BANK OF HAWAII CORP
Form 10-Q
April 23, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2008

or

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

Commission File Number: 1-6887

BANK OF HAWAII CORPORATION

(Exact name of registrant as specified in its charter)

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

1-888-643-3888

(Registrant s telephone number, including area code)

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

Yes x No o

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

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

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

Yes o No x

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

As of April 18, 2008, there were 47,931,531 shares of common stock outstanding.

Bank of Hawaii Corporation

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Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

(dollars in thousands, except per share amounts)	Three Months Ended March 31, 2008	2007
Interest Income		
Interest and Fees on Loans and Leases	$ 104,413	$ 110,298
Income on Investment Securities		
Trading	1,160	1,618
Available-for-Sale	34,251	30,961
Held-to-Maturity	3,239	4,052
Deposits	195	58
Funds Sold	992	1,058
Other	426	333
Total Interest Income	144,676	148,378
Interest Expense		
Deposits	27,465	33,375
Securities Sold Under Agreements to Repurchase	10,617	11,886
Funds Purchased	633	923
Short-Term Borrowings	34	87
Long-Term Debt	3,747	3,970
Total Interest Expense	42,496	50,241
Net Interest Income	102,180	98,137
Provision for Credit Losses	14,427	2,631
Net Interest Income After Provision for Credit Losses	87,753	95,506
Noninterest Income		
Trust and Asset Management	15,086	15,833
Mortgage Banking	4,297	3,371
Service Charges on Deposit Accounts	12,083	10,967
Fees, Exchange, and Other Service Charges	16,101	16,061
Investment Securities Gains, Net	130	16
Insurance	7,130	6,215
Other	31,298	8,497
Total Noninterest Income	86,125	60,960
Noninterest Expense		
Salaries and Benefits	55,473	45,406
Net Occupancy	10,443	9,811
Net Equipment	4,321	4,787
Professional Fees	2,613	2,543
Other	20,582	19,576
Total Noninterest Expense	93,432	82,123
Income Before Provision for Income Taxes	80,446	74,343
Provision for Income Taxes	23,231	27,008
Net Income	$ 57,215	$ 47,335
Basic Earnings Per Share	$ 1.19	$ 0.96
Diluted Earnings Per Share	$ 1.18	$ 0.94
Dividends Declared Per Share	$ 0.44	$ 0.41
Basic Weighted Average Shares	47,965,722	49,427,933
Diluted Weighted Average Shares	48,628,427	50,263,419

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

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Condition (Unaudited)

(dollars in thousands)		March 31, 2008		December 31, 2007		March 31, 2007
Assets						
Interest-Bearing Deposits	$	55,916	$	4,870	$	5,594
Funds Sold		240,000		15,000		97,000
Investment Securities						
Trading		99,966		67,286		158,469
Available-for-Sale		2,672,286		2,563,190		2,438,532
Held-to-Maturity (Fair Value of $277,536; $287,644; and $340,636)		277,256		292,577		349,663
Loans Held for Sale		13,096		12,341		19,238
Loans and Leases		6,579,337		6,580,861		6,507,152
Allowance for Loan and Lease Losses		(99,998)		(90,998)		(90,998)
Net Loans and Leases		6,479,339		6,489,863		6,416,154
Total Earning Assets		9,837,859		9,445,127		9,484,650
Cash and Noninterest-Bearing Deposits		314,863		368,402		365,517
Premises and Equipment		116,683		117,177		123,309
Customers Acceptances		992		1,112		839
Accrued Interest Receivable		46,316		45,261		49,477
Foreclosed Real Estate		294		184		462
Mortgage Servicing Rights		27,149		27,588		27,005
Goodwill		34,959		34,959		34,959
Other Assets		443,686		433,132		405,739
Total Assets	$	10,822,801	$	10,472,942	$	10,491,957
Liabilities						
Deposits						
Noninterest-Bearing Demand	$	2,000,226	$	1,935,639	$	1,973,631
Interest-Bearing Demand		1,649,705		1,634,675		1,618,615
Savings		2,728,873		2,630,471		2,648,495
Time		1,724,051		1,741,587		1,712,196
Total Deposits		8,102,855		7,942,372		7,952,937
Funds Purchased		23,800		75,400		72,400
Short-Term Borrowings		9,726		10,427		3,462
Securities Sold Under Agreements to Repurchase		1,231,962		1,029,340		1,050,393
Long-Term Debt (includes $128,932 carried at fair value as of March 31, 2008)		239,389		235,371		260,308
Banker s Acceptances		992		1,112		839
Retirement Benefits Payable		29,755		29,984		48,363
Accrued Interest Payable		18,322		20,476		17,893
Taxes Payable and Deferred Taxes		300,188		278,218		293,326
Other Liabilities		99,065		99,987		81,005
Total Liabilities		10,056,054		9,722,687		9,780,926
Shareholders Equity						
Common Stock ($.01 par value; authorized 500,000,000 shares; issued / outstanding: March 2008 - 56,995,352 / 47,990,432; December 2007 - 56,995,447 / 48,589,645; and March 2007 - 56,930,753 / 49,638,731)		568		567		566
Capital Surplus		487,139		484,790		478,123
Accumulated Other Comprehensive Income (Loss)		5,553		(5,091)		(27,356)
Retained Earnings		720,540		688,638		620,034
Treasury Stock, at Cost (Shares: March 2008 - 9,004,920; December 2007 - 8,405,802; and March 2007 - 7,292,022)		(447,053)		(418,649)		(360,336)
Total Shareholders Equity		766,747		750,255		711,031
Total Liabilities and Shareholders Equity	$	10,822,801	$	10,472,942	$	10,491,957

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

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Shareholders Equity (Unaudited)

