PRICEWATERHOUSECOOPERS

Kamehameha Schools Bernice Pauahi Bishop Estate

Consolidated Financial Statements

June 30, 1997

Kamehameha Schools Bernice Pauahi Bishop Estate

Index
June 30, 1997

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
First Hawaiian Center
999 Bishop Street Suite 1900
Honolulu HI 96813
Telephone (808) 531 3400
Facsimile (808) 531 3433

Report of Independent Accountants

To the Trustees
Kamehameha Schools Bernice Pauahi
Bishop Estate

In our opinion, based upon our audits and the reports of other auditors, the accompanying consolidated statement of financial position and the related consolidated statements of activity and cash flows present fairly, in all material respects, the financial position of Kamehameha Schools Bernice Pauahi Bishop Estate at June 30, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Estate's management; our responsibility is to express an opinion on these statements based on our audits. We did not audit the financial statements of certain majority owned subsidiaries, which statements reflect total assets and net revenues constituting 43% and 12%, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the majority owned subsidiaries, is based solely on the report of other auditors. We conducted our audit of the consolidated financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for the opinion expressed above.

As discussed in Note 1.c to the financial statements, as of and for the year ended June 30, 1997, the Estate changed its method of accounting for its investment in subsidiaries from the equity to the consolidation method to conform to a presentation required by the Court.

As discussed in Note 1.f to the financial statements, as of July 1, 1996, the Estate changed its method of accounting for major maintenance costs as part of a Court stipulation.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of education program revenue and expenses, trustees' commissions and income yield and total return are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

January 4, 1999

Kamehameha Schools Bernice Pauahi Bishop Estate

Consolidated Statement of Financial Position
June 30, 1997
(in thousands)

	Revenue Fund	Corpus Fund	Total
Assets			
Core Assets			
Cash and cash equivalents	$ 20,896	$ 49,860	$ 70,756
Marketable debt and equity securities	348,870	139,254	488,124
Privately placed debt and equity securities	--	817,587	817,587
Receivables	62,888	97,767	160,655
Property and equipment	--	836,955	836,955
Deferred charges and other	9,195	58,609	67,804
Deferred income taxes	--	60,080	60,080
Real estate held for development and sale	--	87,164	87,164
	441,849	2,147,276	2,589,125
Savings Bank Subsidiary Assets			
Cash and cash equivalents	--	21,920	21,920
Securities available-for-sale	--	492,301	492,301
Mortgage-backed securities held to maturity	--	20,971	20,971
Loans receivable	--	1,141,707	1,141,707
Real estate held for investment and sale	--	22,561	22,561
Premises and equipment	--	6,262	6,262
Federal Home Loan Bank stock	--	15,380	15,380
Accrued interest receivable and other assets	--	26,816	26,816
		1,747,918	1,747,918
Total assets	$ 441,849	$ 3,895,194	$ 4,337,043

The accompanying notes are an integral part of the consolidated financial statements.

Kamehameha Schools Bernice Pauahi Bishop Estate

Consolidated Statement of Financial Position (Continued)
June 30, 1997
(in thousands)

	Revenue Fund	Corpus Fund	Total
Liabilities and Net Assets			
Core Liabilities			
Accounts payable and accrued expenses	$ 46,906	$ 2,366	$ 49,272
Notes payable	--	564,172	564,172
Accrued pension liability	14,764	--	14,764
Accrued postretirement benefits	20,004	--	20,004
Deferred compensation payable	13,529	--	13,529
Deferred income	11,305	--	11,305
Minority interest	--	1,115	1,115
	106,508	567,653	674,161
Savings Bank Subsidiary Liabilities			
Deposits	--	1,371,243	1,371,243
Advances from Federal Home Loan Bank	--	80,000	80,000
Accrued expenses and other liabilities	--	28,022	28,022
Securities sold under agreements to repurchase	--	192,433	192,433
Minority interest	--	35,339	35 339
		1,707,037	1,707,037
Total liabilities	106,508	2,274,690	2,381,198
Net Assets, Unrestricted			
Core	335,341	1,579,623	1,914,964
Savings Bank subsidiary	--	40,881	40,881
Total net assets	335,341	1,620,504	1,955,845
Total liabilities and net assets	$ 441,849	$ 3,895,194	$ 4,337,043

The accompanying notes are an integral part of the consolidated financial statements.

Kamehameha Schools Bernice Pauahi Bishop Estate

Consolidated Statement of Activity
For the Year Ended June 30, 1997
(in thousands)

	Revenue Fund	Corpus Fund	Total
Changes in Net Assets			
Revenues			
Education programs	$ 10,594	$ --	$ 10,594
Rental operations	162,017	--	162,017
Investment income	185,438	--	185,438
Net gains on long-term investments	--	122,943	122,943
Net gains on land sales	--	48,149	48,149
Other income, net	8,563	--	8,563
	366,612	171,092	537,704
Expenses			
Education programs	98,374	--	98,374
Rental operations	75,900	--	75,900
Management and general	60,488	--	60,488
Interest	29,204	--	29,204
Income tax provision	34,926	(4,340)	30,586
Minority interest	191	--	191
	299,083	(4,340)	294,743
Increase In Net Assets Before Savings Bank Subsidiary Activity	67,529	175,432	242,961
Savings Bank Subsidiary Activity			
Interest, fees, and dividend income	122,896	--	122,896
Interest expense and provision for loan losses	(93,675)	--	(93,675)
General and administrative expenses	(27,816)	--	(27,816)
Other, net	8,124	--	8,124
Income tax provision	3,015	--	3,015
Minority interest	(5,017)	--	(5,017)
	7,527		7,527
Increase in Net Assets Before Change in Method of Accounting for Major Maintenance	75,056	175,432	250,488
Change in Method of Accounting for Major Maintenance	9,241		9,241
Increase in Unrestricted Net Assets	84,297	175,432	259,729
Net Assets, Beginning of Year	251,044	1,445,072	1,696,116
Net Assets, End of Year	$ 335,341	$ 1,620,504	$ 1,955,845

The accompanying notes are an integral part of the consolidated financial statements.

Kamehameha Schools Bernice Pauahi Bishop Estate

Consolidated Statement of Cash Flows
For the Year Ended June 30, 1997
(in thousands)

	Revenue Fund	Corpus Fund	Total
Core Activity			
Cash flows from operating activities			
Increase in net assets	$ 76,770	$ 175,432	$ 252,202
Adjustments to reconcile increase in net assets to net assets provided by (used in) operating activities			
Depreciation, amortization and depletion	33,196	--	33,196
Net gains on long-term investments	--	(128,966)	(128,966)
Net gains on property sales	--	(46,948)	(46,948)
Other	(25,669)	35.031	9.362
Change in operating assets and liabilities			
Increase in receivables	(29,657)	(1)	(29,658)
(Increase) decrease in deferred income taxes	16,001	(32,366)	(16,365)
(Increase) decrease in deferred charges and other	2,323	(9,513)	(7,190)
Decrease in real estate held for sale	--	834	834
Decrease in accounts payable, accrued and other liabilities	(7,619)	(6,197)	(13,816)
Net cash provided by (used in) operating activities	65,345	(12,694)	52.651
Cash flows from investing activities			
Cash received from land sales	--	43,423	43,423
Cash received from investments	--	878,466	878,466
Purchases of investments	(84,297)	(824,584)	(908,881)
Purchases of property and equipment	--	(40,013)	(40,013)
Net cash provided by (used in) investment activities	(84,297)	57,292	(27,005)
Cash flows from financing activities			
Proceeds for borrowings	--	2,700	2,700
Repayment of borrowings	--	(46,981)	(46,981)
Net cash used in financing activities		(44,281)	(44,281)
Net increase (decrease) in cash and cash equivalents from core activity	(18,952)	317	(18,635)
Savings Bank Subsidiary Activity			
Cash flows from operating activities			
Increase in net assets	7,527		7.527
Adjustments to reconcile increase in net assets to net cash provided by operating activities			
Minority interest	5,017	--	5,017
Noncash activity	(12,544)	--	(12,544)
Change in operating assets and liabilities	--	21,932	21,932
Net cash provided by operating activities		21,932	21,932

The accompanying notes are an integral part of the consolidated financial statements.

Kamehameha Schools Bernice Pauahi Bishop Estate

Consolidated Statement of Cash Flows (Continued)
For the Year Ended June 30, 1997
(in thousands)

	Revenue Fund	Corpus Fund	Total
Cash flows from investing activities			
Proceeds from investment and real estate sales	$ --	$ 290,469	$ 290,469
Loan originations, net of repayments	--	41,610	41,610
Purchase of investments	--	(487,719)	(487,719)
Other	--	(3,309)	(3,309)
Net cash used in investing activities		(158,949)	(158,949)
Cash flows from financing activities			
Issuance of FHLB advances		113,900	113,900
Repayment of FHLB advances		(65,646)	(65,646)
Net decrease in deposits		(102,075)	(102,075)
Net increase in agreements sold under agreements to repurchase	--	192,433	192,433
Other	--	1,267	1,267
Net cash provided by financing activities		139,879	139,879
Net increase in cash and cash equivalents from Savings Bank subsidiary		2,862	2,862
Net increase (decrease) in cash and cash equivalents	(18,952)	3,179	(15,773)
Cash and cash equivalents, beginning of year	39,848	68,601	108,449
Cash and cash equivalents, end of year	$ 20,896	$ 71,780	$ 92,676
Cash and cash equivalents			
Core	$ 20,896	$ 49,860	$ 70,756
Savings bank subsidiary	--	21,920	21,920
	$ 20,896	$ 71,780	$ 92,676
Supplemental disclosure of cash flow information			
Core interest paid			$ 40,348
Core taxes paid			67,753
Savings Bank interest paid			83,691
Savings Bank taxes paid			247
Supplemental noncash investing and financing activities			
Savings Bank foreclosed real estate			42,518
Savings Bank loans originated in connection with sale of foreclosed real estate			12,608

The accompanying notes are an integral part of the consolidated financial statements.

1. Operations and Summary of Significant Accounting Principles

a. Operations

The Kamehameha Schools Bernice Pauahi Bishop Estate (the Estate or the Schools), a charitable trust established under Hawaii law, operates under the terms of the Will of Bernice Pauahi Bishop Estate (the Will), deceased. The Estate is governed by a Board and subject to jurisdiction of the First Circuit Court of the State of Hawaii (the Court). The primary core assets of the Estate are land and properties located in the State of Hawaii and debt and equity investments. The Schools provide educational services from preschool through grade twelve for students of Hawaiian ancestry. The school for kindergarten through grade twelve is located in Honolulu, with elementary schools on Maui and in East Hawaii. Preschools are located in various facilities throughout the State of Hawaii. The total number of students served at the Schools during the 1997 school year amounted to approximately 4,200. In addition, the Schools provide a significant amount of financial aid for post-secondary education.

b. Principles of Consolidation

The consolidated financial statements include the accounts of the Estate, its wholly owned subsidiary, Pauahi Holdings Corporation (PHC), and its majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

PHC is a holding company with subsidiaries involved primarily in property investment and management. The Estate's majority-owned subsidiaries consist of a savings and loan institution (the Savings Bank) and two real estate limited partnerships (the Partnerships).

c. Financial Presentation

These financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) and have been prepared solely at the request of and for submission to the Court. The 1997 statements have been reissued to conform to a presentation format requested by the Court. The primary changes in financial statement presentation in these reissued financial statements include a reclassification of financial information to present separately the activities of the Revenue Fund and Corpus Fund, the separation of financial information for the Savings Bank Subsidiary and additional financial statement detail not required by GAAP. These financial statements are not the Estate's primary general distribution financial statements. The

Estate's primary financial statements are prepared in conformity with GAAP with the exception of not consolidating majority owned subsidiaries.

Previously, the Estate reissued its financial statements as of June 30, 1996, 1995 and 1994 and for each of the three years then ended in a format directed by a representative of the Court. The net assets as of June 30, 1996, as reported in those financial statements amounted to $1,696,116,000. The net assets as of June 30, 1996, as reported in the Estate's accounting records amounted to $1,706,215,000. The cause of the difference of $10,099,000 relates primarily to an adjustment made by the Estate in its accounting records in 1997 in accounting for a certain investment. These financial statements reflect the adjustment as of June 30, 1996 to conform to the presentation in the reissued financial statements.

