BANK OF HAWAII CORP
Form 10-K
February 23, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

OR

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

BANK OF HAWAII CORPORATION

(Exact name of registrant as specified in its charter)

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

1-888-643-3888
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

Yes ý No o

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

Yes o No ý

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

Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ý No o

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

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

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

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

Yes o No ý

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2010 (the last business day of the registrant's most recently completed second fiscal quarter), determined using the per share closing price on that date on the New York Stock Exchange of $48.35, was approximately $2,304,468,579. There was no non-voting common equity of the registrant outstanding on that date.

As of February 14, 2011, there were 47,959,703 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 22, 2011, are incorporated by reference into Part III of this Report.

Bank of Hawaii Corporation

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Part I

Item 1. Business

General

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company ("BHC") headquartered in Honolulu, Hawaii.

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

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

The Bank's subsidiaries include Bank of Hawaii Leasing, Inc., Bankoh Investment Services, Inc., Pacific Century Life Insurance Corporation, BOH Wholesale Insurance Agency, Inc. (formerly known as Triad Insurance Agency, Inc.), and Bank of Hawaii Insurance Services, Inc. The Bank's subsidiaries are engaged in equipment leasing, securities brokerage, investment services, wholesale insurance, and insurance agency services. In 2009, the Company sold most of the assets and operations of its wholesale insurance agency and retail insurance brokerage subsidiaries, including the name of its wholesale insurance agency business, Triad Insurance Agency, Inc., to third parties.

We are aligned into four business segments for management reporting purposes: Retail Banking, Commercial Banking, Investment Services, and Treasury. See Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and Note 13 to the Consolidated Financial Statements for more information.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports can be found free of charge on our website at www.boh.com as soon as reasonably practicable after such material is electronically filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). The SEC maintains a website, www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our Corporate Governance Guidelines; charters of the Audit and Risk Committee, the Executive and Strategic Planning Committee, the Human Resources and Compensation Committee, and the Nominating and Corporate Governance Committee; and our Code of Business Conduct and Ethics are available on our website. Upon written request to the Corporate Secretary at 130 Merchant Street, Honolulu, Hawaii, 96813, this information is available in print form.

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

We have included the Chief Executive Officer and the Chief Financial Officer certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 of this report.

Competition

We are subject to substantial competition from banks, savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies, and other providers of financial services, including financial service subsidiaries of commercial and manufacturing companies. We also compete with non-financial institutions that offer financial products and services. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and BHCs. As a result, some of our competitors may have lower cost structures. Also, some of our competitors, through alternative delivery channels such as the internet, may be based outside of the markets that we serve. Our extensive branch network, exceptional service levels, and knowledge of local trends and conditions contribute to our competitive advantage.

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Supervision and Regulation

Our operations are subject to extensive regulation by federal and state governmental authorities. The regulations are primarily intended to protect depositors, customers, and the integrity of the U.S. banking system. The following information describes significant laws and regulations applicable to us. The description is qualified in its entirety by reference to the applicable laws and regulations. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and with the various bank regulatory agencies. Changes in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business, operations, and earnings.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, including the Company and the Bank. A broad range of new rules and regulations by various federal agencies must be adopted and, consequently, many details and much of the impact of this act may not be known for many months or years.

The Parent

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

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

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

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

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

Bank of Hawaii

The Bank is subject to supervision and examination by the FRB of San Francisco and the State of Hawaii

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Department of Commerce and Consumer Affairs ("DCCA"), Division of Financial Institutions. The Bank is subject to extensive federal and state regulations that significantly affect business and activities. These regulatory bodies have broad authority to implement standards and to initiate proceedings designed to prohibit depository institutions from engaging in activities that represent unsafe and unsound banking practices or constitute violations of applicable laws, rules, regulations, administrative orders, or written agreements with regulators. The standards relate generally to operations and management, asset quality, interest rate exposure, capital, and executive compensation. These regulatory bodies are authorized to take action against institutions that fail to meet such standards, including the assessment of civil monetary penalties, the issuance of cease-and-desist orders, and other actions.

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

Capital Requirements

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

BHCs and banks are also required to maintain minimum leverage ratios established by the federal bank regulatory agencies. These requirements provide for a minimum leverage ratio of Tier 1 Capital to adjusted quarterly average assets ("Tier 1 Leverage Ratio") equal to 3% to be considered "adequately capitalized" for BHCs and banks that have the highest regulatory rating and are not experiencing significant growth or expansion. All other BHCs and banks will generally be required to maintain a Tier 1 Leverage Ratio of at least 100 to 200 basis points above the stated minimum. See Note 11 to the Consolidated Financial Statements for capital ratios for the Company and the Bank.

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

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. FDICIA identifies five capital categories for insured depository institutions: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Under regulations established by the federal banking agencies, a "well capitalized" institution must have a Tier 1 Capital Ratio of at least 6%, a Total Capital Ratio of at least 10%, a Tier 1 Leverage Ratio of at least 5%, and not be subject to a capital directive order. As of December 31, 2010, the Bank was classified as "well capitalized." The classification of a depository institution under FDICIA is primarily for the purpose of applying the federal banking agencies' prompt corrective action provisions, and is not intended to be, nor should it be interpreted as, a representation of the overall financial condition or the prospects of any financial institution.

In December 2009, the Basel Committee on Banking Supervision (the "BCBS") released a comprehensive list of proposals for changes to capital, leverage, and liquidity requirements for banks (commonly referred to as "Basel III"). In December 2010, the oversight body of the Basel Committee published the final Basel III rules on capital, leverage, and liquidity. See the "Regulatory Initiatives Related to Capital and Liquidity" section in MD&A for more information.

