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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from to

Commission File Number 1-6887

PACIFIC CENTURY FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

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

(808) 643-3888
(Registrant's telephone number, including area code)

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

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

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

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

Yes X No

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price of said stock on the New York Stock Exchange on December 31, 1998 ($24.38 per share): $1,958,347,831

As of February 23, 1999, 80,530,016 shares of Common Stock, $.01 par value, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 23, 1999, are incorporated by reference into Part III of this Report.

Part I

Item 1. Business

Pacific Century Financial Corporation (Pacific Century) was organized on August 12, 1971, as the first bank holding company in the State of Hawaii. Originally organized as Hawaii Bancorporation, Inc., its name was changed in 1979 to Bancorp Hawaii, Inc. and in 1997 changed to Pacific Century Financial Corporation. The latter change in name was made to provide a more distinctive and descriptive identity that reflects the Company's strategic goals to expand its activities beyond Hawaii to Asia, the West and South Pacific, and the U.S. Mainland.

Pacific Century provides a broad range of financial products and services to customers in four market regions. These regions are Hawaii, the South and West Pacific, Asia, and the U.S. Mainland. Pacific Century is the largest bank holding company headquartered in the State of Hawaii. The principal subsidiaries of Pacific Century are Bank of Hawaii and Pacific Century Bank, N.A. (PCB).

In 1998, Pacific Century announced a new strategy called the "New Era." The project's first steps were to rationalize Pacific Century's corporate structure in an effort to reduce regulatory burden and streamline operations. During the year, several subsidiaries were merged, closed or transferred.

- Pacific Century's two subsidiary banks on the U.S. Mainland, California United Bank with operations in California and Pacific Century Bank, N.A. with operations in Arizona, were merged during the third quarter of 1998. Pacific Century Bank, N.A., the surviving entity, is headquartered in Encino, California and targets small and middle-market commercial businesses and retail customers through branch offices in both states.

- Bancorp Pacific, Inc. was merged into Bank of Hawaii during the third quarter of 1998. The merger left First Savings and Loan Association of America, F.S.B. (First Savings), with operations in Guam, as a subsidiary of Pacific Century, merged Hawaii-based First Federal Savings and Loan Association of America (First Federal) into Bank of Hawaii, and eliminated Bancorp Pacific, Inc. The merger of First Federal consolidates the Pacific Century depository institutions in the Hawaii market under Bank of Hawaii. Following the merger, 19 branch locations of First Federal in Hawaii were closed. In addition, First Savings acquired by merger the operations of its wholly-owned subsidiary, Pacific Century Capital Corporation, formerly Bancorp Finance of Hawaii--(Guam), Inc. First Savings also converted from a Guam charter to a federal savings bank charter.

- Pacific Century closed Realty and Mortgage Investors of the Pacific, Ltd. in September 1998. With its activity focused on commercial real estate lending in Hawaii, activity had been limited and its continuation not practical.

- Finally, in the fourth quarter of 1998, Pacific Century Life Insurance

Corporation (PCLIC) and Pacific Century Agency, Inc. were contributed to Bank of Hawaii where they remain as wholly-owned subsidiaries.

In December 1997, Bank of Hawaii International, Inc. (BOHI) announced the signing of a definitive agreement to acquire Banque Paribas Pacifique in New Caledonia and Banque Paribas Polynesie in French Polynesia. The acquisitions were completed in the second quarter of 1998. The acquired banks were merged into two of BOHI's existing subsidiaries, Bank of Hawaii-Nouvelle Caledonie and Banque de Tahiti. Banque Paribas Pacifique reported assets of $238 million and Banque Paribas Polynesie reported assets of $83 million as of May 31, 1998, the merger date.

In April 1998 Pacific Century changed its state of incorporation from Hawaii to Delaware, by merging into a new wholly-owned subsidiary formed for that purpose. This change was made to enable Pacific Century to take advantage of the flexibility and other benefits of the Delaware corporate law.

Pacific Century's organization structure as of December 31, 1998 is included in Exhibit 21.1. The percentages indicate the proportion of total assets that each group of entities contributed to Pacific Century's

consolidated financial position at December 31, 1998. All subsidiaries are wholly-owned except as otherwise noted for certain banks in the South Pacific and for those entities whose directors own qualifying shares. Each entity is consolidated with its immediate parent company except for three of the affiliate banks in the South Pacific--Bank of Tonga, National Bank of Solomon Islands and Pacific Commercial Bank, Ltd.--the investments in which are accounted for under the equity method.

At December 31, 1998, Pacific Century and its subsidiaries employed 5,134 persons on a full-time or part-time basis.

The following is a brief description of each of Pacific Century's subsidiaries.

Bank of Hawaii was organized under the laws of Hawaii on December 17, 1897, and has been continuously in business since. Its headquarters are in Honolulu, Hawaii, and its deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Bank of Hawaii is the largest full-service financial institution in Hawaii with a statewide network of 59 regular branches and 13 supermarket branches. It is not a member of the Federal Reserve System.

Pacific Century and 14 directors of Bank of Hawaii (each of whom holds 125 qualifying shares each) own 100% of the outstanding shares. There are five directors of Bank of Hawaii who do not hold qualifying shares. The legal requirement for directors of Hawaii banks to hold qualifying shares was eliminated in 1993.

Bank of Hawaii provides customary commercial banking services through branch offices in the State of Hawaii and branches or representative offices in Bahamas (Nassau), Republic of Fiji (Suva, Nadi, and Lautoka), Hong Kong, Japan (Tokyo), South Korea (Seoul), Philippines (Manila, Cebu, and Davao), Singapore, Taiwan (Taipei), American Samoa, Commonwealth of the Northern Mariana Islands (Saipan), Federated States of Micronesia (Pohnpei, Kosrae, and Yap), Guam, Republic of the Marshall Islands (Majuro), and Republic of Palau (Koror). Bank of Hawaii also has subsidiary and affiliate banks in New Caledonia, Papua New Guinea, French Polynesia, Tonga, Vanuatu, Solomon Islands, and Samoa. Pacific Century Trust, a division of Bank of Hawaii, operates offices in California, Arizona and Guam as well as Hawaii. Trust assets under administration at year-end 1998 were $13.1 billion.

Bank of Hawaii owns all of the outstanding stock of Pacific Century Leasing, Inc.; BOHI; Bank of Hawaii International Corp., New York; Pacific Century Investment Services, Inc.; Bankoh Corporation; Pacific Century Advisory Services, Inc.; Pacific Century Insurance Agency, Inc.; PCLIC; and Pacific

Century Agency, Inc. A brief discussion of these Bank subsidiaries follows:

Pacific Century Leasing, Inc. (PCL), formerly Bancorp Leasing of Hawaii, Inc., formed in 1973, provides leasing and leasing services, mainly to the commercial sector in Hawaii. PCL has several subsidiaries that are "specific purpose leasing vehicles." These subsidiaries include S.I.L., Inc.; Arbella Leasing Corp.; Pacific Century Leasing International, Inc.; and BNE Airfleets Corporation. On a consolidated basis, PCL's assets represented 1.7% of Pacific Century's total assets at year-end 1998.

BOHI was formed in 1968. BOHI holds equity interests in the following foreign financial institutions (in the percentages indicated): Bank of Hawaii--Nouvelle Caledonie-91%; Bank of Hawaii (PNG) Ltd.-100%; Banque de Tahiti-92%; Bank of Tonga-30%; Banque d'Hawaii (Vanuatu), Ltd.-100%; National Bank of Solomon Islands-51%; and Pacific Commercial Bank, Ltd.-43%, in Samoa. BOHI's total assets represented 8.9% of Pacific Century's total assets at year-end 1998.

Bank of Hawaii International Corp., New York (BOHICNY) was organized in 1982 as an Edge Act corporation. BOHICNY provides payment, clearing, and settlement services with the New York Clearing House and Clearing House Interbank Payment Service for both affiliated and unaffiliated banks. BOHICNY had total assets representing 1.7% of Pacific Century's total assets at year-end 1998.

Pacific Century Investment Services, Inc. (PCIS), formerly Bancorp Investment Group, Ltd., was formed in 1991 to provide full service brokerage and other investment services originally as a subsidiary of Pacific Century and, since 1994, as a wholly-owned subsidiary of Bank of Hawaii.

Bankoh Corporation was originally incorporated in 1984 as Hawaiian Hong Kong Holdings, Ltd. and remained inactive until 1994. In 1994, the name was changed to Bankoh Corporation, with minimal activity since its name change.

Pacific Century Advisory Services, Inc., formerly Bankoh Investment Advisory Services Ltd., was reactivated in 1991 to provide advisory services for businesses seeking to operate in Hawaii. The activity of this company remained limited during 1998.

Pacific Century Insurance Agency, Inc., formerly Pan-Ocean Insurance Agency, Inc., engages in general insurance agency, insurance sub agency and general insurance brokerage business to the extent permitted under applicable federal and state laws. Business activity began in late 1995 with limited activity in 1998.

Pacific Century Life Insurance Corporation, formerly Bancorp Life Insurance Company of Hawaii, Inc., was incorporated in 1981 in the State of Arizona to underwrite, as a reinsurer, the credit life and credit accident and health insurance sold in conjunction with Bank of Hawaii's short-term consumer lending activities. PCLIC became a wholly-owned subsidiary of Bank of Hawaii in 1998.

Pacific Century Agency, Inc., formerly Bancorp Insurance Agency of Hawaii, Inc., was formed in 1982 to act as an agent for the sale of all credit life and credit accident and health insurance that is reinsured with PCLIC. Pacific Century Agency, Inc. became a wholly-owned subsidiary of Bank of Hawaii in 1998.

Pacific Century also holds all of the outstanding stock, except as noted, of the corporations listed below:

First Savings, a wholly-owned subsidiary of Pacific Century, operates in a market area that includes the entire territory of Guam. First Savings operates three full-service branches and three in-store branches in Guam. The FDIC insures its deposits. First Savings' assets represented 1.2% of Pacific

Century's total assets at year-end 1998.

As mentioned earlier, Pacific Century Bank, N.A. (PCB) was merged with California United Bank. In the merger, PCB's headquarters was designated as Encino, California. Pacific Century and three of the directors of PCB (each of whom holds 1,000 qualifying shares) own 100% of the outstanding shares of PCB. PCB is organized under the laws of the United States. The FDIC insures its deposits, and it is a member of the Federal Reserve System. PCB provides customary commercial banking services through 20 branch offices in the State of California and 9 branch offices in the State of Arizona. PCB had total assets representing 7.6% of Pacific Century's total assets at year-end 1998.

In 1989, Pacific Century established a wholly-owned captive insurance company, Pacific Century Insurance Services, Inc. (Pacific Century Insurance), formerly Bancorp Hawaii Insurance Services, Ltd. With Pacific Century Insurance's formation, Pacific Century became the first Hawaii corporation to establish a Hawaii captive insurance company for its self-insurance needs. Pacific Century Insurance provides bankers professional liability insurance and workers compensation insurance exclusively to Pacific Century and its subsidiaries and affiliates. Pacific Century Insurance's formation provides Pacific Century with greater flexibility and stability in managing insurance coverages and premium costs. Pacific Century Insurance also provides Pacific Century with the opportunity to design self-insurance programs not otherwise available in the conventional insurance market.

Pacific Century Small Business Investment Company, Inc. (PCSBIC), formerly Bancorp Hawaii Small Business Investment Company, Inc., was formed in September 1983 in the State of Hawaii as a small business investment company. In 1998, activity in PCSBIC remained limited with new investments totaling $0.3 million. Total assets of PCSBIC were $2.1 million at year-end 1998.

PCFC Hawaii, Corporation was formed in 1998 for the single purpose of holding a real estate investment. The investment was sold in late 1998 and the company will be dissolved in 1999.

Regulation and Competition

Effect of Governmental Policies

The earnings of Pacific Century and its principal subsidiaries are affected not only by general economic conditions, both domestically and internationally, but also by the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve System, and foreign governments and their agencies. The monetary policies of the Federal Reserve System influence to a significant extent the overall growth of loans, investments, deposits, interest rates charged on loans, and interest rates paid on deposits. The nature and impact of future changes in monetary policies are often not predictable. Flexibility is a key attribute in successfully responding to these varied forces.

Competition

The financial services industry has become highly competitive. Pacific Century and Bank of Hawaii compete with local Hawaii financial institutions, and PCB competes with local financial institutions in Southern California and Arizona. In addition, each of them competes with institutions located in the major financial centers of the world. These financial institutions include not only banks and savings associations, but also insurance companies, brokerage houses, mortgage companies, consumer finance companies, credit unions, and diversified financial services companies that provide many or all of the services offered by commercial banks and savings institutions but operate without a banking charter and thus free of most of the associated regulatory requirements.

Seven commercial banks, three savings associations, approximately seven deposit-taking financial services loan companies, approximately 114 credit unions, and scores of mortgage companies and other financial services firms serve the State of Hawaii. The State is also served by a large number of out-of-state institutions and foreign banks. Bank of Hawaii is the largest Hawaii based financial services firm operating in the market. Outside of Hawaii, Bank of Hawaii's primary competition in the Pacific Basin comes from several major U.S. Mainland and foreign banks that operate in those areas.

PCB competes in two distinct markets, Southern California and Arizona. Southern California is served by at least 223 local commercial banks, at least 48 savings associations, and approximately 443 credit unions as well as numerous other financial services firms of a wide variety of types, including foreign banks and other foreign financial entities. Likewise, in the state of Arizona, approximately 41 commercial banks, 7 savings associations, 71 credit unions, and numerous other financial services firms conduct full-service operations. PCB is approximately the 46th largest insured depository institution and the twelfth largest insured depository institution in Southern California and Arizona, respectively, as measured by deposits placed in offices there.

Additional financial institution holding companies or their subsidiaries may enter markets served by Pacific Century and thereby provide additional competition. Likewise, if Pacific Century, Bank of Hawaii, PCB and their respective subsidiaries pursue additional business opportunities, they will encounter significant competition from other businesses, including ones not associated with banks or financial institution holding companies.

Supervision and Regulation

Pacific Century is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act) and, as such, is subject to the Act and regulations issued thereunder by the Board of Governors of the Federal Reserve System (the Board of Governors). Pacific Century is also registered as a bank holding company under the Hawaii Code of Financial Institutions (the Code) and, as such, is subject to the registration, reporting, and examination requirements of the Code.

The BHC Act requires prior approval of the Board of Governors of the acquisition by Pacific Century of more than 5% of the voting shares of any bank or any other bank holding company. The statute has been eliminated, effective September 29, 1995, which had prohibited the acquisition of more than 5% of the stock of Pacific Century by a bank holding company whose operations are principally conducted in a state other than Hawaii, and the acquisition by Pacific Century of more than 5% of the stock of any bank located in a state other than Hawaii unless the statutory law of the state in which such bank is located specifically authorized such acquisition. Accordingly, at the present time and subject to certain limits, the BHC Act allows adequately capitalized and adequately managed bank holding companies to acquire control of banks in any state. Thus, assuming it is judged to be adequately capitalized and adequately managed, Pacific Century is no longer disabled by the BHC Act from acquiring control of banks in any state, and bank holding companies whose operations are principally conducted in states other than Hawaii are no longer disabled by the BHC Act from acquiring control of Pacific Century. An interstate acquisition may not be approved, however, if immediately before the acquisition the acquirer controls an FDIC-insured institution or branch in the state of the institution to be acquired, and if immediately following the acquisition the acquirer would control 30 percent or more of the total FDIC-insured deposits in that state; but a state may waive the 30 percent limitation by statute, regulation, or order, or by certain nondiscriminatory administrative approvals.

An adequately capitalized and adequately managed bank may apply for permission to merge with an out-of-state bank and convert all branches of both parties into branches of a single bank. States retain the authority to prohibit such mergers if between September 29, 1994 and June 1, 1997 they enacted a statute expressly prohibiting them and that statute applies equally to all out-of-state banks. An interstate merger may not be approved, however, if immediately before the acquisition the acquirer controls an FDIC-insured institution or branch in the state of the institution to be acquired, and if immediately following the acquisition the acquirer would control 30 percent or more of the total FDIC-insured deposits in that state; but a state may waive the 30 percent limitation by statute, regulation, or order, or by certain nondiscriminatory administrative approvals. Banks are also permitted to open newly established branches in any state that expressly permits all out-of-state banks to open newly established branches, if the law applies equally to all banks.

Hawaii has enacted a statute which authorizes out-of-state banks to engage in "interstate merger transactions" with (mergers and consolidations with and purchases of all or substantially all of the assets and branches of) Hawaii banks, following which any such out-of-state bank may operate the branches of the Hawaii bank it has acquired. The Hawaii bank must have been in continuous operation for at least five years prior to such an acquisition, unless it is subject to or in danger of becoming subject to certain types of supervisory action. This statute does not permit out-of-state banks to acquire branches of Hawaii banks other than through an "interstate merger transaction" (except in the case of a bank that is subject to or in danger of becoming subject to certain types of supervisory action) nor to open branches in Hawaii on a de novo basis.

The BHC Act prohibits, with certain exceptions, Pacific Century from acquiring direct or indirect control of more than 5% of the voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in any activity other than those of banking, managing or controlling banks or other subsidiaries authorized under the BHC Act, or furnishing services to or performing services for its subsidiaries. Among the permitted activities is the ownership of shares of any company the activities of which the Board of Governors determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making this determination, the Board of Governors is required to weigh the expected benefits to the public, such as greater convenience, increased competition, or gains in efficiency, against the risks of possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. The Board of Governors has adopted regulations that specify various activities as being so closely related to banking or managing or controlling banks as to be a proper incident thereto. The exact nature and scope of such activities have been the subject of intense national debate, and thus, they may change and become broader as they evolve over time.

Under the policies of the Board of Governors, Pacific Century is expected to act as a source of financial strength to its subsidiary banks and to commit resources to support its subsidiary banks in circumstances where

it might not do so absent such a policy. It is the policy of the Board of Governors that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks.

In 1989 Congress expanded the authority of bank holding companies to acquire savings associations, subject to approval by the Board of Governors. Bank holding companies may acquire healthy as well as failed or failing savings associations in any state. Congress in 1989 restructured the regulation of the savings and loan industry and its deposit insurance and provided a new regulatory structure for the resolution of troubled and insolvent savings associations. Congress in 1989 also permitted the FDIC to impose cross-guarantee liability on insured institutions for any cost or loss incurred by the FDIC in connection with the default by, or assistance to, a commonly controlled institution.

By virtue of Section 23A of the Federal Reserve Act and Section 18(j) of the Federal Deposit Insurance Act, Pacific Century and its subsidiaries are "affiliates" of Bank of Hawaii and PCB and are subject to the provisions of Section 23A, which limit the amount of and require substantial security for loans and extensions of credit by Bank of Hawaii or PCB to, and investments in, Pacific Century or certain of its subsidiaries and the amount of advances to third parties collateralized by the securities and obligations of Pacific Century or certain of its subsidiaries. Sections 23A and 18(j) are designed to assure that the capital of depository institutions such as Bank of Hawaii and PCB is not put at risk to support their non-bank affiliates. Also, Pacific Century and its subsidiaries are prohibited from engaging in certain "tie-in" arrangements in connection with extensions of credit or provision of property or services.

Bank of Hawaii is subject to supervision and examination by the FDIC and the Department of Commerce and Consumer Affairs of the State of Hawaii. PCB is subject to supervision and examination by the Comptroller of the Currency and in certain respects the FDIC.

Banks, including Bank of Hawaii and PCB, are subject to extensive federal and (in the case of Bank of Hawaii) state statutes and regulations that significantly affect their business and activities. Banks must file reports with their regulators concerning their activities and financial condition and obtain regulatory approval to enter into certain transactions. Banks are also subject to periodic examinations by their regulators to ascertain compliance with various regulatory requirements. Other applicable statutes and regulations relate to insurance of deposits, allowable investments, loans, acceptance of deposits, trust activities, mergers, consolidations, payment of dividends, capital requirements, reserves against deposits, establishment of branches and certain other facilities, foreign and international operations, limitations on loans to one borrower and loans to affiliated persons, and other aspects of the business of banks. Federal legislation has instructed federal agencies to adopt standards or guidelines governing banks' internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation and benefits, asset quality, earnings and stock valuation, and other matters. Legislation adopted in 1994 gives the federal banking agencies greater flexibility in implementing standards on asset quality, earnings, and stock valuation. Regulatory authorities have broad authority to initiate proceedings designed to prohibit depository institutions from engaging in unsafe and unsound banking practices.

Congress adopted legislation in 1991 to permit the FDIC to increase deposit insurance assessment rates for insured banks and to levy emergency special assessments against insured institutions. In response, the FDIC adopted a premium schedule under which the actual assessment rate for a particular institution depends in part upon the risk classification the FDIC assigns to that institution. The FDIC may raise an institution's insurance premiums or terminate insurance altogether upon a finding that the institution has engaged in unsafe and unsound practices.

The Federal Deposit Insurance Corporation Improvements Act of 1991 (FDICIA) requires the federal banking regulators to take "prompt corrective action" in respect to depository institutions that do not meet minimum capital requirements and imposes certain restrictions upon banks which meet minimum capital

requirements but are not "well capitalized" for purposes of FDICIA. FDICIA generally prohibits a depository institution from paying any dividend or making any capital distribution or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to regulatory monitoring and may be required to divest themselves of or liquidate subsidiaries. Holding companies of such institutions may be required to divest themselves of such institutions or divest themselves of or liquidate nondepository affiliates. Critically undercapitalized institutions are prohibited from making payments of principal and interest on subordinated debt and are generally subject to the mandatory appointment of a conservator or receiver.

Further, a bank that is not well capitalized is generally subject to various restrictions on "pass through" insurance coverage for certain of its accounts and is generally prohibited from accepting brokered deposits and offering interest rates on any deposits significantly higher than the prevailing rate. Such banks and their holding companies are also required to obtain regulatory approval before retaining senior executive officers.

Subject to certain exceptions, FDICIA (as modified in 1992) restricts certain investments and activities as principal by state banks (including Bank of Hawaii) and requires the federal banking regulators to prescribe standards for extensions of credit secured by real estate or made to finance improvements to real estate, loans to bank insiders, regulatory accounting and reports, internal control reports, independent audits, and other matters, and requires that insured depository institutions generally be examined on-site by federal or state personnel at least once every twelve months.

Federal legislation enacted in 1992 affords the federal banking agencies limited discretion to provide relief from certain regulatory requirements to depository institutions doing business or seeking to do business in an emergency or major disaster area. The Omnibus Budget Reconciliation Act of 1993 affects the amortization of intangible assets by banks, requires securities dealers (including banks) to adopt mark-to-market accounting with respect to certain of their securities in calculating income taxes, and establishes a preference for depositors in liquidations of FDIC-insured banks.

Bills are now pending or expected to be introduced in the United States Congress that contain proposals for altering the structure, regulation, and competitive relationships of the nation's financial institutions. If enacted, these bills could increase or decrease the cost of doing business, limit or expand permissible activities (including activities in the insurance and securities fields), or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. Some of these bills would broaden the powers of bank holding companies, permit affiliations among banks, insurance companies, and securities firms or between banks and nonfinancial companies, reduce regulatory burdens on financial institutions, address aspects of competitive imbalance between credit unions and other regulated financial institutions, promote more open financial markets for U.S. banks and financial companies in foreign nations, limit the prerogative of regulators to expand the range of permissible activities for banks, particularly in the field of insurance, eliminate or revise the features of the specialized savings-association charter, and realign the structure and jurisdiction of various financial institution regulatory agencies. Whether or in what form any such legislation may be adopted or the extent to which the business of Pacific Century might be affected thereby cannot be predicted.

Item 2. Properties

Pacific Century and its subsidiaries own and lease premises primarily consisting of operating facilities, the majority of which are located in Hawaii. Bank of Hawaii owns five significant properties, the largest of which are condominium units in the Financial Plaza of the Pacific (FPP) in which the Bank's main branch and administrative offices are located. Portions of the FPP are owned in fee simple or leased. The capital leases are for portions (less than 12%) of the FPP. Details of the capital leases are included in the long term debt footnote. Additionally, Bank of Hawaii owns a five story office building in downtown Honolulu, the former headquarters of First Federal Savings and Loan; a two-story building near downtown Honolulu which houses data processing and certain other operational functions; a parcel of land in downtown Honolulu; and Hale O Kapolei, a 248,000 square feet operations facility in the Kapolei area on Oahu. Hale O Kapolei was completed and placed in service in 1995. Interest expense of $1,500,000 was capitalized while Hale O Kapolei was under construction in 1995.

Item 3. Legal Proceedings

Note J to the Audited Financial Statements included in Item 8 of this report.

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

No matter was submitted during the fourth quarter of 1998 to a vote of security holders through the solicitation of proxies or otherwise.

Executive Officers of Registrant:

Name	Age	Position
Lawrence M. Johnson.......	58	Chairman and Chief Executive Officer of Pacific Century and the Bank of Hawaii (the Bank) since August 1994.
Richard J. Dahl...........	47	President of Pacific Century and the Bank since August 1994; Chief Operating Officer of Pacific Century since April 1997 and the Bank since August 1995.
Alton T. Kuioka...........	55	Vice Chair of Pacific Century since April 1997; Vice Chair of the Bank since June 1994; Chief Lending Officer of Pacific Century since April 1997 and the Bank since August 1995.
Mary P. Carryer...........	51	Vice Chair of Pacific Century and the Bank since November 1997.
David A. Houle............	51	Executive Vice President of Pacific Century since April 1997; Treasurer and Chief Financial Officer of Pacific Century since December 1992; Executive Vice President and Chief Financial Officer of the Bank since February 1994.

Part II

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

Common Stock Listing

The common stock of Pacific Century Financial Corporation, is traded over the counter on the New York Stock Exchange and quoted daily in leading financial publications.

NYSE Symbol: BOH

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

Item 6. Selected Financial Data

Year-End Summary of Selected Consolidated Financial Data--Table 24 included in Item 7 of this report.

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

Overview

Performance Highlights

Pacific Century Financial Corporation (Pacific Century) reported earnings of $107.0 million in 1998, compared to $139.5 million in 1997 and $133.1 million in 1996. The decline in 1998 earnings is attributed to special charges in the second quarter, that included a pre-tax restructuring charge of $19.4 million ($12.6 million after tax) and a significant increase in the provision for loan losses (for additional information refer to sections on "Restructuring and Redesign Program" and "Credit Risk--Reserve for Loan Losses"). Excluding the restructuring charge, 1998 earnings were $119.6 million, a 14.3% decrease from 1997.

Basic earnings per share were $1.33 in 1998, compared to $1.75 in 1997 and $1.63 in 1996. On a diluted per share basis, operating earnings were $1.32 in 1998, compared to $1.72 and $1.62, in 1997 and 1996, respectively.

Performance ratios in 1998 were also impacted by the special charges. In 1998, return on average assets (ROAA) decreased to 0.72% and return on average equity (ROAE) declined to 9.21%. ROAA was 0.98% in 1997 and 1.00% in 1996, while ROAE was 12.57% and 12.43% in 1997 and 1996, respectively.

Pacific Century has accounted for all of its business acquisitions under the purchase method, which results in the recording of goodwill and other intangible assets. These intangible assets are amortized over various periods as a non-cash charge to operating income. Operating results under a tangible performance basis excludes from reported earnings the after tax impact of amortization of all intangibles, including goodwill. On a tangible performance basis, Pacific Century's earnings were $121.7 million in 1998, $150.7 million in 1997 and $141.3 million in 1996. On a per share basis, tangible diluted earnings per share were $1.50 in 1998, compared to $1.86 and $1.71 in 1997 and 1996, respectively.

Tangible ROAA for Pacific Century was 0.83% in 1998 and 1.07% in both 1997 and 1996. Tangible ROAE was 12.84%, 15.78%, and 14.45% in 1998, 1997, and 1996, respectively.

Net interest income (on a taxable equivalent basis) in 1998 increased $52.9 million over 1997 of which approximately $39.5 million was attributed to a rise in net average earning assets, while $13.4 million was attributed to a widening in net interest margin.

Total assets were just over $15 billion at December 31, 1998, a slight increase from year-end 1997. Average assets increased 4.4% in the year-to-year comparison to $14.9 billion in 1998 mostly from a 5.5% growth in average loans.

Non-performing assets, exclusive of accruing loans past due 90 days or more, were $137.5 million, or 1.40% of total loans, at year-end 1998, compared to $97.1 million, or 1.02% of total loans, at year-end 1997. The year-to-year increase in non-performing assets is largely accounted for by a rise in the commercial and industrial category and the foreign loan category, which reflects the 1998 Banque Paribas acquisitions (see section on "Acquisitions and Strategic Alliances").

The reserve for loan losses totaled $211.3 million at the end of 1998, representing 2.19% of loans outstanding, compared to $174.4 million and 1.88%, respectively at year-end 1997. Net charge-offs in 1998 were $65.7 million, or 0.70% of average loans, compared to $30.2 million and 0.34%, respectively, in 1997. For the year ended December 31, 1998, provisions for loan losses of

$84.0 million were charged to income, up from $30.3 million in 1997.

Performance Highlights

Table 1
(in millions of dollars except per share amounts)

Earnings Measures	1998 Amount	1998 Percent Change	1997 Amount	Five-Year Compound Growth
Net Income	$ 106.96	(23.3)%	$ 139.49	(4.2)%
Basic Earnings Per Share	1.33	(24.0)	1.75	(3.1)
Diluted Earnings Per Share	1.32	(23.3)	1.72	(3.0)
Average Assets	14,870.7	4.4	14,242.3	3.4
Average Loans	9,422.3	5.5	8,929.7	6.2
Average Deposits	9,549.7	3.3	9,248.0	4.9
Average Shareholders' Equity	1,160.8	4.6	1,109.3	5.4
Excluding the Effects of Intangibles/1/				
Tangible Net Income	121.70	(19.2)	150.67	(2.4)
Tangible Basic Earnings Per Share	1.52	(19.6)	1.89	(1.3)
Tangible Diluted Earnings Per Share	1.50	(19.4)	1.86	(1.3)

Performance Ratios	1998	1997	Five-Year Average
Return on Average Assets	0.72%	0.98%	0.92%
Return on Average Equity	9.21	12.57	11.64
Average Equity to Average Assets Ratio	7.81	7.79	7.93
Loan Loss Reserve to Loans Outstanding	2.19	1.88	1.97
Tier I Capital Ratio	9.42	9.34	
Total Capital Ratio	11.47	11.65	
Leverage Ratio	7.48	7.21	
Excluding the Effects of Intangibles/1/			
Tangible Return on Average Assets	0.83	1.07	1.01
Tangible Return on Average Equity	12.84	15.78	14.26

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/1/ Intangibles include goodwill, core deposit and trust intangibles, and other intangibles.

Market Prices, Book Values and Common Stock Dividends

Table 2

Year/Period	Market Price (MP) Range High	Market Price (MP) Range Low	Book Value (BV)	High MP as a Percent of BV	Dividend

1994	$17.38	$12.07	$11.55	150%	$.52
1995	$18.57	$12.44	$12.76	146%	$.54
1996	$22.00	$16.57	$13.34	165%	$.58
1997	$28.06	$20.31	$14.02	200%	$.63
First Quarter	23.19	20.56			.15
Second Quarter	23.94	20.31			.15
Third Quarter	27.13	23.19			.16
Fourth Quarter	28.06	23.50			.17
1998	$25.88	$14.75	$14.76	175%	$.66
First Quarter	25.13	20.31			.16
Second Quarter	25.88	23.56			.16
Third Quarter	24.06	14.75			.17
Fourth Quarter	24.38	15.50			.17

Other Events

The Asian economic crisis, which began in mid-1997 has impacted many countries in the region in which Pacific Century conducts business. Some of those countries affected have experienced a significant devaluation of their currencies relative to the U.S. dollar, as well as higher volatility in interest rates and a general tightening of credit. Although most Asian currencies ended 1998 somewhat improved or stabilized, financial uncertainty still remains. Pacific Century is carefully following developments in the region, monitoring its credit exposure in those countries experiencing financial difficulties, and taking action on credit reserves as appropriate under the circumstances.

Asia continues to play an important part of Pacific Century's longer term strategy of developing a comprehensive franchise and customer base across the Pacific. Additional information regarding Asian events are included in the "International Operations" section of this report.

In Hawaii, the current consensus forecast for growth in real gross state product ranges from 1% to 2% for 1999, following a multi-year trend of slow growth that began in the early 1990's. While this projected rate of growth still remains low, there were some positive economic signs which developed in 1998. A recent strengthening of the Japanese yen is expected to have a positive effect on Hawaii's tourism and retail sectors. Also, in 1998, Pacific Century's residential mortgage originations rose to $1.06 billion, the highest level recorded by any mortgage lender in the State of Hawaii.

Acquisitions and Strategic Alliances

Recognizing the risks of operating in only one economy, Pacific Century's long standing strategy calls for expanding outside of Hawaii, with emphasis on key Pacific locations. In May 1998, Pacific Century further developed this strategy by acquiring Banque Paribas Pacifique in New Caledonia and Banque Paribas Polynesie in French Polynesia. Subsequent to the merger, the operations of both acquired banks were consolidated into Pacific Century subsidiaries located in the same region. As of the acquisition date, Banque Paribas Pacifique and Banque Paribas Polynesie had total assets of approximately $238 million and $83 million, respectively.

In April 1998, Pacific Century completed its purchase of approximately $20 million (U.S. dollar equivalent) in 6.375% convertible notes issued by the Bank of Queensland. The Bank of Queensland is an independent bank operating in northeastern Australia. Pacific Century has entered into a strategic alliance agreement with the Bank of Queensland that will further expand its geographic reach in the Pacific Rim.

In January 1999, Pacific Century acquired Triad Insurance Agency, Inc. (Triad), a major Hawaii-based property/casualty insurance agency. In Hawaii, Triad represents a number of large U.S. property/casualty insurance companies for whom it acts as a servicing agent. The merger will expand Pacific Century's range of financial services that it can offer to customers.

Restructuring and Redesign Program

On February 17, 1998, Pacific Century announced a restructuring and redesign program to accelerate expense reduction, improve efficiency and enhance revenues. In the initial phase, the plan called for the merger of First Federal Savings and Loan Association of America (First Federal) into Bank of Hawaii and the rationalization of traditional branch delivery channels in the State of Hawaii. The First Federal merger was completed on September 30, 1998 resulting in the closure of 19 thrift branches during the fourth quarter. Additionally, to further reduce delivery channel redundancy, eight Bank of Hawaii branches were also closed during the year, bringing the total bank and thrift branches closed in 1998 to 27.

In August 1998, Pacific Century's U.S. Mainland operations were merged into one nationally chartered entity. California United Bank, acquired in 1997, and Pacific Century Bank, N.A. located in Phoenix, Arizona, were consolidated under the name Pacific Century Bank, N.A. with its headquarters in Southern California.

