BANK OF HAWAII CORP
Form 10-Q
October 24, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2007**

or

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

Commission File Number: 1-6887

BANK OF HAWAII CORPORATION

(Exact name of registrant as specified in its charter)

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

1-888-643-3888

(Registrant s telephone number, including area code)

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

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

As of October 19, 2007, there were 48,999,283 shares of common stock outstanding.

Bank of Hawaii Corporation

Form 10-Q

Index

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

(dollars in thousands, except per share amounts)	Three Months Ended September 30, 2007	2006 [1]	Nine Months Ended September 30, 2007	2006 [1]
Interest Income				
Interest and Fees on Loans and Leases	$ 112,787	$ 110,065	$ 335,111	$ 313,824
Income on Investment Securities				
Trading	1,114	-	4,089	-
Available-for-Sale	33,486	31,949	96,010	94,010
Held-to-Maturity	3,616	4,558	11,495	13,973
Deposits	1,086	50	1,240	148
Funds Sold	1,103	66	2,694	361
Other	364	272	1,061	816
Total Interest Income	153,556	146,960	451,700	423,132
Interest Expense				
Deposits	37,613	28,464	104,689	72,753
Securities Sold Under Agreements to Repurchase	11,726	11,959	35,277	29,651
Funds Purchased	1,654	2,270	4,029	6,815
Short-Term Borrowings	87	82	265	212
Long-Term Debt	3,920	3,835	11,869	11,293
Total Interest Expense	55,000	46,610	156,129	120,724
Net Interest Income	98,556	100,350	295,571	302,408
Provision for Credit Losses	4,070	2,785	10,064	7,615
Net Interest Income After Provision for Credit Losses	94,486	97,565	285,507	294,793
Noninterest Income				
Trust and Asset Management	15,146	14,406	47,114	43,791
Mortgage Banking	3,848	2,394	9,698	7,950
Service Charges on Deposit Accounts	11,919	10,723	33,958	30,550
Fees, Exchange, and Other Service Charges	16,465	16,266	49,082	46,666
Investment Securities Gains, Net	789	19	1,380	19
Insurance	7,446	6,713	18,548	16,423
Other	5,629	6,366	20,450	17,261
Total Noninterest Income	61,242	56,887	180,230	162,660
Noninterest Expense				
Salaries and Benefits	44,944	43,133	134,937	133,730
Net Occupancy	10,267	9,998	29,773	29,017
Net Equipment	4,871	5,285	14,529	15,115
Professional Fees	2,369	2,638	7,511	5,665
Other	18,999	18,751	56,655	55,838
Total Noninterest Expense	81,450	79,805	243,405	239,365
Income Before Provision for Income Taxes	74,278	74,647	222,332	218,088
Provision for Income Taxes	26,499	27,727	79,489	88,642
Net Income	$ 47,779	$ 46,920	$ 142,843	$ 129,446
Basic Earnings Per Share	$ 0.98	$ 0.94	$ 2.90	$ 2.57
Diluted Earnings Per Share	$ 0.96	$ 0.92	$ 2.86	$ 2.52
Dividends Declared Per Share	$ 0.41	$ 0.37	$ 1.23	$ 1.11
Basic Weighted Average Shares	48,913,293	49,960,617	49,204,295	50,407,013
Diluted Weighted Average Shares	49,663,049	50,879,937	50,001,594	51,453,496

[1] Basic earnings per share for the three and nine months ended September 30, 2006 was corrected from $0.95 and $2.58, respectively. Diluted earnings per share for the three and nine months ended September 30, 2006 was corrected from $0.93 and $2.53, respectively. In addition, basic weighted average shares for the three and nine months ended September 30, 2006 was corrected from 49,586,947 and 50,180,280, respectively. Diluted weighted average shares for the three and nine months ended September 30, 2006 was corrected from 50,506,267 and 51,226,763, respectively. Corrections were first reported in the fourth quarter of 2006.

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

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Condition (Unaudited)

(dollars in thousands)	September 30, 2007	December 31, 2006	September 30, 2006
Assets			
Interest-Bearing Deposits	$ 35,471	$ 4,990	$ 5,238
Funds Sold	-	50,000	-
Investment Securities			
Trading	92,831	-	-
Available-for-Sale			
Portfolio	1,935,383	1,846,742	1,973,719
Pledged as Collateral	656,599	751,135	678,914
Held-to-Maturity (Fair Value of $299,191; $360,719; and $385,891)	307,653	371,344	397,520
Loans Held for Sale	8,016	11,942	15,336
Loans and Leases	6,599,915	6,623,167	6,489,057
Allowance for Loan and Lease Losses	(90,998)	(90,998)	(90,795)
Net Loans and Leases	6,508,917	6,532,169	6,398,262
Total Earning Assets	9,544,870	9,568,322	9,468,989
Cash and Noninterest-Bearing Deposits	344,267	398,342	283,621
Premises and Equipment	120,318	125,925	127,521
Customers Acceptances	1,967	1,230	673
Accrued Interest Receivable	52,652	49,284	49,339
Foreclosed Real Estate	105	407	409
Mortgage Servicing Rights	28,407	19,437	18,995
Goodwill	34,959	34,959	34,959
Other Assets	422,050	373,909	386,709
Total Assets	$ 10,549,595	$ 10,571,815	$ 10,371,215
Liabilities			
Deposits			
Noninterest-Bearing Demand	$ 1,894,933	$ 1,993,794	$ 1,879,644
Interest-Bearing Demand	1,530,982	1,642,375	1,608,774
Savings	2,711,169	2,690,846	2,596,940
Time	1,738,082	1,696,379	1,601,765
Total Deposits	7,875,166	8,023,394	7,687,123
Funds Purchased	191,900	60,140	160,600
Short-Term Borrowings	10,749	11,058	11,290
Securities Sold Under Agreements to Repurchase	1,087,511	1,047,824	1,099,260
Long-Term Debt	235,350	260,288	265,268
Banker s Acceptances	1,967	1,230	673
Retirement Benefits Payable	41,125	48,309	72,651
Accrued Interest Payable	18,526	22,718	18,659
Taxes Payable and Deferred Taxes	271,089	277,202	280,611
Other Liabilities	84,515	100,232	91,608
Total Liabilities	9,817,898	9,852,395	9,687,743
Shareholders Equity			
Common Stock ($.01 par value; authorized 500,000,000 shares; issued / outstanding: September 2007 - 57,005,602 / 49,068,275; December 2006 - 56,848,609 / 49,777,654; and September 2006 - 56,848,799 / 49,809,709)	567	566	566
Capital Surplus	482,586	475,178	471,908
Accumulated Other Comprehensive Loss	(28,359)	(39,084)	(49,422)
Retained Earnings	671,451	630,660	605,976
Treasury Stock, at Cost (Shares: September 2007 - 7,937,327; December 2006 - 7,070,955; and September 2006 - 7,039,090)	(394,548)	(347,900)	(345,556)
Total Shareholders Equity	731,697	719,420	683,472
Total Liabilities and Shareholders Equity	$ 10,549,595	$ 10,571,815	$ 10,371,215

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

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Shareholders Equity (Unaudited)

(dollars in thousands)	**Total**	**Common Stock**	**Capital Surplus**	**Accum. Other Compre-hensive Loss**	**Retained Earnings**	**Deferred Stock Grants**	**Treasury Stock**	**Compre-hensive Income**
Balance as of December 31, 2006	$ 719,420	$ 566	$ 475,178	$ (39,084)	$ 630,660	$ -	$ (347,900)	
Cumulative-Effect Adjustment of a Change in Accounting Principle, Net of Tax:								
SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140*	5,126	-	-	5,279	(153)	-	-	
FSP No. 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*	(27,106)	-	-	-	(27,106)	-	-	
FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*	(7,247)	-	-	-	(7,247)	-	-	
Comprehensive Income:								
Net Income	142,843	-	-	-	142,843	-	-	$ 142,843
Other Comprehensive Income, Net of Tax:								
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale	4,809	-	-	4,809	-	-	-	4,809
Amortization of Prior Service Credit and Net Actuarial Loss	637	-	-	637	-	-	-	637
Total Comprehensive Income								$ 148,289
Share-Based Compensation	4,464	-	4,464	-	-	-	-	
Tax Benefits related to Share-Based Compensation	2,624	-	2,624	-	-	-	-	
Common Stock Issued under Purchase and Equity Compensation Plans (628,252 shares)	16,321	1	320	-	(6,611)	-	22,611	
Common Stock Repurchased (1,335,305 shares)	(69,259)	-	-	-	-	-	(69,259)	
Cash Dividends Paid	(60,935)	-	-	-	(60,935)	-	-	
Balance as of September 30, 2007	$ 731,697	$ 567	$ 482,586	$ (28,359)	$ 671,451	$ -	$ (394,548)	
Balance as of December 31, 2005	$ 693,352	$ 565	$ 473,338	$ (47,818)	$ 546,591	$ (11,080)	$ (268,244)	
Comprehensive Income:								
Net Income	129,446	-	-	-	129,446	-	-	$ 129,446
Other Comprehensive Income, Net of Tax:								
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale	(1,604)	-	-	(1,604)	-	-	-	(1,604)
Total Comprehensive Income								$ 127,842
Share-Based Compensation	4,017	-	4,017	-	-	-	-	
Tax Benefits related to Share-Based Compensation	5,412	-	5,412	-	-	-	-	
Common Stock Issued under Purchase and Equity Compensation Plans (730,432 shares)	21,337	1	(10,859)	-	(13,764)	11,080	34,879	
Common Stock Repurchased (2,194,534 shares)	(112,191)	-	-	-	-	-	(112,191)	
Cash Dividends Paid	(56,297)	-	-	-	(56,297)	-	-	
Balance as of September 30, 2006	$ 683,472	$ 566	$ 471,908	$ (49,422)	$ 605,976	$ -	$ (345,556)	

