CENTRAL PACIFIC FINANCIAL CORP
Form 10-K/A
July 17, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

Mark One

ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002

or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

Commission file number 0-10777

Central Pacific Financial Corp.

(Formerly CFB Inc.)

(Exact name of registrant as specified in its charter)

Hawaii	**99-0212597**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

220 South King Street, Honolulu, Hawaii	**96813**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code:
(808) 544-0500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, No Par Value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

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

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 or Regulation S-K 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 the Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ý No o

As of June 30, 2002, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $309,344,000.

As of February 28, 2003, the number of shares of common stock of the registrant outstanding was 16,006,748 shares.

The following documents are incorporated by reference herein:

Document Incorporated	**Part of Form 10-K Into Which Incorporated**
Definitive Proxy Statement for the Annual Meeting of Shareholders which was filed within 120 days of the fiscal year ended December 31, 2002	Part III

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K for Central Pacific Financial Corp., formerly CPB Inc., (the Company) for the fiscal year ended December 31, 2002 as filed with the Securities and Exchange Commission on March 14, 2003 is being filed to amend the text of the Company s 10-K as follows:

to include additional disclosure related to the market area and recent trends under the caption Market Area and Competition in the Business section;

to include additional disclosure related to the risks related to loans under the caption Loan Portfolio in the Management s Discussion and Analysis section;

to explain the increase in commercial loans over year-end 2001 under the caption Loan Portfolio - Commercial, Financial and Agricultural in the Management s Discussion and Analysis section;

to include additional disclosure regarding risks related to loan losses and the related loan loss allowances under the caption Provision and Allowance for Loan Losses in the Management s Discussion and Analysis section and under Notes 1 and 5 to the Consolidated Financial Statements under the captions Allowance for Loan Losses ;

to correct the amounts reported for changes in the allowance for loan losses for impaired loans for 2002 under Note 5 to the Consolidated Financial Statements under the caption Allowance for Loan Losses ;

to include additional disclosure related to the consolidation practices under Note 1 to the Consolidated Financial Statements under the caption Principles of Consolidation ;

to include additional disclosure related to the FHLB advance under Note 9 to the Consolidated Financial Statements;

to include additional disclosure related to the segment information and the All others columns under Note 24 to the Consolidated Financial Statements; and

to include the city and state where the auditors report was issued in the Independent Auditors Report .

In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, the Company is including with this Amendment certain currently dated certifications. The exhibit list to this Amendment is amended to reflect the previously filed exhibits to the Company s 10-K and, therefore, unless otherwise indicated those exhibits are not re-filed herewith. The remaining disclosures contained within this Amendment consist of all other disclosures originally contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2002 in the form filed with the Securities and Exchange Commission on March 14, 2003. These other disclosures as originally included in the Company s 10-K are not amended hereby, but are included for the convenience of the reader. In order to preserve the nature and character of the disclosures set forth in such disclosures as originally filed, except as expressly noted herein, this report contains disclosures as of the date of the original filing, and the Company has not updated the disclosures in this report to reflect events subsequent to the original filing date, March 14, 2003. While this report primarily relates to the historical periods covered, events may have taken place since the original filing that might have been reflected in this report if they had taken place prior to the original filing date. All information contained in this Amendment may be updated or supplemented by disclosures contained in the Company s reports filed with the Securities and Exchange Commission subsequent to the date of the original filing of the Annual Report on Form 10-K, including but not limited to the Company s Quarterly Report on Form 10-Q for the three months ended March 31, 2003.

PART I

Forward-Looking Statements

This document may contain forward-looking statements concerning projections of revenues, income, earnings per share, capital expenditures, dividends, capital structure, or other financial items, concerning plans and objectives of management for future operations, concerning future economic performance, or concerning any of the assumptions underlying or relating to any of the foregoing. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts, and generally include the words believes , plans , intends , expects , anticipates or words of similar meaning. While we believe that our forward-looking statements and the assumptions underlying them are reasonably based, such statements and assumptions are by their nature subject to risks and uncertainties, and thus could later prove to be inaccurate or incorrect. Accordingly, actual results could materially differ from projections for a variety of reasons, to include, but not be limited to: the impact of local, national and international economies and events on CPB Inc. (the Company) business and operations and on tourism, the military, and other major industries operating within the Hawaii market; the impact of legislation affecting the banking industry; the impact of competitive products, services, pricing, and other competitive forces; movements in interest rates; loan delinquency rates; and trading of the Company s stock. For further information on factors that could cause actual results to materially differ from projections, please see the Company s publicly available Securities and Exchange Commission filings. Be advised the Company does not update any of its forward-looking statements.

ITEM 1. BUSINESS

General

The Company, a Hawaii corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the Bank Holding Company Act). Pursuant to a Plan of Reorganization and Agreement of Merger, the Company was organized on February 1, 1982 to serve as a holding company for its subsidiary, Central Pacific Bank (the Bank). The Bank was incorporated in its present form in the State of Hawaii on March 16, 1982 in connection with the holding company reorganization for the Company, and its predecessor entity was incorporated in the State of Hawaii on January 15, 1954. The Bank s deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable limits. The Bank is not a member of the Federal Reserve System.

The Bank owns 100% of the outstanding stock of Central Business Club of Honolulu, Inc., whose principal business is the operation of a private food service facility.

The Bank also owns 99.8% and the Company owns 0.2% of the outstanding common stock of CPB Real Estate, Inc. (CPBREI), a real estate investment trust, which acquires, holds and manages stable, long-term real estate related assets including residential mortgage loans, commercial real estate loans and mortgage-backed securities. CPBREI, incorporated in March 1998, was established to provide the Company with an alternate means of raising capital and to enhance federal and state tax strategies. The impact of the tax strategies is discussed in note 17 to the Company s consolidated financial statements. In November 1998, CPBREI issued 1,000 shares of Class A preferred stock to the Bank and certain employees of the Bank. In September 2000, CPBREI issued 100 shares of Class B preferred stock to the Bank and 92 shares of Class C preferred stock to the Bank. In August 2001, the Bank sold 100 shares of Class B preferred stock of CPBREI to third party investors. At December 31, 2002, the Bank held 873 shares of CPBREI Class A preferred stock and 92 shares of CPBREI Class C preferred stock, and employees or former employees held 127 shares of CPBREI Class A preferred stock.

The Company s internet site can be found at www.cpbi.com. The Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports can be found on the Company s internet site as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

The principal office of the Company is located at 220 South King Street, Honolulu, Hawaii 96813, and its telephone number is (808) 544-0500.

Banking Services

The Bank is a full-service commercial bank that has 24 banking offices and 77 ATMs located throughout the State of Hawaii as of December 31, 2002. The Bank s administrative and main offices are located in Honolulu, and there are eighteen other branches on the island of Oahu. In addition, the Bank operates two branches on the island of Maui, one branch on the island of Kauai and two branches on the island of Hawaii.

Through its network of banking offices, the Bank emphasizes personalized services and offers a full range of banking services and products to small- and medium-sized businesses, professionals and individuals in Hawaii.

Market Area and Competition

The Bank competes in the financial services industry. The Hawaii market consists of five commercial banks, three savings and loans, one finance company and numerous credit unions.

Bancwest Corporation had $34.7 billion in assets at year-end 2002. First Hawaiian Bank, the Hawaii-based subsidiary bank, has approximately 24% of the deposits in the State of Hawaii.

Bank of Hawaii Corporation had $9.5 billion in total assets at year-end 2002. Bank of Hawaii, its largest subsidiary, maintains approximately 24% of the deposits in the State of Hawaii.

American Savings Bank, a subsidiary of Hawaiian Electric Industries, held $6.2 billion in assets at year-end 2002. American Savings Bank has approximately 16% of the deposits in the State of Hawaii.

Based on total consolidated assets at December 31, 2002, the Company is the third largest bank holding company in the State of Hawaii and the Bank is the third largest commercial bank in the state maintaining approximately 7% of the deposit market share. With $2.0 billion in assets, the Bank is establishing its position in the market as a local community bank that is large enough to provide a wide range of banking services, yet small enough to deliver personalized service. In order to compete with the other financial services providers in the State of Hawaii, the Bank principally relies upon local promotional activities, personal relationships established by officers, directors and employees with its customers, and specialized services tailored to meet the needs of the communities served. The Bank remains competitive with pricing and superior service levels. The Bank also has a strong capital base that can support expansion opportunities that may better serve the community.

