CB BANCSHARES INC/HI
Form 10-Q
August 13, 2002

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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 June 30, 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	**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, 2002 was:

Class	Outstanding
Common Stock, $1.00 Par Value	3,998,156 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

(in thousands of dollars)	**June 30, 2002**	December 31, 2001	June 30, 2001
Assets			
Cash and due from banks	**$ 43,447**	$ 22,395	$ 23,894
Interest-bearing deposits in other banks	**1,110**	1,017	1,010
Federal funds sold	**815**	10,655	2,515
Investment securities:			
Held-to-maturity	**73,396**	26,000	
Available-for-sale	**231,167**	203,563	247,900
Restricted	**33,377**	32,406	33,524
Loans held for sale	**38,023**	50,661	54,854
Net loans	**1,062,594**	1,172,817	1,228,522
Premises and equipment	**17,072**	17,633	18,566
Other real estate owned	**3,216**	4,674	3,068
Accrued interest receivable and other assets	**52,194**	44,219	43,690
Total assets	**$1,556,411**	$1,586,040	$1,657,543
Liabilities and stockholders equity			
Deposits:			
Noninterest-bearing	**$ 157,745**	$ 160,570	$ 137,317
Interest-bearing	**977,982**	977,865	1,036,836
Total deposits	**1,135,727**	1,138,435	1,174,153
Short-term borrowings	**9,150**	76,100	91,400
Accrued expenses and other liabilities	**24,583**	20,599	16,228
Long-term debt	**234,415**	214,424	244,381
Minority interest in consolidated subsidiary	**2,720**	2,720	2,720
Total liabilities	**1,406,595**	1,452,278	1,528,882
Stockholders equity:			
Common stock	**3,998**	3,506	3,509
Additional paid-in capital	**82,149**	65,427	65,558
Retained earnings	**58,220**	65,714	66,276
Unreleased shares to employee stock ownership plan	**(1,756)**	(1,839)	
Accumulated other comprehensive income (loss), net of tax	**7,205**	954	(6,682)
Total stockholders equity	**149,816**	133,762	128,661
Total liabilities and stockholders equity	**$1,556,411**	$1,586,040	$1,657,543

See accompanying notes to the consolidated financial statements.

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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)	**2002**	2001	**2002**	2001
Interest income:				
Interest and fees on loans	**$22,541**	$27,576	**$46,406**	$55,715
Interest and dividends on investment securities:				
Taxable interest income	**3,282**	4,158	**6,164**	9,194
Nontaxable interest income	**389**	388	**777**	776
Dividends	**493**	576	**973**	1,096
Other interest income	**15**	85	**34**	263
Total interest income	**26,720**	32,783	**54,354**	67,044
Interest expense:				
Deposits	**4,634**	11,283	**9,753**	24,369
Short-term borrowings	**172**	800	**483**	3,042
Long-term debt	**2,876**	3,531	**5,641**	6,662
Total interest expense	**7,682**	15,614	**15,877**	34,073
Net interest income	**19,038**	17,169	**38,477**	32,971
Provision for credit losses	**4,102**	2,271	**8,970**	5,021
Net interest income after provision for credit losses	**14,936**	14,898	**29,507**	27,950
Noninterest income:				
Service charges on deposit accounts	**1,069**	940	**2,097**	1,774
Other service charges and fees	**1,618**	1,259	**3,174**	2,404
Net realized gains (losses) on sales of securities	**(68)**	229	**(104)**	616
Net gains on sales of loans	**208**	250	**719**	412
Other	**933**	571	**1,833**	1,287
Total noninterest income	**3,760**	3,249	**7,719**	6,493
Noninterest expense:				
Salaries and employee benefits	**6,501**	5,997	**13,070**	11,994
Net occupancy expense	**1,568**	1,608	**3,140**	3,200
Equipment expense	**765**	804	**1,560**	1,620
Other	**4,487**	4,759	**8,899**	8,603
Total noninterest expense	**13,321**	13,168	**26,669**	25,417
Income before income taxes	**5,375**	4,979	**10,557**	9,026
Income tax expense	**1,754**	1,839	**3,400**	3,085
Net income	**$ 3,621**	$ 3,140	**$ 7,157**	$ 5,941
Per share data:				
Basic	**$ 0.93**	$ 0.82	**$ 1.86**	$ 1.54

