UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2004**

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

BANK OF HAWAII CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

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

Common Stock, $.01 Par Value; outstanding at July 23, 2004 – 52,583,973 shares

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Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)

(dollars in thousands except per share amounts)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Interest Income				
Interest and Fees on Loans and Leases	$ 80,346	$ 85,954	$ 161,774	$ 171,727
Income on Investment Securities - Held to Maturity	6,711	3,083	13,687	5,366
Income on Investment Securities - Available for Sale	21,745	19,815	42,591	42,278
Deposits	1,646	1,161	2,877	2,468
Funds Sold	177	822	594	1,586
Other	865	1,016	1,723	2,205
Total Interest Income	111,490	111,851	223,246	225,630
Interest Expense				
Deposits	8,560	13,309	17,760	27,756
Securities Sold Under Agreements to Repurchase	2,222	2,391	4,148	4,633
Funds Purchased	506	219	737	424
Short-Term Borrowings	13	25	28	49
Long-Term Debt	4,340	5,422	8,693	11,283
Total Interest Expense	15,641	21,366	31,366	44,145
Net Interest Income	95,849	90,485	191,880	181,485
Provision for Loan and Lease Losses	(3,500)	—	(3,500)	—
Net Interest Income After Provision for Loan and Lease Losses	99,349	90,485	195,380	181,485
Non-Interest Income				
Trust and Asset Management	12,995	12,545	26,859	25,726
Mortgage Banking	2,808	6,061	4,785	6,344
Service Charges on Deposit Accounts	9,540	8,645	19,490	17,595
Fees, Exchange, and Other Service Charges	14,243	13,473	27,482	26,462
Investment Securities Gains (Losses)	(37)	587	(37)	1,170
Insurance	3,303	3,015	6,946	6,095
Other	11,996	6,413	18,165	12,100
Total Non-Interest Income	54,848	50,739	103,690	95,492
Non-Interest Expense				
Salaries and Benefits	46,689	47,711	92,690	94,140
Net Occupancy Expense	9,543	9,628	18,929	19,241
Net Equipment Expense	5,799	9,208	11,763	18,956
Information Technology Systems Replacement Project	—	10,105	—	17,522
Other	23,094	18,742	44,765	35,735
Total Non-Interest Expense	85,125	95,394	168,147	185,594
Income Before Income Taxes	69,072	45,830	130,923	91,383
Provision for Income Taxes	24,840	15,796	46,892	31,548
Net Income	$ 44,232	$ 30,034	$ 84,031	$ 59,835
Basic Earnings Per Share	$ 0.84	$ 0.50	$ 1.57	$ 0.99
Diluted Earnings Per Share	$ 0.79	$ 0.48	$ 1.48	$ 0.95
Dividends Declared Per Share	$ 0.30	$ 0.19	$ 0.60	$ 0.38
Basic Weighted Average Shares	52,491,874	59,566,970	53,389,261	60,425,943
Diluted Weighted Average Shares	55,662,415	62,301,337	56,710,653	62,907,697

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Condition

(dollars in thousands)	June 30, 2004 (Unaudited)	December 31, 2003	June 30, 2003 (Unaudited)
Assets			
Interest-Bearing Deposits	$ 179,680	$ 154,735	$ 307,552
Investment Securities - Held to Maturity (Market Value of $663,534, $720,699, and $555,878)	679,382	727,233	548,719
Investment Securities - Available for Sale	2,275,272	1,991,116	2,140,607
Funds Sold	—	—	250,000
Loans Held for Sale	9,565	9,211	71,892
Loans and Leases	5,787,314	5,757,175	5,471,870
Allowance for Loan and Lease Losses	(124,904)	(129,080)	(137,974)
Net Loans	5,662,410	5,628,095	5,333,896
Total Earning Assets	8,806,309	8,510,390	8,652,666
Cash and Non-Interest-Bearing Deposits	339,486	363,495	297,868
Premises and Equipment	149,128	160,005	165,542
Customers' Acceptance Liability	1,213	1,707	1,371
Accrued Interest Receivable	36,378	32,672	35,849
Foreclosed Real Estate	4,889	4,377	9,285
Mortgage Servicing Rights	20,819	22,178	24,841
Goodwill	36,216	36,216	36,216
Other Assets	294,331	330,607	327,296
Total Assets	$ 9,688,769	$ 9,461,647	$ 9,550,934
Liabilities			
Deposits			
Non-Interest-Bearing Demand	$ 1,939,580	$ 1,933,928	$ 1,843,750
Interest-Bearing Demand	1,464,207	1,356,330	1,161,409
Savings	2,976,108	2,833,379	2,754,607
Time	1,089,393	1,209,142	1,381,083
Total Deposits	7,469,288	7,332,779	7,140,849
Securities Sold Under Agreements to Repurchase	687,816	472,757	699,256
Funds Purchased	139,055	109,090	90,200
Short-Term Borrowings	11,055	12,690	22,424
Current Maturities of Long-Term Debt	80,000	96,505	34,000
Banker's Acceptances Outstanding	1,213	1,707	1,371
Retirement Benefits Payable	62,821	61,841	62,678
Accrued Interest Payable	7,169	7,483	9,755
Taxes Payable and Deferred Taxes	225,989	207,101	196,868
Other Liabilities	87,325	138,999	81,988
Long-Term Debt	217,600	227,563	298,535
Total Liabilities	8,989,331	8,668,515	8,637,924
Shareholders' Equity			
Common Stock ($.01 par value); authorized 500,000,000 shares; issued / outstanding: June 2004 - 81,711,599 / 52,426,010, December 2003 - 81,647,729 / 54,928,480, June 2003 - 81,588,394 / 58,896,230	813	807	807
Capital Surplus	403,150	391,701	386,565
Accumulated Other Comprehensive Income (Loss)	(27,258)	(5,711)	12,412
Retained Earnings	1,251,689	1,199,077	1,151,623
Deferred Stock Grants	(9,391)	(8,309)	(8,168)
Treasury Stock, at Cost (Shares: June 2004 - 29,285,589, December 2003 - 26,719,249, June 2003 - 22,692,164)	(919,565)	(784,433)	(630,229)
Total Shareholders' Equity	699,438	793,132	913,010
Total Liabilities and Shareholders' Equity	$ 9,688,769	$ 9,461,647	$ 9,550,934

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity (Unaudited)

(dollars in thousands)	Total	Common Stock	Capital Surplus	Accum. Other Compre- hensive Income (Loss)	Retained Earnings	Deferred Stock Grants	Treasury Stock	Compre- hensive Income
Balance at December 31, 2003	$ 793,132	$ 807	$ 391,701	$ (5,711)	$ 1,199,077	$ (8,309)	$ (784,433)	
Comprehensive Income:								
Net Income	84,031	—	—	—	84,031	—	—	$ 84,031
Other Comprehensive Income, Net of Tax:								
Change in Unrealized Gains and Losses on Investment Securities	(21,547)	—	—	(21,547)	—	—	—	(21,547)
Total Comprehensive Income								$ 62,484
Common Stock Issued under Stock Plans and Related Tax Benefits (908,502 shares)	32,028	6	11,449	—	803	(1,082)	20,852	
Treasury Stock Purchased (3,527,779 shares)	(155,984)	—	—	—	—	—	(155,984)	
Cash Dividends Paid	(32,222)	—	—	—	(32,222)	—	—	
Balance at June 30, 2004	$ 699,438	$ 813	$ 403,150	$ (27,258)	$ 1,251,689	$ (9,391)	$ (919,565)	
Balance at December 31, 2002	$ 1,015,759	$ 806	$ 372,192	$ 11,659	$ 1,115,910	$ (1,424)	$ (483,384)	
Comprehensive Income:								
Net Income	59,835	—	—	—	59,835	—	—	$ 59,835
Other Comprehensive Income, Net of Tax:								
Change in Unrealized Gains and Losses on Investment Securities	753	—	—	753	—	—	—	753
Total Comprehensive Income								$ 60,588
Common Stock Issued under Stock Plans and Related Tax Benefits (992,802 shares)	21,785	1	14,373	—	(1,190)	(6,744)	15,345	
Treasury Stock Purchased (5,107,779 shares)	(162,190)	—	—	—	—	—	(162,190)	
Cash Dividends Paid	(22,932)	—	—	—	(22,932)	—	—	
Balance at June 30, 2003	$ 913,010	$ 807	$ 386,565	$ 12,412	$ 1,151,623	$ (8,168)	$ (630,229)	

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)	Six Months Ended June 30, 2004	2003
Operating Activities		
Net Income	$ 84,031	$ 59,835
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Provision for Loan and Lease Losses	(3,500)	—
Depreciation and Amortization	10,523	17,344
Amortization of Deferred Loan and Lease Fees	(1,248)	(3,759)
Amortization and Accretion of Investment Securities	6,830	19,282
Deferred Stock Grants	2,444	3,382
Deferred Income Taxes	8,296	7,672
Net (Gain) Loss on Investment Securities	37	(1,170)
Proceeds From Sales of Loans Held for Sale	250,449	372,187
Originations of Loans Held for Sale	(250,803)	(403,961)
Net Change in Other Assets and Liabilities	11,323	2,824
Net Cash Provided by Operating Activities	**118,382**	**73,636**
Investing Activities		
Proceeds from Redemptions of Investment Securities Held to Maturity	117,212	109,183
Purchases of Investment Securities Held to Maturity	(70,238)	(428,287)
Proceeds from Sales and Redemptions of Investment Securities Available for Sale	347,709	1,004,004
Purchases of Investment Securities Available for Sale	(671,520)	(874,254)
Net Increase in Loans and Leases	(29,567)	(113,986)
Premises and Equipment, Net	354	(5,917)
Net Cash Used by Investing Activities	**(306,050)**	**(309,257)**
Financing Activities		
Net Increase in Demand Deposits	113,529	113,694
Net Increase in Savings Deposits	142,729	219,388
Net Decrease in Time Deposits	(119,749)	(112,394)
Proceeds from Long-Term Debt	—	50,000
Repayments of Long-Term Debt	(26,468)	(107,250)
Net Increase (Decrease) in Short-Term Borrowings	243,389	(21,628)
Proceeds from Issuance of Common Stock	23,380	15,023
Repurchase of Common Stock	(155,984)	(162,190)
Cash Dividends	(32,222)	(22,932)
Net Cash Provided (Used) by Financing Activities	**188,604**	**(28,289)**
Increase (Decrease) in Cash and Cash Equivalents	936	(263,910)
Cash and Cash Equivalents at Beginning of Period	518,230	1,119,330
Cash and Cash Equivalents at End of Period	**$ 519,166**	**$ 855,420**

Bank of Hawaii Corporation
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's 2003 Annual Report on Form 10-K. Operating results for the six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. Generally, stock-based employee compensation expense associated with stock options is not reflected in net income as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*:

(dollars in thousands except per share and option data)	Six Months Ended June 30, 2004	2003
Net Income, as Reported	$ 84,031	$ 59,835
Add: Stock-Based Employee Compensation Expense Associated with Stock Options Included in Reported Net Income, Net of Related Tax Effects	—	326
Less: Total Stock-Based Employee Compensation Expense Associated with Stock Options Determined Under Fair Value Method for all Option Awards, Net of Related Tax Effects	(2,867)	(5,691)
Pro Forma Net Income [1]	$ 81,164	$ 54,470
Earnings Per Share:		
Basic-as reported	$ 1.57	$ 0.99
Basic-pro forma [1]	$ 1.52	$ 0.90
Diluted-as reported	$ 1.48	$ 0.95
Diluted-pro forma [1]	$ 1.43	$ 0.87
Weighted Average Fair Value of Options Granted During the Year[1]	—	$ 8.58
Assumptions:		
Average Risk Free Interest Rate	—	3.85%
Average Expected Volatility	—	31.94%
Expected Dividend Yield	—	3.07%
Expected Life	—	6.6 years

1 A Black-Scholes option pricing model was used to determine the fair value of the options granted.

Note 2. Business Segments

The information under the caption “Business Segments” in Management’s Discussion and Analysis is incorporated herein by reference.

Note 3. Pension Plans and Postretirement Benefits

Components of net periodic benefit cost for the aggregated pension plans and the postretirement benefits are presented in the following table.