(dollars in thousands)	Total	Common Stock	Capital Surplus	Accum. Other Compre-hensive Income (Loss)	Retained Earnings	Treasury Stock	Compre-hensive Income
Balance as of December 31, 2007	$ 750,255	$ 567	$ 484,790	$ (5,091)	$ 688,638	$ (418,649)	
Cumulative-Effect Adjustment of a Change in Accounting Principle, Net of Tax:							
SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*	(2,736)				(2,736)		
Comprehensive Income:							
Net Income	57,215				57,215		$ 57,215
Other Comprehensive Income, Net of Tax:							
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale	10,595			10,595			10,595
Amortization of Net Loss for Pension and Postretirement Plans	49			49			49
Total Comprehensive Income							$ 67,859
Share-Based Compensation	1,751		1,751				
Net Tax Benefits related to Share-Based Compensation	583		583				
Common Stock Issued under Purchase and Equity Compensation Plans (95,360 shares)	3,182	1	15		(1,378)	4,544	
Common Stock Repurchased (686,313 shares)	(32,948)					(32,948)	
Cash Dividends Paid	(21,199)				(21,199)		
Balance as of March 31, 2008	$ 766,747	$ 568	$ 487,139	$ 5,553	$ 720,540	$ (447,053)	
Balance as of December 31, 2006	$ 719,420	$ 566	$ 475,178	$ (39,084)	$ 630,660	$ (347,900)	
Cumulative-Effect Adjustment of a Change in Accounting Principle, Net of Tax:							
SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140*	5,126			5,279	(153)		
FSP No. 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*	(27,106)				(27,106)		
FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*	(7,247)				(7,247)		
Comprehensive Income:							
Net Income	47,335				47,335		$ 47,335
Other Comprehensive Income, Net of Tax:							
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale	6,241			6,241			6,241
Amortization of Net Loss for Pension and Postretirement Plans	208			208			208
Total Comprehensive Income							$ 53,784
Share-Based Compensation	1,317		1,317				
Net Tax Benefits related to Share-Based Compensation	1,491		1,491				
Common Stock Issued under Purchase and Equity Compensation Plans (255,918 shares)	5,352		137		(3,044)	8,259	
Common Stock Repurchased (394,247 shares)	(20,695)					(20,695)	
Cash Dividends Paid	(20,411)				(20,411)		
Balance as of March 31, 2007	$ 711,031	$ 566	$ 478,123	$ (27,356)	$ 620,034	$ (360,336)	

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

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	**2008**	**2007**
Operating Activities		
Net Income	$ 57,215	$ 47,335
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	14,427	2,631
Depreciation and Amortization	3,504	3,695
Amortization of Deferred Loan and Lease Fees	(448)	(384)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	578	806
Share-Based Compensation	1,751	1,317
Benefit Plan Contributions	(515)	(346)
Deferred Income Taxes	(40,610)	(34,226)
Net Gain on Investment Securities	(130)	(16)
Net Change in Trading Securities	(32,680)	5,711
Proceeds from Sales of Loans Held for Sale	144,837	72,793
Originations of Loans Held for Sale	(145,592)	(80,089)
Tax Benefits from Share-Based Compensation	(669)	(1,512)
Net Change in Other Assets and Other Liabilities	44,304	(9,513)
Net Cash Provided by Operating Activities	45,972	8,202
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	252,970	157,784
Proceeds from Sales	125,000	
Purchases	(470,716)	(145,196)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	15,207	21,485
Net Change in Loans and Leases	(3,456)	71,049
Premises and Equipment, Net	(3,010)	(1,079)
Net Cash (Used in) Provided by Investing Activities	(84,005)	104,043
Financing Activities		
Net Change in Deposits	160,483	(70,457)
Net Change in Short-Term Borrowings	150,321	7,233
Tax Benefits from Share-Based Compensation	669	1,512
Proceeds from Issuance of Common Stock	3,214	5,352
Repurchase of Common Stock	(32,948)	(20,695)
Cash Dividends Paid	(21,199)	(20,411)
Net Cash Provided by (Used in) Financing Activities	260,540	(97,466)
Net Change in Cash and Cash Equivalents	222,507	14,779
Cash and Cash Equivalents at Beginning of Period	388,272	453,332
Cash and Cash Equivalents at End of Period	$ 610,779	$ 468,111
Supplemental Information		
Cash Paid for:		
Interest	$ 44,650	$ 55,066
Income Taxes	2,289	3,489
Non-cash Investing and Financing Activities:		
Transfers from Investment Securities-Available-for-Sale to Trading		164,180
Transfers from Loans to Foreclosed Real Estate	110	462

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

Bank of Hawaii Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

Fair Value Measurements

Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements,* which became effective for the Company on January 1, 2008, established a framework for measuring fair value, while expanding fair value measurement disclosures. SFAS No. 157 established a fair value hierarchy that distinguishes between independent observable inputs and unobservable inputs based on the best information available. SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities, the effect of these measurements on earnings for the period, and the inputs used to measure fair value. In February 2008, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) FAS 157-1 to exclude SFAS No. 13, *Accounting for Leases,* and its related interpretive accounting pronouncements that address leasing transactions, from the scope of SFAS No. 157. In February 2008, the FASB also issued FSP FAS 157-2 to allow entities to electively defer the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. The Company will apply the fair value measurement provisions of SFAS No. 157 to its nonfinancial assets and liabilities effective January 1, 2009. The adoption of SFAS No. 157 had no impact on retained earnings and is not expected to have a material impact on the Company s statements of income and condition.

Fair Value Option

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115,* which became effective for the Company on January 1, 2008, provides entities with an option to report selected financial assets and financial liabilities, on an instrument by instrument basis, at fair value. On January 1, 2008, the Company elected the fair value option for its subordinated notes, which are included in long-term debt on the Company s Consolidated Statements of Condition. In adopting the provisions of SFAS No. 159 on January 1, 2008, the Company adjusted the carrying value of the subordinated notes to fair value and recorded an after-tax cumulative-effect adjustment to reduce retained earnings by $2.7 million. Prospectively, the accounting for the Company s subordinated notes at fair value is not expected to have a material impact on the Company s statements of income and condition.

Loan Commitments

U.S. Securities and Exchange Commission (the SEC) Staff Accounting Bulletin (SAB) No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings,* which became effective for the Company on January 1, 2008, requires entities to include the expected net future cash flows related to the servicing of the loan in the measurement of written loan commitments that are accounted for at fair value through earnings. The expected net future cash flows from servicing the loan that are to be included in measuring the fair value of the written loan commitment is to be determined in the same manner that the fair value of a recognized servicing asset is measured under SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140.* However, a separate and distinct servicing asset is not recognized for accounting purposes until the servicing rights have been contractually separated from the underlying loan by sale or securitization of the loan with servicing rights retained. The impact of SAB No. 109 was to accelerate the recognition of the estimated fair value of the servicing rights related to the loan from the loan sale date to the loan commitment date. The implementation of SAB No. 109 did not have a material impact on the Company s statements of income and condition.

