CB BANCSHARES INC/HI
Form 10-Q
November 14, 2001

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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 September 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 October 31, 2001 was:

Class	Outstanding
Common Stock, $1.00 Par Value	3,505,632 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

(in thousands)	**September 30, 2001**	December 31, 2000	September 30, 2000
Assets			
Cash and due from banks	**$ 35,144**	$ 40,172	$ 35,104
Interest-bearing deposits in other banks	**1,013**	1,058	279
Federal funds sold	**12,380**	610	475
Investment and mortgage-backed securities:			
Held-to-maturity	**20,940**		
Available-for-sale	**225,095**	298,089	298,674
FHLB Stock	**34,116**	32,430	31,915
Loans held-for-sale	**63,645**	33,696	5,863
Net loans	**1,212,927**	1,250,215	1,248,908
Premises and equipment	**18,251**	18,081	18,571
Other real estate owned	**3,598**	3,458	4,731
Accrued interest receivable and other assets	**44,006**	43,591	43,660
Total assets	**$1,671,115**	$1,721,400	$1,688,180
Liabilities and stockholders equity			
Deposits:			
Noninterest-bearing	**$ 143,931**	$ 128,742	$ 113,131
Interest-bearing	**1,022,465**	1,089,519	1,056,140
Total deposits	**1,166,396**	1,218,261	1,169,271
Short-term borrowings	**101,600**	170,700	193,700
Accrued expenses and other liabilities	**18,384**	20,714	18,366
Long-term debt	**250,454**	181,563	181,688
Minority interest in consolidated subsidiary	**2,720**	7,000	7,000
Total liabilities	**1,539,554**	1,598,238	1,570,025
Stockholders equity:			
Preferred stock			
Common stock	**3,506**	3,189	3,199
Additional paid-in capital	**65,418**	54,594	54,852
Retained earnings	**65,214**	72,284	69,579
Accumulated other comprehensive loss, net of tax	**(2,577)**	(6,905)	(9,475)
Total stockholders equity	**131,561**	123,162	118,155
Total liabilities and stockholders equity	**$1,671,115**	$1,721,400	$1,688,180

See accompanying notes to the consolidated financial statements.

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

	Quarter ended September 30,		Nine months ended September 30,	
(in thousands, except per share data)	**2001**	2000	**2001**	2000
Interest income:				
Interest and fees on loans	**$27,202**	$28,708	**$82,917**	$80,144
Interest and dividends on investment and mortgage-backed securities:				
Taxable interest income	**3,579**	4,693	**12,773**	15,018
Nontaxable interest income	**388**	395	**1,164**	1,168
Dividends	**592**	533	**1,688**	1,588
Other interest income	**134**	56	**397**	418
Total interest income	**31,895**	34,385	**98,939**	98,336
Interest expense:				
Deposits	**8,502**	12,384	**32,871**	33,981
FHLB advances and other short-term borrowings	**1,160**	3,411	**4,202**	8,101
Long-term debt	**3,222**	3,058	**9,884**	9,872
Total interest expense	**12,884**	18,853	**46,957**	51,954
Net interest income	**19,011**	15,532	**51,982**	46,382
Provision for credit losses	**3,650**	1,525	**8,671**	5,306
Net interest income after provision for credit losses	**15,361**	14,007	**43,311**	41,076
Noninterest income:				
Service charges on deposit accounts	**969**	720	**2,743**	2,060
Other service charges and fees	**1,159**	969	**3,551**	2,990
Net realized gains (losses) on sales of securities	**72**	1	**688**	(421)
Net gains on sales of loans	**740**	124	**1,152**	388
Impairment of asset backed securities	**(6,619)**		**(6,619)**	
Other	**613**	853	**1,680**	1,900
Total noninterest income	**(3,066)**	2,667	**3,195**	6,917
Noninterest expense:				
Salaries and employee benefits	**5,772**	5,735	**17,534**	15,649
Net occupancy expense	**1,704**	1,648	**4,904**	5,360
Equipment expense	**788**	805	**2,408**	2,205
Other	**5,156**	3,949	**13,759**	11,900
Total noninterest expense	**13,420**	12,137	**38,605**	35,114
Income (loss) before income taxes	**(1,125)**	4,537	**7,901**	12,879
Income tax expense (benefit)	**(449)**	1,548	**2,636**	4,686
Net income (loss)	**$ (676)**	$ 2,989	**$ 5,265**	$ 8,193

