BANK OF HAWAII CORP
Form 10-K
February 25, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the transition period from ________________ to ________________
Commission File Number 1-6887

BANK OF HAWAII CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Yes ý No o

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

Yes o No ý

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

Yes ý No o

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

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

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

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

Yes o No ý

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2008 (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 $47.80, was approximately $2,262,211,719. There was no non-voting common equity of the registrant outstanding on that date.

As of February 20, 2009, there were 47,748,586 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 24, 2009, are incorporated by reference into Part III of this Report.

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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") headquartered in Honolulu, Hawaii.

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

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

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

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

Information on the Bank's limited foreign activities is presented in Table 15 of MD&A.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports can be found free of charge on our website at 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 a website, www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our Corporate Governance Guidelines; charters of the Audit Committee, the Executive and Strategic Planning Committee, the Human Resources and Compensation Committee, and the Nominating and Corporate Governance Committee; and our Code of Business Conduct and Ethics are available on our website. Upon written request to the Corporate Secretary at 130 Merchant Street, Honolulu, Hawaii, 96813, this information is available in print form.

The Parent's other subsidiary is the BOHC Investment Fund, LLC (the "Fund"). The Fund was organized in September 2007, to invest in and hold securities of Qualified High Technology Businesses, as defined in the Hawaii Revised Statutes.

We have included the Chief Executive Officer and the Chief Financial Officer certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 of this report. Additionally, we filed with the New York Stock Exchange (the "NYSE") the Chief Executive Officer certification regarding our compliance with the NYSE's Corporate Governance Listing Standards (the "Listing Standards") pursuant to Section 303A.12(a) of the Listing Standards. The certification was dated May 15, 2008 and indicated that the Chief Executive Officer was not aware of any violations of the Listing Standards by the Company.

Competition

We are subject to substantial competition from banks, savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies, and other providers of financial services, including financial service subsidiaries of commercial and manufacturing companies. We also compete with non-financial institutions that offer financial products and services. Some of our competitors are not subject to the same level of regulation and oversight that is required of

banks and BHCs. As a result, some of our competitors may have lower cost structures. Also, some of our competitors, through alternative delivery channels such as the internet, may be based outside of the markets that we serve. Our extensive branch network, exceptional service levels, and knowledge of local trends and conditions contribute to our competitive advantage.

Supervision and Regulation

We are extensively regulated under both federal and state laws. The following information describes significant laws and regulations applicable to us. The description is qualified in its entirety by reference to the applicable laws and regulations. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and with the various bank regulatory agencies. The recent intervention into the banking system by the federal government to deal with the current financial crisis and its impact on the supervision and regulation of the banking and financial services industries may adversely affect our business, operations, and earnings. Changes in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business, operations, and earnings.

The Parent

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

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

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

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

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

Bank of Hawaii

The Bank is subject to supervision and examination by the FRB of San Francisco and the State of Hawaii Department of Commerce and Consumer Affairs ("DCCA"), Division of Financial Institutions. The Bank is subject to extensive federal and state

regulations that significantly affect business and activities. Regulatory bodies have broad authority to implement standards and to initiate proceedings designed to prohibit depository institutions from engaging in activities that represent unsafe and unsound banking practices or constitute violations of applicable laws, rules, regulations, administrative orders, or written agreements with regulators. The standards relate generally to operations and management, asset quality, interest rate exposure, capital, and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards, including the assessment of civil monetary penalties, the issuance of cease-and-desist orders, and other actions.

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

Capital Requirements

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

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

The risk-based capital standards identify concentrations of credit risk and the risk arising from non-traditional banking activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agencies in assessing an institution's overall capital adequacy. The capital guidelines also provide that exposure to a decline in the economic value of an institution's capital due to changes in interest rates is a factor to be considered in evaluating a bank's capital adequacy.

Dividend Restrictions

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

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

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Transactions with Affiliates

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

FDIC Insurance

The Deposit Insurance Fund ("DIF") of the FDIC insures deposit accounts in the Bank generally up to a maximum of $100,000 per separately insured depositor, and up to a maximum of $250,000 per separately insured depositor for certain retirement accounts. Beginning in October 2008, the FDIC temporarily increased FDIC deposit insurance coverage per separately insured depositor to $250,000 through December 31, 2009. On January 1, 2010, the standard coverage limit is scheduled to return to $100,000 for all deposit accounts, except for certain retirement accounts.

FDIC-insured depository institutions are required to pay deposit insurance premiums based on the risk an institution poses to the DIF. The current annual risk-based assessment rates range from $0.05 per $100 of domestic deposits for well-managed, well-capitalized banks with the highest ratings, to $0.43 per $100 of domestic deposits for institutions posing the most risk to the DIF. The FDIC may increase or decrease the assessment rate schedule on a quarterly basis. The Federal Deposit Insurance Reform Act of 2005 ("FDIRA") provided for a one-time assessment credit to be allocated among member institutions. As of December 31, 2008, the remaining assessment credit available to offset our future deposit insurance assessments was $2.5 million. We expect to exhaust this remaining assessment credit in 2009.

In addition to DIF assessments, all FDIC-insured depository institutions must pay an annual assessment to provide funds for the repayment of debt obligations of the Financing Corporation. The Financing Corporation is a government-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation. As of January 1, 2009, the annualized assessment rate of risk-adjusted deposits, established by the FDIC for all DIF-assessable deposits was 1.14 basis points.

In October 2008, the FDIC introduced the Temporary Liquidity Guarantee Program (the "TLGP"), a program designed to improve the functioning of the credit markets and to strengthen capital in the financial system during this period of economic distress. The TLGP has two components: 1) a debt guarantee program, guaranteeing newly issued senior unsecured debt, and 2) a transaction account guarantee program, providing a full guarantee of noninterest-bearing deposit transaction accounts, Negotiable Order of Withdrawal (or "NOW") accounts paying less than 0.5% annual interest, and Interest on Lawyers Trust Accounts, regardless of the amount. The Bank has not issued any senior unsecured debt to take advantage of the debt guarantee program, however, this program remains available to the Bank. The Bank is presently participating in the transaction account guarantee program and, as such, all funds in covered accounts held through December 31, 2009 will be covered with a full guarantee. In connection with this guarantee, a 10 basis point annual rate surcharge will be assessed on amounts in covered accounts exceeding $250,000.

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

For 2008, the Bank's FDIC insurance assessment was approximately $1.5 million. For 2009, we expect that the Bank's FDIC insurance assessment will be approximately $10.0 million. The increase in our expected FDIC assessment in 2009 is the result of us exhausting our FDIRA credit, higher assessment rates, along with our participation in new programs.

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In order to restore reserves and ensure that the DIF will be able to adequately cover losses from future bank failures, the FDIC, in October 2008, proposed amendments to its deposit insurance rules to alter the way the assessment system differentiates risks among insured institutions and to change assessment rates, including base assessment rates, in order to increase assessment revenue. A uniform assessment increase for the first quarter of 2009 was adopted as a final rule in December 2008. The FDIC has also proposed further base rate assessment adjustments effective April 1, 2009. We cannot currently provide any assurance as to the amount of any proposed increase in the Bank's deposit insurance premium rate, should there be an increase, because any increase would be dependent upon a number of factors, some of which are beyond the Bank's control.

Other Safety and Soundness Regulations

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. FDICIA identifies five capital categories for insured depository institutions: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Under regulations established by the federal banking agencies, a "well capitalized" institution must have a Tier 1 Capital Ratio of at least 6%, a Total Capital Ratio of at least 10%, a Leverage Ratio of at least 5%, and not be subject to a capital directive order. As of December 31, 2008, the Bank was classified as "well capitalized." The classification of a depository institution under FDICIA is primarily for the purpose of applying the federal banking agencies' prompt corrective action provisions, and is not intended to be, nor should it be interpreted as, a representation of the overall financial condition or the prospects of any financial institution.

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

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

Community Reinvestment and Consumer Protection Laws

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

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

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Bank Secrecy Act / Anti-Money Laundering Laws

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

Employees

As of January 31, 2009, we had approximately 2,600 employees.

Item 1A. Risk Factors

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

Recent legislation in response to market and economic conditions may significantly affect our operations, financial condition, and earnings.

Disruptions in the financial system during 2008 have resulted in significantly reduced business activity throughout the global and U.S. economies, which have the potential to significantly affect financial institutions. In response to this financial crisis affecting the banking system and financial markets, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law on October 3, 2008. Pursuant to the EESA, the U.S. Treasury was given the authority to purchase up to $700 billion of financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Several programs have been initiated by the U.S. Treasury, the FRB, and the FDIC to stabilize the financial system. The U.S. Treasury's Troubled Asset Relief Program and Capital Purchase Program (the "TARP/CPP") was created to invest up to $250 billion (of the $700 billion) into banks and savings institutions of all sizes. The FDIC also began to temporarily provide a 100% guarantee of the senior debt of all FDIC insured institutions, as well as deposits in noninterest-bearing transaction deposit accounts under its TLGP. These actions by the U.S. Treasury and FDIC have combined to respond to this unprecedented financial crisis. The Parent has chosen not to participate in the TARP/CPP, but the Bank is participating in the transaction account guarantee component of the TLGP.

It is not clear what impact the EESA and its attendant programs, and other liquidity, funding and economic stimulus initiatives of the federal government that may be initiated in the future, will have on the financial markets or on the U.S. banking and financial services industries and the broader U.S. and global economies. These new laws, regulations, and changes will increase our FDIC insurance premiums and may also increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. They may significantly affect the markets in which we do business, the markets for and value of our investments, and our ongoing operations, costs, and profitability.

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

Unlike larger national or other regional banks that are more geographically diversified, our business and earnings are closely tied to general business and economic conditions, particularly the economies of Hawaii and the Pacific Islands. These local economies are heavily influenced by tourism, real estate, government, and other service-based industries. Factors that could affect these local economies include declines in tourism, geopolitical risks, such as real or threatened acts of war or terrorism, higher energy costs, the availability of affordable air transportation, reduced consumer or corporate spending, natural disasters or adverse

weather, public health issues, and the recent significant deterioration in general economic conditions. 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.

The Hawaii economy continued to weaken during the fourth quarter of 2008. Visitor arrivals decreased and unemployment levels increased compared to the fourth quarter of 2007. We continually monitor changes in the economy, including levels of visitor arrivals and spending, changes in housing prices, and unemployment rates. We also monitor the value of collateral, such as real estate, that secures loans we have made. A decline in the value of collateral could also reduce a customer's borrowing power.

Difficult market conditions have adversely affected our industry.

Dramatic declines in the U.S. Mainland housing market over the past year, with falling home prices and increasing foreclosures and unemployment, have negatively impacted credit performance of residential mortgage loans and have resulted in significant write-downs of asset values by other financial institutions, including government-sponsored enterprises, as well as major commercial and investment banks. Home prices were down more modestly in Hawaii compared to the U.S. Mainland over the past year. Many lenders and institutional investors have reduced, and in some cases, ceased providing funding to borrowers, including other financial institutions, reflecting concern about the stability of financial markets, generally, and the strength of counterparties, specifically. This market turmoil and tightening of credit has led to an increased level of commercial and consumer delinquencies for other financial institutions, a lack of confidence in the financial sector, and increased volatility in the financial markets. The resulting economic pressure on consumers and lack of confidence in the financial markets may adversely affect our business, financial condition, and results of operations.

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

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

Credit losses may increase due to weaker economic conditions.

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

Many of our loans are secured by real estate in Hawaii and Guam. As these locations experience softness in the economy, real estate values and customers' ability to repay could be adversely affected, and our loan and lease losses could exceed the estimates that are currently recorded in the reserve for credit losses.

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Our operations are subject to extensive regulation.

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

Future legislative or regulatory actions responding to perceived financial and market problems could affect our rights against borrowers.

Recently, legislative and regulatory proposals have been discussed at the federal level that would limit an institution's ability to foreclose on the mortgage collateral of borrowers by reducing the amount borrowers are contractually obligated to pay under their mortgage loans. We could experience increased credit losses or increased expense in pursuing our remedies as a creditor, if proposals like these, or other proposals limiting our rights as a creditor, were implemented.

Competition may adversely affect our business.

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

Our liquidity is dependent on dividends from the Bank.

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

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

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

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

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

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affect our ability to retain and attract new customers, and adversely impact our earnings and liquidity.

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

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

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

There are a limited number of qualified personnel in the markets we serve, so our success depends in part on the continued services of many of our current management and other key employees. Failure to retain our key employees and maintain adequate staffing of qualified personnel, could adversely impact our operations and our ability to compete.

The soundness of other financial institutions may adversely impact our financial condition or results of operation.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, lending, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, the Federal Home Loan Bank of Seattle (the "FHLB"), and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. Such losses could materially affect our financial condition or results of operations.

Changes in the equity markets could materially affect the level of assets under management and the demand for our other fee-based services.

Economic downturns could affect the volume of income from and demand for our fee-based services. Our investment management revenues depend in large part on the level of assets under management. Market volatility that leads customers to liquidate investments, as well as lower asset values can reduce our level of assets under management and thereby decreasing our investment management revenues.

Our mortgage banking income may experience significant volatility.

Our mortgage banking income is highly influenced by the level and direction of mortgage interest rates. In lower interest rate environments, the demand for mortgage loans and refinancing activity will tend to increase. This has the effect of increasing fee income, but could adversely impact the estimated fair value of our mortgage servicing rights as the rate of loan prepayments increase. In higher interest rate environments, the demand for mortgage loans and refinancing activity will generally be lower. This has the effect of decreasing fee income.

The requirement to record certain assets and liabilities at fair value may adversely affect our financial results.

We report certain assets, including investment securities, at fair value. Generally, for assets that are reported at fair value we use quoted market prices or valuation models that utilize market data inputs to estimate fair value. Because we carry these assets on our books at their estimated fair value, we may incur losses even if the asset in question presents minimal credit risk. Given the continued disruption in the capital markets, we may be required to recognize other-than-temporary impairments in future periods

with respect to investment securities in our portfolio. The amount and timing of any impairment recognized will depend on the severity and duration of the decline in fair value of our investment securities and our estimation of the anticipated recovery period.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

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

Item 3. Legal Proceedings

We are involved in various legal proceedings arising from normal business activities. We do not anticipate, at the present time, that the ultimate aggregate liability, if any, arising out of legal proceedings will have a material adverse effect on our financial position. However, we cannot presently determine whether or not any claims asserted against us or others to whom we may have indemnification obligations will have a material adverse effect on our results of operations in any future reporting period. See Note 17 related to commitments and contingencies for more information.

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

No matter was submitted during the fourth quarter of 2008 to a vote of security holders through solicitation of proxies or otherwise.

Executive Officers of the Registrant:

Listed below are executive officers of the Parent as of February 20, 2009.

Allan R. Landon, 60
Chairman and Chief Executive Officer since September 2004; President from December 2003 to April 2008; Chief Operating Officer from May 2004 to August 2004; and Chief Financial Officer from February 2001 to April 2004.

Peter S. Ho, 43
President since April 2008; Vice Chairman and Chief Banking Officer since January 2006; Vice Chairman, Investment Services from April 2004 to December 2005; and Executive Vice President, Hawaii Commercial Banking Group from February 2003 to April 2004.

Kent T. Lucien, 55
Vice Chairman and Chief Financial Officer since April 2008; Trustee, C. Brewer & Co., Ltd. from April 2006 to December 2007; and Chief Executive Officer Operations, C. Brewer & Co., Ltd. from May 2001 to April 2006.

Mark A. Rossi, 60
Vice Chairman, Chief Administrative Officer, General Counsel, and Corporate Secretary since February 2007; President of Lane Powell PC from July 2004 to January 2007; and Partner of Lane Powell Spears Lubersky, LLP from April 1996 to July 2004.

Mary E. Sellers, 52
Vice Chairman and Chief Risk Officer since July 2005; and Executive Vice President, Director of Risk Management from June 2003 to June 2005.

Derek J. Norris, 59
Executive Vice President and Controller since December 2008; and Executive Vice President and General Auditor from January 2002 to December 2008.

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Part II

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

Market Information, Shareholders, and Dividends

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

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

	Market Price Range				
Year/Period	**High**	**Low**	**Close**	**Book Value**	**Dividends Declared**
2008	$ 70.00	$ 36.32	$ 45.17	$ 16.56	$ 1.77
First Quarter	52.93	40.95	49.56		0.44
Second Quarter	57.37	46.62	47.80		0.44
Third Quarter	70.00	37.46	53.45		0.44
Fourth Quarter	57.81	36.32	45.17		0.45
2007	$ 55.94	$ 46.05	$ 51.14	$ 15.44	$ 1.67
First Quarter	54.81	50.11	53.03		0.41
Second Quarter	55.00	50.64	51.64		0.41
Third Quarter	55.84	46.05	52.85		0.41
Fourth Quarter	55.94	47.56	51.14		0.44

The common stock of the Parent is traded on the New York Stock Exchange (NYSE Symbol: BOH) and quoted daily in leading financial publications. As of February 20, 2009, there were 7,502 common shareholders of record.

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

Issuer Purchases of Equity Securities

Period	**Total Number of Shares Purchased [1]**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]**
October 1 - 31, 2008	1,227	$ 44.32	1,000	$ 85,356,214
November 1 - 30, 2008	1,826	47.03		85,356,214
December 1 - 31, 2008	4,077	42.59		85,356,214
Total	7,130	44.02	1,000	

1

The months of October, November, and December 2008 included 227, 1,826, and 4,077 shares, respectively, purchased from employees in connection with stock swaps, income tax withholdings related to vesting of restricted stock, and shares purchased for a Rabbi Trust. These shares were not purchased as part of the publicly announced program. The shares were purchased at the closing price of the Parent's common stock on the dates of purchase.

2

The Parent repurchased shares during the fourth quarter of 2008 pursuant to its ongoing share repurchase program that was first announced in July 2001. The Parent announced an additional authorization for share repurchases of $50.0 million on October 24, 2008. As of February 20, 2009, $85.4 million remained of the total $1.70 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.

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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 Bank Index. The graph assumes that $100 was invested on December 31, 2003 in the Parent's common stock, the S&P 500 Index, and the S&P Bank Index. The cumulative total return on each investment is as of December 31 of each of the subsequent five years and assumes reinvestment of dividends.

