

CB BANCSHARES INC/HI  
Form 10-Q  
May 10, 2002

**Table of Contents**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2002

OR

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

Commission File Number 0-12396

**CB BANCSHARES, INC.**  
(Exact name of registrant as specified in its charter)

**Hawaii**  
(State of Incorporation)

**99-0197163**  
(IRS Employer Identification No.)

**201 Merchant Street Honolulu, Hawaii 96813**  
(Address of principal executive offices)

**(808) 535-2500**  
(Registrant's Telephone Number)

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

No

The number of shares outstanding of each of the registrant's classes of common stock as of April 30, 2002 was:

Class	Outstanding
Common Stock, \$1.00 Par Value	3,510,721 shares

**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**CONSOLIDATED BALANCE SHEETS (Unaudited)**

**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND  
COMPREHENSIVE INCOME (LOSS) (Unaudited)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

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

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**PART II OTHER INFORMATION**

**Item 6. Exhibits and Reports on Form 8-K**

**SIGNATURES**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED BALANCE SHEETS (Unaudited)**  
CB BANCSHARES, INC. AND SUBSIDIARIES

(in thousands)	March 31, 2002	December 31, 2001	March 31, 2001
<b>Assets</b>			
Cash and due from banks	\$ 25,585	\$ 22,395	\$ 35,696
Interest-bearing deposits in other banks	1,028	1,017	1,010
Federal funds sold		10,655	21,560
Investment and mortgage-backed securities:			
Held-to-maturity	48,781	26,000	
Available-for-sale	212,481	203,563	280,963
FHLB Stock	32,885	32,406	32,949
Loans held for sale	33,556	50,661	49,716
Net loans	1,122,082	1,172,817	1,239,265
Premises and equipment	17,133	17,633	18,576
Other real estate owned	3,898	4,674	2,758
Accrued interest receivable and other assets	44,271	44,219	46,018
<b>Total assets</b>	<b>\$ 1,541,700</b>	<b>\$ 1,586,040</b>	<b>\$ 1,728,511</b>
<b>Liabilities and stockholders equity</b>			
Deposits:			
Noninterest-bearing	\$ 151,061	\$ 160,570	\$ 128,697
Interest-bearing	957,779	977,865	1,126,921
Total deposits	1,108,840	1,138,435	1,255,618
Short-term borrowings	40,300	76,100	75,700
Accrued expenses and other liabilities	19,483	20,599	18,066
Long-term debt	234,420	214,424	244,439
Minority interest in consolidated subsidiary	2,720	2,720	7,000
<b>Total liabilities</b>	<b>1,405,763</b>	<b>1,452,278</b>	<b>1,600,823</b>
Stockholders equity:			
Preferred stock			
Common stock	3,489	3,506	3,190
Additional paid-in capital	64,871	65,427	54,621
Retained earnings	68,866	65,714	74,766
Unreleased shares to employee stock ownership plan	(1,799)	(1,839)	
Accumulated other comprehensive income (loss), net of tax	510	954	(4,889)
<b>Total stockholders equity</b>	<b>135,937</b>	<b>133,762</b>	<b>127,688</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,541,700</b>	<b>\$ 1,586,040</b>	<b>\$ 1,728,511</b>



See accompanying notes to the consolidated financial statements.