Prior to the reissuance of its financial statements as of June 30, 1996, 1995 and 1994 and for the years then ended, the Estate accounted for its investment in majority-owned subsidiaries on the equity method. As of and for the year ended June 30, 1997, the Estate changed its method of accounting for its investment in subsidiaries to the consolidation method for this presentation to conform to the format requested by the Court. The impact of the change was to increase total assets and liabilities by $2,077,363,000 as of June 30, 1997. There was no impact on the unrestricted net assets as of July 1, 1996 or June 30, 1997 and no impact on the increase in unrestricted net assets for the year ended June 30, 1997.

Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations, governs the financial statement presentation for not-for-profit organizations under GAAP. SFAS No. 117 provides for three basic financial statements and the classification of resources into three separate classes of net assets: permanently restricted, temporarily restricted and unrestricted. All assets of the Estate are classified unrestricted, as defined by SFAS No. 117, as they are generally available to be utilized for any educational purposes deemed acceptable by the Trustees and the Court based on their interpretation of the Will.

In accordance with the interpretation of the Will, the Estate accounts for its activity in two funds: the Revenue Fund and the Corpus Fund. The following describes the use of these funds: (1) Revenue Fund - the Revenue Fund is the primary operating fund of the Estate. Income generated from the Corpus assets and from other sources are used to provide for operations and maintenance of the Estate and its assets, (2) Corpus Fund - the Corpus Fund is comprised of the original assets provided for in the Will and other assets which have been subsequently acquired from the proceeds of sale of such original assets. Income generated from the use of all assets is reflected in the Revenue Fund and gains or losses on the sale of any assets as well as fluctuations in the fair value of certain assets (see Note 1e) are reflected in the Corpus Fund.

Condensed financial information related to the Savings Bank is presented in the consolidated statements separately from the Estate's primary accounts because its operations are considered unrelated to those of the Estate. A more comprehensive presentation of the Savings Bank's financial statements and all significant disclosure requirements related to the Savings Bank are included in Note 11. The Savings Bank operates in a regulated industry and, therefore, its net assets are not available for the operations of the Schools.

d. Cash and Cash Equivalents

Cash and cash equivalents include unrestricted demand deposits with banks and all highly liquid deposits with an original maturity of less than three months. A majority of cash and cash equivalents are held in banks located in the State of Hawaii, a liquid asset account offered by an affiliated investment bank and short-term obligations of various U.S. corporations. The net cash balances maintained in excess of available depository insurance limits amounted to approximately $63,061,000 at June 30, 1997.

As of June 30, 1997, amounts maintained in accounts held by an affiliated investment bank were approximately $32,053,000.

e. Investments

Marketable Debt and Equity Securities - Estate

The Estate's investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the statement of financial position. Fair value is based on quoted market prices or, where quotes are not available, on discounted cash flows at current rates. Other investments are carried at cost.

Marketable Debt and Equity Securities - PHC

For PHC, investment securities are classified in one of three categories and accounted for as follows: 1) debt securities that the subsidiary has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost; 2) investment securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings; and 3) investment securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of net assets.

At June 30, 1997, PHC held trading securities with a market value of approximately $29,115,000.

Total unrealized losses recorded by PHC for the year ended June 30, 1997 amounted to $9,169,000.

Privately Placed Debt and Equity Securities
The Estate accounts for investments in which it owns 20 to 50 percent on the equity method of accounting. Certain limited partnership investments for which the Estate has in excess of 50 percent interest but has no significant influence are also accounted for on the equity method. All other investments in which the Estate has no significant influence are accounted for at cost.

f. **Property and Equipment**
Property and equipment, including those related to the Schools, are carried at cost. The Estate provides for depreciation on a straight-line basis over the lower of the asset's estimated useful life or:

	Years
Building and improvements	20 to 30
Office equipment	5 to 7
Automotive equipment	10

The Estate follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with the acquisition, exploration and development of oil and gas reserves, including directly related overhead costs, are capitalized. All capitalized costs of oil and gas properties, including estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves. The Estate's oil and gas properties are coal seam methane gas wells located primarily in the Southeastern United States.

Provisions for depreciation amounted to approximately $28,059,000 in 1997. Approximately $5,607,000 related to the Schools' property and equipment and is included in education program expenses in the consolidated statement of activity.

In fiscal 1990, the Estate established a reserve for major maintenance costs for the Schools' buildings and improvements. The reserve was increased annually based on 2.5 percent of the estimated replacement value of the Schools' buildings and improvements and amounted to $9,241,000 at June 30, 1996. Based on a stipulation of the Court, the Estate has changed its method of accounting for major maintenance costs to expense such costs as incurred. The impact of the change in accounting policy was to decrease the amount of education program expenses for the year ended June 30, 1997 in the amount of $1,831,000. Based on the Estate's current expenditure pattern for major maintenance costs, management of the Estate believes that the new method of recognizing major maintenance costs is less complex, in that it involves no estimates of future maintenance needs, and continues to provide for the appropriate matching of educational program expenses to educational program revenue.

Pursuant to a Court order, the Estate increased the carrying value of its original lands to reflect taxable values as of January 1, 1965 as assessed by the State of Hawaii for real property tax purposes. GAAP requires these lands to be recorded at cost. However, no adjustment has been made to the financial statements to reflect these lands at cost as of June 30, 1997. Management believes that this adjustment would not be material to the Estate's consolidated financial statements.

The Estate has offered to sell certain residential leasehold lots to lessees under its Single-family and Multi-family Residential Land Sales Program. Net gains on the sale of these lands are recognized when the buyer's payments and underlying commitment are sufficient to provide economic substance to recognize the sale and are recorded directly to the Corpus fund with the cost of the land sold being based on its 1965 tax assessed value.

g. **Real Estate held for Development and Sale**

PHC's real estate assets held for development and sale are stated at cost net of any write-downs. Cost includes land acquisition and holding costs, site development, construction and other project related costs. In accordance with current accounting standards, management uses estimated expected future net cash flows (undiscounted and excluding interest costs) to measure the recoverability of real estate assets held for development. The recoverability of real estate assets held for sale is determined by comparing the net present value of the estimated expected future cash flows (using a discount rate commensurate with the risks involved) to the carrying amount of the asset. The estimate of expected future net cash flows is inherently uncertain and relies to a considerable extent on assumptions regarding current and future economic and market conditions. If, in the future periods, there are changes in the estimates or assumptions, the changes could result in a adjustment to the carrying amount of the real estate.

Sales of real estate are recorded and income recognized when the buyer's payments and underlying commitment are sufficient to provide economic substance to recognize the sale. Costs are charged to cost of sales on the basis of the relative sales value of the units sold to the total sales value of all units in the project. These sales, net of its costs, are included in other income in the consolidated statements of activity.

h. Goodwill

At June 30, 1997, deferred charges and other assets include approximately $31,540,000, of excess cost of acquisition of the Savings Bank (see Note 11) over the fair market values of identifiable net assets acquired (goodwill). This goodwill is being amortized over 15 years using the straight-line method. Amortization expense amounted to approximately $10,170,000 for the year ended June 30, 1997.

i. Vacation and Severance Pay

Professional teaching employees of the Schools are employed under one-year contracts for school years ending in mid-August. School years comprise a "Teaching Period" from mid-August to mid-June and a "Professional Improvement Period" for the balance of the year.

Vacations for these employees are provided during the Professional Improvement Period. Substantially all Estate and other employees of the Schools earn vacation benefits and are entitled to receive payments for unused vacation benefits based upon their regular salary at the time of their termination of employment.

Substantially all employees hired prior to December 11, 1973 are entitled to severance pay based on their salary at the time of termination of employment in the amount of one-half of their unused accumulated sick leave hours at either July 1, 1975 or the time of termination of employment, whichever is lower.

j. **Pension and Postretirement Health Care Costs**
The Estate uses the projected unit credit actuarial method for determining pension and postretirement health care costs for financial reporting purposes. The Estate's pension funding policy is to contribute annually an amount not less than the minimum required by the Employee Retirement Income Security Act of 1974.

k. **Deferred Income**
Deferred income consists primarily of prepaid lease rents which are deferred and recognized as income ratably over the fixed term of the leases to which they relate.

l. **Income Taxes**
In a ruling dated February 9, 1939, and as reaffirmed in 1969 and 1986, the Internal Revenue Service (IRS) determined that the Estate was exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code of 1986, as an organization organized and operated for educational purposes within the meaning of Section 170(b)(A)(ii) of the Code. The Estate's wholly-owned subsidiary and majority-owned subsidiaries are taxable entities (see Note 7).

The Estate's taxable subsidiaries recognize deferred income taxes for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

m. Net Assets
Net assets are segregated into various accounts as designated by the Trustees and/or the Court for this financial reporting. The following details these accounts as of June 30, 1997 (in thousands):

	Revenue Fund	Corpus Fund	Total
Balance, June 30, 1996 as previously reported	$ 9,241	$,686,875	$ 1,696,116
Elimination of designation for major maintenance	(9,241)	9,241	
Transfer of cumulative net excess of revenues over expenses	251,044	(251,044)	
Revised balance as of June 30, 1996	251,044	1,445,072	1,696,116
Increase in unrestricted net assets in 1997	84,297	175,432	259,729
Balance, June 30, 1997	$ 335,341	$ 1,620,504	$ 1,955,845

Based on a stipulation of the Court, issued in 1998, all cumulative net excess of revenues over expenses previously transferred to the Corpus Fund has been transferred back to the Revenue Fund as of June 30, 1996. The Estate has identified a like amount of marketable securities for funding of future revenue fund operations.

n. Use of Estimates in the Preparation of Financial Statements
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Marketable Debt and Equity Securities

The fair values of marketable debt and equity securities at June 30, 1997 follows: (in thousands)

Short-term corporate obligations	$ 106,971
Corporate debt securities	52,416
Common and preferred stock	296,397
Government securities	18,812
Other	13,528
	$ 488,124

Short-term corporate obligations, corporate debt securities and common and preferred stock investments are with corporations and mutual funds involved in various industries located throughout the United States. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such change could be material.

3. Privately Placed Debt and Equity Investment

At June 30, 1997, the Estate's privately placed debt and equity investments consisted of the following: (in thousands)

	Carrying Value	Fair Value
Equity investments, at cost		
Investment banking firm	$ 497,808	$ 497,808
Other	143,903	188,245
Equity investments, at equity	66,907	116,070
Loans and subordinated debentures	77,130	77,130
Direct financing lease	31,839	31,839
	$ 817,587	$ 911,092

Fair value includes estimated loss reserves on these investments in the amount of $84,833,000 as of June 30, 1997 (see Note 9 for information on the valuation of the equity investment in the investment banking firm).

Equity Investments
Equity investments (accounted for on both the equity and cost method) include interests in partnerships (primarily limited partnerships), corporations and real estate investment trusts. These organizations are involved in a diversified mix of real estate, retail and financial activities in various geographical locations.

Combined and condensed unaudited financial information (most recent available) for the Estate's equity investments that are accounted for on the equity method is as follows: (in thousands)

Assets	$ 511,327
Liabilities	121,969
	$ 389,358
Revenues	$ 192,725
Expenses	60,008
	$ 132,717

Investment Banking Firm
The Estate, through a wholly-owned subsidiary, has a 9.5 percent $550,000,000 limited partnership interest in a major New York investment banking firm (the Firm). In accordance with the terms of the partnership agreement, the Estate receives distribution income equal to a certain percentage of its capital account, not to exceed its share of profits of the partnership for such year, plus amounts sufficient to pay its income taxes related to its share of the profits. As of the beginning of each of the partnership's fiscal years (approximately November 30th), after all distributions and capital withdrawals by retiring partners have been made, the Estate either receives an additional distribution from or makes a contribution to the partnership in order to retain its same ownership interest in the partnership.