Future Application of Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities - an Amendment of FASB Statement No. 133.* SFAS No. 161 expands disclosure requirements regarding an entity s derivative instruments and hedging activities. Expanded qualitative disclosures that will be required under SFAS No. 161 include: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and related interpretations; and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 also requires several added quantitative disclosures in financial statements. SFAS No. 161 will be effective for the Company on January 1, 2009. Management is currently evaluating the effect that the provisions of SFAS No. 161 will have on the Company s financial statements.

Note 2. Pension Plans and Postretirement Benefit Plan

The components of net periodic benefit cost for the Company s pension plans and the postretirement benefit plan for the three months ended March 31, 2008 and 2007 are presented in the following table:

Pension Plans and Postretirement Benefit Plan (Unaudited)

	Pension Benefits		Postretirement Benefits	
	Three Months Ended March 31,			
(dollars in thousands)	**2008**	**2007**	**2008**	**2007**
Service Cost	$	$	$ 89	$ 155
Interest Cost	1,298	1,223	420	395
Expected Return on Plan Assets	(1,522)	(1,373)		
Amortization of Prior Service Credit			(53)	(50)
Recognized Net Actuarial Losses (Gains)	270	450	(140)	(75)
Net Periodic Benefit Cost	$ 46	$ 300	$ 316	$ 425

The net periodic benefit cost for the Company s pension plans and postretirement benefit plan are recorded as a component of salaries and benefits in the statements of income. There were no significant changes from the previously reported $0.7 million that the Company expects to contribute to the pension plans and the $1.1 million that it expects to contribute to the postretirement benefit plan for the year ending December 31, 2008. For the three months ended March 31, 2008, the Company contributed $0.1 million to its pension plans and $0.4 million to its postretirement benefit plan.

Note 3. Business Segments

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

Selected financial information for each business segment is presented below for the three months ended March 31, 2008 and 2007.

Business Segment Selected Financial Information (Unaudited)

(dollars in thousands)		Retail Banking		Commercial Banking		Investment Services		Treasury		Consolidated Total
Three Months Ended March 31, 2008										
Net Interest Income (Loss)	$	58,423	$	42,835	$	3,870	$	(2,948)	$	102,180
Provision for Credit Losses		2,922		3,256				8,249		14,427
Net Interest Income (Loss) After Provision for Credit Losses		55,501		39,579		3,870		(11,197)		87,753
Noninterest Income		28,546		22,249		18,261		17,069		86,125
Noninterest Expense		(43,769)		(24,721)		(16,863)		(8,079)		(93,432)
Income Before Provision for Income Taxes		40,278		37,107		5,268		(2,207)		80,446
Provision for Income Taxes		(14,903)		(13,736)		(1,949)		7,357		(23,231)
Allocated Net Income	$	25,375	$	23,371	$	3,319	$	5,150	$	57,215
Total Assets as of March 31, 2008	$	3,681,693	$	3,066,272	$	232,882	$	3,841,954	$	10,822,801
Three Months Ended March 31, 2007 [1]										
Net Interest Income	$	54,401	$	39,171	$	3,525	$	1,040	$	98,137
Provision for Credit Losses		1,545		1,098				(12)		2,631
Net Interest Income After Provision for Credit Losses		52,856		38,073		3,525		1,052		95,506
Noninterest Income		25,580		12,213		19,147		4,020		60,960
Noninterest Expense		(41,334)		(22,920)		(15,683)		(2,186)		(82,123)
Income Before Provision for Income Taxes		37,102		27,366		6,989		2,886		74,343
Provision for Income Taxes		(13,727)		(9,873)		(2,586)		(822)		(27,008)
Allocated Net Income	$	23,375	$	17,493	$	4,403	$	2,064	$	47,335
Total Assets as of March 31, 2007 [1]	$	3,597,814	$	3,039,943	$	211,239	$	3,642,961	$	10,491,957

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

Note 4. Fair Value of Financial Assets and Liabilities

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of March 31, 2008:

(Unaudited) (dollars in thousands)		**Quoted Prices in Active Markets for Identical Assets (Level 1)**		**Significant Other Observable Inputs (Level 2)**		**Significant Unobservable Inputs (Level 3)**		**Total**
Investment Securities Trading	$		$	99,966	$		$	99,966
Investment Securities Available-for-Sale		1,998		2,575,069		95,219		2,672,286
Mortgage Servicing Rights						27,149		27,149
Other Assets		5,971						5,971
Net Derivative Assets and Liabilities		(202)		1,596		810		2,204
Total Assets at Fair Value	$	7,767	$	2,676,631	$	123,178	$	2,807,576
Long-Term Debt	$		$		$	128,932	$	128,932
Total Liabilities at Fair Value	$		$		$	128,932	$	128,932

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(Unaudited) (dollars in thousands)		**Investment Securities Available-for-Sale** [1]		**Mortgage Servicing Rights** [2]		**Net Derivative Assets and Liabilities** [3]		**Total**
Assets as of January 1, 2008	$	218,980	$	27,588	$	113	$	246,681
Realized and Unrealized Net Gains (Losses):								
Included in Net Income				(2,358)		(1,076)		(3,434)
Included in Other Comprehensive Income		1,228						1,228
Purchases, Sales, Issuances, and Settlements, Net		(124,989)		1,919		1,773		(121,297)
Assets as of March 31, 2008	$	95,219	$	27,149	$	810	$	123,178
Total Unrealized Net Gains (Losses) Related to Assets Still Held as of March 31, 2008	$		$	(1,548)	$	810	$	(738)

(Unaudited) (dollars in thousands)		**Long-Term Debt** [4]		**Total**
Liabilities as of January 1, 2008	$	129,032	$	129,032
Unrealized Net Gains Included in Net Income		(100)		(100)
Liabilities as of March 31, 2008	$	128,932	$	128,932
Total Unrealized Net Gains Related to Liabilities Still Held as of March 31, 2008	$	(100)	$	(100)

1 Unrealized gains and losses related to investment securities available-for-sale are reported as a component of other comprehensive income.

2 Realized and unrealized gains and losses related to mortgage servicing rights are reported as a component of mortgage banking income in the statement of income.

3 Realized and unrealized gains and losses related to written loan commitments are reported as a component of mortgage banking income in the statement of income.

4 Unrealized gains and losses related to long-term debt are reported as a component of other noninterest income in the statement of income.

There were no transfers in or out of the Company s Level 3 financial assets and liabilities for the three months ended March 31, 2008.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company also measures certain financial assets at fair value on a nonrecurring basis in accordance with GAAP. For the three months ended March 31, 2008, there were no adjustments to fair value for the Company s loans held for sale in accordance with GAAP.