**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME** (Unaudited)  
CB BANCSHARES, INC. AND SUBSIDIARIES

	Three months ended March 31,	
	2002	2001
(in thousands, except per share data)		
<b>Interest income:</b>		
Interest and fees on loans	\$ 23,865	\$ 28,139
Interest and dividends on investment and mortgage-backed securities:		
Taxable interest income	2,882	5,036
Nontaxable interest income	388	388
Dividends	480	520
Other interest income	19	178
	<u>27,634</u>	<u>34,261</u>
<b>Interest expense:</b>		
Deposits	5,119	13,086
FHLB advances and other short-term borrowings	311	2,242
Long-term debt	2,765	3,131
	<u>8,195</u>	<u>18,459</u>
Total interest expense	8,195	18,459
	<u>19,439</u>	<u>15,802</u>
Net interest income	19,439	15,802
Provision for credit losses	4,868	2,750
	<u>14,571</u>	<u>13,052</u>
Net interest income after provision for credit losses	14,571	13,052
<b>Noninterest income:</b>		
Service charges on deposit accounts	1,028	834
Other service charges and fees	1,556	1,145
Net realized gains (losses) on sales of securities	(36)	387
Net gains on sales of loans	511	162
Other	900	716
	<u>3,959</u>	<u>3,244</u>
Total noninterest income	3,959	3,244
<b>Noninterest expense:</b>		
Salaries and employee benefits	6,569	5,997
Net occupancy expense	1,572	1,592
Equipment expense	795	816
Other	4,412	3,844
	<u>13,348</u>	<u>12,249</u>
Total noninterest expense	13,348	12,249
	<u>5,182</u>	<u>4,047</u>
Income before income taxes	5,182	4,047
Income tax expense	1,646	1,246
	<u>\$ 3,536</u>	<u>\$ 2,801</u>
Net income	\$ 3,536	\$ 2,801

**Per share data:**

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<b>Basic</b>	<b>\$ 1.03</b>	\$ 0.80
<b>Diluted</b>	<b>\$ 1.01</b>	\$ 0.80

See accompanying notes to the consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS** (Unaudited)  
CB BANCSHARES, INC. AND SUBSIDIARIES

(in thousands)	Three months ended March 31,	
	2002	2001
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,536	\$ 2,801
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	4,868	2,750
Net (gain) loss on sale of investment and mortgage-backed securities	36	(387)
Depreciation and amortization	933	950
Decrease (increase) in accrued interest receivable	(14)	86
Decrease in accrued interest payable	(72)	(1,933)
Loans originated for sale	(46,721)	(42,298)
Sale of loans held for sale	63,315	25,502
Increase in other assets	(38)	(2,297)
(Increase) decrease in income taxes payable	1,600	(86)
Decrease in other liabilities	(2,360)	(2,123)
Other	345	(34)
Net cash provided by (used in) operating activities	<u>25,428</u>	<u>(17,069)</u>
<b>Cash flows from investing activities:</b>		
Net decrease (increase) in deposits in other banks	(11)	48
Net decrease (increase) in federal funds sold	10,655	(20,950)
Purchase of held-to-maturity investment securities	(22,856)	
Purchase of available-for-sale securities	(42,100)	(50)
Proceeds from sales of available-for-sale securities	22,964	15,108
Proceeds from maturities of available-for-sale securities	9,370	5,941
Increase in FHLB Stock	(479)	(519)
Net decrease in loans	45,300	8,324
Capital expenditures	(274)	(1,179)
Proceeds from sales of foreclosed assets	1,509	1,538
Net cash provided by investing activities	<u>24,078</u>	<u>8,261</u>
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in deposits	(29,595)	36,747
Net decrease in short-term borrowings	(35,800)	(95,000)
Proceeds from long-term debt	20,000	75,000
Principal payments on long-term debt	(4)	(12,125)
Cash dividends paid	(384)	(318)
Options exercised	103	28
Stock repurchase	(676)	
Unreleased ESOP shares	40	
Net cash provided by (used in) financing activities	<u>(46,316)</u>	<u>4,332</u>
Increase (decrease) in cash and due from banks	3,190	(4,476)
Cash and due from banks at beginning of period	<u>22,395</u>	<u>40,172</u>



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Cash and due from banks at end of period	\$ 25,585	\$ 35,696
Supplemental schedule of non-cash investing activities:		
Interest paid on deposits and other borrowings	\$ 8,267	\$ 20,391
Income taxes paid		1,450

See accompanying notes to the consolidated financial statements.