Dividend Restrictions

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

For information regarding the limitations on the Bank's ability to pay dividends to the Parent, see Note 11 to the Consolidated Financial Statements.

Transactions with Affiliates and Insiders

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

The Dodd-Frank Act expands the affiliate transaction rules of the federal law to broaden the definition of affiliate and to apply such rules to securities lending, repurchase agreements, and derivative activities that the Bank may have with an affiliate, as well as to strengthen collateral requirements and limit FRB exemptive authority. The definition of "extension of credit" for transactions with executive officers, directors, and principal shareholders is also being expanded to include credit exposure arising from a derivative transaction, a repurchase or reverse repurchase agreement, and securities lending or borrowing transactions.

FDIC Insurance

The Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation (the "FDIC") insures deposit accounts in the Bank up to a maximum amount per separately insured depositor. Under the Dodd-Frank Act, the maximum amount of federal deposit insurance coverage has been permanently increased from $100,000 to $250,000 per depositor, per institution. On November 9, 2010, the FDIC issued a final rule to implement a provision of the Dodd-Frank Act that provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions. Institutions cannot opt out of this coverage, nor will the FDIC charge a separate assessment for the insurance. On December 29, 2010, President Obama signed into law an amendment to the Federal Deposit Insurance Act to include Interest on Lawyers Trust Accounts ("IOLTA") within the definition of noninterest-bearing transaction accounts. This amendment will provide IOLTAs with the same temporary, unlimited insurance coverage afforded to noninterest-bearing transaction accounts under the Dodd-Frank Act. This unlimited coverage for noninterest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

The FDIC did not extend its Transaction Account Guarantee Program beyond its sunset date of December 31, 2010, which provided a full guarantee of certain Negotiable Order of Withdrawal accounts ("NOW accounts"). The FDIC insures NOW

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accounts up to the standard maximum deposit insurance amount as noted above.

FDIC-insured depository institutions are required to pay deposit insurance premiums based on the risk an institution poses to the DIF. In order to restore reserves and ensure that the DIF will be able to adequately cover losses from future bank failures, the FDIC approved new deposit insurance rules in November 2009. These new rules required insured depository institutions to prepay their estimated quarterly risk-based assessments for all of 2010, 2011, and 2012. On December 30, 2009, the Bank prepaid its assessment in the amount of $42.3 million related to years 2010 through 2012. As of December 31, 2010 the remaining balance of our prepaid FDIC assessment was $31.0 million.

As required by the Dodd-Frank Act, on February 7, 2011, the FDIC finalized new rules which would redefine the assessment base as "average consolidated total assets minus average tangible equity." The new rate schedule and other revisions to the assessment rules will become effective April 1, 2011, to be used to calculate the June 2011 assessments which will be due in September 2011. The FDIC's final rules will also eliminate risk categories and debt ratings from the assessment calculation for large banks (over $10 billion) and will instead use scorecards that the FDIC believes better reflect risks to the DIF. We continue to assess the impact that these changes will have on our deposit insurance premiums in future periods.

Other Safety and Soundness Regulations

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

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

Community Reinvestment and Consumer Protection Laws

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

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

The Dodd-Frank Act also creates a new Bureau of Consumer Financial Protection (the "CFPB") that will take over responsibility for the federal consumer financial protection laws. The CFPB will be an independent bureau within the FRB and will have broad rule-making, supervisory and examination authority to set and enforce rules in the consumer protection area over financial institutions that have assets of $10.0 billion or more, such as the Bank. The Dodd-Frank Act also gives the CFPB expanded data collecting powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices. The consumer complaint function will also be consolidated into the CFPB.

Several major regulatory and legislative initiatives recently adopted and revised by the Dodd-Frank Act, will have significant future impacts on our business and financial results. Amendments to Regulation E, which implement the Electronic Fund Transfer Act (the "EFTA"), involve changes to the way banks may charge overdraft fees by limiting our ability to charge an overdraft fee for ATM and one-time debit card transactions that overdraw a consumer's account, unless the consumer affirmatively consents to payment of overdrafts for those transactions. Additional amendments to the EFTA include the "Durbin Act," which mandates limiting debit card interchange fees that banks may charge merchants.

Bank Secrecy Act / Anti-Money Laundering Laws

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

Employees

As of January 31, 2011, we had approximately 2,400 employees.

Item 1A. Risk Factors

There are a number of risks and uncertainties that could negatively affect our business, financial condition or results of operations. The risks and uncertainties described below are some of the important inherent risk factors that could affect our business and operations, although they are not the only risks that may have a material adverse affect on the Company.

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

Unlike larger national or other regional banks that are more geographically diversified, our business and earnings are closely tied to the economies of Hawaii and the Pacific Islands. These local economies rely on tourism, real estate, government, and other service-based industries. Declines in tourism, real or threatened acts of war or terrorism, increases in energy costs, the availability of affordable air transportation, natural disasters and adverse weather, public health issues, and State of Hawaii and County budget issues impact consumer and corporate spending. As a result, such events may contribute to the deterioration in general economic conditions in our markets which could adversely impact us and our customers' operations. Hawaii's economy continued to recover during 2010 due to increasing visitor arrivals and spending. However, deterioration of economic conditions or the pace of economic recovery could adversely affect the quality of our assets, credit losses, and the demand for our products and services, which could lead to lower revenues and lower earnings.