Fair Value Option

On January 1, 2008, the Company elected the fair value option for its subordinated notes, which are included in long-term debt on the Company s Consolidated Statements of Condition. The table below reconciles the balance of the Company s subordinated notes as of December 31, 2007 and January 1, 2008.

(Unaudited) (dollars in thousands)	**Balance as of December 31, 2007** [1]	**Net Loss Upon Adoption**	**Balance as of January 1, 2008**
Long-Term Debt	$ 124,822	$ 4,210	$ 129,032
Pre-Tax Cumulative-Effect of Adopting the Fair Value Option		4,210	
Increase in Deferred Tax Asset		(1,474)	
After-Tax Cumulative-Effect of Adopting the Fair Value Option		$ 2,736	

1 Includes unamortized discount and deferred costs, which were removed from the statement of condition with the cumulative-effect adjustment to implement the provisions of SFAS No. 159 on January 1, 2008.

The fair value option was elected for the subordinated notes as it provided the Company with an opportunity to better manage its interest rate risk and to achieve balance sheet management flexibility. As of March 31, 2008, the subordinated notes no longer qualified as a component of Total Capital for regulatory capital purposes, due to the maturity being within 12 months from March 31, 2008.

Gains and losses on the subordinated notes subsequent to the initial fair value measurement are recognized in earnings as a component of other noninterest income. For the three months ended March 31, 2008, the Company recorded a gain of $0.1 million as a result of the change in fair value of the Company s subordinated notes. Interest expense related to the Company s subordinated notes continues to be measured based on contractual interest rates and reported as such in the statement of income.

The following reflects the difference between the fair value carrying amount of the Company s subordinated notes and the aggregate unpaid principal amount the Company is contractually obligated to pay until maturity as of March 31, 2008.

	Fair Value Carrying Amount as of	**Aggregate Unpaid Principal Amount as of**	**Excess of Fair Value Carrying Amount Over Aggregate Unpaid**

(Unaudited) (dollars in thousands)	**March 31, 2008**	**March 31, 2008**	**Principal Amount**
Long-Term Debt Reported at Fair Value	$ 128,932	$ 124,971	$ 3,961

Note 5. Lease Transaction

In March 2008, the lessee in an aircraft leveraged lease exercised its early buyout option resulting in an $11.6 million pre-tax gain for the Company. This gain on the sale of the Company s equity interest in the lease was recorded as a component of other noninterest income in the statement of income. This sale also resulted in a benefit for income taxes of $1.4 million from the adjustment of previously recognized tax liabilities. After-tax gains from this transaction were $13.0 million.

Note 6. Income Taxes

The following is a reconciliation of the statutory federal income tax rate to the effective tax rate for the three months ended March 31, 2008 and 2007.

Effective Tax Rate (Unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Statutory Federal Income Tax Rate	35.00%	35.00%
Increase (Decrease) in Income Tax Rate Resulting From:		
State Income Tax, Net of Federal Income Tax	4.42	3.83
Foreign Tax Credits		(1.43)
Low Income Housing Investments	(0.32)	(0.17)
Bank-Owned Life Insurance	(0.85)	(0.85)
Leveraged Leases	(8.51)	0.14
Other	(0.86)	(0.19)
Effective Tax Rate	28.88%	36.33%

The lower effective tax rate for the three months ended March 31, 2008 compared to the three months ended March 31, 2007 was primarily due to the sale of the Company s equity interest in an aircraft leveraged lease. The pre-tax gain from this sale would have resulted in an income tax expense of approximately $4.6 million, based on statutory income tax rates. However, due to the timing of the sale of the Company s equity interest and the adjustment of previously recognized income tax liabilities, this transaction resulted in a $1.4 million income tax benefit to the Company. As a result, total income tax benefit from this transaction was approximately $6.0 million and is reflected in the leveraged lease line item in the table above.

Note 7. Contingencies

In October 2007, Visa, Inc. (Visa) announced that it had completed a series of restructuring transactions in preparation for its initial public offering (IPO) planned for the first quarter of 2008. As part of this restructuring, the Company received approximately 0.9 million shares of restricted Class USA stock in Visa in exchange for the Company s membership interests. The Company did not recognize a gain or loss upon the receipt of Class USA shares in October 2007. Visa completed its IPO in March 2008, resulting in the conversion of the Company s Class USA shares to approximately 0.8 million shares of Class B common stock in Visa. Visa exercised its option to mandatorily redeem approximately 0.3 million shares of the Company s Class B common stock in Visa in exchange for cash, which resulted in the Company recording a $13.7 million gain in other noninterest income. The Company s remaining Class B shares (approximately 0.5 million) in Visa are restricted for a period of three years after the IPO or upon settlement of litigation claims, whichever is later. The Company has not recognized a gain or loss on the remaining Class B shares in Visa. Concurrent with its IPO, Visa contributed $3.0 billion into an escrow account to cover litigation claims and settlements as discussed below.

In November 2007, Visa announced that it had reached an agreement with American Express, related to its claim that Visa and its member banks had illegally blocked American Express from the bank-issued card business in the United States. The Company was not a named defendant in the lawsuit and, therefore, was not directly liable for any amount of the settlement. However, according to an interpretation of Visa s by-laws, the Company and other Visa U.S.A., Inc. (a wholly-owned subsidiary of Visa) members are obligated to indemnify Visa for certain losses, including the settlement of the American Express matter. The Company s indemnification obligation is limited to its proportionate interest in Visa U.S.A., Inc. In December 2007, as a result of Visa s agreement with American Express, the Company established a liability of $4.3 million for this indemnification obligation. However, as a result of Visa s IPO and funding of the escrow account, the Company reversed the $4.3 million liability previously established and recorded a credit to other noninterest expense in March 2008.

Other litigation covered by the Company s indemnification of Visa and expected to be settled from the escrow account include: 1) a lawsuit filed by Discover Financial Services, Inc. (Discover) claiming that Visa prevented banks from issuing payment cards on the Discover network; 2) class action lawsuits filed on behalf of merchants who accept payment cards against Visa U.S.A., Inc. claiming that the setting of interchange is unlawful, among other claims; and 3) a consumer class action lawsuit against Visa U.S.A., Inc., Visa International, and MasterCard alleging unfair competition. In December 2007, the Company established a liability of $1.3 million related to the indemnification of Visa in the Discover lawsuit. However, as a result of Visa s IPO and funding of the escrow account, the Company reversed the $1.3 million liability previously established and recorded a credit to other noninterest expense in March 2008. Management cannot reasonably estimate the liability to Visa, if any, for the costs of the class action lawsuits as of March 31, 2008.

