BANK OF HAWAII CORP
Form 10-K
February 22, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

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)

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 x 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 x

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes x 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 file, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

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

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

Yes o No x

The aggregate market value of the registrant s outstanding voting common stock held by non-affiliates on June 30, 2006 (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 $49.60, was approximately $2,480,825,146. There was no non-voting common equity of the registrant outstanding on that date.

As of February 13, 2007, there were 49,724,711 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 27, 2007, are incorporated by reference into Part III of this Report.

Bank of Hawaii Corporation

Form 10-K

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Part I

Item 1. Business

General

Bank of Hawaii Corporation (the Parent) is a Delaware corporation and a bank holding company (BHC).

The Parent s banking subsidiary, Bank of Hawaii (the Bank), was organized under the laws of the state of Hawaii on December 17, 1897 and has its headquarters in Honolulu, Hawaii. The Bank s deposits are insured by the Federal Deposit Insurance Corporation (the FDIC). The Bank is a member of the Federal Reserve System. The only other direct subsidiary of the Parent is Bancorp Hawaii Capital Trust I, a grantor trust, organized to issue trust preferred securities.

Bank of Hawaii Corporation and its Subsidiaries (the Company) provide a range of financial services and products primarily in Hawaii and the Pacific Islands (Guam and nearby islands and American Samoa). 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.

The Company is aligned into the following business segments: Retail Banking, Commercial Banking, Investment Services, and Treasury. Financial and other additional information about the Company s business segments are presented in the Analysis of Business Segments section of Management s Discussion and Analysis of Financial Condition and Results of Operation (MD&A), including Table 5, and Note 11 to the Consolidated Financial Statements, which is incorporated herein by reference.

Information on the Bank s limited foreign activities is presented in Table 9 of MD&A, which is incorporated herein by reference.

The Company s 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 its internet site at http://www.boh.com as soon as reasonably practicable after such material is electronically filed with or furnished to the U.S. Securities and Exchange Commission (the SEC). The SEC maintains an internet site, http://www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Company s Corporate Governance Guidelines; the 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 the Code of Business Conduct and Ethics are available on the Company s website. Upon written request to the Corporate Secretary at 130 Merchant Street, Honolulu, Hawaii, 96813, the information is available in print to any shareholder.

The Company included the Chief Executive Officer and the Chief Financial Officer certifications regarding the Company s public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 of this report. Additionally, the Company filed with the New York Stock Exchange (the NYSE) the Chief Executive Officer certification regarding the Company s 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 19, 2006 and indicated that the Chief Executive Officer was not aware of any violations of the Listing Standards by the Company.

Competition

The Company is 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. The

Company also competes with certain non-financial institutions that offer financial products and services. Some of the Company s competitors are not subject to the same level of regulation and oversight that is required of banks and BHCs, and competitors, through alternative delivery channels such as the internet, may be based outside of the local markets in which we serve. The Company competes based primarily on its reputation in the Company s key markets, its extensive branch network, its service levels, and its knowledge of local trends and conditions.

Supervision and Regulation

The Parent and the Bank are each extensively regulated under both federal and state laws. The following information describes certain aspects of those regulations applicable to the Parent and the Bank, and does not purport to be complete. To the extent statutory or regulatory provisions are described, the description is qualified in its entirety by reference to the particular statutory or regulatory provisions. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and by and before the various bank regulatory agencies. The likelihood and timing of changes and the impact such changes might have on the Parent or the Bank are not possible to determine. 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 the business, operations, and earnings of the Parent and the Bank.

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 Federal Reserve System (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 and from engaging in any activity other than those of banking, managing or controlling banks or other subsidiaries authorized under the BHC Act, or furnishing services to or performing services for its subsidiaries. Among the permitted activities is the ownership of shares of any company the activities of which the FRB determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Under FRB policy, a BHC is expected to serve as a source of financial and management strength to its subsidiary bank(s) and to commit resources to support its subsidiary bank(s) in circumstances where it might not do so absent such a policy. This support may be required at times when the BHC may not have the resources to provide it. Under this policy, a BHC is expected to stand ready to use available resources to provide adequate capital funds to its subsidiary bank(s) during periods of financial adversity and to maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary bank(s).

Subject to certain limits, under the Riegle-Neal Interstate Banking and Branching Efficiency Act (the Riegle-Neal Act), an adequately capitalized and adequately managed BHC may acquire control of banks in any state. An interstate acquisition may not be approved if immediately following the acquisition the BHC would control 30% or more of the total FDIC-insured deposits in that state (or such lesser or greater amount set by the state), unless the acquisition is the BHC s initial entry into the state. An adequately capitalized and adequately managed bank may apply for permission to merge with an out-of-state bank and convert all branches of both parties into branches of a single bank. An interstate bank merger may not be approved, if immediately following the acquisition, the acquirer would control 30% or more of the total FDIC-insured deposits in that state (or such lesser or greater amount set by the state), unless the acquisition is the acquirer s initial entry into the state. Banks are also permitted to open newly established branches in any state in which it does not already have banking branches if such state enacts a law permitting such de novo branching.

In addition, under provisions of the Code enacted to authorize interstate branching under the Riegle-Neal Act, out-of-state banks may engage in mergers with Hawaii banks or acquisitions of substantially all of their assets, following which any such out-of-state bank may operate the branches of the Hawaii bank it has acquired. The Hawaii Commissioner of Financial Institutions is authorized to waive the federal limit on concentration of FDIC-insured

deposits. This statute also permits out-of-state banks to acquire branches of Hawaii banks and to open branches in Hawaii on a de novo basis.

Under the Gramm-Leach-Bliley Act (GLBA), 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 and 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 or incidental or complementary thereto as determined by the FRB. GLBA identifies several activities as financial in nature, including, among others, insurance underwriting and sales, investment advisory services, merchant banking and underwriting, and dealing or making a market in securities. 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 Division of Financial Institutions. Depository institutions, including the Bank, are subject to extensive federal and state regulation that significantly affects their 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 regulated by the National Association of Securities Dealers. 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 State of Hawaii Department 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 FRB has issued substantially similar risk-based and leverage capital guidelines applicable to BHCs and banks that 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, according to the obligor, or, if relevant, the guarantor or 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. As of December 31, 2006, the Company s ratios of Tier 1 Capital and Total Capital to total risk-weighted assets were 9.99% and 11.92%, respectively, and the Bank s ratios of Tier 1 Capital and Total Capital to total risk-weighted assets were 9.91% and 11.84%, respectively.

In addition, each of the federal bank regulatory agencies has established minimum leverage capital ratio requirements for BHCs and banks. 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 meet certain specified criteria, including that they 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. As of December 31, 2006, the Company s leverage ratio was 7.06% and the Bank s leverage ratio was 7.01%.

The FRB s risk-based capital standards identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution s ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution s overall capital adequacy. The capital guidelines also provide that an institution s exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a bank s capital adequacy. The FRB also has issued additional capital guidelines for certain BHCs that engage in trading activities. Management does not believe that consideration of these additional factors will affect the regulator s assessment of the Company 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 statutory provisions and regulations limit the amount of dividends the Bank may pay to the Parent without regulatory approval, including requirements to maintain capital above regulatory minimums. 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, also is subject to the prior claims of creditors of those subsidiaries.

For information regarding the limitations on Bank dividends, see Note 10 to the Consolidated Financial Statements, which is incorporated herein by reference.

Transactions with Affiliates

The Bank is subject to restrictions under federal laws 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, and 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, covered transactions by the Bank with a single affiliate are limited to 10% of the Bank s capital and surplus and, with respect to all covered transactions with affiliates in the aggregate, to 20% of the Bank s capital and surplus.

FDIC Insurance

The Bank s deposits are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC. The DIF was created by the merger of the Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) provided for in the Federal Deposit Insurance Reform Act of 2005 (FDIRA), as enacted in February 2006. This legislation also increased insurance coverage for retirement accounts to $250,000 and indexed the insurance levels for inflation, among other changes. In addition, as a result of the FDIRA, the FDIC has adopted a revised, risk-based assessment system to determine assessment rates to be paid by member institutions, such as the Bank. Under this revised assessment system, risk is defined and measured using an institution s supervisory ratings, combined with certain other risk measures, including certain financial ratios and long-term debt issuer ratings. The annual risk based assessment rates for 2007 range from $0.05 to $0.43 per $100 of insured deposits. The FDIRA also provided for a one-time assessment credit, to be allocated among member institutions. The FDIC one-time assessment credit may be used to offset future deposit insurance assessments beginning in 2007.

In addition to DIF assessments, beginning in 1997 the FDIC assessed BIF-assessable and SAIF-assessable deposits to fund 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, 2007, the annualized rate of risk-adjusted deposits, established by the FDIC for all DIF-assessable deposits, was 1.22 basis points (hundredths of 1%). For the year ended December 31, 2006, the Bank s Financing Corporation insurance assessment expense was $1.1 million.

Under federal law, deposits and certain claims for administrative expenses and employee compensation against insured depository institutions are afforded a priority over other general unsecured claims against such an institution,

including federal funds and letters of credit, in the liquidation or other resolution of such an institution by any receiver appointed by regulatory authorities. Such priority creditors would include the FDIC.

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. The extent of these powers depends upon whether the institution in question is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized as defined by the law. Under regulations established by the federal banking agencies, a well capitalized institution must have a Total Capital ratio of at least 10%, a Tier 1 Capital ratio of at least 6%, a leverage ratio of at least 5%, and not be subject to a capital directive order. An adequately capitalized institution must have a Total Capital ratio of at least 8% and Tier 1 Capital and leverage ratios of at least 4%. As of December 31, 2006, the Bank was classified as well capitalized. The classification of depository institutions is primarily for the purpose of applying the federal banking agencies prompt corrective action provisions and is not intended to be, and should not be, interpreted as a representation of overall financial condition or prospects of any financial institution.

The federal banking agencies prompt corrective action powers (which increase depending upon the degree to which an institution is undercapitalized) can include, among other things, requiring an insured depository institution to adopt a capital restoration plan which cannot be approved unless 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. Among other things, only a well capitalized depository institution may accept brokered deposits without prior regulatory approval.

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 fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not in compliance with any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions described above.

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.

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. Furthermore, such assessment also is required of any bank that has applied, among other things, to merge or consolidate with or acquire the assets or assume the liabilities of an insured depository institution, or to open or relocate a branch office. In the case of a BHC (including a financial holding company) applying for approval to acquire a bank or BHC, the Federal Reserve Board will assess the record of each subsidiary bank of the applicant BHC in considering the application. Under the CRA, institutions are assigned a rating of outstanding, satisfactory, needs to improve, or substantial non-compliance. The Bank was rated outstanding 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. Among other things, these laws and regulations require the Bank to take steps to prevent the use of the Bank for facilitating the flow of illegal or illicit money, to report large currency transactions, to file suspicious activity reports, and to implement appropriate compliance programs, training, risk assessments, and know your customer programs. 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.

Privacy Requirements

Federal banking regulators, pursuant to GLBA, 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 third parties.

Employees

As of January 31, 2007, the Company 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 and 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, which are heavily influenced by tourism, 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.

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 may be 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.

Our reserve for credit losses may not be adequate to cover actual loan and lease losses.

The risk of nonpayment of loans and leases is inherent in all lending activities, and nonpayment, if it occurs, may have an adverse effect on our financial condition or results of operation. We maintain a reserve for credit losses to absorb estimated probable credit losses inherent in the loan and lease and commitment portfolios as of the balance

sheet date. In determining the level of the reserve for credit losses, management makes various assumptions and judgments about the loan and lease portfolio. If our assumptions are incorrect, 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. Failure to comply with all applicable regulations could lead to severe 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 for us.

Competition may adversely affect our business.

Our future growth and success 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 Bank s ability to pay dividends to the Parent is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Bank and other factors that the Federal Reserve Board could assert that payment of dividends from the Bank to Parent would be an unsafe or unsound practice. In the event the Bank was unable to pay dividends to the Parent, dividends on our common stock which we pay to shareholders could be adversely affected. Failure to pay dividends or a reduction in the dividend rate could have a material adverse effect on the market price of our common stock.

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, any security breach 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.

Reputational and legal risk.

Reputational harm 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 use significant resources to comply with our various regulatory requirements, including the requirements of the Sarbanes-Oxley Act of 2002, and any failure to comply could result in reputational harm or significant legal or remediation costs. Damage to our reputation could adversely affect our ability to retain and attract new customers. In addition, new litigation or changes in existing litigation, claims and assessments, environmental liabilities and costs involved in resolving or defending against any such matters could have a negative effect on our financial condition or results of operations.

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

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 issued or revisions made to existing standards that may change the methods governing the preparation of our financial statements. Similarly, new tax legislation could be enacted or interpretations of existing tax laws could change causing an adverse effect to our financial condition or results of operations.