The Estate and the Firm have the right to effect the withdrawal of the Estate's interest over a five-year period beginning December 2009 for its first 5.25 percent interest and December 2012 for its remaining 4.25 percent interest in the partnership. In the event the partnership is incorporated, the Estate will receive the same securities as are received by the general partners. Pursuant to the terms of the partnership agreement, the losses allocable to the Estate are limited to its original investment in the Firm.

The Firm is a U.S. registered broker dealer that is involved in securities underwriting and distribution; trading of corporate debt and equity securities, United States government and agency securities, non-U.S. sovereign debt and mortgage and municipal securities; execution of swaps and other derivative financial instruments; mergers and acquisitions; financial advisory services for restructurings, private placements and lease and project financing; real estate brokerage and finance; stock brokerage and research; asset management; and the trading of currency. The Firm provides its services worldwide to a substantial and diversified client base, which includes corporations, financial institutions, governments and individual investors. Investment banking has inherent risks associated with such items as market, interest rate, currency, and credit risk. Due to the level of risk associated with this investment, it is reasonably possible that changes in the value of the investment will occur in the near term and that such change could be material.

Loans and Subordinated Debentures
Loans provide for principal and interest payments over periods up to 23 years with interest at approximately 6 percent to 18 percent per annum. Subordinated debentures provide for interest payments of 12 percent to 13 percent per annum and mature over periods up to 7 years. Certain debt investments are collateralized by real property.

Direct Financing Lease
During fiscal 1997, the Estate, through a wholly-owned subsidiary, entered into a forty-year lease for a golf course facility. The lease has been accounted for as a direct financing lease. At June 30, 1997, the total minimum lease payments to be received and unearned finance charges were $82,967,000 and $51,129,000, respectively. Future minimum annual lease payments amount to $750,000 from 1998 to 2001 and $1,100,000 in the year 2002. In addition to fixed minimum rentals, the lease agreement provides for a percentage rental which is determined based on adjusted gross revenue of the golf course.

Investment Income

Investment income for the year ended June 30, 1997 by investment type is as follows: (in thousands)

Marketable securities	$ 11,197
Equity investments, at cost:	
Investment banking firm	146,996
Other	8,973
Equity investments, at equity	451
Loans and subordinated debentures	8,305
Interest on receivables:	
Mortgage notes	68
Note agreements for residential leasehold sales	4,633
Tenant receivables	16
Other	4,799
	$ 185,438

Net Gains (Losses) on Long-Term Investments

Net gains (losses) on long-term investments for the year ended June 30, 1997 by investment type are as follows: (in thousands)

Marketable securities	$ 102,182
Equity investments, at cost	19,867
Equity investments, at equity	2,236
Loans and subordinated debentures	(1,163)
Other	(179)
	$ 122,943

4. Receivables

At June 30, 1997, receivables consist of the following: (in thousands)

Note agreements for residential leasehold sales	$ 66,871
Mortgage notes	30,896
Income taxes	25,813
Interest	23,126
Tenant and School receivables	12,250
Other	11,700
	170,656
Less - Allowance for doubtful accounts	(10,001)
	$ 160,655

Note Agreements for Residential Leasehold Sales
The Estate has offered to sell certain residential leasehold lots to lessees under its Single-Family and Multi-Family Residential Land Sales Program. Certain of these interests were sold for cash and others were sold under various collateralized financing arrangements with five to fifteen year terms. These arrangements require down payments of up to 10 percent of the sales price and provide for monthly payments of both principal and interest or interest only with the balance due at maturity. Interest provided for under these agreements range from 5 percent to 14 percent per annum with a weighted average interest rate of approximately 5 percent at June 30, 1997.

Mortgage Notes Payable
Mortgage notes bear interest at various rates up to 10 percent with maturities through November 2005. All mortgage notes are collateralized by real property.

5. Property and Equipment

At June 30, 1997, property and equipment consisted of the following: (in thousands)

The Schools:	
Land	$ 6,896
Buildings and improvements	108,383
Office and automotive equipment	18,722
Less - Accumulated depreciation	(45,210)
	88,791
The Estate and PHC:	
Land and land improvements	270,284
Buildings and improvements	304,321
Office and automotive equipment	31,700
Oil and gas properties	54,121
Less - Accumulated depreciation	(96,957)
	533,469
The Partnerships:	
Land and land improvements	39,180
Buildings and improvements	154,058
Office and automotive equipment	17,064
Less - Accumulated depreciation	(39,689)
	170,613
Construction in progress	44,082
	$ 836,955

6. Notes Payable

At June 30, 1997, notes payable consisted of the following: (right column in thousands)

The Estate:		
Senior promissory notes payable to a bank issued at the rate of 6.89 percent per annum with annual principal payments of $11,860,000 beginning June 22, 2004 with the final payment on June 22, 2013. The note agreement contains certain restrictions on assumption of additional debt and requires maintenance of a certain interest coverage ratio, among other restrictions.	$	118,575
The Trustees authorized the issuance of up to $200,000,000 in notes under the Estate's commercial paper program. Notes have been issued as commercial paper due on various dates from July 8, to December 17, 1997 with interest at the rate of 5.53% to 5.81%. The due dates on these notes have been subsequently amended to be due on various dates through December 18, 1998. In connection with this program, the Estate maintains a back-up liquidity facility with a consortium of banks. This facility requires The Estate to maintain a minimum liquidity balance, based on a proportion of commercial paper outstanding.		104,382
PHC:		
Term note payable to various banks with interest (6.03% at June 30, 1997) at .28% over the Eurodollar rate. Principal is due on December 29, 1997. Upon maturity, the Company repaid $65,600,000 and refinanced $92,400,000 with a new maturity of December 27, 2002.		158,000
Notes payable to banks under a $37,000,000, revolving credit agreement. Interest options include the bank's base rate, a C.D. rate plus 62.5 basis points, or floating London Inter-Bank Offered Rate (LIBOR) rate plus 37.5 basis points (6.155%, at June 30, 1997). The agreement expired on June 30, 1997 and was subsequently extended to September 30, 2002. These notes are guaranteed by the Estate.		30,750
Other		8,265
The Partnerships:		
Term note payable with interest (approximately 7.375% at June 30, 1997) at the FHLB Eleventh district Cost of Funds Index plus 2.5% on $41,600,000 of the loan and 7.75% on the remaining balance. The loan was due on January 29, 1998 and was subsequently extended to be due January 30, 2001. This note is guaranteed by the Estate.		95,700

Mortgage loan to a bank secured by certain residential rental property and assignment of rents. The agreement provides for monthly interest (approximately 7.32% at June 30, 1997) payments at 1.75% percent over LIBOR and maturity on October 31, 2000.	$	21,500
Mortgage loan to a bank secured by certain residential rental property and assignment of rents. The agreement provides for monthly interest (7.4375% at June 30, 1997) payments at 1.75 percent over LIBOR and maturity on January 28, 2001.		27,000
	$	564,172

Annual maturities of notes payable are as follows: (in thousands)

Year ending June 30,		
1998	$	78,247
1999		--
2000		
2001		144,200
2002		
Thereafter		241,725
	$	564,172

All debt covenants and restrictions as of June 30, 1997 have been met.

7. Income Taxes

Provision (benefit) for income taxes consists of the following: (in thousands)

Current	$	46,561
Deferred		(15,975)
	$	30,586

At June 30, 1997, the components of the net deferred tax asset were as follows: (in thousands)

Deferred tax assets -	
Capital loss carryforwards	$ 2,166
Foreign tax credit carryforwards	6,146
Income deferred for financial reporting	5,038
Difference in basis of investment	51,629
	64,979
Deferred tax liabilities	(904)
Valuation allowance	(3,995)
	$ 60,080

The valuation allowance relates primarily to certain foreign tax credit carryforwards generated in 1996 which "more likely than not" will not be realized in future periods. No other valuation allowance was deemed necessary as all deductible temporary differences will be utilized by carryback to prior year's taxable income or as charges against reversals of future taxable temporary differences. The following summarizes the activity of the valuation allowance for 1997:

Balance at June 30, 1996	$ 10,469
Decrease in valuation allowance	(6,474)
Balance at June 30, 1997	$ 3,995

At June 30, 1997, available capital loss carryforwards of approximately $2,166,000 (tax effected) and foreign tax credits of approximately $6,146,000 expire on various dates through 2002.

8. Employee Benefits

Noncontributory Retirement Plan
The Estate has a noncontributory pension plan covering substantially all employees (including the employees of subsidiaries of its wholly owned holding company), after satisfying age and length of service requirements.

The funded status of the plan and unfunded accrued pension cost at June 30, 1997 was as follows: (in thousands)

Actuarial present value of benefit obligations:	
Vested benefits	$ 62,419
Nonvested benefits	3,866
	$ 66,285
Projected benefit obligations, at present value	$ 92,290
Plan assets at fair value	95,988
Plan assets in excess of projected benefit obligation (funded status)	(3,698)
Unrecognized net asset at July 1, 1987 being recognized over 18.7 years	5,943
Prior service cost being recognized in net periodic pension cost over 15 years	(3,016)
Unrecognized net gain	15,535
Accrued pension liability	$ 14,764

Net pension expense for 1997 comprised the following: (in thousands)

Service cost representing benefits earned during the period	$	4,877
Interest cost on projected benefit obligation		6,182
Actual return on plan assets		(16,846)
Net amortization and deferral		10,517
	$	4,730

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.5 percent and 5.3 percent, respectively. The expected long-term rate of return on assets was 8 percent. Substantially all plan assets were invested in various pooled equity stock, bond and real estate funds.

Postretirement Health Care Benefits

In addition to providing pension and other supplemental benefits, certain health care benefits are provided for retired employees. Employees become eligible for these benefits if they meet minimum age and service requirements. The Estate has the right to modify the terms of these benefits.

The accumulated postretirement benefit obligation at June 30, 1997 was as follows: (in thousands):

Accumulated postretirement benefit obligation:		
Retirees	$	2,427
Fully eligible active plan participants		2,725
Other active plan participants		3,283
Unrecognized net gain		7,178
Prior service cost being recognized in net periodic cost over 15 years		4,391
	$	20,004

Net periodic cost (credit) for 1997 was as follows: (in thousands)

Service cost representing benefits earned during the period	$	359
Interest cost on accumulated benefit		505
Net amortization and deferral		(980)
	$	(116)

The unrecognized net gain resulted primarily from plan amendments reducing benefits, decreases in the health care cost trend rate and decreases in actual plan health care costs. The unrecognized net gain is being amortized over 15 years.

A 5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998. This rate is assumed to remain level. The health care cost trend rate assumption can have a significant effect on the amounts reported. For the Estate, a 1 percent increase in the health care trend rate would increase the accumulated postretirement benefit obligation by $215,000 at June 30, 1997 and the net periodic cost by $37,000 for the year then ended. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.5 percent for the year ended June 30, 1997.

Deferred Compensation Plan
On January 1, 1976, the Estate adopted a deferred compensation plan that allowed employees and others who perform services for the Estate under contract to defer compensation earned. Individual accounts are maintained for each participant and earnings are computed on the basis of alternative investment programs available. Effective July 1, 1995, the balance of accounts maintained for certain individuals was transferred to a new benefit plan. this new plan was subsequently terminated due to limited participation by employees.

9. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- ***Cash and Cash Equivalents*** **-** The carrying amount of cash and equivalents approximates fair value because of the short maturity of these instruments.

- ***Marketable Debt and Equity Securities*** **-** The fair value of marketable debt and equity securities are based on quoted market prices.

  Privately Placed Debt and Equity Investments **-** The Estate's privately placed debt and equity instruments have no quoted market prices. Many factors were considered in arriving at the estimated fair market value. In general, however, financial instruments with determinable cash flows were valued on the basis of their future principal and earnings distributions discounted at prevailing interest rates for similar investments. Other investments have been valued based on the underlying asset value and various other private company valuation techniques. The Estate's investment in the investment banking firm is stated at cost. Management has been informed of an estimated range of the fair value of this investment. Due to the investment banking firm's intent to obtain additional equity capital, management believes that disclosure of this range could have a potential impact on such a transaction and, therefore, has chosen to not disclose this value. However, management believes that the fair value of this investment is in excess of its stated cost.

