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

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

OR

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)	(IRS Employer Identification No.)
130 Merchant Street, Honolulu, Hawaii	**96813**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ý No o

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

Yes o No ý

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No ý

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 29, 2007 (the last business day of the registrant's most recently completed second fiscal quarter), determined using the per share closing price on that date on the New York Stock Exchange of $51.64, was approximately $2,525,188,977. There was no non-voting common equity of the registrant outstanding on that date.

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Bank of Hawaii Corporation

Form 10-K

Index

Part I

Item 1. Business

General

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company ("BHC") headquartered in Honolulu, Hawaii.

The Parent's principal and only operating subsidiary, Bank of Hawaii (the "Bank"), was organized on December 17, 1897 and is chartered by the State of Hawaii. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") and the Bank is a member of the Federal Reserve System (the "FRB").

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

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

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

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

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports can be found free of charge on our website at http://www.boh.com as soon as reasonably practicable after such material is electronically filed with or furnished to the United States Securities and Exchange Commission (the "SEC"). The SEC maintains a website, http://www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our Corporate Governance Guidelines; charters of the Audit Committee, the Executive and Strategic Planning Committee, the Human Resources and Compensation Committee, and the Nominating and Corporate Governance Committee; and our Code of Business Conduct and Ethics are available on our website. Upon written request to the Corporate Secretary at 130 Merchant Street, Honolulu, Hawaii, 96813, this information is available in print form.

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

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

Competition

We are subject to substantial competition from banks, savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies, and other providers of financial services, including financial service subsidiaries of commercial and manufacturing companies. We also compete with non-financial institutions that offer financial products and services. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and BHCs. As a result, some of our competitors may have lower cost structures. Also, some of our competitors, through alternative delivery channels such as the internet, may be based outside of the markets that we serve. Our extensive branch network, exceptional service levels, and knowledge of local trends and conditions contribute to our competitive advantage.

Supervision and Regulation

We are extensively regulated under both federal and state laws. The following information describes significant laws and regulations applicable to us. The description is qualified in its entirety by reference to the applicable laws and regulations. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and with the various bank regulatory agencies. A change in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business, operations, and earnings.

The Parent

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

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

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

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

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

Bank of Hawaii

The Bank is subject to supervision and examination by the Federal Reserve Bank of San Francisco and the State of Hawaii Department of Commerce and Consumer Affairs ("DCCA"), Division of Financial Institutions. The Bank is subject to extensive federal and state regulations that significantly affect business and activities. Regulatory bodies have broad authority to implement standards and to initiate proceedings designed to prohibit depository institutions from engaging in activities that represent unsafe and unsound banking practices or constitute violations of applicable laws, rules, regulations, administrative orders, or written agreements with regulators. The standards relate generally to operations and management, asset quality, interest rate exposure, capital, and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards, including the assessment of civil monetary penalties, the issuance of cease-and-desist orders, and other actions.

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

Capital Requirements

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

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

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

Dividend Restrictions

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

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

Transactions with Affiliates

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

FDIC Insurance

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

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

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

Other Safety and Soundness Regulations

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

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

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

Community Reinvestment and Consumer Protection Laws

In connection with its lending activities, the Bank is subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. These include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, and the CRA. In addition, federal banking regulators, pursuant to the Gramm-Leach-Bliley Act, have enacted regulations limiting the ability of banks and other financial institutions to disclose nonpublic consumer information to non-affiliated third parties. The regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with non-affiliated parties.

The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low and moderate income neighborhoods. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." The Bank received an "outstanding" rating in its most recent CRA evaluation.

Bank Secrecy Act / Anti-Money Laundering Laws

The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. The USA PATRIOT Act substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and BHC acquisitions.

Employees

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

Item 1A. Risk Factors

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

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

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

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

Our earnings are highly dependent on the spread between the interest earned on loans, leases, and investment securities and the interest paid on deposits and borrowings. Changes in market interest rates impact the rates earned on loans, leases, and investment securities and the rates paid on deposits and borrowings. In addition, changes to market interest rates could impact the level of loans, leases, investment securities, deposits, and borrowings, and the credit profile of existing loans and leases. Interest rates are affected by many factors beyond our control, including general economic conditions, and the monetary and fiscal policies of various governmental and regulatory authorities. Changes in interest rates may negatively impact our ability to attract deposits, originate loans and leases, and achieve satisfactory interest rate spreads which could adversely affect our financial condition or results of operations.

Credit losses may increase due to weaker economic conditions.

The risk of nonpayment of loans and leases is inherent in all lending activities. We maintain a reserve for credit losses to absorb estimated probable credit losses inherent in the loan, lease, and commitment portfolios as of the balance sheet date. Management makes various assumptions and judgments about the loan and lease portfolio, in determining the level of the reserve for credit losses. Many of these assumptions are based on economic conditions. If our assumptions are incorrect or economic conditions change, the reserve for credit losses may not be sufficient to cover losses, which could adversely affect our financial condition or results of operations.

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

Our operations are subject to extensive regulation.

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

Competition may adversely affect our business.

Our future depends on our ability to compete effectively. We compete for deposits, loans, leases, and other financial services with a variety of competitors, including banks, thrifts, credit unions, mortgage companies, broker dealers, and insurance companies all of which may be based in or out of Hawaii and the Pacific Islands. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. Failures to effectively compete, innovate, and make effective use of available channels to deliver our products and services could adversely affect our financial condition or results of operations.

Our liquidity is dependent on dividends from the Bank.

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

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

We rely heavily on communications and information systems to conduct our business. In addition, we rely on third parties to provide key components of our infrastructure, including loan, deposit and general ledger processing, internet connections, and network access. Any disruption in service of these key components could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our operations. Furthermore, security breaches of our information systems or data, whether managed by us or by third parties, could harm our reputation or cause a decrease in the number of customers that choose to do business with us.

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

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

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

Changes in income tax laws could be enacted or interpretations of existing income tax laws could change causing an adverse effect to our financial condition or results of operations. Similarly, our accounting policies and methods are fundamental to how we report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the value of our assets, liabilities, and financial results. Periodically, new accounting standards are imposed or existing standards are revised, changing the methods for preparing our financial statements.

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

There are a limited number of qualified personnel in the markets we serve, so our success depends in part on the continued services of many of our current management and other key employees. Hawaii's low unemployment rate contributes to the difficulty of attracting and retaining qualified employees at all levels. Failure to retain our key employees and maintain adequate staffing of qualified personnel, could adversely impact our operations and our ability to compete.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

Our principal offices are located in the Financial Plaza of the Pacific in Honolulu, Hawaii. We own and lease other branch offices and operating facilities located throughout Hawaii and the Pacific Islands.

Item 3. Legal Proceedings

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

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

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

Executive Officers of the Registrant:

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

Allan R. Landon, 59
Chairman and Chief Executive Officer since September 2004; President since December 2003; Chief Operating Officer from May 2004 to August 2004; Vice Chairman from February 2001 to December 2003; Chief Financial Officer from February 2001 to April 2004.

Peter S. Ho, 42
Vice Chairman and Chief Banking Officer since January 2006; Vice Chairman, Investment Services from April 2004 to December 2005; Executive Vice President, Hawaii Commercial Banking Group from February 2003 to April 2004; Executive Vice President, Corporate Banking Division Manager from January 2002 to January 2003.

Mark A. Rossi, 59
Vice Chairman, Chief Administrative Officer, General Counsel, and Corporate Secretary since February 2007; President of Lane Powell from July 2004 to January 2007; Partner of Lane Powell Spears Lubersky, LLP from April 1996 to July 2004.

Mary E. Sellers, 51
Vice Chairman and Chief Risk Officer since July 2005; Executive Vice President, Director of Risk Management from June 2003 to June 2005; Executive Vice President, Credit Review Manager from January 2002 to June 2003.

Daniel C. Stevens, 52
Vice Chairman and Chief Financial Officer since May 2007; Independent Consultant from November 2006 to April 2007; Chief Financial Officer of Taylor Capital Group from January 2004 to October 2006; Chief Financial Officer and Chief Administrative Officer at UMB Financial Corporation from January 2001 to January 2004.

Donna A. Tanoue, 53
Vice Chairman since February 2007; Vice Chairman, Corporate and Regulatory Administration and Chief Administrative Officer from April 2004 to January 2007; Vice Chairman, Investment Services from April 2002 to April 2004.

Brian T. Stewart, 40
Executive Vice President and Controller since May 2004; Senior Vice President, Management Reporting from July 2002 to April 2004.

Part II

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

Market Information, Shareholders, and Dividends

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

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

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

The common stock of the Parent is traded on the New York Stock Exchange (NYSE Symbol: BOH) and quoted daily in leading financial publications. As of February 20, 2008, there were 7,680 common shareholders of record.

