7.81	9.60
Allowance to Loans and Leases Outstanding	1.38	1.37	1.48	1.78	2.24
Tier 1 Capital Ratio	10.36	9.99	10.36	12.13	12.54
Total Capital Ratio	11.96	11.92	12.70	14.89	15.81
Leverage Ratio	7.04	7.06	7.14	8.29	8.43
As of December 31,					
Balance Sheet Totals					
Loans and Leases	\$ 6,580.9	\$ 6,623.2	\$ 6,168.5	\$ 5,986.9	\$ 5,757.2
Total Assets	10,472.9	10,571.8	10,187.0	9,766.2	9,461.6
Total Deposits	7,942.4	8,023.4	7,907.5	7,564.7	7,332.8
Long-Term Debt	235.4	260.3	242.7	252.6	324.1
Total Shareholders' Equity	750.3	719.4	693.4	814.8	793.1
Average Loans and Leases	6,561.6	6,369.2	6,104.4	5,786.6	5,525.6
Average Assets	10,472.1	10,241.4	10,023.7	9,745.5	9,377.5
Average Deposits	7,887.5	7,731.0	7,766.5	7,422.3	7,045.8
Average Shareholders' Equity	730.3	696.3	731.1	761.0	900.1
Non-Financial Data					
Common Shareholders of Record at					
Year-End	7,721	7,888	7,940	8,171	9,561
Basic Weighted Average Shares	49,033,208	50,176,685	51,848,765	53,232,815	58,338,566
Diluted Weighted Average Shares	49,833,546	51,178,943	53,310,816	56,241,044	61,085,567

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

² Operating leverage is defined as the percentage change in income before provision for credit losses and provision for income taxes.

³ Net interest margin is defined as net interest income, on a taxable equivalent basis, as a percentage of average earning assets.

⁴ Dividend payout ratio is defined as dividends declared per share divided by basic earnings per share.

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

Forward-Looking Statements

This report contains forward-looking statements concerning, among other things, the economic and business environment in our service area and elsewhere, credit quality, and other financial and business matters in future periods. 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 are less favorable than expected; 2) competitive pressure among financial services and products; 3) the impact of legislation and the regulatory environment; 4) fiscal and monetary policies of the markets in which we operate; 5) actual or alleged conduct which could harm our reputation; 6) changes in accounting standards; 7) changes in tax laws or regulations or the interpretation of such laws and regulations; 8) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 9) changes in market interest rates that may affect our credit markets and ability to maintain our net interest margin; 10) unpredicted costs and other consequences of legal or regulatory matters involving the Company; 11) changes to the amount and timing of proposed common stock repurchases; and 12) geopolitical risk, military or terrorist activity, natural disaster, adverse weather, public health, and other conditions impacting us and our customers' operations. 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 exclusive means of identifying such statements. We do not undertake an obligation to update forward-looking statements to reflect later events or circumstances.

Critical Accounting Estimates

Our Consolidated Financial Statements were prepared in accordance with U.S. generally accepted accounting principles 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 financial statements and accompanying notes. Critical accounting estimates are defined as those that require assumptions or judgments to be made based on information available as of the date of the financial statements. Certain policies inherently have a greater reliance on the use of estimates. Those policies have a greater possibility of producing results that could be materially different than reported if there is a change to any of the estimates, assumptions, or judgments made by us. Based on the potential impact to the financial statements of the valuation methods, estimates, assumptions, and judgments used, we identified the determination of the reserve for credit losses, the valuation of mortgage servicing rights, the valuation of leased asset residual values, the valuation of pension and postretirement benefit obligations, and the determination of income tax expense and liability to be the accounting estimates that are the most subjective or judgmental.

Reserve for Credit Losses

A consequence of lending activities is that we may incur losses. The amount of such losses will vary, depending upon the risk characteristics of the loan and lease portfolio as affected by economic conditions, including 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 a Reserve for Unfunded Commitments (the "Unfunded Reserve"). The reserve for credit losses provides for credit losses inherent in lending or committing to lend and is based on loss estimates derived from a comprehensive quarterly evaluation, reflecting analyses of individual borrowers and historical loss experience, supplemented as necessary by credit judgment to address observed changes in trends, conditions, and other relevant environmental and economic factors. 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.

