CB BANCSHARES INC/HI
Form 10-Q
August 13, 2001
Table of Contents

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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001

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	**99-0197163**
(State of Incorporation)	(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 [X] No [ ]

The number of shares outstanding of each of the registrant s classes of common stock as of July 31, 2001 was:

Class	Outstanding
Common Stock, $1.00 Par Value	3,508,841 shares

1

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS (Unaudited)
CB BANCSHARES, INC. AND SUBSIDIARIES

(in thousands of dollars)	**June 30, 2001**	December 31, 2000	June 30, 2000
Assets			
Cash and due from banks	**$23,894**	$40,172	$46,395
Interest-bearing deposits in other banks	**1,010**	1,058	123
Federal funds sold	**2,515**	610	3,640
Investment securities:			
Available-for-sale	**247,900**	298,089	307,241
Restricted	**33,524**	32,430	32,782
Loans held for sale	**54,854**	33,696	7,301
Net loans	**1,228,522**	1,250,215	1,222,206
Premises and equipment	**18,566**	18,081	18,158
Other real estate owned	**3,068**	3,458	6,002
Other assets	**43,465**	43,591	40,733

Total assets	**$1,657,318**	$1,721,400	$1,684,581
Liabilities and stockholders equity			
Deposits:			
Noninterest-bearing	**$137,092**	$128,742	$120,251
Interest-bearing	**1,036,836**	1,089,519	1,050,919
Total deposits	**1,173,928**	1,218,261	1,171,170
Short-term borrowings	**91,400**	170,700	185,050
Other liabilities	**16,228**	20,714	18,115
Long-term debt	**244,381**	181,563	192,348
Minority interest in consolidated subsidiary	**2,720**	7,000	
Total liabilities	**1,528,657**	1,598,238	1,566,683

Stockholders equity:			
Preferred stock			
Common stock	**3,509**	3,189	3,199
Additional paid-in capital	**65,558**	54,594	54,852
Retained earnings	**66,276**	72,284	66,911
Accumulated other comprehensive loss, net of tax	**(6,682)**	(6,905)	(7,064)
Total stockholders equity	**128,661**	123,162	117,898
Total liabilities and stockholders equity	**$1,657,318**	$1,721,400	$1,684,581

See accompanying notes to the consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
CB BANCSHARES, INC. AND SUBSIDIARIES

	Quarter ended June 30,		Six months ended June 30,	
(in thousands of dollars, except per share data)	2001	2000	2001	2000
Interest income:				
Interest and fees on loans	**$27,576**	$26,519	**$55,715**	$51,436
Interest and dividends on investment securities:				
Taxable interest income	**4,158**	5,096	**9,194**	10,325
Nontaxable interest income	**388**	389	**776**	773
Dividends	**576**	528	**1,096**	1,055
Other interest income	**85**	214	**263**	362
Total interest income	**32,783**	32,746	**67,044**	63,951
Interest expense:				
Deposits	**11,283**	11,269	**24,369**	21,597
Short-term borrowings	**800**	2,511	**3,042**	4,690
Long-term debt	**3,531**	3,373	**6,662**	6,814

Total interest expense	**15,614**	17,153	**34,073**	33,101
Net interest income	**17,169**	15,593	**32,971**	30,850
Provision for credit losses	**2,271**	1,875	**5,021**	3,781
Net interest income after provision for credit losses	**14,898**	13,718	**27,950**	27,069
Noninterest income:				
Service charges on deposit accounts	**940**	694	**1,774**	1,340
Other service charges and fees	**1,253**	1,103	**2,392**	2,021
Net realized gains (losses) on sales of securities	**229**	15	**616**	(422)
Net gains on sales of loans	**250**	124	**412**	264

Other	**476**	600	**1,067**	1,047
Total noninterest income	**3,148**	2,536	**6,261**	4,250
Noninterest expense:				
Salaries and employee benefits	**5,896**	4,980	**11,762**	9,914
Net occupancy expense	**1,609**	1,867	**3,201**	3,712
Equipment expense	**804**	799	**1,620**	1,400
Other	**4,759**	4,163	**8,602**	7,951
Total noninterest expense	**13,068**	11,809	**25,185**	22,977
Income before income taxes				