The level of visitor arrivals and spending, housing prices, and unemployment rates are some of the metrics that we continually monitor. We also monitor the value of collateral, such as real estate, that secures the loans we have made. The borrowing power of our customers could also be impacted by a decline in the value of collateral.

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Difficult market conditions have adversely affected our industry.

Financial institutions continue to be affected by sharp declines in the real estate market, high levels of unemployment, low loan demand, and low interest margins. Dramatic declines in the national housing market over the past several years, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions. Although Hawaii's economy continues to recover, a decline in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on our borrowers and/or their customers, which could adversely affect our financial condition and results of operations. Economic conditions that negatively affect the housing market, the job market and the demand for other goods and services could cause the credit quality of the Company's loan portfolios to deteriorate, which would have a negative impact on the Company's business.

Real estate values in Hawaii continued to be somewhat more resilient than many markets on the U.S. Mainland over the past two years. However, there is no assurance that Hawaii real estate values will continue to be more resilient than U.S. Mainland markets. Market turmoil and the tightening of credit has led to an increased level of commercial and consumer delinquencies, a lack of confidence in the financial sector, and increased volatility in the financial markets. The resulting economic pressure on consumers and lack of confidence in the financial markets may adversely affect our business, financial condition, and results of operations.

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

Our earnings are highly dependent on the spread between the interest earned on loans, leases, and investment securities and the interest paid on deposits and borrowings. Changes in market interest rates impact the rates earned on loans, leases, and investment securities and the rates paid on deposits and borrowings. In addition, changes to market interest rates could impact the level of loans, leases, investment securities, deposits, and borrowings, and the credit profile of our current borrowers. Interest rates are affected by many factors beyond our control, and fluctuate in response to general economic conditions, currency fluctuations, and the monetary and fiscal policies of various governmental and regulatory authorities. Changes in monetary policy, including changes in interest rates, will influence the origination of loans and leases, the purchase of investments, the generation of deposits, and the rates received on loans and investment securities and paid on deposits. Any substantial prolonged change in market interest rates may negatively impact our ability to attract deposits, originate loans and leases, and achieve satisfactory interest rate spreads, any of which could adversely affect our financial condition or results of operations.

Credit losses could increase during a period of prolonged economic recovery.

Although there are indications of an economic recovery nationally and in Hawaii, a prolonged economic recovery could result in increased credit losses for us. The risk of nonpayment of loans and leases is inherent in all lending activities. We maintain a reserve for credit losses to absorb estimated probable credit losses inherent in the loan, lease, and commitment portfolios as of the balance sheet date. Management makes various assumptions and judgments about the loan and lease portfolio in determining the level of the reserve for credit losses. Many of these assumptions are based on current economic conditions. A prolonged economic recovery nationally and in Hawaii may increase our risk of credit losses beyond what has been provided for in our reserve for credit losses. If our assumptions are incorrect or economic conditions change, the reserve for credit losses may not be sufficient to cover losses, which could adversely affect our financial condition or results of operations.

Inability of our borrowers to make timely repayments on their loans, or decreases in real estate collateral values may result in increased delinquencies, foreclosures, and customer bankruptcies, any of which could have a material adverse effect on our operating results.

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Recent legislation and regulatory initiatives affecting the financial services industry, including restrictions and requirements, could detrimentally affect the Company's business.

In response to the financial crisis affecting the banking system and financial markets, the Dodd-Frank Act was enacted in 2010, as well as several programs that have been initiated by the U.S. Treasury, the FRB, and the FDIC to stabilize the financial system.

Some of the provisions of recent legislation and regulation that may adversely impact the Company include: the Durbin Act which mandates a limit to debit card interchange fees and Regulation E amendments to the EFTA regarding overdraft fees. These provisions may limit the type of products we offer, the methods by which we offer them, and the prices at which they are offered. These provisions may also increase our costs in offering these products.

The newly created CFPB will have unprecedented authority over the regulation of consumer financial products and services. The CFPB will have broad rule-making, supervisory and examination authority, as well as expanded data collecting and enforcement powers. The scope and impact of the CFPB's actions cannot be determined at this time, which creates significant uncertainty for the Company and the financial services industry in general.

In December 2010, the oversight body of the Basel Committee published the final Basel III rules on capital, leverage, and liquidity. Basel III requires financial institutions to have more capital and a higher quality of capital. Basel III also imposes a leverage ratio requirement and liquidity standards. Implementation of these new capital and liquidity requirements has created significant uncertainty with respect to the future requirements for financial institutions. These new requirements may result in increases to our capital, liquidity, and disclosure requirements. See the "Regulatory Initiatives Related to Capital and Liquidity" section in MD&A for more information.

These new laws, regulations, and changes may increase our costs of regulatory compliance. They may significantly affect the markets in which we do business, the markets for and value of our investments, and our ongoing operations, costs, and profitability. The future impact of the many provisions in the Dodd-Frank Act and other legislative and regulatory initiatives on the Company's business and results of operations will depend upon regulatory interpretation and rulemaking that will be undertaken over the next several months and years. As a result, we are unable to predict the ultimate impact of the Dodd-Frank Act or of other future legislation or regulation, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations.

Consumer protection initiatives related to the foreclosure process could affect our remedies as a creditor.

Consumer protection initiatives proposed related to the foreclosure process, including voluntary and/or mandatory programs intended to permit or require lenders to consider loan modifications or other alternatives to foreclosure, could increase our credit losses or increase our expense in pursuing our remedies as a creditor.

Competition may adversely affect our business.