Our determination of the amount of the reserve for credit losses is a critical accounting estimate as it requires the use of estimates and significant judgment as to the amount and timing of expected future cash flows on impaired loans and leases, estimated loss rates on homogenous portfolios, and deliberation on economic factors and trends. On a quarterly basis, an evaluation of specific individual commercial borrowers is performed to identify impaired loans and leases. Also, on a quarterly basis, the Audit Committee of the Board of Directors reviews and approves the reserve for credit losses prior to final affirmation by the Board of Directors. See Note 3 to the Consolidated Financial Statements for more information on the reserve for credit losses.

Valuation of Mortgage Servicing Rights

When mortgage loans are sold with servicing rights retained, a servicing asset is established and accounted for based on estimated fair values. An estimated fair value is used because there is no quoted or established market for valuation of mortgage servicing rights. The estimated fair value is determined using discounted cash flow modeling techniques, which requires us to make estimates and assumptions regarding the amount and timing of expected future cash flows, loan repayment rates, costs to service, and interest rates that reflect the risk involved. Our estimates of the fair value of mortgage servicing rights are sensitive to changes in the underlying estimates and assumptions. Had we assumed lower long-term interest rates and higher loan repayment rates, the estimated fair value of the mortgage servicing rights could have been lower than recorded in our Consolidated Statements of Condition. See Note 4 to the Consolidated Financial Statements for more information on mortgage servicing rights.

Valuation of Leased Asset Residual Values

Lease financing receivables include a residual value component, which represents the estimated value of leased assets upon lease expiration. Our determination of residual value is derived from a variety of sources, including equipment valuation services, appraisals, and publicly available market data on recent sales transactions on similar equipment. The length of time until lease termination, the cyclical nature of equipment values, and the limited marketplace for re-sale of certain leased assets, are important variables considered in making this determination. We update our valuation analysis on an annual basis, or more often when events or circumstances warrant. When we determine that the fair value is lower than the expected residual value at lease expiration, the difference is recognized as an asset impairment in the period in which the analysis is completed. See Note 3 to the Consolidated Financial Statements for more information on the residual value of leased assets.

Pension and Postretirement Benefit Obligations

Our pension and postretirement benefit obligations and net periodic benefit cost are actuarially determined based on the following key assumptions:

- discount rate;
- estimated future return on plan assets; and
- the health care cost trend rate.

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

The estimated pension and postretirement net periodic benefit cost for 2008 is \$1.4 million, based on an assumed discount rate of 6.85%. The following table presents a sensitivity analysis of a 25 basis

point change in discount rates to the net periodic benefit cost and benefit obligation:

Discount Rate Sensitivity Analysis Table 1

	Impact of	
	Discount Rate 25 Basis Point Increase	Discount Rate 25 Basis Point Decrease
(dollars in thousands)		
2007 Net Periodic Benefit Cost, Pension Benefits	\$ (165)	\$ 167
2007 Net Periodic Benefit Cost, Postretirement Benefits	(66)	67
Pension Benefit Obligation as of December 31, 2007	(2,344)	2,417
Postretirement Benefit Obligation as of December 31, 2007	(782)	809
Estimated 2008 Net Periodic Benefit Cost, Pension Benefits	(221)	204
Estimated 2008 Net Periodic Benefit Cost, Postretirement Benefits	(66)	66

See Note 13 to the Consolidated Financial Statements for more information on our pension and postretirement benefit plans.

Income Taxes

We determine our liabilities for income taxes based on current tax regulation and interpretations in tax jurisdictions where our income is subject to taxation. Currently, we file tax returns in nine 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, affect accrued income taxes and can be significant to our operating results. See Note 15 to the Consolidated Financial Statements for more information on income taxes.