Diluted	**$ 0.92**	$ 0.81	**$ 1.83**	$ 1.53

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	Unreleased Shares to Employee Stock Ownership Plan	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2002	**$3,506**	**$65,427**	**$ 65,714**	**$ (1,839)**	**$ 954**	**$133,762**
Comprehensive income						
Net income			**7,157**			**7,157**
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment					**6,251**	**6,251**
Comprehensive income subtotal			**7,157**		**6,251**	**13,408**
Cash dividends ($0.22 per share)			**(783)**			**(783)**
Options exercised	**154**	**4,153**				**4,307**
Stock dividend	**362**	**13,448**	**(13,868)**			**(58)**
Cancelled and retired shares	**(24)**	**(879)**				**(903)**
ESOP shares				**83**		**83**
Balance at June 30, 2002	**$3,998**	**$82,149**	**$ 58,220**	**$ (1,756)**	**$ 7,205**	**$149,816**

(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
Balance at January 1, 2001	$ 3,189	$54,594	$ 72,284	$	$ (6,905)	$123,162
Comprehensive income						
Net income			5,941			5,941
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment					223	223
Comprehensive income subtotal			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

See accompanying notes to the consolidated financial statements.

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

	Six months ended June 30,	
(in thousands of dollars)	**2002**	2001
Cash flows from operating activities:		
Net income	**$ 7,157**	$ 5,941
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	**8,970**	5,021
Net realized (gains) losses on sale of securities	**104**	(616)
Depreciation and amortization	**1,677**	1,474
Deferred income taxes	**222**	120
Decrease in accrued interest receivable	**248**	832
Decrease in accrued interest payable	**(308)**	(3,031)
Loans originated for sale	**(86,989)**	(84,682)
Sale of loans held for sale	**98,908**	63,936
Increase in other assets	**(8,223)**	(686)
Increase (decrease) in income taxes payable	**1,364**	(1,102)
Decrease in other liabilities	**(1,069)**	(656)
Other	**896**	(148)
Net cash provided by (used in) operating activities	**22,957**	(13,597)
Cash flows from investing activities:		
Net decrease (increase) in interest-bearing deposits in other banks	**(93)**	48
Net decrease (increase) in federal funds sold	**9,840**	(1,905)
Purchase of available-for-sale securities	**(68,199)**	(50)
Proceeds from sales of available-for-sale securities	**29,000**	33,815
Proceeds from maturities of available-for-sale securities	**21,382**	17,273
Purchase of FHLB Stock	**(971)**	(1,094)
Purchase of held-to-maturity securities	**(47,532)**	
Net loan originations over principal repayments	**99,826**	12,781
Capital expenditures	**(845)**	(1,959)
Proceeds from sales of foreclosed assets	**2,708**	4,170
Net cash provided by investing activities	**45,116**	63,079
Cash flows from financing activities:		
Net decrease in deposits	**(2,708)**	(44,333)
Net decrease in short-term borrowings	**(66,950)**	(79,300)
Proceeds from long-term debt	**40,000**	95,000
Principal payments on long-term debt	**(20,009)**	(32,182)
Net decrease in minority interest in consolidated subsidiary		(4,280)
Cash dividends paid	**(783)**	(670)
Stock options exercised	**4,307**	123
Cash in lieu payments on stock dividend	**(58)**	(54)
Unreleased ESOP shares	**83**	
Stock repurchase	**(903)**	(64)
Net cash used in financing activities	**(47,021)**	(65,760)

Increase (decrease) in cash and due from banks	**21,052**	(16,278)
Cash and due from banks at beginning of period	**22,395**	40,172
Cash and due from banks at end of period	**$ 43,447**	$ 23,894
Supplemental schedule of non-cash investing activities:		
Interest paid on deposits and other borrowings	**$ 16,185**	$ 37,103
Income taxes paid	**$ 2,000**	$ 4,752

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. (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 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, 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.