Our future depends on our ability to compete effectively. We compete for deposits, loans, leases, and other financial services with a variety of competitors, including banks, thrifts, credit unions, mortgage companies, broker dealers, and insurance companies all of which may be based in or outside of Hawaii and the Pacific Islands. There has been substantial consolidation among companies in the financial services industry over the last few years as a result of the economic crisis. We will continue to experience competition as the trend for further consolidation in the financial services industry continues. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. Failure to effectively compete, innovate, and make effective use of available channels to deliver our products and services could adversely affect our financial condition or results of operations.

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Our liquidity is dependent on dividends from the Bank.

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

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

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

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

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

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

Changes in income tax laws could be enacted or interpretations of existing income tax laws could change causing an adverse effect to our financial condition or results of operations. Similarly, our accounting policies and methods are fundamental to how we report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the value of our assets, liabilities, and financial results. Periodically, new accounting standards are imposed or existing standards are revised, changing the methods for preparing our financial statements. These changes are not within our control and may significantly impact our financial condition and results of operations.

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

Our success is dependent on our ability to recruit qualified and skilled personnel to operate our business effectively. Competition for these qualified and skilled people is intense. There are a limited number of qualified personnel in the markets we serve, so our success depends in part on the continued services of many of our current management and other key employees. Failure to retain our key employees and maintain adequate staffing of qualified personnel could adversely impact our operations and our ability to compete.

The soundness of other financial institutions, as counterparties, may adversely impact our financial condition or results of operations.

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

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

Changes in the capital markets could affect the volume of income from and demand for our fee-based services. Our investment management revenues depend in large part on the level of assets under management. Market volatility that leads customers to liquidate investments, move investments to other institutions or asset classes, as well as lower asset values can reduce our level of assets under management and thereby decrease our investment management revenues.

Our mortgage banking income may experience significant volatility.

Our mortgage banking income is highly influenced by the level and direction of mortgage interest rates, and real estate and refinancing activity. Interest rates can affect the amount of mortgage banking activity and impact fee income and the fair value of our mortgage servicing rights.

Our investment in FHLB stock may be subject to impairment charges in future periods if the financial condition of the FHLB declines further.

The Bank is a member of the FHLB, and as such, is required to hold FHLB stock as a condition of membership. As of December 31, 2010, the carrying value of our FHLB stock was $61.3 million and consisted of 612,924 shares valued at a par value of $100 per share. As of December 31, 2010, the Bank held 356,139 shares in excess of the minimum number of shares the Bank was required to hold as a condition of membership. Ownership is restricted and there is no market for these securities. In August 2009, the FHLB received a capital classification of "undercapitalized" from their primary regulator, the Federal Housing Finance Agency (the "Finance Agency"). As of September 30, 2010, the FHLB met all of its regulatory capital requirements, but remained classified as undercapitalized by the Finance Agency due to several factors including the possibility that declines in the value of its private-label mortgage-backed securities could cause it to fall below its risk-based capital requirements. Due to this determination, the FHLB currently remains unable to repurchase or redeem capital stock or to pay dividends. If the FHLB's financial condition declines further, other-than-temporary impairment charges related to our investment in FHLB stock could occur in future periods. See discussion in MD&A related to the impairment analysis of our FHLB stock as of December 31, 2010.

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

We report certain assets, including available-for-sale investment securities, at fair value. Generally, for assets that are reported at fair value we use quoted market prices or valuation models that utilize market data inputs to estimate fair value. Because we record these assets at their estimated fair value, we may incur losses even if the asset in question presents minimal credit risk. The level of interest rates can impact the estimated fair value of investment securities. Disruptions in the capital markets may require us to recognize other-than-temporary impairments in future periods with respect to investment securities in our portfolio. The amount and timing of any impairment recognized will depend on the severity and duration of the decline in fair value of our investment securities and our estimation of the anticipated recovery period.

Visa and MasterCard settlement of an investigation by the Department of Justice may adversely affect our financial results.

In October 2010, the Department of Justice and credit card companies, Visa and MasterCard, settled an investigation related to various "processing fees" that the two electronic payment networks charge to merchants, depending on the type of card a customer uses. The settlement will allow merchants to offer more options, including discounts to customers who

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pay using the least expensive credit and debit cards. The impact of this settlement on our business and results of operations is unpredictable at this time, as it will depend on future actions by regulators, merchants, and consumers.

Common Stock Repurchase Program

Under our common stock repurchase program, we resumed share repurchases in July 2010, following a period of 20 months during which we made no repurchases of our common stock. The actual amount and timing of future common stock repurchases, if any, will depend on market conditions, applicable SEC rules and various other factors.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

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

Item 3. Legal Proceedings

On February 15, 2011, the Bank was named a defendant in a purported class action lawsuit filed by plaintiffs Lodley and Tehani Taulava, on behalf of themselves and on behalf of all similarly situated customers of the Bank, in the Circuit Court of the First Circuit, State of Hawaii (*Civil Case No. 11-1-0337-02*). The complaint asserts claims of unconscionability, conversion, unjust enrichment, and violations of Hawaii's Uniform Deceptive Trade Practice Act relating to overdraft fees on debit card transactions collected by the Bank. The plaintiffs seek monetary damages, restitution and declaratory relief from the Bank. Management is evaluating the claims of the lawsuit and is unable to estimate the possible loss or range of possible loss that may result from this lawsuit.

We are involved in various other legal proceedings arising from normal business activities. We do not anticipate, at the present time, that the ultimate aggregate liability, if any, arising out of these other legal proceedings will have a material adverse effect on our financial position. However, we cannot presently determine whether or not any of these other claims asserted against us or others to whom we may have indemnification obligations will have a material adverse effect on our results of operations in any future reporting period. See Note 18 related to commitments and contingencies for more information.