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 current low unemployment rate also contributes to the difficulty of attracting and retaining qualified employees at all management and staffing levels. Failure to maintain 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

The principal offices of the Company and each of its business segments are located in the Financial Plaza of the Pacific in Honolulu, Hawaii. The Company owns and leases other premises, consisting of branch offices and operating facilities located in Hawaii and the Pacific Islands, which are primarily used by the Retail Banking and Commercial Banking business segments.

Item 3. Legal Proceedings

The Company is 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 the Company s 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 2006 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 13, 2007.

Name	Age	Position
Allan R. Landon	58	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	41	Vice Chairman and Chief Banking Officer since January 2006, areas of responsibility include Commercial Banking and Investment Services; 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.
Richard C. Keene	47	Vice Chairman and Chief Financial Officer since May 2004; Executive Vice President and Controller from January 2002 to April 2004; as disclosed in the Company s Form 8-K, filed with the SEC on January 22, 2007, Mr. Keene will be leaving the Company in the first quarter of 2007.
Mark A. Rossi	58	Vice Chairman, Chief Administrative Officer 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	50	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.
Donna A. Tanoue	52	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; independent consultant for the Bank, September 2001 to March 2002.
David W. Thomas	55	Vice Chairman and Chief Operating Officer since January 2006, areas of responsibility include Retail Banking and Technology and Operations; Vice Chairman, Retail Banking from April 2001 to December 2005.

Part II

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

Market Information, Shareholders, and Dividends

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 13, 2007, there were 7,869 common shareholders of record.

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				**Dividends**
Year/Period	**High**	**Low**	**Close**	**Book Value**	**Declared**
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
First Quarter	50.95	44.33	45.26		0.33
Second Quarter	51.30	43.82	50.75		0.33
Third Quarter	54.44	47.44	49.22		0.33
Fourth Quarter	53.19	47.21	51.54		0.37
2004	$ 51.10	$ 40.97	$ 50.74	$ 14.83	$ 1.23

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 are based, in part, on the expected earnings for the subsequent quarter. For additional information regarding the limitation on the Parent s ability to pay dividends, see Dividend Restrictions under Supervision and Regulation in Item 1 of this report and Note 10 to the Consolidated Financial Statements, which are incorporated herein by reference.

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, 2006	146,104	$ 48.86	145,000	$ 101,381,786
November 1 - 30, 2006	109,270	52.06	105,000	95,914,431
December 1 - 31, 2006	90,222	52.19	87,500	91,346,370
Total	345,596	$ 50.74	337,500	

1 The months of October, November, and December 2006 included 1,104, 4,270, and 2,722 mature shares, respectively, purchased from employees in connection with stock option exercises. These shares were not purchased as part of a publicly announced program. The shares were purchased at the closing price of the Parent s common stock on the dates of purchase.

2 The Company repurchased shares during the fourth quarter of 2006 pursuant to its ongoing share repurchase program that was first announced in July 2001. As of February 13, 2007, $80.7 million remained of the $1.55 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

For information on the Company s Equity Compensation Plan Information, see Item 12 of this report, which is incorporated herein by reference.

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, 2001 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 reinvested dividends.

CUMULATIVE TOTAL RETURN
Based upon an initial investment of $100 on December 31, 2001
with dividends reinvested

	Dec-2001	Dec-2002	Dec-2003	Dec-2004	Dec-2005	Dec-2006
Bank of Hawaii Corporation	$ 100	$ 120	$ 171	$ 212	$ 221	$ 238
S&P 500 Index	$ 100	$ 78	$ 100	$ 111	$ 117	$ 135
S&P Banking Index	$ 100	$ 99	$ 125	$ 143	$ 141	$ 164

Item 6. Selected Financial Data

Summary of Selected Consolidated Financial Data

(dollars in millions, except per share amounts)	2006	2005	2004	2003	2002
Year Ended December 31,					
Operating Results					
Net Interest Income	$ 402.6	$ 407.1	$ 390.6	$ 365.9	$ 370.2
Provision for Credit Losses	10.8	4.6	(10.0)	-	11.6
Net Income	180.4	181.6	173.3	135.2	121.2
Basic Earnings Per Share	3.59	3.50	3.26	2.32	1.75
Diluted Earnings Per Share	3.52	3.41	3.08	2.21	1.70
Dividends Declared Per Share	1.52	1.36	1.23	0.87	0.73
Performance Ratios					
Net Income to Average Total Assets	1.76 %	1.81 %	1.78 %	1.44 %	1.22 %
Net Income to Average Shareholders Equity	25.90	24.83	22.78	15.02	10.24
Net Interest Margin 1	4.25	4.38	4.32	4.23	3.99
Operating Leverage 2	3.13	10.54	26.33	3.75	(36.58)
Efficiency Ratio 3	51.87	53.15	56.14	63.38	64.94
Dividend Payout Ratio 4	42.34	38.86	37.73	37.50	41.71
Average Shareholders Equity to Average Assets	6.80	7.29	7.81	9.60	11.88
Allowance to Loans and Leases Outstanding	1.37	1.48	1.78	2.24	2.67
Tier 1 Capital Ratio	9.99	10.36	12.13	12.54	16.59
Total Capital Ratio	11.92	12.70	14.89	15.81	19.96
Leverage Ratio 5	7.06	7.14	8.29	8.43	10.34
As of December 31,					
Balance Sheet Totals					
Net Loans and Leases	$ 6,532.2	$ 6,077.4	$ 5,880.1	$ 5,628.1	$ 5,216.2
Total Assets	10,571.8	10,187.0	9,766.2	9,461.6	9,516.4
Total Deposits	8,023.4	7,907.5	7,564.7	7,332.8	6,920.2
Long-Term Debt	260.3	242.7	252.6	324.1	389.8
Total Shareholders Equity	719.4	693.4	814.8	793.1	1,015.8
Average Assets	10,241.4	10,023.7	9,745.5	9,377.5	9,961.2
Average Loans and Leases	6,369.2	6,104.4	5,786.6	5,525.6	5,411.4
Average Deposits	7,731.0	7,766.5	7,422.3	7,045.8	6,599.9
Average Shareholders Equity	696.3	731.1	761.0	900.1	1,183.5
Non-Financial Data					
Common Shareholders of Record at Year-End	7,888	7,940	8,171	9,561	10,550
Basic Weighted Average Shares	50,176,685	51,848,765	53,232,815	58,338,566	69,385,745
Diluted Weighted Average Shares	51,178,943	53,310,816	56,241,044	61,085,567	71,447,333

1 The net interest margin is defined as net interest income, on a fully-taxable equivalent basis, as a percentage of average earning assets.

2 The operating leverage is defined as the percentage change in income before provision for credit losses and provision for income taxes. The operating leverage for 2002 was affected by divestitures that occurred in 2001.

3 The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

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

5 The Company s leverage ratio as of December 31, 2006, as previously disclosed in the Company s earnings release on January 22, 2007, has been corrected to exclude the adjustment to initially adopt FASB Statement No. 158 from Tier 1 capital to comply with recently issued regulatory requirements.

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 the Company s service area and elsewhere, credit quality, and other financial and business matters in future periods. The Company s forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate and actual results may differ materially from those projected 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 the Company serves; 5) any actual or alleged conduct which could harm the Company s reputation; 6) changes in accounting standards; 7) changes in tax laws or regulations or the interpretation of such laws and regulations; 8) changes in the Company s credit quality or risk profile that may increase or decrease the required level of reserve for credit losses; 9) changes in market interest rates that may affect the Company s credit markets and ability to maintain its 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 the Company s proposed equity repurchases; and 12) geopolitical risk, military or terrorist activity, natural disaster, adverse weather, public health and other conditions impacting the Company and its 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 exclu means of identifying such statements. The Company does not undertake an obligation to update forward-looking statements to reflect later events or circumstances.

Critical Accounting Estimates

The Company s Consolidated Financial Statements were prepared in accordance with U.S. generally accepted accounting principles and follow general practices within the industries in which it operates. The most significant accounting policies followed by the Company are presented in Note 1 to the Consolidated Financial Statements, which is incorporated herein by reference. Application of these principles requires management 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 management. Based on the potential impact to the financial statements of the valuation methods, estimates, assumptions, and judgments used, management 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 obligations, and the determination of income tax expense and liability to be the accounting estimates that are the most subjective and/or judgmental.

Reserve for Credit Losses

A consequence of lending activities is that we may incur losses. The amount of such losses will vary from time to time 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 Company maintains a reserve for credit losses which 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 the risk of credit losses inherent in the credit extension process and is based on a range of 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, plus an amount for imprecision of estimates. 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.

The 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 related 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, senior-level committees approve specific credit and reserve-related activities. 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. Note 3 to the Consolidated Financial Statements, which includes further discussion and information on the reserve for credit losses, is incorporated herein by reference.

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. Once mortgage servicing rights have been recorded, they must be periodically evaluated for impairment. Under current accounting guidance, impairment occurs when the current estimated fair value of mortgage servicing rights is less than the book value. The current estimated fair value is determined using discounted cash flow modeling techniques, which requires management 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. The value of the Company s mortgage servicing rights is sensitive to changes in the estimates and assumptions made. Had the Company assumed lower long-term interest rates and higher loan repayment rates, the value of the mortgage servicing rights could have been lower than recorded in the Company s Consolidated Statements of Condition. Note 4 to the Consolidated Financial Statements, which includes further discussion and information on mortgage servicing rights, including a sensitivity analysis, is incorporated herein by reference.

Residual Valuation of Leased Assets

Lease financing receivables include a residual value component, which represents the estimated value of leased assets upon lease expiration. The 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 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. The Company updates its valuation analysis on an annual basis, or more often when events or circumstances warrant. When it is determined that a residual value is higher than the expected fair value at lease expiration, the difference is recorded as an asset impairment in the period in which the analysis was completed. The Company is unable to predict future events or conditions that could result in future residual value impairments. Note 3 to the Consolidated Financial Statements, which includes further discussion and information on the residual value of leased assets, is incorporated herein by reference.

Pension and Postretirement Benefit Plans

The Company s 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. The 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 returns on plan assets. Changes in estimates and assumptions related to mortality rates and future health care costs could also have a material impact to the Company s 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 discount rate of 5.80% used for the December 31, 2006 valuations was determined based on match-funding maturities and interest payments on corporate bonds available in the market place to projected cash flows for future benefit payments. In determining the net periodic benefit cost, the Company lowered the discount rate to 5.75% in 2006 from 6.00% used in 2005 and 6.25% used in 2004, reflecting the decline in market interest rates during these periods. The estimated return on plan assets of 8.5% was based on historical trends and a building block approach taking into account the type of plan assets in the pension plan. The health care cost trend rate for 2006 was 8% and is assumed to decrease annually until reaching the ultimate trend rate of 5% in 2010. A 25 basis point decrease in the discount rate would have increased the total pension and postretirement net periodic benefit

cost for the year ended December 31, 2006 by approximately $0.3 million and the benefit obligations as of December 31, 2006 by $3.8 million. A 25 basis point increase in the discount rate would have decreased the total pension and postretirement net periodic benefit cost for the year ended December 31, 2006 by approximately $0.3 million and the benefit obligations as of December 31, 2006 by $3.6 million. A 1% change in the health care cost trend rate would have changed the 2006 net periodic benefit cost by approximately $0.5 million.

The estimated pension and postretirement net periodic benefit cost for the year ending December 31, 2007 is $2.9 million, based on an assumed discount rate of 5.8%. A 25 basis point change in the discount rate for 2007 would change the total pension and postretirement net periodic benefit cost by approximately $0.2 million. Note 12 to the Consolidated Financial Statements, which includes further discussion and information on the Company s pension and postretirement benefit plans, is incorporated herein by reference.

Income Taxes

The Company determines its liabilities for income taxes based on current tax regulation and interpretations. Congress, tax authorities, and courts can and do change tax policy. Accordingly, previously estimated liabilities are regularly reevaluated and adjusted, through the provision for income taxes. This process requires the use of judgments and estimates. The impact of changes in such estimates is not subject to quantification.

Overview

2004 2006 Plan

In January 2004, the Company introduced its 2004 2006 Plan. The key elements to that plan were to accelerate revenue growth, better integrate business segments, develop the management team, improve efficiency, and maintain a discipline of dependable risk and capital management.

The table below presents the 2006 Plan, as established in January 2004, compared to actual results for the year ended December 31, 2006:

(dollars in millions)	2006 Plan		Actual	
Year Ended December 31,				
Operating Results				
Net Income	$ 178.4		$ 180.4	
Performance Ratios				
Net Income to Average Total Assets	1.66	%	1.76	%
Net Income to Average Shareholders Equity	23.78		25.90	
Net Interest Margin [1]	4.12		4.25	
Efficiency Ratio [2]	52.84		51.87	
Tier 1 Capital Ratio	10.73		9.99	
Leverage Ratio [3]	7.00		7.06	

1 The net interest margin is defined as net interest income, on a fully-taxable equivalent basis, as a percentage of average earning assets.