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Item 6. Selected Financial Data

Summary of Selected Consolidated Financial Data

(dollars in millions, except per share amounts)	2008	2007	2006	2005	2004
Year Ended December 31,					
Operating Results					
Net Interest Income	$ 418.8	$ 395.0	$ 402.6	$ 407.1	$ 390.6
Provision for Credit Losses	60.5	15.5	10.8	4.6	(10.0)
Net Income	192.2	183.7	180.4	181.6	173.3
Basic Earnings Per Share	4.03	3.75	3.59	3.50	3.26
Diluted Earnings Per Share	3.99	3.69	3.52	3.41	3.08
Dividends Declared Per Share	1.77	1.67	1.52	1.36	1.23
Performance Ratios					
Net Income to Average Total Assets (ROA)	1.84%	1.75%	1.76%	1.81%	1.78%
Net Income to Average Shareholders' Equity (ROE)	24.54	25.15	25.90	24.83	22.78
Efficiency Ratio [1]	51.23	52.78	51.87	53.15	56.14
Operating Leverage [2]	10.00	0.76	3.13	10.54	26.33
Net Interest Margin [3]	4.33	4.08	4.25	4.38	4.32
Dividend Payout Ratio [4]	43.92	44.53	42.34	38.86	37.73
Average Shareholders' Equity to Average Assets	7.50	6.97	6.80	7.29	7.81
Average Balances					
Average Loans and Leases	$ 6,542.2	$ 6,561.6	$ 6,369.2	$ 6,104.4	$ 5,786.6
Average Assets	10,448.2	10,472.1	10,241.4	10,023.7	9,745.5
Average Deposits	7,851.3	7,887.5	7,731.0	7,766.5	7,422.3
Average Shareholders' Equity	783.1	730.3	696.3	731.1	761.0
Weighted Average Shares Outstanding					
Basic Weighted Average Shares	47,674,000	49,033,208	50,176,685	51,848,765	53,232,815
Diluted Weighted Average Shares	48,200,650	49,833,546	51,178,943	53,310,816	56,241,044
As of December 31,					
Balance Sheet Totals					
Loans and Leases	$ 6,530.2	$ 6,580.9	$ 6,623.2	$ 6,168.5	$ 5,986.9
Total Assets	10,763.5	10,472.9	10,571.8	10,187.0	9,766.2
Total Deposits	8,292.1	7,942.4	8,023.4	7,907.5	7,564.7
Long-Term Debt	203.3	235.4	260.3	242.7	252.6
Total Shareholders' Equity	790.7	750.3	719.4	693.4	814.8
Financial Ratios					
Allowance to Loans and Leases Outstanding	1.89%	1.38%	1.37%	1.48%	1.78%
Tier 1 Capital Ratio [5]	11.24	10.32	9.99	10.36	12.13
Total Capital Ratio [5]	12.49	11.92	11.92	12.70	14.89
Leverage Ratio [5]	7.30	7.02	7.06	7.14	8.29
Non-Financial Data					
Common Shareholders of Record	7,523	7,721	7,888	7,940	8,171

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

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

3

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

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

[5] Tier 1 capital, total capital, and leverage ratios as of December 31, 2007 were corrected from 10.36%, 11.96%, and 7.04%, respectively.

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

Forward-Looking Statements

This report contains forward-looking statements concerning, among other things, the economic and business environment in our service area and elsewhere, credit quality, and other financial and business matters in future periods. Our forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate and actual results may differ materially from those projected because of a variety of risks and uncertainties, including, but not limited to: 1) general economic conditions either nationally, internationally, or locally may be less favorable than expected; 2) changes in the securities markets, public debt markets, and other capital markets in the U.S. and globally; 3) the increase in government intervention in the U.S. financial system; 4) competitive pressure among financial services and products; 5) the impact of legislation and the regulatory environment; 6) fiscal and monetary policies of the markets in which we operate; 7) actual or alleged conduct which could harm our reputation; 8) changes in accounting standards; 9) changes in tax laws or regulations or the interpretation of such laws and regulations; 10) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 11) changes in market interest rates that may affect our credit markets and ability to maintain our net interest margin; 12) unpredicted costs and other consequences of legal or regulatory matters involving the Company; 13) changes to the amount and timing of proposed common stock repurchases; and 14) geopolitical risk, military or terrorist activity, natural disaster, adverse weather, public health, and other conditions impacting us and our customers' operations. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included under the section entitled "Risk Factors" in Part I of this report. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. We do not undertake an obligation to update forward-looking statements to reflect later events or circumstances.

Critical Accounting Estimates

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

Reserve for Credit Losses

A consequence of lending activities is that we may incur losses. The amount of such losses will vary, depending upon the risk characteristics of the loan and lease portfolio as affected by economic conditions, including rising interest rates, and the financial performance of borrowers. The reserve for credit losses consists of the Allowance for Loan and Lease Losses (the "Allowance") and a Reserve for Unfunded Commitments (the "Unfunded Reserve"). The reserve for credit losses provides for credit losses inherent in lending or committing to lend and is based on loss estimates derived from a comprehensive quarterly evaluation, reflecting analyses of individual borrowers and historical loss experience, supplemented as necessary by credit

judgment to address observed changes in trends, conditions, and other relevant environmental and economic factors. The Allowance provides for probable and estimable losses inherent in our loan and lease portfolio. The Allowance is increased or decreased through the provisioning process. There is no exact method of predicting specific losses or amounts that ultimately may be charged-off on particular segments of the loan and lease portfolio.

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

Valuation of Mortgage Servicing Rights

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

Valuation of Leased Asset Residual Values

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

Pension and Postretirement Benefit Obligations

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

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The estimated pension and postretirement net periodic benefit cost for 2009 is $4.2 million, based on an assumed discount rate of 6.25%. The following table presents a sensitivity analysis of a 25 basis point change in discount rates to the net periodic benefit cost and benefit obligation:

Discount Rate Sensitivity Analysis **Table 1**

(dollars in thousands)	Base Discount Rate	Impact of Discount Rate 25 Basis Point Increase	Discount Rate 25 Basis Point Decrease
2008 Net Periodic Benefit Cost, Pension Benefits	6.85%	$ (168)	$ 162
2008 Net Periodic Benefit Cost, Postretirement Benefits	6.85%	(61)	65
Pension Benefit Obligation as of December 31, 2008	6.25%	(2,341)	2,449
Postretirement Benefit Obligation as of December 31, 2008	6.25%	(774)	811
Estimated 2009 Net Periodic Benefit Cost, Pension Benefits	6.25%	(156)	160
Estimated 2009 Net Periodic Benefit Cost, Postretirement Benefits	6.25%	(65)	68

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

Income Taxes

We determine our liabilities for income taxes based on current tax regulation and interpretations in tax jurisdictions where our income is subject to taxation. Currently, we file tax returns in 11 federal, state and local domestic jurisdictions, and four foreign jurisdictions. In estimating income taxes payable or receivable, we assess the relative merits and risks of the appropriate tax treatment considering statutory, judicial, and regulatory guidance in the context of each tax position. Accordingly, previously estimated liabilities are regularly reevaluated and adjusted, through the provision for income taxes.

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

Reclassifications

Certain prior period information in Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") has been reclassified to conform to the 2008 presentation.

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Overview

We are a regional financial services company serving businesses, consumers, and governments in Hawaii, American Samoa, and the West Pacific. Our main operating subsidiary, the Bank, was founded in 1897 and is the largest independent financial institution in Hawaii.

"Maximizing shareholder value over time" remains our governing objective. Our vision is "exceptional people building exceptional value for our customers, our island communities, our shareholders, and each other."

In striving to fulfill our governing objective and vision, we introduced our 2007+ Plan ("Plan") to our shareholders, customers, and employees in January 2007. Our Plan, which we continued to follow in 2008, focused on soundness and on disciplined management of lending, investing, compliance, capital, and liquidity.

Plan Financial Objectives and Earnings Summary

Our Plan was prepared with the expectation that economic growth in Hawaii could slow in 2007 and beyond. Our Plan was based on assumptions of moderate growth in revenues and consistent, positive operating leverage. Our Plan also allowed us to adjust for economic softness as we became increasingly cautious in 2008. Our Plan is to grow with the markets that we serve, while maintaining our conservative risk profile.

In 2008, the U.S. economy, and in particular the financial services industry, faced unprecedented challenges. Although we were not immune to these external factors, 2008 produced solid financial results.

The following summarizes our Plan financial objectives compared with our financial results for 2008:

Financial Objectives **Table 2**

Performance Ratios	**Plan Financial Objectives**	**2008 Results**
Average ROA	Above 1.70%	1.84%
Average ROE	Above 25.00%	24.54%
Efficiency Ratio	Approaching 50.00%	51.23%
Operating Leverage	Positive	10.00%

Net income for 2008 was $192.2 million, an increase of 5% from 2007. Diluted earnings per share were $3.99 for 2008, an increase of 8% from 2007. Our solid financial performance in 2008 was primarily due to a $23.8 million or 6% increase in net interest income from 2007, a result of a 25 basis point increase in our net interest margin to 4.33%.

Our solid financial performance in 2008 was also positively impacted by three transactions:

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

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

- $8.9 million net gain related to the settlement of our Sale-In Lease-Out ("SILO") transactions with the Internal Revenue Service (the "IRS"). This amount was comprised of a $4.0 million decrease to lease financing interest income and a $12.9 million credit to the provision for income taxes.

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Our actions in 2008 were influenced by the weakening economy and uncertainties regarding the impact of government regulation. We strengthened our balance sheet in 2008, with increased levels of deposits, reserves for credit losses, and capital.

- Total deposits were $8.3 billion as of December 31, 2008, an increase of $349.7 million or 4% from the balance as of December 31, 2007;

- We increased our reserve for credit losses by $32.5 million or 34% during 2008, to reflect increased risk due to the overall softening of the economy, and risk in the credit and financial markets; and

- We significantly increased our capital. Our leverage ratio was 7.30% as of December 31, 2008 compared to 7.02% as of December 31, 2007. Also, our Tier 1 capital ratio was 11.24% as of December 31, 2008 compared to 10.32% as of December 31, 2007.

In December 2008, we decided not to participate in the U.S. Treasury's TARP/CPP. Rather than relying on government funding, we focused on increasing deposits and building capital. We have substantial resources for investment and lending, and will make such investments as opportunities and conditions warrant.

We anticipate that the challenging economic environment will continue in 2009. We will focus on maintaining high levels of liquidity, as well as strong capital and reserves for credit losses. Special emphasis will be given to workforce productivity, technology and service enhancement, and management of risk and expenses.

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Analysis of Statements of Income

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

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

	2008			2007			2006		
(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	$ 20.1	$ 0.4	2.27%	$ 29.3	$ 1.5	5.28%	$ 5.4	$ 0.2	3.92%
Funds Sold	78.6	1.6	2.04	60.3	3.1	5.06	15.2	0.8	5.06
Investment Securities									
Trading	94.1	4.7	4.99	122.6	4.9	4.00			
Available-for-Sale	2,604.4	140.0	5.38	2,516.7	130.5	5.19	2,598.8	127.5	4.91
Held-to-Maturity	263.7	11.9	4.50	329.5	14.9	4.53	417.6	18.3	4.37
Loans Held for Sale	8.8	0.5	5.72	9.0	0.6	6.43	9.7	0.6	6.38
Loans and Leases [1]									
Commercial and Industrial	1,061.7	58.4	5.50	1,054.8	78.1	7.40	987.8	72.7	7.36
Commercial Mortgage	683.1	41.9	6.14	624.5	42.5	6.81	598.5	40.3	6.73
Construction	173.4	10.3	5.93	250.1	19.6	7.86	197.3	16.2	8.19
Commercial Lease Financing	471.8	13.2	2.80	470.3	15.0	3.19	478.2	14.6	3.05
Residential Mortgage	2,484.9	150.9	6.07	2,488.2	152.5	6.13	2,447.4	146.0	5.97
Home Equity	997.9	58.9	5.90	961.4	72.7	7.56	925.2	68.7	7.43
Automobile	411.8	33.4	8.11	432.0	35.3	8.18	433.8	34.6	7.97
Other [2]	257.6	23.2	9.01	280.3	30.1	10.72	301.0	31.8	10.59
Total Loans and Leases	6,542.2	390.2	5.96	6,561.6	445.8	6.79	6,369.2	424.9	6.67
Other	79.6	1.7	2.11	79.4	1.5	1.83	79.4	1.1	1.45
Total Earning Assets [3]	9,691.5	551.0	5.69	9,708.4	602.8	6.21	9,495.3	573.4	6.04
Cash and Noninterest-Bearing Deposits	273.3			288.9			301.2		
Other Assets	483.4			474.8			444.9		
Total Assets	$ 10,448.2			$ 10,472.1			$ 10,241.4		
Interest-Bearing Liabilities									
Interest-Bearing Deposits									
Demand	$ 1,663.7	5.5	0.33	$ 1,521.7	15.3	1.01	$ 1,575.5	15.5	0.98
Savings	2,808.7	28.6	1.02	2,745.8	54.1	1.97	2,720.3	38.4	1.41
Time	1,637.2	48.3	2.95	1,728.4	68.4	3.96	1,484.8	49.8	3.35
Total Interest-Bearing Deposits	6,109.6	82.4	1.35	5,995.9	137.8	2.30	5,780.6	103.7	1.79
Short-Term Borrowings	106.2	1.7	1.65	127.9	6.3	4.94	177.7	8.8	4.97

Securities Sold Under Agreements to Repurchase	1,083.3	33.8	3.12	1,044.8	47.0	4.50	932.4	42.2	4.52
Long-Term Debt	218.2	13.4	6.15	251.9	15.8	6.22	249.8	15.4	6.15
Total Interest-Bearing Liabilities	7,517.3	131.3	1.75	7,420.5	206.9	2.79	7,140.5	170.1	2.38
Net Interest Income		$ 419.7			$ 395.9			$ 403.3	
Interest Rate Spread			3.94%			3.42%			3.66%
Net Interest Margin			4.33%			4.08%			4.25%
Noninterest-Bearing Demand Deposits	1,741.8			1,891.6			1,950.4		
Other Liabilities	406.0			429.7			454.2		
Shareholders' Equity	783.1			730.3			696.3		
Total Liabilities and Shareholders' Equity	$ 10,448.2			$ 10,472.1			$ 10,241.4		

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

3 Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of $945,000, $923,000, and $696,000 for the years ended December 31, 2008, 2007, and 2006, respectively.

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

(dollars in millions)	Year Ended December 31, 2008 Compared to 2007			Year Ended December 31, 2007 Compared to 2006		
	Volume [1]	Rate [1]	Total	Volume [1]	Rate [1]	Total
Change in Interest Income:						
Interest-Bearing Deposits	$ (0.4)	$ (0.7)	$ (1.1)	$ 1.2	$ 0.1	$ 1.3
Funds Sold	0.7	(2.2)	(1.5)	2.3		2.3
Investment Securities						
Trading	(1.3)	1.1	(0.2)	4.9		4.9
Available-for-Sale	4.6	4.9	9.5	(4.1)	7.1	3.0
Held-to-Maturity	(2.9)	(0.1)	(3.0)	(4.0)	0.6	(3.4)
Loans Held for Sale		(0.1)	(0.1)			
Loans and Leases						
Commercial and Industrial	0.5	(20.2)	(19.7)	5.0	0.4	5.4
Commercial Mortgage	3.8	(4.4)	(0.6)	1.7	0.5	2.2
Construction	(5.2)	(4.1)	(9.3)	4.1	(0.7)	3.4
Commercial Lease Financing	0.1	(1.9)	(1.8)	(0.2)	0.6	0.4
Residential Mortgage	(0.2)	(1.4)	(1.6)	2.5	4.0	6.5
Home Equity	2.6	(16.4)	(13.8)	2.7	1.3	4.0
Automobile	(1.6)	(0.3)	(1.9)	(0.2)	0.9	0.7
Other [2]	(2.3)	(4.6)	(6.9)	(2.1)	0.4	(1.7)
Total Loans and Leases	(2.3)	(53.3)	(55.6)	13.5	7.4	20.9
Other		0.2	0.2		0.4	0.4
Total Change in Interest Income	(1.6)	(50.2)	(51.8)	13.8	15.6	29.4
Change in Interest Expense:						
Interest-Bearing Deposits						
Demand	1.4	(11.2)	(9.8)	(0.6)	0.4	(0.2)
Savings	1.2	(26.7)	(25.5)	0.3	15.4	15.7
Time	(3.5)	(16.6)	(20.1)	8.8	9.8	18.6
Total Interest-Bearing Deposits	(0.9)	(54.5)	(55.4)	8.5	25.6	34.1
Short-Term Borrowings	(0.9)	(3.7)	(4.6)	(2.4)	(0.1)	(2.5)
Securities Sold Under Agreements to Repurchase	1.7	(14.9)	(13.2)	5.0	(0.2)	4.8
Long-Term Debt	(2.2)	(0.2)	(2.4)	0.2	0.2	0.4
Total Change in Interest Expense	(2.3)	(73.3)	(75.6)	11.3	25.5	36.8
Change in Net Interest Income	$ 0.7	$ 23.1	$ 23.8	$ 2.5	$ (9.9)	$ (7.4)

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

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

Net Interest Income

The amount of net interest income is affected by both changes in interest rates (rate) and the amount and composition of earning assets and interest-bearing liabilities (volume). Net interest income benefited significantly from the lower interest rate environment in 2008 and as our liabilities re-priced faster than our assets.

Net interest income, on a taxable equivalent basis, increased by $23.8 million or 6% in 2008 from 2007, primarily due to lower funding costs and the effects of a steeper yield curve in 2008. Net interest margin increased by 25 basis points in 2008 from 2007. Rates paid on interest-bearing deposits decreased by 95 basis points in 2008, reflecting the full effects of a decreasing interest rate environment during 2008. Also contributing to our lower funding costs was a 138 basis point decrease in rates paid on securities sold under agreements to repurchase in 2008. The decrease in our funding costs more than offset the decrease in interest income from our earning assets. Yields on our loans and leases decreased by 83 basis

points in 2008 from 2007. Yields were 190 basis points lower in our commercial and industrial portfolio and 166 basis points lower in our home equity portfolio, as interest rates reset on these variable rate products.

Average balances of our interest earning assets and interest-bearing liabilities changed only slightly in 2008 from 2007. Average interest-bearing liabilities increased by $96.8 million or 1% in 2008 from 2007, primarily due to growth in interest-bearing demand and savings deposits as customers moved balances to more liquid accounts. Also contributing to the increase in average interest-bearing liabilities was a $38.5 million increase in average balances in securities sold under agreements to repurchase. Average earning assets decreased by $16.9 million or less than 1% in 2008 from 2007.

Net interest income, on a taxable equivalent basis, decreased by $7.4 million or 2% in 2007 from 2006, primarily due to increased funding costs. Net interest margin decreased by 17 basis points in 2007 from 2006, primarily due to the prolonged effects of the inverted or flat yield curve. Rates paid on interest-bearing deposits increased by 51 basis points in 2007, reflecting the full effects of a rising interest rate environment during 2006. The increase in our funding costs more than offset the increase in interest income from our earning assets. Yields on our loans and leases increased by 12 basis points in 2007 from 2006. Yields were also 28 basis points higher in our investment securities available-for-sale in 2007 from 2006, primarily as a result of reinvestment in higher yielding investment securities as well as a decrease in the level of prepayments.

Average interest-bearing liabilities increased by $280.0 million or 4% in 2007 from 2006, primarily due to growth in time deposits. Average time deposit balances increased by $243.6 million as customers sought higher rate deposit products. Also contributing to the increase in average interest-bearing liabilities was a $112.4 million increase in average balances in securities sold under agreements to repurchase. Average long-term debt, the costliest of our interest-bearing liabilities, remained relatively unchanged in 2007 from 2006. Average loans and leases increased by $192.4 million or 3% in 2007 from 2006, with growth in substantially all loan categories. Average balances in investment securities declined slightly in 2007 from 2006.

Provision for Credit Losses

The Provision for Credit Losses (the "Provision") reflects our judgment of the expense or benefit necessary to achieve the appropriate amount of the Allowance. We maintain the Allowance at levels adequate to cover our estimate of probable credit losses as of the end of the reporting period. The Provision is determined through detailed quarterly analyses of the loan and lease portfolio. The Provision is based on our loss experience, changes in the economic environment, as well as an ongoing assessment of our credit quality. The Provision was $60.5 million in 2008, $15.5 million in 2007, and $10.8 million in 2006. The Provision recorded in 2008 increased the Allowance to $123.5 million as of December 31, 2008, which is reflective of higher levels of net loans and leases charged-off and a slowdown in local economic activity. For further discussion on the Allowance, see the "Corporate Risk Profile   Allowance for Loan and Lease Losses" section in MD&A.

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Noninterest Income

Table 5 presents the major components of noninterest income for 2008, 2007, and 2006.