The banking and financial services industry in the State of Hawaii generally, and in the Bank s target market areas, is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation and changes in technology and product delivery systems. The Bank competes for loans, deposits and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other nonbank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader range of financial services than the Bank. In addition, recent federal legislation may have the effect of further increasing the pace of consolidation within the financial services industry. See **ITEM 1. BUSINESS - Supervision and Regulation - Financial Services Modernization Legislation.**

At year-end 2002, personal income levels in Hawaii rose 2.8% above year-end 2001, similar to the growth rate for the entire United States for the comparable period. Also, Hawaii s population grew by 1.5% from a year ago, compared to an U.S. Census Bureau estimated 1.1% growth rate for the entire United States. The state s unemployment rate in December 2002 was 3.6%, an improvement over the 5.0% reported a year ago. The national unemployment rate was 5.7% at December 2002, compared to 5.4% at December 2001. The top five industries in the state, representing approximately 72% of total jobs, include: government, food service and accommodation, retail, healthcare, and professional services. The state s housing market, supported by low mortgage interest rates, continues to show strong growth. Residential home sales in 2002 were $2.6 billion, an increase of 31.1% over 2001. The 2002 median sales price for single family homes and condominiums increased by 11.7% and 14.3%, respectively. In 2002, the number of construction jobs grew by 3.9% and the number of building permits increased by 11.8% over the prior year. The state s tourism industry showed slight improvement over 2001. Total visitor arrivals were up 0.9% and total visitor days increased by 2.8%. Japanese visitor arrivals were down 4.3% in 2002, compared the 15.9% decrease reported in 2001.

Economic Conditions, Government Policies, Legislation, and Regulation

The Company s profitability, like most financial institutions, is primarily dependent on interest rate differentials. In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on its interest-earning assets, such as loans extended to its clients and securities held in its investment portfolio, comprise the major portion of the Company s earnings. These rates are highly sensitive to many factors that are beyond the control of the

Company and the Bank, such as inflation, recession and unemployment, and the impact which future changes in domestic and foreign economic conditions might have on the Company and the Bank cannot be predicted.

The business of the Company is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Federal Reserve Board implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in U.S. Government securities by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact on the Company and the Bank of any future changes in monetary and fiscal policies cannot be predicted.

From time to time, legislation, as well as regulations, are enacted which have the effect of increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies, and other financial institutions and financial services providers are frequently made in the U.S. Congress, in the state legislatures, and before various regulatory agencies. This legislation may change banking statutes and the operating environment of the Company and its subsidiaries in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company or any of its subsidiaries. See **ITEM 1. BUSINESS - Supervision and Regulation.**

Supervision and Regulation

General

Bank holding companies and banks are extensively regulated under both federal and state law. This regulation is intended primarily for the protection of depositors and the deposit insurance fund and not for the benefit of shareholders of the Company. Set forth below is a summary description of the material laws and regulations which relate to the operations of the Company. The description is qualified in its entirety by reference to the applicable laws and regulations.

The Company

The Company is a registered bank holding company, and subject to regulation under the Bank Holding Company Act. The Company is required to file with the Federal Reserve Board periodic reports and such additional information as the Federal Reserve Board may require

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pursuant to the Bank Holding Company Act. The Federal Reserve Board may conduct examinations of the Company and its subsidiaries.

The Federal Reserve Board may require that the Company terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments when the Federal Reserve Board believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any of its banking subsidiaries. The Federal Reserve Board also has the authority to regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt. Under certain circumstances, the Company must file written notice and obtain approval from the Federal Reserve Board prior to purchasing or redeeming its equity securities.

Further, the Company is required by the Federal Reserve Board to maintain certain levels of capital. See **ITEM 1. BUSINESS Supervision and Regulation - Capital Standards.**

The Company is required to obtain the prior approval of the Federal Reserve Board for the acquisition of more than 5% of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Prior approval of the Federal Reserve Board is also required for the merger or consolidation of the Company and another bank holding company.

The Company is prohibited by the Bank Holding Company Act, except in certain statutorily prescribed instances, from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to its subsidiaries. However, the Company, subject to the prior approval of the Federal Reserve Board, may engage in any, or acquire shares of companies engaged in, activities that are deemed by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Under Federal Reserve Board 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 Federal Reserve Board s policy that 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 Federal Reserve Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board s regulations or both.

The Company is also a financial institution holding company within the meaning of Section 412:1-109 of the Hawaii Revised Statutes. As such, the Company and its subsidiary are subject to examination by, and may be required to file reports with, the Hawaii Commissioner of Financial Institutions (the Commissioner).

The Company s securities are registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the Exchange Act). As such, the Company is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act.

The Bank

The Bank, as a Hawaii chartered bank, is subject to primary supervision, periodic examination, and regulation by the Commissioner and the FDIC. The Bank is also subject to certain regulations promulgated by the Federal Reserve Board. If, as a result of an examination of the Bank, the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank s operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the Bank, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate the Bank s deposit insurance, which for a Hawaii chartered bank would result in a revocation of the Bank s charter. The Commissioner separately has many of the same remedial powers.

The Sarbanes-Oxley Act of 2002

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002. This new legislation addresses accounting oversight and corporate governance matters, including:

the creation of a five-member oversight board appointed by the Securities & Exchange Commission that will set standards for accountants and have investigative and disciplinary powers;

the prohibition of accounting firms from providing various types of consulting services to public clients and requiring accounting firms to rotate partners among public client assignments every five years;

increased penalties for financial crimes;

expanded disclosure of corporate operations and internal controls and certification of financial statements;

enhanced controls on and reporting of insider trading; and

statutory separations between investment bankers and analysts.

We are currently evaluating what impacts the new legislation and its implementing regulations will have upon our operations, including a likely increase in certain outside professional costs.

USA Patriot Act of 2001

On October 26, 2001, President Bush signed the USA Patriot Act of 2001. The Patriot Act is intended is to strengthen the U.S. law enforcement and the intelligence communities abilities to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Patriot Act on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws in addition to current requirements and requires various regulations, including:

due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-US persons;

standards for verifying customer identification at account opening;

rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering;

reports by non-financial businesses filed with the Treasury Department s Financial Crimes Enforcement Network for cash transactions exceeding $10,000; and

the filing of suspicious activities reports by securities brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

On July 23, 2002, the U.S. Treasury proposed regulations requiring institutions to incorporate into their written money laundering plans a board approved customer identification program implementing reasonable procedures for:

verifying the identity of any person seeking to open an account, to the extent reasonable and practicable;

maintaining records of the information used to verify the person s identity; and

determining whether the person appears on any list of known or suspected terrorists or terrorist organizations.

Account is defined as a formal banking or business relationship established to provide ongoing services, dealings, or other financial transactions. The Company is not able to predict the impact of such law on its financial condition or results of operations at this time.

Financial Services Modernization Legislation

General. On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Act of 1999 (the GLBA), also known as the Financial Services Modernization Act of 1999. The general effect of the law is to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the Bank Holding Company Act framework to permit a holding company system to engage in a full range of financial activities through a new entity known as a financial holding company.

The law also:

broadened the activities that may be conducted by national banks, banking subsidiaries of bank holding companies, and their financial subsidiaries;

provided an enhanced framework for protecting the privacy of consumer information;

adopted a number of provisions related to the capitalization, membership, corporate governance, and other measures designed to modernize the Federal Home Loan Bank system;

modified the laws governing the implementation of the Community Reinvestment Act; and

addressed a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

The Company and the Bank do not believe that the GLBA will have a material adverse effect on operations in the near-term. However, to the extent that it permits banks, securities firms, and insurance companies to affiliate, the financial services industry may experience further consolidation. The GLBA is intended to grant to community banks certain powers as a matter of right that larger institutions have accumulated on an ad hoc basis. Nevertheless, this act may have the result of increasing the amount of competition that the Company and the Bank face from larger institutions and other types of companies offering financial products, many of which may have substantially more financial resources than the Company and the Bank.

Expanded Bank Activities. The GLBA also includes a new section of the Federal Deposit Insurance Act governing subsidiaries of state banks that engage in activities as principal that would only be permissible for a national bank to conduct in a financial subsidiary. It expressly preserves the ability of a state bank to retain all existing subsidiaries. Because the laws of the State of Hawaii do not permit the Bank to engage in all of the activities permissible to national banks, the Bank may be at a competitive disadvantage to national banks located in its market area that may offer such expanded financial products.

Privacy. Under the GLBA, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. Pursuant to these rules, effective July 1, 2001, financial institutions must provide:

initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;

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annual notices of their privacy policies to current customers; and

a reasonable method for customers to opt out of disclosures to nonaffiliated third parties.

These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. Since the GLBA s enactment, a number of states have implemented their own versions of privacy laws. The Company has implemented its privacy policies in accordance with the law.

Dividends and Other Transfers of Funds

Dividends from the Bank constitute the principal source of income to the Company. The Company is a legal entity separate and distinct from the Bank. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends to the Company. Under such restrictions, the amount available for payment of dividends to the Company by the Bank totaled $126.3 million at December 31, 2002. In addition, the Commissioner and the FDIC have the authority to prohibit the Bank from paying dividends, depending upon the Bank s financial condition, if such payment is deemed to constitute an unsafe or unsound practice. Compliance with the capital standards set forth by the FDIC or restrictions that are or may be imposed under the prompt corrective action provisions of federal law could limit the amount of dividends that the Bank or Company may pay. The Commissioner may impose similar limitations on the conduct of Hawaii-chartered banks. See **ITEM 1. BUSINESS Supervision and Regulation Capital Standards** and **ITEM 1. BUSINESS Supervision and Regulation Prompt Corrective Action and Other Enforcement Mechanisms** for further discussion of restrictions on capital distributions.