**Table of Contents**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY  
AND COMPREHENSIVE INCOME (LOSS) (Unaudited)**  
**CB BANCSHARES, INC. AND SUBSIDIARIES**

(in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Unreleased Shares to Employee Stock Ownership Plan	Accumulated Other Comprehensive Income	Total
<b>Three months ended March 31, 2002:</b>						
Balance at January 1, 2002	\$3,506	\$65,427	\$65,714	\$(1,839)	\$ 954	\$133,762
Comprehensive income:						
Net income			3,536			3,536
Other comprehensive income, net of tax						
Unrealized losses on securities, net of reclassification adjustment					(444)	(444)
Total comprehensive income			3,536		(444)	3,092
Cash dividends (\$0.11 per share)			(384)			(384)
Options exercised	4	99				103
Repurchased, cancelled and retired shares	(21)	(655)				(676)
ESOP shares				40		40
<b>Balance at March 31, 2002</b>	<b>\$3,489</b>	<b>\$64,871</b>	<b>\$68,866</b>	<b>\$(1,799)</b>	<b>\$ 510</b>	<b>\$135,937</b>
<b>Three months ended March 31, 2001:</b>						
Balance at January 1, 2001	\$3,189	\$54,594	\$72,284	\$	\$(6,905)	\$123,162
Comprehensive income:						
Net income			2,801			2,801
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment					2,016	2,016
Total comprehensive income			2,801		2,016	4,817
Cash dividends (\$0.10 per share)			(319)			(319)
Options exercised	1	27				28
Balance at March 31, 2001	\$3,190	\$54,621	\$74,766	\$	\$(4,889)	\$127,688

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**CB BANCSHARES, INC. AND SUBSIDIARIES**

**NOTE A Summary of Significant Accounting Policies**

**CONSOLIDATION**

The consolidated financial statements include the accounts of CB Bancshares, Inc. (the Parent Company ) and its wholly-owned subsidiaries (the Company ): City Bank and its wholly-owned subsidiaries (the Bank ); Datatronix Financial Services, Inc.; and O.R.E., Inc. Significant intercompany transactions and balances have been eliminated in consolidation. The Bank owns 50% of Pacific Access Mortgage, LLC, a mortgage brokerage company. The investment is accounted for using the equity method. The consolidated financial statements include all adjustments of a normal and recurring nature, which are, in the opinion of management, necessary for a fair presentation of the financial results for the interim periods.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes normally included in financial statements prepared in conformity with generally accepted accounting principles. Accordingly, these consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Form 10-K for the year ended December 31, 2001.

Results of operations for interim periods are not necessarily indicative of results for the full year.

**RECLASSIFICATIONS**

Certain amounts in the consolidated financial statements for 2001 have been reclassified to conform with the 2002 presentation. Such reclassifications had no effect on the consolidated net income as previously reported.

**Table of Contents****NOTE B Loans**

The loan portfolio consisted of the following at the dates indicated:

(in thousands)	March 31, 2002	December 31, 2001	March 31, 2001
Commercial and financial	\$ 218,665	\$ 229,824	\$ 239,464
Real estate:			
Construction	57,161	52,750	32,796
Commercial	183,225	190,328	192,761
Residential	549,964	588,525	679,849
Installment and consumer	139,438	135,901	116,592
	<u>1,148,453</u>	<u>1,197,328</u>	<u>1,261,462</u>
Less:			
Unearned discount	238	108	4
Net deferred loan fees	4,016	4,939	5,724
Allowance for credit losses	22,117	19,464	16,469
	<u>26,371</u>	<u>24,511</u>	<u>22,207</u>
Loans, net	<u>\$ 1,122,082</u>	<u>\$ 1,172,817</u>	<u>\$ 1,239,265</u>

**Table of Contents****NOTE C Segment Information**

The Company's business segments are organized around services and products provided. The segment data presented below was prepared on the same basis of accounting as the consolidated financial statements described in Note A. Intersegment income and expense are valued at prices comparable to those for unaffiliated companies.