Per share data:				
Basic	**$ (0.19)**	$ 0.85	**$ 1.50**	$ 2.31
Diluted	**$ (0.19)**	$ 0.85	**$ 1.48**	$ 2.31

See accompanying notes to the consolidated financial statements.

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

	Nine months ended September 30,	
(in thousands)	**2001**	2000
Cash flows from operating activities:		
Net income	**$ 5,265**	$ 8,193
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	**8,671**	5,306
Net realized (gains) loss on sale of securities	**(688)**	421
Depreciation and amortization	**2,238**	2,004
Deferred income taxes	**(3,001)**	2,112
Decrease (increase) in accrued interest receivable	**312**	(1,560)
Increase (decrease) in accrued interest payable	**(2,814)**	(323)
Loans originated for sale	**(132,778)**	(39,574)
Sale of loans held for sale	**103,981**	41,516
Impairment of asset backed securities	**6,619**	
Decrease (increase) in other assets	**(707)**	(2,671)
Increase (decrease) in income taxes payable	**198**	(822)
Increase (decrease) in other liabilities	**44**	(377)
Other	**115**	328
Net cash provided by (used in) operating activities	**(12,545)**	14,553
Cash flows from investing activities:		
Net decrease (increase) in interest-bearing deposits in other banks	**45**	(203)
Net decrease (increase) in federal funds sold	**(11,770)**	5,225
Purchases of investment securities held-to-maturity	**(20,963)**	
Purchase of available-for-sale securities	**(50)**	(5,643)
Proceeds from sales of available-for-sale securities	**40,902**	7,656
Proceeds from maturities of available-for-sale securities	**32,606**	11,805
Net increase in FHLB Stock	**(1,686)**	(188)
Net decrease (increase) in loans	**23,651**	(132,268)
Capital expenditures	**(2,408)**	(2,662)
Proceeds from sales of foreclosed assets	**4,738**	6,616
Net cash provided by (used in) investing activities	**65,065**	(109,662)
Cash flows from financing activities:		
Net increase (decrease) in deposits	**(51,865)**	63,127
Net increase (decrease) in short-term borrowings	**(69,100)**	38,816
Proceeds from long-term debt	**146,200**	10,000
Principal payments on long-term debt	**(77,309)**	(53,452)
Net increase (decrease) in minority interest in consolidated subsidiary	**(4,280)**	7,000
Cash dividends paid	**(1,056)**	(773)
Stock options exercised	**189**	
Cash in lieu payments on stock dividend	**(54)**	
Stock repurchases	**(273)**	(1,423)
Net cash provided by (used in) financing activities	**(57,548)**	63,295

Decrease in cash and due from banks	**(5,028)**	(31,814)
Cash and due from banks at beginning of period	**40,172**	66,918
Cash and due from banks at end of period	**$ 35,144**	$ 35,104
Supplemental schedule of non-cash investing activities:		
Interest paid on deposits and other borrowings	**$ 49,771**	$ 52,276
Transfer of loans into other real estate owned	**4,966**	5,038
Income taxes paid	**5,124**	3,399

See accompanying notes to the consolidated financial statements.