	4,978	4,445	**9,026**	8,342
Income tax expense	**1,838**	1,675	**3,085**	3,138
Net income	**$3,140**	$2,770	**$5,941**	$5,204
Per share data:				
Basic	**$0.89**	$0.78	**$1.69**	$1.46
Diluted	**$0.89**	$0.78	**$1.69**	$1.46

See accompanying notes to the consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
CB BANCSHARES, INC. AND SUBSIDIARIES

(in thousands of dollars)	Six months ended June 30, 2001	2000
Cash flows from operating activities:		
Net income	**$5,941**	$5,204
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	**5,021**	3,781
Net realized (gains) losses on sale of securities	**(616)**	422
Depreciation and amortization	**1,474**	1,636
Deferred income taxes	**120**	1,461
Increase (decrease) in accrued interest receivable	**832**	(1,690)
Increase (decrease) in accrued interest payable	**(3,031)**	12
Loans originated for sale	**(84,682)**	(27,592)
Sale of loans held for sale	**63,936**	28,096
Decrease (increase) in other assets	**(686)**	647
Increase (decrease) in income taxes payable	**(1,102)**	(2,071)
Increase (decrease) in other liabilities	**(656)**	(956)
Other	**(148)**	(156)
Net cash provided by (used in) operating activities	**(13,597)**	8,794
Cash flows from investing activities:		

Net decrease (increase) in interest-bearing deposits in other Banks	**48**	(47)
Net decrease (increase) in federal funds sold	**(1,905)**	2,060
Purchase of available-for-sale securities	**(50)**	(5,643)
Proceeds from sales of available-for-sale securities	**33,815**	7,655
Proceeds from maturities of available-for-sale securities	**17,273**	7,139
Purchase of FHLB Stock	**(1,094)**	(1,055)
Net loan originations over principal repayments	**12,781**	(104,039)
Proceeds from sales of premises and equipment		195
Capital expenditures	**(1,959)**	(578)
Proceeds from sales of foreclosed assets	**4,170**	4,329
Net cash provided by (used in) investing activities	**63,079**	(89,984)
Cash flows from financing activities:		
Net increase (decrease) in deposits	**(44,333)**	65,318
Net increase (decrease) in short-term borrowings	**(79,300)**	30,166
Proceeds from long-term debt	**95,000**	10,000
Principal payments on long-term debt	**(32,182)**	(42,792)
Net decrease in minority interest in consolidated subsidiary	**(4,280)**	
Cash dividends paid	**(670)**	(452)

Stock options exercised	**123**	
Cash in lieu payments on stock dividend	**(54)**	
Stock repurchase	**(64)**	(1,423)
Net cash provided by (used in) financing activities	**(65,760)**	60,817
Decrease in cash and due from banks	**(16,278)**	(20,373)
Cash and due from banks at beginning of period	**40,172**	66,918
Cash and due from banks at end of period	**$23,894**	$46,545
Supplemental schedule of non-cash investing activities:		
Interest paid on deposits and other borrowings	**$37,103**	$33,113
Income taxes paid	**$4,752**	$3,099
Loans transferred to other real estate owned	**$3,891**	$1,834

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	Accu-mulated Other Compre-hensive Income (Loss)	Total
Balance at December 31, 2000	**$3,189**	**$54,594**	**$72,284**	**$(6,905)**	**$123,162**
Other comprehensive income (loss):					

Net income
5,941 5,941
Other comprehensive income, net of tax

Unrealized valuation adjustment
223 223

Total comprehensive income (loss)
5,941 223 6,164

Cash dividends ($0.21 per share)
(670) (670)
Options exercised
4 119 123
Stock dividend
318 10,907 (11,279) (54)
Cancelled and retired shares
(2) (62) (64)

Balance at June 30, 2001
$3,509 $65,558 $66,276 $(6,682) $128,661

Balance at December 31, 1999
$3,255 $56,219 $62,159 $(6,942) $114,691
Other comprehensive income (loss):

Net income
5,204 5,204
Other comprehensive income, net of tax

Unrealized valuation adjustment
(122) (122)

Total comprehensive income (loss)
5,204 (122) 5,082

Cash dividends ($0.14 per share)
(452) (452)
Cancelled and retired shares
(56) (1,367) (1,423)

Balance at June 30, 2000
$3,199 $54,852 $66,911 $(7,064) $117,898

See accompanying notes to the consolidated financial statements.