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

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(dollars in thousands)	Nine Months Ended September 30, 2007	2006
Operating Activities		
Net Income	$ 142,843	$ 129,446
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	10,064	7,615
Depreciation and Amortization	11,006	12,292
Amortization of Deferred Loan and Lease Fees	(1,354)	(2,350)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	2,250	3,086
Change in Fair Value of Mortgage Servicing Rights	2,221	-
Share-Based Compensation	4,464	4,017
Benefit Plan Contributions	(8,404)	(1,278)
Deferred Income Taxes	(81,991)	19,475
Net Gains on Investment Securities	(1,380)	(19)
Net Change in Trading Securities	71,349	-
Proceeds from Sales of Loans Held for Sale	253,217	242,040
Originations of Loans Held for Sale	(249,291)	(239,461)
Tax Benefits from Share-Based Compensation	(2,624)	(5,412)
Net Change in Other Assets and Other Liabilities	532	(28,363)
Net Cash Provided by Operating Activities	152,902	141,088
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	418,107	319,846
Proceeds from Sales	50,012	25,020
Purchases	(611,015)	(464,103)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	63,193	76,183
Purchases	-	(20,250)
Net Change in Loans and Leases	(28,176)	(326,376)
Premises and Equipment, Net	(5,399)	(5,900)
Net Cash Used In Investing Activities	(113,278)	(395,580)
Financing Activities		
Net Change in Deposits	(148,228)	(220,345)
Net Change in Short-Term Borrowings	171,138	384,213
Proceeds from Long-Term Debt	-	25,000
Repayments of Long-Term Debt	(25,000)	(2,500)
Tax Benefits from Share-Based Compensation	2,624	5,412
Proceeds from Issuance of Common Stock	16,442	21,341
Repurchase of Common Stock	(69,259)	(112,191)
Cash Dividends Paid	(60,935)	(56,297)
Net Cash (Used In) Provided by Financing Activities	(113,218)	44,633
Net Change in Cash and Cash Equivalents	(73,594)	(209,859)
Cash and Cash Equivalents at Beginning of Period	453,332	498,718
Cash and Cash Equivalents at End of Period	$ 379,738	$ 288,859
Supplemental Information		
Cash Paid for:		
Interest	$ 160,321	$ 112,975
Income Taxes	73,981	63,935
Non-Cash Investing and Financing Activities:		
Transfers from Investment Securities-Available-for-Sale to Trading	164,180	-

Transfers from Loans to Foreclosed Real Estate	243	514

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

Bank of Hawaii Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

Bank of Hawaii Corporation (the Parent) is a bank holding company headquartered in Honolulu, Hawaii. Bank of Hawaii Corporation and its Subsidiaries (the Company) provide a broad range of financial products and services to customers in Hawaii and the Pacific Islands (Guam, nearby islands, and American Samoa). The Parent s principal subsidiary is Bank of Hawaii (the Bank). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the consolidated financial statements reflect normal recurring adjustments necessary for a fair presentation of the results for the interim periods.

Certain prior period amounts have been reclassified to conform to current period classifications.

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

Mortgage Servicing Rights

Effective January 1, 2007, the Company 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.* SFAS No. 156 requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practicable. In adopting the provisions of SFAS No. 156, the Company recorded an increase in the value of mortgage servicing rights of $8.0 million and a net of tax increase to retained earnings of $5.1 million. Also, as permitted by SFAS No. 156, the Company reclassified investment securities with a carrying value of $164.2 million (Designated Securities) from the available-for-sale portfolio to the trading portfolio. Concurrently, the Company reclassified unrealized losses of $5.3 million, net of tax, previously recorded as a component of accumulated other comprehensive loss, to retained earnings. The Designated Securities are recorded at fair value on the Company s statement of condition, with realized and unrealized gains and losses recorded as the change in fair value of Designated Securities in mortgage banking income. The change in fair value of Designated Securities is intended to offset changes in valuation assumptions affecting the recorded value of the Company s mortgage servicing rights. The net after-tax cumulative-effect adjustment to adopt the provisions of SFAS No. 156 was to reduce retained earnings by $0.2 million as of January 1, 2007. The fair value measurement provisions of SFAS No. 156 were adopted for subsequent re-measurements of the Company s mortgage servicing rights.

Leveraged Leases

Effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction,* which amends SFAS No. 13, *Accounting for Leases.* The timing of cash flows relating to income taxes generated by a leveraged lease is an important assumption that affects the periodic income recognized by the lessor for that lease transaction. Under the provisions of FSP No. 13-2, a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction requires a recalculation of the total and periodic income related to the leveraged lease transaction. During the years 1998 through 2002, the Company entered into one leveraged lease transaction known as a Lease In-Lease Out (LILO) transaction and five leveraged lease transactions known as Sale In-Lease Out (SILO) transactions. As of January 1, 2007, these LILO and SILO transactions were in various stages of review by the Internal Revenue Service (the IRS). Management expected that the outcome of these reviews would change the projected timing of cash flows from these leveraged leases. As a result, in adopting the provisions of FSP No. 13-2 on January 1, 2007, the Company recorded an after-tax cumulative-effect adjustment to reduce retained earnings by $27.1 million. This adjustment represented a $42.7 million reduction in the carrying value of lease financing balances and a $15.6 million reduction in deferred income taxes payable. The provisions of FSP No. 13-2 also provide that subsequent changes in the timing of projected cash flows that results in a change in the net investment of a leveraged lease is to be recorded as a gain or loss in the Company s results of operations in the period in which the assumption is changed.

During the second quarter of 2007, the Company reached an agreement with the IRS as to the terms of settlement of the issues related to the Company s LILO transaction. See Note 4 for further discussion on the matter. There has been no change in the status of the IRS review of the Company s SILO transactions.

Income Taxes

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109.* FIN 48 established a recognition threshold and measurement attributes for income tax positions recognized in the Company s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* In evaluating a tax position for recognition, FIN 48 requires that the Company judgmentally evaluate whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, the tax position is measured and recognized in the Company s financial statements as the largest amount of tax benefit that, in management s judgment, is greater than 50% likely of being realized upon ultimate settlement. Effective January 1, 2007, the Company also adopted the provisions of FSP No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48,* which provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing a liability for previously unrecognized tax benefits in the statement of condition. In adopting the provisions of FIN 48 and FSP No. FIN 48-1 on January 1, 2007, the Company recorded an after-tax cumulative-effect adjustment to reduce retained earnings by $7.2 million.

See Note 4 for further discussion on the Company s FIN 48 tax positions as of January 1, 2007 and September 30, 2007.

Future Application of Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* which is effective for the Company on January 1, 2008. SFAS No. 157 established a framework for measuring fair value, while expanding fair value measurement disclosures. SFAS No. 157 established a fair value hierarchy that distinguishes between independent observable inputs and unobservable inputs based on the best information available. SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities, the effect of these measurements on earnings for the period, and the inputs used to measure fair value. Management is currently evaluating the effect that the provisions of SFAS No. 157 will have on the Company s statements of income and condition.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115,* which is effective for the Company on January 1, 2008. SFAS No. 159 provides entities with an option to report selected financial assets and financial liabilities, on an instrument by instrument basis, at fair value, with the objective of reducing both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Management is currently evaluating the effect that the provisions of SFAS No. 159 will have on the Company s statements of income and condition.

Note 2. Mortgage Banking

The Company s portfolio of residential mortgage loans serviced for third parties was $2.5 billion as of September 30, 2007 and 2006. The Company s mortgage servicing activities includes collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of the borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. The Company s residential mortgage loan servicing portfolio is comprised primarily of fixed rate loans concentrated in Hawaii.

Mortgage servicing rights are recognized as assets when mortgage loans are sold and the rights to service those loans are retained. As of December 31, 2006, the Company recorded its mortgage servicing rights at their relative fair values on the date the loans were sold and were carried at the lower of the initial recorded value, adjusted for amortization, or fair value. As of January 1, 2007, the Company adopted the provisions of SFAS No. 156 which requires all separately recognized servicing assets to be initially measured at fair value, if practicable. As of January 1, 2007, the Company identified its entire balance of mortgage servicing rights as one class of servicing assets for this measurement. The table below reconciles the balance of the Company s mortgage servicing rights as of December 31, 2006 and January 1, 2007.

(Unaudited) (dollars in thousands)		
Balance as of December 31, 2006	$	19,437
Cumulative-Effect of a Change in Accounting Principle		8,007
Balance as of January 1, 2007	$	27,444

The changes in the fair value of the Company s mortgage servicing rights for the three and nine months ended September 30, 2007 were as follows:

(Unaudited) (dollars in thousands)		**Three Months Ended September 30, 2007**		**Nine Months Ended September 30, 2007**
Beginning of Period, Fair Value	$	29,112	$	27,444
Origination of Mortgage Servicing Rights		916		3,184
Change in Fair Value of Mortgage Servicing Rights:				
Due to Change in Valuation Assumptions[1]		(433)		736
Due to Paydowns and Other[2]		(1,188)		(2,957)
Total Change in Fair Value of Mortgage Servicing Rights		(1,621)		(2,221)
End of Period, Fair Value	$	28,407	$	28,407

1 Principally represents 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.

The Company estimates the fair value of its mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The model uses factors such as loan repayment rates, costs to service, ancillary income, impound account balances, and interest rate assumptions in its calculations. Risks inherent in the valuation of mortgage servicing rights include changes in interest rates, higher than expected loan repayment rates, and the delayed receipt of cash flows, among other factors. The key assumptions used in estimating the fair value of the Company s mortgage servicing rights as of September 30, 2007 were as follows:

(Unaudited)	**As of September 30, 2007**
Weighted-Average Constant Prepayment Rate[1]	10.79%
Weighted-Average Life (in years)	6.10
Weighted-Average Note Rate	5.82%
Weighted-Average Discount Rate	8.57%

1 Represents annualized loan repayment rate assumption.

For the three and nine months ended September 30, 2007 and 2006, the Company s mortgage banking income was comprised of the following:

Mortgage Banking Income (Unaudited)

		Three Months Ended September 30,				**Nine Months Ended September 30,**		
(dollars in thousands)		**2007**		**2006**		**2007**		**2006**
Mortgage Origination and Servicing Activities								
Servicing Income	$	1,515	$	1,550	$	4,553	$	4,618
Gains on the Sale of Residential Mortgage Loans		1,085		1,150		3,510		3,792
Mortgage Loan Fees		635		410		1,857		1,528
Change in Fair Value of Mortgage Servicing Rights								

Due to Paydowns and Other		(1,188)		-		(2,957)		-
Other		-		10		57		-
Total Mortgage Origination and Servicing Activities		2,047		3,120		7,020		9,938
Mortgage Servicing Rights and Fair Value Activities								
Change in Fair Value of Mortgage Servicing Rights								
Due to Change in Valuation Assumptions		(433)		-		736		-
Change in Fair Value of Designated Securities[1,2]		2,257		-		1,914		-
Gains (Losses) on Derivative Financial Instruments		(23)		(57)		28		(118)
Amortization of Mortgage Servicing Rights		-		(669)		-		(1,870)
Total Mortgage Servicing Rights and Fair Value Activities		1,801		(726)		2,678		(1,988)
Total Mortgage Banking Income	$	3,848	$	2,394	$	9,698	$	7,950

1 Designated Securities were comprised of mortgage-backed securities in the Company s investment trading portfolio, which were used to manage the volatility of the fair value of the mortgage servicing rights.