Noninterest Income **Table 5**

(dollars in thousands)	Year Ended December 31, 2008	2007	2006	Dollar Change 2008 to 2007	2007 to 2006	Percent Change 2008 to 2007	2007 to 2006
Trust and Asset Management	$ 57,014	$ 62,926	$ 58,740	$ (5,912)	$ 4,186	(9)%	7%
Mortgage Banking	8,164	11,725	10,562	(3,561)	1,163	(30)	11
Service Charges on Deposit Accounts	50,845	46,260	41,756	4,585	4,504	10	11
Fees, Exchange, and Other Service Charges	66,524	65,825	62,441	699	3,384	1	5
Investment Securities Gains, Net	532	1,485	172	(953)	1,313	(64)	763
Insurance	24,575	23,177	20,388	1,398	2,789	6	14
Other Income:							
Gain on Mandatory Redemption of Visa Shares	13,737			13,737		n.m.	n.m.
Gain on the Sale of Leased Assets	12,209	3,126	2,708	9,083	418	291	15
Income from Bank-Owned Life Insurance	8,369	7,773	6,090	596	1,683	8	28
Gain on the Sale of Real Estate		3,095		(3,095)	3,095	n.m.	n.m.
Other	16,144	15,095	13,319	1,049	1,776	7	13
Total Other Income	50,459	29,089	22,117	21,370	6,972	73	32
Total Noninterest Income	$258,113	$240,487	$216,176	$ 17,626	$ 24,311	7%	11%

n.m. not meaningful.

Trust and asset management income is comprised of fees earned from the management and administration of trust and other customer assets. These fees are in large part based upon the market value of the assets that we manage. Total trust assets under administration were $9.8 billion as of December 31, 2008, $13.0 billion as of December 31, 2007, and $12.6 billion as of December 31, 2006. Trust and asset management income decreased by 9% in 2008 from 2007 primarily due to a $3.2 million decrease in investment advisory fees and a $2.7 million decrease in fees from accounts under management. Both decreases were affected by the decline in the value of equity markets over this period. Trust and asset management income increased in 2007 from 2006 primarily due to a $2.0 million increase in fees from new accounts under management as well as an increase in fees from existing accounts as a result of an increase in the market value of assets under managements.

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Mortgage banking income for 2008, 2007, and 2006 was comprised of the following:

Mortgage Banking **Table 6**

(dollars in thousands)	2008	2007	2006
Mortgage Origination and Servicing Activities			
Servicing Income	$ 6,297	$ 6,105	$ 6,117
Net Gains on the Sale of Residential Mortgage Loans	996	685	1,080
Mortgage Loan Fees	2,463	2,484	2,041
Total Mortgage Origination and Servicing Activities	9,756	9,274	9,238
Mortgage Servicing Rights and Derivative Financial Instruments			
Net Change in the Fair Value of Mortgage Servicing Rights Due to Originations and Payoffs [1]	(2,205)	(40)	3,963
Net Change in the Fair Value of Mortgage Servicing Rights Due to Changes in Valuation Assumptions and the Fair Value of Designated Securities [2]	(7,564)	2,449	
Net Losses Related to Mortgage Servicing Rights Under the Amortization Method	(340)		(2,536)
Net Gains (Losses) on Derivative Financial Instruments	8,517	42	(103)
Total Mortgage Servicing Rights and Derivative Financial Instruments	(1,592)	2,451	1,324
Total Mortgage Banking	$ 8,164	$ 11,725	$ 10,562

1 Principally represents changes due to loan payoffs and loan sales with servicing rights retained.

2 Changes in valuation assumptions principally reflects changes in discount rates and loan repayment rate assumptions, mostly due to changes in interest rates. Designated Securities were comprised of mortgage-backed securities in our trading portfolio, which were used to manage the volatility of the fair value of our mortgage servicing rights. Realized investment trading gains and losses were not material.

Mortgage banking income is highly influenced by mortgage interest rates and the housing market. Mortgage banking income decreased by 30% in 2008 from 2007 primarily due to a $12.5 million decrease in income related to the estimated fair value of our mortgage servicing rights, net of the change in fair value of our designated trading securities. The decrease in our income from mortgage servicing rights was primarily due to higher loan repayment rate assumptions in 2008 as a result of lower interest rates on mortgage-based products and the resulting increase in refinancing activity. This was partially offset by an $8.5 million increase in net gains on our derivative financial instruments in 2008. Our adoption of SAB No. 109 on January 1, 2008 had the effect of accelerating gain recognition of the estimated fair value of our mortgage servicing rights related to the loan from the loan sale date to the loan commitment date. Derivative gains related to our application of SAB No. 109 in 2008 were $7.6 million. Mortgage loan originations were $866.3 million in 2008, a $55.6 million or 7% increase compared to 2007. The increase in mortgage loan originations in 2008 compared to 2007 was primarily due to higher refinancing activity due to lower mortgage interest rates. Servicing income has also remained stable in 2008, as our portfolio of residential mortgage loans serviced for third parties was $2.7 billion as of December 31, 2008 compared to $2.5 billion as of December 31, 2007.

Mortgage banking income increased by 11% in 2007 from 2006 primarily due to the discontinuation of the amortization of mortgage servicing rights in 2007. This was partially offset by a $1.6 million decrease in income related to the estimated fair value of our mortgage servicing rights, net of the change in fair value of our designated trading securities. Mortgage loan originations were $775.9 million in 2007, a $66.7 million decrease from 2006. See Note 4 to the Consolidated Financial Statements for more information on mortgage servicing rights.

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Service charges on deposit accounts increased by 10% in 2008 from 2007 primarily due to a $4.4 million increase in account analysis fees on analyzed business checking accounts as a result of lower earnings credit rates on customer accounts. Service charges on deposit accounts increased by 11% in 2007 from 2006 primarily due to a $4.9 million increase in overdraft fees as a result of fee schedule changes as well as an increase in the number of transactional deposit accounts.

Fees, exchange, and other service charges are primarily comprised of debit card income, fees from ATMs, merchant service activity, and other loan fees and service charges. The increase in fees, exchange, and other service charges in 2008 from 2007 was primarily due to a $1.4 million increase in debit card income and a $0.6 million increase in fees from facilitating interest rate swaps on behalf of our customers. This was partially offset by a $1.2 million decrease in fees from ATMs. The increase in fees, exchange, and other service charges in 2007 from 2006 was primarily due to a $3.7 million increase in debit card income and a $1.0 million increase in fees from facilitating interest rate swaps on behalf of our customers. This was partially offset by a $0.6 million decrease in other loan fees and a $0.4 million decrease in fees from ATMs. The increases in debit card income for both periods were due to higher transactional volume from new and existing debit cardholders.

Insurance income is comprised of commission income derived from our retail and wholesale insurance businesses. Insurance income increased by 6% in 2008 from 2007 primarily due to a $1.2 million increase in income from annuity and life insurance products and a $0.8 million increase in contingent commission income. This was partially offset by a $0.4 million decrease in income from life insurance premiums. The increase in income from fixed annuity products was a result of customers preferring conservative investment alternatives in light of equity market conditions. Insurance income increased by 14% in 2007 from 2006 primarily due to a $1.2 million increase in income from annuity and life insurance products as well as a $1.1 million increase in contingent commission income.

Other noninterest income increased by 73% in 2008 from 2007 primarily due to the $13.7 million gain from the mandatory redemption of our Visa shares and the $11.6 million gain on the sale of our equity interest in an aircraft lease. Also contributing to the increase was a $3.6 million change in the estimated fair value of our subordinated notes, partially offset by a $1.4 million decrease in commission income from the sale of mutual funds. Other noninterest income increased by 32% in 2007 from 2006 primarily due to the gain on the sale of real estate, increased income from bank-owned life insurance, higher income from low-income housing investments, and higher commission income from the sale of mutual funds.

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Noninterest Expense

Table 7 presents the major components of noninterest expense for 2008, 2007, and 2006.

Noninterest Expense **Table 7**

	Year Ended December 31,			Dollar Change		Percent Change	
(dollars in thousands)	**2008**	**2007**	**2006**	**2008 to 2007**	**2007 to 2006**	**2008 to 2007**	**2007 to 2006**
Salaries and Benefits:							
Salaries	$ 120,440	$ 115,856	$ 110,203	$ 4,584	$ 5,653	4%	5%
Incentive Compensation	19,369	15,505	17,150	3,864	(1,645)	25	(10)
Cash for Stock Grants	4,640			4,640		n.m.	n.m.
Share-Based Compensation	5,049	6,330	5,322	(1,281)	1,008	(20)	19
Commission Expense	6,941	7,444	7,168	(503)	276	(7)	4
Retirement and Other Benefits	14,660	15,131	17,212	(471)	(2,081)	(3)	(12)
Payroll Taxes	10,175	9,910	9,791	265	119	3	1
Medical, Dental, and Life Insurance	9,010	9,289	7,900	(279)	1,389	(3)	18
Separation Expense	1,674	1,400	1,711	274	(311)	20	(18)
Total Salaries and Benefits	191,958	180,865	176,457	11,093	4,408	6	2
Net Occupancy	45,129	40,073	38,976	5,056	1,097	13	3
Net Equipment	18,143	19,274	20,127	(1,131)	(853)	(6)	(4)
Professional Fees	11,511	11,206	6,854	305	4,352	3	63
Other Expense:							
Data Services	13,406	13,456	13,029	(50)	427		3
Delivery and Postage Services	10,812	10,337	10,049	475	288	5	3
Legal Contingencies	3,016			3,016		n.m.	n.m.
Bank of Hawaii Charitable Foundation and Other Contributions	2,250		1,500	2,250	(1,500)	n.m.	n.m.
Call Premium on Capital Securities	991			991		n.m.	n.m.
Accrual (Reversal) of Visa Legal Costs	(5,649)	5,649		(11,298)	5,649	n.m.	n.m.
Other	55,207	54,547	53,970	660	577	1	1
Total Other Expense	80,033	83,989	78,548	(3,956)	5,441	(5)	7
Total Noninterest Expense	$ 346,774	$ 335,407	$ 320,962	$ 11,367	$ 14,445	3%	5%

n.m. not meaningful.

Total salaries and benefits increased by 6% in 2008 from 2007 primarily due to cash for stock grants, broad-based incentive awards, and annual merit increases. The $4.6 million cash for stock grants related to a change in our practice of equity compensation for senior management. Senior officers, other than executive officers, received cash grants to encourage them to purchase our common stock in lieu of receiving restricted stock grants. Incentive compensation increased in 2008 from 2007 primarily due to $1.6 million in broad-based incentive awards which was designed to reward employees who helped us achieve solid financial performance despite the challenging economic environment in 2008. Employees eligible for this award were those employees who did not earn bonuses, commissions, or other incentives as a part of their compensation during 2008. Partially offsetting these increases in 2008 were reduced pension costs, as a result of assumption changes, and reduced executive retention expense. Total salaries and benefits increased by 2% in 2007 from 2006 primarily due to annual merit increases. Share-based compensation also contributed to the increase due to a $1.0 million expense related to an executive retention agreement that ended on December 31, 2007. Another contributing factor to higher salaries and benefits expense in 2007 was an increase in group medical insurance expense. These increases were

partially offset by a reduction in postretirement medical benefits expense, as a result of our decision to amend our plan to reduce retirement benefit costs, and reduced incentive compensation.

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Net occupancy increased by 13% in 2008 from 2007 primarily due to a $2.2 million increase in utilities expense as well as a $2.1 million increase in net rental expense. The increase in net rental expense was primarily related to our new Waikiki branch and the opening of two new in-store branches. Net occupancy expense increased by 3% in 2007 from 2006 primarily due to a $1.6 million increase in utilities expense, partially offset by a $0.4 million decrease in depreciation and amortization expense. The increase in utilities expense in 2008 and 2007 were primarily due to higher energy costs.

Professional fees remained relatively unchanged in 2008 from 2007. Professional fees increased by $4.4 million in 2007 from 2006 primarily due to a $4.0 million reduction in legal fees in 2006 as a result of the conclusion of various legal matters.

Other noninterest expense decreased by 5% in 2008 from 2007 primarily due to a $5.6 million reversal of previously recorded Visa contingency accruals. Also contributing to the decrease in other noninterest expense in 2008 was a $1.8 million fraud loss recorded in 2007. These items were partially offset by a $3.0 million increase in our reserves for legal contingencies, a $2.3 million increase in our contributions to the Bank of Hawaii Charitable Foundation and other charitable organizations, and a $1.0 million call premium related to our Bancorp Hawaii Capital Trust I Capital Securities ("Capital Securities"). Other noninterest expense increased by 7% in 2007 from 2006 primarily due to the $5.6 million Visa contingency accruals. See Note 17 to the Consolidated Financial Statements for more information on the Visa legal matters.

Income Taxes

Our provision for income taxes and effective tax rates for 2008, 2007, and 2006 were as follows:

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

(dollars in thousands)	**Provision**	**Effective Tax Rates**
2008	$ 77,388	28.70%
2007	100,888	35.45
2006	106,710	37.17

The lower effective tax rate in 2008 from 2007 was primarily due to a $12.9 million credit to the provision for income taxes recorded in September 2008. This credit was the result of our acceptance of the settlement initiative from the IRS related to our SILO transactions. Also favorably impacting our effective tax rate in 2008 was a pre-tax gain from the sale of our equity interest in an aircraft leveraged lease that would have resulted in an income tax expense of approximately $4.6 million, based on statutory income tax rates. However, due to the timing of the sale of our equity interest and the adjustment of previously recognized income tax liabilities, this transaction resulted in a $1.4 net credit to the provision for income taxes. As a result, the total income tax benefit from this transaction was approximately $6.0 million.

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

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Analysis of Business Segments

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

We evaluate several performance measures of the business segments, the most important of which are net income after capital charge ("NIACC") and risk adjusted return on capital ("RAROC"). NIACC is economic net income less a charge for the cost of allocated capital. The cost of allocated capital is determined by multiplying our estimate of a shareholder's minimum required rate of return on the cost of capital invested (10% for 2008) by the segment's allocated equity. We assume a cost of capital that is equal to a risk-free rate plus a risk premium. RAROC is the ratio of economic net income to risk-adjusted equity. Equity is allocated to each business segment based on an assessment of its inherent risk. The net interest income of the business segments reflects the results of a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics and reflects the allocation of net interest income related to our overall asset and liability management activities on a proportionate basis. The basis for the allocation of net interest income is a function of our assumptions that are subject to change based on changes in current interest rates and market conditions. Funds transfer pricing also serves to transfer interest rate risk to Treasury. However, the other business segments have some latitude to retain certain interest rate exposures related to customer pricing decisions within guidelines. Adjustments to Allocated Net Income include the replacement of the Provision with the higher of an economic provision or the Provision, the replacement of the hedge effectiveness of our mortgage servicing rights with an amortization approach, the reversal of an earnings credit related to the Allowance, as well as the tax effect of these adjustments. The economic provision is a statistically derived estimate of annual expected credit losses over an economic cycle.

We consider NIACC to be a measure of shareholder value creation. Our NIACC was $109.8 million in 2008, $91.7 million in 2007, and $94.1 million in 2006. See Note 12 to the Consolidated Financial Statements for more information on our business segments.

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Table 9 summarizes NIACC and RAROC results for our business segments for 2008, 2007, and 2006.

Business Segment Selected Financial Information **Table 9**

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services	Total	Treasury and Other	Consolidated Total
Year Ended December 31, 2008						
Net Interest Income	$ 232,454	$ 162,711	$ 15,643	$ 410,808	$ 7,969	$ 418,777
Provision for Credit Losses	19,607	40,655	1,088	61,350	(835)	60,515
Net Interest Income After Provision for Credit Losses	212,847	122,056	14,555	349,458	8,804	358,262
Noninterest Income	112,091	53,826	69,452	235,369	22,744	258,113
Noninterest Expense	(174,050)	(96,125)	(64,917)	(335,092)	(11,682)	(346,774)
Income Before Provision for Income Taxes	150,888	79,757	19,090	249,735	19,866	269,601
Provision for Income Taxes	(55,836)	(30,723)	(7,063)	(93,622)	16,234	(77,388)
Allocated Net Income	95,052	49,034	12,027	156,113	36,100	192,213
Adjustments to Allocated Net Income	(4,707)	(6,272)	(208)	(11,187)	7,150	(4,037)
Income Before Capital Charge	90,345	42,762	11,819	144,926	43,250	188,176
Capital Charge	(19,040)	(16,417)	(5,750)	(41,207)	(37,149)	(78,356)
Net Income After Capital Charge (NIACC)	$ 71,305	$ 26,345	$ 6,069	$ 103,719	$ 6,101	$ 109,820
RAROC (ROE for the Company)	47%	26%	21%	35%	58%	25%
Total Assets as of December 31, 2008	$ 3,696,518	$ 3,029,799	$ 278,748	$ 7,005,065	$ 3,758,410	$ 10,763,475
Year Ended December 31, 2007						
Net Interest Income	$ 224,236	$ 161,962	$ 14,215	$ 400,413	$ (5,395)	$ 395,018
Provision for Credit Losses	7,056	8,469	258	15,783	(276)	15,507
Net Interest Income After Provision for Credit Losses	217,180	153,493	13,957	384,630	(5,119)	379,511
Noninterest Income	105,490	40,332	75,571	221,393	19,094	240,487
Noninterest Expense	(166,245)	(94,087)	(63,672)	(324,004)	(11,403)	(335,407)
Income Before Provision for Income Taxes	156,425	99,738	25,856	282,019	2,572	284,591
Provision for Income Taxes	(57,871)	(36,784)	(9,567)	(104,222)	3,334	(100,888)
Allocated Net Income	98,554	62,954	16,289	177,797	5,906	183,703
Adjustments to Allocated Net Income	(4,902)	(7,363)	(203)	(12,468)	772	(11,696)
Income Before Capital Charge	93,652	55,591	16,086	165,329	6,678	172,007
Capital Charge	(20,461)	(17,870)	(6,229)	(44,560)	(35,765)	(80,325)
Net Income (Loss) After Capital Charge (NIACC)	$ 73,191	$ 37,721	$ 9,857	$ 120,769	$ (29,087)	$ 91,682
RAROC (ROE for the Company)	50%	34%	28%	41%	5%	25%
Total Assets as of December 31, 2007	$ 3,690,551	$ 3,095,861	$ 254,756	$ 7,041,168	$ 3,431,774	$ 10,472,942

Year Ended December 31, 2006						
Net Interest Income	$ 215,938	$ 159,012	$ 13,640	$ 388,590	$ 14,023	$ 402,613
Provision for Credit Losses	5,291	7,165	(1)	12,455	(1,697)	10,758
Net Interest Income After Provision for Credit Losses	210,647	151,847	13,641	376,135	15,720	391,855
Noninterest Income	99,148	37,687	69,293	206,128	10,048	216,176
Noninterest Expense	(165,000)	(87,296)	(62,185)	(314,481)	(6,481)	(320,962)
Income Before Provision for Income Taxes	144,795	102,238	20,749	267,782	19,287	287,069
Provision for Income Taxes	(53,573)	(46,596)	(7,677)	(107,846)	1,136	(106,710)
Allocated Net Income	91,222	55,642	13,072	159,936	20,423	180,359
Adjustments to Allocated Net Income	(3,191)	(6,581)	(878)	(10,650)	1,023	(9,627)
Income Before Capital Charge	88,031	49,061	12,194	149,286	21,446	170,732
Capital Charge	(20,286)	(17,907)	(6,106)	(44,299)	(32,307)	(76,606)
Net Income (Loss) After Capital Charge (NIACC)	$ 67,745	$ 31,154	$ 6,088	$ 104,987	$ (10,861)	$ 94,126
RAROC (ROE for the Company)	48%	30%	22%	37%	15%	26%
Total Assets as of December 31, 2006	$ 3,616,858	$ 3,165,803	$ 199,273	$ 6,981,934	$ 3,589,881	$ 10,571,815

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Retail Banking

Retail Banking offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, and installment loans. Deposit products include checking, savings, and time deposit accounts. Retail Banking also provides merchant services to its small business customers. Products and services from Retail Banking are delivered to customers through 73 Hawaii branch locations, 462 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center, and a mobile banking service. This segment also offers retail property, casualty, and life insurance products.