The Parent's Board of Directors considers on a quarterly basis the feasibility of paying a cash dividend to its shareholders. Under the Parent's general practice, dividends are declared upon completion of a quarter and are paid prior to the end of the subsequent quarter. Dividends declared consider future expected earnings. See "Dividend Restrictions" under "Supervision and Regulation" in Item 1 of this report and Note 10 to the Consolidated Financial Statements for more information.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
October 1 - 31, 2007	127,342	$ 52.18	127,100	$ 117,715,883
November 1 - 30, 2007	195,836	50.26	194,500	107,939,625
December 1 - 31, 2007	275,481	50.49	269,500	94,323,326

Total	598,659	$ 50.77	591,100

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

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

Employee Compensation Plan Information

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

Performance Graph

The following graph shows the cumulative total return for the Parent's common stock compared to the cumulative total returns for the Standard & Poor's ("S&P") 500 Index and the S&P Banking Index. The graph assumes that $100 was invested on December 31, 2002 in the Parent's common stock, the S&P 500 Index, and the S&P Banking Index. The cumulative total return on each investment is as of December 31 of each of the subsequent five years and assumes reinvestment of dividends.

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

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

Item 6. Selected Financial Data

Summary of Selected Financial Data

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

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

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

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

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

12

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

Forward-Looking Statements

This report contains forward-looking statements concerning, among other things, the economic and business environment in our service area and elsewhere, credit quality, and other financial and business matters in future periods. Our forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate and actual results may differ materially from those projected because of a variety of risks and uncertainties, including, but not limited to: 1) general economic conditions are less favorable than expected; 2) competitive pressure among financial services and products; 3) the impact of legislation and the regulatory environment; 4) fiscal and monetary policies of the markets in which we operate; 5) actual or alleged conduct which could harm our reputation; 6) changes in accounting standards; 7) changes in tax laws or regulations or the interpretation of such laws and regulations; 8) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 9) changes in market interest rates that may affect our credit markets and ability to maintain our net interest margin; 10) unpredicted costs and other consequences of legal or regulatory matters involving the Company; 11) changes to the amount and timing of proposed common stock repurchases; and 12) geopolitical risk, military or terrorist activity, natural disaster, adverse weather, public health, and other conditions impacting us and our customers' operations. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included under the section entitled "Risk Factors" in Part I of this report. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. We do not undertake an obligation to update forward-looking statements to reflect later events or circumstances.

Critical Accounting Estimates

Our Consolidated Financial Statements were prepared in accordance with U.S. generally accepted accounting principles and follow general practices within the industries in which we operate. The most significant accounting policies we follow are presented in Note 1 to the Consolidated Financial Statements. Application of these principles requires us to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. Critical accounting estimates are defined as those that require assumptions or judgments to be made based on information available as of the date of the financial statements. Certain policies inherently have a greater reliance on the use of estimates. Those policies have a greater possibility of producing results that could be materially different than reported if there is a change to any of the estimates, assumptions, or judgments made by us. Based on the potential impact to the financial statements of the valuation methods, estimates, assumptions, and judgments used, we identified the determination of the reserve for credit losses, the valuation of mortgage servicing rights, the valuation of leased asset residual values, the valuation of pension and postretirement benefit obligations, and the determination of income tax expense and liability to be the accounting estimates that are the most subjective or judgmental.

Reserve for Credit Losses

A consequence of lending activities is that we may incur losses. The amount of such losses will vary, depending upon the risk characteristics of the loan and lease portfolio as affected by economic conditions, including rising interest rates, and the financial performance of borrowers. The reserve for credit losses consists of the Allowance for Loan and Lease Losses (the "Allowance") and a Reserve for Unfunded Commitments (the "Unfunded Reserve"). The reserve for credit losses provides for credit losses inherent in lending or committing to lend and is based on loss estimates derived from a comprehensive quarterly evaluation, reflecting analyses of individual borrowers and historical loss experience, supplemented as necessary by credit judgment to address observed changes in trends, conditions, and other relevant environmental and economic factors. The Allowance provides for probable and estimable losses inherent in our loan and lease portfolio. The Allowance is increased or decreased through the provisioning process. There is no exact method of predicting specific losses or amounts that ultimately may be charged-off on particular segments of the loan and lease portfolio.

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

Valuation of Mortgage Servicing Rights

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

Valuation of Leased Asset Residual Values

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

Pension and Postretirement Benefit Obligations

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

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

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

The estimated pension and postretirement net periodic benefit cost for 2008 is $1.4 million, based on an assumed discount rate of 6.85%. The following table presents a sensitivity analysis of a 25 basis point change in discount rates to the net periodic benefit cost and benefit obligation:

Discount Rate Sensitivity Analysis Table 1

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

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

Income Taxes

We determine our liabilities for income taxes based on current tax regulation and interpretations in tax jurisdictions where our income is subject to taxation. Currently, we file tax returns in nine federal, state and local domestic jurisdictions, and four foreign jurisdictions. In estimating income taxes payable or receivable, we assess the relative merits and risks of the appropriate tax treatment considering statutory, judicial, and regulatory guidance in the context of each tax position. Accordingly, previously estimated liabilities are regularly reevaluated and adjusted, through the provision for income taxes.

Changes in the estimate of income taxes payable or receivable occur periodically due to changes in tax rates, interpretations of tax law, the status of examinations being conducted by various taxing authorities, and newly enacted statutory, judicial and regulatory guidance that impact the relative merits and risks of each tax position. These changes, when they occur, affect accrued income taxes and can be significant to our operating results. See Note 15 to the Consolidated Financial Statements for more information on income taxes.

Overview

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

Our Vision:

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

Our Governing Objective:

"Maximize shareholder value over time."

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

Growth Integration People

Brand Discipline

Growth

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

Integration

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

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

People

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

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

Brand

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

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

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

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

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

Discipline

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

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

Plan Financial Objectives and Earnings Summary

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

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

Financial Objectives Table 2

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

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

Analysis of Statements of Income

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

Average Balances and Interest Rates Taxable Equivalent Basis **Table 3**

	2007			2006 [1]			2005 [1]		
(dollars in millions)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Earning Assets									
Interest-Bearing Deposits	$ 29.3	$ 1.5	5.28%	$ 5.4	$ 0.2	3.92%	$ 7.1	$ 0.2	3.07%
Funds Sold	60.3	3.1	5.06	15.2	0.8	5.06	39.3	1.3	3.38
Investment Securities									
Trading	122.6	4.9	4.00						
Available-for-Sale	2,516.7	130.5	5.19	2,598.8	127.5	4.91	2,545.6	114.0	4.48
Held-to-Maturity	329.5	14.9	4.53	417.6	18.3	4.37	523.7	21.4	4.08
Loans Held for Sale	9.0	0.6	6.43	9.7	0.6	6.38	20.4	0.8	4.03
Loans and Leases [2]									
Commercial and Industrial	1,054.8	78.1	7.40	987.8	72.7	7.36	953.8	59.8	6.27
Commercial Mortgage	624.5	42.5	6.81	598.5	40.3	6.73	582.6	34.8	5.97
Construction	250.1	19.6	7.86	197.3	16.2	8.19	138.6	8.8	6.35
Commercial Lease Financing	470.3	15.0	3.19	478.2	14.6	3.05	469.2	16.1	3.43
Residential Mortgage	2,501.7	153.6	6.14	2,450.4	146.3	5.97	2,346.8	133.6	5.70
Home Equity	947.9	71.6	7.56	922.2	68.4	7.42	844.2	49.8	5.91
Automobile	432.0	35.3	8.18	433.8	34.6	7.97	425.2	31.7	7.46
Other [3]	280.3	30.1	10.72	301.0	31.8	10.59	344.0	33.2	9.61
Total Loans and Leases	6,561.6	445.8	6.79	6,369.2	424.9	6.67	6,104.4	367.8	6.03
Other	79.4	1.5	1.83	79.4	1.1	1.45	69.8	1.3	1.81
Total Earning Assets [4]	9,708.4	602.8	6.21	9,495.3	573.4	6.04	9,310.3	506.8	5.44
Cash and Noninterest-Bearing Deposits	288.9			301.2			313.0		
Other Assets	474.8			444.9			400.4		
Total Assets	$ 10,472.1			$ 10,241.4			$ 10,023.7		
Interest-Bearing Liabilities									
Interest-Bearing Deposits									
Demand	$ 1,570.7	15.4	0.98	$ 1,615.5	15.6	0.96	$ 1,667.0	10.1	0.60
Savings	2,696.8	54.0	2.00	2,680.3	38.3	1.43	2,928.6	20.5	0.70
Time	1,728.4	68.4	3.96	1,484.8	49.8	3.35	1,197.8	27.8	2.32
Total Interest-Bearing Deposits	5,995.9	137.8	2.30	5,780.6	103.7	1.79	5,793.4	58.4	1.01

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

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

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

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

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

Analysis of Change in Net Interest Income Taxable Equivalent Basis **Table 4**

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

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

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

Net Interest Income

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

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

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

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

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

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

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

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

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

Provision for Credit Losses

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

Noninterest Income

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

Noninterest Income **Table 5**

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

n.m. not meaningful.