2 Realized investment trading gains and losses were not material for the three and nine months ended September 30, 2007.

The fair value of the Company s mortgage servicing rights is sensitive to changes in interest rates and their effect on loan repayment rates. A sensitivity analysis of the Company s fair value of mortgage servicing rights to changes in the constant prepayment rate and the discount rate is presented in the following table:

Sensitivity Analysis (Unaudited)

(dollars in thousands)		**As of September 30, 2007**
Constant Prepayment Rate		
Decrease in fair value from 25 basis points (bps) adverse change	$	(273)
Decrease in fair value from 50 bps adverse change		(541)
Discount Rate		
Decrease in fair value from 25 bps adverse change		(274)
Decrease in fair value from 50 bps adverse change		(543)

This analysis generally cannot be extrapolated because the relationship of a change in one key assumption to the change in the fair value of the Company s mortgage servicing rights usually is not linear. The calculation of the fair value of mortgage servicing rights is dynamic in nature, in that changes in one key assumption may result in changes in other assumptions, which may magnify or counteract the sensitivity analysis presented in the table above.

Note 3. Pension Plans and Postretirement Benefit Plan

The components of net periodic benefit cost for the Company s pension plans and the postretirement benefit plan for the three and nine months ended September 30, 2007 and 2006 are presented in the following table:

Pension Plans and Postretirement Benefit Plan (Unaudited)

	Pension Benefits				**Postretirement Benefits**			
(dollars in thousands)		**2007**		**2006**		**2007**		**2006**
Three Months Ended September 30,								
Service Cost	$	-	$	-	$	178	$	290
Interest Cost		1,223		1,170		412		480
Expected Return on Plan Assets		(1,373)		(1,261)		-		-
Amortization of Unrecognized Net Transition Obligation		-		-		-		147
Prior Service Credit		-		-		(50)		-
Recognized Net Actuarial Losses (Gains)		450		469		(75)		(36)
Net Periodic Benefit Cost	$	300	$	378	$	465	$	881
Nine Months Ended September 30,								
Service Cost	$	-	$	-	$	488	$	870
Interest Cost		3,669		3,510		1,202		1,440
Expected Return on Plan Assets		(4,119)		(3,783)		-		-
Amortization of Unrecognized Net Transition Obligation		-		-		-		440
Prior Service Credit		-		-		(150)		-
Recognized Net Actuarial Losses (Gains)		1,350		1,406		(225)		(106)
Net Periodic Benefit Cost	$	900	$	1,133	$	1,315	$	2,644

11

The net periodic benefit cost for the Company s pension plans and postretirement benefit plan are recorded as a component of salaries and benefits in the statements of income. There were no significant changes from the previously reported $7.7 million that the Company expects to contribute to the pension plans and the $1.3 million that it expects to contribute to the postretirement benefit plan for the year ending December 31, 2007. For the three and nine months ended September 30, 2007, the Company contributed $2.8 million and $7.6 million, respectively, to its pension plans. For the three and nine months ended September 30, 2007, the Company contributed $0.3 million and $0.8 million, respectively, to its postretirement benefit plan.

Note 4. Income Taxes

The following is a reconciliation of the statutory Federal income tax rate to the Company s effective income tax rate for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(Unaudited)	**2007**	**2006**	**2007**	**2006**
Statutory Federal Income Tax Rate	35.00%	35.00%	35.00%	35.00%
Increase (Decrease) in Income Tax Rate Resulting From:				
State Income Tax, Net of Federal Income Tax	3.13	3.08	3.54	3.31
Foreign Tax Credits	(1.07)	-	(1.08)	-
Low Income Housing Investments	(0.14)	(0.19)	(0.14)	(0.19)
Bank-Owned Life Insurance	(0.92)	(0.79)	(0.91)	(0.71)
Leveraged Leases	(0.08)	0.11	(0.36)	3.35
Other	(0.24)	(0.07)	(0.30)	(0.11)
Effective Income Tax Rate	35.68%	37.14%	35.75%	40.65%

Income earned by the Company is subject to U.S. Federal taxation and to state and territorial taxation in Hawaii and Guam, respectively. Nominal amounts of income are subject to taxation by other states and territories as well as some foreign countries.

As noted in Note 1, the Company reached an agreement with the IRS to effectively settle the matter related to the LILO transaction in June 2007. The effective settlement with the IRS resulted in a change in the timing of projected cash flows from the LILO transaction. In January 2007, in adopting the provisions of FSP No. 13-2, the Company recalculated the total and periodic income from the LILO transaction assuming an entire disallowance of income tax deductions taken on previously filed tax returns based on a tax court case, involving another taxpayer, which concluded in January 2007. With the effective settlement of the LILO transaction at a disallowance percentage of less than its original estimate, the Company recalculated the total and periodic income from the LILO transaction from the inception of the lease through June 30, 2007. In the second quarter of 2007, the Company recorded a $1.5 million credit, which was comprised of a $1.1 million credit to lease financing interest income and a $0.4 million net credit to the provision for income taxes, as a result of the June 2007 change in the disallowance assumption. The Company expects to pay the settlement of the LILO transaction with the IRS and adjust related asset and liability accounts in the fourth quarter of 2007. The Company is currently appealing issues raised by the IRS in the examination of its income tax returns filed for 1998 through 2002 related to the Company s five SILO transactions. The IRS continues to review the Company s SILO transactions. The IRS is currently in the process of examining income tax returns filed for 2003 and 2004. The State of Hawaii is currently in the process of examining income tax returns filed for 2002 through 2004.

As summarized in Note 1, FIN 48 established the threshold and measurement attributes for income tax positions recognized in the Company s financial statements in accordance with SFAS No. 109. FIN 48 requires the Company to record a liability, referred to as an unrecognized tax benefit (UTB), for the entire amount of benefit taken in a prior or future income tax return when the Company determines that a tax position has a less than 50% likelihood of being accepted by the taxing authority. If the Company determines that the likelihood of a tax position being accepted is greater than 50%, but less than 100%, the Company records a liability for UTBs in the amount it believes may be disallowed by the taxing authority.

As of December 31, 2006, prior to adopting the provisions of FIN 48, the Company had recorded the equivalent of $116.4 million of UTBs in its statement of condition. On January 1, 2007, in adopting the provisions of FIN 48, the Company increased its liability for UTBs to $130.6 million, of which $7.2 million was recorded as a cumulative-effect adjustment to reduce retained earnings, primarily due to the accrual of interest expense. As of January 1, 2007, of the $130.6 million in the Company s liability for UTBs, $29.3 million was related to UTBs that if reversed would have an impact on the Company s effective tax rate. As of September 30, 2007, there were no material changes in the Company s liability for UTBs or in the amount, that if reversed, would have an impact on the Company s effective tax rate. With respect to the Company s appeals of its five SILO transactions, it is reasonably possible that the amount of the liability for UTBs may decrease if facts and circumstances related to the IRS appeals change within the next twelve months. However, management is currently not able to estimate a range of possible change in the amount of the liability for UTBs recorded as of September 30, 2007.

The Company classifies interest and penalties, if any, related to the liability for UTBs as a component of the provision for income taxes. As of January 1, 2007, after recording the cumulative-effect adjustment to adopt the provisions of FIN 48, the Company had accrued $21.7 million for the payment of possible interest and penalties. During the three and nine month periods ended September 30, 2007, the amount recorded by the Company as an estimate of additional interest and penalties in the provision for income taxes was not material.

Note 5. Business Segments

The Company s business segments are Retail Banking, Commercial Banking, Investment Services, and Treasury. The Company s internal management accounting process measures the performance of the business segments based on the management structure of the Company. This process, which is not necessarily comparable with similar information for any other financial institution, uses various techniques to assign balance sheet and income statement amounts to the business segments, including allocations of income, expense, the provision for credit losses (the Provision), and capital. This process is dynamic and requires certain allocations based on judgment and other subjective factors. Unlike financial accounting, there is no comprehensive, authoritative guidance for management accounting that is equivalent to GAAP.

Selected financial information for each segment is presented below for the three and nine months ended September 30, 2007 and 2006.

Business Segment Selected Financial Information (Unaudited)

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services	Treasury	Consolidated Total
Three Months Ended September 30, 2007					
Net Interest Income (Loss)	$ 60,219	$ 34,953	$ 5,584	$ (2,200)	$ 98,556
Provision for Credit Losses	2,975	1,284	(1)	(188)	4,070
Net Interest Income (Loss) After Provision for Credit Losses	57,244	33,669	5,585	(2,012)	94,486
Noninterest Income	26,600	10,928	18,328	5,386	61,242
Noninterest Expense	(43,304)	(19,807)	(17,046)	(1,293)	(81,450)
Income Before Provision for Income Taxes	40,540	24,790	6,867	2,081	74,278
Provision for Income Taxes	(15,000)	(9,174)	(2,541)	216	(26,499)
Allocated Net Income	$ 25,540	$ 15,616	$ 4,326	$ 2,297	$ 47,779
Total Assets as of September 30, 2007	$ 4,014,879	$ 2,739,558	$ 231,585	$ 3,563,573	$ 10,549,595
Three Months Ended September 30, 2006 [1]					
Net Interest Income	$ 58,345	$ 33,996	$ 5,339	$ 2,670	$ 100,350
Provision for Credit Losses	2,609	480	-	(304)	2,785
Net Interest Income After Provision for Credit Losses	55,736	33,516	5,339	2,974	97,565
Noninterest Income	25,243	11,929	17,344	2,371	56,887
Noninterest Expense	(43,030)	(19,739)	(15,432)	(1,604)	(79,805)
Income Before Provision for Income Taxes	37,949	25,706	7,251	3,741	74,647
Provision for Income Taxes	(14,039)	(9,682)	(2,683)	(1,323)	(27,727)
Allocated Net Income	$ 23,910	$ 16,024	$ 4,568	$ 2,418	$ 46,920
Total Assets as of September 30, 2006 [1]	$ 3,931,999	$ 2,692,163	$ 219,715	$ 3,527,338	$ 10,371,215
Nine Months Ended September 30, 2007					
Net Interest Income (Loss)	$ 176,902	$ 104,028	$ 16,661	$ (2,020)	$ 295,571
Provision for Credit Losses	8,867	1,409	(1)	(211)	10,064
Net Interest Income (Loss) After Provision for Credit Losses	168,035	102,619	16,662	(1,809)	285,507
Noninterest Income	79,560	30,095	57,417	13,158	180,230
Noninterest Expense	(128,979)	(60,330)	(49,730)	(4,366)	(243,405)
Income Before Provision for Income Taxes	118,616	72,384	24,349	6,983	222,332
Provision for Income Taxes	(43,889)	(26,614)	(9,009)	23	(79,489)
Allocated Net Income	$ 74,727	$ 45,770	$ 15,340	$ 7,006	$ 142,843
Total Assets as of September 30, 2007	$ 4,014,879	$ 2,739,558	$ 231,585	$ 3,563,573	$ 10,549,595
Nine Months Ended September 30, 2006 [1]					
Net Interest Income	$ 172,637	$ 100,725	$ 16,316	$ 12,730	$ 302,408
Provision for Credit Losses	6,965	1,218	999	(1,567)	7,615
Net Interest Income After Provision for Credit Losses	165,672	99,507	15,317	14,297	294,793
Noninterest Income	74,149	28,242	52,651	7,618	162,660
Noninterest Expense	(126,851)	(58,892)	(48,886)	(4,736)	(239,365)
Income Before Provision for Income Taxes	112,970	68,857	19,082	17,179	218,088
Provision for Income Taxes	(41,797)	(34,263)	(7,051)	(5,531)	(88,642)
Allocated Net Income	$ 71,173	$ 34,594	$ 12,031	$ 11,648	$ 129,446
Total Assets as of September 30, 2006 [1]	$ 3,931,999	$ 2,692,163	$ 219,715	$ 3,527,338	$ 10,371,215