(in thousands)	Retail	Wholesale	Treasury	All Other	Total
<b>Three months ended March 31, 2002</b>					
Net interest income	\$ 11,328	\$ 7,451	\$ 693	\$ (33)	\$ 19,439
Intersegment net interest income (expense)	123	(1,478)	1,355		
Provision for credit losses	815	4,053			4,868
Other operating income (expense)	(2,184)	(2,595)	(587)	(4,023)	(9,389)
Administrative and overhead expense allocation	(1,916)	(1,292)	(215)	3,423	
Income tax expense (benefit)	2,039	(614)	389	(168)	1,646
Net income (loss)	4,497	(1,353)	857	(465)	3,536
Total assets	734,331	440,022	323,230	44,117	1,541,700
<b>Three months ended March 31, 2001</b>					
Net interest income	\$ 7,370	\$ 7,683	\$ 747	\$ 2	\$ 15,802
Intersegment net interest income (expense)	588	(1,836)	1,248		
Provision for credit losses	752	1,998			2,750
Other operating income (expense)	(2,635)	(2,196)	130	(4,304)	(9,005)
Administrative and overhead expense allocation	(2,014)	(1,425)	(330)	3,769	
Income tax expense (benefit)	812	73	570	(209)	1,246
Net income (loss)	1,745	155	1,225	(324)	2,801
Total assets	856,486	454,864	380,646	36,515	1,728,511

**Table of Contents****NOTE D Earnings Per Share Calculation**

(in thousands, except number of shares and per share data)	Three months ended March 31,					
	2002			2001		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic:						
Net income	\$3,536	3,444,776	\$1.03	\$2,801	3,506,696	\$0.80
Effect of dilutive securities						
Stock incentive plan options		61,566			5,604	
Diluted:						
Net income and assumed conversions	\$3,536	3,506,342	\$1.01	\$2,801	3,512,300	\$0.80

2001 per share calculations have been restated to reflect the impact of the 10% stock dividend issued in June 2001.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations contain statements relating to future results of the Company (including certain projections and business trends) that are considered forward-looking statements. Actual results may differ materially from those projected as a result of certain risks and uncertainties including, but not limited to, changes in political and economic conditions, interest rate fluctuations, competitive product and pricing pressures within the Company's market, equity and bond market fluctuations, personal and corporate customers' bankruptcies and financial condition, inflation and results of litigation. Accordingly, historical performance, as well as reasonably applied projections and assumptions, may not be a reliable indicator of future earnings due to risks and uncertainties.

As circumstances, conditions or events change that affect the Company's assumptions and projections on which any of the statements are based, the Company disclaims any obligation to issue any update or revision to any forward-looking statement contained herein.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to its investments, loans and allowance for credit losses, intangible assets, income taxes, contingencies, and litigation. The Company bases its estimates on current

**Table of Contents**

market conditions, historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies require significant judgments and estimates used in the preparation of its consolidated financial statements.

**Allowance for Credit Losses.** The allowance for credit losses is periodically evaluated for adequacy by management. Factors considered include the Company's loan loss experience, known and inherent risks in the portfolio, current economic conditions, known adverse situations that may affect the borrower's ability to repay, regulatory policies, and the estimated value of underlying collateral. The evaluation of the adequacy of the allowance is based on the above factors along with prevailing and anticipated economic conditions that may impact borrowers' ability to repay loans. Determination of the allowance is in part objective and in part a subjective judgment by management given the information it currently has in its possession. Adverse changes in any of these factors or the discovery of new adverse information could result in higher charge-offs and loan loss provisions.

**Impairment of Investments.** The realization of the Company's investment in certain mortgage/asset-backed securities and collateralized loan and bond obligations is dependent on the credit quality of the underlying borrowers and yields demanded by the marketplace. Increases in market interest rates and deteriorating credit quality of the underlying borrowers because of adverse conditions may result in additional losses. The Company records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future. Since several of these investments do not have a liquid trading market, management's estimate of value is based upon estimates of future returns that may or may not actually be realized. Accordingly, under different assumptions, the value could be adversely affected.

**Deferred Tax Assets.** The Company records a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. This requires an objective as well as a subjective judgment by management. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

**NET INCOME**

Consolidated net income for the quarter ended March 31, 2002, totaled \$3.5 million, an increase of \$735,000, or 26.2%, over the same quarter last year. Diluted earnings per share

**Table of Contents**

for the first quarter of 2002 was \$1.01 as compared to \$0.80 for the same period in 2001, an increase of \$0.21, or 26.3%.