Transactions with Affiliates

The Bank is subject to certain restrictions imposed by federal law on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, the Company or other affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of the Company or other affiliates. Such restrictions prevent the Company and such other affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments by the Bank to or in the Company or to or in any other affiliate are limited, individually, to 10.0% of the Bank s capital and surplus (as defined by federal regulations), and such secured loans and investments are limited, in the aggregate, to 20.0% of the Bank s capital and surplus (as defined by federal regulations). The State of Hawaii also imposes certain restrictions with respect to transactions involving the Company and other controlling persons of the Bank. Additional restrictions on transactions with affiliates may be imposed on the Bank under the prompt corrective action provisions of federal law. See **ITEM 1. BUSINESS - Supervision and Regulation - Prompt Corrective Action and Other Enforcement Mechanisms.**

Capital Standards

The federal banking agencies have adopted risk-based minimum capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization s operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk federal banking agencies, to 100% for assets with relatively high credit risk.

The guidelines require a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets must be 3%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. The Company s and Bank s capital ratios compared to the minimum regulatory capital requirements as of December 31, 2002 are discussed in note 25 to the Consolidated Financial Statements.

Predatory Lending

The term predatory lending, much like the terms safety and soundness and unfair and deceptive practices, is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. But typically predatory lending involves at least one, and perhaps all three, of the following elements:

making unaffordable loans based on the assets of the borrower rather than on the borrower s ability to repay an obligation (asset-based lending);

inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced (loan flipping); and

engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

On October 1, 2002, the Federal Reserve Board regulations aimed at curbing such lending became effective. The rule significantly widens the pool of high-cost home-secured loans covered by the Home Ownership and Equity Protection Act of 1994, a federal law that requires extra disclosures and consumer protections to borrowers. The following triggers coverage under the act:

interest rates for first lien mortgage loans in excess of 8 percentage points above comparable Treasury securities;

subordinate-lien loans of 10 percentage points above Treasury securities; and

fees such as optional insurance and similar debt protection costs paid in connection with the credit transaction, when combined with points and fees if deemed excessive.

In addition, the regulation bars loan flipping by the same lender or loan servicer within a year. Lenders also will be presumed to have violated the law -- which says loans shouldn t be made to people unable to repay them - unless they document that the borrower has the ability to repay. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid.

The Bank is unable at this time to determine the impact of these rule changes and potential state action in this area on its financial condition or results of operation.

Prompt Corrective Action and Other Enforcement Mechanisms

Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At December 31, 2002, the Bank and the Company exceeded the required ratios for classification as well capitalized.

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized unless its capital ratio actually warrants such treatment.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized without the express permission of the institution s primary regulator.

Safety and Soundness Standards

The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Premiums for Deposit Insurance

Through the Bank Insurance Fund (BIF), the FDIC insures the deposits of the Company s depository institution subsidiary up to prescribed limits for each depositor. The amount of FDIC assessments paid by each BIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other factors. Specifically, the assessment rate is based on the institution s capitalization risk category and supervisory subgroup category. An institution s capitalization risk category is based on the FDIC s determination of whether the institution is well capitalized, adequately capitalized or less than adequately capitalized. An institution s supervisory subgroup category is based on the FDIC s assessment of the financial condition of the institution and the probability that FDIC intervention or other corrective action will be required.

FDIC-insured depository institutions pay an assessment rate equal to the rate assessed on deposits insured by the Savings Association Insurance Fund (SAIF).

The assessment rate currently ranges from zero to 27 cents per $100 of domestic deposits. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. Due to continued growth in deposits and some recent bank failures, the BIF is nearing its minimum ratio of 1.25% of insured deposits as mandated by law. If the ratio drops below 1.25%, it is likely the FDIC will be required to assess premiums on all banks for the first time since 1996. Any increase in assessments or the assessment rate could have a material adverse effect on the Company s earnings, depending on the amount of the increase.

The FDIC is authorized to terminate a depository institution s deposit insurance upon a finding by the FDIC that the institution s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution s regulatory agency. The termination of deposit insurance for one or more of the Company s subsidiary depository institutions could have a material adverse effect on the Company s earnings, depending on the collective size of the particular institutions involved.

All FDIC-insured depository institutions must pay an annual assessment to provide funds for the payment of interest on bonds issued by the Financing Corporation, a federal corporation chartered under the authority of the Federal Housing Finance Board. The bonds, commonly referred to as FICO bonds, were issued to capitalize the Federal Savings and Loan Insurance Corporation. The FDIC established the FICO assessment rates effective for the fourth quarter of 2002 at approximately $0.0170 per $100 of assessable deposits. The FICO assessments are adjusted quarterly to reflect changes in the assessment bases of the FDIC s insurance funds and do not vary depending on a depository institution s capitalization or supervisory evaluations.

Interstate Banking and Branching

The Bank Holding Company Act permits bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including certain nationwide- and state-imposed concentration limits. The Bank has the ability, subject to certain State restrictions, to acquire by acquisition or merger branches outside its home state. The establishment of new interstate branches is also possible in those states with laws that expressly permit it. Interstate branches are subject to certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets.

Community Reinvestment Act and Fair Lending Developments

The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act activities. The Community Reinvestment Act generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low- and moderate-income neighborhoods. A bank may be subject to substantial penalties and corrective measures for a violation of certain fair lending laws. The federal banking agencies may take compliance with such laws and Community Reinvestment Act obligations into account when regulating and supervising other activities. Furthermore, financial institutions are subject to annual reporting and public disclosure requirements for certain written agreements that are entered into between insured depository institutions or their affiliates and nongovernmental entities or persons that are made pursuant to, or in connection with, the fulfillment of the Community Reinvestment Act.

A bank s compliance with its Community Reinvestment Act obligations is based on a performance-based evaluation system which bases Community Reinvestment Act ratings on an institution s lending service and investment performance. When a bank holding company applies for approval to acquire a bank or other bank holding company, the Federal Reserve Board will review the assessment of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application. Based on an examination conducted August 23, 2002, the Bank was received asatisfactory rating.

Federal Reserve System

The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non-personal time deposits. At December 31, 2002, the Bank was in compliance with these requirements.

Nonbank Subsidiaries

The Bank s nonbank subsidiaries are subject to the laws and regulations of both the federal government and the state in which they conduct business.

Employees

At February 28, 2003, the Company employed 506 persons, 451 on a full-time basis and 55 on a part-time basis. Management of the Company believes that it has favorable employee relations. The Company is not a party to any collective bargaining agreement.

Factors That May Affect Future Financial Results and Operations or the Value of Company s Common Stock.

In addition to the other information contained in this report, the following risks may affect the Company. If any of these risks occurs, business, financial condition or operating results of the Company could be adversely affected.

Changes in market interest rates may adversely affect performance. The Company s earnings are affected by changing interest rates. Changes in interest rates affect the demand for new loans, the credit profile of existing loans, the rates received on loans and securities and rates paid on deposits and borrowings. The relationship between the rates received on loans and securities and the rates paid on deposits and borrowings is known as interest rate spread. Given the Company s current volume and mix of interest-bearing liabilities and interest-earning assets, its interest rate spread could be expected to increase during times of rising interest rates and, conversely, to decline during times of falling interest rates. Although the Company believes its current level of interest rate sensitivity is reasonable, significant fluctuations in interest rates may have an adverse effect on the Company s business, financial condition and results of operations.

Deterioration of economic conditions in Hawaii could adversely affect the Company s loan portfolio and reduce the demand for the Company s services. The Company focuses its business primarily in Hawaii. A deterioration in economic conditions in its market area could have a material adverse impact on the quality of its business. Factors which could impact the Hawaiian economy include: declines in the tourism and airline industries, declines in the U.S. mainland and Japan economies, and consequences from national, international and political events. An economic slowdown in Hawaii could have the following consequences, any of which could reduce the Company s net income:

loan delinquencies may increase;

problem assets and foreclosures may increase;

claims and lawsuits may increase;

demand for the Company s products and services may decline; and

collateral for loans may decline in value below the principal amount owed by the borrower.

If a significant number of borrowers, guarantors and related parties fail to perform as required by the terms of their loans, the Company will sustain losses. A significant source of risk arises from the possibility that losses will be sustained if a significant number of the Company s borrowers, guarantors and related parties fail to perform in accordance with the terms of their loans. The Company has adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for credit losses, that management believes are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying the Company s credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect the Company s results of operations.

Loan loss reserves may not cover actual loan losses. If the Company s actual loan losses exceed the amount the Company has reserved for probable losses, it will hurt the Company s business. The Company attempts to limit the risk that borrowers will fail to repay loans by carefully underwriting the loans. Losses nevertheless occur. The Company creates reserves for estimated loan losses in its accounting records. The Company bases these allowances on estimates of the following:

- industry standards;
- historical experience with loans;
- evaluation of current economic conditions;
- regular reviews of the quality, mix and size of the overall loan portfolio;
- regular reviews of delinquencies; and
- the quality of the collateral underlying loans.

An increase in non-performing assets would reduce the Company s income and increase its expenses. If the level of non-performing assets rises in the future, it could adversely affect the Company s operating results. Non-performing assets are mainly loans on which the borrowers are not making their required payments. Non-performing assets also include loans that have been restructured to permit the borrower to have smaller payments and real estate that has been acquired through foreclosure of unpaid loans. To the extent that assets are non-performing, the Company has less cash available for lending and other activities.

