

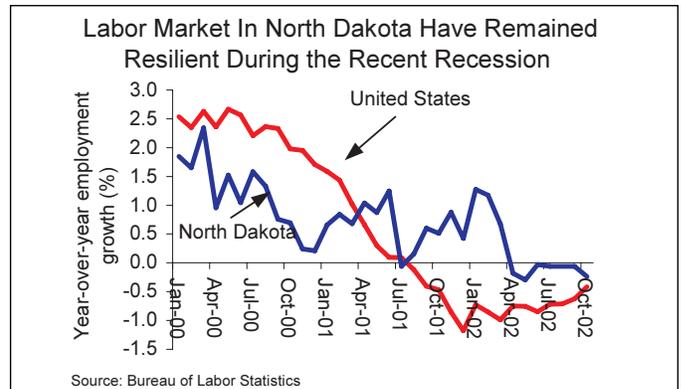
FDIC State Profile

WINTER 2002

North Dakota

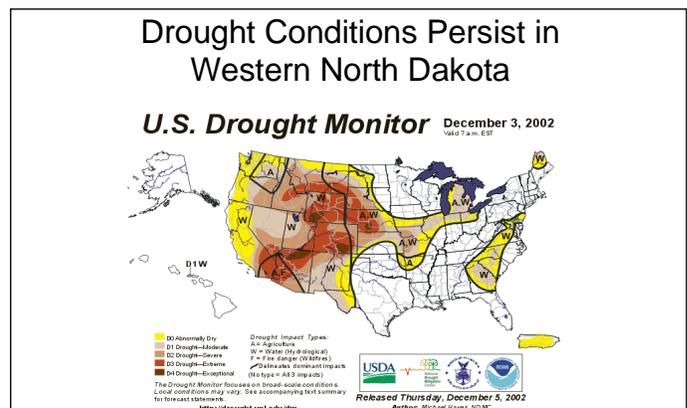
The North Dakota economy was affected only slightly during the recession.

- Job growth in North Dakota slowed in 2000; however, the state gained jobs in 2001 and the first quarter of 2002. During that time the nation consistently shed jobs.
- Layoffs in manufacturing and the mining sector contributed to net job losses in the last half of 2002, but were nearly offset by increases in government employment, a significant sector in North Dakota.
- October's unemployment rate of 2.4 percent was the lowest level in 12 months, and down from a peak of 4.1 percent in February 2002.



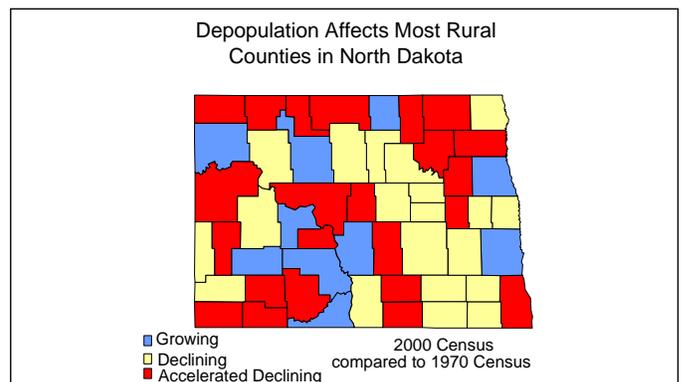
North Dakota's agricultural sector was moderately affected by drought in 2002.

- The drought of 2002 mildly affected the western part of the state, while the eastern fourth was largely unaffected (see map).
- Wheat production was 24 percent below the previous year's level. In 2001, wheat accounted for more than 28 percent of the state's agricultural revenues.
- Cattle production was also disrupted, as shortages of hay and pasture forced ranchers to sell cattle at low prices and liquidate breeding stock.



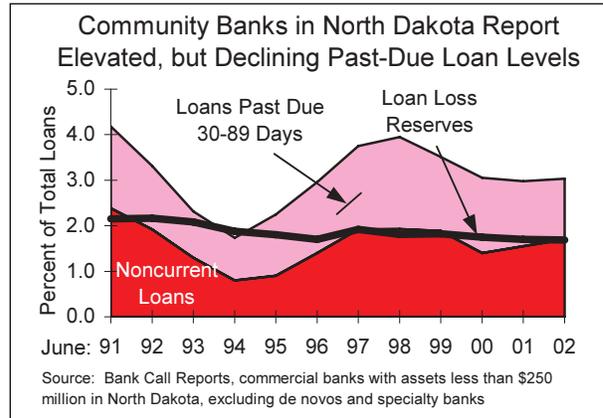
Depopulation in rural areas is a continuing challenge.

- Forty-three of North Dakota's 53 counties have lost population since 1970, and 23 of those counties also lost population at an increasing rate in the 1990s.
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent on nearby small towns to purchase inputs and professional services.
- As a result, people have migrated from rural areas to metropolitan areas to seek better employment opportunities.
- Counties that are losing population at a faster rate could lose their economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.



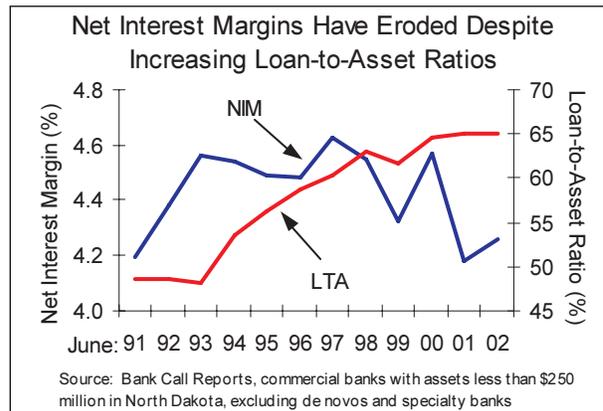
Community banks headquartered in North Dakota have reported sound asset quality despite the economic slowdown.