Also, as part of the restructuring plan, Bank of Hawaii's credit card services functions were outsourced in the fourth quarter of 1998 to a third party vendor.

In connection with these actions, a pre-tax restructuring charge of $19.4 million was taken against second quarter earnings. The restructuring charge consists of direct and incremental costs that are primarily associated with closing facilities and reducing staff. Through December 31, 1998, $9.8 million of the restructuring accrual has been utilized. Pacific Century believes that the year-end 1998 restructuring accrual of $9.6 million is adequate to complete the above mentioned initiatives.

Pacific Century's restructuring program will continue in 1999 with a comprehensive redesign process to increase revenues and further improve efficiency. Pacific Century has contracted with a nationally recognized corporate redesign specialist to assist in this activity. The redesign timeline calls for a six month process review and idea development phase that will begin in March 1999 followed by a twelve month implementation phase.

Forward-Looking Statements

This report contains forward-looking statements regarding Pacific Century's beliefs, estimates, projections and assumptions. Although Pacific Century believes that its expectations are based on reasonable assumptions, there can be no assurance that such assumptions will ultimately materialize. Forward-looking statements are contained in various sections of this report including those covering the Overview, International Operations, Market Risk, Year 2000, and European Economic and Monetary Union. These forward-looking statements are subject to risks and uncertainties, and accordingly, actual results could differ significantly from those stated or implied by such forward-looking statements. Factors that might cause differences to occur include, but are not limited to, economic conditions in the markets Pacific Century serves and those that impact Hawaii, the U.S. Mainland and Asian economies, fluctuations in interest rates, changes in currencies of Asian Rim and South Pacific countries relative to the U.S. dollar, credit quality, and changes in applicable federal, state, and foreign income tax laws and regulatory and monetary policies, and the nature and level of competition. Additional forward-looking statements that could significantly differ from estimates include uncertainties relating to Pacific Century's efforts to prepare its systems and technology for Year 2000 readiness, as well as uncertainties relating to the ability of third parties with whom Pacific Century has business relationships to address Year 2000 issues in a timely and adequate manner.

Line of Business Financial Review

Pacific Century is a financial services organization that maintains a broad presence throughout the Pacific region and operates through a unique trans-Pacific network of locations. Pacific Century's activities are conducted primarily through 180 branches and representative and extension offices (including branches of affiliate banks). Its staff of approximately 5,100 employees provide diverse financial products and services to individuals, businesses, governmental agencies and financial institutions.

Pacific Century assesses the financial performance of its operating components primarily in accordance with geographic areas of operations. For business segment reporting, Pacific Century has aligned its operations into the following four major geographic segments: Hawaii, the Pacific, Asia, and the U.S. Mainland. In addition to these segments, there is also a segment for Treasury and Other Corporate. This segment includes corporate asset and liability management activities and the unallocated portion of various administrative and support units. Although operating units are generally aligned geographically for business segment financial reporting, in certain cases units are grouped in accordance with functional activities rather than by geographic market.

Business segment results are determined based on Pacific Century's internal financial management reporting process and organization structure. The financial management reporting process uses various techniques to allocate and transfer balance sheet and income statement amounts between business units, including allocations for overhead, loan loss provision, and capital. In its business segment financial reporting process, Pacific Century utilizes certain accounting practices that differ from generally accepted accounting principles. These practices and other key elements of Pacific Century's business segment financial reporting process are described in Note Q to the Consolidated Financial Statements.

The table in Note Q presents the line of business financial report for each of Pacific Century's major market segments for the year ended December 31, 1998. Because the market segment financial report is prepared in accordance with accounting practices that could differ from generally accepted accounting principles, the amounts reflected therein may not agree with the corresponding amounts reported in the Consolidated Financial Statements and Management Discussion and Analysis of Operations.

In addition to the performance measurements in the line of business financial report, Pacific Century also utilizes risk-adjusted return on capital (RAROC) to assess business segment performance. RAROC is the ratio of net income to risk-adjusted equity. Equity is allocated to business units based on various risk factors inherent in the operations of each unit. A second performance measurement is net income after capital charge (NIACC). NIACC is net income available to common shareholders less a charge for allocated capital. The cost of capital is based on the estimated minimum rate of return expected by the financial markets. The minimum rate of return consists of the following components: the long-term government bond rate plus an additional level of return for the average risk premium of an equity investment adjusted for the company's market risk. Over the past few years the cost of capital has fluctuated between 12% to 15%.

Hawaii Market

Pacific Century's oldest and largest market is Hawaii, where operations are conducted primarily through its principal subsidiary, Bank of Hawaii. Bank of Hawaii was established in 1897, and today it is the largest bank headquartered in the State of Hawaii offering a wide array of financial products and services. Bank of Hawaii operates through 72 branches in Hawaii, including both traditional full-service branches and in-store locations.

Within the Hawaii segment, line of business results are divided into retail and commercial operating units. Retail operating units sell and service a broad line of consumer financial products. These units include consumer deposits, consumer lending, residential real estate lending, auto financing, credit cards, and private and institutional services (trust, mutual funds, and stock brokerage).

In addition to offering traditional branch banking services, Bank of Hawaii has actively introduced new electronic based products and services that provide enhanced customer convenience. These products and services include: PC Home Banking; Bankoh Bill Pay (an electronic bill payment service); e-Bankoh (a nationally recognized service that enables customers to bank on the internet); an ATM network with 492 machines, some of which provide enhanced functionality; 13 super-market branches; and six business service centers (a unique product that offers depository and change services to shopping center merchants through conveniently located dispensing machines).

In the business banking area, Bank of Hawaii is a major commercial lender and maintains a significant presence throughout the State. Commercial operating units in the Hawaii market include small business, middle market, cash management and commercial real estate.

For the year ended December 31, 1998, the Hawaii segment contributed $48.6 million in net income. RAROC for this segment was 13% in 1998. Total assets in the Hawaii segment were $5.3 billion at year-end 1998.

Pacific Market

Pacific Century has maintained a presence in the Intra-Pacific region for nearly 40 years, where it offers financial products and services to both retail and commercial customers. Today, this market spans island nations across the West and South Pacific. Pacific Century is the only United States financial institution to have such a broad presence in this region. This unique franchise positions Pacific Century for future growth.

Pacific Century serves the West Pacific through branches of both Bank of Hawaii and First Savings and Loan Association of America (First Savings). Bank of Hawaii's operation in the West Pacific consists of three branches in Guam and two branches in the Commonwealth of the Northern Marianas Islands (Saipan), as well as branches in the Federated States of Micronesia (Yap, Pohnpei, and Kosrae), the Republic of the Marshall Islands (Majuro) and the Republic of Palau (Koror). First Savings operates in Guam from three traditional branches and three in-store locations.

Pacific Century's presence in the South Pacific includes branches of Bank of Hawaii and various subsidiary and affiliate banks. The Bank of Hawaii locations in this region consist of three branches in Fiji and two branches in American Samoa. Pacific Century's subsidiary banks in the South Pacific are located in French Polynesia, New Caledonia, Papua New Guinea, and Vanuatu. Additionally, Pacific Century maintains an investment in affiliate banks located in Samoa, Solomon Islands and Tonga. As of December 31, 1998, these subsidiary and affiliate banks had a total of 29 and 20 branches, respectively. Pacific Century's largest markets in the South Pacific are in French Polynesia and New Caledonia.

Net income in the Pacific segment was $23.0 million for the year ended December 31, 1998. RAROC for this segment was 11% including the amortization of intangibles. Total assets in the Pacific segment stood at $2.4 billion at year-end 1998.

Asia Market

Asia is a market that Pacific Century has developed over the last 20 years. Pacific Century operates in Asia through Bank of Hawaii branches in Hong Kong, Japan, Singapore, South Korea and Taiwan and a representative office with extensions in the Philippines.

Pacific Century's business focus in Asia is correspondent banking and trade financing. Activities include letters of credit, remittance processing, foreign exchange, cash management, export bill collection, and working capital loans. The lending emphasis is on short-term loans based on cash flows. Pacific Century's network of locations in the Pacific and its presence on the U.S. Mainland help customers facilitate the flow of business and investment transactions across Asia-Pacific.

For the year ended December 31, 1998, net income in the Asia segment was $13.7 million. RAROC for this segment was 14% in 1998. As of year-end 1998, total assets in the Asia segment were $1.0 billion.

For additional information on Asia, see the "International Operations" section in this report.

U.S. Mainland Market

During 1998, Pacific Century's two Mainland bank subsidiaries were merged into one nationally-chartered entity, under the name Pacific Century Bank, N.A. (PCB). PCB provides financial products and services through 20 branches in Southern California and 9 branches in Arizona. PCB's emphasis is on providing asset based lending and related services for small and middle market businesses. Additionally, PCB also assists Pacific Century in expanding relationships with customers who have an interest in the Asia-Pacific region. In early 1999 PCB opened a China marketing office.

In addition to the operations of PCB, the U.S. Mainland segment also includes operating units for large corporate lending and leasing. The large corporate lending unit targets businesses that have interests in the Asia-Pacific region and businesses in certain specialized industries. Leasing activities consist of providing financing to businesses largely for aircraft, vehicles and equipment.

In 1998, the U.S. Mainland segment contributed $26.8 million in net income, which included tax benefits of $13.5 million from low income housing tax credits and investment tax credits. RAROC for this segment was 10% in 1998 including the amortization of intangibles. As of December 31, 1998, total assets in the U.S. Mainland segment were $2.6 billion.

Treasury and Other Corporate

The primary operations in this segment is Treasury, which consists of corporate asset and liability management activities including investment securities, federal funds purchased and sold, government deposits, short and long-term borrowings, and derivative activities for managing interest rate and foreign currency risks. Additionally, the net residual effect of transfer pricing assets and liabilities is included in Treasury, as is any corporate-wide interest rate risk.

Other corporate items included in this segment consist of the operations of insurance and other non-bank subsidiaries, unallocated overhead expenses, and the residual effect of allocating the economic provision.

The Treasury and Other Corporate segment reflected a net operating loss of $5.2 million in 1998. Included in the 1998 results is a pre-tax restructuring charge of $19.4 million. At year-end 1998 this segment held $3.7 billion in total assets, most of which were in Treasury.

Statement of Income Analysis

Comparability between periods in the Consolidated Statements of Income is impacted by the 1998 acquisitions of Banque Paribas Pacifique and Banque Paribas Polynesie. In addition, the July 1997 purchase of California United Bank, the March 1997 acquisition of Indosuez Niugini Bank, Ltd., the March 1997 acquisition of deposits from Home Savings of America, and the May 1996 purchase of majority ownership in Banque de Tahiti and Banque de Nouvelle Caledonie also affect the comparison between periods.

Net Interest Income

Net interest income (taxable equivalent basis) was $577.2 million in 1998, up from $524.3 million in 1997 and $483.4 million in 1996. The increase relative to 1998 is largely due to the acquisitions, which have helped to grow average earning assets and widen the net interest margin. Average earning assets were $13.7 billion in 1998 and $13.2 billion in 1997, reflecting a year-over-year increase of $495 million and $772 million, respectively. In 1998, the average net interest margin on earning assets rose to 4.22% from 3.98% in 1997 and

3.90% in 1996. The improvement in net interest margin relative to 1998 and 1997 results from both a rise in the average yield on earning assets and a drop in the average rate paid on interest-bearing liabilities. Presented in Table 3 are the average balances, yields, and rates paid for the years ended December 31, 1998, 1997 and 1996.

In 1998, the average yield on earning assets improved to 8.05% from 7.97% and 7.93% in 1997 and 1996, respectively and reflects Pacific Century's efforts to remix the portfolio to higher yielding assets. The average rate paid on interest-bearing liabilities decreased to 4.67% in 1998, from 4.76% and 4.78% in 1997 and 1996, respectively, reflecting the decline in market interest rates.

Provision for Loan Losses

The provision for loan losses was $84.0 million in 1998, up from $30.3 million in 1997 and $22.2 million in 1996. The larger 1998 loan provision primarily reflects a $26.9 million rise in gross loan charge-offs relating mostly to the foreign category and a build up of reserves to cover the increase in non-performing assets. For further information on credit quality, refer to the section on "Credit Risk--Reserve for Loan Losses."

Consolidated Average Balances, Income and Expense
Summary, and Yields and Rates
(Taxable Equivalent)

Table 3

	1998			1997			1996		
	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates
	(in millions of dollars)								
Earning Assets									
Interest-Bearing Deposits.............	$ 508.8	$ 36.7	7.21%	$ 486.3	$ 33.1	6.80%	$ 579.9	$ 42.0	7.24%
Investment Securities--Held to Maturity									
--Taxable...........	890.6	67.7	7.60	1,220.4	81.8	6.71	1,078.1	70.4	6.53
--Tax-Exempt.........	11.8	1.7	14.34	12.5	1.8	14.55	13.0	1.8	14.08

Investment Securities--Available for Sale	2,769.3	171.0	6.17	2,452.0	158.8	6.48	2,288.7	148.0	6.46
Funds Sold	69.7	3.8	5.45	76.4	3.8	4.99	92.1	4.0	4.39
Loans /1/									
--Domestic	7,669.7	643.8	8.39	7,389.4	607.7	8.22	7,099.9	579.7	8.17
--Foreign	1,752.6	130.4	7.44	1,540.3	129.2	8.39	1,253.7	107.6	8.58
Loan Fees		45.3			34.4			29.7	
Total Earning Assets	13,672.5	1,100.4	8.05	13,177.3	1,050.6	7.97	12,405.4	983.2	7.93
Cash and Due From Banks	590.1			545.1			462.8		
Other Assets	608.1			519.9			427.0		
Total Assets	$14,870.7			$14,242.3			$13,295.2		
Interest-Bearing Liabilities									
Domestic Deposits									
--Demand	$ 2,114.8	55.7	2.64	$ 1,945.3	52.9	2.72	$ 1,726.6	47.2	2.73
--Savings	783.9	18.5	2.35	865.5	21.4	2.48	937.0	23.7	2.53
--Time	2,780.7	145.4	5.23	2,858.7	157.0	5.49	2,465.0	133.5	5.42
Total Domestic	5,679.4	219.6	3.87	5,669.5	231.3	4.08	5,128.6	204.4	3.98
Foreign Deposits									
--Time Due to Banks	596.1	40.4	6.78	718.7	43.6	6.06	733.5	46.4	6.33
--Other Time and Savings	1,176.1	57.9	4.92	1,079.0	48.2	4.47	745.0	37.9	5.09
Total Foreign	1,772.2	98.3	5.55	1,797.7	91.8	5.10	1,478.5	84.3	5.70
Total Deposits	7,451.6	317.9	4.27	7,467.2	323.1	4.33	6,607.1	288.7	4.37
Short-Term Borrowings	3,072.9	162.6	5.29	2,868.7	156.8	5.47	2,809.6	150.2	5.35
Long-Term Debt	676.5	42.7	6.32	725.5	46.4	6.39	1,029.2	60.9	5.91
Total Interest-Bearing Liabilities	11,201.0	523.2	4.67	11,061.4	526.3	4.76	10,445.9	499.8	4.78
Net Interest Income		577.2	3.38		524.3	3.21		483.4	3.15
Spread on Earning Assets			4.22%			3.98%			3.90%
Demand Deposits									
--Domestic	1,650.4			1,516.8			1,371.5		
--Foreign	447.7			264.0			194.2		
Total Demand Deposits	2,098.1			1,780.8			1,565.7		
Other Liabilities	410.8			290.8			212.7		
Shareholders' Equity	1,160.8			1,109.3			1,070.9		
Total Liabilities & Equity	$14,870.7			$14,242.3			$13,295.2		
Provision for Loan Losses		84.0			30.3			22.2	
Net Overhead		329.0			275.1			256.8	
Income Before Income Taxes		164.2			218.9			204.4	
Provision for Income Taxes		56.6			78.5			70.2	
Tax Equivalency Adjustment/2/		0.6			0.9			1.1	
Net Income		$ 107.0			$ 139.5			$133.1	

/1/Includes non-accrual loans.

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/2/Based upon a statutory tax rate of 35%.

Non-Interest Income

In 1998, total non-interest income was $211.8 million, compared to $187.8 million in 1997 and $164.5 million in 1996. Non-interest income on a year-to-year basis increased 12.8% in 1998 and 14.2% in 1997. The incremental non-interest income attributed to the acquisitions were approximately $15.0

million and $5.5 million in 1998 and 1997, respectively. Table 4 presents the details of non-interest income for the last five years.

Trust income for 1998 totaled $55.9 million, up from $52.2 million in 1997 and $49.8 million in 1996. In 1997, the trust operation was merged into Bank of Hawaii and the division was renamed Pacific Century Trust (PCT). This merger has created the synergism for new opportunities through coordinated marketing and packaging of trust services. This opportunity was further developed in 1998 through organizational changes that positioned relationship officers to deliver a wider array of financial services to satisfy the growing needs of customers. While trust income showed a 7.1% increase in 1998, total trust assets administered by PCT increased to $13.1 billion at year-end 1998, up from $12.5 billion at year-end 1997 and $11.4 billion at year-end 1996. The Pacific Capital family of mutual funds and Hawaiian Tax Free Trust, which are managed by PCT, have continued to experience growth. At December 31, 1998, the aggregate balance of these funds stood at $3.1 billion, compared to $2.6 billion and $2.2 billion at year-end 1997 and 1996, respectively.

Service charges on deposit accounts increased to $35.5 million, compared to $29.4 million in 1997 and $26.7 million in 1996. The acquisitions accounted for approximately $3.1 million of the increase between 1998 and 1997.

Fees, exchange and other service charges increased to $77.9 million in 1998, from $67.1 million in 1997 and $58.9 million in 1996. Approximately $5.1 million of the increase between 1998 and 1997 was due to the acquisitions. Income generated from international activities include letters of credit and acceptance fees, profit on foreign currency, and exchange fees. Collectively, income from these sources totaled $29.1 million in 1998, a 5.8% increase over 1997.

Mortgage servicing fees increased to $7.9 million in 1998 from $7.1 million in 1997 and $6.6 million in 1996. This increase reflects Bank of Hawaii's emphasis on residential mortgage lending and secondary market sales activities. Pacific Century's mortgage servicing portfolio grew to $2.05 billion at year-end 1998 from $1.65 billion at year-end 1997.

Also included in fees, exchange and other service charges are fees earned through Pacific Century's ATM network. During 1998, Pacific Century continued to expand its ATM network, ending the year with 492 machines, an increase from 480 at year-end 1997. Fees generated by this network totaled $10.4 million in 1998, compared to $9.6 million in 1997, and $8.6 million in 1996. The majority of Pacific Century's ATMs are located in Hawaii (418) with the remainder in the West Pacific (28), South Pacific (26), and the U.S. Mainland (20). ATM usage has increased steadily over the years averaging more than 2.1 million transactions per month in 1998, compared to more than 1.9 million transactions per month in 1997.

Other operating income in 1998 was $38.4 million, an increase of 6.7% over last year. Comparatively, other operating income was $36.0 million in 1997 and $27.7 million in 1996. With a lower level of recoveries recorded in 1998, cash basis interest declined to $1.3 million, compared to $3.7 million in 1997, and $2.6 million reported in 1996. Cash basis interest includes interest collected on loans written-off or interest collected on non-accrual loans that relate to prior years.

Sales of investment securities in 1998 resulted in a net securities gain of $4.1 million, compared to net gains of $3.1 million and $1.4 million in 1997 and 1996, respectively.

Non-Interest Income

Table 4

	1998 Amount	1998 Percent Change	1997 Amount	1997 Percent Change	1996 Amount	1995 Amount	1994 Amount
	Years Ended December 31						
	(in millions of dollars)						
Trust Income...............	$ 55.9	+ 7.1%	$ 52.2	+ 4.8%	$ 49.8	$ 49.5	$ 48.6
Service Charges on Deposit Accounts..................	35.5	+ 20.7	29.4	+ 10.1	26.7	25.9	28.3
Fees, Exchange and Other Service Charges							
Card Fees................	13.7	+ 3.8	13.2	+ 23.4	10.7	7.3	8.3
Letters of Credit and Acceptance Fees.........	10.6	- 4.5	11.1	+ 9.9	10.1	8.8	7.8
Profit on Foreign Currency................	14.8	+ 21.3	12.2	+ 37.1	8.9	6.5	4.3
ATM......................	10.4	+ 8.3	9.6	+ 11.6	8.6	7.7	6.6
Mortgage Servicing Fees..	7.9	+ 11.3	7.1	+ 7.6	6.6	4.3	2.9
Exchange Fees............	3.7	- 11.9	4.2	+ 23.5	3.4	3.9	4.0
Payroll Services.........	1.1	- 31.3	1.6	- 33.3	2.4	2.1	2.1
Cash Management..........	2.4	+200.0	0.8	--	0.8	1.0	1.1
Other Fees...............	13.3	+ 82.2	7.3	- 1.4	7.4	5.7	5.4
Other Operating Income							
Other Income.............	37.1	+ 14.9	32.3	+ 28.7	25.1	19.6	23.4
Cash Basis Interest......	1.3	- 64.9	3.7	+ 42.3	2.6	1.3	3.4
Investment Securities Gains (Losses)..................	4.1	+ 32.3	3.1	+121.4	1.4	2.5	(17.8)
Total..................	$211.8	+ 12.8%	$187.8	+ 14.2%	$164.5	$146.1	$128.4

Non-Interest Expense

Total non-interest expense for 1998, 1997 and 1996 was $540.7 million, $462.9 million and $421.3 million, respectively. In 1998 and 1997, non-interest expense increased 16.8% and 9.9%, respectively, which includes the effects of the acquisitions and for 1998 reflects a pre-tax restructuring charge of $19.4 million. The incremental increase in non-interest expense due to the acquisitions was approximately $34.2 million in 1998 and $32.4 million in 1997, including the amortization of intangibles. Excluding the effects of the restructuring charge and the acquisitions, non-interest expense increased by approximately 5.2% in 1998 and 2.2% in 1997. When fully implemented in the first half of 1999, the restructuring actions relative to branch rationalization and credit card servicing will improve efficiency and reduce operating costs by an expected $22 million annually on a going forward basis. In 1998, the effects of expense reductions from restructuring related mergers and other initiatives were insignificant.

Salaries and pension and other employee benefit expense totaled $250.5 million, $226.7 million and $208.0 million in 1998, 1997 and 1996, respectively. Approximately $14.6 million and $13.8 million of the increase relative to 1998 and 1997, respectively is accounted for by the acquisitions. Excluding the effects of the acquisitions, these expenses increased 4.1% in 1998 and 2.3% in 1997. The Year 2000 project also contributed to the increase in salaries and benefits for 1998.

Net occupancy and equipment expense for 1998 increased to $95.8 million from $85.2 million in 1997 and $73.4 million in 1996. Included in the 1998 total were $1.7 million in non-recurring charges attributed to equipment and premise write-offs. Additionally, approximately $4.7 million of the increase in 1998 is explained by the acquisitions. Comparison between 1997 and 1996 is affected by a $2.7 million write-off relating to the 1997 closure and demolition of a downtown Honolulu building.

Other operating expense increased to $174.5 million in 1998 from $149.5 million in 1997 and $138.4 million in 1996. Approximately $14.8 million and $15.5 million of the increase relative to 1998 and 1997, respectively, was due to the acquisitions, including the amortization of intangibles. In addition, 1998's other operating expense was also impacted by a $3.7 million write-down of a real estate investment, and a $2.7 million loss related to an equipment lease termination, which was offset by an equal amount of tax savings. The comparison between 1997 and 1996 is affected by a $2.8 million loss recognized in 1996 on the early termination of a leveraged lease.

Legal and professional fees increased to $35.8 million in 1998 from $23.4 million in 1997 and $17.7 million in 1996. The increase for 1998 is primarily attributed to consulting and other professional fees including those related to the Year 2000 project.

Pacific Century utilizes the efficiency ratio as a tool to manage non-interest income and expense. The efficiency ratio is derived by dividing non-interest expense by net operating revenue (net interest income plus non-interest income before securities transactions). For 1998, 1997 and 1996, the efficiency ratio was 68.9%, 65.4% and 65.3%, respectively. Excluding the restructuring charge and amortization of all intangibles, the efficiency ratio was 64.3%, 63.4% and 63.8% in 1998, 1997 and 1996, respectively.

Non-Interest Expense

Table 5

	Years Ended December 31						
	1998		1997		1996	1995	1994
	Amount	Percent Change	Amount	Percent Change	Amount	Amount	Amount
	(in millions of dollars)						
Salaries	$194.5	+12.3%	$173.2	+ 8.8%	$159.2	$142.1	$138.0
Pension and Other Employee Benefits	56.0	+ 4.7	53.5	+ 9.6	48.8	43.6	42.4
Net Occupancy Expense	46.8	+ 0.2	46.7	+18.5	39.4	41.1	37.4
Net Equipment Expense	49.0	+27.3	38.5	+13.2	34.0	31.7	30.5
Other Operating Expense							
Legal and Professional	35.8	+53.0	23.4	+32.2	17.7	15.6	18.2
Stationery and Supplies	11.1	+ 3.7	10.7	--	10.7	9.3	8.8
Amortization of Intangible Assets	17.4	+27.9	13.6	+38.8	9.8	8.4	9.3
Other	110.3	+ 8.3	101.8	+ 1.5	100.3	71.2	75.3
Restructuring Charge	19.4	N.M.	--	--	--	--	--
Minority Interest	0.4	-73.3	1.5	+ 7.1	1.4	1.1	0.5
Total	$540.7	+16.8%	$462.9	+ 9.9%	$421.3	$364.1	$360.4

Income Taxes

The 1998 tax provision reflects an effective tax rate of 34.6%, compared to 36.0% and 34.5% in 1997 and 1996, respectively. The effective tax rate in 1998 was impacted by the previously mentioned equipment lease termination loss of $2.7 million that provided an equivalent amount of tax benefits. Pacific

Century's tax structure is complex given the various foreign and domestic locations in which it operates. Pacific Century utilizes low income housing tax credits, municipal securities, and lease financing to manage its tax liability.

In recent years, low income housing credits have been Pacific Century's main vehicle for reducing the effective tax rate. Pacific Century's low income housing investments increased $5.0 million to $69.6 million at year-end 1998 and provided tax credits of $10.0 million in 1998. Pacific Century's tax-exempt securities portfolio continues to decline and had only a minimal impact on the effective tax rate in 1998.

Pacific Century also continued to pursue lease financing to defer tax payments. Consisting of both direct and leveraged leases, the leasing portfolio grew 6.8% during 1998.

Tax planning at Pacific Century is structured to minimize the impact of the alternative minimum tax (AMT). At the end of 1998, Pacific Century was not subject to the AMT.

Balance Sheet Analysis

Loans

Loans comprise the largest category of earning assets for Pacific Century and produce the highest level of earnings. At year-end 1998, loans outstanding grew to $9.9 billion, a 3.7% increase from $9.5 billion at year-end 1997. Comparability between periods is impacted by approximately $211 million of loans acquired in the May 1998 Banque Paribas acquisitions. Excluding the effects of the acquisitions, total loans in 1998 increased by 1.5%.

Pacific Century's objective is to maintain a diverse loan portfolio in order to spread credit risk and reduce exposure to economic downturns that may impact different markets and industries. The composition of the loan portfolio is regularly monitored to ensure diversity as to loan type, geographic distribution, and industry and borrower concentration.

Table 6 presents the composition of the loan portfolio by major loan categories.

Commercial and Industrial Loans

At December 31, 1998, commercial and industrial loans (C&I) totaled $2.6 billion, up 22.6% from year-end 1997. The proportion of C&I loans to the total loan portfolio increased to 26.2% at year-end 1998, from 22.2% at year-end 1997. This growth is primarily attributed to a $383.4 million increase in the U.S. Mainland C&I portfolio.

C&I loans consist of loans made for commercial, financial, and agricultural purposes and involves lending on both a secured and unsecured basis. Collateral requirements vary, but are based on Pacific Century's underwriting and collateral policies to ensure that consistent credit quality standards are maintained.

The geographic distribution of C&I loans is concentrated in the U.S. Mainland and Hawaii representing 59.2% and 33.1% of the loan portfolio, respectively, as of year-end 1998. In Hawaii, Bank of Hawaii is a major commercial lender and maintains a significant presence throughout the State. Bank of Hawaii provides continuing support to the entire business community in Hawaii by offering a wide range of products and services. At year-end 1998, C&I loans in Hawaii totaled $853.2 million. In the U.S. Mainland market, C&I lending totaled $1.5 billion at year-end 1998, up 33.6% over year-end 1997, and is comprised largely of small and middle market business loans that were originated by Pacific Century's U.S. Mainland subsidiary bank, as well as loans to Fortune 500 industrial and service companies and the media and communication industry.

Real Estate Loans

At year-end 1998, Pacific Century's total real estate loans (excluding construction) were $3.8 billion, 6.2% below year-end 1997. This portfolio consists of loans that are secured by residential as well as commercial properties. Although real estate mortgage loans still continue to comprise the largest portion of the loan portfolio, their level of representation has declined from 43.1% of total loans at year-end 1997 to 39.0% at year-end 1998.

The largest component of the real estate loan portfolio consists of loans secured by 1-to-4 family residential properties. At $2.7 billion, this portfolio declined $39.5 million from year-end 1997, and represented 27.4% of total loans outstanding at year-end 1998. More than 90% of these loans are secured by real estate in Hawaii (see Table 7). Pacific Century originates residential mortgages on both a fixed-rate and adjustable-rate basis. Most of

the fixed-rate products are sold in the secondary mortgage market, while adjustable-rate mortgages are generally held in Pacific Century's loan portfolio. Included in the residential mortgage total at year-end 1998 were $260 million in available for sale loans. In recent years, Pacific Century has focused on residential mortgage lending in Hawaii as an attractive line of business. In 1998, residential mortgage originations by Bank of Hawaii totaled $1.06 billion, the highest dollar amount ever originated by a mortgage lender in the State of Hawaii. Comparatively, Bank of Hawaii originated $571 million in residential mortgage loans in 1997.

Also included in the residential real estate portfolio are home equity credit lines. The total available credit under these lines was $476.8 million at year-end 1998, compared to $480.6 million at year-end 1997. Outstandings declined to $261.2 million at year-end 1998 from $263.7 million at year-end 1997. Home equity credit lines are underwritten primarily based on the borrower's repayment ability rather than the value of the underlying property.

The commercial real estate portfolio (excluding construction loans) totaled $1.1 billion at year-end 1998, a decrease of 15.9% from year-end 1997. Approximately 68% of these loans were secured by commercial real estate in Hawaii. The commercial real estate portfolio is diversified in the type of property securing the obligations, including loans secured by tract and land development for residential housing, hotels, retail facilities, and commercial offices.

Total commercial construction loans increased to $276.3 million at year-end 1998, compared to $268.1 million at year-end 1997. These loans are secured primarily by properties located in Hawaii, which accounted for 61% of such loans at December 31, 1998. Because construction lending is considered to generally involve greater risk than financing on improved properties, Pacific Century utilizes tighter underwriting and disbursement standards. The majority of these loans are underwritten based on the projected cash flows of the completed project, rather than the value of the underlying property, and generally require a committed source for permanent financing.

Loan Portfolio Balances

Table 6

	1998	1997	1996	1995	1994
	(in millions of dollars)				

Domestic Loans					
Commercial and Industrial.......	$2,579.7	$2,104.3	$1,806.7	$1,902.2	$1,830.8
Real Estate					
Construction--Commercial......	276.3	268.1	212.3	199.6	114.2
--Residential...........	23.5	12.9	23.6	33.7	39.7
Mortgage--Commercial..........	1,139.1	1,354.5	1,227.8	1,308.8	1,241.0
--Residential.............	2,699.4	2,738.9	2,635.3	2,702.4	2,849.9
Installment.....................	763.0	891.6	849.3	817.3	741.6
Lease Financing.................	554.5	519.4	437.8	392.9	378.1
Total Domestic.............	8,035.5	7,889.7	7,192.8	7,356.9	7,195.3
Foreign Loans					
Banks and Other Financial Institutions...................	158.2	207.7	281.8	268.7	299.0
Commercial and Industrial.......	1,281.5	1,074.9	923.2	513.6	364.2
All Others......................	378.8	326.1	301.5	13.2	33.5
Total Foreign..............	1,818.5	1,608.7	1,506.5	795.5	696.7
Total Loans.................	$9,854.0	$9,498.4	$8,699.3	$8,152.4	$7,892.0

Installment Loans

Total installment loans (excluding residential mortgages and home equity loans) were $763.0 million, down 14.4% from year-end 1997. At year-end 1998, installment loans consisted of credit cards and consumer loans (e.g., auto loans and unsecured credit lines). Consumer loans totaled $485.0 million as of December 31, 1998, compared to $602.9 million as of December 31, 1997. In 1998, Pacific Century sold the majority of its guaranteed student loan portfolio.

The credit card portfolio balance was $278.0 million at year-end 1998, a decrease of 3.7% from year-end 1997. At year-end 1998, 0.77% of the credit card portfolio (based on balances) were more than 90 days delinquent, compared to 0.43% at year-end 1997. In the fourth quarter of 1998, the credit card servicing function at the Bank of Hawaii was outsourced to a third party vendor. This action will improve efficiency and reduce operating costs.

Leasing Activities

At year-end 1998, leases outstanding increased to $554.5 million, up 6.8% from year-end 1997. This increase is attributed to a 25.7% growth in the U.S. Mainland portfolio. Pacific Century's lease portfolio is diversified, consisting primarily of leases on equipment, automobiles, trucks, ships, aircraft, and computers.

Lending in the International and South Pacific Markets

Pacific Century's International Market predominately consists of Asia where the business emphasis is primarily on correspondent banking, trade finance and working capital loans for companies that have business interests in the Asia-Pacific markets. The majority of International loans are short-term and are largely based on Pacific Century's traditional focus on relationships. Foreign loans in both the International and South Pacific Markets at the end of 1998 totaled $1.8 billion, an increase of 13.0% over year-end 1997. This increase reflects approximately $211 million in loans acquired in the May 1998 Banque Paribas acquisitions. Excluding the acquisitions, total foreign loans as of December 31, 1998, would have remained nearly unchanged from year-end 1997. At year-end 1998 foreign loans represented 18.5% of the total loan portfolio, compared to 16.9% at year-end 1997.

Foreign loans in the South Pacific totaled $1.1 billion at December 31, 1998, an increase of 42.5% over $766.8 million at year-end 1997. This increase is mostly accounted for by the Banque Paribas acquisitions. A large portion of the South Pacific loan portfolio is in two subsidiary banks, Banque de Tahiti and Bank of Hawaii--Nouvelle Caledonie, which in the aggregate held total loans of $1.0 billion at the end of the current year.

