
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) of
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2001

OR

**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

PACIFIC CENTURY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

99-0148992
(IRS Employer Identification No.)

130 Merchant Street, Honolulu, Hawaii
(Address of principal executive offices)

96813
(Zip Code)

(808) 537-8430

(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$.01 Par Value	New York Stock Exchange

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

None

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

Yes No

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.

The aggregate market value of the registrant's voting stock held by non-affiliates is approximately \$1,531,569,500, based on the January 31, 2002 closing price of said stock on the New York Stock Exchange (\$24.57 per share).

As of January 31, 2002, there were 73,347,423 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 26, 2002, are incorporated by reference into Part III of this Report.

PART I

Item 1. *Description Of Business*

General

Pacific Century Financial Corporation (“the Company”) is a Delaware corporation and a bank holding company. The Company was incorporated in Hawaii in 1971 and in April 1998, the Company changed its state of incorporation to Delaware.

Through its banking subsidiaries, the Company provides a diversified range of banking financial services and products primarily in Hawaii, the West Pacific (consisting of Guam and nearby islands) and American Samoa. Additional subsidiaries are engaged in equipment leasing, insurance and insurance agency services, securities brokerage and investment services and other activities. The Company’s principal banking subsidiary is Bank of Hawaii. The Company also owns First Savings and Loan Association of America (“First Savings”).

The Company groups its principal revenue-producing businesses into the following markets: Retail Banking, Commercial Banking, Financial Services, and Treasury and Other Corporate. The divestiture businesses were grouped separately. For additional information about the Company and its operations see the Business Segments discussion in Note Q to the Consolidated Financial Statements of this report.

Divestiture Activity

Beginning in December of 2000 and extending to the end of the first quarter of 2001, the Company performed a rigorous self-assessment of its businesses. Management evaluated the attractiveness of the Company’s businesses, as well as the ability to compete in those businesses in the future. The performance of each business was assessed in relation to the risks assumed. Evaluations considered the extent to which returns are expected to exceed the cost of the capital allocated to the businesses. As a result of this assessment, a decision was made that certain businesses would be divested or liquidated.

The following divestitures were completed this year:

In March 2001, the Company sold its credit card portfolio to American Express Centurion Bank.

In April 2001, the Company’s U.S. Mainland subsidiary, Pacific Century Bank, N.A., sold its nine branch Arizona franchise to Zions Bancorporation.

Also in April 2001, the Company sold its entire investment in the Bank of Queensland Limited in Australia. The Company’s convertible notes were sold back to the Bank of Queensland Limited and its common share investment was sold to a private Australian investor.

In August 2001, the Company closed its Bank of Hawaii Hong Kong branch and its representative and two extension offices in the Philippines. The Bank of Hawaii Tokyo branch closed in September and the Taipei, Seoul and Singapore branches in October. The bank’s subsidiary, Bank of Hawaii Incorporated, New York, an Edge Act corporation, also closed in October.

In September 2001, the Company sold Pacific Century Bank, N.A.’s 19 branch California franchise to U.S. Bancorp.

In November 2001, the Company completed the sale of its operations in Papua New Guinea and Vanuatu to Australia-based ANZ. The sale of its Fiji operations to ANZ closed in December 2001. These transactions involved two branches in Papua New Guinea, two in Vanuatu and three in Fiji.

In December 2001, the Company completed the sale of its approximately 95% share interest in its French Polynesia and New Caledonia operations to France-based Caisse Nationale des Caisses d'Epargne (CNCE). The sale included all 17 branches of Bank of Hawaii's subsidiary bank in French Polynesia, Banque de Tahiti, and all eight branches of its subsidiary bank in New Caledonia, Bank of Hawaii-Nouvelle Calédonie.

2002 Outlook

The Company has reaffirmed its net income expectations of \$120 million for the full year 2002. Compared to the strategic plan (announced in April 2001), the forecast is for slightly lower revenues and expenses than originally estimated. Achieving these results will require diligent expense control which will also improve the efficiency ratio. Programs have been put in place to reduce inefficient process costs. In addition, the Company is currently evaluating rescaling its technology and operating systems to achieve efficiency and cost savings. Any benefits or costs from this potential project have not been included in forecast assumptions.

Quarterly earnings should show an improving trend during 2002. A quarterly run-rate of \$90 million for expenses is anticipated, with the possibility of slightly higher costs in the first quarter as divestiture and restructuring activities are completed. These costs may be offset by additional sales gains when post-closing audits for some of the divested businesses are completed during the quarter.

With respect to credit quality, loan losses may increase from the strategic plan due to economic conditions. The Company plans to continue to provide for net loan charge-offs until economic uncertainty is reduced. The tax rate should improve due to tax strategies that allow the utilization of foreign tax credits.

Earnings per share guidance is not being provided as it is dependent on the timing, amount, and cost of share repurchases which are difficult to estimate. Currently, the gradual open market purchase of shares, versus an accelerated buy-back program, is anticipated to continue. As of February 22, 2002, the Company has remaining authority of approximately \$360 million under share repurchase programs approved by the Board of Directors (see further discussion in the Capital Management section of Management's Discussion and Analysis of Financial Condition and Results of Operations).

Bank Subsidiaries

Bank of Hawaii was organized under the laws of Hawaii on December 17, 1897 and has its headquarters in Honolulu, Hawaii. Its deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Bank of Hawaii became a member of the Federal Reserve System in February 2002. Bank of Hawaii is the largest full-service financial institution headquartered in the State of Hawaii with a statewide network of 76 traditional and in-store branches. Bank of Hawaii provides customary commercial banking services through branch offices or representative offices mainly in Hawaii, the West Pacific and American Samoa.

First Savings is located in the territory of Guam. It provides retail financial services through six branches.

Regulation and Competition

Effect of Governmental Policies

The earnings of the Company and its principal subsidiaries are affected not only by general economic conditions, both domestically and internationally, but also by the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve System, and foreign governments and their agencies. The monetary policies of the Federal Reserve System influence to a significant extent the overall growth of loans, investments, and deposits; the level of interest rates earned on assets and paid for liabilities; and interest rates charged on loans and paid on deposits. The nature and impact of future changes in monetary policies are often not predictable.

Competition

The Company and its subsidiaries are subject to substantial competition in all aspects of the businesses in which they engage from banks (both domestic and foreign), savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies and other providers of financial services. The Company also competes with certain non-financial institutions and governmental entities that offer financial products and services. Many of the Company's competitors are not subject to the same level of extensive regulations and oversight that are required of banks and bank holding companies.

Supervision and Regulation

General

The Company is registered as a bank holding company (BHC) under the Bank Holding Company Act of 1956, as amended (the BHC Act) and is subject to the supervision of and to examinations by the Board of Governors of the Federal Reserve System (FRB). The Company is also registered as a bank holding company under the Hawaii Code of Financial Institutions (the Code) and is subject to the registration, reporting, and examination requirements of the Code. In January 2002, the Company announced that it had satisfied its obligations under the Memorandum of Understanding imposed by its regulators during the third quarter of 2000 and it has been removed. See further discussion in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the report, and Note A to the Consolidated Financial Statements.

The BHC Act prohibits, with certain exceptions, a BHC from acquiring beneficial ownership or control of more than 5% of the voting shares of any company, including a bank, without the FRB's prior approval and from engaging in any activity other than those of banking, managing or controlling banks or other subsidiaries authorized under the BHC Act, or furnishing services to or performing services for its subsidiaries. Among the permitted activities is the ownership of shares of any company the activities of which the FRB determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

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

Hawaii has enacted a statute that authorizes out-of-state banks to engage in mergers with Hawaii banks or acquisitions of substantially all of their assets, following which any such out-of-state bank may operate the branches of the Hawaii bank it has acquired. The Hawaii bank must have been in continuous operation for at least five years unless it is subject to or in danger of becoming subject to certain types of supervisory action. This statute does not permit out-of-state banks to acquire branches of Hawaii banks other than through an "interstate merger transaction" under the Riegle-Neal Act (except in the case of a bank that is subject to or in danger of becoming subject to certain types of supervisory action) or to open branches in Hawaii on a de novo basis.

Under the Gramm-Leach-Bliley Act, a BHC may elect to become a financial holding company and thereby to engage in a broader range of financial and other activities than are permissible for traditional BHCs. In order to qualify for the election, all of the depository institution subsidiaries of the BHC must be well capitalized and

well managed and all of its insured depository institution subsidiaries must have achieved a rating of “satisfactory” or better under the Community Reinvestment Act. Financial holding companies are permitted to engage in activities that are “financial in nature” or incidental or complementary thereto as determined by the FRB. The Gramm-Leach-Bliley Act identifies several activities as “financial in nature,” including, among others, insurance underwriting and agency, investment advisory services, merchant banking and underwriting, and dealing or making a market in securities. The Company has not elected to become a financial holding company.

Subsidiary Banks

Bank of Hawaii is subject to supervision and examination by the Federal Reserve Bank of San Francisco and the State of Hawaii Department of Commerce and Consumer Affairs Division of Financial Institutions. Prior to becoming a member of the Federal Reserve System in February 2002, Bank of Hawaii was subject to supervision and examination by the FDIC. First Savings is subject to supervision and examination by the Office of Thrift Supervision. Depository institutions, including Bank of Hawaii and First Savings, are subject to extensive federal and state regulation that significantly affects their business and activities. Regulatory authorities have broad authority to implement standards and to initiate proceedings designed to prohibit depository institutions from engaging in unsafe and unsound banking practices.

Dividend Restrictions

The Company is a legal entity separate and distinct from its subsidiary banks and other subsidiaries. Its principal source of funds to pay dividends on its common stock and debt service on its debt is dividends from its subsidiaries. Various federal and state statutory provisions and regulations limit the amount of dividends the Company’s subsidiary banks and certain other subsidiaries may pay without regulatory approval. For information about the restrictions applicable to the Company’s subsidiary banks, see Note I to the Consolidated Financial Statements, incorporated by reference herein.

Holding Company Structure

Transfer Of Funds From Subsidiary Banks. The Company’s subsidiary banks are subject to restrictions under federal law that limit the transfer of funds or other items of value from such subsidiaries to the Company and its nonbank subsidiaries (including affiliates) in so-called “covered transactions.” In general, covered transactions include loans and other extensions of credit, investments and asset purchases, as well as other transactions involving the transfer of value from a subsidiary bank to an affiliate or for the benefit of an affiliate. Unless an exemption applies, covered transactions by a subsidiary bank with a single affiliate are limited to 10% of the subsidiary bank’s capital and surplus and, with respect to all covered transactions with affiliates in the aggregate, to 20% of the subsidiary bank’s capital and surplus. Also, loans and extensions of credit to affiliates generally are required to be secured in specified amounts.

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

Capital Requirements

The Company is subject to risk-based capital requirements and guidelines imposed by the banking regulatory agencies.

As an additional means to identify problems in the financial management of depository institutions, the FDI Act requires federal bank regulatory agencies to establish certain non-capital safety and soundness standards for institutions for which they are the primary federal regulator. The standards relate generally to operations and management, asset quality, interest rate exposure and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards.

The FDI Act requires federal bank regulatory agencies to take “prompt corrective action” with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution’s treatment for purposes of the prompt corrective action provisions will depend upon how its capital levels compare to various capital measures and certain other factors, as established by regulation.

FDIC Insurance

The FDIC has adopted a premium schedule under which the actual assessment rate for a particular institution depends in part upon the risk classification the FDIC assigns to that institution. The FDIC may raise an institution’s insurance premiums or terminate insurance upon a finding that the institution has engaged in unsafe and unsound practices.

This regulatory framework is intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole, and not for the protection of security holders. To the extent that this information describes statutory and regulatory provisions, it is qualified in its entirety by reference to those provisions. Any change in applicable laws or regulations may have a material effect on the business of the Company and its subsidiaries.

Employees

At December 31, 2001, the Company and its subsidiaries had 3,175 employees.

Item 2. *Description of Property*

The Company and its subsidiaries own and lease premises primarily consisting of branch and operating facilities, the majority of which are located in Hawaii, the West Pacific, and American Samoa. Bank of Hawaii’s main branch and administrative offices are located at the Financial Plaza of the Pacific in Honolulu, Hawaii. Additionally, Bank of Hawaii owns a fee simple two-story building near downtown Honolulu that houses data processing operational functions and an operations facility in the Kapolei area on Oahu.

Item 3. *Legal Proceedings*

The Company and its subsidiaries are defendants in various legal proceedings arising from normal business activities. In the opinion of management, after reviewing these proceedings with counsel, the aggregate liability, if any resulting from these proceedings would not have a material effect on the Company’s consolidated financial position or results of operations.

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

No matter was submitted during the fourth quarter of 2001 to a vote of security holders through solicitation of proxies or otherwise.

Executive Officers of Registrant:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Michael E. O'Neill	55	Chairman and Chief Executive Officer of the Company and Bank of Hawaii (the Bank) since November 2000; Vice Chairman and Chief Financial Officer, BankAmerica Corporation, 1995 to 1999.
Richard J. Dahl	50	President of the Company and the Bank since August 1994; Chief Operating Officer of the Company since April 1997 and the Bank since August 1995.
Neal C. Hocklander	49	Vice Chair—Human Resources of the Company and the Bank since April 2001; Executive Vice President of Human Resources of the Bank, August 2000 to April 2001; Vice President of International Human Resources, Kelly Services, September 1997 to August 2000; Country Human Resources Director of Citibank N.A. October 1984 to August 1997.
Alton T. Kuioka	58	Vice Chair—Commercial Banking of the Company and the Bank since April 1997; Vice Chair of the Bank since June 1994; Chief Lending Officer of the Company since April 1997 and the Bank since August 1995.
Allan R. Landon	53	Vice Chair and Chief Financial Officer of the Company and the Bank since January 2001; Director of Risk Management for the Company from April 2000 to January 2001; Chief Financial Officer, First American Corporation, 1998 to 2000; Partner, Ernst & Young, LLP, 1984 to 1998.
Walter J. Laskey	60	Vice Chair—Financial Services Group of the Company and the Bank since April 2001; Executive Vice President of Financial Services Group of the Bank, August 1993 to April 2001.
Gretchen M. Mohen	40	Vice Chair of Technology and Operations of the Company and the Bank since December 2001; Group Vice President and Chief Information Officer, Mellon Investor Services, April 1999 to November 2001; Manager of Technology Service, Morgan Stanley Dean Witter, November 1994 to April 1999.
William C. Nelson	54	Vice Chair and Chief Risk Officer of the Company and the Bank since January 2001; Managing Director, Bank of America Credit Products Group U.S. health care industry, 1999 to January 2001; Executive Vice President, Bank of America credit risk management Asia Pacific region, 1993 to 1999.
David W. Thomas	50	Vice Chair for Retail Banking of the Company and the Bank since April 2001; Executive Vice President, Summit Bank, 1999 to 2001; President- Electronic Delivery, Bank One, 1974 to 1998.
Joseph T. Kiefer	61	Executive Vice President and General Counsel of the Company and the Bank since January 1994.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Lori L. McCarney	47	Executive Vice President of Marketing for the Company since July 1999; Senior Vice President and Director of Brand Management, Wells Fargo, from 1998 to 1999; Senior Vice President and Director of Brand Management for Bank of America, 1992 to 1998.
Scott E. Miller	55	Executive Vice President, Hawaii Commercial Banking since September 2001; Executive Vice President and Director of Asset Recovery, January 2001 to August 2001; President of Heller Commercial Services, 1998 to 2000; Senior Vice President and General Manager of Asset Based Lending, Bank of America, 1993 to 1998.
Richard C. Keene	42	Executive Vice President and Controller of the Company and the Bank since January 2002; Independent consultant for the Bank, April 2001 to December 2001; Chief Operating Officer and Controller, MaxRate.com, Inc., March 2000 to April 2001; Senior Vice President and Controller, Prudential Bank, September 1994 to March 2000.

PART II

Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters*

Common Stock Listing

The common stock of the Company is traded on the New York Stock Exchange (NYSE Symbol: BOH) and quoted daily in leading financial publications. As of January 31, 2002, there were 10,918 common shareholders.

Market Prices, Book Values, and Common Stock Dividends—See Table 2 included in Item 7 of this report.

The Board of Directors of the Company considers on a quarterly basis the feasibility of paying a cash dividend to its shareholders.

Item 6. Selected Financial Data

Summary of Selected Consolidated Financial Data¹

Table 1

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(dollars in millions except per share amounts)				
At December 31					
Balance Sheet Totals					
Net Loans	\$ 5,493.5	\$ 8,988.3	\$ 9,144.7	\$ 9,157.3	\$ 9,018.1
Total Assets	10,627.8	14,013.8	14,440.3	15,016.6	14,995.5
Deposits	6,673.6	9,080.6	9,394.2	9,576.3	9,607.7
Long-Term Debt	469.7	623.7	727.7	585.6	705.8
Shareholder's Equity	1,247.0	1,301.4	1,212.3	1,185.6	1,117.2
Average Assets	12,681.0	14,055.3	14,582.9	14,870.7	14,242.3
Average Loans	7,719.6	9,415.9	9,259.6	9,289.3	8,877.9
Average Deposits	8,054.0	9,005.1	9,315.3	9,549.7	9,260.4
Average Shareholders' Equity	1,344.1	1,234.6	1,210.0	1,160.8	1,109.3
For the Year Ended December 31					
Operating Results					
Total Interest Income	828.3	1,032.4	1,003.4	1,098.3	1,044.4
Net Interest Income	459.7	531.2	551.6	543.1	491.5
Provision for Loan and Lease Losses	74.3	142.9	60.9	84.0	30.3
Net Income	117.8	113.7	133.0	107.0	139.5
Basic Earnings Per Share	1.49	1.43	1.66	1.33	1.75
Diluted Earnings Per Share	1.46	1.42	1.64	1.32	1.72
Cash Dividends Paid Per Common Share	0.72	0.71	0.68	0.66	0.63
Performance Ratios					
Return on Average Assets	0.93%	0.81%	0.91%	0.72%	0.98%
Return on Average Equity	8.76	9.21	10.99	9.21	12.57
Efficiency Ratio	65.55	60.44	65.76	68.59	65.08
Average Equity to Average Assets	10.60	8.78	8.30	7.81	7.79
Allowance for Loan and Lease Losses to Loans					
Outstanding	2.81	2.67	2.08	2.26	1.90
Tier I Capital Ratio	19.76	11.78	10.28	9.42	9.34
Total Capital Ratio	23.29	14.64	13.22	11.47	11.65
Leverage Ratio	11.20	9.10	8.31	7.48	7.21
Tangible Basis Financial Data²					
Net Income	\$ 131.1	\$ 128.9	\$ 149.7	\$ 121.7	\$ 150.7
Basic Earnings Per Share	1.66	1.62	1.86	1.52	1.89
Diluted Earnings Per share	1.63	1.62	1.85	1.50	1.86
Return on Average Assets	1.05%	0.93%	1.04%	0.83%	1.05%
Return on Average Equity	11.00	12.45	15.02	12.84	15.47
Non-Financial Data					
Common Shareholders of Record at Year-End ³	10,937	8,438	9,899	10,396	10,514
Weighted Average Shares—Basic	78,977,011	79,551,296	80,298,725	80,228,424	79,794,011
Weighted Average Shares—Diluted	80,577,763	79,813,443	81,044,558	81,142,144	80,946,170

¹ Comparison between years is affected by business combinations and divestitures. See Note A to the Consolidated Financial Statements.

² Tangible basis information excludes the effect of intangibles, including goodwill.

³ The number of common shareholders is based on the number of record holders.

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

Overview

On April 23, 2001, the Company announced a new strategic plan designed to maximize shareholder value by strengthening its Hawaii and West Pacific operations and divesting most other holdings, including Pacific Century Bank in California, the Asia Division, and the South Pacific Division, excluding American Samoa.

The divestiture program was completed prior to year-end. As discussed in more detail earlier in this document, the Company's credit card portfolio was sold in March 2001, Pacific Century Bank, N.A.'s franchise in Arizona was sold in April 2001, the investment in the Bank of Queensland Limited in Australia was sold in April 2001, substantially all of the Asia division was closed by October 2001, Pacific Century Bank N.A.'s California branch franchise was sold in September 2001, and the South Pacific banks were sold in November and December 2001. These divestitures and other strategic actions have made comparison of results between accounting periods more difficult and less meaningful.

A new organizational structure was also announced in April 2001. Businesses were aligned into the following units: Retail Banking, Commercial Banking, Financial Services, and Treasury and Other Corporate. The divestiture businesses were grouped separately. The Line of Business Financial Review in this report is presented in a format that is consistent with the new organization structure which is different from the previous year. Note Q to the Consolidated Financial Statements includes the Company's business segment financial reports for the three years ended December 31, 2001, 2000, and 1999.

As part of its efforts to effectively manage capital, the Company initiated a \$70 million and a \$200 million common share repurchase program in the third and fourth quarters of 2001, respectively. Through December 31, 2001 the Company had repurchased 8.3 million shares under these programs at an average cost of \$23.57 per share for a total of \$195.7 million. In January 2002, the Company's Board of Directors approved an additional \$300 million common stock repurchase program.

2001 Performance Summary

- Net income of the Company was \$117.8 million in 2001, reflecting an increase of 3.6% from the \$113.7 million reported in 2000.
- Diluted earnings per share were \$1.46 in 2001 compared to \$1.42 in 2000.
- Net interest income decreased 13.5%, from \$531.2 million in 2000 to \$459.7 million in 2001 primarily due to the divested businesses and the managed reduction of the loan portfolio to improve asset quality.
- Net gains of \$173.4 million were recognized in 2001 from the sales of banking operations and venture investment losses.
- The Company realized \$33.0 million in investment securities gains during 2001, mostly related to the strategic plan.
- Restructuring and other related costs of \$104.8 million were recognized in 2001. In addition, a higher effective tax rate was incurred due to non-tax-deductible goodwill and other costs associated with the divestitures.
- The provision for loan and lease losses was \$74.3 million in 2001, a decrease of \$68.6 million from \$142.9 million in 2000 due to improved asset quality and recoveries.
- Assets totaled \$10.6 billion at December 31, 2001, down from \$14.0 billion at December 31, 2000. This decline was primarily a result of the divested businesses.
- The Allowance for Loan and Lease Losses as a percent of loans outstanding was 2.81% at December 31, 2001 compared to 2.67% at the end of 2000.
- Non-performing assets were \$79.7 million, or 1.41% of total loans at year-end 2001, compared to \$183.0 million, or 1.98% at year-end 2000.

The stock performance in 2001 reflects the improved asset quality, risk reduction and successful completion of divesting the non-strategic businesses. Table 2 provides information on the market prices, book values and dividends related to the Company's stock.

Market Prices, Book Value and Common Stock Dividends

Table 2

<u>Year/Period</u>	<u>Market Price (MP) Range</u>			<u>Book Value (BV)</u>	<u>High MP as a Percent of BV</u>	<u>Dividend</u>
	<u>High</u>	<u>Low</u>	<u>Close</u>			
1997	\$28.06	\$20.31	\$24.75	\$14.02	200%	\$0.63
1998	25.88	14.75	24.38	14.76	175%	0.66
1999	24.94	17.38	18.69	15.15	165%	0.68
2000	\$23.19	\$11.06	\$17.69	\$16.35	142%	\$0.71
First Quarter	20.38	14.38				0.17
Second Quarter	23.19	14.63				0.18
Third Quarter	17.50	13.13				0.18
Fourth Quarter	18.75	11.06				0.18
2001	\$28.30	\$16.88	\$25.89	\$17.03	166%	\$0.72
First Quarter	20.99	16.88				0.18
Second Quarter	25.80	19.38				0.18
Third Quarter	28.30	20.20				0.18
Fourth Quarter	26.40	19.32				0.18

The market price is based on the end of day closing price.

Statement of Income Analysis

Net Interest Income

Net interest income on a taxable equivalent basis was \$459.9 million in 2001, down from \$532.0 million in 2000, and \$552.2 million in 1999. The decrease in net interest income from the prior year is primarily a result of the divestitures, the closure of the Asia business and the managed reduction of loans to improve credit quality.

The decline in net interest margin from 4.08% in 2000 to 3.91% in 2001 resulted largely from loan reductions, assets sales (particularly the sale of higher-yielding assets such as the credit card portfolio), and lower returns earned on the increased liquidity that arose as the divestitures were completed.

Average balances, related income and expenses, and resulting yields and rates are presented in Table 3.