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

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report may contain, and other statements made by the Company in connection with this report may contain, forward-looking statements concerning, among other things, the Company s business outlook, the economic and business environment in the Company s service areas and elsewhere, credit quality, and other financial and business matters in future periods. The Company s 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 for a variety of reasons, 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 the Company serves; 5) changes in accounting standards; 6) changes in tax laws or regulations or the interpretation of such laws and regulations; 7) changes in the Company s credit quality or risk profile that may increase or decrease the required level of the reserve for credit losses; 8) changes in market interest rates that may affect the Company s credit markets and ability to maintain its net interest margin; 9) unpredictable costs and other consequences of legal, tax, or regulatory matters; 10) changes to the amount and timing of proposed common stock repurchases; and 11) geopolitical risk, military or terrorist activity, natural disaster, adverse weather, public health and other conditions impacting the Company and its customers operations. For 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, refer to the section entitled Risk Factors in Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2006, and subsequent periodic and current reports, filed with the U.S. Securities and Exchange Commission. Words such as believes, anticipates, expects, intends, targeted, and similar expressions are intended to identify forward-lookin statements but are not exclusive means of identifying such statements. The Company does not undertake an obligation to update forward-looking statements to reflect later events or circumstances.

Overview

2007+ Plan

In January 2007, the Company introduced its 2007+ Plan to its shareholders, customers, and employees. The 2007+ Plan emphasizes growth in revenues, integration of service delivery and business units, development of people, enhancement of the Bank of Hawaii brand, and discipline in managing risk and financial performance. The 2007+ Plan does not contemplate near-term expansion beyond the Company s current footprint.

The Company s 2007+ Plan is based on moderate growth in revenues and consistent positive operating leverage. Performance objectives include an annual return on assets above 1.7%, return on equity above 25%, and an efficiency ratio approaching 50%, and is based on a stable economy and a return to a more traditional interest rate environment. The Company s 2007+ Plan will be reevaluated periodically and updated as market events and business developments dictate.

For the three and nine months ended September 30, 2007, the Company has met its financial performance objectives, despite a challenging interest rate environment during this period. In an effort to better serve customers and to increase revenue growth potential, the Company announced plans for an International Banking Center located in Waikiki. The Bank s current international operations are spread throughout several branches.

Effective September 1, 2007, Peter Ho, vice chairman and chief banking officer, assumed responsibility for the Company s Retail Banking segment in addition to his responsibilities for overseeing the Commercial Banking and Investment Services segments. This change is consistent with the Company s 2007+ Plan to further integrate the management of the business units and to increase opportunities for employees.

Earnings Summary

The Company reported strong financial performance for the three and nine months ended September 30, 2007 compared to the same periods in 2006. The Company had growth in noninterest income while controlling increases to noninterest expense. These positive factors offset the continued decrease of net interest margin the Company has experienced as a result of the challenging interest rate environment. Overall credit quality of the Company remains strong and the Hawaii economy remains stable.

Table 1 presents the Company s financial highlights and performance ratios for the three and nine months ended September 30, 2007 and 2006 and as of September 30, 2007, December 31, 2006, and September 30, 2006.

Financial Highlights (Unaudited) **Table 1**

(dollars in thousands, except per share amounts)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006 [1]	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006 [1]
For the Period:				
Net Interest Income	$ 98,556	$ 100,350	$ 295,571	$ 302,408
Total Noninterest Income	61,242	56,887	180,230	162,660
Net Income	47,779	46,920	142,843	129,446
Basic Earnings Per Share	0.98	0.94	2.90	2.57
Diluted Earnings Per Share	0.96	0.92	2.86	2.52
Dividends Declared Per Share	0.41	0.37	1.23	1.11
Net Income to Average Total Assets	1.79%	1.81%	1.82%	1.70%
Net Income to Average Shareholders Equity	26.02	27.09	26.43	24.99
Net Interest Margin [2]	4.03	4.20	4.07	4.29
Operating Leverage [3]			2.97	3.68
Efficiency Ratio [4]	50.97	50.75	51.16	51.47
Average Assets	$ 10,576,565	$ 10,309,314	$ 10,480,803	$ 10,190,904
Average Loans and Leases	6,570,261	6,470,883	6,554,979	6,324,492
Average Deposits	8,015,594	7,731,993	7,916,061	7,734,242
Average Shareholders Equity	728,372	687,172	722,522	692,643
Average Shareholders Equity to Average Assets	6.89%	6.67%	6.89%	6.80%
Market Price Per Share of Common Stock:				
Closing	$ 52.85	$ 48.16	$ 52.85	$ 48.16
High	55.84	50.75	55.84	55.15
Low	46.05	47.00	46.05	47.00

	September 30, 2007	December 31, 2006	September 30, 2006
As of Period End:			
Net Loans and Leases	$ 6,508,917	$ 6,532,169	$ 6,398,262
Total Assets	10,549,595	10,571,815	10,371,215
Total Deposits	7,875,166	8,023,394	7,687,123
Long-Term Debt	235,350	260,288	265,268
Total Shareholders Equity	731,697	719,420	683,472
Non-Performing Assets	$ 4,260	$ 6,407	$ 5,442
Allowance to Loans and Leases Outstanding	1.38%	1.37%	1.40%
Dividend Payout Ratio [5]	41.84	39.81	39.36
Leverage Ratio	6.95	7.06	6.90
Book Value Per Common Share	$ 14.91	$ 14.45	$ 13.72
Full-Time Equivalent Employees	2,572	2,586	2,589
Branches and Offices	84	86	86

1 Certain prior period information has been reclassified to conform to current presentation. In addition, basic earnings per share for the three and nine months ended September 30, 2006 was corrected from $0.95 and $2.58, respectively. Diluted earnings per share for the three and nine months ended September 30, 2006 was corrected from $0.93 and $2.53, respectively. Corrections were first reported in the fourth quarter of 2006.

2 Net interest margin is defined as net interest income, on a taxable equivalent basis, as a percentage of average earning assets.
3 Operating leverage is defined as the percentage change in income before provision for credit losses and the provision for income taxes.
4 Efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and total noninterest income).
5 Dividend payout ratio is defined as dividends declared per share divided by basic earnings per share for the quarter.

Recent Accounting Changes

The Company adopted several new accounting pronouncements on January 1, 2007. Note 1 to the Consolidated Financial Statements (Unaudited), which is incorporated herein by reference, provides additional information on the adoption of these recently issued accounting pronouncements as well as the future application of accounting pronouncements not yet adopted by the Company.

Analysis of Statements of Income

Net Interest Income

Net interest income, on a taxable equivalent basis, decreased by $1.7 million or 2% and by $6.6 million or 2% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. The Company s net interest margin decreased by 17 and 22 basis points for the three and nine months ended September 30, 2007, respectively, as a result of the prolonged effects of the inverted or flat yield curve.

The decrease in net interest income, on a taxable equivalent basis, in 2007 was primarily due to the Company s increased funding costs. Rates paid on interest-bearing deposits increased by 48 and 64 basis points for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. Partially offsetting the increase in the Company s funding costs was an increase in the yields on the Company s loans, leases, and investment securities. Yields on loans and leases increased by 6 and 20 basis points for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. The higher yields in the Company s loan and lease portfolio were primarily driven by the re-pricing of variable rate residential mortgage and home equity loans during 2006 and 2007. Yields on the Company s available-for-sale investment securities increased by 31 and 27 basis points for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006, primarily due to a generally rising interest rate environment in 2006 and 2007.

The increase in the Company s funding costs in 2007 was also affected by an increase in average savings and time deposit balances and average balances of securities sold under agreements to repurchase. Average savings and time deposits collectively increased by $395.4 million or 9% and by $302.2 million or 7% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. Customers have shifted their balances from noninterest-bearing demand accounts to higher yielding savings and time deposit accounts. Average balances in securities sold under agreements to repurchase increased by $10.7 million or 1% and by $163.3 million or 19% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. Securities sold under agreement to repurchase have served as one source of funding the Company s growth in loans in leases over this period of time. The increase in the Company s interest-bearing liabilities was offset by an increase in average loans and leases by $99.4 million or 2% and by $230.5 million or 4% for the three and nine months ended September 30, 2007, respectively, compared to the same periods 2006, with growth in substantially all loan categories.

Average balances, related income and expenses, and resulting yields and rates, on a taxable equivalent basis, are presented in Table 2 for the three and nine months ended September 30, 2007 and 2006. An analysis of the change in net interest income, on a taxable equivalent basis, from the nine months ended September 30, 2006 to the nine months ended September 30, 2007, is presented in Table 3.