At December 31, 1998, outstanding foreign loans to borrowers in the International/Asia Market totaled $690.5 million, down from $818.6 million and $738.6 million at December 31, 1997 and 1996, respectively. In addition, outstanding commitments represented by open letters of credit and unused loan commitments relative to borrowers in Asia were approximately $367 million at year-end 1998. Additional information on Asian credit exposure and recent Asian economic events are contained in the "International Operations" section of this report.

Geographic Distribution of the Loan Portfolio

A geographic distribution of the loan portfolio is presented in Table 7 based on the geographic location of borrowers. Although loans in Hawaii still constitute the highest geographic lending concentration, their proportion to the total loan portfolio has declined to 50.2% at December 31, 1998 from 54.8% at December 31, 1997. At year-end 1998, the percentage of U.S. Mainland loans to total loans increased to 23.1% from 19.7% at year-end 1997.

The amounts reflected in the West Pacific include Guam and other locations in the region where both Bank of Hawaii and First Savings have branches. Loan balances in the South Pacific reflect the U.S. dollar equivalent balances of subsidiary banks in French Polynesia, New Caledonia, Papua New Guinea, Vanuatu and Bank of Hawaii branches in Fiji. Loan balances in American Samoa make up the remainder of loans in the South Pacific region.

Geographic Distribution of Loan Portfolio/1/

Table 7

	Total Year-End 1998	Hawaii	West Pacific	South Pacific	U.S. Mainland	Asia and Other
	(in millions of dollars)					
Commercial and Industrial	$2,579.7	$ 853.2	$182.5	$ 17.4	$1,525.9	$ 0.7
Real Estate						
Construction--Commercial	276.3	169.3	14.3	--	92.7	--
- --Residential	23.5	22.1	1.3	0.1	--	--
Mortgage--Commercial	1,139.1	772.6	199.0	9.4	158.1	--
- --Residential	2,699.4	2,451.2	228.5	1.5	18.2	--
Installment	763.0	571.7	144.9	26.6	19.8	--
Foreign	1,818.5	35.5	--	1,092.5	--	690.5
Lease Financing	554.5	65.9	6.7	--	462.8	19.1
Total	$9,854.0	$4,941.5	$777.2	$1,147.5	$2,277.5	$710.3
Percentage of Total	100.0%	50.2%	7.9%	11.6%	23.1%	7.2%

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/1/ Loans classified based upon geographic location of borrowers.

Investment Securities

Pacific Century's investment portfolio is managed to provide liquidity and interest income, offset interest rate risk positions and provide collateral for cash management needs. At December 31, 1998, available-for-sale securities increased to $3.0 billion from $2.6 billion at December 31, 1997. U.S. government and agency mortgage-backed securities, as a percentage of the total available-for-sale securities portfolio increased in 1998, while U.S. government and agency debt securities decreased. Securities held to maturity were $653 million at year-end 1998, down $567 million from year-end 1997. Maturities of U.S. government and agency securities, as well as prepayments in the mortgage-backed securities portfolio accounted for this decline. At year-end 1998, the held to maturity portfolio consisted of debt securities primarily with remaining contractual maturities of less than five years. Table 18 presents the maturity distributions, market value and weighted-average yield to maturity of securities.

Deposits

As of December 31, 1998, total deposits were $9.6 billion, a 0.3% decline from the year earlier date. During 1998, domestic deposits decreased $71 million, while foreign deposits increased $40 million. Comparability is impacted by the May 1998 Paribas acquisitions, which added approximately $253 million to foreign deposits.

Excluding the acquisitions, total deposits at December 31, 1998 declined by approximately 3.0% from year-end 1997. Competition for deposits by banks and other financial institutions, as well as securities brokerage firms, continues to impact the ability to attract and retain deposits.

Table 22 presents average deposits by type for the five years ended December 31, 1998.

Borrowings

Short-term borrowings, including funds purchased and securities sold under agreements to repurchase (repos), totaled $3.3 billion at December 31, 1998, compared to $3.2 billion at year-end 1997. The largest portion of short-term borrowings consist of repos. Repos are offered to governmental entities as an alternative to deposits and are supported by the same type of collateral. At year-end 1998 repos were $2.0 billion, down from $2.3 billion at year-end 1997. This decline was more than offset by a $232 million increase in funds purchased in 1998 and a $131 million increase in other short-term borrowings. Included in short-term borrowings at December 31, 1998, were $127 million in commercial paper.

Long-term debt on December 31, 1998 totaled $586 million, down from $706 million on December 31, 1997. This decline primarily results from a $65 million reduction in borrowings from the Federal Home Loan Bank of Seattle (FHLB) and a $60 million reduction in private placement notes. FHLB borrowings were $223 million at December 31, 1998, compared to $288 million at December 31, 1997. Private placement notes totaled $90 million and $150 million at year-end 1998 and 1997, respectively. The year-over-year change in FHLB borrowings and private placement notes reflect maturities. Also included in long-term debt at year-end 1998 were $119 million in 6.875% subordinated notes that mature in 2003 and $100 million in 8.25% Capital Securities that mature in 2026.

International Operations

Pacific Century maintains an extensive international presence in the Asia-Pacific region that provides opportunities to take part in lending, correspondent banking and deposit-taking activities in these markets. These activities are facilitated through Bank of Hawaii branches, a representative office with extensions and full service subsidiary/affiliate banks. This network of locations across Asia-Pacific enables our customers to facilitate trade and investment between the U.S. Mainland, Asia, and the Pacific Islands. Pacific Century divides its international business into two areas: the International Market, which is Asia related and the Pacific Market, which comprises the South and West Pacific Divisions.

Through the International Banking Group of Bank of Hawaii and Pacific Century Bank, N.A., Pacific Century offers international banking services to its corporate and financial institution customers in most of the major Asian financial centers with support from its New York and Honolulu operations. Bank of Hawaii's offices that offer these services are located in Hong Kong, the Philippines (Manila, Cebu, and Davao), South Korea, Singapore, Japan, Taiwan, and New York. The International Banking Group of Bank of Hawaii continues to focus on correspondent banking and trade-related financing activities and lending to customers with which it has a direct relationship.

The South Pacific Region consists of investments in subsidiary banks in French Polynesia, New Caledonia, Papua New Guinea, Vanuatu, and Bank of Hawaii branch operations in Fiji and American Samoa. Since American Samoa is U.S. dollar based, its operation is included as domestic. Additionally, Bank of Hawaii has interests in affiliate banks located in Samoa, Solomon Islands and Tonga.

The Banks in the French territories are currently operating under a management contract with Credit Lyonnais due to expire in 1999. The managers of those areas have a direct reporting line to the South Pacific Manager at Bank of Hawaii who is responsible for all operations in the French Territories. The operations of subsidiaries and affiliates are evaluated on a similar basis as branch offices. Exposure to foreign currency

fluctuations is in large measure limited to the unhedged positions of Pacific Century's capital investment in these subsidiaries. The largest South Pacific subsidiary operations are in the French territories of French Polynesia and New Caledonia.

The West Pacific Division includes Bank of Hawaii branches in Guam and in other locations in the region. Since the U.S. dollar is used in these locations, the Company's operations in the West Pacific are not considered foreign for financial reporting purposes.

Table 8 provides a summary of assets, liabilities, operating revenue, and net income for Pacific Century's International Operations for the last three years. Operating results in 1998 reflected a net loss of $0.8 million, compared to net income of $10.2 million in 1997 due to significantly higher foreign loan loss provisions (see "Credit Risk--Reserve for Loan Losses").

Pacific Century controls its risk exposure to international lending by evaluating the political and economic factors that bear on a country's ability to meet its foreign debt obligations. Based on these analyses, credit limits (both short and long term) are established for each country to minimize and control risk in the international portfolio. These credit limits are monitored and reviewed on a regular basis so that risks and exposures are understood and properly assessed. Pacific Century's strategy for foreign lending is to deal, on a direct basis, primarily with countries and companies that have a strong trade and investment interest in Hawaii and Asia-Pacific region.

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

Cross-border interbank placements and loans were $760.2 million at year-end 1998. Table 9 presents, for the last three years, a geographic distribution of international assets for which Pacific Century has cross-border exposure exceeding 0.75% of total assets.

The countries in Asia to which Pacific Century maintains its largest credit exposure on a cross-border basis include South Korea, Japan and Taiwan. At December 31, 1998, cross-border credit exposure in Japan, South Korea, and Taiwan were $355 million, $265 million and $124 million, respectively, compared to $390 million, $413 million and $121 million, respectively, at December 31, 1997. In Japan and Taiwan, despite pressures from neighboring countries, the high levels of foreign exchange reserves have helped to maintain relative economic stability. At Pacific Century, all exposures relating to South Korea, Japan, Taiwan, Hong Kong, the Philippines and Malaysia ended both December 31, 1998 and 1997 on a performing status.

With the implementation of the International Monetary Fund (IMF) restructuring plan in late 1997 and throughout 1998, South Korea's foreign-exchange reserves have significantly improved and rating agencies have gradually raised South Korea's sovereign rating back to investment grade. Our experience and history in the country continue to give us confidence in our ability to manage our exposure in South Korea. Pacific Century's lending in South Korea is focused on trade-related activities and is mostly short-term in nature. Most of the South Korean loans are to financial institutions (e.g., national and regional banks) or to the top five major conglomerates. In the first quarter of 1998, Pacific Century exchanged $83.5 million of short-term loans to Korean banks into government guaranteed loans. These loans mature over three years and bear interest at 2.25% to 2.75% over the six-month London Interbank Offering Rate. During 1998, there were no charge-offs taken on any South Korean loan.

Within Asia, the two most problematic economies for Pacific Century remain Thailand and Indonesia. The financial and liquidity problems in Thailand and Indonesia required the intervention of the IMF. Pacific Century's cross-border credit assets in Thailand and Indonesia at December 31, 1998 were approximately $24 million and

$17 million, respectively, compared to $74 million and $21 million, respectively, at year-end 1997. In the first quarter of 1998, $5.7 million in U.S. dollar denominated Thai finance company loans were exchanged for Thai baht denominated government deposits. Charge-offs relative to Thai exposures in 1998 totaled $22.1 million, while recoveries were $5.2 million. Total Thai non-performing credits at December 31, 1998 were $7.6 million, down from $17.6 million at year-end 1997. With respect to Indonesia, non-performing credits totaled $0.7 million at December 31, 1998. During 1998, $12.6 million in exposures to Indonesian banks were converted to sovereign risk in conjunction with a government sponsored plan to support the local banking system. The converted loans mature over four years. Overall at the end of 1998, the IMF has praised the steps that Thailand has taken to recover from its economic turmoil. Indonesia remains volatile as it attempts to sort through its economic and political problems.

In view of the risks, Pacific Century increased its provision for loan losses in 1998 as more fully discussed in the section on "Credit Risk--Reserve for Loan Losses." Pacific Century continues to monitor its international activities on a country by country basis as events evolve and will take such actions as appropriate. Pacific Century believes that it has prudently managed its exposure in Asia and has dealt with the known situations. However, because of the uncertainties, it is difficult to accurately predict the impact of the turmoil in Asia on the economies of Hawaii and the U.S. Mainland, changes in currencies of Pacific region countries relative to the U.S. dollar, changes in interest rates, and changes in applicable U.S. and foreign regulatory and monetary policy. Moreover, it is not known what, if any, further impact there will be on Pacific Century's Asian exposure resulting from future events.

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

Table 8

	1998 Amount	1998 Percent	1997 Amount	1997 Percent	1996 Amount	1996 Percent
	(in millions of dollars)					
Average Assets..............	$3,426.6	23.0%	$3,005.1	21.1%	$2,752.6	20.7%
Average Liabilities.........	3,348.8	24.4	2,523.3	19.2	2,687.6	22.0
Operating Revenue...........	287.9	21.9	215.9	17.4	192.1	16.8
Net Income (Loss)...........	(0.8)	N.M.	10.2	7.3	8.1	6.1

Geographic Distribution of Cross-Border International Assets/1/

Table 9

	Government and Other Official Institutions	Banks and Other Financial Institutions/2/	Commercial and Industrial Companies	Total
	(in millions of dollars)			
at December 31, 1998				
Japan........................	$ --	$223.7	$131.1	$ 354.8
South Korea..................	85.8	94.4	84.7	264.9
Taiwan.......................	--	41.6	82.3	123.9
All Others/3/	39.9	400.5	188.7	629.1
	$125.7	$760.2	$486.8	$1,372.7
at December 31, 1997				
South Korea..................	$ --	$219.7	$193.5	$ 413.2
Japan........................	--	253.1	136.8	389.9
Taiwan.......................	57.5	39.5	23.8	120.8
All Others...................	48.4	322.9	154.5	525.8
	$105.9	$835.2	$508.6	$1,449.7
at December 31, 1996				
South Korea..................	$ --	$253.0	$122.4	$ 375.4
Japan........................	--	196.0	115.8	311.8
Taiwan.......................	--	108.6	18.2	126.8
Thailand.....................	--	74.2	47.4	121.6
All Others...................	1.0	300.0	69.8	370.8
	$ 1.0	$931.8	$373.6	$1,306.4

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/1/ In this table, 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. Monetary assets include loans, acceptances, and interest-bearing deposits with other banks.

/2/ Includes U.S. dollar advances to foreign branches and affiliate banks which were used to fund local currency transactions. Totals for 1998, 1997 and 1996 were $411.1 million, $419.9 million and $327.9 million, respectively.

/3/ At December 31, 1998, the all others category included cross-border outstandings of $62.2 million in French Polynesia and $50.4 million in New Caledonia. The currency of both of these countries is the Pacific franc.

Corporate Risk Profile

Credit Risk

Non-Performing Assets and Past Due Loans

Non-performing assets (NPAs) consist of non-accrual loans, restructured loans and foreclosed real estate. These assets, which generally have more than a normal risk of loss, totaled $137.5 million at year-end 1998, compared to $97.1 million at the end of 1997, and $83.2 million at the end of 1996. While increasing from the prior year-end, the level of NPAs peaked at the end of the third quarter at $151.5 million, with much of the increase resulting from portfolios in the French territories.

At year-end 1998, the ratio of NPAs to outstanding loans rose to 1.40%. Comparatively the ratio was 1.02% and 0.96% for 1997 and 1996, respectively. Table 10 presents Pacific Century's NPAs and ratio of NPAs to total loans for the last five years.

In order to minimize credit losses, Pacific Century strives to maintain high underwriting standards, identify potential problem loans early and work with borrowers to cure delinquencies. Moreover, charge-offs, if required, are taken promptly and reserve levels are maintained at adequate levels. Pacific Century's policy is to place loans on non-accrual status when a loan is over 90 days delinquent, unless collection is likely based on specific factors such as the type of borrowing agreement and/or collateral. At the time a loan is placed on non-accrual, all accrued but unpaid interest is reversed against current earnings.

Total non-accrual loans rose to $131.9 million at year-end 1998, up 47.7% over year-end 1997. Higher non-accrual balances in the foreign and commercial loan categories accounted for most of this increase. Relative to the end of 1998's third quarter, non-accrual loans reflected a decrease of $8.7 million.

At December 31, 1998, foreign loans on non-accrual were $57.5 million, compared to $39.9 million at December 31, 1997 and $22.3 million at December 31, 1996. The increase relative to 1998 primarily reflects a $26.5 million rise in non-accrual loans in the South Pacific from $22.4 million at year-end 1997 to $48.9 million at year-end 1998. New Caledonia accounts for most of the higher non-accruals in the South Pacific, reporting a year-to-year increase of $24.5 million from $5.0 million at year-end 1997 to $29.5 million at year-end 1998. In French Polynesia non-accrual loans remained relatively flat at $15.4 million at December 31, 1998, compared to $15.5 million at the year earlier date. Included in the non-accrual totals for both New Caledonia and French Polynesia were the effects of the Banque Paribas acquisitions.

In Asia, loans reported as non-accrual at December 31, 1998 were approximately $8.6 million, down from $17.6 million at December 31, 1997. Additional information relative to Asian exposure is contained in the "International Operations" section of this report.

C&I loans classified as non-accrual totaled $28.2 million at year-end 1998, an increase from $10.7 million and $20.9 million at year-end 1997 and 1996, respectively. Contributing to the 1998 increase was the addition of a Hawaii-based loan of $12.3 million for which partial charge-offs were taken in 1998.

At December 31, 1998, non-accrual loans secured by real estate totaled $44.7 million, or 33.9% of total non-accrual loans; with the majority of these loans secured by residential real estate in Hawaii. Non-performing residential mortgages (excluding construction loans) totaled $36.4 million at year-end 1998, compared to $32.9 million at year-end 1997, reflecting a year-over-year increase of $3.5 million. Although residential mortgage non-accruals have increased, charge-offs for this $2.7 billion portfolio have remained low at $2.9 million in 1998 compared to $1.9 million in 1997.

Because residential mortgages are secured by real estate, the credit risk on these loans are lower than for unsecured lending. Most of the Company's residential loans are owner-occupied first mortgages and were generally underwritten to provide a loan-to-value ratio of no more than 80% at origination. Additionally, the risk in this portfolio is also moderated by the smaller average loan balance compared to commercial lending.

Foreclosed real estate declined to $5.6 million at year-end 1998, from $6.2 million at year-end 1997. At December 31, 1998, the foreclosed real estate portfolio consisted of 41 properties, mostly located in Hawaii. The largest property represented 16.9% of the total. In 1998, sales of foreclosed real estate resulted in a net loss of $871,000, compared to a net gain of $523,000 in 1997 and a net loss of $380,000 in 1996.

Accruing loans past due 90 days or more totaled $20.8 million at year-end 1998, a decline of $4.2 million from $25.0 million at year-end 1997. This decline is mainly due to lower delinquencies in the residential real estate loan portfolio and, to a lesser extent, in improvements in the commercial loan portfolio. In the foreign category, accruing loans past due 90 days or more were $7.9 million at year-end 1998, which were all related to loans in the South Pacific. Table 10 presents a five-year history of accruing loans that were past due 90 days or more.

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

Table 10

	1998	1997	1996	1995	1994
	(in millions of dollars)				
Non-Accrual Loans					
Commercial and Industrial	$ 28.2	$ 10.7	$ 20.9	$16.9	$20.3
Real Estate					
Construction	2.9	1.0	0.3	0.3	1.5
Commercial	5.4	2.8	4.1	14.9	14.1
Residential	36.4	32.9	23.6	14.7	15.1
Installment	0.8	2.0	1.3	0.8	0.5
Foreign	57.5	39.9	22.3	--	0.3
Leases	0.7	--	--	--	0.8
Subtotal	131.9	89.3	72.5	47.6	52.6
Restructured Loans					
Real Estate--Commercial	--	1.6	--	--	--
Subtotal	--	1.6	--	--	--
Foreclosed Real Estate					
Domestic	5.5	6.2	10.7	9.3	0.6
Foreign	0.1	--	--	--	--
Subtotal	5.6	6.2	10.7	9.3	0.6
Total Non-Performing Assets	$137.5	$ 97.1	$ 83.2	$56.9	$53.2

Accruing Loans Past Due 90 Days or More					
Commercial and Industrial	0.4	2.0	2.0	1.8	1.1
Real Estate					
Construction	0.4	--	0.4	--	--
Commercial	--	0.6	6.8	2.4	0.7
Residential	4.5	7.3	6.8	5.8	3.9
Installment	7.3	7.6	9.0	10.5	5.9
Foreign	7.9	7.4	9.5	--	--
Leases	0.3	0.1	0.2	0.2	--
Subtotal	20.8	25.0	34.7	20.7	11.6
Total	$158.3	$122.1	$117.9	$77.6	$64.8
Ratio of Non-Performing Assets to Total Loans	1.40%	1.02%	0.96%	0.70%	0.67%
Ratio of Non-Performing Assets and Accruing Loans Past Due 90 Days or More to Total Loans	1.61%	1.29%	1.36%	0.95%	0.82%

Foregone Interest on Non-Accruals

Table 11

	Years Ended December 31				
	1998	1997	1996	1995	1994
	(in millions of dollars)				
Interest Income Which Would Have Been Recorded Under Original Terms:					
Domestic	$8.4	$6.6	$6.3	$7.6	$5.4
Foreign	4.1	2.4	2.3	--	0.1
Interest Income Recorded During the Current Year on Non-Accruals:					
Domestic	1.3	1.5	1.6	0.6	1.0
Foreign	1.4	0.5	0.6	--	0.1

Reserve for Loan Losses

Pacific Century maintains the reserve for loan losses at a level that it believes is adequate to absorb estimated future losses on all loans. The reserve level is determined based on a continuing assessment of problem credits, recent loss experience, changes in collateral values, and current and anticipated economic conditions. Pacific Century's credit administration procedures emphasizes the early recognition and monitoring of problem loans in order to control delinquencies and minimize losses. For loans other than consumer loans, a line driven risk rating system is used. Loans are graded based on the degree of risk at origination by the lending officer and thereafter, are reviewed periodically as appropriate. An independent evaluation of this process is performed by the Credit Review department to ensure compliance of the risk grades and timeliness of grade changes.

Pacific Century performs a comprehensive quarterly analysis to determine the adequacy of its reserve for loan losses. In 1998, this analysis was enhanced to incorporate risk migration modeling and country risk. Pacific Century utilizes a methodology that establishes both specific and general reserves.

Commercial loans and leases are individually reviewed according to specified criteria to determine specific loss exposure. Loans for which a specific reserve allocation is not established are placed in loan pools for purposes of determining the general reserve allocation.

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

The reserve for loan losses ended 1998 at $211.3 million, an increase of $36.9 million over the prior year level of $174.4 million. This increase reflects $13.6 million in reserves acquired from the Banque Paribas acquisitions and a build up of reserves to cover the increase in NPAs. Net charge-offs in 1998 were $65.7 million or 0.70% of average loans, compared to $30.2 million, or 0.34% of average loans in 1997 and $13.0 million, or 0.16% of average loans in 1996. The ratio of reserves to loans outstanding at year-end 1998 was 2.19%, compared with 1.88% at year-end 1997 and 1.97% at year-end 1996. A summary of the activity in the reserve for loan losses for the last five years is presented in Table 12.

At year-end 1998, the reserve for loan losses provided coverage of 154% of non-performing loans, compared to 180% coverage at year-end 1997 and 202% at year-end 1996. Additionally, the ratio of year-end reserves to gross charge-offs was 2.6 times, 3.2 times, and 3.8 times in 1998, 1997, and 1996, respectively.

Gross charge-offs in 1998 totaled $82.0 million, representing 0.87% of average loans outstanding. Comparatively, the ratio was 0.62% and 0.53% in 1997 and 1996, respectively. The increase in gross charge-offs in 1998 is attributed to a rise in the foreign category to $34.8 million from $10.6 million in 1997. Of this amount, $22.1 million and $12.7 million relate to charge-offs recognized on Asian and South Pacific loans, respectively.

Gross charge-offs as a percentage of the reserve for loan losses were 38.8%, 31.6% and 26.3% in 1998, 1997 and 1996, respectively.

Excluding foreign loans, gross charge-offs in 1998 were mostly concentrated in the installment and commercial loan categories. Gross charge-offs on installment loans decreased $2.3 million in 1998 to $25.8 million. Charge-offs on commercial loans rose to $15.3 million in 1998 from $12.7 million in 1997, including partial charge-offs of $8.5 million relative to one Hawaii-based commercial loan.

In 1998, recoveries of previously charged-off loans declined $8.6 million to $16.3 million. Recoveries were $24.9 million in 1997 and $31.1 million in 1996. Foreign loan recoveries in 1998 were $5.6 million and primarily related to Thai credits. Installment loan recoveries remained relatively flat in 1998 at $6.4 million. The high level of recoveries in 1997 and 1996 include $11.7 million and $19.3 million, respectively, relating to one C&I credit that was charged-off in 1992 and 1993.

Table 13 presents an allocation of the loan loss reserve for the last five years. At year-end 1998, the reserve allocation for foreign loans increased to $86.6 million representing 4.76% of total outstanding foreign loans, compared to $31.0 million and 1.93%, respectively, at December 31, 1997. This increase reflects the reserves acquired in the Banque Paribas acquisitions, a higher level of foreign non-performing assets and reserves created to recognize the economic volatility in Asia. For year-end 1998, the allocation of loan loss reserves to construction, commercial and residential mortgages was reduced under Pacific Century's new methodology due to the low historical loss experience in these portfolios.

Reserve for Loan Losses

Table 12

	1998	1997	1996	1995	1994
	(in millions of dollars)				
Average Amount of Loans Outstanding	$9,422.3	$8,929.7	$8,353.6	$7,654.9	$7,393.7
Balance of Reserve for Loan Losses at Beginning of Period	$ 174.4	$ 167.8	$ 152.0	$ 148.5	$ 125.3
Loans Charged-Off					
Commercial and Industrial	15.3	12.7	8.7	7.8	11.3
Real Estate					
Construction	--	--	--	2.1	0.1
Mortgage--Commercial	2.5	1.3	3.3	2.3	3.5
--Residential	2.9	1.9	1.9	1.1	0.7
Installment	25.8	28.1	28.9	13.3	8.7
Foreign	34.8	10.6	0.9	0.9	0.7
Leases	0.7	0.5	0.4	0.4	0.4
Total Charged-Off	82.0	55.1	44.1	27.9	25.4
Recoveries on Loans Previously Charged-Off					
Commercial and Industrial	2.8	16.4	21.8	6.1	19.5
Real Estate					
Construction	0.1	--	0.7	--	0.2
Mortgage--Commercial	1.2	0.6	1.1	1.4	0.9
--Residential	0.2	1.0	0.4	0.1	0.2
Installment	6.4	6.3	4.7	3.3	3.2
Foreign	5.6	0.6	1.8	1.9	--
Leases	--	--	0.6	1.0	0.8
Total Recoveries	16.3	24.9	31.1	13.8	24.8
Net Loans Charged-Off	(65.7)	(30.2)	(13.0)	(14.1)	(0.6)
Provisions Charged to Operating Expenses	84.0	30.3	22.2	17.0	21.9
Other Net Additions/1/	18.6	6.5	6.6	0.6	1.9
Balance at End of Period	$ 211.3	$ 174.4	$ 167.8	$ 152.0	$ 148.5
Ratio of Net Charge-Offs to Average Loans Outstanding	0.70%	0.34%	0.16%	0.18%	--
Ratio of Reserve to Loans Outstanding	2.19%	1.88%	1.97%	1.90%	1.92%

The details of the foreign reserve for loan losses, which are included in the table above, are:

Beginning Balance	$ 31.0	$ 28.4	$ 15.1	$ 12.9	$ 10.5
Charge-Offs	34.8	10.6	0.9	0.9	0.7
Recoveries	5.6	0.6	1.8	1.9	--

Net Loans Charged-Off......	(29.2)	(10.0)	0.9	1.0	(0.7)
Provisions Charged to Operating Expenses........	54.2	17.6	5.8	0.6	1.2
Other Net Additions/1/	18.7	(5.0)	6.6	0.6	1.9
Ending Balance..............	$ 74.7	$ 31.0	$ 28.4	$ 15.1	$ 12.9

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/1/Includes balance transfers, reserves acquired, and foreign currency translation adjustments.

Allocation of Loan Loss Reserve

Table 13

	1998		1997		1996		1995		1994	
	Reserve Amount	Percent of Out-standing Loan Amount	Reserve Amount	Percent of Out-standing Loan Amount	Reserve Amount	Percent of Out-standing Loan Amount	Reserve Amount	Percent of Out-standing Loan Amount	Reserve Amount	Percent of Out-standing Loan Amount
	(in millions of dollars)									
Commercial and Industrial............	$ 60.8	2.36%	$ 57.5	2.73%	$ 60.0	3.32%	$ 61.9	3.25%	$ 59.5	3.25%
Real Estate										
Construction...........	1.0	0.33	4.2	1.50	4.5	1.91	4.2	2.00	2.6	2.00
Commercial.............	3.3	0.29	21.8	1.61	18.5	1.51	19.6	1.50	18.6	1.50
Residential............	8.1	0.30	13.8	0.50	20.0	0.76	20.5	0.75	21.6	0.75
Installment.............	27.1	3.55	34.9	3.91	26.0	3.06	20.4	2.50	18.5	2.50
Foreign.................	86.6/1/	4.76	31.0	1.93	28.4	1.89	15.1	1.90	12.9	1.85
Leases..................	5.9	1.06	2.6	0.50	2.0	0.46	2.0	0.50	1.9	0.50
Not allocated...........	18.5	--	8.6	--	8.4	--	8.3	--	12.9	--
	$211.3	2.19%	$174.4	1.88%	$167.8	1.97%	$152.0	1.90%	$148.5	1.92%

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/1/ Includes a general loan loss reserve allocation for country risk.

Market Risk

At Pacific Century, assets and liabilities are managed to maximize long term risk adjusted returns to shareholders. Pacific Century's asset and liability management process involves measuring, monitoring, controlling and managing financial risks that can significantly impact the Company's financial position and operating results. Financial risks in the form of interest rate sensitivity, foreign currency exchange fluctuations, liquidity, and capital adequacy are balanced with expected returns to maximize earnings performance and shareholder value, while limiting the volatility of each. The activities associated with these financial risks are categorized into "other than trading" or "trading."

Other Than Trading Activities

In the normal course of business, elements of Pacific Century's balance sheet are exposed to varying degrees of market risk. Market risk arises from movements in interest rates and foreign currency exchange rates. A key element in the process of managing market risk involves oversight by the Board of Directors and senior management as to the level of such risk assumed by Pacific Century in its balance sheet. The Board reviews and approves risk management policies, including risk limits and guidelines and delegates to the Asset Liability Management Committee (ALCO) oversight functions. The ALCO, consisting of the Managing Committee and senior business and finance officers, monitors Pacific Century's market risk exposure and as market conditions dictate, modifies balance sheet positions or directs the use of derivative instruments.

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

A key element in the Company's ongoing process to measure and monitor interest rate risk is the utilization of a net interest income (NII) simulation model. This model is used to estimate the amount that NII will change over a one-year time horizon under various interest rate scenarios. These estimates are based on numerous assumptions that include loan and deposit volumes and pricing, prepayment speeds on mortgage-related assets,

and principal amortization and maturities on other financial instruments. While such assumptions are inherently uncertain, management believes that these assumptions are reasonable. As a result, the NII simulation model provides a sophisticated estimate rather than a precise prediction of NII's exposure to higher or lower interest rates.

Table 14 presents as of December 31, 1998 and 1997, the estimate of the change in NII from a gradual 200 basis point increase or decrease in interest rates, moving in parallel fashion over the entire yield curve, over the next 12-month period relative to what the NII would have been if interest rates did not change. The resulting estimate in NII exposure is well within the approved ALCO guidelines and presents a balance sheet exposure that is slightly liability sensitive. A liability sensitive exposure would imply a favorable short-term impact on NII in periods of declining interest rates.

Market Risk Exposure to Interest Rate Changes

Table 14

	December 31, 1998		December 31, 1997	
	Interest Rate Change (in basis points)		Interest Rate Change (in basis points)	
	-200	+200	-200	+200
Estimated Exposure as a Percent of Net Interest Income..........	1.9%	(2.1)%	2.3%	(2.0)%

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

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

Statements, has been limited over the past several years. During this period, Pacific Century has relied more on the use of on-balance sheet alternatives to manage its interest rate risk position.

Foreign Currency Risk. Pacific Century's broad area of operations throughout the South Pacific and Asia has the potential to expose the Company to foreign currency risk. In general, however, most foreign currency denominated assets are funded by like currency liabilities, with imbalances corrected through the use of various hedge instruments as disclosed in Note O to the Consolidated Financial Statements. By policy, the net exposure in those balance sheet activities described above is insignificant.

On the other hand, Pacific Century is exposed to foreign currency exchange rate changes from the capital invested in its foreign subsidiaries and branches located throughout the South Pacific and Asian Rim. These investments are designed to diversify the Company's total balance sheet exposure. While a portion of the capital investment in French Polynesia and New Caledonia is offset by a borrowing denominated in French Francs or foreign exchange currency hedge transactions, the remainder of these capital positions, aggregating $93.0 million, are not hedged.

Pacific Century uses a value-at-risk (VAR) calculation to measure the potential loss from foreign currency exposure. Pacific Century's VAR is calculated at a 95% confidence interval and assumes a normal distribution. Pacific Century utilizes the variance/covariance approach to estimate the probability of future changes in foreign exchange rates. Under this approach, equally weighted daily closing prices are used to determine the daily volatility for the last 10, 30, 50, and 100 days. Pacific Century uses the highest daily volatility of the four trading periods in its VAR calculation.

To estimate the potential loss in its net investment in foreign subsidiaries and branches, Pacific Century takes the daily volatility and annualizes it by multiplying by the number of trading days in a year. Therefore, the VAR determines the potential one-year loss within a 95% confidence interval of the net investment in subsidiaries. In other words, a loss greater than VAR has approximately a 5% probability of occurring.

Table 15 presents as of December 31, 1998 and 1997 Pacific Century's foreign currency exposure from its net investment in subsidiaries and branch operations that are denominated in a foreign currency as measured by the VAR.

Market Risk Exposure From Changes in Foreign Exchange Rates

Table 15

	1998		1997	
	Book Value	Value-at-Risk /1/	Book Value	Value-at-Risk
	(in millions of dollars)			
Net Investments in Foreign Subsidiaries and Branches				
Japanese Yen	$ 9.6	$ 2.7	$11.0	$ 1.9
Korean Won	44.2	7.9	29.5	23.0
Pacific Franc/2/	22.8	3.6	24.3	3.7
Other Currencies	16.4	15.3	29.5	8.9
Total	$93.0	$29.5	$94.3	$37.5

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/1/ The average value-at-risk for the Japanese yen, Korean won, Pacific franc, and other currencies was $2.6 million, $13.2 million, $4.1 million, and $14.0 million, respectively, for the year ended December 31, 1998.
/2/ Net of a $46 million and $43 million borrowing at December 31, 1998 and 1997, respectively, denominated in French francs and foreign exchange hedge transactions of $26 million at December 31, 1998.

Trading Activities

Pacific Century's trading activities include foreign currency and foreign exchange contracts that expose Pacific Century to a minor degree of foreign currency risk. These transactions are executed on behalf of customers and for the Company's own account. Pacific Century, however, manages its trading account such that it does not maintain significant foreign currency open positions. To measure the exposure of these open positions, the Company uses the VAR methodology described above. The VAR measurement for trading activities as of year-end 1998 continues to be immaterial.

Liquidity Management

Liquidity is managed to ensure that Pacific Century has continuous access to sufficient, reasonably priced funding to conduct its business in a normal manner. The Company's ALCO monitors sources and uses of funds and modifies asset and liability positions as liquidity requirements change. This process combined with Pacific Century's ability to raise funds in money and capital markets and through private placements provides flexibility in managing the exposure to liquidity risk.