If the Company loses key employees, business may suffer. If the Company lost key employees temporarily or permanently, it could hurt business. The Company could be particularly hurt if its key employees went to work for competitors. The Company s future success depends on the continued contributions of existing senior management personnel.

Governmental regulation may impair the Company s operations or restrict its growth. The Company and the Bank are subject to significant governmental supervision and regulation. These regulations are intended primarily for the protection of depositors. Statutes and regulations affecting the Company s business may be changed at any time, and the interpretation of these statutes and regulations by examining authorities may also change. Within the last several years Congress and the President have passed and enacted significant changes to these statutes and regulations. There can be no assurance that such changes to the statutes and regulations or in their interpretation will not adversely affect the Company s business. In addition to governmental supervision and regulation, the Bank is subject to changes in other federal and state laws, including changes in tax laws, which could materially affect the banking industry. The Company is subject to the rules and regulations of the Federal Reserve Board. If the Company fails to comply with federal and state bank regulations, the regulators may limit the Company s activities or growth, fine or ultimately put the Company out of business. Banking laws and regulations change from time to time. Bank regulations can hinder its ability to compete with financial services companies that are not regulated or are less regulated. Federal and state bank regulatory agencies regulate many aspects of the Company s operations. These areas include:

the capital that must be maintained;

the kinds of activities that can be engaged in;

the kinds and amounts of investments that can be made;

the locations of offices;

how much interest can be paid on demand deposits;

insurance of deposits and the premiums that must be paid for this insurance; and

how much cash must set aside as reserves for deposits.

Competition may adversely affect the Company s performance. The financial services business in the Company s market areas is highly competitive. It is becoming increasingly competitive due to changes in regulation, technological advances, and the accelerating pace of consolidation among financial services providers. The Bank faces competition both in attracting deposits and in making loans. The Bank competes for loans principally through the interest rates and loan fees the Bank charges and the efficiency and quality of services the Bank provides. Increasing levels of competition in the banking and financial services businesses may reduce the Company s market share or cause the prices it charge for its services to fall. The Company s results may differ in future periods depending upon the nature or level of competition.

The Company s stock price may be volatile, which could result in substantial losses for the Company s shareholders. The market price of Common Stock could be subject to wide fluctuations in response to a number of factors, including:

the amount of Common Stock outstanding and its trading volume;

actual or anticipated changes in the Company s future financial performance;

changes in financial estimates of the Company by securities analysts;

competitive developments, including announcements by the Company or competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

the operating and stock performance of competitors;

changes in interest rates; and

additions or departures of key personnel.

ITEM 2. PROPERTIES

The Bank holds title to the land and building in which the Company s and Bank s headquarters, Kaimuki branch office, Hilo branch office and Kailua-Kona branch office are situated. The bank also holds title to the buildings in which the Moiliili branch office and operations center are situated, and a portion of land on which the Moiliili branch office is situated. The remaining land on which the Moiliili branch and all of the land on which the operations center are situated are leased.

All other Bank properties are occupied under leases, which expire on various dates through 2038, and, in most instances, include options to renew. These leases generally contain renewal options for periods ranging from 5 to 15 years. For the year ended December 31, 2002, net rent expense under these leases aggregated $3.4 million. For additional information relating to lease rental expense and commitments, see note 15 to the Company s Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

The Company is a party to ordinary routine litigation incidental to its business, none of which is considered likely to have a materially adverse effect on the Company.

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

No matters were submitted to the Company s shareholders for a vote during the fourth quarter of 2002.

PART II

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

The Company s common stock is traded on the New York Stock Exchange under the ticker symbol CPF . As of December 31, 2002, there were 1,970 shareholders of record, excluding individuals and institutions for whom shares were held in the names of nominees and brokerage firms.

The following table sets forth information on the range of high and low sales prices of the Company s common stock and cash dividends declared as of the dates indicated.

Market Prices and Common Stock Dividends Declared

	Stock Price High	Stock Price Low	Cash Dividends Declared
2002	**$ 31.24**	**$ 13.82**	**$ 0.40**
Fourth Quarter	31.24	22.16	0.11
Third Quarter	23.68	13.82	0.10
Second Quarter	23.38	17.00	0.10
First Quarter	17.43	14.63	0.09
2001	**$ 18.74**	**$ 11.01**	**$ 0.34**
Fourth Quarter	16.15	13.63	0.09
Third Quarter	18.74	13.69	0.09
Second Quarter	15.10	11.01	0.08
First Quarter	15.00	12.38	0.08

ITEM 6. SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	Year Ended December 31, 2002	2001	2000	1999	1998
Statement of Income Data:					
Total interest income	$ 118,462	$ 129,873	$ 126,783	$ 112,840	$ 111,792
Total interest expense	29,483	51,421	55,559	44,418	46,705
Net interest income	88,979	78,452	71,224	68,422	65,087
Provision for loan losses	1,000	3,000	4,500	3,700	6,600
Net interest income after provision for loan losses	87,979	75,452	66,724	64,722	58,487
Other operating income	15,282	14,113	12,887	13,103	16,822
Other operating expense	55,023	50,683	49,592	53,448	51,273
Income before income taxes	48,238	38,882	30,019	24,377	24,036
Income taxes	14,955	10,177	10,585	8,051	8,967
Net income	33,283	28,705	19,434	16,326	15,069
Balance Sheet Data (Year-End):					
Interest-bearing deposits in other banks	$ 39,358	$ 29,277	$ 11,506	$ 9,828	$ 10,469
Investment securities (1)	540,924	391,947	384,619	321,670	351,436
Loans	1,289,892	1,266,949	1,290,145	1,167,466	1,099,677
Allowance for loan losses	24,197	24,564	22,612	20,768	20,066
Total assets	2,028,163	1,835,641	1,816,918	1,646,491	1,560,885
Core deposits (2)	1,280,471	1,082,131	944,661	958,749	924,960
Total deposits	1,641,101	1,450,925	1,363,066	1,305,654	1,269,123
Long-term debt	147,155	175,572	220,970	98,279	118,289
Total shareholders equity	173,443	147,070	143,312	144,079	148,066
Per Share Data: (3)					
Basic earnings per share	$ 2.09	$ 1.75	$ 1.09	$ 0.85	$ 0.73
Diluted earnings per share	2.04	1.72	1.07	0.84	0.73
Cash dividends declared	0.40	0.34	0.31	0.28	0.26
Book value	10.86	9.27	8.47	7.76	7.56
Weighted average shares outstanding (in thousands)	15,931	16,410	17,834	19,260	20,708
Financial Ratios:					
Return on average assets	1.74%	1.60%	1.16%	1.03%	1.00%
Return on average shareholders equity	20.55	19.34	13.55	10.93	9.79
Average stockholders equity to average assets	8.46	8.27	8.57	9.41	10.20
Efficiency ratio (4)	53.02	55.59	58.43	65.36	62.79
Net interest margin (5)	5.11	4.76	4.59	4.64	4.65
Net charge-offs to average loans	0.04	0.08	0.22	0.26	0.53
Nonperforming assets to year-end loans & other real estate (6)	0.18	0.25	0.80	0.94	1.27
Allowance for loan losses to year-end loans	1.88	1.94	1.75	1.77	1.81
Allowance for loan losses to nonaccrual loans	5,511.85	1,014.62	265.27	214.21	155.17

Dividend payout ratio	19.14	19.14	27.98	32.35	35.62

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(1) Held-to-maturity securities at amortized cost, available-for-sale securities at fair value.

(2) Noninterest-bearing demand, interest-bearing demand and savings deposits, and time deposits under $100,000.

(3) Restated to reflect a two-for-one stock split effected November 8, 2002.

(4) Efficiency ratio is derived by dividing other operating expense by net operating revenue (net interest income plus other operating income before securities transactions).

(5) Computed on a taxable equivalent basis.

(6) Nonperforming assets include nonaccrual loans and other real estate.

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

CRITICAL ACCOUNTING POLICIES

The Company s accounting policies are fundamental to understanding Management s discussion and analysis of financial condition and results of operations. Some of the Company s accounting policies require judgment regarding valuation of assets and liabilities and/or interpretation of specific accounting guidance, and are considered to be critical accounting policies. The following are the Company s critical accounting policies:

Allowance for Loan Losses - For further information, see Provision and Allowance for Loan Losses section and note 1 to the consolidated financial statements.

OVERVIEW

The Company and its subsidiary, the Bank, posted record earnings in 2002 and reached $2.0 billion in assets. Improved net interest margin and asset quality contributed to the year s strong earnings. The Company s common stock was listed on the New York Stock Exchange as of December 31, 2002. On December 31, 2002, the Company s common stock price closed at $27.45, an 87% increase over the closing price a year ago. On November 8, 2002, the Company effected a 2-for-1 split of its common stock in the form of a 100% stock dividend. All share and per-share information has been adjusted to reflect the stock split.

