CB BANCSHARES INC/HI
Form 10-K
March 12, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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)

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

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par value $1.00 per share

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 [ ]

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

The aggregate market value of registrant s Common Stock held by non-affiliates at June 28, 2002 was approximately $142,141,000. As of January 31, 2003, registrant had outstanding 3,898,580 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the annual meeting of shareholders to be held on April 24, 2003 are incorporated by reference into Part III and IV.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this report that address results or developments that CB Bancshares, Inc. (the Company) expects or anticipates will or may occur in the future, where statements are preceded by, followed by or included the words believes , plans , intends , expects , anticipates or similar expressions, including such thing (i) business strategy; (ii) economic trends and market condition, particularly in Hawaii; (iii) the direction of interest rates and prepayment speeds of mortgage loans and mortgage-backed securities; (iv) the adequacy of the Company s allowances for credit and real estate losses based on credit risks inherent in the lending processes; (v) expansion and growth of the Company s business and operations; (vi) renewal of existing credit agreements with and availability of additional advances from the Federal Home Loan Bank of Seattle (the FHLB); and (vii) other matters are forward-looking statements. These statements are based upon certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. These statements are subject to a number of risks and uncertainties, many of which are beyond the control of the Company, including international, national and local economic, market or business conditions; real estate market conditions, particularly in Hawaii; the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other companies; changes in laws and regulations; the effects of natural disasters, terrorist acts and wars; and other factors. Actual results could differ materially from those contemplated by these forward-looking statements. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even substantially realized, and that they will have the expected consequences to or effects on the Company and its business or operations. Forward-looking statements made in this report speak as of the date hereof. The Company undertakes no obligation to update or revise any forward-looking statement in this report.

PART I

ITEM 1. BUSINESS

CB BANCSHARES, INC.

CB Bancshares, Inc. is a bank holding company which was incorporated in the State of Hawaii in 1980. As a bank holding company, the Company has the flexibility to directly or indirectly engage in certain bank-related activities other than banking, subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board or FRB). The Company has three wholly-owned subsidiaries, City Bank (the Bank), Datatronix Financial Services, Inc. (Datatronix) and O.R.E., Inc. (inactive), which are discussed below.

On July 1, 2000, International Savings and Loan Association, Limited (the Association), a wholly-owned subsidiary of the Company, merged with the Bank.

CITY BANK

City Bank is a state-chartered bank organized under the laws of the State of Hawaii in 1959. The Bank is insured by the Federal Deposit Insurance Corporation (the FDIC), and provides full commercial banking services through 17 branches on the island of Oahu, 1 branch on the island of Hawaii, 2 branches on the island of Maui and 1 branch on the island of Kauai. These services include receiving demand, savings and time deposits; making commercial, real estate and consumer loans; financing leases; financing international trade activities; issuing letters of credit; handling domestic and foreign collections; selling travelers checks and bank money orders; and renting safe deposit boxes.

The Bank s primary focus has been corporate lending to small- to medium-sized businesses by maintaining relationships and expertise within business segments and providing personal customer service. Efforts will continue to develop and enhance the expertise of the corporate sales force and to leverage these corporate relationships to generate core deposit growth. The Bank also has restructured in order to link the corporate and wholesale lending to the retail banking group with the intent of developing seamless service between the corporate loan officers and the branch personnel and to increase cross-sale opportunities between business and retail customers. The Bank has commenced implementing its customer relationship management program which it believes will significantly enhance this effort.

The Bank also plans to further develop its electronic banking activities by continuing to enhance internet banking capability for both business and retail customers.

DATATRONIX FINANCIAL SERVICES, INC.

Datatronix, a wholly-owned subsidiary, was incorporated in the State of Hawaii in June 2000. Datatronix offers item processing services to banks, thrifts, credit unions and other financial institutions in the State of Hawaii and California. As of December 31, 2002, Datatronix had three customers, with the Bank as its primary customer.

FHLB BORROWINGS

A primary source of borrowings for the Company is advances from the FHLB. The Bank has credit line agreements allowing for both short- and long-term advances. The agreements permit the Bank to borrow up to 35% of total qualified assets, provided that adequate mortgage loans or investment securities are pledged as collateral. At December 31, 2002, the Company had $10.0 million in short-term advances from the FHLB maturing in March 2003 with a rate of 1.87% and $319.4 million in long-term advances from the FHLB ranging in maturity from May 2003 to September 2014 and rates from 1.22% to 8.22%. Advances are priced at the date of advance as either fixed or LIBOR-based. See the Liquidity section of Management s Discussion and Analysis as well as Notes H and I of Notes to the Company s Consolidated Financial Statements for further information.