To ensure that its liquidity needs are met, Pacific Century actively manages both the asset and liability sides of the balance sheet. The primary sources of liquidity on the asset side of the balance sheet are available for sale investment securities, interest bearing deposits, and cash flows from loans and investments, as well as the ability to securitize certain assets. With respect to liabilities, liquidity is generated through growth in deposits and the ability to obtain wholesale funding in national and local markets through a variety of sources.

Pacific Century obtains short-term wholesale funding through federal funds purchased, repos, and commercial paper. Pacific Century issues commercial paper in various denominations with maturities of generally 90 days or less. During 1998, Pacific Century issued commercial paper only in the Hawaii marketplace. To further enhance liquidity, Pacific Century also maintains access to the mainland wholesale commercial paper market through a pre-selected issuing agent.

Repos are financing transactions, whereby securities are pledged as collateral for short-term borrowings. Nearly all of Pacific Century's repos consist of transactions with governmental entities. Pacific Century's balance sheet is unique given the high level of state and local government funding. Historically, these governmental entities have provided a stable source of funds.

Pacific Century maintained a $35 million, annually renewable line of credit for working capital purposes. Fees are paid on the unused balance of the line. During 1998, the line was not drawn upon.

Bank of Hawaii and First Savings are both members of the Federal Home Loan Bank of Seattle. The FHLB provides these institutions with an additional source for short and long-term funding.

Additionally, Bank of Hawaii maintains a $1 billion senior and subordinated bank note program. Under this facility, Bank of Hawaii may issue additional notes provided that at any time the aggregate amount outstanding does not exceed $1 billion. At December 31, 1998, there were no balances outstanding under this program.

Capital Management

Pacific Century manages its capital level to optimize shareholder value, support asset growth, reflect risks inherent in its markets, provide protection against unforeseen losses and comply with regulatory requirements. Capital levels are reviewed periodically relative to Pacific Century's risk profile and current and projected economic conditions. Pacific Century's objective is to hold sufficient capital on a regulatory basis to exceed the minimum guidelines of a well capitalized institution.

At year-end 1998, Pacific Century's shareholders' equity grew to $1.2 billion, an increase of 6.1% over year-end 1997. The source of growth in shareholders' equity in 1998 included retention of earnings, issuance of common stock under the dividend reinvestment plan and various stock-based employee benefit plans, and unrealized valuation adjustments. Offsetting these increases were cash dividends paid of $52.8 million and treasury stock purchases of $7.3 million.

Pacific Century's regulatory capital ratios at year-end 1998 were: Tier 1 Capital Ratio of 9.42%, Total Capital Ratio of 11.47%, and Leverage Ratio of 7.48%. All three capital ratios exceeded the minimum threshold levels that were established by federal bank regulators to qualify an institution as well capitalized. The minimum regulatory standards to qualify as well capitalized are as follows: Tier 1 Capital 6%; Total Capital 10%; and the Leverage Ratio 5%. These standards are minimum regulatory guidelines and Pacific Century manages its capital base in accordance with the attributes noted at the beginning of this section. Table 16 presents a five-year history of activities and balances in Pacific Century's capital accounts along with key capital ratios.

In December 1996, Pacific Century completed a $100 million 8.25% Capital Securities offering that was issued through Bancorp Hawaii Capital Trust I, a newly organized grantor trust. The capital securities mature in 30 years and bear cumulative dividends at 8.25% payable semi-annually. Proceeds from this issue were used for general corporate purposes. These capital securities qualify as Tier I Capital for regulatory accounting purposes, but are classified as long-term debt in the statement of condition.

In order to maintain its capital position at a desired level, Pacific Century has repurchased shares, over the past few years, under various stock repurchase programs. Under these programs, approximately 0.4 million shares in 1998, 2.9 million shares in 1997 and 1.8 million shares in 1996 were repurchased. Share repurchase activities were suspended in January 1998 and were partially reinitiated in September 1998 to offset shares issued in conjunction with employee stock-based benefit and dividend reinvestment plans.

Equity Capital

Table 16

	1998	1997	1996	1995	1994
	(in millions of dollars)				
Source of Common Equity					
Net Income................	$ 107.0	$ 139.5	$ 133.1	$ 121.8	$ 117.7
Dividends Paid...........	(52.8)	(49.7)	(47.4)	(45.2)	(44.0)
Dividend Reinvestment Program..................	5.4	6.8	6.8	7.1	7.4
Stock Issued for					

Acquisition	--	108.4	--	--	--
Stock Repurchases	(7.3)	(142.5)	(70.4)	(40.0)	(44.3)
Other/1/	16.1	(11.4)	(10.4)	43.9	(8.1)
Annual Increase in Equity	$ 68.4	$ 51.1	$ 11.7	$ 87.6	$ 28.7
Year-End Common Equity	1,185.6	1,117.2	1,066.1	1,054.4	966.8
Add: 8.25% Capital Securities of Bancorp Hawaii Capital Trust I	100.0	100.0	100.0	--	--
Minority Interest	7.4	5.8	9.3	--	--
Less: Intangibles	186.2	180.9	68.9	60.2	64.6
Unrealized Valuation and Other Adjustments	3.6	5.5	2.2	11.3	(17.3)
Tier I Capital	1,103.2	1,036.6	1,104.3	982.9	919.5
Allowable Loan Loss Reserve	147.2	139.2	131.1	120.2	111.1
Subordinated Debt	95.0	118.7	118.7	118.7	118.6
Investment in Unconsolidated Subsidiary	(2.5)	(1.9)	--	--	--
Total Capital	$ 1,342.9	$ 1,292.6	$ 1,354.1	$1,221.8	$1,149.2
Risk Weighted Assets	$11,708.5	$11,098.6	$10,452.1	$9,587.0	$8,848.6
Key Ratios					
Growth in Common Equity	6.1%	4.8%	1.1%	9.1%	3.1%
Average Equity/Average Assets Ratio	7.81%	7.79%	8.05%	8.28%	7.71%
Tier I Capital Ratio	9.42%	9.34%	10.57%	10.25%	10.39%
Total Capital Ratio	11.47%	11.65%	12.96%	12.74%	12.99%
Leverage Ratio	7.48%	7.21%	7.98%	7.82%	7.28%

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

Year 2000

A significant issue facing all banks nationwide is the transition to the new millennium. Year 2000 concerns arise primarily from past date-coding practices in both software and hardware that used two-digits rather than four-digits to represent years. If not corrected, systems that use the two-digit format will be unable to correctly distinguish dates after December 31, 1999. This problem could cause these systems to fail or produce inaccurate information.

State of Readiness

The resolution of Year 2000 issues is a top priority at Pacific Century. As a diversified financial services organization, Pacific Century depends on a variety of systems to operate its businesses in Hawaii, the U.S. Mainland and the Asia-Pacific region. Recognizing the significant risks associated with the Year 2000 problem,

Pacific Century established "Project 2000" in 1996 as a corporate-wide Year 2000 initiative. Through Project 2000, Pacific Century centrally manages, coordinates and tracks all Year 2000 compliance activities for its subsidiaries. Pacific Century believes that its level of preparedness is appropriate to address Year 2000 issues in a timely manner and has developed a project plan that is designed to renovate both critical information technology and non-information technology assets in a timely manner. Pacific Century's Year 2000 program management is structured around an Executive Technology Council (the ETC) and Program Management Office (the PMO). The ETC, which is comprised of executive officers of Pacific Century and its subsidiaries, maintains a corporation-wide focus on Year 2000 compliance efforts. Year 2000 compliance activities are coordinated by the PMO across all lines of business and geographic regions to ensure consistency in project management elements throughout the enterprise. Incorporated in Pacific Century's Year 2000 project plan are the following five phases:

Awareness. This phase consisted of securing executive level support needed to achieve Year 2000 compliance. In addition, this phase required the establishment of a Year 2000 program team and the development of an overall strategy that encompassed internal systems, service providers for systems that are outsourced, vendors, customers, counterparties and suppliers. Pacific Century has completed the awareness phase.

Assessment. This phase consisted of identifying the software, hardware, networks, processing platforms, non-technology assets and customers and vendors that are affected by the Year 2000 date change. In addition, this phase also addressed the size and complexity of the Year 2000 issues, as well as, identified and developed the resources necessary to perform compliance work. Pacific Century has completed the assessment phase.

Renovation. The renovation phase included work required to bring products and services into Year 2000 compliance (i.e., code enhancements, hardware, and software replacements, and vendor certification). Detailed analyses were performed to determine the impact of the required changes on related applications and hardware. Work was prioritized based on information gathered during the assessment phase. The determining factor in the decision to repair, replace, or risk-accept an asset was based on the criticality of an asset to the operation of a business unit. For Pacific Century, 99% of the mission critical systems have been renovated as of December 31, 1998.

Validation Testing. This phase consists of testing information technology and non-information technology assets. During the initial phase of testing, the functionality of the Year 2000 modified system is tested to demonstrate that changes made to data processing do not disrupt the daily processing of the system. Next, the Year 2000 modified application is tested together with related applications to ensure that it can be safely integrated into production without negatively impacting related applications. Before the modified application is placed into production, it is reviewed, tested and approved by end-users in the business units. As of December 31, 1998, Pacific Century has completed approximately 90% of the validation testing of its critical systems.

In addition, the validation phase also addresses external testing with third party and service-provider systems for Year 2000 compliance. The bulk of third-party interface testing will be conducted during the first quarter of 1999.

Implementation. In the implementation phase systems which have been tested as Year 2000 compliant are migrated into production. As each renovated system passes the final quality-assurance review, it is placed into production. As of December 31, 1998, the implementation phase has been completed for approximately 70% of Pacific Century's critical systems. Pacific Century expects to have all of its critical systems fully implemented into production by the end of June 1999.

Pacific Century understands that successfully addressing the Year 2000 issue extends well beyond the remediation of internal systems. Pacific Century has a detailed and extensive process to ascertain and monitor the Year 2000 readiness of its vendors and service providers. Additionally, Pacific Century has embarked on a Year 2000 risk assessment program to determine the Year 2000 readiness of all material customers, counterparties and business partners.

Estimated Year 2000 Costs

Pacific Century estimates that costs directly related to Project 2000 issues will approximate $41 million, including $30 million in estimated incremental cost. Costs associated with Project 2000 primarily include estimates for technology and program management staff, staff retention, consultant fees, and software and hardware costs, as well as, costs for customer education and public relations. Through December 31, 1998, cumulative costs for Project 2000 totaled approximately $25.4 million of which approximately $22.2 million were incurred in 1998. As Project 2000 progresses, the cost estimate could change depending on a number of factors, including the failure of third party vendors to address Year 2000 issues in a timely manner. Year 2000 compliance costs are expected to be funded from operating cash flow.

Contingency Plans and Risks

While Pacific Century believes its Year 2000 project plan is designed to be successful in resolving Year 2000 issues it is possible, that not all potential problems will be satisfactorily addressed in a timely manner. To mitigate this possibility, Pacific Century has developed remediation contingency plans and is developing business continuity contingency plans.

Remediation contingency plans are intended to mitigate risks associated with potential delays in completing the renovation, validation or implementation phases for Pacific Century's critical systems. These plans include specific trigger dates to activate actions that are designed to minimize potential material disruptions. As of December 31, 1998, Pacific Century has developed remediation contingency plans for all critical systems.

Business continuity plans address the actions that would be taken if critical functions could not be carried out in their normal manner on January 1, 2000 and the period thereafter, as a result of Year 2000 related information system, embedded system, or external party failure. The process for developing these plans calls for identifying specific failure scenarios and determining their significance, developing alternative solutions to mitigate business disruptions, and testing the effectiveness of the plan. Pacific Century expects to complete its business continuity contingency plans by June 30, 1999.

Pacific Century expects to successfully complete its Year 2000 program in a timely and effective manner. As of December 31, 1998, Pacific Century was in compliance with all Federal Financial Institution Examination Council guidelines relating to Year 2000. However, because of the extensiveness, complexity, and uniqueness of the Year 2000 problem, there can be no assurance that Pacific Century will be completely successful in its efforts to address Year 2000 issues. For example, there can be no assurance that all systems external to Pacific Century will be Year 2000 ready by January 1, 2000, or by some earlier date, in order not to create a material disruption to Pacific Century's business. Pacific Century is also subject to credit risk to the extent borrowers fail to adequately address Year 2000 issues. If, despite diligent, prudent efforts under its Year 2000 plan, there are Year 2000-related failures that create substantial disruptions to Pacific Century's business, the adverse effect of such failures could have a material impact on Pacific Century's results of operations and financial condition. However, no significant adverse events have been currently identified. Moreover, the estimated costs, referred to above, of implementing the Plan do not take into account the costs, if any, that might be incurred as a result of Year 2000-related failures that could occur despite implementation of the Plan.

Forward-looking statements contained in the above Year 2000 disclosure should be read in conjunction with the cautionary statements included in the introductory section of this report under "Overview--Forward-Looking Statements."

European Economic and Monetary Union

On January 1, 1999, eleven members of the European Union introduced a new common currency called the "euro." The full implementation to the euro will occur over a transition period. Initially, the participating countries will turn over their monetary policies (exchange and rate setting) to a new European Central Bank.

Additionally, the sovereign debt of participating countries will be exclusively issued in euro, and outstanding sovereign debt will be redenominated.

Between 1999 and 2002 the currencies of the participating countries will remain legal tender as denominations of the euro. Beginning January 1, 2002, euro denominated bills and coins will be issued for use in cash transactions. By July 1, 2002 all legacy currencies will cease to be legal tender.

Included in the conversion to the euro is the French franc. Prior to January 1, 1999, the Pacific franc, the currency of French Polynesia and New Caledonia, was pegged to the French franc. The Pacific franc will not convert to the euro. Instead, the French government has pegged the Pacific franc to the euro in the same equivalent relationship as the former fixed translation with the French franc. The conversion to the euro currency is not expected to have a significant impact on the operations or financial results of Pacific Century.

Pacific Century has performed an internal analysis for the euro conversion. Currently, operational systems and procedures are euro compliant, which enable Pacific Century to perform euro related transactions. Costs associated with the euro conversion were not significant.

Fourth Quarter Results and Other Matters

Earnings in 1998's fourth quarter were $35.0 million, an increase of 5.6% over the $33.1 million reported in the fourth quarter of 1997. Compared to 1998's third quarter, earnings were up 0.5%. Basic earnings per share were $0.44 and $0.41 in the fourth quarter of 1998 and 1997, respectively. Diluted earnings per share were $0.43 and $0.41 in the same respective periods.

Net interest income on a tax equivalent basis totaled $143.7 million in the fourth quarter of 1998, up 4.1% from the same period in 1997 and down 0.6% from 1998's third quarter. The average net interest margin in 1998's fourth quarter was 4.15%, compared to 4.09% in the fourth quarter of 1997. The improvement in margin was driven by acquisitions and the continued efforts to position the balance sheet towards higher yielding assets. The average earning asset yield decreased to 7.78% from 8.09% comparing the fourth quarters of 1998 and 1997, respectively, while the average cost of funds rate decreased to 4.48% from 4.74% between the same periods.

Non-interest income in the final quarter of 1998 increased to $55.4 million from $53.7 million in 1997's comparable period. Trust income rose 10.4% during the fourth quarter relative to last year's fourth quarter, while service charges on deposit accounts were up 13.7% and fees, exchange, and other service charges grew 13.0%. Other operating income in the fourth quarter of 1998 decreased $3.5 million, or 25.3% from the fourth quarter of 1997 and is explained by a gain of $4.4 million in 1997 relating to a leveraged lease termination.

Non-interest expense totaled $131.1 million in 1998's fourth quarter, up 1.7% from the same year ago period. Salaries and employee benefits in the current quarter increased $2.5 million, or 4.1% relative to 1997's final quarter. Net occupancy expense declined 16.3% during the fourth quarter reflecting the closure of 27 branches in Hawaii pursuant to the redesign plan. In the fourth quarter of 1998, net equipment expense rose 31.9%. Contributing to this increase were Year 2000 and other technology related costs. Other operating expense declined slightly by 1.0% from 1997's fourth quarter.

The provision for loan losses totaled $13.0 million in the fourth quarter of 1998, compared to $9.8 million in the same quarter in 1997. The effective tax rate in the fourth quarter was 36.2%, compared to 37.3% in the like period last year.

Gross charge-offs decreased to $19.0 million during 1998's fourth quarter from $22.3 million in the comparable quarter last year. Foreign loan charge-offs were $8.0 million in 1998's fourth quarter, compared to $10.6 million in the same year earlier period and primarily reflect charge-offs in the South Pacific. Recoveries were $7.4 million in the last quarter of 1998, of which $5.1 million related to the foreign category.

Consolidated Quarterly Results of Operations

Table 17

	Three Months Ended							
	1998				1997			
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
	(in millions of dollars except per share amounts)							
Total Interest Income	$273.0	$282.1	$275.5	$269.2	$250.1	$255.5	$271.5	$272.6
Total Interest Expense	131.3	135.2	131.0	125.7	125.1	130.6	135.9	134.7
Net Interest Income	141.7	146.9	144.5	143.5	125.0	124.9	135.6	137.9
Provision for Loan Losses	18.3	42.0	10.7	13.0	5.1	7.3	8.2	9.8
Investment Securities Gains (Losses)	3.4	--	(0.5)	1.2	0.5	1.5	0.3	0.8
Non-Interest Income	49.5	49.8	54.1	54.2	41.2	44.8	45.9	52.9
Non-Interest Expense	121.7	151.7	136.2	131.1	106.0	108.9	119.0	129.0
Income Before Income Taxes	54.6	3.0	51.2	54.8	55.6	55.0	54.6	52.8
Provision for Income Taxes	20.6	(0.1)	16.4	19.8	20.1	19.4	19.3	19.7
Net Income	$ 34.0	$ 3.1	$ 34.8	$ 35.0	$ 35.5	$ 35.6	$ 35.3	$ 33.1
Basic Earnings Per Share	$ 0.43	$ 0.04	$ 0.43	$ 0.44	$ 0.45	$ 0.45	$ 0.44	$ 0.41
Diluted Earnings Per Share	$ 0.42	$ 0.04	$ 0.43	$ 0.43	$ 0.44	$ 0.44	$ 0.43	$ 0.41

Supplementary Data

Maturity Distribution, Market Value and Weighted-Average Yield to Maturity of Securities

Table 18

At Year-End December 31	Within 1 Year	1-5 Years	5-10 Years	Over 10 Years	Total	Approximate Market Value

(in millions of dollars)

Maturity Distribution Based on Amortized Cost						
U.S. Treasury Securities	$ --	$ 26.2	$ --	$ --	$ 26.2	$ 26.2
U.S. Government Agencies	39.5	12.1	--	--	51.6	51.7
Obligations of States and Political Subdivisions	3.4	8.4	0.2	--	12.0	13.0
Corporate Equity Securities	--	--	--	70.3	70.3	70.3
Mortgage-Backed Securities/1/	14.8	35.1	12.2	344.1	406.2	420.0
Other	77.4	8.5	0.6	--	86.5	86.9
Available for Sale Securities/1/	104.2	94.4	157.6	2,657.6	3,013.8	3,018.4
Total--1998	$239.3	$ 184.7	$170.6	$3,072.0	$3,666.6	$3,686.5
--1997	$668.6	$ 977.7	$105.0	$2,046.5	$3,797.8	$3,809.9
--1996	$310.1	$1,382.0	$ 94.6	$1,774.9	$3,561.6	$3,567.7
Weighted-Average Yield/2/ to Maturity						
U.S. Treasury Securities	-- %	4.7%	-- %	-- %	4.7%	
U.S. Government Agencies	5.8	7.0	--	--	6.1	
Obligations of States and Political Subdivisions	12.6	10.9	6.7	--	11.3	
Corporate Equity Securities	--	--	--	--	--	
Mortgage-Backed Securities	5.6	6.3	8.3	7.1	7.0	
Other	11.0	6.6	3.0	--	10.5	
Available for Sale Securities/3/	5.5	6.1	6.5	7.1	7.0	
Total--1998	7.5%	6.3%	6.7%	6.9%	6.9%	
Tax Equivalent Adjustment Amount	$ 0.1	$ 0.3	$ 0.1	$ 0.1	$ 0.6	

/1/ Contractual maturities do not anticipate reductions for periodic paydowns.
/2/ Tax equivalent at 35% tax rate.
/3/ The weighted-average yields on available for sale securities are based on amortized cost.

Average Assets

Table 19

	1998 Amount	1998 Mix	1997 Amount	1997 Mix	1996 Amount	1995 Amount	1994 Amount
	(in millions of dollars)						
Interest-Bearing Deposits	$ 508.8	3.4%	$ 486.3	3.4%	$ 579.9	$ 645.7	$ 812.6

Investment Securities							
--Held to Maturity....	902.4	6.1	1,232.9	8.7	1,091.1	1,532.4	2,482.1
--Available for Sale..	2,769.3	18.6	2,452.0	17.2	2,288.7	1,639.0	1,063.9
Funds Sold.............	69.7	0.4	76.4	0.5	92.1	68.5	52.5
Loans..................	9,422.3	63.4	8,929.7	62.7	8,353.6	7,654.9	7,393.7
Total Earning Assets.............	13,672.5	91.9	13,177.3	92.5	12,405.4	11,540.5	11,804.8
Non-Earning Assets......	1,198.2	8.1	1,065.0	7.5	889.8	849.7	791.8
Total..............	$14,870.7	100.0%	$14,242.3	100.0%	$13,295.2	$12,390.2	$12,596.6

Average Loans

Table 20

	1998		1997		1996	1995	1994
	Amount	Mix	Amount	Mix	Amount	Amount	Amount
	(in millions of dollars)						
Commercial and Industrial............	$2,258.3	24.0%	$1,923.8	21.5%	$1,784.0	$1,850.3	$1,681.1
Real Estate							
Construction..........	284.0	3.0	264.6	3.0	229.6	164.2	145.2
Mortgage..............	3,838.6	40.7	3,882.0	43.5	3,863.2	3,765.8	3,840.1
Installment............	793.2	8.4	846.3	9.5	814.8	754.4	686.7
Foreign................	1,752.6	18.6	1,540.3	17.2	1,253.7	746.0	667.8
Lease Financing.........	495.6	5.3	472.7	5.3	408.3	374.2	372.8
Total..............	$9,422.3	100.0%	$8,929.7	100.0%	$8,353.6	$7,654.9	$7,393.7

Maturities and Sensitivities of Loans to Changes in Interest Rates/1/

Table 21

December 31, 1998	Due in One Year or Less	Due in One to Five Years /2/	Due After Five Years /2/	Total
	(in millions of dollars)			
Commercial and Industrial............	$1,927.6	$ 562.7	$ 89.4	$2,579.7
Real Estate--				
Construction...........	172.6	35.1	92.1	299.8
Other Loans.............	461.8	1,154.2	3,540.0	5,156.0
Foreign Loans...........	1,212.0	411.7	194.8	1,818.5
Total..............	$3,774.0	$2,163.7	$3,916.3	$9,854.0

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/1/Based on contractual maturities.

/2/As of December 31, 1998, of the loans maturing after one year, $3,027.8 million have floating rates and $3,052.2 million have fixed rates.

Average Deposits

Table 22

	1998 Amount	1998 Mix	1997 Amount	1997 Mix	1996 Amount	1995 Amount	1994 Amount
	(in millions of dollars)						
Domestic							
Non-Interest Bearing Demand...............	$1,650.4	17.3%	$1,516.8	16.4%	$1,371.5	$1,391.6	$1,373.2
Interest-Bearing Demand...............	2,114.8	22.1	1,945.3	21.0	1,726.6	1,752.4	1,895.4
Regular Savings.......	783.9	8.2	865.5	9.4	937.0	1,058.5	1,232.3
Private Time Certificates of Deposit ($100,000 or More)................	941.7	9.9	848.1	9.2	719.2	581.5	476.8
Public Time Certificates of Deposit ($100,000 or More)................	86.5	0.9	205.9	2.2	310.6	89.3	64.6
Bearer Certificates of Deposit..............	--	--	--	--	1.3	5.0	5.0
All Other Time and Savings Certificates.	1,752.5	18.4	1,804.7	19.5	1,433.9	1,164.1	998.4
Total Domestic......	7,329.8	76.8	7,186.3	77.7	6,500.1	6,042.4	6,045.7
Foreign							
Non-Interest Bearing Demand...............	447.7	4.7	264.0	2.8	194.2	11.8	12.8
Time Due to Banks.....	596.1	6.2	718.7	7.8	733.5	652.7	896.5
Other Time and Savings..............	1,176.1	12.3	1,079.0	11.7	745.0	329.5	340.2
Total Foreign.......	2,219.9	23.2	2,061.7	22.3	1,672.7	994.0	1,249.5
Total...............	$9,549.7	100.0%	$9,248.0	100.0%	$8,172.8	$7,036.4	$7,295.2

Interest Differential

Table 23

	1998 Compared to 1997 Volume /1/	1998 Compared to 1997 Rate /1/	1998 Compared to 1997 Total	1997 Compared to 1996 Volume /1/	1997 Compared to 1996 Rate /1/	1997 Compared to 1996 Total
	(in millions of dollars)					
Change in Interest Income						
Interest Bearing Deposits						
Foreign..............	$ 1.6	$ 2.0	$ 3.6	$(6.5)	$(2.4)	$(8.9)
Investment Securities--						

Held to Maturity						
Taxable	(24.0)	9.9	(14.1)	9.5	1.9	11.4
Tax-Exempt	(0.1)	--	(0.1)	(0.1)	0.1	--
Investment Securities--Available for Sale	19.9	(7.8)	12.1	10.4	0.5	10.9
Funds Sold	(0.3)	0.3	--	(0.7)	0.5	(0.2)
Loans, Net of Unearned Income						
Domestic	30.5	16.6	47.1	28.3	4.2	32.5
Foreign	16.7	(15.5)	1.2	24.0	(2.4)	21.6
Total Interest Income	$44.3	$ 5.5	$49.8	$64.9	$ 2.4	$67.3
Change in Interest Expense						
Interest Bearing Deposits						
Demand Deposits	$ 4.4	$(1.6)	$ 2.8	$ 5.9	$(0.2)	$ 5.7
Savings Deposits	(1.9)	(1.1)	(3.0)	(1.8)	(0.5)	(2.3)
Time Deposits	(4.2)	(7.3)	(11.5)	21.7	1.8	23.5
Deposits in Foreign Offices	(1.3)	7.9	6.6	16.9	(9.5)	7.4
Short-Term Borrowings	10.9	(5.3)	5.6	3.2	3.4	6.6
Long-Term Debt	(3.1)	(0.5)	(3.6)	(19.1)	4.6	(14.5)
Total Interest Expense	$ 4.8	$(7.9)	$(3.1)	$26.8	$(0.4)	$26.4
Net Interest Differential						
Domestic	$19.9	$34.8	$54.7	$37.5	$(1.9)	$35.6
Foreign	19.6	(21.4)	(1.8)	0.6	4.7	5.3
Total Interest Differential	$39.5	$13.4	$52.9	$38.1	$ 2.8	$40.9

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

Year-End Summary of Selected Consolidated Financial Data

Table 24

	1998	1997	1996	1995	1994
	(in millions of dollars except per share amounts)				
Balance Sheet Totals					
Net Loans	$ 9,416.8	$ 9,114.3	$ 8,347.9	$ 7,853.0	$ 7,599.5
Total Assets	15,016.6	14,995.5	14,009.2	13,206.8	12,586.4
Deposits	9,576.3	9,607.7	8,684.1	7,576.8	7,115.1
Long-Term Debt	585.6	705.8	932.1	1,063.4	861.6
Shareholders' Equity	1,185.6	1,117.2	1,066.1	1,054.4	966.8
Operating Results					
Total Interest Income	$ 1,099.8	$ 1,049.7	$ 982.1	$ 896.7	$ 813.0
Net Interest Income	576.6	523.4	482.3	428.5	449.3
Provision for Loan Losses	84.0	30.3	22.2	17.0	21.9

Net Income	107.0	139.5	133.1	121.8	117.7
Basic Earnings Per Share	$ 1.33	$ 1.75	$ 1.63	$ 1.46	$ 1.39
Diluted Earnings Per Share	$ 1.32	$ 1.72	$ 1.62	$ 1.45	$ 1.37
Common Dividends Paid Per Share	$ 0.66	$ 0.63	$ 0.58	$ 0.54	$ 0.52
Excluding the Effects of Intangible/1/					
Tangible Net Income	$ 121.7	$ 150.7	$ 141.3	$ 129.2	$ 125.8
Tangible Basic Earnings Per Share	$ 1.52	$ 1.89	$ 1.73	$ 1.55	$ 1.48
Tangible Diluted Earnings Per Share	$ 1.50	$ 1.86	$ 1.71	$ 1.54	$ 1.47
Non-Financial Data					
Common Shareholders of Record at Year-End/2/	10,396	10,514	10,199	10,293	9,448
Weighted Average Shares--Basic	80,228,424	79,794,011	81,595,728	83,325,878	84,712,506
Weighted Average Shares--Diluted	81,142,144	80,946,170	82,424,524	84,054,913	85,649,062

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/1/Intangibles include goodwill, core deposit and trust intangibles, and other intangibles.

/2/The number of common shareholders is based on the number of record holders.

Item 8. Financial Statements and Supplementary Data

Consolidated Quarterly Results of Operations--Narrative and Table 17 included in Item 7 of this report.

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
Pacific Century Financial Corporation

We have audited the accompanying consolidated statements of condition of Pacific Century Financial Corporation and subsidiaries as of December 31, 1998, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pacific Century Financial Corporation and subsidiaries at December 31, 1998, 1997 and 1996, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Honolulu, Hawaii
January 22, 1999

PACIFIC CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	1998	1997	1996
	(in thousands of dollars except per share amounts)		
Interest Income			
Interest on Loans	$ 748,495	$ 714,572	$ 659,701
Loan Fees	45,340	34,334	29,692
Income on Lease Financing	25,699	22,063	27,124
Interest and Dividends on Investment Securities			
Taxable	67,717	81,845	70,401
NonTaxable	1,096	1,186	1,193
Income on Investment Securities Available for Sale	170,963	158,851	147,949
Interest on Deposits	36,676	33,058	41,957
Interest on Security Resale Agreements	82	86	--
Interest on Funds Sold	3,718	3,727	4,039
Total Interest Income	1,099,786	1,049,722	982,056
Interest Expense			
Interest on Deposits	317,919	323,114	288,716
Interest on Security Repurchase Agreements	121,445	115,461	100,085
Interest on Funds Purchased	26,720	23,805	29,020
Interest on ShortTerm Borrowings	14,376	17,554	21,110
Interest on LongTerm Debt	42,725	46,344	60,842
Total Interest Expense	523,185	526,278	499,773
Net Interest Income	576,601	523,444	482,283
Provision for Loan Losses	84,014	30,338	22,227
Net Interest Income After Provision for Loan Losses	492,587	493,106	460,056
Non-Interest Income			
Trust Income	55,879	52,237	49,761
Service Charges on Deposit Accounts	35,459	29,354	26,716
Fees, Exchange and Other Service Charges	77,881	67,081	58,949
Other Operating Income	38,446	36,043	27,687
Investment Securities Gains	4,086	3,074	1,364
Total Non-Interest Income	211,751	187,789	164,477
Non-Interest Expense			
Salaries	194,522	173,159	159,213
Pensions and Other Employee Benefits	56,003	53,535	48,811
Net Occupancy Expense	46,799	46,725	39,416
Net Equipment Expense	49,009	38,524	34,017
Other Operating Expense	174,546	149,464	138,359
Restructuring Charge	19,400	--	--
Minority Interest	446	1,488	1,444
Total Non-Interest Expense	540,725	462,895	421,260

Income Before Taxes	163,613	218,000	203,273
Provision for Taxes	56,649	78,512	70,149
Net Income	$ 106,964	$ 139,488	$ 133,124
Basic Earnings Per Share	$ 1.33	$ 1.75	$ 1.63
Diluted Earnings Per Share	$ 1.32	$ 1.72	$ 1.62
Basic Weighted Average Shares	80,228,424	79,794,011	81,595,728
Diluted Weighted Average Shares	81,142,144	80,946,170	82,424,524

See Notes to Consolidated Financial Statements.

PACIFIC CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION

	December 31,		
	1998	1997	1996
	(in thousands of dollars)		
Assets			
Interest-Bearing Deposits	$ 453,527	$ 335,847	$ 635,519
Investment Securities			
--Held to Maturity (Market Value of $668,068, $1,223,235 and $1,261,146, respectively)	652,802	1,220,215	1,258,756
--Available for Sale	3,018,403	2,586,698	2,306,586
Funds Sold	45,683	80,457	141,920
Loans	9,854,000	9,498,408	8,699,286
Unearned Income	(225,915)	(209,721)	(183,586)
Reserve for Loan Losses	(211,276)	(174,362)	(167,795)
Net Loans	9,416,809	9,114,325	8,347,905
Total Earning Assets	13,587,224	13,337,542	12,690,686
Cash and Non-Interest Bearing Deposits	564,243	795,332	581,221
Premises and Equipment	293,591	288,358	273,122
Customers' Acceptance Liability	8,227	21,575	21,178
Accrued Interest Receivable	85,485	93,831	88,074
Other Real Estate	5,648	6,151	10,711
Intangibles, Including Goodwill	216,106	203,366	96,456
Other Assets	256,039	249,309	247,719
Total Assets	$15,016,563	$14,995,464	$14,009,167
Liabilities			
Domestic Deposits			
Demand--Non-Interest Bearing	$ 1,745,747	$ 1,714,886	$ 1,435,091
--Interest Bearing	2,385,285	2,112,425	1,724,105
Savings	740,378	823,216	866,453
Time	2,637,746	2,929,782	2,571,569
Foreign Deposits			
Demand--Non-Interest Bearing	489,672	351,178	553,274
Time Due to Banks	685,137	707,684	804,818
Other Savings and Time	892,377	968,524	728,769
Total Deposits	9,576,342	9,607,695	8,684,079
Securities Sold Under Agreements to Repurchase	2,008,399	2,279,124	2,075,571

Funds Purchased	942,062	710,472	599,994
Short-Term Borrowings	356,822	226,127	293,257
Bank's Acceptances Outstanding	8,227	21,575	21,178
Accrued Retirement Expense	39,811	37,737	37,509
Accrued Interest Payable	55,694	57,512	69,545
Accrued Taxes Payable	114,443	152,092	154,984
Minority Interest	7,394	5,758	9,307
Other Liabilities	136,159	74,376	65,478
Long-Term Debt	585,616	705,789	932,143
Total Liabilities	13,830,969	13,878,257	12,943,045
Shareholders' Equity			
Common Stock ($.01 par value at December 31, 1998 and $2.00 par value at December 31, 1997 and 1996), authorized 500,000,000 shares; issued/outstanding; December 1998-80,512,372/80,325,998; December 1997-79,684,553/79,684,553; and December 1996-39,959,234/39,959,234	805	159,369	79,918
Capital Surplus	342,932	168,920	186,391
Accumulated Other Comprehensive Income	(22,476)	(24,766)	(3,722)
Retained Earnings	867,852	813,684	803,535
Treasury Stock, at Cost (186,374 shares in 1998)	(3,519)	--	--
Total Shareholders' Equity	1,185,594	1,117,207	1,066,122
Total Liabilities and Shareholders' Equity	$15,016,563	$14,995,464	$14,009,167

See Notes to Consolidated Financial Statements.