	Six Months Ended June 30,			
	Pension Benefits		Postretirement Benefits	
(dollars in thousands)	2004	2003	2004	2003
Components of Net Periodic Benefit Cost:				
Service Cost	$ —	$ —	$ 494	$ 620
Interest Cost	2,183	2,136	886	1,028
Expected Return on Plan Assets	(2,364)	(2,324)	—	—
Amortization of Unrecognized Net Transition Obligation	—	—	294	326
Actuarial (Gain) Loss	656	455	(312)	(132)
Total Components of Net Periodic Benefit Cost	$ 475	$ 267	$ 1,362	$ 1,842

There were no significant changes from the previously reported $1.8 million in contributions expected to be paid during 2004.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) was enacted on December 8, 2003. The Act expands Medicare, primarily adding a prescription drug benefit for Medicare-eligible retirees starting in 2006. In May 2004, the Financial Accounting Standards Board issued Staff Position No. FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (“FSP 106-2”), that provides accounting guidance for the effects of the Act regarding prescription drug benefits under Medicare for sponsors of retiree health care benefit plans. The Company evaluated the impact of the Act in conjunction with the guidance provided in FSP 106-2 and it is not expected that the Medicare changes will have an effect on the Company’s postretirement benefit obligations.

Note 4. Information Technology Systems Replacement Project

In July 2002, the Company entered into contracts with Metavante Corporation to provide for technology services, including professional services to convert existing systems to Metavante systems. The conversion was completed in the third quarter of 2003 and the final payments were made in the second quarter of 2004. The following summarizes the change in the liability balance during the six months ended June 30, 2004:

(dollars in thousands)	Professional Fees	Employee Termination Benefits	Other Associated Costs [1]	Total
Liability Balance at December 31, 2003	$ 1,002	$ 471	$ 513	$ 1,986
Payments	(605)	(421)	—	(1,026)
Adjustments	(51)	—	51	—
Liability Balance at March 31, 2004	346	50	564	960
Payments	(346)	(50)	(564)	(960)
Liability Balance at June 30, 2004	$ —	$ —	$ —	$ —

[1] Includes contract termination, equipment, excise tax and other costs.

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

Forward-Looking Statements

This report, including the Earnings Outlook herein, contains forward-looking statements concerning, among other things, the economic environment in the Company's service area, the expected level of loan loss provisioning, and anticipated net income, dividends, revenues and expenses during 2004 and beyond. The Company's forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate and actual results may differ materially from those projected for a variety of reasons, including, but not limited to: 1) unanticipated changes in business and economic conditions, the competitive environment, fiscal and monetary policies, or legislation in Hawaii and the other markets the Company serves; 2) changes in the Company's credit quality or risk profile which may increase or decrease the required level of allowance for loan and lease losses; 3) changes in market interest rates that may affect the Company's credit markets and ability to maintain its net interest margin; 4) changes to the amount and timing of the Company's proposed equity repurchases and repayment of maturing debt; 5) inability to achieve expected benefits of the Company's business process changes due to adverse changes in implementation processes or costs, operational savings, or timing; 6) real or threatened acts of war or terrorist activity affecting business conditions; and 7) adverse weather and other natural conditions impacting the Company and its customers' operations. Words such as "believes," "anticipates," "expects," "intends," "targeted" and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. The Company does not undertake any obligation to update forward-looking statements to reflect later events or circumstances.

OVERVIEW

In January 2004, the Company announced its 2004-2006 plan (the "Plan"), which continues to build on the objective of maximizing shareholder value over time that was established in the previous three-year strategic plan.

There are five key elements of the Plan: 1) accelerate revenue growth in our island markets; 2) better integrate our business segments; 3) continue to develop our management teams; 4) improve operating efficiency; and 5) maintain a culture of dependable risk and capital management. The Company plans to accelerate growth by improving customer service levels and developing a more proactive, integrated sales culture across the Company. In order to better integrate the Company's three primary business segments - Retail Banking, Commercial Banking and Investment Services Group - each segment plans to work more closely with the others to improve the breadth of customer relationships. In continuing to develop the management team, the Company plans to assess leadership talent, build leadership capabilities and continue the development of a comprehensive succession plan. To improve efficiency, the Company plans to identify opportunities and implement changes that lower costs without negatively impacting customer service. In maintaining a discipline of dependable risk and capital management, the Company seeks to optimally balance risk, liquidity and capital. Risk will be managed in accordance with established tolerance levels while supporting business units in making value-adding risk/return decisions.

The Company utilizes various financial measures to evaluate its performance and against the objectives of the Plan. These measures include diluted earnings per share, return on average assets, return on average equity, efficiency ratio and operating leverage, which is defined as the impact of relative changes in revenues and expenses on operating income. Management also uses net income after capital charge as a key measure of the value the Company is creating for its shareholders. In managing risk, the Company looks at credit quality measures such as the ratio of the allowance for loan and lease losses to loans and leases outstanding, the ratio of net loan charge-offs to average loans outstanding and the ratio of non-performing assets to total loans and foreclosed real estate.

In the second quarter of 2004, the Company's diluted earnings per share were $0.79, an increase of $0.10 or 14% from diluted earnings per share of $0.69 reported in the first quarter of 2004, and an increase of $0.31 or 65% from diluted earnings per share of $0.48 in the second quarter of 2003. Net income for the second quarter of 2004 was $44.2 million, an increase of $4.4 million or 11% from net income of $39.8 million in the previous quarter and an increase of $14.2 million or 47% from net income of $30.0 million reported in the same prior year quarter.

For the six months ended June 30, 2004, net income was $84.0 million, an increase of $24.2 million from the same prior year period. Diluted earnings per share were $1.48 for the first half of 2004, an increase of 56% from diluted earnings per share of $0.95 for the first half of 2003. The year-to-date return on average assets was 1.73%, an increase from 1.29% from the same period in 2003. The year-to-date return on average equity was 22.03%, an increase from 12.67% from the same period in 2003. Net income after capital charge was $31.6 million, compared to ($0.1) million for the first six months of 2003. For additional information, refer to the section on "Business Segments."

Factors that had an impact on the comparability of year-over-year results include the effect of the Company's ongoing stock repurchase program, non-core transactions in the second quarter of 2004 that impacted both non-interest income and non-interest expense and the negative provision for loan and lease losses. Non-core transactions in the second quarter of 2004 included non-interest income of $3.2 million from a leasing partnership distribution that was dissolved and a $2.5 million gain realized on the sale of a parcel of land. Also included was non-interest expense of $2.2 million for a legal accrual, which was primarily for the settlement of litigation, and a $1.0 million discretionary contribution to the Bank of Hawaii Charitable Foundation. In addition, results for the second quarter of 2003 were significantly affected by the costs associated with the systems replacement project. These items are further discussed in the section on "Analysis of Statement of Income."

Management believes operating leverage and the efficiency ratio measures are more meaningful when the second quarter 2004 non-core transactions and the systems replacement costs incurred in 2003 are excluded. Excluding the aforementioned items, operating leverage for the first six months of 2004 was 14% and the efficiency ratio for the second quarter of 2004 was 57% compared to 60% in second quarter 2003.

Table 1 presents the Company's financial highlights and performance ratios for the three and six months ended June 30, 2004 and 2003.

Highlights (Unaudited) Table 1

(dollars in thousands except per share amounts)

Earnings Highlights and Performance Ratios	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Net Income	$ 44,232	$ 30,034	$ 84,031	$ 59,835
Basic Earnings Per Share	0.84	0.50	1.57	0.99
Diluted Earnings Per Share	0.79	0.48	1.48	0.95
Cash Dividends	15,804	11,370	32,222	22,932
Net Income to Average Total Assets (ROA)	1.80%	1.27%	1.73%	1.29%
Net Income to Average Shareholders' Equity (ROE)	24.28%	12.93%	22.03%	12.67%
Net Interest Margin	4.17%	4.12%	4.23%	4.21%
Efficiency Ratio [1]	56.49%	67.55%	56.89%	67.01%
Efficiency Ratio excluding System Replacement Costs	56.49%	60.39%	56.89%	60.68%

Statement of Condition Highlights and Performance Ratios		June 30, 2004	June 30, 2003
Total Assets		$ 9,688,769	$ 9,550,934
Net Loans		5,662,410	5,333,896
Total Deposits		7,469,288	7,140,849
Total Shareholders' Equity		699,438	913,010
Book Value Per Common Share		$ 13.34	$ 15.50
Allowance / Loans and Leases Outstanding		2.16%	2.52%
Average Equity / Average Assets		7.84%	10.16%
Employees (FTE)		2,683	2,879
Branches and offices		89	91
Market Price Per Share of Common Stock for the Quarter Ended:			
	Closing	$ 45.22	$ 33.15
	High	$ 46.84	$ 35.90
	Low	$ 40.97	$ 30.75

[1] The efficiency ratio is defined as non-interest expense divided by total revenue (net interest income and non-interest income).

ANALYSIS OF STATEMENT OF INCOME

Net Interest Income

Net interest income on a taxable equivalent basis for the three and six month periods ended June 30, 2004 increased from the comparable periods in 2003 by $5.4 million and $10.4 million, respectively, or 6% for both periods. The increase in net interest income from the prior year was primarily a result of a decrease in interest expense due to lower average interest rates paid on deposits, particularly time deposits, short-term borrowings and long-term debt. The decrease in interest expense was partially offset by a decline in interest income, largely due to lower interest earned on residential mortgage loans, which declined approximately 14% and 13%, respectively, for the three and six months ended June 30, 2004, from the same periods in 2003.

Average earning assets in the first six months of 2004 increased $427.3 million or 5% from the same period in 2003 primarily due to a $267.8 million increase in average loans outstanding (primarily consumer loans) and a $227.2 million increase in the investment securities portfolio. In the first six months of 2004, average interest-bearing liabilities increased $324.3 million or 5% from 2003, largely due to an increase in interest-bearing deposits and securities repurchase agreements.

The net interest margin was 4.17% for the three months ended June 30, 2004, a five basis point increase from the comparable period in 2003. The net interest margin increased two basis points in the first six months of 2004 compared to the same prior year period. The improvement in margin for both periods of 2004 was primarily attributable to lower average rates paid on interest-bearing liabilities which lowered the Company's cost of funds. The lower average rate paid on interest-bearing liabilities was partially offset by the decline in average yield on earning assets, primarily loans.

Average balances, related income and expenses, and resulting yields and rates are presented in Table 2. An analysis of change in net interest income is presented in Table 3.

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

	Three Months Ended June 30, 2004			Three Months Ended June 30, 2003			Six Months Ended June 30, 2004			Six Months Ended June 30, 2003		
(dollars in millions)	**Average Balance**	**Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Income/ Expense**	**Yield/ Rate**
Earning Assets												
Interest-Bearing Deposits	$ 408.8	$ 1.6	1.62%	$ 212.4	$ 1.2	2.19%	$ 329.2	$ 2.8	1.76%	$ 233.0	$ 2.5	2.14%
Funds Sold	71.3	0.2	0.99	267.3	0.9	1.23	120.1	0.6	0.99	259.0	1.6	1.22
Investment Securities												
Held to Maturity	709.8	6.8	3.80	324.8	3.1	3.85	714.8	13.8	3.85	263.7	5.4	4.14
Available for Sale	2,148.9	21.7	4.05	2,316.9	19.8	3.42	2,068.7	42.5	4.12	2,292.6	42.3	3.69
Loans Held for Sale	20.7	0.3	5.54	81.6	1.1	5.43	18.1	0.5	5.45	46.0	1.2	5.38
Loans and Leases												
Commercial and Industrial	828.0	10.2	4.97	834.6	10.0	4.81	836.2	20.3	4.89	860.4	20.5	4.81
Construction	100.4	0.9	3.80	83.0	0.9	4.50	100.4	2.0	4.05	99.1	2.4	4.83
Commercial Mortgage	638.9	8.6	5.39	682.5	10.1	5.93	636.5	17.2	5.42	640.5	19.2	6.03
Residential Mortgage	2,281.8	32.2	5.65	2,295.1	37.3	6.50	2,299.6	65.5	5.70	2,272.1	75.0	6.60
Installment	700.4	14.5	8.34	535.6	13.6	10.18	675.7	28.8	8.58	518.8	26.4	10.27
Home Equity	534.6	6.1	4.63	442.7	5.6	5.06	511.9	11.9	4.68	438.6	11.2	5.17
Purchased Home Equity	178.8	1.9	4.16	162.3	2.0	4.96	191.8	4.6	4.70	171.2	4.6	5.39
Lease Financing	510.1	5.6	4.38	482.6	5.3	4.42	505.5	11.0	4.35	489.1	11.2	4.62
Total Loans and Leases	5,773.0	80.0	5.56	5,518.4	84.8	6.16	5,757.6	161.3	5.62	5,489.8	170.5	6.24
Other	78.1	0.9	4.45	75.3	1.0	5.41	77.8	1.8	4.45	74.9	2.2	5.93
Total Earning Assets	9,210.6	111.5	4.86	8,796.7	111.9	5.09	9,086.3	223.3	4.93	8,659.0	225.7	5.23
Cash and Non-Interest-Bearing Deposits	306.3			325.6			316.9			328.6		
Other Assets	376.4			385.9			382.4			388.7		
Total Assets	$ 9,893.3			$ 9,508.2			$ 9,785.6			$ 9,376.3		
Interest-Bearing Liabilities												
Interest-Bearing Deposits												
Demand	$ 1,390.2	0.6	0.17	$ 1,169.4	0.7	0.25	$ 1,380.1	1.1	0.16	$ 1,160.7	1.5	0.25
Savings	2,911.5	3.1	0.43	2,744.1	4.5	0.65	2,891.6	6.4	0.44	2,676.5	9.0	0.68
Time	1,129.5	4.9	1.74	1,427.1	8.2	2.28	1,159.1	10.3	1.79	1,449.4	17.2	2.40
Total Interest-Bearing Deposits	5,431.2	8.6	0.63	5,340.6	13.4	1.00	5,430.8	17.8	0.66	5,286.6	27.7	1.06
Short-Term Borrowings	1,082.5	2.7	1.02	810.2	2.6	1.30	972.4	4.9	1.02	730.5	5.1	1.41
Long-Term Debt	317.3	4.3	5.48	371.5	5.4	5.84	319.1	8.6	5.46	380.9	11.3	5.94
Total Interest-Bearing Liabilities	6,831.0	15.6	0.92	6,522.3	21.4	1.31	6,722.3	31.3	0.94	6,398.0	44.1	1.39
Net Interest Income		$ 95.9			$ 90.5			$ 192.0			$ 181.6	
Interest Rate Spread			3.94%			3.78%			3.99%			3.84%
Net Interest Margin			4.17%			4.12%			4.23%			4.21%
Non-Interest-Bearing Demand Deposits	1,940.2			1,695.3			1,914.8			1,666.2		
Other Liabilities	389.4			358.7			381.5			359.7		
Shareholders' Equity	732.7			931.9			767.0			952.4		
Total Liabilities and Shareholders' Equity	$ 9,893.3			$ 9,508.2			$ 9,785.6			$ 9,376.3		