COMPETITION AND ECONOMIC ENVIRONMENT

The earnings and growth of the Company and its subsidiaries are affected by the changes in the monetary and fiscal policies of the United States (the U.S.), as well as by local, national and international economic conditions. The overall growth of loans and investments, deposit levels and interest rates are directly influenced by the monetary policies of the Federal Reserve System. Since these changes are generally unpredictable, it is difficult to ascertain the impact of such future changes on the operations of the Company and its subsidiaries.

The banking business is highly competitive. The Bank competes for deposits and loans with five other commercial banks and two other savings associations located in Hawaii. In addition to other commercial banks and savings associations, the Bank competes for savings and

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time deposits and certain types of loans with other financial institutions, such as consumer finance companies, credit unions, merchandise retailers, and a variety of financial service and advisory companies. The Bank also competes for mortgage loans with insurance and mortgage companies.

REGULATORY CONSIDERATIONS

The following discussion sets forth certain elements of the regulatory framework applicable to the Company. Federal and state regulation of financial institutions is intended primarily for the protection of depositors rather than shareholders of those entities. To the extent that the following discussion describes statutory or regulatory provisions, it is not intended to be complete and is qualified in its entirety by reference to the particular statutory or regulatory provisions, and any case law or interpretive letters concerning such provisions. In addition, there are other statutes and regulations that apply to and regulate the operation of the Company and its subsidiaries. Any change in applicable laws, or regulations, may have a material or possibly adverse effect on the business of the Company or other subsidiaries of the Company.

Bank Holding Company. The Company is a bank holding company subject to supervision and regulations by the FRB under the Bank Holding Company Act of 1956, as amended (the BHCA). As a bank holding company, the Company s activities and those of its banking and non-banking subsidiaries are limited to the business of banking and activities closely related or incidental to banking and to certain expressly permitted nonbanking activities. In addition, with certain exceptions, the Company may not acquire, directly or indirectly, more than 5% of any class of the voting shares of, or substantially all of the assets of, a bank or any other company without the prior approval of the FRB.

The Bank. The Bank is organized under the laws of the State of Hawaii and is subject to significant regulations by the FDIC and the State of Hawaii Division of Financial Institutions of the Department of Commerce and Consumer Affairs. The Bank is also subject to significant federal and state regulations which materially affects its operations.

The Community Reinvestment Act. The Community Reinvestment Act (the CRA) requires lenders to identify the communities served by the Company s offices and to identify the types of credit the institution is prepared to extend within such communities. Under the CRA regulations of the FDIC and the other federal banking agencies, an institution s performance in making loans and investments and maintaining branches and providing services in low- and moderate-income areas within the communities that it serves is evaluated. In connection with its assessment of CRA performance, the FDIC assigns a rating of outstanding, satisfactory, needs to improve, or substantial noncompliance.

The Federal Home Loan Banks. Under the Federal Home Loan Bank Act, as amended, the ongoing stock investment requirement is equal to 0.3% of total assets, 1% of residential mortgages and mortgage-backed securities, or 5% of advances divided by the institution s Qualifying Assets Ratio (QAR), whichever is higher. The institution s QAR will determine a ratio of stock to borrowings (the higher the QAR, the lower the stock to borrowings requirement). The stock is recorded as a restricted investment security at par. Furthermore, FHLB advances must be collateralized with certain types of assets. Accordingly, the Company has pledged certain investments and loans to the FHLB as collateral for its advances.

Dividend Restrictions. The principal source of the Company s cash flow has been dividend payments received from the Bank. Dividends paid to the Company by the Bank totaled $5.8 million and $6.3 million in 2002 and 2001, respectively. Under the laws of Hawaii, payment of dividends by the Bank is subject to certain restrictions, and payment of dividends by the Company is likewise subject to certain restrictions.

The Company will continue to evaluate the dividend on a quarterly basis. In addition, applicable regulatory authorities are authorized to prohibit banks, thrifts and their holding companies from paying dividends which would constitute an unsafe and unsound banking practice. The FRB has indicated that it would generally be an unsafe and unsound banking practice for banks to pay dividends except out of current operating earnings. Furthermore, an insured depository institution, such as the Bank, cannot make a capital distribution (broadly defined to include, among other things, dividends, redemptions and other repurchases of stock), or pay management fees to its holding company if, thereafter, the depository institution would be undercapitalized.

Capital Standards. The Company and the Bank are subject to capital standards promulgated by the FRB, the FDIC, and the Hawaii Division of Financial Institutions. The minimum ratio of total capital to risk-weighted assets, provided for in the guidelines adopted by the FRB, including certain off-balance-sheet items such as standby letters of credit, is 8%. At least half of the total capital is to be comprised of common equity, retained earnings, non-cumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock less goodwill (Tier 1 Capital). The remainder may consist of a limited amount of subordinated debt, other preferred stock, certain other instruments, and a limited amount of reserves for loan losses (Tier 2 Capital). The FDIC s risk-based capital guidelines for state non-member banks of the Federal Reserve System are generally similar to those established by the FRB for bank holding companies.