In addition to the Visa litigation, the Company is subject to various other pending and threatened legal proceedings arising out of the normal course of business or operations. Management believes that current legal reserves are adequate and the amount of an incremental liability, if any, arising from these matters is not expected to have a material adverse effect on the Company s financial condition or results of operations.

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

Forward-Looking Statements

This report contains, and other written or oral statements made by the Company may contain, 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. For a detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements, refer to the section entitled Risk Factors in Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2007, and subsequent periodic and current reports, filed with the U.S. Securities and Exchange Commission (the SEC). 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.

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Overview

General

Bank of Hawaii Corporation (the Parent) is a bank holding company headquartered in Honolulu, Hawaii. The Parent s principal and only operating subsidiary is Bank of Hawaii (the Bank).

The Bank directly and through its subsidiaries 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.

2007+ Plan

Our governing objective is to maximize shareholder value over time.

In January 2007, we introduced our 2007+ Plan (Plan) to our shareholders, customers, and employees. Our Plan, which we continue to follow in 2008, focuses on five strategic themes:

- Growth
- Integration
- People
- Brand
- Discipline

Plan Financial Objectives and Financial Results

Our Plan was prepared with the expectation that economic growth could slow in 2007 and beyond. Our Plan was based on assumptions of moderate growth in revenues and consistent, positive operating leverage. The following summarizes our Plan financial objectives compared with our financial results for the first quarter of 2008:

Plan Financial Objectives and Financial Results

Performance Ratios	Plan Financial Objectives	Three Months Ended March 31, 2008
Average ROA	Above 1.70%	2.16%
Average ROE	Above 25.00%	29.88%
Efficiency Ratio	Approaching 50.00%	49.62%
Operating Leverage	Positive	40.13%

For the first quarter of 2008, net income was $57.2 million, an increase of $9.9 million or 21% from the first quarter of 2007.

For the first quarter of 2008, diluted earnings per share were $1.18, an increase of $0.24 or 26% from the first quarter of 2007.

Our strong financial performance for the first quarter of 2008 was enhanced by two transactions:

- Pre-tax gains of $13.7 million resulting from the mandatory redemption of our Visa, Inc. (Visa) shares as well as a $5.6 million reversal of previously recorded contingency accruals related to Visa legal matters; and

- Pre-tax gains of $11.6 million resulting from the sale of our equity interest in an aircraft lease. This sale also resulted in a net benefit for income taxes from the adjustment of previously recognized tax liabilities. After-tax gains from this transaction were $13.0 million.

Partially offsetting these gains, we accrued for the following transactions in the first quarter of 2008:

- $9.0 million related to cash awards to purchase our stock and earnings-based incentive compensation;

- $2.3 million contribution to the Bank of Hawaii Charitable Foundation and other charitable organizations; and

- $1.0 million related to the call premium on our Bancorp Hawaii Capital Trust I Capital Securities (Capital Securities).

In addition, we increased our Allowance for Loan and Lease Losses (the Allowance) by recording a Provision for Loan and Lease Losses (the Provision) of $14.4 million in the first quarter of 2008. The increase in the Allowance, a result of our quarterly evaluation of the adequacy of the Allowance, reflects increased risk in our commercial aircraft leasing, small business, and unsecured consumer lending portfolios. The Provision exceeded our net charge-offs of loans and leases for the first quarter of 2008 by $9.0 million.

Reserves for legal contingencies were increased by $3.0 million in the first quarter of 2008. This increase was due to management s on-going evaluation of potential losses related to pending litigation, claims, and assessments against us.

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Table 1 presents our financial highlights and performance ratios for the three months ended March 31, 2008 and 2007 and as of March 31, 2008, December 31, 2007, and March 31, 2007.

Financial Highlights (Unaudited)		**Table 1**
	Three Months Ended March 31,	
(dollars in thousands, except per share amounts)	**2008**	**2007**
For the Period:		
Net Interest Income	$ 102,180	$ 98,137
Total Noninterest Income	86,125	60,960
Total Noninterest Expense	93,432	82,123
Net Income	57,215	47,335
Basic Earnings Per Share	1.19	0.96
Diluted Earnings Per Share	1.18	0.94
Dividends Declared Per Share	0.44	0.41
Net Income to Average Total Assets	2.16%	1.83%
Net Income to Average Shareholders Equity	29.88	27.00
Efficiency Ratio [1]	49.62	51.62
Operating Leverage [2]	40.13	6.72
Net Interest Margin [3]	4.17	4.07
Dividend Payout Ratio [4]	36.97	42.71
Leverage Ratio [5]	6.99	6.80
Average Loans and Leases	$ 6,587,918	$ 6,561,848
Average Assets	10,643,904	10,481,773
Average Deposits	7,952,546	7,921,463
Average Shareholders Equity	770,157	711,118
Average Shareholders Equity to Average Assets	7.24%	6.78%
Market Price Per Share of Common Stock:		
Closing	$ 49.56	$ 53.03
High	52.93	54.81
Low	40.95	50.11

	March 31, 2008	**December 31, 2007**	**March 31, 2007**
As of Period End:			
Loans and Leases	$ 6,579,337	$ 6,580,861	$ 6,507,152
Total Assets	10,822,801	10,472,942	10,491,957
Total Deposits	8,102,855	7,942,372	7,952,937
Long-Term Debt	239,389	235,371	260,308
Total Shareholders Equity	766,747	750,255	711,031
Non-Performing Assets	$ 6,045	$ 5,286	$ 5,836
Allowance to Loans and Leases Outstanding	1.52%	1.38%	1.40%
Book Value Per Common Share	$ 15.98	$ 15.44	$ 14.32

Full-Time Equivalent Employees	2,538	2,594	2,578
Branches and Offices	83	83	83

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. Measures are presented on a linked quarter basis.

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 for the quarter.

5 Tier 1 Capital includes $26.4 million in Capital Securities of which the call option was exercised, but the liability was not extinguished as of March 31, 2008.

Recent Accounting Changes

We began applying the provisions of the following new accounting pronouncements on January 1, 2008:

- Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements;*

- SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115;* and

- SEC Staff Accounting Bulletin (SAB) No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings.*

SFAS No. 157 had no impact on retained earnings and is not expected to have a material impact on our statements of income and condition. We have not made material changes to our valuation methodologies as previously disclosed in our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. Our financial assets and liabilities do not require use of a significant amount of unobservable (Level 3) inputs to estimate fair value.