18

Average Balances and Interest Rates - Taxable Equivalent Basis (Unaudited) **Table 2**

	Three Months Ended September 30, 2007			Three Months Ended September 30, 2006 [1]			Nine Months Ended September 30, 2007			Nine Months Ended September 30, 2006 [1]		
(dollars in millions)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Earning Assets												
Interest-Bearing Deposits	$ 79.8	$ 1.1	5.35%	$ 4.9	$ 0.1	4.12%	$ 31.1	$ 1.2	5.29%	$ 5.3	$ 0.1	3.74%
Funds Sold	86.2	1.1	5.01	5.1	0.1	5.09	69.3	2.7	5.12	10.0	0.4	4.77
Investment Securities												
Trading	111.3	1.1	4.00	-	-	-	136.6	4.1	3.99	-	-	-
Available-for-Sale	2,556.7	33.7	5.28	2,583.0	32.1	4.97	2,499.3	96.7	5.16	2,578.9	94.5	4.89
Held-to-Maturity	318.0	3.6	4.55	413.3	4.5	4.41	339.3	11.5	4.52	428.7	14.0	4.35
Loans Held for Sale	7.3	0.1	6.78	8.1	0.1	6.45	9.4	0.5	6.41	9.6	0.5	6.24
Loans and Leases [2]												
Commercial and Industrial	1,048.9	19.7	7.45	1,024.3	19.3	7.46	1,059.3	59.0	7.45	975.0	53.0	7.27
Construction	262.2	5.3	8.00	232.2	4.9	8.30	253.9	15.1	7.97	184.2	11.2	8.16
Commercial Mortgage	627.6	10.8	6.82	614.0	10.5	6.77	621.4	31.7	6.82	595.1	29.6	6.65
Residential Mortgage	2,502.4	38.5	6.15	2,454.6	36.8	6.01	2,499.5	114.9	6.13	2,442.2	108.7	5.93
Other Revolving Credit and Installment	685.8	16.2	9.35	705.6	16.4	9.21	690.8	47.9	9.27	716.3	48.6	9.07
Home Equity	946.2	18.3	7.67	937.2	17.9	7.59	943.3	53.9	7.64	914.9	50.2	7.33
Lease Financing	497.2	3.9	3.15	503.0	4.1	3.27	486.8	12.1	3.32	496.8	12.0	3.23
Total Loans and Leases	6,570.3	112.7	6.82	6,470.9	109.9	6.76	6,555.0	334.6	6.82	6,324.5	313.3	6.62
Other	79.4	0.4	1.83	79.4	0.3	1.37	79.4	1.1	1.78	79.4	0.8	1.37
Total Earning Assets [3]	9,809.0	153.8	6.25	9,564.7	147.1	6.13	9,719.4	452.4	6.21	9,436.4	423.6	5.99
Cash and Noninterest-Bearing Deposits	285.3			296.5			290.3			310.7		
Other Assets	482.3			448.1			471.1			443.8		
Total Assets	$ 10,576.6			$ 10,309.3			$ 10,480.8			$ 10,190.9		
Interest-Bearing Liabilities												
Interest-Bearing Deposits												
Demand	$ 1,557.7	4.0	1.01	$ 1,618.9	4.1	1.01	$ 1,580.2	12.3	1.04	$ 1,628.3	11.4	0.93
Savings	2,837.5	15.9	2.23	2,641.4	10.6	1.59	2,702.5	41.1	2.03	2,698.5	27.1	1.34
Time	1,742.0	17.7	4.03	1,542.7	13.8	3.53	1,727.3	51.3	3.97	1,429.1	34.3	3.20
Total Interest-Bearing Deposits	6,137.2	37.6	2.43	5,803.0	28.5	1.95	6,010.0	104.7	2.33	5,755.9	72.8	1.69
Short-Term Borrowings	138.8	1.8	4.91	179.1	2.4	5.14	112.0	4.3	5.06	192.1	7.0	4.83
Securities Sold Under Agreements to Repurchase	1,016.5	11.7	4.54	1,005.8	11.9	4.69	1,042.1	35.2	4.49	878.8	29.6	4.49
Long-Term Debt	251.9	3.9	6.21	248.7	3.8	6.16	257.5	11.9	6.15	244.7	11.3	6.16
Total Interest-Bearing Liabilities	7,544.4	55.0	2.89	7,236.6	46.6	2.55	7,421.6	156.1	2.81	7,071.5	120.7	2.28
Net Interest Income		$ 98.8			$ 100.5			$ 296.3			$ 302.9	
Interest Rate Spread			3.36%			3.58%			3.40%			3.71%
Net Interest Margin			4.03%			4.20%			4.07%			4.29%
Noninterest-Bearing Demand Deposits	1,878.4			1,929.0			1,906.0			1,978.3		
Other Liabilities	425.4			456.5			430.7			448.5		
Shareholders Equity	728.4			687.2			722.5			692.6		
Total Liabilities and Shareholders Equity	$ 10,576.6			$ 10,309.3			$ 10,480.8			$ 10,190.9		

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

2 Non-performing loans and leases are included in the respective category of average loans and leases outstanding. Income, if any, on such loans and leases is recognized on a cash basis.

3 Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of $237,000 and $173,000 for the three months ended September 30, 2007 and 2006, respectively, and $686,000 and $510,000 for the nine months ended September 30, 2007 and 2006, respectively.

Analysis of Change in Net Interest Income - Taxable Equivalent Basis (Unaudited) **Table 3**

(dollars in millions)	Nine Months Ended September 30, 2007 compared to September 30, 2006 Volume [1]	Rate [1]	Total
Change in Interest Income:			
Interest-Bearing Deposits	$ 1.0	$ 0.1	$ 1.1
Funds Sold	2.3	-	2.3
Investment Securities			
Trading	4.1	-	4.1
Available-for-Sale	(3.0)	5.2	2.2
Held-to-Maturity	(3.0)	0.5	(2.5)
Loans and Leases			
Commercial and Industrial	4.7	1.3	6.0
Construction	4.2	(0.3)	3.9
Commercial Mortgage	1.3	0.8	2.1
Residential Mortgage	2.5	3.7	6.2
Other Revolving Credit and Installment	(1.8)	1.1	(0.7)
Home Equity	1.6	2.1	3.7
Lease Financing	(0.2)	0.3	0.1
Total Loans and Leases	12.3	9.0	21.3
Other	-	0.3	0.3
Total Change in Interest Income	13.7	15.1	28.8
Change in Interest Expense:			
Interest-Bearing Deposits			
Demand	(0.4)	1.3	0.9
Savings	0.1	13.9	14.0
Time	7.9	9.1	17.0
Total Interest-Bearing Deposits	7.6	24.3	31.9
Short-Term Borrowings	(3.0)	0.3	(2.7)
Securities Sold Under Agreements to Repurchase	5.6	-	5.6
Long-Term Debt	0.6	-	0.6
Total Change in Interest Expense	10.8	24.6	35.4
Change in Net Interest Income	$ 2.9	$ (9.5)	$ (6.6)

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.

Provision for Credit Losses

The provision for credit losses (the Provision) reflects management s judgment of the expense or benefit necessary to establish the appropriate amount of the allowance for loan and lease losses (the Allowance). The Provision is determined through detailed analyses of the Company s loan and lease portfolio. For the three months ended September 30, 2007 and 2006, the Company recorded a Provision of $4.1 million and $2.8 million, respectively. For the nine months ended September 30, 2007 and 2006, the Company recorded a Provision of $10.1 million and $7.6 million, respectively. The Provision in 2007 and 2006 was recorded by the Company in order to maintain the Allowance at levels considered appropriate to cover credit losses inherent in the lending process. For further discussion on the Allowance, see the Corporate Risk Profile Reserve for Credit Losses section in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

20

Noninterest Income

Noninterest income increased by $4.4 million or 8% and by $17.6 million or 11% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006, with growth in substantially all categories.

Trust and asset management income increased by $0.7 million or 5% and by $3.3 million or 8% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. For the three months ended September 30, 2007, compared to the same period in 2006, the increase in trust and asset management income was primarily due to a $0.3 million increase in asset management fees, a $0.1 million increase in testamentary trust fees, and a $0.1 million increase in revocable and irrevocable trust fees. For the nine months ended September 30, 2007, compared to the same period in 2006, the increase in trust and asset management income was primarily due to a $1.3 million increase in asset management fees, a $0.6 million increase in agency fees, a $0.5 million increase in testamentary trust fees, and a $0.3 million increase in revocable and irrevocable trust fees. Trust and asset management fees are somewhat correlated with the market value of assets under administration by the Company. Total trust assets under administration by the Company were $13.1 billion and $12.9 billion as of September 30, 2007 and 2006, respectively.

Mortgage banking income increased by $1.5 million or 61% and by $1.7 million or 22% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. The increase for the three months ended September 30, 2007, compared to the same period in 2006, was primarily a result of the net change in the fair value of the mortgage servicing rights and the Designated Securities used to manage the volatility of the fair value of the mortgage servicing rights. Additionally, the increase in mortgage banking income was due to the discontinuation of the amortization of mortgage servicing rights in 2007. For the nine months ended September 30, 2007, the increase in mortgage banking income was primarily due to the discontinuation of the amortization of mortgage servicing rights in 2007.

Service charges on deposit accounts increased by $1.2 million or 11% and by $3.4 million or 11% for the three and nine months ended September 30, 2007, respectively, compared to same periods in 2006. The increase in both periods, compared to the same periods in 2006, was primarily due to an increase in the number of accounts subject to overdraft fees.

Fees, exchange, and other service charges increased by $0.2 million or 1% and by $2.4 million or 5% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. For the three months ended September 30, 2007, compared to the same period in 2006, the increase in fees, exchange, and other service charges was primarily due to a $0.6 million increase in interchange income as a result of increased transactional volume from new and existing debit cardholders. This increase was partially offset by a $0.2 million decrease in ATM fees and a $0.1 million decrease in business valuation fees. For the nine months ended September 30, 2007, compared to the same period in 2006, the increase in fees, exchange, and other service charges was primarily due to a $2.1 million increase in interchange income, partially offset by a $0.3 million decrease in ATM fees. The decrease in ATM fees for the three and nine months ended September 30, 2007 was partially due to an increase in the number of military personnel deployments over this period.

Insurance income increased by $0.7 million or 11% and by $2.1 million or 13% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. For the three months ended September 30, 2007, compared to the same period in 2006, the increase in insurance income was primarily due to higher contingent commission income. For the nine months ended September 30, 2007, compared to the same period in 2006, the increase in insurance income was primarily due to a $0.9 million increase in contingent commission income, a $0.6 million increase in income from annuity and life insurance products, and a $0.6 million increase in insurance commission and brokerage income as a result of higher levels of written premiums.

Other noninterest income decreased by $0.7 million or 12% and increased by $3.2 million or 18% for the three and nine months ended September 30, 2007, respectively, compared to same periods in 2006. For the three months ended September 30, 2007, compared to the same period in 2006, the decrease in other noninterest income was primarily due to the reduction in gains from the sale of leveraged leased assets. For the nine months ended September 30, 2007, compared to the same period in 2006, the increase in other noninterest income was primarily due to a $1.3 million increase in income from Bank-Owned Life Insurance (BOLI), a $0.6 million increase in mutual fund and securities income, a $0.6 million increase in fees and commissions, and a $0.4 million increase in gains from the sale of leveraged leased assets.

Noninterest Expense

Noninterest expense increased by $1.6 million or 2% and by $4.0 million or 2% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006.

Table 4 presents the components of salaries and benefits expense for the three and nine months ended September 30, 2007 and 2006.