NOTE B Loans

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

(in thousands of dollars)	**June 30, 2002**	December 31, 2001	June 30, 2001
Commercial and financial	**$ 210,058**	$ 229,824	$ 246,730
Real estate:			
Construction	**45,306**	52,750	28,650
Commercial	**186,158**	190,328	194,872
Residential	**513,901**	588,525	659,279
Installment and consumer	**137,851**	135,901	122,266
Gross loans	**1,093,274**	1,197,328	1,251,797
Less:			
Unearned discount	**848**	108	4
Net deferred loan fees	**4,438**	4,939	5,457
Allowance for credit losses	**25,394**	19,464	17,814
Loans, net	**$1,062,594**	$1,172,817	$1,228,522

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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
Six months ended June 30, 2002					
Net interest income	**$ 22,117**	**$ 14,590**	**$ 1,824**	**$ (54)**	**$ 38,477**
Intersegment net interest income (expense)	**175**	**(2,072)**	**1,897**		
Provision for credit losses	**1,160**	**7,810**			**8,970**
Noninterest income (expense)	**(4,374)**	**(5,752)**	**(981)**	**(7,843)**	**(18,950)**
Administrative and overhead expense allocation	**(3,664)**	**(2,554)**	**(444)**	**6,662**	
Income tax expense (benefit)	**4,134**	**(1,136)**	**725**	**(323)**	**3,400**
Net income (loss)	**8,960**	**(2,462)**	**1,571**	**(912)**	**7,157**
Total assets	**702,864**	**415,973**	**385,980**	**51,594**	**1,556,411**

(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	839,357	462,475	313,539	42,172	1,657,543

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NOTE D Earnings Per Share Calculation

(in thousands, except number of shares and per share data)	Quarter ended June 30, 2002 Income (Numerator)	2002 Shares (Denominator)	2002 Per Share Amount	2001 Income (Numerator)	2001 Shares (Denominator)	2001 Per Share Amount
Basic:						
Net income	**$3,621**	**3,875,236**	**$ 0.93**	$3,140	3,810,890	$ 0.82
Effect of dilutive securities -						
Stock incentive plan options		**40,050**	**0.01**		42,625	0.01
Diluted:						
Net income and assumed conversions	**$3,621**	**3,915,286**	**$ 0.92**	$3,140	3,853,515	$ 0.81

(in thousands, except number of shares and per share data)	Six months ended June 30, 2002 Income (Numerator)	2002 Shares (Denominator)	2002 Per Share Amount	2001 Income (Numerator)	2001 Shares (Denominator)	2001 Per Share Amount
Basic:						
Net income	**$7,157**	**3,841,037**	**$ 1.86**	$5,941	3,868,214	$ 1.54
Effect of dilutive securities -						
Stock incentive plan options		**69,183**	**0.03**		27,359	0.01
Diluted:						
Net income and assumed conversions	**$7,157**	**3,910,220**	**$ 1.83**	$5,941	3,895,573	$ 1.53

Earnings per share calculations have been restated to reflect the impact of the 10% stock dividends issued in June 2002 and 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 accounting principles generally accepted in the United States of America. 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 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

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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 June 30, 2002, totaled $3.6 million, an increase of $481,000, or 15.3%, over the same quarter last year. Consolidated net income for the six months ended June 30, 2002, totaled $7.2 million, an increase of $1.2 million, or 20.5%, over the same period in 2001. Diluted earnings per share for the second quarter of 2002 was $0.92 as compared to $0.81 for the same period in 2001, an increase of $0.11, or 13.6%. For the six months ended June 30, 2002, diluted earnings per share was $1.83, an increase of $0.30, or 19.6%, over the same period in 2001. The increase in consolidated net income for the quarter and six months ended June 30, 2002, over the corresponding periods in 2001, 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, 2002 was 0.93% as compared to 0.70% for the same period last year. The Company s annualized return on average stockholders equity was 10.31% for the six months ended June 30, 2002, as compared to 9.46% for the same period last year.