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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	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2000	**$ 3,189**	**$ 54,594**	**$ 72,284**	**$ (6,905)**	**$123,162**
Comprehensive income (loss):					
Net income			**5,265**		**5,265**
Other comprehensive income, net of tax					
Unrealized valuation adjustment				**4,328**	**4,328**
Total comprehensive income			**5,265**	**4,328**	**9,593**
Cash dividends ($0.32 per share)			**(1,056)**		**(1,056)**
Options exercised	**7**	**182**			**189**
Stock dividend	**318**	**10,907**	**(11,279)**		**(54)**
Repurchased, cancelled and retired shares	**(8)**	**(265)**			**(273)**
Balance at September 30, 2001	**$ 3,506**	**$ 65,418**	**$ 65,214**	**$ (2,577)**	**$131,561**
Balance at December 31, 1999	$ 3,255	$ 56,219	$ 62,159	$ (6,942)	$114,691
Comprehensive income (loss):					
Net income			8,193		8,193
Other comprehensive income, net of tax					
Unrealized valuation adjustment				(2,533)	(2,533)
Total comprehensive income (loss)			8,193	(2,533)	5,660
Cash dividends ($0.24 per share)			(773)		(773)
Repurchased, cancelled and retired shares	(56)	(1,367)			(1,423)
Balance at September 30, 2000	$ 3,199	$ 54,852	$ 69,579	$ (9,475)	$118,155

See accompanying notes to the consolidated financial statements.

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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

Emerging Issues Task Force Issue No. 99-20

Effective as of April 1, 2001, the Company adopted Emerging Issues Task Force Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets (EITF 99-20). EITF 99-20 states that interest income earned on retained or purchased beneficial interests in certain securitized financial assets should be recognized over the life of the investment based on an anticipated yield determined by periodically estimating cash flows. Interest income should be revised prospectively for changes in cash flows. Additionally, impairment should be recognized if the fair value of the beneficial interest as determined under EITF 99-20 has declined below its carrying amount and the decline is other than temporary. Because the book values of certain of the Company s asset backed securities were more than the fair values of those securities as determined under EITF 99-20 on September 30, 2001, the Company recognized a $6.6 million noncash charge (after tax charge of $4.0 million) in the Consolidated Statements of Income for the quarter and nine months ended September 30, 2001. This charge relates to three collateralized loan obligations in the aggregate principal amount of $ 22.1 million, as adjusted, which principal amounts are guaranteed by an agency of the French government.

Statement of Financial Accounting Standards No. 133

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.

During the first three 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 three 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.

EARNINGS RELEASE

The above referenced impairment charge was not reflected in the preliminary earnings for the third quarter and nine months ended September 30, 2001 which were announced in the Company s press release of October 17, 2001. Such charge was included as an unrealized loss in Accumulated other comprehensive loss, net of tax, in the preliminary Consolidated Balance Sheet as of September 30, 2001. The impairment charge was taken after facts concerning such securities became known to management after that date. There was no impact to the Company's book value as of September 30, 2001 as a result of the impairment charge.

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.

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NOTE B Loans

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

(in thousands)	**September 30, 2001**	December 31, 2000	September 30, 2000
Commercial	**$ 238,812**	$ 246,877	$ 232,105
Real estate:			
Construction	**47,135**	26,237	22,695
Commercial	**191,856**	192,194	195,414
Residential	**628,129**	693,068	713,892
Installment and consumer	**131,554**	114,562	107,699
Gross loans	**1,237,486**	1,272,938	1,271,805
Less:			
Unearned discount	**3**	4	4
Net deferred loan fees	**5,834**	5,272	5,186
Allowance for credit losses	**18,722**	17,447	17,707
Loans, net	**$1,212,927**	$1,250,215	$1,248,908

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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
Nine months ended September 30, 2001					
Net interest income	**$ 27,086**	**$ 22,961**	**$ 1,937**	**$ (2)**	**$ 51,982**
Intersegment net interest income (expense)	**864**	**(5,404)**	**4,540**		
Provision for credit losses	**1,770**	**6,901**			**8,671**
Other operating income (expense)	**(7,401)**	**(7,307)**	**(8,305)**	**(12,397)**	**(35,410)**
Administrative and overhead expense allocation	**(6,043)**	**(4,124)**	**(702)**	**10,869**	
Income tax expense (benefit)	**4,555**	**(277)**	**(1,186)**	**(456)**	**2,636**
Net income (loss)	**8,181**	**(498)**	**(1,344)**	**(1,074)**	**5,265**
Total assets	**834,221**	**462,232**	**339,443**	**35,219**	**1,671,115**
Nine months ended September 30, 2000					
Net interest income	$ 21,293	$ 24,872	$ 212	$ 5	$ 46,382
Intersegments net interest income (expense)	1,944	(7,893)	5,949		
Provision for credit losses	1,742	3,564			5,306
Other operating income (expense)	(7,753)	(6,294)	(2,012)	(12,138)	(28,197)
Administrative and overhead expense allocation	(6,082)	(3,318)	(961)	10,361	
Income tax expense (benefit)	2,796	1,388	1,164	(662)	4,686
Net income (loss)	4,864	2,415	2,024	(1,110)	8,193
Total assets	833,572	441,535	368,515	44,558	1,688,180