Financial measures decreased in 2008 from 2007 primarily due to an increase in the Provision and noninterest expense. This was partially offset by higher net interest income and noninterest income. The $12.6 million increase in the Provision was primarily due to higher net loan losses and risk in the segment's consumer portfolios. The $7.8 million increase in noninterest expense was primarily due to increased debit card usage, occupancy, and salaries and benefits expense, as well as higher allocated expenses to the segment related to earnings-based incentive compensation. The $8.2 million increase in net interest income was primarily due to lower loan funding costs and higher deposit earnings credits, which was partially offset by lower average deposit balances. The $6.6 million increase in noninterest income was primarily due to higher fee income from overdraft fees and debit card transactions. Retail Banking's capital charge decreased by $1.4 million in 2008 from 2007, primarily due to a lower rate assessed on allocated capital in 2008.

Financial measures improved in 2007 from 2006 primarily due to higher net interest income and noninterest income. This was partially offset by an increase in the Provision and noninterest expense. The $8.3 million increase in net interest income was primarily due to higher earnings credits on the segment's deposit portfolio, which was partially offset by lower average deposit balances. The $6.3 million increase in noninterest income was primarily due to higher fee income from transaction volume and growth in the number of transactional deposit accounts, as well as higher interchange income from debit card transactions. The $1.8 million increase in the Provision was primarily due to increased risk in the segment's consumer and small business lending portfolios. The $1.2 million increase in noninterest expense was primarily due to increased debit card usage and higher salaries and benefits expense. Retail Banking's capital charge remained relatively unchanged in 2007 from 2006.

Commercial Banking

Commercial Banking offers products including corporate banking, commercial real estate loans, commercial lease financing, auto dealer financing, consumer automobile loans and leases, deposit and cash management products, and wholesale property and casualty insurance products. Commercial lending, deposit, and cash management services are offered to middle-market and large companies in Hawaii. Commercial real estate mortgages focus on customers that include investors, developers, and builders domiciled in Hawaii. Commercial Banking also includes syndicated lending activities, international banking, and operations at our 12 branches in the Pacific Islands.

Financial measures decreased in 2008 from 2007 primarily due to an in increase in the Provision and noninterest expense. This was partially offset by higher noninterest income and net interest income. The $32.2 million increase in the Provision is primarily due to heightened risk in specific loan exposures and to general risk from the weakening economy in Hawaii and the U.S. Mainland. The $2.0 million increase in noninterest expense was primarily due to higher allocated expenses to the segment. The $13.5 million increase in noninterest income was primarily due to the $11.6 million pre-tax gain on the sale of our equity interest in an aircraft lease as well as higher account analysis fees as a result of lower earnings credit rates on customer accounts. The $0.7 million increase in net interest income was primarily due to lower funding costs, partially offset by the effects of the settlement of our SILO transactions. Commercial Banking's capital charge decreased by $1.5 million in 2008 from 2007, primarily due to a lower rate assessed on allocated capital in 2008.

Financial measures improved in 2007 from 2006 primarily due to an increase in net interest income and noninterest income as well as a decrease in the

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provision for income taxes. This was partially offset by an increase in noninterest expense. The $3.0 million increase in net interest income was primarily due to growth in the segment's loan and deposit balances as well as higher earnings credits on the segment's deposit portfolio. The $2.6 million increase in noninterest income was primarily due to higher fee income on wholesale property and casualty insurance products. Higher fee income from facilitating customer interest rate swaps, mutual fund fee income, and gains on the sale of leased assets also contributed to the growth in noninterest income. The $9.8 million decrease in the provision for income taxes was primarily due to a tax charge in 2006 related to a change in tax law. See Note 15 to the Consolidated Financial Statements for more information. The $6.8 million increase in noninterest expense was primarily due to higher salaries and benefits, other operating, and allocated expenses.

Investment Services

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

Financial measures decreased in 2008 from 2007 primarily due to a decrease in noninterest income and an increase in noninterest expense. This was partially offset by an increase in net interest income. The $6.1 million decrease in noninterest income was primarily due to lower fee income as a result of lower asset values under trust administration. The $1.2 million increase in noninterest expense was primarily due to higher salaries and benefits, and allocated expenses. The $1.4 million increase in net interest income was primarily due to lower funding costs on the segment's deposit balances. Investment Services' capital charge decreased by $0.5 million in 2008 from 2007, primarily due to a lower rate assessed on allocated capital in 2008.

Financial measures improved in 2007 from 2006 primarily due to an increase in noninterest income, partially offset by an increase in noninterest expense. The $6.3 million increase in noninterest income was primarily due to higher fee income as a result of higher levels of assets under trust administration as well as higher income related to our fixed annuity products. The $1.5 million increase in noninterest expense was primarily due to higher salaries and benefits, and other operating expenses. Investment Services' capital charge remained relatively unchanged in 2007 from 2006.

Treasury

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

Financial measures improved in 2008 from 2007 primarily due to an increase in net interest income, a higher benefit for income taxes, higher noninterest income, and an increase in the adjustment to allocated net income. This was partially offset by an increase in the capital charge. The $13.4 million increase in net interest income was primarily due to a net benefit from a reduction in lower loan rates and deposit funding costs, as well as decreases in the cost of securities sold under agreements to repurchase, funds purchased, and long-term debt. The increase in the benefit for income taxes was primarily due to the $12.9 million credit related to our SILO transactions recorded in 2008. The $3.7 million increase in noninterest income was primarily due to a $13.7 million gain from the mandatory redemption of our Visa shares, partially offset by a $10.0 million net change in the estimated fair value of our

mortgage servicing rights due to changes in valuation assumptions and the fair value of our designated trading securities. The $6.4 million increase in the adjustment to allocated net income was primarily due to the replacement of the hedge effectiveness of our mortgage servicing rights with an amortization approach. The $1.4 million increase in the capital charge in 2008 from 2007 was primarily due to an increase in excess equity, partially offset by a lower rate assessed on allocated capital in 2008.

Financial measures decreased in 2007 from 2006 primarily due to lower net interest income and an increase in noninterest expense. This was partially offset by an increase in noninterest income in 2007. The $19.4 million decrease in net interest income was primarily due to higher funding costs associated with our deposit portfolio and an increase in the average balance of deposits funded by this segment. The $4.9 million increase in noninterest expense was primarily due to the previously noted $5.6 million charge related to Visa legal costs. The $9.0 million increase in noninterest income was primarily due to a $3.1 million gain on the sale of real estate, a $1.7 million increase in income from bank-owned life insurance, and a $1.3 million increase in net gains from investment securities. This segment's financial results were also negatively impacted by a $3.5 million increase in the capital charge. This increase was due to an increase in excess equity as a result of a decrease in the unrealized loss position on our investment securities available-for-sale, net of tax, of $20.8 million.

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

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Analysis of Statements of Condition

Investment Securities

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

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

(dollars in millions)	1 Year or Less	Weighted Average Yield	After 1 Year-5 Years	Weighted Average Yield	After 5 Years-10 Years	Weighted Average Yield	Over 10 Years	Weighted Average Yield	Total	Weighted Average Yield	Fair Value
As of December 31, 2008											
Investment Securities Available-for-Sale [1]											
Debt Securities Issued by the U.S. Treasury and Government Agencies	$	%	$ 0.6	2.9%	$	%	$	%	$ 0.6	2.9%	$ 0.6
Debt Securities Issued by States and Political Subdivisions [2]	1.1	4.5	11.3	5.2	28.1	5.5	6.5	5.9	47.0	5.4	48.0
Debt Securities Issued by U.S. Government-Sponsored Enterprises			1.0	5.8	3.0	3.5	231.3	5.8	235.3	5.8	236.0
Mortgage-Backed Securities Issued by [3] U.S. Government-Sponsored Enterprises			12.4	4.9	67.1	4.6	1,862.1	5.5	1,941.6	5.5	1,978.3
Non-Agencies							301.4	5.0	301.4	5.0	256.3
Total Mortgage-Backed Securities			12.4	4.9	67.1	4.6	2,163.5	5.4	2,243.0	5.4	2,234.6
Total Investment Securities Available-for-Sale	1.1	4.5%	25.3	5.0%	98.2	4.8%	2,401.3	5.5%	2,525.9	5.4%	2,519.2
Investment Securities Held-to-Maturity											
Mortgage-Backed Securities Issued by U.S. Government-Sponsored Enterprises [3]		%		%	74.9	4.1%	164.7	4.7%	239.6	4.5%	242.2
Total Investment Securities Held-to-Maturity		%		%	74.9	4.1%	164.7	4.7%	239.6	4.5%	242.2
Total Investment Securities											
As of December 31, 2008	$ 1.1		$ 25.3		$ 173.1		$ 2,566.0		$ 2,765.5		$ 2,761.4
As of December 31, 2007	$ 158.3		$ 88.5		$ 324.5		$ 2,286.6		$ 2,857.9		$ 2,850.8
As of December 31, 2006	$ 112.0		$ 300.0		$ 307.3		$ 2,292.9		$ 3,012.2		$ 2,958.6

[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 taxable equivalent basis using a federal statutory tax rate of 35%.

[3] Contractual maturities do not anticipate reductions for periodic paydowns.

Our investment securities portfolio is managed to provide liquidity and interest income. Our portfolio is also used to offset interest rate risk positions and to provide collateral for various banking activities. The carrying amount of our investment securities, excluding trading securities, decreased by $96.9 million or 3% from December 31, 2007.

Our investment securities portfolio had gross unrealized gains of $43.2 million or 2% of total amortized cost as of December 31, 2008. Our investment securities portfolio also had gross unrealized losses of $47.4 million or 2% of total amortized cost as of December 31, 2008. The unrealized losses were primarily related to mortgage-backed securities issued by non-agencies for which there is no active or liquid market. We do not believe that the investment securities that were in an unrealized loss position as of December 31, 2008, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates and levels of market liquidity, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. We have both the intent and ability to hold the investment securities for the time necessary to recover the amortized cost. See Note 2 to the Consolidated Financial Statements for more information.

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As of December 31, 2008, the par value, amortized cost, and fair value of our callable debt and mortgage-backed securities issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation were as follows:

Investment Securities Issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation **Table 11**

(dollars in thousands)	Par Value	Amortized Cost	Fair Value
As of December 31, 2008			
Debt Securities Issued by U.S. Government-Sponsored Enterprises			
Federal National Mortgage Association	$ 210,057	$ 210,000	$ 210,681
Federal Home Loan Mortgage Corporation	500	499	545
Subtotal	210,557	210,499	211,226
Mortgage-Backed Securities Issued by U.S. Government-Sponsored Enterprises			
Federal National Mortgage Association	927,092	930,067	945,586
Federal Home Loan Mortgage Corporation	820,615	821,058	835,149
Subtotal	1,747,707	1,751,125	1,780,735
Total	$ 1,958,264	$ 1,961,624	$ 1,991,961

As of December 31, 2008, we did not own any subordinated debt, or preferred or common stock of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation.

As of December 31, 2008, all of our mortgage-backed securities issued by private issuers ("non-agencies") were prime jumbo, with an average original loan-to-value ratio of 59%. As of December 31, 2008, 98% of the fair value of our mortgage-backed securities issued by non-agencies were AAA-rated and were originated prior to 2006. Loans past due 90 days or more, underlying the mortgage-backed securities issued by non-agencies, represented approximately 91 basis points of the par value outstanding or approximately $2.7 million as of December 31, 2008. As of December 31, 2008, there were no "sub-prime" or "Alt-A" securities in our mortgage-backed securities portfolio.

Loans and Leases

Loans and leases represent our largest category of interest earning assets and the largest source of revenue. Total loans and leases were $6.5 billion as of December 31, 2008. Loans and leases decreased by $50.6 million or 1% from $6.6 billion as of December 31, 2007.

The commercial loan and lease portfolio is comprised of commercial and industrial loans, commercial mortgages, construction loans, and lease financing. Commercial and industrial loans are made primarily to corporations, middle market, and small businesses. 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. Although our primary market is Hawaii, the commercial portfolio contains loans to some borrowers based on the U.S. Mainland, including some Shared National Credits.

Commercial loans and leases increased by $37.3 million or 2% from $2.4 billion as of December 31, 2007. This increase was primarily due to a $106.3 million increase in our commercial secured mortgage loan portfolio and was consistent with our strategy to grow this portfolio. Our construction loan portfolio decreased by $54.7 million and our lease financing balances decreased by $13.7 million from December 31, 2007. The decrease in our construction loan exposure is consistent with our strategy to reduce our exposure in this area as we experience a slowing economy in Hawaii. The decrease in our lease financing balance was primarily a result of the exercise of an early

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buy-out option by one of our aircraft lessees in March 2008.

The consumer loan and lease portfolio is comprised of residential mortgage loans, home equity loans, personal credit lines, direct installment loans, and indirect auto loans and leases. These products are offered generally in the markets we serve through our branch network. Consumer loans and leases decreased by $87.9 million or 2% from $4.2 billion as of December 31, 2007. This decrease in our consumer loans and leases was in all categories except home equity loans, consistent with a slowing economy in Hawaii and our strategy to reduce exposure to higher risk loans. The increase in our home equity balances was primarily due to increased customer utilization of existing home equity lines.

See Note 3 to the Consolidated Financial Statements for more information.

Table 12 presents the geographic distribution of our loan and lease portfolio based on the location of the borrower and Table 13 presents maturities and sensitivities of loans to changes in interest rates. See Note 3 to the Consolidated Financial Statements and the "Corporate Risk Profile Credit Risk" section of MD&A for more information.

Geographic Distribution of Loan and Lease Portfolio **Table 12**

	December 31, 2008					
(dollars in thousands)	Hawaii	U.S. [1] Mainland	Guam	Other Pacific Islands	Foreign [2]	Total
Commercial						
Commercial and Industrial	$ 705,658	$ 229,924	$ 77,507	$ 12,177	$ 28,515	$ 1,053,781
Commercial Mortgage	646,280	14,405	78,291	1,703	100	740,779
Construction	145,208	6,438	2,306			153,952
Lease Financing	50,622	385,181	13,181		19,156	468,140
Total Commercial	1,547,768	635,948	171,285	13,880	47,771	2,416,652
Consumer						
Residential Mortgage	2,242,637		210,987	8,200		2,461,824
Home Equity	982,379	28,034	19,546	3,262		1,033,221
Automobile	256,131	45,559	61,907	6,192		369,789
Other [3]	185,479		30,992	32,271	5	248,747
Total Consumer	3,666,626	73,593	323,432	49,925	5	4,113,581
Total Loans and Leases	$ 5,214,394	$ 709,541	$ 494,717	$ 63,805	$ 47,776	$ 6,530,233
Percentage of Total Loans and Leases	80%	11%	7%	1%	1%	100%

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

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

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

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Maturities and Sensitivities of Loans to Changes in Interest Rates [1] **Table 13**

(dollars in thousands)	December 31, 2008 Due in One Year or Less	Due After One to Five Years [2]	Due After Five Years [2]	Total
Commercial and Industrial	$ 583,141	$ 301,706	$ 168,934	$ 1,053,781
Construction	123,210	1,942	28,800	153,952
Total	$ 706,351	$ 303,648	$ 197,734	$ 1,207,733

1 Based on contractual maturities.

2 As of December 31, 2008, loans maturing after one year consisted of $198.5 million in variable rate loans and $302.9 million in fixed rate loans.

Other Assets

Other assets were $474.6 million as of December 31, 2008, a $41.4 million or 10% increase from December 31, 2007. As of December 31, 2008, we had a total of $82.5 million in tax deposits placed with the IRS and State of Hawaii Department of Taxation. These deposits with the respective taxing authorities limits the potential accrual of additional interest based on our current estimate of our tax liabilities. The increase in other assets during 2008 was primarily due to an additional $21.5 million tax deposit placed with the IRS and State of Hawaii Department of Taxation during the third quarter of 2008. Also contributing to the increase in other assets was a $28.3 million increase in the estimated fair value of our customer-related interest rate swap accounts, which have off-setting amounts recorded in other liabilities. See Note 6 to the Consolidated Financial Statements for more information.

Deposits

Total deposits were $8.3 billion as of December 31, 2008, a $349.7 million or 4% increase from December 31, 2007. We experienced strong deposit growth particularly during the fourth quarter of 2008. This increase was primarily due to a $491.8 million increase in our new Bonus Rate Savings Plus product as well as a $213.5 million increase in our new interest-bearing personal money management product in 2008. This was partially offset by a $228.1 million decrease in our non-interest bearing personal checking account product. We also experienced a $163.7 million decrease in time deposits as some customers moved their deposits to more liquid savings and interest-bearing demand products, in light of current economic conditions.

Average time deposits of $100,000 or more was $946.0 million in 2008 and $976.7 million in 2007. See Note 7 to the Consolidated Financial Statements for more information.

Table 14 presents the components of our savings deposits as of December 31, 2008 and 2007.

Savings Deposits **Table 14**

(dollars in thousands)	2008	2007
Money Market	$ 1,173,132	$ 1,061,808
Regular Savings	1,931,731	1,626,895
Total Savings Deposits	$ 3,104,863	$ 2,688,703

Borrowings

Borrowings consisted of funds purchased and short-term borrowings, including commercial paper. Borrowings were $20.6 million as of December 31, 2008, a $65.2 million decrease from December 31, 2007. This decrease was primarily due to a $59.7 million decrease in funds

purchased. We manage the level of our funds purchased to ensure that we have adequate sources of liquidity. Due to our successful deposit gathering efforts, particularly in the fourth quarter of 2008, and our increased capital levels, we reduced the level of funds purchased as a source of funds. See Note 8 to the Consolidated Financial Statements for more information.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase were $1.0 billion as of December 31, 2008 and 2007. Securities sold under agreements to repurchase also provide us with a short-term source of liquidity. As many of our securities sold under agreements to

repurchase are at variable rates, this provided us with a relatively inexpensive source of short-term funding as interest rates declined during 2008. Average rates paid on securities sold under agreements to repurchase were 3.12% in 2008, a 138 basis point decrease from 2007. See Note 8 to the Consolidated Financial Statements for more information.

Long-Term Debt

Long-term debt, which represents a relatively more expensive source of funds for us, was $203.3 million as of December 31, 2008, a $32.1 million or 14% decrease from December 31, 2007. This decrease was primarily due to the redemption of our $26.4 million in Capital Securities and $6.0 million in subordinated notes in the second quarter of 2008. See Note 9 to the Consolidated Financial Statements for more information.

Foreign Activities

In 2008 and 2007, we held U.S. dollar denominated placements and investment securities issued by foreign entities, as a means of generating foreign source income. We used foreign tax credits available to reduce the tax on this income.

As of December 31, 2008 and 2007, we did not have cross-border outstandings to any foreign country which exceeded 0.75% of our total assets. Lower levels of cross-border outstandings as of December 31, 2008 and 2007 were primarily due to the maturity of investment securities.

Table 15 presents a geographic distribution of cross-border outstandings exceeding 0.75% of total assets as of December 31, 2006. Cross-border outstandings, which reflect country of risk outside the U.S., are reported by the country of the guarantor.

Geographic Distribution of Cross-Border Outstandings [1] **Table 15**

(dollars in thousands)	Banks and Other Financial Institutions	Commercial and Consumer	Total
As of December 31, 2006:			
Netherlands	$ 100,316	$ 11,723	$ 112,039
Australia	76,635	7,923	84,558

1 Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments, and any other monetary assets which are denominated in dollars or other non-local currency.

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Corporate Risk Profile

Credit Risk

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

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

Table 16 presents a five-year history of our air transportation credit exposure. As of December 31, 2008, included in our commercial lending portfolio are nine leveraged leases on aircraft that were originated prior to 2000. Outstanding credit exposure related to these leveraged leases was $71.0 million as of December 31, 2008. These leases, and especially those with domestic air carriers, continue to demonstrate a higher risk profile due to fuel costs, pension plan obligations, and marginal pricing power. We continue to consider these factors in our evaluation of the reserve for credit losses.