NET INTEREST INCOME

Net interest income, on a taxable equivalent basis, was $19.2 million for the quarter ended June 30, 2002, an increase of $1.9 million, or 10.8%, over the same period in 2001. The increase in net interest income was primarily due to a $172.4 million decrease in average interest-bearing liabilities and an 88 basis point increase in the net interest margin. For the quarter ended June 30, 2002, the Company s net interest margin was 5.23%, as compared to 4.35% for the same period in 2001.

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Net interest income, on a taxable equivalent basis, was $38.9 million for the six months ended June 30, 2002, an increase of $5.5 million, or 16.5%, over the same period in 2001. The increase was primarily due to a $184.9 million, or 12.9%, decrease in average interest-bearing liabilities and a 116 basis point increase in the net interest margin. For the six months ended June 30, 2002, the Company s net interest margin was 5.31%, as compared to 4.15% for the same period in 2001.

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A comparison of net interest income for the quarter and six months ended June 30, 2002 and 2001 is set forth below on a taxable equivalent basis:

	Quarter Ended June 30,					
	2002			2001		
(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	**$ 1,048**	**$ 7**	**2.68%**	$ 1,043	$ 12	4.61%
Federal funds sold and Securities purchased under Agreement to resell	**2,085**	**8**	**1.54**	6,714	75	4.48
Taxable investment Securities	**292,833**	**3,775**	**5.17**	260,823	4,732	7.28
Nontaxable investment securities	**30,966**	**598**	**7.75**	30,916	597	7.75
Loans[1]	**1,149,507**	**22,541**	**7.87**	1,304,479	27,576	8.48
Total earning assets	**1,476,439**	**26,929**	**7.32**	1,603,975	32,992	8.25
Nonearning assets:						
Cash and due from banks	**33,315**			29,649		
Premises and equipment-net	**17,158**			18,685		
Other assets	**48,930**			51,443		
Less allowance for loan losses	**(23,522)**			(17,076)		
Total assets	**$1,552,320**			$1,686,676		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Savings deposits	**$ 463,344**	**$ 1,467**	**1.27%**	$ 404,436	$ 2,375	2.36%
Time deposits	**506,391**	**3,167**	**2.51**	689,931	8,908	5.18
Short-term borrowings	**22,934**	**172**	**3.01**	63,714	800	5.04
Long-term debt	**242,071**	**2,876**	**4.77**	249,078	3,531	5.69
Total interest-bearing Deposits and liabilities	**1,234,740**	**7,682**	**2.50**	1,407,159	15,614	4.45
Noninterest-bearing liabilities:						
Demand deposits	**151,033**			128,114		
Other liabilities	**21,471**			23,790		
Total liabilities	**1,407,244**			1,559,063		
Stockholders equity	**145,076**			127,613		
Total liabilities and Stockholders equity	**$1,552,320**			$1,686,676		
Net interest income and margin on total earning assets		**19,247**	**5.23%**		17,378	4.35%

Taxable equivalent adjustment	**(209)**	(209)
Net interest income	**$19,038**	$17,169

[Additional columns below]