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NOTE D Earnings Per Share Calculation

	Quarter ended September 30,					
	2001			2000		
(in thousands, except number of shares and per share data)	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount**	Income (Numerator)	Shares (Denominator)[1]	Per Share Amount
Basic:						
Net income (loss)	**$(676)**	**3,507,082**	**$(0.19)**	$2,989	3,516,362	$0.85
Effect of dilutive securities - Stock incentive plan options					705	
Diluted:						
Net income (loss) and assumed conversions	**$(676)**	**3,507,082**	**$(0.19)**	$2,989	3,517,067	$0.85

	Nine months ended September 30,					
	2001			**2000**		
(in thousands, except number of shares and per share data)	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount[1]**	Income (Numerator)	Shares (Denominator)[1]	Per Share Amount
Basic:						
Net income	**$5,265**	**3,506,718**	**$ 1.50**	$8,193	3,542,755	$2.31
Effect of dilutive securities - Stock incentive plan options		**43,799**	**(0.02)**		500	
Diluted:						
Net income and assumed conversions	**$5,265**	**3,550,517**	**$ 1.48**	$8,193	3,543,255	$2.31

(1) Average shares outstanding retroactively adjusted for the 317,629 common shares issued in connection with the 10% stock dividend distributed to shareholders of record on June 15, 2001.

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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

Operating earnings (defined as consolidated net income excluding after-tax impairment on asset backed securities) for the quarter ended September 30, 2001, totaled $3.3 million, an increase of $306,000, or 10.2%, over the same quarter last year. Operating earnings for the nine months ended September 30, 2001, totaled $9.2 million, an increase of $1.0 million, or 12.7%, over the same period in 2000. Diluted operating earnings per share for the third quarter of 2001 was $0.91 as compared to $0.85 for the same period in 2000, an increase of $0.06, or 7.1%. For the nine months ended September 30, 2001, diluted operating earnings per share was $2.60, an increase of $0.29, or 12.6%, over the same period in 2000. On the same basis, the Company s annualized return on average total assets for the nine months ended September 30, 2001 was 0.73% as compared to 0.66% for the same period last year. The Company s annualized return on average stockholders equity was 9.66% for the nine months ended September 30, 2001, as compared to 9.36% for the same period last year. The increase in operating earnings for the quarter and nine months ended September 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.

For the quarter ended September 30, 2001, the Company had a consolidated net loss of $676,000, which compares to consolidated net income of $3.0 million for the same quarter last year. Consolidated net income for the nine months ended September 30, 2001, totaled $5.3 million, a decrease of $2.9 million, or 35.7%, over the same period in 2000. The decrease in consolidated net income for the quarter and nine months ended September 30, 2001 compared to the corresponding periods in 2000, was due primarily to the after-tax charge of $4.0 million related to the impairment on asset backed securities (see further discussion in Note A of Notes to Consolidated Financial Statements).

NET INTEREST INCOME

Net interest income, on a taxable equivalent basis, was $19.2 million for the quarter ended September 30, 2001, an increase of $3.5 million, or 22.0%, over the same period in 2000. The

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increase in net interest income was primarily due to a $41.1 million, or 2.9%, decrease in interest-bearing liabilities and an 85 basis point increase in the net interest margin. For the quarter ended September 30, 2001, the Company s net interest margin was 4.76%, as compared to 3.91% for the same period in 2000.