**Consolidated Average Balances, Income and Expense
and Yields and Rates
(Taxable-Equivalent Basis)**

Table 3

	Year Ended December 31								
	2001			2000 ⁴			1999 ⁴		
	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates
	(dollars in millions)								
Earning Assets									
Interest-Bearing Deposits	\$ 733.4	\$ 27.6	3.76%	\$ 216.2	\$ 15.7	7.25%	\$ 385.0	\$ 24.9	6.48%
Funds Sold	136.7	5.1	3.63	43.2	2.7	6.22	102.0	5.1	4.98
Investment Securities:									
—Held-to-Maturity	525.6	33.7	6.42	658.9	48.8	7.41	748.8	54.5	7.28
—Available for Sale	2,242.3	137.3	6.12	2,502.5	166.3	6.64	2,698.8	168.3	6.24
Loans Held for Sale	312.7	21.4	6.85	128.4	9.8	7.63	184.9	13.6	7.36
Loans ¹									
—Domestic	6,693.2	525.5	7.85	7,948.0	687.5	8.65	7,557.4	626.2	8.29
—Foreign	1,026.4	72.5	7.07	1,467.9	97.7	6.65	1,702.2	106.4	6.25
Total Loans	7,719.6	598.0	7.75	9,415.9	785.2	8.34	9,259.6	732.6	7.91
Other	79.6	5.4	6.72	73.0	4.7	6.50	68.1	5.0	7.37
Total Earning Assets ²	11,749.9	828.5	7.05	13,038.1	1,033.2	7.92	13,447.2	1,004.0	7.47
Cash and Due From Banks		376.6			443.1			486.6	
Other Assets		554.5			574.1			649.1	
Total Assets	\$12,681.0			\$14,055.3			\$14,582.9		
Interest-Bearing Liabilities									
Domestic Deposits									
—Demand	\$ 1,894.5	34.4	1.82	\$ 2,061.9	\$ 48.7	2.36	\$ 2,137.1	48.5	2.27
—Savings	780.3	16.2	2.08	684.8	13.9	2.03	723.9	14.7	2.03
—Time	2,506.7	129.6	5.17	2,781.1	154.1	5.54	2,559.4	123.3	4.82
Total Domestic	5,181.5	180.2	3.48	5,527.8	216.7	3.92	5,420.4	186.5	3.44
Foreign Deposits									
—Time Due to Banks	351.2	14.5	4.13	505.4	30.5	6.03	641.4	33.7	5.25
—Other Savings and Time	648.2	22.6	3.49	960.5	38.9	4.05	1,165.7	41.0	3.52
Total Foreign	999.4	37.1	3.71	1,465.9	69.4	4.73	1,807.1	74.7	4.13
Total Deposits	6,180.9	217.3	3.52	6,993.7	286.1	4.09	7,227.5	261.2	3.61
Short-Term Borrowings	2,105.6	97.4	4.63	2,597.4	156.1	6.01	3,014.8	146.3	4.85
Long-Term Debt	800.5	53.9	6.73	886.8	59.0	6.66	685.9	44.3	6.46
Total Interest-Bearing Liabilities	9,087.0	368.6	4.06	10,477.9	501.2	4.78	10,928.2	451.8	4.13
Net Interest Income		459.9	2.99		532.0	3.14		552.2	3.34
Spread on Earning Assets			3.91%			4.08%			4.11%
Non-Interest Bearing Demand Deposits									
—Domestic	1,527.1			1,640.0			1,652.6		
—Foreign	346.0			371.4			435.2		
Total Non-Interest Bearing Demand Deposits	1,873.1			2,011.4			2,087.8		
Other Liabilities	376.8			331.4			356.9		
Shareholders' Equity	1,344.1			1,234.6			1,210.0		
Total Liabilities & Shareholder's Equity	\$12,681.0			\$14,055.3			\$14,582.9		
Provision for Loan and Lease Losses		74.3			142.9			60.9	
Net Overhead		145.4			207.9			265.0	
Income Before Taxes		240.2			181.2			226.3	
Provision for Taxes		122.2			66.7			92.7	
Tax Equivalency Adjustment ³		0.2			0.8			0.6	
Net Income		\$117.8			\$ 113.7			\$133.0	

¹ Nonperforming loans are included in the respective average loan balances. Income on such loans is recognized on a cash basis.

² Interest income includes taxable-equivalent basis adjustments.

³ Based upon a statutory tax rate of 35%.

⁴ Adjusted to reflect the reclassification of interchange fees, mortgage banking income and other interest income.

Provision for Loan and Lease Losses

The provision for loan and lease losses was \$74.3 million in 2001, compared to \$142.9 million in 2000 and \$60.9 million in 1999. Net charge-offs were \$121.4 million in 2001, an increase from last year when net charge-offs were \$89.4 million. A substantial amount of the charge-offs in 2001 were the result of efforts to reduce risks in the loan portfolio. For further information on credit quality, refer to the section on "Allowance for Loan and Lease Losses" of this report.

Non-Interest Income

Non-interest income was \$452.6 million in 2001 compared to \$284.9 million in 2000 and \$285.5 million in 1999. In 2001, non-interest income included gains of \$173.4 million on the sales of banking operations net of venture investment losses, and gains on the sale of non-strategic investment securities totaling \$32.1 million. Adjusted for special items, non-interest income decreased 8.4% in 2001 from the prior year. The decrease is mainly due to the implementation of the Company's strategic plan to divest certain businesses.

In 2000, non-interest income included gains of \$11.9 million on the settlement of certain pension benefit obligations and \$3.2 million on the sale of minority interests in Bank of Tonga and Pacific Commercial Bank, Ltd. of Samoa.

In 1999, non-interest income included other special credits that contributed \$18.3 million to other income and \$12.1 million to securities gains.

Table 4 presents the details of non-interest income for the last three years.

Non-Interest Income

Table 4

	2001		2000		1999
	Amount	Percent Change	Amount	Percent Change	Amount
	(dollars in millions)				
Trust and Asset Management	\$ 59.9	(9.4)%	\$ 66.1	8.9 %	\$ 60.7
Mortgage Banking	20.1	82.7	11.0	23.6	8.9
Service Charges on Deposit Accounts	38.5	(4.0)	40.1	16.9	34.3
Fees, Exchange and Other Service Charges					
Card Fees	28.3	(16.5)	33.9	149.3	13.6
Letters of Credit and Acceptance Fees	6.2	(43.1)	10.9	(12.8)	12.5
Profit on Foreign Currency	12.9	(25.9)	17.4	0.6	17.3
ATM	11.4	—	11.4	(27.8)	15.8
Exchange Fees	3.4	(19.0)	4.2	(10.6)	4.7
Payroll Services	0.8	(11.1)	0.9	12.5	0.8
Cash Management	1.9	(26.9)	2.6	8.3	2.4
Other Fees	13.9	(23.6)	18.2	(44.3)	32.7
Gains on Sales of Banking Operations, Net of Venture					
Investment Losses	173.4	—	—	—	—
Gain on Settlement of Pension Obligation	—	(100.0)	11.9	—	—
Investment Securities Gains and (Losses)	0.9	N.M.	(4.3)	(338.9)	1.8
Gains on Non-Strategic Investments	32.1	903.1	3.2	(73.6)	12.1
Insurance	13.7	6.2	12.9	—	—
Mutual Fund and Annuity Fees	10.8	30.1	8.3	—	—
Gain on Sale of Leased Equipment	4.0	233.3	1.2	(92.1)	15.2
Other Income	20.4	(41.7)	35.0	(33.6)	52.7
Total	<u>\$452.6</u>	<u>58.9 %</u>	<u>\$284.9</u>	<u>(0.2)%</u>	<u>\$285.5</u>

Trust and Asset Management income decreased in 2001 from 2000 mainly due to the decline in market value of the assets under management, driven by a general decline in stock market values in 2001. Assets under management totaled \$12.2 billion at December 31, 2001 compared to \$12.8 billion at December 31, 2000.

The increase in Mortgage Banking income in 2001 was due to higher levels of loans originated, sold and serviced for others.

Service Charges on Deposit Accounts decreased from the prior year primarily due to decreases in the number of deposit accounts, including those from the sale of the Pacific Century Bank branch franchise.

Letters of Credit and Acceptance Fees decreased primarily due to the closing of the Asia Division.

As previously discussed, in 2001, \$173.4 million was recognized as Gains on Sales of Banking Operations, Net of Venture Investment Losses related to the divestitures that took place during the year. Table 5 presents the details of these gains and losses:

Table 5

	<u>Amount</u> <u>(dollars</u> <u>in millions)</u>
Credit Card Portfolio	\$ 75.4
Pacific Century Bank, N.A.–Arizona	24.8
Pacific Century Bank, N.A.–California	49.4
South Pacific Operations	33.6
Venture Investment Losses	<u>(9.8)</u>
Total Gains on Sales of Banking Operations, Net of Venture Investment Losses	<u>\$173.4</u>

In 2001, gains on investment securities included \$28.4 million from the sale of a stock investment in ATM processor Star Systems, Inc. and \$3.7 million gain on the sale of Bank of Queensland stock. Net Losses on Investment Securities in 2000 included losses taken on the investment portfolio, partially offset by gains of \$2.1 million from the sale of minority interests in Pacific Commercial Bank Ltd. of Samoa and Bank of Tonga. Securities gains in 1999 included a \$12.1 million gain from the sale of securities associated with venture capital investments.

In 2000, the Company recognized a gain of \$11.9 million from the settlement of a portion of the Company's pension benefit obligation. The Company settled this obligation by purchasing annuities with a portion of the pension plan assets.

Non-Interest Expense

Non-interest expense in 2001 was \$598.0 million compared to \$493.2 million in 2000 and \$550.5 million in 1999. Non-interest expense in 2001 included \$104.8 million of restructuring and other related costs primarily resulting from the implementation of the strategic plan and the related divestiture program. Adjusting for such expenses, non-interest expense was \$493.2 million, essentially flat compared to 2000.

Salaries increased \$7.1 million primarily due to normal compensation increases, additional management costs, and an increased number of employees at the Bank, mainly in customer service positions. In 2000, salaries decreased primarily due to a reduction in staff levels from a Bank-wide redesign project and the completion of the Year 2000 computer project.

Net Occupancy expense in 2001 was \$46.3 million, a decline from \$48.8 million in 2000. The decrease in net occupancy expense was caused primarily by decreases in rent and property taxes related to the sale and closure of the divested businesses.

Net Equipment expense was \$53.4 million in 2001, an increase from \$50.6 million in 2000. The increase was due to software licensing fees and write-downs and acceleration of depreciation of certain equipment of the divested businesses.

Credit Card Processing expenses declined in 2001 due to the sale in the first quarter of the credit card portfolio.

The 2001 efficiency ratio of 65.6% was negatively impacted by the divestiture program, where revenue declined more quickly than the related expenses.

Non Interest Expense

Table 6

	Year Ended December 31				
	2001		2000		1999
	Amount	Percent Change	Amount	Percent Change	Amount
	(dollars in millions)				
Salaries	\$191.5	3.9%	\$184.4	(7.2)%	\$198.7
Pensions and Other Employee Benefits	52.2	8.8	48.0	(13.2)	55.3
Net Occupancy Expense	46.3	(5.1)	48.8	1.9	47.9
Net Equipment Expense	53.4	5.5	50.6	3.9	48.7
Goodwill and Other Intangibles Amortization	13.3	(13.1)	15.3	(5.6)	16.2
Restructuring and Other Related Costs	104.8	—	—	(100.0)	22.5
Minority Interest	0.4	—	0.4	(20.0)	0.5
Other Operating Expense					
Legal and Other Professional Fees	25.4	—	25.4	(21.6)	32.4
Stationery and Supplies	8.0	8.1	7.4	(24.5)	9.8
Credit Card Processing	11.5	(34.7)	17.6	2.3	17.2
Other	91.2	(4.3)	95.3	(5.9)	101.3
Total	<u>\$598.0</u>	<u>21.2%</u>	<u>\$493.2</u>	<u>(10.4)%</u>	<u>\$550.5</u>

Restructuring and Other Related Costs

In 2001, restructuring and other related costs were comprised primarily of foreign currency translation losses, the write-down of goodwill related to the sale of banking operations, and employee termination costs. The employee termination costs related largely to severance for 336 employees of the Pacific Century Bank N.A.'s California franchise, the Asia Division, the South Pacific banking operations, and Hawaii based personnel who supported those businesses. See Note B to the Consolidated Financial Statements for additional information.

Income Taxes

The tax structure at the Company is complex given the various foreign and domestic locations in which it has operated. The 2001 provision for taxes reflected an effective tax rate of 50.9%, compared to effective rates of

36.9% and 41.1% in 2000 and 1999, respectively. The unusually high rate in 2001 was a result of a higher level of non-tax-deductible costs associated with the divestitures, the most significant of which was \$83.6 million of goodwill from the divested California branch franchise.

The Company invests in low income housing tax credits that reduced tax by \$12.4 million and \$12.0 million in 2001 and 2000, respectively. See Note N to the Consolidated Financial Statements for additional information.

Balance Sheet Analysis

Loans

Loans comprise the largest category of earning assets for the Company and produce the highest level of income. Overall loans decreased \$3.6 billion or 39% to \$5.7 billion at December 31, 2001. The decrease is primarily due to the implementation of the Company's strategic plan which included the divestiture of approximately \$0.86 billion of loans from Pacific Century Bank N.A., \$0.34 billion of loans from the Asia Division, \$0.89 billion of loans from South Pacific and \$6.9 million of other loans based on December 31, 2000 balances. In addition, loans totaling \$294.2 million were sold based on the Company's decision to exit certain higher risk relationships. Note D to the Consolidated Financial Statements presents the composition of the loan portfolio by major loan categories.

Commercial

Commercial loans consist of loans made for commercial, financial, and agricultural purposes and involves lending on both a secured and unsecured basis. Collateral requirements vary in accordance with the Company's underwriting standards.

Geographically, commercial loans are concentrated in the U.S. Mainland and Hawaii, which represented 30.1% and 55.3%, respectively, of the total commercial portfolio as of year-end 2001. In Hawaii, Bank of Hawaii is a major commercial lender and maintains a significant presence throughout the State. Bank of Hawaii supports the business community in Hawaii by offering a wide range of products and services. In the U.S. Mainland market, commercial lending is comprised of business loans to Fortune 1000 companies.

Real Estate Construction

Construction loans are secured primarily by commercial properties located in Hawaii. Because construction lending is generally considered to involve greater risk than financing on improved properties, the Company utilizes tighter underwriting and disbursement standards. The majority of these loans are underwritten based on the projected cash flows of the completed project, rather than the value of the underlying property, and generally require a committed source for permanent financing.

Real Estate Mortgage

The Company's real estate loan portfolio consists of loans that are secured by residential as well as commercial properties. The largest component of the real estate loan portfolio consists of loans secured by 1-to-4 family residential properties. At December 31, 2001, approximately 91.2% of these loans were secured by real estate in Hawaii.

The Company sells the majority of its fixed rate loans in the secondary mortgage market. In 2001, residential mortgage originations by Bank of Hawaii totaled \$2.3 billion compared to \$0.9 billion in 2000.

Commercial real estate loans are secured by commercial real estate in Hawaii and the U.S. Mainland, respectively, with the remainder mostly in the West Pacific. The commercial real estate portfolio is diversified in

the type of property securing the obligations, including loans secured by commercial offices, hotels, retail facilities, industrial properties, residential projects and warehouses.

At December 31, 2001 outstanding loans to national hotel and management companies totaled \$65 million with undrawn commitments of \$59 million. Exposure to hotel companies in Hawaii at December 31, 2001 included loans outstanding of \$112 million and undrawn commitments of \$19 million. In the West Pacific, loans outstanding to hotel owners totaled \$59 million at December 31, 2001.

Installment

As of December 31, 2001, installment loans consisted of home equity credit lines and other consumer loans (e.g., auto loans and unsecured credit lines).

Home equity credit lines are underwritten primarily based on the borrower's repayment ability rather than the value of the underlying property. The total available credit under home equity credit lines was \$575 million at year-end 2001.

Installment loans declined \$272.2 million to \$729.7 million at December 31, 2001. The decline is primarily due to the sale of the Company's \$209.3 million credit card portfolio in the first quarter of 2001.

Lease Financing

Lease Financing is comprised of leveraged leases and auto leases. See Note D to the Consolidated Financial Statements for additional information about the Company's leveraged lease portfolio.

The Company's total exposure to the air transportation industry at December 31, 2001 was \$158 million, consisting of \$136 million in equity interests in leveraged leases and \$22 million in lending exposure of which \$5 million was undrawn. The leases are comprised of \$90 million in 14 aircraft leased to major United States and international passenger carriers, \$31 million on 13 aircraft leased to regional carriers and \$15 million on one aircraft leased to a major air cargo carrier.

Foreign Loans

As previously discussed, the Company divested its South Pacific banking operations and the business of the Asia Division was curtailed. As of December 31, 2001, there were no foreign loans outstanding in the South Pacific.

Additional information on foreign credit exposure is contained in the "Foreign Operations" section of this report.

Geographic Distribution of the Loan Portfolio

A geographic distribution of the loan portfolio is presented in Table 7 based on the geographic location of borrowers.

The amounts reflected for the West Pacific include Guam and other locations in the region where both Bank of Hawaii and First Savings have branches.

Geographic Distribution of Loan Portfolio

Table 7

	As of December 31, 2001					
	Total	Hawaii	West Pacific	Mainland U.S.	Japan	Other
	(dollars in millions)					
Commercial	\$1,175.5	\$ 650.4	\$171.0	\$354.1	\$—	\$—
Real Estate						
Construction	169.6	145.5	14.6	9.5	—	—
Mortgage—Residential	2,419.4	2,205.2	214.2	—	—	—
—Commercial	640.7	525.8	101.4	13.5	—	—
Installment	729.7	596.7	133.0	—	—	—
Lease Financing	493.4	86.6	1.8	374.5	—	30.5
Total Domestic Loans	5,628.3	4,210.2	636.0	751.6	—	30.5
Foreign	24.2	—	—	—	6.5	17.7
Total Loans	<u>\$5,652.5</u>	<u>\$4,210.2</u>	<u>\$636.0</u>	<u>\$751.6</u>	<u>\$ 6.5</u>	<u>\$48.2</u>
Percentage of Total	<u>100.0%</u>	<u>74.5%</u>	<u>11.2%</u>	<u>13.3%</u>	<u>0.1%</u>	<u>0.9%</u>

Investment Securities

The Company's investment portfolio is managed to provide liquidity and interest income, offset interest rate risk positions and provide collateral for cash management needs. See Table 22 for the maturity distribution, market value and weighted-average yield to maturity of securities.

Deposits

Competition for deposits by banks and other financial institutions, as well as securities brokerage firms, continues to impact the ability to attract and retain deposits.

Table 20 presents average deposits by type for the three years ended December 31, 2001.

As of December 31, 2001, deposits totaled \$6.7 billion compared to \$9.1 billion at the end of 2000. The decline of \$2.4 billion, or 27%, is attributable to the sales of the Pacific Century Bank franchise in Arizona and California, approximately \$1.0 billion, and South Pacific operations. In addition the closure of the Asia business contributed to the decline in foreign deposits.

During the fourth quarter, domestic deposits continued to reflect positive trends as demand and savings deposit balances increased.

Borrowings

The decrease in short-term debt was due to lower funding needs resulting from the decrease in assets. See Notes G and H to the Consolidated Financial Statements for the detail of borrowings. Securities sold under agreement to repurchase are offered to governmental entities as an alternative to deposits and are supported by the same type of collateral.

Foreign Operations

The South Pacific bank subsidiaries were sold during the fourth quarter of 2001 in line with the Company's strategic plan. Except for a representative office in Japan, all Asian branches have been closed.

The operations in Guam include Bank of Hawaii and First Savings' branches. The U.S. dollar is used in these locations, accordingly, these operations are not considered foreign for financial reporting purposes.

Table 8 provides a summary of average assets, average liabilities, operating revenue, and net income (loss) for the Company's foreign operations for the last three years. The net income in 2001 included the net gain on sale of the South Pacific subsidiaries and related restructuring costs, including foreign currency conversion losses and severance payments. The net losses in 2000 and 1999 reflected significantly higher foreign loan loss provisions in comparison to historical levels (see "Allowance for Loan and Lease Losses").

Summary of International Assets, Liabilities, and Income and Percent of Consolidated Totals

Table 8

	Year Ended December 31					
	2001		2000		1999	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in millions)					
Average Assets	\$2,039.7	16.1%	\$2,891.4	20.6%	\$3,413.0	23.4%
Average Liabilities	1,794.4	15.8	2,673.0	20.8	3,271.6	24.5
Operating Revenue	201.1	15.7	236.7	17.9	252.1	19.5
Net Income (Loss)	3.8	3.2	(0.2)	N.M.	(1.4)	N.M.

Credit limits have been established for each country. These credit limits are monitored and reviewed on a regular basis.

The Company's foreign lending included both local currency and cross-border lending. Local currency loans are those that are funded and will be repaid in the currency of the borrower's country. Cross-border lending, on the other hand, involves loans that will be repaid in a currency other than that of the borrower's country. This type of lending involves greater risk because the borrower's ability to repay is additionally dependent on changes in the currency exchange rate.

Table 9 presents, for the last three years, a geographic distribution of international assets for which the Company has cross-border exposure exceeding 0.75% of total assets.

Geographic Distribution of Cross-Border International Assets¹

Table 9

	<u>Government and Other Official Institutions</u>	<u>Banks and Other Financial Institutions²</u>	<u>Commercial and Industrial Companies</u>	<u>Total</u>
	(dollars in millions)			
December 31, 2001				
United Kingdom	\$ —	\$ 248.3	\$ 9.6	\$ 257.9
Netherlands	—	180.2	12.7	192.9
Germany	—	187.7	0.5	188.2
Singapore	—	140.0	0.6	140.6
Canada	—	115.6	4.3	119.9
Australia	—	113.9	2.1	116.0
All Others ³	0.5	285.9	77.4	363.8
	<u>\$ 0.5</u>	<u>\$1,271.6</u>	<u>\$107.2</u>	<u>\$1,379.3</u>
December 31, 2000				
South Korea	\$ —	\$ 233.7	\$ 48.3	\$ 282.0
Japan	—	249.9	48.9	298.8
All Others	21.8	331.5	156.3	509.6
	<u>\$ 21.8</u>	<u>\$ 815.1</u>	<u>\$253.5</u>	<u>\$1,090.4</u>
December 31, 1999				
Japan	\$ —	\$ 217.8	\$102.6	\$ 320.4
South Korea	24.3	198.0	72.0	294.3
France	16.2	178.7	0.2	195.1
All Others	10.7	290.5	262.2	563.4
	<u>\$ 51.2</u>	<u>\$ 885.0</u>	<u>\$437.0</u>	<u>\$1,373.2</u>

¹ This table details by country cross-border outstandings that individually amounted to 0.75% or more of consolidated total assets as of year-end 2001, 2000 and 1999. Cross-border outstandings are defined as foreign monetary assets that are payable to the Company in U.S. dollars or other non-local currencies, plus amounts payable in local currency but funded with U.S. dollars or other non-local currencies. Cross-border outstandings include loans, acceptances, interest-bearing deposits with other banks, other interest-bearing investments, and other monetary assets.

² Includes U.S. dollar advances to foreign branches and affiliate banks which were used to fund local currency transactions. Totals at December 31, 2001, 2000 and 1999 were \$2.5 million, \$364.8 million and \$378.2 million respectively.

³ At December 31, 2001, the All Others category included cross-border outstandings of \$81.9 million in Japan and \$70.1 million in Sweden.

Corporate Risk Profile

Credit Risk

The Company's asset quality improved as evidenced by the continued reductions in the level of internally criticized and classified credits, as well as the level of non-performing assets. Strides have also been made to improve portfolio quality through early identification and disengagement or remediation of deteriorating borrowers as appropriate.

The largest part of the Company's continuing business is based in Hawaii where tourism has a significant influence on the economy. Immediately after the tragic events of September 11, tourism was adversely affected. Thereafter, the Company evaluated the impact of this event on its customers by performing a forward looking review of individual borrowers in identified high impact industries, where greater than twenty percent of revenues were tied to tourism. As a result of this review, allocated reserves were increased for those portfolio segments. Improvement in asset quality and loan reductions prior to the event allowed for a reallocation without an incremental increase in the provision for loan and lease losses. The two major industries that were impacted were the hotel industry and the air transportation industry. As previously discussed, at December 31, 2001, outstanding loans to national hotel and management companies totaled \$65 million with undrawn commitments of \$59 million. The Company's total exposure to the air transportation industry at December 31, 2001 was \$158 million, consisting of \$136 million in equity interests in leveraged leases and \$22 million in lending exposure, of which \$5 million was undrawn.

Non-Performing Assets

Non-performing assets (NPAs) consist of non-accrual loans, including those held for sale, restructured loans and foreclosed real estate.