Overview

We are a regional financial services company serving individuals, families, businesses, and governments in Hawaii and other Pacific Islands. Our main operating subsidiary, the Bank, was organized on December 17, 1897 and is chartered by the State of Hawaii.

Our Vision:

"Exceptional people building exceptional value for our customers, our island communities, our shareholders, and each other."

Our Governing Objective:

"Maximize shareholder value over time."

In striving to fulfill our vision and governing objective, in January 2007 we introduced our 2007+ Plan ("Plan") to our shareholders, customers, and employees. Our Plan consists of five strategic themes:

Growth Integration People

Brand Discipline

Growth

Our strategy for growth is to focus on the Hawaii market. Specific initiatives include introducing new products, services and delivery processes, enhanced services, and our improved sales culture. We implemented customer retention initiatives, and built our deposit and loan strategies on integration and brand strengths. A stronger brand identity and full integration will help achieve success beyond that which is possible by independent business units. Near-term growth opportunities are seen to be particularly attractive within the area of investment services. In addition, shareholder value will be further enhanced through growth in our core deposit base.

Integration

In order to continue our integration of products and services, we strive to find a proper balance between incentive initiatives that reward success at the company level as well as the business unit levels but always approaching the customer as one bank. Integration will involve products and services,

financial expertise, and delivery channels that will make organizational boundaries transparent to customers.

Our integration strategy involves identifying inter-segment operating efficiencies and developing new customer-centric products designed for easy use and efficiency, replicating high growth products, services and processes across the company and evolving a simpler structure to meet customers' needs and maximize the benefits of integration. Specifically, we intend to measure cross-sell success while reducing redundant products and services that exist in multiple business units.

People

Hiring, developing, retaining, and rewarding talented people is important to fulfilling our "vision." Areas of focus for the coming years will include: leadership excellence, talent acquisition, enhancing our positive work environment, and recognizing and rewarding talent.

Our strategy involves ongoing efforts to strengthen leadership excellence. "Pathways to Leadership Excellence" is the primary developmental program to build leadership talent for the future. An incentive system designed to encourage cooperation and integration among our business units helps to align goals with successful customer outcomes.

Brand

A special emphasis is placed on the element of "brand" since our brand serves to differentiate us from our competitors. Consistently living up to our brand promise is essential for attracting clients, building relationships, and growing our business. Our brand promise states:

"At Bank of Hawaii, we understand who you are and
help you achieve what you aspire to be."

This promise to our customers is supported by key principles: safety and soundness, service, personal relationships, community, and stature.

Our ability to deliver on our brand promise directly impacts customer satisfaction, depth of relationship, and retention.

Safety and soundness as well as service are considered "cost of entry" and expected of any business in the financial services industry. Personal relationships, community, and stature are what we consider "business winning" attributes that can distinguish us in the marketplace. Managing the brand is a continuous long-term business practice, not a short-term tactic. We believe our brand can lead to our customers' trust, loyalty, and advocacy as well as enhance shareholder value.

Discipline

Discipline entails not only a balanced approach to managing risk and comparing actual performance to forecasts, but also emphasizing our performance to deliver stable long-term results to our shareholders.

Meeting the financial goals of our Plan will require balanced management with growth in the near-term coming from in-market initiatives. Discipline is integral to maintaining our earnings stream and asset quality. Discipline creates a low risk profile and results in low earnings volatility while maintaining our prudent investment perception. We believe discipline entails emphasizing company performance over individual business unit results and aligning individual incentives with company goals. It also entails avoiding short-term initiatives with tangible gains if they involve risks that sacrifice long-term growth or expose us to unnecessary risk. Activities include providing sufficient resources in the areas of finance, risk, compliance, legal, and governance and making these resources available to business unit managers. We are continuing to develop and strengthen our compliance culture as well as develop new reporting methods designed to assess business unit performance quickly and effectively.

Plan Financial Objectives and Earnings Summary

Our Plan is based on moderate growth in revenues and consistent, positive operating leverage, and does not contemplate near-term expansion beyond our current footprint.