2 The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

3 The Company s leverage ratio as of December 31, 2006, as previously disclosed in the Company s earnings release on January 22, 2007, has been corrected to exclude the adjustment to initially adopt FASB Statement No. 158 from Tier 1 capital to comply with recently issued regulatory requirements.

Successful completion of the Company s 2004 2006 Plan was highlighted by the following:

- Total revenues, consisting of net interest income and noninterest income, increased over the three-year period, despite a challenging interest rate environment. Total revenues were $618.8 million, $616.4 million, and $595.7 million for the years ended December 31, 2006, 2005, and 2004, respectively.

- The Company continued to better integrate its business segments. In 2005, the Retail Banking segment began an integration process with the Company s technology and operations functions. This change resulted in a more coordinated effort in having technology support the Company s branch network. Also in 2005, the

Investment Services segment began an integration process with the Commercial Banking segment. This change enabled the Company to better service high net worth individuals among commercial banking customers and provided for an added opportunity to more effectively service its customers.

- Management has emphasized the importance of recognizing that the Company s leaders drive the business through identifying, nurturing, and retaining talented people. Progress has been made in leader identification, employment, and retention that included the expansion of the Company s Managing Committee to include five Senior Executive Vice Presidents.

- Management has worked diligently to control expenses while striving to improve service levels to customers. The Company s efficiency ratio was 51.87%, 53.15%, and 56.14% for the years ended December 31, 2006, 2005, and 2004, respectively.

- Management has successfully maintained a discipline of dependable risk and capital management. The Company s ratio of non-performing assets to total loans and leases, foreclosed real estate, and other investments was 0.10%, 0.11%, and 0.23% as of December 31, 2006, 2005, and 2004, respectively. The Company s leverage ratio was 7.06%, 7.14%, and 8.29% for the years ended December 31, 2006, 2005, and 2004, respectively. Furthermore, in the absence of viable options to redeploy excess cash, the Company has continued to provide returns to its shareholders under its share repurchase program. During the three-year period ended December 31, 2006, the Company returned nearly $603.6 million to shareholders at an average cost of $47.72 per share.

2007+ Plan

The Company s vision: Exceptional people building exceptional value for customers, our island community, shareholders, and each other.

The Company s governing objective: To maximize shareholder value over time.

In January 2007, the Company introduced its 2007+ Plan to its shareholders, customers, and employees. The Company s plan for 2007 and beyond is evolutionary building on the themes that were prominent in the
2004 2006 Plan. The 2007+ Plan emphasizes growth in revenues, integration of service delivery and business units, development of people, enhancement of the Bank of Hawaii brand, and discipline in managing risk and financial performance. The 2007+ Plan does not contemplate near-term expansion beyond the Company s current footprint.

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

The Company s 2007+ Plan was prepared with most economic indicators for Hawaii showing modest improvements as capacity constraints affecting tourism and the workforce limit economic growth. Personal income growth is expected to improve slightly, although inflation in the Company s key markets is expected to exceed national levels. Housing prices are expected to remain stable as new home building slows. Commercial real estate demand is also expected to remain strong.

Analysis of Statements of Income

Net Interest Income

Net interest income, on a taxable equivalent basis, decreased by $4.2 million from the year ended December 31, 2005 to the year ended December 31, 2006. The decrease in net interest income was primarily due to increased funding costs. Rates paid on demand and savings accounts increased, as some customers shifted deposits from

demand and savings accounts to higher rate time deposits and into off-balance sheet managed cash accounts. Also contributing to the Company s higher funding costs were increased levels of securities sold under agreements to repurchase. Partially offsetting the increase in the Company s funding costs was an increase in yields on loans and investment securities and an increase in average loans and leases. Like many other financial institutions during the year ended December 31, 2006, the Company s net interest income was negatively impacted by the yield curve which was flat or inverted throughout the year.

The Company s net interest margin decreased by 13 basis points from the year ended December 31, 2005 to the year ended December 31, 2006. The decrease in the Company s net interest margin was primarily due to the impact that the flat or inverted yield curve has had on the Company s mix of funding sources and related rates paid for the year ended December 31, 2006.

Average loans and leases increased by $264.8 million or 4% from the year ended December 31, 2005 to the year ended December 31, 2006, with growth in substantially all loan and lease categories. Yields on total loans and leases increased by 64 basis points from the year ended December 31, 2005 to the year ended December 31, 2006. Average balances in investment securities remained relatively unchanged from the year ended December 31, 2005 to the year ended December 31, 2006; however, yields increased by 43 basis points in the Company s available-for-sale portfolio and by 29 basis points in the Company s held-to-maturity portfolio, reflecting a rise in interest rates over this period.

Average interest bearing liabilities increased by $259.4 million or 4% from the year ended December 31, 2005 to the year ended December 31, 2006, primarily due to an increase in securities sold under agreements to repurchase, time deposits, and short-term borrowings. Although average deposits remained relatively unchanged from the year ended December 31, 2005 to the year ended December 31, 2006, there was significant movement in balances within the Company s deposit products. Average noninterest bearing demand, interest-bearing demand, and savings balances collectively decreased by $322.5 million from the year ended December 31, 2005 to the year ended December 31, 2006. Over this same period, average time deposits increased by $287.0 million as customers sought higher rate deposit products. Customers also used their off-balance sheet managed cash accounts as a means of obtaining higher rates. Strong growth in loans and leases required the Company to utilize securities sold under agreements to repurchase and short-term borrowings as a funding mechanism. The Company s average long-term debt balances, the costliest of interest-bearing liabilities, remained relatively unchanged from the year ended December 31, 2005 to the year ended December 31, 2006.

Net interest income, on a taxable equivalent basis, increased by $16.7 million or 4% from the year ended December 31, 2004 to the year ended December 31, 2005. The increase in net interest income was primarily due to higher average balances and yields earned on the Company s loans and investment securities. Partially offsetting the increase in interest income was a rise in funding costs on various interest-bearing deposit products and securities sold under agreements to repurchase, reflecting a rise in short-term interest rates during 2005.

The Company s net interest margin increased by six basis points from the year ended December 31, 2004 to the year ended December 31, 2005. The improvement in the Company s net interest margin was attributable to the increase in the average balances and yields earned on loans and investment securities, partially offset by an increase in the Company s cost of funds.

Average loans and leases increased by $317.7 million or 5% from the year ended December 31, 2004 to the year ended December 31, 2005, with growth in substantially all loan and lease categories. Yields on total loans and leases increased by 38 basis points from the year ended December 31, 2004 to the year ended December 31, 2005. Average balances on the Company s investment securities portfolio increased by $165.8 million from the year ended December 31, 2004 to the year ended December 31, 2005. Yields increased by 27 basis points in the Company s available-for-sale portfolio and by 20 basis points in the Company s held-to-maturity portfolio from the year ended December 31, 2004 to the year ended December 31, 2005, reflecting a rise in interest rates over this period.

Average interest-bearing liabilities increased by $219.7 million or 3% from the year ended December 31, 2004 to the year ended December 31, 2005, primarily due to an increase in interest-bearing demand deposits associated with the introduction of a new product as well as growth in existing product average balances. Average short-term borrowings and securities sold under agreements to repurchase decreased slightly from the year ended December 31, 2004 to the year ended December 31, 2005. However, these decreases were offset by higher rates reflecting a rise in the short-term interest rate environment. The rates paid on securities sold under agreements to repurchase and short-term borrowings increased by 175 basis points and 200 basis points, respectively, from the year ended December 31, 2004 to the year ended December 31, 2005.

Average balances, related income and expenses, and resulting yields and rates are presented in Table 1. An analysis of the change in net interest income, on a taxable equivalent basis, is presented in Table 2.

Consolidated Average Balances and Interest Rates Taxable Equivalent Basis **Table 1**

	2006			**2005**			**2004**		
(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	$ 5.4	$ 0.2	3.92 %	$ 7.1	$ 0.2	3.07 %	$ 189.7	$ 3.5	1.83 %
Funds Sold	15.2	0.8	5.06	39.3	1.3	3.38	85.6	1.0	1.24
Investment Securities									
Available-for-Sale	2,598.8	127.5	4.91	2,545.6	114.0	4.48	2,227.8	93.7	4.21
Held-to-Maturity	417.6	18.3	4.37	523.7	21.4	4.08	675.7	26.2	3.88
Loans Held for Sale	9.7	0.6	6.38	20.4	0.8	4.03	15.8	0.9	5.57
Loans and Leases 1									
Commercial and Industrial	987.8	72.7	7.36	953.8	59.8	6.27	834.6	43.2	5.17
Construction	197.3	16.2	8.19	138.6	8.8	6.35	85.7	3.8	4.39
Commercial Mortgage	598.5	40.3	6.73	582.6	34.8	5.97	639.1	34.5	5.40
Residential Mortgage	2,450.4	146.3	5.97	2,346.8	133.6	5.70	2,290.6	129.6	5.66
Other Revolving Credit and Installment	711.6	64.7	9.09	740.4	62.7	8.46	691.5	59.3	8.58
Home Equity	922.2	68.4	7.42	844.2	49.8	5.91	735.7	35.2	4.79
Lease Financing	501.4	16.3	3.25	498.0	18.3	3.67	509.5	21.5	4.21
Total Loans and Leases	6,369.2	424.9	6.67	6,104.4	367.8	6.03	5,786.7	327.1	5.65
Other	79.4	1.1	1.45	69.8	1.3	1.81	73.8	2.8	3.78
Total Earning Assets 2	9,495.3	573.4	6.04	9,310.3	506.8	5.44	9,055.1	455.2	5.03
Cash and Noninterest-Bearing Deposits	301.2			313.0			314.6		
Other Assets	444.9			400.4			375.8		
Total Assets	$ 10,241.4			$ 10,023.7			$ 9,745.5		
Interest-Bearing Liabilities									
Interest-Bearing Deposits									
Demand	$ 1,615.5	15.6	0.96	$ 1,667.0	10.1	0.60	$ 1,433.1	3.2	0.22
Savings	2,680.3	38.3	1.43	2,928.6	20.5	0.70	2,945.3	13.2	0.45
Time	1,484.8	49.8	3.35	1,197.8	27.8	2.32	1,114.8	20.3	1.82
Total Interest-Bearing Deposits	5,780.6	103.7	1.79	5,793.4	58.4	1.01	5,493.2	36.7	0.67
Short-Term Borrowings	177.7	8.8	4.97	144.5	4.7	3.25	151.8	1.9	1.25
Securities Sold Under Agreements to Repurchase	932.4	42.2	4.52	699.0	21.2	3.03	732.2	9.4	1.28
Long-Term Debt	249.8	15.4	6.15	244.2	15.0	6.15	284.2	16.4	5.78
Total Interest-Bearing Liabilities	7,140.5	170.1	2.38	6,881.1	99.3	1.44	6,661.4	64.4	0.97
Net Interest Income		$ 403.3			$ 407.5			$ 390.8	
Interest Rate Spread			3.66 %			4.00 %			4.06 %
Net Interest Margin			4.25 %			4.38 %			4.32 %
Noninterest-Bearing Demand Deposits	1,950.4			1,973.1			1,929.1		
Other Liabilities	454.2			438.4			394.0		
Shareholders Equity	696.3			731.1			761.0		
	$ 10,241.4			$ 10,023.7			$ 9,745.5		

Total Liabilities and Shareholders Equity																																	

1 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.