Total non-performing assets decreased to \$79.7 million, or 1.41% of total loans, at December 31, 2001. This represents a decrease of \$103.3 million, or 56.4%, from December 31, 2000 non-performing assets that totaled \$183.0 million, or 1.98% of total loans.

The decrease in non-performing assets between December 31, 2000 and December 31, 2001 was largely due to loan sales, pay-offs, and necessary charge-offs as management made significant progress on its commitment to improve asset quality. Significant reductions since last year resulted from the sale of the South Pacific subsidiaries (\$20.1 million), the closure of the Asia Division (\$10.6 million) and the sale of the Fiji branches (\$3.1 million).

Accruing loans past due 90 days or more totaled \$4.9 million at December 31, 2001, down from \$18.8 million at year-end 2000.

Table 10 presents a five-year history of non-performing assets and accruing loans past due 90 days or more.

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

Table 10

	December 31				
	2001	2000	1999	1998	1997
	(dollars in millions)				
Non-Accrual Loans					
Commercial	\$18.9	\$ 55.4	\$ 23.7	\$ 28.2	\$10.7
Real Estate					
Construction	9.3	6.4	1.1	2.9	1.0
Mortgage—Residential	15.4	22.7	29.7	36.4	32.9
—Commercial	16.3	60.1	19.0	5.4	2.8
Installment	0.1	—	0.5	0.8	2.0
Lease Financing	0.8	0.4	3.9	0.7	—
Foreign	—	33.5	67.4	57.5	39.9
Total Non-Accrual Loans	<u>60.8</u>	<u>178.5</u>	<u>145.3</u>	<u>131.9</u>	<u>89.3</u>
Loans Held For Sale	1.7	—	—	—	—
Restructured Loans					
Real Estate—Commercial	—	—	—	—	1.6
Total Restructured Loans	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1.6</u>
Foreclosed Real Estate					
Domestic	17.2	4.2	4.3	5.5	6.2
Foreign	—	0.3	0.3	0.1	—
Total Foreclosed Real Estate	<u>17.2</u>	<u>4.5</u>	<u>4.6</u>	<u>5.6</u>	<u>6.2</u>
Total Non-Performing Assets	<u>\$79.7</u>	<u>\$183.0</u>	<u>\$149.9</u>	<u>\$137.5</u>	<u>\$97.1</u>
Accruing Loans Past Due 90 Days or More					
Commercial	\$ 0.1	\$ 5.0	\$ 5.9	\$ 0.4	\$ 2.0
Real Estate					
Construction	—	—	—	0.4	—
Mortgage—Residential	3.8	3.3	4.0	4.5	7.3
—Commercial	—	1.3	1.9	—	0.6
Installment	0.9	5.6	4.5	7.3	7.6
Lease Financing	0.1	0.4	1.2	0.3	0.1
Foreign	—	3.2	1.0	7.9	7.4
Total Accruing Past Due Loans	<u>\$ 4.9</u>	<u>\$ 18.8</u>	<u>\$ 18.5</u>	<u>\$ 20.8</u>	<u>\$25.0</u>
Ratio of Non-Accrual Loans to Total Loans	1.08%	1.93%	1.56%	1.41%	0.97%
Ratio of Non-Performing Assets to Total Loans, Foreclosed Real Estate, Restructured Loans, and Non-Performing Loans Held For Sale	1.41%	1.98%	1.60%	1.47%	1.06%
Ratio of Non-Performing Assets and Accruing Loans Past Due 90 Days or More to Total Loans	1.50%	2.19%	1.80%	1.69%	1.33%

Foregone Interest on Non-Accrual Loans

Table 11

	Year Ended December 31				
	2001	2000	1999	1998	1997
	(dollars in millions)				
Interest Income Which Would Have Been Recorded Under Original Terms:					
Domestic	\$6.5	\$10.2	\$11.2	\$8.4	\$6.6
Foreign	4.2	2.8	7.1	4.1	2.4
Interest Income Recorded During the Current Year on Non-Accruals:					
Domestic	1.6	3.4	1.1	1.3	1.5
Foreign	1.1	1.0	3.0	1.4	0.5

Allowance for Loan and Lease Losses

The Company maintains the Allowance for Loan and Lease Losses (Allowance) at a level that it believes is adequate to absorb estimated inherent losses on all loans and leases. The Allowance level is determined based on a continuing assessment of problem credits, recent loss experience, changes in collateral values, and current and anticipated economic conditions. For loans other than consumer loans, a risk rating system is used to identify potential problem loans. Loans are rated based on the degree of risk at origination by the lending officer, and thereafter are reviewed periodically and revised as appropriate. To ensure compliance with the internal risk rating system and the timeliness of rating changes, the Credit Review department performs periodic independent evaluations of this process.

The Company performs a comprehensive quarterly analysis to determine the adequacy of its Allowance. This analysis incorporates loss migration modeling and transfer risk. The Company utilizes a methodology that establishes allowances for both specific loans and pools of loans. Commercial loans and leases are individually reviewed according to specified criteria to determine specific loss exposure.

Loss allocations for various loan pools are determined based on a loss migration analysis. The migration model determines potential loss factors based on historical loss experience for homogeneous loan portfolios and based on risk ratings for risk-rated portfolios. The methodology also includes an evaluation of the changes in the nature and volume of the portfolio, delinquency and non-accrual trends, lending policies and procedures, and other relevant factors. For foreign credits, reserves are further stratified to address transfer risk. Reserve allocations for transfer risk is determined based on the type of credit facility and internal country risk ratings.

The Allowance at December 31, 2001 was \$159.0 million or 2.81% of loans and leases outstanding, compared to \$246.2 million or 2.67% of outstandings at December 31, 2000. At December 31, 2001 the Allowance to non-accrual loans was 262% compared to 137% at prior year-end. The increase in the coverage is attributable to the decline in non-accrual loans.

The Allowance decreased by net charge-offs taken as the Company exited certain higher risk relationships by selling those loans at a loss. Additional risk reduction resulted from exiting markets where loans were collected or sold net of a discount that approximated the recorded Allowance related to the loans sold.

Recoveries totaled \$47.6 million for the year-ended December 31, 2001 compared to \$21.4 million in 2000. The increase was primarily in foreign loan recoveries which totaled \$24.1 million.

Overall, the Allowance decreased due to strategic reductions in risk and the divestitures. As a percentage of loans, the Allowance increased due to continued economic uncertainty.

See Note D to the Consolidated Financial Statements for the activity in the Allowance for the last five years.

Table 12 presents an allocation of the Allowance for the last five years. The allocated portion continued to be weighted toward the commercial loan portfolio, which reflected a higher level of non-performing loans and the potential for higher individual losses. The decline in the foreign allocation was attributable to the divestitures. The leasing allocation increased due to downgrades of the portfolio related to the transportation industry.

Allocation of Allowance for Loan and Lease Losses

Table 12

	December 31									
	2001		2000		1999		1998		1997	
	Allowance Amount	Percent of Out- standing Loan Amount	Allowance Amount	Percent of Out- standing Loan Amount	Allowance Amount	Percent of Out- standing Loan Amount	Allowance Amount	Percent of Out- standing Loan Amount	Allowance Amount	Percent of Out- standing Loan Amount
	(dollars in millions)									
Commercial	\$ 57.5	4.89%	\$ 90.0	3.70%	\$ 50.5	2.03%	\$ 60.8	2.37%	\$ 57.5	2.74%
Real Estate										
Construction	5.3	3.10	6.0	1.95	5.0	1.52	1.0	0.33	4.2	1.49
Mortgage—Residential	9.0	0.37	8.3	0.32	8.3	0.37	8.1	0.37	13.8	0.58
—Commercial	16.1	2.51	27.5	2.44	17.3	1.39	3.3	0.29	21.8	1.61
Installment	14.6	2.00	15.5	1.55	20.0	1.98	27.1	2.67	34.9	3.05
Lease Financing	20.0	4.05	3.7	0.69	3.0	0.67	5.9	1.51	2.6	0.71
Foreign	0.6	2.66	73.3	5.78	78.4	4.93	74.7	4.18	31.0	1.96
Not allocated ¹	35.9	—	21.9	—	11.7	—	30.4	—	8.6	—
	<u>\$159.0</u>	<u>2.81%</u>	<u>\$246.2</u>	<u>2.67%</u>	<u>\$194.2</u>	<u>2.08%</u>	<u>\$211.3</u>	<u>2.26%</u>	<u>\$174.4</u>	<u>1.90%</u>

¹ Includes both foreign and domestic unallocated reserves.

The Company's determination of the level of the Allowance and, correspondingly, the provision for loan and lease losses is dependent on judgments and assumptions and, for this reason, the Company considers the Allowance methodology a critical accounting policy. As part of the Company's quarterly Allowance analysis, management reviews the calculated historical charge-off and migration rates and applies adjustments as deemed appropriate. The adjustments are based on: existing and emerging trends in and expectations of portfolio performance; economic conditions and positioning in the cycle; borrower, industry and geographical concentrations; seasoning of the portfolio; changes in credit management including underwriting policies, charge-off policies, and personnel; coverage tests of exposure, non-accruals and charge-offs; and comparison to external data.

At December 31, 2001 the Company performed additional stress testing of the portfolio and the assumptions used in determining the Allowance. Based on this information, adjustments were made to the Allowance allocation to account for the possibility for downgrades of risk ratings and increased loss rates in the consumer portfolio.

The unallocated portion of the Allowance represents management's judgmental determination of the amounts necessary for concentrations, economic uncertainty and other factors. Although management has allocated a portion of the Allowance to specific loan categories, the adequacy of the Allowance must be considered in its entirety.

Management considers the Allowance adequate to cover losses inherent in the portfolio at December 31, 2001.

Market Risk

The Company's market risk management process involves measuring, monitoring, controlling and managing risks that can significantly impact the Company's financial position and operating results. Market risks resulting from the fluctuation of interest rates, foreign exchange rates, commodity prices and equity prices are balanced with expected

returns to enhance earnings performance and shareholder value, while limiting the volatility of each. The activities associated with these market risks are categorized into “other than trading” and “trading.”

Other Than Trading Activities

In the normal course of business, elements of the Company’s balance sheet are exposed to varying degrees of market risk. The Company’s primary market risk exposures are interest rate risk and foreign exchange risk (see below). A key element in the process of managing market risk involves oversight by senior management and the Board of Directors as to the level of such risk assumed by the Company in its balance sheet.

The Board of Directors reviews and approves risk management policies, including risk limits and guidelines and delegates to the Asset Liability Management Committee (ALCO) oversight functions. The ALCO, consisting of senior business and finance officers, monitors the Company’s market risk exposure and as market conditions dictate, modifies balance sheet positions or directs the use of derivative instruments.

Interest Rate Risk

The Company’s balance sheet is sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from the Company’s normal business activities of making loans and taking deposits. Many other factors also affect the Company’s exposure to changes in interest rates. These factors include general economic and financial conditions, customer preferences, and historical pricing relationships.

A key element in the Company’s ongoing process to measure and monitor interest rate risk is the utilization of a net interest income (NII) Monte Carlo simulation model. This model is used to estimate the amount that NII will change over a one-year time horizon under various interest rate scenarios. These estimates are based on assumptions on the behavior of loan and deposit volumes as a function of pricing, prepayment speeds on mortgage-related assets, and principal amortization and maturities on other financial instruments. The model specification includes imbedded optionality. While such assumptions are inherently uncertain, management believes that these assumptions are reasonable. As a result, the NII simulation model captures the dynamic nature of the balance sheet and provides a sophisticated estimate rather than a precise prediction of NII’s exposure to higher or lower interest rates.

Table 13 presents, as of December 31, 2001, 2000 and 1999, the estimate of the change in NII from a gradual 200 basis point increase or decrease in interest rates, moving in parallel fashion for the entire yield curve, over the next 12-month period relative to the measured base case scenario for NII. The resulting estimate in NII exposure was well within the approved ALCO guidelines

Market Risk Exposure to Interest Rate Changes

Table 13

	December 31					
	2001		2000		1999	
	Interest Rate Change (in basis points)	Interest Rate Change (in basis points)	Interest Rate Change (in basis points)	Interest Rate Change (in basis points)	Interest Rate Change (in basis points)	Interest Rate Change (in basis points)
	-200	200	-200	200	-200	200
Estimated Exposure as a Percent of Net Interest Income	(0.3)%	3.5%	(2.3)%	0.5%	1.4%	(1.7)%

To enhance and complement the results from the NII simulation model, the Company also reviews other measures of interest rate risk. These measures include the sensitivity of market value of equity and the exposure to basis risk and non-parallel yield curve shifts. There are inherent limitations to these measures but used along with the NII simulation model, the Company gets a better overall insight for managing its exposure to changes in interest rates.

In managing interest rate risks, the Company uses several approaches to modify its risk position. Approaches that are used to shift balance sheet mix or alter the interest rate characteristics of assets and liabilities include changing product pricing strategies, modifying investment portfolio characteristics, or using financial derivative instruments. The use of financial derivatives, as detailed in Note O to the Consolidated Financial Statements, has been limited over the past several years.

Foreign Currency Risk

By year-end 2001, the majority of the Company's operations throughout the South Pacific and Asia were divested. These divestitures significantly reduced the amount of capital exposed to foreign currency risk and the remaining exposure is expected to decrease further. To estimate the potential loss from foreign currency exposure for the remaining net investments in subsidiaries, the Company continues to use a value-at-risk (VAR) calculation based on an estimated variance-co-variance matrix. This VAR calculation determines the potential loss within a 95% confidence interval. In other words, a loss greater than VAR has approximately a 5% probability of occurring.

Table 14 presents, as of December 31, 2001 and 2000, the Company's foreign currency exposure from its remaining net investment in subsidiaries and branch operations as measured by the VAR.

Market Risk Exposure from Changes in Foreign Exchange Rates

Table 14

	2001		2000	
	Book Value	Value-at-Risk	Book Value	Value-at-Risk
	(dollars in millions)			
Net Investments in Foreign Subsidiaries and Branches				
Japanese Yen	\$ 1.1	\$ 0.2	\$10.6	\$ 1.4
Korean Won	2.1	0.3	29.6	5.1
Pacific Franc	—	—	32.0	6.2
Other	0.1	0.1	(1.0)	14.4
Total	<u>\$ 3.3</u>	<u>\$ 0.6</u>	<u>\$71.2</u>	<u>\$27.1</u>

The average value-at-risk for the Japanese yen, Korean won, Pacific franc, and other currencies was \$1.4 million, \$3.2 million, \$3.6 million and \$12.1 million, respectively for the year ended December 31, 2001, and was \$1.8 million, \$3.9 million, \$5.9 million and \$17.0 million, respectively for the year ended December 31, 2000.

The book value of net investments in foreign subsidiaries and branches is net of a \$37 million borrowing at December 31, 2000, denominated in euro and foreign exchange hedge transactions of \$26 million at December 31, 2000. There were no borrowing or foreign exchange hedge transactions related to the foreign subsidiaries and branches at December 31, 2001.

Trading Activities

The Company's trading activities include foreign currency and foreign exchange contracts that expose the Company to a minor degree of foreign currency risk. These transactions are executed on behalf of customers and for the Company's own account. The Company, however, manages its trading account such that it does not maintain significant foreign currency open positions. The exposure from foreign currency trading positions measured by the VAR methodology as of year-end 2001 continued to be immaterial.

Liquidity Management

Liquidity is managed to ensure that the Company has continuous access to sufficient, reasonably priced funding to conduct its business in a normal manner. The Company's ALCO monitors sources and uses of funds

and modifies asset and liability positions as liquidity requirements change. This process combined with the Company's ability to raise funds in money and capital markets and through private placements provides flexibility in managing the exposure to liquidity risk.

To ensure that its liquidity needs are met, the Company actively manages both the asset and liability sides of the balance sheet. The primary sources of liquidity on the asset side of the balance sheet are available-for-sale investment securities, interest bearing deposits, and cash flows from loans and investments, as well as the ability to securitize certain assets. With respect to liabilities, liquidity is generated through growth in deposits and the ability to obtain wholesale funding in national and local markets through a variety of sources. During 2001, the Company's divestiture program created significant balance sheet liquidity. This liquidity has been used to repurchase stock (see Capital Management) and reduce debt where possible. The Company has not utilized off-balance sheet financing arrangements as a significant source of liquidity. It is not expected that such arrangements will be used significantly in the future.

The Company's primary liquidity needs for contractual obligations and other commitments as of December 31, 2001 are summarized below. These obligations do not reflect maturities of customer time deposits, many of which have historically been reinvested in other deposit products. See Note G to the Consolidated Financial Statements for additional information on Short-Term Borrowing; Note H for Long-Term Debt; and Note E for Capital and Operating Lease obligations.

Contractual Obligations

	Payments Due By Period				Total
	Less Than One Year	1-3 Years	4-5 Years	After 5 Years	
	(dollars in thousands)				
Securities Sold Under Agreements to Repurchase	\$1,643,444	\$ —	\$ —	\$ —	\$1,643,444
Funds Purchased	55,800	—	—	—	55,800
Short-Term Borrowings	134,222	—	—	—	134,222
Banker's Acceptances	593	—	—	—	593
Current Maturities of Long-Term Debt	100,670	—	—	—	100,670
Long-Term Debt	—	132,936	103,786	233,013	469,735
Capital Lease Obligations	7	1,210	1,210	32,505	34,932
Operating Leases	8,034	15,388	12,304	67,813	103,539
Total Contractual Cash Obligations	<u>\$1,942,770</u>	<u>\$149,534</u>	<u>\$117,300</u>	<u>\$333,331</u>	<u>\$2,542,935</u>

Other Commitments

	Amount of Commitment Expiration Per Period		Total
	Less Than One Year	Greater Than One Year	
	(dollars in thousands)		
Lines of Credit	\$1,076,656	\$1,012,092	\$2,088,748
Standby Letters of Credit	75,300	—	75,300
Commercial Letters of Credit	23,800	—	23,800
Total Other Commitments	<u>\$1,175,756</u>	<u>\$1,012,092</u>	<u>\$2,187,848</u>

The Company obtains short-term wholesale funding through federal funds, securities sold under agreements to repurchase, and commercial paper. The Company issues commercial paper in various denominations with maturities of generally 90 days or less. During 2001, the Company issued commercial paper only in the Hawaii marketplace.

Securities sold under agreements to repurchase are financing transactions, under which securities are pledged as collateral for short-term borrowings. Nearly all of these transactions are with governmental entities. The Company's balance sheet is unique given the high level of state and local government funding. Historically, these governmental entities have provided a stable source of funds.

The Company maintained a \$25 million, annually renewable line of credit for working capital purposes. Fees are paid on the unused balance of the line. During 2001, the line was not drawn upon. In January 2002, this line was discontinued.

Bank of Hawaii and First Savings are both members of the Federal Home Loan Bank of Seattle (FHLB). The FHLB provides these institutions with an additional source for short and long-term funding. Borrowings from the FHLB were \$147 million and \$518 million at the end of 2001 and 2000, respectively.

Additionally, Bank of Hawaii maintains a \$1 billion senior and subordinated bank note program. Under this facility, Bank of Hawaii may issue additional notes provided that at any time the aggregate amount outstanding does not exceed \$1 billion. Subordinated notes outstanding under this bank note program totaled \$244 million at December 31, 2001 and 2000.

Capital Management

The Company manages its capital level over the long-term, to optimize shareholder value, support asset growth, reflect risks inherent in its markets, provide protection against unforeseen losses and comply with regulatory requirements. Capital levels are reviewed relative to the Company's risk profile and current and projected economic conditions. The Company's regulatory capital ratios at year-end 2001 were: Tier I Capital Ratio of 19.76%, Total Capital Ratio of 23.29%, and Leverage Ratio of 11.20%. These ratios exceed the minimum regulatory standards to qualify as "well capitalized", which are: Tier I Capital 6%; Total Capital 10%; and Leverage Ratio 5%. The Company's objective is to hold sufficient capital on a regulatory basis to exceed the minimum guidelines of a "well capitalized" financial institution.

At year-end 2001, the Company's shareholders' equity was \$1.25 billion, a decrease of \$54.3 million, or 4.2%, from year-end 2000. The decline in shareholders' equity was a result of dividends paid of \$56.6 million and treasury stock purchases that totaled \$195.7 million. These decreases were offset by current year earnings, the issuance of common stock under the dividend reinvestment plan and various stock-based employee benefit plans, and unrealized valuation adjustments. Table 15 presents a five-year history of activities and balances in the Company's capital accounts along with key capital ratios.

In 2001, the Company's Board of Directors approved share repurchase programs that authorized the repurchase of a total of \$270 million in common stock, beginning in the third quarter of 2001. Through December 31, 2001 the Company had repurchased 8.3 million shares under these programs at an average cost of \$23.57 per share for a total of \$195.7 million. In January 2002, the Company's Board of Directors approved an additional \$300 million common stock repurchase program. From January 1, 2002 through February 22, 2002, the Company repurchased 672,100 shares at an average cost of \$24.44 per share for a total of \$16.4 million.

As of December 31, 2001, \$100 million of 8.25% Capital Securities that mature in 2026 were outstanding. These securities qualify as Tier I Capital for regulatory accounting purposes, but are classified as long-term debt in the Consolidated Statements of Condition. In addition, the Company had subordinated debt of \$148.4 million at the end of 2001 that qualify as total capital for regulatory purposes.

Equity Capital

Table 15

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(dollars in millions)				
Year Ended December 31					
Source of Shareholders' Equity					
Net Income	\$ 117.8	\$ 113.7	\$ 133.0	\$ 107.0	\$ 139.5
Dividends Paid	(56.6)	(56.5)	(54.6)	(52.8)	(49.7)
Dividend Reinvestment Program	2.8	3.3	4.0	5.4	6.8
Stock Issued for Acquisition	1.3	—	—	—	108.4
Stock Repurchases	(195.7)	(17.0)	(21.8)	(7.3)	(142.5)
Other ¹	76.0	45.6	(33.9)	16.1	(11.4)
Increase (Decrease) in Shareholders' Equity	<u>\$ (54.4)</u>	<u>\$ 89.1</u>	<u>\$ 26.7</u>	<u>\$ 68.4</u>	<u>\$ 51.1</u>
As of December 31					
Shareholders' Equity	\$1,247.0	\$ 1,301.4	\$ 1,212.3	\$ 1,185.6	\$ 1,117.2
Add: 8.25% Capital Securities of Bancorp					
Hawaii Capital Trust I	100.0	100.0	100.0	100.0	100.0
Minority Interest	—	4.5	4.4	7.4	5.8
Less: Intangibles	26.7	163.9	175.8	186.2	180.9
Unrealized Valuation and Other					
Adjustments	22.9	2.5	(37.9)	3.6	5.5
Tier I Capital	1,297.4	1,239.5	1,178.8	1,103.2	1,036.6
Allowable Reserve for Loan Losses	83.0	133.0	143.9	147.2	139.2
Subordinated Debt	148.4	172.1	195.8	95.0	118.7
Investment in Unconsolidated Subsidiary	—	(3.4)	(3.2)	(2.5)	(1.9)
Total Capital	<u>\$1,528.8</u>	<u>\$ 1,541.2</u>	<u>\$ 1,515.3</u>	<u>\$ 1,342.9</u>	<u>\$ 1,292.6</u>
Risk Weighted Assets	<u>\$6,559.6</u>	<u>\$10,524.9</u>	<u>\$11,461.0</u>	<u>\$11,708.5</u>	<u>\$11,098.6</u>
Key Capital Ratios					
Growth in Common Equity	(4.18)%	7.30%	2.30%	6.10%	4.80%
Average Equity/Average Assets Ratio	10.60%	8.78%	8.30%	7.81%	7.79%
Tier I Capital Ratio	19.76%	11.78%	10.28%	9.42%	9.34%
Total Capital Ratio	23.29%	14.64%	13.22%	11.47%	11.65%
Leverage Ratio	11.20%	9.10%	8.31%	7.48%	7.21%

¹ Includes profit sharing; stock options and directors' restricted shares and deferred compensation plans; and unrealized valuation adjustments for investment securities, foreign currency translation and pension liability.

Business Segments

Business segment results are determined based on the Company's internal financial management reporting process and organizational structure. This process uses various techniques to assign balance sheet and income statement amounts to business segments, including allocations of overhead, credit loss provision, and capital. The new organizational structure announced in April 2001 changed the structure used to analyze financial performance. Unlike financial accounting, there is no comprehensive, authoritative guidance for management accounting that is equivalent to generally accepted accounting principles. The management accounting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution.

Note Q to the Consolidated Financial Statements provides additional information about the Company's business segments, including segment financial information for the years ended December 31, 2001, 2000, and 1999.