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The following presents our Plan financial objectives compared with our 2007 results:

Financial Objectives Table 2

Performance Ratios	2007 Results	Plan Financial Objectives
Average ROA	1.75%	Above 1.70%
Average ROE	25.15%	Above 25.00%
Efficiency Ratio	52.78%	Approaching 50.00%
Operating Leverage	0.76%	Positive

We achieved our primary performance objectives for 2007, in spite of a challenging interest rate environment and unexpected costs in the fourth quarter of 2007. For 2007, diluted earnings per share were \$3.69, an increase of 5% from 2006. Net income was \$183.7 million, an increase of 2% from 2006.

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Analysis of Statements of Income

Average balances, related income and expenses, and resulting yields and rates are presented in Table 3. An analysis of the change in net interest income, on a taxable equivalent basis, is presented in Table 4.

Average Balances and Interest Rates Taxable Equivalent Basis Table 3

(dollars in millions)	2007			2006 ¹			2005 ¹		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
Earning Assets									
Interest-Bearing									
Deposits	\$ 29.3	\$ 1.5	5.28%	\$ 5.4	\$ 0.2	3.92%	\$ 7.1	\$ 0.2	3.07%
Funds Sold	60.3	3.1	5.06	15.2	0.8	5.06	39.3	1.3	3.38
Investment Securities									
Trading	122.6	4.9	4.00						
Available-for-Sale	2,516.7	130.5	5.19	2,598.8	127.5	4.91	2,545.6	114.0	4.48
Held-to-Maturity	329.5	14.9	4.53	417.6	18.3	4.37	523.7	21.4	4.08
Loans Held for Sale	9.0	0.6	6.43	9.7	0.6	6.38	20.4	0.8	4.03
Loans and Leases ²									
Commercial and Industrial	1,054.8	78.1	7.40	987.8	72.7	7.36	953.8	59.8	6.27
Commercial Mortgage	624.5	42.5	6.81	598.5	40.3	6.73	582.6	34.8	5.97
Construction	250.1	19.6	7.86	197.3	16.2	8.19	138.6	8.8	6.35
Commercial Lease Financing	470.3	15.0	3.19	478.2	14.6	3.05	469.2	16.1	3.43
Residential Mortgage	2,501.7	153.6	6.14	2,450.4	146.3	5.97	2,346.8	133.6	5.70
Home Equity	947.9	71.6	7.56	922.2	68.4	7.42	844.2	49.8	5.91
Automobile	432.0	35.3	8.18	433.8	34.6	7.97	425.2	31.7	7.46
Other ³	280.3	30.1	10.72	301.0	31.8	10.59	344.0	33.2	9.61
Total Loans and Leases	6,561.6	445.8	6.79	6,369.2	424.9	6.67	6,104.4	367.8	6.03
Other	79.4	1.5	1.83	79.4	1.1	1.45	69.8	1.3	1.81
Total Earning Assets⁴	9,708.4	602.8	6.21	9,495.3	573.4	6.04	9,310.3	506.8	5.44
Cash and Noninterest-Bearing									
Deposits	288.9			301.2			313.0		
Other Assets	474.8			444.9			400.4		
Total Assets	\$ 10,472.1			\$ 10,241.4			\$ 10,023.7		
Interest-Bearing Liabilities									
Interest-Bearing									
Deposits									
Demand	\$ 1,570.7	15.4	0.98	\$ 1,615.5	15.6	0.96	\$ 1,667.0	10.1	0.60
Savings	2,696.8	54.0	2.00	2,680.3	38.3	1.43	2,928.6	20.5	0.70
Time	1,728.4	68.4	3.96	1,484.8	49.8	3.35	1,197.8	27.8	2.32
Total Interest-Bearing Deposits	5,995.9	137.8	2.30	5,780.6	103.7	1.79	5,793.4	58.4	1.01