Air Transportation Credit Exposure [1] **Table 16**

	December 31,				
(dollars in thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Passenger Carriers Based In the U.S.	$ 60,189	$ 64,947	$ 68,035	$ 68,829	$ 92,358
Passenger Carriers Based Outside the U.S.	5,672	19,078	19,406	20,678	25,910
Cargo Carriers	13,831	13,390	13,240	13,240	13,771
Total Air Transportation Credit Exposure	$ 79,692	$ 97,415	$ 100,681	$ 102,747	$ 132,039

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

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

Table 17 presents a five-year history of non-performing assets and accruing loans and leases past due 90 days or more.

Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More Table 17

	December 31,				
(dollars in thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Non-Performing Assets					
Non-Accrual Loans and Leases					
Commercial					
Commercial and Industrial	$ 3,869	$ 598	$ 769	$ 212	$ 683
Commercial Mortgage		112	40	58	2,106
Construction	5,001				
Lease Financing	133	297	31		2,973
Total Commercial	9,003	1,007	840	270	5,762
Consumer					
Residential Mortgage	3,904	2,681	4,914	5,439	7,688
Home Equity	1,614	1,414	164	111	218
Total Consumer	5,518	4,095	5,078	5,550	7,906
Total Non-Accrual Loans and Leases	14,521	5,102	5,918	5,820	13,668
Foreclosed Real Estate	428	184	407	358	191
Other Investments			82	300	
Total Non-Performing Assets	$ 14,949	$ 5,286	$ 6,407	$ 6,478	$ 13,859
Accruing Loans and Leases Past Due 90 Days or More					
Commercial					
Commercial and Industrial	$ 6,785	$	$	$	$ 52
Lease Financing	268				
Total Commercial	7,053				52
Consumer					
Residential Mortgage	4,192	4,884	519	1,132	387
Home Equity	1,077	413	331	185	183
Automobile	743	1,174	1,001	705	428
Other [1]	1,134	1,112	963	828	1,035
Total Consumer	7,146	7,583	2,814	2,850	2,033
Total Accruing Loans and Leases Past Due 90 Days or More	$ 14,199	$ 7,583	$ 2,814	$ 2,850	$ 2,085
Total Loans and Leases	$6,530,233	$6,580,861	$6,623,167	$6,168,536	$5,986,930
Ratio of Non-Accrual Loans and Leases to	0.22%	0.08%	0.09%	0.09%	0.23%

Total Loans and Leases					
Ratio of Non-Performing Assets to Total Loans and Leases and Foreclosed Real Estate	0.23%	0.08%	0.10%	0.11%	0.23%
Ratio of Commercial Non-Performing Assets to Total Commercial Loans and Leases and Other Investments	0.37%	0.04%	0.04%	0.03%	0.27%
Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases and Foreclosed Real Estate	0.14%	0.10%	0.13%	0.15%	0.21%
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases	0.45%	0.20%	0.14%	0.15%	0.27%

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

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The following table presents the activity in NPAs for 2008:

Non-Performing Assets **Table 18**

(dollars in thousands)	
Balance at Beginning of Year	$ 5,286
Additions	22,333
Reductions:	
Payments	(4,411)
Return to Accrual Status	(4,111)
Charge-offs / Write-downs	(4,148)
Total Reductions	(12,670)
Balance at End of Year	$ 14,949

Non-performing assets ("NPAs") consist of non-accrual loans and leases, foreclosed real estate, and other non-performing investments. Our NPAs were $14.9 million, compared to $5.3 million as of December 31, 2007. The increase was primarily in the commercial segment. The largest component of the increase was a commercial construction loan on a residential project located on the U.S. Mainland which experienced slower than anticipated sales. This project is a participation with a U.S. Mainland bank and is one of the two non-Hawaii based projects in the commercial construction portfolio. Total outstandings associated with these two projects were $6.5 million as of December 31, 2008. The other commercial and industrial NPAs are two Hawaii based companies that are experiencing difficulties due to the slowdown in local economic activity. Consumer NPAs increased by $1.4 million from December 31, 2007 to $5.5 million as of December 31, 2008. The increase was primarily in our residential mortgage loan portfolio and represented 32 loans with a weighted average current loan-to-value ratio of 58% as of December 31, 2008.

Included in NPAs are loans and leases that are considered impaired. Impaired loans and leases are defined as those which we believe it is probable we will not collect all amounts due according to the contractual terms of the loan or lease agreement. Impaired loans and leases as of December 31, 2008 were $8.3 million as compared to $0.1 million as of December 31, 2007. The increase in impaired loans and leases was due to the increase in non-accrual commercial and industrial and commercial construction loans.

Accruing loans and leases past due 90 days or more were $14.2 million as of December 31, 2008, an increase of $6.6 million from December 31, 2007. This increase was primarily due to an increase in delinquencies in commercial and industrial loans reflecting two loans in the Pacific Islands which are in the process of being refinanced.

The ratio of non-accrual loans and leases to total loans and leases was 0.22% as of December 31, 2008, 0.08% as of December 31, 2007, and 0.09% as of December 31, 2006.

Table 19 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 19**

	Year Ended December 31,				
(dollars in thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Interest Income That Would Have Been Recorded Under Original Terms:					
Domestic	$ 624	$ 526	$ 774	$ 911	$ 2,123
Interest Income Recorded During the Year: [1]					
Domestic	413	1,189	902	763	532
Foreign		73	11		

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

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Allowance for Loan and Lease Losses

Allowance allocations by loan and lease category are presented in Table 20.

Allocation of Allowance for Loan and Lease Losses **Table 20**

(dollars in thousands)	2008	2007	2006	2005	2004
Commercial					
Commercial and Industrial	$ 31,183	$ 15,117	$ 17,022	$ 12,747	$ 13,068
Commercial Mortgage	14,119	12,148	12,864	11,806	18,250
Construction	6,227	2,768	3,059	3,154	2,764
Lease Financing	43,091	33,428	33,068	33,927	43,311
Total Commercial	94,620	63,461	66,013	61,634	77,393
Consumer					
Residential Mortgage	4,443	4,293	4,449	5,406	5,754
Home Equity	4,814	3,064	3,295	3,677	2,631
Automobile	10,992	11,315	7,829	6,373	4,811
Other [1]	8,629	8,865	9,412	14,000	16,207
Total Consumer	28,878	27,537	24,985	29,456	29,403
Total Allocation of Allowance for Loan and Lease Losses	$ 123,498	$ 90,998	$ 90,998	$ 91,090	$ 106,796

	2008		2007		2006		2005		2004	
	Alloc. Allow. as % of loan category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan category	Loan category as % of total loans and leases
Commercial										
Commercial and Industrial	2.96%	16.14%	1.43%	16.02%	1.56%	16.51%	1.39%	14.90%	1.41%	15.43%
Commercial Mortgage	1.91	11.34	1.91	9.64	2.10	9.23	2.11	9.05	3.03	10.07
Construction	4.04	2.36	1.33	3.17	1.23	3.76	2.05	2.49	2.60	1.77
Lease Financing	9.20	7.17	6.94	7.32	6.50	7.69	7.22	7.62	9.04	8.00
Total Commercial	3.92	37.01	2.67	36.15	2.68	37.19	2.93	34.06	3.67	35.27
Consumer										
Residential Mortgage	0.18	37.70	0.17	38.11	0.18	37.64	0.22	39.19	0.25	38.73
Home Equity	0.47	15.82	0.31	14.79	0.35	14.27	0.41	14.40	0.33	13.16
Automobile	2.97	5.66	2.55	6.73	1.82	6.48	1.47	7.02	1.19	6.76
Other [1]	3.47	3.81	3.20	4.22	3.21	4.42	4.26	5.33	4.45	6.08
Total Consumer	0.70	62.99	0.66	63.85	0.60	62.81	0.72	65.94	0.76	64.73

Total	1.89%	100.00%	1.38%	100.00%	1.37%	100.00%	1.48%	100.00%	1.78%	100.00%

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

The components of the Allowance, including the allocation between commercial and consumer categories, reflect the increasing credit risk experienced in 2008 due to the weakening economy. Based on our ongoing assessment of the credit quality of the loan and lease portfolio and the economic environment, we recorded a Provision of $60.5 million for 2008, an increase of $45.0 million from 2007.

The ratio of the Allowance to total loans and leases outstanding was 1.89% as of December 31, 2008 compared to 1.38% as of December 31, 2007. The increase in the ratio was indicative of weakening economic conditions. See Note 3 to the Consolidated Financial Statements for more information on the Allowance.

Net loans and leases charged-off in 2008 was $28.0 million or 0.43% of total average loans and leases, an increase from $15.5 million or 0.24% of total average loans and leases in 2007. The increase in net loans and leases charged-off was primarily due to higher net losses in the commercial loan portfolio

and increased consumer charge-offs, notably home equity credit lines, automobile, and unsecured consumer loans.

Reserve for Unfunded Commitments

The Unfunded Reserve was $5.2 million as of December 31, 2008, unchanged from December 31, 2007. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance as adjusted for estimated funding probabilities or loan and lease equivalency factors. See Note 3 to the Consolidated Financial Statements for more information on the Unfunded Reserve.

Market Risk

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

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

Our primary market risk exposure is interest rate risk.

Interest Rate Risk

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

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

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

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

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

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

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managing interest rate risk. Thus, as interest rates change, we may use different techniques to manage interest rate risk.

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

We utilize net interest income simulations to analyze short-term income sensitivities to changes in interest rates. Table 21 presents, for the next twelve months subsequent to December 31, 2008, 2007, and 2006, an estimate of the change in net interest income that would result from a gradual change in interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. The base case scenario assumes the balance sheet and interest rates are generally unchanged. Based on the net interest income simulation as of December 31, 2008, our Consolidated Statement of Condition is slightly asset sensitive to parallel changes in interest rates. Net interest income sensitivity to changes in interest rates as of December 31, 2008 was more sensitive to changes in interest rates as compared to the sensitivity profiles as of December 31, 2007 and 2006, particularly in higher interest rate scenarios. Late in 2008, market conditions were very uncertain. Economic conditions led consumers to a flight to safety. Government intervention caused interest rates to fall to unprecedented levels and introduced significant market volatility. In addition, credit spreads remained wide relative to historic levels. These factors have contributed to greater interest rate risk to the Company as of December 31, 2008.

Net Interest Income Sensitivity Profile **Table 21**

	Change in Net Interest Income December 31,					
(dollars in thousands)	**2008**		**2007**		**2006**	
Change in Interest Rates (basis points)						
+200	$ 8,543	2.0%	$ (1,067)	(0.3)%	$ 1,208	0.3%
+100	4,062	1.0			403	0.1
-100	(2,471)	(0.6)	(2,133)	(0.5)	(2,818)	(0.7)
-200	(5,821)	(1.4)	(4,859)	(1.2)	(8,455)	(2.1)

To analyze the impact of changes in interest rates in a more realistic manner, non-parallel interest rate scenarios are also simulated. These non-parallel interest rate scenarios indicate that net interest income may decrease from the base case scenario should the yield curve flatten or become inverted for a period of time. Conversely, if the yield curve should steepen further from its mostly "normal" profile, net interest income may increase.

We also use the Market Value of Portfolio Equity ("MVPE") sensitivity analysis to estimate the net present value change in our net assets (i.e., assets, liabilities, and off-balance sheet instruments) from changes in interest rates. The MVPE was approximately $1.3 billion as of December 31, 2008, and approximately $1.8 billion as of December 31, 2007 and 2006. Table 22 presents, as of December 31, 2008, 2007, and 2006, an estimate of the change in the MVPE that would occur from an instantaneous 100 and 200 basis point increase or decrease in interest rates, moving in a parallel fashion over the entire yield curve. The MVPE sensitivity increased as of December 31, 2008 compared to December 31, 2007 as a result of unusually low interest rates and extremely wide market spreads as of December 31, 2008. A further significant parallel decline in interest rates effectively creates a 0% interest rate environment which greatly reduces the estimated value of both our loans and deposits.

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Market Value of Portfolio Equity Sensitivity Profile **Table 22**

	Change in Market Value of Equity As of December 31,					
(dollars in thousands)	2008		2007		2006	
Change in Interest Rates (basis points)						
+200	$ 15,532	1.2%	$(169,360)	(9.5)%	$(146,417)	(7.8)%
+100	41,072	3.1	(70,790)	(4.0)	(63,783)	(3.4)
-100	(140,946)	(10.6)	(6,949)	(0.4)	(4,480)	(0.2)
-200	(368,277)	(27.6)	(108,252)	(6.1)	(109,238)	(5.8)

Further enhancing the MVPE sensitivity analysis are:

- value-at-risk metrics;
- key rate analysis;
- duration of equity analysis; and
- exposure to basis risk and non-parallel yield curve shifts.

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

Liquidity Management

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

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

We strengthened our liquidity position in 2008, with increased levels of commercial and consumer deposits. Total deposits were $8.3 billion as of December 31, 2008, a $349.7 million or 4% increase from December 31, 2007. As a result, cash and cash equivalents were $796.5 million as of December 31, 2008, an increase of $408.2 million from December 31, 2007.

In February 2009, we repaid $25.0 million in privately placed fixed rate notes. In March 2009, we expect to repay $119.3 million of our subordinated notes. We do not expect to replace these repayments with new long-term debt. During 2009, we expect to contribute $10.2 million to our pension plans and $1.2 million to our postretirement benefit plan.

Capital Management

The Company and the Bank are subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can cause certain mandatory and discretionary actions by regulators that, if undertaken, could have a material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company 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, 2008 and 2007, the Company

and the Bank were "well capitalized" under this regulatory framework. There have been no conditions or events since December 31, 2008 that management believes have changed either the Company's or the Bank's capital classifications. See Note 10 to the Consolidated Financial Statements for more information.

As of December 31, 2008, our shareholders' equity was $790.7 million, an increase of $40.4 million or 5% from December 31, 2007. The increase in shareholders' equity was primarily due to current year earnings of $192.2 million, which was partially offset by $84.9 million in cash dividends paid, $62.0 million in common stock repurchases, and $21.0 million in unamortized losses related to our pension and postretirement benefit plans.

As of December 31, 2008, the fair value of our subordinated notes of $119.3 million, recorded as a component of long-term debt on our statements of condition, no longer qualified as a component of Total Capital for regulatory capital purposes due to the maturity of our subordinated notes being within 12 months from December 31, 2008.

In response to a slowing economy and economic uncertainty, we began in the second half of 2008 to increase capital. As of December 31, 2008, all of our key capital ratios have increased from December 31, 2007. As of December 31, 2008, our Tier 1 capital ratio was 11.24%, our total capital ratio was 12.49%, and our leverage ratio was 7.30%.

We significantly reduced our share repurchases, with only 1,000 shares repurchased during the fourth quarter of 2008, to continue to build capital. We will continue to monitor our capital position and will resume our share repurchases when deemed appropriate. On October 24, 2008, our Board of Directors increased the authorization under the share repurchase program by an additional $50.0 million. This new authorization, combined with previously announced authorizations totaling $1.65 billion, brings the total share repurchase authority of our common stock to $1.70 billion.

From January 1, 2008 through October 28, 2008, we repurchased 1.2 million shares of common stock under our share repurchase program at an average cost of $48.89 per share, totaling $59.0 million. From the beginning of our share repurchase program in July 2001 through October 28, 2008, we repurchased a total of 45.6 million shares of common stock and returned $1.6 billion to our shareholders at an average cost of $35.44 per share. We have not repurchased shares of our common stock since October 28, 2008.

From January 1, 2009 through February 20, 2009, we did not repurchase any shares of our common stock. Remaining buyback authority was $85.4 million as of February 20, 2009.

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Table 23 presents a five-year history of activities and balances in our capital accounts, along with key capital ratios.

Shareholders' Equity and Regulatory Capital **Table 23**

	December 31,				
(dollars in thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Change in Shareholders' Equity					
Net Income	$ 192,213	$ 183,703	$ 180,359	$ 181,561	$ 173,339
Cash Dividends Paid	(84,855)	(82,371)	(76,747)	(70,833)	(66,326)
Dividend Reinvestment Program	5,193	5,128	5,020	4,766	4,416
Common Stock Repurchased	(62,015)	(99,656)	(129,727)	(247,376)	(238,077)
Other [1]	(10,087)	24,031	47,163	10,400	148,350
Increase (Decrease) in Shareholders' Equity	$ 40,449	$ 30,835	$ 26,068	$ (121,482)	$ 21,702
Regulatory Capital					
Shareholders' Equity	$ 790,704	$ 750,255	$ 719,420	$ 693,352	$ 814,834
Add: Capital Securities		26,425	26,425	31,425	31,425
Less: Cumulative Change in Fair Value of Financial Liabilities Accounted for Under the Fair Value Option	(683)				
Goodwill	34,959	34,959	34,959	34,959	36,216
Postretirement Benefit Liability Adjustments [2]	7,079	8,647	6,958		
Unrealized Valuation and Other Adjustments	(4,276)	(1,388)	(27,491)	(27,295)	5,252
Other Assets	2,106	2,759			
Tier 1 Capital	751,519	731,703	731,419	717,113	804,791
Allowable Reserve for Credit Losses	84,163	88,716	91,585	86,617	83,292
Qualifying Subordinated Debt		24,982	49,942	74,883	99,808
Unrealized Gains on Investment Securities Available-for-Sale		59	17		31
Total Regulatory Capital	$ 835,682	$ 845,460	$ 872,963	$ 878,613	$ 987,922
Risk-Weighted Assets	$6,688,530	$7,089,846	$7,322,255	$6,919,822	$6,633,082
Key Regulatory Capital Ratios					
Tier 1 Capital Ratio [3]	11.24%	10.32%	9.99%	10.36%	12.13%
Total Capital Ratio [3]	12.49	11.92	11.92	12.70	14.89
Leverage Ratio [3]	7.30	7.02	7.06	7.14	8.29

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

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

[3] Tier 1 capital, total capital, and leverage ratios as of December 31, 2007 were corrected from 10.36%, 11.96%, and 7.04%, respectively.

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

Off-Balance Sheet Arrangements

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

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Credit Commitments and Contractual Obligations

Our credit commitments and contractual obligations as of December 31, 2008 were as follows:

Credit Commitments and Contractual Obligations [1] **Table 24**

(dollars in thousands)	Less Than One Year	1-3 Years	4-5 Years	After 5 Years	Total
Credit Commitments					
Unfunded Commitments to Extend Credit	$ 558,571	$ 476,636	$ 107,989	$ 1,228,872	$ 2,372,068
Standby Letters of Credit	85,525	1,308	10		86,843
Commercial Letters of Credit	18,430				18,430
Total Credit Commitments	662,526	477,944	107,999	1,228,872	2,477,341
Contractual Obligations					
Deposits	8,043,510	188,846	30,589	29,153	8,292,098
Short-Term Borrowings	4,900				4,900
Securities Sold Under Agreements to Repurchase	338,785	15,050		675,000	1,028,835
Long-Term Debt	119,275	60,000		15,000	194,275
Banker's Acceptances Outstanding	1,308				1,308
Capital Lease Obligations	665	1,329	1,329	5,687	9,010
Non-cancelable Operating Leases	14,395	24,661	19,351	146,798	205,205
Purchase Obligations	23,141	30,367	24,777	11,437	89,722
Pension and Postretirement Benefit Contributions	3,132	4,498	4,384	12,160	24,174
Total Contractual Obligations	8,549,111	324,751	80,430	895,235	9,849,527
Total Credit Commitments and Contractual Obligations	$ 9,211,637	$ 802,695	$ 188,429	$ 2,124,107	$ 12,326,868

[1] On January 1, 2007, we adopted the provisions of FASB Interpretation No. ("FIN") 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109."* Our liability for unrecognized tax benefits ("UTBs") as of December 31, 2008 was $16.9 million. We are unable to reasonably estimate the period of cash settlement with the respective taxing authority. As a result, our liability for UTBs is not included in this disclosure.