- ***Receivables*** **-** The fair value of agreements of sale receivable is estimated using the current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities. The carrying value of other receivables approximates fair value as the receivables are either due currently or there was no change in credit and market risk since inception of the receivable.

  Notes Payable **-** The fair value of long-term debt is estimated using the current rates at which similar loans would be made by lenders to borrowers with similar credit ratings and the same remaining maturities. The carrying value of commercial paper approximates the fair value because this debt reprices frequently.

At June 30, 1997, a comparison of carrying value and fair value of financial instruments is as follow: (in thousands)

	Carrying Value	Fair Value
Cash and cash equivalents	$ 70,756	$ 70,756
Marketable debt and equity securities	488,124	488,124
Privately placed debt and equity investments	817,587	911,092
Receivables	160,655	161,448
Notes payable	564,172	556,729

10. Commitments and Contingencies

Rental Income

The majority of land and buildings of the Estate are generally leased under long-term lease arrangements. At June 30, 1997, future rental income from these leases based on present effective minimum rentals is summarized as follows: (in thousands)

Year ending June 30,	
1998	$ 84,866
1999	84,788
2000	80,271
2001	73,287
2002	67,469
Thereafter to 2014	1,048,533
	$ 1,439,214

Percentage rent, based on stipulated percentages of gross sales, for the year ended June 30, 1997 amounted to approximately $16,597,000.

Capital Commitments

At June 30, 1997, the Estate is committed under agreements with certain partnerships and corporations to invest an additional $90,000,000 over various periods as set forth in the respective agreements.

In 1995, the trustees of the Estate approved a plan to develop additional school facilities on certain other islands in the state of Hawaii. At June 1998, the cost of these facilities are estimated to be approximately $126.8 million and shall be incurred over the next six years. At June 30, 1997, open contracts, including contracts related to the development of these school facilities amounted to approximately $14.48 million.

IRS Audit

In 1995, the Internal Revenue Service (IRS) began an audit of the Estate and PHC for the years ended June 30, 1992, 1993 and 1994. It was later expanded to include the years ended June 30, 1995 and June 30, 1996. In January 1999, the IRS notified the Estate and PHC of possible tax changes. Management and its legal counsel intend to vigorously defend the tax positions taken by the Estate and PHC. Management of the Estate presently expects that the resolution of this matter will not have a material adverse impact on the Estate's reported consolidated financial condition.

Litigation

The Estate, in the normal course of conducting its business, is a defendant or party in a number of civil suits involving real estate and investment management and ownership. The Estate is of the opinion that substantially all of these suits are either adequately covered by liability insurance or agreements with lessees or developers of the Estate's land and should not have a material adverse effect on the Estate's financial position.

Year 2000 Compliance

The Estate has begun to identify, evaluate and implement the changes that need to be made to computer systems and applications necessary to achieve a year 2000 date conversion with no disruption of business operations. These actions are necessary to ensure that the systems and applications will recognize and process in the year 2000 and beyond. The Estate also is communicating with suppliers, distributors, financial institutions and others with which it does business to coordinate year 2000 conversion.

The Estate has not incurred significant expenses through June 30, 1996, but expects to incur total expenses of approximately $7 million through 1999 to address year 2000 issues.

Other

The Estate has standby letters of credit commitments to certain partnerships in which it has an investment interest in totaling approximately $32,676,000 at June 30, 1997.

11. Savings Bank Subsidiary

The following represents the Savings Bank's consolidated statements (which were audited by other auditors) of financial condition, operations and cash flows, and significant notes to these financial statements as of and for the year ended December 31, 1996: (in thousands, except share information)

Consolidated Statement of Financial Conditions
As of December 31, 1996

Assets	
Cash and cash equivalents	$ 14,720
Federal funds sold	7,200
Securities available-for-sale, at estimated market values	492,301
Mortgage-backed securities held-to-maturity, estimated market values of $20,899	20,971
Loans receivable, net	1,141,707
Real estate held for investment and sale, net	22,561
Premises and equipment, net	6,262
Federal Home Loan Bank stock, at cost	15,380
Accrued interest receivable	11,611
Other assets	15,205
Total assets	$ 1,747,918
Liabilities and Shareholders' Equity	
Deposits	$ 1,371,243
Securities sold under agreements to repurchase	192,433
Advances from the Federal Home Loan Bank	80,000
Senior debt	11,398
Accrued expenses and other liabilities	28,022
Total liabilities	1,683,096
Commitments and contingencies	
Shareholders' equity:	
Series preferred stock; $.01 par value. Authorized 1,000,000 shares:	
Preferred stock, Series C, voting, issued and outstanding 85,000 shares	
Preferred stock, Series D, voting, issued and outstanding 68,000 shares	-
Preferred stock, Series D, nonvoting, issued and outstanding 332,000 shares	3
Common stock, par value $.01 per share. Authorized 500,000 shares; issued and outstanding 98,502 shares	
Additional paid-in capital, preferred and common stock	129,793
Unrealized losses on securities available-for-sale	(6,084)
Accumulated deficit	(58,893)
Total shareholders' equity	64,822
Total liabilities and shareholders' equity	$ 1,747,918

Consolidated Statement of Operations
Year ended December 31, 1996

Interest, fees and dividend income:	
Short-term investments	$ 1,195
Securities purchased under agreements to resell	3,257
Investment securities	2,374
Mortgage-backed securities	26,136
Loans receivable	89,020
Federal Home Loan Bank stock	914
Total interest, fees and dividend income	122,896
Interest expense:	
Deposits	75,136
Advances from the Federal Home Loan Bank	3,207
Securities sold under agreements to repurchase	10,901
Senior debt	1,160
Hedging costs, net	387
Total interest expense	90,791
Net interest income	32,105
Provision for losses	2,884
Net interest income after provision for losses	29,221
Other income:	
Loan service and loan related fees	1,378
Gain on mortgage-backed securities sales, net	3,638
Loss on loan and loan servicing sales, net	(53)
Income from real estate operations, net	1,946
Other income	1,215
Total other income	8,124
Other expenses - general and administrative	27,816
Earnings before income tax provision	9,529
Income tax provision (benefit)	(3,015)
Net earnings	$ 12,544

Consolidated Statement of Cash Flows
For the year ended December 31, 1996

Cash flows from operating activities:		
Net earnings	$	12,544
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization		1,837
Provision for loan and real estate losses		3,650
Decrease in valuation allowance on net deferred tax asset		8,106
Amortization for discontinued lease operations		(150)
Increase in net deferred tax asset		(5,069)
Amortization and accretion of premiums, discounts and deferred fees		515
Amortization of purchase accounting intangible assets, premiums and discounts, net		(185)
Gain on sale of investment and mortgage-backed securities		(3,638)
Loss on sale of loans and loan servicing		53
Gain on real estate sales		(2,710)
Federal Home Loan Bank stock dividend		(853)
Increase in accrued interest receivable		(2,173)
Increase in accrued interest payable		5,539
Increase in other assets		(10,317)
Increase in accrued expenses		14,783
Net cash provided by operating activities		
Cash flows from investing activities:		
Increase in securities purchased under agreements to resell		35,000
Proceeds from sales of investment and mortgage-backed securities available-for-sale		162,087
Investment and mortgage-backed security principal repayments and maturities		52,380
Loan originations, net of repayments		41,610
Purchase of investments and mortgage-backed securities available-for-sale		(466,748)
Purchase of mortgage-backed securities held-to-maturity		(20,971)
Costs capitalized on real estate		(2,228)
Proceeds from sale of real estate		40,217
Additions to premises and equipment		(1,081)
Sales of premises and equipment		785
Net cash used in investing activities		(158,949)

Consolidated Statement of Cash Flows (Continued)
For the year ended December 31, 1996

Cash flows from financing activities:		
Cash contributions to additional paid-in capital	$	102
Interest deferred and added to senior debt		1,165
Net decrease in deposits		(102,075)
Net increase in securities sold under agreements to repurchase		192,433
Issuance of FHLB advances		113,900
Repayment of FHLB advances		(65,646)
Net cash provided by financing activities		139,879
Net increase in cash and cash equivalents		2,862
Cash and cash equivalents at beginning of year		19,058
Cash and cash equivalents at end of year	$	21,920
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$	83,691
Income taxes		247
Supplemental schedule of noncash investing and financing activities:		
Foreclosed real estate	$	42,518
Loans originated in connection with sale of foreclosed real estate		12,608

a. **General**

On May 22, 1995, a plan of reorganization of SoCal Holdings, Inc. ("the Company") was adopted by the shareholders of the Company, under which existing shareholders of the Company agreed to invest an aggregate of $58.5 million in new debt and equity securities of the Company. Under an existing commitment, one of the shareholders agreed to purchase from the Company for $1.9 million a Senior Note due 2002 which was also contributed to the capital of the Company. The shareholders also contributed the Company Senior Notes due 2002 (including all accrued and unpaid interest thereon) acquired by them in 1992 to the capital of the Company.

The gross proceeds from the sale of such debt and equity securities less $36,572 used by the Company to redeem all of the Series A and Series B Preferred Stock of the Company, or $60.4 million, was contributed by the Company to the capital of Southern California Federal Savings and Loan Association ("the Association") on June 1, 1995. Pursuant to a related Plan of Reorganization of the Association adopted on May 15, 1995 by the shareholders of the Association, the Association redeemed all outstanding shares of the Association Series A and Series B Preferred Stock for an aggregate of $19,688. The remaining net proceeds totaling $60.4 million were utilized to increase the Association's capital level. Upon consummation of the recapitalization of the Company and the Association was "adequately capitalized".

On May 31, 1995, the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC) had approved the recapitalization of the Company and the Association in accordance with the plans of reorganization of the Company and the Association. Upon written submission to the OTS that the Association became adequately capitalized upon consummation of the recapitalization, effective June 1, 1995, certain regulatory sanctions against the Association were removed and the Association was deemed not subject to 12 C.F.R. Section 565.5 relating to the filing of and compliance with capital restoration plans.

b. Accounting Policies

The following is a description of significant accounting and reporting policies that the Savings Bank follows in preparing and presenting its consolidated financial statements. The Savings Bank's financial statements are prepared in accordance with GAAP that conform to general practice within the savings and loan industry and includes the accounts of its subsidiaries and the Association together with its subsidiaries, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

Fees on Loans and Mortgage-Backed and Investment Securities

The Association defers origination and related fees on loans and certain direct loan origination costs. Deferred fees, net of any deferred costs, are recognized over the life of the related asset as adjustment of the asset's yield during the interest method. Calculation of the yield is done on the aggregate method, and prepayments are anticipated where there are a large number of similar loans, or similar loans collateralizing a security, for which prepayments are probable and the timing and amount of prepayments can be reasonable estimated based on market consensus prepayment rates. Otherwise, a loan-by-loan or security-by-security rather than an aggregate approach is used. The yield on adjustable rate loans and securities is calculated based upon the fully adjusted rate in effect when the loan or security is originated or purchased, and is not adjusted for subsequent changes in rates. Initial estimates of prepayment rates are evaluated periodically against actual prepayment experience and current market consensus prepayment forecasts, and if significantly different from the original estimate, the yield is recalculated.

Commitment Fees
Commitment fees received in connection with the origination or purchase of loans are deferred and recognized over the life of the resulting loans as an adjustment of yield. If the commitment, or a portion thereof, expires unexercised, deferred commitment fees are recognized in income upon expiration of the commitment. There were no expired commitment fees recognized during the year ended December 31, 1996. Direct costs, if any, to originate a commitment are expensed as incurred.

Commitment fees paid to an investor in connection with the sale of loans are expensed and reduce the net sales proceeds at the time of sale.

Investment Securities and Loans
Management determines the appropriate classification of its securities (mortgage-backed and investment securities) and loans at the time of purchase or origination.