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	2007			2006 ¹			2005 ¹		
Short-Term Borrowings	127.9	6.3	4.94	177.7	8.8	4.97	144.5	4.7	3.25
Securities Sold Under Agreements to Repurchase	1,044.8	47.0	4.50	932.4	42.2	4.52	699.0	21.2	3.03
Long-Term Debt	251.9	15.8	6.22	249.8	15.4	6.15	244.2	15.0	6.15
Total Interest-Bearing Liabilities	7,420.5	206.9	2.79	7,140.5	170.1	2.38	6,881.1	99.3	1.44
Net Interest Income	\$ 395.9			\$ 403.3			\$ 407.5		
Interest Rate Spread			3.42%			3.66%			4.00%
Net Interest Margin			4.08%			4.25%			4.38%
Noninterest-Bearing Demand Deposits	1,891.6			1,950.4			1,973.1		
Other Liabilities	429.7			454.2			438.4		
Shareholders' Equity	730.3			696.3			731.1		
Total Liabilities and Shareholders' Equity	\$ 10,472.1			\$ 10,241.4			\$ 10,023.7		

¹ Certain prior period information has been reclassified to conform to current presentation.

² 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.

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

⁴ Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of \$923,000, \$696,000, and \$380,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

Analysis of Change in Net Interest Income Taxable Equivalent Basis

Table 4

(dollars in millions)	Year Ended December 31, 2007 Compared to 2006			Year Ended December 31, 2006 Compared to 2005		
	Volume ¹	Rate ¹	Total	Volume ¹	Rate ¹	Total
Change in Interest Income:						
Interest-Bearing Deposits	\$ 1.2	\$ 0.1	\$ 1.3	\$ (1.0)	\$ 0.5	\$ (0.5)
Funds Sold	2.3		2.3	(1.0)	0.5	(0.5)
Investment Securities						
Trading	4.9		4.9			
Available-for-Sale	(4.1)	7.1	3.0	2.4	11.1	13.5
Held-to-Maturity	(4.0)	0.6	(3.4)	(4.5)	1.4	(3.1)
Loans Held for Sale				(0.5)	0.3	(0.2)
Loans and Leases						
Commercial and Industrial	5.0	0.4	5.4	2.2	10.7	12.9
Commercial Mortgage	1.7	0.5	2.2	0.9	4.6	5.5
Construction	4.1	(0.7)	3.4	4.4	3.0	7.4
Commercial Lease Financing	(0.2)	0.6	0.4	0.3	(1.8)	(1.5)
Residential Mortgage	3.1	4.2	7.3	6.1	6.6	12.7
Home Equity	1.9	1.3	3.2	4.9	13.7	18.6
Automobile	(0.2)	0.9	0.7	0.7	2.2	2.9
Other ²	(2.1)	0.4	(1.7)	(4.5)	3.1	(1.4)
Total Loans and Leases	13.3	7.6	20.9	15.0	42.1	57.1
Other		0.4	0.4	0.1	(0.3)	(0.2)
Total Change in Interest Income	13.6	15.8	29.4	11.5	55.1	66.6
Change in Interest Expense:						
Interest-Bearing Deposits						
Demand	(0.5)	0.3	(0.2)	(0.3)	5.8	5.5
Savings	0.2	15.5	15.7	(1.9)	19.7	17.8
Time	8.8	9.8	18.6	7.7	14.3	22.0
Total Interest-Bearing Deposits	8.5	25.6	34.1	5.5	39.8	45.3
Short-Term Borrowings	(2.4)	(0.1)	(2.5)	1.2	2.9	4.1
Securities Sold Under Agreements to Repurchase	5.0	(0.2)	4.8	8.5	12.5	21.0
Long-Term Debt	0.2	0.2	0.4	0.4		0.4
Total Change in Interest Expense	11.3	25.5	36.8	15.6	55.2	70.8
Change in Net Interest Income	\$ 2.3	\$ (9.7)	\$ (7.4)	\$ (4.1)	\$ (0.1)	\$ (4.2)

¹ The changes for each category of interest income and expense are allocated between the portion of changes attributable to the variance in volume and rate for that category.