Salaries and Benefits (Unaudited) **Table 4**

(dollars in thousands)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Salaries	$ 28,882	$ 27,829	$ 86,226	$ 82,280
Incentive Compensation	4,364	3,697	11,777	11,862
Share-Based Compensation	1,601	1,211	4,161	4,323
Commission Expense	1,546	1,721	5,700	5,476
Retirement and Other Benefits	3,865	4,454	10,999	14,522
Payroll Taxes	2,116	2,117	7,885	7,799
Medical, Dental, and Life Insurance	2,324	1,620	6,825	5,966
Separation Expense	246	484	1,364	1,502
Total Salaries and Benefits	$ 44,944	$ 43,133	$ 134,937	$ 133,730

Salaries and benefits expense increased by $1.8 million or 4% and by $1.2 million or 1% for the three and nine months ended September 30, 2007, respectively, compared to same periods in 2006. For the three months ended September 30, 2007, compared to the same period in 2006, the increase in salaries and benefits expense was primarily due to a $0.9 million increase in salaries expense as a result of annual increases and a $0.6 million increase in group medical insurance expense. For the nine months ended September 30, 2007, compared to the same period in 2006, the increase in salaries and benefits was primarily due to a $3.2 million increase in salaries expense as a result of annual increases and a $0.8 million increase in group medical insurance expense. These increases in salaries and benefits expense were partially offset by a decrease in retirement and other benefits resulting from a $1.3 million decrease in postretirement benefits expense and a $1.6 million decrease in the Company s value sharing accrual.

Professional fees decreased by $0.3 million or 10% and increased by $1.8 million or 33% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. For the three months ended September 30, 2007, compared to the same period in 2006, the decrease in professional fees was primarily due to a $0.2 million reduction in consulting services. For the nine months ended September 30, 2007, compared to the same period in 2006, the increase in professional fees was primarily due to the reversal of legal expenses recorded in 2006.

Provision for Income Taxes

Note 4 to the Consolidated Financial Statements (Unaudited), which is incorporated herein by reference, provides an effective tax rate reconciliation for the three and nine months ended September 30, 2007 and also provides more information on the Company s Lease In-Lease Out (LILO) transaction.

The Company s effective tax rate was 35.75% and 40.65% for the nine months ended September 30, 2007 and 2006, respectively. The lower effective tax rate for the nine months ended September 30, 2007, compared to the same period in 2006, was primarily due to an $8.2 million charge recorded in the provision for income taxes in the second quarter of 2006 related to a change in tax law. Also contributing to the lower effective tax rate in 2007 was the effective settlement of the LILO transaction with the Internal Revenue Service (the IRS) in the second quarter of 2007. The effective tax rates in 2006 and 2007 were also favorably impacted by tax credits realized from the Company s investments in the State of Hawaii s Qualified High Technology Business (QHTB) investment program.

Analysis of Statements of Condition

Investment Securities

Table 5 presents the amortized cost and approximate fair value of the Company s available-for-sale and held-to-maturity investment securities as of September 30, 2007, December 31, 2006, and September 30, 2006.

Investment Securities (Unaudited) **Table 5**

(dollars in thousands)		Amortized Cost		Fair Value
September 30, 2007				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$	4,043	$	4,054
Debt Securities Issued by States and Political Subdivisions		47,663		47,625
Debt Securities Issued by U.S. Government-Sponsored Enterprises		378,633		379,336
Mortgage-Backed Securities		1,960,487		1,935,059
Other Debt Securities		228,348		225,908
Total	$	2,619,174	$	2,591,982
Held-to-Maturity:				
Debt Securities Issued by States and Political Subdivisions	$	6	$	6
Mortgage-Backed Securities		307,647		299,185
Total	$	307,653	$	299,191
December 31, 2006				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$	19,036	$	18,940
Debt Securities Issued by States and Political Subdivisions		38,833		38,780
Debt Securities Issued by U.S. Government-Sponsored Enterprises		258,938		257,896
Mortgage-Backed Securities		1,990,893		1,955,144
Other Debt Securities		333,131		327,117
Total	$	2,640,831	$	2,597,877
Held-to-Maturity:				
Debt Securities Issued by States and Political Subdivisions	$	30	$	31
Mortgage-Backed Securities		371,314		360,688
Total	$	371,344	$	360,719
September 30, 2006				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$	4,610	$	4,579
Debt Securities Issued by States and Political Subdivisions		38,096		38,146
Debt Securities Issued by U.S. Government-Sponsored Enterprises		260,225		259,857
Mortgage-Backed Securities		2,061,675		2,023,711
Other Debt Securities		333,213		326,340
Total	$	2,697,819	$	2,652,633
Held-to-Maturity:				
Debt Securities Issued by States and Political Subdivisions	$	30	$	31
Mortgage-Backed Securities		397,490		385,860
Total	$	397,520	$	385,891

The carrying value of the Company s available-for-sale and held-to-maturity investment securities was $2.9 billion, $3.0 billion, and $3.1 billion as of September 30, 2007, December 31, 2006, and September 30, 2006, respectively. Investment securities with a carrying value of $1.8 billion as of September 30, 2007 and $2.0 billion as of December 31, 2006 and September 30, 2006, which approximates fair value, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

As of September 30, 2007, the fair value of the Company s mortgage-backed securities was $2.3 billion, of which $314.9 million or 14% was invested in non-agency mortgage-backed securities. These securities are all prime jumbo AAA-rated, with an average original loan-to-value ratio of 65%, and were originated between 2003 and 2005. There are no sub-prime or Alt-A securities in the Company s non-agency mortgage-backed securities portfolio. Alt-A loans are a classification of mortgage loans where the risk profile of the borrower falls between prime and sub-prime.

Table 6 presents the Company s temporarily impaired investment securities as of September 30, 2007, December 31, 2006, and September 30, 2006.

Temporarily Impaired Investment Securities (Unaudited) **Table 6**

	Temporarily Impaired Less Than 12 Months		Temporarily Impaired 12 Months or Longer		Total	
(dollars in thousands)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
September 30, 2007						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ -	$ -	$ 2,289	$ (6)	$ 2,289	$ (6)
Debt Securities Issued by States and Political Subdivisions	17,637	(69)	15,348	(99)	32,985	(168)
Debt Securities Issued by U.S. Government-Sponsored Enterprises	12,955	(22)	32,665	(25)	45,620	(47)
Mortgage-Backed Securities	260,854	(1,538)	1,183,440	(28,785)	1,444,294	(30,323)
Other Debt Securities	-	-	532,300	(10,558)	532,300	(10,558)
Total Temporarily Impaired Investment Securities						
September 30, 2007	$ 291,446	$ (1,629)	$ 1,766,042	$ (39,473)	$ 2,057,488	$ (41,102)
December 31, 2006	$ 357,014	$ (2,771)	$ 2,188,561	$ (54,928)	$ 2,545,575	$ (57,699)
September 30, 2006	$ 210,523	$ (2,466)	$ 2,299,818	$ (58,680)	$ 2,510,341	$ (61,146)

The Company s temporarily impaired investment securities had gross unrealized losses of $41.1 million as of September 30, 2007, a decrease of $16.6 million or 29% and a decrease of $20.0 million or 33% from December 31, 2006 and September 30, 2006, respectively. The decrease in the Company s temporarily impaired investment securities and related gross unrealized losses from December 31, 2006 to September 30, 2007 was primarily due to changes in interest rates over this time period. A lower interest rate environment as of September 30, 2007, compared to December 31, 2006, favorably impacted the fair value of the Company s investment securities as of September 30, 2007. The decrease in the Company s temporarily impaired investment securities and related gross unrealized losses from September 30, 2006 to September 30, 2007 was primarily due to run-off and pay-downs on investment securities as well as the timing of purchasing new investment securities.

The Company does not believe that gross unrealized losses as of September 30, 2007 represent an other-than-temporary impairment. The gross unrealized losses reported for mortgage-backed securities relate primarily to investment securities issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and private institutions. The gross unrealized losses of temporarily impaired investment securities as of September 30, 2007, which represented 1% of the amortized cost basis of the Company s total investment securities, were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company has both the intent and ability to hold the investment securities for a period of time necessary to recover the amortized cost.

25

Loans and Leases

Table 7 presents the composition of the Company s loan and lease portfolio by major categories and Table 8 presents the composition of the Company s loan and lease portfolio by geographic area.

Loan and Lease Portfolio Balances (Unaudited) **Table 7**

(dollars in thousands)	**September 30, 2007**	**June 30, 2007**	**December 31, 2006**	**September 30, 2006**
Commercial				
Commercial and Industrial	$ 1,065,258	$ 1,065,155	$ 1,093,392	$ 994,531
Commercial Mortgage	627,058	619,668	611,334	635,552
Construction	254,062	261,478	249,263	238,995
Lease Financing	478,988	480,358	508,997	489,183
Total Commercial	2,425,366	2,426,659	2,462,986	2,358,261
Consumer				
Residential Mortgage	2,510,584	2,505,073	2,493,110	2,464,240
Home Equity	953,713	938,261	944,873	942,743
Other Revolving Credit and Installment	693,058	677,750	700,896	701,759
Lease Financing	17,194	18,383	21,302	22,054
Total Consumer	4,174,549	4,139,467	4,160,181	4,130,796
Total Loans and Leases	$ 6,599,915	$ 6,566,126	$ 6,623,167	$ 6,489,057

Total loans and leases outstanding remained relatively stable at $6.6 billion as of September 30, 2007 and December 31, 2006. Total commercial loans and leases decreased by $37.6 million and total consumer loans and leases increased by $14.4 million, respectively, from December 31, 2006 to September 30, 2007. The decrease in total commercial loans and leases was primarily due to the Company s adoption of FSP No. 13-2, which had the effect of reducing commercial lease financing balances by $42.7 million as of January 1, 2007. The decrease in commercial loans and leases was also due to the Company s decision to exit certain commercial credits classified in the commercial and industrial category and the pay-off in 2007 of certain bridge and short-term loans originated during the fourth quarter of 2006. These decreases were partially offset by an increase in commercial mortgage and construction loan balances. The increase in total consumer loans and leases was primarily due to increases in residential mortgage and home equity loans which is reflective of the stable Hawaii real estate market. These increases were partially offset by decreases in other revolving credit and installment and lease financing balances.

Total loans and leases outstanding increased by $110.9 million or 2% from September 30, 2006 to September 30, 2007. Total commercial and total consumer loans and leases increased by $67.1 million and $43.8 million, respectively. The increase in commercial loans and leases was primarily due to growth in commercial and industrial loans to Hawaii-based middle market companies. This increase was partially offset by decreases in commercial mortgage and lease financing balances. The increase in consumer loans and leases was primarily due to growth in residential mortgage and home equity loans, reflecting lower loan repayment rates and a stable Hawaii real estate market over this period of time.