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

	Six Months Ended June 30, 2004 Compared to June 30, 2003		
(dollars in millions)	**Volume [1]**	**Rate [1]**	**Total**
Change in Interest Income:			
Interest-Bearing Deposits	$ 0.9	$ (0.6)	$ 0.3
Funds Sold	(0.7)	(0.3)	(1.0)
Investment Securities			
Held to Maturity	8.8	(0.4)	8.4
Available for Sale	(4.4)	4.6	0.2
Loans Held for Sale	(0.7)	—	(0.7)
Loans and Leases			
Commercial and Industrial	(0.6)	0.4	(0.2)
Construction	—	(0.4)	(0.4)
Commercial Mortgage	(0.1)	(1.9)	(2.0)
Residential Mortgage	0.8	(10.3)	(9.5)
Installment	7.2	(4.8)	2.4
Home Equity	1.8	(1.1)	0.7
Purchased Home Equity	0.6	(0.6)	—
Lease Financing	0.4	(0.6)	(0.2)
Total Loans and Leases	10.1	(19.3)	(9.2)
Other	0.1	(0.5)	(0.4)
Total Change in Interest Income	14.1	(16.5)	(2.4)
Change in Interest Expense:			
Interest-Bearing Deposits			
Demand	0.2	(0.6)	(0.4)
Savings	0.7	(3.3)	(2.6)
Time	(3.0)	(3.9)	(6.9)
Total Interest-Bearing Deposits	(2.1)	(7.8)	(9.9)
Short-Term Borrowings	7.4	(7.6)	(0.2)
Long-Term Debt	(1.7)	(1.0)	(2.7)
Total Change in Interest Expense	3.6	(16.4)	(12.8)
Change in Net Interest Income	$ 10.5	$ (0.1)	$ 10.4

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

Provision for Loan and Lease Losses

A negative Provision for Loan and Lease Losses ("Provision") of $3.5 million was recorded for the three months ended June 30, 2004 as a result of improvement in credit quality and ongoing assessments of economic conditions and risk. The combination of the negative Provision and the net recoveries resulted in a reduction in the Allowance for Loan and Lease Losses ("Allowance") of $2.3 million in the second quarter of 2004. No Provision was recorded in the previous seven quarters. For further information on Credit Quality, refer to the section entitled "Corporate Risk Profile."

Non-Interest Income

Non-interest income increased $4.1 million or 8% and $8.2 million or 9% for the three and six months ended June 30, 2004, respectively, from the comparable periods in 2003.

Trust and asset management income increased $0.5 million and $1.1 million, respectively, for the three and six months ended June 30, 2004, or 4% for both periods compared to the same periods in 2003. The increase in fee income was due to an improvement in market conditions resulting in an increase in the average market value of assets under management.

Mortgage banking income is sensitive to the interest rate environment and to conditions in the real estate market. Mortgage banking income decreased $3.3 million or 54% and $1.6 million or 25% in the three and six months ended June 30, 2004, respectively, compared to the same periods in 2003. The declines primarily resulted from lower gains on the sale of mortgage loans in 2004, which were attributable to lower loan production in 2004 than in 2003. Partially offsetting the lower gains was a reduction in the amortization of mortgage servicing rights due to a decrease in loan prepayments in 2004.

Service charges on deposit accounts increased $0.9 million or 10% and $1.9 million or 11% in the three and six months ended June 30, 2004, respectively, compared to the same prior year periods. The increase was largely due to higher account analysis fees resulting from lower offsetting earnings credits. Overdraft fees also increased in 2004 in part due to the increase in the number of transactional deposit accounts.

Other non-interest income increased $5.6 million or 87% and $6.1 million or 50% in the three and six months ended June 30, 2004, respectively, over the same periods of 2003. The second quarter increase was primarily due to a $3.2 million distribution from a leasing partnership investment that was dissolved and a $2.5 million gain realized on the sale of a parcel of land. Also contributing to the year-to-date change from 2003 was a $0.7 million gain realized in the first quarter of 2004 related to the sale of the corporate trust business.

Non-Interest Expense

Non-interest expense for the three months ended June 30, 2004 declined $10.3 million or 11% compared to the same period in 2003. For the first six months of 2004, non-interest expense declined $17.4 million or 9% compared to the same 2003 period. Included in non-interest expense in 2003 were systems replacement costs of $10.1 million and $17.5 million for the three and six months ended June 30, 2003, respectively. Excluding systems replacement costs, non-interest expense in 2004 remained flat compared to the same prior year periods. Refer to Note 4 to the Consolidated Financial Statements for additional information on the systems replacement project.

Salaries and benefits expense decreased $1.5 million for the first six months of 2004 compared to the comparable period in 2003. Base salaries decreased $3.2 million or 5% from 2003 largely due to a 7% decrease in the number of employees. Also contributing to the decline were reductions in commission expense due to reduced mortgage loan originations and lower separation expense. Partially offsetting the decrease was expense for restricted stock units awarded in the second half of 2003 and in April 2004.

Table 4 presents the components of salaries and benefits expense for the three and six months ended June 30, 2004 and 2003.

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

(dollars in thousands)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Salaries	$ 27,904	$ 29,783	$ 55,108	$ 58,297
Incentive Compensation	3,260	2,993	7,076	6,584
Stock Based Compensation	3,233	2,206	6,129	3,324
Commission Expense	2,284	2,925	3,911	5,412
Retirement and Other Benefits	4,214	4,091	8,571	8,542
Payroll Taxes	3,103	2,708	6,533	6,157
Medical, Dental, and Life Insurance	2,136	1,679	4,240	3,749
Separation Expense	555	1,326	1,122	2,075
Total Salaries and Benefits	$ 46,689	$ 47,711	$ 92,690	$ 94,140

Net equipment expense declined $3.4 million or 37% and $7.2 million or 38% in the three and six months ended June 30, 2004 compared to the same periods in 2003. The decrease was mainly due to reduced depreciation expense and software license fees resulting from expense savings from the systems replacement project.

Other non-interest expense increased $4.4 million or 23% and $9.0 million or 25% in the three and six months ended June 30, 2004 compared to the same periods in 2003. This increase was partially due to the cost of technology services, which were outsourced as a result of the systems replacement project. During the second quarter of 2004, a $1.0 million discretionary contribution was made to the Bank of Hawaii Charitable Foundation and a legal accrual of $2.2 million was recorded, largely related to the settlement of a lawsuit. In addition, for the first six months of 2004, expenses were incurred for professional services relating to the Company's mutual funds.

BALANCE SHEET ANALYSIS

Short-Term Earning Assets

Short-term earning assets, consisting of interest-bearing deposits and funds sold, totaled $179.7 million at June 30, 2004, compared to $154.7 million at December 31, 2003 and $557.6 million at June 30, 2003. The decline from June 30, 2003 was mainly due to the use of funds to repurchase the Company's stock and reduce debt.

Investment Securities

Investment securities increased 9% from December 31, 2003 due to increased liquidity. At June 30, 2004 and December 31, 2003 investment securities with a book value of $1.5 billion and $1.4 billion, respectively, were pledged to secure deposits of public (government) entities and repurchase agreements.

Changes in interest rates influence the fair market values of certain investment securities, including mortgage-backed securities, which can result in temporary gross unrealized losses. The gross unrealized losses on temporarily impaired investment securities that had been impaired for less than 12 months as of June 30, 2004 totaled $51.4 million, or 2% of the total investment securities book value, compared to $16.6 million at December 31, 2003. The increase was primarily related to mortgage-backed securities, which were impacted by an increase in interest rates from December 31, 2003. The Company has both the intent and ability to hold the securities for the time necessary to recover the amortized cost. As of June 30, 2004, no investment security had been impaired for more than 12 months.

Table 5 presents the detail of the investment securities portfolio at June 30, 2004 and December 31, 2003.

Investment Securities (Unaudited) **Table 5**

(dollars in thousands)	Amortized Cost	Fair Value
At June 30, 2004		
Securities Held to Maturity:		
Debt Securities Issued by the U.S. Treasury and Agencies	$ 15,018	$ 15,010
Debt Securities Issued by States and Municipalities	130	138
Mortgage-Backed Securities	664,234	648,386
Total	$ 679,382	$ 663,534
Securities Available for Sale:		
Equity Securities	$ 3	$ 3
Debt Securities Issued by the U.S. Treasury and Agencies	61,091	62,144
Debt Securities Issued by States and Municipalities	6,733	6,849
Mortgage-Backed Securities	1,915,649	1,899,171
Other Debt Securities	308,635	307,105
Total	$ 2,292,111	$ 2,275,272
At December 31, 2003		
Securities Held to Maturity:		
Debt Securities Issued by the U.S. Treasury and Agencies	$ 22,021	$ 22,018
Debt Securities Issued by States and Municipalities	130	142
Mortgage-Backed Securities	705,082	698,539
Total	$ 727,233	$ 720,699
Securities Available for Sale:		
Equity Securities	$ 261	$ 261
Debt Securities Issued by the U.S. Treasury and Agencies	59,339	60,990
Debt Securities Issued by States and Municipalities	5,957	6,220
Mortgage-Backed Securities	1,790,692	1,805,273
Other Debt Securities	118,040	118,372
Total	$ 1,974,289	$ 1,991,116

Loans Held for Sale

Loans held for sale, consisting of residential mortgage loans, totaled $9.6 million at June 30, 2004, $9.2 million at December 31, 2003, and $71.9 million at June 30, 2003. The decrease from June 30, 2003 was a result of higher mortgage loan sales activity.

Loans and Leases

As of June 30, 2004, loans and leases outstanding were $5.8 billion, comparable to December 31, 2003 and an increase of $72.3 million from March 31, 2004 and $315.4 million from June 30, 2003. Continued growth has occurred in the consumer loan portfolios. During the second quarter of 2004, commercial loan originations increased 7% from the first quarter of 2004, however higher repayments more than offset the increase. Table 6 presents the composition of the loan portfolio by major loan categories and Table 7 presents the composition of consumer loans by geographic area.