The FRB and FDIC also have adopted minimum leverage ratios for bank holding companies and banks requiring bank organizations to maintain a Leverage Ratio (defined as Tier 1 Capital divided by average total assets less goodwill) of at least 4% of total assets. The most highly rated banking organizations are expected to maintain an additional cushion of at least 100 basis points (1% equals 100 basis points), taking into account the level and nature of risk, to be allocated to the specific banking organizations by the primary regulator.

FRB guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. Furthermore, the guidelines indicate that the FRB will continue to consider a tangible Tier 1 leverage ratio in evaluating proposals for expansion or new activities. The tangible Tier 1 leverage ratio is the ratio of a banking organization s Tier 1 Capital, less intangibles, to total assets, less intangibles.

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Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business, including restricting the payment of dividends. At December 31, 2002, the Company and the Bank exceeded applicable capital requirements. The consolidated capital position of the Company at December 31, 2002 was as follows:

	Company ratio	Minimum required ratio
Risk-based Capital:		
Tier 1 capital ratio	12.19%	4.00%
Total capital ratio	13.46%	8.00%
Leverage ratio	9.03%	4.00%

Under FRB regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the FRB s policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of the FRB regulations, or both. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. Moreover, Congress has passed legislation pursuant to which depositors are granted a preference over all other unsecured creditors in the event of the insolvency of a bank or thrift.

Affiliate Transactions. Unless an exemption applies, sections 23A and 23B of the Federal Reserve Act and Regulation W thereunder (i) limit the extent to which a financial institution or its subsidiaries may engage in covered transactions with an affiliate, to an amount equal to 10% of such institution s capital and surplus and an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital and surplus and (ii) require that all transactions with an affiliate be on terms substantially the same, or at least as favorable to the institution or subsidiary, as those provided to a non-affiliate. The term covered transaction includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions.

Safety and Soundness. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires each federal banking regulatory agency to prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating to: (i) internal controls, information systems and audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) compensation, fees and benefits; and (vii) such other operational and managerial standards as the agency determines to be appropriate. The compensation standards would prohibit employment contracts, compensation or benefit arrangements, stock option plans, fee arrangements or other compensatory arrangements that provide excessive compensation, fees or benefits or could lead to material financial loss. In addition, each federal banking regulatory agency must prescribe by regulation standards specifying: (i) a maximum ratio of classified assets to capital; (ii) minimum earnings sufficient to absorb losses without impairing capital to the extent feasible; (iii) a minimum ratio of market value to book value for publicly traded shares of depository institutions and depository institution holding companies; and (iv) such other standards relating to asset quality, earnings and valuation as the agency determines to be appropriate. If an insured depository institution or its holding company fail to meet any of the standards promulgated by regulations, then such company will be required to submit a plan to its federal regulator specifying the steps it will take to correct the deficiency. The federal banking agencies have uniform rules concerning these standards.

Prompt Corrective Action. Under FDICIA, each federal banking agency is required to take prompt corrective action to resolve the problems of insured depository institutions that do not meet minimum capital ratios. The extent of an agency s power to take prompt corrective action depends upon whether an institution is well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized.

The federal banking agencies have adopted regulations to implement the prompt corrective action provisions of FDICIA. Under the regulations, an institution shall be deemed to be: (i) well-capitalized if it has total risk-based capital of 10% or more, has a Tier 1 risk-based capital ratio of 6% or more, has a Tier 1 leverage capital ratio of 5% or more and is not subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if it has a total risk-based capital ratio of 8% or more, a Tier 1 risk-based capital ratio of 4% or more and a Tier 1 leverage capital ratio of 4% or more (3% under certain circumstances) and does not meet the definition of well-capitalized; (iii) undercapitalized if it has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio of 4% or more or a Tier 1 leverage capital ratio that is less than 4% (3% under certain circumstances); (iv) significantly undercapitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3% or a Tier 1 leverage capital ratio that is less than 3%; and (v) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2%.

FDICIA authorizes the appropriate federal banking agency, after notice and an opportunity for a hearing, to treat an insured depository institution as if it had a lower capital-based classification if it is in an unsafe or unsound condition, engages in an unsafe or unsound practice or receives an unsatisfactory examination rating. Thus, a well-capitalized institution could be subjected to the restrictions of undercapitalized institutions.