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

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

Mortgage Banking **Table 6**

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

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

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

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

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

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

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

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

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

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

Noninterest Expense

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

Noninterest Expense **Table 7**

	Year Ended December 31,			Dollar Change		Percent Change	
(dollars in thousands)	**2007**	**2006**	**2005**	**2007 to 2006**	**2006 to 2005**	**2007 to 2006**	**2006 to 2005**
Salaries and Benefits:							
Salaries	$ 115,856	$ 110,203	$ 108,286	$ 5,653	$ 1,917	5%	2%
Incentive Compensation	15,505	17,150	16,145	(1,645)	1,005	(10)	6
Share-Based Compensation	6,330	5,322	6,118	1,008	(796)	19	(13)
Commission Expense	7,444	7,168	8,112	276	(944)	4	(12)
Retirement and Other Benefits	15,131	17,212	17,962	(2,081)	(750)	(12)	(4)
Payroll Taxes	9,910	9,791	9,748	119	43	1	
Medical, Dental, and Life Insurance	9,289	7,900	8,027	1,389	(127)	18	(2)
Separation Expense	1,400	1,711	1,912	(311)	(201)	(18)	(11)
Total Salaries and Benefits	180,865	176,457	176,310	4,408	147	2	
Net Occupancy	40,073	38,976	38,273	1,097	703	3	2
Net Equipment	19,274	20,127	21,541	(853)	(1,414)	(4)	(7)
Professional Fees	11,206	6,854	15,702	4,352	(8,848)	63	(56)
Other Expense:							
Data Services	13,456	13,029	12,128	427	901	3	7
Delivery and Postage Services	10,337	10,049	9,812	288	237	3	2
Visa Legal Costs	5,649			5,649		n.m.	n.m.
Other	54,547	55,470	53,876	(923)	1,594	(2)	3
Total Other Expense	83,989	78,548	75,816	5,441	2,732	7	4
Total Noninterest Expense	$ 335,407	$ 320,962	$ 327,642	$ 14,445	$ (6,680)	5%	(2)%

	Year Ended December 31,	Dollar Change	Percent Change

n.m.
not meaningful.

Total salaries and benefits increased in 2007 from 2006 primarily due to higher salaries expense as a result of annual increases in base salaries. Share-based compensation also contributed to the increase due to a $1.0 million expense related to an executive retention agreement that ended on December 31, 2007. Another contributing factor to higher salaries and benefits expense in 2007 was an increase in group medical insurance expense. These increases were partially offset by a reduction in postretirement medical benefits expense, as a result of our decision to amend our plan to reduce retirement benefit costs, and reduced incentive compensation. Total salaries and benefits remained relatively unchanged in 2006 from 2005. Base salaries increased from 2005 as a result of annual increases, and incentive compensation increased as a result of a $1.5 million bonus related to the successful completion of the 2004 - 2006 Plan, paid to employees who did not otherwise participate in an incentive plan. Offsetting these increases in 2006 were decreases in share-based compensation and commission expense resulting from lower residential mortgage loan originations.

Professional fees increased in 2007 from 2006 primarily due to a $4.0 million reduction in legal fees in 2006 as a result of the conclusion of various legal matters. Also contributing to the increase in professional fees in 2007 were $0.5 million in fees related to strengthening our diagnostic tools and processes in technology and tax. Professional fees decreased in 2006 from 2005 primarily due to the previously mentioned reduction in legal fees.

Other noninterest expense increased in 2007 from 2006 primarily due to a $5.6 million charge, which represented our share of estimated legal costs, as a member bank of Visa U.S.A., Inc. ("Visa"), related to lawsuits. See Note 17 to the Consolidated Financial Statements for more information. Other noninterest expense increased in 2006 from 2005 primarily due to a $1.4 million increase in our mileage program travel expense, which was consistent with the increase in our debit card income. Also contributing to the increase in other noninterest expense in 2006 was $0.7 million in higher data services expense.

Income Taxes

Our provision for income taxes and effective tax rates for 2007, 2006, and 2005 were as follows:

Provision for Income Taxes and Effective Tax Rates **Table 8**

(dollars in thousands)	Provision	Effective Tax Rates
2007	$100,888	35.45%
2006	106,710	37.17
2005	102,636	36.11

The lower effective tax rate in 2007 from 2006 was primarily due to an $8.2 million charge recorded in the provision for income taxes in 2006 related to a change in tax law. The 2007 effective tax rate was also favorably impacted by $0.5 million in higher tax credits realized from our investments in the State of Hawaii's qualified high technology business investment program and by a $0.4 million reduction in the provision for income taxes as a result of the effective settlement of our lease in-lease out transaction. The higher effective tax rate in 2006 compared to 2005 was primarily due to the previously mentioned $8.2 million tax charge. See Note 15 to the Consolidated Financial Statements for more information.

Analysis of Business Segments

Our business segments are Retail Banking, Commercial Banking, Investment Services, and Treasury. Our 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.

We evaluate 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 our estimate of a shareholder's minimum required rate of return on the cost of capital invested (11% for 2007) by the segment's allocated equity. We assume 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 our overall asset and liability management activities on a proportionate basis. The basis for the allocation of net interest income is a function of our assumptions that are subject to change based on changes in current interest rates and market conditions. Funds transfer pricing also serves to transfer interest rate risk to Treasury. However, the other business segments have some latitude to retain certain interest rate exposures related to customer pricing decisions within guidelines. Allocated net income for each segment includes a Provision amount equal to net charge-offs for the period. The Provision is reversed in the NIACC calculation and replaced by an economic provision. The economic provision is a statistically derived estimate of annual expected credit losses over an economic cycle.

We consider NIACC to be a measure of shareholder value creation. Our NIACC was $100.0 million in 2007, $96.9 million in 2006, and $89.1 million in 2005. See Note 12 to the Consolidated Financial Statements for more information on our business segments.

Table 9 summarizes NIACC and RAROC results for our business segments for 2007, 2006, and 2005.

Business Segments Selected Financial Information **Table 9**

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services	Total	Treasury	Consolidated Total
Year Ended December 31, 2007						
Net Interest Income (Loss)	$ 237,715	$ 140,235	$ 22,585	$ 400,535	$ (5,517)	$ 395,018
Provision for Credit Losses	12,949	2,576	258	15,783	(276)	15,507
Net Interest Income (Loss) After Provision for Credit Losses	224,766	137,659	22,327	384,752	(5,241)	379,511
Noninterest Income	106,667	38,134	76,592	221,393	19,094	240,487
Noninterest Expense	(172,874)	(83,302)	(67,828)	(324,004)	(11,403)	(335,407)
Income Before Provision for Income Taxes	158,559	92,491	31,091	282,141	2,450	284,591
Provision for Income Taxes	(58,668)	(34,050)	(11,504)	(104,222)	3,334	(100,888)
Allocated Net Income	99,891	58,441	19,587	177,919	5,784	183,703
Allowance Funding Value	(983)	(2,924)	(44)	(3,951)	3,951	
Provision for Credit Losses	12,949	2,576	258	15,783	(276)	15,507
Economic Provision	(12,015)	(8,464)	(335)	(20,814)	(1)	(20,815)
Tax Effect of Adjustments	18	3,260	45	3,323	(1,360)	1,963
Income Before Capital Charge	99,860	52,889	19,511	172,260	8,098	180,358
Capital Charge	(21,957)	(16,119)	(6,484)	(44,560)	(35,765)	(80,325)
Net Income (Loss) After Capital Charge (NIACC)	$ 77,903	$ 36,770	$ 13,027	$ 127,700	$ (27,667)	$ 100,033
RAROC (ROE for the Company)	50%	36%	33%		7%	25%
Total Assets as of December 31, 2007	$ 4,056,718	$ 2,712,139	$ 272,311	$ 7,041,168	$ 3,431,774	$ 10,472,942
Year Ended December 31, 2006 [1]						
Net Interest Income	$ 231,162	$ 135,564	$ 21,864	$ 388,590	$ 14,023	$ 402,613
Provision for Credit Losses	10,491	1,965	(1)	12,455	(1,697)	10,758
Net Interest Income After Provision for Credit Losses	220,671	133,599	21,865	376,135	15,720	391,855
Noninterest Income	100,294	35,421	70,413	206,128	10,048	216,176
Noninterest Expense	(170,705)	(78,625)	(65,151)	(314,481)	(6,481)	(320,962)
Income Before Provision for Income Taxes	150,260	90,395	27,127	267,782	19,287	287,069
Provision for Income Taxes	(55,596)	(42,222)	(10,028)	(107,846)	1,136	(106,710)
Allocated Net Income	94,664	48,173	17,099	159,936	20,423	180,359
Allowance Funding Value	(792)	(2,496)	(34)	(3,322)	3,322	
Provision for Credit Losses	10,491	1,965	(1)	12,455	(1,697)	10,758
Economic Provision	(12,466)	(8,818)	(386)	(21,670)	(1)	(21,671)
Tax Effect of Adjustments	1,024	3,459	156	4,639	(601)	4,038
Income Before Capital Charge	92,921	42,283	16,834	152,038	21,446	173,484
Capital Charge	(21,744)	(16,264)	(6,291)	(44,299)	(32,307)	(76,606)
	$ 71,177	$ 26,019	$ 10,543	$ 107,739	$ (10,861)	$ 96,878