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

	Six Months Ended June 30,					
	2002			2001		
(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**	**$ 14**	**2.71%**	$ 1,060	$ 30	5.71%
Federal funds sold and Securities purchased under Agreement to resell	**2,405**	**20**	**1.68**	9,258	235	5.12
Taxable investment Securities	**265,977**	**7,137**	**5.41**	277,849	10,288	7.47
Nontaxable investment securities	**30,960**	**1,195**	**7.78**	30,910	1,194	7.79
Loans[1]	**1,178,062**	**46,406**	**7.94**	1,303,354	55,718	8.62
Total earning assets	**1,478,447**	**54,772**	**7.47**	1,622,431	67,465	8.39
Nonearning assets:						
Cash and due from banks	**33,102**			30,219		
Premises and equipment-net	**17,314**			18,432		
Other assets	**46,704**			49,590		
Less allowance for loan losses	**(22,212)**			(17,401)		
Total assets	**$1,553,355**			$1,703,271		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Savings deposits	**$ 460,290**	**$ 3,091**	**1.35%**	$ 391,747	$ 4,960	2.55%
Time deposits	**516,098**	**6,662**	**2.60**	712,812	19,409	5.49
Short-term borrowings	**29,653**	**483**	**3.28**	98,620	3,042	6.22
Long-term debt	**238,400**	**5,641**	**4.77**	226,139	6,662	5.94
Total interest-bearing Deposits and liabilities	**1,244,441**	**15,877**	**2.57**	1,429,318	34,073	4.81
Noninterest-bearing liabilities:						
Demand deposits	**148,328**			123,268		
Other liabilities	**20,595**			24,097		
Total liabilities	**1,413,364**			1,576,683		
Stockholders equity	**139,991**			126,588		
	$1,553,355			$1,703,271		

Total liabilities and Stockholders equity				
Net interest income and margin on total earning assets	**38,895**	**5.31%**	33,392	4.15%
Taxable equivalent adjustment	**(418)**		(421)	
Net interest income	**$38,477**		$32,971	

(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 June 30, 2002, December 31, 2001 and June 30, 2001 follows:

(in thousands of dollars)	**June 30, 2002**	December 31, 2001	June 30, 2001
Nonperforming assets:			
Nonperforming loans:			
Commercial	**$ 4,889**	$ 7,034	$ 8,130
Real estate:			
Commercial	**4,708**	2,438	2,220
Residential	**5,760**	6,174	6,923
Total real estate loans	**10,468**	8,612	9,143
Consumer	**144**	148	93
Total nonperforming loans	**15,501**	15,794	17,366
Other real estate owned	**3,216**	4,674	3,068
Total nonperforming assets	**$18,717**	$ 20,468	$20,434
Past due loans:			
Commercial	**$ 329**	$	$ 1,373
Real estate	**1,867**	2,190	2,442
Consumer	**3,082**	1,464	616
Total past due loans(1)	**$ 5,278**	$ 3,654	$ 4,431
Restructured:			
Commercial	**$ 2,177**	$ 2,214	$ 4,778
Real estate:			
Residential	**7,255**	8,629	9,664
Total restructured loans(2)	**$ 9,432**	$ 10,843	$14,442
Nonperforming assets to total loans And other real estate owned (end of period):			
Excluding 90 days past due accruing loans	**1.66%**	1.64%	1.57%
Including 90 days past due accruing loans	**2.12%**	1.93%	1.91%
Nonperforming assets to total assets (end of period):			
Excluding 90 days past due accruing loans	**1.20%**	1.29%	1.23%
Including 90 days past due accruing loans	**1.54%**	1.52%	1.50%

(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 June 30, 2002 totaled $15.5 million, a decrease of $1.9 million, or 10.7%, as compared to June 30, 2001. The decrease in nonperforming loans was primarily due to a $3.2 million decrease in the commercial loan category, partially offset by a $1.3 million increase in total real estate loans.

Other real estate owned was $3.2 million at June 30, 2002, an increase of $148,000, or 4.8%, from June 30, 2001.

Restructured loans were $9.4 million at June 30, 2002, a decrease of $5.0 million, or 34.7%, from June 30, 2001. The decrease was primarily due to the chargeoff of certain commercial loans and reclassification of residential real estate loans to nonperforming 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.