Net interest income, on a taxable equivalent basis, was $52.6 million for the nine months ended September 30, 2001, an increase of $5.6 million, or 11.9%, over the same period in 2000. The increase was primarily due to a $47.3 million, or 3.0%, increase in interest earning assets, partially offset by a $12.1 million, or 0.9%, increase in average interest-bearing liabilities. For the nine months ended September 30, 2001, the Company s net interest margin was 4.36%, an increase of 35 basis points from the same period in 2000.

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

(dollars in thousands)	Quarter Ended September 30, 2001 Average Balance	2001 Interest Income/ Expense	2001 Yield/ Rate	2000 Average Balance	2000 Interest Income/ Expense	2000 Yield/ Rate	Nine Months Ended September 30, 2001 Average Balance	2001 Interest Income/ Expense	2001 Yield/ Rate	2000 Average Balance	2000 Interest Income/ Expense	2000 Yield/ Rate
ASSETS												
Earning assets:												
Interest-bearing deposits in other banks	**$ 977**	**$ 12**	**4.87%**	$ 954	$ 21	8.76%	**$ 1,032**	**$ 42**	**5.44%**	$ 408	$ 25	8.18%
Federal funds sold and securities purchased under agreement to resell	**14,003**	**120**	**3.40**	2,498	35	5.57	**10,857**	**355**	**4.37**	8,676	393	6.05
Taxable investment and mortgage-backed securities	**250,196**	**4,173**	**6.62**	305,063	5,226	6.82	**268,530**	**14,461**	**7.20**	309,018	16,606	7.18
Nontaxable investment securities	**30,928**	**597**	**7.66**	31,422	608	7.70	**30,916**	**1,791**	**7.75**	30,963	1,797	7.75
Loans[1]	**1,304,396**	**27,202**	**8.27**	1,261,723	28,716	9.05	**1,303,705**	**82,920**	**8.50**	1,218,631	80,159	8.79
Total earning assets	**1,600,500**	**32,104**	**7.96**	1,601,660	34,606	8.60	**1,615,040**	**99,569**	**8.24**	1,567,696	98,980	8.43
Nonearning assets:												
Cash and due from banks	**26,893**			33,001			**29,098**			36,075		
Premises and equipment	**18,453**			18,532			**18,439**			18,152		
Other assets	**51,887**			45,852			**50,364**			49,205		
Less allowance for credit losses	**(19,027)**			(18,952)			**(17,949)**			(18,606)		
Total assets	**$ 1,678,706**			$ 1,680,093			**$ 1,694,992**			$ 1,652,522		
LIABILITIES AND STOCKHOLDERS EQUITY												
Interest-bearing liabilities:												
Savings deposits	**$ 425,816**	**$ 2,192**	**2.04%**	$ 367,647	$ 2,595	2.81%	**$ 403,228**	**$ 7,152**	**2.37%**	$ 367,281	$ 7,391	2.69%
Time deposits	**612,820**	**6,310**	**4.09**	677,649	9,789	5.75	**679,115**	**25,719**	**5.06**	659,433	26,590	5.39
Short-term borrowings	**105,926**	**1,160**	**4.34**	201,408	3,411	6.74	**101,082**	**4,202**	**5.56**	167,538	8,101	6.46
Long-term debt	**245,872**	**3,222**	**5.20**	184,862	3,058	6.58	**232,789**	**9,884**	**5.68**	209,911	9,872	6.28
Total interest-bearing deposits and liabilities	**1,390,434**	**12,884**	**3.68**	1,431,566	18,853	5.24	**1,416,214**	**46,957**	**4.43**	1,404,163	51,954	4.94