PACIFIC CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of dollars except per share amounts)

	Total	Common Stock	Capital Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Comprehensive Income
Balance at December 31, 1995	$1,054,436	$ 82,682	$240,080	$ 13,902	$717,772	$ --	
Net Income	133,124	--	--	--	133,124	--	$133,124
Other Comprehensive Income, Net of Tax							
Investment Securities, Net of Reclassification Adjustment	(9,114)	--	--	(9,114)	--	--	(9,114)
Foreign Currency Translation Adjustment	(8,510)	--	--	(8,510)	--	--	(8,510)
Total Comprehensive Income							115,500
Common Stock Issued							
37,220 Profit Sharing Plan	1,288	74	1,214	--	--	--	
245,437 Stock Option Plan	5,491	491	5,000	--	--	--	

170,577 Dividend Reinvestment Plan.....	6,756	341	6,415	--	--	--	
11,483 Directors' Restricted Shares and Deferred Compensation Plan..................	456	23	433	--	--	--	
Stock Repurchased......	(70,444)	(3,693)	(66,751)	--	--	--	
Cash Dividends Paid....	(47,361)	--	--	--	(47,361)	--	
Balance at December 31, 1996..................	$1,066,122	$ 79,918	$186,391	$ (3,722)	$803,535	$ --	
Net Income............	139,488	--	--	--	139,488	--	$139,488
Other Comprehensive Income, Net of Tax							
Investment Securities, Net of Reclassification Adjustment...........	3,233	--	--	3,233	--	--	3,233
Foreign Currency Translation Adjustment...........	(24,277)	--	--	(24,277)	--	--	(24,277)
Total Comprehensive Income................							118,444
Common Stock Issued							
88,517 Profit Sharing Plan..................	4,116	177	3,939	--	--	--	
231,264 Stock Option Plan..................	5,356	463	4,893	--	--	--	
164,671 Dividend Reinvestment Plan.....	6,754	329	6,425	--	--	--	
3,407 Directors' Restricted Shares and Deferred Compensation Plan..................	150	7	143	--	--	--	
2,317,873 CU Bancorp Acquisition...........	108,469	4,636	103,833	--	--	--	
Stock Repurchased......	(142,479)	(5,775)	(136,704)	--	--	--	
Two-for-One Stock Split in the Form of a 100% Stock Dividend........	--	79,614	--	--	(79,614)	--	
Cash Dividends Paid....	(49,725)	--	--	--	(49,725)	--	
Balance at December 31, 1997..................	$1,117,207	$159,369	$168,920	$(24,766)	$813,684	$ --	
Net Income............	106,964	--	--	--	106,964	--	$106,964
Other Comprehensive Income, Net of Tax							
Investment Securities, Net of Reclassification Adjustment...........	(2,732)	--	--	(2,732)	--	--	(2,732)
Foreign Currency Translation Adjustment...........	5,671	--	--	5,671	--	--	5,671
Pension Liability Adjustment...........	(649)	--	--	(649)	--	--	(649)
Total Comprehensive Income................							109,254
Common Stock Issued							
125,889 Profit Sharing Plan..................	3,559	225	2,627	--	--	707	
543,256 Stock Option Plan..................	10,084	530	8,408	--	(20)	1,166	
153,574 Dividend Reinvestment Plan.....	5,441	199	3,335	--	--	1,907	
5,100 Directors' Restricted Shares and Deferred Compensation Plan..................	139	1	123	--	--	15	
Treasury Stock Repurchased...........	(7,314)	--	--	--	--	(7,314)	
Change in Par Value of Common Stock from $2.00 Per Share to $ .01 Per Share.........	--	(159,519)	159,519	--	--	--	
Cash Dividends Paid....	(52,776)	--	--	--	(52,776)	--	
Balance at December 31, 1998..................	$1,185,594	$ 805	$342,932	$(22,476)	$867,852	$(3,519)	

See Notes to Consolidated Financial Statements.

PACIFIC CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	1998	1997	1996
	(in thousands of dollars)		
Operating Activities/1/			
Net Income	$ 106,964	$ 139,488	$ 133,124
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Loan Losses	84,014	30,338	22,227
Depreciation and Amortization	55,539	47,268	39,394
Deferred Income Taxes	(24,583)	(1,539)	2,423
Realized Gains on Investment Securities Available for Sale	(4,444)	(2,939)	(1,193)
Amortization of Deferred Lease Income	(32,470)	(30,505)	(26,326)
Amortization of Deferred Loan Fee Income	(17,169)	(12,210)	(8,318)
Decrease (Increase) in Interest Receivable	10,740	(5,757)	(286)
Increase (Decrease) in Interest Payable	(3,315)	(13,193)	14,116
Decrease (Increase) in Other Assets	(18,946)	16,918	(21,396)
Increase (Decrease) in Other Liabilities	42,404	(38,497)	(15,641)
Net Cash Provided by Operating Activities	198,734	129,372	138,124
Investing Activities			
Proceeds from Redemptions of Investment Securities Held to Maturity	763,158	219,216	594,894
Purchases of Investment Securities Held to Maturity	(195,745)	(127,706)	(665,427)
Proceeds from Sales of Investment Securities Available for Sale	1,993,405	714,742	703,899
Proceeds from Redemptions of Investment Securities Available for Sale	399,426	195,233	81,757
Purchases of Investment Securities Available for Sale	(2,825,677)	(981,411)	(978,512)
Net Decrease (Increase) in Interest-Bearing Deposits Placed in Other Banks	(90,628)	295,031	409,619
Decrease (Increase) in Funds Sold	34,774	92,663	(25,747)
Decrease (Increase) in Loans, Net	(113,925)	(283,536)	95,118
Purchases of Premises and Equipment	(43,390)	(27,995)	(38,665)
Proceeds from Sale of Premises and Equipment	13,032	--	--
Purchases, Net of Cash and Non-Interest Bearing Deposits Acquired:			
Additional Interest in Credipac Polynesie and Creditpac Nouvelle Caledonie	--	--	(4,114)
Banque de Tahiti and Banque de Nouvelle Caledonie	--	--	18,090
Banque Paribas Pacifique and Banque Paribas Polynesie	6,327	--	--
Indosuez Niugini Bank, Ltd.	--	(5,371)	--
CU Bancorp and California United Bank	--	24,523	--
Home Savings of America Deposits	--	235,020	--
Net Cash Provided (Used) by Investing			

Activities	(59,243)	350,409	190,912
Financing Activities			
Net Increase (Decrease) in Demand, Savings, and Time Deposits	(302,296)	(72,506)	248,793
Proceeds from Lines of Credit and LongTerm Debt	190,117	104,000	512,787
Principal Payments on Lines of Credit and Long-Term Debt	(311,333)	(330,354)	(644,080)
Net Increase (Decrease) in Short-Term Borrowings	88,128	233,295	(222,022)
Proceeds from Sale of Common Stock	19,223	16,376	13,991
Stock Repurchased	(7,314)	(142,479)	(70,444)
Cash Dividends	(52,776)	(49,725)	(47,361)
Net Cash Used by Financing Activities	(376,251)	(241,393)	(208,336)
Effect of Exchange Rate Changes on Cash	5,671	(24,277)	(8,510)
Increase (Decrease) in Cash and Non-Interest Bearing Deposits	(231,089)	214,111	112,190
Cash and Non-Interest Bearing Deposits at Beginning of Year	795,332	581,221	469,031
Cash and Non-Interest Bearing Deposits at End of Year	$ 564,243	$ 795,332	$ 581,221

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/1/ During the years ended December 31, 1998, 1997 and 1996, Pacific Century Financial Corporation made interest payments of $525,003,000, $538,311,000 and $479,701,000, respectively, and paid income taxes of $80,697,000, $81,404,000 and $75,471,000, respectively.

See Notes to Consolidated Financial Statements.

PACIFIC CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A--Summary of Significant Accounting Policies

The accounting principles followed by Pacific Century Financial Corporation and its subsidiaries (Pacific Century), and the methods of applying those principles conform with generally accepted accounting principles and general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates and such differences could be material to the financial statements. Certain accounts in prior years have been reclassified to conform with the 1998 presentation. The significant accounting policies are summarized below.

Organization/Consolidation

Pacific Century is a bank holding company providing a broad range of financial products and services to customers in Hawaii, the Pacific, Asia and the U.S. Mainland. The majority of Pacific Century's operations consist of customary commercial and consumer banking services including, but not limited to, lending, leasing, deposit services, trust and investment activities and trade financing. The principal subsidiaries of Pacific Century are Bank of Hawaii, Pacific Century Bank, N.A. and First Savings and Loan Association of America (First Savings). The consolidated financial statements include the accounts of Pacific Century and all significant majority-owned subsidiaries.

All significant intercompany accounts and transactions have been eliminated and minority interests recognized in consolidation.

Accounting Changes

Effective January 1, 1998, Pacific Century adopted Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and displaying comprehensive income and its components in a full set of financial statements. The Statement requires that all items that meet the definition of components of comprehensive income be reported in a financial statement for the period in which they are recognized. With the adoption of SFAS No. 130, the format of the Consolidated Statements of Shareholders' Equity has changed to provide the required disclosures, and prior years have been reclassified to conform with the statement. The adoption of SFAS No. 130 had no material effect on Pacific Century's financial position or results of operations.

On December 31, 1998, Pacific Century implemented SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the reporting of financial information about operating segments in annual financial statements to stockholders, and requires certain selected segment information in interim reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The adoption of SFAS No. 131 had no material impact on Pacific Century's financial position or results of operations.

On December 31, 1998, Pacific Century adopted SFAS No. 132 "Employers' Disclosure about Pensions and Other Postretirement Benefits." This statement standardizes, to the extent practicable, disclosure requirements and requires additional information on changes in benefit obligations, fair value of plan assets and certain other disclosures. The implementation of SFAS No. 132 had no impact on Pacific Century's financial position or results of operations.

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." This statement standardizes the accounting for derivative instruments by requiring the recognition of those instruments as assets or liabilities in the statement of financial condition, measured at fair value. Gains or losses resulting from changes in the fair values of derivatives would be accounted for depending on the use of the derivatives and whether they qualify for hedge accounting. In order to qualify for hedge accounting, the

hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. SFAS No. 133 requires matching the timing of gain or loss recognition on derivative instruments with the recognition of the changes in the fair value of the hedged asset or liability that is attributed to the hedged risk or the effect on earnings of the hedged forecasted transaction. SFAS No. 133 will become effective for fiscal years beginning after June 15, 1999. The adoption of SFAS No. 133 is not expected to have a material impact on Pacific Century's financial position or results of operations.

Restructuring Charge

In the second quarter of 1998, Pacific Century recognized a pre-tax restructuring charge of $19.4 million in connection with its strategic actions to accelerate expense reduction and improve efficiency. These actions primarily included the merger in Hawaii of First Federal Savings and Loan Association of America with Bank of Hawaii, and the merger of California

United Bank and Pacific Century Bank, N.A. into a single nationally chartered entity. In August 1998, the consolidation of Pacific Century's two U.S. Mainland banks was consummated under the name Pacific Century Bank, N.A. The merger of the two Hawaii-based companies was completed as of September 30, 1998 and resulted in the closing of 19 thrift branches in the fourth quarter. In addition, to further reduce delivery channel redundancy, eight Bank of Hawaii branches were also closed during 1998. Also, as part of the restructuring plan, Bank of Hawaii's credit card services activities were outsourced in the fourth quarter of 1998 to a third party vendor.

The restructuring charge included expected direct and incremental costs associated with these consolidations and initiatives and consisted of $9.1 million for lease termination costs, $5.4 million for disposal of fixed assets, $1.6 million for staff reduction, and $3.3 million for data processing and other costs. In 1998, the amounts utilized from the restructuring accrual were $1.3 million for lease termination costs, $4.8 million for disposal of fixed assets, $1.1 million for staff reduction, and $2.6 million for data processing and other costs. As of December 31, 1998, the balance in the restructuring accrual was $9.6 million, of which $7.8 million relates to termination of lease obligations. During 1998, no adjustments were made to the restructuring accrual. Pacific Century believes that the restructuring accrual as of December 31, 1998 is adequate to complete the planned initiatives.

Acquisitions

In May 1998, Pacific Century concluded an agreement to acquire the interest of Group Paribas in Banque Paribas Pacifique in New Caledonia and Banque Paribas Polynesie in French Polynesia. As of the acquisition date, Banque Paribas Pacifique and Banque Paribas Polynesie had total assets of approximately $238 million and $83 million, respectively. The acquired banks were merged into other Pacific Century subsidiaries in the region. The acquisitions were accounted for under the purchase method and the combined goodwill of approximately $17.1 million is being amortized over 15 years on a straight-line basis.

On July 3, 1997, Pacific Century acquired all of the outstanding common stock of CU Bancorp and its subsidiary, California United Bank (CUB), for a purchase price of $185,421,000, which consisted of $56,092,000 in cash and 2,318,000 shares of Pacific Century common stock. As of the acquisition date, CUB had total assets of approximately $786,000,000. The acquisition was accounted for as a purchase, and the resulting goodwill of $100,700,000 is being amortized over 25 years on a straight-line basis.

In March 1997, Pacific Century Bank, N.A. (PCB) purchased approximately $251,300,000 in deposits in Arizona from Home Savings of America. Pacific Century paid approximately $17,976,000 for the core deposit intangible, which is being amortized over 15 years on a straight line basis.

In March 1997, Bank of Hawaii International, Inc. acquired 100% of Indosuez Niugini Bank, Ltd. in Papua New Guinea, for approximately $5.6 million. Indosuez Niugini Bank, Ltd. has been renamed Bank of Hawaii (PNG) Ltd. The acquisition was accounted for as a purchase, resulting in $3,328,000 in goodwill, which is being amortized over 15 years on a straight-line basis. As of the acquisition date, Indosuez Niugini Bank, Ltd. had approximately $93,000,000 in total assets.

In May 1996, Pacific Century finalized its purchase of majority ownership in Banque de Tahiti (BDT), Bank of Hawaii-Nouvelle Caledonie (BOH-NC), formally known as Banque de Nouvelle Caledonie, and two smaller finance companies for an aggregate cost of $60,500,000. After the acquisitions, Pacific Century's ownership in BDT increased to 92.4% from 38% and in BOH-NC it increased to 91.5% from 21%. These acquisitions were accounted for using the purchase method, and the resulting goodwill of $12,200,000 is being amortized over 15 years on a straight line basis.

In conjunction with these acquisitions, the following table discloses assets acquired and liabilities assumed during the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
	(in thousands of dollars)		
Assets Acquired	$321,081	$1,239,616	$552,657
Cash and Shares Paid for Capital Stock	(33,412)	(209,023)	(60,583)
Liabilities Assumed	$287,669	$1,030,593	$492,074

Advertising Costs

The nature of Pacific Century's marketing programs generally do not include direct-response advertising. Pacific Century, therefore, recognizes its advertising costs as incurred. Advertising costs were $7,633,000; $10,612,000 and $11,407,000 in 1998, 1997 and 1996, respectively.

Credit Card Costs

Pacific Century issues its own VISA and Mastercard credit cards for which all costs are recognized as period costs. In 1996, Pacific Century entered into certain arrangements with third parties to originate VISA cards in specific target markets. As of year-end 1998 and 1997, the unamortized capitalized origination costs totaled $1,167,000 and $1,611,000, respectively. These costs are being amortized over the anticipated life of the cards, currently five years. As cards are canceled, the unamortized costs are expensed.

Cash and Non-Interest Bearing Deposits

Cash and Non-Interest bearing deposits include amounts due from other financial institutions as well as intransit clearings. Under the terms of the Depository Institutions Deregulation and Monetary Control Act, Pacific Century is required to place reserves with the Federal Reserve Bank based on the amount of deposits held. During 1998, 1997 and 1996, the average amount of these reserve balances was $133,316,000, $135,697,000 and $131,061,000, respectively.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the dilutive impact of stock options and stock appreciation rights and uses the average share price during the period in determining the number of incremental shares to be added to the weighted average number of common shares

outstanding. For the years ended December 31, 1998, 1997 and 1996 there were no adjustments to net income (the numerator) for purposes of computing basic EPS. A reconciliation of the weighted average common shares outstandings for computing diluted EPS as of year-end 1998, 1997 and 1996 follows:

	Weighted Average Shares		
	1998	1997	1996
Denominator for Basic EPS................	80,228,424	79,794,011	81,595,728
Dilutive Effect of Stock Options..........	913,720	1,152,159	828,796
Denominator for Diluted EPS..............	81,142,144	80,946,170	82,424,524

On December 12, 1997, a two-for-one stock split in the form of a 100% stock dividend was distributed to shareholders. Prior period average outstanding shares, stock options, and per common share data in the consolidated financial statements have been retroactively adjusted to reflect the stock split.

Income Taxes

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

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

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

Intangible Assets and Amortization

The excess of cost over the fair value of tangible assets and liabilities acquired arising from business combinations is being amortized using the straightline method over various periods not exceeding 25 years. These intangibles consisting primarily of goodwill and core deposit intangibles are reviewed periodically for other than temporary impairment. The amortization of these intangibles is included in other operating expense and totaled $15,614,00, $12,668,000 and $9,344,000 in 1998, 1997 and 1996, respectively. As of December 31, 1998, the unamortized balance of these intangibles totaled $204,354,000.

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

Interest Rate/Foreign Currency Risk Management

Pacific Century utilizes off-balance sheet derivative financial instruments, primarily as an end-user in connection with its risk management activities and, to a lesser extent, as a service to accommodate the needs of customers. Most of Pacific Century's derivative transactions consist of interest rate swaps and foreign exchange contracts. Other derivative instruments may be employed, from time to time, but in the aggregate, the use of these instruments are limited.

Pacific Century utilizes interest rate swaps for purposes other than trading to manage its exposure to interest rate risks. Interest rate swaps are contractual agreements that generally require the exchange of fixed and floating rate payments based on specified financial indices and the underlying notional amount over the life of the agreements.

The accrual method is used to account for interest rate swaps. Under this method, the differential between interest to be paid and received is accrued and recognized as an adjustment to interest income or expense of the designated asset or liability. The fair value of these agreements is not recorded in the consolidated financial statements. Changes in the fair value of swap contracts are not recognized as long as the hedge correlation continues to exist. If the hedge correlation ceases to exist based on effectiveness tests, any existing gain or loss is amortized over the remaining term of the agreement, and future changes in fair value are accounted for on a mark-to-market basis. If the designated asset or liability matures, or is extinguished, any unrealized gain or loss on the related derivative instrument is recognized immediately.

A foreign exchange contract is a commitment to exchange foreign currency at a contracted price on a specified date. These derivative instruments are used for purposes other than trading primarily for asset and liability management activities, and changes in the fair value of both the foreign exchange contracts and related assets or liabilities hedged are offset and not included in the financial results.

Derivative instruments entered into for trading purposes consist of foreign exchange contracts that are used to offset foreign currency positions taken on behalf of customers and for Pacific Century's own account. These derivatives are carried at fair value, and the associated unrealized gains and losses are recognized currently in the statement of income.

International Operations

International operations include certain activities located domestically in the International Banking Group, as well as branches and subsidiaries domiciled outside the United States. The operations of Bank of Hawaii and First Savings located in the West and South Pacific which are denominated in U.S. dollars are classified as domestic. Pacific Century's international operations are primarily concentrated in Japan, South Korea, Singapore, Hong Kong, Taiwan, French Polynesia and New Caledonia.

Investment Securities

Investment securities held to maturity are those securities, which Pacific Century has the ability and positive intent to hold to maturity. These securities are stated at cost adjusted for amortization of premiums and accretion of discounts. Restricted equity securities represent Federal Home

Loan Bank and Federal Reserve Bank shares, recorded at par, which also reflects fair value. In 1998, 1997 and 1996, there were no transfers from investment securities held to maturity.

Investment securities available for sale are recorded at fair value with unrealized gains and losses recorded as an unrealized valuation adjustment in equity, net of taxes.

Trading securities are those securities that are purchased for Pacific Century's trading activities and are expected to be sold in the near term. Securities in the trading portfolio are carried at fair value with unrealized holding gains and losses recognized currently in income. Trading securities were $2,318,000, $2,374,000 and $1,687,000 as of December 31, 1998, 1997, and 1996, respectively. During 1998, 1997 and 1996, the net gain (loss) from the trading securities portfolio was $(358,000), $1,612,000 and $823,000, respectively, and is recognized as a component of investment securities gains in the income statement. Income from trading securities was $220,000, $60,000 and $16,000 during 1998, 1997 and 1996, respectively, and is included as part of other operating income.

Pacific Century uses the specific identification method to determine the cost of all investment securities sold.

Loans

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

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

Other Real Estate

Other real estate consists of properties acquired through foreclosure proceedings, acceptance of a deed-in-lieu of foreclosure, abandoned bank premises and loans for which possession of the collateral has been taken. These properties are carried at the lower of cost or fair value based on current appraisals less selling costs. Losses arising at the time of acquiring such property are charged against the reserve for loan losses. Subsequent declines in property value are recognized through charges to operating expense.

Premises and Equipment

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

Reserve for Loan Losses

The reserve for loan losses is established through provisions that are charged against income. Loans deemed to be uncollectible are charged against the reserve for loan losses, and subsequent recoveries, if any, are credited to the reserve.

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

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

Stock-Based Compensation

Pacific Century's accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25 (APB No. 25) and related interpretations. SFAS No. 123 "Accounting for Stock-Based Compensation," permits companies to elect to recognize stock-based compensation expense based on the estimated fair value of the awards on the grant date or to continue to use the accounting under APB No. 25. Included in Note L is the impact of the fair value of employee stock-based compensation plans on net income and earnings per share on a pro forma basis for awards granted in 1998, 1997 and 1996.

Note B--Investment Securities

The following presents the details of the investment securities portfolio:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands of dollars)			
At December 31, 1998				
Securities Held to Maturity:				
Restricted Equity Securities......	$ 70,300	$ 7	$ --	$ 70,307
Debt Securities Issued by the U.S. Treasury and Agencies.......	77,789	199	(3)	77,985
Debt Securities Issued by State				

and Municipalities of the United States	11,935	1,056	--	12,991
Debt Securities Issued by Foreign Governments	53,757	23	(131)	53,649
Mortgage-Backed Securities	406,258	13,780	--	420,038
Other Debt Securities	32,763	335	--	33,098
Total	$ 652,802	$15,400	$ (134)	$ 668,068
Securities Available for Sale:				
Equity Securities	$ 5,804	$ 323	$ (523)	$ 5,604
Debt Securities Issued by the U.S. Treasury and Agencies	298,609	2,264	(55)	300,818
Debt Securities Issued by State and Municipalities of the United States	18,694	435	(36)	19,093
Debt Securities Issued by Foreign Governments	1,407	--	--	1,407
Corporate Debt Securities	2,101	65	--	2,166
Mortgage-Backed Securities	2,662,410	11,857	(11,365)	2,662,902
Other Debt Securities	24,819	1,594	--	26,413
Total	$3,013,844	$16,538	$(11,979)	$3,018,403
At December 31, 1997				
Securities Held to Maturity:				
Restricted Equity Securities	$ 64,254	$ 1	$ --	$ 64,255
Debt Securities Issued by the U.S. Treasury and Agencies	396,750	503	(384)	396,869
Debt Securities Issued by State and Municipalities of the United States	12,029	1,266	--	13,295
Debt Securities Issued by Foreign Governments	62,102	1	(567)	61,536
Mortgage-Backed Securities	637,997	3,908	(2,119)	639,786
Other Debt Securities	47,083	417	(6)	47,494
Total	$1,220,215	$ 6,096	$ (3,076)	$1,223,235
Securities Available for Sale:				
Equity Securities	$ 3,984	$ 6	$ (524)	$ 3,466
Debt Securities Issued by the U.S. Treasury and Agencies	1,002,106	3,660	(1,278)	1,004,488
Debt Securities Issued by State and Municipalities of the United States	20,629	280	(6)	20,903
Debt Securities Issued by Foreign Governments	21,335	--	--	21,335
Corporate Debt Securities	302	12	--	314
Mortgage-Backed Securities	1,529,201	12,079	(5,088)	1,536,192
Other Debt Securities	--	--	--	--
Total	$2,577,557	$16,037	$ (6,896)	$2,586,698
At December 31, 1996				
Securities Held to Maturity:				
Restricted Equity Securities	$ 57,220	$ --	$ --	$ 57,220
Debt Securities Issued by the U.S. Treasury and Agencies	348,116	570	(1,453)	347,233
Debt Securities Issued by State and Municipalities of the United States	12,632	1,474	--	14,106
Debt Securities Issued by Foreign Governments	74,685	1,922	(7)	76,600
Mortgage-Backed Securities	766,103	5,035	(5,151)	765,987
Other Debt Securities	--	--	--	--
Total	$1,258,756	$ 9,001	$ (6,611)	$1,261,146

Securities Available for Sale:				
Equity Securities................	$ 12,509	$ 893	$ (100)	$ 13,302
Debt Securities Issued by the U.S. Treasury and Agencies.......	984,534	5,509	(4,309)	985,734
Debt Securities Issued by State and Municipalities of the United States..........................	6,401	177	(3)	6,575
Corporate Debt Securities.........	893	18	(12)	899
Mortgage-Backed Securities........	1,267,238	8,894	(7,284)	1,268,848
Other Debt Securities............	31,228	--	--	31,228
Total..........................	$2,302,803	$15,491	$(11,708)	$2,306,586

The following presents an analysis of the contractual maturities of the investment securities portfolio as of December 31, 1998:

	Amortized Cost	Fair Value
	(in thousands of dollars)	
Securities Held to Maturity		
Due in One Year or Less...........................	$ 120,329	$ 120,644
Due After One Year Through Five Years..............	55,147	56,296
Due After Five Years Through Ten Years.............	768	783
	176,244	177,723
Mortgage-Backed Securities.........................	406,258	420,038
Restricted Equity Securities.......................	70,300	70,307
	$ 652,802	$ 668,068
Securities Available for Sale		
Due in One Year or Less...........................	$ 102,749	$ 104,311
Due After One Year Through Five Years..............	94,226	95,172
Due After Five Years Through Ten Years.............	68,236	68,934
Due After Ten Years................................	80,419	81,480
	345,630	349,897
Mortgage-Backed Securities.........................	2,662,410	2,662,902
Equity Securities..................................	5,804	5,604
	$ 3,013,844	$ 3,018,403

Proceeds from sales and maturities of investment securities available for sale during 1998 were $2,392,831,000. Gross gains of $3,843,000 and gross losses of $55,000 were realized on those sales. Taxes related to these gains and losses were $1,326,000 in 1998. The cumulative investment valuation reserve was $2,753,000 (net of taxes) as of December 31, 1998.

Investment securities carried at $3,324,126,000, $3,319,340,000 and $3,255,203,000 were pledged to secure deposits of certain public (governmental) entities, repurchase agreements and swap agreements at December

31, 1998, 1997 and 1996, respectively. The December 31, 1998 amount included investment securities with a carrying value of $2,224,544,000 and a market value of $2,236,552,000 which were pledged solely for repurchase agreements.

Note C--Loans

Loans consisted of the following at year-end:

	1998	1997	1996
	(in thousands of dollars)		
Domestic Loans			
Commercial and Industrial	$2,579,726	$2,104,318	$1,806,699
Real Estate			
Construction--Commercial	276,260	268,153	212,324
--Residential	23,527	12,869	23,599
Mortgage--Commercial	1,139,125	1,354,459	1,227,845
--Residential	2,699,422	2,738,917	2,635,313
Installment	763,036	891,607	849,259
Total Domestic Loans	7,481,096	7,370,323	6,755,039
Foreign Loans	1,818,473	1,608,667	1,506,447
Subtotal	9,299,569	8,978,990	8,261,486
Lease Financing			
Direct	266,863	246,212	181,666
Leveraged	287,568	273,206	256,134
Total Lease Financing	554,431	519,418	437,800
Total Loans	$9,854,000	$9,498,408	$8,699,286

Commercial and mortgage loans totaling $932,467,000; $960,882,000 and $1,000,531,000 were pledged to secure certain public deposits and Federal Home Loan Bank advances at December 31, 1998, 1997 and 1996, respectively.

Included in the Mortgage--Residential category above were $259,507,000; $96,156,000 and $49,567,000 of available for sale loans as of December 31, 1998, 1997 and 1996, respectively. These loans were recorded at the lower of cost or market on an aggregate basis.

Servicing assets are summarized in the following table:

	1998	1997	1996
	(in thousands of dollars)		
Balance at Beginning of Year	$ 6,817	$ 5,258	$ 1,946
Originated Mortgage Servicing Rights	4,677	1,629	2,926
Purchased Servicing Rights	2,027	889	824
Amortization	(1,769)	(959)	(438)

Balance at End of Year	$ 11,752	$ 6,817	$ 5,258
Fair Value	$ 12,326	$ 6,979	$ 5,195

As of December 31, 1998; 1997 and 1996, Pacific Century's loan servicing portfolio totaled $2,046,299,000; $1,651,838,000 and $1,543,985,000, respectively.

Pacific Century's lending activities are concentrated in its primary geographic markets of Hawaii, the U.S. Mainland, Asia, and the West and South Pacific.

Certain directors and executive officers of Pacific Century, its subsidiary companies, companies in which they are principal owners, and trusts in which they are involved, have loans with Pacific Century subsidiaries. These loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements. Such loans at December 31, 1998, 1997 and 1996 amounted to $19,813,000; $21,383,000 and $27,593,000, respectively. During 1998, the activity in these loans included new borrowings of $5,636,000, repayments of $5,900,000, and other changes of $1,306,000. Other changes relate to new and retiring directors or companies and trusts in which they are involved.

Transactions in the reserve for loan losses were as follows:

	1998	1997	1996
	(in thousands of dollars)		
Balance at Beginning of Year	$174,362	$167,795	$151,979
Provision Charged to Operations	84,014	30,338	22,227
Reserves Acquired	13,636	12,372	6,581
Valuation Adjustments	4,933	(5,917)	25
Charge-Offs	(82,005)	(55,132)	(44,084)
Recoveries	16,336	24,906	31,067
Net Charge-Offs	(65,669)	(30,226)	(13,017)
Balance at End of Year	$211,276	$174,362	$167,795

The following table presents information on impaired loans:

	December 31		
	1998	1997	1996
	(in thousands of dollars)		
Recorded Investment in Impaired Loans Not Requiring a Reserve for Loan Losses	$ 24,635	$ 7,187	$ 20,918

Recorded Investment in Impaired Loans Requiring a Reserve for Loan Losses	41,423	26,490	5,239
Recorded Investment in Impaired Loans	$ 66,058	$ 33,677	$ 26,157
Reserve for Losses on Impaired Loans	$ 20,313	$ 16,586	$ 2,763
Average Recorded Investment in Impaired Loans During the Year	$ 18,872	$ 12,580	$ 47,085

Note D--Premises and Equipment

The following is a summary of premises and equipment:

	Cost	Accumulated Depreciation and Amortization	Net Book Value
	(in thousands of dollars)		
December 31, 1998			
Premises	$325,725	$(118,914)	$206,811
Capital Leases	4,464	(1,071)	3,393
Equipment	227,284	(143,897)	83,387
	$557,473	$(263,882)	$293,591
December 31, 1997			
Premises	$304,881	$(103,008)	$201,873
Capital Leases	4,464	(893)	3,571
Equipment	215,909	(132,995)	82,914
	$525,254	$(236,896)	$288,358
December 31, 1996			
Premises	$294,664	$ (96,090)	$198,574
Capital Leases	4,464	(714)	3,750
Equipment	177,800	(107,002)	70,798
	$476,928	$(203,806)	$273,122

Depreciation and amortization (including capital lease amortization) included in non-interest expense were $38,156,000, $33,641,000 and $29,612,000 in 1998, 1997 and 1996, respectively.

Pacific Century leases certain branch premises and data processing equipment. Most of the premise leases provide for a base rent over a specified period with renewal options thereafter. Portions of certain properties are subleased for periods expiring in various years through 2000. Lease terms generally provide for the lessee to pay taxes, maintenance and other operating costs.

Future minimum payments, by year and in the aggregate, for noncancelable operating leases with initial or remaining terms of one year or more and capital leases consisted of the following at December 31, 1998:

	Capital Leases	Operating Leases
	(in thousands of dollars)	
1999	$ 7	$ 13,352
2000	7	11,205
2001	7	9,307
2002	7	7,929
2003	605	6,565
Thereafter	34,319	91,161
Total Minimum Lease Payments	34,952	$ 139,519
Amounts Representing Interest	28,202	
Present Value of Net Minimum Lease Payments	$ 6,750	

Minimum future rentals receivable under subleases for noncancelable operating leases at December 31, 1998, amounted to $3,226,000.

Rental expense for all operating leases consisted of:

	1998	1997	1996
	(in thousands of dollars)		
Minimum Rentals	$ 22,269	$ 23,088	$ 20,164
Sublease Rental Income	(1,244)	(544)	(657)
	$ 21,025	$ 22,544	$ 19,507

Note E--Deposits

Interest on deposit liabilities for the years ended December 31, 1998, 1997 and 1996 consisted of the following:

	1998	1997	1996
	(in thousands of dollars)		
Domestic Interest-Bearing Demand Accounts	$ 55,735	$ 52,912	$ 47,167
Domestic Savings Accounts	18,454	21,444	23,713
Domestic Time Accounts	145,431	156,988	133,493
Foreign Deposits	98,299	91,770	84,343
	$317,919	$323,114	$288,716

Time deposits with balances of $100,000 or more were $2,307,741,000 in 1998. Of this amount, $84,795,000 represents deposits of public (governmental) entities which require collaterization by acceptable securities. The majority of deposits in the foreign category are time deposits in denominations of $100,000 or more.