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

(in thousands of dollars)	Six months ended June 30, 2002	2001
Loans outstanding (end of period)[2]	**$1,126,011**	$1,301,190
Average loans outstanding[2]	**$1,178,062**	$1,303,354
Balance at beginning of period	**$ 19,464**	$ 17,447
Loans charged off:		
Commercial	**2,575**	3,290
Real estate		
Commercial		
Residential	**478**	1,061
Consumer	**1,111**	767
Total loans charged off	**4,164**	5,118
Recoveries on loans charged off:		
Commercial	**243**	45
Real estate:		
Commercial	**350**	
Residential	**90**	239
Consumer	**441**	180
Total recoveries on loans previously charged off	**1,124**	464
Net charge-offs	**(3,040)**	(4,654)
Provision charged to expense	**8,970**	5,021
Balance at end of period	**$ 25,394**	$ 17,814
Net loans charged off to average loans	**0.52%**[1]	0.72%[1]
Net loans charged off to allowance for credit losses	**24.14%**[1]	52.68%[1]
Allowance for credit losses to total loans (end of period)	**2.26%**	1.37%
Allowance for credit losses to nonperforming loans (end of period):		
Excluding 90 days past due accruing loans	**1.64x**	1.03x
Including 90 days past due accruing loans	**1.22x**	0.82x

(1) Annualized.

(2) Includes loans held for sale.

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The provision for credit losses was $4.1 million for the second quarter of 2002, an increase of $1.8 million, or 80.6%, over the same quarter last year. For the six months ended June 30, 2002, the provision for loan losses was $9.0 million, an increase of $3.9 million, or 78.6%, over the same period last year. The increase in the provision for credit losses in 2002 was primarily due to the Company s quarterly review of specific credits and the resulting impact of the continuing economic uncertainty, both locally and nationally.

The Allowance at June 30, 2002 was $25.4 million and represented 2.26% of total loans. The corresponding ratios at December 31, 2001 and June 30, 2001 were 1.57% and 1.37%, respectively.

Net charge-offs were $3.0 million for the first six months of 2002, a decrease of $1.6 million, or 34.7%, over the same period in 2001. The decrease was primarily due to lower charge-offs in the commercial loan categories, which decreased $715,000. The decrease 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 1.64 times nonperforming loans (excluding 90 days past due accruing loans) at June 30, 2002 from 1.03 times at June 30, 2001 as a result of the decrease in nonperforming loans and the decrease in net charge-offs for the six months ended June 30, 2002.

In management s judgment, the Allowance was adequate to absorb potential losses currently inherent in the loan portfolio at June 30, 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 $3.8 million for the quarter ended June 30, 2002, an increase of $511,000, or 15.7%, over the comparable period in 2001. For the six months ended June 30, 2002, noninterest income was $7.7 million, an increase of $1.2 million, or 18.9%, over the comparable period in 2001.

Service charges on deposit accounts increased $129,000 and $323,000, or 13.7% and 18.2%, respectively, for the second quarter and six months ended June 30, 2002 over the comparable periods in 2001. These increases resulted from a $93.6 million, or 18.2%, increase in the average balance of transaction accounts.

Other service charges and fees increased $359,000 and $770,000, or 28.5% and 32.0%, respectively, for the second quarter and six months ended June 30, 2002 over the comparable periods in 2001. These increases were primarily due to fee income on investment services recorded during the six months ended June 30, 2002.

Net realized loss on sales of securities was $104,000 for the six months ended June 30, 2002 compared to net realized gains of $616,000 in the same period in 2001. The net gain in 2001 was due to sales of $33.2 million of available-for-sale securities sold in the lower interest rate environment.

NONINTEREST EXPENSE

Noninterest expense totaled $13.3 million for the quarter ended June 30, 2002, an increase of $153,000, or 1.16%, from the comparable period in 2001. For the six months ended June 30, 2002, noninterest expense was $26.7 million, an increase of $1.3 million, or 4.9%, from the comparable period in 2001. The efficiency ratio (exclusive of intangibles) improved from 63.7% for the six months ended June 30, 2001 to 57.2% for the six months ended June 30, 2002.

Salaries and employee benefits increased $504,000, or 8.4%, and $1.1 million, or 9.0%, for the second quarter and six months ended June 30, 2002, respectively, from the comparable periods in 2001. The increases were primarily due to higher incentive-based compensation.

