

3Q Earnings: Cost Control, Consumers Bolster Bank of Hawaii

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By Jim Cole

Lower expenses and strong consumer borrowing helped Bank of Hawaii Corp. boost third-quarter profit 17% from a year earlier, to \$43.1 million. Earnings per share were up 28%, at 78 cents, the Honolulu company said Monday. That beat the average of analysts' forecasts by 4 cents.

Allan Landon, who became chairman and chief executive officer Sept. 1, said the \$9.6 billion-asset company is succeeding in increasing revenue and reducing credit risk. His predecessor Michael O'Neill set that strategy; he left saying he had completed a three-year turnaround.

"Our plan looks pretty good," Mr. Landon said in an interview. "It's business as usual; no big changes."

Bank of Hawaii raised its full-year net income forecast to \$166 million to \$168 million; this summer it had projected \$163 million to \$167 million. It also said Monday that its board had voted to boost the dividend 10%, to 33 cents.

"From a core fundamentals perspective, things were pretty good," said Brett Rabatin, analyst with First Horizon National Corp.'s FTN Midwest Research. He called the bank's balance-sheet performance "pretty impressive," singling out its ability to increase core deposits. The company added 2,000 no-interest checking accounts. Time deposits fell 14% from a year earlier, to \$1.05 billion.

Consumer demand propelled loans 5% above the year-earlier level. Commercial lending continued to lag. Commercial and industrial loans averaged \$796.2 million, down 8% from a year earlier. Gains were overcome by prepayments as interest rates dipped. Nonperforming assets were \$16 million at the end of the quarter, down 60% from a year earlier and 24% from midyear.

"We had very good origination volume," Mr. Landon said, but commercial customers still have plenty of cash to pay down loan balances. "Net loan growth will take a while to show up."

The trends bode well for the future, Mr. Landon said, particularly given the strength of Hawaii's economy, whose under-3% unemployment is the lowest in the nation.

Chief financial officer Richard Keene said on an earnings conference call that net commercial originations totaled \$80 million in the quarter, even though three corporate clients reduced outstanding balances by \$72 million. William Nelson, the vice chairman for corporate risk, said the three had unique circumstances, including an asset sale in one case. The bank expects to regain some of their loan business in coming months, he said, and the commercial loan pipeline "remains solid."

Home equity lending led the way for Bank of Hawaii, rising 30% a from year earlier, to \$583.7 million. Home mortgages fell a little less than 1%, to 2.28 billion. Installment loans rose 29%, to \$722.7 million.

Net interest income rose 8%, to \$98.8 million, and noninterest income 1%, to \$53.1 million. The bank's net interest margin was 4.39%, up 22 basis points from the second quarter and 24 basis points from a year earlier.

Shares of Bank of Hawaii rose 1.5% on Monday.