Maturities of time deposits of $100,000 or more at December 31, 1998, are summarized as follows:

	Domestic	Foreign
	(in thousands of dollars)	
Under 3 Months	$ 513,829	$1,056,495
3 to 6 Months	250,057	67,031
7 to 12 Months	172,342	76,595
Greater than 1 to 2 Years	42,540	34,569
Greater than 2 to 3 Years	25,485	38,569
Greater than 3 to 4 Years	7,044	5,842
Greater than 4 to 5 Years	7,025	326
Greater than 5 Years	9,247	745
	$1,027,569	$1,280,172

Note F--Short-Term Borrowings

Details of short-term borrowings for 1998, 1997 and 1996 were as follows:

	Funds Purchased	Securities Sold Under Agreements to Repurchase	Commercial Paper	Other ShortTerm Borrowings
	(in thousands of dollars)			
1998				
Amounts Outstanding at December 31	$942,062	$2,008,399	$127,311	$229,511
Average Amount Outstanding During Year	506,978	2,267,823	108,778	189,258
Maximum Amount Outstanding at Any Month End	942,062	2,476,152	127,311	300,211
Weighted Average Interest Rate During Year/1/	5.27%	5.36%	5.10%	4.66%
Weighted Average Interest Rate on Balance Outstanding at End of Year	4.87%	4.97%	4.91%	4.44%
1997				
Amounts Outstanding at December 31	$710,472	$2,279,124	$104,916	$121,211
Average Amount Outstanding During Year	422,217	2,108,746	92,311	245,450

Maximum Amount Outstanding at Any Month End	710,472	2,309,775	121,909	399,152
Weighted Average Interest Rate During Year/1/	5.64%	5.48%	5.19%	5.20%
Weighted Average Interest Rate on Balance Outstanding at End of Year	5.88%	5.47%	5.13%	4.30%
1996				
Amounts Outstanding at December 31	$599,994	$2,075,571	$ 69,727	$223,530
Average Amount Outstanding During Year	533,647	1,857,286	83,181	335,509
Maximum Amount Outstanding at Any Month End	643,988	2,075,571	114,446	477,697
Weighted Average Interest Rate During Year/1/	5.44%	5.39%	5.03%	5.04%
Weighted Average Interest Rate on Balance Outstanding at End of Year	5.77%	5.38%	4.95%	4.91%

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

Funds purchased generally mature on the day following the date of purchase. Commercial paper is issued by the parent corporation in various denominations generally maturing 90 days or less from date of issuance.

Securities sold under agreements to repurchase are accounted for as financing transactions and the obligations to repurchase these securities are recorded as liabilities in the Consolidated Statements of Condition. The securities underlying the agreements to repurchase continue to be reflected as an asset of Pacific Century and are delivered to and held in collateral accounts with third party trustees. At December 31, 1998, the weighted average contractual maturity of these agreements was 98 days and consists of transactions with public (governmental) entities, primarily the State of Hawaii ($1.2 billion) and local municipalities ($0.8 billion). A schedule of maturities of repurchase agreements follows:

	December 31 1998 (in thousands of dollars)
Overnight	$ 11,667
Less than 30 days	488,160
30 to 90 days	718,488
Over 90 days	790,084
	$2,008,399

A line of credit totaling $35,000,000 is maintained to back up commercial paper issued by Pacific Century. At December 31, 1998 there was no amount drawn on this line. Fees related to line were $28,000 in 1998.

At December 31, 1998, other shortterm borrowings consisted mainly of Foreign Call Deposits and Treasury Tax and Loan balances. Foreign Call Deposits generally mature in 90 days and bear interest rates that are reflective of rates on borrowings with similar maturities. Treasury Tax and Loan balances represent tax payments collected on behalf of the U.S. government, which are callable at any time and bear market interest rates. A Federal Home Loan Bank advance totaling $150.0 million bears an interest rate of 5.17% and matured and was paid on January 19, 1999.

Note G--Long-Term Debt

Amounts outstanding as of year-end were as follows:

	1998	1997	1996
	(in thousands of dollars)		
Notes..	$ 90,000	$150,000	$259,956
Federal Home Loan Bank Advances................	223,045	288,045	398,045
Subordinated Notes............................	118,801	118,755	118,707
8.25% Capital Securities......................	100,000	100,000	100,000
Foreign Debt..................................	46,007	42,690	49,556
Capitalized Lease Obligations..................	6,750	6,299	5,879
Other Long-Term Debt..........................	1,013	--	--
	$585,616	$705,789	$932,143

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

In 1996, Bank of Hawaii borrowed the equivalent of $50 million USD in French Francs through a private placement. This debt has a fixed interest rate of 5.16% and matures in 1999.

In 1998, Bank of Hawaii converted its existing revolving note program into a $1 billion revolving senior and subordinated note program. Under the terms of this program Bank of Hawaii may issue additional notes provided that at any time the aggregate amount outstanding does not exceed $1 billion. At December 31, 1998, there were no outstanding balances under this program.

Privately placed notes issued by Pacific Century totaled $90 million at December 31, 1998. No new notes were issued in 1998. These notes carry seven year terms and bear floating interest rates which are tied to the three-month LIBOR rate.

Federal Home Loan Bank (FHLB) advances bear interest at rates from 5.24% to 8.00% and mature from 1999 through 2005. At December 31, 1998, loans totaling $447,654,000 were pledged to secure these advances along with all FHLB stock.

The subordinated notes issued by Bank of Hawaii in 1993, bear a fixed interest rate of 6.875%. These notes mature in 2003.

Capitalized lease obligations are for certain condominium units in the Financial Plaza of the Pacific. The lease began in 1993 and has a 60 year term. Lease payments are fixed at $7,000 per year until 2002; $605,000 per year from 2003 to 2007 and $665,000 per year from 2008 to 2012 and are negotiable thereafter.

Long-term debt maturities for the five years succeeding December 31, 1998, are $131,507,000 in 1999, $38,875,000 in 2000, $71,000,000 in 2001, $12,670,000 in 2002 and $126,801,000 in 2003.

Interest paid on long-term debt in 1998 totaled $43,820,000.

Note H--Shareholders' Equity

Certain of Pacific Century's consolidated subsidiaries (including Bank of Hawaii, Pacific Century Bank, N.A., and First Savings) are subject to regulatory restrictions that limit cash dividends and loans to Pacific Century. As of December 31, 1998, approximately $416,090,000 of undistributed earnings of Pacific Century's consolidated subsidiaries were available for distribution to Pacific Century without prior regulatory approval.

Pacific Century is required to maintain minimum levels of capital to meet regulatory guidelines. For evaluating capital adequacy, the regulators require Pacific Century to maintain three capital ratios at specific minimum levels. Tier 1 Capital (common equity reduced by certain intangibles and increased for qualifying preferred shares and minority interests) expressed as a percentage of average risk weighted assets is the Tier 1 Capital Ratio. Total Capital (Tier 1 capital plus qualifying portions of the reserve for loan losses) expressed as a percentage of average risk weighted assets is the Total Capital Ratio. The third ratio is the Leverage Ratio which is Tier 1 Capital divided by average assets. The table below presents the minimum Capital levels that an institution must maintain to qualify as "well capitalized" as it applies to Pacific Century and its subsidiaries Bank of Hawaii, Pacific Century Bank, N.A. and First Savings.

The Federal Deposit Insurance Corporation Improvements Act of 1991 (FDICIA) requires the federal banking regulators to take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements and imposes certain restrictions upon banks which meet minimum capital requirements but are not "well capitalized" for purposes of FDICIA. Undercapitalized institutions are subject to regulatory monitoring and may be required to divest themselves of or liquidate subsidiaries. Critically undercapitalized institutions are prohibited from making payments of principal and interest on subordinated debt and are generally subject to the mandatory appointment of a conservator or receiver.

As of December 31, 1998, Pacific Century, Bank of Hawaii, Pacific Century Bank, N.A. and First Savings were all well capitalized under the regulatory provisions for prompt and corrective action. There were no conditions or events since year-end that management believes have changed Pacific Century's or its subsidiaries' capital rating. The table below sets forth regulatory capital for Pacific Century and its depository subsidiaries at December 31, 1998 and 1997:

	Well-Capitalized Minimum Ratio	Pacific Century Financial Corp.	Bank of Hawaii	Pacific Century Bank, N.A.	First Savings
	(in thousands of dollars)				
At December 31, 1998					
Common Equity...........		$1,185,594	$ 991,529	$148,335	$49,117
Tier 1 Capital..........		1,103,230	928,297	132,456	49,117
Total Capital...........		1,342,888	1,155,222	146,847	50,361
Tier 1 Capital Ratio....	6%	9.42%	8.68%	11.73%	49.35%
Total Capital Ratio.....	10%	11.47%	10.80%	13.00%	50.60%
Leverage Ratio..........	5%	7.48%	6.98%	10.12%	26.24%
At December 31, 1997					
Common Equity...........		$1,117,207	$ 956,508	$140,623	$45,155
Tier 1 Capital..........		1,036,558	902,242	123,081	45,155
Total Capital...........		1,292,619	1,147,161	135,063	46,459
Tier 1 Capital Ratio....	6%	9.34%	8.83%	12.83%	43.29%
Total Capital Ratio.....	10%	11.65%	11.22%	14.08%	44.54%
Leverage Ratio..........	5%	7.21%	6.73%	9.50%	24.22%

The following is a breakdown of the components of accumulated other comprehensive income as of December 31:

	1998	1997	1996
	(in thousands of dollars)		
Foreign Currency Translation Adjustment......	$(24,580)	$(30,251)	$(5,974)
Investment Securities.......................	2,753	5,485	2,252
Pension Liability Adjustment................	(649)	--	--
Accumulated Other Comprehensive Income.......	$(22,476)	$(24,766)	$(3,722)

The schedule below presents for the years ended December 31, 1998, 1997 and 1996 the disclosure of the reclassification amount to adjust for gains and losses on available for sale investment securities that were included in net income and that have also been included in other comprehensive income as unrealized holding gains in the period in which they arose.

	1998	1997	1996
	(in thousands of dollars)		

Unrealized gains (losses) on available for sale investment securities, net of tax:			
Unrealized holding gains (losses) arising during the period	$ 157	$ 5,143	$ (8,339)
Reclassification adjustment for gains included in net income	(2,889)	(1,910)	(775)
Unrealized investment securities valuation adjustment included in other accumulated comprehensive income	$ (2,732)	$ 3,233	$ (9,114)

The amount of income tax allocated to each component of comprehensive income for the years ended December 31, 1998, 1997 and 1996 is as follows:

	1998	1997	1996
	(in thousands of dollars)		
Foreign Currency Translation Adjustment	$ 3,053	$ (13,072)	$ (4,582)
Investment Securities	(1,821)	2,155	(6,076)
Pension Liability Adjustment	(350)	--	--

In April 1998, Pacific Century changed its state of incorporation from Hawaii to Delaware. The Delaware Certificate of Incorporation authorizes 500,000,000 shares of Common Stock and reduces the par value to $.01 per share from $2.00 per share under the Hawaii Restated Articles of Incorporation.

Note I--International Operations

The following table provides selected financial data for Pacific Century's international operations for the years ended December 31:

	1998	1997	1996
	(in thousands of dollars)		
International			
Average Assets	$3,426,614	$3,005,084	$2,752,642
Average Loans	1,752,657	1,540,294	1,253,695
Average Deposits	2,219,916	2,074,103	1,672,734
Operating Revenue	287,872	215,876	192,084
Income Before Taxes	1,193	20,870	17,347
Net Income	(804)	10,243	8,082

Average assets include short-term interest-bearing deposits with foreign branches of U.S. banks and large international banks. On average, these deposits were $702,281,000, $704,366,000 and $584,622,000 during 1998, 1997 and 1996, respectively.

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

The Asian economic crisis that began in July 1997 affected many countries where Pacific Century conducts business. Those countries impacted by the financial turmoil have experienced significant devaluation of their currency, as well as higher interest rates and a general tightening of credit. The tighter credit environment escalated to a liquidity crisis that required the intervention of the International Monetary Fund in South Korea, Thailand and Indonesia. As of December 31, 1998 and 1997, all exposures relating to South Korea were on a performing status. Non-accrual loans in Thailand were $7.6 million and $17.6 million, at December 31, 1998 and 1997, respectively. Indonesian loans on non-accrual were $0.7 million at December 31, 1998 and nil at December 31, 1997. At December 31, 1998, Pacific Century's cross-border exposure to South Korea, Thailand, and Indonesia were $264.9 million, $24.1 million and $17.1 million, respectively. Given the inherent uncertainties and complexities related to the troubled economies in Asia, it is possible that the Company's estimate of the impact of these uncertainties on its operations may change.

Note J--Contingent Liabilities

Pacific Century is a defendant in various legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. After consultation with legal counsel, management does not anticipate that the disposition of these proceedings and contingent liabilities will have a material effect upon the consolidated financial statements.

Note K--Profit-Sharing, Retirement and Postretirement Benefit Plans

A deferred-compensation profit-sharing plan (Profit Sharing Plan) is provided for the benefit of all employees of Pacific Century and its subsidiaries who have met the Profit Sharing Plan's eligibility requirements. The Profit Sharing Plan provides for annual contributions based on a schedule of performance levels. The schedule establishes the percentage of adjusted net income to be contributed based on Pacific Century's adjusted return on equity. Participants in the Profit Sharing Plan receive up to 50% of their annual allocation in cash. The remaining amounts are deferred and may be invested in various options including mutual funds, a collective trust, and common shares of Pacific Century. In 1998, the portion of the Profit Sharing Plan consisting of the Pacific Century Stock Fund was converted to an employee stock ownership plan. Pacific Century's contributions to the Profit Sharing Plan totaled $8,472,000 in 1998, $9,723,000 in 1997 and $9,098,000 in 1996. The Profit Sharing Plan provides for a company match of $1.25 for each $1.00 in 401(k) contributions made by qualified employees up to a maximum of 2% of the employee's compensation. For 1998, 1997 and 1996, matching contributions under this plan totaled $2,981,000, $2,882,000 and $2,671,000, respectively.

Pacific Century has a defined-contribution money purchase plan (Money Purchase Plan) under which it contributes 4% of an employee's compensation for employees meeting certain eligibility and vesting requirements. The Money Purchase Plan has a one year eligibility requirement and a five year vesting period. For 1998, 1997 and 1996, Pacific Century contributed $5,192,000, $4,943,000 and $4,839,000, respectively, to the Money Purchase Plan.

Pacific Century also has an Excess Profit Sharing Plan and an Excess Money

Purchase Plan, which cover certain employees for amounts exceeding the limits under those plans.

In 1995, Pacific Century froze its non-contributory, qualified defined-benefit retirement plan (Retirement Plan) and excess retirement plan (Excess Plan), which covered employees of Pacific Century and participating subsidiaries who met certain eligibility requirements. Pacific Century's funding policy is to contribute annually an amount that falls within the minimum and maximum range deductible for income tax purposes. Retirement Plan assets are managed by investment advisors in accordance with investment policies established by the plan trustees.

Retirement Plan investments primarily consist of marketable securities including stocks, bonds, money market funds, mutual funds, and a common trust fund. The assets of the Retirement Plan include securities of related parties (Pacific Capital Funds, a Pacific Century Trust collective investment fund, and a Pacific Century Trust money market fund). Pacific Century Trust is a division of Bank of Hawaii and either manages or advises the Pacific Capital Funds and Pacific Century Trust collective investment fund and money market fund. The fair value of securities of related parties as of December 31, 1998 was $35,354,000.

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

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

The following table sets forth the change in benefit obligation, change in fair value of plan assets, funded status, and net amount recognized in the Consolidated Statements of Financial Condition for the aggregated pension plans (Retirement Plan and Excess Plan) and Postretirement Benefit Plans for the years ended December 31, 1998, 1997 and 1996.

	Pension Benefits			Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
	(in thousands of dollars)					
Change in Benefit Obligation/1/						
Benefit Obligation at Beginning of Year......	$ 84,243	$ 81,479	$ 82,443	$ 27,747	$ 26,848	$ 28,664
Service Cost............	--	--	--	1,292	1,002	1,262
Interest Cost...........	6,146	6,065	6,046	1,999	1,894	2,057
Actuarial (Gain) Loss...	6,309	2,200	(888)	(1,048)	(997)	(4,035)
Employer Benefits Paid..	(5,436)	(5,501)	(6,122)	(900)	(1,000)	(1,100)
Benefit Obligation at End of Year...........	$ 91,262	$ 84,243	$ 81,479	$ 29,090	$ 27,747	$ 26,848
Change in Fair Value of						

Plan Assets						
Fair Value of Plan Assets at Beginning of Year	$ 80,201	$ 71,271	$ 63,519	$ --	$ --	$ --
Actual Return on Plan Assets	9,944	12,626	10,262	--	--	--
Employer Contribution	346	1,805	3,612	900	1,000	1,100
Employer Benefits Paid	(5,436)	(5,501)	(6,122)	(900)	(1,000)	(1,100)
Fair Value of Plan Assets at End of Year	$ 85,055	$ 80,201	$ 71,271	$ --	$ --	$ --
Funded Status	$ (6,207)	$ (4,042)	$(10,208)	$(29,090)	$(27,747)	$(26,848)
Unrecognized Net Actuarial Gain	(6,953)	(10,459)	(6,150)	(6,197)	(5,302)	(4,494)
Unrecognized Transition (Asset) Liability	(315)	(633)	(951)	9,750	10,446	11,142
Net Amount Recognized; Accrued	$(13,475)	$(15,134)	$(17,309)	$(25,537)	$(22,603)	$(20,200)
Amounts Recognized in the Consolidated Statements of Financial Condition Consist of:						
Accrued Benefit Liability	$(14,474)	$(15,134)	$(17,309)	$(25,537)	$(22,603)	$(20,200)
Accumulated Other Comprehensive Income	999	--	--	--	--	--
Net Amount Recognized; Accrued	$(13,475)	$(15,134)	$(17,309)	$(25,537)	$(22,603)	$(20,200)

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/1/Participants' contributions relative to the Postretirement Benefits Plan are offset against employer benefits paid in the above table. For the year ended December 31, 1998, participants' contributions for postretirement benefits totaled $824,000. This information is not readily available for 1997 and 1996. There were no participants' contributions in the pension plans.

For the Excess Plan, the accumulated benefit obligation exceeded the plan assets. The projected benefit obligation and accumulated benefit obligation for the Excess Plan were $7.9 million and $7.4 million, respectively, as of December 31, 1998; $7.3 million and $6.5 million, respectively, as of December 31, 1997; and $6.9 million and $6.1 million, respectively, as of December 31, 1996. Because the Excess Plan is unfunded, it has no plan assets.

Components of net periodic benefit cost for the aggregated pension plans and the Postretirement Benefit Plans are presented in the following table for the years ended December 31, 1998, 1997 and 1996.

	Pension Benefits			Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
	(in thousands of dollars)					
Components of Net Periodic Benefit Cost:						
Service Cost	$ --	$ --	$ --	$ 1,292	$ 1,002	$ 1,262

Interest Cost..........	6,146	6,065	6,046	1,999	1,894	2,057
Expected Return on Plan Assets................	(6,982)	(6,155)	(5,488)	--	--	--
Amortization of Unrecognized Net Transition (Asset) Obligation............	(318)	(318)	(318)	696	696	696
Recognized Net Actuarial (Gain) Loss.	(159)	38	41	(153)	(189)	--
Net Periodic Benefit Cost................	$(1,313)	$ (370)	$ 281	$ 3,834	$ 3,403	$ 4,015

Assumptions used for the aggregated pension plans and Postretirement Benefit Plans at December 31, 1998, 1997 and 1996 are as follows:

	Pension Benefits			Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Weighted Average Assumptions as of December 31:						
Discount Rate..........	7.00%	7.50%	7.75%	7.00%	7.50%	7.75%
Expected Return on Plan Assets................	9.00%	9.00%	9.00%	--	--	--
Rate of Compensation Increase..............	5.00%	5.00%	5.00%	--	--	--

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

	One Percent Increase	One Percent Decrease
	(in thousands of dollars)	
Effect on the total of service and interest cost components...............	$ 418	$ (329)
Effect on postretirement benefit obligation............................	2,821	(2,298)

Note L--Stock Option Plans

The Pacific Century Stock Option Plans (the Plans) are administered by the Compensation Committee which is composed entirely of non-employee directors. The Plans provide participants with the option to purchase shares of common stock at a specified exercise price beginning one year after the date the option was granted and expiring 10 years from the date of grant. The exercise price is the fair market value of the shares on the date the option was granted. The Plans also provide certain participants with stock options in tandem with stock appreciation rights (SAR). A SAR entitles an optionee, in lieu of exercising the stock option, to receive cash equal to the excess of the market value of the shares as of the exercise date over the option price. The Compensation Committee has limited the exercise of SARs to $1 million per year, allocated among the participants. The expense for the SARs recognized in the Consolidated Statements of Income was $614,000 in 1998, and $1,000,000 in both 1997 and 1996.

Pacific Century has a Director Stock Option Plan that grants restricted common shares to directors and requires directors to retain shares exercised throughout the service period as a director. The plan automatically grants annually an option for 1,000 shares to each Pacific Century director who is also a director of Bank of Hawaii and an option for 500 shares to directors who are only directors of Pacific Century or Bank of Hawaii. The exercise price is based on the closing market price of the shares on the date that the option was granted. Each option expires on the tenth anniversary date of its grant and is generally not transferable. If an optionee ceases to serve as a director for any reason other than death, the option immediately terminates and any restricted shares that were previously acquired are subject to redemption at a price equal to the market value of the shares at the time of grant. As of December 31, 1998, 69,000 options were outstanding under this plan and are included in the table below.

The following information relates to options outstanding as of December 31, 1998:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OF SHARES OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF SHARES EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 7.24--$15.54..........	1,500,816	$12.89	49.2 months	1,500,816	$12.89
16.01-- 17.75..........	1,086,622	16.87	115.2 months	58,622	16.77
18.25-- 21.13..........	1,389,324	19.86	88.8 months	1,389,324	19.86
23.94-- 26.06..........	810,800	25.74	106.8 months	763,300	25.78
Total.................	4,787,562	$17.99	85.2 months	3,712,062	$18.21

The following table presents the activity of Stock Option Plans for the years indicated:

	1998		1997		1996	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at January 1......................	4,097,050	$18.13	3,917,790	$15.83	3,644,906	$13.73
Granted................	1,117,000	17.43	811,300	25.61	921,000	21.07
Exercised..............	(706,506)/1/	13.99	(575,492)	13.10	(529,558)	11.09
Forfeited..............	(57,500)	24.24	(25,000)	21.13	(117,634)	12.52
Expired................	(9,944)	17.34	(31,548)	13.96	(924)	6.57
Exchanged in conjunction with purchase of CU Bancorp...............	347,462	11.06	--	--	--	--
Outstanding at December 31....................	4,787,562	$17.99	4,097,050	$18.13	3,917,790	$15.83

Options Exercisable at December 31...........	3,712,062	3,308,750	2,996,790
Shares Available for Future Grants..........	1,819,646	3,233,994	1,988,746

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/1/ The price per share of options exercised during 1998 ranged between $7.44 and $21.88 on an actual exercise price basis.

The following table presents the pro forma disclosures of the impact that the 1998, 1997 and 1996 option grants would have had on net income and earnings per share had the grants been measured using the fair value of accounting prescribed by SFAS No. 123:

	1998	1997	1996
	(in thousands of dollars except per share and option data)		
Pro Forma			
Net Income/1/	$103,160	$135,805	$130,605
Basic Earnings Per Share...................	$ 1.29	$ 1.70	$ 1.60
Diluted Earnings Per Share.................	$ 1.27	$ 1.68	$ 1.58
Weighted Average Fair Value of Options Granted During the Year/1/	$ 3.80	$ 6.13	$ 5.85
Assumptions			
Average Risk Free Interest Rate...........	5.08%	5.85%	6.47%
Average Expected Volatility...............	24.52%	17.08%	17.73%
Expected Dividend Yield...................	3.10%	3.13%	2.75%
Expected Life.............................	5 years	10 years	10 years

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

Note M--Other Operating Expense

Other operating expense for the years ended December 31, 1998, 1997 and 1996 was as follows:

	1998	1997	1996
	(in thousands of dollars)		
Legal and Other Professional Fees..............	$ 35,772	$ 23,362	$ 17,642
Stationery and Supplies........................	11,062	10,701	10,678
Amortization of Intangible Assets..............	17,383	13,627	9,782
Other..	110,329	101,774	100,257
Total..	$174,546	$149,464	$138,359

Note N--Income Taxes

The significant components of the provision for income taxes are as follows:

	1998	1997	1996
	(in thousands of dollars)		
Current:			
Federal	$ 50,951	$ 54,625	$ 45,641
State	12,260	10,172	10,003
Foreign	18,021	15,254	12,082
	$ 81,232	$ 80,051	$ 67,726
Deferred:			
Federal	$ (21,774)	$ (1,544)	$ 1,711
State	(1,578)	918	712
Foreign	(1,231)	(913)	--
	$ (24,583)	$ (1,539)	$ 2,423
Provision for Income Taxes	$ 56,649	$ 78,512	$ 70,149

The current income tax provision includes taxes on gains and losses on the sale of securities of $1,415,000, $1,107,000 and $471,000 for 1998, 1997 and 1996, respectively. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 1998, 1997 and 1996 reclassified based on the tax returns as filed, are as follows:

	1998	1997	1996
	(in thousands of dollars)		
Deferred Tax Liabilities:			
Lease Transactions	$184,335	$188,709	$182,018
Deferred Investment Tax Credits	2,977	5,620	6,003
Accelerated Depreciation	707	707	1,406
Core Deposit Intangible	7,011	8,076	9,141
Total Deferred Tax Liabilities	195,030	203,112	198,568
Deferred Tax Assets:			
Reserve for Loan Losses	64,720	57,596	55,778
Accrued Pension Cost	2,798	3,541	3,969
Net Operating Loss Carry Forwards	1,231	--	385
Securities Valuation Reserve	(1,890)	(3,732)	(1,440)
Postretirement Benefits	9,606	8,951	7,277
Other, Net	3,923	(2,826)	(9,541)
Total Deferred Tax Assets	80,388	63,530	56,428
Valuation Allowance for Deferred			

	1998	1997	1996
Tax Assets	--	--	(385)
Net Deferred Tax Assets	80,388	63,530	56,043
Net Deferred Tax Liabilities	$114,642	$139,582	$142,525

For financial statement purposes, Pacific Century had deferred investment tax credits for property purchased for lease to customers of $2,977,000, $5,620,000 and $6,003,000 at December 31, 1998, 1997 and 1996, respectively. In 1998, 1997 and 1996, investment tax credits included in the computation of the provision for income taxes were $2,643,000, $383,000 and $848,000, respectively.

The following analysis reconciles the Federal statutory income tax rate to the effective consolidated income tax rate:

	1998	1997	1996
Statutory Federal Income Tax Rate	35.0%	35.0%	35.0%
Increase (Decrease) in Tax Rate Resulting From:			
State Taxes, Net of Federal Income Tax and Foreign Tax Adjustments	4.2	3.3	3.4
Tax-Exempt Interest Income	(0.3)	(0.2)	(0.3)
Low Income Housing and Investment Tax Credits	(6.2)	(3.8)	(2.8)
Other	1.9	1.7	(0.8)
Effective Tax Rate	34.6%	36.0%	34.5%

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

Note O--Financial Instruments with Off-Balance Sheet Risk

Pacific Century is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage its own exposure to fluctuations in interest and foreign exchange rates. These financial instruments include commitments to extend credit, standby letters of credit, foreign exchange contracts, interest rate swaps and interest rate options. To varying degrees, these instruments involve elements of credit and interest rate risk in excess of the amount recognized in the statements of condition. The contract or notional amounts of these instruments reflect the extent of involvement that Pacific Century has in each class of financial instrument. The FASB has categorized certain of these off-balance sheet financial instruments that include foreign currency contracts and interest rate swaps as derivative financial instruments. FASB has further categorized these derivative financial instruments into "held or issued for purposes other than trading" or "trading."

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

Traditional Off-Balance Sheet Risk Instruments

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

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

Derivative Financial Instruments Held for Trading

Foreign exchange contracts are contracts for delayed delivery of a foreign currency in which the seller agrees to make delivery at a specified future date at a specified price. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency rates. Collateral is generally not required for these transactions. At December 31, 1998, the notional amount of foreign exchange contracts held for trading totaled $555.9 million, with a fair value of $4.3 million, compared to $427.6 million at December 31, 1997 with a fair value of $(6.8) million. Pacific Century uses foreign exchange contracts to offset foreign currency positions taken on behalf of its customers and for its own account. Pacific Century does not maintain significant net open positions in its foreign exchange trading account.

Derivative Financial Instruments Held or Issued for Other Than Trading

At December 31, 1998, the notional amount of foreign exchange contracts held for other than trading totaled $318.1 million with a fair value of $(11.1) million, compared to $406.0 million at December 31, 1997 with a fair value of $15.7 million. Pacific Century uses these foreign exchange contracts primarily for asset and liability management activities. Pacific Century does not maintain significant net open foreign exchange positions in its other than trading account.

Interest rate options, which primarily consist of caps and floors, are interest rate protection instruments that involve the obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current interest rates and an agreed-upon rate applied to a notional amount. Exposure to loss on these options will increase or decrease over their respective lives as interest rates fluctuate. Pacific Century transacts interest rate options on behalf of its customers and does not maintain significant open positions.

Pacific Century utilizes interest-rate swaps in managing its exposure to interest-rate risk. These financial instruments require the exchange of fixed and floating rate interest payments based on the notional amount of the contract for a specified period. Pacific Century has used swap agreements to effectively convert portions of its floating rate loan portfolio to fixed rate. At December 31, 1998, such "receive-fixed" swaps with a notional value of $137.6 million were in effect.

Pacific Century's current credit risk exposure on interest-rate swaps is equal to the total market value of those instruments with gains. The aggregate credit risk of swaps at year-end 1998 was $0.3 million. The net market value of all positions at year-end 1998 was $0.3 million compared with $(2.0) million at year-end 1997. Net expense on interest rate swap agreements totaled $1.5 million, $2.5 million and $4.2 million for 1998, 1997 and 1996, respectively.

The table below summarizes by notional amounts the activity for each major category of interest-rate swaps in 1998. Pacific Century had no deferred gains or losses relating to terminated swap contracts in 1998 and 1997.

	Receive Fixed	Pay Fixed
	(in thousands of dollars)	
Balance, December 31, 1995	$1,095,236	$ 18,773
Additions	--	--
Maturities/Amortizations	(421,999)	(18,773)
Balance, December 31, 1996	$ 673,237	$ --
Additions	50,000	--
Maturities/Amortizations	(230,688)	--
Balance, December 31, 1997	$ 492,549	$ --
Additions	--	--
Maturities/Amortizations	(354,970)	--
Balance, December 31, 1998	$ 137,579	$ --

The approximate annual maturities of interest-rate swap agreements outstanding as of December 31, 1998 were:

	Notional Principal Expected to Mature In 1999
	(in thousands of dollars)
Receive-Fixed Interest-Rate Swaps:	

Fixed Maturity	$50,000
Pay Rate	5.17%
Receive Rate	6.46%
Amortizing/1/	$87,579
Pay Rate	4.95%
Receive Rate	5.31%

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/1/ Amortization was estimated by utilizing average prepayment speeds provided by various dealers in these instruments.

Note P--Fair Values of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet are as follows. When possible, fair values are measured based on quoted market prices for the same or comparable instruments. Because many of Pacific Century's financial instruments lack an available market price, management must use its best judgment in estimating the fair value of those instruments based on present value or other valuation techniques. Such techniques are significantly affected by estimates and assumptions, including the discount rate, future cash flows, economic conditions, risk characteristics, and other relevant factors. These estimates are subjective in nature and involve uncertain assumptions and, therefore, cannot be determined with precision. Many of the derived fair value estimates cannot be substantiated by comparison to independent markets and could not be realized in immediate settlement of the instrument. Certain financial instruments and all non-financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of Pacific Century.

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

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

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

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

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

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

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

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

The following table presents the fair values of Pacific Century's financial instruments at December 31, 1998, 1997 and 1996.

	1998		1997		1996	
	Book or Notional Value	Fair Value	Book or Notional Value	Fair Value	Book or Notional Value	Fair Value
	(in thousands of dollars)					
Financial Instruments--Assets						
Loans/1/	$8,958,800	$9,263,200	$8,718,900	$8,915,500	$7,988,400	$8,123,400
Investment Securities/2/	3,671,000	3,686,200	3,806,900	3,809,900	3,565,300	3,567,600
Other Financial Assets/3/	501,500	501,500	418,700	418,700	779,100	779,100
Financial Instruments--Liabilities						
Deposits.............	9,559,000	9,585,000	9,652,500	9,663,500	8,677,100	8,681,800
Short-Term Borrowings/4/	3,297,600	3,297,600	3,215,700	3,215,700	2,968,800	2,968,800
Long-Term Debt/5/	578,900	593,700	699,500	700,600	926,300	861,500
Financial Instruments--Off-Balance Sheet						
Financial Instruments Whose Contract Amounts Represent Credit Risk:						
Commitments to Extend Credit......	4,251,700	11,200	4,122,300	10,700	3,840,200	10,200
Standby Letters of Credit............	532,200	10,500	258,700	5,000	257,400	4,900
Commercial Letters of Credit..........	386,400	4,600	299,500	400	239,700	400
Financial Instruments Whose Notional or Contract Amounts Exceed the Amount of Credit Risk:						
Foreign Exchange and Swap Contracts.....	874,000	(6,800)	833,600	8,900	631,300	900
Interest Rate Swap Agreements.........	137,600	300	492,500	(2,000)	673,200	(7,700)

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/1/ Includes all loans, net of reserve for loan losses, and excludes leases.
/2/ Includes both held to maturity and available for sale securities.
/3/ Includes interest-bearing deposits, funds sold and trading securities.
/4/ Includes securities sold under agreements to repurchase, funds purchased and short-term borrowings.
/5/ Excludes capitalized lease obligations.

Note Q--Business Segments

Pacific Century is a financial services organization that maintains a broad presence throughout the Pacific region. The financial performance of individual operating components are assessed by the chief operating decision maker of Pacific Century primarily in accordance with geographic area of operations. Pacific Century has aligned its operations into the following four major geographic business segments: Hawaii, the Pacific, Asia, and the U.S. Mainland. In addition, the Treasury and Other Corporate segment includes corporate asset and liability management activities and the unallocated portion of various administrative and support units.

Line of business results are determined based on Pacific Century's internal financial management reporting process and organization structure. The financial management reporting process uses various techniques to assign and transfer balance sheet and income statement amounts between business units. In measuring line of business financial performance, Pacific Century utilizes certain accounting practices that differ from generally accepted accounting principles. Accordingly, certain balances reflected in the line of business report differ from the corresponding amounts in the consolidated financial statements. Accounting practices and other key elements of Pacific Century's line of business financial management reporting process follows:

- Economic Provision--Business units are allocated an economic provision for loan losses that reflects the expected normalized loss factor determined by a statistically applied approach that considers risk factors, including historical loss experience, within a given portfolio. Such provisions are expected to be sufficient to cover credit losses over the average life of the credit portfolios. The economic provision is different from the method used to determine Pacific Century's consolidated provision for loan losses, which is based on an evaluation of the adequacy of the reserve for loan losses.

- Net Interest Income--Pacific Century relies primarily on net interest income as the relevant revenue measure in assessing segment financial performance. Interest revenue and interest expense are allocated to business units using a funds transfer pricing process.