(dollars in thousands) Net Income (Loss) After Capital Charge (NIACC)	Retail Banking	Commercial Banking	Investment Services	Total	Treasury	Consolidated Total
RAROC (ROE for the Company)	47%	29%	29%		15%	26%
Total Assets as of December 31, 2006 [1]	$ 3,972,919	$ 2,795,509	$ 213,506	$ 6,981,934	$ 3,589,881	$ 10,571,815
Year Ended December 31, 2005 [1]						
Net Interest Income	$ 217,236	$ 137,323	$ 21,117	$ 375,676	$ 31,437	$ 407,113
Provision for Credit Losses	14,151	8,942	(1)	23,092	(18,504)	4,588
Net Interest Income After Provision for Credit Losses	203,085	128,381	21,118	352,584	49,941	402,525
Noninterest Income	94,684	37,078	68,231	199,993	9,321	209,314
Noninterest Expense	(170,232)	(78,258)	(70,582)	(319,072)	(8,570)	(327,642)
Income Before Provision for Income Taxes	127,537	87,201	18,767	233,505	50,692	284,197
Provision for Income Taxes	(47,188)	(32,307)	(6,944)	(86,439)	(16,197)	(102,636)
Allocated Net Income	80,349	54,894	11,823	147,066	34,495	181,561
Allowance Funding Value	(688)	(2,332)	(23)	(3,043)	3,043	
Provision for Credit Losses	14,151	8,942	(1)	23,092	(18,504)	4,588
Economic Provision	(13,547)	(9,757)	(412)	(23,716)	(4)	(23,720)
Tax Effect of Adjustments	31	1,165	161	1,357	5,722	7,079
Income Before Capital Charge	80,296	52,912	11,548	144,756	24,752	169,508
Capital Charge	(21,718)	(17,989)	(6,627)	(46,334)	(34,112)	(80,446)
Net Income (Loss) After Capital Charge (NIACC)	$ 58,578	$ 34,923	$ 4,921	$ 98,422	$ (9,360)	$ 89,062
RAROC (ROE for the Company)	41%	32%	19%		17%	25%
Total Assets as of December 31, 2005 [1]	$ 3,891,156	$ 2,443,235	$ 228,903	$ 6,563,294	$ 3,623,744	$ 10,187,038

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

Retail Banking

Retail Banking 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. Retail Banking also provides merchant services to its small business customers. Products and services from Retail Banking are delivered to customers through 71 Hawaii branch locations, 411 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center, and a mobile banking service. This segment also offers retail property and casualty insurance products.

Financial measures improved in 2007 from 2006 primarily due to higher net interest income and noninterest income. The $6.6 million increase in net interest income was primarily due to higher earnings credits on the segment's deposit portfolio, which was partially offset by lower average deposit balances. The $6.4 million increase in noninterest income was primarily due to higher fee income from transaction volume and growth in the number of transactional deposit accounts as well as higher interchange income from debit card transactions. These positive trends were partially offset by a $2.2 million increase in noninterest expense, primarily resulting from higher debit card and salaries expense. Retail Banking's economic provision and capital charge remained relatively unchanged in 2007.

Financial measures improved in 2006 from 2005 primarily due to an increase in net interest income and noninterest income. The $13.9 million increase in net interest income was primarily due to higher earnings credits on the segment's deposit portfolio, as well as growth in the segment's loan and deposit balances. The $5.6 million increase in noninterest income was primarily due to higher interchange income from debit card sales and transaction volume, and higher fee income from policy initiatives and the growth in the number of transactional deposit accounts. Noninterest expense and the capital charge remained relatively unchanged in 2006. Retail Banking's economic provision was $1.1 million lower in 2006, favorably impacting the segment's financial results.

Commercial Banking

Commercial Banking 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 domiciled in Hawaii. Commercial Banking also includes our operations at 12 branches in the Pacific Islands.

Financial measures improved in 2007 from 2006 primarily due to an increase in net interest income and noninterest income as well as a decrease in the provision for income taxes. These improvements were partially offset by an increase in noninterest expense. The $4.7 million increase in net interest income was primarily due to growth in the segment's loan and deposit balances as well as higher earnings credits on the segment's deposit portfolio. The $2.7 million increase in noninterest income was primarily due to higher fee income on wholesale property and casualty insurance products. Higher fee income from facilitating customer interest rate swaps, mutual fund fee income, and gains on the sale of leased assets also contributed to the growth in noninterest income. The $8.2 million decrease in the provision for income taxes was primarily due to the previously mentioned tax charge due to a change in tax legislation which occurred in 2006. The $4.7 million increase in noninterest expense was primarily due to higher salaries, other operating, and allocated expenses. Commercial Banking's economic provision and capital charge remained relatively unchanged in 2007.

Financial measures decreased in 2006 from 2005 primarily due to a decrease in net interest income and noninterest income as well as a higher provision for income taxes. The $1.8 million decrease in net interest income was primarily due to the funding charge associated with non-earning assets. The $1.7 million decrease in noninterest income was primarily due to higher gains on the sale of leased assets recognized in 2005. The $9.9 million increase in the provision for income taxes was primarily due to the previously mentioned tax charge due to a change in tax legislation which occurred in 2006. The segment's economic provision was $0.9 million lower in 2006, favorably impacting the segment's financial results. Reductions in operating risk and the further refinement of credit risk factors also resulted in a lower capital charge for the segment in 2006.

Investment Services

Investment Services includes private banking, trust services, asset management, and institutional investment advisory 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.

Financial measures improved in 2007 from 2006 primarily due to an increase in noninterest income, partially offset by an increase in noninterest expense. The $6.2 million increase in noninterest income was due in part to $2.7 million in fees from new accounts under management. Also contributing to higher noninterest income in 2007 from 2006 was an increase in fees from existing accounts as a result of an increase in the market value of assets under management. The $2.7 million increase in noninterest expense was primarily due to higher salaries and other operating expenses. Investment Services' economic provision and capital charge remained relatively unchanged in 2007.

Financial measures improved in 2006 from 2005 primarily due to an increase in noninterest income and a decrease in noninterest expense, partially offset by an increase in the provision for income taxes. The $2.2 million increase in noninterest income was primarily due to an increase in the average market value of assets under management and an increase in investment advisory fees on money market accounts. The $5.4 million decrease in noninterest expense was primarily due to charges for legal fees and other expenses which were incurred in 2005. The $3.1 million increase in the provision for income taxes was due to higher pretax income for the Investment Services segment in 2006. Investment Services' economic provision remained relatively unchanged in 2006. Reductions in operating risk and the further refinement of credit risk factors resulted in a lower capital charge for the segment in 2006.

Treasury

Treasury consists of corporate asset and liability management activities, including interest rate risk management and a 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- and long-term borrowings. The primary sources of noninterest income are from bank-owned life insurance and foreign exchange income related to customer driven currency requests from merchants and island visitors. The net residual effect of the transfer pricing of assets and liabilities is included in Treasury, along with eliminations of inter-company transactions.

Financial measures decreased in 2007 from 2006 primarily due to lower net interest income and an increase in noninterest expense, partially offset by an increase in noninterest income. The $19.5 million decrease in net interest income was primarily due to higher funding costs associated with our deposit portfolio and an increase in the average balance of deposits funded by Treasury. The $4.9 million increase in noninterest expense was primarily due to the previously mentioned $5.6 million charge, which represented our share of estimated legal costs, recognized as a member bank of Visa. The $9.0 million increase in noninterest income was primarily due to a $3.1 million gain on the sale of real estate, a $1.3 million increase in investment securities gains, and a $1.7 million increase in income from bank-owned life insurance. Treasury's financial results were also negatively impacted by a $3.5 million increase in the capital charge. This increase was due to higher excess equity as a result of a decrease in the unrealized loss position on our investment securities available-for-sale, net of tax, of $20.8 million.

Financial measures decreased in 2006 from 2005 primarily due to lower net interest income, partially offset by lower noninterest expense and capital charges. The $17.4 million decrease in net interest income was primarily due to higher funding costs associated with our deposit portfolio and increases in both rate and volume of short-term borrowings. The $2.1 million decrease in noninterest expense was primarily due to a reduction in share-based compensation expense. Also, Treasury's capital charge was favorably impacted by a reduction in our excess capital, a result of the Parent's ongoing share repurchase program.

Other organizational units (Technology, Operations, Marketing, Human Resources, Finance, Credit and Risk Management, and Corporate and Regulatory Administration) included in Treasury provide a wide-range of support to our other income earning segments. Expenses incurred by these support units are charged to the business segments through an internal cost allocation process.

Analysis of Statements of Condition

Investment Securities

Our investment securities portfolio is managed to provide liquidity and interest income. Our portfolio is also used to offset interest rate risk positions and to provide collateral for various banking activities. Investment securities, excluding trading securities, decreased by $113.5 million or 4% from December 31, 2006.