Net income of $33.3 million in 2002 increased by $4.6 million or 15.9% over the $28.7 million earned in 2001, which represented a 47.7% increase over 2000 s earnings of $19.4 million. Diluted earnings per share of $2.04 in 2002 increased by 19.0% over the $1.72 per share earned in 2001, which increased by 60.7% over 2000 s per-share earnings of $1.07. Cash dividends declared in 2002 of $0.40 per share represented an increase of 17.6% over the $0.34 per share declared in 2001, which increased by 9.7% over the $0.31 declared in 2000. Return on average assets was 1.74% in 2002, compared to 1.60% in 2001 and 1.16% in 2000. Return on average equity of 20.55% in 2002 increased from 19.34% in 2001 and 13.55% in 2000. The Company s efficiency ratio improved to 53.02% in 2002 from 55.59% in 2001 and 58.43% in 2000.

Total assets of $2.03 billion at December 31, 2002 increased by 10.4% over the $1.84 billion at year-end 2001. Deposit inflows exceeded loan growth, resulting in increased investment securities and reduced borrowings. As of year-end 2002, loans of $1.29 billion increased by $22.9 million or 1.8% over 2001, and investment securities of $540.9 million increased by $149.0 million or 38.0%. Deposits of $1.64 billion increased by $190.2 million over the $1.45 billion at year-end 2001, with noninterest-bearing deposits increasing by 27.9% and interest-bearing deposits increasing by 10.2%. Business checking accounts and the Bank s flagship savings product, the Exceptional Account, provided the deposit growth in 2002. Shareholders equity of $173.4 million increased by $26.4 million or 17.9%.

RESULTS OF OPERATIONS

Net Interest Income

Table 1 sets forth information concerning average interest earning assets and interest-bearing liabilities and the yields and rates thereon. Table 2 presents an analysis of changes in components of net interest income between years. Interest income, which includes loan fees, and resultant yield information presented in the tables and discussed in this section are expressed on a taxable equivalent basis using an assumed income tax rate of 35%.

Table 1 Average Balances, Interest Income and Expense, Yields and Rates (Taxable Equivalent)

		2002			2001			2000	
(Dollars in thousands)	**Average Balance**	**Average Yield/ Rate**	**Amount of Interest**	**Average Balance**	**Average Yield/ Rate**	**Amount of Interest**	**Average Balance**	**Average Yield/ Rate**	**Amount of Interest**
Assets									
Interest earning assets:									
Interest-bearing deposits in other banks	$ 31,022	1.61%	$ 499	$ 29,735	3.92%	$ 1,166	$ 4,910	6.13%	$ 301
Federal funds sold	8,393	1.66	139	10,103	3.30	333	296	6.42	19
Taxable investment securities (1)	375,357	5.71	21,438	291,568	7.18	20,923	290,394	6.96	20,202
Tax-exempt investment securities (1)	74,802	6.44	4,814	73,243	5.28	3,866	61,328	5.97	3,659
Loans (2)	1,285,175	7.26	93,257	1,270,450	8.26	104,938	1,223,648	8.49	103,883
Total interest earning assets	1,774,749	6.77	120,147	1,675,099	7.83	131,226	1,580,576	8.10	128,064
Nonearning assets	140,119			119,914			92,318		
Total assets	$ 1,914,868			$ 1,795,013			$ 1,672,894		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 138,083	0.39%	$ 538	$ 117,205	1.00%	$ 1,167	$ 106,922	1.12%	$ 1,194
Savings and money market deposits	561,848	1.36	7,659	397,813	2.09	8,308	390,132	2.37	9,235
Time deposits under $100,000	233,250	2.61	6,095	275,324	4.34	11,943	250,173	4.54	11,369
Time deposits $100,000 and over	364,632	2.45	8,949	398,769	4.62	18,433	382,543	5.60	21,430
Short-term borrowings	10,436	1.99	208	11,516	5.59	644	57,027	6.53	3,723
Long-term debt	162,331	3.72	6,034	204,371	5.35	10,926	133,724	6.44	8,608
Total interest-bearing liabilities	1,470,580	2.00	29,483	1,404,998	3.66	51,421	1,320,521	4.21	55,559
	237,961			198,725			186,557		

Noninterest-bearing deposits						
Other liabilities	44,356		42,855		22,442	
Shareholders equity	161,971		148,435		143,374	
Total liabilities and shareholders equity	1,914,868		1,795,013		1,672,894	
Net interest income		$ 90,664		$ 79,805		$ 72,505
Net interest margin	5.11%		4.76%		4.59%	

(1) At amortized cost.

(2) Includes nonaccrual loans.

Table 2 Analysis of Changes in Net Interest Income (Taxable Equivalent)

	2002 Compared to 2001 Increase (Decrease) Due to Change In:			2001 Compared to 2000 Increase (Decrease) Due to Change In:		
(Dollars in thousands)	**Volume**	**Rate**	**Net Change**	**Volume**	**Rate**	**Net Change**
Interest earning assets						
Interest-bearing deposits in other banks	$ 50	$ (717)	$ (667)	$ 1,522	$ (657)	$ 865
Federal funds sold	(56)	(138)	(194)	630	(316)	314
Taxable investment securities	6,016	(5,501)	515	82	639	721
Tax-exempt investment securities	82	866	948	711	(504)	207
Loans	1,216	(12,897)	(11,681)	3,973	(2,918)	1,055
Total interest earning assets	7,308	(18,387)	(11,079)	6,918	(3,756)	3,162
Interest-bearing liabilities						
Interest-bearing demand deposits	209	(838)	(629)	115	(142)	(27)
Savings and money market deposits	3,428	(4,077)	(649)	182	(1,109)	(927)
Time deposits under $100,000	(1,826)	(4,022)	(5,848)	1,142	(568)	574
Time deposits $100,000 and over	(1,577)	(7,907)	(9,484)	909	(3,906)	(2,997)
Short-term borrowings	(60)	(376)	(436)	(2,972)	(107)	(3,079)
Long-term debt	(2,249)	(2,643)	(4,892)	4,550	(2,232)	2,318
Total interest-bearing liabilities	(2,075)	(19,863)	(21,938)	3,926	(8,064)	(4,138)
Net interest income	$ 9,383	$ 1,476	$ 10,859	$ 2,992	$ 4,308	$ 7,300

Net interest income of $90.7 million in 2002 increased by $10.9 million or 13.6% over the $79.8 million in 2001, which increased by $7.3 million or 10.1% over 2000. The historically low market interest rates contributed to a decline in average rates on interest-bearing liabilities, including deposits and long-term debt, which exceeded the decline in average yield on interest earning assets.

Interest income of $120.1 million in 2002 decreased by $11.1 million or 8.4% from $131.2 million in 2001 due to declining interest-earning asset yields consistent with general market conditions. Interest income in 2001 reflected an increase of $3.2 million or 2.5% over 2000 due primarily to increases in loan and other interest earning asset balances. Average interest earning assets in 2002 increased by $99.7 million or 5.9%, including a $85.3 million increase in average investment securities and a $14.7 million increase in average loans. In 2001 increases in average loans and average interest-bearing deposits in other banks contributed much of the increase in interest earning assets compared to 2000. The yield on total interest earning assets decreased to 6.77% in 2002 from 7.83% in 2001 and 8.10% in 2000 in line with the decline in market interest rates. The yield on loans, the largest component of interest earning assets, declined by 100 basis points in 2002 after declining by 23 basis points in 2001.

Interest expense of $29.5 million in 2002 decreased by $21.9 million or 42.7% from 2001, which decreased by $4.1 million or 7.4% from 2000. While average interest-bearing liabilities increased during the period, the rate of decline in interest rates paid on those liabilities more than compensated for the balance increases, resulting in an overall decrease in interest expense. Average interest-bearing deposits increased by $108.7 million or 9.1% in 2002, after increasing by $59.3 million or 5.3% in 2001, while the average rate paid on those deposits decreased by 156 basis points and 48 basis points in 2002 and 2001, respectively. In 2002, average short-term borrowings and long-term debt, collectively, decreased by $43.1 million or 20.0%, while the average rate on those borrowings decreased by 175 basis points.

The resultant net interest margin of 5.11% in 2002 increased by 35 basis points over the net interest margin of 4.76% in 2001 as funding costs declined at a faster rate than asset yields during the year. Strong competition for loans and deposits in the State of Hawaii, particularly for lower-cost core deposits, as well as global, national and local political and economic conditions, in particular, the velocity of changes in interest rates, will continue to have a direct impact on the Company s net interest margin into the future. Given the current environment, the Company expects to maintain a net interest margin at or above the 5-percent level for the near future.

Loan Portfolio

Total loans increased to $1,289.9 million at December 31, 2002, compared with $1,266.9 million at the end of 2001, and $1,290.1 million at the end of 2000.

The Bank emphasizes residential and commercial mortgage loans, business loans to professionals and middle-market companies and consumer loans. The Bank s marketing strategy for generating new loans includes a business calling program that requires officers at all levels to make client development visits to local businesses each month. In addition, the Bank uses television, radio, print and direct mail marketing.