The Company's annualized return on average total assets for the three months ended March 31, 2002 was 0.92% as compared to 0.66% for the same period last year. The Company's annualized return on average stockholders' equity was 10.78% for the three months ended March 31, 2002, as compared to 9.05% for the same period last year.

**NET INTEREST INCOME**

Net interest income, on a taxable equivalent basis, was \$19.6 million for the three months ended March 31, 2002, an increase of \$3.6 million, or 22.7%, over the same period in 2001. The increase was primarily due to an increase in the net interest margin. For the quarter ended March 31, 2002, the Company's net interest margin was 5.38%, an increase of 142 basis points (1% equals 100 basis points) from the same period in 2001. In 2001, the Company was liability-sensitive (i.e., liabilities repricing faster than assets). Additionally, the yield curve steepened with short-term rates falling more than intermediate and long-term rates. As a result, the Company's cost of funds decreased more than the yield on earning assets, which resulted in a 142 basis point increase in the net interest margin.



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**Table of Contents**

A comparison of net interest income for the three months ended March 31, 2002 and 2001 is set forth below on a taxable equivalent basis:

(dollars in thousands)	Three Months Ended March 31,					
	2002			2001		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
<b>ASSETS</b>						
Earning assets:						
Interest-bearing deposits in other banks	\$ 1,038	\$ 7	2.73%	\$ 1,077	\$ 18	6.78%
Federal funds sold and securities purchased under agreement to resell	2,729	12	1.78	11,830	160	5.49
Taxable investment and mortgage-backed securities	238,823	3,362	5.71	295,064	5,556	7.64
Nontaxable investment securities	30,954	597	7.82	30,904	597	7.83
Loans <sup>1</sup>	1,208,698	23,865	8.01	1,302,216	28,142	8.76
<b>Total earning assets</b>	<b>1,482,242</b>	<b>27,843</b>	<b>7.62</b>	<b>1,641,091</b>	<b>34,473</b>	<b>8.52</b>
Nonearning assets:						
Cash and due from banks	31,041			30,795		
Premises and equipment	17,472			18,176		
Other assets	51,449			47,716		
Less allowance for credit losses	(20,887)			(17,730)		
<b>Total assets</b>	<b>\$ 1,561,317</b>			<b>\$ 1,720,048</b>		
Interest-bearing liabilities:						
Savings deposits	\$ 457,202	\$ 1,624	1.44%	\$ 378,917	\$ 2,585	2.77%
Time deposits	525,913	3,495	2.70	735,947	10,501	5.79
Short-term borrowings	36,447	311	3.46	133,914	2,242	6.79
Long-term debt	234,688	2,765	4.78	202,945	3,131	6.26
<b>Total interest-bearing deposits and liabilities</b>	<b>1,254,250</b>	<b>8,195</b>	<b>2.65</b>	<b>1,451,723</b>	<b>18,459</b>	<b>5.16</b>
Noninterest-bearing liabilities:						
Demand deposits	147,440			118,368		
Other liabilities	26,624			24,405		
<b>Total liabilities</b>	<b>1,428,314</b>			<b>1,594,496</b>		
Stockholders equity	133,003			125,552		
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,561,317</b>			<b>\$ 1,720,048</b>		
<b>Net interest income and margin on total earning assets</b>		<b>19,648</b>	<b>5.38%</b>		<b>16,014</b>	<b>3.96%</b>
Taxable equivalent adjustment		(209)			(212)	

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Net interest income	<b>\$19,439</b>	\$15,802
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(1) Yields and amounts earned include loan fees. Nonaccrual loans have been included in earning assets for purposes of these computations.