SFAS No. 159 had the effect of reducing retained earnings by $2.7 million, as we elected the fair value option for our subordinated notes. See Notes 1 and 4 to our Consolidated Financial Statements (Unaudited) for more information on our application of SFAS No. 157 and 159.

SAB No. 109 had the effect of accelerating gain recognition of the estimated fair value of the servicing rights related to the loan from the loan sale date to the loan commitment date. The implementation of SAB No. 109 did not have a material impact on the Company s statements of income and condition.

Analysis of Statements of Income

Net Interest Income

Net interest income, on a taxable equivalent basis, increased by $4.0 million or 4% in the first quarter of 2008 compared to the first quarter of 2007.

The increase in net interest income, on a taxable equivalent basis, in the first quarter of 2008 was primarily due to decreased funding costs. Rates paid on interest-bearing deposits decreased by 45 basis points in the first quarter of 2008 compared to the first quarter of 2007. Also contributing to the lower funding costs was the 84 basis point decrease in rates paid on securities sold under agreements to repurchase for the first quarter of 2008 compared to the first quarter of 2007. Partially offsetting the decrease in funding costs was a similar decrease in yields on our loans and leases, which declined by 42 basis points for the first quarter of 2008 compared to the first quarter of 2007. Lower yields in our commercial and industrial loans and home equity loans were primarily driven by the decline in benchmark interest rates from December 31, 2007. Yields on available-for-sale investment securities increased by 16 basis points in the first quarter of 2008 compared to the first quarter of 2007, reflecting our reinvestment in higher yielding securities.

Our net interest margin increased by 10 basis points to 4.17% in the first quarter of 2008, as a result of lower funding costs and the effects of a steeper yield curve.

Despite the decrease in funding costs in the first quarter of 2008, average interest-bearing demand and savings deposit balances collectively increased by $63.7 million or 2% in the first quarter of 2008 compared to the first quarter of 2007. Increases in these categories were the result of customers moving their deposits to more liquid accounts. A contributing market factor for this increase was the volatility in the financial markets and a decline in the equity markets in the first quarter of 2008. The increase in savings deposit balances was also partially due to a successful bonus-rate savings campaign in the first quarter of 2008 which resulted in the opening of new accounts.

Average balances in securities sold under agreements to repurchase increased by $94.5 million or 9% in the first quarter of 2008 compared to the first quarter of 2007. Securities sold under agreements to repurchase serves as one source of short- to medium-term financing for us. The increase in interest-bearing liabilities by $152.8 million or 2% from the first quarter of 2007 funded the growth in our average earning assets. Although average loans and leases remained relatively stable from the first quarter of 2007,

average investment securities, excluding trading securities, increased by $103.0 million or 4%.

Average balances, related income and expenses, and resulting yields and rates, on a taxable equivalent basis, are presented in Table 2 for the first quarter of 2008 and 2007. An analysis of the change in net interest income, on a taxable equivalent basis, for the first quarter of 2008 from the first quarter of 2007, is presented in Table 3.

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

(dollars in millions)	Three Months Ended March 31, 2008 Average Balance	Three Months Ended March 31, 2008 Income/ Expense	Three Months Ended March 31, 2008 Yield/ Rate	Three Months Ended March 31, 2007 [1] Average Balance	Three Months Ended March 31, 2007 [1] Income/ Expense	Three Months Ended March 31, 2007 [1] Yield/ Rate
Earning Assets						
Interest-Bearing Deposits	$ 27.5	$ 0.2	2.82 %	$ 4.7	$ 0.1	4.99 %
Funds Sold	138.2	1.0	2.84	81.2	1.1	5.21
Investment Securities						
Trading	95.7	1.2	4.85	161.9	1.6	4.00
Available-for-Sale	2,631.6	34.5	5.24	2,453.2	31.2	5.08
Held-to-Maturity	285.6	3.2	4.54	361.0	4.0	4.49
Loans Held for Sale	10.5	0.1	5.43	7.3	0.1	6.17
Loans and Leases [2]						
Commercial and Industrial	1,065.1	16.6	6.26	1,076.0	19.8	7.45
Commercial Mortgage	649.1	10.4	6.45	616.5	10.3	6.78
Construction	199.5	3.3	6.73	245.7	4.8	7.97
Commercial Lease Financing	477.9	4.0	3.35	462.1	3.1	2.69
Residential Mortgage	2,519.3	38.6	6.13	2,496.3	38.2	6.12
Home Equity	970.8	16.0	6.61	942.2	17.7	7.62
Automobile	438.7	8.9	8.18	426.5	8.5	8.08
Other [3]	267.4	6.5	9.73	296.5	7.8	10.67
Total Loans and Leases	6,587.8	104.3	6.35	6,561.8	110.2	6.77
Other	79.5	0.4	2.15	79.4	0.3	1.68
Total Earning Assets [4]	9,856.4	144.9	5.89	9,710.5	148.6	6.16
Cash and Noninterest-Bearing Deposits	294.1			310.5		
Other Assets	493.4			460.7		
Total Assets	$ 10,643.9			$ 10,481.7		
Interest-Bearing Liabilities						
Interest-Bearing Deposits						
Demand	$ 1,614.3	2.3	0.57	$ 1,602.4	4.3	1.08
Savings	2,691.8	9.2	1.38	2,640.0	12.5	1.91
Time	1,747.2	16.0	3.67	1,732.1	16.6	3.90
Total Interest-Bearing Deposits	6,053.3	27.5	1.82	5,974.5	33.4	2.27
Short-Term Borrowings	79.7	0.7	3.31	79.7	1.0	5.08
Securities Sold Under Agreements to Repurchase	1,164.2	10.6	3.63	1,069.7	11.9	4.47
Long-Term Debt	239.8	3.7	6.26	260.3	3.9	6.12
Total Interest-Bearing Liabilities	7,537.0	42.5	2.26	7,384.2	50.2	2.75
Net Interest Income		$ 102.4			$ 98.4	
Interest Rate Spread			3.63 %			3.41 %
Net Interest Margin			4.17 %			4.07 %
Noninterest-Bearing Demand Deposits	1,899.2			1,947.0		
Other Liabilities	437.5			439.4		
Shareholders Equity	770.2			711.1		
Total Liabilities and Shareholders Equity	$ 10,643.9			$ 10,481.7		

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 $238,000 and $213,000 for the three months ended March 31, 2008 and 2007, respectively.