Loan Portfolio Balances (Unaudited) **Table 6**

(dollars in thousands)	June 30, 2004	March 31, 2004	December 31, 2003	June 30, 2003
Domestic Loans				
Commercial				
Commercial and Industrial	$ 776,815	$ 793,293	$ 816,246	$ 808,503
Commercial Mortgage	643,382	650,566	639,354	689,759
Construction	98,916	91,002	101,321	83,583
Lease Financing	447,673	442,590	435,934	416,920
Total Commercial	1,966,786	1,977,451	1,992,855	1,998,765
Consumer				
Residential Mortgage	2,257,624	2,254,654	2,320,410	2,222,003
Home Equity	559,225	510,378	467,019	450,273
Purchased Home Equity	162,730	191,066	212,514	145,588
Other Consumer	721,386	671,893	658,831	554,795
Lease Financing	34,676	34,816	35,320	33,972
Total Consumer	3,735,641	3,662,807	3,694,094	3,406,631
Total Domestic Loans	5,702,427	5,640,258	5,686,949	5,405,396
Foreign Loans	84,887	74,738	70,226	66,474
Total Loans and Leases	$ 5,787,314	$ 5,714,996	$ 5,757,175	$ 5,471,870

Consumer Loans by Geographic Area (Unaudited) **Table 7**

(dollars in thousands)	June 30, 2004	March 31, 2004	December 31, 2003 [1]	June 30, 2003 [1]
Hawaii				
Residential Mortgage	$ 2,042,079	$ 2,042,032	$ 2,106,456	$ 2,019,280
Home Equity	551,099	502,261	458,425	441,167
Other Consumer	589,671	557,234	550,411	466,101
Guam				
Residential Mortgage	209,972	207,174	208,339	197,577
Home Equity	8,067	8,117	8,594	9,106
Other Consumer	87,963	75,675	68,999	52,615
U.S. Mainland				
Purchased Home Equity	162,730	191,066	212,514	145,588
Other Pacific Islands				
Residential Mortgage	5,573	5,448	5,615	5,146
Home Equity	59	—	—	—
Other Consumer	78,428	73,800	74,741	70,051
Total Consumer Loans	**$ 3,735,641**	**$ 3,662,807**	**$ 3,694,094**	**$ 3,406,631**

[1] Certain 2003 information has been reclassified to conform to 2004 presentation.

Mortgage Servicing Rights

As of June 30, 2004, the Company's portfolio of residential loans serviced for third parties totaled \$2.7 billion, a decrease of \$0.2 billion and \$0.6 billion from December 31, 2003 and June 30, 2003, respectively. The carrying value of mortgage servicing rights was \$20.8 million at June 30, 2004, a decrease of \$1.4 million and \$4.0 million from December 31, 2003 and June 30, 2003, respectively. Although mortgage prepayments have slowed from 2003, the decline in carrying value of mortgage servicing rights continued to be attributable to higher mortgage prepayments reflective of the low interest rate environment. Recent prepayment speeds for Hawaii mortgages continued to approximate national averages.

Deposits

As of June 30, 2004, deposits totaled \$7.5 billion, a \$136.5 million increase from December 31, 2003 and a \$328.4 million increase from June 30, 2003. The Company's deposit growth continued to be primarily in demand and savings deposits, while higher cost time deposits have been reduced.

The average time deposits of \$100,000 or more is presented in Table 8.

Average Time Deposits of \$100,000 or More (Unaudited) **Table 8**

	Three Months Ended			Six Months Ended	
(dollars in thousands)	**June 30, 2004**	**December 31, 2003**	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
Average Time Deposits	\$ 570,738	\$ 633,602	\$ 727,953	\$ 589,100	\$ 739,640

Borrowings

Short-term borrowings, including securities sold under agreements to repurchase, funds purchased and other short-term borrowings, totaled \$0.8 billion at June 30, 2004 and 2003, compared to \$0.6 billion at December 31, 2003. The increase in short-term borrowings from December 31, 2003 was due to higher placements received from public (government) entities in the form of securities sold under agreements to repurchase. For additional information, refer to the section on "Corporate Risk Profile – Liquidity Management."

Shareholders' Equity

The Company's capital position remains strong. The 12% net reduction in capital from December 31, 2003 to June 30, 2004 is attributable to the Company's common stock repurchase program and dividends offset by earnings for the first six months of 2004. A further discussion of the Company's capital is included in the "Corporate Risk Profile – Capital Management" section of this report.

Guarantees

The Company's standby letters of credit totaled \$115.6 million at June 30, 2004.

BUSINESS SEGMENTS

The Company's business segments are defined as Retail Banking, Commercial Banking, Investment Services Group and Treasury and Other Corporate. 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. Various techniques are used to assign balance sheet and income statement amounts to the business segments, including allocations of overhead, the 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 accounting principles generally accepted in the United States.

The business segments are managed with a focus on performance measures, including risk adjusted return on capital ("RAROC") and net income after capital charge ("NIACC"). RAROC is the ratio of net income to risk-adjusted equity. Equity is allocated to each business segment based on an assessment of its inherent risk. NIACC is net income less a charge for allocated capital. The cost of capital is determined by multiplying management's estimate of the shareholder's minimum required rate of return on capital invested (11% for 2004 and 2003) by the segment's allocated equity. The Company assumes a cost of capital that is equal to a risk-free rate plus a risk premium of an equity investment in the Company. The net interest income of the business segments reflects the results of a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics and reflects the allocation of net interest income related to the Company's overall asset and liability management activities on a proportionate basis. The basis for the allocation of net interest income is a function of management decisions and assumptions which are subject to change based on changes in current interest rate and market conditions. The Provision recorded in the Retail Banking, Commercial Banking and Investment Services Group segments represents actual net charge-offs of these segments. The Provision charged to the Treasury and Other Corporate segment primarily represents the change in the level of the Allowance and also includes recoveries from the divested businesses.

The financial results for the three and six months ended June 30, 2004 and 2003 are discussed below and are presented in Table 9a and Table 9b, respectively.

Retail Banking

The Company's Retail Banking segment offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, automobile loans and leases and installment loans. Deposit products include checking, savings and time deposit accounts. The Retail Banking segment also provides merchant services to its small business customers. Products and services from the Retail Banking segment are delivered to customers through 74 Hawaii branch locations and over 500 ATMs, e-Bankoh (on-line banking service) and a 24-hour telephone banking service. Also included in the segment is Bankoh Investment Services, Inc., a full service brokerage offering equities, mutual funds, life insurance and annuities.

The NIACC and RAROC for the Retail Banking segment decreased for the three and six months ended June 30, 2004 as compared to the same periods in 2003. The segment experienced lower net interest income, non-interest income and a higher economic provision. The decrease in net interest income was primarily due to the decrease in the earnings credit from funds transfer pricing on the segment's deposit account balances, reflective of lower interest rates. The lower non-interest income was primarily a result of reduced mortgage banking income, partially offset by higher service charges on deposit accounts. The increase in the economic provision was primarily due to seasoning in the segment's automobile and installment loan portfolios. The decrease in non-interest expense was mainly due to lower net equipment expense and no systems replacement cost.

Commercial Banking

The Commercial Banking segment offers products including corporate banking and commercial real estate loans, lease financing, auto dealer financing, deposit and cash management products and property and casualty insurance products. Lending, deposit and cash management services are offered to middle-market and large companies in Hawaii. Commercial real estate mortgages are focused on customers that include investors, developers and builders primarily domiciled in Hawaii. The Commercial Banking unit also serves customers through its 14 branches in the Pacific Islands.

The improvement in the segment's financial measures for the three months and six months ended June 30, 2004 compared to the same periods in 2003 was a result of an increase in non-interest income, partially offset by lower net interest income and a decrease in non-interest expense. The increase in non-interest income was primarily due to higher account analysis fees resulting from lower offsetting earnings credit and from a leasing partnership investment distribution in the quarter ended June 30, 2004. The decrease in net interest income was primarily due to the decrease in the earnings credit from funds transfer pricing on the segment's deposit account balances reflective of lower interest rates. The decline in non-interest expense was primarily due to lower allocated expenses.

Investment Services Group

The Investment Services Group includes private banking, trust services, asset management, and institutional investment advice. A significant portion of this segment's income is derived from fees, which are generally based on the market values of assets under management. The private banking and personal trust group assist individuals and families in building and preserving their wealth by providing investment, credit and trust expertise to high-net-worth individuals. The asset management group manages portfolios and creates investment products. Institutional sales and service offers investment advice to corporations, government entities and foundations.

The segment's key financial measures remained relatively unchanged for the three months ended June 30, 2004 compared to the same period in 2003. Net interest income increased primarily due to higher deposit and loan balances, and non-interest income increased as a result of an increase in trust and asset management fee income due to an improvement in market conditions. These positive trends were offset by increases in both direct and allocated non-interest expense. The increase in direct non-interest expense was due to increased professional fees, partially offset by no systems replacement costs.

The segment's financial measures remained flat for the six months ended June 30, 2004 compared to the same period in 2003. The increase in non-interest income was attributable to a combination of an increase in trust and asset management fee income due to an improvement in market conditions and an increase in other income due to the sale of the corporate trust business in first quarter 2004. The increase in non-interest expense was primarily due to increased professional fees, partially offset by no systems replacement costs.

Treasury and Other Corporate

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

This segment also includes divisions that provide a wide-range of support (Technology, Operations, Human Resources, Finance, Credit and Risk Management and Corporate and Regulatory Administration) to the other income earning segments. Expenses incurred by these support units are charged to the business segments through an internal cost allocation process. Results for this segment in 2003 include the systems replacement costs that were not incurred by or allocated to the Retail, Commercial and Investment Services Group segments.

The improvement in the segment's key financial measures for the three months and six months ended June 30, 2004, compared to the same periods in 2003, were primarily due to an increase in net interest income and non-interest income and no systems replacement costs. The increase in net interest income was due to the impact of the lower cost of funding deposits by the Treasury unit. The increase in non-interest income was due to a gain realized in the second quarter of 2004 from the sale of a parcel of land. This segment's NIACC was also favorably impacted by a lower capital charge due to the reduction of the Company's excess capital as a result of the continuing share repurchase activity.

Business Segment Selected Financial Information (Unaudited) **Table 9a**

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services Group	Treasury and Other Corporate	Consolidated Total
Three Months Ended June 30, 2004					
Net Interest Income	$ 49,568	$ 33,607	$ 2,844	$ 9,830	$ 95,849
Provision for Loan and Lease Losses	2,587	2,730	(1)	(8,816)	(3,500)
Net Interest Income After Provision for Loan and Lease Losses	46,981	30,877	2,845	18,646	99,349
Non-Interest Income	24,388	12,188	12,938	5,334	54,848
	71,369	43,065	15,783	23,980	154,197
Non-Interest Expense	(44,560)	(23,009)	(13,145)	(4,411)	(85,125)
Income Before Income Taxes	26,809	20,056	2,638	19,569	69,072
Provision for Income Taxes	(9,919)	(7,421)	(976)	(6,524)	(24,840)
Allocated Net Income	16,890	12,635	1,662	13,045	44,232
Allowance Funding Value	(148)	(688)	(6)	842	—
GAAP Provision	2,587	2,730	(1)	(8,816)	(3,500)
Economic Provision	(3,510)	(2,821)	(99)	(3)	(6,433)
Tax Effect of Adjustments	396	288	39	2,951	3,674
Income Before Capital Charge	16,215	12,144	1,595	8,019	37,973
Capital Charge	(5,485)	(5,134)	(1,302)	(8,231)	(20,152)
Net Income (Loss) After Capital Charge (NIACC)	$ 10,730	$ 7,010	$ 293	$ (212)	$ 17,821
RAROC (ROE for the Company)	33%	26%	14%	28%	24%
Total Assets at June 30, 2004	$ 3,693,382	$ 2,331,968	$ 114,021	$ 3,549,398	$ 9,688,769
Three Months Ended June 30, 2003 [1]					
Net Interest Income	$ 53,139	$ 34,394	$ 2,635	$ 317	$ 90,485
Provision for Loan and Lease Losses	1,321	1,022	—	(2,343)	—
Net Interest Income After Provision for Loan and Lease Losses	51,818	33,372	2,635	2,660	90,485
Non-Interest Income	26,613	8,302	12,355	3,469	50,739
	78,431	41,674	14,990	6,129	141,224
Information Technology Systems Replacement Project	(368)	—	(90)	(9,647)	(10,105)
Non-Interest Expense	(45,238)	(23,884)	(12,145)	(4,022)	(85,289)
Income (Loss) Before Income Taxes	32,825	17,790	2,755	(7,540)	45,830
Provision for Income Taxes	(12,145)	(6,465)	(1,019)	3,833	(15,796)
Allocated Net Income (Loss)	20,680	11,325	1,736	(3,707)	30,034
Allowance Funding Value	(161)	(1,100)	(7)	1,268	—
GAAP Provision	1,321	1,022	—	(2,343)	—
Economic Provision	(2,901)	(3,031)	(108)	(5)	(6,045)
Tax Effect of Adjustments	644	1,150	42	401	2,237
Income (Loss) Before Capital Charge	19,583	9,366	1,663	(4,386)	26,226
Capital Charge	(5,683)	(5,418)	(1,255)	(13,275)	(25,631)
Net Income (Loss) After Capital Charge (NIACC)	$ 13,900	$ 3,948	$ 408	$ (17,661)	$ 595
RAROC (ROE for the Company)	38%	19%	15%	(12)%	13%
Total Assets at June 30, 2003	$ 3,487,565	$ 2,242,905	$ 97,414	$ 3,723,050	$ 9,550,934

[1] Certain 2003 information has been reclassified to conform to 2004 presentation.