Retail Banking

The Company's retail banking franchise and market share in Hawaii and American Samoa are key strengths of the Company. Retail Banking provides checking and savings products for the consumer and small business segments, merchant services, installment, home equity and mortgage lending products, as well as other products and services.

In 2001, total revenue for the Retail Segment was relatively flat to the prior year. Net interest income declined in 2001 from 2000 primarily due to a reduction in the interest spread earned by the segment on its deposits. The interest spread narrowed as a result of significant reductions in interest rates during the year. Non-interest income was lower in 2001 due to mortgage banking losses incurred in the fourth quarter, offset by increased mortgage loan originations. Non-interest expense increased in 2001 as a result of higher mortgage loan volume and higher expense allocations related to systems and product development.

Commercial Banking

The Commercial Banking segment offers corporate banking, commercial products, leasing, commercial real estate lending and auto finance. The Company's West Pacific operations are included in this segment. Total earning assets in the Commercial Banking segment declined in 2001 from 2000 due to the Company's managed reduction of credit risk. As a result, the provision for loan and lease losses declined from prior periods. Net interest income also declined in 2001 as a result of the lower levels of earning assets and the general decline in interest rates in 2001.

Financial Services Group

The Financial Services Group offers private banking, trust services, asset management, investments such as mutual funds and stocks, financial planning, and insurance. 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 decline in net income in 2001 was attributable to increased expenses associated with operational improvements.

Treasury and Other Corporate

The primary component of this segment is the Treasury function, which consists of corporate asset and liability management activities including investment securities, federal funds purchased and sold, government deposits, short and long-term borrowings, and managing interest rate and foreign currency risks. Additionally, the net residual effect of transfer pricing of assets and liabilities is included in Treasury. The increase in net interest income for 2001 compared to 2000 was due to the increased liquidity of the Company from the divestitures.

Divested Businesses

This segment included the financial results for the businesses that the Company divested or closed in 2001. Revenues and expenses in this segment declined from prior periods due to the timing of the sales of banking operations and the closing of the Asia Division.

Corporate Restructuring Related Activities

This segment reflected the 2001 implementation of the Company's strategic plan to improve credit quality and to divest underperforming businesses. It included the impact of the sales of the divested businesses and restructuring and other related costs of the Company. It also includes losses associated with accelerated resolution of credit problems undertaken in the first quarter of 2001.

The Company utilizes “risk-adjusted return on capital” (RAROC) as a measurement of business segment performance. RAROC is the ratio of net income to risk-adjusted equity. Equity is allocated to business segments based on risk factors inherent in the operations of each segment. Another management performance measurement is “net income after capital charge” (NIACC). NIACC is net income available to common shareholders less a charge for allocated capital. The cost of capital is based on the estimated minimum rate of return expected by the financial markets. The Company assumes a cost of capital that is equal to the long-term government bond rate plus an additional level of return for the average risk premium of an equity investment adjusted for the Company’s market risk. Over the past few years the charge for capital has fluctuated between 12% and 15%.

NIACC and RAROC results were as follows:

	<u>Retail</u>	<u>Commercial</u>	<u>Financial Services Group</u>	<u>Treasury and Other Corporate</u>	<u>Divestiture Businesses</u>	<u>Restructuring and Other Related Costs</u>
	(dollars in thousands)					
Year Ended December 31, 2001						
NIACC (Economic)	\$ 3,482	\$ (658)	\$ (467)	\$(61,431)	\$(50,624)	\$25,885
RAROC (Economic)	17%	15%	14%	9%	(1)%	N/A
Year Ended December 31, 2000						
NIACC (Economic)	\$16,587	\$2,516	\$7,137	\$(51,066)	\$(44,628)	\$ —
RAROC (Economic)	25%	16%	28%	(12)%	5%	—
Year Ended December 31, 1999						
NIACC (Economic)	\$11,900	\$ 421	\$1,347	\$(35,144)	\$(27,168)	\$ —
RAROC (Economic)	22%	15%	18%	4%	9%	—

Fourth Quarter Results and Other Matters

Net income for the fourth quarter of 2001 was \$26.3 million, a decrease of 19.3% from the \$32.6 million reported in the fourth quarter of 2000. Basic earnings per share were \$0.35 and \$0.41 in the fourth quarter of 2001 and 2000, respectively. Diluted earnings per share were \$0.34 and \$0.41 in the same respective periods.

Net interest income on a tax equivalent basis totaled \$106.2 million in the fourth quarter of 2001, \$25.9 million, or 19.6% lower than the same period in 2000. This decline was primarily due to reduced business activity as a result of the divestitures, the closure of the Asia Division, and the ongoing managed reduction of loans to improve the Company’s credit profile.

The Company’s net interest margin of 3.93% for the fourth quarter was down from 4.08% in the comparable quarter last year. The decrease was primarily due to loan reductions and asset sales, including the credit card portfolio, and lower returns earned on the increased liquidity of the Company.

The provision for loan and lease losses was \$14.5 million for the fourth quarter 2001, down from \$25.8 million in the same quarter last year. The 2001 fourth quarter provision equaled net charge-offs. Included in loan losses was approximately \$10 million recognized in connection with loan sales.

Non-interest income was \$80.0 million for the fourth quarter, including \$28.7 million in sales gains net of investment write-downs. Adjusted for these items, non-interest income decreased \$19.1 million from the fourth quarter of 2000. This decrease was largely due to the intentional downsizing of certain businesses, sales of the Company’s credit card portfolio, Pacific Century Bank branch franchise and South Pacific entities, and mortgage banking losses of \$8.5 million recorded during fourth quarter 2001. The mortgage banking losses resulted from unhedged exposure to increases in interest rates.

Non-interest expense for the fourth quarter of 2001 was \$141.5 million. Excluding a total of \$18.5 million of restructuring and other related costs, non-interest expense was essentially flat compared to non-interest expense of \$122.9 million in the fourth quarter last year.

Non-performing assets were reduced by 25.1% during the quarter, dropping from \$106.4 million at September 30, 2001 to \$79.7 million at year-end 2001. NPAs totaled \$183.0 million at December 31, 2000. The decline was primarily due to the sale of foreclosed assets.

Consolidated Quarterly Results of Operations

Table 16

	Three Months Ended							
	2001				2000			
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
	(dollars in millions except per share amounts)							
Total Interest Income	\$246.3	\$217.2	\$195.3	\$169.5	\$251.0	\$257.0	\$262.8	\$261.6
Total Interest Expense	121.3	100.4	83.5	63.4	117.0	124.7	130.0	129.6
Net Interest Income	125.0	116.8	111.8	106.1	134.0	132.3	132.8	132.0
Provision for Loan and Lease Losses	52.5	6.4	0.9	14.5	13.5	83.4	20.1	25.8
Investment Securities Gains (Losses)	20.2	11.7	0.9	0.1	—	(0.5)	—	(0.6)
Non-Interest Income	140.4	86.4	112.9	80.0	68.2	79.7	67.0	71.1
Non-Interest Expense	171.8	161.6	123.1	141.5	124.9	121.2	124.2	122.9
Income Before Taxes	61.3	46.9	101.6	30.2	63.8	6.9	55.5	53.8
Provision for Taxes	27.6	20.2	70.5	3.9	24.0	0.2	20.9	21.2
Net Income	\$ 33.7	\$ 26.7	\$ 31.1	\$ 26.3	\$ 39.8	\$ 6.7	\$ 34.6	\$ 32.6
Basic Earnings Per Share	\$ 0.42	\$ 0.33	\$ 0.39	\$ 0.35	\$ 0.50	\$ 0.08	\$ 0.44	\$ 0.41
Diluted Earnings Per Share	\$ 0.42	\$ 0.32	\$ 0.37	\$ 0.34	\$ 0.50	\$ 0.08	\$ 0.44	\$ 0.41

Average Assets

Table 17

	2001		2000		1999
	Amount	Mix	Amount	Mix	Amount
	(dollars in millions)				
Interest-Bearing Deposits	\$ 733.4	5.8%	\$ 216.2	1.5%	\$ 385.0
Funds Sold	136.7	1.1	43.2	0.3	102.0
Investment Securities					
—Held to Maturity	525.6	4.1	658.9	4.7	748.8
—Available for Sale	2,242.3	17.7	2,502.5	17.8	2,698.8
Loans Held for Sale	312.7	2.5	128.4	0.9	184.9
Loans	7,719.6	60.9	9,415.9	67.0	9,259.6
Other	79.6	0.6	73.0	0.6	68.1
Total Earning Assets	11,749.9	92.7	13,038.1	92.8	13,447.2
Non-Earning Assets	931.1	7.3	1,017.2	7.2	1,135.7
Total	\$12,681.0	100.0%	\$14,055.3	100.0%	\$14,582.9

Average Loans

Table 18

	2001		2000		1999	1998	1997
	Amount	Mix	Amount	Mix	Amount	Amount	Amount
	(dollars in millions)						
Commercial	\$1,761.6	22.8%	\$2,466.3	26.2%	\$2,402.7	\$2,258.3	\$1,923.8
Real Estate							
Construction	240.5	3.1	304.4	3.2	318.1	284.0	264.6
Mortgage	3,356.4	43.5	3,775.4	40.1	3,557.4	3,705.6	3,830.2
Installment	809.1	10.5	712.5	7.6	723.9	793.2	846.3
Foreign	1,026.4	13.3	1,467.9	15.6	1,702.2	1,752.6	1,540.3
Lease Financing	525.6	6.8	689.4	7.3	555.3	495.6	472.7
Total	<u>\$7,719.6</u>	<u>100.0%</u>	<u>\$9,415.9</u>	<u>100.0%</u>	<u>\$9,259.6</u>	<u>\$9,289.3</u>	<u>\$8,877.9</u>

Maturities and Sensitivities of Loans to Changes in Interest Rates¹

Table 19

	December 31, 2001			
	Due in One Year or Less	Due After One to Five Years ²	Due After Five Years ²	Total
	(dollars in millions)			
Commercial	\$ 807.2	\$ 224.6	\$ 143.7	\$1,175.5
Real Estate—Construction	60.4	50.1	59.1	169.6
Other Loans	840.7	735.1	2,707.4	4,283.2
Foreign Loans	7.5	1.1	15.6	24.2
Total	<u>\$1,715.8</u>	<u>\$1,010.9</u>	<u>\$2,925.8</u>	<u>\$5,652.5</u>

¹ Based on contractual maturities.

² As of December 31, 2001, loans maturing after one year consisted of \$2,226.4 million with floating rates and \$1,710.3 million with fixed rates.

Average Deposits

Table 20

	2001		2000		1999
	Amount	Mix	Amount	Mix	Amount
	(dollars in millions)				
Domestic					
Non-Interest Bearing Demand	\$1,527.1	19.0%	\$1,640.0	18.2%	\$1,652.6
Interest-Bearing Demand	1,894.5	23.5	2,061.9	22.9	2,137.1
Regular Savings	780.3	9.7	684.8	7.6	723.9
Private Time Certificates of Deposit					
(\$100,000 or More)	1,107.5	13.8	1,128.4	12.5	948.9
Public Time Certificates of Deposit					
(\$100,000 or More)	66.2	0.8	83.7	0.9	94.3
All Other Time and Savings Certificates	<u>1,333.0</u>	<u>16.5</u>	<u>1,569.0</u>	<u>17.5</u>	<u>1,516.2</u>
Total Domestic	<u>6,708.6</u>	<u>83.3</u>	<u>7,167.8</u>	<u>79.6</u>	<u>7,073.0</u>
Foreign					
Non-Interest Bearing Demand	346.0	4.3	371.4	4.1	435.2
Time Due to Banks	351.2	4.4	505.4	5.6	641.4
Other Savings and Time	<u>648.2</u>	<u>8.0</u>	<u>960.5</u>	<u>10.7</u>	<u>1,165.7</u>
Total Foreign	<u>1,345.4</u>	<u>16.7</u>	<u>1,837.3</u>	<u>20.4</u>	<u>2,242.3</u>
Total	<u><u>\$8,054.0</u></u>	<u><u>100.0%</u></u>	<u><u>\$9,005.1</u></u>	<u><u>100.0%</u></u>	<u><u>\$9,315.3</u></u>

Interest Differential

Table 21

	Year Ended December 31, 2001 Compared to 2000			Year Ended December 31, 2000 Compared to 1999 ²		
	Volume ¹	Rate ¹	Total	Volume ¹	Rate ¹	Total
	(dollars in millions)					
Change in Interest Income						
Interest Bearing Deposits						
Foreign	\$ 22.5	\$(10.6)	\$ 11.9	\$(12.0)	\$ 2.7	\$ (9.3)
Funds Sold	3.9	(1.5)	2.4	(3.4)	1.0	(2.4)
Investment Securities:						
Held-to-Maturity	(9.1)	(6.0)	(15.1)	(6.6)	1.0	(5.6)
Available for Sale	(16.5)	(12.4)	(28.9)	(12.5)	10.5	(2.0)
Loans Held for Sale	12.7	(1.1)	11.6	(4.3)	0.5	(3.8)
Loans, Net of Unearned Income						
Domestic	(102.2)	(59.9)	(162.1)	33.1	28.3	61.4
Foreign	(31.0)	5.8	(25.2)	(15.2)	6.5	(8.7)
Other	0.4	0.2	0.6	0.3	(0.6)	(0.3)
Total Interest Income	<u>\$(119.3)</u>	<u>(85.5)</u>	<u>\$(204.8)</u>	<u>\$(20.6)</u>	<u>\$ 49.9</u>	<u>\$ 29.3</u>
Change in Interest Expense						
Interest Bearing Deposits:						
Demand Deposits	\$ (3.7)	\$(10.5)	\$ (14.2)	\$ (1.7)	\$ 1.9	\$ 0.2
Savings Deposits	1.9	0.3	2.2	(0.8)	0.0	(0.8)
Time Deposits	(14.6)	(9.9)	(24.5)	11.3	19.5	30.8
Deposits in Foreign Offices	(19.2)	(13.0)	(32.2)	(15.2)	9.9	(5.3)
Short-Term Borrowings	(26.6)	(32.2)	(58.8)	(22.0)	31.9	9.9
Long-Term Debt	(5.8)	0.6	(5.2)	13.3	1.4	14.7
Total Interest Expense	<u>\$ (68.0)</u>	<u>\$(64.7)</u>	<u>\$(132.7)</u>	<u>\$(15.1)</u>	<u>\$ 64.6</u>	<u>\$ 49.5</u>
Net Interest Differential						
Domestic	\$ (62.0)	\$(29.0)	\$ (91.0)	\$ 6.5	\$(14.0)	\$ (7.5)
Foreign	10.7	8.2	18.9	(12.0)	(0.7)	(12.7)
Total Interest Differential	<u>\$ (51.3)</u>	<u>\$(20.8)</u>	<u>\$ (72.1)</u>	<u>\$ (5.5)</u>	<u>\$(14.7)</u>	<u>\$(20.2)</u>

¹ The change in interest due to both rate and volume was allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

² Adjusted to reflect the reclassification of interchange fees, mortgage banking income and other interest income.

The following presents the maturity distribution, market value, and weighted-average yield to maturity of securities:

Table 22
Supplementary Data
Maturity Distribution, Market Value and Weighted-Average Yield to Maturity of Securities

	<u>1 Year or Less</u>	<u>Weighted Average Yield²</u>	<u>After 1 Year- 5 Years</u>	<u>Weighted Average Yield²</u>	<u>After 5 Years- 10 Years</u>	<u>Weighted Average Yield²</u>	<u>Over 10 Years</u>	<u>Weighted Average Yield²</u>	<u>Total</u>	<u>Weighted Average Yield²</u>	<u>Approximate Market Value</u>
(dollars in millions)											
Maturity Distribution Based on											
Amortized Cost											
December 31, 2001											
Held to Maturity											
U.S. Treasury Securities	\$ 3.0	2.0%	\$ —	— %	\$ —	— %	\$ —	— %	\$ 3.0	2.0%	\$ 3.0
U.S. Government Agencies	17.8	3.9	—	—	—	—	—	—	17.8	3.9	17.8
Obligations of States and											
Political Subdivisions	3.5	9.1	—	5.0	0.2	6.1	—	—	3.7	8.9	3.9
Corporate Equity Securities	—	—	—	—	—	—	—	—	—	—	—
Mortgage-Backed Securities ¹	0.4	7.2	0.7	7.0	3.5	8.2	361.7	6.8	366.3	6.8	377.8
Other	—	—	4.8	3.0	0.6	2.9	—	—	5.4	3.0	5.3
Total Held to Maturity	24.7	4.4	5.5	3.5	4.3	7.3	361.7	6.8	396.2	6.6	407.8
Available for Sale Securities ³											
U.S. Treasury Securities	1.0	5.0	0.5	5.8	0.9	5.2	—	—	2.4	5.2	2.4
U.S. Government Agencies	3.1	5.7	18.3	6.3	42.2	7.5	17.7	4.4	81.3	6.5	83.5
Obligations of States and											
Political Subdivisions	0.4	4.3	5.2	4.9	0.8	5.1	—	—	6.4	4.9	6.7
Corporate Equity Securities	—	—	—	—	—	—	1.4	4.9	1.4	4.9	1.4
Mortgage-Backed Securities ¹	—	—	—	—	66.8	6.5	1,787.9	6.4	1,854.7	6.4	1,889.8
Other	—	—	14.3	3.7	3.0	6.4	—	—	17.3	4.1	17.6
Total Available for Sale											
Securities	\$ 4.5	5.4%	\$38.3	5.1%	\$113.7	6.9%	\$1,807.0	6.4%	\$1,963.5	6.4%	\$2,001.4
Total Investment Securities											
—December 31, 2001	\$ 29.2		\$43.8		\$118.0		\$2,168.7		\$2,359.7		\$2,409.2
—December 31, 2000	\$116.0		\$79.0		\$138.0		\$2,756.6		\$3,089.3		\$3,098.4
—December 31, 1999	\$163.2		\$88.7		\$ 99.4		\$2,982.1		\$3,333.4		\$3,253.4

¹ Contractual maturities do not anticipate reductions for periodic paydowns.

² Tax equivalent at 35% tax rate.

³ The weighted-average yields on available for sale securities are based on amortized cost.

Item 7a. *Qualitative and Quantitative Disclosures About Market Risk*

See the Market Risk section in the Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 24 of this report.

Forward-Looking Statements

This report contains forward-looking statements regarding the Company's beliefs, estimates, projections and assumptions, which are provided to assist in the understanding of certain aspects of the Company's anticipated future financial performance. We believe the assumptions underlying our forward-looking statements are reasonable. However, any of the assumptions could prove to be inaccurate and actual results may differ materially from those projected for a variety of reasons including, but not limited to: the Hawaii economy may not recover at the pace we anticipate; our refocused emphasis on our Hawaii market may not achieve the customer and revenue gains we anticipate; our credit markets may deteriorate and our credit quality may fall short of our goals; we may not achieve the expense reductions we expect; we may not be able to maintain our net interest margin; we may not be able to implement our proposed equity repurchases in the amount or at the times planned; customer acceptance of our business as restructured may be less than expected; there may be economic volatility in the markets we serve; and there may be changes in business and economic conditions, competition, fiscal and monetary policies or legislation. Except where specified, we do not undertake any obligation to update any forward-looking statements to reflect later events or circumstances.

Item 8. *Financial Statements and Supplementary Data*

Consolidated Quarterly Results of Operations—See Narrative and Table 16 included in Item 7 of this report.

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
Pacific Century Financial Corporation

We have audited the accompanying consolidated statements of condition of Pacific Century Financial Corporation and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the 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 Pacific Century Financial Corporation and subsidiaries at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Honolulu, Hawaii
January 28, 2002

PACIFIC CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	2001	2000	1999
	(dollars in thousands except per share amounts)		
Interest Income			
Interest and Fees on Loans and Leases	\$619,447	\$ 795,028	\$ 746,089
Income on Investment Securities—Held to Maturity	33,521	48,013	53,625
Income on Investment Securities—Available for Sale	137,320	166,266	168,349
Deposits	27,596	15,685	24,960
Funds Sold and Security Resale Agreements	5,034	2,689	5,078
Other	5,344	4,742	5,278
Total Interest Income	828,262	1,032,423	1,003,379
Interest Expense			
Deposits	217,305	286,046	261,184
Security Repurchase Agreements	77,764	104,536	92,175
Funds Purchased	10,099	32,636	41,677
Short-Term Borrowings	9,562	19,002	12,414
Long-Term Debt	53,854	59,053	44,326
Total Interest Expense	368,584	501,273	451,776
Net Interest Income	459,678	531,150	551,603
Provision for Loan and Lease Losses	74,339	142,853	60,915
Net Interest Income After Provision for Loan and Lease Losses	385,339	388,297	490,688
Non-Interest Income			
Trust and Asset Management	59,924	66,077	60,700
Mortgage Banking	20,133	10,996	8,949
Service Charges on Deposit Accounts	38,467	40,062	34,267
Fees, Exchange, and Other Service Charges	78,787	99,519	99,823
Gains on Sales of Banking Operations, Net of Venture Investment Losses	173,426	—	—
Gain on Settlement of Pension Obligation	—	11,900	—
Investment Securities Gains (Losses)	32,982	(1,101)	13,903
Other Operating Income	48,900	57,459	67,873
Total Non-Interest Income	452,619	284,912	285,515
Non-Interest Expense			
Salaries	191,473	184,413	198,743
Pensions and Other Employee Benefits	52,235	48,042	55,343
Net Occupancy Expense	46,344	48,798	47,893
Net Equipment Expense	53,395	50,620	48,674
Goodwill and Other Intangibles Amortization	13,342	15,265	16,229
Restructuring and Other Related Costs	104,794	—	22,478
Minority Interest	383	387	485
Other Operating Expense	136,033	145,694	160,672
Total Non-Interest Expense	597,999	493,219	550,517
Income Before Income Taxes	239,959	179,990	225,686
Provision for Income Taxes	122,164	66,329	92,729
Net Income	\$117,795	\$ 113,661	\$ 132,957
Basic Earnings Per Share	\$ 1.49	\$ 1.43	\$ 1.66
Diluted Earnings Per Share	\$ 1.46	\$ 1.42	\$ 1.64
Dividends Declared Per Share	\$ 0.72	\$ 0.71	\$ 0.68
Basic Weighted Average Shares	78,977,011	79,551,296	80,298,725
Diluted Weighted Average Shares	80,577,763	79,813,443	81,044,558

See accompanying notes to consolidated financial statements.

PACIFIC CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION

	December 31	
	2001	2000
	(dollars in thousands)	
Assets		
Interest-Bearing Deposits	\$ 1,101,974	\$ 189,301
Investment Securities		
—Held to Maturity (Market Value of \$407,838 in 2001 and \$589,079 in 2000)	396,216	583,587
Investment Securities—Available for Sale	2,001,420	2,509,359
Securities Purchased Under Agreements to Resell	—	3,969
Funds Sold	115,000	134,644
Loans Held for Sale	456,709	179,229
Loans	5,652,518	9,234,558
Allowance for Loan and Lease Losses	(158,979)	(246,247)
Net Loans	5,493,539	8,988,311
Total Earning Assets	9,564,858	12,588,400
Cash and Non-Interest Bearing Deposits	405,981	523,968
Premises and Equipment	196,171	254,621
Customers' Acceptance Liability	593	14,690
Accrued Interest Receivable	42,687	68,585
Foreclosed Real Estate	17,174	4,526
Mortgage Servicing Rights	27,291	16,195
Goodwill and Other Intangibles	36,216	176,070
Other Assets	336,826	366,761
Total Assets	\$10,627,797	\$14,013,816
Liabilities		
Domestic Deposits		
Demand—Non-Interest Bearing	\$ 1,548,322	\$ 1,707,724
—Interest Bearing	1,926,018	2,008,730
Savings	967,825	665,239
Time	1,927,778	2,836,083
Foreign Deposits		
Demand—Non-Interest Bearing	2	385,366
Time Due to Banks	230,247	535,126
Other Savings and Time	73,404	942,313
Total Deposits	6,673,596	9,080,581
Securities Sold Under Agreements to Repurchase	1,643,444	1,655,173
Funds Purchased	55,800	413,241
Current Maturities of Long-Term Debt	100,670	373,500
Short-Term Borrowings	134,222	211,481
Banker's Acceptances Outstanding	593	14,690
Retirement Expense Payable	36,175	37,931
Accrued Interest Payable	29,762	72,460
Taxes Payable	138,366	130,760
Minority Interest	—	4,536
Other Liabilities	98,422	94,450
Long-Term Debt	469,735	623,657
Total Liabilities	9,380,785	12,712,460
Shareholders' Equity		
Common Stock (\$.01 par value),		
authorized 500,000,000 shares; issued / outstanding:		
2001—81,377,241 / 73,218,326;		
2000—80,558,811 / 79,612,178	806	806
Capital Surplus	367,672	346,045
Accumulated Other Comprehensive Income (Loss)	22,761	(25,079)
Retained Earnings	1,055,424	996,791
Deferred Stock Grants	(7,637)	—
Treasury Stock, at Cost (8,136,134 shares in 2001 and 946,633 shares in 2000)	(192,014)	(17,207)
Total Shareholders' Equity	1,247,012	1,301,356
Total Liabilities and Shareholders' Equity	\$10,627,797	\$14,013,816

See accompanying notes to consolidated financial statements.