- Non-Interest Expense--Expenses for centrally provided services are based on estimated usage of those services using various allocation techniques.

- Income Taxes--Income taxes are charged to business units based on Pacific Century's consolidated effective tax rate, exclusive of tax benefits. Tax benefits resulting from permanent differences between book and tax income are allocated to the business segment to which they relate.

From time to time, Pacific Century's line of business management reporting process may change based on refinements in segment reporting policies or changes in accounting systems, information systems, organizational structure, or product lines. These changes could result in a realignment of business lines or modifications to allocation and transfer methodologies. When material changes are made to the financial management reporting process prior period reports would be restated.

Presented below is the financial results for each of Pacific Century's major market segments for the year ended December 31, 1998.

Line of Business Selected Financial Information

	Hawaii	Pacific	Asia	U.S. Mainland	Treasury and Other Corporate	Consolidated Total
	(in thousands of dollars)					
Net Interest Income.....	$ 294,898	$ 121,642	$ 36,546	$ 100,342	$ 23,173	$ 576,601
Economic Provision/1/ ..	(37,012)	(12,910)	(5,031)	(11,257)	(17,804)	(84,014)
Risk-Adjusted Net Interest Income........	257,886	108,732	31,515	89,085	5,369	492,587
Non-Interest Income.....	114,094	43,348	15,847	10,938	27,524	211,751
Total Risk-Adjusted Revenue................	371,980	152,080	47,362	100,023	32,893	704,338
Non-Interest Expense/2/	288,258	113,770	25,016	73,251	40,430	540,725
Net Income Before Income Taxes..................	83,722	38,310	22,346	26,772	(7,537)	163,613
Income Taxes/3/	(35,083)	(15,314)	(8,628)	31	2,345	(56,649)
Net Income.............	$ 48,639	$ 22,996	$ 13,718	$ 26,803	$ (5,192)	$ 106,964
Total Assets...........	$5,272,787	$2,432,873	$1,017,603	$2,629,987	$3,663,313	$15,016,563

/1/ The economic provision for loan losses reflects the expected normalized loss factor determined by a statistically applied approach that considers risk factors, including historical loss experience, within a given portfolio. The economic provision differs from the provision determined under generally accepted accounting principles. The difference between the sum of the economic provision allocated to business segments and the provision in the consolidated financial statements is included in Treasury and Other Corporate.

/2/ Non-interest expense for the Treasury and Other Corporate segment included a restructuring charge of $19.4 million.

/3/ Tax benefits are allocated to the business segment to which they relate. In 1998, income taxes for the U.S. Mainland segment included $13.5 million in tax benefits from low income housing tax credits and investment tax credits.

Within the Hawaii segment, line of business results are divided into retail and commercial operating units. Retail operating units sell and service a broad line of consumer financial products. These units include consumer deposits, consumer lending, residential real estate lending, auto financing, credit cards, and private and institutional services (trust, mutual funds, and stock brokerage). With respect to the commercial component, operating units in Hawaii include small business, middle market, cash management and commercial real estate.

In the Pacific segment, Pacific Century offers financial products and services to both retail and commercial customers. This segment includes operations in the West and South Pacific.

Pacific Century serves the West Pacific through Bank of Hawaii branches in Guam, the Commonwealth of the Northern Marianas Islands, the Federated States of Micronesia, the Republic of the Marshall Islands and the Republic of Palau. Additionally, First Savings maintains branches in Guam.

Pacific Century's presence in the South Pacific includes branches of Bank of Hawaii and various subsidiary and affiliate banks. The Bank of Hawaii branches in this region are in Fiji and American Samoa. Pacific Century's subsidiary banks in the South Pacific are located in French Polynesia, New Caledonia, Papua New Guinea, and Vanuatu. Additionally, Pacific Century maintains an investment in affiliate banks located in Samoa, Solomon Islands and Tonga.

Pacific Century operates in Asia through Bank of Hawaii branches in Hong Kong, Japan, Singapore, South Korea and Taiwan and a representative office with extensions in the Philippines.

Pacific Century's business focus in Asia is correspondent banking and trade financing. The activities include letters of credit, remittance processing, foreign exchange, cash management, export bill collection, and working capital loans. The lending emphasis is on short-term loans based on cash flows.

In the U.S. Mainland segment, consumer and business financial products and services are provided through Pacific Century Bank, N.A. (PCB), which has branches in Southern California and Arizona. PCB's emphasis is to develop a niche in the small and middle business markets and expand relationships with customers who have an interest in the Asia-Pacific region.

In addition to the operations of PCB, this segment also includes operating units for large corporate lending and leasing. The large corporate lending unit targets businesses that have interests in the Asia-Pacific region and companies in certain targeted industries. Leasing activities consist of providing financing to businesses largely for aircraft, vehicles and equipment.

The operations in the Treasury and Other Corporate segment, consist of corporate asset and liability management activities including investment securities, federal funds purchased and sold, institutional deposits, short and long-term borrowings, and derivative activities for managing interest rate and currency risks. Additionally, the net residual effect of transfer pricing assets and liabilities also is included in Treasury.

Other items in this segment consist of the following:

- The operations of the insurance and other non-bank related subsidiaries.

- The residual effect of unallocated expenses for support and administrative units.

- The difference between the sum of the economic provisions allocated to business segments and the provision in the consolidated financial statements.

- The difference between the sum of the equity allocated to business units and total equity in the consolidated financial statements.

- Nonrecurring income and expense items.

Note R--Parent Company Financial Statements

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

Condensed Statements of Income

	Years Ended December 31		
	1998	1997	1996
	(in thousands of dollars)		
Dividends From			
Bank Subsidiaries	$ 85,600	$ 97,103	$106,165
Other Subsidiaries	--	14,000	15,000
Interest Income			
From Subsidiaries	10,120	9,987	5,415
From Others	83	1,625	1,919
Other Income	1,758	195	143
Securities Gains (Losses)	(316)	1,605	661
Total Income	97,245	124,515	129,303
Interest Expense	22,244	19,691	8,036
Other Expense	10,341	9,444	5,950
Total Expense	32,585	29,135	13,986
Income Before Income Taxes and Equity in Undistributed Income of Subsidiaries	64,660	95,380	115,317
Income Tax Benefits	6,070	5,029	2,024
Income Before Equity in Undistributed Income	70,730	100,409	117,341
Equity in Undistributed Income of Subsidiaries			
Bank Subsidiaries	30,854	34,172	15,539
Other Subsidiaries	5,380	4,907	244
	36,234	39,079	15,783
Net Income	$106,964	$139,488	$133,124

Condensed Statements of Condition

	December 31		
	1998	1997	1996
	(in thousands of dollars)		
Assets			
Cash in Bank of Hawaii	$ 274	$ 100	$ 134
Investment Securities Available for Sale	430	1,759	11,931
Equity in Net Assets of Bank Subsidiaries	1,140,132	1,013,025	868,066
Equity in Net Assets of Other Subsidiaries	78,901	155,290	162,446
Interest-Bearing Deposits from Bank	175,200	171,997	200,300
Net Loans	712	733	10,298
Trading Securities	2,309	2,352	1,663
Other Assets	123,533	145,853	57,782
Total Assets	$1,521,491	$1,491,109	$1,312,620

Liabilities and Shareholders' Equity

Commercial Paper and Short-Term Borrowings..	$ 127,311	$ 105,216	$ 70,827
Long-Term Debt............................	193,093	253,093	163,093
Other Liabilities.........................	15,493	15,593	12,578
Shareholders' Equity......................	1,185,594	1,117,207	1,066,122
Total Liabilities and Shareholders' Equity................................	$1,521,491	$1,491,109	$1,312,620

Condensed Statements of Cash Flows

	Years Ended December 31		
	1998	1997	1996
	(in thousands of dollars)		
Operating Activities			
Net Income................................	$106,964	$ 139,488	$ 133,124
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Amortization Expense......................	7,961	6,009	3,943
Realized Investment Securities Gains.......	(44)	(1,476)	(653)
Undistributed Income from Subsidiaries.....	(36,234)	(39,079)	(15,783)
Net Decrease (Increase) in Trading Securities..............................	43	(689)	(1,663)
Other Assets and Liabilities, Net..........	14,208	(11,400)	(3,468)
Net Cash Provided by Operating Activities................................	92,898	92,853	115,500
Investing Activities			
Investment Securities Transactions, Net......	330	11,272	449
Interest Bearing Deposits, Net..............	(3,203)	28,303	(110,854)
Loan Transactions, Net......................	21	9,565	2,340
Capital Contributions to Subsidiaries, Net...	(11,100)	(36,400)	(3,093)
Purchase of CU Bancorp......................	--	(54,188)	--
Net Cash Used by Investing Activities....	(13,952)	(41,448)	(111,158)
Financing Activities			
Net Proceeds (Payments) from Borrowings......	(37,905)	124,389	99,361
Proceeds from Sale of Stock.................	19,223	16,376	13,991
Stock Repurchased...........................	(7,314)	(142,479)	(70,444)
Cash Dividends Paid.........................	(52,776)	(49,725)	(47,361)
Net Cash Used by Financing Activities....	(78,772)	(51,439)	(4,453)
Increase (Decrease) in Cash....................	174	(34)	(111)
Cash at Beginning of Year......................	100	134	245
Cash at End of Year............................	$ 274	$ 100	$ 134

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

None

PART III

The following information required by the Instructions to Form 10-K is incorporated herein by reference (except as otherwise indicated below) from various pages of the Pacific Century Financial Corporation Proxy Statement for the annual meeting of shareholders to be held on April 23, 1999, as summarized below:

Item 10. Directors and Executive Officers of the Registrant

Election of Directors on pages 2-7. Disclosure of Compliance with section 16(a) of the Securities Exchange Act on page 9.

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

Item 11. Executive Compensation

Executive Compensation on pages 12-18.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Voting Securities and Principal Holders Thereof and Election of Directors on pages 1-7.

Item 13. Certain Relationships and Related Transactions

Transactions with Management and Others on page 27.

PART IV

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

(a) Financial Statements and Schedules

The following consolidated financial statements of Pacific Century Financial Corporation and subsidiaries are included in Item 8:

Consolidated Statements of Condition--December 31, 1998, 1997, and 1996

Consolidated Statements of Income--Years ended December 31, 1998, 1997, and 1996

Consolidated Statements of Shareholders' Equity--Years ended December 31, 1998, 1997, and 1996

Consolidated Statements of Cash Flows--Years ended December 31, 1998, 1997, and 1996

Notes to Consolidated Financial Statements--December 31, 1998

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

Financial statements (and summarized financial information) of (1) unconsolidated subsidiaries or (2) 50% or less owned persons accounted for by the equity method have been omitted because they do not, considered individually or in the aggregate, constitute a significant subsidiary.

EXHIBIT INDEX

Exhibit Number	
3.1	Certificate of Incorporation of Pacific Century Financial Corporation (incorporated herein by reference to Appendix C of Pacific Century Financial Corporation 1998 Proxy Statement dated March 10, 1998)
3.2	By-Laws of Pacific Century Financial Corporation (incorporated herein by reference to Appendix D of Pacific Century Financial Corporation 1998 Proxy Statement dated March 10, 1998)
4.1	Instruments Defining the Rights of Holders of Long-Term Debt
10.1	Pacific Century Financial Corporation, One-Year Incentive Plan Effective January 1, 1999*
10.2	Pacific Century Financial Corporation, One-Year Incentive Plan Effective January 1, 1998 (incorporated herein by reference to Exhibit 10.1 of Form 10K for the fiscal year ended December 31, 1997)*
10.3	Pacific Century Financial Corporation, One-Year Executive Incentive Plan Effective January 1, 1998 (incorporated herein by reference to Exhibit 10.2 of Form 10K for the fiscal year ended December 31, 1997)*
10.4	Pacific Century Financial Corporation, Long-Term Incentive Compensation Plan Effective January 1, 1999*
10.5	Pacific Century Financial Corporation, Sustained Profit Growth Plan Effective January 1, 1998 (incorporated herein by reference to Exhibit 10.3 of Form 10K for the fiscal year ended December 31, 1997)*
10.6	Bancorp Hawaii, Inc. Sustained Profit Growth Plan Effective January 1, 1996 (incorporated herein by reference to Exhibit 10.3 of Form 10K for the fiscal year ended December 31, 1995)*
10.7	Bancorp Hawaii, Inc. Sustained Profit Growth Plan Effective January 1, 1997 (incorporated herein by reference to Exhibit 10.3 of Form 10K for the fiscal year ended December 31, 1996)*
10.8	Bancorp Hawaii, Inc., Sustained Profit Growth Plan Effective January 1, 1994 (incorporated herein by reference to Exhibit C of Bancorp Hawaii, Inc. 1994 Proxy Statement dated March 10, 1994)*
10.9	Bancorp Hawaii, Inc. Stock Option Plan of 1983 (incorporated herein by reference to Exhibit 4(a) of Registration No. 2-84164)*
10.10	Pacific Century Financial Corporation Stock Option Plan of 1988 (incorporated herein by reference to Exhibit 4(a) of Registration No. 33-23495)*
10.11	Pacific Century Financial Corporation Stock Option Plan of 1988 Amendment 99-1*
10.12	Pacific Century Financial Corporation Stock Option Plan of 1994 (incorporated herein by reference to Exhibit 4(a) of Registration No. 33-54777)*
10.13	Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 97-1*
10.14	Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 97-2 (incorporated herein by reference to Appendix A of Pacific Century Financial Corporation 1998 Proxy Statement dated March 10, 1998)*
10.15	Pacific Century Financial Corporation Stock Option Plan of 1994 Amendment 99-2*
10.16	Bancorp Hawaii, Inc. Key Executive Severance Plan dated April 27, 1983 (incorporated herein by reference to Exhibit 10.4 of Form 10K for the fiscal year ended December 31, 1995)*
10.17	Form of Key Executive Severance Agreement (incorporated herein by reference to Exhibit 19(e) of Form 10K for the fiscal year ended December 31, 1989 for L. M. Johnson)*
10.18	Form of Amended Key Executive Change-in-Control Severance Agreement (incorporated herein by reference to Exhibit 10(e) of Form 10K for

the fiscal year ended December 31, 1994--October 3, 1994 for R. J. Dahl)*

10.19	Form of Key Executive Change-in-Control Severance Agreement (incorporated herein by reference to Exhibit 10(f) of Form 10K for the fiscal year ended December 31, 1994--October 3, 1994 for A. T. Kuioka and December 12, 1997 for M.P. Carryer)*
10.20	Form of Executive Change-in-Control Severance Agreement (incorporated herein by reference to Exhibit 10(g) of Form 10K for the fiscal year ended December 31, 1994--for D. A. Houle)*
10.21	Pacific Century Financial Corporation Directors' Deferred Compensation Plan (Restatement Effective 1/1/96) with Amendment No. 96-1; Trust Agreement (Effective 9/1/96) (incorporated by reference herein to Exhibit (4) of Registration No. 333-14929.)
10.22	Pacific Century Financial Corporation Directors Stock Compensation Program (incorporated herein by reference herein to Exhibit (4) of Registration No. 333-02835).
12.1	Statement Regarding Computation of Ratios
19.1	Report to Shareholders for Quarter ended September 30, 1998
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Auditors
27.1	Financial Data Schedule

*Management contract or compensatory plan or arrangement

(b) Registrant filed no Form 8-Ks during the quarter ended December 31, 1998.

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

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

STATISTICAL DISCLOSURES
CONTENTS AND REFERENCE

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

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

Interest Differential--Table 23 included in Item 7 of this report.

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

Average Loans--Table 20 included in Item 7 of this report.

Average Deposits--Table 22 included in Item 7 of this report.

Item II. Investment Portfolio

Note B to the Audited Financial Statements included in Item 8 of this report.

Maturity Distribution, Market Value and Weighted-Average Yield to Maturity of Securities--Table 18 included in Item 7 of this report.

Item III. Loan Portfolio

Loan Portfolio Balances--Table 6 included in Item 7 of this report.

Maturities and Sensitivities of Loans to Changes in Interest Rates--Table 21 included in Item 7 of this report.

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

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

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

Item IV. Summary of Loan Loss Experience

Reserve for Loan Losses--Table 12 included in Item 7 of this report.

Allocation of Loan Loss Reserve--Table 13 included in Item 7 of this report.

Narrative discussion of "Reserve for Loss Losses" included in Item 7 of this report.

Item V. Deposits

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

Note E to the Audited Financial Statements included in Item 8 of this report.

Item VI. Return on Equity and Assets

	1998	1997	1996
Return on Average Assets............................	0.72%	0.98%	1.00%
Return on Average Equity............................	9.21%	12.57%	12.43%
Dividend Payout Ratio...............................	49.81%	36.34%	35.80%
Average Equity to Average Assets Ratio..............	7.81%	7.79%	8.05%

Item VII. Short-Term Borrowings

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

SIGNATURES

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

Date: February 26, 1999 Pacific Century Financial Corporation

/s/ Lawrence M. Johnson
By: ________________________________
Lawrence M. Johnson
Chairman of the Board and
Chief Executive Officer

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

Date: February 26, 1999

/s/ Lawrence M. Johnson Lawrence M. Johnson Director	/s/ H. Howard Stephenson H. Howard Stephenson Director
/s/ Peter D. Baldwin Peter D. Baldwin Director	/s/ Fred E. Trotter Fred E. Trotter Director
/s/ Mary G. F. Bitterman Mary G. F. Bitterman Director	/s/ Stanley S. Takahashi Stanley S. Takahashi Director
/s/ Richard J. Dahl Richard J. Dahl Director	/s/ Donald M. Takaki Donald M. Takaki Director
/s/ David A. Heenan David A. Heenan Director	/s/ David A. Houle David A. Houle Chief Financial Officer
/s/ Stuart T. K. Ho Stuart T. K. Ho Director	/s/ Denis K. Isono Denis K. Isono Chief Accounting Officer
/s/ Herbert M. Richards, Jr. Herbert M. Richards, Jr. Director	

Exhibit 4.1

Instruments defining the rights of holders of long-term debt of the Registrant are not filed as exhibits because the amount of debt authorized under any such instrument does not exceed 10% of the total assets of the Registrant and its consolidated subsidiaries. The Registrant hereby undertakes to furnish a copy of any such instrument to the Commission upon request.

Exhibit 10.1

PACIFIC CENTURY FINANCIAL CORPORATION

ONE-YEAR INCENTIVE PLAN

(Effective as of January 1, 1999)

Contents

PACIFIC CENTURY FINANCIAL CORPORATION
ONE-YEAR INCENTIVE PLAN

ARTICLE 1. ESTABLISHMENT, OBJECTIVES, AND EFFECTIVE DATE.

1.1. ESTABLISHMENT OF THE PLAN. Pacific Century Financial Corporation, a Delaware corporation ("PCFC"), hereby establishes an incentive compensation plan to be known as the "Pacific Century Financial Corporation One-Year Incentive Plan" ("Plan"), as set forth in this document.

1.2. OBJECTIVES OF THE PLAN. The objectives of the Plan are to optimize the profitability and growth of PCFC and its Subsidiaries through incentives for each current annual period which are consistent with PCFC's goals and which link the personal interests of Participants to those of PCFC's stockholders; to provide Participants with an incentive for excellence in individual performance; and to promote teamwork among Participants.

1.3. EFFECTIVE DATE. The Plan shall become effective as of January 1, 1999 ("Effective Date"). The Plan shall commence on the Effective Date and shall remain in effect, subject to the right of the Board of Directors to amend or terminate the Plan at any time pursuant to Article 11 hereof, until January 1, 2009.

ARTICLE 2. DEFINITIONS.

Whenever used in the Plan, the following capitalized terms shall have the meanings set forth below:

2.1. "AWARD AGREEMENT" shall mean an agreement entered into by PCFC and each Participant setting forth the terms and conditions applicable to an Award granted under this Plan.

2.2. "BOARD OF DIRECTORS" or "BOARD" shall mean the Board of Directors of PCFC.

2.3. "CHANGE IN CONTROL" of PCFC shall mean any one or more of the following: (i) any person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of PCFC having 25% or more of the total number of votes that may be cast for the election of Directors of PCFC; or (ii) as a result of, or in connection with, any cash tender or exchange offer, merger

or other business combination, sale of assets or contested election, or any combination of the foregoing transactions, the persons who were Directors of PCFC before the transaction shall cease to constitute a majority of the Board of Directors of PCFC or any successor to PCFC.

2.4. "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

2.5 "COMMITTEE" shall mean the Compensation Committee of the Board of Directors of PCFC.

2.6. "CONTINGENT AWARD" or "AWARD" shall mean an award which is contingent on the achievement of designated performance goals which is granted to an Eligible Employee at the outset of the Performance Period.

2.7. "DISABILITY" shall have the meaning ascribed to such term under the long-term disability plan sponsored by PCFC or a Subsidiary and applicable to the Participant, or if no such plan exists, the meaning as determined at the sole discretion of the Committee.

2.8. "EFFECTIVE DATE" shall have the meaning ascribed to such term in Article 1.3 hereof.

2.9. "ELIGIBLE EMPLOYEES" shall mean officers or other employees of PCFC or any Subsidiary, who, in the opinion of the Committee, are or give promise of becoming of exceptional importance to PCFC or any Subsidiary, and of making substantial contributions to the success, growth, and profit of PCFC and its Subsidiaries. Neither members of the Committee nor any member of the Board who is not an employee of PCFC or a Subsidiary shall be an Eligible Employee.

2.10. "FINAL AWARD" shall mean the award ultimately paid out to each Participant based on the Committee's determination under Article 6.

2.11. "NAMED EXECUTIVE OFFICER" shall mean a Participant who, as of the date of vesting or payout of an Award, as applicable, is one of the group of "covered employees" as defined under Code Section 162(m) and regulations thereunder.

2.12. "NET INCOME" shall mean PCFC's consolidated net income before taxes for the Performance Period, as reported in the annual report to shareholders (or as otherwise reported to shareholders) adjusted as described in this Section. The

Committee may, in its sole discretion, adjust PCFC's reported net income for the following in determining Net Income:

(a) Expenses associated with this incentive plan;
(b) Any extraordinary or unusual gain or loss transaction;
(c) Securities gains or losses; and
(d) Dividends on preferred shares.

The Committee will, in its sole discretion, determine any adjustments to be made pursuant to this definition.

2.13. "PARTICIPANT" shall mean a person that the Committee, in its sole discretion, selects from among the Eligible Employees to be granted a Contingent Award.

2.14. "PERFORMANCE-BASED EXCEPTION" means the performance-based exception from the tax deduction limitations of Code Section 162(m).

2.15. "PERFORMANCE PERIOD", with respect to any Award, shall mean PCFC's fiscal year.

2.16. "PLAN" shall mean this PCFC One-Year Incentive Plan, as it may be amended from time to time.

2.17. "RETIREMENT" shall mean the termination of a Participant's employment with PCFC or a Subsidiary under circumstances where the Participant terminates on or after the retirement dates specified under the Employees' Retirement Plan of Bank of Hawaii.

2.18. "SALARY" shall mean the actual base salary for the Performance Period.

2.19. "SUBSIDIARY" shall mean any corporation in which PCFC or any Subsidiary (as defined hereby) owns 50 percent or more of the total combined voting power of all classes of stock.

ARTICLE 3. ADMINISTRATION.

3.1. THE COMMITTEE. The Plan shall be administered by the Committee. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.

3.2. AUTHORITY OF THE COMMITTEE. Except as limited by law

or by the articles of incorporation or bylaws of PCFC, and subject to the provisions herein, the Committee shall have full power to interpret and administer the Plan, including to: identify and designate Eligible Employees and Participants under the Plan; determine the size of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan; construe and interpret the Plan and any Award Agreement or any other agreement or instrument entered into under the Plan; establish, amend, or waive rules and regulations for the Plan's administration; amend the terms and conditions of any outstanding Award or Award Agreement to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan; and amend, modify, or terminate the Plan in the manner described in Article 11. As permitted by law, the Committee may delegate its authority as identified herein.

3.3. DECISIONS BINDING. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders and resolutions of the Committee shall be final, conclusive, and binding on all persons, including

PCFC and its Subsidiaries, their shareholders, their employees, and the directors, Eligible Employees, Participants, and their estates and beneficiaries.

ARTICLE 4. ELIGIBILITY AND PARTICIPATION.

4.1. ELIGIBILITY. Eligible Employees of PCFC or any Subsidiary shall be eligible to participate in the Plan.

4.2. PARTICIPATION. Subject to the provisions of the Plan, the Committee may, from time to time and at its sole discretion, designate the Eligible Employees who shall be Participants and receive grants of Contingent Awards under the Plan.

ARTICLE 5. CONTINGENT AWARDS.

5.1. GRANT. The Committee may, from time to time and at its sole discretion, make a grant of a Contingent Award to each Participant. The Contingent Award for any Participant shall be an amount or range of amounts (expressed either in dollars or as percentages of Salary for the Performance Period). The Committee shall cause notice to be given to each Participant of his or her participation under the Plan.

In the event that the Committee determines that it is advisable to grant Awards to Named Executive Officers which do not qualify for the Performance-Based Exception, the Committee

may make such grants without satisfying the requirements of Code Section 162(m).

5.2. INCENTIVE POOL. In the case of a Contingent Award to a Named Executive Officer which is intended by the Committee to qualify for the Performance-Based Exception, the Contingent Award shall be determined by the Committee by the end of the first quarter of the applicable Performance Period and shall not exceed a percent of the Incentive Pool for the Performance Period specified by the Committee. The Incentive Pool shall be established for each Performance Period and shall be an amount designated as a percent of PCFC's Net Income for the Performance Period, which percent of PCFC's Net Income shall be determined by the Committee prior to the end of the first quarter of the Performance Period. The aggregate of Contingent Awards made to Named Executives for a Performance Period that are intended to qualify for the Performance-Based Exception shall not exceed the Incentive Pool for the Performance Period. The Committee may, but need not, grant such Contingent Awards up to the full amount of the Incentive Pool.

5.3. VALUE. A Contingent Award shall be of no immediate and certain value, and rather the amount payable to a Participant with respect to a Contingent Award for any given Performance Period shall be the Final Award as determined under Article 6.

ARTICLE 6. DETERMINATION AND PAYMENT OF FINAL AWARDS.

6.1. DETERMINATION OF FINAL AWARDS. Subject to the terms and conditions of the Plan, after the applicable Performance Period has ended, the Committee shall determine the Final Award to be paid to each Participant. Each Participant's performance during the Performance Period shall be assessed by the Participant's manager, who shall make a recommendation of Final Award to the Chief Executive Officer of PCFC. The Chief Executive Officer shall thereafter also assess each Participant's performance during the Performance Period and shall make a recommendation of Final Award to the Committee. However, the determination of Final Award for a Participant shall be within the sole discretion of the Committee. In this regard, the Committee may follow the recommendation by the

Chief Executive Officer or may make a lesser or greater Final Award, taking into account the Participant's overall contribution to PCFC and its Subsidiaries for the Performance Period, the corporate performance of PCFC and its Subsidiaries for the Performance Period, and such other criteria as the Committee may determine to promote the objectives of the Plan

in an individual case. The Committee may determine the amount of any Final Award to a Participant without regard to the amount of the Participant's Contingent Award. Except as otherwise provided in the case of a Change in Control or other event as described in Article 10, the Committee may modify or repeal the Contingent Award of any Participant at any time before the determination of the Participant's Final Award. However, in the case of a Contingent Award which is designed to qualify for the Performance-Based Exception with respect to a Named Executive Officer, the Final Award shall not result in an upward adjustment of the Contingent Award to an amount greater than the maximum percent of the Incentive Pool determined pursuant to Article 5.2 (although the Committee shall retain the discretion to adjust such the Contingent Award downward).

6.2. MAXIMUM AWARDS. Notwithstanding any other provision of the Plan, the maximum aggregate payout with respect to a Contingent Award granted in any one Plan Year to any one Participant shall be $2,000,000.

6.3. PAYMENT. Payment of Final Awards shall be made in a single lump sum as soon practicable following the close of the applicable Performance Period and the determination of the Final Awards.

However, a Participant may make a request, on a form approved by the Committee, for the deferral of all or part of any payment he or she may receive, provided that such request is delivered to the Human Resources Division no later than November 1 of the Performance Period. The Committee may accept or reject any such request for a deferral and may determine the conditions of such deferral at the Committee's sole discretion.

Payment of Final Awards shall be made normally in the form of cash. However, the Committee, in its sole discretion, may provide for payment of Final Awards in the form of PCFC stock, restricted stock or nonqualified stock options.

6.4. PARTICIPATION DURING PERFORMANCE PERIOD. Unless determined otherwise by the Committee and set forth in the Participant's Award Agreement, in the event that an Eligible Employee's participation commences or terminates (for reason other than a termination of employment as described in Article 7) mid-term during a Performance Period, the Participant shall receive a payout of the Award which is prorated in a manner determined by the Committee in its sole discretion.

ARTICLE 7. TERMINATION OF EMPLOYMENT.

7.1. TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, OR RETIREMENT. Unless determined otherwise by the Committee and set forth in the Participant's Award Agreement, in the event the employment of a Participant is terminated by reason of death, Disability, or Retirement during a Performance Period, the Participant shall receive a payout of the Final Award which is prorated in a manner determined by the Committee in its sole discretion. Payments of any prorated Final Awards shall be made at the similar time as payments are made to Participants who did not terminate employment during the applicable Performance Period.

7.2. TERMINATION OF EMPLOYMENT FOR OTHER REASONS. Unless determined otherwise by the Committee and set forth in the Participant's Award Agreement, in the event that a Participant's employment terminates during a Performance Period for any reason other than those reasons set forth in Article 7.1, all Awards for that Performance Period shall be forfeited by the Participant.

ARTICLE 8. BENEFICIARY DESIGNATION.

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by PCFC, and shall be effective only when filed by the Participant in writing with PCFC during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

ARTICLE 9. RIGHTS OF EMPLOYEES.

9.1. EMPLOYMENT. Nothing in the Plan shall interfere with or limit in any way the right of PCFC or a Subsidiary to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the of PCFC or a Subsidiary.

9.2. PARTICIPATION. No Employee shall have the right to be selected to receive an Award under this Plan, or, having

been so selected, to be selected to receive a future Award.

9.3. NONTRANSFERABILITY. No Award shall be sold, assigned, transferred, encumbered, hypothecated, or otherwise anticipated by a Participant and, during the lifetime of a Participant, any payment shall be payable only to the Participant.

ARTICLE 10. CHANGE-IN-CONTROL.

10.1. TREATMENT OF OUTSTANDING AWARDS. Notwithstanding any other provision of the Plan to the contrary, in the event of a dissolution or liquidation of PCFC, or a Change in Control of PCFC, the amount of cash payable with respect to any Contingent Award for a Performance Period that ends after such event shall be determined and payable as if the Performance Period ended on the date of such event and a Final Award shall be calculated and paid under the Plan in an amount equal to two times the Contingent Award. The Contingent Award shall be calculated based on the annualized Salary of the Participant for the shortened Performance Period. The Final Award calculated under this Article 10 shall be multiplied by a fraction, the numerator of which shall be the number of full months of the Performance Period, as adjusted under this Article 10, and the denominator of which shall be the number of full months in the intended Performance Period. The Final Award under this Article 10 shall be paid to such Participant within ten days of the end of the shortened Performance Period.

10.2. TERMINATION, AMENDMENT, AND MODIFICATIONS OF CHANGE IN CONTROL PROVISIONS. Notwithstanding any other provision of the Plan or any Award Agreement provision, the provisions of this Article 10 may not be terminated, amended, or modified on or after the date of a Change in Control to affect adversely any Award theretofore granted under the Plan without the prior written consent of the Participant with respect to the Participant's outstanding Awards; provided, however, the Board of Directors, upon recommendation of the Committee, may terminate, amend, or modify this Article 10 at any time and from time to time prior to the date of a Change in Control.

10.3. POOLING OF INTERESTS ACCOUNTING. Notwithstanding any other provision of the Plan to the contrary, in the event that the consummation of a Change in Control is contingent on using pooling of interests accounting methodology, the Board may take any action necessary, including but not limited to the amendment or repeal of any Contingent

Award, to preserve the use of pooling of interests accounting.

ARTICLE 11. AMENDMENT, MODIFICATION AND TERMINATION.

11.1. AMENDMENT, MODIFICATION AND TERMINATION. The Board or the Committee, may, at any time, terminate, amend, modify, or suspend this Plan provided that no such amendment, modification, suspension, or termination of the Plan shall in any manner (except as allowable under Section 10.3) adversely affect in any material way any Final Award made under the Plan without the consent of the Participant holding the Final Award.

11.2. COMPLIANCE WITH CODE SECTION 162(M). Except as otherwise provided by this Article 11.2, at all times when Code Section 162(m) is applicable, all Awards granted under this Plan shall comply with the requirements of Code Section 162(m). However, in the event the Committee determines that such compliance is not desired with respect to the initial grant of any Award under the Plan, then compliance with Code Section 162(m) shall not apply and be required for such Award. In addition, in the event that changes are made to Code Section 162(m) to permit greater flexibility with respect to any Award available under the Plan, the Committee may, subject to this Article 11, make any adjustments it deems appropriate.

ARTICLE 12. WITHHOLDING.

PCFC shall have the power and the right to deduct, withhold, or require a Participant to remit to PCFC an amount sufficient to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

ARTICLE 13. INDEMNIFICATION.

Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by PCFC against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with PCFC's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give PCFC an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under PCFC's articles of incorporation or bylaws, as a matter of law, or otherwise, or any power that PCFC have to indemnify them or hold them harmless.

ARTICLE 14. SUCCESSORS.

All obligations of PCFC under the Plan with respect to Awards granted hereunder shall be binding on any successor to PCFC, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of PCFC.

ARTICLE 15. LEGAL CONSTRUCTION.

15.1. GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

15.2. SEVERABILITY. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

15.3. REQUIREMENTS OF LAW. The granting of Contingent Awards and the payment of Final Awards under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

15.4. GOVERNING LAW. To the extent not preempted by federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the state of Delaware.

Exhibit 10.4

PACIFIC CENTURY FINANCIAL CORPORATION

LONG-TERM INCENTIVE COMPENSATION PLAN

(Effective as of January 1, 1999)

Contents

PACIFIC CENTURY FINANCIAL CORPORATION

LONG-TERM INCENTIVE COMPENSATION PLAN

ARTICLE 1. ESTABLISHMENT, OBJECTIVES, AND EFFECTIVE DATE.

1.1. ESTABLISHMENT OF THE PLAN. Pacific Century Financial Corporation, a Delaware corporation ("PCFC"), hereby establishes an incentive compensation plan to be known as the "Pacific Century Financial Corporation Long-Term Incentive Compensation Plan" ("Plan"), as set forth in this document.