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

Net Interest Income

We earn net interest income when interest income on earning assets, primarily loans, leases, and investment securities, exceeds interest expense on interest-bearing liabilities, primarily deposits and other funding sources. The amount of net interest income is affected by both changes in interest rates (rate) and the amount and composition of earning assets and interest-bearing liabilities (volume).

Net interest income, on a taxable equivalent basis, decreased by \$7.4 million or 2% in 2007 from 2006, primarily due to increased funding costs. Rates paid on savings and time deposit accounts increased in 2007, reflecting the full effects of a rising interest rate environment during 2006. The increase in our funding costs in 2007 was also affected by an increase in average time deposit balances as some customers shifted their balances from noninterest-bearing and interest-bearing demand accounts into higher yielding time deposit accounts. Partially offsetting the increase in funding costs was an

increase in yields on investment securities and loans and leases, as well as higher average loan balances in substantially all categories.

Net interest margin decreased by 17 basis points in 2007 from 2006, primarily due to the prolonged effects of the inverted or flat yield curve.

Average loans and leases increased by \$192.4 million or 3% in 2007 from 2006, with growth in substantially all loan categories. Yields on total loans and leases increased by 12 basis points in 2007 from 2006. Average balances in investment securities declined slightly in 2007 from 2006; however, yields on investment securities increased by 23 basis points as a result of reinvestment in higher yielding investment securities as well as a decrease in the level of prepayments.

Average interest-bearing liabilities increased by \$280.0 million or 4% in 2007 from 2006, primarily due to growth in time deposits. Average time deposit balances increased by \$243.6 million as customers sought higher rate deposit products. Also contributing to the increase in average interest-bearing liabilities was a \$112.4 million increase in average balances in securities sold under agreements to repurchase. These financial instruments provide us with a relatively inexpensive and readily available source of short-term financing. Average long-term debt, the costliest of our interest-bearing liabilities, remained relatively unchanged in 2007 from 2006.

Net interest income, on a taxable equivalent basis, decreased by \$4.2 million or 1% in 2006 from 2005, primarily due to increased funding costs. Rates paid on demand and savings accounts increased, as some customers shifted deposits from demand and savings accounts into higher rate time deposits and into off-balance sheet managed cash accounts. Also contributing to the higher funding costs were increased levels of securities sold under agreements to repurchase which served as one source of funding the growth in loans and leases in 2006. Partially offsetting the increase in the funding costs was an increase in yields on loans and investment securities and an increase in average loans and leases.

Net interest margin decreased by 13 basis points in 2006 from 2005, primarily due to the impact that the flat or inverted yield curve had on the mix of our funding sources and related rates paid during 2006.

Average loans and leases increased by \$264.8 million or 4% in 2006 from 2005, and yields on total loans and leases increased by 64 basis points in 2006 from 2005. Average balances in investment securities remained relatively unchanged during this period; however, yields increased by 43 basis points in the available-for-sale portfolio and by 29 basis points in held-to-maturity portfolio, reflecting a general rise in interest rates. Growth in average loans and leases required the utilization of deposits and short-term borrowings as a funding mechanism.

Average interest-bearing liabilities increased by \$259.4 million or 4% in 2006 from 2005, primarily due to an increase in securities sold under agreements to repurchase, time deposits, and short-term borrowings. Although average deposits remained relatively unchanged during this period, there was significant movement in balances within deposit products. Average noninterest-bearing demand, interest-bearing demand, and savings balances collectively decreased by \$322.5 million or 5% in 2006 from 2005. Over this same period, average time deposits increased by \$287.0 million or 24% as customers sought higher rate deposit products and customers also used their off-balance sheet managed cash accounts as a means of obtaining higher rates.

Provision for Credit Losses

The Provision for Credit Losses (the "Provision") reflects our judgment of the expense or benefit necessary to establish 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 Provision is determined through detailed quarterly analyses of the loan and lease portfolio. The Provision is based on our loss experience, changes in the economic environment, as well as an ongoing assessment of our credit quality. The Provision was \$15.5 million in 2007, \$10.8 million in 2006, and \$4.6 million in 2005. For further discussion on the Allowance, see the "Corporate Risk Profile Allowance for Loan and Lease Losses" section in MD&A.