Commitments to extend credit, standby letters of credit, and commercial letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

Non-cancelable operating leases are primarily related to branch premises and equipment, with lease terms extending through 2052. Purchase obligations arise from agreements to purchase goods or services that are enforceable and legally binding. Our largest purchase obligation is an outsourcing agreement for technology services related to our core systems and applications. Total payments over the remaining term (through 2014) of this contract are estimated to be $67.6 million. Other contracts included in purchase obligations consist of service agreements for our asset management, ATM, and cash management systems. Pension and postretirement benefit contributions represent the minimum expected contribution to these plans. Actual contributions may differ from these estimates.

See Note 17 to the Consolidated Financial Statements for more information on commitments.

Future Application of Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements for more information regarding the expected impact of accounting pronouncements recently issued but that we have not adopted as of December 31, 2008.

Fourth Quarter Results and Other Matters

Net Income

Net income was $39.3 million for the fourth quarter of 2008, a decrease of $1.6 million or 4% from net income of $40.9 million in the fourth quarter of 2007. Diluted earnings per share were $0.82 for the fourth quarter of 2008, a decrease of $0.01 or 1% from the fourth quarter of 2007.

Net Interest Income

Net interest income, on a taxable equivalent basis, for the fourth quarter of 2008 was $106.1 million, an increase of $6.4 million or 6% from the fourth quarter of 2007. The net interest margin was 4.43% for the fourth quarter of 2008, an increase of 31 basis points from the fourth quarter of 2007. The increases in both the net interest income and margin were the result of lower funding costs and the effects of a steeper yield curve in 2008.

Provision for Credit Losses

Net income for the fourth quarter of 2008 included a Provision of $18.6 million compared to a Provision of $5.4 million for the fourth quarter of 2007. The Provision exceeded net charge-offs by $8.0 million in the fourth quarter of 2008 to reflect increased risk due to the overall weakening of the economy and risk in the credit and financial markets.

Noninterest Income

Noninterest income was $54.5 million for the fourth quarter of 2008, a decrease of $5.8 million or 10% from the fourth quarter of 2007. This decrease was primarily due to a $3.5 million decrease in trust and asset management fees and a $3.1 million gain on the sale of real estate recorded in the fourth quarter of 2007. Also contributing to the decrease in noninterest income was a $1.5 million decrease in mortgage banking income, primarily related to the change in fair value of our mortgage servicing rights. These items were partially offset by a $1.3 million gain related to the change in estimated fair value of our subordinated notes, as well as a $1.3 million increase in insurance income and a $1.0 million increase in service charges on deposit accounts.

Noninterest Expense

Noninterest expense was $82.7 million for the fourth quarter of 2008, a decrease of $9.3 million or 10% from the fourth quarter of 2007. This decrease was primarily due to the previously mentioned $5.6 million Visa contingency accrual and the $1.8 million fraud loss, both of which were recorded in the fourth quarter of 2007. Also contributing to the decrease was a $2.2 million decrease in salaries and benefits, primarily due to lower restricted stock units and value sharing accruals, partially offset by a $1.2 million increase in net occupancy expense.

Provision for Income Taxes

The provision for income taxes was $19.8 million for the fourth quarter of 2008, a decrease of $1.6 million or 8% from the fourth quarter of 2007. This represented an effective tax rate of 33.46% for the fourth quarter of 2008, as compared to an effective tax rate of 34.37% for the fourth quarter of 2007.

Share Repurchase Program

As previously noted, we significantly reduced our share repurchases during the fourth quarter of 2008, consistent with our plans to build capital levels. During the fourth quarter of 2008 only 1,000 shares were repurchased and no shares have been repurchased since December 31, 2008.

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Selected Quarterly Consolidated Financial Data

Table 25 presents our selected quarterly financial data for 2008 and 2007.

Selected Quarterly Consolidated Financial Data **Table 25**

	Three Months Ended 2008				**Three Months Ended 2007**			
(dollars in thousands, except per share amounts)	**Dec.**	**Sept.**	**June**	**March**	**Dec.**	**Sept.**	**June**	**March**
Interest Income	$ 134,186	$ 132,604	$ 138,635	$ 144,676	$ 150,175	$ 153,556	$ 149,766	$ 148,378
Interest Expense	28,332	29,029	31,467	42,496	50,728	55,000	50,888	50,241
Net Interest Income	105,854	103,575	107,168	102,180	99,447	98,556	98,878	98,137
Provision for Credit Losses	18,558	20,358	7,172	14,427	5,443	4,070	3,363	2,631
Investment Securities Gains, Net	86	159	157	130	105	789	575	16
Noninterest Income	54,377	56,827	60,382	85,995	60,152	60,453	57,453	60,944
Noninterest Expense	82,690	86,790	83,862	93,432	92,002	81,450	79,832	82,123
Income Before Provision for Income Taxes	59,069	53,413	76,673	80,446	62,259	74,278	73,711	74,343
Provision for Income Taxes	19,762	6,004	28,391	23,231	21,399	26,499	25,982	27,008
Net Income	$ 39,307	$ 47,409	$ 48,282	$ 57,215	$ 40,860	$ 47,779	$ 47,729	$ 47,335
Basic Earnings Per Share	$ 0.83	$ 1.00	$ 1.01	$ 1.19	$ 0.84	$ 0.98	$ 0.97	$ 0.96
Diluted Earnings Per Share	$ 0.82	$ 0.99	$ 1.00	$ 1.18	$ 0.83	$ 0.96	$ 0.95	$ 0.94
Net Income to Average Total Assets (ROA)	1.52%	1.82%	1.85%	2.16%	1.55%	1.79%	1.84%	1.83%
Net Income to Average Shareholders' Equity (ROE)	19.56	24.17	24.82	29.88	21.51	26.02	26.30	27.00
Efficiency Ratio [1]	51.58	54.05	50.01	49.62	57.61	50.97	50.88	51.62
Net Interest Margin [2]	4.43	4.33	4.41	4.17	4.12	4.03	4.12	4.07

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

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

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 25, Selected Quarterly Consolidated Financial Data, included in Item 7 of this report.

Report of Independent Registered Public Accounting Firm

The 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, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2007, the Company changed its method of accounting for mortgage servicing rights in accordance with Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140*; changed its method of accounting for leveraged leases in accordance with Financial Accounting Standards Board ("FASB") Staff Position No. 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*; and changed its method of accounting for tax positions in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bank of Hawaii Corporation and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Honolulu, Hawaii
February 23, 2009

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Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Income

	Year Ended December 31,		
(dollars in thousands, except per share amounts)	**2008**	**2007**	**2006**
Interest Income			
Interest and Fees on Loans and Leases	$ 390,714	$ 446,381	$ 425,473
Income on Investment Securities			
Trading	4,695	4,903	
Available-for-Sale	139,076	129,601	126,817
Held-to-Maturity	11,877	14,935	18,255
Deposits	457	1,549	211
Funds Sold	1,601	3,050	767
Other	1,681	1,456	1,149
Total Interest Income	550,101	601,875	572,672
Interest Expense			
Deposits	82,399	137,847	103,677
Securities Sold Under Agreements to Repurchase	33,764	47,031	42,189
Funds Purchased	1,585	5,965	8,504
Short-Term Borrowings	162	356	318
Long-Term Debt	13,414	15,658	15,371
Total Interest Expense	131,324	206,857	170,059
Net Interest Income	418,777	395,018	402,613
Provision for Credit Losses	60,515	15,507	10,758
Net Interest Income After Provision for Credit Losses	358,262	379,511	391,855
Noninterest Income			
Trust and Asset Management	57,014	62,926	58,740
Mortgage Banking	8,164	11,725	10,562
Service Charges on Deposit Accounts	50,845	46,260	41,756
Fees, Exchange, and Other Service Charges	66,524	65,825	62,441
Investment Securities Gains, Net	532	1,485	172
Insurance	24,575	23,177	20,388
Other	50,459	29,089	22,117
Total Noninterest Income	258,113	240,487	216,176
Noninterest Expense			
Salaries and Benefits	191,958	180,865	176,457
Net Occupancy	45,129	40,073	38,976
Net Equipment	18,143	19,274	20,127
Professional Fees	11,511	11,206	6,854
Other	80,033	83,989	78,548
Total Noninterest Expense	346,774	335,407	320,962
Income Before Provision for Income Taxes	269,601	284,591	287,069
Provision for Income Taxes	77,388	100,888	106,710

Net Income	$ 192,213	$ 183,703	$ 180,359
Basic Earnings Per Share	$ 4.03	$ 3.75	$ 3.59
Diluted Earnings Per Share	$ 3.99	$ 3.69	$ 3.52
Dividends Declared Per Share	$ 1.77	$ 1.67	$ 1.52
Basic Weighted Average Shares	47,674,000	49,033,208	50,176,685
Diluted Weighted Average Shares	48,200,650	49,833,546	51,178,943

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

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Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Condition

(dollars in thousands)	December 31, 2008	December 31, 2007
Assets		
Interest-Bearing Deposits	$ 5,094	$ 4,870
Funds Sold	405,789	15,000
Investment Securities		
Trading	91,500	67,286
Available-for-Sale	2,519,239	2,563,190
Held-to-Maturity (Fair Value of $242,175 and $287,644)	239,635	292,577
Loans Held for Sale	21,540	12,341
Loans and Leases	6,530,233	6,580,861
Allowance for Loan and Lease Losses	(123,498)	(90,998)
Net Loans and Leases	6,406,735	6,489,863
Total Earning Assets	9,689,532	9,445,127
Cash and Noninterest-Bearing Deposits	385,599	368,402
Premises and Equipment	116,120	117,177
Customers' Acceptances	1,308	1,112
Accrued Interest Receivable	39,905	45,261
Foreclosed Real Estate	428	184
Mortgage Servicing Rights	21,057	27,588
Goodwill	34,959	34,959
Other Assets	474,567	433,132
Total Assets	$ 10,763,475	$ 10,472,942
Liabilities		
Deposits		
Noninterest-Bearing Demand	$ 1,754,724	$ 1,935,639
Interest-Bearing Demand	1,854,611	1,576,443
Savings	3,104,863	2,688,703
Time	1,577,900	1,741,587
Total Deposits	8,292,098	7,942,372
Funds Purchased	15,734	75,400
Short-Term Borrowings	4,900	10,427
Securities Sold Under Agreements to Repurchase	1,028,835	1,029,340
Long-Term Debt (includes $119,275 carried at fair value as of December 31, 2008)	203,285	235,371
Banker's Acceptances	1,308	1,112
Retirement Benefits Payable	54,776	29,984
Accrued Interest Payable	13,837	20,476
Taxes Payable and Deferred Taxes	229,699	278,218
Other Liabilities	128,299	99,987
Total Liabilities	9,972,771	9,722,687
Commitments and Contingencies (Note 17)		
Shareholders' Equity		

Common Stock ($.01 par value; authorized 500,000,000 shares; issued / outstanding: December 2008 57,019,887 / 47,753,371; and December 2007 56,995,447 / 48,589,645)	568	567
Capital Surplus	492,515	484,790
Accumulated Other Comprehensive Loss	(28,888)	(5,091)
Retained Earnings	787,924	688,638
Treasury Stock, at Cost (Shares: December 2008 9,266,516; and December 2007 8,405,802)	(461,415)	(418,649)
Total Shareholders' Equity	790,704	750,255
Total Liabilities and Shareholders' Equity	$ 10,763,475	$ 10,472,942

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

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Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity

(dollars in thousands)	Total	Common Stock	Capital Surplus	Accum. Other Compre-hensive Loss	Retained Earnings	Deferred Stock Grants	Treasury Stock	Compre-hensive Income
Balance as of December 31, 2005	$ 693,352	$ 565	$ 473,338	$ (47,818)	$ 546,591	$ (11,080)	$ (268,244)	
Comprehensive Income:								
Net Income	180,359				180,359			$ 180,359
Other Comprehensive Income, Net of Tax:								
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale	(196)			(196)				(196)
Change in Minimum Pension Liability Adjustments	1,972			1,972				1,972
Total Comprehensive Income								$ 182,135
Adjustment to Initially Apply FASB Statement No. 158, Net of Tax	6,958			6,958				
Share-Based Compensation	4,956		4,956					
Net Tax Benefits related to Share-Based Compensation	7,628		7,628					
Common Stock Issued under Purchase and Equity Compensation Plans (1,044,951 shares)	30,865	1	(10,744)		(19,543)	11,080	50,071	
Common Stock Repurchased (2,540,130 shares)	(129,727)						(129,727)	
Cash Dividends Paid	(76,747)				(76,747)			
Balance as of December 31, 2006	$ 719,420	$ 566	$ 475,178	$ (39,084)	$ 630,660	$	$ (347,900)	
Cumulative-Effect Adjustment of a Change in Accounting Principle, Net of Tax:								
SFAS No. 156, *"Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140"*	$ 5,126	$	$	$ 5,279	$ (153)	$	$	
FSP No. 13-2, *"Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction"*	(27,106)				(27,106)			
FIN 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109"*	(7,247)				(7,247)			
Comprehensive Income:								
Net Income	183,703				183,703			$ 183,703
Other Comprehensive Income, Net of Tax:								
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale	20,824			20,824				20,824
Unamortized Gain Related to Defined Benefit Plans	7,034			7,034				7,034
Amortization of Net Loss Related to Pension and Postretirement Benefit Plans	856			856				856

Total Comprehensive Income								$212,417
Share-Based Compensation	5,724		5,724					
Net Tax Benefits related to Share-Based Compensation	3,491		3,491					
Common Stock Issued under Purchase and Equity Compensation Plans (749,327 shares)	20,457	1	397		(8,848)		28,907	
Common Stock Repurchased (1,933,964 shares)	(99,656)						(99,656)	
Cash Dividends Paid	(82,371)				(82,371)			
Balance as of December 31, 2007	$ 750,255	$ 567	$484,790	$ (5,091)	$ 688,638	$	$(418,649)	
Cumulative-Effect Adjustment of a Change in Accounting Principle, Net of Tax:								
SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115"*	$ (2,736)	$	$	$	$ (2,736)	$	$	
Comprehensive Income:								
Net Income	192,213				192,213			$192,213
Other Comprehensive Income, Net of Tax:								
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale	(2,889)			(2,889)				(2,889)
Unamortized Loss Related to Defined Benefit Plans	(20,967)			(20,967)				(20,967)
Amortization of Net Loss Related to Pension and Postretirement Benefit Plans	59			59				59
Total Comprehensive Income								$168,416
Share-Based Compensation	5,808		5,808					
Net Tax Benefits related to Share-Based Compensation	1,694		1,694					
Common Stock Issued under Purchase and Equity Compensation Plans (431,254 shares)	14,137	1	223		(5,336)		19,249	
Common Stock Repurchased (1,267,528 shares)	(62,015)						(62,015)	
Cash Dividends Paid	(84,855)				(84,855)			
Balance as of December 31, 2008	$ 790,704	$ 568	$492,515	$ (28,888)	$ 787,924	$	$(461,415)	

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

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Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31,		
(dollars in thousands)	**2008**	**2007**	**2006**
Operating Activities			
Net Income	$ 192,213	$ 183,703	$ 180,359
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Credit Losses	60,515	15,507	10,758
Depreciation and Amortization	14,437	14,559	16,088
Amortization of Deferred Loan and Lease Fees	(2,055)	(1,797)	(2,952)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	1,609	2,807	4,140
Share-Based Compensation	5,808	5,724	4,956
Benefit Plan Contributions	(8,949)	(8,727)	(1,669)
Deferred Income Taxes	(36,860)	16,607	22,844
Net Gain on Sale of Real Property		(3,095)	
Net Gain on Investment Securities	(532)	(1,485)	(172)
Net Change in Trading Securities	(24,214)	96,893	
Proceeds from Sales of Loans Held for Sale	426,525	335,365	330,677
Originations of Loans Held for Sale	(435,723)	(335,764)	(324,704)
Tax Benefits from Share-Based Compensation	(1,825)	(3,524)	(7,634)
Net Change in Other Assets and Other Liabilities	(6,025)	(82,890)	(23,847)
Net Cash Provided by Operating Activities	184,924	233,883	208,844
Investing Activities			
Investment Securities Available-for-Sale:			
Proceeds from Prepayments and Maturities	688,329	712,793	524,080
Proceeds from Sales	235,843	81,904	25,020
Purchases	(885,418)	(884,120)	(612,049)
Investment Securities Held-to-Maturity:			
Proceeds from Prepayments and Maturities	52,550	78,161	102,126
Purchases			(20,250)
Net Change in Loans and Leases	24,668	(14,122)	(462,621)
Premises and Equipment, Net	(13,380)	(5,812)	(8,100)
Net Cash Provided by (Used in) Investing Activities	102,592	(31,196)	(451,794)
Financing Activities			
Net Change in Deposits	349,726	(81,022)	115,926
Net Change in Short-Term Borrowings	(65,698)	(3,855)	232,085
Proceeds from Long-Term Debt			25,000
Repayments of Long-Term Debt	(32,425)	(25,000)	(7,500)
Tax Benefits from Share-Based Compensation	1,825	3,524	7,634
Proceeds from Issuance of Common Stock	14,136	20,633	30,893
Repurchase of Common Stock	(62,015)	(99,656)	(129,727)
Cash Dividends Paid	(84,855)	(82,371)	(76,747)
Net Cash Provided by (Used in) Financing Activities	120,694	(267,747)	197,564
Net Change in Cash and Cash Equivalents	408,210	(65,060)	(45,386)
Cash and Cash Equivalents at Beginning of Period	388,272	453,332	498,718
Cash and Cash Equivalents at End of Period	$ 796,482	$ 388,272	$ 453,332
Supplemental Information			
Cash Paid for:			

Interest	$ 137,963	$ 209,099	$ 158,251
Income Taxes	94,833	96,623	83,197
Non-cash Investing and Financing Activities:			
Transfers from Investment Securities Available-for-Sale to Trading		164,180	
Transfers from Loans to Foreclosed Real Estate	357	484	624

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

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Note 1. Summary of Significant Accounting Policies

Bank of Hawaii Corporation (the "Parent") is a bank holding company headquartered in Honolulu, Hawaii. Bank of Hawaii Corporation and its Subsidiaries (the "Company") provide a broad range of financial products and services to customers in Hawaii and the Pacific Islands (Guam, nearby islands, and American Samoa). The majority of the Company's operations consist of customary commercial and consumer banking services including, but not limited to, lending, leasing, deposit services, trust and investment activities, brokerage services, insurance products, and trade financing.

The accounting and reporting principles of the Company conform to U.S. generally accepted accounting principles ("GAAP") and prevailing practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates and such differences could be material to the financial statements.

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

The following is a summary of the Company's significant accounting policies:

Consolidation

The Consolidated Financial Statements include the accounts of the Parent and its subsidiaries. The Parent's principal subsidiary is Bank of Hawaii (the "Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company has investments in low-income housing projects and sponsors the Bank of Hawaii Charitable Foundation. These entities are not consolidated in the Company's financial statements. The Company also has investments in leveraged leases, as discussed in Note 3 to the Consolidated Financial Statements.