An undercapitalized institution is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. The plan must specify: (i) the steps the institution will take to become adequately capitalized; (ii) the capital levels to be attained each year; (iii) how the institution will comply with any regulatory sanctions then in effect against the institution; and (iv) the types and levels of activities in which the institution will engage. An undercapitalized institution is also generally prohibited from paying any management fee or dividends to its holding company, increasing its average total assets and is generally prohibited from making any acquisitions, establishing any new branches or engaging in any new line of business except in accordance with an accepted capital restoration plan or with the approval of the FDIC.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the IBBEA) amended the BHCA to create certain interstate banking and branching opportunities. Under the IBBEA, a bank holding company may acquire a bank located in any state, provided that the acquisition does not result in the bank holding company controlling more than 10% of the deposits in insured depository institutions in the

United States, or 30% of deposits in insured institutions in the state in which the bank to be acquired is located (unless the state waives the 30% deposit limitation or it is the initial entry into the state). The IBBEA permits individual states to restrict the ability of an out-of-state bank holding company or bank to acquire an in-state bank that has been in existence for less than five years and to establish a state concentration limit of less than 30% if such reduced limit does not discriminate against out-of-state bank holding companies or banks.

The IBBEA authorizes an adequately-capitalized bank, with the approval of the appropriate federal banking agency, to merge with another adequately-capitalized bank in any state that has not opted out of interstate branching. Such a bank may operate the target s offices as branches if certain conditions are satisfied. The same national and state deposit concentration limits and applicable state minimum-existence restrictions which apply to interstate acquisitions (as discussed above) also apply to interstate mergers. The applicant also must comply with any non-discriminatory host state filing and notice requirements and demonstrate a record of compliance with applicable federal and state community reinvestment laws. Hawaii enacted an interstate branching and bank mergers law which expressly permits interstate branching under Sections 102 and 103 of the IBBEA.

Under the IBBEA, the resulting bank in an interstate merger may establish or acquire additional branches at any location in a state where any of the banks involved in the merger could have established or acquired a branch. A bank also may acquire one or more branches of an out-of-state bank without acquiring the target out-of-state bank if the law of the target s home state permits such a transaction. In addition, the IBBEA permits a bank to establish a de novo branch in another state if the host state statutorily permits de novo interstate branching.

Hawaii law authorizes out-of-state banks to engage in interstate merger transactions (mergers and consolidations with and purchases of all or substantially all of the assets and branches of) with Hawaii banks, following which any such out-of-state bank may operate the branches of the Hawaii bank it has acquired. The Hawaii bank must have been in continuous operation for at least five years prior to such an acquisition, unless it is subject to or in danger of becoming subject to certain types of supervisory action. This statute does not permit out-of-state banks to acquire branches of Hawaii banks other than through an interstate merger transaction (except in the case of a bank that is subject to or in danger of becoming subject to certain types of supervisory action) nor to open branches in Hawaii on a de novo basis. Hawaii law imposes no state deposit caps or concentration limits. It also permits the State Commissioner of Financial Institutions to waive, on a case-by-case basis, federal statewide concentration limits, in accordance with standards that do not discriminate against out-of-state banks.

The IBBEA also permits a bank subsidiary of a bank holding company to act as agent for other depository institutions owned by the same holding company for purposes of receiving deposits, renewing time deposits, closing or servicing loans and receiving loan payments.

Gramm-Leach Bliley Act. The Gramm-Leach-Bliley Act (the GLB Act) revised and expanded the existing BHCA and certain sections of the 1933 Glass-Steagall Act to permit a holding company system to engage in a full range of financial activities, including but not limited to, banking, insurance, securities, merchant banking and other activities incidental to financial services. The GLB Act permits the scope of financial and incidental activities to evolve with technology and competition. It also provides expanded financial affiliation opportunities for existing bank holding companies (BHC) and allows all financial holding companies to control a full-service insured bank. These expanded permissible activities are allowable for a BHC if it becomes a financial holding company (FHC). In order to become an FHC, a BHC must file a declaration with the FRB electing to engage in activities under the new BHCA Section 4(k) and certifying that it is eligible to do so because all of its insured depository institution subsidiaries are well-capitalized and well-managed. An institution is well-capitalized if it meets the primary regulator s definition for that status under the Federal Deposit Insurance Act for prompt corrective action purposes. Additionally, the FRB must determine that each depository institution controlled by an FHC has a satisfactory or better rating under the CRA in order for a company to become an FHC or for an FHC to engage in new financial activities or acquire, directly or indirectly, a company engaged in any activity under subsection (k) or (n). The FRB will be the overall regulatory agency and, along with the Department of Treasury, will have joint oversight to determine new financial activities of FHC companies. The Company has not elected FHC status.

It is anticipated that this change in legislation will serve to provide consumers added convenience and savings as FHCs will be able to provide one-stop shops for financial services. It also provides for added privacy for consumers as policies on collecting, using and protecting personal financial information must be disclosed in writing to customers and customers will have the option to block information sharing with unaffiliated third parties, such as telemarketing companies.