- Four years of historically low crop prices left many farm banks with elevated loan delinquency levels and substantial levels of carryover debt between 1996 and 2000. Significant government support during the past three years helped hold down loan defaults and delinquencies.
- Noncurrent and past-due loan levels have moderated during the past two years, and charge-off rates remain low.
- Loan loss reserve levels have declined in proportion to total loans, but appear to have kept pace with the level of problem loans.



Community banks continue to face challenges in maintaining net interest margins.

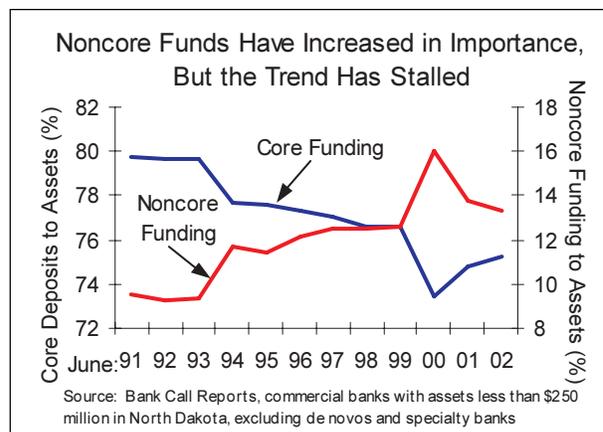
- Net interest margins (NIMs) declined steadily in the 1990s because of strong and increasing loan and funding competition, as well as depopulation trends in rural areas.
- Recent NIM fluctuations, both positive and negative, are attributable to Federal Reserve interest rate actions, and do not signal an end to the longer-term trend of NIM erosion.
- Generally, banks that accept greater credit risk by making more loans are rewarded with higher NIMs. However, this did not hold true in the 1990s, as community bank NIMs declined despite the dramatic increases in loan-to-asset (LTA) levels (see chart).
- Economic slowdowns typically result in declining LTA ratios, and community bank NIMs could be pressured



downward should LTA levels revert to historically normal levels.

North Dakota community banks continue to face funding challenges.

- Utilization of core funds to support assets declined steadily throughout the 1990s because of negative population trends, competitive forces from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets.
- To counter declining deposits, community banks headquartered in the state increased reliance on noncore funds, such as large time deposits and borrowings.
- The use of borrowings, mostly Federal Home Loan Bank advances, increased dramatically in the 1990s.
- The current economic slowdown and large stock market losses have temporarily halted the core funding erosion as investors moved funds back into banks.



State Profile

North Dakota at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	107	110	115	117	120
Total Assets (in thousands)	19,126,437	18,802,567	13,198,921	12,013,264	11,512,259
New Institutions (# < 3 years)	1	1	2	1	1
New Institutions (# < 9 years)	2	3	3	4	4
Capital					
Tier 1 Leverage (median)	9.23	9.60	9.84	9.84	9.77
Asset Quality					
Past-Due and Nonaccrual (median %)	2.34%	2.40%	2.36%	2.91%	2.72%
Past-Due and Nonaccrual ≥ 5%	19	16	17	25	26
ALLL/Total Loans (median %)	1.67%	1.62%	1.59%	1.73%	1.64%
ALLL/Noncurrent Loans (median multiple)	1.49	1.60	1.68	1.36	1.25
Net Loan Losses/Loans (aggregate)	0.56%	0.83%	1.00%	0.76%	0.74%
Earnings					
Unprofitable Institutions (#)	1	0	5	3	3
Percent Unprofitable	0.93%	0.00%	4.35%	2.56%	2.50%
Return on Assets (median %)	1.17	1.17	1.29	1.19	1.15
25th Percentile	0.90	0.80	1.02	0.88	0.91
Net Interest Margin (median %)	4.27%	4.14%	4.40%	4.21%	4.37%
Yield on Earning Assets (median)	6.77%	8.14%	8.13%	7.78%	8.23%
Cost of Funding Earning Assets (median)	2.53%	4.04%	3.76%	3.61%	3.84%
Provisions to Avg. Assets (median)	0.12%	0.11%	0.11%	0.12%	0.09%
Noninterest Income to Avg. Assets (median)	0.48%	0.50%	0.43%	0.45%	0.42%
Overhead to Avg. Assets (median)	2.76%	2.71%	2.74%	2.65%	2.70%
Liquidity/Sensitivity					
Loans to Deposits (median %)	77.67%	78.20%	77.55%	71.07%	72.92%
Loans to Assets (median %)	65.25%	65.61%	61.78%	60.12%	62.09%
Brokered Deposits (# of Institutions)	16	17	19	22	21
Bro. Deps./Assets (median for above inst.)	1.62%	1.49%	2.40%	3.01%	3.72%
Noncore Funding to Assets (median)	12.49%	13.67%	13.93%	11.49%	11.10%
Core Funding to Assets (median)	75.34%	74.95%	74.31%	77.49%	76.16%
Bank Class					
State Nonmember	85	88	91	93	95
National	15	15	17	18	19
State Member	4	4	3	3	3
S&L	0	0	0	0	0
Savings Bank	3	3	4	3	3
Mutually Insured	0	0	0	0	0
MSA Distribution					
	# of Inst.	Assets	% Inst.	% Assets	
No MSA	84	5,627,810	78.50%	29.42%	
Fargo-Moorhead ND-MN	14	11,596,724	13.08%	60.63%	
Bismarck ND	6	814,216	5.61%	4.26%	
Grand Forks ND-MN	3	1,087,687	2.80%	5.69%	

Source: Bank and Thrift Call Reports