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. and its wholly-owned subsidiaries (the Company), which include 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. Effective July 1, 2000, International Savings & Loan Association (the Association) was merged with and into the Bank (the Merger). 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 consolidated 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 accounting principles generally accepted in the United States of America. 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, 2000.

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

NEW ACCOUNTING PRINCIPLES

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires entities to recognize all derivatives in their financial statements as either assets or liabilities measured at fair value. The effective date for SFAS No. 133, as amended, was fiscal years beginning after June 15, 2000, or January 1, 2001 for the Company. The Company implemented the standard as of January 1, 2001.

The Company uses interest rate swaps, caps and floors to modify the interest rate characteristics of certain assets and liabilities. Interest rate swaps are primarily used to convert certain fixed rate deposits to floating interest rates. Since adoption of SFAS 133, as amended, these interest rate swaps have been designated and qualify as fair value hedging instruments.

On January 1, 2001, the Company recorded the cumulative effect of adopting SFAS 133, as amended, in its identified fair value hedges. A transition adjustment of $263,000 associated with establishing fair values of the derivative instruments and hedged items on the balance sheet was recorded. No adjustments were required to net earnings in connection with adopting SFAS 133, as amended.

Table of Contents

During the first two quarters of 2001, no amounts were recognized in earnings in connection with the ineffective portion of fair value hedges, no amounts were excluded from the measure of effectiveness, and there were no transactions that no longer qualified as a fair value hedge. During the first two quarters of 2001, the Company has not had any cash flow hedges.

Derivatives not designated as hedges primarily consist of options and instruments containing option features that behave based on limits (caps , floors , or collars). These instruments are used to hedge risks associated with interest rate movements. Although these instruments are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, as amended.

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements for 2000 have been reclassified to conform with the 2001 presentation. Such reclassifications had no effect on the consolidated net income as previously reported.

NOTE B Loans

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

(in thousands of dollars)	**June 30, 2001**	December 31, 2000	June 30, 2000
Commercial	**$246,730**	$246,877	$232,073
Real estate:			
Construction	**28,650**	26,237	22,143
Commercial	**194,872**	192,194	201,779
Residential	**659,279**	693,068	692,368
Installment and consumer	**122,266**	114,562	97,685
Gross loans	**1,251,797**	1,272,938	1,246,048
Less:			
Unearned discount	**4**	4	5
Net deferred loan fees	**5,457**	5,272	5,208
Allowance for credit losses	**17,814**	17,447	18,629
Loans, net	**$1,228,522**	$1,250,215	$1,222,206

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
Six months ended June 30, 2001					
Net interest income	**$16,532**	**$14,809**	**$1,625**	**$5**	**$32,971**
Intersegment net interest income (expense)	**361**	**(1,698)**	**1,337**		**-**
Provision for credit losses	**1,084**	**3,937**			**5,021**
Noninterest income (expense)	**(5,236)**	**(5,029)**	**(672)**	**(7,987)**	**(18,924)**
Administrative and overhead expense allocation	**(3,535)**	**(2,799)**	**(605)**	**6,939**	**-**
Income tax expense (benefit)	**2,384**	**456**	**571**	**(326)**	**3,085**
Net income (loss)	**4,654**	**890**	**1,114**	**(717)**	**5,941**
Total assets	**826,640**	**374,895**	**269,889**	**185,894**	**1,657,318**

Prior to the Merger, the Company s segments were organized around significant subsidiaries as opposed to products and services as a combined entity. As a result, comparative segment data for 2000 is not readily available or practicable to provide.