Investment Securities

Investment securities are accounted for according to their purpose and holding period. Trading securities are those that are bought and held principally for the purpose of selling them in the near term. Trading securities, comprised primarily of mortgage-backed securities, are carried at fair value, with realized and unrealized gains and losses recorded in noninterest income. Held-to-maturity investment securities, comprised of debt and mortgage-backed securities, that management has the positive intent and ability to hold to maturity are reported at amortized cost. Available-for-sale investment securities, comprised of debt and mortgage-backed securities, are those that may not be held-to-maturity and are reported at estimated fair value, with unrealized gains and losses, net of taxes, reported as a component of other comprehensive income.

A decline in the fair value of investment securities that is considered other than temporary is recorded as a reduction in noninterest income. An other than temporary impairment analysis is conducted on a quarterly basis. In determining whether an impairment is other than temporary, management considers the length of time and the extent to which estimated fair value has been less than cost, as well as the Company's ability and intent to hold the investment securities for a period of time sufficient to allow for anticipated recovery.

Realized gains and losses are recorded in noninterest income using the specific identification method. Interest and dividends on investment securities, including amortization of premiums and accretion of discounts, using the effective interest method over the period to maturity, are included in interest income. As principal repayments are received on investment securities, primarily mortgage-backed securities, a pro rata portion of the unamortized premium or discount is recognized in interest income.

Non-marketable equity securities, such as the Federal Home Loan Bank of Seattle ("FHLB") and Federal Reserve Bank (the "FRB") stock, are accounted for at cost and included in other assets.

Loans Held for Sale

Loans held for sale, principally residential mortgage loans, are valued on an aggregate basis at the lower of cost or fair value. Fair value is determined based on prevailing market prices for loans with similar characteristics. Gains and losses on sales of residential mortgage loans (sales proceeds minus carrying value) are recorded in the mortgage banking component of noninterest income. Non-refundable fees and direct loan origination costs related to loans held for sale are deferred and recognized as a component of the gain or loss on sale.

Loans and Leases

Loans are reported at the principal amount outstanding, net of unearned income. Interest income is recognized on an accrual basis. Loan origination fees, certain direct costs, unearned discounts, and premiums are deferred and amortized into interest income as yield adjustments over the term or estimated life of the loan. Loan commitment fees are generally deferred and amortized into interest income over the commitment period. Other credit-related fees are recognized as fee income, a component of noninterest income, when earned.

Direct financing leases are carried at the aggregate of lease payments receivable plus the estimated residual value of leased property, less unearned income. Leveraged leases, which are a form of direct financing leases, are carried net of non-recourse debt. Unearned income on direct financing and leveraged leases is amortized over the lease term by methods that approximate the interest method. Residual values on leased assets are periodically reviewed for other than temporary impairment.

Leveraged Leases

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Staff Position ("FSP") No. 13-2, "*Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction,"* which amends Statement of Financial Accounting Standards ("SFAS") No. 13, *"Accounting for Leases."* The timing of cash flows relating to income taxes generated by a leveraged lease is an important assumption that affects the periodic income recognized by the lessor for that lease transaction. Under the provisions of FSP No. 13-2, a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction requires a recalculation of the total and periodic income related to the leveraged lease transaction.

During the years 1998 through 2002, the Company entered into one leveraged lease transaction known as a Lease In-Lease Out ("LILO") transaction and five leveraged lease transactions known as Sale In-Lease Out ("SILO") transactions. As of January 1, 2007, these LILO and SILO transactions were in various stages of review by the Internal Revenue Service (the "IRS"). Management estimated that the outcome of these reviews would change the projected timing of cash flows from these leveraged leases. As a result, in adopting the provisions of FSP No. 13-2 on January 1, 2007, the Company recorded an after-tax cumulative-effect adjustment to reduce retained earnings by $27.1 million. This adjustment represented a $42.7 million reduction in the carrying value of lease financing balances and a $15.6 million reduction in deferred income tax liabilities. The provisions of FSP No. 13-2 also provide that subsequent changes in the timing of projected cash flows that results in a change in the net investment of a leveraged lease is to be recorded as a gain or loss in the Company's results of operations in the period in which the assumption is changed.

In June 2007, the Company reached an agreement with the IRS as to the terms of settlement of the issues related to the Company's LILO transaction. In October 2008, the Company accepted a general settlement initiative from the IRS related to the Company's five SILO transactions. See Note 15 for further discussion on the settlement of the LILO and SILO transactions.

Non-Performing Loans and Leases

Generally, loans and leases are placed on non-accrual status upon becoming contractually past due 90 days or more for principal or interest (unless loans and leases are adequately secured by collateral, are in the process of collection, and are reasonably expected to result in repayment), when terms are renegotiated below market levels, or where substantial doubt about full repayment of principal or interest is evident.

When a loan or lease is placed on non-accrual status, the accrued and unpaid interest receivable is reversed and the loan or lease is accounted for on the cash or cost recovery method until qualifying for return to accrual status. A loan or lease may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan or lease agreement and when doubt about repayment is resolved.

Loans and leases are charged-off when it is probable that a loss has been incurred and when it is possible to make a reasonable estimate of the loss. For commercial loans, a charge-off is determined on a judgmental basis after due consideration of the debtor's prospects for repayment and the estimated fair value of collateral is deemed deficient. For residential mortgage and home equity loans, a charge-off is recorded at 120 days delinquency for the amount that the estimated fair value (sales price minus costs to acquire title, to hold, and to sell) is less than the loan balance. Other consumer loans are charged-off upon becoming past due 120 days.

Reserve for Credit Losses

The Company's reserve for credit losses is comprised of two components, the Allowance for Loan and Lease Losses (the "Allowance") and the Reserve for Unfunded Commitments (the "Unfunded Reserve").

Allowance for Loan and Lease Losses

The Company maintains an Allowance adequate to cover management's estimate of probable credit losses as of the balance sheet date. Changes to the absolute level of the Allowance are recognized through charges or credits to the provision for credit losses (the "Provision"). Loans and leases that are charged-off have the effect of reducing the Allowance while recoveries of loans and leases previously charged-off have the effect of increasing the Allowance.

The level of the Allowance is based on analyses of individual borrowers and historical loss experience supplemented as necessary by credit judgment to address observed changes in trends and conditions, and other relevant environmental and economic factors that may affect the collectibility of loans and leases.

Impaired loans and leases are defined as those which management believes is probable that we will not collect all amounts due according to the contractual terms of the loan or lease agreement. A quarterly evaluation of specific individual commercial borrowers is performed to identify impaired loans and leases. The identification of specific borrowers for review is based on a review of non-accrual loans and leases as well as those loans and leases specifically identified by management as exhibiting above average levels of risk. Interest payments made on impaired loans and leases are typically applied to principal unless collectibility of the principal amount is reasonably assured, in which case interest is recognized on a cash basis.

Homogeneous pools of loans and leases are analyzed using historical loss patterns in various loan and lease pools that have been grouped based on similar risk characteristics for collective evaluation of impairment. Commercial loan and lease pools are collectively evaluated for impairment based on business unit and internal risk rating segmentation and exclude those loans and leases evaluated individually for impairment. Loss estimates are calculated based on an analysis of historical risk rating migration to loss. Consumer and small business loan and lease pools reflect aggregation of similar products based on geography. Loss estimates are calculated based on historical rolling average loss rates and average delinquency flows to loss.

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The Allowance also includes an estimate for inherent losses not reflected in the historical analyses. Relevant factors include, but are not limited to, concentrations of credit risk (geographic, large borrower, and industry), economic trends and conditions, changes in underwriting standards, experience and depth of lending staff, trends in delinquencies, and the level of net charge-offs. In addition, the Company uses a variety of other tools to estimate probable credit losses including, but not limited to, a rolling quarterly forecast of asset quality metrics; stress testing; and performance indicators based on the Company's own experience, peers, or other industry sources.

Reserve for Unfunded Commitments

The Unfunded Reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash and noninterest-bearing deposits, interest-bearing deposits, and funds sold. All amounts are readily convertible to cash and have maturities of less than 90 days.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. Capital leases are included in premises and equipment at the capitalized amount less accumulated amortization.

Premises and equipment is depreciated using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives range from six to 20 years for premises and from three to seven years for equipment. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term. Capitalized leased assets are amortized using the straight-line method over the terms of the respective leases. Repairs and maintenance are charged to expense as incurred, while improvements which extend the estimated useful life of the asset are capitalized and depreciated over the estimated remaining life of the asset.

Long-lived depreciable assets are evaluated periodically for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of a long-lived asset are less than its carrying value. In that event, the Company records a loss for the difference between the carrying amount and the estimated fair value of the asset based on a quoted market price, if applicable, or a discounted cash flow analysis. There was no impairment of the Company's long-lived depreciable assets for the years ended December 31, 2008, 2007, and 2006.

Foreclosed Real Estate

Foreclosed real estate consists of properties acquired through foreclosure proceedings or acceptance of a deed-in-lieu of foreclosure. These properties are carried at the lower of cost or estimated fair value based on current appraisals, less estimated costs to sell. Losses arising at the time of acquiring such property are charged against the Allowance. Subsequent decreases in property values are recognized through charges to noninterest expense.

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Mortgage Servicing Rights

Mortgage servicing rights are recognized as assets when mortgage loans are sold and the rights to service those loans are retained.

On January 1, 2007, the Company adopted the provisions of SFAS No. 156, *"Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140,"* which requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practicable. In adopting the provisions of SFAS No. 156, the Company recorded an increase in the value of mortgage servicing rights of $8.0 million which resulted in a net of tax increase to retained earnings of $5.1 million. Also, as permitted by SFAS No. 156, the Company reclassified investment securities with a carrying value of $164.2 million (the "Designated Securities") from the available-for-sale portfolio to the trading portfolio. Concurrently, the Company reclassified unrealized losses of $5.3 million, net of tax, previously recorded as a component of accumulated other comprehensive loss, to retained earnings. The Designated Securities are recorded at fair value on the Company's statement of condition, with realized and unrealized gains and losses recorded as a component of mortgage banking income. The change in fair value of the Designated Securities is intended to offset changes in valuation assumptions affecting the recorded value of the Company's mortgage servicing rights. The net after-tax cumulative-effect adjustment to adopt the provisions of SFAS No. 156 was to reduce retained earnings by $0.2 million on January 1, 2007. The Company also adopted the fair value measurement provisions of SFAS No. 156 to account for subsequent re-measurements of the Company's class of mortgage servicing rights recognized from January 1, 2007 through June 30, 2008.

The Company established a new class of mortgage servicing rights, to be accounted for under the amortization method, beginning with servicing rights recognized on or after July 1, 2008. This class of mortgage servicing rights is also initially recorded at its estimated fair value, however, is amortized in proportion to and over the period of estimated net servicing income. An impairment analysis is prepared on a quarterly basis by estimating the fair value of the mortgage servicing rights and comparing that value to the carrying amount. Impairment charges related to mortgage servicing rights accounted for under the amortization method are recognized through a charge to mortgage banking income, a component of noninterest income. Impairment charges for the year ended December 31, 2008 were $0.3 million.

Written Loan Commitments

U.S. Securities and Exchange Commission (the "SEC") Staff Accounting Bulletin ("SAB") No. 109, *"Written Loan Commitments Recorded at Fair Value Through Earnings,"* which became effective for the Company on January 1, 2008, requires entities to include the expected net future cash flows related to the servicing of the loan in the measurement of interest rate lock commitments that are accounted for at fair value through earnings. The expected net future cash flows from servicing the loan that are to be included in measuring the fair value of the interest rate lock commitment is to be determined in the same manner that the fair value of a recognized servicing asset is measured under SFAS No. 156. However, a separate and distinct servicing asset is not recognized for accounting purposes until the servicing rights have been contractually separated from the underlying loan by sale or securitization of the loan with servicing rights retained. The impact of SAB No. 109 was to accelerate the recognition of the estimated fair value of the servicing rights related to the loan from the loan sale date to the loan commitment date. The adoption of SAB No. 109 increased mortgage banking income by $2.0 million for the year ended December 31, 2008. See Note 16 for more information on SAB No. 109.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in a business combination. Goodwill is assessed at least annually for impairment. No impairment of goodwill was recorded for the years ended December 31, 2008, 2007, and 2006.

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Securities Sold Under Agreements to Repurchase

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, securities sold under agreements to repurchase are accounted for as collateralized financing arrangements and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's Consolidated Statements of Condition, while the securities underlying the securities sold under agreements to repurchase remain in the respective asset accounts and are delivered to and held in collateral by third party trustees.

Pension and Postretirement Benefit Plans

The Company incurs certain employment-related expenses associated with its two pension plans and a postretirement benefit plan (the "Plans"). In order to measure the expense associated with the Plans, various assumptions are made including the discount rate used to value certain liabilities, expected return on plan assets, anticipated mortality rates, and expected future healthcare costs. The assumptions are based on historical experience as well as current facts and circumstances. The Company uses a December 31 measurement date for its Plans. As of the measurement date, plan assets are determined based on estimated fair value, generally representing observable market prices. The projected benefit obligation is primarily determined based on the present value of projected benefit distributions at an assumed discount rate.

Periodic pension expense or credits include interest costs based on the assumed discount rate, the expected return on plan assets based on actuarially derived market-related values, and recognized net actuarial gains or losses. Periodic postretirement benefit expense or credits include service costs, interest costs based on the assumed discount rate, amortization of prior service credits, and recognized net actuarial gains or losses.

On December 31, 2006, the Company adopted the provisions of SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)."* SFAS No. 158 requires the Company to recognize in its statement of condition an asset for a plan's overfunded status or a liability for a plan's underfunded status. SFAS No. 158 also requires that the Company measure the Plans' assets and obligations that determine its funded status as of the end of the fiscal year and to recognize those changes in the year in which the changes occur as a component of other comprehensive income, net of taxes. The adoption of SFAS No. 158 resulted in a reduction of the Company's accumulated other comprehensive loss, net of tax, by approximately $7.0 million, due to previously unrecognized prior service credits and net actuarial gains.

Income Taxes

The Parent files a consolidated federal income tax return with the Bank and its subsidiaries. Calculation of the Company's provision for income taxes requires the interpretation of income tax laws and regulations and the use of estimates and judgments in its determination. The Company is subject to examination by governmental authorities that may give rise to income tax issues due to differing interpretations. Changes to the liability for income taxes also occur due to changes in income tax rates, implementation of new business strategies, resolution of issues with taxing authorities, and newly enacted statutory, judicial, and regulatory guidance.

Deferred income taxes are provided to reflect the tax effect of temporary differences between financial statement carrying amounts and the corresponding tax basis of assets and liabilities. Deferred income taxes are calculated by applying enacted statutory tax rates and tax laws to future years in which temporary differences are expected to reverse. The impact on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the tax rate change is enacted. A deferred tax valuation reserve is established if it is more likely than not that a deferred tax asset will not be realized.

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The Company's tax sharing policy provides for the settlement of income taxes between each relevant subsidiary as if the subsidiary had filed a separate return. Payments are made to the Parent by subsidiaries with tax liabilities, and subsidiaries that generate tax benefits receive payments for those benefits as used.

The Company maintains reserves for certain tax positions that arise in the normal course of business. As of December 31, 2008, these positions were evaluated based on an assessment of probabilities as to the likelihood of whether a liability had been incurred. Such assessments are reviewed as events occur and adjustments to the reserves are made as appropriate.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. ("FIN") 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109."* FIN 48 established a recognition threshold and measurement attributes for income tax positions recognized in the Company's financial statements in accordance with SFAS No. 109, *"Accounting for Income Taxes."* In evaluating a tax position for recognition, FIN 48 requires that the Company judgmentally evaluate whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, the tax position is measured and recognized in the Company's financial statements as the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized upon ultimate settlement. In adopting the provisions of FIN 48 on January 1, 2007, the Company recorded an after-tax cumulative-effect adjustment to reduce retained earnings by $7.2 million. See Note 15 for further discussion on the Company's FIN 48 tax positions as of December 31, 2008 and 2007.

Treasury Stock

Shares of the Parent's common stock that are repurchased are recorded in treasury stock at cost. On the date of subsequent re-issuance, the treasury stock account is reduced by the cost of such stock on a first-in, first-out basis.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period, plus the effect of common stock equivalents that are dilutive.

Derivative Financial Instruments

Management has received authorization from the Parent's Board of Directors to use derivative financial instruments as an end-user in connection with its risk management activities and to accommodate the needs of its customers. The Company has elected not to qualify for hedge accounting methods addressed under current provisions of GAAP. All risk management derivative instruments are stated at fair value in the Consolidated Statements of Condition with changes in fair value reported in current period earnings.

Share-Based Compensation

On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), *"Share-Based Payment,"* using the modified prospective method. As a result, compensation expense for the years ended December 31, 2008, 2007, and 2006 includes expense related to share-based awards granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123, *"Accounting for Stock-Based Compensation."* Compensation expense for the years ended December 31, 2008, 2007, and 2006 also includes expense related to share-based awards granted on or after January 1, 2006. The adoption of SFAS

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No. 123(R) did not have a material impact on the Company's statements of income and condition. See Note 14 for share-based compensation disclosures.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were $6.0 million for the years ended December 31, 2008 and 2007, and $5.8 million for the year ended December 31, 2006.

International Operations

The Bank has operations that are conducted in certain Pacific Islands that are denominated in U.S. dollars. These operations are classified as domestic.

Fair Value Measurements

On January 1, 2008, the Company adopted the provisions of SFAS No. 157, *"Fair Value Measurements,"* which established a framework for measuring fair value, while expanding fair value measurement disclosures. SFAS No. 157 established a fair value hierarchy that distinguishes between independent observable inputs and unobservable inputs based on the best information available. SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities, the effect of these measurements on earnings for the period, and the inputs used to measure fair value. In February 2008, the FASB issued FSP FAS 157-1 to exclude SFAS No. 13, *"Accounting for Leases,"* and its related interpretive accounting pronouncements that address leasing transactions, from the scope of SFAS No. 157. The adoption of SFAS No. 157 had no impact on retained earnings and did not have a material impact on the Company's statements of income and condition. See Note 18 for fair value measurement disclosures.

In February 2008, the FASB also issued FSP FAS 157-2 to allow entities to electively defer the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. The Company electively deferred the application of the fair value measurement provisions of SFAS No. 157 to its nonfinancial assets and liabilities measured at fair value until January 1, 2009. The adoption of the fair value measurement provisions of SFAS No. 157 to the Company's nonfinancial assets and liabilities is not expected to have a material impact on the Company's statements of income and condition.

Fair Value Option

On January 1, 2008, the Company adopted the provisions of SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115,"* which provided entities with an option to report selected financial assets and financial liabilities, on an instrument by instrument basis, at fair value. On January 1, 2008, the Company elected the fair value option for its subordinated notes, which are included in long-term debt on the Company's Consolidated Statements of Condition. In adopting the provisions of SFAS No. 159 on January 1, 2008, the Company adjusted the carrying value of the subordinated notes to fair value and recorded an after-tax cumulative-effect adjustment to reduce retained earnings by $2.7 million. Since electing the fair value option, accounting for the Company's subordinated notes at fair value has increased other noninterest income by $3.6 million for the year ended December 31, 2008. See Note 18 for more information related to the fair value option.

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Future Application of Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *"Disclosures About Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133."* SFAS No. 161 expands disclosure requirements regarding an entity's derivative instruments and hedging activities. Expanded qualitative disclosures that will be required under SFAS No. 161 include: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* and related interpretations; and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 also requires several added quantitative disclosures in financial statements. The provisions of SFAS No. 161 are effective for financial statements issued for annual and interim periods beginning after November 15, 2008. As SFAS No. 161 amends only the disclosure requirements for derivative instruments and hedged items, the adoption of SFAS No. 161 will not affect the Company's statements of income and condition.