Business Segment Selected Financial Information (Unaudited) **Table 9b**

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services Group	Treasury and Other Corporate	Consolidated Total
Six Months Ended June 30, 2004					
Net Interest Income	$ 99,807	$ 67,671	$ 5,679	$ 18,723	$ 191,880
Provision for Loan and Lease Losses	5,334	2,477	48	(11,359)	(3,500)
Net Interest Income After Provision for Loan and Lease Losses	94,473	65,194	5,631	30,082	195,380
Non-Interest Income	45,403	22,660	27,338	8,289	103,690
	139,876	87,854	32,969	38,371	299,070
Non-Interest Expense	(87,777)	(46,247)	(26,082)	(8,041)	(168,147)
Income Before Income Taxes	52,099	41,607	6,887	30,330	130,923
Provision for Income Taxes	(19,277)	(15,376)	(2,548)	(9,691)	(46,892)
Allocated Net Income	32,822	26,231	4,339	20,639	84,031
Allowance Funding Value	(277)	(1,425)	(14)	1,716	—
GAAP Provision	5,334	2,477	48	(11,359)	(3,500)
Economic Provision	(6,906)	(5,598)	(193)	(5)	(12,702)
Tax Effect of Adjustments	684	1,682	59	3,570	5,995
Income Before Capital Charge	31,657	23,367	4,239	14,561	73,824
Capital Charge	(11,255)	(10,405)	(2,580)	(17,950)	(42,190)
Net Income (Loss) After Capital Charge (NIACC)	$ 20,402	$ 12,962	$ 1,659	$ (3,389)	$ 31,634
RAROC (ROE for the Company)	31%	25%	18%	27%	22%
Total Assets at June 30, 2004	$ 3,693,382	$ 2,331,968	$ 114,021	$ 3,549,398	$ 9,688,769
Six Months Ended June 30, 2003 [1]					
Net Interest Income	$ 105,331	$ 69,353	$ 5,955	$ 846	$ 181,485
Provision for Loan and Lease Losses	2,169	3,173	—	(5,342)	—
Net Interest Income After Provision for Loan and Lease Losses	103,162	66,180	5,955	6,188	181,485
Non-Interest Income	46,310	17,100	25,342	6,740	95,492
	149,472	83,280	31,297	12,928	276,977
Information Technology Systems Replacement Project	(950)	(23)	(334)	(16,215)	(17,522)
Non-Interest Expense	(88,878)	(47,308)	(24,374)	(7,512)	(168,072)
Income (Loss) Before Income Taxes	59,644	35,949	6,589	(10,799)	91,383
Provision for Income Taxes	(22,068)	(13,087)	(2,438)	6,045	(31,548)
Allocated Net Income (Loss)	37,576	22,862	4,151	(4,754)	59,835
Allowance Funding Value	(313)	(2,241)	(17)	2,571	—
GAAP Provision	2,169	3,173	—	(5,342)	—
Economic Provision	(5,609)	(6,094)	(236)	(10)	(11,949)
Tax Effect of Adjustments	1,389	1,910	93	1,029	4,421
Income (Loss) Before Capital Charge	35,212	19,610	3,991	(6,506)	52,307
Capital Charge	(11,255)	(10,865)	(2,523)	(27,740)	(52,383)
Net Income (Loss) After Capital Charge (NIACC)	$ 23,957	$ 8,745	$ 1,468	$ (34,246)	$ (76)
RAROC (ROE for the Company)	35%	20%	18%	(9)%	13%
Total Assets at June 30, 2003	$ 3,487,565	$ 2,242,905	$ 97,414	$ 3,723,050	$ 9,550,934

[1] Certain 2003 information has been reclassified to conform to 2004 presentation.

FOREIGN OPERATIONS

The countries in which the Company maintains its largest exposure on a cross-border basis include Netherlands, United Kingdom and Australia. Table 10 presents as of June 30, 2004, December 31, 2003 and June 30, 2003, a geographic distribution of the Company's cross-border assets for selected countries. The primary components of cross-border assets as of June 30, 2004 were investment securities and interest-bearing deposits of $296.5 million and $178.5 million, respectively.

Geographic Distribution of Cross-Border International Assets (Unaudited) [1] **Table 10**
(dollars in thousands)

Country	June 30, 2004	December 31, 2003 [2]	June 30, 2003 [2]
Australia	$ 80,561	$ 36,283	$ 38,002
Netherlands	142,242	42,229	92,590
United Kingdom	110,095	110,460	135,969
All Others	245,422	162,037	172,534
Total Cross - Border International Assets	$ 578,320	$ 351,009	$ 439,095

1 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 Certain 2003 information has been reclassified to conform to 2004 presentation.

Because the U.S. dollar is used in the Pacific Island Division locations (Guam and American Samoa, which are U.S. territories, and other nearby islands), these operations are not considered foreign for financial reporting purposes.

CORPORATE RISK PROFILE

Credit Risk

Credit Risk is defined as the risk that borrowers or counterparties will not be able to repay their obligations to the Company. Credit exposures reflect legally binding commitments for loans, leases, banker's acceptances, financial and standby letters of credit and overnight overdrafts.

The Company's asset quality improved as evidenced by lower levels of internally criticized loans and non-performing assets. The ratio of non-performing assets to total loans and foreclosed real estate was 0.37% at June 30, 2004, a decrease from 0.55% at December 31, 2003. Net charge-offs were in a net recovery position of $1.2 million for the second quarter 2004. Net charge-offs for the first six months of 2004 (annualized) as a percent of average loans outstanding were 0.02%, compared to 0.18% in the same prior year period.

The Company's more favorable credit risk position relative to a year ago reflects the portfolio strategy which shifted to borrowers and industries believed to have a lower risk profile, reduced large borrower concentrations and an improving mainland economy. In addition, ongoing portfolio management is intended to result in early identification and disengagement from deteriorating credits.

Overall risk in the portfolio of Hawaii-based loans has been improving, primarily due to a local economy that remains satisfactory with some positive trends in real economic measures.

Although the Company's overall credit risk profile continued to improve, two components, air transportation and Guam, continued to carry higher risk characteristics than the overall portfolio. Information about these components are included in Table 11. The air transportation industry has a higher risk profile as some domestic carriers continue to struggle financially. As of June 30, 2004, 10% of the Company's total air transportation outstandings were internally classified, an improvement from 16% at December 31, 2003.

Selected Concentrations of Credit Exposure (Unaudited) **Table 11**

(dollars in thousands)	June 30, 2004 Outstandings	June 30, 2004 Unused Commitments	June 30, 2004 Total Exposure	Dec. 31, 2003 [1] Total Exposure	June 30, 2003 [1] Total Exposure
Air Transportation					
United States Regional Passenger Carriers	$ 45,308	$ 13,183	$ 58,491	$ 59,231	$ 59,702
United States National Passenger Carriers	37,581	—	37,581	37,259	37,557
Passenger Carriers Based Outside United States	30,325	—	30,325	31,549	31,794
Cargo Carriers	14,122	—	14,122	14,405	14,739
Total Air Transportation	$ 127,336	$ 13,183	$ 140,519	$ 142,444	$ 143,792
Guam					
Hotel	$ 15,614	$ —	$ 15,614	$ 17,733	$ 42,806
Other Commercial	146,872	42,441	189,313	184,129	183,765
Consumer	306,002	12,075	318,077	288,831	265,851
Total Guam	$ 468,488	$ 54,516	$ 523,004	$ 490,693	$ 492,422
Syndicated Exposure	$ 265,908	$ 636,293	$ 902,201	$ 912,896	$ 930,118
Other Large Borrowers [2]	$ 62,734	$ 216,048	$ 278,782	$ 336,748	$ 372,924

Exposure includes loans, leveraged leases and operating leases.

1 For three borrowers, reclassifications have occurred between Regional and National Carriers. Syndicated Exposure has been restated to include a purchased participation.

2 Other Large Borrowers is defined as exposure with commitments of $25.0 million and greater, excluding those collateralized by cash and those separately identified as Air Transportation, Guam and Syndicated Exposure.

In the Guam portfolio, which is sensitive to tourism and military spending, economic indicators are positive although some uncertainty continues to exist. As of June 30, 2004, internally classified exposure was reduced by 12% from December 31, 2003. This reduction was achieved through strategic reduction and some borrower improvement. Targeted lending to select commercial borrowers is active, while the consumer lending business is leading the portfolio growth.

At June 30, 2004, the Company still has some significant credit exposures to commercial borrowers. The Company's largest syndicated loan outstanding totaled $39.2 million to a local trust and the second largest syndicated loan outstanding totaled $21.0 million for new hotel construction on Maui. The ten largest syndicated loans outstanding totaled $164.7 million or 62% of total syndicated loans and consisted mainly of loans in the hospitality and real estate industries. No syndicated outstandings were internally classified.

The Company's other large borrowers include five exposures of $25.0 million and greater. The borrowers are major companies, most with Hawaii operations. Three exposures are commercial paper backup lines to investment grade companies and are undrawn. The remaining two exposures have their loans collateralized by real estate and other assets and are substantially funded.

Non-Performing Assets

Non-performing assets (“NPAs”) consist of non-accrual loans and foreclosed real estate. As of June 30, 2004, NPAs have decreased by $10.6 million from December 31, 2003 to $21.2 million, primarily due to the partial charge-off and disengagement of a Hawaii business, a loan pay-off in Guam and the return to accrual status of Hawaii residential mortgage loans.

NPAs in Guam as of June 30, 2004 were $9.1 million, a decrease of $3.6 million or 28% from December 31, 2003. The improvement primarily reflects payments from a number of commercial borrowers.

Impaired loans totaled $6.7 million at June 30, 2004, a decrease of $9.3 million or 58% from $16.0 million at December 31, 2003. These loans had a related Allowance that totaled $0.6 million at June 30, 2004, a decrease of $0.3 million from December 31, 2003.

Loans Past Due 90 Days or More and Still Accruing Interest

Accruing loans past due 90 days or more were $2.6 million at June 30, 2004, a decrease of $0.8 million from December 31, 2003. The improvement was primarily a result of having a lower number of residential mortgage loans past due and offsetting activity on commercial loans.

Refer to Table 12 for further information on non-performing assets.

Consolidated Non-Performing Assets and Accruing Loans Past Due 90 Days or More (Unaudited) Table 12

(dollars in thousands)	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003
Non-Performing Assets					
Non-Accrual Loans					
Commercial					
Commercial and Industrial	$ 680	$ 6,009	$ 6,015	$ 7,856	$ 8,832
Commercial Mortgage	5,649	7,388	9,337	10,977	11,216
Lease Financing	1,948	1,962	2,181	2,388	2,423
Total Commercial	8,277	15,359	17,533	21,221	22,471
Consumer					
Residential Mortgage	7,688	7,685	9,354	9,669	10,196
Home Equity	306	406	460	497	—
Total Consumer	7,994	8,091	9,814	10,166	10,196
Total Non-Accrual Loans	16,271	23,450	27,347	31,387	32,667
Foreclosed Real Estate	4,889	4,416	4,377	8,757	9,285
Total Non-Performing Assets	$ 21,160	$ 27,866	$ 31,724	$ 40,144	$ 41,952
Accruing Loans Past Due 90 Days or More					
Commercial					
Commercial and Industrial	$ 19	$ 707	$ 725	$ 695	$ 523
Commercial Mortgage	693	702	—	—	—
Lease Financing	—	—	117	—	—
Total Commercial	712	1,409	842	695	523
Consumer					
Residential Mortgage	698	595	1,430	2,027	1,817
Home Equity	—	—	—	—	84
Purchased Home Equity	32	107	—	107	98
Other Consumer	1,142	1,180	1,210	1,059	368
Lease Financing	57	—	—	—	19
Total Consumer	1,929	1,882	2,640	3,193	2,386
Total Accruing and Past Due	$ 2,641	$ 3,291	$ 3,482	$ 3,888	$ 2,909
Total Loans and Leases	$ 5,787,314	$ 5,714,996	$ 5,757,175	$ 5,570,405	$ 5,471,870
Ratio of Non-Accrual Loans to Total Loans	0.28%	0.41%	0.48%	0.56%	0.60%
Ratio of Non-Performing Assets to Total Loans and Foreclosed Real Estate	0.37%	0.49%	0.55%	0.72%	0.77%
Ratio of Non-Performing Assets and Accruing Loans Past Due 90 Days or More to Total Loans	0.41%	0.55%	0.61%	0.79%	0.82%
Quarter to Quarter Changes in Non-Performing Assets					
Balance at Beginning of Quarter	$ 27,866	$ 31,724	$ 40,144	$ 41,952	$ 44,217
Additions	3,909	3,293	2,340	3,199	11,603
Reductions					
Payments	(4,232)	(4,555)	(3,416)	(1,782)	(4,279)
Return to Accrual	(2,700)	(1,444)	(839)	(1,464)	(7,556)
Sales of Foreclosed Assets	(147)	(310)	(4,418)	(1,025)	(672)
Charge-offs/Write-downs	(3,536)	(842)	(2,087)	(736)	(1,361)
Total Reductions	(10,615)	(7,151)	(10,760)	(5,007)	(13,868)
Balance at End of Quarter	$ 21,160	$ 27,866	$ 31,724	$ 40,144	$ 41,952

Allowance for Loan and Lease Losses

The Company maintains an Allowance adequate to cover management's estimate of probable credit losses inherent in its lending portfolios based on a comprehensive quarterly analysis of historical loss experience supplemented by judgmental expectations of portfolio performance and economic conditions as of a given balance sheet date.