To manage credit risk (i.e., the inability of borrowers to repay their loan obligations), management analyzes the borrower s financial condition, repayment source, collateral, and other factors which could impact credit quality, such as economic conditions. For commercial loans, the Bank typically looks to the borrower s business as the principal source of repayment, although the Bank s underwriting policy generally requires additional sources of collateral, including real estate. For construction loans, each project is evaluated for economic viability, and maximum loan-to-value ratios of 80% on commercial projects and 85% on residential projects are generally required. For residential mortgage loans, the Bank requires a maximum loan-to-value ratio of 80%, although higher levels are permitted with accompanying mortgage insurance. For commercial mortgage loans, the Bank s policy is that loans shall be made for sound purposes, have a definite source and/or plan of repayment established at inception, backed up by reliable secondary sources of repayment and satisfactory collateral with good marketability. For consumer loans, credit risk is managed on a pooled basis including an evaluation of the quality, character and inherent risks in the loan portfolio, current and projected economic conditions, and past loan loss experience.

At December 31, 2002, the Bank did not have any concentration of loans in any industry classified under the Standard Industrial Code that exceeded 10% of the Bank s total loans.

The Bank did not have any cross border credit exposure as of December 31, 2002.

The following table sets forth information regarding outstanding loans by categories as of the dates indicated.

Table 3 Loans by Categories

	December 31,				
(Dollars in thousands)	**2002**	**2001**	**2000**	**1999**	**1998**
Commercial, financial and agricultural	$ 262,771	$ 233,629	$ 233,482	$ 186,960	$ 189,796
Real estate Construction	117,879	131,631	72,078	45,386	61,370
Mortgage - residential	312,560	347,237	382,360	370,407	330,983
- commercial	540,111	504,346	558,586	526,801	482,849
Consumer	56,571	50,106	43,639	37,912	34,679
Total Loans	1,289,892	1,266,949	1,290,145	1,167,466	1,099,677
Allowance for loan losses	24,197	24,564	22,612	20,768	20,066
Net Loans	$ 1,265,695	$ 1,242,385	$ 1,267,533	$ 1,146,698	$ 1,079,611

Commercial, Financial and Agricultural. Loans in this category consist primarily of loans to small and middle-market businesses and professionals located in Hawaii. Commercial loan volumes increased to $262.8 million at December 31, 2002, from $233.6 million at year-end 2001 and $233.5 million at year-end 2000. As a result of the Company s business calling program, commercial loans increased by $29.1 million over year-end 2001.

Real Estate - Construction. Real estate - construction loans decreased to $117.9 million at year-end 2002, from $131.6 million at the end of 2001 and $72.1 million in 2000. The decrease from year-end 2001 was primarily attributed to accelerated loan payoffs in 2002 due to the strength of the real estate market in the State of Hawaii. The majority of the construction loans provided by the Bank in this category were used for residential development projects.

Real Estate - Mortgage - Residential. Residential mortgage loans, which were comprised primarily of adjustable rate one-to-four family first mortgages, totaled $312.6 million at year-end 2002. Residential mortgage loan originations, particularly fixed rate mortgage originations, increased in 2002 due to a high volume of refinancing activity. Due to the Bank s policy of selling fixed rate residential mortgage loans, residential mortgage loans at December 31, 2002 decreased by $34.7 million from year-end 2001. The Bank emphasizes making residential mortgage loans for owner-occupied primary residences and does not actively seek to make loans for vacation condominiums or high-end homes. Mortgage loans held for sale at December 31, 2002 totaled $6.4 million. Home equity lines of credit of $66.7 million at December 31, 2002, with maximum loan-to-value ratios of 75%, were also included in residential mortgage loans.

Real Estate - Mortgage - Commercial. The major components of the Bank s portfolio of commercial mortgage loans at December 31, 2002 included $161.9 million for stores and offices, and $162.0 million for warehouses and industrial buildings.

The following table sets forth certain information with respect to the composition of the Bank s Real Estate - Mortgage loan portfolio as of the dates indicated.

Table 4 Mortgage Loan Portfolio Composition

	December 31,									
	2002		2001		2000		1999		1998	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Residential:										
1-4 units	$ 221,283	26.0%	$ 246,075	28.9%	$ 348,032	37.0%	$ 361,458	40.3%	$ 316,691	38.9%
5 ore more units	91,277	10.7%	101,162	11.9%	34,328	3.6%	8,949	1.0%	14,292	1.8%
Commercial, industrial and other	540,111	63.3%	504,346	59.2%	558,586	59.4%	526,801	58.7%	482,849	59.3%
Total	$ 852,671	100.0%	$ 851,583	100.0%	$ 940,946	100.0%	$ 897,208	100.0%	$ 813,832	100.0%

Consumer Loans. The following table sets forth the primary components of the Bank s consumer loan portfolio as of the dates indicated.

Table 5 Consumer Loan Portfolio Composition

	December 31,									
	2002		2001		2000		1999		1998	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Automobile	$ 23,565	41.7%	$ 23,765	47.4%	$ 22,852	52.4%	$ 19,462	51.3%	$ 20,214	58.3%

Credit cards and other revolving credit plans		23,939	42.3%		17,415	34.8%		12,010	27.5%		7,955	21.0%		4,003	11.5%
Other		9,067	16.0%		8,926	17.8%		8,777	20.1%		10,495	27.7%		10,462	30.2%
Total	$	56,571	100.0%	$	50,106	100.0%	$	43,639	100.0%	$	37,912	100.0%	$	34,679	100.0%

Automobile loans, comprised primarily of indirect dealer loans, totaled $23.6 million or 41.7% of the consumer loan portfolio in 2002. This figure includes $23.2 million in indirect automobile loans.

Revolving credit plans increased to $23.9 million at December 31, 2002, from $17.4 million at year-end 2001.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table sets forth the maturity distribution of the Bank s loan portfolio at December 31, 2002. The table excludes real estate loans (other than construction loans) and consumer loans.

Table 6 Maturity Distribution of commercial and Construction Loans

(Dollars in thousands)	One year or less	Maturing Over one through five years	Over five years	Total
Commercial, financial and agricultural	$ 106,861	$ 102,034	$ 53,876	$ 262,771
Real estate - construction	60,789	50,200	6,890	117,879
Total	$ 167,650	$ 152,234	$ 60,766	$ 380,650

The following table sets forth the sensitivity of the amounts due after one year to changes in interest rates.

Table 7 Maturity Distribution of Fixed and Variable Rate Loans

(Dollars in thousands)	Maturing Over one through five years	Over five years	Total
With fixed interest rates	$ 25,358	$ 16,853	$ 42,211
With variable interest rates	126,876	43,913	170,789
Total	$ 152,234	$ 60,766	$ 213,000

Investment Portfolio

The following table sets forth the amounts and the distribution of investment securities held as of the dates indicated.

Table 8 Distribution of Investment Securities

	December 31,											
	2002				2001				2000			
(Dollars in thousands)	Held to maturity (at amortized cost)		Available for sale (at fair value)		Held to maturity (at amortized cost)		Available for sale (at fair value)		Held to maturity (at amortized cost)		Available for sale (at fair value)	
U.S. Treasury and other U.S. government agencies	$	22,625	$	379,688	$	31,612	$	272,377	$	40,227	$	244,472
States and political subdivisions		33,695		50,577		38,247		33,166		45,829		29,311
Other				54,339				16,545				24,780
Total	$	56,320	$	484,604	$	69,859	$	322,088	$	86,056	$	298,563

The Bank did not hold investments of any nonfederal issuer in amounts exceeding 10% of shareholders equity at December 31, 2002.

Maturity Distribution of Investment Portfolio

The following table sets forth the maturity distribution of the investment portfolio at December 31, 2002.

Table 9 Maturity Distribution of Investment Portfolio

Portfolio Type and Maturity Grouping (Dollar in thousands)		**Book value**	**Weighted average yield (1)**
Held-to-maturity portfolio:			
U.S. Treasury and other U.S. Government agencies:			
Within one year	$	4,267	5.161%
After one but within five years		10,932	6.312%
After five but within ten years		6,252	6.872%
After ten years		1,174	6.993%
Total U.S. Treasury and other U.S. Government agencies		22,625	6.285%
States and political subdivisions:			
Within one year		3,554	5.832%
After one but within five years		15,664	4.562%
After five but within ten years		8,742	4.249%
After ten years		5,735	9.093%
Total States and political subdivisions		33,695	5.386%
Total held-to-maturity portfolio	$	56,320	5.747%
Available-for-sale portfolio:			
U.S. Treasury and other U.S. Government agencies:			
Within one year	$	8,099	4.758%
After one but within five years		80,413	5.238%
After five but within ten years		58,942	4.958%
After ten years		232,234	4.349%
Total U.S. Treasury and other U.S. Government agencies		379,688	4.635%
States and political subdivisions:			
Within one year		2,979	7.006%
After one but within five years		1,289	4.092%
After five but within ten years		11,786	5.980%
After ten years		34,523	5.826%
Total States and political subdivisions		50,577	5.888%
Other:			
Within one year		30,000	1.304%
After one but within five years			0.000%
After five but within ten years			0.000%
After ten years		24,339	6.633%
Total Other		54,339	3.686%
Total available-for-sale portfolio	$	484,604	4.655%

Total investment securities	$	540,924	4.771%

(1) Weighted average yields are computed on an annual basis, and yields on tax-exempt obligations are computed on a taxable-equivalent basis using an assumed tax rate of 35%.