The investment securities portfolio was in a gross unrealized loss position of $22.1 million or 1% of total amortized cost as of December 31, 2007. We do not believe that the investment securities that were in an unrealized loss position as of December 31, 2007, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. We have both the intent and ability to hold the investment securities for the time necessary to recover the amortized cost. See Note 2 to the Consolidated Financial Statements for more information.

As of December 31, 2007, all of our mortgage-backed securities issued by private institutions were prime jumbo, AAA-rated, with an average original loan-to-value ratio of 65%, and originated between 2003 and 2005. Loans past due 90 days or more, underlying the mortgage-backed securities issued by private institutions, was 6 basis points or $0.2 million as of December 31, 2007. As of December 31, 2007, there were no sub-prime or Alt-A securities in our portfolio of mortgage-backed securities issued by private institutions.

Table 10 contains the contractual maturity distribution, fair value, and weighted-average yield to maturity of our investment securities.

Supplementary Data Contractual Maturity Distribution, Fair Value, and Weighted Average Yield to Maturity of Investment Securities **Table 10**

(dollars in millions)	1 Year or Less	Weighted Average Yield	After 1 Year-5 Years	Weighted Average Yield	After 5 Years-10 Years	Weighted Average Yield	Over 10 Years	Weighted Average Yield	Total	Weighted Average Yield	Fair Value
Contractual Maturity Distribution Based on Amortized Cost											
December 31, 2007											
Investment Securities Available-for-Sale [1]											
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 2.9	4.0%	$ 0.4	5.1%	$	%	$	%	$ 3.3	4.1%	$ 3.3
Debt Securities Issued by States and Political Subdivisions [2]	0.8	4.9	6.2	4.8	32.1	5.2	8.5	5.8	47.6	5.3	47.9
Debt Securities Issued by U.S. Government-Sponsored Enterprises	0.3	4.7	1.0	5.8	185.1	5.9	107.9	5.9	294.3	5.9	295.5
Mortgage-Backed Securities Issued by [3] U.S. Government-Sponsored Enterprises	0.9	6.0	5.9	5.8	60.2	4.6	1,611.8	5.4	1,678.8	5.4	1,684.5
Private Institutions							313.0	5.0	313.0	5.0	304.4
Total Mortgage-Backed Securities	0.9	6.0	5.9	5.8	60.2	4.6	1,924.8	5.4	1,991.8	5.4	1,988.9
Other Debt Securities	153.4	3.9	75.0	3.7					228.4	3.8	227.6
Total Investment Securities Available-for-Sale	158.3	3.9%	88.5	3.9%	277.4	5.5%	2,041.2	5.4%	2,565.4	5.3%	2,563.2
Investment Securities Held-to-Maturity											
Mortgage-Backed Securities Issued by U.S. Government-Sponsored Enterprises [3]					47.1	4.3	245.4	4.6	292.5	4.5	287.6
Total Investment Securities Held-to-Maturity		%		%	47.1	4.3%	245.4	4.6%	292.5	4.5%	287.6
Total Investment Securities											
December 31, 2007	$ 158.3		$ 88.5		$ 324.5		$ 2,286.6		$ 2,857.9		$ 2,850.8
December 31, 2006	$ 112.0		$ 300.0		$ 307.3		$ 2,292.9		$ 3,012.2		$ 2,958.6
December 31, 2005	$ 17.4		$ 416.2		$ 84.1		$ 2,517.4		$ 3,035.1		$ 2,981.2

1 Weighted-average yields on investment securities available-for-sale are based on amortized cost.

2 Weighted-average yields on obligations of states and political subdivisions are generally tax-exempt and are computed on a tax-equivalent basis using a federal statutory tax rate of 35%.

3 Contractual maturities do not anticipate reductions for periodic paydowns.

Loans and Leases

Loans and leases represent our largest category of interest earning assets and the largest source of revenue. Total loans and leases decreased by $42.3 million or 1% from $6.6 billion as of December 31, 2006.

The commercial loan and lease portfolio is comprised of commercial and industrial loans, commercial mortgages, construction loans, and lease financing. Commercial and industrial loans are made primarily to corporations, middle market, and small businesses. The purpose of these loans is for working capital needs, equipment, acquisitions, or other expansion projects.

Commercial mortgages and construction loans are offered to real estate investors, developers, and builders domiciled in Hawaii. Commercial mortgages are secured by real estate. The source of repayment for investor property is cash flow from the property and for owner-occupied property it is operating cash flow from the business. Construction loans are for the purchase or construction of a property for which repayment will be generated by the property.

Lease financing consists of direct financing leases and leveraged leases. Although our primary market is Hawaii, the commercial portfolio contains loans to some borrowers based on the continental United States ("Mainland") including some Shared National Credits.

Commercial loans and leases decreased by $83.6 million or 3% from $2.5 billion as of December 31, 2006. This decrease was primarily due to our decision to exit a total of $80.0 million in commercial credits, including $20.0 million in construction loans in 2007. We also 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 Statement of Financial Accounting Standards No. 13, *"Accounting for Leases."* Our adoption of FSP No. 13-2 had the effect of reducing commercial lease financing balances by $42.7 million on January 1, 2007.

The consumer loan and lease portfolio is comprised of residential mortgage loans, home equity loans, personal credit lines, direct installment loans, and indirect auto loans and leases. These products are offered generally in the markets we serve through our branch network. Consumer loans and leases increased by $41.3 million or 1% from $4.2 billion as of December 31, 2006. This increase was primarily in our residential mortgage and home equity loan categories, despite lower new loan origination activity in 2007 from 2006. Residential mortgage loan balances increased in 2007 primarily due to lower loan prepayment rates. Home equity loan balances increased in 2007 primarily due to product initiatives for customers to utilize their lines of credit as well as lower loan prepayment rates. The purchased home equity portfolio, which is comprised of Mainland borrowers, continued to run-off with no new purchases in 2007.

Table 11 presents the geographic distribution of our loan and lease portfolio based on the location of the borrower and Table 12 presents maturities and sensitivities of loans to changes in interest rates. See Note 3 to the Consolidated Financial Statements and the "Corporate Risk Profile Credit Risk" section of MD&A for more information.

Geographic Distribution of Loan and Lease Portfolio **Table 11**

	December 31, 2007					
(dollars in thousands)	**Hawaii**	**Mainland [1] U.S.**	**Guam**	**Other Pacific Islands**	**Foreign [2]**	**Total**
Commercial						
Commercial and Industrial	$ 701,241	$ 202,203	$ 75,239	$ 17,771	$ 57,901	$ 1,054,355
Commercial Mortgage	548,423	5,129	76,301	2,629	2,001	634,483
Construction	197,762	9,932	976			208,670
Lease Financing	55,697	395,419			30,766	481,882
Total Commercial	1,503,123	612,683	152,516	20,400	90,668	2,379,390
Consumer						
Residential Mortgage	2,269,670		230,017	8,574		2,508,261
Home Equity	929,031	24,667	15,671	3,626		972,995
Automobile	308,706	40,679	83,491	10,135		443,011
Other [3]	201,323		36,767	39,090	24	277,204
Total Consumer	3,708,730	65,346	365,946	61,425	24	4,201,471
Total Loans and Leases	$ 5,211,853	$ 678,029	$ 518,462	$ 81,825	$ 90,692	$ 6,580,861
Percentage of Total Loans and Leases	79%	11%	8%	1%	1%	100%

1 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.

2 Loans and leases classified as Foreign represents those which are recorded in our international business units.

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

Maturities and Sensitivities of Loans to Changes in Interest Rates [1] **Table 12**

	December 31, 2007			
(dollars in thousands)	Due in One Year or Less	Due After One to Five Years [2]	Due After Five Years [2]	Total
Commercial and Industrial	$ 541,540	$ 355,484	$ 157,331	$ 1,054,355
Construction	166,871	21,141	20,658	208,670
Total	$ 708,411	$ 376,625	$ 177,989	$ 1,263,025

1 Based on contractual maturities.

2 As of December 31, 2007, loans maturing after one year consisted of $363.1 million with variable rates and $191.5 million with fixed rates.

Other Assets

Other assets were $433.1 million as of December 31, 2007, a $59.2 million or 16% increase from December 31, 2006. This increase was primarily due to an additional $25.0 million purchase of bank-owned life insurance in 2007. Also contributing to the increase in other assets was the funding of new low income housing investments, net of current year amortization, of $14.5 million in 2007. See Note 6 to the Consolidated Financial Statements for more information.

Deposits

Total deposits were $7.9 billion as of December 31, 2007, an $81.0 million or 1% decrease from December 31, 2006. This decrease was primarily due to a $54.1 million decrease in commercial and public noninterest-bearing demand deposits and a $59.8 million decrease in consumer and commercial savings deposits. These decreases were partially offset by an increase in time deposits of $45.2 million in 2007 as some customers shifted their deposits into higher yielding time deposit accounts. Customers also moved their deposits into higher yielding off-balance sheet managed cash accounts in 2007.

Average time deposits of $100,000 or more was $976.7 million in 2007 and $808.2 million in 2006. See Note 7 to the Consolidated Financial Statements for more information.