Depository Insurance. The FDIC has a premium schedule under which the assessment rate for a bank depends upon the risk classification the FDIC assigns the institution. This allows institutions with improving capital positions to benefit from the improvement by lower assessments, while requiring those whose capital is falling to pay higher assessments. The FDIC may raise an institution s insurance premiums or terminate insurance altogether upon a finding that the institution has engaged in unsafe and unsound practices.

Other Regulatory Considerations. The Bank is also subject to a wide array of other state and federal laws and regulations, including, without limitation, usury laws, the Patriot Act, the Equal Credit Opportunity Act, the Electronic Funds Transfer requirements, the Truth-in-Lending Act, the Truth-in-Savings Act and the Real Estate Settlement Procedures Act.

NUMBER OF EMPLOYEES

As of December 31, 2002, the Company and its subsidiaries employed 512 persons, 473 on a full-time basis and 39 on a part-time basis. Neither the Company nor any of its subsidiaries are a party to any collective bargaining agreements.

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STATISTICAL DISCLOSURES

Guide 3 of the Guides for the Preparation and Filing of Reports under the Exchange Act of 1934 sets forth certain statistical disclosures to be included in the Description of Business section of bank holding company filings with the Securities and Exchange Commission (the SEC).

The statistical information required is presented in the index shown below and as part of Items 6 or 7 of this Form 10-K for the fiscal year ended December 31, 2002. The tables and information contained therein have been prepared by the Company and have not been audited or reported upon by the Company s independent accountants.

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ITEM 2. PROPERTIES

The operations of the Bank are transacted through its main banking office and 20 other branches. The Company s facilities are located on leased premises, and expenditures by the Company for interior improvements are capitalized. The leases for these premises expire on various dates through the year 2067. Lease terms generally provide for additional payments for real property taxes, insurance and maintenance. See Note F of Notes to the Company s Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in various legal proceedings arising from normal business activities. In the opinion of management, after reviewing these proceedings with counsel, the aggregate liability, if any, resulting from these proceedings would not have a material effect on the Company s consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of 2002 to a vote of security holders through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company s common stock is traded on the NASDAQ National Market System under the symbol CBBI . At March 1, 2003, the Company had approximately 4,000 common shareholders of record.

The following table sets forth quarterly high and low bid and dividend information on a per share basis for the Company s common stock over the preceding two years. Per share amounts have been retroactively adjusted to reflect stock dividends:

	High	Low	Dividends
2002			
First quarter	**$33.95**	**$30.10**	**$0.11**
Second quarter	**40.64**	**33.23**	**0.11**
Third quarter	**39.99**	**32.86**	**0.11**
Fourth quarter	**43.00**	**34.92**	**0.11**
2001			
First quarter	$28.12	$21.04	$0.10
Second quarter	32.24	25.97	0.11
Third quarter	34.17	27.09	0.11
Fourth quarter	31.72	28.71	0.11

The Company s ability to pay dividends is limited by certain restrictions generally imposed on Hawaii corporations. The Company may pay dividends out of funds legally available at such times as the Board of Directors determines are appropriate.

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ITEM 6. SELECTED FINANCIAL DATA
(dollars in thousands, except per share data)