PACIFIC CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	<u>Total</u>	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Deferred Stock Grants</u>	<u>Treasury Stock</u>	<u>Compre- hensive Income</u>
	(dollars in thousands)							
Balance at December 31, 1998	\$1,185,594	\$805	\$342,932	\$(22,476)	\$ 867,852	\$ —	\$ (3,519)	
Comprehensive Income								
Net Income	132,957	—	—	—	132,957	—	—	\$132,957
Other Comprehensive Income, Net of Tax								
Investment Securities, Net of Reclassification								
Adjustment	(44,803)	—	—	(44,803)	—	—	—	(44,803)
Foreign Currency Translation Adjustment	1,154	—	—	1,154	—	—	—	1,154
Pension Liability Adjustment	19	—	—	19	—	—	—	19
Total Comprehensive Income								<u>\$ 89,327</u>
Common Stock Issued								
57,249 Profit Sharing Plan	1,096	—	4	—	(71)	—	1,163	
501,929 Stock Option Plan	8,616	—	2,620	—	(3,651)	—	9,647	
198,851 Dividend Reinvestment Plan	4,032	—	142	—	(270)	—	4,160	
7,199 Directors' Restricted Shares and Deferred Compensation Plan	154	1	153	—	—	—	—	
Treasury Stock Purchased (1,051,900 shares)	(21,849)	—	—	—	—	—	(21,849)	
Cash Dividends Paid	(54,640)	—	—	—	(54,640)	—	—	
Balance at December 31, 1999	\$1,212,330	\$806	\$345,851	\$(66,106)	\$ 942,177	\$ —	\$ (10,398)	
Comprehensive Income								
Net Income	113,661	—	—	—	113,661	—	—	\$113,661
Other Comprehensive Income, Net of Tax								
Investment Securities, Net of Reclassification								
Adjustment	45,300	—	—	45,300	—	—	—	45,300
Foreign Currency Translation Adjustment	(4,273)	—	—	(4,273)	—	—	—	(4,273)
Total Comprehensive Income								<u>\$154,688</u>
Common Stock Issued								
86,670 Profit Sharing Plan	1,470	—	18	—	(230)	—	1,682	
228,438 Stock Option Plan	2,948	—	3	—	(1,763)	—	4,708	
193,689 Dividend Reinvestment Plan	3,261	—	51	—	(583)	—	3,793	
6,901 Directors' Restricted Shares and Deferred Compensation Plan	122	—	122	—	—	—	—	
Treasury Stock Purchased (934,800 shares)	(16,992)	—	—	—	—	—	(16,992)	
Cash Dividends Paid	(56,471)	—	—	—	(56,471)	—	—	
Balance at December 31, 2000	\$1,301,356	\$806	\$346,045	\$(25,079)	\$ 996,791	\$ —	\$ (17,207)	
Comprehensive Income								
Net Income	117,795	—	—	—	117,795	—	—	\$117,795
Other Comprehensive Income, Net of Tax								
Investment Securities	20,733	—	—	20,733	—	—	—	20,733
Foreign Currency Translation Adjustment	27,266	—	—	27,266	—	—	—	27,266
Pension Liability Adjustments	(159)	—	—	(159)	—	—	—	(159)
Total Comprehensive Income								<u>\$165,635</u>
Common Stock Issued								
59,586 Profit Sharing Plan	1,402	—	261	—	—	—	1,141	
916,817 Stock Option Plan	21,314	—	1,054	—	(2,591)	5,655	17,196	
120,397 Dividend Reinvestment Plan	2,819	—	495	—	(4)	—	2,328	
5,487 Directors' Restricted Shares and Deferred Compensation Plan	336	—	121	—	—	—	215	
727,800 Employees' Restricted Shares	5,105	—	18,397	—	—	(13,292)	—	
65,146 Hawaii Insurance Network	1,299	—	1,299	—	—	—	—	
Treasury Stock Purchased (8,300,900 shares)	(195,687)	—	—	—	—	—	(195,687)	
Cash Dividends Paid	(56,567)	—	—	—	(56,567)	—	—	
Balance at December 31, 2001	\$1,247,012	\$806	\$367,672	\$ 22,761	\$1,055,424	\$ (7,637)	\$(192,014)	

See accompanying notes to consolidated financial statements.

PACIFIC CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2001	2000	1999
	(dollars in thousands)		
Operating Activities			
Net Income	\$ 117,795	\$ 113,661	\$ 132,957
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Loan and Lease Losses	74,339	142,853	60,915
Depreciation and Amortization	107,583	64,934	61,503
Amortization of Deferred Loan Fees and Leasing Income	(43,436)	(47,689)	(46,900)
Deferred Stock Grants	10,760	—	—
Deferred Income Taxes	(2,708)	8,224	(10,599)
Investment Security (Gains) Losses	(32,982)	1,101	(13,695)
Net Change in Loans Held for Sale	(277,480)	(43,132)	123,410
Gain on Sale of Banking Operations, Net of Venture Investment Losses	(173,426)	—	—
Net Change in Other Assets and Liabilities	(39,152)	17,681	(27,993)
Net Cash Provided (Used) by Operating Activities	<u>(258,707)</u>	<u>257,633</u>	<u>279,598</u>
Investing Activities			
Proceeds from Redemptions of Investment Securities Held to Maturity	424,345	146,559	212,739
Purchases of Investment Securities Held to Maturity	(236,974)	(9,555)	(356,258)
Proceeds from Sales and Redemptions of Investment Securities Available for Sale	1,351,460	180,739	1,267,473
Purchases of Investment Securities Available for Sale	(789,806)	(103,667)	(852,255)
Net Decrease in Loans and Lease Financing	1,615,335	61,276	18,279
Proceeds from Sale of Banking Operations	353,013	—	3,042
Premises and Equipment, Net	(9,980)	(28,455)	(19,394)
Net Cash Provided by Investing Activities	<u>2,707,393</u>	<u>246,897</u>	<u>273,626</u>
Financing Activities			
Net Decrease in Demand, Savings, and Time Deposits	(599,513)	(313,637)	(207,904)
Proceeds from Lines of Credit and Long-Term Debt	39,071	300,096	434,126
Repayments of Long-Term Debt	(465,823)	(30,596)	(292,215)
Net Decrease in Short-Term Borrowings	(446,429)	(509,684)	(518,139)
Proceeds from Issuance of Common Stock, Net of Common Stock Repurchased	(175,618)	(9,191)	(7,951)
Cash Dividends	(56,567)	(56,471)	(54,640)
Net Cash Used by Financing Activities	<u>(1,704,879)</u>	<u>(619,483)</u>	<u>(646,723)</u>
Effect of Exchange Rate Changes on Cash	27,266	(4,273)	1,154
Increase (Decrease) in Cash and Cash Equivalents	771,073	(119,226)	(92,345)
Cash and Cash Equivalents at Beginning of Year	851,882	971,108	1,063,453
Cash and Cash Equivalents at End of Period	<u>\$ 1,622,955</u>	<u>\$ 851,882</u>	<u>\$ 971,108</u>

During the years ended December 31, 2001, 2000 and 1999, interest payments of \$411,282,000, \$493,390,000 and \$442,882,000, respectively, and income tax charges of \$114,564,000, \$42,029,000 and \$62,674,000, respectively, were paid.

See accompanying notes to consolidated financial statements.

Note A—Summary of Significant Accounting Policies

The accounting principles followed by Pacific Century Financial Corporation and its subsidiaries (the Company), and the methods of applying those principles conform with accounting principles generally accepted in the United States and general practices within the banking industry. The preparation of financial statements in conformity with these accounting principles requires management to make estimates and assumptions that affect the amounts reported 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 accounts in prior years have been reclassified to conform with the 2001 presentation. The significant accounting policies are summarized below.

Organization/Consolidation

The Company is a bank holding company providing a broad range of financial products and services to customers in Hawaii, the West Pacific, and American Samoa. During the year, the Company divested most of its business in Asia, the South Pacific, and the U.S. Mainland as part of its strategic plan to provide increased shareholder value. 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 and trade financing. The Company's principal subsidiary bank is Bank of Hawaii. The Company also owns First Savings and Loan Association of America ("First Savings"). The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation and minority interests have been recognized.

The Company has no investment in unconsolidated, Company sponsored special purpose entities or other similar business structures. The Company has investments in leveraged leases, as discussed in Note D.

International Operations

As of December 31, 2001, the Company had curtailed most of its international operations. Bank of Hawaii and First Savings have operations that are conducted in the West and South Pacific that are denominated in U.S. dollars. These operations are classified as domestic.

Acquisitions

In May 2001, the Company acquired Hawaii Insurance Network LLP (HIN) through the issuance of 65,146 shares of the Company's common stock. HIN specializes in the sale of benefit programs such as health plans and disability products.

In January 1999, the Company acquired Triad Insurance Agency, Inc. (Triad), a Hawaii-based property/casualty insurance agency. Triad represents a number of large U.S. property/casualty insurance companies for whom it acts as a servicing agent. The merger, accounted for as a purchase, has expanded the Company's range of financial services offered to customers.

In August 1999, the Company acquired 5.8 million shares, or approximately 10%, of the outstanding shares of the Bank of Queensland Limited in Australia. In 2001, the Company's ownership interest in the Bank of Queensland Limited was sold.

Accounting Changes

During 2001, the Company adopted the following Statements of Financial Accounting Standards (SFAS's):

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), as amended by SFAS No.'s Statements No. 137 and 138 requires companies to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value and was adopted on January 1, 2001. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are

designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation. The adoption of SFAS No. 133 did not have a material impact on the Company's financial position or results of operations.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the same line item associated with the hedged item in current earnings during the period of the change in fair values (for example, in "interest expense" when the hedged item is fixed-rate debt).

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings (for example, in "interest expense" when the hedged transactions are interest cash flows associated with floating-rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in other income/expense in current earnings during the period of change.

For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign currency, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective. Any ineffective portions of net investment hedges are recognized in other income/expense in current earnings during the period of change.

For derivative instruments not designated as hedging instruments, the gain or loss is recognized in other income/expense in current earnings during the period of change.

SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140) was adopted on April 1, 2001. SFAS No. 140 revised the criteria for accounting for securitizations and other transfers of financial assets and collateral, and introduced new disclosures. Adoption of SFAS No. 140 did not have material impact on the Company's financial position or results of operations.

SFAS No. 141, *Business Combinations* (SFAS No. 141), SFAS No. 141, effective June 30, 2001, requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method of accounting.

Investment Securities

Investment Securities Held to Maturity are those securities, which the Company has the ability and positive intent to hold to maturity. These securities are stated at cost adjusted for amortization of premiums and accretion of discounts. In 2001, 2000 and 1999, there were no transfers from investment securities held to maturity.

Investment Securities Available for Sale are recorded at fair value with unrealized gains and losses recorded as an unrealized valuation adjustment, net of taxes, in other comprehensive income.

Trading Securities are those securities that are purchased for the Company's funding of liabilities associated with certain compensation plans. Securities in the trading portfolio are carried at fair value with unrealized holding gains and losses recognized currently in income. Trading Securities of \$3,759,016 and \$3,844,000 as of December 31, 2001 and 2000, respectively, were included in Other Assets on the Consolidated Statements of Condition. During 2001, 2000 and 1999, the net gain (loss) from the trading securities portfolio was

\$(1,399,564), \$(627,000) and \$361,000, respectively, and was recognized as a component of investment securities gains and (losses) in the Consolidated Statements of Income. Income from trading securities was \$607,524, \$464,000 and \$247,000 during 2001, 2000 and 1999, respectively, and was included as part of other operating income.

The Company uses the specific identification method to determine the cost of all investment securities sold.

Loans Held for Sale

Loans Held for Sale are primarily residential mortgage loans. These loans are recorded at the lower of cost or market on an aggregate basis.

Loans

Loans are carried at the principal amount outstanding net of unearned income. Interest income is generally recognized on the accrual basis. Net loan fees are deferred and amortized as an adjustment to yield.

The Company's policy is to discontinue the accrual of income when a loan is over 90 days delinquent, unless collection is probable based on specific factors such as the type of borrowing agreement and/or collateral. At the time a loan is placed on non-accrual, all accrued but unpaid interest is reversed against current earnings. Subsequent payments received are generally applied to reduce the principal balance.

Allowance for Loan and Lease Losses

The Allowance for Loan and Lease Losses (Allowance) is established through provisions that are charged against income. Losses on uncollectable loans are charged against the Allowance, and subsequent recoveries, if any, are credited to the Allowance.

The Allowance is maintained at a level believed adequate by management to absorb estimated inherent losses. Management's periodic evaluation of the adequacy of the Allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse conditions that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other factors. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of expected cash flows that may be susceptible to significant changes.

A loan is considered impaired when it is probable that all amounts due will not be collected in accordance with the contractual terms of the loan. Impairment is measured based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. Cash receipts on impaired loans generally are applied to reduce the carrying value of the loan. Large groups of smaller balance homogeneous loans, such as residential mortgages and consumer loans, are evaluated collectively for impairment based primarily on the historical loss experience for each portfolio.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include: cash and non-interest bearing deposits, interest bearing deposits, securities purchased under agreements to resell and funds sold. All amounts are readily convertible to cash and have maturities less than ninety days.

Under the terms of the Depository Institutions Deregulation and Monetary Control Act, the Company is required to place reserves with the Federal Reserve Bank based on the amount of deposits held. During 2001 and 2000, the average amount of these reserve balances was \$17,716,000 and \$7,171,000, respectively.

Premises and Equipment

Premises and equipment are stated at cost less allowances for depreciation and amortization. Depreciation is computed using the straight line method over lives of three to fifty years for premises and improvements, and three to ten years for equipment.

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 fair value based on current appraisals less selling costs. Losses arising at the time of acquiring such property are charged against the Allowance. Subsequent declines in property value are recognized through charges to non-interest expense.

Mortgage Servicing Rights

Servicing assets are recognized when mortgage loans are originated and sold with servicing rights retained. Servicing assets are also periodically purchased. Servicing assets are recorded at their fair values on the date the loans are sold or the servicing assets are purchased. The capitalized cost of servicing assets are amortized over the estimated life of the related loans. An impairment analysis is performed on a periodic basis and includes a review of prepayment trends, delinquency and other relevant factors. For purposes of measuring impairment, servicing assets are stratified by product type. Impairment is recognized when the carrying value of the servicing assets for a stratum exceed its fair value. The fair value of servicing assets is estimated based on a review of servicing right values of loans with similar characteristics.

Goodwill and Other Intangible Assets

Intangible assets include goodwill and identifiable intangible assets such as core deposits resulting from acquisitions accounted for under the purchase method. Goodwill and core intangibles have been amortized using the straight-line method over periods of 15 to 25 years. These intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Income Taxes

The Company files a consolidated federal income tax return with the Bank of Hawaii and its other domestic subsidiaries. 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 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 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.

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 Company by subsidiaries with tax liabilities, and subsidiaries that generate tax benefits receive payments for those benefits as used.

For lease arrangements that are accounted for by the financing method, investment tax credits are deferred and amortized over the lives of the respective leases.

Risk Management Instruments

The Company utilizes off-balance sheet derivative financial instruments, primarily as an end-user in connection with its risk management activities and, to a lesser extent, as a service to accommodate the needs of customers. In the initial year of adoption of SFAS No. 133, the Company has not implemented any of the hedge accounting methods (i.e., fair value, cash flows or net investment in foreign operations) currently addressed under this standard. All risk management derivative instruments are carried at fair value and the associated unrealized gains and losses are recognized currently in the Consolidated Statements of Income. Over the past two years the Company has not used interest rate swaps as a risk management tool, however it continues to use foreign exchange contracts to mitigate foreign currency risk.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25 (APB No. 25) and related interpretations. SFAS No. 123 "Accounting for Stock-Based Compensation," permits companies to elect to recognize stock-based compensation expense based on the estimated fair value of the awards on the grant date or to continue to use the accounting under APB No. 25. Included in Note M is the impact of the fair value of employee stock-based compensation plans on net income and earnings per share on a pro forma basis for awards granted in 2001, 2000 and 1999.

Advertising Costs

The nature of the Company's marketing programs generally do not include direct-response advertising. The Company, therefore, recognizes its advertising costs as incurred. Advertising costs were \$6,029,000; \$6,156,000 and \$5,360,000 in 2001, 2000 and 1999, respectively.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the dilutive impact of stock options and stock appreciation rights and uses the average share price during the period in determining the number of incremental shares to be added to the weighted average number of common shares outstanding. For the years ended December 31, 2001, 2000 and 1999 there were no adjustments to net income (the numerator) for purposes of computing basic EPS. A reconciliation of the weighted average common shares outstanding for computing diluted EPS for 2001, 2000 and 1999 follows:

	Weighted Average Shares		
	2001	2000	1999
Denominator for Basic EPS	78,977,011	79,551,296	80,298,725
Dilutive Effect of Stock Options	1,600,752	262,147	745,833
Denominator for Diluted EPS	<u>80,577,763</u>	<u>79,813,443</u>	<u>81,044,558</u>

Regulatory Matters

In January 2002, the Company announced that it has satisfied its obligations under the Memorandum of Understanding imposed by its regulators during the third quarter of 2000 and it has been removed. Under the Memorandum of Understanding, the Company had agreed to take certain actions to strengthen and maintain its operations and financial position, and to request prior approval for the payments of dividends, increases in indebtedness, or repurchases of common stock.

Recent Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, *Goodwill and Other Intangible Assets*, (SFAS No. 142). SFAS No. 142 eliminates amortization of goodwill associated with business combinations completed after June 30, 2001. During a transition period from July 1, 2001 through December 31, 2001, goodwill associated with business combinations completed prior to July 1, 2001 continued to be amortized through the income statement. Effective January 1, 2002, periodic goodwill amortization and expense recognition will be discontinued and goodwill will be assessed at least annually for impairment at the reporting unit level by applying a fair-value based test. SFAS No. 142 also provides additional guidance on acquired intangibles that should be separately recognized and amortized. Under SFAS No. 142 intangibles with indefinite lives will no longer be amortized. The Company adopted SFAS No. 142 on January 1, 2002. An initial impairment assessment was completed and it was determined that a transition impairment charge will not be required. Under SFAS No. 142 the elimination of amortization is expected to increase net income by approximately \$7.6 million in 2002.

In August 2001, FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (SFAS No. 144). SFAS No. 144 superceded FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of* (SFAS No. 121), and certain of the accounting and reporting provisions of APB Opinion No. 30. For long-lived assets to be held and used, SFAS No. 144 retained the requirements of SFAS No. 121 to (a) recognize an impairment loss only if the carrying value of long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset. For long-lived assets to be disposed of by sale, the SFAS No. 121 model was also retained which requires an asset to be measured at the lower of its carrying amount or fair value less cost to sell and to cease depreciation. SFAS No. 144 establishes criteria beyond that previously specified in SFAS No. 121 to determine when a long-lived asset is held for sale. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and is generally to be applied prospectively. The Company is currently evaluating the impact of SFAS No. 144; however, it is not expected that the adoption of SFAS No. 144 will have a material impact on the Company's financial position or results of operations.

Note B—Divestiture Program and Restructuring Charges

In April 2001, the Company announced a strategic plan designed to maximize shareholder value by strengthening its Hawaii and West Pacific operations and divesting most other holdings. The Company will maintain its operations in Hawaii, the West Pacific, American Samoa, a representative office in Japan, and a leasing office in Arizona.

In March 2001, the Company sold its credit card portfolio.

In April 2001, the Company's U.S. Mainland subsidiary, Pacific Century Bank, N.A., sold its nine-branch Arizona franchise.

In April 2001, the Company sold its entire investment in the Bank of Queensland Limited in Australia. The Company's convertible notes were sold back to the Bank of Queensland Limited and its common share investment was sold to a private Australian investor.

Between August 2001 and October 2001, the Company closed its Asian branches.

In September 2001, the Company completed the sale of Pacific Century Bank, N.A.'s 19 branch franchise in Southern California.

In November 2001, the Company completed the sale of its operations in Papua New Guinea and Vanuatu. The sale of its Fiji operations was finalized in December 2001. The transaction included two branches in Papua New Guinea, two in Vanuatu and three in Fiji.

In December 2001, the Company sold its approximately 95% share interest in its French Polynesia and New Caledonia operations. The sale included all 17 branches of Bank of Hawaii's subsidiary bank in French Polynesia, Banque de Tahiti, and all eight branches of its subsidiary bank in New Caledonia, Bank of Hawaii-Nouvelle Calédonie.

In connection with the implementation of the strategic plan and the divestiture program, the Company recognized restructuring and other related costs as follows:

	Year Ended December 31, 2001
	(dollars in thousands)
Foreign Currency Translation Losses	\$ 30,600
Write-down of Goodwill	15,500
Employee Termination Costs	26,900
Asset Impairments	7,500
Unrecoverable Investments	6,100
Professional Fees	9,300
Other	8,894
Total	<u>\$104,794</u>

The following schedule reflects the activity in the restructuring accrual:

	Total
	(dollars in thousands)
Balance at December 31, 2000	\$ —
Accruals	29,400
Payments	(13,600)
Reversals	(4,000)
Balance at December 31, 2001	<u>\$ 11,800</u>

The remaining accrual of \$11.8 million, which is a component of other liabilities, was comprised of \$7.8 million in severance for 65 employees primarily in the South Pacific, \$0.4 million for lease terminations and \$3.6 million for other costs associated with the divested businesses.

In the third quarter of 1999, the Company recorded a restructuring charge of \$22.5 million in connection with a redesign program to enhance revenues, improve efficiencies and reduce expenses. Implementation of this project was completed on September 30, 2000. Included in the restructuring charge were direct and incremental costs associated with the project, including severance payments, lease termination costs and losses on the disposal of fixed assets.

Note C—Investment Securities

The following presents the details of the investment securities portfolio:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(dollars in thousands)			
At December 31, 2001				
Securities Held to Maturity:				
Debt Securities Issued by the U.S. Treasury and Agencies	\$ 20,799	\$ 7	\$ (30)	\$ 20,776
Debt Securities Issued by State and Municipalities of the United States	3,720	191	—	3,911
Mortgage-Backed Securities	366,314	11,464	(10)	377,768
Other Debt Securities	5,383	—	—	5,383
Total	<u>\$ 396,216</u>	<u>\$11,662</u>	<u>\$ (40)</u>	<u>\$ 407,838</u>
Securities Available for Sale:				
Equity Securities	\$ 1,382	\$ —	\$ —	\$ 1,382
Debt Securities Issued by the U.S. Treasury and Agencies	83,689	2,220	—	85,909
Debt Securities Issued by State and Municipalities of the United States	6,453	265	(1)	6,717
Mortgage-Backed Securities	1,854,732	38,451	(3,339)	1,889,844
Other Debt Securities	17,272	296	—	17,568
Total	<u>\$1,963,528</u>	<u>\$41,232</u>	<u>\$(3,340)</u>	<u>\$2,001,420</u>
At December 31, 2000				
Securities Held to Maturity:				
Restricted Equity Securities	\$ 4,986	\$ —	\$(4,537)	\$ 449
Debt Securities Issued by the U.S. Treasury and Agencies	6,812	—	(39)	6,773
Debt Securities Issued by State and Municipalities of the United States	3,984	303	—	4,287
Debt Securities Issued by Foreign Governments	15,185	3,446	—	18,631
Mortgage-Backed Securities	547,463	7,412	(1,093)	553,782
Other Debt Securities	5,157	—	—	5,157
Total	<u>\$ 583,587</u>	<u>\$11,161</u>	<u>\$(5,669)</u>	<u>\$ 589,079</u>
Securities Available for Sale:				
Equity Securities	\$ 24,740	\$ —	\$ (86)	\$ 24,654
Debt Securities Issued by the U.S. Treasury and Agencies	195,920	1,262	(147)	197,035
Debt Securities Issued by State and Municipalities of the United States	11,634	126	(18)	11,742
Debt Securities Issued by Foreign Governments	3,936	—	—	3,936
Mortgage-Backed Securities	2,235,987	9,599	(8,426)	2,237,160
Other Debt Securities	33,502	1,391	(61)	34,832
Total	<u>\$2,505,719</u>	<u>\$12,378</u>	<u>\$(8,738)</u>	<u>\$2,509,359</u>

The following presents an analysis of the contractual maturities of the investment securities portfolio as of December 31, 2001:

	<u>Amortized Cost</u>	<u>Fair Value</u>
	(dollars in thousands)	
Securities Held to Maturity		
Due in One Year or Less	\$ 24,299	\$ 24,460
Due After One Year Through Five Years	4,810	4,810
Due After Five Years Through Ten Years	793	800
	<u>29,902</u>	<u>30,070</u>
Mortgage-Backed Securities	366,314	377,768
	<u>\$ 396,216</u>	<u>\$ 407,838</u>
Securities Available for Sale		
Due in One Year or Less	\$ 4,566	\$ 4,637
Due After One Year Through Five Years	38,282	39,963
Due After Five Years Through Ten Years	46,834	47,540
Due After Ten Years	17,732	18,054
	<u>107,414</u>	<u>110,194</u>
Mortgage-Backed Securities	1,854,732	1,889,844
Equity Securities	1,382	1,382
	<u>\$1,963,528</u>	<u>\$2,001,420</u>

Investment securities carried at \$2,318,966,000 and \$2,876,547,000 were pledged to secure deposits of certain public (governmental) entities, repurchase agreements and swap agreements at December 31, 2001 and 2000, respectively. The December 31, 2001 amount included investment securities with a carrying value of \$1,818,534,000 and a market value of \$1,856,408,000 which were pledged as collateral for repurchase agreements.