Securities available-for-sale - Securities to be held for indefinite periods of time and not intended to be held-to-maturity are classified as available-for-sale. Assets included in this category are those assets that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk and other factors related to interest rate and resultant prepayment risk changes. Securities available-for-sale are recorded at fair value. Both unrealized gains and losses on securities available-for-sale, net of taxes, are included as a separate component of shareholders' equity in the consolidated statements of financial condition until these gains or losses are realized. Gains or losses on sales of securities were based on the specific-valuation method. If a security has a decline in fair value that is other than temporary, then the security will be written down to its fair value by recording a loss in the consolidated statements of operations.

Securities held-to-maturity - Securities that management has the intent and the Association has the ability at the time of purchase or origination to hold until maturity are classified as securities held-to-maturity. Securities in this category are carried at amortized cost adjusted for accretion of discounts and amortization of premiums using the interest method over the estimated life of the securities. If a security has a decline in fair value below its amortized cost that is other than temporary, then the security will be written down to its new cost basis by recording a loss in the consolidated statements of operations.

Loans held-for-sale - Loans held-for-sale in connection with the Association's secondary marketing activities are recorded at the lower of amortized cost or fair value. Unrealized losses are included in the consolidated statements of operations.

Federal Home Loan Bank (FHLB) stock - this asset is owned due to regulatory requirements and is carried at cost. This stock is pledged as collateral to secure FHLB advances.

Impaired Loans

A loan is impaired when it is "probable" that a creditor will be unable to collect all amounts due (i.e., both principal and interest) according to the contractual terms of the loan agreement. The measurement of impairment may be based on (1) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate, (2) the observable market price of the impaired loan or (3) the fair value of the collateral of a collateral dependent loan. The amount by which the recorded investment of the loan exceeds the measure of the impaired loan is recognized by recording a valuation allowance.

Interest income on impaired loans is recognized on a cash basis if it is determined that collection of principal is probable. Loans that are 90 days or more past due, or when full collection of principal and interest is not probable, are placed on nonaccrual status and interest income that has been earned but not collected is reversed. Loans are returned to accrual status when the borrower has had a period of sustained repayment performance. Management considers all loans formally treated as troubled debt restructurings to be impaired loans in the year of restructuring. Impaired loans are valued based upon the fair value of underlying collateral, if collateral-dependent or alternatively, the present value of expected cash flows using the loan's original implicit loan interest rate.

Allowance for Losses
Valuation allowances for losses on loans and real estate are provided on both a specific and general basis. Specific and general valuation allowances are increased by provisions charged to expense and decreased by charge-offs of loans and real estate, net of recoveries. Specific allowances are provided for impaired loans for which the expected loss is measurable. General valuation allowances are provided based on a formula which incorporates a number of factors, including economic trends, industry experience, estimated collateral values, past loss experience, the Association's underwriting practices, and management's ongoing assessment of the credit risk inherent in the asset portfolio. The Association periodically reviews the assumptions and formula by which additions are made to the specific and general valuation allowances for losses in an effort to refine such allowances in light of the current status of the factors described above.

While management uses the best information available to make the periodic evaluations of specific and general valuation allowances, adjustments to both allowances may be necessary if actual future economic conditions differ substantially from the assumptions used in making such periodic evaluations. Regulatory examiners may require the Association to recognize additions to the allowance based upon their judgments about information available to them at the time of their examination.

Real Estate Held for Investment and for Sale
Real estate held for investment consists of investments in limited partnerships which were acquired for development and sale. Real estate held-for-sale consists of property acquired in settlement of loans. Real estate held for investment and for sale is carried at fair value, net of anticipated selling costs. fair value is determined based on recent appraisals or discounted cash flow calculations. Gains or losses on sales of real estate, net of selling and other costs, are recognized at the time of sale.

Real estate acquired in settlement of loan is recorded at the date of acquisition at the lower of the related principal balance upon foreclosure, or at its fair value, less estimated disposition costs. The excess of the loan balance over fair value of the asset acquired, if any, is charged to the allowance for loan losses upon foreclosure. Subsequent to foreclosure, additional decreases in the carrying value of foreclosed properties are recognized through a provision charged to operations. An allowance for losses equal to the excess of the book value over the fair value of the property, less estimated selling costs is maintained. The allowance for losses is increased or decreased for subsequent changes in estimated fair market value. Costs of developing

Depreciation and Amortization
Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which ranges from 3 to 25 years. Leasehold improvements are amortized using the straight-line method over the lives of the assets or term of the lease, whichever is shorter. Maintenance and repairs are expensed as incurred.

Taxes on Income
The Savings Bank uses the asset and liability method for measurement and recognition of income taxes. The balance sheet amounts of net deferred tax assets or liabilities are recognized on the temporary differences between the basis of assets and liabilities as measured by tax laws and their financial statement basis, plus available tax operating loss carryforwards and tax credit carryforwards, reduced by a valuation allowance for that portion of tax assets not considered more likely than not to be realized. Deferred income tax (benefit) is recognized for the change in net deferred tax assets or liabilities, plus the valuation allowance change. Current income tax is the amount of total taxes currently payable.

Derivatives and Hedging Activities
The Association uses interest rate swap (swaps), interest rate cap (caps), interest rate floor (floors), and interest rate corridor (corridors) contracts in the management of its interest rate risk. The objective of these financial instruments is to more closely match the estimated repricing duration and/or repricing characteristics of specifically identified interest-sensitive assets and liabilities to reduce interest rate exposure. Such contracts are used to reduce interest rate risk and are not used for speculative purposes and, therefore, are not marked-to-market. The net interest income or expense, net of amortization of premiums, discounts and fees, from these contracts, is recognized currently on an accrual basis over their term in interest expense in "hedging costs, net" in the consolidated statements of operations.

Premiums paid for and discounts associated with, and costs and fees of interest rate swap, cap, floor and corridor contracts, are amortized or accreted into interest expense on a straight-line basis over the life of the contracts.

Cash and Cash Equivalents
For the purposes of the consolidated statements of cash flows, the Savings Bank considers all highly liquid debt instruments (investments) purchased with a maturity of three months or less to be cash equivalents. This currently includes cash and amounts due from banks, Federal funds sold, and time certificates of deposit.

c. Securities Purchased under Agreements to Resell

The Association purchases securities under agreements to resell at a later date at a set price. generally collateralized by AA or higher rated mortgaged-backed securities. The average outstanding balance was approximately $58,919,000 for the year ended December 31, 1996. The maximum outstanding balance at any month-end was $25,000,000 during 1996. The weighted average interest rate on such agreements was approximately 5.53% during the year ended December 31, 1996. The securities pledged as held by a third-party institution.

d. Securities - Available for Sale

The Association holds certain securities available-for-sale. The amortized costs, unrealized gains and losses, and estimated fair value of securities available-for-sale at December 31, 1996 were as follows: (in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Debt securities issued by government agency - due after one year through five years	$ 40,023	$ --	$ (1,309)	$ 38,714
Mortgage-backed securities	458,362	170	(4,945)	453,587
Total securities available-for-sale	$ 498.385	$ 170	$ (6.254)	$ 492.301

Proceeds from sales of mortgage-backed securities available-for-sale, were approximately $162,087,000 for the year ended December 31, 1996, and resulted in gross realized gains of approximately $3,860,000, and gross realized losses of approximately $222,000 for the year ended December 31, 1996.

At December 31, 1996, the amortized cost and estimated fair value of mortgage-backed securities available-for-sale pledged to secure borrowings and swap agreements are as follows: (in thousands)

	Amortized Cost	Estimated Fair Value
Pledged against:		
Securities sold under agreements to repurchase	$ 209,328	$ 206,264
Advances from Federal Home Loan Bank	94,824	93,795
Swap and corridor agreements	8,442	8,259
Treasury Tax and Loan Account	5,056	4,874
Loan servicing custodial deposit account	4,614	4,554
	$ 322,264	$ 317,746

e. Loans Held for Sale

In connection with its secondary marketing activities, the Association originates and holds for short time periods certain loans for sale rather than held for investment. There were no loans held-for-sale at December 31, 1996. There were no loans sold in 1996. There were no sales of servicing during the year ended December 31, 1996.

In the year ended December 31, 1996 write-offs of excess servicing fees receivable totaled approximately $18,000, and are included in loss on loan and loan servicing sales in the accompanying consolidated statement of operations.

f. Mortgage-Backed Securities Held-to-Maturity

The amortized cost, unrealized gains and losses, and estimated fair value of mortgage-backed securities at December 31, 1996 are as follows: (in thousands)

Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
$ 20,971	$	$ (72)	$ 20,899

Substantially all mortgage-backed securities are collateralized by single-family residence secured loans.

There were no sales of mortgage-backed securities in 1996.

g. Loans Receivable

A summary of loans receivable at December 31, 1996 is as follows: (in thousands)

Real estate loans	
Single-family residential:	
Fixed rate	$ 134,974
Variable rate	460,944
Multi-family, primarily variable rate	453,064
Commercial and industrial, primary variable rate	110,931
Land, primarily fixed rate	1,639
Real estate loans	1,161,549
Commercial loans	3,523
Consumer loans	988
Secured by deposits	2,132
All loans	1,168,192
Less:	
Undistributed loan proceeds	473
Unamortized net loan discounts and deferred origination fees	2,732
Allowance for losses	23,280
	$ 1,141,707

Nonaccrual loans were $18,238,000 at December 31, 1996. If loans which were on nonaccrual at December 31, 1996 had performed in accordance with their terms for the year or since origination, if shorter, interest income from these loans would have been $1,405,000. Interest collected on the loans for this year was $846,000.

The Association's variable rate loans are indexed primarily to the Federal Home Loan Bank Eleventh District Cost of Funds Index (COFI).

Substantially all real estate collateralized loans are secured by first trust deeds. The Association's loan portfolio is concentrated primarily in the state of California. The commercial real estate secured portfolio is diversified with no significant industry concentrations of credit risk. Single-family residence, multi-family, and commercial real estate secured loans are diversified geographically across the state by size.

At December 31, 1996, the Association had loan applications pending to originate loans of approximately $5,562,000. Other than pending loan applications at year end, the Association had no outstanding commitments to originate or purchase loans.

h. Allowance for Losses and Provision for Losses

Analysis of the activity in the allowance for losses for loans for the year ended December 31, 1996 is as follows: (in thousands)

Balance, December 31, 1995	$ 31,572
Provision for losses	2,884
Charge-offs, net	(11,176)
Balance, December 31, 1996	$ 23,280

The Association's gross impaired loans were $31,149,000 as of December 31, 1996. The average impaired loans for the years then ended were $36,897,000. Gross impaired loans with a valuation allowance totaled $23,779,000 and gross impaired loans without a valuation allowance totaled $7,370,000 at December 31, 1996. Interest income recognized related to these loans was $1,752,000.

The valuation allowance related to impaired loans was $6,652,000 at December 31, 1996 and is included in the schedule of allowance for loan losses described above.

Troubled debt restructurings totaled $11,430 as of December 31, 1996. The Association has no commitments to lend additional funds to borrowers whose loans were classified as troubled debt restructurings at December 31, 1996.

i. Real Estate Held for Investment and for Sale

Real estate at December 31, 1996 consisted of the following: (in thousands)

Acquired for sale or development	$ 8,641
Less allowance for losses	(6,516)
Acquired for sale or development	2,125
Acquired in settlement of loans	
Single-family residential	3,309
Multi-family	8,341
Commercial and industrial	8,614
Land	244
	20,508
Less allowance for losses	(72)
Acquired in settlement of loans	20,436
	$ 22,561

A summary of the components of the income from real estate operations for the year ended December 31, 1996 is as follows: (in thousands)

Gross income from real estate operations	$ 4,761
Operating expenses	5,395
Loss from operations	
Gain on real estate sales	3,346
Gain from real estate operations	
Provisions for losses	(766)
Total income from real estate operations	$ 1,946

An analysis of the activity in the allowance for losses for real estate acquired and direct real estate investments for the year ended December 31, 1996 is as follows: (in thousands)

	Real Estate-Acquired	Direct Real Estate Investments	Total
Balance, December 31, 1995	$,460	$ 6.526	$ 7,986
Provision for losses	396	370	766
Charge-offs, net	(1,784)	(380)	(2.164)
Balance, December 31. 1996	$ 72	$ 6,516	$ 6.588

j. Premises and Equipment

Premises and equipment at December 31, 1996 consisted of the following: (in thousands)

Land	$ 521
Buildings	837
Furniture, fixtures and equipment	11,405
Leasehold improvements	4,906
	17,669
Less accumulated depreciation and amortization	(11.407)
	$ 6,262

The Association is committed to operating leases on certain premises. Certain of these leases require the Association to pay property taxes and insurance. Some are subject to annual inflation adjustments, and have renewal options of various rates. Lease expense on all property totaled approximately $2,144,000, net of sublease income of approximately $452.000 for the year ended December 31, 1996.