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

	Three Months Ended March 31, 2008 compared to March 31, 2007			
(dollars in millions)	**Volume** [1]	**Rate** [1]	**Time** [1]	**Total**
Change in Interest Income:				
Interest-Bearing Deposits	$ 0.2	$ (0.1)	$	$ 0.1
Funds Sold	0.5	(0.6)		(0.1)
Investment Securities				
Trading	(0.7)	0.3		(0.4)
Available-for-Sale	2.3	1.0		3.3
Held-to-Maturity	(0.9)	0.1		(0.8)
Loans and Leases				
Commercial and Industrial	(0.2)	(3.2)	0.2	(3.2)
Commercial Mortgage	0.5	(0.5)	0.1	0.1
Construction	(0.9)	(0.7)	0.1	(1.5)
Commercial Lease Financing	0.1	0.8		0.9
Residential Mortgage	0.3	0.1		0.4
Home Equity	0.6	(2.5)	0.2	(1.7)
Automobile	0.2	0.1	0.1	0.4
Other [2]	(0.7)	(0.7)	0.1	(1.3)
Total Loans and Leases	(0.1)	(6.6)	0.8	(5.9)
Other		0.1		0.1
Total Change in Interest Income	1.3	(5.8)	0.8	(3.7)
Change in Interest Expense:				
Interest-Bearing Deposits				
Demand		(2.1)	0.1	(2.0)
Savings	0.2	(3.6)	0.1	(3.3)
Time	0.2	(1.0)	0.2	(0.6)
Total Interest-Bearing Deposits	0.4	(6.7)	0.4	(5.9)
Short-Term Borrowings		(0.3)		(0.3)
Securities Sold Under Agreements to Repurchase	1.0	(2.4)	0.1	(1.3)
Long-Term Debt	(0.3)	0.1		(0.2)
Total Change in Interest Expense	1.1	(9.3)	0.5	(7.7)
Change in Net Interest Income	$ 0.2	$ 3.5	$ 0.3	$ 4.0

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

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

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 Allowance is determined through detailed quarterly analyses of our loan and lease portfolio. The Allowance is based on our loss experience, changes in the economic environment, as well as an ongoing assessment of our credit quality. We recorded a Provision of $14.4 million in the first quarter of 2008 and a Provision of $2.6 million in

the first quarter of 2007. The increase in the Allowance in the first quarter of 2008, a result of our quarterly evaluation of the adequacy of the Allowance, reflects increased risk in our commercial aircraft leasing, small business, and unsecured consumer lending portfolios. The Provision in 2008 and 2007 was recorded in order to maintain the Allowance at levels considered appropriate to cover credit losses inherent in the lending process. For further discussion on the Allowance, see the Corporate Risk Profile Reserve for Credit Losses section in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

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Noninterest Income

Noninterest income increased by $25.2 million or 41% in the first quarter of 2008 compared to the first quarter of 2007, with growth in all categories except trust and asset management income.

Trust and asset management income decreased by $0.7 million or 5% in the first quarter of 2008 compared to the first quarter of 2007, primarily due to a $0.4 million decrease in fees from accounts under management. Although we generated $0.2 million in fees from new accounts under management, our management fees are also affected by the market value of assets under administration. Total trust assets under administration were $12.4 billion as of March 31, 2008 and $13.0 billion as of March 31, 2007. The lower value of trust assets under administration was consistent with the decline in the equity markets over this period of time.

Mortgage banking income increased by $0.9 million or 27% in the first quarter of 2008 compared to the first quarter of 2007. The increase was primarily due to higher loan origination and loan application volume. Residential mortgage loan originations were $284.3 million in the first quarter of 2008, a $80.2 million or 39% increase compared to the first quarter of 2007. The increase in loan origination volume over this period was primarily due to refinancing activity as a result of lower interest rates. Gains related to the servicing value inherent in our loans at the commitment date and gains on originated mortgage servicing rights collectively increased by $1.7 million in the first quarter of 2008 compared to the first quarter of 2007. Gains on the sale of residential mortgage loans also increased by $0.9 million in the first quarter of 2008 compared to the first quarter of 2007. Loan sales were $144.8 million in the first quarter of 2008, a $72.0 million increase compared to the first quarter of 2007. These increases were partially offset by a $1.2 million decrease in the net change in the estimated fair value of our mortgage servicing rights and our trading securities (Designated Securities). Our Designated Securities are used to economically hedge the change in fair value of our mortgage servicing rights. The decrease in the fair value of our mortgage servicing rights occurred as mortgage rates decreased over this period

resulting in higher realized and expected prepayment speeds. The fair value of our Designated Securities increased over this time period as we experienced decreases in interest rates. Losses in the value of our derivative written loan commitments in the first quarter of 2008 compared to the first quarter of 2007 also contributed to a $0.6 million decrease in mortgage banking income.

Service charges on deposit accounts increased by $1.1 million or 10% in the first quarter of 2008 compared to the first quarter of 2007. This was primarily due to a $0.7 million increase in account analysis fees on analyzed business checking accounts as a result of lower earnings credit rates on customer accounts. The increase in service charges on deposit accounts was also due to $0.6 million in higher overdraft fees as a result of fee schedule changes implemented in the third quarter of 2007 as well as an increase in the number of transactional deposit accounts.

Insurance income increased by $0.9 million or 15% in the first quarter of 2008 compared to the first quarter of 2007. This was primarily due to a $0.8 million increase in contingent commission income and a $0.3 million increase in income from annuity and life insurance products.

Other noninterest income increased by $22.8 million in the first quarter of 2008 compared to the first quarter of 2007. This was primarily due to the $13.7 million gain from the mandatory redemption of our Visa shares and the $11.6 million gain on the sale of our equity interest in an aircraft lease in March 2008. See Note 7 to the Consolidated Financial Statements (Unaudited) for more information on the mandatory redemption of our Visa shares. The lessee in the aircraft lease exercised its early buyout option which resulted in a gain in the first quarter of 2008. See Note 5 to the Consolidated Financial Statements (Unaudited) for more information on the sale of our equity interest in the aircraft lease. In the first quarter of 2007, we recognized a $2.3 million gain on the sale of leased equipment. See the Corporate Risk Profile Credit Risk section in MD&A for more discussion on our remaining air transportation credit exposure.

Noninterest Expense

Noninterest expense increased by $11.3 million or 14% in the first quarter of 2008 compared to the first quarter of 2007.

Table 4 presents the components of salaries and benefits expense for the first quarter of 2008 and 2007.