Noninterest-bearing liabilities:												
Demand deposits	**133,817**			113,309			**126,823**			113,467		
Other liabilities	**24,176**			17,499			**24,123**			18,018		
Total liabilities	**1,548,427**			1,562,374			**1,567,160**			1,535,648		
Stockholders equity	**130,279**			117,719			**127,832**			116,874		
Total liabilities and stockholders equity	**$1,678,706**			$1,680,093			**$1,694,992**			$1,652.522		
Net interest income and margin on total earning assets		**19,220**	**4.76%**		15,753	3.91%		**52,612**	**4.36%**		47,026	4.01%
Taxable equivalent adjustment		**(209)**			(221)			**(630)**			(644)	
Net interest income		**$19,011**			$15,532			**$51,982**			$46,382	

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

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NONPERFORMING ASSETS

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

(dollars in thousands)	**September 30, 2001**	December 31, 2000	September 30, 2000
Nonperforming assets:			
Nonperforming loans:			
Commercial	**$ 8,269**	$ 6,268	$ 6,356
Real estate:			
Commercial	**2,502**	3,030	2,446
Residential	**6,180**	5,827	7,974
Total real estate loans	**8,682**	8,857	10,420
Consumer			30
Total nonaccrual loans	**16,951**	15,125	16,806
Other real estate owned	**3,598**	3,458	4,731
Total nonperforming assets	**$20,549**	$18,583	$21,537
Past due loans:			
Commercial	**$**	$ 975	$ 178
Real estate	**2,378**	473	740
Consumer	**954**	1,256	1,139
Total past due loans (1)	**$ 3,332**	$ 2,704	$ 2,057
Restructured:			
Commercial	**$ 4,760**	$ 4,153	$ 4,161
Real estate:			
Commercial			
Residential	**9,428**	11,730	11,699
Total restructured loans (2)	**$14,188**	$15,883	$15,860
Nonperforming assets to total loans and other real estate owned (end of period):			
Excluding 90 days past due accruing loans	**1.58%**	1.42%	1.69%
Including 90 days past due accruing loans	**1.84%**	1.63%	1.85%
Nonperforming assets to total assets (end of period):			
Excluding 90 days past due accruing loans	**1.23%**	1.08%	1.28%
Including 90 days past due accruing loans	**1.43%**	1.24%	1.40%

(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.

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Nonperforming loans at September 30, 2001 totaled $17.0 million, an increase of $145,000, or 0.9%, as compared to September 30, 2000. The increase in nonperforming loans was primarily due to a $1.9 million increase in the commercial category, partially offset by a $1.8 million reduction in the residential real estate loan category.

The increase in nonperforming commercial loans at September 30, 2001 was primarily due to 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 $3.6 million at September 30, 2001, a decrease of $1.1 million, or 23.9%, from September 30, 2000. The decrease in other real estate owned was consistent with the increase in real estate sales activity in Hawaii.

Restructured loans were $14.2 million at September 30, 2001, a decrease of $1.7 million, or 10.5%, from September 30, 2000. The decrease was primarily due to the reclassification of certain residential real estate loans to nonperforming loans.

At September 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.

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

	Nine months ended September 30,	
(dollars in thousands)	**2001**	2000
Loans outstanding (end of period)[1]	**$1,295,294**	$1,272,478
Average loans outstanding[1]	**$1,303,705**	$1,218,631
Balance at beginning of period	**$ 17,447**	$ 17,942
Loans charged off:		
Commercial	**5,445**	1,687
Real estate:		
Commercial		855
Residential	**1,618**	2,459
Consumer	**1,009**	1,192
Total loans charged off	**8,072**	6,193
Recoveries on loans charged off:		
Commercial	**97**	87
Real estate:		
Commercial		15
Residential	**334**	344
Consumer	**245**	206
Total recoveries on loans previously charged off	**676**	652
Net charge-offs	**(7,396)**	(5,541)
Provision charged to expense	**8,671**	5,306
Balance at end of period	**$ 18,722**	$ 17,707
Net loans charged off to average loans	**0.76 %**(2)	0.61%(2)
Net loans charged off to allowance for credit losses	**52.81 %**(2)	41.80%(2)
Allowance for credit losses to total loans (end of period)	**1.45%**	1.39%
Allowance for credit losses to nonperforming loans (end of period):		
Excluding 90 days past due accruing loans	**1.10 x**	1.05x
Including 90 days past due accruing loans	**0.92 x**	0.94x

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

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The provision for credit losses was $3.7 million for the third quarter of 2001, an increase of $2.1 million, or 139.3%, over the same quarter last year. For the nine months ended September 30, 2001, the provision for loan losses was $8.7 million, an increase of $3.4 million, or 63.4%, over the same period last year. Management has been taking proactive steps to increase the provision for credit losses in anticipation of a slowing Hawaii economy, which was further exacerbated by the September 11, 2001 terrorist attack.

