FDIC State Profile

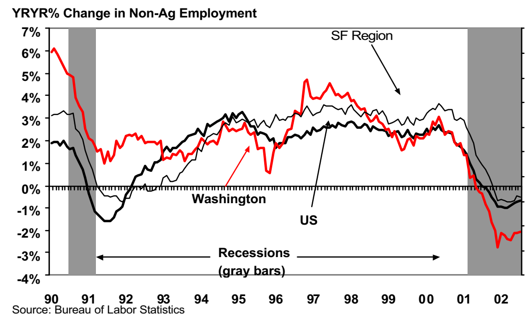
WINTER 2002

Washington

The Washington economy deteriorated significantly in late 2001 and early 2002 and could weaken further if the commercial aerospace industry continues to decline.

- The Washington economy continues to under perform the Region and the nation. All major sectors, except government and finance, insurance, and real estate, shed jobs during the year ending in August 2002 (see chart).
- Boeing, the state's largest employer, cut its workforce by almost 17 percent during the first nine months of 2002.
- Employment in the software and dot-com sectors has also fallen significantly as a result of a sharp decline in demand and a pronounced cutback in venture capital investment in the high-tech sector.

Washington Employment Declined More Than the National and Regional Employment at the Onset of the Recession

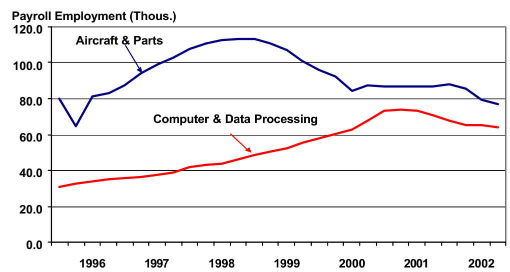


Source: Bureau of Labor Statistics

The effects of Boeing's problems could spread beyond the Seattle Metropolitan Statistical Area (MSA).

- A sharp drop in demand for aircraft resulted from a weakened world economy and the September 11 attacks and has adversely affected demand for Boeing products (see chart).
- A near-term turnaround in the aircraft industry is not anticipated. For example, United Airlines, Boeing's largest commercial customer, is on the verge of bankruptcy.
- The *Seattle* MSA has been particularly hard hit by the cutbacks at Boeing; however, the ripple effects could spread to suppliers and downstream activities throughout the state.

Computer and Data Processing Sector Employment Nears Level of Aircraft and Parts Industry

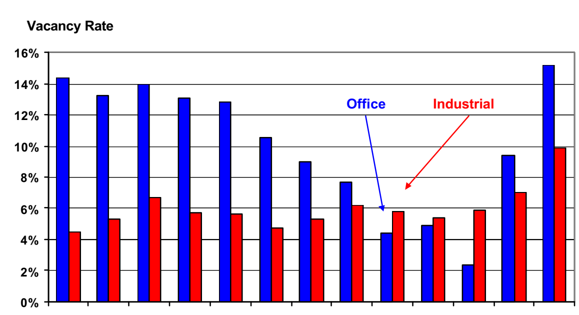


Source: Bureau of Labor Statistics / Haver Analytics

Demand for commercial real estate (CRE) has weakened considerably in the Seattle area.

- The slowing economy and employment cutbacks at Boeing have weakened demand for office and industrial properties in the Seattle MSA. Vacancy rates for these two CRE property types climbed to 15.2 and 9.9 percent, respectively, as of June 30, 2002 (see chart). Seattle's office rent index declined 14 percent in second quarter 2002 from one year ago, and the industrial rent index fell 7 percent during the same period.
- Other Seattle CRE sectors are facing problems as well. For example, hotel Revenue per Available Room (RevPAR) declined 12 percent in second quarter 2002 from one year ago, and the vacancy rate in the Seattle MSA multi-family housing sector is expected to rise during 2002.