NOTE D Earnings Per Share Calculation

(in thousands, except number of shares and per share data)	Quarter ended June 30,					
	2001			2000		
	Income (Numerator)	**Shares (Denom-inator)**	**Per Share Amount**	Income (Numerator)	Shares (Denom-inator)	Per Share Amount
Basic:						
Net income	**$3,140**	**3,509,900**	**$0.89**	$2,770	3,542,826	$0.78
Effect of dilutive securities - Stock incentive plan options		**20,011**				
Diluted:						
Net income and assumed conversions	**$3,140**	**3,529,911**	**$0.89**	$2,770	3,542,826	$0.78

(in thousands, except number of shares and per share data)	Six months ended June 30,					
	2001			2000		
	Income (Numerator)	**Shares (Denom-inator)**	**Per Share Amount**	Income (Numerator)	Shares (Denom-inator)	Per Share Amount
Basic:						
Net income	**$5,941**	**3,506,532**	**$1.69**	$5,204	3,556,096	$1.46
Effect of dilutive securities - Stock incentive plan options		**12,413**			295	
Diluted:						
Net income and assumed conversions	**$5,941**	**3,518,945**	**$1.69**	$5,204	3,556,391	$1.46

[Table of Contents](#)

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.

NET INCOME

Consolidated net income for the quarter ended June 30, 2001, totaled $3.1 million, an increase of $370,000, or 13.4%, over the same quarter last year. Consolidated net income for the six months ended June 30, 2001, totaled $5.9 million, an increase of $737,000, or 14.2%, over the same period in 2000. Diluted earnings per share for the second quarter of 2001 was $0.89 as compared to $0.78 for the same period in 2000, an increase of $0.11, or 14.1%. For the six months ended June 30, 2001, diluted earnings per share was $1.69, an increase of $0.23, or 15.8%, over the same period in 2000. The increase in consolidated net income for the quarter and six months ended June 30, 2001, over the corresponding periods in 2000, was primarily due to an increase in net interest income and noninterest income, partially offset by increases in the provision for credit losses and noninterest expense.

The Company s annualized return on average total assets for the six months ended June 30, 2001 was 0.70% as compared to 0.64% for the same period last year. The Company s annualized return on average stockholders equity was 9.46% for the six months ended June 30, 2001, as compared to 8.99% for the same period last year.

NET INTEREST INCOME

Net interest income, on a taxable equivalent basis, was $17.4 million for the quarter ended June 30, 2001, an increase of $1.6 million, or 10.0%, over the same period in 2000. The increase in net interest income was primarily due to a $27.8 million, or 1.8%, increase in average earning assets and a 32 basis point increase in the net interest margin. For the quarter ended June 30, 2001, the Company s net interest margin was 4.35%, as compared to 4.03% for the same period in 2000.

Table of Contents

Net interest income, on a taxable equivalent basis, was $33.4 million for the six months ended June 30, 2001, an increase of $2.1 million, or 6.8%, over the same period in 2000. The increase was primarily due to a $71.9 million, or 4.6%, increase in interest earning assets, partially offset by a $39.0 million, or 2.8%, increase in average interest-bearing liabilities. For the six months ended June 30, 2001, the Company s net interest margin was 4.15%, an increase of 9 basis points from the same period in 2000.

Table of Contents

A comparison of net interest income for the quarter and six months ended June 30, 2001 and 2000 is set forth below on a taxable equivalent basis:

	Quarter Ended June 30,					
	2001			2000		
(in thousands of dollars)	**Average Balance**	**Interest Income/ Expense**	**Yield/ Rate**	Average Balance	Interest Income/ Expense	Yield/ Rate
ASSETS						
Earning assets:						
Interest-bearing deposits in Other banks	**$1,043**	**$12**	**4.61%**	$118	$2	6.82%
Federal funds sold and Securities purchased under Agreement to resell	**6,714**	**75**	**4.48**	13,484	214	6.38
Taxable investment Securities	**260,823**	**4,732**	**7.28**	308,059	5,624	7.34
Nontaxable investment securities	**30,916**	**597**	**7.75**	30,971	598	7.77
Loans[1]	**1,304,479**	**27,576**	**8.48**	1,223,566	26,519	8.72
Total earning assets	**1,603,975**	**32,992**	**8.25**	1,576,198	32,957	8.41