Approximate minimum lease commitments under noncancelable leases at December 3 1996 are as follows: (in thousands)

Year	Gross	Sublease	Net
1997	$ 2,265	$ 424	$ 1,841
1998	2,080	249	1,831
1999	2,035	158	1,877
2000	1,895	152	1,743
2001	5,183	76	5,107
Thereafter	2,921		2,921

k. Deposits

Deposits at December 31, 1996 consisted of the following: (dollars in thousands)

	Amount	Weighted Average Rate
Transaction accounts:		
NOW accounts	$ 63,776	0.80%
Passbook accounts	281,907	4.52
Money market accounts	24,518	2.62
Transaction accounts	370,201	
Term certificates:		
3-month	5,428	4.05
6-month	75,479	5.02
12-month	384,211	5.51
18-month	205,659	5.62
24-month	108,359	5.99
36-month	11,409	5.93
49-month	1,924	5.54
60-month	44,183	6.23
Public funds	5,704	6.07
$100,000 and over	158,686	5.70
Time certificates	1,001,042	5.61
	$ 1,371,243	5.11%

Term certificates of deposit outstanding by scheduled maturity date at December 31, 1996 are as follows: (dollars in thousands)

	Amount	Weighted Average Rate
Due within 3 months	$ 225,614	5.60%
Due within 3 to 6 months	262,321	5.44
Due within 6 to 9 months	170,454	5.63
Due within 9 to 12 months	232,362	5.80
Due within 12 to 24 months	78,377	5.69
Due within 24 to 36 months	26,705	5.16
Due after 36 months	5,209	6.02
	$ 1,001,042	5.61%

The components of deposit interest expense for the year ended December 31, 1996 is as follows: (in thousands)

NOW accounts	$ 449
Passbook and money market accounts	12,288
Term certificates - under $100,000	52,556
Term certificates - $100,000 and over	10,030
	75,323
Interest forfeitures on early withdrawals	(187)
	$ 75,136

I. Securities Sold under Agreements to Repurchase

The Association enters into sales of agency and AA rated mortgage-backed securities under agreements to repurchase (reverse repurchase agreements) which obligate the Association to repurchase the identical securities as those which were sold. Such transactions are treated as a financing, with the obligations to repurchase securities sold reflected as a liability and the carrying amount of securities collateralizing the liability included in mortgage-backed securities in the consolidated statements of financial condition.

The maximum repurchase liability balances outstanding at any month end during the year ended December 31, 1996 was approximately $192,433,000. The average balance outstanding during the year ended December 31, 1996 was approximately $253,712,000.

The securities sold under agreements to repurchase identical securities are held in safekeeping by broker/dealers. It is management's policy to enter into repurchase agreements only with broker/dealers who are regarded as primary dealers in these securities and meet satisfactory standards of capitalization and creditworthiness.

m. Advances from the Federal Home Loan Bank

Advances from the Federal Home Loan Bank of San Francisco at December 31, 1996 are collateralized by mortgage-backed agency securities and mortgage loans with a current principal balance of approximately $93,795,000, and by the investment in the stock of the Federal Home Loan Bank of San Francisco with a carrying value at December 31, 1996 of approximately $15,380,000.

At December 31, 1996, the Association had a collateralized available line of credit of approximately $352,000,000 with the Federal Home Loan Bank of San Francisco.

The scheduled maturities and weighted average interest rates of advances at December 31, 1996 are as follows: (in thousands)

Year of Maturity	Amount	Weighted Average Rate
1997	$ 31,000	5.76%
1998	49,000	6.01
	$ 80,000	5.91%

n. Senior Debt

On June 1, 1995, the Savings Bank issued $10,000,000 par of unsecured Senior Notes (the Notes) in conjunction with the Plan of Reorganization of the Savings Bank. The Notes contain an initial pay rate and accrual rate of 7% and 10.75%, respectively, and the accrual rate increased to 11.15% on June 30, 1996. The difference between the pay rate and accrual rate is deferred and compounded annually at the accrual rate commencing on June 30, 1996. Interest of approximately $1.8 million, calculated at the pay rate of 7%, is payable September 30, 1997 for the period from issuance of the Notes to that date. Thereafter, interest at the pay rate is payable quarterly.

Principal and deferred interest payments on the Notes are due as follows: (in thousands)

Date	Principal	Deferred Interest	Total
June 30, 2001	$ 2,000	$ 556	$ 2,556
June 30, 2002	2,000	668	2,668
June 30, 2993	2,000	758	2,758
June 30, 2004	2,000	929	2,929
June 30, 2005	2,000	1,078	3,078
	$ 10,000	$ 3,989	$ 13,989

The Savings Bank may repay all or part of the outstanding balance of the Notes at any time without penalty. Payments are applied proportionately to principal and deferred interest.

The ability of the Savings Bank to make interest and principal payments on the Notes is primarily dependent upon dividends from the Association. The Association may make dividend payments only if it is adequately capitalized and generating earnings from operations.

o. Income Taxes

The Savings Bank and its subsidiaries file a consolidated tax return with the Savings Bank. The Savings Bank entered into a tax sharing agreement with the Association whereby the Association computes and pays taxes based upon the Association's tax position assuming that a separate tax return was filed. However, while the senior debt is outstanding at the Savings Bank, the payment to the Savings Bank is limited to the amount of consolidated taxes.

The income tax provision (benefit) for the year ended December 31, 1996 consisted of the following: (in thousands)

Current:	
Federal	$ 16
State	6
Total current	22
Deferred:	
Federal	(3,037)
State	--
Total deferred	(3,037)
Total tax provision	$ (3,015)

Deferred taxes result from "temporary differences" caused by differences in the periods in which financial statement income and taxable income are reported. Deferred taxes also result from recognition of future benefits from available net operating loss carryforwards (NOLs) and tax credit carryforward whose probability of realization is deemed to be more likely than not.

The realization of tax benefits of deductible temporary differences and NOL carryforwards depends on whether the company has sufficient taxable income within the carryforward periods as permitted by the tax law to allow for utilization of the deductible amounts. As of any period end, the amount of deferred tax asset that is considered realizable could be reduced if estimates of future taxable income are reduced. Based on the Savings Bank's projected taxable earnings, management believes it is more likely than not that the Savings Bank will realize the benefit of the existing net deferred tax asset at December 31, 1996.

The Savings Bank had the following total Federal and state deferred tax assets and liabilities computed at the Federal statutory income tax rate and the California statutory franchise tax rate as of December 31, 1996: (in thousands)

	Federal	State	
Deductible temporary differences	$ 21,322	$ 11,504	$ 32,826
Available NOL carryforwards	52,349	1,168	53,517
AMT tax credit carryforwards	1,201	--	1,201
Total deferred tax assets	74,872	12,672	87,544
Taxable temporary differences	(6,614)	(746)	(7,360)
Total deferred tax liabilities	(6,614)	(746)	(7,360)
Deferred tax assets, net of deferred tax liabilities	68,258	1,926	80,184
Less deferred tax asset valuation allowances	(62,571)	(11,926)	(74,497)
	$ 5,687	$ -	$ 5,687

The major components of deferred deductible and taxable temporary differences at the Federal statutory tax rate of 34% and the California Franchise Tax rate of 10.8%, before valuation allowances, for the years ended December 31, 1997 are as follows: (in thousands)

Deductible temporary differences	
Provision for losses on loans and real estate	$ 18,744
Tax gains on sales of loans, net of deferred gains	1,882
Recognition of interest on nonperforming loans for tax in excess of book	
Accrued interest on deposits recognized for book but deferred for tax	1,614
Miscellaneous temporary deductible differences	7,464
Total deductible temporary differences	
Taxable temporary differences:	
Stock dividends from FHLB	(2,557)
Real estate partnership tax losses	(253)
Miscellaneous temporary taxable differences	(892)
Federal tax effect of state temporary differences, net	(3,658)
Total taxable temporary differences	(7,360)
Total net deductible temporary differences	$ 25,466

The Federal and state tax net operating loss carryforwards expire as follows: (in thousands)

Year	Federal	State	Total
1997	$ 1,903	$ 16	$ 1,919
1998	984	2,282	3,266
1999	1,113	7,242	8,355
2000	--	117	117
2001	510	1,118	1,628
2002	21,984	--	21,984
2003	24,444		24,444
2004	26		26
2008	5,917		5,917
2009	14,706		14,706
2010	78,436		78,436
2011	3,946		3,946
	$ 153,969	$ 10,775	$ 164,744

The Savings Bank had Federal alternative minimum tax credit carryforwards of approximately $1,201,000 at December 31, 1996.

In 1992, issuance of preferred stock resulted in a change of control as defined under Internal Revenue Code Section 382. As a result, usage of the tax net operating loss carryforwards to offset Federal and state tax return taxable income is limited to approximately $7.7 million per year. Any unused limitation is available in subsequent years until expiration. The net operating loss available in 1997 is approximately $38.7 million.

The Savings Bank is subject to examination by Federal and state taxing authorities for tax returns filed in previous periods. The results and effects of these examinations on individual assets and liabilities may require adjustment to the tax assets and liabilities based on the results of their examinations. Management believes that the effects of such examinations will not have a material effect on the Savings Bank.

p. Shareholders' Equity

In connection with its Plan of Reorganization, effective June 1, 1995, the Savings Bank issued additional stock as follows:

Class	Par Value	Number of Shares	Amount of Proceeds
Common stock	$ .01	6,158	$
Preferred stock, Series C, voting cumulative and nonconvertible	.01	85,000	8,500,000
Preferred stock, Series D, noting, cumulative and nonconvertible	.01	68,000	6,800,000
Preferred stock, Series E, nonvoting, cumulative and nonconvertible	.01	332,000	33,200,000

Dividends are payable if and when the Board of Directors of the Savings Bank declare such dividends out of the assets of the Savings Bank, which by law are available. Cash dividends are payable on the last day of each quarter commencing on June 30, 1995 at the following per share quarterly rates for each class: Series C - $2.95, Series D - $3.00, and Series E - $3.00. To the extent a quarterly dividend is not paid in full, it shall accrue and compound additional dividends on an annual basis commencing on June 30, 1996 at the rate for that class of stock. As long as any Series C stock remains outstanding, no dividends may be declared or paid on the Savings Bank common stock, or the Series D or Series E preferred stock. The Series D and Series E preferred stock rank on parity with each other in terms of rights to dividends. No dividends have been declared or paid.

In connection with their contribution of the Savings Bank's Senior Notes due 2002 to the capital of the Savings Bank, 6,158 additional shares of common stock were issued to the Savings Bank's shareholders for no compensation. The previously outstanding Series A and Series B preferred stock were redeemed for a cost of $35,572.

There are certain restrictions on the ability of the common shareholders to transfer their ownership in the common stock of the Savings Bank, under the terms of both a shareholders' agreement entered into connection with the issuance of the Senior Notes in 1995 and common shareholders' agreement. Additionally, the shareholders have a right of first refusal with respect to any capital stock issued by the Association.

q. Derivatives and Hedging Activities

Hedging costs, net, for the year ended December 31, 1996 consist of the following: (in thousands)

Interest paid on swaps, net of interest received	$ 35
Amortization of cost of swaps, caps, floors and corridors, net of interest received	352
	$ 387

Interest rate swaps are contracts where the parties agree to exchange fixed rate for floating rate interest payments, or to exchange floating rate interest payments upon two different rate indices (basis swap), for a specified period of time on a specified (notional) amount. The notional amount is used only to calculate the amount of interest payments to be exchanged and does not represent credit risk. The notional amount and weighted average pay and receive rates are shown below in accordance with their contractual dates. The variable repricing indexes associated with the contracts are three-month London Inter-Bank Offered Rate (LIBOR), one-month LIBOR and COFI which were 5.56%, 5.50% and 4.83%, respectively, at December 31, 1996.