Table 13 presents the components of our savings deposits as of December 31, 2007 and 2006.

Savings Deposits **Table 13**

(dollars in thousands)		**2007**		**2006**
Money Market	$	1,061,808	$	1,138,089
Regular Savings		1,568,663		1,552,757
Total Savings Deposits	$	2,630,471	$	2,690,846

Borrowings

Borrowings consisted of funds purchased and short-term borrowings, including commercial paper. Borrowings were $85.8 million as of December 31, 2007, a $14.6 million or 21% increase from December 31, 2006. This increase was primarily due to a $15.3 million or 25% increase in funds purchased which offset the $18.5 million or 2% reduction in securities sold under agreements to repurchase. See Note 8 to the Consolidated Financial Statements for more information.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase were $1.0 billion as of December 31, 2007, an $18.5 million or 2% decrease from December 31, 2006. This decrease was primarily due to the termination of $100.0 million in agreements, partially offset by an increase of $81.5 million in agreements during 2007. See Note 8 to the Consolidated Financial Statements for more information.

Long-Term Debt

Long-term debt was $235.4 million as of December 31, 2007, a $24.9 million or 10% decrease from December 31, 2006. This decrease was primarily due to the maturity of $25.0 million in Federal Home Loan Bank of Seattle advances in 2007. See Note 9 to the Consolidated Financial Statements for more information.

Foreign Activities

In 2007 and 2006, we held U.S. dollar denominated placements and investment securities issued by foreign entities, as a means of generating foreign source income. We used foreign tax credits available to reduce the tax on this income.

Table 14 presents, as of December 31, 2007, 2006, and 2005, a geographic distribution of international assets for which we have cross-border exposure exceeding 0.75% of total assets. Cross-border exposures, which reflect country of risk outside the U.S., are reported by the country of the guarantor.

Geographic Distribution of Cross-Border International Assets [1] **Table 14**

(dollars in thousands)	Banks and Other Financial Institutions	Commercial and Consumer	Total
December 31, 2007:			
Netherlands			
Investment Securities	$ 25,151	$	$ 25,151
Loans and Leases		12,150	12,150
Total Netherlands	25,151	12,150	37,301
Australia			
Investment Securities	45,584		45,584
Deposits	669		669
Loans and Leases		8,972	8,972
Total Australia	46,253	8,972	55,225
All Others [2]			
Investment Securities	149,824		149,824
Deposits	2,853		2,853
Loans and Leases		69,552	69,552
Total All Others	152,677	69,552	222,229
Total	$ 224,081	$ 90,674	$ 314,755
December 31, 2006:			
Netherlands	$ 100,316	$ 11,723	$ 112,039
Australia	76,635	7,923	84,558
All Others	149,568	79,619	229,187
Total	$ 326,519	$ 99,265	$ 425,784
December 31, 2005:			
Netherlands	$ 100,719	$ 12,729	$ 113,448
Australia	74,614	10,258	84,872
All Others	148,858	71,955	220,813
Total	$ 324,191	$ 94,942	$ 419,133

1 This table details cross-border outstandings by country that individually amounted to 0.75% or more of consolidated total assets. Cross-border outstandings are defined as foreign monetary assets that are payable to the Company in U.S. dollars or other non-local currencies, plus amounts payable in local currency but funded with U.S. dollars or other non-local currencies. Cross-border outstandings include loans, acceptances, interest-bearing deposits with other banks, other interest-bearing investments, and other monetary assets.

2 As of December 31, 2007, significant items comprising the "All Others" category included cross-border outstandings of $62.6 million in the United Kingdom, $50.3 million in Sweden, and $50.1 million in Switzerland.

Cross-border assets were $314.8 million as of December 31, 2007, a $111.0 million or 26% decrease from December 31, 2006. Lower levels of cross-border assets from banks and other financial institutions were the result of a $75.2 million decrease in investment securities in the Netherlands and a $29.3 million decrease in investment securities in Australia. Both decreases were due to the maturity of foreign bonds. Our overall exposure to cross-border assets with commercial and consumer customers also decreased modestly in 2007.

33

Corporate Risk Profile

Credit Risk

Credit Risk is defined as the risk that borrowers or counter-parties will not be able to repay their obligations to us. Credit exposures reflect legally binding commitments for loans, leases, banker's acceptances, standby and commercial letters of credit, and overnight deposit account overdrafts.

We manage and control risk in the loan and lease portfolio by adhering to well-defined underwriting criteria and account administration standards established by management. Written credit policies document underwriting standards, approval levels, exposure limits, and other limits or standards deemed necessary and prudent. Portfolio diversification at the obligor, industry, product, and/or geographic location levels is actively managed to mitigate concentration risk. In addition, credit risk management also includes an independent credit review process that assesses compliance with commercial and consumer credit policies, risk ratings, and other critical credit information. Our credit risk profile reflects a stable economy in Hawaii and Guam as well as disciplined commercial and retail underwriting and portfolio management.

Included in our commercial portfolio are 10 leveraged leases on aircraft that were originated in the 1990's or prior. Outstanding credit exposure related to these leases was $88.0 million as of December 31, 2007. These leases, and especially those paid by domestic air carriers, continue to demonstrate a higher risk profile due to fuel costs, pension plan obligations, and marginal pricing power. We continue to consider these factors in our evaluation of the reserve for credit losses. Table 15 below summarizes our air transportation credit exposure as of December 31, 2007 and 2006.

Air Transportation Credit Exposure [1] **Table 15**

	December 31, 2007			Dec. 31, 2006
(dollars in thousands)	Outstanding	Unused Commitments	Total Exposure	Total Exposure
Passenger Carriers Based In the United States	$ 64,947	$	$ 64,947	$ 68,035
Passenger Carriers Based Outside the United States	19,078		19,078	19,406
Cargo Carriers	13,390		13,390	13,240
Total Air Transportation Credit Exposure	$ 97,415	$	$ 97,415	$ 100,681

1 Exposure includes loans, leveraged leases, and operating leases.

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

Table 16 presents a five-year history of non-performing assets and accruing loans and leases past due 90 days or more.

Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More **Table 16**

	December 31,				
(dollars in thousands)	2007	2006 [1]	2005 [1]	2004 [1]	2003 [1]
Non-Performing Assets					
Non-Accrual Loans and Leases					
Commercial					
Commercial and Industrial	$ 598	$ 769	$ 212	$ 683	$ 6,015
Commercial Mortgage	112	40	58	2,106	9,337
Lease Financing	297	31		2,973	2,181
Total Commercial	1,007	840	270	5,762	17,533
Consumer					
Residential Mortgage	2,681	4,914	5,439	7,688	9,354
Home Equity	1,414	164	111	218	460
Total Consumer	4,095	5,078	5,550	7,906	9,814
Total Non-Accrual Loans and Leases	5,102	5,918	5,820	13,668	27,347
Foreclosed Real Estate	184	407	358	191	4,377
Other Investments		82	300		
Total Non-Performing Assets	$ 5,286	$ 6,407	$ 6,478	$ 13,859	$ 31,724
Accruing Loans and Leases Past Due 90 Days or More					
Commercial					
Commercial and Industrial	$	$	$	$ 52	$ 725
Lease Financing					117
Total Commercial				52	842
Consumer					
Residential Mortgage	4,884	519	1,132	387	1,430
Home Equity	413	331	185	183	
Automobile	1,174	1,001	705	428	367
Other [2]	1,112	963	828	1,035	843
Total Consumer	7,583	2,814	2,850	2,033	2,640
Total Accruing Loans and Leases Past Due 90 Days or More	$ 7,583	$ 2,814	$ 2,850	$ 2,085	$ 3,482
Total Loans and Leases	$ 6,580,861	$ 6,623,167	$ 6,168,536	$ 5,986,930	$ 5,757,175
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.08%	0.09%	0.09%	0.23%	0.48%

	December 31,				
Ratio of Non-Performing Assets to Total Loans and Leases, Foreclosed Real Estate, and Other Investments	0.08%	0.10%	0.11%	0.23%	0.55%
Ratio of Commercial Non-Performing Assets To Total Commercial Loans and Leases and Other Investments	0.04%	0.04%	0.03%	0.27%	0.86%
Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases and Foreclosed Real Estate	0.10%	0.13%	0.15%	0.21%	0.38%
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases	0.20%	0.14%	0.15%	0.27%	0.61%

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

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

Non-performing assets ("NPAs") consist of non-accrual loans and leases, foreclosed real estate, and other non-performing investments. Our NPAs were $5.3 million as of December 31, 2007, a $1.1 million or 17% decrease from December 31, 2006. The $1.3 million increase in NPAs from December 31, 2007 to 2006 in our home equity portfolio was due to nine loans with a weighted average loan-to-value ratio of 61%. We do not expect to incur losses on these loans.