Geographic Distribution of Loan and Lease Portfolio (Unaudited) **Table 8**

(dollars in thousands)	September 30, 2007	June 30, 2007	December 31, 2006 [1]	September 30, 2006 [1]
Commercial				
Hawaii				
Commercial and Industrial	$ 708,342	$ 675,987	$ 721,585	$ 643,632
Commercial Mortgage	526,566	524,736	522,645	528,432
Construction	239,765	246,613	234,913	233,045
Lease Financing	45,564	47,324	49,064	41,063
Mainland U.S. [2]				
Commercial and Industrial	208,931	229,231	220,227	204,287
Commercial Mortgage	10,652	3,817	4,030	10,378
Construction	14,088	14,865	12,066	3,632
Lease Financing	396,471	397,307	426,085	415,811
Guam				
Commercial and Industrial	64,063	74,799	69,245	60,209
Commercial Mortgage	85,098	86,449	81,576	93,506
Construction	209	-	2,279	2,305
Lease Financing	6,275	5,121	1,569	124
Other Pacific Islands				
Commercial and Industrial	18,535	19,140	26,202	30,172
Commercial Mortgage	2,776	2,815	3,083	3,236
Construction	-	-	5	13
Lease Financing	-	-	-	2
Foreign [3]				
Commercial and Industrial	65,387	65,998	56,133	56,231
Commercial Mortgage	1,966	1,851	-	-
Lease Financing	30,678	30,606	32,279	32,183
Total Commercial	2,425,366	2,426,659	2,462,986	2,358,261
Consumer				
Hawaii				
Residential Mortgage	2,269,400	2,260,948	2,253,633	2,224,523
Home Equity	909,448	877,251	877,624	871,469
Other Revolving Credit and Installment	487,293	485,484	516,955	517,379
Lease Financing	17,194	18,383	21,302	22,054
Mainland U.S. [2]				
Home Equity	26,051	43,563	51,038	55,818
Other Revolving Credit and Installment	30,632	16,269	363	-
Guam				
Residential Mortgage	232,238	235,206	230,485	230,508
Home Equity	14,531	13,526	11,951	11,056
Other Revolving Credit and Installment	122,614	121,515	124,621	122,188
Other Pacific Islands				
Residential Mortgage	8,946	8,919	8,992	9,209
Home Equity	3,683	3,921	4,260	4,400
Other Revolving Credit and Installment	52,498	54,482	58,408	61,642
Foreign [3]				
Other Revolving Credit and Installment	21	-	549	550
Total Consumer	4,174,549	4,139,467	4,160,181	4,130,796
Total Loans and Leases	$ 6,599,915	$ 6,566,126	$ 6,623,167	$ 6,489,057

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

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

3 Loans and leases classified as Foreign represents those which are recorded in the Company s international business units.

The Company s commercial loan and lease portfolio is concentrated primarily in Hawaii. However, the Company s commercial loan and lease portfolio does include loans and leases to borrowers based on the mainland U.S., including participation in shared national credits and leveraged lease financing. The Company s consumer loan and lease portfolio is concentrated in Hawaii and the Pacific Islands, with limited lending activities on the mainland U.S.

Mortgage Servicing Rights

Note 2 to the Consolidated Financial Statements (Unaudited), which is incorporated herein by reference, provides information on the changes in the fair value of the mortgage servicing rights for the three and nine months ended September 30, 2007.

Other Assets

Table 9 presents the major components of the Company s other assets as of September 30, 2007, December 31, 2006, and September 30, 2006.

Other Assets (Unaudited) **Table 9**

(dollars in thousands)		September 30, 2007		December 31, 2006 [1]		September 30, 2006 [1]
Bank-Owned Life Insurance	$	186,880	$	156,115	$	154,851
Federal Home Loan Bank and Federal Reserve Bank Stock		79,416		79,415		79,415
Low Income Housing Investments and Other Equity Investment		32,726		21,898		23,376
Accounts Receivable		24,005		23,216		22,947
Federal Tax Deposit		61,000		61,000		61,000
Other		38,023		32,265		45,120
Total Other Assets	$	422,050	$	373,909	$	386,709

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

The increase in the Company s other assets from September 30, 2006 and December 31, 2006 to September 30, 2007 was primarily due to an additional $25.0 million placement of BOLI in the first quarter of 2007. Also contributing to the increase in the Company s other assets from September 30, 2006 and December 31, 2006 to September 30, 2007 was the funding of $15.8 million in new low income housing investments.

The Company continues to maintain a federal tax deposit of $61.0 million relating to the IRS review of the Company s LILO and Sale In-Lease Out (SILO) transactions. The placement of the deposits with the IRS reduced the accrual of additional interest and penalties, which was higher than the Company s funding costs, associated with the potential underpayment of income taxes related to these transactions. During the second quarter of 2007, the Company reached an agreement with the IRS that effectively settled the matter related to the Company s LILO transaction. The Company expects that the federal tax deposit will be reduced when the final adjustments are processed by the IRS. There has been no change in the status of the IRS review of the Company s SILO transactions. Management believes that the Company has adequate reserves for potential tax exposures related to SILO transactions under review by the IRS as of September 30, 2007.

Deposits

As of September 30, 2007, total deposits were $7.9 billion, a decrease of $148.2 million or 2% and an increase of $188.0 million or 2% from December 31, 2006 and September 30, 2006, respectively. Although the number of noninterest-bearing demand deposit accounts increased, balances decreased by $98.9 million from December 31, 2006, primarily due to customers moving their balances to higher yielding products. Time deposits increased by $41.7 million and $136.3 million from December 31, 2006 and September 30, 2006, respectively, largely due to a migration of retail deposits to higher yielding time deposits.

Table 10 presents the composition of savings deposits as of September 30, 2007, December 31, 2006, and September 30, 2006.

Savings Deposits (Unaudited) **Table 10**

(dollars in thousands)		September 30, 2007		December 31, 2006		September 30, 2006
Money Market	$	1,141,863	$	1,138,089	$	1,040,114
Regular Savings		1,569,306		1,552,757		1,556,826
Total Savings Deposits	$	2,711,169	$	2,690,846	$	2,596,940

Table 11 presents the Company s average balance of time deposits of $100,000 or more.

Average Time Deposits of $100,000 or More (Unaudited) **Table 11**

	Three Months Ended						Nine Months Ended			
(dollars in thousands)		September 30, 2007		December 31, 2006 [1]		September 30, 2006 [1]		September 30, 2007		September 30, 2006 [1]
Average Time Deposits	$	975,301	$	914,009	$	835,927	$	974,428	$	772,481

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

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase were $1.1 billion as of September 30, 2007, an increase of $39.7 million or 4% from December 31, 2006 and a decrease of $11.7 million or 1% from September 30, 2006. The increase from December 31, 2006 was primarily due to additional securities sold under agreements to repurchase placed with government entities that provided the Company with sources of liquidity, partially offset by the paydowns of securities sold under agreements to repurchase placed with private entities. The decrease from September 30, 2006 was primarily due to paydowns of securities sold under agreements to repurchase placed with government entities. As of September 30, 2007, total securities sold under agreements to repurchase placed with private entities were $600.0 million, of which $500.0 million were indexed to the London Inter Bank Offering Rate (LIBOR) and $100.0 million were at fixed interest rates. The remaining terms of the private entity agreements range from eight to 14 years. However, the private entities have the right to terminate the agreements on predetermined dates. If the private entity agreements that are indexed to LIBOR are not terminated by predetermined dates, the interest rates on the agreements become fixed, at rates ranging from 4.00% to 5.00%, for the remaining term of the respective agreements. As of September 30, 2007, the weighted average interest rate for the Company s outstanding private entity agreements was 4.37%.

Table 12 presents the composition of securities sold under agreements to repurchase as of September 30, 2007, December 31, 2006, and September 30, 2006.

Securities Sold Under Agreements to Repurchase (Unaudited) **Table 12**

(dollars in thousands)	September 30, 2007	December 31, 2006	September 30, 2006
Government Entities	$ 487,511	$ 372,824	$ 499,260
Private Entities	600,000	675,000	600,000
Total Securities Sold Under Agreements to Repurchase	$ 1,087,511	$ 1,047,824	$ 1,099,260

Borrowings and Long-Term Debt

Borrowings, including funds purchased and other short-term borrowings, were $202.6 million as of September 30, 2007, an increase of $131.5 million from December 31, 2006 and an increase of $30.8 million or 18% from September 30, 2006. The increase in these borrowing instruments from December 31, 2006 was used to replace other more expensive sources of funding.

Long-term debt was $235.4 million as of September 30, 2007, a decrease of $24.9 million or 10% and $29.9 million or 11% from December 31, 2006 and September 30, 2006, respectively. The decrease in long-term debt from December 31, 2006 was due to the maturity of a $25.0 million Federal Home Loan Bank of Seattle (FHLB) advance in the third quarter of 2007. The decrease in long-term debt from September 30, 2006 was due to the repurchase of $5.0 million in Bancorp Hawaii Capital Trust I s capital securities in the fourth quarter of 2006 in addition to the aforementioned maturity of the $25.0 million FHLB advance in the third quarter of 2007. Further discussion of the Company s borrowings is included in the Corporate Risk Profile Liquidity Management section of MD&A.

Shareholders Equity

As of September 30, 2007, the Company s shareholders equity was $731.7 million. This represented a $12.3 million or 2% increase from December 31, 2006 and a $48.2 million or 7% increase from September 30, 2006. The increase in the Company s shareholders equity from December 31, 2006 to September 30, 2007 was primarily due to net income for the nine months ended September 30, 2007 of $142.8 million and common stock issued under purchase and equity compensation plans of $16.3 million. The increase in shareholders equity was partially offset by $69.3 million in common stock repurchases, $60.9 million in cash dividends paid, and $34.5 million in reductions to retained earnings as a result of the Company s adoption of several new accounting pronouncements on January 1, 2007. Further discussion of the Company s capital structure is included in the Corporate Risk Profile Capital Management section of MD&A.

Analysis of Business Segments

The Company s business segments are Retail Banking, Commercial Banking, Investment Services, and Treasury. The Company s internal management accounting process measures the performance of the business segments based on the management structure of the Company. This process, which is not necessarily comparable with similar information for any other financial institution, uses various techniques to assign balance sheet and income statement amounts to the business segments, including allocations of income, expense, the Provision, and capital. This process is dynamic and requires certain allocations based on judgment and other subjective factors. Unlike financial accounting, there is no comprehensive, authoritative guidance for management accounting that is equivalent to U.S. generally accepted accounting principles.

The Company evaluates several performance measures of the business segments, the most important of which are net income after capital charge (NIACC) and risk adjusted return on capital (RAROC). NIACC is economic net income less a charge for the cost of allocated capital. The cost of allocated capital is determined by multiplying management s estimate of a shareholder s minimum required rate of return on the cost of capital invested (currently 11%) by the business segment s allocated equity. The Company assumes a cost of capital that is equal to a risk-free rate plus a risk premium. RAROC is the ratio of economic net income to risk-adjusted equity. Equity is allocated to each business segment based on an assessment of its inherent risk. The net interest income of the business segments reflects the results of a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics and reflects the allocation of net interest income related to the Company s overall asset and liability management activities on a proportionate basis. The basis for the allocation of net interest income is a function of management decisions and assumptions that are subject to change based on changes in current interest rate and market conditions. Funds transfer pricing also serves to transfer interest rate risk to the Treasury segment. However, the other business segments have some latitude to retain certain interest rate exposures related to customer pricing decisions within guidelines. The business segments are charged an economic provision which is a statistically derived estimate of average annual expected credit losses over an economic cycle.