A summary of the swap contract, scheduled maturity date and weighted average rate received and paid at December 31, 1996 is as follows: (dollars in thousands)

	Year of Maturity	Notional Amount	Average Rate Paid	Average Rate Received
Pay floating and receive fixed	1999	$ 7,026	5.56%	5.69%

Swap contracts were entered into to limit the interest rate risk related to the relative repricing characteristics of the Association's interest-bearing deposits. The floating rate on swap contracts reprices at intervals of one to three months based on the current index in effect at that time. If all contracts were repriced at the current index in effect at each year end, the weighted average rate paid and received would be 5.50% and 5.69% at December 31, 1996, respectively.

The notional amount of the swap amortizes monthly based upon the performance of a specific index. The swap is used to reduce interest rate risk associated with fixed rate term liabilities. The performance of the swap is based upon interest rates in general. The above table does not include anticipated amortization relating to the swap. Excluding this transaction, the Association does not have any other positions in complex derivative transactions.

Mortgage-backed securities with book values of approximately $8,442,000 and market values of approximately $8,259,000 at December 31, 1996 are pledged as collateral for certain swap agreements.

The Association has only limited involvement in derivative financial instruments and does not use them for trading purposes. The instruments are used to manage interest rate risk.

The Association has entered into corridor contracts to artificially raise the interest rate cap on certain loans. The corridor contracts provide for the payment of interest on the outstanding principal contract amount. Under such contracts, the Association receives interest if an interest rate that varies according to a specified index exceeds a pre-set level (the strike rate) up to an upper limit (the limit) beyond which additional interest is not received if the rate increases. The index on the Association's corridors is COFI or three month LIBOR. A summary of corridor contracts and average interest rate ranges at December 31, 1996 is as follows: (dollars in thousands)

Year of Maturity	Contract Amount	Average Strike Point	Average Limit Rate
1997	$ 20,000	6.64%	8.23%
1998	5,000	6.38	8.13
1999	20,000	6.64	8.23
2000	12,000	6.38	8.13
2001	20,000	6.64	8.23
	$ 77,000	6.58%	8.21%

The Association's floor contract provides for payment of interest on the outstanding principal contract amount. Under such contracts, the Association receives interest if an interest rate that varies according to a specified index falls below a present level (the floor rate). The index on the Association's floor is three month LIBOR. The contract amount is $20,000,000 with a floor rate of 4.50% and receive rate of 5.54%. The contract matures in 1997.

r. Benefit Plans

The Association has had a noncontributory defined benefit pension plan (the Plan) covering substantially all of its employees hired before 1990. The benefits are based on years of service and the employee's highest compensation during the last five consecutive years of employment prior to 1991. The Plan was frozen effective December 31, 1990, and consequently, employees will no longer earn additional defined benefits for future services; however, future service may be counted toward vesting of benefits accumulated based on past service. The Association's funding policy has been to contribute annually the minimum amount that can be deducted for Federal income tax purposes.

The following table sets forth the funded status of the Plan and amounts recognized in the Association's consolidated statements of financial condition at December 31, 1996: (in thousands)

Actuarial present value of benefit obligation		
Vested benefits	$	(4,804)
Nonvested benefits		(255)
Accumulated benefit obligations	$	(5,059)
Projected benefit obligation for services rendered to date	$	(5,059)
Plan assets at fair value, primarily cash and cash equivalents, listed stocks and U.S. bonds		4,492
Projected benefit obligation in excess of Plan assets		
Additional minimum liability		(1,117)
Unrecognized net loss		1,117
Pension liability recognized in the consolidated statements of condition	$	(567)

Net periodic cost included the following components: (in thousands)

Service costs/benefits earned during the period	$	--
Interest cost on projected benefit obligation		367
Actual return on Plan assets		(203)
Net amortization and deferral		(155)
Net periodic pension cost	$	9
Assumptions used:		
Discount rate		7.50%
Expected long-term rate of return		9.00

The Association adopted a 401(k) plan, effective January 1, 1991. The 401(k) plan covers employees with one year or more of service, and allows participants to contribute a portion of their covered compensation, which amount is 100% vested at the time of contribution. The Association shall contribute an amount equal to 50% of the participant's contribution up to 6% of the participant's covered compensation, which amount vests over a period of five years. The Association may elect to make additional contributions on a discretionary basis. The contributions as directed by the participants are invested by the 401(k) plan's trustee in one or more of five investment alternatives in trust for the benefit of the participant. The Association incurred approximately $155,000 of expense related to the 401(k) plan for the year ended December 31, 1996.

s. Commitments and Contingencies

The Savings Bank is involved in litigation arising in the normal course of business. Based on information from internal and external legal counsel, and review of the facts and circumstances of such litigation, management is of the opinion that the ultimate resolution of all pending litigation proceedings will not have an adverse material effect on the Savings Bank.

t. Fair Value of Assets and Liabilities

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated statements of financial condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent market and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Savings Bank.

The carrying amounts and fair values of the Savings Bank's financial instruments consisted of the following at December 31, 1996: (in thousands)

	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 21,920	$ 21,920
Securities available-for-sale	492,301	492,301
Mortgage-backed securities held-to-maturity	20,971	20,899
Loans receivable	,141,707	,130,593
Federal Home Loan Bank stock	15,380	15,380
Financial liabilities:		
Deposits	,371,243	,387,867
Securities sold under agreements to repurchase	192,433	192,433
Advances from the Federal Home Loan Bank	80,000	80,000
Senior debt	11,398	11,398
Financial instruments:		
Interest rate swaps		(5)
Interest rate floors	26	(2)
Interest rate corridors	719	458

The following methods and assumptions were used to estimate the fair value of each type of financial instrument:

Cash and Cash Equivalents - The carrying amount approximates the fair value for cash and short-term investments.

Securities Available-for-Sale - Fair value is based on quoted market prices or dealer quotes.

Mortgage-Backed Securities - Fair value is based on quoted market prices or dealer quotes.

- *Loans Receivable* - For residential real estate loans, fair value is estimated by discounting projected future cash flows at the current market interest rates for mortgage-backed securities collateralized by loans of similar coupon, duration and credit risk, adjusted for differences in market interest rates between loans and securities. The fair value of multi-family and commercial real estate loans is estimated by discounting the future cash flows using the current interest rates at which loans with similar terms would be made on property and to borrowers with similar credit and other characteristics and with similar remaining terms to maturity. Impaired loans are valued based upon the fair value of underlying collateral, if collateral dependent or alternatively, the present value of expected cash flows using the loan's original implicit loan interest rate.

Federal Home Loan Bank Stock - The carrying amount of Federal Home Loan Bank Stock approximates its fair value.

Deposits - The fair values of NOW accounts, passbook accounts and money market accounts withdrawable on demand without penalty are, by definition, equal to the amount withdrawable on demand at the reporting date, which is their carrying amount. The fair value of term certificates of deposit, all of which are fixed maturity bearing a fixed rate of interest, is estimated by discounting future projected cash flows at interest rates approximating interest rates currently offered by the Association for similar types of certificates of deposit for similar remaining terms to maturity.

Securities sold under Agreements to Repurchase - The carrying amount of securities sold under agreements to repurchase approximates their fair value.

Advances from the Federal Home Loan Bank - The fair value is estimated by discounting projected future cash flows at the current advance interest rates available to the Association for Federal Home Loan Bank advances with similar terms for similar remaining terms to maturity.

Interest Rate Swaps, Caps, Floors and Corridors - The fair value of interest rate swaps is based upon dealer quotes or estimated by discounting projected future cash flows at the current market interest rates for interest rate swaps of similar terms and counterparty credit risk for the same remaining terms to maturity. The fair values of interest rate caps, floors and corridors are also based upon dealer quotes or estimated using option pricing models utilizing current market consensus assumptions for interest rate caps, floors and corridors of similar terms and strike or floor prices for the same remaining term to maturity.

u. Regulatory Capital Requirements

The Association is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory -- and possibly additional discretionary -- actions by regulators that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative measures of the Association's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Association's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Association to maintain minimum amounts and ratios (set forth in the table below) of total and tangible capital (as defined in the regulation) to adjusted tangible assets (as defined) and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I leverage capital (as defined) to adjusted tangible assets (as defined). Management believes, as of December 31, 1996, that the Association meets all capital adequacy requirements to which it is subject.

As of December 31, 1996, the Association was adequately capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Association must maintain minimum total risk-based ratio of 8%, Tier I risk-based ratio of

4% and Tier I leverage ratio of 4%. There are no conditions or events since that notification that management believes have changed the institution's category.

Under the framework, the Association's capital levels do not allow the Association to accept brokered deposits without prior approval from regulators. The Company does not plan to solicit for such deposits.

While all insured institutions are required by OTS regulations to meet these minimum regulatory capital requirements, the Association has regulatory Assistance Agreements which were entered into with the Federal Savings and Loan Insurance Corporation (FSLIC) as part of the Company's purchase of the Association in 1987, and which provides for an additional $133,400,000 of regulatory capital at December 31, 1996. Until the passage of the Financial Institution Reform Recovery and Enforcement Act (FIRREA), the Association met all capital requirements by including the additional Assistance Agreement capital amount in regulatory capital.

The position of the OTS was and continues to be that under FIRREA, Assistance Agreements which provide additional regulatory capital and/or capital forbearances are no longer in effect as of December 7, 1989. The OTS notified the Association in 1990 that the additional Assistance Agreement capital amounts cannot be included in meeting the FIRREA capital requirements, and as a result thereof, the OTS believed the Association did not meet minimum FIRREA capital requirements. Management disagreed, and still disagrees, with the OTS and attempted to preserve all of its rights and remedies under the Assistance Agreements. At December 31, 1996, the Association met all minimum FIRREA regulatory capital.

To preserve its rights under the Assistance Agreement, in 1994, the Company and the Association commenced a lawsuit against the United States Government for breach of contract and deprivation of property without just compensation or due process of law. The lawsuit seeks unspecified monetary compensation for damages sustained in meeting FIRREA mandated capital requirements and for the fair value of property taken, but does not seek reinstatement of the Assistance Agreement capital forbearance. While the outcome of the lawsuit cannot be determined at this time, it is management's opinion, based on the advice of external counsel, that the Association's position has substantial legal merit.

The Savings Bank's ability to pay dividends is dependent upon its earnings from operations and the adequacy of its regulatory capital. As an adequately capitalized institution, the maximum dividend allowable under statute is 75% of the previous four quarters of net earnings less dividends paid in such quarters. The OTS director must be notified of the proposed distribution.

At December 31, 1996, the Association's regulatory capital calculations, computed by management both with and without inclusions of the additional capital provided for in the Association's Assistance Agreements were as follows: (in thousands)

	Regulatory Capital/Standard			
Without Additional Assistance Agreement Capital	**Tangible Capital**	**Tier I Leverage**	**Tier I Risk-Based**	**Total Risk-Based Capital**
Shareholders' equity/GAAP capital	$ 76,610	$ 76,610	$ 76,610	$ 76,610
Adjustment for unrealized losses on securities available-for-sale	6,084	6,084	6,084	
Deduction for direct real estate investments	(1,908)	(1,908)	(1,908)	(1,908)
Deduction for other intangible assets	(714)	(714)	(714)	(714)
Total Tier I capital	80,072			
Includable allowance for loan losses				
Deduction for real estate held for investment				(217)
Total capital	80,072	80,072	80,072	90,841
Minimum capital requirements	26,270	70,053	35,017	70,034
Regulatory capital excess	$ 53,802	$ 10,019	$ 45,055	$ 20,807
Capital ratios:				
Regulatory as reported	4.57%	4.57%	9.15%	10.38%
Minimum capital ratio	1.50	4.00	4.00	8.00
Regulatory capital excess	3.07%	0.57%	5.15%	2.38%

With Additional Assistance Agreement Capital	Regulatory Capital/Standard			
	Tangible Capital	Tier I Leverage	Tier I Risk-Based	Total Risk-Based Capital
Regulatory capital as adjusted	$ 213,472	$ 213,472	$ 213,472	$ 224,241
Minimum capital requirement (per above)	26,270	70,053	35,017	70,034
Regulatory capital excess	$ 187,202	$ 143,419	$ 178,455	$ 154,207

12. Subsequent Events

Savings Bank

In May 1998, the Savings Bank underwent an IPO. Concurrent with the IPO, the Savings Bank's preferred stock (including the Estate's) was converted into shares of common with as 32:1 stock split for common shares. Upon consummation of the IPO, the Estate's ownership in the Savings Bank was reduced to approximately 22 percent and the Estate received net proceeds of approximately $60,942,000 which included a prepayment of its $10,000,000 senior note (plus accrued interest) and preferred stock dividends of approximately $13,006,000. The Estate also recognized a net gain related to this IPO of approximately $16,096,000.