The following table presents the activity in NPAs for 2007:

Non-Performing Assets (dollars in thousands) **Table 17**

Balance at Beginning of Year	$	6,407
Additions		6,355
Reductions:		
Payments		(3,951)
Return to Accrual Status		(1,909)
Sales of Foreclosed Real Estate		(591)
Charge-offs / Write-downs		(1,025)
Total Reductions		(7,476)
Balance at End of Year	$	5,286

Included in NPAs are loans and leases that are considered impaired. Impaired loans and leases are defined as those which we believe it is probable we will not collect all amounts due according to the contractual terms of the loan or lease agreement. Impaired loans and leases as of December 31, 2007 was $0.1 million as compared to $0.4 million as of December 31, 2006. The decrease in impaired loans and leases was due to the charge-off of a $0.4 million commercial and industrial loan during 2007.

Accruing loans and leases past due 90 days or more were $7.6 million as of December 31, 2007, an increase of $4.8 million from December 31, 2006. This increase was primarily due to an increase in delinquencies in residential mortgage loans. The increase in residential mortgage loan delinquencies was due to 11 loans, the majority of which have loan-to-value ratios of 60% or less. We do not expect to incur losses on these loans. There were no commercial loans or leases past due 90 days or more as of December 31, 2007. Due to the low volume of NPAs and accruing loans and leases past due 90 days or more, management anticipates some degree of variability in the balances in these categories from period to period and does not consider modest changes to be indicative of significant asset quality trends.

Our credit risk position remained strong and stable during 2007 with low levels of internally criticized loans and leases and non-performing assets. The ratio of non-accrual loans and leases to total loans and leases was 0.08% as of December 31, 2007 and 0.09% as of December 31, 2006.

Table 18 presents a five-year history of foregone interest income on non-accrual loans and leases.

Foregone Interest Income on Non-Accrual Loans and Leases **Table 18**

	Year Ended December 31,				
(dollars in thousands)	**2007**	**2006**	**2005**	**2004**	**2003**
Interest Income That Would Have Been Recorded Under Original Terms:					
Domestic	$ 526	$ 774	$ 911	$ 2,123	$ 2,829
Interest Income Recorded During the Year: [1]					
Domestic	1,189	902	763	532	1,336
Foreign	73	11			

[1] Interest income recorded during the year included recoveries of interest income previously reversed.

Allowance for Loan and Lease Losses

Allowance allocations by loan and lease category are presented in Table 19.

Allocation of Allowance for Loan and Lease Losses **Table 19**

(dollars in thousands)	2007	2006 [1]	2005 [1]	2004 [1]	2003 [1]
Commercial					
Commercial and Industrial	$ 21,566	$ 21,623	$ 19,551	$ 23,063	$ 44,434
Commercial Mortgage	6,867	6,540	6,437	9,570	21,354
Construction	1,600	1,570	1,719	1,449	3,072
Lease Financing	33,428	33,068	33,927	43,311	32,116
Total Commercial	63,461	62,801	61,634	77,393	100,976
Consumer					
Residential Mortgage	4,293	4,449	5,406	5,754	6,444
Home Equity	3,064	3,295	3,677	2,631	2,436
Automobile	11,315	7,839	6,373	4,818	5,247
Other [2]	8,865	12,614	14,000	16,200	13,977
Total Consumer	27,537	28,197	29,456	29,403	28,104
Total Allocation of Allowance for Loan and Lease Losses	$ 90,998	$ 90,998	$ 91,090	$ 106,796	$ 129,080

	2007		2006 [1]		2005 [1]		2004 [1]		2003 [1]	
	Alloc. Allow. as % of loan category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan category	Loan category as % of total loans and leases
Commercial										
Commercial and Industrial	2.05%	16.02%	1.98%	16.51%	2.13%	14.90%	2.50%	15.43%	5.23%	14.76%
Commercial Mortgage	1.08	9.64	1.07	9.23	1.15	9.05	1.59	10.07	3.34	11.10
Construction	0.77	3.17	0.63	3.76	1.12	2.49	1.36	1.77	3.48	1.53
Lease Financing	6.94	7.33	6.50	7.69	7.22	7.62	9.04	8.00	6.87	8.12
Total Commercial	2.67	36.16	2.55	37.19	2.93	34.06	3.66	35.27	4.94	35.51
Consumer										
Residential Mortgage	0.17	38.11	0.18	37.64	0.22	39.19	0.25	38.73	0.28	40.47
Home Equity	0.31	14.79	0.35	14.27	0.41	14.40	0.33	13.16	0.35	11.93
Automobile	2.55	6.73	1.83	6.48	1.47	7.02	1.19	6.76	1.51	6.03
Other [2]	3.20	4.21	4.30	4.42	4.26	5.33	4.45	6.08	4.01	6.06
Total Consumer	0.66	63.84	0.68	62.81	0.72	65.94	0.76	64.73	0.76	64.49
Total	1.38%	100.00%	1.37%	100.00%	1.48%	100.00%	1.78%	100.00%	2.24%	100.00%

	2007	2006 [1]	2005 [1]	2004 [1]	2003 [1]

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

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

The components of the Allowance, including the allocation between commercial and consumer categories, have also remained relatively unchanged as of December 31, 2007 from December 31, 2006. Based on our ongoing assessment of the credit quality of the loan and lease portfolio and the economic environment, we recorded a Provision of $15.5 million for 2007, an increase of $4.7 million from 2006.

The ratio of the Allowance to total loans and leases outstanding was 1.38% as of December 31, 2007, a slight increase from 1.37% as of December 31, 2006. The relatively unchanged ratio was indicative of stable economic conditions, and conservative underwriting and portfolio management standards. See Note 3 to the Consolidated Financial Statements for more information on the Allowance.

Net loans and leases charged-off in 2007 was $15.5 million or 0.24% of total average loans and leases, an increase from $10.8 million or 0.17% of total average loans and leases in 2006. The increase in net loans and leases charged-off was primarily due to a $3.1 million increase in consumer net charge-offs. The increase in consumer net charge-offs in 2007 was primarily due to $1.6 million in higher net charge-offs related to automobile loans and $0.9 million in higher net charge-offs related to overdraft losses. Prior to 2007, overdraft losses were not charged-off against the Allowance and were expensed as losses were incurred.

Although we determine the amount of each component of the Allowance separately, the Allowance as a whole was considered appropriate by management as of December 31, 2007, based on our ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios, and other relevant factors.

Reserve for Unfunded Commitments

The Unfunded Reserve was $5.2 million as of December 31, 2007, unchanged from December 31, 2006. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance as adjusted for estimated funding probabilities or loan and lease equivalency factors. See Note 3 to the Consolidated Financial Statements for more information on the Unfunded Reserve.

Market Risk

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

Our trading activities include foreign currency and foreign exchange contracts that expose us to a small degree of foreign currency risk. These transactions are primarily executed on behalf of customers. Our other than trading activities include normal business transactions that expose our balance sheet profile to varying degrees of market risk.

Our primary market risk exposure is interest rate risk.

Interest Rate Risk

The objective of our interest rate risk management process is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

The potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits and extending loans. Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and repricing characteristics of financial instruments.

Our earnings are affected not only by general economic conditions, but also by the monetary and fiscal policies of the U.S. and its agencies, particularly the FRB. The monetary policies of the FRB influence, to a significant extent, the overall growth of loans, investment securities, and deposits and the level of interest rates earned on assets and paid for liabilities. The nature and impact of future changes in monetary policies are generally not predictable.

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

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

The use of derivative financial instruments, as detailed in Note 16 to the Consolidated Financial Statements, has generally been limited. This is due to natural on-balance sheet hedges arising out of offsetting interest rate exposures from loans, investment securities with deposits, and other interest-bearing liabilities. In particular, the investment securities portfolio is utilized to manage the interest rate exposure and sensitivity to within the guidelines and limits established by ALCO. Natural and offsetting hedges reduce the need to employ off-balance sheet derivative financial instruments to hedge interest rate risk exposures. Expected movements in interest rates are also considered in managing interest rate risk. Thus, as interest rates change, we may use different techniques to manage interest rate risk.

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

We utilize net interest income simulations to analyze short-term income sensitivities to changes in interest rates. Table 20 presents, for the next twelve months subsequent to December 31, 2007, 2006, and 2005, an estimate of the change in net interest income that would result from a gradual change in interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. The base case scenario assumes the balance sheet and interest rates are generally unchanged. Based on the net interest income simulation as of December 31, 2007, our Consolidated Statement of Condition is approximately neutral to parallel changes in interest rates. Net interest income sensitivity to changes in interest rates as of December 31, 2007 was less sensitive to changes in interest rates as compared to the sensitivity profile as of December 31, 2006 and 2005. To analyze the impact of changes in interest rates in a more realistic manner, non-parallel interest rate scenarios are also simulated. These non-parallel interest rate scenarios indicate that net interest income may decrease from the base case scenario should the yield curve flatten or become inverted for a period of time. Conversely, if the yield curve should steepen further from its mostly "normal" profile, net interest income may increase.