2 Interest income includes a taxable equivalent basis adjustment based upon a federal statutory tax rate of 35%.

Analysis of Change in Net Interest Income Taxable Equivalent Basis				**Table 2**		
	Year Ended December 31, 2006 Compared to 2005			**Year Ended December 31, 2005 Compared to 2004**		
(dollars in millions)	**Volume** [1]	**Rate** [1]	**Total**	**Volume** [1]	**Rate** [1]	**Total**
Change in Interest Income:						
Interest-Bearing Deposits	$	$	$	$ (4.7)	$ 1.4	$ (3.3)
Funds Sold	(1.0)	0.5	(0.5)	(0.8)	1.1	0.3
Investment Securities						
Available-for-Sale	2.4	11.1	13.5	14.0	6.3	20.3
Held-to-Maturity	(4.5)	1.4	(3.1)	(6.1)	1.3	(4.8)
Loans Held for Sale	(0.5)	0.3	(0.2)	0.2	(0.3)	(0.1)
Loans and Leases						
Commercial and Industrial	2.2	10.7	12.9	6.7	9.9	16.6
Construction	4.4	3.0	7.4	2.9	2.1	5.0
Commercial Mortgage	0.9	4.6	5.5	(3.2)	3.5	0.3
Residential Mortgage	6.1	6.6	12.7	3.1	0.9	4.0
Other Revolving Credit and Installment	(2.5)	4.5	2.0	4.2	(0.8)	3.4
Home Equity	4.9	13.7	18.6	5.6	9.0	14.6
Lease Financing	0.1	(2.1)	(2.0)	(0.5)	(2.7)	(3.2)
Total Loans and Leases	16.1	41.0	57.1	18.8	21.9	40.7
Other	0.1	(0.3)	(0.2)	(0.1)	(1.4)	(1.5)
Total Change in Interest Income	12.6	54.0	66.6	21.3	30.3	51.6
Change in Interest Expense:						
Interest-Bearing Deposits						
Demand	(0.3)	5.8	5.5	0.6	6.3	6.9
Savings	(1.9)	19.7	17.8	(0.1)	7.4	7.3
Time	7.7	14.3	22.0	1.6	5.9	7.5
Total Interest-Bearing Deposits	5.5	39.8	45.3	2.1	19.6	21.7
Short-Term Borrowings	1.2	2.9	4.1	(0.1)	2.9	2.8
Securities Sold Under Agreements to Repurchase	8.5	12.5	21.0	(0.5)	12.3	11.8
Long-Term Debt	0.4		0.4	(2.4)	1.0	(1.4)
Total Change in Interest Expense	15.6	55.2	70.8	(0.9)	35.8	34.9
Change in Net Interest Income	$ (3.0)	$ (1.2)	$ (4.2)	$ 22.2	$ (5.5)	$ 16.7

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

Provision for Credit Losses

The Provision for Credit Losses (the Provision) reflects management s judgment of the expense or benefit necessary to establish the appropriate amount of the Allowance. The Provision is determined through detailed quarterly analyses of the loan and lease portfolio. During the year ended December 31, 2006, the Company recorded a Provision of $10.8 million. The Provision for the year ended December 31, 2006, equaled net charge-offs. The Provision is based on the Bank s loss experience, changes in the economic environment, as well as management s ongoing assessment of credit quality. The Company recorded a Provision of $4.6 million for the year ended December 31, 2005 and returned $10.0 million to income from a release of the Allowance for the year ended December 31, 2004. For further discussion on the Allowance, see the Corporate Risk Profile Allowance for Loan and Lease Losses section in MD&A.

Noninterest Income

Table 3 presents the major components of noninterest income for the years ended December 31, 2006, 2005, and 2004.

Noninterest Income					**Table 3**
	Year Ended December 31,			**Percent Change**	
(dollars in thousands)	**2006**	**2005**	**2004**	**2006 to 2005**	**2005 to 2004**
Trust and Asset Management	$ 58,740	$ 56,830	$ 53,465	3 %	6 %
Mortgage Banking	10,562	10,399	8,012	2	30
Service Charges on Deposit Accounts	41,756	39,945	39,117	5	2
Fees, Exchange, and Other Service Charges	62,441	59,588	54,907	5	9
Investment Securities Gains (Losses), Net	172	341	(794)	(50)	n.m.
Insurance	20,388	19,643	19,241	4	2
Other Income:					
Income from Bank-Owned Life Insurance	6,090	6,037	7,336	1	(18)
Gain on the Sale of Leased Assets	2,708	5,084	6,076	(47)	(16)
Leasing Partnership Distribution	17	18	3,218	(6)	n.m.
Gain on the Sale of Land			2,454	n.m.	n.m.
Other	13,302	11,429	12,062	16	(5)
Total Other Income	22,117	22,568	31,146	(2)	(28)
Total Noninterest Income	$ 216,176	$ 209,314	$ 205,094	3 %	2 %

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. The fees are generally based on the market value of the assets that are managed. Total trust assets under administration were $12.6 billion, $12.5 billion, and $11.5 billion as of December 31, 2006, 2005, and 2004, respectively. The increases in trust and asset management income is consistent with the performance of the equity markets which led to an increase in the Company s average market value of trust assets under management. Trust and asset management income also increased due to higher advisory fees on mutual fund assets managed by the Bank for the year ended December 31, 2006.

Mortgage banking income is comprised primarily of gains from sales of residential mortgage loans and net servicing income. Net servicing income is income earned for servicing loans less the amortization of mortgage servicing rights. Mortgage banking income is highly influenced by the level and direction of mortgage interest rates and the strength of the housing market. Mortgage banking income for the year ended December 31, 2006 was slightly higher than that recorded for the year ended December 31, 2005. This increase in mortgage banking income was due to a decline in the amortization of mortgage servicing rights, as a result of lower loan prepayments, partially offset by a decrease in loan origination and lower gain on sale, reflecting a slowdown in the housing market and refinancing activity. Residential mortgage loan origination was $0.8 billion and $1.0 billion for the years ended December 31, 2006 and 2005, respectively. Mortgage banking income increased for the year ended December 31, 2005 compared to the year ended December 31, 2004 primarily as a result of a decline in the amortization of mortgage servicing rights attributable to lower loan prepayments. Residential mortgage loan originations were $1.0 billion for the year ended December 31, 2004.

Service charges on deposit accounts increased from the year ended December 31, 2005 to the year ended December 31, 2006, primarily due to overdraft fees resulting from an increase in the number of transactional deposit accounts. This was partially offset by lower account analysis fees on analyzed business accounts as a result of increased earnings on analyzed checking accounts. The increase in service charges on deposit accounts from the year ended December 31, 2004 to the year ended December 31, 2005 was also due to an increase in the number of transactional deposit accounts.

Fees, exchange, and other service charges are primarily comprised of merchant service activity, fees from ATMs, and other loan fees and service charges. Fees, exchange, and other service charges increased from the year ended December 31, 2005 to the year ended December 31, 2006, primarily due to higher interchange income as a result of new debit cards issued as well as an increase in transaction volume from existing debit cardholders. The increase in

fees, exchange, and other service charges from the year ended December 31, 2004 to the year ended December 31, 2005 was primarily due to increased merchant transactions, and card and loan fees, partially offset by a decrease in foreign currency income.

Insurance income is comprised of the income derived from the Company s retail and wholesale insurance businesses. The increase in insurance income from the year ended December 31, 2005 to the year ended December 31, 2006 was primarily due to higher benefits of lower loss experience of customers who insure with the Company s wholesale insurance business. Insurance income remained relatively unchanged from the year ended December 31, 2004 to the year ended December 31, 2005.

The other component of other noninterest income increased from the year ended December 31, 2005 to the year ended December 31, 2006 primarily due to higher mutual fund and securities income. The other component of other noninterest income remained relatively unchanged from the year ended December 31, 2004 to the year ended December 31, 2005.

Noninterest Expense

Table 4 presents the major components of noninterest expense for the years ended December 31, 2006, 2005, and 2004.

Noninterest Expense **Table 4**

(dollars in thousands)	**Year Ended December 31, 2006**	**2005**	**2004**	**Percent Change 2006 to 2005**	**2005 to 2004**
Salaries and Benefits:					
Salaries	$ 110,203	$ 108,286	$ 111,362	2 %	(3)%
Incentive Compensation	17,150	16,145	15,458	6	4
Share-Based Compensation	5,322	6,118	11,726	(13)	(48)
Commission Expense	7,168	8,112	7,682	(12)	6
Retirement and Other Benefits	17,212	17,962	15,900	(4)	13
Payroll Taxes	9,791	9,748	11,063		(12)
Medical, Dental, and Life Insurance	7,900	8,027	8,354	(2)	(4)
Separation Expense	1,711	1,912	2,754	(11)	(31)
Total Salaries and Benefits	176,457	176,310	184,299		(4)
Net Occupancy	38,976	38,273	38,347	2	
Net Equipment	20,127	21,541	23,926	(7)	(10)
Professional Fees	6,854	15,702	14,212	(56)	10
Other Expense:					
Data Services	13,029	12,128	10,364	7	17
Delivery and Postage Services	10,049	9,812	10,123	2	(3)
Other	55,470	53,876	53,169	3	1
Total Other Expense	78,548	75,816	73,656	4	3
Total Noninterest Expense	$ 320,962	$ 327,642	$ 334,440	(2)%	(2)%

Total salaries and benefits remained relatively unchanged from the year ended December 31, 2005 to the year ended December 31, 2006. Base salaries increased from the year ended December 31, 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. Offsetting these increases were the decline in share-based compensation and lower commission expense resulting from a decrease in residential mortgage loan originations. Total salaries and benefits decreased by 4% from the year ended December 31, 2004 to the year ended December 31, 2005, primarily due to lower share-based compensation associated with restricted stock units and lower base salaries as a result of a 3% decline in the number of employees. Partially offsetting the decline in expenses from the year ended December 31, 2004 to the year ended December 31, 2005 was an increase in retirement and other benefits due to increased expense for actuarially determined benefits as a result of a change in the assumed discount rate.

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment,* on January 1, 2006 using the modified prospective method. Prior to the adoption of SFAS No. 123(R), the Company accounted for share-based compensation under the intrinsic value method as permitted by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related

interpretations. Note 13 to the Consolidated Financial Statements provides further information on the Company s adoption of SFAS No. 123(R) and is incorporated herein by reference.

Professional fees decreased for the year ended December 31, 2006 primarily due to the reduction of legal fees as a result of the conclusion of various legal matters. Professional fees increased from the year ended December 31, 2004 to the year ended December 31, 2005, primarily due to increased legal fees and other expenses resulting from the now resolved investigation by the U.S. Securities and Exchange Commission (the SEC) related to alleged market timing and/or excessive trading in a mutual fund family to which the Bank serves as a registered investment adviser. In the fourth quarter of 2005, the SEC terminated its investigation without formal action being taken against the Bank. Partially offsetting the increase in legal fees for the year ended December 31, 2005 was a decrease in other professional fees, primarily consulting fees.

Other noninterest expense increased from the year ended December 31, 2005 to the year ended December 31, 2006 primarily due to higher data services and mileage program travel expenses. The increase in noninterest expense from the year ended December 31, 2004 to the year ended December 31, 2005 was primarily due to a goodwill impairment charge of $1.3 million recorded in the first quarter of 2005 relating to the Bank s insurance business.

Income Taxes

The Company s provision for income taxes reflected an effective tax rate of 37.17%, 36.11%, and 36.09% for the years ended December 31, 2006, 2005, and 2004, respectively. The higher effective tax rate for the year ended December 31, 2006 was primarily due to legislative changes impacting foreign sales corporations, and the resolution of a tax issue with the Internal Revenue Service (the IRS). For additional information regarding the Company s provision for income taxes, including a reconciliation of the effective tax rate to the federal statutory tax rate, refer to Note 14 to the Consolidated Financial Statements, which is incorporated herein by reference.

Analysis of Business Segments

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

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

The Company considers NIACC to be a measure of shareholder value creation. The Company s NIACC for the years ended December 31, 2006, 2005, and 2004 was $96.9 million, $89.1 million, and $67.6 million, respectively. The increase in the Company s NIACC from the year ended December 31, 2005 to the year ended December 31, 2006 was primarily due to a lower capital charge and economic provision. Allocated net income remained relatively unchanged from the year ended December 31, 2005 to the year ended December 31, 2006.

The increase in the Company s NIACC from the year ended December 31, 2004 to the year ended December 31, 2005 was primarily due to a higher allocated net income and a lower capital charge.

Financial results for each of the Company s segments are presented in Table 5 and Note 11 to the Consolidated Financial Statements, which are incorporated herein by reference.

The following table summarizes NIACC and RAROC results for the Company s business segments for the years ended December 31, 2006, 2005, and 2004.

Business Segment Selected Financial Information

Table 5

(dollars in thousands)	**Retail Banking**	**Commercial Banking**	**Investment Services**	**Treasury**	**Consolidated Total**
Year Ended December 31, 2006					
Allocated Net Income	$ 97,359	$ 48,173	$ 14,414	$ 20,413	$ 180,359
Allowance Funding Value	(792)	(2,496)	(34)	3,322	
Provision for Credit Losses	10,491	1,965	(1)	(1,697)	10,758
Economic Provision	(12,466)	(8,818)	(386)	(1)	(21,671)
Tax Effect of Adjustments	1,024	3,459	156	(601)	4,038
Income Before Capital Charge	95,616	42,283	14,149	21,436	173,484
Capital Charge	(21,742)	(16,264)	(6,291)	(32,309)	(76,606)
Net Income (Loss) After Capital Charge (NIACC)	$ 73,874	$ 26,019	$ 7,858	$ (10,873)	$ 96,878
RAROC (ROE for the Company)	48%	29%	25%	15%	26%
Year Ended December 31, 2005					
Allocated Net Income	$ 82,454	$ 54,894	$ 9,722	$ 34,491	$ 181,561
Allowance Funding Value	(688)	(2,332)	(23)	3,043	
Provision for Credit Losses	14,151	8,942	(1)	(18,504)	4,588
Economic Provision	(13,547)	(9,757)	(412)	(4)	(23,720)
Tax Effect of Adjustments	31	1,167	159	5,722	7,079
Income Before Capital Charge	82,401	52,914	9,445	24,748	169,508
Capital Charge	(21,717)	(17,989)	(6,628)	(34,112)	(80,446)
Net Income (Loss) After Capital Charge (NIACC)	$ 60,684	$ 34,925	$ 2,817	$ (9,364)	$ 89,062
RAROC (ROE for the Company)	42%	32%	16%	17%	25%
Year Ended December 31, 2004					
Allocated Net Income	$ 69,393	$ 55,930	$ 7,463	$ 40,553	$ 173,339
Allowance Funding Value	(605)	(2,653)	(25)	3,283	
Provision for Credit Losses	10,446	3,232	47	(23,725)	(10,000)
Economic Provision	(14,054)	(10,507)	(392)	(7)	(24,960)
Tax Effect of Adjustments	1,559	3,673	137	7,566	12,935
Income Before Capital Charge	66,739	49,675	7,230	27,670	151,314
Capital Charge	(21,921)	(19,192)	(6,157)	(36,459)	(83,729)
Net Income (Loss) After Capital Charge (NIACC)	$ 44,818	$ 30,483	$ 1,073	$ (8,789)	$ 67,585
RAROC (ROE for the Company)	33%	28%	13%	22%	23%

Retail Banking

The Retail Banking segment offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, automobile loans and leases and installment loans. Deposit products include checking, savings and time deposit accounts. The Retail Banking segment also provides merchant services to its small business customers. Products and services from the Retail Banking segment are delivered to customers through 73 Hawaii branch locations, 466 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service) and a 24-hour telephone banking service. This segment also offers retail property and casualty insurance products.