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

(dollars in thousands)	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Salaries	$ 28,903	$ 28,124
Incentive Compensation	6,267	3,619
Cash for Stock Grants	4,640	
Share-Based Compensation	1,648	1,227
Commission Expense	1,873	1,993
Retirement and Other Benefits	5,226	3,769
Payroll Taxes	3,414	3,522
Medical, Dental, and Life Insurance	2,499	2,238
Separation Expense	1,003	914
Total Salaries and Benefits	$ 55,473	$ 45,406

Salaries and benefits expense increased primarily due to the accrual of $9.0 million related to cash awards to purchase our stock and earnings-based incentive compensation in the first quarter of 2008 compared to the first quarter of 2007. Of this amount, $4.6 million of the increase related to a change in our practice of equity compensation for senior management. Instead of restricted stock, senior officers, other than executive officers, generally will receive cash grants to encourage them to purchase common stock. We expect that these cash grants

to senior officers will be paid in the second quarter of 2008. Also contributing to higher salaries and benefits in the first quarter of 2008 were $0.9 million related to merit increases to base salaries.

Other noninterest expense increased by $1.0 million or 5% in the first quarter of 2008 compared to the first quarter of 2007. The net increase in noninterest expense was primarily due to:

- $3.0 million increase in our legal contingency accruals;
- $2.3 million contribution to the Bank of Hawaii Charitable Foundation and other charitable organizations;
- $1.0 million increase related to the call premium accrual on our Capital Securities;
- $0.5 million increase in our mileage program travel expense; and

- $5.6 million reversal of previously recorded contingency accruals related to Visa legal matters.

See Note 7 to the Consolidated Financial Statements (Unaudited) for more discussion on the reversal of the Visa contingency accruals.

Provision for Income Taxes

See Note 6 to the Consolidated Financial Statements (Unaudited) for information on the provision for income taxes.

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Analysis of Statements of Condition

Investment Securities

Table 5 presents the amortized cost and estimated fair value of our available-for-sale and held-to-maturity investment securities as of March 31, 2008, December 31, 2007, and March 31, 2007.

Investment Securities (Unaudited) — **Table 5**

(dollars in thousands)		Amortized Cost		Fair Value
March 31, 2008				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$	1,946	$	1,998
Debt Securities Issued by States and Political Subdivisions		48,840		49,586
Debt Securities Issued by U.S. Government-Sponsored Enterprises		350,658		352,490
Mortgage-Backed Securities Issued by				
U.S. Government-Sponsored Enterprises		1,809,715		1,837,191
Non-Agencies		342,457		326,245
Total Mortgage-Backed Securities		2,152,172		2,163,436
Other Debt Securities		104,284		104,776
Total	$	2,657,900	$	2,672,286
Held-to-Maturity:				
Debt Securities Issued by States and Political Subdivisions	$	6	$	6
Mortgage-Backed Securities Issued by U.S. Government-Sponsored Enterprises		277,250		277,530
Total	$	277,256	$	277,536
December 31, 2007				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$	3,295	$	3,325
Debt Securities Issued by States and Political Subdivisions		47,620		47,910
Debt Securities Issued by U.S. Government-Sponsored Enterprises		294,223		295,464
Mortgage-Backed Securities Issued by				
U.S. Government-Sponsored Enterprises		1,678,828		1,684,471
Non-Agencies		312,973		304,440
Total Mortgage-Backed Securities		1,991,801		1,988,911
Other Debt Securities		228,421		227,580
Total	$	2,565,360	$	2,563,190
Held-to-Maturity:				
Debt Securities Issued by States and Political Subdivisions	$	6	$	6
Mortgage-Backed Securities Issued by U.S. Government-Sponsored Enterprises		292,571		287,638
Total	$	292,577	$	287,644
March 31, 2007				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$	4,039	$	4,017
Debt Securities Issued by States and Political Subdivisions		47,152		47,116
Debt Securities Issued by U.S. Government-Sponsored Enterprises		325,239		324,789
Mortgage-Backed Securities Issued by				
U.S. Government-Sponsored Enterprises		1,424,763		1,411,029
Non-Agencies		350,872		344,777
Total Mortgage-Backed Securities		1,775,635		1,755,806
Other Debt Securities		311,420		306,804
Total	$	2,463,485	$	2,438,532
Held-to-Maturity:				
Debt Securities Issued by States and Political Subdivisions	$	30	$	31
Mortgage-Backed Securities Issued by U.S. Government-Sponsored Enterprises		349,633		340,605

Total	$	349,663	$	340,636

The carrying value of our investment securities, excluding trading securities, was $2.9 billion as of March 31, 2008 and December 31, 2007, and $2.8 billion as of March 31, 2007. Investment securities with a carrying value of $1.9 billion as of March 31, 2008, $1.7 billion as of December 31, 2007, and $1.8 billion as of March 31, 2007, which approximates fair value, were pledged to secure deposits of governmental

entities and securities sold under agreements to repurchase. Investment securities pledged where the secured party has the right to sell or repledge the investment securities were $766.1 million as of March 31, 2008, $650.4 million as of December 31, 2007, and $765.6 million as of March 31, 2007.

As of March 31, 2008, all of our mortgage-backed securities issued by non-agencies were prime jumbo, AAA-rated, with an average current amortized loan-to-value ratio of 60%. As of March 31, 2008, 97% of the fair value of our mortgage-backed securities issued by non-agencies was originated prior to 2006 and the weighted average credit support was 4.65%. Loans past due 90 days or more, underlying the mortgage-backed securities issued by non-agencies, represented approximately 47 basis points of par value outstanding or

approximately $1.6 million as of March 31, 2008. As of March 31, 2008, there were no sub-prime or Alt-A securities in our mortgage-backed securities.

Table 6 presents our temporarily impaired investment securities as of March 31, 2008, December 31, 2007, and March 31, 2007.

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

	Temporarily Impaired Less Than 12 Months		Temporarily Impaired 12 Months or Longer		Total	
(dollars in thousands)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
March 31, 2008						
Debt Securities Issued by States and Political Subdivisions	$ 2,773	$ (32)	$ 1,142	$ (18)	$ 3,915	$ (50)
Debt Securities Issued by U.S. Government-Sponsored Enterprises	1,584	(13)	1,205	(12)	2,789	(25)
Mortgage-Backed Securities Issued by U.S. Government-Sponsored Enterprises	257,088	(1,022)	133,226	(1,421)	390,314	(2,443)
Non-Agencies	153,400	(5,031)	152,808			