The Allowance at September 30, 2001 was $18.7 million and represented 1.45% of total loans. The corresponding ratios at December 31, 2000 and September 30, 2000 were 1.34% and 1.39%, respectively.

Net charge-offs were $7.4 million for the first nine months of 2001, an increase of $1.9 million, or 33.5%, over the same period in 2000. The increase was primarily due to higher charge-offs in the commercial loan categories, which increased $3.8 million, partially offset by an $855,000 and $841,000 decrease in commercial and residential real estate loan charge-offs, respectively. 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 increased to 1.10 times nonperforming loans (excluding 90 days past due accruing loans) at September 30, 2001 from 1.05 times at September 30, 2000 as a result of the increase in net charge-offs for the nine months ended September 30, 2001.

In management s judgment, the Allowance was adequate to absorb potential losses currently inherent in the loan portfolio at September 30, 2001. However, changes in prevailing economic conditions (including the effect of the September 11, 2001 terrorist attack) in the Company s markets or in the financial condition of its customers could alter the level of nonperforming assets and charge-offs in the future and, accordingly, affect the Allowance.

NONINTEREST INCOME

For the quarter ended September 30, 2001, the Company had a total noninterest loss of $3.1 million, compared to total noninterest income of $2.7 million for the same period in 2000. For the nine months ended September 30, 2001, noninterest income was $3.2 million, a decrease of $3.7 million, or 53.8%, over the comparable period in 2000. The decrease was due to a $6.6 million impairment of asset backed securities discussed below.

Service charges on deposit accounts increased $249,000 and $683,000, or 34.6% and 33.2%, respectively, for the third quarter and nine months ended September 30, 2001 over the comparable periods in 2000. These increases resulted from a $69.0 million, or 6.1%, increase in the average balance of deposit accounts.

Other service charges and fees increased $190,000 and $561,000, or 19.6% and 18.8%, respectively, for the third quarter and nine months ended September 30, 2001 over the comparable periods in 2000. These increases were primarily due to higher ATM fee income recorded during the nine months ended September 30, 2001.

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Net realized gains on sales of securities was $688,000 for the nine months ended September 30, 2001 compared to net realized losses of $421,000 in the same period in 2000. The net gains in 2001 were due to sales of $40.2 million of available-for-sale securities sold in the lower rate environment.

During the quarter ended September 30, 2001, the Company recorded an impairment on asset backed securities of $6.6 million as determined under EITF 99-20 (see Note A of Notes to Consolidated Financial Statements).

NONINTEREST EXPENSE

Noninterest expense totaled $13.4 million for the quarter ended September 30, 2001, an increase of $1.3 million, or 10.6%, from the comparable period in 2000. For the nine months ended September 30, 2001, noninterest expense was $38.6 million, an increase of $3.5 million, or 9.9%, from the comparable period in 2000. The efficiency ratio (exclusive of amortization of intangibles) improved from 65.0% for the nine months ended September 30, 2000 to 61.8% for the nine months ended September 30, 2001.

Salaries and employee benefits increased $37,000, or 0.6%, and $1.9 million, or 12.0%, for the third quarter and nine months ended September 30, 2001, respectively, from the comparable periods in 2000. The increases were primarily due to higher incentive-based compensation.

Net occupancy expense decreased $456,000, or 8.5%, for the nine months ended September 30, 2001 from the comparable period 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 $203,000, or 9.2%, for the first three 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 $1.2 million, or 30.6%, and $1.9 million, or 15.6%, for the third quarter and nine months ended September 30, 2001, respectively, from the comparable periods in 2000. The increase was due primarily to certain nonrecurring operational losses.