The improvement in the segment s key financial measures from the year ended December 31, 2005 to the year ended December 31, 2006 was primarily due to an increase in net interest income and noninterest income. The 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 increase in noninterest income was due to higher interchange income from debit card sales, transaction volume, and higher fee income from policy initiatives, as well as growth in the number of transactional deposit accounts. Noninterest expense remained relatively unchanged from the year ended December 31, 2005. The lower Provision for the year ended December 31, 2006 was the result of lower levels of loans and leases charged-off for the year.

The improvement in the segment s key financial measures from the year ended December 31, 2004 to the year ended December 31, 2005 was primarily due to an increase in net interest income and noninterest income. The increase in net interest income was the result of higher earnings credits on the segment s deposit portfolio, as well as increased loan and deposit balances. The increase in noninterest income was primarily due to improved application of fee schedules and growth in the number of deposit accounts, along with an increase in mortgage banking income. Noninterest expense remained relatively unchanged from the year ended December 31, 2004. The increase in the Provision was primarily due to increased levels of loans and leases charged-off as a result of continued growth in the segment s loan and lease portfolio.

Commercial Banking

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

The decline in the segment s financial measures from the year ended December 31, 2005 to the year ended December 31, 2006 was primarily due to lower net interest income and noninterest income and a higher provision for income taxes. The decrease in net interest income was primarily due to the funding charge associated with non-earning assets. The increase in the provision for income taxes was primarily due to a change in tax legislation which occurred in the second quarter of 2006. Note 14 to the Consolidated Financial Statements provides more information on income taxes and is incorporated herein by reference. The decrease in noninterest income was primarily due to higher gains on the sale of leased assets recognized during the year ended December 31, 2005. Reductions in operating risk and the further refinement of credit risk factors resulted in a lower charge for capital. The decrease in the Provision for the year ended December 31, 2006 was primarily the result of a $10.0 million charge-off related to a leveraged lease with a major airline carrier that declared bankruptcy in 2005.

The improvement in the segment s financial measures from the year ended December 31, 2004 to the year ended December 31, 2005 was primarily due to an increase in net interest income and a decrease in noninterest expense, partially offset by a decrease in noninterest income. The increase in net interest income was primarily due to higher deposit balances and the related earnings credit from funds transfer pricing. The decrease in noninterest income was primarily due to higher gains on the sale of leased assets recognized during the year ended December 31, 2004. The reduction in noninterest expense was due to a gain realized on the sale of foreclosed real estate property during the year ended December 31, 2005 and lower salaries expense. Reductions in operating risk and the further refinement

of credit risk factors resulted in a lower charge for capital. The increase in Provision for the year ended December 31, 2005 was primarily due to the $10.0 million charge-off related to a leveraged lease noted above.

Investment Services

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

The improvement in the segment s financial measures from the year ended December 31, 2005 to the year ended December 31, 2006 was primarily due to higher noninterest income and lower noninterest expense. Trust and asset management fee income increased largely due to improved market conditions which resulted in an increase in the average market value of assets under management and an increase in investment advisory fees on money market accounts. The decrease in noninterest expense was primarily due to charges for legal fees and other expenses as a result of the now resolved SEC investigation discussed under Analysis of Statement of Income Noninterest Expense which occurred in 2005. Reductions in operating risk and the further refinement of credit risk factors resulted in a lower charge for capital.

The improvement in the segment s financial measures from the year ended December 31, 2004 to the year ended December 31, 2005 was primarily due to increases in net interest income and noninterest income partially offset by an increase in noninterest expense. The increase in net interest income was largely due to the transfer of private client related consumer loans and non-resident alien deposits from the Retail Banking segment. Trust and asset management fee income increased largely due to improved market conditions which resulted in an increase in the average market value of assets under management and an increase in investment advisory fees on money market accounts. The increase in noninterest expense was primarily due to the now resolved SEC investigation discussed under Analysis of Statement of Income Noninterest Expense which occurred in 2005.

Treasury

Treasury consists of corporate asset and liability management activities, including interest rate risk management and foreign exchange business. This segment s assets and liabilities (and related interest income and expense) consist of interest-bearing deposits, investment securities, federal funds sold and purchased, government deposits and short-term and long-term borrowings. The primary sources of noninterest income are from bank-owned life insurance and foreign exchange income related to customer driven currency requests from merchants and island visitors. The net residual effect of transfer pricing of assets and liabilities is included in Treasury, along with eliminations of inter-company transactions.

The decline in the segment s key financial measures from the year ended December 31, 2005 to the year ended December 31, 2006 was primarily due to lower net interest income partially offset by lower noninterest expenses and capital charges. The decrease in net interest income was primarily due to higher funding costs associated with the Company s deposit portfolio and increases in both rate and volume of short-term borrowings. Noninterest expense decreased due to a reduction in share-based compensation expense. The capital charge was favorably impacted by a reduction of the Company s excess capital, a result of the Company s ongoing share repurchase program.

The segment s financial measures for the year ended December 31, 2005 remained relatively unchanged from the year ended December 31, 2004, although net interest income and noninterest income decreases were offset by a decrease in noninterest expense. The reduction in net interest income was due to the impact on the Treasury unit of funding higher average deposit balances. Noninterest income decreased due to reduced income from bank-owned life insurance and the sale of a parcel of land in 2004. Noninterest expense decreased during the year ended December 31, 2005 due to reductions in share-based compensation and separation expense.

The other organizational units of the Company (Technology, Operations, Marketing, Human Resources, Finance, Credit and Risk Management, and Corporate and Regulatory Administration) provide a wide-range of support to the Company s 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

The Company s investment securities portfolio is managed to provide liquidity and interest income, offset interest rate risk positions, and to provide collateral for various banking activities. As of December 31, 2006, the investment securities portfolio was $3.0 billion, a decrease of $23.2 million from December 31, 2005. The investment securities portfolio was in a gross unrealized loss position of $57.7 million or 2% of total amortized cost as of December 31, 2006. The Company has the intent and ability to hold the investment securities for the time necessary to recover the amortized cost value. See Note 2 to the Consolidated Financial Statements, which is incorporated herein by reference.

See Table 6 for the contractual maturity distribution, market value, and weighted-average yield to maturity of the Company s investment securities.

Supplementary Data - Contractual Maturity Distribution, Market Value, and Weighted Average Yield to Maturity of Investment Securities **Table 6**

(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**	**Approximate Market Value**
Contractual Maturity Distribution Based on Amortized Cost											
December 31, 2006											
Investment Securities											
Available-for-Sale 1											
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 0.7	4.4 %	$ 3.3	4.1 %	$ 15.0	6.1 %	$	%	$ 19.0	5.7 %	$ 18.9
Debt Securities Issued by States and Political Subdivisions 2	0.3	4.2	3.4	4.9	32.4	5.2	2.8	6.1	38.9	5.2	38.8
Debt Securities Issued by U.S. Government-Sponsored Enterprises	0.8	4.3	68.2	4.9	189.8	6.1	0.2	6.8	259.0	5.8	257.9
Mortgage-Backed Securities 3			2.2	6.0	52.9	4.8	1,935.8	5.1	1,990.9	5.1	1,955.2
Other Debt Securities	110.2	3.9	222.9	3.8					333.1	3.8	327.1
Total Investment Securities Available-for-Sale	112.0	3.9 %	300.0	4.1 %	290.1	5.8 %	1,938.8	5.1 %	2,640.9	5.0 %	2,597.9
Investment Securities Held-to-Maturity											
Mortgage-Backed Securities 3		%		%	17.2	6.3 %	354.1	4.3 %	371.3	4.4 %	360.7
Total Investment Securities Held-to-Maturity		%		%	17.2	6.3 %	354.1	4.3 %	371.3	4.4 %	360.7
Total Investment Securities											
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
December 31, 2004	$ 11.5		$ 349.6		$ 71.3		$ 2,633.0		$ 3,065.4		$ 3,069.5

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 pay downs.

Loans and Leases

Loans and leases represent the Company s largest category of interest earning assets and the largest source of revenue. The Company s loan and lease portfolio is divided into commercial and consumer components.

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 extended primarily to corporations, middle market, and small businesses. The purpose of these loans is for working capital needs, acquisitions, equipment, or other expansion projects. Commercial mortgages and construction loans are offered to real estate investors, developers, and builders primarily 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. The Company s commercial loan and lease portfolio increased by $362.0 million or 17% from December 31, 2005. The increase from December 31, 2005 was experienced in all categories of commercial loans and leases, and was primarily due to continued economic growth in the Company s key markets. Although the Company s primary market is Hawaii, the commercial portfolio contains loans to some borrowers based on the continental United States (Mainland) including some shared national credits.

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 the Company serves through its branch network. The Company s consumer loan portfolio increased $92.7 million or 2% from December 31, 2005, primarily in the residential mortgage and home equity portfolios. Both the residential mortgage and home equity portfolios benefited as a result of continued strength of the Hawaii residential real estate market in 2006. The purchased home equity portfolio, which is comprised of Mainland borrowers, continued to run-off with no new purchases in 2006.

Table 7 presents the geographic distribution of the loan and lease portfolio based on the location of the borrower and Table 8 presents maturities and sensitivity of loans to changes in interest rates.

Note 3 to the Consolidated Financial Statements, which is incorporated herein by reference, presents the composition of the loan and lease portfolio by major loan categories. For additional information, refer to the Corporate Risk Profile Credit Risk section of MD&A.

Geographic Distribution of Loan and Lease Portfolio **Table 7**

	December 31, 2006					
(dollars in thousands)	**Hawaii**	**Mainland U.S.**	**Guam**	**Other Pacific Islands**	**Foreign**	**Total**
Commercial						
Commercial and Industrial	$ 711,865	$ 229,947	$ 69,245	$ 26,202	$ 56,133	$ 1,093,392
Commercial Mortgage	522,645	4,030	81,576	3,083		611,334
Construction	234,913	12,066	2,279	5		249,263
Lease Financing	49,100	426,049	1,569		32,279	508,997
Total Commercial	1,518,523	672,092	154,669	29,290	88,412	2,462,986
Consumer						
Residential Mortgage	2,253,633		230,485	8,992		2,493,110
Home Equity	877,624	51,038	11,951	4,260		944,873
Other Revolving Credit and Installment	516,957	363	124,621	58,408	547	700,896
Lease Financing	21,302					21,302
Total Consumer	3,669,516	51,401	367,057	71,660	547	4,160,181
Total Loans and Leases	$ 5,188,039	$ 723,493	$ 521,726	$ 100,950	$ 88,959	$ 6,623,167
Percentage of Total Loans and Leases	78%	11%	8%	2%	1%	100%

Maturities and Sensitivities of Loans to Changes in Interest Rates 1 **Table 8**

	December 31, 2006			
(dollars in thousands)	**Due in One Year or Less**	**Due After One to Five Years 2**	**Due After Five Years**	**Total**
Commercial and Industrial	$ 593,458	$ 346,897	$ 153,037	$ 1,093,392
Construction	199,274	4,641	45,348	249,263
Total	$ 792,732	$ 351,538	$ 198,385	$ 1,342,655

1 Based on contractual maturities.

2 As of December 31, 2006, loans maturing after one year consisted of $374.0 million in floating rate loans and $175.9 million in fixed rate loans.

Other Assets

The Company s other assets increased by $4.7 million from December 31, 2005 to December 31, 2006, primarily due to an increase in federal tax deposits. During the second quarter of 2006, an $18.0 million additional deposit was placed with the IRS relating to its disallowance of the Company s tax positions on certain lease transactions

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characterized as Lease In/Lease Out (LILO) and Sale In/Lease Out (SILO) transactions. This deposit is in addition to a $43.0 million deposit placed by the Company with the IRS in 2005, also relating to the initial disallowance of the LILO and SILO transactions. The placement of the deposits reduced the accrual of additional interest associated with the potential underpayment of taxes related to these transactions. The Company believes its tax position related to these transactions was proper based on applicable statutes, regulations, and case law at the time the transactions were entered into. Also contributing to the increase in other assets was a $5.7 million increase in Bank-Owned Life Insurance from December 31, 2005 to December 31, 2006.