Nonearning assets:						
Cash and due from banks	**29,649**			35,735		
Premises and equipment-net	**18,685**			18,040		
Other assets	**51,443**			55,382		
Less allowance for loan losses	**(17,076)**			(18,625)		
Total assets	**$1,686,676**			$1,666,730		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Savings deposits	**$404,436**	**$2,375**	**2.36%**	$374,713	$2,486	2.67%
Time deposits	**689,931**	**8,908**	**5.18**	660,193	8,783	5.35
Short-term borrowings	**63,714**	**800**	**5.04**	157,155	2,511	6.43
Long-term debt	**249,078**	**3,531**	**5.69**	218,115	3,373	6.22
Total interest-bearing Deposits and liabilities	**1,407,159**	**15,614**	**4.45**	1,410,176	17,153	4.89

Noninterest-bearing liabilities:		
Demand deposits	**128,114**	120,348
Other liabilities	**23,790**	19,033
Total liabilities	**1,559,063**	1,549,557
Stockholders equity	**127,613**	117,173
Total liabilities and Stockholders equity	**$1,686,676**	$1,666,730

Net interest income and margin on total earning assets	**17,378**	**4.35%**	15,804	4.03%
Taxable equivalent adjustment	**(209)**		(211)	
Net interest income	**$17,169**		$15,593	

[Additional columns below]

Table of Contents

[Continued from above table, first column(s) repeated]

	Six Months Ended June 30,					
	2001			2000		
(in thousands of dollars)	**Average Balance**	**Interest Income/ Expense**	**Yield/ Rate**	Average Balance	Interest Income/ Expense	Yield/ Rate
ASSETS						
Earning assets:						
Interest-bearing deposits in Other banks	**$1,060**	**$30**	**5.71%**	$132	$4	6.09%
Federal funds sold and Securities purchased under Agreement to resell	**9,258**	**235**	**5.12**	11,799	358	6.10
Taxable investment Securities	**277,849**	**10,288**	**7.47**	311,017	11,380	7.36
Nontaxable investment securities	**30,910**	**1,194**	**7.79**	30,731	1,189	7.78
Loans [1]	**1,303,354**	**55,718**	**8.62**	1,196,848	51,443	8.64
Total earning assets	**1,622,431**	**67,465**	**8.39**	1,550,527	64,374	8.35

Nonearning assets:		
Cash and due from banks	**30,219**	37,629
Premises and equipment-net	**18,432**	17,960
Other assets	**49,590**	50,900
Less allowance for loan losses	**(17,401)**	(18,431)
Total assets	**$1,703,271**	$1,638,585

LIABILITIES AND STOCKHOLDERS EQUITY

Interest-bearing liabilities:						
Savings deposits	**$391,747**	**$4,960**	**2.55%**	$367,096	$4,796	2.63%
Time deposits	**712,812**	**19,409**	**5.49**	650,225	16,801	5.20
Short-term borrowings	**98,620**	**3,042**	**6.22**	150,417	4,690	6.27
Long-term debt	**226,139**	**6,662**	**5.94**	222,573	6,814	6.16
Total interest-bearing Deposits and liabilities	**1,429,318**	**34,073**	**4.81**	1,390,311	33,101	4.79

Noninterest-bearing liabilities:				
Demand deposits	**123,268**		113,547	
Other liabilities	**24,097**		18,280	
Total liabilities	**1,576,683**		1,522,138	
Stockholders equity	**126,588**		116,447	
Total liabilities and Stockholders equity	**$1,703,271**		$1,638,585	
Net interest income and margin on total earning assets	**33,392**	**4.15%**	31,273	4.06%
Taxable equivalent adjustment	**(421)**		(423)	
Net interest income	**$32,971**		$30,850	

[1] Yields and amounts earned include loan fees. Nonaccrual loans have been included in earning assets for purposes of these computations.