The following presents gross gains and losses and proceeds from sales and maturities of Securities Available for Sale:

	<u>Gross Gains & Losses on Securities Available for Sale</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(dollars in thousands)		
Gross Gains on Sales of Securities	\$ 37,779	\$ 364	\$ 16,562
Gross Losses on Sales of Securities	3,397	1,312	2,867
Net Gains(Losses) on Sales of Securities Available for Sale	<u>\$ 34,382</u>	<u>\$ (948)</u>	<u>\$ 13,695</u>
Proceeds from Sales and Maturities of Securities Available for Sale	<u>\$1,351,460</u>	<u>\$180,739</u>	<u>\$1,267,473</u>

Taxes related to 2001 gains and losses were \$13,804,000. The cumulative, other comprehensive income from investment securities was \$22,968,000 (net of taxes) as of December 31, 2001.

Note D—Loans

Loans consisted of the following:

	December 31				
	2001	2000	1999	1998	1997
	(dollars in millions)				
Domestic Loans					
Commercial	\$1,175.5	\$2,433.6	\$2,483.3	\$2,570.7	\$2,095.9
Real Estate					
Construction	169.6	307.4	328.9	299.8	281.0
Mortgage—Residential	2,419.4	2,558.8	2,233.5	2,165.1	2,369.3
—Commercial	640.7	1,125.5	1,244.8	1,139.1	1,354.5
Installment	729.7	1,001.9	1,007.6	1,015.2	1,144.0
Lease Financing	493.4	539.8	450.6	389.6	366.3
Total Domestic Loans	<u>5,628.3</u>	<u>7,967.0</u>	<u>7,748.7</u>	<u>7,579.5</u>	<u>7,611.0</u>
Foreign Loans					
Banks and Other Financial Institutions	1.4	132.6	207.7	158.2	207.7
Commercial	22.8	744.8	943.4	1,281.5	1,074.9
Other	—	390.2	439.2	349.4	298.8
Total Foreign Loans	<u>24.2</u>	<u>1,267.6</u>	<u>1,590.3</u>	<u>1,789.1</u>	<u>1,581.4</u>
Total Loans	<u>\$5,652.5</u>	<u>\$9,234.6</u>	<u>\$9,339.0</u>	<u>\$9,368.6</u>	<u>\$9,192.4</u>

Total loans are net of unearned income totaling \$204,549,906 and \$253,902,354 as of December 31, 2001 and 2000, respectively.

The Company's lending activities are concentrated in its primary geographic markets of Hawaii, the West Pacific and American Samoa.

Commercial and mortgage loans totaling \$1,389,789,000 and \$904,015,000 were pledged to secure certain public deposits and Federal Home Loan Bank advances at December 31, 2001 and 2000, respectively.

The Company is the lessor in various leveraged lease agreements beginning from as far back as 1987 under which airplanes, railcars and water craft, with estimated economic lives ranging from 20 to 36 years are leased for terms up to 20 years. The Company's equity investment typically represents approximately 21.5 percent of the purchase price; with the remaining percentage being furnished 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. At the end of the lease terms, the assets are turned back to the Company. The residual value at that time is estimated to be a certain percentage of the costs. For federal income tax purposes, the Company receives the investment tax credit and has the benefit of tax deductions for depreciation on the entire leased asset and for interest on the long-term debt. During the early years of the leases those deductions exceed the lease rental income, substantial income tax deductions are available to be applied against the Company's other income. In the later years of the leases, rental income will exceed the deductions and taxes will be payable. Deferred taxes are provided to reflect this reversal.

The Company's net investment in leveraged leases is composed of the following elements:

	December 31	
	2001	2000
	(dollars in thousands)	
Rentals receivable (net of principal and interest on nonrecourse debt)	\$ 262,023	\$ 264,162
Estimated residual value of leased assets	151,432	170,362
Less: Unearned and deferred income	<u>(121,607)</u>	<u>(131,149)</u>
Investment in leverage leases	291,848	303,375
Less: Deferred taxes arising from leveraged leases	<u>(183,634)</u>	<u>(179,407)</u>
Net Investment in leveraged leases	<u>\$ 108,214</u>	<u>\$ 123,968</u>

Certain directors and executive officers of the Company, its subsidiary companies, companies in which they are principal owners, and trusts in which they are involved, have loans with the Company subsidiaries. These loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements. Such loans at December 31, 2001 and 2000 amounted to \$19,814,317 and \$22,648,174, respectively. During 2001, the activity in these loans included new borrowings of \$2,972,094, repayments of \$2,736,961, and other reductions of \$3,068,990. Other reductions were attributable to individuals no longer being considered insiders and loan portfolios being sold.

Activity in the allowance for loan and lease losses was as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(dollars in millions)				
Balance of Allowance for Loan and Lease Losses					
Beginning of Period	\$ 246.2	\$ 194.2	\$ 211.3	\$ 174.4	\$ 167.8
Loans Charged-Off					
Commercial	(97.5)	(22.1)	(18.5)	(15.3)	(12.7)
Real Estate:					
Construction	(0.1)	(0.6)	(1.4)	—	—
Mortgage—Commercial	(19.2)	(15.2)	(4.5)	(2.5)	(1.3)
—Residential	(8.9)	(6.5)	(7.8)	(2.9)	(1.9)
Installment	(20.5)	(20.1)	(25.1)	(25.8)	(28.1)
Foreign	(22.0)	(45.8)	(45.8)	(34.8)	(10.6)
Lease Financing	(0.8)	(0.5)	(0.2)	(0.7)	(0.5)
Total Charge-Offs	(169.0)	(110.8)	(103.3)	(82.0)	(55.1)
Recoveries on Loans Previously Charged-Off					
Commercial	11.1	5.5	14.0	2.8	16.4
Real Estate:					
Construction	—	—	0.1	0.1	—
Mortgage—Commercial	3.2	0.6	1.6	1.2	0.6
—Residential	1.0	1.1	0.6	0.2	1.0
Installment	8.0	6.9	7.6	6.4	6.3
Foreign	24.1	7.3	5.6	5.6	0.6
Lease Financing	0.2	—	—	—	—
Total Recoveries	47.6	21.4	29.5	16.3	24.9
Net Loan Charge-Offs	(121.4)	(89.4)	(73.8)	(65.7)	(30.2)
Provisions Charged to Operating Expense	74.3	142.9	60.9	84.0	30.3
Allowance Related to Divestitures	(40.2)	—	—	—	—
Other ¹	0.1	(1.5)	(4.2)	18.6	6.5
Balance at End of Period	<u>\$ 159.0</u>	<u>\$ 246.2</u>	<u>\$ 194.2</u>	<u>\$ 211.3</u>	<u>\$ 174.4</u>
Average Loans Outstanding	\$7,719.6	\$9,415.9	\$9,259.6	\$9,289.3	\$8,877.9
Ratio of Net Charge-Offs to Average Loans					
Outstanding	1.57%	0.95%	0.80%	0.71%	0.34%
Ratio of Allowance to Loans and Leases Outstanding ...	2.81%	2.67%	2.08%	2.26%	1.90%

Details of the foreign allowance for loan and lease losses, which is included in the table above, are as follows:

Beginning Balance	\$ 73.3	\$ 78.4	\$ 74.7	\$ 31.0	\$ 28.4
Charge-Offs	(22.0)	(45.8)	(45.8)	(34.8)	(10.6)
Recoveries	24.1	7.3	5.6	5.6	0.6
Net Loan (Charge-Offs) Recoveries	2.1	(38.5)	(40.2)	(29.2)	(10.0)
Provisions Charged to Operating Expense	6.4	34.7	42.2	54.2	17.6
Allowance Related to Divestitures	(23.8)	—	—	—	—
Other ¹	(57.4)	(1.3)	1.7	18.7	(5.0)
Balance at End of Period	<u>\$ 0.6</u>	<u>\$ 73.3</u>	<u>\$ 78.4</u>	<u>\$ 74.7</u>	<u>\$ 31.0</u>

¹ Includes balance transfers, allowance acquired and foreign currency translation.

The following table presents information on impaired loans as of December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
	(dollars in thousands)	
Recorded Investment in Impaired Loans not Requiring an Allowance for Loan and Lease Losses	\$25,338	\$ 15,170
Recorded Investment in Impaired Loans Requiring an Allowance for Loan and Lease Losses	<u>41,849</u>	<u>205,878</u>
Recorded Investment in Impaired Loans	<u>\$67,187</u>	<u>\$221,048</u>
Allowance for Losses on Impaired Loans	\$10,626	\$ 53,631
Average Recorded Investment in Impaired Loans During the Year	\$89,575	\$150,334

Servicing assets are summarized in the following table:

	<u>2001</u>	<u>2000</u>
	(dollars in thousands)	
Balance at Beginning of Year	\$16,195	\$15,215
Originated Mortgage Servicing Rights	9,490	1,840
Purchased Servicing Rights	7,159	2,049
Mortgage Servicing Rights Valuation	(207)	—
Amortization	<u>(5,346)</u>	<u>(2,909)</u>
Balance at End of Year	<u>\$27,291</u>	<u>\$16,195</u>
Fair Value at End of Year	<u>\$34,721</u>	<u>\$36,618</u>

As of December 31, 2001 and 2000, the Company's loan servicing portfolio totaled \$3,761,955,000 and \$2,847,839,000, respectively.

Note E—Premises and Equipment

The following is a summary of premises and equipment:

	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
	(dollars in thousands)		
December 31, 2001			
Premises	\$269,028	\$(125,983)	\$143,045
Capital Leases	4,464	(1,607)	2,857
Equipment	<u>199,288</u>	<u>(149,019)</u>	<u>50,269</u>
	<u>\$472,780</u>	<u>\$(276,609)</u>	<u>\$196,171</u>
December 31, 2000			
Premises	\$320,155	\$(139,096)	\$181,059
Capital Leases	4,464	(1,429)	3,035
Equipment	<u>242,229</u>	<u>(171,702)</u>	<u>70,527</u>
	<u>\$566,848</u>	<u>\$(312,227)</u>	<u>\$254,621</u>

Depreciation and amortization (including capital lease amortization) included in non-interest expense were \$42,719,000, \$45,562,000 and \$42,068,000 in 2001, 2000 and 1999, respectively.

The Company leases certain branch premises and data processing equipment with lease terms extending through 2055. Most of the leases for premises provide for a base rent over a specified period with renewal options thereafter. Portions of certain properties are subleased for periods expiring in various years through 2010. Lease terms generally provide for the Company to pay taxes, maintenance and other operating costs.

Future minimum payments, by year and in the aggregate, for non-cancelable operating leases with initial or remaining terms of one year or more and capital leases consisted of the following at December 31, 2001:

	<u>Capital Leases</u>	<u>Operating Leases</u>
	(dollars in thousands)	
2002	\$ 7	\$ 8,034
2003	605	7,033
2004	605	8,355
2005	605	7,522
2006	605	4,782
Thereafter	<u>32,505</u>	<u>67,813</u>
Total Minimum Lease Payments	\$34,932	<u>\$103,539</u>
Amounts Representing Interest	<u>26,575</u>	
Present Value of Net Minimum Lease Payments	<u>\$ 8,357</u>	

Minimum future rentals receivable under subleases for non-cancelable operating leases at December 31, 2001, amounted to \$4,382,000.

Rental expense for all operating leases for the years ended December 31, 2001, 2000 and 1999 was as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(dollars in thousands)		
Minimum Rentals	\$18,184	\$22,934	\$21,867
Sublease Rental Income	<u>(1,489)</u>	<u>(1,490)</u>	<u>(1,331)</u>
	<u>\$16,695</u>	<u>\$21,444</u>	<u>\$20,536</u>

Note F—Deposits

Time deposits with balances of \$100,000 or more totaled \$1,285,722,000 at December 31, 2001. Of this amount, \$37,788,570 consisted of deposits of public (governmental) entities, which require collateralization by acceptable securities. The majority of deposits in the foreign category were in denominations of \$100,000 or more.

Maturities of time deposits of \$100,000 or more at December 31, 2001, were as follows:

	<u>Domestic</u>	<u>Foreign</u>
	(dollars in thousands)	
Under 3 Months	\$ 548,417	\$264,114
3 to 6 Months	164,927	6,051
7 to 12 Months	150,070	3,802
Greater than 1 to 2 Years	97,418	—
Greater than 2 to 3 Years	25,257	895
Greater than 3 to 4 Years	1,085	—
Greater than 4 to 5 Years	20,356	—
Greater than 5 Years	<u>3,330</u>	<u>—</u>
	<u>\$1,010,860</u>	<u>\$274,862</u>

Note G—Short-Term Borrowings

Details of short-term borrowings for 2001, 2000 and 1999 were as follows:

	<u>Funds Purchased</u>	<u>Securities Sold Under Agreements to Repurchase</u>	<u>Commercial Paper</u>	<u>Other Short-Term Borrowings</u>
	(dollars in thousands)			
2001				
Amounts Outstanding at December 31	\$ 55,800	\$1,643,444	\$104,127	\$ 30,095
Average Amount Outstanding During Year	219,631	1,670,116	103,323	112,495
Maximum Amount Outstanding at any month end . . .	553,779	1,922,586	144,105	186,514
Weighted Average Interest Rate During Year ¹	4.60%	4.66%	4.90%	4.02%
Weighted Average Interest Rate End of Year	1.25%	2.95%	4.59%	4.86%
2000				
Amounts Outstanding at December 31	\$ 413,241	\$1,655,173	\$154,664	\$ 56,817
Average Amount Outstanding During Year	518,916	1,702,129	119,472	256,854
Maximum Amount Outstanding at any month end . . .	742,085	1,806,197	175,142	432,016
Weighted Average Interest Rate During Year ¹	6.29%	6.14%	5.81%	4.68%
Weighted Average Interest Rate End of Year	5.77%	6.42%	6.04%	5.19%
1999				
Amounts Outstanding at December 31	\$ 839,962	\$1,490,655	\$ 97,319	\$361,643
Average Amount Outstanding During Year	821,755	1,868,485	111,894	212,676
Maximum Amount Outstanding at any month end . . .	1,351,672	2,100,987	172,290	361,643
Weighted Average Interest Rate During Year ¹	5.07%	4.93%	4.81%	3.31%
Weighted Average Interest Rate End of Year	4.62%	5.37%	5.00%	5.46%

¹ Average rates for the year are computed by dividing actual interest expense on borrowings by average daily borrowings.

Funds purchased generally mature on the day following the date of purchase.

Securities sold under agreements to repurchase are accounted for as financing transactions and the obligations to repurchase these securities are recorded as liabilities in the Consolidated Statements of Condition. The securities underlying the agreements to repurchase continue to be reflected as assets of the Company and are delivered to and held in collateral accounts with third party trustees. At December 31, 2001, the weighted average contractual maturity of these agreements was 109 days and consisted of transactions with public (governmental) entities, primarily the State of Hawaii, \$1.1 billion, and local municipalities, \$0.5 billion. A schedule of maturities of repurchase agreements follows:

	<u>2001</u>
	(dollars in thousands)
Overnight	\$ —
Less than 30 days	244,968
30 to 90 days	623,916
Over 90 days	774,560
	<u>\$1,643,444</u>

Commercial paper is issued in various denominations generally maturing 90 days or less from date of issuance.

At December 31, 2001, other short-term borrowings consisted mainly of Federal Home Loan Bank advances and Treasury Tax and Loan Balances. The Federal Home Loan Bank advance totaling \$20.0 million bears interest at rates from 6.42% to 6.63% and matures within one year. Treasury Tax and Loan Balances represent tax payments collected on behalf of the U.S. Government, which are callable at any time and bear market interest rates.

A line of credit totaling \$25,000,000 is maintained for working capital purposes. At December 31, 2001 there was no amount drawn on this line. Fees related to this line were \$32,000 in 2001. This line of credit was discontinued in January 2002.

Note H—Long-Term Debt

Amounts outstanding as of December 31, 2001 and 2000 were as follows:

	<u>2001</u>	<u>2000</u>
	(dollars in thousands)	
8.25% Capital Securities	\$100,000	\$ 100,000
Privately Placed Notes	91,286	90,000
Federal Home Loan Bank Advances	26,500	144,645
Subordinated Notes	243,572	243,476
Foreign Debt	—	36,946
Capitalized Lease Obligations	8,377	7,820
Other Long-Term Debt	—	770
	<u>\$469,735</u>	<u>\$ 623,657</u>

The \$100 million 8.25% Capital Securities (the Securities) were issued in 1996 by Bancorp Hawaii Capital Trust I, a grantor trust wholly-owned by the Company. The Securities bear a cumulative fixed interest rate of 8.25% and mature on December 15, 2026. Interest payments are semi-annual. In addition, the Company has entered into an expense agreement with the trust obligating the Company to pay any costs, expenses or liabilities of the trust, other than obligations of the trust to pay amounts due pursuant to the terms of the Securities. The sole assets of the trust are Junior Subordinated Debt Securities (the Debt) issued by the Company to the trust. The Debt is redeemable prior to the stated maturity at the Company’s option. The Securities are subject to mandatory redemption upon repayment of the related Debt at their stated maturity dates or their earlier redemption at a redemption price equal to their liquidation amount plus accrued distributions to the date fixed for redemption and the premium, if any, paid by the Company upon concurrent repayment of the related Debt. The Company has issued guarantees for the payment of distributions and payments on liquidation or redemption of the Securities, but only to the extent of funds held by the trust. The guarantees are junior subordinated obligations of the Company. Distributions to securities holders may be deferred for up to five consecutive years. During any such deferred period the Company’s ability to pay dividends on its common shares will be restricted. The Federal Reserve has announced that certain cumulative preferred securities, having the characteristics of the Securities, qualify as minority interest, which is included in Tier 1 capital for bank holding companies.

Privately placed notes issued by the Company, including fair value adjustments, totaled \$91 million at December 31, 2001. These notes carry seven year terms and bear floating interest rates of 10 to 25 basis points above the three-month LIBOR rate, which was 1.88% at December 31, 2001. No new notes were issued in 2001.

Federal Home Loan Bank (FHLB) advances bear interest at rates from 5.38% to 8.00% and mature from 2002 through 2006. Long-term FHLB advances that mature within the next year were classified as current on the Consolidated Statements of Condition. At December 31, 2001, loans totaling \$496,520,000 and FHLB stock totaling \$101,884,000 were pledged to secure these advances.

Total subordinated notes issued by Bank of Hawaii include \$118,891,000 issued in 1993 and \$124,585,000 issued in 1999 under the Bank’s \$1 billion note programs that mature in 2003 and 2009, respectively. These notes bear a fixed interest rate of 6.875%.

Bank of Hawaii converted its existing revolving note program into a \$1 billion revolving senior and subordinated note program. Under the terms of this program Bank of Hawaii may issue additional notes provided that at any time the aggregate amount outstanding does not exceed \$1 billion.

Capitalized lease obligations relate to office space at the headquarters of the Company and Bank of Hawaii. The lease began in 1993 and has a 60 year term. Lease payments are fixed at \$7,000 per year through 2002, \$605,000 per year from 2003 to 2007, and \$665,000 per year from 2008 to 2012 and are negotiable thereafter.

As of December 31, 2001, principal payments on long-term debt are expected to be:

	(in thousands)
2002	\$ —
2003	126,936
2004	6,000
2005	101,286
2006	2,500
Thereafter	<u>233,013</u>
Total	<u>\$469,735</u>

Note I—Shareholders' Equity

The Company's consolidated banking subsidiaries, Bank of Hawaii and First Savings, are subject to federal regulatory restrictions that limit cash dividends and loans to the Company. As of December 31, 2001, approximately \$564,234,000 of undistributed earnings of the Company's consolidated subsidiaries are available for distribution to the Company without prior regulatory approval.

In evaluating capital adequacy, federal regulators require bank holding companies and insured depository institutions to maintain three capital ratios at specific minimum levels. Tier 1 Capital (common shareholders' equity reduced by certain intangibles and increased for qualifying preferred shares and minority interests) expressed as a percentage of average risk weighted assets is the Tier 1 Capital Ratio. Total Capital (Tier 1 capital plus qualifying portions of the reserve for loan and lease losses) expressed as a percentage of average risk weighted assets is the Total Capital Ratio. The third ratio is the Leverage Ratio which is Tier 1 Capital divided by average assets.

The Federal Deposit Insurance Corporation Improvement Act of 1991 requires federal banking regulators to take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements. For purposes of applying the prompt corrective action framework, federal bank regulators group institutions into five categories based on their capital ratios: "well capitalized," "adequately capitalized," "under capitalized," "significantly undercapitalized" and "critically undercapitalized." Institutions that fail to meet the applicable capital requirements are subject to increased regulatory monitoring and certain other enforcement actions that could include restricting dividend payments.

As of December 31, 2001, the Company, Bank of Hawaii, and First Savings were all well capitalized under the regulatory provisions for prompt and corrective action. There were no conditions or events since year-end that management believes have changed the Company's or its subsidiaries' capital ratings.

The table below sets forth the minimum required capital for well capitalized institutions and the actual capital amounts and ratios for the Company and its depository subsidiaries at December 31, 2001 and 2000:

	Well-Capitalized Minimum Ratio	Pacific Century Financial Corp	Bank of Hawaii	Pacific Century Bank, N.A.	First Savings
		(dollars in thousands)			
At December 31, 2001					
Shareholders' Equity		\$1,247,012	\$1,086,247	N/A	\$46,759
Tier 1 Capital		1,297,369	1,040,575	N/A	46,759
Total Capital		1,528,793	1,271,514	N/A	47,947
Tier 1 Capital Ratio	6%	19.76%	15.96%	N/A	50.34%
Total Capital Ratio	10%	23.29%	19.51%	N/A	51.62%
Leverage Ratio	5%	11.20%	9.16%	N/A	27.91%
At December 31, 2000					
Shareholders' Equity		\$1,301,356	\$1,100,243	\$162,758	\$46,653
Tier 1 Capital		1,239,552	1,044,150	149,276	46,653
Total Capital		1,541,225	1,334,519	162,455	47,942
Tier 1 Capital Ratio	6%	11.78%	11.17%	14.22%	46.18%
Total Capital Ratio	10%	14.64%	14.23%	15.48%	47.46%
Leverage Ratio	5%	9.10%	8.48%	12.54%	25.02%

The following are the components of accumulated other comprehensive income as of December 31, 2001, 2000 and 1999:

	2001	2000	1999
	(dollars in thousands)		
Foreign Currency Translation Adjustment	\$ 582	\$(26,684)	\$(22,411)
Investment Securities Valuation	22,968	2,235	(43,065)
Pension Liability Adjustment	(789)	(630)	(630)
Accumulated Other Comprehensive Income	<u>\$22,761</u>	<u>\$(25,079)</u>	<u>\$(66,106)</u>

For the years ended December 31, 2001, 2000 and 1999, the adjustment of gains and losses on Investment Securities Available for Sale that were included in net income and that have also been included in other comprehensive income as unrealized holding gains in the period in which they arose were as follows:

	2001	2000	1999
	(dollars in thousands)		
Investment Securities Valuation Adjustment on Available for Sale			
Securities	\$ 42,106	\$44,279	\$(35,540)
Adjustment for Realized Amounts Included in Income	(21,373)	1,021	(9,263)
Unrealized investment securities valuation adjustment included in other			
accumulated comprehensive income	<u>\$ 20,733</u>	<u>\$45,300</u>	<u>\$(44,803)</u>

The amount of income tax allocated to each component of comprehensive income for the years ended December 31, 2001, 2000 and 1999 was as follows:

	2001	2000	1999
	(dollars in thousands)		
Foreign Currency Translation Adjustment	\$14,682	\$(2,301)	\$ 621
Investment Securities	13,822	30,200	(29,869)
Pension Liability Adjustment	(86)	—	10

Note J—International Operations

The following table provides selected financial data for the Company's international operations for the years ended December 31, 2001, 2000 and 1999:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(dollars in thousands)		
International			
Average Assets	\$2,039,686	\$2,891,364	\$3,413,003
Average Loans	1,026,360	1,467,923	1,702,188
Average Deposits	1,653,678	2,080,728	2,481,802
Operating Revenue	199,094	236,720	252,060
Income Before Taxes	16,646	7,302	6,486
Net Income (Loss)	3,805	(181)	(1,374)

Average assets include short-term interest-bearing deposits with foreign branches of U.S. banks and large international banks. On average, these deposits were \$834,973,000, \$354,391,000 and \$577,257,000 during 2001, 2000 and 1999, respectively.