Net Interest Income Sensitivity Profile **Table 20**

	Change in Net Interest Income December 31,					
(dollars in thousands)	**2007**		**2006**		**2005**	
Change in Interest Rates (basis points)						
+200	$ (1,067)	(0.3)%	$ 1,208	0.3%	$ 4,885	1.2%
+100			403	0.1	2,850	0.7
-100	(2,133)	(0.5)	(2,818)	(0.7)	(5,292)	(1.3)
-200	(4,859)	(1.2)	(8,455)	(2.1)	(12,213)	(3.0)

We also use Market Value of Portfolio Equity ("MVPE") sensitivity to estimate the net present value change in our net assets (i.e., assets, liabilities, and off-balance sheet instruments) from changes in interest rates. The MVPE was approximately $1.8 billion as of December 31, 2007 and 2006, and approximately $2.0 billion as of December 31, 2005. Table 21 presents, as of December 31, 2007, 2006, and 2005, an estimate of the change in the MVPE that would occur from an instantaneous 100 and 200 basis point increase or decrease in interest rates, moving in a parallel fashion over the entire yield curve. The MVPE sensitivity increased as of December 31, 2007 compared to December 31, 2006 as a result of the relative shift in the funding source for asset growth and the flat or inverted yield curve during 2007.

Further enhancing the MVPE sensitivity analysis are:

- value-at-risk;
- key rate analysis;
- duration of equity; and

exposure to basis risk and non-parallel yield curve shifts.

There are inherent limitations to these measures; however, used along with the MVPE sensitivity analysis, we obtain better overall insight for managing our exposures to changes in interest rates. Based on the additional analyses, we estimate that our greatest exposure is in scenarios where medium term rates rise on a relative basis more than short-term and long-term rates.

Market Value of Equity Sensitivity Profile **Table 21**

	Change in Market Value of Equity December 31,					
(dollars in thousands)	**2007**		**2006**		**2005**	
Change in Interest Rates (basis points)						
+200	$ (169,360)	(9.5)%	$ (146,417)	(7.8)%	$ (91,116)	(4.6)%
+100	(70,790)	(4.0)	(63,783)	(3.4)	(33,277)	(1.7)
-100	(6,949)	(0.4)	(4,480)	(0.2)	(37,497)	(1.9)
-200	(108,252)	(6.1)	(109,238)	(5.8)	(179,092)	(9.0)

Liquidity Management

Liquidity is managed in an effort to ensure that we have continuous access to sufficient, reasonably priced funds. Funding requirements are impacted by loan originations and refinancings, liability issuances and settlements, and off-balance sheet funding commitments. We consider and comply with various regulatory guidelines regarding required liquidity levels and periodically monitor our liquidity position in light of the changing economic environment and customer activity. Based on periodic liquidity assessments, we may alter our asset, liability, and off-balance sheet positions. The ALCO monitors sources and uses of funds and modifies asset and liability positions as liquidity requirements change. This process, combined with our ability to raise funds in money and capital markets and through private placements, provides flexibility in managing the exposure to liquidity risk.

In an effort to ensure that our liquidity needs are met, we actively manage our assets and liabilities. The potential sources of short-term liquidity include interest-bearing deposits as well as the ability to sell certain assets including investment securities available-for-sale. Assets generate long-term liquidity through cash flows from investment securities and loans. With respect to liabilities, short-term liquidity is generated from securities sold under agreements to repurchase and other short-term funding sources such as federal funds while long-term liquidity is generated through growth in deposits and long-term debt.

Capital Management

The Parent and the Bank are subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can cause certain mandatory and discretionary actions by regulators that, if undertaken, could have a material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Parent and the Bank must meet specific capital guidelines that involve quantitative and qualitative measures. These measures were established by regulation to ensure capital adequacy. As of December 31, 2007 and 2006, the Parent and the Bank were "well capitalized" under this regulatory framework. There have been no conditions or events since December 31, 2007 that management believes have changed either the Parent's or the Bank's capital classifications. See Note 10 to the Consolidated Financial Statements for more information.

As of December 31, 2007, we had subordinated debt of $124.9 million, of which $25.0 million qualified as Total Capital for regulatory capital purposes. Also, as of December 31, 2007, we had $26.4 million in Capital Securities outstanding, all of which qualified as Tier 1 Capital for regulatory capital purposes. However, the Capital Securities were classified as long-term debt in the Consolidated Statements of Condition.

As of December 31, 2007, our shareholders' equity was $750.3 million, an increase of $30.8 million or

4% from December 31, 2006. The increase in shareholders' equity resulted primarily from current year earnings, which was partially offset by $99.7 million in common stock repurchases, $82.4 million in cash dividends paid, and $34.5 million in reductions to retained earnings as a result of our adoption of several new accounting pronouncements on January 1, 2007. The increase in our shareholders' equity was also due to a decrease in the unrealized loss position on our investment securities available-for-sale, net of tax, of $20.8 million, which was attributable to a lower interest rate environment as of December 31, 2007 compared to December 31, 2006. We also recorded gains related to defined benefit plans, net of tax, of $7.0 million.

Our strategy is to maintain a capital leverage ratio of 7.0%. We achieve this by returning the majority of the annual capital generated to shareholders' either through dividend payments or share repurchases.

On October 19, 2007, the Parent's Board of Directors increased the authorization under the share repurchase program by an additional $100.0 million. This new authorization, combined with the previously announced authorization of $1.55 billion, brings the total share repurchase authority to $1.65 billion. From the beginning of the share repurchase program in July 2001 through December 31, 2007, the Parent had repurchased a total of 44.3 million shares and returned a total of $1.6 billion to its shareholders at an average cost of $35.08 per share. From January 1, 2008 through February 20, 2008, the Parent repurchased an additional 0.4 million shares at an average cost of $47.79 per share for a total of $18.3 million. Remaining buyback authority was $76.1 million as of February 20, 2008.

Table 22 presents a five-year history of activities and balances in the Company's capital accounts, along with key capital ratios.

Shareholders' Equity and Regulatory Capital **Table 22**

	December 31,				
(dollars in thousands)	**2007**	**2006**	**2005**	**2004**	**2003**
Change in Shareholders' Equity					
Net Income	$ 183,703	$ 180,359	$ 181,561	$ 173,339	$ 135,195
Cash Dividends Paid	(82,371)	(76,747)	(70,833)	(66,326)	(50,589)
Dividend Reinvestment Program	5,128	5,020	4,766	4,416	3,292
Common Stock Repurchased	(99,656)	(129,727)	(247,376)	(238,077)	(329,978)
Other [1]	24,031	47,163	10,400	148,350	19,453
Increase (Decrease) in Shareholders' Equity	$ 30,835	$ 26,068	$ (121,482)	$ 21,702	$ (222,627)
Regulatory Capital					
Shareholders' Equity	$ 750,255	$ 719,420	$ 693,352	$ 814,834	$ 793,132
Add: Capital Securities of Bancorp Hawaii Capital Trust I	26,425	26,425	31,425	31,425	31,425
Less: Goodwill	34,959	34,959	34,959	36,216	36,216
Postretirement Benefit Liability Adjustments [2]	8,647	6,958			
Unrealized Valuation and Other Adjustments	(1,388)	(27,491)	(27,295)	5,252	10,771
Tier 1 Capital	734,462	731,419	717,113	804,791	777,570
Allowable Reserve for Credit Losses	88,716	91,585	86,617	83,292	78,147
Subordinated Debt	24,982	49,942	74,883	99,808	124,709
Unrealized Gains on Investment Securities Available-for-Sale	59	17		31	66
Total Regulatory Capital	$ 848,219	$ 872,963	$ 878,613	$ 987,922	$ 980,492
Risk-Weighted Assets	$ 7,089,846	$ 7,322,255	$ 6,919,822	$ 6,633,082	$ 6,200,831
Key Regulatory Capital Ratios					
Tier 1 Capital Ratio	10.36%	9.99%	10.36%	12.13%	12.54%
Total Capital Ratio	11.96	11.92	12.70	14.89	15.81
Leverage Ratio	7.04	7.06	7.14	8.29	8.43

1 Includes unrealized gains and losses on investment securities available-for-sale, foreign currency translation, minimum pension liability adjustment, common stock issuances under share-based compensation, and related tax benefits.

2 Amount presented as of December 31, 2006 represents the adjustment to initially apply the provisions of SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)."*

Off-Balance Sheet Arrangements, Credit Commitments, and Contractual Obligations

Off-Balance Sheet Arrangements

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships. Such entities are often referred to as variable-interest entities. We routinely sell residential mortgage loans to investors, with servicing rights retained. Sales of residential mortgage loans are generally made on a non-recourse basis.

Credit Commitments and Contractual Obligations

Our credit commitments and contractual obligations as of December 31, 2007 were as follows:

Credit Commitments and Contractual Obligations [1] **Table 23**

(dollars in thousands)	Less Than One Year	1-3 Years	4-5 Years	After 5 Years	Total
Credit Commitments					
Unfunded Commitments to Extend Credit	$ 661,988	$ 271,297	$ 397,550	$ 1,262,739	$ 2,593,574
Standby Letters of Credit	91,499	3,270			94,769
Commercial Letters of Credit	27,905				27,905
Total Credit Commitments					