Table of Contents

1. NONPERFORMING ASSETS

A summary of nonperforming assets at June 30, 2001, December 31, 2000 and June 30, 2000 follows:

(in thousands of dollars)	**June 30, 2001**	December 31, 2000	June 30, 2000
Nonaccrual assets:			
Commercial	**$8,130**	$6,268	$1,676
Real estate:			
Commercial	**2,220**	3,030	3,381
Residential	**6,923**	5,827	6,004
Total real estate loans	**9,143**	8,857	9,385
Consumer	**93**		31
Total nonaccrual loans	**17,366**	15,125	11,092
Other real estate owned	**3,068**	3,458	6,002

Total nonperforming assets	**$20,434**	$18,583	$17,094
Past due loans:			
Commercial	**$1,373**	$975	$1,024
Real estate	**2,442**	473	1,119
Consumer	**616**	1,256	887
Total past due loans (1)	**$4,431**	$2,704	$3,030
Restructured:			
Commercial	**$4,778**	$4,153	$4,662
Real estate:			
Commercial			
Residential	**9,664**	11,730	11,971

Total restructured loans (2)	**$14,442**	$15,883	$16,633
Nonperforming assets to total loans			
And other real estate owned (end of period):			
Excluding 90 days past due accruing loans	**1.57%**	1.42%	1.36%
Including 90 days past due accruing loans	**1.91%**	1.63%	1.60%
Nonperforming assets to total assets (end of period):			
Excluding 90 days past due accruing loans	**1.23%**	1.08%	1.01%
Including 90 days past due accruing loans	**1.50%**	1.24%	1.19%

(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.

(2) Represents loans which have been restructured, are current and still accruing interest.

13

Table of Contents

Nonperforming loans at June 30, 2001 totaled $17.4 million, an increase of $6.3 million, or 56.6%, as compared to June 30, 2000. The increase in nonperforming loans was primarily due to an increase in the commercial category and residential real estate loan category.

Nonperforming commercial loans were $8.1 million at June 30, 2001, an increase of $6.5 million over June 30, 2000. The increase was due to: 1) a $3.4 million loan placed on non-accrual status in the third quarter of 2000; 2) a $1.2 million loan to a real estate developer that was placed on nonaccrual in the first quarter of 2001; and 3) a $1.9 million loan to a building supplier that was placed on nonaccrual in the first quarter of 2001.

Other real estate owned was $3.1 million at June 30, 2001, a decrease of $2.9 million, or 48.9%, from June 30, 2000. The decrease in other real estate owned was consistent with the increase in real estate sales activity in Hawaii.

Restructured loans were $14.4 million at June 30, 2001, a decrease of $2.2 million, or 13.2%, from June 30, 2000. The decrease was primarily due to the reclassification of certain commercial loans and residential real estate loans to nonperforming loans and past due loans.

At June 30, 2001, the Company was not aware of any significant potential problem loans (not otherwise classified as nonperforming, past due, or restructured in the above table) where possible credit problems of the borrower caused management to have serious concerns as to the ability of such borrower to comply with the present scheduled repayment terms. 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:

	Six months ended June 30,	
(in thousands of dollars)	**2001**	**2000**
Loans outstanding (end of period) (2)	**$1,301,190**	$1,248,136
Average loans outstanding (2)	**$1,303,354**	$1,196,848
Balance at beginning of period	**$ 17,447**	$ 17,942
Loans charged off:		
Commercial	**3,290**	497
Real estate residential	**1,061**	2,222
Consumer	**767**	821
Total loans charged off	**5,118**	3,540

Recoveries on loans charged off:		
Commercial	**45**	81
Real estate:		
Commercial		15
Residential	**239**	235
Consumer	**180**	115
Total recoveries on loans previously charged off	**464**	446
Net charge-offs	**(4,654)**	(3,094)
Provision charged to expense	**5,021**	3,781
Balance at end of period	**$17,814**	$18,629

Net loans charged off to average loans	**0.72%**[1]	0.52%[1]
Net loans charged off to allowance for credit losses	**52.68%**[1]	33.40%[1]
Allowance for credit losses to total loans (end of period)	**1.37%**	1.49%
Allowance for credit losses to nonperforming loans (end of period):		
Excluding 90 days past due accruing loans	**1.03x**	1.68x
Including 90 days past due accruing loans	**0.82x**	1.32x

(1) Annualized.
(2) Includes loans held for sale.