Seattle's Office and Industrial Vacancy Rates Have Rapidly Increased to the Highest Rates in Over a Decade



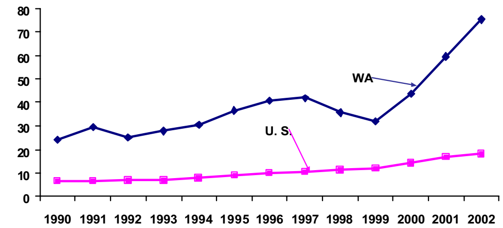
Source: Torto Wheaton Research

Softening CRE markets could adversely affect credit quality among insured institutions with relatively high CRE loan concentrations.[1]

- CRE market deterioration is a concern because the median CRE loan-to-Tier 1 capital ratio among CRE lenders headquartered in Washington was 316 percent as of June 2002, significantly higher than the national ratio of 137 percent.
- Moreover, insured institutions headquartered in the state reported a median C&D loan-to-Tier 1 capital ratio of 75 percent, four times the level reported by institutions elsewhere in the nation.
- Almost one third of Washington's insured community institutions that hold relatively high CRE loan concentrations were established after 1992, and credit risk management systems have not been tested through a full economic cyle.
- CRE loan delinquency ratios among established community institutions[2] have increased. The median past-due CRE loan ratio among institutions headquartered in the Seattle MSA almost doubled between second quarter 2001 and 2002. However, the ratio remains at a relatively low 0.9 percent. Should CRE conditions continue to weaken, further credit quality deterioration may occur.

C&D Lending Contributed Significantly to High CRE Concentrations

C&D Loans / Tier 1 Capital (Median)



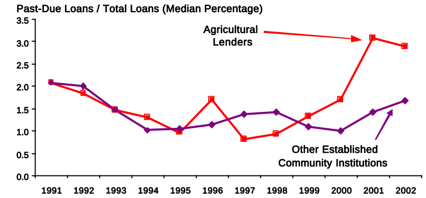
Note: Excludes institutions less than 3 years old, over $1 billion, industrial loan companies, and institutions with consumer loan-to-Tier 1 capital ratios exceeding 200 percent. C&D = construction and development.
Source: Bank and Thrift Call Reports (June of each year)

Loan portfolios showed signs of stress among the state's established community institutions that have high agricultural loan concentrations.

- Established community institutions holding agricultural line and farm real estate loan exposures exceeding 100 percent of Tier 1 capital reported elevated overall past due loan ratios over the past two years, due in part to increasing agricultural loan delinquencies.
- As of mid-2002, the median past due loan-to-total loan ratio among agricultural lenders in the state was nearly 3 percent, up dramatically over the past two years, and far above the total past-due loan ratio reported by established community institutions with no or lower agricultural loan concentrations (see chart).

Asset Quality Remained Weak Among Agricultural Lenders Headquartered in Washington

Past-Due Loans / Total Loans (Median Percentage)



Note: Includes institutions with less than $1 billion in total assets, open more than three years, with consumer loan-to-Tier 1 capital ratios of less than 200 percent. Agricultural lenders include insured institutions within the group that also hold agricultural lines and farm real estate loans exceeding 100 percent of Tier 1 capital.
Source: Washington Bank and Thrift Call Reports (June of each year)

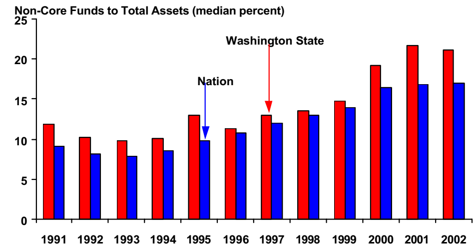
- The continued high level of past-due loans among agricultural lenders might reflect the effects of the softness in lumber prices, on-going drought conditions in Eastern Washington, and other agricultural stresses.

Although reported earnings improved during the first six months of 2002, signs of weakness in liquidity emerged.

- Return on assets among insured institutions headquartered in Washington, one-third of which have been chartered in the last 10 years, improved from 0.93 percent at mid-year 2001 to 1.02 percent a year later. Net interest margins (NIM) widened and overhead costs declined, contributing to this improvement.
- The declining interest rate environment has benefited bank and thrift NIMs primarily because of heavy reliance on noncore funding.
- A greater reliance on noncore liabilities could heighten these institutions' sensitivity to market rates as noncore deposits are re-priced competitively, and rates on borrowed funds may change when market rates increase.

Reliance on Non-Core Funds in Washington Continued to Outpace the Rest of the Nation

Non-Core Funds to Total Assets (median percent)



Notes: Includes institutions with less than $1 billion in assets. National data excludes Washington institutions. Data is as of June of indicated year.
Source: Bank and Thrift Call Reports

[1] CRE loans include mortgages secured by nonfarm-nonresidential, multi-family and construction projects.