**Table of Contents****NONPERFORMING ASSETS**

A summary of nonperforming assets at March 31, 2002, December 31, 2001 and March 31, 2001 follows:

(dollars in thousands)	<b>March 31, 2002</b>	December 31, 2001	March 31, 2001
<b>Nonperforming assets:</b>			
Nonperforming loans:			
Commercial	<b>\$ 5,341</b>	\$ 7,034	\$ 9,199
Real estate:			
Commercial	<b>3,719</b>	2,438	2,269
Residential	<b>6,121</b>	6,174	5,916
Total real estate loans	<b>9,840</b>	8,612	8,185
Consumer	<b>150</b>	148	
Total nonperforming loans	<b>15,331</b>	15,794	17,384
Other real estate owned			
	<b>3,898</b>	4,674	2,758
Total nonperforming assets	<b>\$ 19,229</b>	\$ 20,468	\$ 20,142
<b>Past due loans:</b>			
Commercial	<b>\$ 1,467</b>	\$	\$ 1,951
Real estate	<b>2,440</b>	2,190	2,636
Consumer	<b>2,393</b>	1,464	851
Total past due loans(1)	<b>\$ 6,300</b>	\$ 3,654	\$ 5,438
<b>Restructured:</b>			
Commercial	<b>\$ 2,214</b>	\$ 2,214	\$ 1,978
Real estate residential	<b>8,188</b>	8,629	10,352
Total restructured loans(2)	<b>\$ 10,402</b>	\$ 10,843	\$ 12,330
<b>Nonperforming assets to total loans and other real estate owned (end of period):</b>			
Excluding 90 days past due accruing loans	<b>1.63%</b>	1.64%	1.54%
Including 90 days past due accruing loans	<b>2.16%</b>	1.93%	1.96%
<b>Nonperforming assets to total assets (end of period):</b>			
Excluding 90 days past due accruing loans	<b>1.25%</b>	1.29%	1.17%
Including 90 days past due accruing loans	<b>1.66%</b>	1.52%	1.48%

(1) Represents loans which are past due 90 days or more as to principal and/or interest, are still accruing interest and are in the process of collection.

**Table of Contents**

Nonperforming loans at March 31, 2002 totaled \$15.3 million, a decrease of \$2.1 million, or 11.8%, over March 31, 2001. The decrease in nonperforming loans was primarily due to a decrease in the commercial category.

Nonperforming commercial loans were \$5.3 million at March 31, 2002, a decrease of \$3.9 million over March 31, 2001. The decrease was due to 1) loans totaling \$2.6 million that were charged-off in the third and fourth quarters of 2001; and 2) a \$1.3 million loan to a real estate developer, secured by undeveloped land, that was foreclosed on in the second quarter of 2001.

Other real estate owned was \$3.9 million at March 31, 2002, an increase of \$1.1 million, or 41.3%, from March 31, 2001. The increase in other real estate owned was primarily due to a \$1.0 million residential property foreclosed on in the fourth quarter of 2001.

Restructured loans were \$10.4 million at March 31, 2002, a decrease of \$1.9 million, or 15.6%, from March 31, 2001. The decrease was primarily due to the reclassification of certain residential real estate loans to nonperforming loans and past due loans.

The Company's future levels of nonperforming loans will be reflective of Hawaii's economy and the financial condition of its customers.

**PROVISION AND ALLOWANCE FOR CREDIT LOSSES**

The provision for credit losses is based upon management's judgment as to the adequacy of the allowance for credit losses (the Allowance) to absorb future losses. The Company uses a systematic methodology to determine the adequacy of the Allowance and related provision for credit losses to be reported for financial statement purposes. The determination of the adequacy of the Allowance is ultimately one of management's judgment, which includes consideration of many factors, including, among other things, the amount of problem and potential problem loans, net charge-off experience, changes in the composition of the loan portfolio by type and geographic location of loans and in overall loan risk profile and quality, general economic factors and the fair value of collateral.