	2002	2001	2000	1999	1998
Income Statement Data:					
Interest income	**$ 106,945**	$ 128,254	$ 132,472	$ 111,233	$ 112,060
Interest expense	**30,292**	57,448	71,478	52,717	53,811
Net interest income	**76,653**	70,806	60,994	58,516	58,249
Provision for credit losses	**17,110**	13,628	7,539	4,975	7,436
Net interest income after provision for credit losses	**59,543**	57,178	53,455	53,541	50,813
Noninterest income (1)	**12,815**	2,817	10,024	10,328	9,789
Noninterest expense (2)	**52,618**	50,595	46,679	58,336	46,768
Income before income taxes	**19,740**	9,400	16,800	5,533	13,834
Income tax expense	**6,258**	3,250	5,582	5,227	5,465
Net income	**$ 13,482**	$ 6,150	$ 11,218	$ 306	$ 8,369
Cash dividends	**$ 1,649**	$ 1,441	$ 1,093	$ 931	$ 818
End of Year Balance Sheet Data:					
Total assets	**$1,674,358**	$1,586,040	$1,721,602	$1,619,549	$1,428,438
Total earning assets	**1,552,936**	1,516,583	1,633,545	1,506,732	1,318,294
Total loans	**1,160,963**	1,242,942	1,301,358	1,152,731	1,079,297
Total deposits	**1,163,227**	1,138,435	1,218,463	1,106,145	1,084,610
Long-term debt	**319,407**	214,424	181,563	225,140	171,087
Stockholders equity	**151,009**	133,762	123,162	114,691	132,372
Average Balances:					
Total assets	**$1,574,396**	$1,678,679	$1,667,243	$1,491,947	$1,424,793
Total earning assets	**1,495,733**	1,598,964	1,583,704	1,391,681	1,343,524
Total loans	**1,149,100**	1,296,274	1,236,305	1,077,769	1,063,541
Total deposits	**1,133,169**	1,193,758	1,154,075	1,082,642	1,038,751
Long-term debt	**250,658**	235,028	205,877	205,098	168,934
Stockholders equity	**144,253**	128,666	118,132	127,567	128,889
Common Stock Data:					
Per share (diluted) (3):					
Net income	**$ 3.43**	$ 1.58	$ 2.88	$ 0.07	$ 1.97
Cash dividends declared	**0.44**	0.43	0.34	0.27	0.23
Book value (at December 31)	**39.17**	35.07	31.84	29.15	31.28
Market price (close at December 31)	**42.52**	31.67	20.99	23.60	24.58
Average shares outstanding	**3,935,296**	3,891,973	3,898,435	4,144,672	4,238,216
Selected Ratios:					
Return on average:					
Total assets	**0.86%**	0.37%	0.67%	0.02%	0.59%
Stockholders equity	**9.35**	4.78	9.50	0.24	6.49
Dividend payout ratio	**11.43**	11.46	9.74	10.22	9.77
Average stockholders equity to average total assets	**9.16**	7.66	7.09	8.55	9.05
Year ended December 31:					
Net interest margin (taxable equivalent basis)	**5.18**	4.48	3.91	4.25	4.36

Net loans charged off to average loans	**0.82**	0.90	0.65	0.45	0.57
Efficiency ratio(4)	**57.37**	59.33	64.39	69.55	67.71
At December 31:					
Risk-based capital ratios:					
Tier I	**12.19**	11.32	12.04	11.95	13.54
Total	**13.46**	12.58	13.29	13.21	14.80
Tier I leverage ratio	**9.03**	8.31	8.01	7.69	8.65
Allowance for credit losses to total loans	**2.34**	1.57	1.34	1.56	1.65
Nonperforming assets to total loans	**1.29**	1.65	1.43	1.58	2.02
Nonperforming assets to total assets	**0.89**	1.29	1.08	1.12	1.53
Allowance for credit losses to nonperforming loans	**213.06**	123.24	115.35	152.28	133.95

(1) Includes impairment charges on asset-backed securities of $1,399,000 and $10,642,000 incurred in 2002 and 2001, respectively.

(2) Includes restructuring and merger-related charges of $1,551,000 and write-off of goodwill of $7,873,000 incurred in 1999.

(3) Common stock data retroactively adjusted for 10% stock dividend paid in 2002 and 2001.

(4) Defined as noninterest expense minus amortization of intangibles as a percentage of total operating revenue (excluding impairment charges of $1.4 million and $10.6 million in 2002 and 2001, respectively, and restructuring and merger-related charges of $1.6 million, and write-off of goodwill of $7.9 million in 1999).

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations contains statements relating to future results of the Company (including certain projections and business trends) that are considered forward-looking statements. Actual results may differ materially from those projected as a result of certain risks and uncertainties including, but not limited to, changes in political and economic conditions, interest rate fluctuations, competitive product and pricing pressures within the Company s market, equity and bond market fluctuations, personal and corporate customers bankruptcies and financial condition, inflation and results of litigation. Accordingly, historical performance, as well as reasonably applied projections and assumptions, may not be a reliable indicator of future earnings due to risks and uncertainties. As circumstances, conditions or events change that affect the Company s assumptions and projections on which any of the statements are based, the Company disclaims any obligation to issue any update or revision to any forward-looking statement contained herein.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management s discussion and analysis of its financial condition and results of operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to its investments, loans and allowance for loan 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 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 the collateralized loan and bond obligations 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. As of December 31, 2002, approximately $34.4 million of these investments were carried on the books of the Company.

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.

RESULTS OF OPERATIONS

Consolidated net income for 2002 was $13.5 million, an increase of $7.3 million, or 119.2%, from 2001. Diluted earnings per share was $3.43 in 2002, as compared to $1.58 in 2001. All per share amounts have been restated for the effect of the 10% stock dividend paid in June 2002 and 2001. The increase was primarily due to a reduction in impairment charges, recorded in 2002 as compared to 2001, related to certain investment securities.

Net interest income was $76.7 million for 2002, an increase of $5.8 million, or 8.3%, compared to 2001. The increase in the net interest income was primarily due to an increase in the net interest margin, which increased to 5.18%, or 70 basis points, for 2002 and a $42.9 million increase in net earning assets.