The Allowance at June 30, 2004 totaled $124.9 million, a decrease of $4.2 million from December 31, 2003. The ratio of the Allowance to total loans and leases outstanding was 2.16% at June 30, 2004, a decrease from 2.24% at December 31, 2003 and 2.52% at June 30, 2003. A summary of the Allowance is presented in Table 13. Loan charge-offs in the second quarter of 2004 of $8.8 million were more than offset by recoveries of $10.0 million, resulting in a net recovery position of $1.2 million for the quarter. The higher than normal level of recoveries resulted from a $6.0 million recovery from a previously charged-off Asia loan. Based on further improvement in credit quality and ongoing assessments of economic conditions and risk, a negative Provision of $3.5 million was recorded in the second quarter of 2004. The combination of the negative Provision and the net recoveries resulted in a $2.3 million reduction in the Allowance during the second quarter of 2004. No Provision was recorded in the previous seven quarters, resulting in a reduction of the Allowance equal to net charge-offs in those periods.

Consolidated Allowance for Loan and Lease Losses (Unaudited) **Table 13**

(dollars in thousands)	Three Months Ended June 30, 2004	Three Months Ended March 31, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Balance at Beginning of Period	$ 127,185	$ 129,080	$ 140,028	$ 129,080	$ 142,853
Loans Charged-Off					
Commercial					
Commercial and Industrial	3,328	387	565	3,715	2,182
Commercial Mortgage	—	574	400	574	400
Construction	—	—	—	—	529
Lease Financing	379	228	325	607	340
Consumer					
Residential Mortgage	319	145	687	464	1,376
Home Equity	9	—	7	9	89
Purchased Home Equity	201	90	—	291	—
Other Consumer	4,564	4,655	3,619	9,219	6,708
Lease Financing	28	36	50	64	117
Total Loans Charged-Off	8,828	6,115	5,653	14,943	11,741
Recoveries on Loans Previously Charged-Off					
Commercial					
Commercial and Industrial	1,245	954	1,819	2,199	2,391
Commercial Mortgage	151	689	57	840	74
Construction	—	435	55	435	955
Lease Financing	1	15	—	16	17
Consumer					
Residential Mortgage	304	294	254	598	457
Home Equity	101	39	50	140	103
Purchased Home Equity	57	—	—	57	—
Other Consumer	1,703	1,663	1,342	3,366	2,669
Lease Financing	16	55	8	71	53
Foreign	6,469	76	14	6,545	143
Total Recoveries on Loans Previously Charged-Off	10,047	4,220	3,599	14,267	6,862
Net Loan Recoveries (Charge-Offs)	1,219	(1,895)	(2,054)	(676)	(4,879)
Provision for Loan and Lease Losses	(3,500)	—	—	(3,500)	—
Balance at End of Period	$ 124,904	$ 127,185	$ 137,974	$ 124,904	$ 137,974
Average Loans Outstanding	$ 5,772,926	$ 5,742,368	$ 5,518,401	$ 5,757,647	$ 5,489,783
Ratio of Net Loan Charge-Offs to Average Loans Outstanding (annualized)	(0.08)%	0.13%	0.15%	0.02%	0.18%
Ratio of Allowance to Loans and Leases Outstanding	2.16%	2.23%	2.52%	2.16%	2.52%

Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates and prices. The Company is exposed to market risk as a consequence of the normal course of conducting its business activities. Financial products that expose the Company to market risk include investment securities, loans, deposits, debt and derivative financial instruments. The Company's market risk management process involves measuring, monitoring, controlling and managing risks that can significantly impact the Company's financial position and operating results. In this management process, market risks are balanced with expected returns in an effort to enhance earnings performance and shareholder value, while limiting the volatility of each. The activities associated with these market risks are categorized into "trading" and "other than trading."

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

The Company's "other than trading" activities include normal business transactions that expose the Company's balance sheet profile to varying degrees of market risk.

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, such as general economic and financial conditions, customer preferences and historical pricing relationships.

Table 14 presents, as of June 30, 2004, December 31, 2003 and June 30, 2003, the estimate of the change in net interest income ("NII") that would result from a gradual 200 basis point decrease or increase in interest rates, moving in parallel fashion over the entire yield curve, over the next 12-month period, relative to the measured base case scenario for NII. The 200 basis point increase would equate to an average increase of $2.7 million increase in NII per quarter. The Company's balance sheet continues to be asset-sensitive. The resulting estimated NII exposure is within the guidelines approved by the Company's Asset Liability Management Committee.

Market Risk Exposure to Interest Rate Changes (Unaudited) **Table 14**

	June 30, 2004 Interest Rate Change (in basis points)		December 31, 2003 Interest Rate Change (in basis points)		June 30, 2003 Interest Rate Change (in basis points)	
(dollars in millions)	**-200**	**+200**	**-200**	**+200**	**-200**	**+200**
Estimated Exposure as a Percent of Net Interest Income	(5.0)%	2.8%	(4.8)%	4.0%	(2.5)%	5.9%
Estimated Exposure to Net Interest Income Per Quarter	$ (4.8)	$ 2.7	$ (4.4)	$ 3.7	$ (2.3)	$ 5.4

In managing interest rate risk, the Company uses several approaches to modify its risk position. Approaches that are used in an effort 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 has been limited over the past several years.

Liquidity Management

Liquidity is managed in an effort to ensure that the Company has continuous access to sufficient, reasonably priced funding to conduct its business in a normal manner.

The Bank is a member of the Federal Home Loan Bank of Seattle (the "FHLB"), which provides an additional source of short and long-term funding. Outstanding borrowings from the FHLB were $62.5 million at June 30, 2004, compared to $68.5 million at December 31, 2003 and $76.5 million at June 30, 2003. The decrease from 2003 was due to maturities.

Additionally, the Bank maintains a $1 billion senior and subordinated bank note program. Under this facility, the Bank may issue additional notes provided that the aggregate amount outstanding does not exceed $1 billion. Subordinated notes outstanding under this bank note program totaled $124.7 million at June 30, 2004, December 31, 2003 and June 30, 2003.

In the second quarter of 2004, $20.0 million of privately placed notes matured and were not replaced. An additional $70.0 million of privately placed notes matured in July 2004 and were not replaced. Repayment came from existing liquidity.

Capital Management

The Company and the Bank are subject to regulatory capital requirements administered by the federal banking agencies. The Company's objective is to hold sufficient capital on a regulatory basis to exceed the minimum guidelines of a "well-capitalized" financial institution, while over the long term optimize shareholder value, support asset growth, reflect risks inherent in its markets, provide protection against unforeseen losses and comply with regulatory requirements.

At June 30, 2004, shareholders' equity totaled $699.4 million, a 12% net decrease from December 31, 2003. The decrease in shareholders' equity during the first half of 2004 was primarily attributable to the Company's repurchase of its common stock under the repurchase program and dividends offset by earnings.

During the six months ended June 30, 2004, 3.4 million shares of common stock were repurchased at an average cost of $44.24 per share, totaling $150.7 million. As of June 30, 2004, the Company repurchased a total of 33.2 million shares since July 2001, under the share repurchase program, totaling $1,005.7 million at an average cost of $30.27 per share. In July 2004, the Company's Board of Directors increased the authorization under the share repurchase program by an additional $100.0 million. This authorization, combined with the Company's previously announced authorizations of $1,050.0 million, brings the total repurchase authority to $1,150.0 million. Subsequent to June 30, 2004 through July 23, 2004, 160,000 shares were repurchased at an average cost of $45.50 per share for a total of $7.3 million, resulting in remaining buyback authority under the existing repurchase program of $137.0 million.

In July 2004, the Company's Board of Directors declared a quarterly cash dividend of $0.30 per share on the Company's outstanding shares. The dividend will be payable on September 15, 2004 to shareholders of record at the close of business on August 30, 2004.

Table 15 presents the regulatory capital and ratios as of June 30, 2004, December 31, 2003 and June 30, 2003.

Regulatory Capital and Ratios (Unaudited) Table 15

(dollars in thousands)	**June 30, 2004**	**December 31, 2003**	**June 30, 2003**
Regulatory Capital			
Shareholders' Equity	$ 699,438	$ 793,132	$ 913,010
Add: 8.25% Capital Securities of Bancorp Hawaii Capital Trust I	31,425	31,425	31,425
Less: Goodwill	36,216	36,216	36,216
Unrealized Valuation and Other Adjustments	(10,776)	10,771	27,958
Tier I Capital	705,423	777,570	880,261
Allowable Reserve for Loan Losses	79,889	78,147	76,332
Subordinated Debt	99,787	124,709	124,683
Unrealized Gains on Available for Sale Equity Securities	48	66	113
Total Capital	$ 885,147	$ 980,492	$ 1,081,389
Risk Weighted Assets	$ 6,346,134	$ 6,200,831	$ 6,044,941
Key Capital Ratios			
Average Equity/Average Assets Ratio	7.41%	9.60%	9.80%
Tier I Capital Ratio	11.12%	12.54%	14.56%
Total Capital Ratio	13.95%	15.81%	17.89%
Leverage Ratio	7.16%	8.43%	9.29%

Economic Outlook

Based on projected visitor counts, tourism in Hawaii may reach record high levels during the summer of 2004. Total visitor counts were up 9% year-to-date through May 2004 and up 13% in June 2004 compared to last year. Growth in tourism is a result of the continued strength in domestic visitors to Hawaii and increased international visitors, partially due to the improving Japan economy and favorable yen/dollar exchange rates. Hotel revenues rose 6%, matched by growth in overall business receipts, during the State's fiscal year ending in June 2004.

Hawaii's seasonally-adjusted unemployment rate declined to 3% in May 2004, one percentage point below a year ago, as labor markets tightened. Seasonally-adjusted payrolls grew at a 1.7% annualized rate in the most recent six-month period, and were up 2.1% on a year-over-year basis in May 2004.

Hawaii real estate investment continues to dominate near-term growth prospects. Home sales volumes in Honolulu have grown at annual rates of more than 15% since 1997 and record volumes are expected to be reached this summer. Military housing privatization is anticipated to double annual homebuilding on Oahu beginning in the fourth quarter of 2004. Overall, construction employment is expected to return to early-1990s cyclical peaks.

Honolulu's semiannual inflation rate for the first half of 2004 is expected to repeat the 3% recorded in the second half of 2003, up from 1% a year earlier. Strong China, Eastern Asia and Southern California economies, and recoveries in Northern California and the Pacific Northwest, put Hawaii at the center of regional economic strength once again.

Earnings Outlook

The Company currently anticipates net income for the full year of 2004 will be approximately $163 million to $167 million. Based on present conditions, the Company does not expect to record a Provision for the remainder of 2004. However, the actual amount of the Provision depends on determinations of credit risk that are made near the end of each quarter. Earnings per share and return on equity projections continue to be dependent upon the terms and timing of share repurchases.

Item 3. Quantitative and Qualitative Disclosures of Market Risk

See Management's Discussion and Analysis of Results of Operations and Financial Condition-Market Risk.

Item 4. Controls and Procedures

The Company's management, including the Chief Executive Officer, President and Chief Operating Officer and Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a - 15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2004. Based on this evaluation, the Chief Executive Officer, President and Chief Operating Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls over financial reporting that occurred during the second quarter of 2004 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Part II. - Other Information

Items 1 and 3 omitted pursuant to instructions.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program [2,3]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Announced Program [2,4]
April 1 - 30, 2004	1,179,817	$ 43.83	1,091,800	$ 89,240,654
May 1 - 31, 2004	814,446	43.90	812,969	53,548,915
June 1 - 30, 2004	210,466	44.16	210,000	44,274,238
Total	**2,204,729**	**$ 43.89**	**2,114,769**	

1 The April period included 88,017 shares purchased from employees in connection with the vesting of restricted stock. The May and June periods included 1,477 and 466 shares, respectively, purchased from employees in connection with stock option exercises. These shares were not purchased as part of the publicly announced program. The shares were purchased at the closing price of the Company's common stock on the dates of purchase.

2 The Company announced an authorization of additional share repurchase of $50.0 million and $200.0 million on April 27, 2004 and September 29, 2003, respectively.

3 In May 2004, the Company purchased 644,069 shares from the Chairman and CEO of the Company at a volume weighted average price of $44.26, totaling $28.5 million.