The increases in other assets were partially offset by a $12.4 million decrease in prepaid pension costs and a $6.6 million decrease in Low Income Housing Investments. In connection with the Company s adoption 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),* the Company reclassified $12.4 million in prepaid pension costs and netted this amount with its Retirement Benefits Payable account on the Company s Consolidated Statements of Condition as of December 31, 2006. The net effect of this reclassification reflects the funded status of the Company s pension and postretirement benefit plans as of December 31, 2006. As of December 31, 2006, the Company s pension and postretirement benefit plans were underfunded by $48.3 million. Note 6 to the Consolidated Financial Statements presents additional information on other assets and Note 12 presents additional information on Employee Benefits and are incorporated herein by reference.

Deposits

Total deposits were $8.0 billion as of December 31, 2006, a 1% increase from December 31, 2005. Balances in noninterest-bearing demand, interest-bearing demand, and savings deposits, collectively decreased by $305.6 million from December 31, 2005 to December 31, 2006. Over this same period, the Company s time deposits increased by $421.5 million as some customers shifted their deposits into higher yielding products. Customers also moved their deposits into higher yielding off-balance sheet managed cash accounts during the year ended December 31, 2006. Although consumer and public deposits have remained relatively unchanged from December 31, 2005, the Company experienced strong growth in commercial deposits, particularly in savings and time deposit categories. Note 7 to the Consolidated Financial Statements presents additional information on deposits, and is incorporated herein by reference.

Borrowings

The Company s borrowings consisted of funds purchased and short-term borrowings, including commercial paper. As of December 31, 2006, the Company s borrowings were $71.2 million, a decrease of $206.4 million from December 31, 2005. The decrease in the Company s borrowings was offset by higher balances in the Company s securities sold under agreements to repurchase, another source of short- to medium-term financing.

Securities Sold Under Agreements to Repurchase

As of December 31, 2006, the Company s securities sold under agreements to repurchase were $1.0 billion, an increase of $438.4 million from December 31, 2005. The increase in the Company s securities sold under agreements to repurchase was primarily due to additional placements with private entities during 2006 to provide additional sources of liquidity. As of December 31, 2006, securities sold under agreements to repurchase placed with private entities were $675.0 million, of which $650.0 million were indexed to the London Inter Bank Offering Rate and $25.0 million were indexed to the 10-Year Constant Maturity Swap Rate. Note 8 to the Consolidated Financial Statements, which is incorporated herein by reference, provides additional information on securities sold under agreements to repurchase.

Long-Term Debt

As of December 31, 2006, the Company s long-term debt was $260.3 million, an increase of $17.6 million from December 31, 2005. The increase in the Company s long-term debt was primarily due to the issuance of $25.0 million in privately placed notes in September 2006. This was partially offset by the maturity of $2.5 million in Federal Home Loan Bank of Seattle advances and the repurchase of $5.0 million in Capital Securities by the Parent in December 2006. Note 9 to the Consolidated Financial Statements provides more information on long-term debt and is incorporated herein by reference.

Foreign Activities

For the years ended December 31, 2006 and 2005, the Company continued to hold U.S. dollar placements and investment securities issued by foreign entities, as a means of generating foreign source income. The Company used foreign tax credits available to reduce the tax on this income.

Table 9 presents, as of December 31, 2006, 2005, and 2004, a geographic distribution of international assets for which the Company has 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 9**

(dollars in thousands)	Government and Other Official Institutions	Banks and Other Financial Institutions	Commercial and Consumer	Total
December 31, 2006:				
Netherlands				
Investment Securities	$	$ 100,316	$	$ 100,316
Loans and Leases			11,723	11,723
Total Netherlands		100,316	11,723	112,039
Australia				
Investment Securities		74,853		74,853
Deposits		1,782		1,782
Loans and Leases			7,923	7,923
Total Australia		76,635	7,923	84,558
All Others [2]				
Investment Securities		146,879		146,879
Deposits		2,689		2,689
Loans and Leases			79,619	79,619
Total 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
December 31, 2004:				
Netherlands	$	$ 104,419	$ 12,729	$ 117,148
Australia		76,161	12,615	88,776
All Others	67	156,203	80,151	236,421
Total	$ 67	$ 336,783	$ 105,495	$ 442,345

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 included loans, acceptances, interest-bearing deposits with other banks, other interest-bearing investments, and other monetary assets.

2 As of December 31, 2006, the significant items comprising the all others category included cross-border outstandings of $61.9 million in the United Kingdom, $49.4 million in Sweden, and $49.0 million in Switzerland.

The Company s cross-border assets increased slightly from $419.1 million as of December 31, 2005 to $425.8 million as of December 31, 2006. However, the relative components of the Company s cross-border assets have not changed significantly from December 31, 2005 to December 31, 2006. Accordingly, the Company s risk profile with respect to its cross-border loans and leases has not changed significantly from December 31, 2005 to December 31, 2006 and did not have a material impact on the change in the Company s Allowance.

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 the Company. Credit exposures reflect legally binding commitments for loans, leases, banker s acceptances, standby and commercial letters of credit, and overnight deposit account overdrafts.

The Company manages and controls risk in the loan and lease portfolio by adhering to well-defined underwriting criteria and account administration standards established by management. Written credit policies establish 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.

The Company s credit risk position remained stable and strong during the year ended December 31, 2006 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 as of December 31, 2006 was 0.09%, unchanged from December 31, 2005.

Net loans and leases charged-off during the year ended December 31, 2006 as a percent of average loans and leases outstanding was 0.17%, a decrease from 0.36% for the year ended December 31, 2005. The decrease in the charge-off ratio was primarily due to commercial loan charge-offs decreasing from $12.6 million for the year ended December 31, 2005 to $2.4 million for the year ended December 31, 2006. The Company charged-off a $10.0 million leveraged lease in the third quarter of 2005 following the bankruptcy announcement of a national air carrier. This leveraged lease charge-off was fully reserved for in the Allowance.

The Company s favorable credit risk profile reflects a generally strong economy in Hawaii and the Mainland with improving economic conditions in Guam. Hawaii s construction, real estate, and domestic tourism industries have remained strong during 2006, despite higher energy prices and increasing inflationary trends. The Company has also maintained a practice of disciplined commercial and consumer underwriting and portfolio management.

Relative to the Company s total loan and lease portfolio, domestic airline carriers continued to demonstrate a higher risk profile due to fuel costs, pension plan obligations, and marginal pricing power. Management continues to consider the conditions within the airline industry, which appear to have improved, in its evaluation of the Company s reserve for credit losses. Table 10 below summarizes the Company s air transportation credit exposure as of December 31, 2006 and 2005.

Air Transportation Credit Exposure [1] **Table 10**

	December 31, 2006			**December 31, 2005**
(dollars in thousands)	**Outstanding**	**Unused Commitments**	**Total Exposure**	**Total Exposure**
Passenger Carriers Based In the United States	$ 68,035	$	$ 68,035	$ 68,829
Passenger Carriers Based Outside the United States	19,406		19,406	20,678
Cargo Carriers	13,240		13,240	13,240
Total Air Transportation Credit Exposure	$ 100,681	$	$ 100,681	$ 102,747

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

Non-Performing Assets

Non-performing assets (NPAs) consist of non-accrual loans and leases, foreclosed real estate, and other non-performing investments. The Company s NPAs were $6.4 million as of December 31, 2006 as compared to $6.5 million as of December 31, 2005. The nominal decrease in NPAs included $3.0 million of payments and pay-offs, $2.5 million of loans and leases that returned to accrual status, $0.2 million in sales of foreclosed real estate, $0.8 million of loans and leases charged-off, offset by $6.4 million of additions to NPAs. The NPAs are primarily residential mortgage loans.

Included in NPAs are loans and leases that are considered impaired. Impaired loans and leases are defined as those which the Company believes it is probable it will not collect all amounts due according to the contractual terms of the loan or lease agreement. Impaired loans and leases were $0.4 million as of December 31, 2006 compared with $0.1 million as of December 31, 2005. The increase in impaired loans and leases was due to a commercial loan that was placed on non-accrual status in the fourth quarter 2006.

Loans and Leases Past Due 90 Days or More and Still Accruing Interest

Table 11 presents a five-year history of non-performing assets and accruing loans and leases past due 90 days or more.

Consolidated Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More **Table 11**

	December 31,				
(dollars in thousands)	**2006**	**2005**	**2004**	**2003**	**2002**
Non-Performing Assets					
Non-Accrual Loans and Leases					
Commercial					
Commercial and Industrial	$ 769	$ 212	$ 683	$ 6,015	$ 5,912
Commercial Mortgage	40	58	2,106	9,337	20,323
Construction					529
Lease Financing	31		2,973	2,181	4,047
Total Commercial	840	270	5,762	17,533	30,811
Consumer					
Residential Mortgage	4,914	5,439	7,688	9,354	13,898
Home Equity	164	111	218	460	263
Total Consumer	5,078	5,550	7,906	9,814	14,161
Total Non-Accrual Loans and Leases	5,918	5,820	13,668	27,347	44,972
Foreclosed Real Estate	407	358	191	4,377	9,434
Other Investments	82	300			
Total Non-Performing Assets	$ 6,407	$ 6,478	$ 13,859	$ 31,724	$ 54,406
Accruing Loans and Leases Past Due 90 Days or More					
Commercial					
Commercial and Industrial	$	$	$ 52	$ 725	$ 162
Commercial Mortgage					298
Lease Financing				117	
Total Commercial			52	842	460
Consumer					
Residential Mortgage	519	1,132	387	1,430	641
Home Equity	331	185	183		10
Other Revolving Credit and Installment	1,954	1,504	1,433	1,210	693
Lease Financing	10	29	30		14
Total Consumer	2,814	2,850	2,033	2,640	1,358
Total Accruing Loans and Leases Past Due 90 Days or More	$ 2,814	$ 2,850	$ 2,085	$ 3,482	$ 1,818
Total Loans and Leases	$ 6,623,167	$ 6,168,536	$ 5,986,930	$ 5,757,175	$ 5,359,004
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.09%	0.09%	0.23%	0.48%	0.84%
Ratio of Non-Performing Assets to Total Loans and Leases, Foreclosed Real Estate and Other Investments	0.10%	0.11%	0.23%	0.55%	1.01%
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases	0.14%	0.15%	0.27%	0.61%	1.05%

Accruing loans and leases past due 90 days or more were $2.8 million as of December 31, 2006 and were substantially unchanged from the amount of accruing loans and leases past due 90 days or more as of December 31, 2005. Included in accruing loans and leases past due 90 days or more are residential mortgage loans in Guam. The Company believes the improved real estate market conditions in Guam will provide sufficient resilience to resolve any distressed properties within an acceptable time frame.

Table 12 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 12**

(dollars in thousands)	**Year Ended December 31, 2006**	**2005**	**2004**	**2003**	**2002**
Interest Income That Would Have Been Recorded Under Original Terms:					
Domestic	$ 774	$ 911	$ 2,123	$ 2,829	$ 5,344
Interest Income Recorded During the Year: 1					
Domestic	902	763	532	1,336	1,927
Foreign	11				

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

Allowance for Loan and Lease Losses

The Company s Allowance was $91.0 million as of December 31, 2006, a decrease of $0.1 million from December 31, 2005. The components of the Allowance, including the allocation between commercial and consumer categories, have also remained relatively unchanged from December 31, 2005 to December 31, 2006. Based on management s ongoing assessment of the credit quality of the loan and lease portfolio and the economic environment, the Company recorded a Provision of $10.8 million for the year ended December 31, 2006 as compared to a Provision of $4.6 million for the year ended December 31, 2005. See Note 3 to the Consolidated Financial Statements, which is incorporated herein by reference, for changes in the reserve for credit losses during the last five years.

The ratio of the Allowance to total loans and leases outstanding was 1.37% as of December 31, 2006, a decrease from 1.48% as of December 31, 2005. The reduction of the ratio was indicative of strong economic conditions and lower inherent losses in the portfolio driven by conservative underwriting and portfolio management standards in conjunction with funded loan and lease growth. The improvement in credit quality was reflected in lower net loans and leases charged-off for the year ended December 31, 2006 compared to the year ended December 31, 2005, as well as lower levels of NPAs as of December 31, 2006 compared to December 31, 2005.

Net loans and leases charged-off for the year ended December 31, 2006 of $10.8 million or 0.17% of total average loans and leases, decreased from $22.0 million or 0.36% of total average loans and leases for the year ended December 31, 2005. Net loans and leases charged-off for the year ended December 31, 2005 included a $10.0 million charge-off of a fully reserved aircraft lease. Excluding the effects of the $10.0 million charge-off, net loans and leases charged-off for the year ended December 31, 2005 were $12.0 million or 0.20% of total average loans and leases.