**Table of Contents**

The following table sets forth the activity in the allowance for credit losses for the periods indicated:

(dollars in thousands)	Three months ended March 31,	
	2002	2001
Loans outstanding (end of period)	<b>\$1,177,755</b>	\$ 1,305,450
Average loans outstanding	<b>\$1,208,698</b>	\$ 1,302,216
Balance at beginning of period	<b>\$ 19,464</b>	\$ 17,447
Loans charged-off:		
Commercial	<b>2,100</b>	3,035
Real estate		
Commercial		
Residential	<b>207</b>	467
Consumer	<b>516</b>	474
Total loans charged-off	<b>2,823</b>	3,976
Recoveries on loans charged-off:		
Commercial	<b>61</b>	10
Real estate:		
Commercial	<b>350</b>	
Residential	<b>19</b>	143
Consumer	<b>178</b>	95
Total recoveries on loans previously charged-off	<b>608</b>	248
Net charge-offs	<b>(2,215)</b>	(3,728)
Provision charged to expense	<b>4,868</b>	2,750
Balance at end of period	<b>\$ 22,117</b>	\$ 16,469
Net loans charged-off to average loans	<b>0.74%</b> <sup>(1)</sup>	1.16% <sup>(1)</sup>
Net loans charged-off to allowance for credit losses	<b>40.62%</b> <sup>(1)</sup>	91.80% <sup>(1)</sup>
Allowance for credit losses to total loans (end of period)	<b>1.88%</b>	1.26%
Allowance for credit losses to nonperforming loans (end of period):		
Excluding 90 days past due accruing loans	<b>1.44x</b>	0.95x
Including 90 days past due accruing loans	<b>1.02x</b>	0.72x

<sup>(1)</sup> Annualized.

The provision for credit losses was \$4.9 million for the first quarter of 2002, an increase of \$2.1 million, or 77.0%, over the same quarter last year. The increase in the provision was related to: 1) the continued economic uncertainty, both locally and nationally, since the events of September 11, 2001 and the increased probability that losses not specifically identified may be inherent in the Company's loan portfolio; and 2) an increase in classified assets.

**Table of Contents**

The Allowance at March 31, 2002 was \$22.1 million and represented 1.88% of total loans. The corresponding ratios at December 31, 2001 and March 31, 2001 were 1.57% and 1.26%, respectively.

Net charge-offs were \$2.2 million for the first three months of 2002, a decrease of \$1.5 million, or 40.6%, over the same period in 2001. The decrease was primarily due to a reduction in commercial loan charge-offs.

The Allowance increased to 1.44 times nonperforming loans (excluding 90 days past due accruing loans) at March 31, 2002 from 0.95 times at March 31, 2001 as a result of the increase in the Allowance and decrease in nonperforming loans.

In management's judgment, the Allowance was adequate to absorb potential losses currently inherent in the loan portfolio at March 31, 2002. However, changes in prevailing economic conditions in the Company's markets or in the financial condition of its customers could result in changes in the level of nonperforming assets and charge-offs in the future and, accordingly, changes in the Allowance.

**NONINTEREST INCOME**

Noninterest income totaled \$4.0 million for the first quarter of 2002, an increase of \$715,000, or 22.0%, over the first quarter of 2001.

Service charges on deposit accounts increased \$194,000, or 23.3%, for the first quarter of 2002 over the same period in 2001. These increases resulted from an increase in deposit accounts.

Other service charges and fees increased \$411,000, or 35.9%, for the first three months of 2002 over the same period in 2001. These increases were primarily due to fee income on investment services recorded during the three months ended March 31, 2002.

Net realized losses on sales of securities was \$36,000 for the three months ended March 31, 2002 compared to net realized gains of \$387,000 in the same period in 2001.

Net gains on sales of loans increased \$349,000, or 215.4%, for the first quarter of 2002 from the same period in 2001.

Other income increased \$184,000, or 25.7%, for the first quarter of 2002 due primarily to higher gains on the sale of OREO and income from item-processing operations.

**NONINTEREST EXPENSE**

Noninterest expense totaled \$13.3 million for the first quarter of 2002, an increase of \$1.1 million, or 9.0%, from the same period in 2001. The efficiency ratio (exclusive of amortization of purchase accounting premiums on loan and servicing portfolios) improved from 63.5% for the three months ended March 31, 2001 to 56.4% for the three months ended March 31, 2002.

**Table of Contents**

Salaries and employee benefits increased \$572,000, or 9.5%, for the first quarter ended March 31, 2002 from the same period in 2001. The increases were primarily due to higher incentive-based compensation paid to commercial loan and investment services personnel.