[2] Defined as insured institutions open more than 3 years, with assets of less than $1 billion, and with consumer loan-to-Tier 1 capital ratios under 200 percent. The definition also excludes industrial loan companies.

Washington Insured Institutions at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98	Jun-97
Institutions (#)	101	99	106	100	101	99
Total Assets (in thousands)	69,383,390	74,588,294	70,197,935	64,897,241	59,355,155	48,991,225
New Institutions (# <3 years)	12	16	20	19	12	9
Capital						
Tier 1 Leverage (median)	9.75%	9.69%	10.56%	10.67%	10.15%	9.87%
Asset Quality						
Past-Due and Nonaccrual (median)	1.67%	1.39%	0.81%	1.01%	1.21%	1.17%
Loan Loss Reserves/Total Loans (median)	1.29%	1.13%	1.07%	1.15%	1.17%	1.08%
Loan Loss Reserves/ Noncurrent Loans (median multiple)	1.49	1.66	1.96	2.09	2.09	2.04
Earnings						
Percent Unprofitable	8.91%	14.14%	16.04%	17.00%	9.90%	8.08%
Return on Assets (median)	1.02%	0.93%	1.07%	1.02%	1.12%	1.19%
Net Interest Margin (median)	4.67%	4.50%	5.17%	4.94%	5.07%	5.22%
Yield on Earning Assets (median)	7.30%	8.60%	8.69%	8.14%	8.72%	8.72%
Cost of Funding Earning Assets (median)	2.44%	4.12%	3.68%	3.17%	3.56%	3.63%
Provisions to Avg. Assets (median)	0.28%	0.26%	0.24%	0.19%	0.19%	0.14%
Noninterest Income to Avg. Assets (median)	0.60%	0.58%	0.48%	0.53%	0.67%	0.67%
Overhead to Avg. Assets (median)	3.55%	3.62%	3.69%	3.87%	3.65%	3.74%
Liquidity/Sensitivity						
Loans to Assets (median)	74.55%	76.31%	75.77%	71.81%	68.27%	69.67%
Brokered Deposits (# of Institutions)	33	24	17	12	10	11
Brokered Deps./Assets (median for above inst.)	2.89%	3.48%	1.67%	0.19%	1.01%	2.26%
Noncore Funding to Assets (median)	22.45%	23.07%	21.10%	16.63%	14.53%	13.79%
Loan Concentrations						
Median Commercial RE to Tier 1	316.33%	299.93%	252.97%	212.68%	194.21%	208.20%
Commercial RE = Construction, Multifamily, and Nonres.						
Median Commercial & Industrial to Tier 1	122.78%	125.42%	122.38%	117.39%	124.13%	118.97%
Median Residential RE to Tier 1	108.86%	134.11%	123.18%	125.56%	139.01%	168.45%
Median Construction to Tier 1	77.45%	64.47%	49.91%	32.75%	36.09%	38.54%
Median Consumer to Tier 1	26.93%	35.58%	31.60%	31.45%	33.10%	35.19%
Consumer = Credit Card and other non-RE secured						
Median Agricultural to Tier 1	1.32%	4.75%	3.09%	4.67%	2.82%	2.85%
Primary Regulator						
FDIC	76	73	79	73	72	70
OCC	15	15	16	16	18	19
FRB	2	2	2	2	2	1
OTS	8	9	9	9	9	9
Asset Distribution						
$0 to $100 million	42	41	51	47	48	48
$100 to $250 million	19	21	19	20	22	26
$250 to $500 million	20	19	19	19	19	14
$500 million to $1 billion	10	9	8	5	6	6
$1 to $3 billion	7	7	7	7	4	3
Over $3 billion	3	2	2	2	2	2

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Seattle-Bellevue-Everett WA PMSA	39	47,389,050	38.61%	68.30%
Not in an MSA	28	7,089,104	27.72%	10.22%
Tacoma WA PMSA	8	2,555,896	7.92%	3.68%
Spokane WA	6	6,357,641	5.94%	9.16%
Olympia WA PMSA	5	1,263,644	4.95%	1.82%
Portland-Vancouver OR-WA PMSA	4	1,276,937	3.96%	1.84%
Other MSAs	11	3,451,118	10.89%	4.97%