Executive Officers of the Registrant:

Listed below are executive officers of the Parent as of February 23, 2011.

Peter S. Ho, 45
Chairman and Chief Executive Officer since July 2010 and President since April 2008; Vice Chairman and Chief Banking Officer from January 2006 to April 2008; Vice Chairman, Investment Services from April 2004 to December 2005.

Kent T. Lucien, 57
Vice Chairman and Chief Financial Officer since April 2008; Trustee, C. Brewer & Co., Ltd. from April 2006 to December 2007; and Chief Executive Officer Operations, C. Brewer & Co., Ltd. from May 2001 to April 2006.

Mark A. Rossi, 62
Vice Chairman, Chief Administrative Officer, General Counsel, and Corporate Secretary since February 2007; President of Lane Powell PC from July 2004 to January 2007.

Mary E. Sellers, 54
Vice Chairman and Chief Risk Officer since July 2005; and Executive Vice President, Director of Risk Management from June 2003 to June 2005.

Derek J. Norris, 61
Senior Executive Vice President and Controller since December 2009; Executive Vice President and Controller since December 2008; and Executive Vice President and General Auditor from January 2002 to December 2008.

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Part II

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

Market Information, Shareholders, and Dividends

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

Market Prices, Book Values, and Common Stock Dividends Declared

	Market Price Range				Dividends
Year/Period	High	Low	Close	Book Value	Declared
2010	$ 54.10	$ 41.60	$ 47.21	$ 21.02	$ 1.80
First Quarter	50.42	41.60	44.95		0.45
Second Quarter	54.10	45.00	48.35		0.45
Third Quarter	51.60	43.77	44.92		0.45
Fourth Quarter	48.27	42.94	47.21		0.45
2009	$ 48.14	$ 25.33	$ 47.06	$ 18.66	$ 1.80
First Quarter	45.24	25.33	32.98		0.45
Second Quarter	41.42	31.35	35.83		0.45
Third Quarter	42.92	33.65	41.54		0.45
Fourth Quarter	48.14	39.43	47.06		0.45

The common stock of the Parent is traded on the New York Stock Exchange (NYSE Symbol: BOH) and quoted daily in leading financial publications. As of February 14, 2011, there were 7,089 common shareholders of record.

The Parent's Board of Directors considers on a quarterly basis the feasibility of paying a cash dividend to its shareholders. Under the Parent's general practice, dividends are declared upon completion of a quarter and are paid prior to the end of the subsequent quarter. Dividends declared consider future expected earnings. See "Dividend Restrictions" under "Supervision and Regulation" in Item 1 of this report and Note 11 to the Consolidated Financial Statements for more information.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
October 1 - 31, 2010	87,940	$ 45.16	87,500	$ 71,618,594
November 1 - 30, 2010	92,676	44.60	90,500	67,584,549
December 1 - 31, 2010	81,529	46.45	80,000	63,868,056

Total	262,145	45.36	258,000

1 During the fourth quarter of 2010, 4,145 shares were purchased from employees in connection with stock swaps and shares purchased for deferred compensation arrangements. These shares were not purchased as part of the publicly announced program. The shares were purchased at the closing price of the Parent's common stock on the dates of purchase.

2 The share repurchase program was first announced in July 2001. As of February 14, 2011, $55.6 million remained of the total $1.70 billion total repurchase amount authorized by the Parent's Board of Directors under the share repurchase program. The program has no set expiration or termination date.

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Performance Graph

The following graph shows the cumulative total return for the Parent's common stock compared to the cumulative total returns for the Standard & Poor's ("S&P") 500 Index and the S&P Banks Index. The graph assumes that $100 was invested on December 31, 2005 in the Parent's common stock, the S&P 500 Index, and the S&P Banks Index. The cumulative total return on each investment is as of December 31 of each of the subsequent five years and assumes reinvestment of dividends.

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Item 6. Selected Financial Data