INCOME TAXES

The Company s effective income tax rate (exclusive of the tax equivalent adjustment) for the quarter and six months ended June 30, 2002 was 32.6% and 32.2%, respectively, as compared to 36.9% and 34.2% for the same periods in 2001. The decline in the effective tax rate in 2002 was primarily due to an increase in taxable-exempt income and tax credits.

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 $23.0 million for the six months ended June 30, 2002, which compares to $13.6 million used by operating activities in the same period last year. The primary source of cash flows from operations in 2002 was the sale of $98.9 million of loans held for sale, which was partially offset by the origination of $87.0 million of loans held for sale. During the six months ended June 30, 2001, the Company originated $84.6 million of loans held for sale and sold $63.9 million of loans held for sale.

Investing activities provided cash flow of $45.1 million for the six months ended June 30, 2002, compared to providing $63.1 million during the same period last year. The primary sources of cash from investing activities for the six months ended June 30, 2002 were the $21.4 million maturities of securities and the $99.8 million net decrease in loans, partially offset by the purchase of $68.1 million of investment securities. The primary source of cash for investing activities for the six months ended June 30, 2001 was the proceeds of $51.1 million from the sale of investment securities.

Financing activities used cash flow of $47.0 million for the six months ended June 30, 2002, compared to using $65.8 million during the same period last year. During the six months ended June 30, 2002, the Company had a net decrease of $67.0 million of short-term advances, partially offset by the $20.0 million net increase in long-term debt.

At June 30, 2002, as compared to June 30, 2001, the Company had $1.6 billion in assets, down 6.1%; $1.1 billion in loans, down 13.5%; and $1.1 billion in deposits, down 3.3%. During this current low interest rate environment, the Company has continued to reduce its interest rate exposure by reducing its exposure to fixed-rate, long-term assets (i.e. real estate residential loans) and replacing short-term time deposits with longer-term deposits and 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 June 30, 2002 and 2001) 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 Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well-Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well-Capitalized Under Prompt Corrective Action Provisions Ratio
As of June 30, 2002						
Tier 1 Capital to						
Risk-Weighted Assets:						
Consolidated	**$145,331**	**12.17%**	**$47,769**	**4.00%**	**N/A**	
Bank	**136,339**	**11.42**	**47,754**	**4.00**	**$ 71,631**	**6.00%**
Total Capital to						
Risk-Weighted Assets:						
Consolidated	**$160,421**	**13.43%**	**$95,538**	**8.00%**	**N/A**	
Bank	**151,424**	**12.68**	**95,508**	**8.00**	**$119,385**	**10.00%**
Tier 1 Capital to						
Average Assets:						
Consolidated	**$145,331**	**9.36%**	**$62,093**	**4.00%**	**N/A**	
Bank	**136,339**	**8.80**	**61,974**	**4.00**	**$ 77,467**	**5.00%**
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%

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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 2001 Form 10-K. No significant changes have occurred during the six months ended June 30, 2002.

PART II OTHER INFORMATION

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

At the Annual Meeting of Stockholders held on April 25, 2002, the stockholders voted on the election of four directors for a term of three years expiring in 2005, or until their successors are elected:

Name	Shares Voted For	Shares Withheld
Colbert M. Matsumoto	2,571,264	240,793
Yoshiki Takada	2,742,792	69,265
Lionel Y. Tokioka	2,694,830	117,227
Maurice H. Yamasato	2,743,036	69,021

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1	Supplemental Executive Retirement Agreement for Ronald K. Migita
10.2	Supplemental Executive Retirement Agreement for Richard C. Lim
10.3	Supplemental Executive Retirement Agreement for Dean K. Hirata
10.4	Supplemental Executive Retirement Agreement for Warren K. Kunimoto
10.5	Supplemental Executive Retirement Agreement for Jasen H. Takei
99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350

(b) Reports on Form 8-K
No reports on Form 8-K were filed in the second quarter of 2002.

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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 August 13, 2002	By /s/ Ronald K. Migita
	Ronald K. Migita President and Chief Executive Officer
Date August 13, 2002	By /s/ Dean K. Hirata
	Dean K. Hirata Senior Vice President and Chief Financial Officer (principal financial officer)

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