1.2. OBJECTIVES OF THE PLAN. The objectives of the Plan are to optimize the profitability and growth of PCFC and its Subsidiaries through incentives for a multi-year period which are consistent with PCFC's goals and which link the personal interests of Participants to those of PCFC's stockholders; to provide Participants with an incentive for excellence in individual performance; and to promote teamwork among Participants.

1.3. EFFECTIVE DATE. The Plan shall become effective as of January 1, 1999 ("Effective Date"). The Plan shall commence on the Effective Date and shall remain in effect, subject to the right of the Board of Directors to amend or terminate the Plan at any time pursuant to Article 11 hereof, until January 1, 2009.

ARTICLE 2. DEFINITIONS.

Whenever used in the Plan, the following capitalized terms shall have the meanings set forth below:

2.1. "AWARD AGREEMENT" shall mean an agreement entered into by PCFC and each Participant setting forth the terms and conditions applicable to an Award granted under this Plan.

2.2. "BOARD OF DIRECTORS" or "BOARD" shall mean the Board of Directors of PCFC.

2.3. "CHANGE IN CONTROL" of PCFC shall mean any one or more of the following: (i) any person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of PCFC having 25% or more of the total number of votes that may be cast for the election of Directors of PCFC; or (ii) as a result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions, the persons who were Directors of PCFC before the transaction shall cease to constitute a majority of the Board of Directors of PCFC or any successor to PCFC.

2.4. "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

2.5. "COMMITTEE" shall mean the Compensation Committee of the Board of Directors of PCFC or any other committee designated by the Board.

2.6. "CONTINGENT AWARD" OR "AWARD" shall mean an award which is contingent on the achievement of designated performance goals and final determination by the Committee and which is granted to an Eligible Employee at the outset of the Performance Period.

2.7. "DISABILITY" shall have the meaning ascribed to such term under the long-term disability plan sponsored by PCFC or a Subsidiary and applicable to the Participant, or if no such plan exists, the meaning as determined at the sole discretion of the Committee.

2.8. "EFFECTIVE DATE" shall have the meaning ascribed to such term in Article 1.3 hereof.

2.9. "ELIGIBLE EMPLOYEES" shall mean officers or other employees of PCFC or any Subsidiary, who, in the opinion of the Committee, are or give promise of becoming of exceptional importance to PCFC or any Subsidiary, and of making substantial contributions to the success, growth, and profit of PCFC and its Subsidiaries. Neither members of the Committee nor any member of the Board who is not an employee of PCFC or a Subsidiary shall be an Eligible Employee.

2.10. "FINAL AWARD" shall mean the award ultimately paid out to each Participant, based on the extent to which corresponding performance goals have been achieved and the Committee's determination under Article 6.

2.11. "NAMED EXECUTIVE OFFICER" shall mean a Participant who, as of the date of vesting or payout of an Award, as applicable, is one of the group of "covered employees" as defined under Code Section 162(m) and regulations thereunder.

2.12. "PARTICIPANT" shall mean a person that the

Committee, in its sole discretion, selects from among the Eligible Employees to be granted a Contingent Award.

2.13. "PERFORMANCE-BASED EXCEPTION" means the performance-based exception from the tax deductibility limitations of Code Section 162(m).

2.14. "PERFORMANCE PERIOD" shall mean the length of time over which performance is measured for determining Final Awards. The length of the Performance Period shall be set at the sole discretion of the Committee.

2.15. "PLAN" shall mean this Pacific Century Financial Corporation Long-Term Incentive Compensation Plan, as it may be amended from time to time.

2.16. "RETIREMENT" shall mean the termination of a Participant's employment with PCFC or a Subsidiary under circumstances where the Participant terminates on or after the retirement dates specified under the Employees' Retirement Plan of Bank of Hawaii.

2.17. "SALARY" shall mean average annual base salary.

2.18. "SUBSIDIARY"" shall mean any corporation in which PCFC or any Subsidiary (as defined hereby) owns 50 percent or more of the total combined voting power of all classes of stock.

ARTICLE 3. ADMINISTRATION.

3.1. THE COMMITTEE. The Plan shall be administered by the Committee. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.

3.2. AUTHORITY OF THE COMMITTEE. Except as limited by law or by the articles of incorporation or bylaws of PCFC, and subject to the provisions herein, the Committee shall have full power to interpret and administer the Plan, including to: identify and designate Eligible Employees and Participants under the Plan; determine the size of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan; construe and interpret the Plan and any Award Agreement or any other agreement or instrument entered into under the Plan; establish, amend, or waive rules and regulations for the Plan's administration; amend the terms and conditions of any outstanding Award or Award Agreement to the extent such terms

and conditions are within the discretion of the Committee as provided in the Plan; and amend, modify, or terminate the Plan in the manner described in Article 11. As permitted by law, the Committee may delegate its authority as identified herein.

3.3. DECISIONS BINDING. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders and resolutions of the Committee shall be final, conclusive, and binding on all persons, including PCFC and its Subsidiaries, their shareholders, their employees, and the directors, Eligible Employees, Participants, and their estates and beneficiaries.

ARTICLE 4. ELIGIBILITY AND PARTICIPATION.

4.1. ELIGIBILITY. Eligible Employees of PCFC or any Subsidiary shall be eligible to participate in the Plan.

4.2. PARTICIPATION. Subject to the provisions of the Plan, the Committee may, from time to time and at its sole discretion, designate the Eligible

Employees who shall be Participants and receive grants of Contingent Awards under the Plan.

ARTICLE 5. CONTINGENT AWARDS.

5.1. GRANT. The Committee may, from time to time and at its sole discretion, make a grant of a Contingent Award to each Participant. The Contingent Award for any Participant shall be an amount, expressed either as a dollar amount or as a percentage of Salary for the Performance Period. The Committee shall cause notice to be given to each Participant of his or her participation under the Plan.

In the event that the Committee determines that it is advisable to grant Awards to Named Executive Officers which do not qualify for the Performance-Based Exception, the Committee may make such grants without satisfying the requirements of Code Section 162(m).

5.2. VALUE. A Contingent Award shall be of no immediate and certain value, and rather the amount payable to a Participant with respect to a Contingent Award for any given Performance Period shall be the Final Award as determined under Article 6 and shall be conditioned upon the extent to which the Performance Goals designated under this Article 5 are met and any adjustment to such Award as may be determined under Article 6.

5.3. PERFORMANCE MEASURE SELECTION. The performance goals upon which an Award is conditioned shall be based upon one or more of the following performance measures: earnings per share (actual or targeted growth), economic value added, net income after capital cost, net income (before or after taxes), various return measures (either absolute or relative to peers) including: return on average assets, return on average equity, risk-adjusted return on capital ("RAROC"), efficiency ratio, full time equivalency ("FTE") control, stock price (actual or targeted growth), total shareholder return ("TSR", absolute or relative to an index), and non-interest income to net interest income ratio. In the case of Awards to Named Executive Officers which are intended by the Committee to qualify for the Performance-Based Exception, the performance goals shall be based upon the performance measures set forth in this Article 5 as of the Effective Date, and any material addition or change to the performance measures shall not be utilized or taken into account for such Awards unless and until such performance measures are disclosed to and approved by shareholders in accordance with the requirements of Code Section 162(m).

5.4. PERFORMANCE GOAL ESTABLISHMENT. The Committee shall select among the performance measures, and shall establish specific performance goals relative to such performance measures prior to the end of the first quarter of the first year of the applicable Performance Period. Such performance goals shall, depending on the extent to which they are met as determined by the Committee, determine the value of the Final Awards paid out to Participants.

5.5. ADJUSTMENT OF PERFORMANCE GOALS. Once established, performance goals generally shall not be changed during a Performance Period. However, if the Committee determines that external changes or other unanticipated business conditions have materially affected the fairness of the goals, then the Committee may approve appropriate adjustments to the performance goals (either up or down) during a Performance Period as such goals apply to Contingent Awards. However, in the case of Awards to Named Executive Officers which are intended by the Committee to qualify for the performance-based Exception, any adjustments shall be made within the time period described in Article 5.4 to the extent required under Code Section 162(m).

5.6. ADJUSTMENT OF AWARDS UPON THE OCCURRENCE OF CERTAIN UNUSUAL OR NONRECURRING EVENTS. In the event of any change in corporate capitalization, such as a stock split, or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of PCFC or a Subsidiary, any reorganization (whether or not such reorganization comes within the definition of such term in Code Section 368), or any partial or complete liquidation of PCFC or a Subsidiary, or in the event of unusual or nonrecurring events affecting PCFC or the financial statements of PCFC or of changes in applicable laws, regulations, or accounting principles, such adjustments shall be made to the Contingent Awards and performance goals relating to the then-current Performance Period, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights. However, in the case of Awards to Named Executive Officers which are intended by the Committee to qualify for the performance-based Exception, any adjustments shall be made within the time period described in Article 5.4 to the extent regarded under Code Section 162(m).

ARTICLE 6. DETERMINATION AND PAYMENT OF FINAL AWARDS.

6.1. DETERMINATION OF FINAL AWARDS. Subject to the terms and conditions of the Plan, after the applicable Performance Period has ended, the Committee shall determine the Final Award to be paid to each Participant based on the Participant's Contingent Award and the extent to which corresponding performance goals have been achieved.

Notwithstanding any other provision in the Plan to the contrary, the Committee may adjust the Final Award payable to a Participant by making any upward or downward adjustment to the corresponding Contingent Award. Except as otherwise provided in the case of a Change in Control or other event as described in Article 10, the Committee may modify or repeal the Contingent Award of any Participant at any time before the determination of the Participant's Final Award. However, Contingent Awards which are designed to qualify for the Performance-Based Exception with respect to Named Executive Officers may not be adjusted upward (although the Committee shall retain the discretion to adjust such Awards downward).

6.2. MAXIMUM AWARDS. The maximum aggregate payout with respect to Contingent Awards granted in any one fiscal year to any one Participant shall be $2,000,000.

6.3. PAYMENT. Payment of Final Awards shall be normally made in a single lump sum as soon practicable following the close of the applicable Performance Period.

However, a Participant may make a request, on a form approved by the Committee, for the deferral of all or part of

any payment he or she may receive for a Performance Period, provided that such request is delivered to the Human Resources Division no later than November 1 of the last year within the Performance Period. The Committee may accept or reject any such request for a deferral and may determine the conditions of such deferral at the Committee's sole discretion.

Payment of Final Awards shall be made normally in the form of cash. However, the Committee, in its sole discretion, may provide for payment of Final Awards in the form of PCFC stock, restricted stock or nonqualified stock options.

6.4. PARTICIPATION DURING PERFORMANCE PERIOD. Unless determined otherwise by the Committee and set forth in the Participant's Award Agreement, in the event that an Eligible Employee's participation commences or terminates (for reason other than a termination of employment as described in Article 7) mid-term during a Performance Period, the Participant shall receive a payout of the Award which is prorated in a manner determined by the Committee in its sole discretion.

ARTICLE 7. TERMINATION OF EMPLOYMENT.

7.1. TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, OR RETIREMENT. Unless determined otherwise by the Committee and set forth in the Participant's Award Agreement, in the event the employment of a Participant is terminated by reason of death, Disability, or Retirement during a Performance Period, the Participant shall receive a payout of the Award which is prorated in a manner determined by the Committee in its sole discretion. Payments of any prorated Final Awards shall be made at the similar time as payments are made to Participants who did not terminate employment during the applicable Performance Period.

7.2. TERMINATION OF EMPLOYMENT FOR OTHER REASONS. Unless determined otherwise by the Committee and set forth in the Participant's Award Agreement, in the event that a Participant's employment terminates during a Performance Period for any reason other than those reasons set forth in Article 7.1, all Awards for that Performance Period shall be forfeited by the Participant.

ARTICLE 8. BENEFICIARY DESIGNATION.

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the

Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by PCFC, and shall be effective only when filed by the Participant in writing with PCFC during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

ARTICLE 9. RIGHTS OF EMPLOYEES.

9.1. EMPLOYMENT. Nothing in the Plan shall interfere with or limit in any way the right of PCFC or a Subsidiary to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the of PCFC or a Subsidiary.

9.2. PARTICIPATION. No Employee shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

9.3. NONTRANSFERABILITY. No Award shall be sold, assigned, transferred, encumbered, hypothecated, or otherwise anticipated by a Participant and, during the lifetime of a Participant, any payment shall be payable only to the Participant.

ARTICLE 10. CHANGE IN CONTROL.

10.1. TREATMENT OF OUTSTANDING AWARDS. Notwithstanding any other provision of the Plan to the contrary, in the event of a dissolution or liquidation of PCFC, or a Change in Control of PCFC, the amount of cash payable with respect to any Contingent Award for a Performance Period that ends after such event shall be determined and payable as if the Performance Period ended on the date of such event and a Final Award shall be calculated and paid under the Plan in an amount equal to two times the Contingent Award. The Contingent Award shall be calculated based on the Salary of the Participant for the shortened Performance Period. The Final Award calculated under this Article 10 shall be multiplied by a fraction, the numerator of which shall be the number of full months of the Performance Period, as adjusted under this Article 10, and the denominator of which shall be the number of full months in the intended Performance Period. The Final Award under this Article 10 shall be paid to such Participant within ten days of the end of the shortened Performance Period.

10.2. TERMINATION, AMENDMENT, AND MODIFICATIONS OF CHANGE IN CONTROL PROVISIONS. Notwithstanding any other provision of the Plan or any Award Agreement provision, the provisions of this Article 10 may not be terminated, amended, or modified on or after the date of a Change in Control to affect adversely any Award theretofore granted under the Plan without the prior written consent of the Participant with respect to the Participant's outstanding Awards; provided, however, the Board of Directors, upon recommendation of the Committee, may terminate, amend, or modify this Article 10 at any time and from time to time prior to the date of a Change in Control.

10.3. POOLING OF INTERESTS ACCOUNTING. Notwithstanding any other provision of the Plan to the contrary, in the event that the consummation of a Change in Control is contingent on using pooling of interests accounting methodology, the Board may take any action necessary, including but not limited to the amendment or repeal of any Contingent Award, to preserve the use of pooling of interests accounting.

ARTICLE 11. AMENDMENT, MODIFICATION, AND TERMINATION.

11.1. AMENDMENT, MODIFICATION, AND TERMINATION. The Board or the Committee, may, at any time, terminate, amend, modify, or suspend this Plan provided that no such amendment, modification, suspension, or termination of the Plan shall in any manner (except as allowable under Section 10.3) adversely affect in any material way any Final Award previously made under the Plan without the consent of the Participant holding the Final Award.

11.2. COMPLIANCE WITH CODE SECTION 162(M). At all times when Code Section 162(m) is applicable, all Awards granted under this Plan shall comply with the requirements of Code Section 162(m). However, in the event the Committee determines that such compliance is not desired with respect to the initial grant of any Award under the Plan, then compliance with Code Section 162(m) shall not apply and be required for such Award. In addition, in the event that changes are made to Code Section 162(m) to permit greater flexibility with respect to any Award available under the Plan, the Committee may, subject to this Article 11, make any adjustments it deems appropriate.

ARTICLE 12. WITHHOLDING.

PCFC shall have the power and the right to deduct, withhold, or require a Participant to remit to PCFC an amount sufficient to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

ARTICLE 13. INDEMNIFICATION.

Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by PCFC against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with PCFC's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give PCFC an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under PCFC's articles of incorporation or bylaws, as a matter of law, or otherwise, or any power that PCFC have to indemnify them or hold them harmless.

ARTICLE 14. SUCCESSORS.

All obligations of PCFC under the Plan with respect to Awards granted hereunder shall be binding on any successor to PCFC, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of PCFC.

ARTICLE 15. LEGAL CONSTRUCTION.

15.1. GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

15.2. SEVERABILITY. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

15.3. REQUIREMENTS OF LAW. The granting of Contingent Awards and the payment of Final Awards under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

15.4. GOVERNING LAW. To the extent not preempted by federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the state of Delaware.

EXHIBIT 10.11

AMENDMENT 99-1 TO THE PACIFIC CENTURY FINANCIAL CORPORATION STOCK OPTION PLAN OF 1988 AND RELATED AWARDS

In accordance with Article 13 of the Pacific Century Financial Corporation Stock Option Plan of 1988 (hereinafter "Plan"), the Plan and related awards are hereby amended by this Amendment No. 99-1, effective as of the date of adoption by the Board of Directors, in the following respects:

1. Section 2 of the Plan shall be amended by adding the following text at the end of paragraph (a) thereof:

> Notwithstanding any other provision of the Plan (and without limiting the Committee's authority), in connection with any action concerning grants of awards to or a transactions by participants who would be classified as insiders of the Corporation by applicable rules of the Securities and Exchange Commission, the Committee may adopt such procedures as it deems necessary or desirable to assure the availability of exemptions from Section 16 of the Securities Exchange Act afforded by Rule 16b-3 thereunder or any successor rule. Without limiting the foregoing, in connection with approval of any transaction by any such insider involving a grant, award or other acquisition from the Corporation, or involving the disposition to the Corporation of the Corporation's equity securities, the Committee may delegate its approval authority to a subcommittee thereof comprised of two or more "Non-Employee Directors" (as defined in Rule 16b-3), or take action by the affirmative vote of two or more Non-Employee Directors (with all other members of the Committee abstaining or recusing themselves from participating in the matter), or refer the matter to the full Board of Directors for action.

2. Section 7 of the Plan shall be amended by revising the next-to-last sentence of paragraph (b) thereof so as to read in its entirety as follows:

> Election of an alternative settlement method involving the receipt of cash shall be subject to the approval by the Committee or a subcommittee thereof, which approval may be made subject to limitations or conditions, may be given in advance of or following an election by the participant, and may be granted or withheld by the Committee or subcommittee in its sole discretion with or without cause.

3. Section 7(e) shall be amended by revising subparagraph (2) thereof so as to read in its entirety as follows:

> (2) The Corporation may withhold from the Common Stock that is subject to the exercise of the option shares having a fair market value equal to the amount required to satisfy the withholding requirements;

4. Section 7(e) shall be amended by revising the text following subparagraph (4) so as to read in its entirety as follows:

> No certificate for Common Stock acquired pursuant to the exercise of an option may be issued by the Corporation until the appropriate amount of taxes has been withheld by the Corporation. In the event a person fails to elect a method of satisfying the withholding requirements, then the Corporation shall withhold all applicable taxes from the person's salary or other cash compensation. The value of Common Stock for purposes of subparagraph (2) shall be determined on the date of withholding and shall be the fair market value (as determined under Section 4 of this Plan) of the stock on the previous business day.

5. Each outstanding award under the Plan held by a participant who is classified as an insider by the Securities and Exchange Commission shall be amended to the extent necessary to conform such award to the amendments to the Plan set forth above. Without limiting the foregoing, each such award shall be amended by (i) amending clause "(a)" of the last sentence of Section 6.4 thereof so as to read "(a) an alternative settlement method involving the receipt of cash shall be subject to approval by the Committee or a subcommittee thereof, which approval may be made subject to limitations or conditions, may be given in advance of or following the participant's request referred to in Section 6.3, and may be granted or withheld by the Committee or subcommittee in its sole discretion with or without cause; and", and (ii) deleting Section 6.5 and each reference in the award to Section 6.5.

Exhibit 10.13

AMENDMENT 97-1 TO
THE BANCORP HAWAII, INC.
STOCK OPTION PLAN OF 1994

In accordance with Article 13 of the Bancorp Hawaii, Inc. Stock Option Plan of 1994 (hereinafter "Plan"), and conditioned on the approval of shareholders no later than one year after the date of adoption by the Board of Directors of Bancorp Hawaii, Inc., the Plan is hereby amended by this Amendment No. 97-1 effective as of the date of adoption by the Board of Directors.

1. The first sentence of Section 4.1 of the Plan shall be amended to increase the total number of Shares reserved and available for grant under the Plan by inserting the number "2,875,000" in lieu of the reference to "1,250,000".

EXHIBIT 10.15

AMENDMENT 99-2 TO
THE PACIFIC CENTURY FINANCIAL CORPORATION
STOCK OPTION PLAN OF 1994 AND RELATED AWARDS

In accordance with Article 13 of the Pacific Century Financial Corporation Stock Option Plan of 1994 (hereinafter "Plan"), the Plan and related Awards are hereby amended by this Amendment No. 99-2, effective as of the date of adoption by the Board of Directors, in the following respects:

1. Section 2.1(ag) of the Plan shall be deleted.

2. Section 3.1 of the Plan shall be amended to read in its entirety as follows:

3.1 The Committee. The Plan shall be administered by the Compensation Committee of the Board of Directors, which shall be comprised of two or more Directors who satisfy the requirements of an "outside" Director under Code Section 162(m)(4)(C)(i). The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of the Board.

Notwithstanding any other provision of the Plan (and without limiting the Committee's authority), in connection with any action concerning grants of Awards to or a transactions by Insiders the Committee may adopt such procedures as it deems necessary or desirable to assure the availability of exemptions from Section 16 of the Exchange Act afforded by Rule 16b-3 thereunder or any successor rule. Without limiting the foregoing, in connection with approval of any transaction by an Insider involving a grant, award or other acquisition from the Company, or involving the disposition to the Company of the Company's equity securities, the Committee may delegate its approval authority to a subcommittee thereof comprised of two or more "Non-Employee Directors" (as defined in Rule 16b-3), or take action by the affirmative vote of two or more Non-Employee Directors (with all other members of the Committee abstaining or recusing themselves from participating in the matter), or refer the matter to the full Board of Directors for action.

3. The final sentence of Section 3.2 shall be amended to read as follows:

The performance goals applicable to each Award intended to provide Performance-Based Compensation shall be based on one or more of the following performance measures: earnings per share (actual or targeted growth), economic value added, net income after capital cost, net income (before or after taxes), various return measures (either absolute or relative to peers) including: return on average assets, return on average equity, risk-adjusted return on capital ("RAROC"), efficiency ratio, full time equivalency ("FTE") control, stock price (actual or targeted growth), total shareholder return ("TSR", absolute or relative to an index), and non-interest income to net interest income ratio.

4. The second paragraph of Section 7.7 of the Plan shall be deleted.

5. Section 14.2 of the Plan shall be revised to read in its entirety as follows:

14.2 Share Withholding. With respect to withholding required upon the exercise of Options or SARs or upon the lapse of restrictions on Restricted Stock or Restricted Stock Units, or upon any other taxable event hereunder, Participants may elect to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. All elections shall be irrevocable, made in writing, and signed by the Participant.

6. Section 16.4 shall be revised to read as follows:

16.4 Securities Law Compliance. With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act (except to the extent that noncompliance of a particular transaction would not result in liability under Section 16 of the Exchange Act or the rules adopted thereunder). To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

7. Article 13 shall be revised to read as follows:

ARTICLE 13. AMENDMENT, MODIFICATION AND TERMINATION. The Board may at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part; provided that no amendment, modification, suspension or termination of the Plan shall in any material manner affect any Award theretofore granted under the Plan without the written consent of the affected Participant or any person validly claiming under or through such Participant. Without limiting the foregoing, if the Company or any of its subsidiaries is a party to a merger, consolidation, reorganization, share exchange, acquisition of stock or assets, or similar transaction, the Committee or the Board may grant Awards (including Options) hereunder in connection with the assumption, substitution or conversion by the Company or its subsidiaries of similar stock compensation awards that have been issued by another party to such transaction, and the Board may amend the Plan, or adopt supplements to the Plan, in such manner as it deems appropriate to provide for such assumption, substitution or conversion, all without further action by the Company's shareholders.

8. Each outstanding Award held by an Insider shall be and hereby is amended to the extent necessary to conform such Award to the Plan amendments set forth above (other than paragraph 3). Without limiting the foregoing:

(a) Section 5.4 of each such Award shall be amended by revising the last sentence thereof to read as follows:

Any provision herein contained to the contrary notwithstanding (a) the exercise of the Tandem SAR involving the receipt of cash shall be subject to approval of the Committee or a subcommittee thereof, which approval may be made subject to limitations or conditions, may be given in advance of or following a request by the Optionee therefor, and may be granted or withheld by the Committee or subcommittee in its sole discretion with or without cause; and (b) the Tandem SAR may be exercised only when the Fair Market Value of the Option Shares exceeds the Option Price.

(b) Section 5.5 shall be deleted; and

(c) Section 14 shall be amended by deleting the third sentence thereof, and by revising the second sentence to read: "The Optionee may elect to satisfy withholding requirements by having the Company withhold shares of Company Stock made available upon exercise of the Option."

Exhibit 12.1

Pacific Century Financial Corporation
Statement Regarding Computation of Ratios
Year Ended December 31, 1998

(in millions of dollars)

Earnings:	
1. Income before income taxes	$ 163.6
2. Plus: fixed charges including interest on deposits. . .	526.6
3. Earnings including fixed charges	690.2
4. Less: interest on deposits.	317.9
5. Earnings excluding interest on deposits.	$ 372.3
Fixed Charges:	
6. Fixed charges including interest on deposits	$ 526.6
7. Less: interest on deposits.	317.9
8. Fixed charges excluding interest on deposits	$ 208.7
Ratio of Earnings to Fixed Charges:	
Including interest on deposits (line 3 divided by line 6)	1.31 x
Excluding interest on deposits (line 5 divided by line 8)	1.78 x

EXHIBIT 19.1

To Our Shareholders:

Pacific Century Financial Corporation closed the books on its strongest quarter so far this year with third quarter earnings of $34.8 million, up from the net income reported for the previous three quarters ($3.1 million in second quarter 1998, $34.0 million in first quarter 1998, and $33.1 million in fourth quarter 1997) and down slightly from the same period last year (third quarter 1997, $35.3 million). Diluted earnings per share of 43 cents matched those of 1997's third quarter and were well above the 4 cents reported for second quarter 1998.

We are pleased to see our performance return to the levels we enjoyed prior to the onset of turmoil in the Asia markets. Earlier this year, we took aggressive actions to ensure prudent management of our Asia exposure by bolstering reserves and reducing exposure in our Asian loan portfolio. The soundness of this course is evident in our third quarter results.

Total assets at September 30, 1998 stood at $14.6 billion down from $14.9 billion a year earlier, reflecting the intentional contraction of our Asia loan portfolio. Return on average assets for the quarter was 0.93 percent and return on average equity was 11.87 percent.

Pacific Century's New Era restructuring program is on track and on schedule. During the quarter, we made significant strides on several fronts relating to our branch rationalization program, actions which are expected to improve efficiency and reduce annual operating costs by up to $22 million. The merger of First Federal Savings & Loan Association of America into Bank of Hawaii took effect on September 30, and the company completed a reorganization of its Hawaii Market delivery network in the third quarter. In August, the company's two mainland banks were merged into a single entity known as Pacific Century Bank N.A. based in Encino, CA.

Also during the quarter, Pacific Century resumed a share repurchase program to offset the number of shares regularly issued by the company under the terms of its various established plans such as dividend reinvestment, employee profit sharing and stock option plans.

On October 23rd, your board of directors approved an increase in the quarterly dividend from 16.25 cents to 17 cents per share, an increase of 4.6 percent. Pacific Century last increased its dividend in July of 1997. The dividend will be payable on December 14, 1998 to shareholders of record at the close of business on November 20, 1998. Your dividends have been increased for the past 20 consecutive years, and dividends have been paid each quarter for the past 100 years.

Pacific Century Financial Corporation remains committed to its four markets and its Pacific strategy. In the first nine months of this year, we have made significant progress in implementing initiatives to improve our performance and achieve our financial objectives. The steps we have taken to increase efficiency and streamline operations will enable us to focus our businesses in line with our performance goals.

Ensuring the value of your holdings in Pacific Century Financial Corporation remains our highest priority. Your continued confidence and support are vital to our success.

Sincerely,

/s/ LAWRENCE M. JOHNSON

Lawrence M. Johnson

Chairman and CEO

Corporate Offices:
Financial Plaza of the Pacific
130 Merchant Street
Honolulu, Hawaii 96813

Investor or Analyst Inquiries:
David A. Houle
Executive Vice President, Treasurer and Chief Financial Officer
(808) 537-8288

or

Sharlene K. Bliss
Investor Relations
(808) 537-8037

or

Cori C. Weston
Corporate Secretary
(808) 537-8272

Highlights (Unaudited) — Pacific Century Financial Corporation and subsidiaries

	September 30 1998	September 30 1997
Return on Average Assets	0.64%	1.01%
Return on Average Equity	8.35%	12.94%
Average Spread on Earning Assets	4.22%	3.94%
Average Equity/Average Assets	7.70%	7.77%
Book Value Per Common Share	$14.50	$14.19
Loss Reserve/Loans and Leases Outstanding	2.24%	1.91%

Common Stock Price Range	High	Low	Dividend
1997..	$ 28.06	$ 20.31	$ 0.625
1998 First Quarter...........................	$ 25.13	$ 20.31	$0.1625
Second Quarter...........................	$ 25.88	$ 23.56	$0.1625
Third Quarter............................	$ 24.06	$ 14.75	$0.1625

Consolidated Statements of Income (Unaudited)

September 30 September 30 September 30 September 30 (in thousands of dollars except per share amounts)	3 Months Ended 1998	3 Months Ended 1997	9 Months Ended 1998	9 Months Ended 1997
Total Interest Income	$ 275,461	$ 271,452	$ 830,577	$ 777,160
Total Interest Expense	130,963	135,893	397,509	391,567
Net Interest Income	144,498	135,559	433,068	385,593
Provision for Possible Loan Losses	10,737	8,162	71,022	20,536
Net Interest Income After Provision for Possible Loan Losses	133,761	127,397	362,046	365,057
Total Non-Interest Income	53,616	46,147	156,278	134,108
Total Non-Interest Expense	136,191	118,979	409,610	333,996
Income Before Income Taxes	51,186	54,565	108,714	165,169
Provision for Income Taxes	16,351	19,312	36,763	58,829
Net Income	$ 34,835	$ 35,253	$ 71,951	$ 106,340
Basic Earnings Per Share	$ 0.43	$ 0.44	$0.90	$1.34
Diluted Earnings Per Share	$ 0.43	$ 0.43	$0.89	$1.31
Basic Weighted Average Shares	80,459,112	80,936,920	80,201,636	79,730,632

Diluted Weighted Average Shares	81,033,346	82,188,388	81,128,698	80,773,130

Consolidated Statements of Condition (Unaudited)

(in thousands of dollars)	September 30 1998	December 31 1997	September 30 1997
Assets			
Interest-Bearing Deposits	$ 407,265	$ 335,847	$ 490,153
Investment Securities			
(Market Value of $3,546,186, $3,874,505, and $3,707,769 respectively)	3,527,640	3,871,485	3,701,645
Securities Purchased Under Agreements to Resell	40,000	--	--
Funds Sold	114,940	80,457	111,890
Loans	9,549,741	9,498,408	9,529,535
Unearned Income	(207,346)	(209,721)	(206,823)
Reserve for Loan Losses	(209,731)	(174,362)	(177,689)
Net Loans	9,132,664	9,114,325	9,145,023
Total Earning Assets	13,222,509	13,402,114	13,448,711
Cash and Non-Interest Bearing Deposits	541,217	795,332	579,087
Premises and Equipment	301,124	288,358	286,090
Other Assets	573,656	509,660	557,353
Total Assets	$14,638,506	$14,995,464	$14,871,241
Liabilities			
Deposits	$ 9,422,877	$ 9,607,695	$ 9,443,307
Securities Sold Under Agreements to Repurchase	2,380,071	2,279,124	2,268,250
Funds Purchased	288,727	710,472	364,528
Short-Term Borrowings	363,461	226,127	494,417
Other Liabilities	391,744	349,050	393,094
Long-Term Debt	624,619	705,789	766,485
Total Liabilities	13,471,499	13,878,257	13,730,081
Shareholders' Equity			
Common Stock ($.01 par value at September 30, 1998 and $2.00 par value at December 31, 1997 and September 30, 1997), authorized 500,000,000 shares; issued and outstanding, September 1998 - 80,462,983; December 1997 - 79,684,553; September 1997 - 40,221,783	804	159,369	80,444
Capital Surplus	341,534	168,920	194,131
Accumulated Other Comprehensive Income	(21,839)	(24,766)	(6,509)
Retained Earnings	846,508	813,684	873,094
Total Shareholders' Equity	1,167,007	1,117,207	1,141,160
Total Liabilities and Shareholders' Equity	$14,638,506	$14,995,464	$14,871,241

Exhibit 21.1

PACIFIC CENTURY FINANCIAL CORPORATION
SUBSIDIARIES OF THE REGISTRANT

Pacific Century Financial Corporation's organizational structure at December 31, 1998 follows.

PACIFIC CENTURY FINANCIAL CORPORATION (Parent)
Bank Holding Company

Subsidiaries:

FIRST SAVINGS & LOAN ASSOCIATION OF AMERICA (Guam)
Guam

PACIFIC CENTURY BANK, N.A.
California

PACIFIC CENTURY INSURANCE SERVICES, INC.
Hawaii

PACIFIC CENTURY SMALL BUSINESS INVESTMENT COMPANY, INC.
Hawaii

PCFC HAWAII CORPORATION
Hawaii

BANK OF HAWAII

Subsidiaries:

Bank of Hawaii International Corp., New York -
New York

Bank of Hawaii International, Inc. -
Hawaii

Subsidiaries/Affiliates:

Bank of Hawaii-Nouvelle Caledonie (91.5%)
New Caledonia

Bank of Hawaii (PNG) Ltd. (100%)
Papua New Guinea

Bank of Tonga (30%)
Tonga

Banque de Tahiti (92.4%)
French Polynesia

Banque d'Hawaii (Vanuatu), Ltd. (100%)
Vanuatu

National Bank of Solomon Islands (51%)
Solomon Islands

Pacific Commercial Bank, Ltd. (43%)
Samoa

Bankoh Corporation
Hawaii

Pacific Century Advisory Services, Inc.
Hawaii

Pacific Century Agency, Inc.
Hawaii

Pacific Century Insurance Agency, Inc.
Hawaii

Pacific Century Investment Services, Inc.
Hawaii

Pacific Century Leasing, Inc. (Parent)
Hawaii

Subsidiaries:

- Arbella Leasing Corp.
  - Delaware
- BNE Airfleets Corporation
  - Barbados
- Pacific Century Leasing International, Inc.
  - Delaware
- S.I.L., Inc.
  - Delaware

Pacific Century Life Insurance Corporation
Arizona

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statements (Form S-8 Nos. 2-96329, 33-29872, 2-63615, 2-84164, 33-23495, 33-49836, 33-54777, 33-57267, 333-02835 and 333-14929), (Form S-3 Nos. 33-25036, 33-44395 and 33-54775) and (Form S-4 Nos. 333-22497, 333-22497-01 and 333-24379) of Pacific Century Financial Corporation and subsidiaries of our report dated January 22, 1999, with respect to the consolidated financial statements of Pacific Century Financial Corporation and subsidiaries included in this Annual Report on Form 10-K for the year ended December 31, 1998.

/s/ ERNST & YOUNG LLP

Honolulu, Hawaii
February 26, 1999

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