Noninterest income was $12.8 million for 2002, an increase of $10.0 million, or 354.9%, compared to the same period in 2001. The increase was primarily due to: (i) a reduction in impairment charges related to certain securities in its investment portfolio of $9.2 million; and (ii) an increase of $2.4 million in service charges and fees. These items were partially offset by a decrease of $2.2 million on gains from the sale of securities and loans.

Noninterest expense was $52.6 million for 2002, an increase of $2.0 million, or 4.0%, compared to 2001. The efficiency ratio (exclusive of the impairment charges and amortization of intangibles) improved from 59.86% in 2001 to 57.37% in 2002.

The provision for credit losses was $17.1 million, $13.6 million and $7.5 million in 2002, 2001 and 2000, respectively. Net charge-offs to average loans and leases were 0.82%, 0.90% and 0.65% for 2002, 2001 and 2000, respectively. The allowance for credit losses was $27.1 million, or 2.34% of total loans and leases, at December 31, 2002, compared with $19.5 million, or 1.57%, at December 31, 2001. Nonperforming assets totaled 0.89%, 1.29% and 1.08% of total assets as of December 31, 2002, 2001 and 2000, respectively.

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At December 31, 2002, the Company s ratios of Tier 1 Capital to risk-weighted assets and Total Capital to risk-weighted assets were 12.19% and 13.46%, respectively, compared with 11.32% and 12.58%, respectively, at December 31, 2001. These ratios were in excess of the well-capitalized ratios of 6.00% and 10.00%, respectively, specified by the FRB.

Consolidated net income for 2001 was $6.2 million, a decrease of $5.1 million, or 45.2%, from 2000. Diluted earnings per share was $1.58 in 2001, as compared to $2.88 in 2000. All per share amounts have been restated for the effect of the 10% stock dividend paid in June 2002 and 2001. Based on the adoption of new accounting principles in 2001, the Company recorded impairment charges of $10.6 million ($6.4 million after-tax) for the year ended December 31, 2001 related to certain securities in its investment portfolio. See Note A of Notes to the Company s Consolidated Financial Statements for further discussion.

Net interest income was $70.8 million for 2001, an increase of $9.8 million, or 16.1%, compared to 2000. The increase in the net interest income was primarily due to an increase in the net interest margin, which increased to 4.48%, or 57 basis points, for 2001 and a $36.0 million increase in net earning assets.

Noninterest income was $2.8 million for 2001, an decrease of $7.2 million, or 72.0%, compared to the same periods in 2000. The decrease was primarily due to the previously mentioned $10.6 million impairment charge, partially offset by an increase of $1.8 million in service charges and $1.5 million increase on gains from the sales of loans.

Noninterest expense was $50.6 million for 2001, an increase of $3.9 million, or 8.4%, compared to 2000. The increase was primarily due to an increase in salaries and benefits (due to higher incentive-based compensation) and an increase in other noninterest expense, partially offset by a decrease in net occupancy expense.

Consolidated net income for 2000 was $11.2 million, an increase of $10.9 million from the $306,000 in 1999. In 1999, the Company recorded restructuring and merger-related charges of $1.6 million and a write-off of goodwill of $7.9 million (as a result of a change in accounting method).

NET INTEREST INCOME

Net interest income is the largest single component of the Company s earnings and represents the difference between interest income received on loans and other earning assets and interest expense paid on deposits and borrowings. Net interest income, on a taxable equivalent basis, was $77.5 million in 2002, an increase of $5.8 million, or 8.2%, over 2001. During 2002, the Company s net interest margin increased to 5.18%, compared to 4.48% for 2001.

As summarized on Table 2, the $5.8 million increase in net interest income for 2002 consisted of a $27.2 million decrease in interest expense offset by a $21.3 million decrease in interest income.

The average yield on earning assets in 2002 decreased by 86 basis points to 7.21% and the average balance of earning assets decreased by $103.2 million. The $21.3 million decrease in interest income was primarily due to the $147.2 million decrease in the average balance of loans.

In 2002, interest costs on interest-bearing deposits and liabilities decreased to $30.3 million, the average balance of interest-bearing deposits and liabilities decreased by $146.1 million and the average cost of funds decreased by 161 basis points to 2.15%. The following table sets forth the condensed consolidated average balance sheets, an analysis of interest income/expense and average yield/rate for each major category of earning assets and interest-bearing deposits and liabilities for the years indicated on a taxable equivalent basis. The taxable equivalent adjustment is made for items exempt from federal income taxes (assuming a 35% tax rate) to make them comparable with taxable items before any income taxes are applied.