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Noninterest Income

Table 5 presents the major components of noninterest income for 2007, 2006, and 2005.

Noninterest Income

Table 5

(dollars in thousands)	Year Ended December 31,			Dollar Change		Percent Change	
	2007	2006	2005	2007 to 2006	2006 to 2005	2007 to 2006	2006 to 2005
Trust and Asset Management	\$ 62,926	\$ 58,740	\$ 56,830	\$ 4,186	\$ 1,910	7%	3%
Mortgage Banking	11,725	10,562	10,399	1,163	163	11	2
Service Charges on Deposit Accounts	46,260	41,756	39,945	4,504	1,811	11	5
Fees, Exchange, and Other Service Charges	65,825	62,441	59,588	3,384	2,853	5	5
Investment Securities Gains, Net	1,485	172	341	1,313	(169)	763	(50)
Insurance	23,177	20,388	19,643	2,789	745	14	4
Other Income:							
Income from Bank-Owned Life Insurance	7,773	6,090	6,037	1,683	53	28	1
Gains on the Sale of Leased Assets	3,126	2,708	5,084	418	(2,376)	15	(47)
Gains on the Sale of Real Estate	3,095			3,095		n.m.	n.m.
Other	15,095	13,319	11,447	1,776	1,872	13	16
Total Other Income	29,089	22,117	22,568	6,972	(451)	32	(2)
Total Noninterest Income	\$ 240,487	\$ 216,176	\$ 209,314	\$ 24,311	\$ 6,862	11%	3%

n.m. not meaningful.

Trust and asset management income is comprised of fees earned from the management and administration of trust and other customer assets. These fees are somewhat correlated with the market value of the assets that we manage. Total trust assets under administration were \$13.0 billion as of December 31, 2007, \$12.6 billion as of December 31, 2006, and \$12.5 billion as of December 31, 2005. Trust and asset management income increased in 2007 from 2006 due in part to \$2.7 million in fees from new accounts under management. Also contributing to higher income in 2007 from 2006 was an increase in fees from existing accounts as a result of an increase in the market value of assets under management. Trust and asset management income increased in 2006 from 2005 primarily due to an increase in the average market value of assets under management and an increase in investment advisory fees on money market accounts.

Mortgage banking income for 2007, 2006, and 2005 was comprised of the following:

Mortgage Banking

Table 6

(dollars in thousands)	2007	2006	2005
Mortgage Origination and Servicing Activities			
Servicing Income	\$ 6,105	\$ 6,117	\$ 6,028
Net Gains on the Sale of Residential Mortgage Loans	685	1,080	2,292
Mortgage Loan Fees	2,484	2,041	2,671
Total Mortgage Origination and Servicing Activities	9,274	9,238	10,991
Mortgage Servicing Rights and Other			
Gains Recognized on Originated Mortgage Servicing Rights	4,153	3,979	4,533
Change in Fair Value of Mortgage Servicing Rights:			
Due to Changes in Valuation Assumptions ¹	184		
Due to Paydowns and Other ²	(4,193)		
Change in Fair Value of Designated Securities ³	2,265		
Amortization of Mortgage Servicing Rights		(2,552)	(5,291)
Gains (Losses) on Derivative Financial Instruments	(15)	(45)	166
Other	57	(58)	
Total Mortgage Servicing Rights and Other	2,451	1,324	(592)
Total Mortgage Banking	\$ 11,725	\$ 10,562	\$ 10,399

¹ Principally reflects changes in discount rates and loan repayment rate assumptions, mostly due to changes in interest rates.

² Principally represents changes due to the realization of expected cash flows over time.

³ Designated Securities were comprised of mortgage-backed securities in our trading portfolio, which were used to manage the volatility of the fair value of the mortgage servicing rights. Realized investment trading gains and losses were not material in 2007.