Deposits

The Bank competes for deposits in Hawaii principally by providing quality customer service at its branch offices. The Bank, over the years, has developed a relatively large and stable base of core deposits which consists of noninterest-bearing demand, interest-bearing demand and savings deposits and time deposits under $100,000.

Total deposits at December 31, 2002, 2001 and 2000 were $1,641.1 million, $1,450.1 million and $1,363.1 million, respectively. Deposits increased by 13.1% in 2002 compared with a 6.4% growth rate in 2001. This increase was partly attributed to the migration of consumer funds from the equity markets. Interest-bearing deposits, excluding time deposits of $100,000 and over, increased by 15.6% in 2002 compared with a 13.2% increase in 2001. Noninterest-bearing deposits increased by 27.9% in 2001 compared with a 19.6% increase in 2001. The Bank s ratio of core deposits to total deposits was 78.0% at December 31, 2002, compared to 74.6% at year-end 2001 and 69.3% at year-end 2000. Time deposits of $100,000 and over were $360.6 million at year-end 2002 compared with $368.8 million at year-end 2001, and $418.4 million at year-end 2000.

The following table sets forth information regarding the average deposits and the average rates paid for certain deposit categories for each of the years indicated. Average balances are computed using daily average balances.

Table 10 Average Balances and Average Rates on Deposits

	Year Ended December 31,					
	2002		2001		2000	
(Dollars in thousands)	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid
Noninterest-bearing demand deposits	$ 237,961	%	$ 198,725	%	$ 186,557	%
Interest-bearing demand deposits	138,083	0.39	117,205	1.00	106,922	1.12
Savings and money market deposits	561,848	1.36	397,813	2.09	390,132	2.37
Time deposits	597,882	2.52	674,093	4.51	632,716	5.18
Total	$ 1,535,774	1.51%	$ 1,387,836	2.87%	$ 1,316,327	3.28%

The remaining maturities of the certificates of deposit in denominations of $100,000 and over are set forth in the following table.

Table 11 Remaining Maturities of Large Certificates of Deposit

(Dollars in thousands)		**December 31, 2002**
Three months or less	$	150,117
Over three through six months		67,147
Over six through twelve months		65,541
Over twelve months		77,825
Total	$	360,630

Provision and Allowance for Loan Losses

Provision for loan losses (Provision) is determined by Management s ongoing evaluation of the loan portfolio and their assessment of the ability of the allowance for loan losses (Allowance) to cover inherent losses. The Company s methodology for determining the adequacy of the Allowance and the Provision takes into account many factors, including the level and trend of nonperforming and potential problem loans, net charge-off experience, current repayment by borrowers, fair value of collateral securing specific loans and general economic factors in Hawaii. The allowance consists of two components: allocated and unallocated. To calculate the allocated component, the Company combines specific reserves required for individual loans (including impaired loans), reserves required for pooled graded loans and loan concentrations, and reserves required for homogeneous loans (e.g., consumer loans, residential mortgage loans). The Company uses a loan grading system whereby loans are segregated by risk. Certain graded commercial and commercial real estate loans are analyzed on an individual basis. Other graded loans are analyzed on an aggregate basis based upon migration analysis (i.e., movements between loan grades) and risks inherent in loan concentrations in specific industries or categories. The determination of an allocated reserve for homogeneous loans is done at an aggregate level based upon various factors including historical loss experience, delinquencies, and economic conditions. The unallocated component of the allowance incorporates the Company s judgmental determination of the risks inherent in the loan portfolio, economic uncertainties, and imprecision in the estimation model.

The Company s Provision was $1.0 million in 2002, compared to $3.0 million in 2001 and $4.5 million in 2000. Net loan charge-offs of $0.5 million in 2002 decreased from $1.0 million in 2001 and $2.7 million in 2000. When expressed as a percentage of average loans, net charge-offs were 0.04% in 2002, 0.08% in 2001, and 0.22% in 2000. Charge-offs in 2002 totaled $1.3 million and included $0.4 million in residential construction loans and $0.5 million in consumer loans. Recoveries of $0.8 million in 2002 included $0.5 million on a commercial mortgage loan and $0.1 million on a commercial loan. In 2001, charge-offs totaling $2.5 million included $1.2 million in commercial mortgage loans to three borrowers. Recoveries of $600,000 on a multifamily residential mortgage loan and $262,000 from a commercial mortgage loan borrower accounted for more than one-half of the total recoveries of $1.5 million.

As indicated in Table 14, nonaccrual loans and loans delinquent for 90 days or more decreased by $2.2 million from the prior year-end. This improvement in loan quality favorably impacted the allocated component of the Allowance as reflected in Table 13, despite the overall increase of $64.9 million in commercial loans and commercial mortgage loans outstanding at year-end 2002.   As loan quality improves, the amount of graded loans which require individual analysis decreases. In addition, although residential mortgage loans decreased by $34.7 million from year-end 2001, the allocated allowance component for this pool of loans increased based upon the analysis of risk factors discussed previously.

The Allowance expressed as a percentage of loans was 1.88% at year-end 2002, compared to the 1.94% maintained at year-end 2001, which increased over the level at December 31, 2000. The consistent level of the Allowance throughout 2002 reflects the continued uncertainty and risks in the current economic environment and the relatively stable level of nonaccrual and delinquent loans during the period.

While the economy of the United States, and similarly the State of Hawaii, appears to have survived the post-September 11 setback and show signs of growth, significant uncertainties as to the future remain. The decline in the U.S. stock market, the likelihood of military conflict in the Middle East and the fear of further terrorist acts create significant questions as to the future strength of the local economy. Such conditions and occurrences, or lack thereof, will likely affect borrowers   ability to repay loans, collateral values, the level of nonperforming loans, net charge-offs, provision for loan losses and net income in the future.

The following table sets forth certain information with respect to the Bank   s allowance for loan losses as of the dates or for the periods indicated.

Table 12 Allowance for Loan Losses

(Dollars in thousands)	Year Ended December 31, 2002	2001	2000	1999	1998
Average amount of loans outstanding	$ 1,285,175	$ 1,270,450	$ 1,223,648	$ 1,153,623	$ 1,071,350
Allowance for loan losses:					
Balance at beginning of year	$ 24,564	$ 22,612	$ 20,768	$ 20,066	$ 19,164
Charge-offs:					
Commercial, financial and agricultural	159	231	375	425	980
Real estate - construction	426				
Real estate - mortgage - residential	110	685	913	1,268	1,993
Real estate - mortgage - commercial	120	1,227	1,905	1,569	2,102
Consumer	466	386	399	286	1,506
Total	1,281	2,529	3,592	3,548	6,581
Recoveries:					
Commercial, financial and agricultural	118	386	123	65	213
Real estate - construction					
Real estate - mortgage - residential	95	722	101	144	52
Real estate - mortgage - commercial	503	267	518	120	410
Consumer	100	106	194	221	208
Total	816	1,481	936	550	883
Net loans charged off	465	1,048	2,656	2,998	5,698
Provision charged to operations	1,000	3,000	4,500	3,700	6,600
Reclassification of allowance for credit losses on off-balance sheet credit exposures	(902)				
Balance at end of year	$ 24,197	$ 24,564	$ 22,612	$ 20,768	$ 20,066
Ratios:					
Allowance for loan losses to loans outstanding at end of year	1.88%	1.94%	1.75%	1.77%	1.81%
Net loans charged off during year to average loans outstanding during year	0.04%	0.08%	0.22%	0.26%	0.53%

The Bank s practice is to make specific allocations to specific loans and unspecified allocations to each loan category based on Management s risk assessment.

The following table sets forth the allocation of the allowance for loan losses by loan category as of the dates indicated.

Table 13 Allocation of Allowance for Loan Losses

	December 31,									
	2002		2001		2000		1999		1998	
(Dollars in thousands)	Allowance for loan losses	Percent of loans in each category to total loans	Allowance for loan losses	Percent of loans in each category to total loans	Allowance for loan losses	Percent of loans in each category to total loans	Allowance for loan losses	Percent of loans in each category to total loans	Allowance for loan losses	Percent of loans in each category to total loans
Commercial, financial and agricultural	$ 5,200	20.4%	$ 5,300	18.4%	$ 4,200	18.1%	$ 2,600	16.0%	$ 3,900	17.3%
Real estate - construction	1,500	9.1%	1,700	10.4%	700	5.6%	100	3.9%	100	5.6%
Real estate - mortgage - residential	1,700	24.2%	1,200	27.4%	2,800	29.6%	2,700	31.7%	2,700	30.1%
Real estate - mortgage - commercial	11,400	41.9%	12,600	39.8%	8,900	43.3%	7,000	45.2%	7,100	43.8%
Consumer	300	4.4%	300	4.0%	300	3.4%	300	3.2%	400	3.2%
Unallocated	4,097	N/A	3,464	N/A	5,712	N/A	8,068	N/A	5,866	N/A
Total	$ 24,197	100.0%	$ 24,564	100.0%	$ 22,612	100.0%	$ 20,768	100.0%	$ 20,066	100.0%

Nonperforming Assets

Table 14 sets forth nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest at the dates indicated.

Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest decreased to $2.5 million at year-end 2002 from $3.7 million at year-end 2001. Nonaccrual loans of $0.4 million decreased by $2.0 million or 81.9% from $2.4 million in 2001 due to loan payoffs and charge-offs. Other real estate of $1.9 million at December 31, 2002 increased by $1.1 million and included one commercial property and one residential condominium unit located on the island of Oahu and one commercial property located on the island of Kauai. Loans delinquent for 90 days or more at year-end 2002 totaled $0.2 million, decreasing by 57.3% from year-end 2001. There were no restructured loans still accruing interest as of December 31, 2002 or 2001. Aggressive monitoring and collection efforts are credited with the improvement in nonperforming asset and delinquent loan balances. Accounting policies related to nonperforming assets are discussed in note 1 to the consolidated financial statements.

Table 14 Nonperforming Assets, Past Due and Restructured Loans

	December 31,				
(Dollars in thousands)	**2002**	**2001**	**2000**	**1999**	**1998**
Nonaccrual loans					
Real estate					
Mortgage - commercial	$	$ 1,471	$ 5,913	$ 2,981	$ 6,830
Mortgage - residential		585	2,069	5,124	5,037
Construction	311				
Commercial, financial and agricultural	128	363	542	1,590	1,065
Consumer		2			
Total nonaccrual loans	439	2,421	8,524	9,695	12,932
Other real estate	1,903	812	1,792	1,366	1,155
Total nonperforming assets	2,342	3,233	10,316	11,061	14,087
Loans delinquent for 90 days or more					
Real estate					
Mortgage - commercial		163		1,749	315
Mortgage - residential	85	133	653	1,636	4,206
Construction					
Commercial, financial and agricultural	87	122	850	128	706
Consumer	17	25	24	92	168
Total loans delinquent for 90 days or more	189	443	1,527	3,605	5,395
Restructured loans still accruing interest					
Real estate					
Mortgage - commercial			466	500	
Total restructured loans still accruing interest			466	500	
Total nonperforming assets, loans delinquent for 90 days or more and restructured loans still accruing interest	$ 2,531	$ 3,676	$ 12,309	$ 15,166	$ 19,482
Total nonperforming assets as a percentage of loans and other real estate	0.18%	0.25%	0.80%	0.94%	1.27%
Total nonperforming assets and loans delinquent for 90 days or more as a	0.19%	0.29%	0.92%	1.25%	1.76%

percentage of loans and other real estate					
Total nonperforming assets, loans delinquent for 90 days or more and restructured loans still accruing interest as a percentage of loans and other real estate	0.19%	0.29%	0.95%	1.29%	1.76%

Other Operating Income

Table 15 sets forth components of other operating income and the total as a percentage of average assets.

Table 15 Components of Other Operating Income

	Year Ended December 31,		
(Dollars in thousands)	**2002**	**2001**	**2000**
Income from fiduciary activities	$ 1,380	$ 1,225	$ 1,079
Service charges on deposit accounts	4,301	3,847	3,093
Other service charges and fees	4,814	4,062	4,247
Equity in earnings of unconsolidated subsidiaries		217	571
Fees on foreign exchange	504	420	530
Investment securities gains (losses)	477	1,395	(766)
Gains on sales of loans	469	925	132
Gain on curtailment of pension obligation	1,395		
Gain on sale of merchant portfolio			1,850
Other	1,942	2,022	2,151
Total	$ 15,282	$ 14,113	$ 12,887
Total other operating income as a percentage of average assets	0.80%	0.79%	0.77%

Total other operating income of $15.3 million in 2002 increased by $1.2 million or 8.3% over the $14.1 million earned in 2001, which increased by $1.2 million or 9.5% over 2000. In 2002, the Company recorded a $1.4 million gain on curtailment of the defined benefit retirement plan. A discussion of the curtailment is provided in note 13 of the consolidated financial statements. Service charges on deposit accounts of $4.3 million increased by $454,000, and other service charges and fees of $4.8 million increased by $752,000 in 2002 compared to 2001 due primarily to increased volumes. Investment securities gains of $477,000 were recognized in 2002 compared with $1.4 million in 2001, while gains on sales of loans of $469,000 in 2002 decreased from $925,000 in 2001.

Total other operating income of $14.1 million in 2001 increased by $1.2 million or 9.5% over 2000. An increase of $754,000 in service charges on deposits, a net increase of $2.2 million in investment securities gains and a $793,000 increase in gains on sales of loans combined to offset a $1.9 million gain on the sale of the Bank s merchant servicing portfolio recorded in 2000. A reduction in merchant servicing expenses was also realized and is discussed in the Other Operating Expense section.

Total other operating income, expressed as a percentage of average assets was 0.80% in 2002, 0.79% in 2001 and 0.77% in 2000.

Other Operating Expense

Table 16 sets forth components of other operating expense and the total as a percentage of average assets.

Table 16 Components of Other Operating Expense

	Year Ended December 31,		
(Dollars in thousands)	**2002**	**2001**	**2000**
Salaries and employee benefits	$ 29,828	$ 27,805	$ 25,071
Net occupancy	3,653	4,880	6,350
Equipment	2,744	2,674	2,708
Other	18,798	15,324	15,463
Total	$ 55,023	$ 50,683	$ 49,592
Total other operating expense as a percentage of average assets	2.87%	2.82%	2.96%

Total other operating expense of $55.0 million in 2002 increased by $4.3 million or 8.6% over the $50.7 million of expense recognized in 2001. Salaries and employee benefits increased by $2.0 million or 7.3% reflecting increases in defined benefit plan and profit sharing plan expenses as well as increased staffing in financial services sales, private banking and trust and investment management services. Net occupancy expense decreased by $1.2 million primarily due to the Company s 2001 purchase and subsequent merger of CKSS Associates (CKSS) into the Bank, which owned two commercial office building in which the Company maintained branch and administrative offices. Other expenses increased by $3.5 million due primarily to a $1.1 million interest accrual on a state tax assessment under appeal, a $725,000 increase in professional fees and $586,000 in amortization expense related to investments in companies providing high-technology state tax credits. The tax credits received resulting from these investments is discussed in the Income Taxes section.

Total other operating expense of $50.7 million in 2001 increased by $1.1 million or 2.2% over the $49.6 million in 2000. Salaries and employee benefits increased by $2.7 million or 10.9% due to a $1.2 million expense for an executive retirement plan and increased profit sharing and defined benefit plan expenses. Net occupancy expense decreased by $1.5 million due to the Company s 2001 purchase and subsequent merger into the Bank of CKSS. Other expense in 2001 included a $642,000 prepayment penalty incurred on the early payoff of long-term debt. The debt prepayment was part of the Company s strategy to increase the repricing of its liabilities in the declining interest rate environment.

Total other operating expense, expressed as a percentage of average assets, was 2.87% in 2002, 2.82% in 2001 and 2.96% in 2000. In 2002, the Company s efficiency ratio, which measures operating expense as a percentage of total revenue (net interest income and other operating income) improved to 53.02% from 55.59% in 2001. The Company believes its efficiency ratio will continue to improve in the near future and expects to achieve a ratio below

50%, a level that compares favorably with high-performing commercial banks in its peer group based on asset size.

Income Taxes

Income tax expense totaled $15.0 million in 2002, $10.2 million in 2001 and $10.6 million in 2000. The effective tax rate was 31.0% in 2002, 26.2% in 2001 and 35.3% in 2000. In 2002, the Company recorded a $1.4 million net reduction in taxes attributable to $2.1 million in high-technology state tax credits. The state s high-technology tax credit program offers tax credits for investments in high-technology companies at diminishing levels over a 5-year period. During 2002, the Company invested $1.7 million in qualifying entities and received $6.0 million in state tax credits to be realized through 2006. In 2001, the Company recorded a nonrecurring $3.8 million federal income tax benefit related to the carryback of tax-basis capital losses against capital gains recognized in prior years. The capital loss was created from the issuance of preferred stock by CPB Real Estate, Inc.

FINANCIAL CONDITION

Table 17 sets forth the distribution of average assets, liabilities and shareholders equity.

Table 17 Distribution of Assets, Liabilities and Shareholders Equity

	2002		2001		2000	
(Dollars in thousands)	**Average Balance**	**Percent to Total**	**Average Balance**	**Percent to Total**	**Average Balance**	**Percent to Total**
Assets						
Cash and due from banks	$ 42,519	2.2%	$ 35,356	2.0%	$ 37,054	2.2%
Interest-bearing deposits in other banks	31,022	1.6	29,735	1.7	4,910	0.3
Federal funds sold	8,393	0.5	10,103	0.5	296	
Taxable investment securities	375,357	19.6	291,568	16.2	290,394	17.4
Tax-exempt investment securities	74,802	3.9	73,243	4.1	61,328	3.7
Loans	1,285,175	67.1	1,270,450	70.8	1,223,648	73.1
Allowance for loan losses	(24,916)	(1.3)	(24,030)	(1.3)	(22,163)	(1.3)
Premises and equipment	59,296	3.1	28,999	1.6	24,231	1.4
Other assets	63,220	3.3	79,589	4.4	53,196	3.2
Total assets	$ 1,914,868	100.0%	$ 1,795,013	100.0%	$ 1,672,894	100.0%
Liabilities and Shareholders Equity						
	&n					