4 In July 2004, the Company announced an authorization of additional share repurchase of $100.0 million under the announced program.

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

At the annual shareholders meeting held on April 23, 2004, the following matters were submitted to a vote of the shareholders.

a. Election of Directors - Four directors were elected to the Board of Directors as follows: *

S. Haunani Apoliona

Votes cast for:	47,063,521
Votes withheld:	948,929

Michael J. Chun

Votes cast for:	47,229,237
Votes withheld:	783,213

Allan R. Landon

Votes cast for:	46,138,609
Votes withheld:	1,873,841

Barbara J. Tanabe

Votes cast for:	47,277,087
Votes withheld:	735,363

b. Election of Directors – Three directors whose terms in office were expiring were re-elected to the Board of Directors as follows: *

Mary G.F. Bitterman

Votes cast for:	45,859,105
Votes withheld:	2,153,345

Martin A. Stein

Votes cast for:	45,960,790
Votes withheld:	2,051,660

Robert W. Wo, Jr.

Votes cast for:	46,540,989
Votes withheld:	1,471,461

c. Approval of Bank of Hawaii Corporation 2004 Stock and Incentive Compensation Plan **

Votes cast for:	32,139,354
Votes cast against:	8,597,372
Broker non-votes:	6,350,190
Abstentions:	925,534

d. Election of an Independent Auditor - Ernst & Young, LLP

Votes cast for:	45,692,457
Votes cast against:	2,216,493
Abstentions:	103,500

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* The directors are elected by a plurality of the votes cast; therefore, votes cast in the election could not be recorded against or as an abstention, nor could broker non-votes be recorded.

** A broker non-vote had no effect on this proposal and an abstention had the same effect as a vote against the proposal.

Item 5. Other Information

The Company announced on July 26, 2004 it has elected Allan R. Landon, currently President and Chief Operating Officer, to succeed Michael E. O’Neill as Chairman and Chief Executive Officer, effective September 1, 2004.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibit Index

Exhibit Number	
10.1	Bank of Hawaii Corporation 2004 Stock and Incentive Compensation Plan (incorporated by reference from Appendix C to the Company's Definitive Proxy Statement on Schedule 14A for the 2004 Annual Meeting of Shareholders, as filed on March 18, 2004)*
10.2	Form of Retention Agreement dated May 3, 2004 with certain Managing Committee Members*
12	Statement Regarding Computation of Ratios
31.1	Rule 13a - 14(a) Certifications
31.2	Rule 13a - 14(a) Certifications
31.3	Rule 13a - 14(a) Certifications
32	Section 1350 Certification

* Management contract or compensatory plan or arrangement.

b. The following reports on Form 8-K were filed during the quarter ended June 30, 2004:

Filed April 27, 2004 under Item 5 of Form 8-K, regarding President Allan R. Landon to add responsibility of Chief Operating Officer and announcement of new senior management appointments.

Filed May 11, 2004, under Item 5 of Form 8-K, regarding Bank of Hawaii Corporation buys block of shares from its Chairman and Chief Executive Officer.

SIGNATURES

Pursuant to the requirements 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: July 28, 2004

BANK OF HAWAII CORPORATION

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

By: /s/ Allan R. Landon
Allan R. Landon
President and Chief Operating Officer

By: /s/ Richard C. Keene
Richard C. Keene
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	
10.1	Bank of Hawaii Corporation 2004 Stock and Incentive Compensation Plan (incorporated by reference from Appendix C to the Company's Definitive Proxy Statement on Schedule 14A for the 2004 Annual Meeting of Shareholders, as filed on March 18, 2004)*
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32	Section 1350 Certification

* Management contract or compensatory plan or arrangement.

Exhibit 10.2

Bank of Hawaii Corporation and Subsidiaries

RETENTION AGREEMENT

Between Bank of Hawaii and Managing Committee Member dated May 3, 2004

This Retention Agreement ("Agreement") is between Managing Committee Member ("you") of address and Bank of Hawaii Corporation and Bank of Hawaii (collectively, the "Bank") of 130 Merchant Street, Honolulu, Hawaii 96813. The purpose of this Agreement is to describe the terms of your retention and transition from employment with the Bank.

1. **Completion of your active duties and separation from employment.** The date of your separation from employment ("Separation Date") will be twenty-four (24) months following your completion of active employment duties (your "Inactive Service Date" or "ISD"), unless an Alternate Separation Date ("ASD") is selected or occurs between the ISD and the Separation Date.

   a. Your ISD is scheduled to occur on XX XX, 2005. The final determination of your ISD will be made by the Bank, in its discretion, based upon the needs of the Bank in achieving the goals of the Bank's Retention Program. The Bank may advance your ISD to any date before XX XX, 2005, or may extend your ISD to any date within three months after XX XX, 2005. Any ISD beyond three months from the original ISD date, will require mutual agreement of the parties in writing.

   b. In the event you become employed elsewhere on a part-time or full-time basis between the ISD and your scheduled Separation Date or ASD, your separation from employment with the Bank will be effective immediately upon your new employment and that date will be deemed to be your ASD.

   c. You may voluntarily elect an ASD by sending the Bank a written notice. The other circumstances which can trigger the designation of an ASD are discussed below.

2. **Duties and compensation until your inactive service date.** You agree to continue to work diligently in your current position through the ISD, at which time you will be relieved of all duties and responsibilities.

   a. You will be paid your normal salary and benefits through the ISD. You will participate in the Executive Incentive Plan for calendar years 2004 and 2005, with the amount payable for 2005 pro-rated based upon your ISD.

   b. In the event you become employed elsewhere on a full-time or part-time basis prior to the ISD, you will receive only your salary and vested benefits through the date you begin your new employment.

   c. You will not participate in any other incentive, retention, bonus, or stock plan in 2004 or 2005. You will not participate in any incentive, retention, bonus, or stock plan on or after the ISD. You acknowledge and agree that no compensation or other payment except as specified in this Agreement and in the Restricted Stock Unit (RSU) Grant (granted on October 23, 2003) is or will be owed to you after the earlier of the Separation Date or the ASD.

3. **Return of Bank materials on completion of active service; resignation from positions; treatment of club membership.** On or prior to the ISD, you:

   a. Will return to the Bank any information you have about the Bank's practices, customers, strategies, procedures or trade secrets, including but not limited to, customer data, lists and accounts, growth plans, business plans, and marketing strategies (collectively, the "Bank Information"). You will not retain any copies of the Bank Information in any form or medium.

   b. You will also return any Bank property you have, including American Express card, keys, cell phone, or other Bank equipment.

   c. You will resign any positions you hold as a director, officer or other management official of any Bank affiliate or subsidiary, or as trustee or fiduciary of any Bank benefit plan or trust, effective on the ISD.

   d. (1) Effective on the ISD, there will be no further reimbursements for expenses you incur at the X Club.

      (2) We will waive your obligation to reimburse the Bank for the remaining balance of the initial membership fee. This will result in imputed income to you of approximately $X in 2005. You are responsible for the payroll taxes on this income and we will withhold the appropriate amounts from your 2005 earnings.

(3) Additional income to partially offset your periodic membership dues will end on your ISD. If you elect to discontinue your membership prior to that date, you must notify the Bank's Director of Human Resources in writing, at least thirty (30) days prior to the date of discontinuance. Upon timely receipt of your written notice, we will consider your membership discontinued and the additional income related to club dues will no longer be paid. You are responsible for abiding by your club's specific procedures for membership discontinuance and ensuring that no additional business expenses are incurred.

e. In the event that your employment is terminated prior to your ISD (1) by employment elsewhere, or (2) for "cause" pursuant to Paragraph 6, you will comply with these requirements as of your termination date ("Termination Date").

4. **How to receive your retention payment and continued benefits.** If you perform your duties to the Bank's satisfaction through the ISD (including your compliance with the requirements in Paragraph 3, above, and if you comply with the requirements of this Paragraph and Paragraphs 5, 8, 10, and 11, below, and Exhibit "A" to the Agreement), you will receive a Retention Payment equal to twenty-four (24) months of your base monthly salary as of the ISD.

a. The Retention Payment will be provided to you in the form of salary equivalent payments ("Continuation Payments") on the same schedule used to pay Bank employees generally, with eligibility to remain in the Bank-sponsored benefit plans (unless otherwise provided in this Agreement) as if you were an active employee of the Bank during the period between the ISD and the Separation Date.

b. You will make yourself available to the Bank for consultation, as needed, through your Separation Date or ASD. If you select and provide written notice of an ASD or if you take new employment between the ISD and the Separation Date, thereby triggering an ASD, the Continuation Payments (and associated benefits) will cease as of the ASD, and the Bank will pay you a lump sum equal to the difference between the Retention Payment and the amount of Continuation Payments you have already received. The lump sum, less appropriate payroll deductions, will be paid to you within 45 days of the ASD. You will receive by separate cover information regarding your rights to health insurance continuation after the Separation Date or ASD. To the extent that you have such rights, nothing in this Agreement will impair those rights.

5. **When you are entitled to the money and other benefits granted by this Agreement.** The salary, benefits, Retention Payment and/or RSU Grant provided to you under this Agreement ("Monetary Consideration") is expressly conditioned upon your:

a. Compliance with the terms of this Agreement, including your waiver of ALL CLAIMS you have or might have against the Bank and the Bank Releasees described in Paragraph 8 through the Separation Date or ASD; and

b. (1) agreement to, and signing of, the Release of Claims ("Release") attached as Exhibit "A" on the Separation Date or ASD and (2) adherence to that Release without revocation.

6. **Effect of this Agreement on other severance arrangements.** Unless your employment is terminated for "cause" as defined in the next Paragraph, it will be terminated by way of resignation. You understand and agree that you are not entitled to benefits under our Basic Staff Severance Plan for termination by resignation. By acceptance of this Agreement and in consideration of the monetary consideration provided to you under this Agreement ("Monetary Consideration"), you are waiving and releasing any claim for benefits under that Plan. In addition, the Key Executive Change-in-Control Severance Agreement entered into by and between you and the Bank and effective XX XX, XXXX, shall be deemed to have been terminated as of the ISD. The Bank makes no representation to you concerning your possible entitlement to unemployment insurance benefits, and will truthfully report, should unemployment compensation authorities ask, that the termination of your employment was voluntary (or involuntary, if termination was for "cause.")

7. **When your employment may be terminated for cause.** You agree and understand that your employment with the Bank may be terminated for "cause" at any time on or before the Separation Date or ASD.

a. “Cause” is defined to include: (1) your violation of the Bank’s Employee Handbook, to include the Bank’s Code of Ethics and Conduct (“the Code”), a copy of which has been provided to you; (2) your breach of the terms of this Agreement; (3) your failure to successfully complete your transition objectives or to make satisfactory progress toward your annual performance objectives through the ISD, as determined by the Bank’s Chief Executive Officer; or (4) your violation of the Code of Business Ethics and Conduct of the New York Stock Exchange (“the NYSE Code”), a copy of which has been provided to you. You understand and acknowledge that the provisions of the Code or the NYSE Code may be changed from time to time between the date on which you sign this Agreement (its “Execution Date”) and the ASD or the Separation Date, and you agree that your violation of any of those changed provisions prior to the ASD or the Separation Date will constitute grounds for terminating your employment for “cause.”

b. Termination for “cause” may be with or without notice. In the event that you are terminated for “cause,” you will forfeit all remaining Monetary Consideration that has not been paid to you as of the termination date, and upon the Bank’s written demand you will repay the Bank the Retention Payment you have received prior to the termination date.

c. Your duties under this Agreement, including the information disclosure and competition restrictions of Paragraph 11 and the release of all claims as provided in Paragraphs 5 and 8 and Exhibit “A”, shall remain in the event you are terminated for “cause.” You agree that the payment to you of salary and benefits and/or other consideration on or after the Effective Date of this Agreement shall be good and sufficient consideration to require your adherence to the promises you have made in this Agreement even if you are terminated for “cause” and forfeit any unpaid or unvested Monetary Consideration and repay any portion of the Retention Payment.