Mortgage banking income is highly influenced by the level and direction of mortgage interest rates and the strength of the housing market. On January 1, 2007, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140," which requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practicable. We also reclassified investment securities with a carrying value of \$164.2 million (the "Designated Securities") from the available-for-sale portfolio to the trading portfolio. The change in fair value of the Designated Securities is intended to offset changes in valuation assumptions affecting the recorded value of our mortgage servicing rights.

Mortgage banking income increased in 2007 from 2006 primarily due to the discontinuation of the amortization of mortgage servicing rights in 2007. Also contributing to the increase in mortgage banking income in 2007 from 2006 was the change in the fair value of our Designated Securities of \$2.3 million. In 2007, we benefited from the change in fair value of our Designated Securities exceeding the change in fair value of mortgage servicing rights due to changes in valuation assumptions. However, with experience in managing this hedge, we continue to rebalance our trading portfolio in an effort to better hedge the change in fair value of mortgage servicing rights related to valuation assumptions. These increases were partially offset by the change in mortgage servicing rights due to paydowns. Residential mortgage loan originations were \$775.9 million in 2007, a \$66.7 million decrease from 2006. Mortgage banking income increased in 2006 from 2005 primarily due to lower amortization expense of \$2.8 million, partially offset by lower gains on the sale of residential mortgage loans of \$1.2 million, and lower mortgage loan fees of \$0.6 million. Residential mortgage loan originations were \$1.0 billion in 2005. See Note 4 to the Consolidated Financial Statements for more information on mortgage servicing rights.

Service charges on deposit accounts increased in 2007 from 2006, primarily due to higher overdraft fees as a result of fee schedule changes as well as an increase in the number of transactional deposit accounts. The increase in service charges on deposit accounts in 2006 from 2005 was also due to an increase in the number of transactional deposit accounts. However, this increase in 2006 was partially offset by lower account analysis fees on analyzed business checking accounts as a result of higher earnings credit rates resulting from a rise in short-term interest rates.

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Fees, exchange, and other service charges are primarily comprised of debit card income, fees from ATMs, merchant service activity, and other loan fees and service charges. The increase in fees, exchange, and other service charges in 2007 and 2006 was primarily due to an increase in debit card income. The increase in debit card income was due to higher transactional volume from new and existing debit cardholders.

Insurance income is comprised of commission income derived from our retail and wholesale insurance businesses. The increase in insurance income in 2007 from 2006 was primarily due to a \$1.1 million increase in contingent commission income, as well as a \$1.2 million increase in income from annuity and life insurance products. Our favorable 2007 results in insurance income are the result of a better trained sales force and product enhancements. The increase in insurance income in 2006 from 2005 was primarily due to higher commission income as customers who insure with our wholesale insurance business experienced lower than anticipated losses.

The other component of other noninterest income increased in 2007 from 2006 primarily due to \$0.4 million in higher commission income from the sale of mutual funds and \$0.6 million in higher income from low-income housing investments. The other component of other noninterest income increased in 2006 from 2005 primarily due to higher commission income from the sale of mutual funds.

Noninterest Expense

Table 7 presents the major components of noninterest expense for 2007, 2006, and 2005.

Noninterest Expense

Table 7

	Year Ended December 31,			Dollar Change		Percent Change	
	2007	2006	2005	2007 to 2006	2006 to 2005	2007 to 2006	2006 to 2005
(dollars in thousands)							
Salaries and Benefits:							
Salaries	\$ 115,856	\$ 110,203	\$ 108,286	\$ 5,653	\$ 1,917	5%	2%
Incentive Compensation	15,505	17,150	16,145	(1,645)	1,005	(10)	6
Share-Based Compensation	6,330	5,322	6,118	1,008	(796)	19	(13)
Commission Expense	7,444	7,168	8,112	276	(944)	4	(12)
Retirement and Other Benefits	15,131	17,212	17,962	(2,081)	(750)	(12)	(4)
Payroll Taxes	9,910	9,791	9,748	119	43	1	
Medical, Dental, and Life							