PHC

In July 1998, the Estate initiated a subsidiary reorganization whereby certain assets and liabilities of PHC were merged into Kamehameha Activities Association (KAA), a charitable organization whose exclusive purpose as a supporting organization is to provide funds to the Estate for its educational programs and to advance the mission, vision and goals of the Kamehameha Schools. The purposes of the reorganization were to provide funding for expansion of its educational system and to improve the efficiency of management of its investments by segregating passive and active investments into separate entities. Assets and liabilities not merged into KAA were transferred to a for profit subsidiary.

Attorney General Petition

The Attorney General of the State of Hawaii is conducting an investigation into the affairs of the Estate and its Trustees. Various allegations have been made and court proceedings are in progress. Court rulings are not expected to have a material impact on the Estate's financial position.

Kamehameha Schools Bernice Pauahi Bishop Estate

Schedule of Education Program Revenues and Expenses
For the Year Ended June 30, 1997
(in thousands)

Education Program Revenues:		
Grants	$	3,806
Tuition		2,523
Food services		2,068
Auxiliary enterprise		730
Comprehensive student fees		669
Extension education		634
Other		164
		10,594
Education Program Expenses:		
Salaries		42,621
Financial aid and scholarships		18,130
Employee benefits		13,135
Depreciation		5,607
Supplies		5,145
Professional and other services		5,017
Utilities		2,597
Food services		1,622
Repairs and alterations		1,377
Major maintenance		973
Insurance		928
Rental		789
Staff development		382
Other		373
Expenses, recovered		(322)
		98,374
Excess education program expenses over revenues	$	(87,780)

Kamehameha Schools Bernice Pauahi Bishop Estate

Schedule of Trustees' Commissions
For the Year Ended June 30, 1997

	Commission Base	Computed Commission
Revenue Receipts		
10.00% on first	$ 1,000	$ 100
7.00% on next	4,000	280
5.00% on next	100,000	5,000
3.00% on next	100,000	3,000
2.00% on balance	213,533,290	4,270,666
	$ 213,738,290	4,279,046
Capital Receipts		
2.50%	$ 60,496,731	,512,418
Final Distributions of Capital		
2.50%	$ 25,961,382	649,035
Total commissions earned		6,440,499
Less Waived Commissions (see note below)		
Education revenue receipts	$ 2,802,418	56,048
Capital receipts	60,496,731	1,512,418
Final disbursements of capital	25,961,382	649,035
	$ 89,260,531	2,217,501
Net commissions		$ 4,222,998

Note:

Commissions paid to trustees are governed by State of Hawaii law, more specifically, Hawaii Revised Statutes Sections 607-18 and 607-20. The amounts computed and recorded by the Estate are based upon management's interpretations of the statutes as set forth in the "Trustees' Response Concerning the Computation of Commissions" filed with the Court on February 11, 1998.

Waived commissions represent commissions payable under State law that have been waived by the Trustees. Waived commissions on capital receipts relate principally to The Estate's condominium and single-family residential land sales program. Education revenue receipts exclude federal grant receipts and is net of tuition waivers awarded.

Kamehameha Schools Bernice Pauahi Bishop Estate

Schedule of Income Yield and Total Return
For the Year Ended June 30, 1997

	Total	Expenses	Income Net of Expenses	Net Appreciation (Depreciation)	Total Return	Income Yield %	Benchmark Income Yield %	Total Return %	Benchmark Total Return %
Hawaii Real Estate:									
Commercial properties	$ 67,655,769	$ (35,618,983)	$ 32,036,786	$ 10,479,000	$ 42,515,786	6.37%	8.52%	8.46%	7.14%
Land holdings:									
Agriculture and conservation	1,924,000	(216,878)	1,707,122	31,523,400	33,230,522	0.29%	N/A	5.67%	N/A
Residential, commercial and other	23,086,233	(10,627,033)	112,459,201	(111,709,698)	749,503	3.87%	N/A	0.03%	N/A
Total Hawaii real estate								0.66%	
North American Estate:									
Residential	9,690,852	(200,865)	9,489,987	25,161,433	34,651,419	7.71%	8.74%	28.14%	11.20%
Office	187,973	(80,357)	107,616		107,616	0.38%	9.11%	0.38%	13.93%
Retail	2,233,559	(114,040)	2,119,519	633,061	2,752,580	6.17%	8.30%	8.01%	4.90%
Timber	1,604,182	--	1,604,182	301,206	1,905,388	1.69%	7.28%	2.00%	14.79%
Other	5,714,666	(148,076)	5,566,590	4,757,230	10,323,820	5.15%	8.87%	9.55%	10.71%
Special Situation	144,811,903	(503,717)	144,308,186	155,645,653	299,953,839	16.96%	N/A	35.26%	14.83%
Marketable Securities	6,141,305	(513,997)	5,627,308	46,069,552	51,696,860	1.42%	3.83%	13.09%	18.30%
Venture Capital	(1,340,314)	(10,280)	(1,350,594)	2,780,657	1,430,063	-10.13%	N/A	10.73%	20.01%
Oil and Gas	(6,865,655)	--	(6,865,655)	--	(6,865,655)	-9.45%	N/A	-9.45%	18.00%
Total other investments	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		21.85%	
Total	$ 354,844,473	$ (48,034,224)	$ 306,810,248	$ 165,641,492	$ 472,451,741	5.37%		8.29%	

The accompanying notes are an integral part of the schedule.

Kamehameha Schools Bernice Pauahi Bishop Estate

Schedule of Income Yield and Total Return
3-Year Annualized
June 30, 1997, 1996 and 1995

	Income Yield %	Benchmark Income Yield %	Total Return %	Benchmark Total Return %
Hawaii Real Estate:				
Commercial properties	8.10%	8.52%	6.92%	6.57%
Land holdings:				
Agriculture and conservation	0.22%	N/A	-6.28%	N/A
Residential, commercial and other	2.17%	N/A	-2.44%	N/A
Total Hawaii real estate	2.58%		-2.24%	
North American Real Estate:				
Residential	6.88%	9.03%	28.80%	11.80%
Office	1.84%	9.37%	3.80%	9.26%
Retail	6.41%	8.15%	-3.34%	5.18%
Timber	2.11%	6.92%	19.87%	13.50%
Other	4.01%	8.97%	-2.64%	8.85%
Special Situation	9.49%	N/A	19.83%	18.56%
Marketable Securities	2.86%	4.14%	9.18%	13.79%
Venture Capital	-3.63%	N/A	30.46%	27.40%
Oil and Gas	-12.99%	N/A	-12.99%	7.97%
Total other investments				
Total	3.48%		2.45%	

The accompanying notes are an integral part of the schedule.

1. Purpose and Background

The purpose of these schedules are to report the Estate's income yield and total return results for each investment asset class (and sub classes) as compared to appropriate benchmark indices. The Estate's primary asset classes include:

Real Estate
The Estate's real estate assets are comprised of Hawaii real estate and North American real estate assets. The Hawaii real estate assets can be further divided into traditional land holdings and improved commercial properties. The traditional land holdings are typically leased to third parties under long-term ground leases while the commercial properties are actively managed to generate space rents. Commercial properties as of June 30, 1997 are comprised of 4 shopping centers, 7 office buildings and 2 warehouse facilities.

North American real estate assets consist of pooled and direct investments in residential, office, retail, timberland and a variety of other property types.

Special Situation Investments
Special situation investments are comprised of pooled and single purpose funds primarily in limited partnerships and direct debt and/or equity investments.

Marketable Securities
Marketable security investments are comprised of money market and capital market debt securities and marketable equity investments in domestic and foreign entities.

Venture Capital
Venture capital investments can be defined as high-risk, high-potential-return investments in nonmarketable securities. The Estate's venture capital portfolio currently consists of pooled fund investments in limited partnerships.

Oil and Gas
The Estate's oil and gas investment is comprised of coal seam methane gas well operations in the Southeastern United States.

2. Income Yield

Income yield is determined by dividing total income, net of expenses, by the average fair value of the assets that generate such income. Total income is comprised of rental income (for Hawaii real estate assets), operating income (for the oil and gas operations), interest, dividends, distributions from investments accounted for on the cost method and equity income or losses recognized on investments accounted for on the equity method of accounting.

Expenses deducted from total income include costs directly related to the management of the assets that generate such income. For the Hawaii real estate and oil and gas assets, these expenses are comprised of all direct operating expenses. The expenses related to the other investments consist of internal and external costs directly associated with managing these investments.

Average fair value is derived by dividing the sum of the fair value for the beginning and end of each fiscal year by two. Fair value for the Hawaii real estate, except for agriculture and conservation lands, is based on the taxable values for each fiscal year as assessed by the State of Hawaii for real property tax purposes. Agriculture and conservation lands fair values are based on two times the real property tax assessed values. The fair value of oil and gas investment assets is assumed to approximate the carrying value of the assets. Fair value for the other investments are determined by using various sources and methods which are described in further detail in Note 9 of the Notes to the Consolidated Financial Statements under the captions "marketable debt and equity securities" and "privately placed debt and equity securities."

3. Total Return

Total return is determined by dividing the sum of net appreciation (depreciation) and income net of expenses, by the average fair value of the assets that generate such return. Net appreciation (depreciation) is comprised of realized gains and losses and unrealized increases (decreases) in fair value.

4. Benchmark Indices

The income yield and total return benchmarks by asset and sub-asset classes are as follows:

Asset Class	Description
Hawaii Real Estate:	
Land holdings:	
Agriculture and conservation	None available
Residential, commercial and other	None available

Asset Class	Description
Commercial properties:	
Shopping centers	NCREIF (National Council of Real Estate Investment Fiduciaries) Retail Property Index
Offices	NCREIF Office Property Index
Warehouse	NCREIF Warehouse Property Index
North American Real Estate:	
Residential/Apartment	NCREIF Apartment Property Index
Office	NCREIF Office Property Index
Retail	NCREIF Retail Property Index
Timber	NCREIF Timberland Index
Other	NCREIF Total Property Index
Special Situations	
Income yield	Not applicable
Total Return	Russell 2000 (less 1.5 percent for administrative costs)
Money Market Securities:	
Money Market	Salomon Brother 3-Month CD rate and the 90-day Treasury Bill rate
Fixed Income	Lehman Intermediate Government Corporate Bond Index and Lehman Aggregate Index
Equity	S&P 500, Wilshire 5000 (Wilshire 3000 for income yield) and the Morgan Stanley Pacific Basin Index
Venture Capital	
Income yield	Not applicable
Total return	Brinson Venture Capital Index (less 1.5 percent for administration costs)
Oil and gas	
Income yield	Not applicable
Total return	S&P Oil & Gas (less 2 percent for administrative costs)

There were no applicable indices available to evaluate and benchmark the performance of the Hawaii land holdings. The commercial properties and marketable securities income yield and total return indices were derived by taking the weighted average of the indices described above. The weight applied to each index was based on the average fair value of each sub-asset class to the average fair value for the asset class.

The Estate's special situation, venture capital and oil and gas investments are private equity type investments. The indices used to benchmark these investments are based primarily on publicly traded data.

3. 3-Year Information

The 3-year income yield and total return information presented represents annualized rates.