8. **Waiver of any claims you may have**. You waive, release and forego any and all claims that you have or might have through the Effective Date of this Agreement against the Bank and any of its predecessors, subsidiaries, related entities, officers, directors, shareholders, agents, attorneys, employees, successors or assigns (“the Bank Releasees”), including without restriction any claims arising from or related to your employment with the Bank and/or your separation from employment with the Bank.

a. The released claims include, but are not limited to, claims arising under statutory or common law in the United States (including federal, state or local jurisdictions) or any foreign country. The released claims include, but are not limited to, claims under anti-discrimination statutes such as Title VII of the Civil Rights Act, the federal Age Discrimination in Employment Act (“ADEA”), and Hawaii’s civil rights laws (Hawaii Revised Statutes Chapter 368 and 378); claims under wage and hour laws; claims under the laws of contract and tort (such as claims for breach of contract, infliction of emotional distress, defamation, invasion of privacy, wrongful termination, etc.); claims based upon the Hawaii Whistleblowers’ Protection Act, H.R.S. § 378-61, et seq.; claims under the Sarbanes-Oxley Act of 2002, including Section 806 (18 U.S.C. § 1514A) of the Corporate and Criminal Fraud Accountability Act of 2002 (Title VIII of Sarbanes-Oxley Act of 2002); and claims for attorneys’ fees and/or costs. **THIS RELEASE COVERS ALL CLAIMS THAT ARE BASED UPON ANY EVENT THAT OCCURRED THROUGH THE EFFECTIVE DATE OF THIS AGREEMENT.**

b. You further agree that you will execute upon your Separation Date or ASD, a further Release covering claims from the Effective Date through your Separation Date or ASD in the form attached hereto as Exhibit A. The Release is expressly incorporated into this Agreement as part of the Agreement.

9. **How we will respond to employment verification requests.** The Bank and you agree that any inquiries regarding verification of your employment will be handled through Bank of Hawaii, Human Resources. As is its practice, Human Resources will only release information confirming your dates of employment and position title to requesters or if we are required to report further information by law, regulation or court order.

10. **Neither of us will make negative comments about the other.** The Bank agrees that neither its officers nor its directors will make any disparaging, negative or derogatory statements about you. You agree that you will not make any disparaging, negative or derogatory comments about the Bank or the Bank Releasees.

11. **Your agreement to keep secrets and not to compete**. You further agree as follows:

a. Unless required or otherwise permitted by law, you will not disclose to others or use the Bank Information or any summary or derivative of that information.

b. Unless required or otherwise permitted by law, you will not disclose to others the terms of this Agreement or the benefits being paid under it or the fact of their payment except that you may disclose this information to your spouse or to your attorney, accountant or other professional advisor to whom you must make the disclosure in order for them to render professional services to you. You will instruct anyone to whom you make a permitted disclosure that he or she is to maintain the confidentiality of this information just as you must.

c. You acknowledge that your services under this Agreement are of a special, unique, unusual, extraordinary and intellectual character and that you will have access to Bank Information of extremely confidential and sensitive nature crucial to the Bank's success. You further acknowledge and agree that if you were to engage in the conduct prohibited by Subparagraphs 11.d, 11.e or 11.f, the Bank would be irreparably harmed.

d. In consideration of your acknowledgements, our mutual promises and the Monetary Consideration, you agree that—for the duration of the term of your active employment by the Bank and for a period of twenty-four (24) full months following the earlier of your ISD or Termination Date ("the Non-Compete Period")—you will not, either directly or indirectly, engage in or invest in, own, manage, operate, finance, control, be employed by, work as a consultant or contractor for, or otherwise be associated with any Financial Institution doing business in the state of Hawaii; provided, however, that you may purchase or otherwise acquire up to one percent of any class of securities of any such Financial Institution (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934. The term "Financial Institution" is defined as any commercial bank, savings institution, securities brokerage, mortgage company, insurance broker, or other company or organization that competes in the state of Hawaii with the Bank or any of its subsidiaries or related companies or entities ("the Bank or Related Entities").

e. You agree that at any time following the Execution Date of this Agreement through twelve (12) full months following the end of the Non-Compete Period you will not solicit business of the same or similar type being carried on by the Bank or Related Entities from any company, person, or entity known by you to be a customer of the Bank or Related Entities, whether or not you had personal contact with such company, person, or entity by reason of your employment with the Bank.

f. You will not, whether for your own account or the account of any other person at any time following the Execution Date of this Agreement through twelve (12) full months following the end of the Non-Compete Period solicit, employ, or otherwise engage as an employee, independent contractor, or otherwise, any person who is an employee of the Bank or in any manner induce or attempt to induce any employee of the Bank to terminate his or her employment with the Bank.

g. You agree to notify the Bank in writing if you accept employment at any time between the Execution Date of this Agreement and one year following the end of the Non-Compete Period. You further agree that the Bank may notify your new employer of the terms of Paragraphs 10, 11, and 13 of this Agreement and, at the Bank's election, furnish the employer with a copy of this Agreement or relevant portions thereof.

12. **<u>Where notices are to be sent</u>.** Any notice required or permitted by this Agreement shall be in writing sent to the following addressees: For you, address; for the Bank, Bank of Hawaii, Human Resources #320, P. O. Box 2900, Honolulu, HI 96846-6000.

13. **<u>Enforcing this Agreement</u>.** To the extent permitted by law, if you breach any of your obligations under this Agreement, the Bank will be entitled to recover the benefits paid under this Agreement and to obtain all other relief provided by law or equity. You acknowledge and agree that your breach of Paragraphs 3, 10, or 11 will result in irreparable harm to the Bank for which it will have no adequate remedy at law and for which the Bank will be entitled to immediate injunctive relief.

14. **<u>Interpretation of this Agreement</u>.** In deciding any question about the parties' intent in creating this Agreement, the following rules will be applied:

a. If any covenant of Paragraph 11 is held by a court to be unreasonable, arbitrary or against public policy, the covenant will be considered to be divisible with respect to scope, time, and/or geographic area, and enforced to the greatest extent permissible under law. If any provision of this Agreement is deemed to be unlawful, the provision will be deemed deleted from this Agreement and the remainder of the Agreement will continue in effect.

b. The paragraph headings and other guides in this Agreement, as well as any cover letter or other documents accompanying it, are only intended to improve the readability of the Agreement, and not to alter its substance.

c. This Agreement is formed at Honolulu, Hawaii, and is to be interpreted and enforced under the applicable federal and Hawaii state laws.

d. This Agreement represents the complete agreement of the parties and supersedes any and all prior agreements.

e. This Agreement may only be amended in writing signed by both you and the Bank.

f. This Agreement is not intended to be and is not an admission of any fact or wrongdoing or liability by any of the parties.

15. **Older Workers Benefit Protection Act notice.** The following is required by the Older Workers Benefit Protection Act ("OWBPA"):

This Agreement includes a waiver of any claims you may have under the Age Discrimination in Employment Act ("ADEA") through the Effective Date of the Agreement. You have up to 21 days from the date of this letter to accept the terms of this Agreement, although you may accept it at any time within those 21 days. To properly weigh the advantages and disadvantages of signing this Agreement and waiving your ADEA claims, you are advised to consult an attorney about this Agreement prior to signing. If you want to accept the Agreement prior to the expiration of the 21 days, you will need to indicate your waiver of the 21-day consideration period by signing in the space indicated below.

To accept this Agreement, please date, sign and return it to the Bank's Vice Chairman, Information, Operations & Human Services. *(An extra copy for your file is provided).* Once you do so, pursuant to the OWBPA, you will still have an additional seven days in which to revoke your acceptance. To revoke, you must send the Bank's Vice Chairman, Information, Operations & Human Services a written statement of revocation by registered mail, return receipt requested. If you do not revoke, the eighth day after the date of your acceptance will be the "Effective Date" of this Agreement. The Agreement will not be effective and enforceable until the revocation period has expired.

BANK OF HAWAII CORPORATION and
BANK OF HAWAII

By: /s/ Michael E. O'Neill
Michael E. O'Neill
Chairman of the Board & Chief Executive Officer

By signing this Agreement, I acknowledge that I have had the opportunity to review it carefully with an attorney of my choice; that I have read and understand its terms; and that I voluntarily agree to them.

Dated: ____________________

____
Managing Committee Member

Pursuant to 29 C.F.R. § 1625.22(e)(6), I hereby knowingly and voluntarily waive the twenty-one (21) day pre-execution consideration period set forth in Older Workers Benefit Protection Act (29 U.S.C. § 626(f)(1)(F)(i)).

Dated: ____________________

____
Managing Committee Member

EXHIBIT A
[TO BE SIGNED ON THE SEPARATION DATE or ASD]

RELEASE OF CLAIMS

In consideration of the payments and other consideration provided for by the agreement ("Agreement") dated May 3, 2004, which is attached hereto and expressly incorporated herein, I hereby voluntarily and knowingly waive, release and forever forego any and all claims, whether or not now known, suspected or claimed, that I ever had, now have, or may later claim to have had against Bank of Hawaii ("the Bank") and any of its predecessors, subsidiaries, related entities, officers, directors, shareholders, agents, insurers, attorneys, employees, successors or assigns ("the Bank Releasees") through the date of my signature below ("the Release Date"), including without limitation all claims arising from or related to my employment with the Bank and/or the separation of my employment with the Bank.

These claims include, but are not limited to, claims arising under statutory or common law in the United States (including federal, state or local jurisdictions) or any foreign country. The released claims include, but are not limited to, claims under anti-discrimination statutes such as Title VII of the Civil Rights Act, the federal Age Discrimination in Employment Act ("ADEA"), and Hawaii's civil rights laws (Hawaii Revised Statutes Chapter 368 and 378); claims under wage and hour laws; claims under the laws of contract and tort (such as claims for breach of contract, infliction of emotional distress, defamation, invasion of privacy, wrongful termination, etc.); claims based upon the Hawaii Whistleblowers' Protection Act, H.R.S. § 378-61, et seq.; claims under the Sarbanes-Oxley Act of 2002, including Section 806 (18 U.S.C. § 1514A) of the Corporate and Criminal Fraud Accountability Act of 2002 (Title VIII of Sarbanes-Oxley Act of 2002); and claims for attorneys' fees and/or costs. This Release covers all claims that are based upon any event, action, or inaction that occurred or was to have occurred through the Release Date.

I hereby acknowledge (1) that I have been advised to consult with an attorney prior to signing this Release, (2) that I have been given more than twenty-one days prior to signing in which to consider this Release, (3) that I have been advised that this Release covers ALL CLAIMS (including employment-related claims generally and ADEA claims specifically) I might have against the Bank or the Bank Releasees through the date of this Release; and (4) that I have seven days after signing this Release ("the Revocation Period") in which to revoke my agreement to this Release. I understand that I may revoke my agreement by notifying the Bank at any time during the Revocation Period. If I elect to revoke my agreement to this Release, the Agreement will be void, and I will not receive the Monetary Consideration provided under that Agreement.

UNDERSTOOD AND AGREED:

____
Managing Committee Member Date

Pursuant to 29 C.F.R. § 1625.22(e)(6), I hereby knowingly and voluntarily waive the twenty-one (21) day pre-execution consideration period set forth in Older Workers Benefit Protection Act (29 U.S.C. § 626(f)(1)(F)(i)).

Dated: ____________________________________

____
Managing Committee Member

Exhibit 12

Bank of Hawaii Corporation and Subsidiaries
Exhibit 12 - Statement Regarding Computation of Ratios

(dollars in thousands)	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Earnings:		
1. Income Before Income Taxes	$ 130,923	$ 91,383
2. Plus: Fixed Charges Including Interest on Deposits	33,079	45,081
3. Earnings Including Fixed Charges	164,002	136,464
4. Less: Interest on Deposits	17,760	27,756
5. Earnings Excluding Interest on Deposits	$ 146,242	$ 108,708
Fixed Charges:		
6. Fixed Charges Including Interest on Deposits	$ 33,079	$ 45,081
7. Less: Interest on Deposits	17,760	27,756
8. Fixed Charges Excluding Interest on Deposits	$ 15,319	$ 17,325
Ratio of Earnings to Fixed Charges:		
Including Interest on Deposits (Line 3 divided by Line 6)	5.0x	3.0x
Excluding Interest on Deposits (Line 5 divided by Line 8)	9.5x	6.3x

Exhibit 31.1

BANK OF HAWAII CORPORATION
Rule 13a-14(a) Certifications

I, Michael E. O'Neill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of Hawaii Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2004

/s/ Michael E. O'Neill
Michael E. O'Neill
Chairman of the Board and Chief Executive Officer

Exhibit 31.2

BANK OF HAWAII CORPORATION
Rule 13a-14(a) Certifications

I, Allan R. Landon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of Hawaii Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2004

/s/ Allan R. Landon
Allan R. Landon
President and Chief Operating Officer

Exhibit 31.3

BANK OF HAWAII CORPORATION
Rule 13a-14(a) Certifications

I, Richard C. Keene, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of Hawaii Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2004

/s/ Richard C. Keene
Richard C. Keene
Chief Financial Officer

Exhibit 32

BANK OF HAWAII CORPORATION

Section 1350 Certification

We hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Form 10-Q of Bank of Hawaii Corporation (the "Issuer") for the quarterly period ended June 30, 2004 (the "Periodic Report"):

- fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: July 28, 2004

/s/ Michael E. O'Neill
Michael E. O'Neill
Chairman of the Board and Chief Executive Officer

/s/ Allan R. Landon
Allan R. Landon
President and Chief Operating Officer

/s/ Richard C. Keene
Richard C. Keene
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Periodic Report or as a separate disclosure document.