Net interest income, on a taxable equivalent basis, was $71.6 million in 2001, an increase of $9.8 million, or 15.8%, from 2000. During 2001, the Company s net interest margin increased to 4.48%, compared to 3.91% for 2000. This increase was due to a 93 basis point decrease in the cost of funds, partially offset by a 35 basis point decrease in the yield on average earning assets.

Average earning assets increased $15.3 million, or 1.0%, in 2001 over 2000. Average interest-bearing deposits and liabilities decreased $20.8 million, or 1.5%, in 2001 over 2000.

Net interest income, on a taxable equivalent basis, was $61.8 million in 2000, an increase of $2.8 million, or 4.7%, from 1999. During 2000, the Company s net interest margin declined to 3.91%, compared to 4.25% for 1999. The $2.8 million increase in net interest income for 2000 consisted of a $21.5 million increase in interest income offset by a $18.8 million increase in interest expense.

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TABLE 1: DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY; INTEREST RATES

(dollars in thousands)	2002 Average Balance	2002 Interest Income/ Expense	2002 Yield/ Rate	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	$ 1,052	$ 25	2.38%	$ 1,030	$ 54	5.24%	$ 393	$ 28	7.12%
Federal funds sold and securities purchased under agreement to resell	11,174	162	1.45	9,871	397	4.02	7,959	497	6.24
Taxable investment and mortgage/ asset-backed securities	303,433	15,449	5.09	260,867	17,538	6.72	308,011	21,701	7.05
Nontaxable investment securities	30,974	2,395	7.73	30,922	2,389	7.73	31,036	2,386	7.69
Loans (1)	1,149,100	89,752	7.81	1,296,274	108,715	8.39	1,236,305	108,713	8.79
Total earning assets	1,495,733	107,783	7.21	1,598,964	129,093	8.07	1,583,704	133,325	8.42
Nonearning assets:									
Cash and due from banks	35,083			28,835			34,826		
Premises and equipment	17,226			18,372			18,077		
Other assets	50,528			51,004			48,884		
Less allowance for credit losses	(24,174)			(18,496)			(18,248)		
Total assets	$ 1,574,396			$ 1,678,679			$ 1,667,243		
LIABILITIES AND STOCKHOLDERS EQUITY									
Interest-bearing liabilities:									
Savings deposits	$ 471,314	$ 5,255	1.11%	$ 412,331	$ 8,927	2.17%	$ 367,793	$ 10,063	2.74%
Time deposits	504,685	12,843	2.54	651,344	30,511	4.68	672,234	37,041	5.51
Short-term borrowings	23,339	672	2.88	97,428	5,095	5.23	171,006	11,370	6.65
Long-term debt	250,658	11,522	4.60	235,028	12,915	5.50	205,877	13,004	6.32
Total interest-bearing deposits and liabilities	1,249,996	30,292	2.42	1,396,131	57,448	4.11	1,416,910	71,478	5.04
Noninterest-bearing liabilities:									
Demand deposits	157,170			130,083			114,048		
Other liabilities	22,977			23,799			18,153		
Total liabilities	1,430,143			1,550,013			1,549,111		
Stockholders equity	144,253			128,666			118,132		

Total liabilities and stockholders equity	**$1,574,396**			$1,678,679			$1,667,243		
Net interest income and margin on total earning assets		**77,491**	**5.18%**		71,645	4.48%		61,847	3.91%
Taxable equivalent adjustment		**(838)**			(839)			(853)	
Net interest income		**$ 76,653**			$ 70,806			$ 60,994	

(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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TABLE 2: INTEREST DIFFERENTIAL

	2002 Compared to 2001 Increase (Decrease) due to change in: (1)			2001 Compared to 2000 Increase (Decrease) due to change in: (1)		
(in thousands)	Volume	Rate	Net Change	Volume	Rate	Net Change
Earning assets:						
Interest-bearing deposits in other banks	$ 1	$ (30)	$ (29)	$ 45	$ (19)	$ 26
Federal funds sold and securities purchased under agreements to resell	52	(287)	(235)	119	(219)	(100)
Taxable investment and mortgage/asset-backed securities	2,862	(4,951)	(2,089)	(3,322)	(841)	(4,163)
Nontaxable investment securities	4	2	6	(9)	12	3
Loans (2)	(12,343)	(6,620)	(18,963)	5,273	(5,271)	2
Total earning assets	(9,424)	(11,886)	(21,310)	2,106	(6,338)	(4,232)
Interest-bearing liabilities:						
Savings deposits	1,277	(4,949)	(3,672)	1,219	(2,355)	(1,136)
Time deposits	(6,870)	(10,798)	(17,668)	(1,151)	(5,379)	(6,530)
Short-term borrowings	(3,874)	(549)	(4,423)	(4,892)	(1,383)	(6,275)
Long-term debt	859	(2,252)	(1,393)	1,841	(1,930)	(89)