Summary of Selected Consolidated Financial Data

(dollars in millions, except per share amounts)	2010	2009	2008	2007	2006
Year Ended December 31,					
Operating Results					
Net Interest Income	$ 406.5	$ 412.3	$ 418.8	$ 395.0	$ 402.6
Provision for Credit Losses	55.3	107.9	60.5	15.5	10.8
Total Noninterest Income	255.3	267.8	258.1	240.5	216.2
Total Noninterest Expense	346.2	350.0	346.8	335.4	321.0
Net Income	183.9	144.0	192.2	183.7	180.4
Basic Earnings Per Share	3.83	3.02	4.03	3.75	3.59
Diluted Earnings Per Share	3.80	3.00	3.99	3.69	3.52
Dividends Declared Per Share	1.80	1.80	1.77	1.67	1.52
Performance Ratios					
Net Income to Average Total Assets (ROA)	1.45%	1.22%	1.84%	1.75%	1.76%
Net Income to Average Shareholders' Equity (ROE)	18.16	16.42	24.54	25.15	25.90
Efficiency Ratio [1]	52.32	51.46	51.23	52.78	51.87
Operating Leverage [2]	(4.43)		10.00	0.76	3.13
Net Interest Margin [3]	3.41	3.72	4.33	4.08	4.25
Dividend Payout Ratio [4]	47.00	59.60	43.92	44.53	42.34
Average Shareholders' Equity to Average Assets	7.98	7.44	7.50	6.97	6.80
Average Balances					
Average Loans and Leases	$ 5,472.5	$ 6,145.0	$ 6,542.2	$ 6,561.6	$ 6,369.2
Average Assets	12,687.7	11,783.4	10,448.2	10,472.1	10,241.4
Average Deposits	9,509.1	9,108.4	7,851.3	7,887.5	7,731.0
Average Shareholders' Equity	1,012.7	877.2	783.1	730.3	696.3
Weighted Average Shares Outstanding					
Basic Weighted Average Shares	48,055,025	47,702,500	47,674,000	49,033,208	50,176,685
Diluted Weighted Average Shares	48,355,965	48,009,277	48,200,650	49,833,546	51,178,943
As of December 31,					
Balance Sheet Totals					
Loans and Leases	$ 5,335.8	$ 5,759.8	$ 6,530.2	$ 6,580.9	$ 6,623.2
Total Assets	13,126.8	12,414.8	10,763.5	10,472.9	10,571.8
Total Deposits	9,889.0	9,409.7	8,292.1	7,942.4	8,023.4
Long-Term Debt	32.7	90.3	203.3	235.4	260.3
Total Shareholders' Equity	1,011.1	896.0	790.7	750.3	719.4
Asset Quality					
Allowance for Loan and Lease Losses	$ 147.4	$ 143.7	$ 123.5	$ 91.0	$ 91.0
Non-Performing Assets [5]	37.8	48.3	14.9	5.3	6.4
Financial Ratios					
Allowance to Loans and Leases Outstanding	2.76%	2.49%	1.89%	1.38%	1.37%
Tier 1 Capital Ratio [6]	18.28	14.84	11.24	10.32	9.99
Total Capital Ratio [6]	19.55	16.11	12.49	11.92	11.92
Tier 1 Leverage Ratio [6]	7.15	6.76	7.30	7.02	7.06
Total Shareholders' Equity to Total Assets	7.70	7.22	7.35	7.16	6.81
Tangible Common Equity to Tangible Assets [7]	7.48	6.98	7.04	6.84	6.50
Tangible Common Equity to Risk-Weighted Assets [7]	19.29	15.45	11.28	10.07	9.35
Non-Financial Data					
Full-Time Equivalent Employees	2,399	2,418	2,581	2,594	2,586
Branches and Offices	82	83	85	83	85
ATMs	502	485	462	411	466
Common Shareholders of Record	7,128	7,323	7,523	7,721	7,888

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

2

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

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

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

5 Excluded from non-performing assets are contractually binding non-accrual loans held for sale of $4.2 million as of December 31, 2009.

6 Tier 1 Capital Ratio, Total Capital Ratio, and Tier 1 Leverage Ratio as of December 31, 2009 were revised from 14.88%, 16.15%, and 6.78%, respectively.

7 Tangible common equity to tangible assets and tangible common equity to risk-weighted assets are Non-GAAP financial measures. See the "Capital Management" section in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Forward-Looking Statements

This report contains forward-looking statements concerning, among other things, the economic and business environment in our service area and elsewhere, credit quality, and other financial and business matters in future periods. Our forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate and actual results may differ materially from those projected because of a variety of risks and uncertainties, including, but not limited to: 1) general economic conditions either nationally, internationally, or locally may be different than expected, and particularly, any event that negatively impacts the tourism industry in Hawaii; 2) unanticipated changes in the securities markets, public debt markets, and other capital markets in the U.S. and internationally; 3) the competitive pressure among financial services and products; 4) the impact of recent legislative and regulatory initiatives, particularly the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"); 5) changes in fiscal and monetary policies of the markets in which we operate; 6) the increased cost of maintaining or the Company's ability to maintain adequate liquidity and capital, based on the requirements adopted by the Basel Committee on Banking Supervision and U.S. regulators; 7) actual or alleged conduct which could harm our reputation; 8) changes in accounting standards; 9) changes in tax laws or regulations or the interpretation of such laws and regulations; 10) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 11) changes in market interest rates that may affect credit markets and our ability to maintain our net interest margin; 12) the impact of litigation and regulatory investigations of the Company, including costs, expenses, settlements, and judgments; 13) changes to the amount and timing of proposed common stock repurchases; and 14) natural disasters, or adverse weather, public health, and other conditions impacting us and our customers' operations. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included under the section entitled "Risk Factors" in Part I of this report. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. We do not undertake an obligation to update forward-looking statements to reflect later events or circumstances.

Critical Accounting Policies

Our Consolidated Financial Statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and follow general practices within the industries in which we operate. The most significant accounting policies we follow are presented in Note 1 to the Consolidated Financial Statements. Application of these principles requires us to make estimates, assumptions, and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of the Consolidated Financial Statements. These factors include among other things, whether the policy requires management to make difficult, subjective, and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. The accounting policies which we believe to be most critical in preparing our Consolidated Financial Statements are those that are related to the determination of the reserve for credit losses, fair value estimates, leased asset residual values, mortgage servicing rights, pension and postretirement benefit obligations, and income taxes.

Reserve for Credit Losses

A consequence of lending activities is that we may incur losses. The amount of such losses will vary depending upon the risk characteristics of the loan and lease portfolio as affected by economic conditions such as rising interest rates and the financial performance of borrowers. The reserve for credit losses consists of the allowance for loan and lease losses (the "Allowance") and a reserve for unfunded commitments (the "Unfunded Reserve"). The reserve for credit losses provides for credit losses inherent in lending or commitments to lend and is based on loss estimates derived from a comprehensive quarterly evaluation, reflecting analyses of individual borrowers and historical loss experience, supplemented as necessary by credit judgment to address observed changes in trends, conditions, and other relevant environmental and economic factors. The Allowance provides for probable and estimable losses inherent in our loan and lease portfolio. The Allowance is increased or decreased through the provisioning process. There is no exact method of predicting specific losses or amounts that ultimately may be charged-off on particular segments of the loan and lease portfolio.