Although the Company determines the amount of each component of the Allowance separately, the Allowance was considered adequate by management as of December 31, 2006, based on its ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios, and other relevant factors.

Allowance allocations by loan and lease category are presented in Table 13.

Allocation of Allowance for Loan and Lease Losses **Table 13**

(dollars in thousands)	**2006**	**2005**	**2004**	**2003**	**2002**
Domestic Loans					
Commercial					
Commercial and Industrial	$ 21,623	$ 19,551	$ 23,063	$ 33,724	$ 43,465
Commercial Mortgage	6,540	6,437	9,570	16,303	16,488
Construction	1,570	1,719	1,449	2,342	2,681
Lease Financing	33,068	33,927	43,311	24,247	20,519
Total Commercial	62,801	61,634	77,393	76,616	83,153
Consumer					
Residential Mortgage	4,449	5,406	5,754	4,800	6,371
Home Equity	3,295	3,677	2,631	1,858	600
Other Revolving Credit and Installment	20,324	20,009	20,805	14,349	15,029
Lease Financing	129	364	213	312	400
Total Consumer	28,197	29,456	29,403	21,319	22,400
Total Domestic Loans	90,998	91,090	106,796	97,935	105,553
Foreign Loans				719	718
General1				30,426	36,582
Total Allocation of Allowance for Loan and Lease Losses	$ 90,998	$ 91,090	$ 106,796	$ 129,080	$ 142,853

1 Includes both foreign and domestic general reserves.

	2006		**2005**		**2004**		**2003**		**2002**	
	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**
Domestic Loans										
Commercial										
Commercial and Industrial	1.98 %	16.51 %	2.13 %	14.90 %	2.50 %	15.43 %	4.08 %	14.34 %	4.78 %	16.96 %
Commercial Mortgage	1.07	9.23	1.15	9.05	1.59	10.07	2.55	11.11	2.79	11.03
Construction	0.63	3.76	1.12	2.49	1.36	1.77	2.66	1.53	2.61	1.92
Lease Financing	6.50	7.69	7.22	7.62	9.04	8.00	5.56	7.57	4.80	7.97
Total Commercial	2.55	37.19	2.93	34.06	3.67	35.27	3.85	34.55	4.10	37.88
Consumer										
Residential Mortgage	0.18	37.64	0.22	39.19	0.25	38.73	0.21	40.22	0.30	39.97
Home Equity	0.35	14.27	0.41	14.40	0.33	13.16	0.27	11.93	0.10	11.49
Other Revolving Credit and Installment	2.90	10.58	2.72	11.94	2.83	12.30	2.17	11.47	3.18	8.81
Lease Financing	0.61	0.32	1.43	0.41	0.66	0.54	0.88	0.61	1.16	0.64
Total Consumer	0.68	62.81	0.72	65.94	0.76	64.73	0.58	64.23	0.69	60.91
Total Domestic Loans	1.37	100.00	1.48	100.00	1.78	100.00	1.72	98.78	1.99	98.79
Foreign Loans							1.02	1.22	1.11	1.21
Total	1.37 %	100.00 %	1.48 %	100.00 %	1.78 %	100.00 %	2.24 %	100.00 %	2.67 %	100.00 %

Reserve for Unfunded Commitments

The Unfunded Reserve was $5.2 million and $5.1 million as of December 31, 2006 and 2005, respectively. Management believes that the Unfunded Reserve sufficiently provides for exposures related to commitments to extend credit, banker s acceptances, and standby and commercial letters of credit. 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.

Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates and prices. The Company is exposed to market risk as a consequence of the normal course of conducting its business activities. Financial products that expose the Company to market risk include investment securities, loans, leases, deposits, debt, and derivative financial instruments. The Company s market risk management process involves measuring, monitoring, controlling, and managing risks that can significantly impact the Company s statements of income and condition. In this management process, market risks are balanced with expected returns in an effort to enhance earnings

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performance, while limiting volatility. The activities associated with these market risks are categorized into trading and other than trading.

The Company s trading activities include foreign currency and foreign exchange contracts that expose the Company to a small degree of foreign currency risk. These transactions are primarily executed on behalf of customers and at times for the Company s own account.

The Company s other than trading activities include normal business transactions that expose the Company s balance sheet profile to varying degrees of market risk. The Company s primary market risk exposure is interest rate risk. A key element in the process of managing market risk involves oversight by senior management and the Board of Directors as to the level of such risk assumed by the Company on its Consolidated Statement of Condition. The Board of Directors reviews and approves risk management policies, including risk limits and guidelines, and delegates oversight functions to the Asset/Liability Management Committee (ALCO). The ALCO, consisting of senior business and finance officers, monitors the Company s market risk exposure and, as market conditions dictate, modifies positions on the Company s Statement of Condition. The ALCO may also direct the Company to use derivative financial instruments, as deemed prudent.

Interest Rate Risk

The objective of the Company s 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 Company s statement of condition is sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from the Company s normal business activities of gathering deposits and extending loans. Many other factors also affect the Company s exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and repricing characteristics of financial instruments.

The earnings of the Company 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, leases, 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, the Company, through the ALCO, measures short-term and long-term sensitivities to changes in interest rates. The ALCO utilizes several techniques to manage interest rate risk, which include shifting 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 15 to the Consolidated Financial Statements, which is incorporated herein by reference, has generally been limited over the past several years. This is due to natural on-balance sheet hedges arising out of offsetting interest rate exposures from loans, leases, and 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. In addition, interest rate sensitive off-balance sheet exposures such as mortgage servicing rights have offsetting income effects with other fee income items such as mortgage origination fees. 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, the Company may use different techniques to manage interest rate risk.

A key element in the Company s ongoing process to measure and monitor interest rate risk is the utilization of an asset/liability simulation model. This 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, lease, 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 embedded options. While such assumptions are inherently uncertain, management believes that these assumptions are reasonable. As a result, the simulation model attempts to capture

the dynamic nature of the balance sheet and provide a sophisticated estimate rather than a precise prediction of exposure to changes in interest rates.

The Company utilizes net interest income simulations to analyze short-term income sensitivities to changes in interest rates. Table 14 presents, over the next twelve months from December 31, 2006, 2005, and 2004, an estimate of the change in net interest income that would result from a gradual 100 and 200 basis point increase or decrease in interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario for net interest income without any change in strategy. Based on the net interest income simulation as of December 31, 2006, the Company s 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, 2006 was less sensitive to changes in interest rates as compared to the sensitivity profile as of December 31, 2005 and 2004. 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 stay inverted for a period of time. Conversely, if the yield curve should become positively sloped from its current flat to inverted profile, net interest income may increase.

Net Interest Income Sensitivity Profile **Table 14**

(dollars in thousands)	Change in Net Interest Income From December 31, 2006		2005		2004	
Change in Interest Rates (basis points)						
+200	$ 1,208	0.3 %	$ 4,885	1.2 %	$ 7,812	2.0 %
+100	403	0.1	2,850	0.7	4,687	1.2
-100	(2,818)	(0.7)	(5,292)	(1.3)	(10,937)	(2.8)
-200	(8,455)	(2.1)	(12,213)	(3.0)	(25,388)	(6.5)

The Company also uses a Market Value of Portfolio Equity (MVPE) sensitivity to estimate the net present value change in the Company s assets, liabilities, and off-balance sheet arrangements from changes in interest rates. The MVPE was approximately $2.0 billion as of December 31, 2006, 2005, and 2004. Table 15 presents, as of December 31, 2006, 2005, and 2004, an estimate of the change in the MVPE sensitivity 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 in higher interest rate scenarios and decreased in lower interest rate scenarios as of December 31, 2006 compared to December 31, 2005 as a result of the relative shift in the funding source for asset growth and the flat or inverted yield curve during 2006. Further enhancing the MVPE sensitivity analysis are value-at-risk, key rate analysis, duration of equity, and the 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, the Company obtains better overall insight for managing its exposure to changes in interest rates. Based on the additional analyses, the Company estimates its 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 15**

(dollars in thousands)	Change in Market Value of Equity December 31, 2006		2005		2004	
Change in Interest Rates (basis points)						
+200	$ (146,417)	(7.8)%	$ (91,116)	(4.6)%	$ (113,027)	(5.7)%
+100	(63,783)	(3.4)	(33,277)	(1.7)	(38,646)	(1.9)
-100	(4,480)	(0.2)	(37,497)	(1.9)	(50,339)	(2.5)
-200	(109,238)	(5.8)	(179,092)	(9.0)	(194,237)	(9.7)

Liquidity Management

Liquidity is managed in an effort to ensure that the Company has continuous access to sufficient, reasonably priced funding. Funding requirements are impacted by loan refinancings and originations, liability settlements and issuances and off-balance sheet funding commitments. The Company considers and complies with various regulatory guidelines regarding required liquidity levels and periodically monitors its liquidity position in light of the changing economic environment and customer activity. Based on periodic liquidity assessments, the Company

may alter its assets, liabilities, 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 the Company s 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 its liquidity needs are met, the Company actively manages its assets and liabilities. The potential sources of short-term liquidity from assets 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, loans, and leases. 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. For the year ended December 31, 2006, the Company continued to use excess cash to repurchase shares and to reduce debt where possible.

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 the Company s 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, 2006 and 2005, the Parent and the Bank were well capitalized under this regulatory framework. There have been no conditions or events since December 31, 2006 that management believes have changed either the Parent s or the Bank s capital classifications. Note 9 to the Consolidated Financial Statements provides additional information on long-term debt and Note 10 provides additional information about the regulatory capital framework and the Company s capital amounts and ratios. Notes 9 and 10 are incorporated herein by reference.

As of December 31, 2006, the Company had subordinated debt of $124.9 million, of which $50.0 million qualified as Total Capital for regulatory capital purposes. Also, as of December 31, 2006, the Company had $26.4 million of 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, 2006, the Company s shareholders equity was $719.4 million, an increase of $26.1 million or 4% from December 31, 2005. The increase in shareholders equity resulted primarily from current year earnings, which was partially offset by share repurchases of $129.7 million and cash dividends of $76.7 million. The increase in the Company s shareholders equity was also due to an adjustment to initially apply the provisions of SFAS No. 158, net of tax, of $7.0 million as well as a change in the minimum pension liability adjustment of $2.0 million.

The Parent expects to continue to repurchase shares of common stock, from time to time, through the Parent s approved share repurchase program. During 2006, the Parent s Board of Directors approved additional authorizations of $200.0 million to repurchase shares of common stock under the share repurchase program. From the beginning of the share repurchase program in July 2001 through December 31, 2006, the Parent had repurchased a total of 42.5 million shares and returned a total of $1.5 billion to its shareholders at an average cost of $34.35 per share. From January 1, 2007 through February 13, 2007, the Parent repurchased an additional 0.2 million shares at an average cost of $52.61 per share for a total of $10.7 million. Remaining buyback authority was $80.7 million as of February 13, 2007.

Table 16 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 16**

(dollars in thousands)	December 31, 2006	2005	2004	2003	2002
Change in Shareholders Equity					
Net Income	$ 180,359	$ 181,561	$ 173,339	$ 135,195	$ 121,180
Cash Dividends Paid	(76,747)	(70,833)	(66,326)	(50,589)	(50,635)
Dividend Reinvestment Program	5,020	4,766	4,416	3,292	2,893
Common Stock Repurchased	(129,727)	(247,376)	(238,077)	(329,978)	(332,217)
Other 1	47,163	10,400	148,350	19,453	27,526
Increase (Decrease) in Shareholders Equity	$ 26,068	$ (121,482)	$ 21,702	$ (222,627)	$ (231,253)
Regulatory Capital					
Shareholders Equity	$ 719,420	$ 693,352	$ 814,834	$ 793,132	$ 1,015,759
Add: Capital Securities of Bancorp					
Hawaii Capital Trust I	26,425	31,425	31,425	31,425	31,425
Less: Goodwill	34,959	34,959	36,216	36,216	36,216
Adjustment to Initially Apply FASB Statement No. 158, Net of Tax	6,958				
Unrealized Valuation and Other Adjustments	(27,491)	(27,281)	5,252	10,771	27,205
Tier 1 Capital	731,419	717,099	804,791	777,570	983,763
Allowable Reserve for Credit Losses	91,585	86,617	83,292	78,147	74,969
Subordinated Notes	49,942	74,883	99,808	124,709	124,658
Unrealized Gains on Investment Securities Available-for-Sale	17		31	66	132
Total Regulatory Capital	$ 872,963	$ 878,599	$ 987,922	$ 980,492	$ 1,183,522
Risk-Weighted Assets	$ 7,322,255	$ 6,919,822	$ 6,633,082	$ 6,200,831	$ 5,929,613
Key Regulatory Capital Ratios					
Average Shareholders Equity to Average Assets	6.80%	7.29%	7.81%	9.60%	11.88%
Tier 1 Capital Ratio	9.99%	10.36%	12.13%	12.54%	16.59%
Total Capital Ratio	11.92%	12.70%	14.89%	15.81%	19.96%
Leverage Ratio 2	7.06%	7.14%	8.29%	8.43%	10.34%

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

2 The Company s leverage ratio as of December 31, 2006, as previously disclosed in the Company s earnings release on January 22, 2007, has been corrected to exclude the adjustment to initially adopt FASB Statement No. 158 from Tier 1 capital to comply with recently issued regulatory requirements.