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Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and estimated fair value of the Company's investment securities as of December 31, 2008, 2007, and 2006 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2008				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 551	$ 26	$	$ 577
Debt Securities Issued by States and Political Subdivisions	47,033	1,028	(61)	48,000
Debt Securities Issued by U.S. Government-Sponsored Enterprises	235,280	997	(266)	236,011
Mortgage-Backed Securities Issued by				
U.S. Government-Sponsored Enterprises	1,941,569	37,924	(1,187)	1,978,306
Non-Agencies	301,453	59	(45,199)	256,313
Total Mortgage-Backed Securities	2,243,022	37,983	(46,386)	2,234,619
Other Debt Securities	34		(2)	32
Total	$2,525,920	$ 40,034	$ (46,715)	$2,519,239
Held-to-Maturity:				
Mortgage-Backed Securities Issued by U.S. Government-Sponsored Enterprises	$ 239,635	$ 3,198	$ (658)	$ 242,175
Total	$ 239,635	$ 3,198	$ (658)	$ 242,175
December 31, 2007				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 3,295	$ 30	$	$ 3,325
Debt Securities Issued by States and Political Subdivisions	47,620	331	(41)	47,910
Debt Securities Issued by U.S. Government-Sponsored Enterprises	294,223	1,289	(48)	295,464
Mortgage-Backed Securities Issued by				
U.S. Government-Sponsored Enterprises	1,678,828	12,414	(6,771)	1,684,471
Non-Agencies	312,973		(8,533)	304,440
Total Mortgage-Backed Securities	1,991,801	12,414	(15,304)	1,988,911
Other Debt Securities	228,421	172	(1,013)	227,580
Total	$2,565,360	$ 14,236	$ (16,406)	$2,563,190
Held-to-Maturity:				
Debt Securities Issued by States and Political Subdivisions	$ 6	$	$	$ 6
Mortgage-Backed Securities Issued by				
U.S. Government-Sponsored Enterprises	292,571	722	(5,655)	287,638
Total	$ 292,577	$ 722	$ (5,655)	$ 287,644
December 31, 2006				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 19,036	$ 7	$ (103)	$ 18,940

Debt Securities Issued by States and Political Subdivisions	38,833	125	(178)	38,780
Debt Securities Issued by U.S. Government-Sponsored Enterprises	258,938	125	(1,167)	257,896
Mortgage-Backed Securities Issued by				
U.S. Government-Sponsored Enterprises	1,626,206	2,982	(30,808)	1,598,380
Non-Agencies	364,687		(7,923)	356,764
Total Mortgage-Backed Securities	1,990,893	2,982	(38,731)	1,955,144
Other Debt Securities	333,131	101	(6,115)	327,117
Total	$ 2,640,831	$ 3,340	$ (46,294)	$ 2,597,877
Held-to-Maturity:				
Debt Securities Issued by States and Political Subdivisions	$ 30	$ 1	$	$ 31
Mortgage-Backed Securities Issued by				
U.S. Government-Sponsored Enterprises	371,314	779	(11,405)	360,688
Total	$ 371,344	$ 780	$ (11,405)	$ 360,719

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As of December 31, 2008 and 2007, investment securities with a carrying value of $2.0 billion and $1.7 billion, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase. Investment securities pledged where the secured party has the right to sell or repledge investment securities were $825.8 million and $650.4 million as of December 31, 2008 and 2007, respectively.

The table below presents an analysis of the contractual maturities of the Company's investment securities as of December 31, 2008. Mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-Sale:		
Due in One Year or Less	$ 1,139	$ 1,140
Due After One Year Through Five Years	12,880	13,322
Due After Five Years Through Ten Years	31,144	31,707
Due After Ten Years	237,735	238,451
	282,898	284,620
Mortgage-Backed Securities Issued by		
U.S. Government-Sponsored Enterprises	1,941,569	1,978,306
Non-Agencies	301,453	256,313
Total Mortgage-Backed Securities	2,243,022	2,234,619
Total	$ 2,525,920	$ 2,519,239
Held-to-Maturity:		
Mortgage-Backed Securities Issued by U.S. Government-Sponsored Enterprises	$ 239,635	$ 242,175
Total	$ 239,635	$ 242,175

Gross gains and losses from the sales of investment securities for the years ended December 31, 2008, 2007, and 2006 were as follows:

(dollars in thousands)	2008	2007	2006
Gross Gains on Sales of Investment Securities	$ 549	$ 1,485	$ 172
Gross Losses on Sales of Investment Securities	(17)		
Net Gains on Sales of Investment Securities	$ 532	$ 1,485	$ 172

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The Company's temporarily impaired investment securities as of December 31, 2008 and 2007 were as follows:

Temporarily Impaired Investment Securities

	Less Than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2008						
Debt Securities Issued by States and Political Subdivisions	$ 745	$ (11)	$ 284	$ (50)	$ 1,029	$ (61)
Debt Securities Issued by U.S. Government-Sponsored Enterprises	19,375	(228)	1,591	(38)	20,966	(266)
Mortgage-Backed Securities Issued by						
U.S. Government-Sponsored Enterprises	222,468	(1,388)	59,385	(457)	281,853	(1,845)
Non-Agencies	123,549	(16,641)	121,482	(28,558)	245,031	(45,199)
Total Mortgage-Backed Securities	346,017	(18,029)	180,867	(29,015)	526,884	(47,044)
Other Debt Securities			32	(2)	32	(2)
Total Temporarily Impaired Investment Securities	$ 366,137	$ (18,268)	$ 182,774	$ (29,105)	$ 548,911	$ (47,373)
December 31, 2007						
Debt Securities Issued by States and Political Subdivisions	$ 328	$ (8)	$ 9,857	$ (33)	$ 10,185	$ (41)
Debt Securities Issued by U.S. Government-Sponsored Enterprises	1,384	(15)	2,081	(33)	3,465	(48)
Mortgage-Backed Securities Issued by U.S. Government-Sponsored Enterprises	148,537	(593)	789,643	(11,834)	938,180	(12,427)
Non-Agencies			304,440	(8,533)	304,440	(8,533)
Total Mortgage-Backed Securities	148,537	(593)	1,094,083	(20,367)	1,242,620	(20,960)
Other Debt Securities			218,981	(1,012)	218,981	(1,012)
Total Temporarily Impaired Investment Securities	$ 150,249	$ (616)	$ 1,325,002	$ (21,445)	$ 1,475,251	$ (22,061)

The gross unrealized losses reported for mortgage-backed securities relate to investment securities issued by U.S. government-sponsored enterprises, such as the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, and non-agencies. The Company does not believe that the investment securities that were in an unrealized loss position as of December 31, 2008, which was comprised of 76 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates and levels of market liquidity, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company has both the intent and ability to hold the investment securities for a period of time necessary to recover the amortized cost.

Substantially all of the Company's interest income on investment securities for the years ended December 31, 2008, 2007, and 2006, was comprised of taxable interest income. Income tax expense related to the Company's net realized gains on the sales of investment securities was $0.2 million, $0.6 million, and $0.1 million for the years ended December 31, 2008, 2007, and 2006, respectively. The accumulated other comprehensive loss from net unrealized gains and losses on investment securities, net of tax, was $4.3 million, $1.4 million, and $27.5 million as of December 31, 2008, 2007, and 2006, respectively.

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Note 3. Loans and Leases and the Reserve for Credit Losses

Loans and Leases

The Company's loan and lease portfolio was comprised of the following as of December 31:

(dollars in thousands)	2008	2007	2006	2005	2004
Commercial					
Commercial and Industrial	$1,053,781	$1,054,355	$1,093,392	$ 918,842	$ 923,700
Commercial Mortgage	740,779	634,483	611,334	558,346	602,678
Construction	153,952	208,670	249,263	153,682	106,220
Lease Financing	468,140	481,882	508,997	470,155	479,100
Total Commercial	2,416,652	2,379,390	2,462,986	2,101,025	2,111,698
Consumer					
Residential Mortgage	2,461,824	2,486,284	2,487,123	2,418,768	2,326,627
Home Equity	1,033,221	994,972	950,860	886,830	779,892
Automobile	369,789	443,011	429,149	433,027	404,850
Other [1]	248,747	277,204	293,049	328,886	363,863
Total Consumer	4,113,581	4,201,471	4,160,181	4,067,511	3,875,232
Total Loans and Leases	$6,530,233	$6,580,861	$6,623,167	$6,168,536	$5,986,930

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

Total loans and leases were reported net of unearned income of $179.6 million and $190.2 million as of December 31, 2008 and 2007, respectively.

Commercial and residential mortgage loans of $504.6 million and $415.0 million were pledged to secure an FRB line of credit as of December 31, 2008 and 2007, respectively. Residential mortgage loans of $60.2 million were pledged to secure FHLB advances as of December 31, 2008 and 2007.

The aggregate amount of gains and losses on the Company's sale of residential mortgage loans for the years ended December 31, 2008, 2007, and 2006 is shown below. Net gains on sale of residential mortgage loans are recorded as a component of mortgage banking income in noninterest income. There were no sales of commercial loans for the years ended December 31, 2008, 2007, and 2006.

(dollars in thousands)	2008	2007	2006
Gross Gains on Sale of Residential Mortgage Loans	$ 2,308	$ 1,471	$ 1,633
Gross Losses on Sale of Residential Mortgage Loans	(1,312)	(786)	(553)
Net Gains on Sale of Residential Mortgage Loans	$ 996	$ 685	$ 1,080

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Leveraged Leases

The Company's net investment in leveraged leases was comprised of the following as of December 31, 2008 and 2007:

(dollars in thousands)	December 31, 2008	December 31, 2007
Rental Receivable (Net of Principal and Interest on Non-Recourse Debt)	$ 273,059	$ 288,695
Estimated Residual Value of Leased Assets	191,989	198,645
Less: Unearned and Deferred Income	(142,543)	(150,425)
Investment in Leveraged Leases	322,505	336,915
Less: Deferred Income Taxes Arising from Leveraged Leases	(164,277)	(180,403)
Net Investment in Leveraged Leases	$ 158,228	$ 156,512

The Company is the lessor in various leveraged lease agreements under which airplanes, rail cars, and watercraft, are leased with estimated remaining economic lives ranging from seven to 28 years. These leveraged lease agreements have remaining terms up to 20 years. The Company's equity investment typically represents between 20% and 30% of the purchase price, with the remaining percentage being provided by third-party financing in the form of long-term debt that provides for no recourse against the Company and is secured by a first lien on the asset. The residual value of the leased asset is estimated at the beginning of the leveraged lease agreement, based on appraisals and other methods, and is reviewed at least annually for impairment. At the end of the lease term, the asset is returned to the Company. Generally, for federal income tax purposes, the Company receives the benefit of income tax deductions for depreciation on the entire leased asset and for interest on the long-term debt. During the early years of a leveraged lease, income tax deductions exceed lease rental income, resulting in reduced income taxes payable. In the later years of a leveraged lease, lease rental income will exceed income tax deductions, resulting in increased income taxes payable. Deferred income taxes are provided for this timing difference. The Company's investment in leveraged leases was $322.5 million and $336.9 million as of December 31, 2008 and 2007, respectively, and is reflected as a component of commercial lease financing.

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

Related Party Loans

Certain directors and executive officers of the Company, companies in which they are principal owners, and trusts in which they are involved, have loans with the Bank. These loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements.

The following table presents the loan activity with certain directors and executive officers of the Company for the years ended December 31, 2008 and 2007.

(dollars in thousands)	December 31, 2008	December 31, 2007
Balance at Beginning of Year	$ 19,147	$ 17,551
Additions:		
Borrowings	2,639	1,263
Other [1]	1,207	2,527
Reductions:		
Payments	(6,769)	(2,194)
Balance at End of Year	$ 16,224	$ 19,147

[1] Represents borrowings as a result of changes in the parties considered executive officers under SEC regulations.

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Reserve for Credit Losses

Activity in the Company's reserve for credit losses was as follows for the years ended December 31:

(dollars in thousands)	2008	2007	2006	2005	2004
Balance at Beginning of Period	$ 96,167	$ 96,167	$ 96,167	$ 113,596	$ 129,080
Loans and Leases Charged-Off					
Commercial					
Commercial and Industrial	(8,059)	(3,266)	(2,373)	(2,507)	(4,408)
Commercial Mortgage					(575)
Construction	(1,932)				
Lease Financing	(304)	(145)		(10,049)	(1,381)
Consumer					
Residential Mortgage	(723)	(169)	(132)	(646)	(819)
Home Equity	(2,530)	(1,097)	(633)	(959)	(827)
Automobile	(11,236)	(10,340)	(8,268)	(6,767)	(5,407)
Other [1]	(10,564)	(9,893)	(9,251)	(12,605)	(13,138)
Total Loans and Leases Charged-Off	(35,348)	(24,910)	(20,657)	(33,533)	(26,555)
Recoveries on Loans and Leases Previously Charged-Off					
Commercial					
Commercial and Industrial	1,634	1,203	3,509	1,751	3,973
Commercial Mortgage		156	509	3,246	2,052
Construction					529
Lease Financing	10	2,092	3	189	19
Consumer					
Residential Mortgage	175	221	464	641	915
Home Equity	108	359	309	411	283
Automobile	2,817	2,582	2,088	1,900	1,987
Other [1]	2,589	2,790	3,017	3,378	4,252
Foreign					7,061
Total Recoveries on Loans and Leases Previously Charged-Off	7,333	9,403	9,899	11,516	21,071
Net Loans and Leases Charged-Off	(28,015)	(15,507)	(10,758)	(22,017)	(5,484)
Provision for Credit Losses	60,515	15,507	10,758	4,588	(10,000)
Balance at End of Period [2]	$ 128,667	$ 96,167	$ 96,167	$ 96,167	$ 113,596
Components					
Allowance for Loan and Lease Losses	$ 123,498	$ 90,998	$ 90,998	$ 91,090	$ 106,796
Reserve for Unfunded Commitments	5,169	5,169	5,169	5,077	6,800
Total Reserve for Credit Losses	$ 128,667	$ 96,167	$ 96,167	$ 96,167	$ 113,596
Average Loans and Leases Outstanding	$6,542,178	$6,561,584	$6,369,200	$6,104,356	$5,786,645
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding	0.43%	0.24%	0.17%	0.36%	0.09%
Ratio of Allowance for Loan and Lease Losses to Loans and Leases Outstanding	1.89%	1.38%	1.37%	1.48%	1.78%

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

2

Included in this analysis is activity related to the Company's reserve for unfunded commitments, which is separately recorded in other liabilities in the Consolidated Statements of Condition.

Non-accrual loans and leases as of December 31, 2008 and 2007 were $14.5 million and $5.1 million, respectively. Loans and leases past due 90 days or more and still accruing interest as of December 31, 2008 and 2007 were $14.2 million and $7.6 million, respectively.

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The Company's impaired loans and leases as of December 31, 2008, 2007, and 2006 were as follows:

(dollars in thousands)	2008	2007	2006
Recorded Investment in Impaired Loans and Leases Not Requiring an Allowance for Loan and Lease Losses	$ 8,197	$	$
Recorded Investment in Impaired Loans and Leases Requiring an Allowance for Loan and Lease Losses	125	87	414
Recorded Investment in Impaired Loans and Leases [1]	$ 8,322	$ 87	$ 414
Allowance for Loan and Lease Losses on Impaired Loans and Leases	$ 13	$ 30	$ 145
Average Recorded Investment in Impaired Loans and Leases	$ 1,728	$ 150	$ 168

[1] There were no accruing market-rate troubled-debt restructurings for the years ended December 31, 2008, 2007, and 2006.

Note 4. Mortgage Servicing Rights

The Company's portfolio of residential mortgage loans serviced for third parties was $2.7 billion as of December 31, 2008 and $2.5 billion as of December 31, 2007 and 2006. Substantially all of the Company's residential mortgage loans sold to third parties is sold on a non-recourse basis. The Company's mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of the borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was $6.3 million for the year ended December 31, 2008, and $6.1 million for the years ended December 31, 2007 and 2006. The Company's residential mortgage loan servicing portfolio is comprised primarily of fixed rate loans concentrated in Hawaii.

As noted in Note 1, the Company adopted the provisions of SFAS No. 156 on January 1, 2007 and concurrently identified its entire balance of mortgage servicing rights as one class of servicing assets for this fair value measurement. The table below reconciles the balance of the Company's mortgage servicing rights as of December 31, 2006 and January 1, 2007.

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

For the years ended December 31, 2008 and 2007, the change in the fair value of the Company's mortgage servicing rights accounted for under the fair value measurement method was as follows:

(dollars in thousands)	2008	2007
Balance at Beginning of Year	$ 27,588	$ 27,444
Servicing Rights that Resulted From Asset Transfers	3,717	4,153
Changes in Fair Value:		
Due to Change in Valuation Assumptions [1]	(9,331)	184
Due to Paydowns and Other [2]	(2,421)	(4,193)
Total Changes in Fair Value of Mortgage Servicing Rights	(11,752)	(4,009)
Balance at End of Year	$ 19,553	$ 27,588

1

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

[2] Principally represents changes due to loan payoffs.

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For the years ended December 31, 2008, 2007, and 2006, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method, net of a valuation allowance, was as follows:

(dollars in thousands)	2008 [1]	2007	2006
Balance at Beginning of Year	$	$	$ 18,010
Servicing Rights that Resulted From Asset Transfers	1,843		3,979
Amortization	(47)		(2,552)
Balance at End of Year	$ 1,796	$	$ 19,437
Valuation Allowance:			
Balance at Beginning of Year	$	$	$
Provision for Mortgage Servicing Rights in Excess of Fair Value	292		
Balance at End of Year	$ 292	$	$
Mortgage Servicing Rights Accounted for Under the Amortization Method, Net of a Valuation Allowance	$ 1,504	$	$ 19,437
Fair Value of Mortgage Servicing Rights Accounted for Under the Amortization Method			
Beginning of Year	$	$	$ 25,689
End of Year	$ 1,504	$	$ 27,444

1 The Company established a new class of mortgage servicing rights, to be accounted for under the amortization method, beginning with servicing rights recognized on or after July 1, 2008.

The key assumptions used in estimating the fair value of the Company's mortgage servicing rights as of December 31, 2008 and 2007 were as follows:

	2008	2007
Weighted-Average Constant Prepayment Rate [1]	17.81%	11.15%
Weighted-Average Life (in years)	4.17	6.08
Weighted-Average Note Rate	5.74%	5.82%
Weighted-Average Discount Rate [2]	6.23%	8.56%

1 Represents annualized loan repayment rate assumption.

2 Derived from multiple interest rate scenarios that incorporate a spread to the LIBOR/swap curve and market volatilities.

Residential mortgage loan repayment rates for the Company's servicing portfolio, which is concentrated in Hawaii, approximated the national average for the years ended December 31, 2008 and 2007.

A sensitivity analysis of the Company's fair value of mortgage servicing rights to changes in certain key assumptions as of December 31, 2008 and 2007 is presented in the following table.

Sensitivity Analysis

(dollars in thousands)	2008	2007

Constant Prepayment Rate		
Decrease in fair value from 25 basis points ("bps") adverse change	$ (216)	$ (260)
Decrease in fair value from 50 bps adverse change	(427)	(516)
Discount Rate		
Decrease in fair value from 25 bps adverse change	(202)	(265)
Decrease in fair value from 50 bps adverse change	(400)	(526)

This analysis generally cannot be extrapolated because the relationship of a change in one key assumption to the change in the fair value of the Company's mortgage servicing rights usually is not linear. Also, the effect of changing one key assumption without changing other assumptions is not realistic. The calculation of the fair value of mortgage servicing rights is dynamic in nature, in that changes in one key assumption may result in changes in other assumptions, which may magnify or counteract the sensitivity analysis presented in the table above.

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Note 5. Premises and Equipment

The components of the Company's premises and equipment as of December 31, 2008 and 2007 were as follows:

(dollars in thousands)	Cost	Accumulated Depreciation and Amortization	Net Book Value
December 31, 2008			
Premises	$ 291,379	$ (192,034)	$ 99,345