To measure international profitability, the Company maintains an internal transfer pricing system that makes certain income and expense allocations, including interest expense for the use of domestic funds. Interest rates used in determining charges on advances of funds are based on prevailing deposit rates. Overhead is allocated based on services rendered by administrative units to profit centers.

As discussed in Note B, in 2001 the Company divested its South Pacific banking operations and closed all branches in the Asia Division, except for a representative office in Japan.

Note K—Contingent Liabilities

The Company is a defendant in various legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. After consultation with legal counsel, management does not anticipate that the disposition of these proceedings and contingent liabilities will have a material effect upon the Consolidated Financial Statements.

Note L—Employee Benefits

A deferred-compensation profit sharing plan (Profit Sharing Plan) is provided for the benefit of all employees of the Company and its subsidiaries who have met the Profit Sharing Plan's eligibility requirements. Contributions to the Profit Sharing Plan are at the sole discretion of the Company's Board of Directors. Participants in the Profit Sharing Plan receive up to 50% of their annual allocation in cash. The remaining amounts are deferred and may be invested in various options including mutual funds, a collective trust, and common shares of the Company. The Company's contributions to the Profit Sharing Plan totaled \$3,687,000 in 2001, \$4,569,000 in 2000, \$6,849,000 in 1999. The Profit Sharing Plan provides for a company match of \$1.25 for each \$1.00 in 401(k) contributions made by qualified employees up to a maximum of 2% of the employee's compensation. For 2001, 2000 and 1999, matching contributions under this plan totaled \$2,945,000, \$3,169,000 and \$3,176,000, respectively.

The Company has a defined-contribution money purchase plan (Money Purchase Plan) under which it contributes 4% of an employee's compensation for employees meeting certain eligibility and vesting requirements. The Money Purchase Plan has a one year eligibility requirement and a five year vesting period. For 2001, 2000 and 1999, the Company contributed \$5,122,000, \$5,553,000 and \$5,898,000, respectively, to the Money Purchase Plan.

The Company also has an Excess Profit Sharing Plan and an Excess Money Purchase Plan, which cover certain employees for amounts exceeding the limits under those plans.

In 1995, the Company froze its non-contributory, qualified defined-benefit retirement plan (Retirement Plan) and excess retirement plan (Excess Plan), which covered employees of the Company and participating subsidiaries who met certain eligibility requirements. The Company's funding policy is to contribute annually an amount that falls within the minimum and maximum range deductible for income tax purposes. Beginning December 31, 2000, the Retirement Plan no longer provides for compensation increases in the determination of benefits. Retirement Plan assets are managed by investment advisors in accordance with investment policies established by the plan trustees.

Retirement Plan investments primarily consist of marketable securities including stocks, U.S. Government agency securities, a money market fund, mutual funds, and a collective investment fund. The assets of the Retirement Plan include securities of related parties (Pacific Capital Funds, a Pacific Century Trust collective investment fund, and a Pacific Century Trust money market fund). Pacific Century Trust is a division of Bank of Hawaii and either manages or advises the Pacific Capital Funds and the Pacific Century Trust collective investment fund and money market fund. The fair value of securities of related parties as of December 31, 2001 was \$22,600,000.

The Excess Plan is a non-qualified excess retirement benefit plan which covers certain employees of the Company and participating subsidiaries. The unfunded Excess Plan recognizes the liability to participants for amounts exceeding the limits allowed under the Retirement Plan.

For the Excess Plan, the accumulated benefit obligation exceeded the plan assets. Each of the projected benefit obligation, accumulated benefit obligation and accrued benefit liability were \$5.2 million as of December 31, 2001 and \$8.1 million as of December 31, 2000. Because the Excess Plan is unfunded, it has no plan assets.

The Company's Postretirement Benefit Plans provide retirees with group life, dental and medical insurance coverage. The cost of providing postretirement benefits are "shared costs" where both the employer and former employees pay a portion of the premium. Most employees of the Company and its subsidiaries who have met the eligibility requirements are covered by this plan. Beginning in 1993, the Company recognizes the transition obligation over 20 years. The Company has no segregated assets to provide postretirement benefits.

The following table sets forth the change in benefit obligation, change in fair value of plan assets, funded status, and net amount recognized in the Consolidated Statements of Condition for the aggregated pension plans (Retirement Plan and Excess Plan) and Postretirement Benefit Plans for the years ended December 31, 2001 and 2000.

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	(dollars in thousands)			
Change in Benefit Obligation				
Benefit Obligation at Beginning of Year	\$54,987	\$ 84,771	\$ 25,214	\$ 24,105
Service Cost	—	—	868	932
Interest Cost	3,886	5,142	1,768	1,716
Amendments	—	—	(517)	—
Obligation Settled	(3,483)	(35,070)	—	—
Obligation Curtailed	—	—	(768)	—
Actuarial (Gain) Loss	591	3,969	138	(597)
Employer Benefits Paid ¹	(1,529)	(3,825)	(1,009)	(942)
Benefit Obligation at End of Year	<u>\$54,452</u>	<u>\$ 54,987</u>	<u>\$ 25,694</u>	<u>\$ 25,214</u>
Change in Fair Value of Plan Assets				
Fair Value of Plan Assets at Beginning of Year	\$60,418	\$ 96,849	\$ —	\$ —
Actual Return on Plan Assets	(3,935)	2,966	—	—
Employer Contribution	4,358	481	1,009	942
Employer Benefits Paid	(1,529)	(3,825)	(1,009)	(942)
Settlement Benefits Paid	(3,925)	—	—	—
Annuity Purchased	—	(36,053)	—	—
Fair Value of Plan Assets at End of Year	<u>\$55,387</u>	<u>\$ 60,418</u>	<u>\$ —</u>	<u>\$ —</u>
Funded Status	\$ 935	\$ 5,431	\$(25,694)	\$(25,214)
Unrecognized Net Actuarial Gain/(Loss)	7,277	(2,088)	(11,977)	(12,432)
Unrecognized Transition (Asset) Obligation	—	—	7,188	8,358
Net Amount Prepaid (Accrued)	<u>\$ 8,212</u>	<u>\$ 3,343</u>	<u>\$(30,483)</u>	<u>\$(29,288)</u>
Amounts Recognized in the Consolidated Statements of Financial Condition Consist of:				
Prepaid Benefit Cost	\$12,152	\$ 10,439	\$ —	\$ —
Accrued Benefit Liability	(5,159)	(8,066)	(30,483)	(29,288)
Accumulated Other Comprehensive Income	1,219	970	—	—
Net Amount Prepaid (Accrued)	<u>\$ 8,212</u>	<u>\$ 3,343</u>	<u>\$(30,483)</u>	<u>\$(29,288)</u>

¹ Participants' contributions relative to the Postretirement Benefits Plan are offset against employer benefits paid in the above table. For the years ended December 31, 2001 and 2000, participants' contributions for postretirement benefits totaled \$698,000 and \$896,000, respectively. There were no participants' contributions in the pension plans.

Components of net periodic benefit cost for the aggregated pension plans and the Postretirement Benefit Plans are presented in the following table for the years ended December 31, 2001, 2000 and 1999.

	Pension Benefits			Postretirement Benefits		
	2001	2000	1999	2001	2000	1999
	(dollars in thousands)					
Components of Net Periodic (Benefit) Cost:						
Service Cost	\$ —	\$ —	\$ —	\$ 868	\$ 932	\$1,059
Interest Cost	3,886	5,142	6,305	1,768	1,716	1,709
Expected Return on Plan Assets	(5,440)	(7,157)	(7,425)	—	—	—
Amortization of Unrecognized Net Transition (Asset) Obligation	—	—	(315)	653	696	696
Recognized Net Actuarial (Gain) Loss	143	(724)	125	(317)	(616)	(399)
Net Periodic (Benefit) Cost	<u>\$(1,411)</u>	<u>\$(2,739)</u>	<u>\$(1,310)</u>	<u>\$2,972</u>	<u>\$2,728</u>	<u>\$3,065</u>

Assumptions used for the aggregated pension plans and Postretirement Benefit Plans at December 31, 2001, 2000 and 1999 are as follows:

	Pension Benefits			Postretirement Benefits		
	2001	2000	1999	2001	2000	1999
Weighted Average Assumptions as of December 31:						
Discount Rate	7.50%	7.50%	7.75%	7.50%	7.50%	7.75%
Expected Return on Plan Assets	9.00%	9.00%	9.00%	—	—	—
Rate of Compensation Increase	—	5.00%	5.00%	—	—	—

The medical cost trend rate for employees under the age of 65 was revised at December 31, 1998 to 8.0% for 1999 and leveling thereafter to 6.0%. The medical cost trend rate for employees over the age of 65 and the dental cost trend rate were both revised at December 31, 1998 to a flat rate of 6.0% per year. A one percent change in this assumption (with all other assumptions remaining constant) would impact the service and interest cost components of the net periodic postretirement benefit cost and the postretirement benefit obligation for 2001 as follows:

	One Percent Increase	One Percent Decrease
	(dollars in thousands)	
Effect on the total of service and interest cost components	\$ 242	\$ (196)
Effect on postretirement benefit obligation	\$1,663	\$(1,363)

Note M—Stock Compensation

The Company Stock Option Plans (the Plans) are administered by the Compensation Committee of the Board of Directors. The Plans provide participants with the option to purchase shares of common stock at a specified exercise price and dates not less than one year after the date the option was granted and expiring ten years from the date of grant. The exercise price is the fair market value of the shares on the date the option was granted. The Plans also provide certain participants with stock options in tandem with stock appreciation rights (SAR). A SAR entitles an optionee, in lieu of exercising the stock option, to receive cash equal to the excess of the market value of the shares as of the exercise date over the option price. The expense for the SARs recognized in the Consolidated Statements of Income was zero in 2001 and 2000 and \$370,000 in 1999.

The Company has a Director Stock Option Plan that grants restricted common shares to directors and requires directors to retain shares exercised throughout the service period as a director. The plan automatically grants annually an option for 3,000 shares and a restricted stock grant for 200 shares to each director of the Company. The exercise price is based on the closing market price of the shares on the date that the option was granted.

Each option expires on the tenth anniversary date of its grant and is generally not transferable. If an optionee ceases to serve as a director for any reason other than death, the option immediately terminates and any restricted shares that were previously acquired are subject to redemption at a price equal to the market value of the shares at the time of grant. As of December 31, 2001, 121,000 options were outstanding under this plan.

The following information relates to options outstanding for all the Plans as of December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Number of Shares Exercisable	Weighted Average Exercise Price
\$10.87–\$12.88	87,434	\$12.86	3.0	87,434	\$12.86
13.56–16.01	3,636,458	13.77	7.8	2,161,792	13.90
16.19–18.38	1,841,617	17.69	5.3	1,841,617	17.69
18.80–21.16	1,833,304	19.84	7.8	599,304	21.00
21.56–23.94	119,500	22.26	6.1	113,000	22.20
24.50–26.81	1,015,414	25.52	7.1	533,664	25.91
Total	<u>8,533,727</u>	17.43	7.1	<u>5,336,811</u>	17.37

The following table presents the activity of Stock Option Plans for the years ended December 31, 2001, 2000 and 1999:

	2001		2000		1999	
	Shares	Weighted Average Price	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding at January 1	7,981,150	\$16.66	5,079,388	\$18.65	4,787,562	\$17.99
Granted	1,791,250	20.95	3,487,650	13.65	1,014,000	18.69
Exercised ¹	(990,520)	17.00	(245,506)	12.81	(553,676)	12.44
Forfeited	(102,825)	15.46	(74,300)	18.28	(115,000)	18.79
Expired	(145,328)	23.36	(266,082)	21.24	(53,498)	24.33
Outstanding at December 31	<u>8,533,727</u>	\$17.43	<u>7,981,150</u>	\$16.66	<u>5,079,388</u>	\$18.65
Options Exercisable at December 31	5,336,811		4,794,250		4,105,388	
Shares Available for Future Grants	5,170,277		1,718,480		974,144	

¹ The price per share of options exercised on an actual exercise price basis ranged between \$12.88 and \$26.06 for 2001, \$10.87 and \$26.06 for 2000, and \$7.24 and \$21.13 for 1999.

The following table presents for the years ended December 31, 2001, 2000 and 1999 the pro forma disclosures of the impact that option grants would have had on net income and earnings per share had the grants been measured using the fair value of accounting prescribed by SFAS No. 123:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(dollars in thousands except per share and option data)		
<u>Pro Forma Data¹</u>			
Net Income	\$113,498	\$109,336	\$130,749
Basic Earnings Per Share	\$ 1.44	\$ 1.37	\$ 1.63
Diluted Earnings Per Share	\$ 1.41	\$ 1.37	\$ 1.61
Weighted Average Fair Value of Options Granted During the Year	\$ 5.76	\$ 3.76	\$ 5.37
Assumptions			
Average Risk Free Interest Rate	4.90%	5.81%	5.96%
Average Expected Volatility	31.25%	29.36%	31.47%
Expected Dividend Yield	3.21%	3.28%	3.18%
Expected Life	6 years	6 years	5 years

¹ The Black-Scholes option pricing model was used to develop the fair values of the grants.

During 2001 the Company granted restricted stock of 778,300 shares with a weighted average fair market value of \$21.76 per share. The shares vest over periods from three to five years from issuance, although accelerated vesting is provided in certain instances. Shares are cancelled if an employee terminates prior to the vesting date. During 2001, 50,500 shares were cancelled.

At the time of grant all shares were considered outstanding. The Company is recognizing compensation expense, measured as the quoted market price of the stock on the grant date, straight-line over the vesting period. The unearned compensation is shown as a separate component of stockholders' equity. Dividends are paid on the restricted stock.

Total compensation expense recognized by the Company for restricted stock in 2001 was \$2,743,000.

Note N—Income Taxes

The significant components of the provision for income taxes for the years ended December 31, 2001, 2000 and 1999 were as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(dollars in thousands)		
Current:			
Federal	\$ 86,593	\$22,495	\$38,340
State	25,155	7,469	11,970
Foreign	13,193	19,353	19,124
	<u>124,941</u>	<u>49,317</u>	<u>69,434</u>
Deferred:			
Federal	(10,959)	16,864	19,386
State	3,889	3,390	2,817
Foreign	4,293	(3,242)	1,092
	<u>(2,777)</u>	<u>17,012</u>	<u>23,295</u>
Provision for Income Taxes	<u>\$122,164</u>	<u>\$66,329</u>	<u>\$92,729</u>

The current income tax provision included taxes on gains and losses on the sale of securities of \$13,242,000, \$(580,000) and \$5,776,000 for 2001, 2000 and 1999, respectively. Deferred income taxes reflected the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2001 and 2000 reclassified based on the tax returns as filed, were as follows:

	<u>2001</u>	<u>2000</u>
	(dollars in thousands)	
Deferred Tax Liabilities:		
Lease Transactions	\$209,112	\$208,181
Deferred Investment Tax Credits	—	2,224
Accelerated Depreciation	(2,799)	154
Accrued Pension Cost	4,753	3,928
Net Unrealized Gains on Investment Securities Available for Sale	15,120	1,492
Other	3,816	4,881
Total Deferred Tax Liabilities	<u>230,002</u>	<u>220,860</u>
Deferred Tax Assets:		
Reserve for Loan and Lease Losses	57,075	87,226
Net Operating Loss Carry Forwards	—	4,293
Postretirement Benefits	12,682	12,076
Other	22,766	1,208
Foreign Tax Credit Carry Forwards	5,356	5,356
Total Deferred Tax Assets	<u>97,879</u>	<u>110,159</u>
Net Deferred Tax Liabilities	<u>\$132,123</u>	<u>\$110,701</u>

For financial statement purposes, the Company had deferred investment tax credits for property purchased for lease to customers of zero, \$2,224,000, and \$2,646,000 at December 31, 2001, 2000, and 1999, respectively. In 2001, 2000 and 1999, investment tax credits included in the computation of the provision for income taxes were \$2,224,000, \$422,000 and \$331,000, respectively. The Company has foreign tax credit carry forwards of approximately \$5,400,000 at December 31, 2001, which may be used to offset future federal income tax expense. The foreign tax credit carry forwards will expire at the end of 2005. Management expects to generate sufficient foreign source income to utilize the foreign tax credit carry forwards.

The following is a reconciliation of the Federal statutory income tax rate to the effective consolidated income tax rate for the years ended December 31, 2001, 2000 and 1999:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Statutory Federal Income Tax Rate	35.0%	35.0%	35.0%
Increase (Decrease) in Tax Rate Resulting From:			
State Taxes, Net of Federal Income Tax and Foreign Tax Adjustments	8.1	3.9	4.4
Tax-Exempt Interest Income	(0.2)	(0.3)	(0.3)
Intangibles, primarily Goodwill	13.6	2.0	1.6
Low Income Housing and Investment Tax Credits	(4.1)	(5.6)	(4.7)
Other ¹	(1.5)	1.9	5.1
Effective Tax Rate	<u>50.9%</u>	<u>36.9%</u>	<u>41.1%</u>

¹ For 1999, income taxes associated with the sale of a special purpose leasing subsidiary increased the effective tax rate by 3.5%.

For financial statement purposes, no deferred income tax liability was recorded for tax bad debt reserves that arose in tax years beginning before December 31, 1987. Such tax bad debt reserves totaled approximately \$18.2 million for which no provision for federal income taxes was provided. If these amounts are used for purposes other than to absorb bad debt losses, they will be subject to federal income taxes at the then applicable rates.

Note O—Derivative and Financial Instruments

The Company is a party to derivative financial instruments in the normal course of its business to meet the financing needs of its customers and to manage its own exposure to fluctuations in interest and foreign exchange rates. These financial instruments include commitments to extend credit, standby letters of credit, foreign exchange contracts, interest rate swaps, mortgage banking loan commitments and interest rate options.

As with any financial instrument, derivative instruments have inherent risks. Adverse changes in interest rate, foreign exchange rates, commodity prices and equity prices affect the Company's market risks. The market risks are balanced with the expected returns to enhance earnings performance and shareholder value, while limiting the volatility of each. The Company uses various processes to monitor the overall market risk exposure, including sensitivity analysis, value-at-risk valuations and other methodologies.

The Company's exposure to derivative credit risk is defined as the possibility of sustaining a loss due to the failure of the counterparty to perform in accordance with the terms of the contract. Credit risks associated with derivative financial instruments are similar to those relating to traditional on-balance sheet financial instruments. The Company manages derivative credit risk with the same standards and procedures applied to its commercial lending activity.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the terms or conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since commitments may expire without being drawn, the total commitment amount does not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on an individual basis. The amount of collateral obtained is based on management's credit evaluation of the customer. The type of collateral varies, but may include cash, accounts receivable, inventory, and property, plant and equipment. The amount of commitments outstanding is disclosed in Note P.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support borrowing agreements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds cash and deposits as collateral on those commitments for which collateral is deemed necessary. The amount of committed standby letters of credit is disclosed in Note P.

The Company's primary market risks are foreign exchange and interest rate risk. While the Company utilizes foreign exchange contracts to offset risk related to an asset or liability that is accounted for at fair value in the financial statements it has not designated any foreign exchange contracts as fair value hedges under SFAS No. 133 for operational purposes. Management has also not used a significant amount of derivative instruments to protect against the risk of interest rate movements on the value of certain assets and liabilities or on future cash flows of the Company and instead has tried to manage interest rate risk with other assets or liabilities.

From time to time the Company has utilized interest rate-swaps in managing its exposure to interest rate risk. These financial instruments require the exchange of fixed and floating rate interest payments based on the notional amount of the contract for a specified period. In prior years, the Company used interest rate swap agreements to effectively convert portions of its floating rate loan portfolio to fixed rate. At December 31, 2001 and 2000, no swaps were in effect.

Interest rate options, which primarily consist of caps and floors, are interest rate protection instruments that involve the obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current interest rates and an agreed upon rate applied to a notional amount. Exposure to loss on these options will increase or decrease over their respective lives as interest rates fluctuate. The Company may transact interest rate options on behalf of its customers. However, at December 31, 2001 and 2000, no interest rate options were in effect.

As discussed in Note A, on January 1, 2001 the Company adopted SFAS No. 133, as amended, which requires all derivative instruments to be carried at fair value on the Consolidated Statements of Condition and established new hedge accounting principles. As of December 31, 2001, the Company did not designate any derivative instruments as fair value, cash flows or net investment in foreign operations hedges and all free standing and embedded derivatives required to be bifurcated have been recorded at fair value in the results of operations.

The derivatives identified and recorded at fair value as of December 31, 2001 were as follows:

The total notional value of foreign exchange contracts outstanding was \$238.5 million and had a net fair value of \$0.7 million.

An embedded extended term option with a fixed interest rate on a commercial note for \$40.0 million issued by the Company to a third party was bifurcated and the resulting fair value of the option was recorded as an addition to long term debt and a \$1.3 million loss was recognized. The fair market value of the options was (\$1.3 million).

In the mortgage banking operations, the Company had a notional net loan sale commitment of \$20.0 million with a fair market value of \$(136,000). In addition, the Company had commitments to close mortgage loans at specific interest rates. The notional amount of these loan commitments was \$145.5 million with a fair value of (\$2.0 million).

Note P—Fair Values of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. When possible, fair values are measured based on quoted market prices for the same or comparable instruments. Because many of the Company's financial instruments lack an available market price, management must use its best judgment in estimating the fair value of those instruments based on present value or other valuation techniques. Such techniques are significantly affected by estimates and assumptions, including the discount rate, future cash flows, economic conditions, risk characteristics, and other relevant factors. These estimates are subjective in nature and involve uncertain assumptions and, therefore, cannot be determined with precision. Many of the derived fair value estimates cannot be substantiated by comparison to independent markets and could not be realized in immediate settlement of the instrument. Certain financial instruments and all non-financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Cash and Cash Equivalents: The carrying amounts reported in the balance sheet for cash and short-term investments approximated the fair value of these assets.

Investment Securities Held to Maturity, Investment Securities Available for Sale and Trading Securities: Fair values for investment securities were based on quoted market prices, where available. If quoted market prices were not available, fair values were based on quoted market prices of comparable instruments.

Loans: Fair values of loans were determined by discounting the expected future cash flows of pools of loans with similar characteristics. Loans were first segregated by type such as commercial, real estate, consumer, and foreign and were then further segmented into fixed and adjustable rate and loan quality categories. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

Deposit Liabilities: Fair values of non-interest bearing and interest bearing demand deposits and savings deposits were equal to the amount payable on demand (e.g., their carrying amounts) because these products have no stated maturity. Fair values of time deposits were estimated using discounted cash flow analyses. The discount rates used were based on rates currently offered for deposits with similar remaining maturities.

Short-Term Borrowings: The carrying amounts of securities sold under agreements to repurchase, funds purchased, commercial paper, and other short-term borrowings approximated their fair values.

Long-Term Debt: Fair values of long-term debt were estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowings.

Derivative and Financial Instruments: Fair values of derivative instruments (e.g., commitments to extend credit, standby letters of credit, commercial letters of credit, foreign exchange and swap contracts, and interest rate swap agreements) were based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing, current settlement values or quoted market prices of comparable instruments.