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

Off-Balance Sheet Arrangements

The Company does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as variable-interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

Credit Commitments and Contractual Obligations

The Company s credit commitments and contractual obligations as of December 31, 2006 were as follows:

Credit Commitments and Contractual Obligations **Table 17**

(dollars in thousands)	Less Than One Year	1-3 Years	4-5 Years	After 5 Years	Total
Credit Commitments					
Unfunded Commitments to Extend Credit	$ 708,975	$ 262,490	$ 417,708	$ 1,318,019	$ 2,707,192
Standby Letters of Credit	67,059	2,537			69,596
Commercial Letters of Credit	22,124				22,124
Total Credit Commitments	798,158	265,027	417,708	1,318,019	2,798,912
Contractual Obligations					
Deposits	7,799,818	169,831	29,607	24,138	8,023,394
Securities Sold Under Agreements to Repurchase	372,824			675,000	1,047,824
Short-Term Borrowings	71,198				71,198
Banker s Acceptances Outstanding	1,230				1,230
Long-Term Debt	25,000	124,854	60,000	41,425	251,279
Capitalized Lease Obligations	605	1,330	1,330	5,744	9,009
Non-cancelable Operating Leases	13,672	22,244	14,464	147,755	198,135
Purchase Obligations	27,418	41,729	8,381		77,528
Pension and Postretirement Benefit Obligations	2,600	5,000	5,300	15,300	28,200
Total Contractual Obligations	8,314,365	364,988	119,082	909,362	9,707,797
Total Credit Commitments and Contractual Obligations	$ 9,112,523	$ 630,015	$ 536,790	$ 2,227,381	$ 12,506,709

The primary sources of short-term liquidity are securities sold under agreements to repurchase, funds purchased, and commercial paper. The Company issues commercial paper in various denominations with maturities of generally 90 days or less.

Securities sold under agreements to repurchase are financing transactions, under which securities are pledged as collateral for borrowings. Historically, these transactions were generally entered into with governmental entities, which have provided a stable source of funds. For the years ended December 31, 2006 and 2005, the Company entered into several securities sold under agreements to repurchase transactions with private entities for terms greater than one year.

The Bank is a member of the Federal Home Loan Bank of Seattle (the FHLB), which provides an additional source for short- and long-term funding. Borrowings from the FHLB were $75.0 million, at fixed interest rates ranging from 3.2% to 4.0%, and $77.5 million, at rates ranging from 3.2% to 5.69%, as of December 31, 2006 and 2005, respectively.

Additionally, the Bank maintains a $1.0 billion senior and subordinated bank note program. Under this facility, the Bank may issue additional notes provided that the aggregate amount outstanding does not exceed $1.0 billion. Subordinated notes outstanding under this bank note program were $124.9 million and $124.8 million, bearing a fixed interest rate of 6.875%, as of December 31, 2006 and 2005, respectively.

The largest purchase obligation included in the above table is an outsourcing agreement for technology services. Total payments over the remaining term (through 2010) of this contract are estimated to be $38.2 million. Other contracts included in purchase obligations consist of service agreements for the Company s asset management system, ATM system, and cash management system.

Future Application of Accounting Pronouncements

Note 1 to the Consolidated Financial Statements, which discusses the expected impact of accounting pronouncements recently issued or proposed but not adopted by the Company as of December 31, 2006, is incorporated herein by reference.

Fourth Quarter Results and Other Matters

Net Income

Net income in the fourth quarter of 2006 was $50.9 million, an increase of $6.1 million or 13.7% from the fourth quarter of 2005. Diluted earnings per share for the fourth quarter of 2006 were $1.01, an increase of $0.15 or 17.4% from $0.86 per diluted share for the fourth quarter of 2005. The return on average assets for the fourth quarter of 2006 was 1.94%, up from 1.76% for the fourth quarter of 2005. Return on average equity for the fourth quarter of 2006 improved to 28.56% from 25.19% for the fourth quarter of 2005.

Net Interest Income

Net interest income, on a taxable equivalent basis, for the fourth quarter of 2006 was $100.4 million, down $3.2 million from $103.6 million in the fourth quarter of 2005. The decrease in net interest income, on a taxable equivalent basis, was primarily due to a $13.4 million increase in interest expense from rate increases on interest-bearing deposits. There was also a $6.0 million increase in interest expense from securities sold under agreements to repurchase which was due to a $493.8 million increase in the average balance of privately placed securities sold under agreements to repurchase and an increase in the short-term rates. This was partially offset by a $14.0 million increase in interest income from loans and leases due to continued growth of the portfolio and an increase in the average yields. In addition, there was a $3.0 million increase in interest income from investment securities available-for-sale due to an $84.6 million increase in the average balance and an increase in investment yields.

The net interest margin was 4.15% for the fourth quarter of 2006, a 28 basis point decrease from 4.43% in the fourth quarter of 2005. The decrease in the Company s net interest margin was primarily due to the impact that the flat or inverted yield curve during 2006 has had on the Company s mix of rates paid on its funding sources.

Provision for Credit Losses

Net income for the fourth quarter of 2006 included a Provision of $3.1 million compared to a Provision of $1.6 million for the fourth quarter of 2005. The Provision in 2006 and 2005 has been recorded by the Company in order to maintain the reserve for credit losses at levels considered adequate to cover credit losses in the lending process.

Noninterest Income

Noninterest income was $53.4 million for the fourth quarter of 2006, an increase of $2.6 million or 5% compared to noninterest income of $50.8 million for the fourth quarter of 2005. The increase was primarily due to an increase in overdraft fees as well as an increase in trust and agency fees.

Noninterest Expense

Noninterest expense was $81.6 million for the fourth quarter of 2006, down $1.6 million or 2% from $83.2 million for the fourth quarter of 2005. The decrease was primarily due to a $2.9 million decrease in legal fees relating to the Company s mutual fund business and a $0.6 million decrease in salaries and benefits. Partially offsetting the decrease in legal fees were increases in other operating expense, including donation and operational losses of $1.0 million each.

Provision for Income Taxes

The provision for income taxes was $18.1 million for the fourth quarter of 2006, a decrease of $6.6 million or 27% from $24.7 million for the fourth quarter of 2005. This represented an effective tax rate of 26.19% for the fourth quarter of 2006, as compared to an effective tax rate of 35.57% for the fourth quarter of 2005. The lower effective tax rate in the fourth quarter of 2006 was primarily due to the resolution of a tax issue with the IRS.

Share Repurchase Program

During the fourth quarter of 2006, the Company repurchased 0.3 million shares of common stock at a total cost of $17.1 million under its share repurchase program. The shares were repurchased at an average cost of $50.71 per share.

Selected Quarterly Consolidated Financial Data

Table 18 presents the Company s selected quarterly consolidated financial data for 2006 and 2005.

Selected Quarterly Consolidated Financial Data **Table 18**

	Three Months Ended 2006				**Three Months Ended 2005**			
(dollars in thousands, except per share amounts)	**Dec.**	**Sept.** 1	**June** 1	**March**	**Dec.**	**Sept.**	**June**	**March**
Interest Income	$ 149,540	$ 146,960	$ 140,769	$ 135,403	$ 132,945	$ 129,234	$ 124,105	$ 120,158
Interest Expense	49,335	46,610	40,913	33,201	29,489	27,274	23,066	19,500
Net Interest Income	100,205	100,350	99,856	102,202	103,456	101,960	101,039	100,658
Provision for Credit Losses	3,143	2,785	2,069	2,761	1,588	3,000		
Investment Securities Gains (Losses), Net	153	19			(4)	8	337	
Noninterest Income	53,363	56,868	53,201	52,572	50,813	55,508	50,337	52,315
Noninterest Expense	81,597	79,805	78,742	80,818	83,179	84,596	79,004	80,863
Income Before Provision for Income Taxes	68,981	74,647	72,246	71,195	69,498	69,880	72,709	72,110
Provision for Income Taxes	18,068	27,727	35,070	25,845	24,717	25,051	26,280	26,588
Net Income	$ 50,913	$ 46,920	$ 37,176	$ 45,350	$ 44,781	$ 44,829	$ 46,429	$ 45,522
Basic Earnings Per Share	$ 1.03	$ 0.94	$ 0.74	$ 0.89	$ 0.88	$ 0.87	$ 0.90	$ 0.85
Diluted Earnings Per Share	$ 1.01	$ 0.92	$ 0.72	$ 0.87	$ 0.86	$ 0.85	$ 0.87	$ 0.83
Net Income to Average Total Assets	1.94%	1.81%	1.47%	1.82%	1.76%	1.74%	1.87%	1.88%
Net Income to Average Shareholders Equity	28.56%	27.09%	21.70%	26.13%	25.19%	24.61%	25.98%	23.66%
Net Interest Margin 2	4.15%	4.20%	4.25%	4.41%	4.43%	4.30%	4.36%	4.42%
Efficiency Ratio 3	53.08%	50.75%	51.45%	52.22%	53.92%	53.72%	52.07%	52.86%

1 Third quarter 2006 basic and diluted earnings per share was corrected from $0.95 and $0.93, respectively, and second quarter 2006 diluted earnings per share was corrected from $0.73.

2 The net interest margin is defined as net interest income, on a fully-taxable equivalent basis, as a percentage of average earning assets.

3 The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See the Market Risk section in Management s Discussion and Analysis of Financial Condition and Results of Operation included in Item 7 of this report.

Item 8. Financial Statements and Supplementary Data

See Table 18, Selected Quarterly Consolidated Financial Data, included in Item 7 of this report.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Bank of Hawaii Corporation

We have audited the accompanying consolidated statements of condition of Bank of Hawaii Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bank of Hawaii Corporation and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Bank of Hawaii Corporation and subsidiaries internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Honolulu, Hawaii
February 16, 2007

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Income

	Year Ended December 31,		
(dollars in thousands, except per share amounts)	**2006**	**2005**	**2004**
Interest Income			
Interest and Fees on Loans and Leases	$ 425,473	$ 368,664	$ 327,953
Income on Investment Securities Available-for-Sale	126,817	113,608	93,528
Income on Investment Securities Held-to-Maturity	18,255	21,360	26,204
Deposits	211	219	3,480
Funds Sold	767	1,329	1,058
Other	1,149	1,262	2,791
Total Interest Income	572,672	506,442	455,014
Interest Expense			
Deposits	103,677	58,426	36,743
Securities Sold Under Agreements to Repurchase	42,189	21,187	9,353
Funds Purchased	8,504	4,515	1,815
Short-Term Borrowings	318	188	82
Long-Term Debt	15,371	15,013	16,431
Total Interest Expense	170,059	99,329	64,424
Net Interest Income	402,613	407,113	390,590
Provision for Credit Losses	10,758	4,588	(10,000)
Net Interest Income After Provision for Credit Losses	391,855	402,525	400,590
Noninterest Income			
Trust and Asset Management	58,740	56,830	53,465
Mortgage Banking	10,562	10,399	8,012
Service Charges on Deposit Accounts	41,756	39,945	39,117
Fees, Exchange, and Other Service Charges	62,441	59,588	54,907
Investment Securities Gains (Losses), Net	172	341	(794)
Insurance	20,388	19,643	19,241
Other	22,117	22,568	31,146
Total Noninterest Income	216,176	209,314	205,094
Noninterest Expense			
Salaries and Benefits	176,457	176,310	184,299
Net Occupancy	38,976	38,273	38,347
Net Equipment	20,127	21,541	23,926
Professional Fees	6,854	15,702	14,212
Other	78,548	75,816	73,656
Total Noninterest Expense	320,962	327,642	334,440
Income Before Provision for Income Taxes	287,069	284,197	271,244
Provision for Income Taxes	106,710	102,636	97,905
Net Income	$ 180,359	$ 181,561	$ 173,339
Basic Earnings Per Share	$ 3.59	$ 3.50	$ 3.26
Diluted Earnings Per Share	$ 3.52	$ 3.41	$ 3.08
Dividends Declared Per Share	$ 1.52	$ 1.36	$ 1.23
Basic Weighted Average Shares	50,176,685	51,848,765	53,232,815
Diluted Weighted Average Shares	51,178,943	53,310,816	56,241,044

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

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Condition

(dollars in thousands)	December 31, 2006	December 31, 2005
Assets		
Interest-Bearing Deposits	$ 4,990	$ 4,893
Funds Sold	50,000	
Investment Securities Available-for-Sale		
Held in Portfolio	1,846,742	2,333,417
Pledged as Collateral	751,135	204,798
Investment Securities Held-to-Maturity (Fair Value of $360,719 and $442,989)	371,344	