On a consolidated basis, the Company considers NIACC a measure of shareholder value creation. For the nine months ended September 30, 2007, consolidated NIACC was $79.8 million, compared to $66.8 million for the same period in 2006. The increase in NIACC was primarily due to the impact of the aforementioned $8.2 million charge recorded in the provision for income taxes in the second quarter of 2006 related to a change in tax law.

Table 13 summarizes NIACC and RAROC results for the Company s business segments for the three and nine months ended September 30, 2007 and 2006.

Business Segment Selected Financial Information (Unaudited) **Table 13**

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services	Total	Treasury	Consolidated Total
Three Months Ended September 30, 2007						
Allocated Net Income	$ 25,540	$ 15,616	$ 4,326	$ 45,482	$ 2,297	$ 47,779
Allowance Funding Value	(258)	(732)	(11)	(1,001)	1,001	-
Provision for Credit Losses	2,975	1,284	(1)	4,258	(188)	4,070
Economic Provision	(3,032)	(2,063)	(88)	(5,183)	-	(5,183)
Tax Effect of Adjustments	116	559	37	712	(300)	412
Income Before Capital Charge	25,341	14,664	4,263	44,268	2,810	47,078
Capital Charge	(5,508)	(3,944)	(1,632)	(11,084)	(8,948)	(20,032)
Net Income (Loss) After Capital Charge (NIACC)	$ 19,833	$ 10,720	$ 2,631	$ 33,184	$ (6,138)	$ 27,046
RAROC (ROE for the Company)	50%	41%	28%		9%	26%
Three Months Ended September 30, 2006 [1]						
Allocated Net Income	$ 23,910	$ 16,024	$ 4,568	$ 44,502	$ 2,418	$ 46,920
Allowance Funding Value	(202)	(660)	(9)	(871)	871	-
Provision for Credit Losses	2,609	480	-	3,089	(304)	2,785
Economic Provision	(3,105)	(2,158)	(98)	(5,361)	-	(5,361)
Tax Effect of Adjustments	258	865	40	1,163	(210)	953
Income Before Capital Charge	23,470	14,551	4,501	42,522	2,775	45,297
Capital Charge	(5,426)	(3,914)	(1,511)	(10,851)	(8,047)	(18,898)
Net Income (Loss) After Capital Charge (NIACC)	$ 18,044	$ 10,637	$ 2,990	$ 31,671	$ (5,272)	$ 26,399
RAROC (ROE for the Company)	47%	41%	32%		7%	27%
Nine Months Ended September 30, 2007						
Allocated Net Income	$ 74,727	$ 45,770	$ 15,340	$ 135,837	$ 7,006	$ 142,843
Allowance Funding Value	(708)	(2,163)	(31)	(2,902)	2,902	-
Provision for Credit Losses	8,867	1,409	(1)	10,275	(211)	10,064
Economic Provision	(8,900)	(6,327)	(251)	(15,478)	(1)	(15,479)
Tax Effect of Adjustments	274	2,620	105	2,999	(995)	2,004
Income Before Capital Charge	74,260	41,309	15,162	130,731	8,701	139,432
Capital Charge	(16,407)	(11,957)	(4,785)	(33,149)	(26,453)	(59,602)
Net Income (Loss) After Capital Charge (NIACC)	$ 57,853	$ 29,352	$ 10,377	$ 97,582	$ (17,752)	$ 79,830
RAROC (ROE for the Company)	50%	38%	35%		9%	26%
Nine Months Ended September 30, 2006 [1]						
Allocated Net Income	$ 71,173	$ 34,594	$ 12,031	$ 117,798	$ 11,648	$ 129,446
Allowance Funding Value	(589)	(1,809)	(25)	(2,423)	2,423	-
Provision for Credit Losses	6,965	1,218	999	9,182	(1,567)	7,615
Economic Provision	(9,341)	(6,628)	(286)	(16,255)	(1)	(16,256)
Tax Effect of Adjustments	1,097	2,671	(254)	3,514	(316)	3,198
Income Before Capital Charge	69,305	30,046	12,465	111,816	12,187	124,003
Capital Charge	(16,258)	(12,282)	(4,727)	(33,267)	(23,892)	(57,159)
Net Income (Loss) After Capital Charge (NIACC)	$ 53,047	$ 17,764	$ 7,738	$ 78,549	$ (11,705)	$ 66,844
RAROC (ROE for the Company)	47%	27%	29%		12%	25%

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

Retail Banking

The Retail Banking segment offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, automobile loans and leases, and installment loans. Deposit products include checking, savings, and time deposit accounts. The Retail Banking segment also provides merchant services to its small business customers. Products and services from the Retail Banking segment are delivered to customers through 71 Hawaii branch locations, 465 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), and a 24-hour telephone banking service. This segment also offers retail property and casualty insurance products.

The segment s key financial measures increased for the three and nine months ended September 30, 2007, compared to the same periods in 2006. The segment experienced higher noninterest income, primarily as a result of higher fee income from transaction volume, and growth in the number of transactional deposit accounts and interchange income from debit card sales. The increase in net interest income was due to an increase in the earnings credit on the segment s deposit portfolio which partially offset lower deposit levels. These positive trends were partially offset by an increase in noninterest expense primarily resulting from higher debit card volume and salaries expense.

Commercial Banking

The Commercial Banking segment offers products including corporate banking and commercial real estate loans, lease financing, auto dealer financing, deposit and cash management products, and wholesale property and casualty insurance products. Lending, deposit, and cash management services are offered to middle-market and large companies in Hawaii. Commercial real estate mortgages are focused on customers that include investors, developers, and builders primarily domiciled in Hawaii. The Commercial Banking segment also includes the Company s operations at 12 branches in the Pacific Islands (Guam, nearby islands, and American Samoa).

The segment s key financial measures for the three months ended September 30, 2007, compared to the same period in 2006, remained relatively unchanged. The improvement in the segment s key financial measures for the nine months ended September 30, 2007 was primarily due to higher net interest income and noninterest income and a charge recorded in the second quarter of 2006 related to a change in tax law.

The improvement in net interest income for the three and nine months ended September 30, 2007, compared to the same periods in 2006, was primarily due to higher earnings credit rates on the segment s transaction deposits, partially offset by growth in interest cost due to higher average balances in savings and time deposits. The decrease in noninterest income for the three months ended September 30, 2007, compared to the same period in 2006, was primarily due to a gain on a terminated lease recognized in the third quarter of 2006. The increase in noninterest income for the nine months ended September 30, 2007, compared to the same period in 2006, was primarily due to higher insurance commission income. The increase in noninterest expense for the three and nine months ended September 30, 2007, compared to the same periods in 2006, was primarily due to higher salaries and allocated expenses.

Investment Services

The Investment Services segment includes private banking, trust services, asset management, and institutional investment services. A significant portion of this segment s income is derived from fees, which are generally based on the market values of assets under management. The private banking and personal trust group assists individuals and families in building and preserving their wealth by providing investment, credit, and trust services to high-net-worth individuals. The asset management group manages portfolios and creates investment products. Institutional sales and service offers investment advice to corporations, government entities, and foundations. This segment also provides a full service brokerage offering equities, mutual funds, life insurance, and annuity products.

The decline in the segment s key financial measures for the three months ended September 30, 2007, compared to the same period in 2006, was primarily due to higher noninterest expense, mainly in salaries and other operating expenses. The improvement in the segment s key financial measures for the nine months ended September 30, 2007, compared to the same period in 2006, was primarily due to an increase in noninterest income.

Trust and asset management fee income increased for the three and nine months ended September 30, 2007, compared to the same periods in 2006, primarily due to improved market conditions, resulting in increases in both average market values of assets under management and investment advisory fees on money market accounts. The increase in noninterest income was also due to growth in fee income on products offered through the full service brokerage business.

Treasury

The Treasury segment consists of corporate asset and liability management activities, including interest rate risk management and foreign exchange business. This segment s assets and liabilities (and related interest income and expense) consist of interest-bearing deposits, investment securities, federal funds sold and purchased, government deposits, and short-term and long-term borrowings. The primary sources of noninterest income are from BOLI and foreign exchange income related to customer driven currency requests from merchants and island visitors. Additionally, the change in fair value of the Company s mortgage servicing rights, related to changes in the weighted-average constant prepayment rate and the weighted average discount rate assumptions, is allocated to the Treasury segment. The net residual effect of transfer pricing of assets and liabilities is included in Treasury, along with eliminations of inter-company transactions.

The decline in the segment s key financial measures for the three and nine months ended September 30, 2007, compared to the same periods in 2006, was primarily due to a decrease in net interest income. The decrease in net interest income was primarily due to higher funding costs associated with the Company s deposit portfolio. Increased volume and associated rates of short-term borrowings also contributed to the decrease in net interest income for the nine months ended September 2007. Noninterest income for the three and nine months ended September 2007 increased over 2006, partially offsetting the decrease in net interest income. Noninterest income increased primarily due to the net fair value adjustment of the Company s mortgage servicing rights and investment trading portfolio as well as an increase in BOLI income.

Corporate Risk Profile

Credit Risk

The Company s credit risk position remained strong and stable during the nine months ended September 30, 2007 with lower levels of internally criticized loans and leases and non-performing assets. The Company s non-accrual loans and leases decreased to $4.2 million as of September 30, 2007 from $5.9 million as of December 31, 2006, primarily due to reductions in the residential mortgage as well as the commercial and industrial loan categories. The ratio of non-accrual loans and leases to total loans and leases was 0.06% as of September 30, 2007, slightly lower than the ratio of 0.09% as of December 31, 2006 and 0.08% as of September 30, 2006.

The Company s favorable credit risk profile reflected a stable economy in Hawaii and Guam, as well as disciplined commercial and retail underwriting and portfolio management. The quality of the Hawaii-based portfolio was complimented by stable construction and real estate industries and continued strength in domestic visitor arrivals, despite higher energy costs and increasing inflationary trends. The Company does not offer payment-option adjustable rate mortgage loans or products with negative amortization.

Relative to the Company s total loan and lease portfolio, domestic airline carriers continued to demonstrate a higher risk profile due to fuel costs, pension plan obligations, and marginal pricing power. In the evaluation of the Reserve for Credit Losses (the Reserve), management continues to consider the ongoing financial concerns about the airline industry. Table 14 below summarizes the Company s air transportation credit exposures as of September 30, 2007, December 31, 2006, and September 30, 2006.

Air Transportation Credit Exposure [1] (Unaudited) **Table 14**

	September 30, 2007			December 31, 2006	September 30, 2006
(dollars in thousands)	Outstanding	Unused Commitments	Total Exposure	Total Exposure	Total Exposure
Passenger Carriers Based In the U.S.	$ 64,867				