Management's evaluation of the adequacy of the reserve for credit losses is often the most critical of accounting estimates for a banking institution. Our determination of the amount of the reserve for credit losses is a critical accounting estimate as it requires the use of estimates and significant judgment as to the amount and timing of expected future cash flows on impaired loans, estimated loss rates on homogenous portfolios, and deliberation on economic factors and trends. On a quarterly basis, an evaluation of specific individual commercial borrowers is performed to identify impaired loans. See Note 4 to the Consolidated Financial Statements and the Corporate Risk Profile section in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for more information on the Allowance and the reserve for credit losses, respectively.

Fair Value Estimates

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market inputs. For financial instruments that are traded actively and have quoted market prices or observable market inputs, there is minimal subjectivity involved in measuring fair value. However, when quoted market prices or observable market inputs are not fully available, significant management judgment may be necessary to estimate fair value. In developing our fair value measurements, we maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy defines Level 1 and 2 valuations as those that are based on quoted prices for identical instruments traded in active markets and quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 3 valuations are based on model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that we believe market participants would use in pricing the asset or liability.

Financial assets that are recorded at fair value on a recurring basis include available-for-sale investment securities, mortgage servicing rights, investments related to deferred compensation arrangements, and net derivative assets. As of December 31, 2010 and 2009, $6.6 billion or 50% and $5.4 billion or 43%, respectively, of our total assets consisted of financial assets recorded at fair value on a recurring basis. As of December 31, 2010 and 2009, of this amount, $6.5 billion and $5.3 billion, respectively, were comprised of available-for-sale investment securities measured using information from a third-party pricing service. These investments in debt securities and mortgage-backed securities were all classified in either Levels 1 or 2 of the fair value hierarchy. As of December 31, 2010 and 2009, Level 3 financial assets recorded at fair value on a recurring basis were $9.9 million and $15.2 million, respectively, or less than 1% of our total assets.

On a quarterly basis, management reviews the pricing information received from our third-party pricing service. This review process includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by our third-party pricing service. We also identify investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades, relative to historic levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. As of December 31, 2010 and 2009, management did not make adjustments to prices provided by our third-party pricing service as a result of illiquid or inactive markets. See Note 19 to the Consolidated Financial Statements for more information on our fair value estimates.

Leased Asset Residual Values

Lease financing receivables include a residual value component, which represents the estimated value of leased assets upon lease expiration. Our determination of residual value is derived from a variety of sources, including equipment valuation services, appraisals, and publicly available market data on recent sales transactions on similar equipment. The length of time until lease termination, the cyclical nature of equipment values, and the limited marketplace for re-sale of certain leased assets, are important variables considered in making this determination. We update our valuation analysis on an annual basis, or more frequently as warranted by events or circumstances. When we determine that the fair value is lower than the expected residual value at lease expiration, the difference is recognized as an asset impairment in the period in which the analysis is completed. See Note 4 to the Consolidated Financial Statements for more information on the residual value of our leveraged leased assets.

Mortgage Servicing Rights

When mortgage loans are sold with servicing rights retained, a servicing asset is established and accounted for based on estimated fair values. An estimated fair value is used because there is no quoted or established market for mortgage servicing rights. The estimated fair value is determined using discounted cash flow modeling techniques, which requires us to make estimates and assumptions regarding the amount and timing of expected future cash flows, loan repayment rates, costs to service, and interest rates that reflect the risks involved. Our estimates of the fair value of mortgage servicing rights are sensitive to changes in the underlying estimates and assumptions. Had we assumed lower interest rates and higher loan repayment rates, the estimated fair value of our mortgage servicing rights may have been lower than recorded in our Consolidated Statements of Condition. See Note 5 to the Consolidated Financial Statements for key assumptions used by management as well as a sensitivity analysis of changes in certain key assumptions.

Pension and Postretirement Benefit Obligations

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

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The estimated pension and postretirement net periodic benefit cost for 2011 is $3.8 million, based on an assumed discount rate of 5.75%. Table 1 presents a sensitivity analysis of a 25 basis point change in discount rates to the net periodic benefit cost and benefit obligation:

Discount Rate Sensitivity Analysis **Table 1**

(dollars in thousands)	Base Discount Rate	Impact of Discount Rate 25 Basis Point Increase	Discount Rate 25 Basis Point Decrease
2010 Net Periodic Benefit Cost, Pension Benefits	6.00%	$ (167)	$ 164
2010 Net Periodic Benefit Cost, Postretirement Benefits	6.00%	(68)	71
Pension Benefit Obligation as of December 31, 2010	5.75%	(2,473)	2,585
Postretirement Benefit Obligation as of December 31, 2010	5.75%	(708)	742
Estimated 2011 Net Periodic Benefit Cost, Pension Benefits	5.75%	(159)	163
Estimated 2011 Net Periodic Benefit Cost, Postretirement Benefits	5.75%	(62)	1

See Note 14 to the Consolidated Financial Statements for more information on our pension and postretirement benefit plans.