Other noninterest expense increased \$568,000, or 14.8%, for the first three months of 2002 from the same period in 2001 due primarily to higher professional fees and marketing expenses.

**INCOME TAXES**

The Company's effective income tax rate (exclusive of the tax equivalent adjustment) for the first three months of 2002 was 31.8% as compared to 30.8% for the same period in 2001.

**LIQUIDITY AND CAPITAL RESOURCES**

The consolidated statements of cash flows identify three major sources and uses of cash as operating, investing and financing activities.

The Company's operating activities provided \$25.4 million in the first quarter of 2002, compared to using \$17.1 million in the same period last year. The primary source of cash flows from operations in 2002 was the sale of \$63.3 million of loans held for sale, which was partially offset by the origination of \$46.7 million of loans held for sale. During the first quarter of 2001, the Company originated \$42.3 million of loans held for sale and sold \$25.5 million of loans held for sale.

Investing activities provided cash flow of \$24.1 million in the first quarter of 2002, compared to providing \$8.3 million during the same period last year. The primary source of cash from investing activities in the first quarter of 2002 was the net decrease in loans of \$45.3 million. The net decrease in loans was due primarily to a reduction in the Bank's residential real estate portfolio, which declined by \$38.6 million during the first quarter of 2002 due to an increase in prepayments.

Financing activities used cash flow of \$46.3 million in the first quarter of 2002, compared to providing \$4.3 million during the same period last year. The primary use of cash from financing activities in the first quarter of 2002 was the \$29.6 million net decrease in deposits and \$35.8 million net decrease in short-term borrowings.

The Company and the Bank are subject to capital standards promulgated by the Federal banking agencies and the Hawaii Division of Financial Institutions. Quantitative measures established by regulation to ensure capital adequacy required the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table at March 31, 2002 and 2001) of Tier 1 and Total capital to risk-weighted assets, and of Tier 1 capital to average assets.

**Table of Contents**

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of March 31, 2002</b>						
<b>Tier 1 Capital to Risk-Weighted Assets:</b>						
Consolidated	\$ 138,147	11.67%	\$ 47,334	4.00%	N/A	
Bank	133,912	11.31	47,342	4.00	\$ 71,013	6.00%
<b>Total Capital to Risk-Weighted Assets:</b>						
Consolidated	\$ 153,064	12.93%	\$ 94,669	8.00%	N/A	
Bank	148,832	12.57	94,684	8.00	\$ 118,356	10.00%
<b>Tier 1 Capital to Average Assets:</b>						
Consolidated	\$ 138,147	8.85%	\$ 62,453	4.00%	N/A	
Bank	133,912	8.59	62,327	4.00	\$ 77,908	5.00%
<b>As of March 31, 2001</b>						
<b>Tier 1 Capital to Risk-Weighted Assets:</b>						
Consolidated	\$ 139,578	11.52%	\$ 48,447	4.00%	N/A	
Bank	136,363	11.28	48,376	4.00	\$ 72,564	6.00%
<b>Total Capital to Risk-Weighted Assets:</b>						
Consolidated	\$ 154,767	12.78%	\$ 96,894	8.00%	N/A	
Bank	151,530	12.53	96,752	8.00	\$ 120,940	10.00%
<b>Tier 1 Capital to Average Assets:</b>						
Consolidated	\$ 139,578	8.11%	\$ 68,802	4.00%	N/A	
Bank	136,363	7.61	71,671	4.00	\$ 89,589	5.00%



**Table of Contents**

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company disclosed both quantitative and qualitative analyses of market risks in its 2001 Form 10-K. No significant changes have occurred during the three months ended March 31, 2002.

**PART II OTHER INFORMATION**

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

None

(b) Reports on Form 8-K

No reports on Form 8-K were filed in the first quarter of 2002.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CB BANCSHARES, INC.**  
**(Registrant)**

Date May 10, 2002  
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By /s/ Dean K. Hirata  
\_\_\_\_\_

Dean K. Hirata  
Senior Vice President and  
Chief Financial Officer  
(principal financial officer)