Table of Contents

The provision for credit losses was $2.3 million for the second quarter of 2001, an increase of $396,000, or 21.1%, over the same quarter last year. For the six months ended June 30, 2001, the provision for loan losses was $5.0 million, an increase of $1.2 million, or 32.8%, over the same period last year. The increase in the provision for credit losses in 2001 was primarily related to the increase in the loan portfolio and an increase in net charge-offs.

The Allowance at June 30, 2001 was $17.8 million and represented 1.37% of total loans. The corresponding ratios at December 31, 2000 and June 30, 2000 were 1.34% and 1.49%, respectively.

Net charge-offs were $4.7 million for the first six months of 2001, an increase of $1.6 million, or 50.4%, over the same period in 2000. The increase was primarily due to higher charge-offs in the commercial loan categories, which increased $2.8 million, partially offset by a $1.2 million decrease in residential real estate charge-offs. The increase in the commercial loan category was primarily due to the charge-off of three commercial loans totaling $3.0 million during the first quarter of 2001. Such amounts were previously provided for in the Allowance.

The Allowance decreased to 1.03 times nonperforming loans (excluding 90 days past due accruing loans) at June 30, 2001 from 1.68 times at June 30, 2000 as a result of the increase in nonperforming loans and the increase in net charge-offs for the six months ended June 30, 2001. Although the Allowance coverage decreased, future charge-offs related to the increase in nonperforming loans have been specifically provided for in the Allowance.

In management s judgment, the Allowance was adequate to absorb potential losses currently inherent in the loan portfolio at June 30, 2001. 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 $3.1 million for the quarter ended June 20, 2001, an increase of $612,000, or 24.1%, over the comparable period in 2000. For the six months ended June 30, 2001, noninterest income was $6.3 million, an increase of $2.0 million, or 47.3%, over the comparable period in 2000.

Service charges on deposit accounts increased $246,000 and $434,000, or 35.4% and 32.4%, respectively, for the second quarter and six months ended June 30, 2001 over the comparable periods in 2000. These increases resulted from a $97.0 million, or 8.6%, increase in the average balance of deposit accounts.

Other service charges and fees increased $150,000 and $371,000, or 13.6% and 18.4%, respectively, for the second quarter and six months ended June 30, 2001 over the comparable periods in 2000. These increases were primarily due to higher ATM fee income recorded during the six months ended June 30, 2001.

Net realized gains on sales of securities was $616,000 for the six months ended June 30, 2001 compared to net realized losses of $422,000 in the same period in 2000. The net gains in 2001

Table of Contents

was due to sales of $33.2 million of available-for-sale securities sold in the lower rate environment.

NONINTEREST EXPENSE

Noninterest expense totaled $13.1 million for the quarter ended June 30, 2001, an increase of $1.3 million, or 10.7%, from the comparable period in 2000. For the six months ended June 30, 2001, noninterest expense was $25.2 million, an increase of $2.2 million, or 9.6%, from the comparable period in 2000. The efficiency ratio (exclusive of intangibles) improved from 64.9% for the six months ended June 30, 2000 to 63.4% for the six months ended June 30, 2001.

Salaries and employee benefits increased $916,000, or 18.4%, and $1.8 million, or 18.6%, for the second quarter and six months ended June 30, 2001, respectively, from the comparable periods in 2000. The increases were primarily due to higher incentive-based compensation related to the growth in loans and deposits. For the six months ended June 30, 2001, the average balances of loans and deposits increased $106.5 million and $97.0 million, respectively, as compared to the same period last year.

Net occupancy expense decreased $258,000, or 13.8%, and $511,000, or 13.8%, for the second quarter and six months ended June 30, 2001, respectively, from the comparable periods in 2000. The decrease was primarily due to decreases in lease rents for various branch locations due to renegotiated lease agreements and consolidation of branches.

Equipment expense increased $220,000, or 15.7%, for the first two quarters of 2001 from the same period in 2000. The lower equipment expense in the prior year was primarily due to a $300,000 refund of certain software lease payments received in the first quarter of 2000.

Other noninterest expense increased $596,000, or 14.3%, and $651,000, or 8.2%, for the second quarter and six months ended June 30, 2001, respectively, from the comparable periods in 2000. The increase was due to certain nonrecurring operational losses.