Income Taxes

We determine our liabilities for income taxes based on current tax regulation and interpretations in tax jurisdictions where our income is subject to taxation. Currently, we file tax returns in nine federal, state and local domestic jurisdictions, and four foreign jurisdictions. In estimating income taxes payable or receivable, we assess the relative merits and risks of the appropriate tax treatment considering statutory, judicial, and regulatory guidance in the context of each tax position. Accordingly, previously estimated liabilities are regularly reevaluated and adjusted, through the provision for income taxes. Changes in the estimate of income taxes payable or receivable occur periodically due to changes in tax rates, interpretations of tax law, the status of examinations being conducted by various taxing authorities, and newly enacted statutory, judicial and regulatory guidance that impact the relative merits and risks of each tax position. These changes, when they occur, may affect the provision for income taxes as well as current and deferred income taxes, and may be significant to our statements of income and condition.

Management's determination of the realization of net deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of the deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. As of December 31, 2010 and 2009, we carried a valuation allowance of $7.4 million and $9.7 million, respectively, related to our deferred tax assets established in connection with our low-income housing investments.

We are required to record a liability, referred to as an unrecognized tax benefit ("UTB"), for the entire amount of benefit taken in a prior or future income tax return when we determine that a tax position has a less than 50% likelihood of being accepted by the taxing authority. As of December 31, 2010 and 2009, our liabilities for UTBs were $23.0 million and $16.4 million, respectively. See Note 16 to the Consolidated Financial Statements for more information on income taxes.

Reclassifications

Certain prior period information in MD&A has been reclassified to conform to the 2010 presentation.

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Overview

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

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

In striving to achieve our vision and governing objective, our business plan is balanced between growth and risk management, including the flexibility to adjust, given the uncertainties of an economy in recovery. We remain cautious about the economy, interest rates, and loan demand. We intend to continue to focus on opportunities to further serve our customers, improve productivity, and efficiently manage capital.

Hawaii Economy

Hawaii's economy continued to improve during the fourth quarter of 2010 due to increasing visitor arrivals and spending. For 2010, visitor arrivals increased 8.7% and visitor spending rose 16.2% compared to 2009. Hotel occupancy continued to improve and revenue per available room has finally begun to show signs of improvement. Overall, state job growth has begun to stabilize and the statewide unemployment rate remains unchanged for the sixth consecutive month at 6.4%. The volume and median price of home sales on Oahu for December 2010 was higher than the same period in 2009, and months of inventory continue to decline.

Earnings Summary

Net income for 2010 was $183.9 million, an increase of $39.9 million or 28% compared to 2009. Diluted earnings per share were $3.80 for 2010, an increase of $0.80 or 27% compared to 2009. Our higher net income in 2010 was primarily due to the following:

- The provision for credit losses (the "Provision") was $55.3 million in 2010, a decrease of $52.6 million compared to 2009. We experienced lower levels of non-performing assets and net charge-offs of loans and leases in 2010.

- Net realized investment securities gains were $42.8 million in 2010, an increase of $17.1 million compared to 2009. These sales were made to preserve capital levels while managing our interest rate risk.

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Our actions in 2010 were influenced by a weak but improving economy as well as the uncertainties regarding the impact of government regulation. We continued to strengthen our balance sheet in 2010 with higher reserves for credit losses, liquidity, and capital.

- Our Allowance was $147.4 million as of December 31, 2010, an increase of $3.7 million or 3% from December 31, 2009. The ratio of our Allowance to total loans and leases outstanding increased to 2.76% as of December 31, 2010, compared to 2.49% as of December 31, 2009. Absent significant deterioration in the economy and assuming continued improvements in credit quality, we may require a lower level of the Allowance in future periods.

- Total deposits were $9.9 billion as of December 31, 2010, an increase of $479.3 million or 5% from December 31, 2009. Continued efforts to reinforce our strong brand played a key role in new account acquisitions.

- We continued to invest excess liquidity primarily in mortgage-backed securities issued by the Government National Mortgage Association ("Ginnie Mae"), with average base durations of less than three years.

- We continued to increase our capital levels during 2010. Shareholders' equity was $1.0 billion as of December 31, 2010, an increase of $115.2 million or 13% from December 31, 2009.

- As of December 31, 2010, all of our key regulatory capital ratios were higher compared to our ratios as of December 31, 2009. Our Tier 1 Capital Ratio was 18.28% as of December 31, 2010, compared to 14.84% as of December 31, 2009. Our ratio of Tangible Common Equity to Risk-Weighted Assets was 19.29% as of December 31, 2010, compared to 15.45% as of December 31, 2009.

In 2011, we expect to see continued economic recovery and slowly improving prospects for loan growth. However, we remain cautious about the uncertainties of government regulation and its potential impact to us. We will continue to focus on maintaining adequate levels of liquidity, reserves for credit losses, and capital.

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Analysis of Statements of Income

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

Table 2

Average Balances and Interest Rates Taxable Equivalent Basis

	2010			2009			2008		
(dollars in millions)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Earning Assets									
Interest-Bearing Deposits	$ 4.7	$	0.59%	$ 5.8	$	0.34%	$ 20.1	$ 0.4	2.27%
Funds Sold	390.2	1.1	0.28	690.9	1.8	0.26	78.6	1.6	2.04
Investment Securities									
Trading				12.0	0.6	4.94	94.1	4.7	4.99
Available-for-Sale	5,854.1	170.1	2.91	3,938.2	159.4	4.05	2,604.4	140.0	5.38
Held-to-Maturity	154.2	6.5	4.22	211.2	9.1	4.33	263.7	11.9	4.50
Loans Held for Sale	10.8	0.9	8.51	21.7	0.8	3.85	8.8	0.5	5.72
Loans and Leases [1]									
Commercial and Industrial	764.2	33.7	4.41	929.4					