INCOME TAXES

The Company s effective income tax rate (exclusive of the tax equivalent adjustment) for the first nine months of 2001 was 33.4% as compared to 36.4% for the same period in 2000. The decline in the Company's effective tax rate for 2001 was due primarily to the utilization of net operating 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 $12.5 million for the nine months ended September 30, 2001, which compares to $14.6 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 $132.8 million of loans held for sale, which was partially offset by the sale of $104.0 million of loans held for sale.

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During the nine months ended September 30, 2000, the Company originated $39.6 million of loans held for sale and sold $41.5 million of loans held for sale.

Investing activities provided cash flow of $65.1 million for the nine months ended September 30, 2001, compared to using $109.7 million during the same period last year. The primary sources of cash from investing activities for the nine months ended September 30, 2001 were the proceeds from the sale and maturities of securities of $40.9 million and $32.6 million, respectively, and the $23.7 million net decrease in loans. The primary use of cash for investing activities for the nine months ended September 30, 2000 was the net increase in loans of $132.3 million.

Financing activities used cash flow of $57.5 million for the nine months ended September 30, 2001, compared to providing $63.3 million during the same period last year. During the nine months ended September 30, 2001, the Company had a net decrease of $51.9 million and $69.1 million in deposits and short-term borrowings, respectively, which was partially funded by the $68.9 million net increase in long-term debt. The primary source of cash from financing activities for the nine months ended September 20, 2000 were net increases of $63.1 million and $38.8 million in deposits and short-term borrowings, respectively, partially offset by $53.5 million in principal payments on 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. 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 September 30, 2001 and 2000) of Tier 1 and Total capital to risk-weighted assets, and of Tier 1 capital to average assets.

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(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2001						
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	**$136,858**	**11.12%**	**$49,214**	**4.00%**	**N/A**	
Bank	**131,473**	**10.69**	**49,198**	**4.00**	**$ 73,796**	**6.00%**
Total Capital to Risk-Weighted Assets:						
Consolidated	**$152,313**	**12.38%**	**$98,428**	**8.00%**	**N/A**	
Bank	**146,923**	**11.95**	**98,395**	**8.00**	**$122,994**	**10.00%**
Tier 1 Capital to Average Assets:						
Consolidated	**$136,858**	**8.15%**	**$67,148**	**4.00%**	**N/A**	
Bank	**131,473**	**7.79**	**67,535**	**4.00**	**$ 84,419**	**5.00%**
As of September 30, 2000						
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$134,630	12.11%	$44,483	4.00%	N/A	
Bank	132,634	11.47	46,260	4.00	$ 69,390	6.00%
Total Capital to Risk-Weighted Assets:						
Consolidated	$148,608	13.36%	$88,967	8.00%	N/A	
Bank	147,131	12.72	92,521	8.00	$115,651	10.00%
Tier 1 Capital to Average Assets:						
Consolidated	$134,630	8.01%	$67,204	4.00%	N/A	
Bank	132,634	7.97	66,536	4.00	$ 83,170	5.00%

RECENT DEVELOPMENTS

The long-term effects of the tragedy of September 11, and the events following it, are uncertain at this time. Since September 11, the tourism industry, which is the largest component of the business economy in Hawaii, has been significantly impacted and hotel occupancies throughout Hawaii are substantially below historical levels. Domestic and international airline flights to Hawaii have been cut, resulting in a 25% reduction in the number of October 2001 visitor arrivals (compared to the same period in 2000). It is anticipated that this downturn will adversely impact the businesses in that sector and those that do business with them. Because substantially all of the Bank s loans are to borrowers in Hawaii, a downturn in the Hawaii economy could adversely impact its borrowers and the credit quality of its loan portfolio, resulting in increased levels of loss provisioning. It is unclear what the duration or magnitude of these impacts will be at this time.

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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 nine months ended September 30, 2001.

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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 third quarter of 2001.

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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 November 13, 2001

By /s/ Dean K. Hirata

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

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