INCOME TAXES

The Company s effective income tax rates (exclusive of the tax equivalent adjustment) for the first six months of 2001 was 34.2% as compared to 37.6% for the same period in 2000. The decline in the effective tax rate was primarily due to the utilization of capital losses.

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 used $13.6 million for the six months ended June 30, 2001, which compares to $8.8 million provided by operating activities in the same period last year. The primary use of cash flows from operations in 2001 was the origination of $84.7 million of loans held for sale, which was partially offset by the sale of $63.9 million of loans held for sale. During

Table of Contents

the six months ended June 30, 2000, the Company originated $27.6 million of loans held for sale and sold $28.1 million of loans held for sale.

Investing activities provided cash flow of $63.1 million for the six months ended June 30, 2001, compared to using $90.0 million during the same period last year. The primary sources of cash from investing securities for the six months ended June 30, 2001 were the proceeds from the sale and maturities of securities of $33.8 million and $17.3 million, respectively, and the $12.8 million net decrease in loans. The primary use of cash for investing activities for the six months ended June 30, 2000 was the net increase in loans of $104.0 million.

Financing activities used cash flow of $65.8 million for the six months ended June 30, 2001, compared to providing $60.8 million during the same period last year. During the six months ended June 30, 2001, the Company had a net decrease of $79.3 million of short-term advances, funded by the $95.0 million in proceeds from long-term debt.

The Company and the Bank are subject to capital standards promulgated by the Federal banking agencies and the Hawaii Division of Financial Institutions. Prior to the Merger, the Association was subject to the minimum capital standards established by the Office of Thrift Supervision for all savings associations. Quantitative measures established by regulation to ensure capital adequacy required the Company, the Bank, and the Association (prior to the Merger) to maintain minimum amounts and ratios (set forth in the following table at June 30, 2001 and 2000) of Tier 1 and Total capital to risk-weighted assets, and of Tier 1 capital to average assets. The June 30, 2000 ratios for the Bank do not include the operations of the Association.

Table of Contents

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2001						
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	**$138,063**	**11.40%**	**$48,451**	**4.00%**	**N/A**	
Bank	**133,258**	**11.02**	**48,372**	**4.00**	**$72,558**	**6.00%**
Total Capital to Risk-Weighted Assets:						
Consolidated	**$153,275**	**12.65%**	**$96,902**	**8.00%**	**N/A**	
Bank	**148,446**	**12.28**	**96,744**	**8.00**	**$120,930**	**10.00%**
Tier 1 Capital to Average Assets:						
Consolidated	**$138,063**	**8.19%**	**$67,467**	**4.00%**	**N/A**	
Bank						

133,258 7.62 69,982 4.00 $87,477 5.00%
As of June 30, 2000

Tier 1 Capital to Risk-Weighted Assets:

Consolidated
$124,703 11.45% $43,575 4.00% N/A
Bank
73,513 10.24 28,710 4.00 $43,065 6.00%
Association
49,758 12.10 16,452 4.00 24,679 6.00
Total Capital to Risk-Weighted Assets:

Consolidated
$138,406 12.71% $87,150 8.00% N/A
Bank
82,544 11.50 57,420 8.00 $71,776 10.00%
Association
52,488 12.76 32,905 8.00 41,131 10.00
Tier 1 Capital to Average Assets:

Consolidated
$124,703 7.52% $66,330 4.00% N/A
Bank
73,513 8.22 35,780 4.00 $44,725 5.00%
Association
49,758 6.58 30,229 4.00 37,787 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 2000 Form 10-K. No significant changes have occurred during the six months ended June 30, 2001.

PART II OTHER INFORMATION

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

At the Annual Meeting of Stockholders held on April 26, 2001, the stockholders voted on the election of three directors for a term of three years expiring in 2004, or until their successors are elected:

Name	Shares Voted For	Shares Withheld
Tomio Fuchu	2,319,007	238,554
Duane K. Kurisu	2,319,012	238,549
Mike K. Sayama	2,319,273	238,288

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 second quarter of 2001.

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 August 13, 2001

By /s/ Dean K. Hirata

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