The following table presents the fair values of the Company's financial instruments at December 31, 2001 and 2000:

	2001		2000	
	<u>Book or Notional Value</u>	<u>Fair Value</u>	<u>Book or Notional Value</u>	<u>Fair Value</u>
	(dollars in thousands)			
Financial Instruments—Assets				
Loans ¹	\$5,453,500	\$5,601,100	\$8,591,300	\$8,968,100
Investment Securities ²	2,482,700	2,541,400	3,177,100	3,183,700
Other Financial Assets ³	1,060,600	1,060,600	327,100	327,100
Financial Instruments—Liabilities				
Deposits	6,173,200	6,185,500	9,101,600	9,101,800
Short-Term Borrowings ⁴	2,064,500	2,064,500	2,279,900	2,279,900
Long-Term Debt ⁵	572,600	592,700	997,200	1,048,000
Financial Instruments—Off-Balance Sheet				
Financial Instruments Whose Contract Amounts Represent Credit Risk:				
Commitments to Extend Credit	2,088,748	5,600	3,347,600	8,900
Standby Letters of Credit	75,300	35	290,700	1,500
Commercial Letters of Credit	23,800	20	125,900	300
Financial Instruments Whose Notional or Contract Amounts Exceed the Amount of Credit Risk:				
Foreign Exchange and Swap Contracts	238,500	5,100	1,087,400	24,400

¹ Includes loans and loans held for sale, net of unearned income and allowance for loan losses, and excludes net leases.

² Includes held to maturity, available for sale securities, and FRB and FHLB stock.

³ Includes interest-bearing deposits, funds sold and trading securities.

⁴ Includes securities sold under agreements to repurchase, funds purchased and short-term borrowings.

⁵ Excludes capitalized lease obligations.

Note Q—Business Segments

Business segment results are determined based on the Company's internal financial management reporting process and organizational structure. This process uses various techniques to assign balance sheet and income statement amounts to business segments, including allocations of overhead, credit loss provision, and capital. This process is dynamic and requires certain allocations based on judgment and subjective factors. Unlike financial accounting, there is no comprehensive, authoritative guidance for management accounting that is equivalent to generally accepted accounting principles. The management accounting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution.

The new organizational structure announced in April 2001 changed the lines of business that were used to analyze financial performance. Results for prior periods have been reclassified to facilitate comparability of the business segment results.

Because business segment financial reports are prepared using accounting practices that differ from accounting principles generally accepted in the United States, certain amounts reflected therein do not agree with corresponding amounts in the Consolidated Financial Statements.

The Company's business segments are as follows:

Retail Banking

The Company's Retail Banking franchise and market share in Hawaii and American Samoa are key strengths of the Company. Retail Banking provides checking and savings products for the consumer and small business segments, merchant services, installment, home equity and mortgage lending products, as well as other products and services.

Commercial Banking

The Commercial Banking segment offers corporate banking, commercial products, leasing, commercial real estate lending and auto finance. The Company's West Pacific operations are included in this segment.

Financial Services Group

The Financial Services Group offers private banking, trust services, asset management, investments such as mutual funds and stocks, financial planning, and insurance. A significant portion of this segment's income is derived from fees, which are generally based on the market values of assets under management.

Treasury and Other Corporate

The primary component of this segment is the Treasury function, which consists of corporate asset and liability management activities including investment securities, federal funds purchased and sold, government deposits, short and long-term borrowings, and managing interest rate and foreign currency risks. Additionally, the net residual effect of transfer pricing of assets and liabilities is included in Treasury, along with other minor unallocated amounts. Eliminations of intercompany transactions are also reflected in this segment.

Divestitures and Corporate Restructuring Related Activities

This information reflected the 2001 implementation of the Company's strategic plan to improve credit quality and to divest underperforming businesses. It includes the impact of the sales of the divested businesses and restructuring and other related costs of the Company. It also includes losses associated with the accelerated resolution of credit problems undertaken in the first quarter of 2001.

The financial results for each of the Company's business segments for the years ended December 31, 2001, 2000, and 1999 were as follows:

Business Segment Selected Financial Information

	<u>Retail</u>	<u>Commercial</u>	<u>Financial Services Group</u>	<u>Treasury and Other Corporate</u>	<u>Divestiture Businesses</u>	<u>Corporate Restructuring Related Activities</u>	<u>Consolidated Total</u>
	(dollars in thousands)						
Year Ended December 31, 2001							
Net Interest Income	\$ 164,512	\$ 159,861	\$ 9,798	\$ 30,637	\$ 97,314	\$ (2,444)	\$ 459,678
Provision for Loan and Lease Losses	(8,902)	(28,748)	—	—	27	(36,716)	(74,339)
Net Interest Income after Provision	155,610	131,113	9,798	30,637	97,341	(39,160)	385,339
Gain on Sales of Banking Operations Net of Venture Investment Losses	—	—	—	—	—	173,426	173,426
Other Non-Interest Income	80,586	26,852	83,249	17,297	35,316	35,893	279,193
	236,196	157,965	93,047	47,934	132,657	170,159	837,958
Restructuring & Other Related Costs	—	—	—	—	—	104,794	104,794
Non-Interest Expense	185,661	93,129	79,103	17,025	118,287	—	493,205
Net Income Before Income Taxes	50,535	64,836	13,944	30,909	14,370	65,365	239,959
Income Taxes	(21,224)	(26,548)	(5,857)	(3,616)	(4,533)	(60,386)	(122,164)
Net Income	<u>\$ 29,311</u>	<u>\$ 38,288</u>	<u>\$ 8,087</u>	<u>\$ 27,293</u>	<u>\$ 9,837</u>	<u>\$ 4,979</u>	<u>\$ 117,795</u>
Total Assets at December 31, 2001	<u>\$3,541,699</u>	<u>\$2,851,629</u>	<u>\$219,928</u>	<u>\$3,429,998</u>	<u>\$ 584,543</u>	<u>\$ —</u>	<u>\$10,627,797</u>
Year Ended December 31, 2000							
Net Interest Income	\$ 156,075	\$ 196,227	\$ 6,338	\$ 14,526	\$ 157,984	\$ —	\$ 531,150
Provision for Loan and Lease Losses	(8,182)	(88,541)	(153)	—	(45,977)	—	(142,853)
Net Interest Income after Provision	147,893	107,686	6,185	14,526	112,007	—	388,297
Other Non-Interest Income	87,377	31,714	85,790	30,790	49,241	—	284,912
	235,270	139,400	91,975	45,316	161,248	—	673,209
Non-Interest Expense	164,841	90,450	68,191	28,352	141,385	—	493,219
Net Income Before Income Taxes	70,429	48,950	23,784	16,964	19,863	—	179,990
Income Taxes	(29,580)	(19,130)	(9,989)	1,580	(9,210)	—	(66,329)
Net Income	<u>\$ 40,849</u>	<u>\$ 29,820</u>	<u>\$ 13,795</u>	<u>\$ 18,544</u>	<u>\$ 10,653</u>	<u>\$ —</u>	<u>\$ 113,661</u>
Total Assets at December 31, 2000	<u>\$3,171,529</u>	<u>\$4,481,370</u>	<u>\$161,746</u>	<u>\$2,439,547</u>	<u>\$3,759,624</u>	<u>\$ —</u>	<u>\$14,013,816</u>
Year Ended December 31, 1999							
Net Interest Income	\$ 163,975	\$ 152,331	\$ 7,841	\$ 20,634	\$ 206,822	\$ —	\$ 551,603
Provision for Loan and Lease Losses	(10,423)	(12,650)	—	—	(37,842)	—	(60,915)
Net Interest Income after Provision	153,552	139,681	7,841	20,634	168,980	—	490,688
Other Non-Interest Income	83,711	37,454	79,525	23,803	61,022	—	285,515
	237,263	177,135	87,366	44,437	230,002	—	776,203
Non-Interest Expense	172,622	80,061	73,902	56,210	167,722	—	550,517
Net Income Before Income Taxes	64,641	97,074	13,464	(11,773)	62,280	—	225,686
Income Taxes	(27,149)	(40,771)	(5,655)	7,004	(26,158)	—	(92,729)
Net Income	<u>\$ 37,492</u>	<u>\$ 56,303</u>	<u>\$ 7,809</u>	<u>\$ (4,769)</u>	<u>\$ 36,122</u>	<u>\$ —</u>	<u>\$ 132,957</u>
Total Assets at December 31, 1999	<u>\$3,010,398</u>	<u>\$4,702,561</u>	<u>\$162,733</u>	<u>\$2,533,904</u>	<u>\$4,030,719</u>	<u>\$ —</u>	<u>\$14,440,315</u>

Note R—Parent Company Financial Statements

Condensed financial statements of Pacific Century Financial Corporation (Parent only) follow:

Condensed Statement of Income

	Year Ended December 31		
	2001	2000	1999
	(dollars in thousands)		
Dividends From			
Bank Subsidiaries	\$304,295	\$ 83,946	\$ 80,545
Other Subsidiaries	2,423	7,176	1,500
Interest Income			
From Subsidiaries	9,048	11,794	9,130
From Others	—	—	35
Loss on Sale of Banking Operations	(68,137)	—	—
Other Income	195	776	4,695
Securities Gains (Losses)	(464)	(509)	7,009
Total Income	<u>247,360</u>	<u>103,183</u>	<u>102,914</u>
Interest Expense	17,672	21,506	18,845
Other Expense	35,641	9,107	10,780
Total Expense	<u>53,313</u>	<u>30,613</u>	<u>29,625</u>
Income Before Income Taxes and Equity in Undistributed Income			
of Subsidiaries	194,047	72,570	73,289
Income Tax Benefits	9,614	5,032	1,192
Income Before Equity in Undistributed Income of Subsidiaries	<u>203,661</u>	<u>77,602</u>	<u>74,481</u>
Equity in Undistributed Income of Subsidiaries			
Bank Subsidiaries	(85,676)	40,038	53,460
Other Subsidiaries	(190)	(3,979)	5,016
	<u>(85,866)</u>	<u>36,059</u>	<u>58,476</u>
Net Income	<u>\$117,795</u>	<u>\$113,661</u>	<u>\$132,957</u>

Condensed Statements of Condition

	December 31	
	2001	2000
	(dollars in thousands)	
Assets		
Cash with Bank of Hawaii	\$ 301	\$ 280
Investment Securities Available for Sale	—	31
Equity in Net Assets of Bank Subsidiaries	1,086,247	1,262,946
Equity in Net Assets of Other Subsidiaries	54,430	54,843
Interest-Bearing Deposits with Bank of Hawaii	392,100	234,100
Trading Securities	3,759	3,845
Other Assets	16,017	106,006
Total Assets	<u>\$1,552,854</u>	<u>\$1,662,051</u>
Liabilities and Shareholders' Equity		
Commercial Paper and Short-Term Borrowings	\$ 104,127	\$ 154,664
Long-Term Debt	194,379	193,093
Other Liabilities	7,336	12,938
Shareholders' Equity	1,247,012	1,301,356
Total Liabilities and Shareholders' Equity	<u>\$1,552,854</u>	<u>\$1,662,051</u>

Condensed Statements of Cash Flows

	Year Ended December 31		
	2001	2000	1999
	(dollars in thousands)		
Operating Activities			
Net Income	\$ 117,795	\$113,661	\$132,957
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Amortization Expense	90,321	7,960	7,890
Realized Investment Securities (Gains) Losses	(7,364)	116	(6,635)
Undistributed Income from Subsidiaries	85,867	(36,059)	(56,226)
Net Decrease (Increase) in Trading Securities	84	(439)	(1,097)
Other Assets and Liabilities, Net	5,640	(1,276)	362
Net Cash Provided by Operating Activities	292,343	83,963	77,251
Investing Activities			
Investment Securities Transactions, Net	7,114	104	6,721
Loan Transactions, Net	—	—	782
Return of Capital, Net of contribution to Subsidiaries	140,000	—	(9,015)
Advances Made to Subsidiaries, Net	—	266	(266)
Net Cash Provided (Used) by Investing Activities	147,114	370	(1,778)
Financing Activities			
Net Proceeds (Payments) of Borrowings	(49,251)	57,345	(29,992)
Proceeds from Sale of Stock	19,854	7,801	13,898
Stock Repurchased	(195,472)	(16,992)	(21,849)
Cash Dividends Paid	(56,567)	(56,471)	(54,640)
Net Cash Used by Financing Activities	(281,436)	(8,317)	(92,583)
Increase (Decrease) in Cash	158,021	76,016	(17,110)
Cash and Cash Equivalents at Beginning of Year	234,380	158,364	175,474
Cash and Cash Equivalents at End of Year	\$ 392,401	\$234,380	\$158,364

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None

PART III

The following information required by the Instructions to Form 10-K is incorporated herein by reference (except as otherwise indicated below) from various pages of the Pacific Century Financial Corporation Proxy Statement for the annual meeting of shareholders to be held on April 26, 2002, as summarized below:

Item 10. *Directors and Executive Officers of the Registrant*

Board of Directors on pages 5–6 Section 16(a) Beneficial Ownership Reporting Compliance on page 22.

For information relative to executive officers of the Registrant, see “Executive Officers of the Registrant” at the end of Part I of this report.

Item 11. *Executive Compensation*

Executive Compensation on pages 17–21.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

Beneficial Ownership on pages 7–8.

Item 13. *Certain Relationships and Related Transactions*

Certain Transactions with Management and Others on page 22.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Financial Statements and Schedules

The following Consolidated Financial Statements of Pacific Century Financial Corporation and subsidiaries are included in Item 8 of this report:

Consolidated Statements of Income—Years ended December 31, 2001, 2000, and 1999

Consolidated Statements of Condition—December 31, 2001 and 2000

Consolidated Statements of Shareholders' Equity—Years ended December 31, 2001, 2000, and 1999

Consolidated Statements of Cash Flows—Years ended December 31, 2001, 2000, and 1999

Notes to Consolidated Financial Statements

All other schedules to the Consolidated Financial Statements stipulated by Article 9 of Regulation S-X and all other schedules to the financial statements of the registrant required by Article 5 of Regulation S-X are not required under the related instructions or are inapplicable and, therefore, have been omitted.

EXHIBIT INDEX

Exhibit Number

- 3.1 Certificate of Incorporation of Pacific Century Financial Corporation (incorporated herein by reference to Appendix C of Pacific Century Financial Corporation 1998 Proxy Statement dated March 10, 1998)
- 3.2 By-Laws of Pacific Century Financial Corporation (incorporated herein by reference to Appendix D of Pacific Century Financial Corporation 1998 Proxy Statement dated March 10, 1998)
- 4.1 Instruments Defining the Rights of Holders of Long-Term Debt (incorporated herein by reference to Exhibit 4.1 of Form 10K for the fiscal year ended December 31, 2000)
- 10.1 Pacific Century Financial Corporation, One-Year Incentive Plan Effective January 1, 1999 (incorporated herein by reference to Exhibit 10.1 of Form 10K for the fiscal year ended December 31, 1998)*
- 10.2 Pacific Century Financial Corporation, Long-Term Incentive Compensation Plan Effective January 1, 1999 (incorporated herein by reference to Exhibit 10.4 of Form 10K for the fiscal year ended December 31, 1998)*
- 10.3 Pacific Century Financial Corporation, Sustained Profit Growth Plan Effective January 1, 1998 (incorporated herein by reference to Exhibit 10.3 of Form 10K for the fiscal year ended December 31, 1997)*
- 10.4 Bancorp Hawaii, Inc., Sustained Profit Growth Plan Effective January 1, 1994 (incorporated herein by reference to Exhibit C of Bancorp Hawaii, Inc. 1994 Proxy Statement dated March 10, 1994)*
- 10.5 Pacific Century Financial Corporation Stock Option Plan of 1988 (incorporated herein by reference to Exhibit 4(a) of Registration No. 33-23495)*
- 10.6 Pacific Century Financial Corporation Stock Option Plan of 1988 Amendment 99-1 (incorporated herein by reference to Exhibit 10.11 of Form 10K for the fiscal year ended December 31, 1998)*
- 10.7 Pacific Century Financial Corporation Stock Option Plan of 1994 (incorporated herein by reference to Exhibit 4(a) of Registration No. 33-54777)*
- 10.8 Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 97-1 (incorporated herein by reference to Exhibit 10.13 of Form 10K for the fiscal year ended December 31, 1998)*
- 10.9 Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 97-2 (incorporated herein by reference to Appendix A of Pacific Century Financial Corporation 1998 Proxy Statement dated March 10, 1998)*
- 10.10 Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 99-1 (incorporated herein by reference to Exhibit 10.10 of Form 10K for the fiscal year ended December 31, 2000)*
- 10.11 Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 99-2 (incorporated herein by reference to Exhibit 10.15 of Form 10K for the fiscal year ended December 31, 1998)*
- 10.12 Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 2000-1 (incorporated herein by reference to Exhibit 10.12 of Form 10K for the fiscal year ended December 31, 2000)*
- 10.13 Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 2000-2 (incorporated herein by reference to Exhibit 10.13 of Form 10K for the fiscal year ended December 31, 2000)*
- 10.14 Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 2000-3 (incorporated herein by reference to Exhibit 10.14 of Form 10K for the fiscal year ended December 31, 2000)*
- 10.15 Bancorp Hawaii, Inc. Key Executive Severance Plan dated April 27, 1983 (incorporated herein by reference to Exhibit 10.4 of Form 10K for the fiscal year ended December 31, 1995)*
- 10.16 Executive Severance Agreement (incorporated herein by reference to Exhibit 19 (e) of Form 10K for fiscal year ended December 31, 1989) for L. M. Johnson *
- 10.17 Amended Key Executive Change-in-Control Severance Agreement (incorporated herein by reference to Exhibit 10(e) of Form 10K for the fiscal year ended December 31, 1994—October 3, 1994 for R. J. Dahl)*

**Exhibit
Number**

10.18	Key Executive Change-in-Control Severance Agreement (incorporated herein by reference to Exhibit 10(f) of Form 10K for the fiscal year ended December 31, 1994–October 3, 1994 for A.T. Kuioka)*
10.19	Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 2001-1*
10.20	Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 2001-2*
10.21	Key Executive Change-in-Control Severance Agreement dated January 28, 2000 for K. K. Y. Pan (incorporated herein by reference to Exhibit 10.21 of Form 10K for the fiscal year ended December 31, 2000)*
10.22	Key Executive Change-in-Control Severance Agreement dated January 26, 2001 for A. R. Landon (incorporated herein by reference to Exhibit 10.22 of Form 10K for the fiscal year ended December 31, 2000)*
10.23	Key Executive Change-in-Control Severance Agreement dated January 26, 2001 for W. C. Nelson (incorporated herein by reference to Exhibit 10.23 of Form 10K for the fiscal year ended December 31, 2000)*
10.24	Pacific Century Financial Corporation Directors’ Deferred Compensation Plan (Restatement Effective 1/1/96) with Amendment No. 96-1; Trust Agreement (Effective 9/1/96) (incorporated by reference herein to Exhibit (4) of Registration No. 333-14929)
10.25	Pacific Century Financial Corporation Directors Stock Compensation Program (incorporated herein by reference to Exhibit (4) of Registration No. 333-02835)
10.26	Pacific Century Financial Corporation Directors Stock Compensation Program Amendment 97-1 (incorporated herein by reference to Exhibit 10.26 of Form 10K for the fiscal year ended December 31, 2000)
10.27	Separation Agreement between L. M. Johnson, former Chairman and CEO, and Pacific Century Financial Corporation dated September 22, 2000 (incorporated herein by reference to Exhibit 10.27 of Form 10K for the fiscal year ended December 31, 2000)*
10.28	Employment Agreement dated November 3, 2000 between M. E. O’Neill, Chairman and CEO, and Pacific Century Financial Corporation (incorporated herein by reference to Exhibit 10.28 of Form 10K for the fiscal year ended December 31, 2000)*
10.29	Separation Agreement between D. Houle, former CFO, and Pacific Century Financial Corporation dated January 29, 2001*
10.30	Separation Agreement between R. J. Dahl, President, and Pacific Century Financial Corporation dated December 18, 2001*
10.31	Key Executive Change-in-Control Severance Agreement dated April 27, 2001 for N. C. Hocklander*
10.32	Key Executive Change-in-Control Severance Agreement dated April 27, 2001 for W. J. Laskey*
10.33	Key Executive Change-in-Control Severance Agreement dated December 14, 2001 for G. M. Mohen*
10.34	Key Executive Change-in-Control Severance Agreement dated June 22, 2001 for D. W. Thomas*
10.35	Key Executive Change-in-Control Severance Agreement dated January 25, 2002 for J. T. Kiefer*
10.36	Key Executive Change-in-Control Severance Agreement dated January 25, 2002 for L. L. McCarney*
10.37	Key Executive Change-in-Control Severance Agreement dated January 25, 2002 for S. E. Miller*
10.38	Executive Change-in-Control Severance Agreement dated January 25, 2002 for R. C. Keene*
12.1	Statement Regarding Computation of Ratios
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Auditors

* Management contract or compensatory plan or arrangement

(b) Registrant filed one Form 8-K during the quarter ended December 31, 2001.

- A Form 8K was filed on October 12, 2001 announcing Pacific Century Financial Corporation's sale of Papua New Guinea, Vanuatu and Fiji operations to ANZ.

(c) Response to this item is the same as Item 14(a).

(d) Response to this item is the same as Item 14(a).

STATISTICAL DISCLOSURES CONTENTS AND REFERENCE

The following statistical disclosures required by the Instructions to Form 10-K are summarized below:

Item I. Distribution of Assets, Liabilities, and Shareholders' Equity; Interest Rates and Interest Differential

Interest Differential—Table 21 included in Item 7 of this report.

Consolidated Average Balances, Income and Expense Summary, and Yields and Rates—Taxable Equivalent—Table 3 included in Item 7 of this report.

Average Loans—Table 18 included in Item 7 of this report.

Average Deposits—Table 20 included in Item 7 of this report.

Item II. Investment Portfolio

Note C to the Consolidated Financial Statements included in Item 8 of this report.

Maturity Distribution, Market Value and Weighted-Average Yield to Maturity of Securities—Table 22 included in Item 7 of this report.

Item III. Loan Portfolio

Loan Portfolio Balances—Note D to the Consolidated Financial Statements included in Item 8 of this report.

Maturities and Sensitivities of Loans to Changes in Interest Rates—Table 19 included in Item 7 of this report.

Non-Performing Assets and Accruing Loans Past Due 90 Days or more—Table 10 included in Item 7 of this report.

Foregone Interest on Non-Accruals—Table 11 included in Item 7 of this report.

Geographic Distribution of Cross-Border International Assets—Table 9 included in Item 7 of this report.

Item IV. Summary of Loan Loss Experience

Allowance for Loan and Lease Losses—Note D to the Consolidated Financial Statements included in Item 8 of this report.

Allocation of Loan and Lease Loss Allowance—Table 12 included in Item 7 of this report.

Narrative discussion of “Allowance for Loan and Lease Losses” included in Item 7 of this report.

Item V. Deposits

Consolidated Average Balances, Income and Expense and Yields and Rates—Taxable Equivalent—
Table 3 included in Item 7 of this report.

Note F to the Consolidated Financial Statements included in Item 8 of this report.

Item VI. Return on Equity and Assets

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Return on Average Assets	0.93%	0.81%	0.91%
Return on Average Equity	8.76%	9.21%	10.99%
Dividend Payout Ratio	48.32%	49.68%	41.46%
Average Equity to Average Assets Ratio	10.60%	8.78%	8.30%

Item VII. Short-Term Borrowings

Note G to the Consolidated Financial Statements included in Item 8 of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 8, 2002

PACIFIC CENTURY FINANCIAL
CORPORATION

By: /s/ MICHAEL E. O'NEILL
Michael E. O'Neill,
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated.

Date:

 /s/ MICHAEL E. O'NEILL
Michael E. O'Neill,
Director

 /s/ DONALD M. TAKAKI
Donald M. Takaki,
Director

 /s/ PETER D. BALDWIN
Peter D. Baldwin,
Director

 /s/ MARTIN A. STEIN
Martin A. Stein,
Director

 /s/ MARY G. F. BITTERMAN
Mary G. F. Bitterman,
Director

 /s/ CLINTON R. CHURCHILL
Clinton R. Churchill,
Director

 /s/ RICHARD J. DAHL
Richard J. Dahl,
Director

 /s/ STANLEY S. TAKAHASHI
Stanley S. Takahashi,
Director

 /s/ DAVID A. HEENAN
David A. Heenan,
Director

 /s/ ROBERT A. HURET
Robert A. Huret,
Director

 /s/ ALLAN R. LANDON
Allan R. Landon,
Chief Financial Officer

 /s/ RICHARD C. KEENE
Richard C. Keene,
Chief Accounting Officer