

FDIC State Profile

FALL 2003

Hawaii

Nonfarm payroll employment in Hawaii expanded 2.2 percent above its year-earlier level in the second quarter of 2003, the best expansion rate among the 50 states.

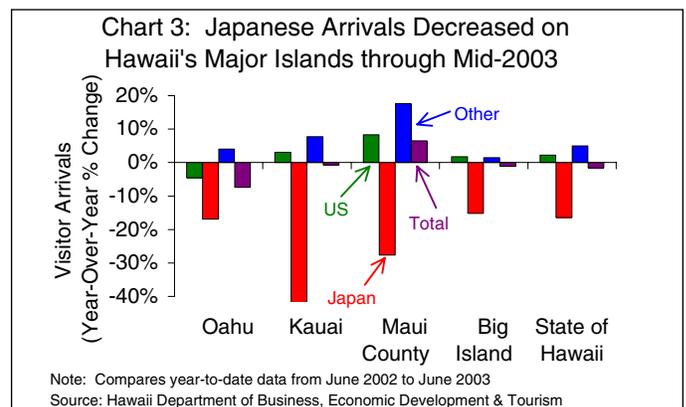
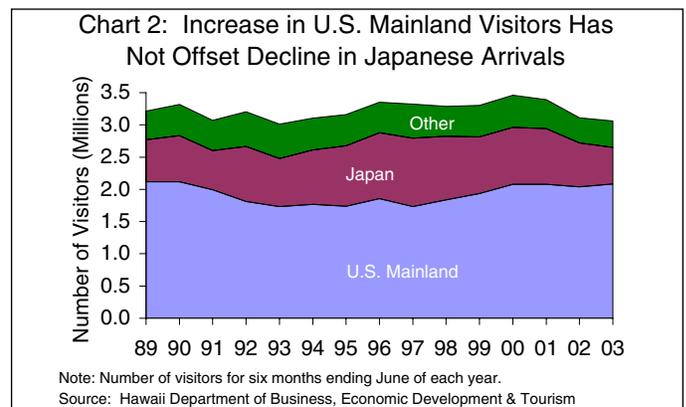
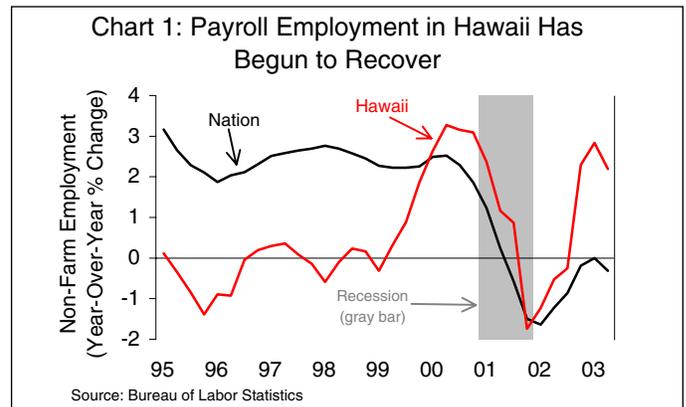
- Hawaii's tourism industry and nonfarm employment rebounded during 2002 and the first half of 2003, following the sharp decline resulting from the September 11, 2001, terrorist attacks (see Chart 1).
- As of mid-year 2003, employment increased year-over-year in all major sectors, except manufacturing. Recent building projects for homes and hotels provided work, enabling employment in the construction¹ sector to expand by 7.5 percent between second quarter 2002 and second quarter 2003.
- The state's unemployment rate averaged 3.9 percent in second quarter 2003, the fourth lowest rate in the nation.

The growth in U.S. mainland tourism has not fully offset the decline in foreign visitors (see Chart 2).

- Tourists from the U.S. mainland, which comprised about two-thirds of Hawaii's visitor base, increased by more than 2 percent during the first six months of 2003, when compared to the previous year. However, the downturn in Asian economies, especially in Japan (the state's greatest source of foreign visitors), continued to dampen the industry. As a result, the mid-year 2003 overall visitor count fell by 1.4 percent, compared with the first six months of 2002. Weaker Asian visitor volumes were due in part to the Severe Acute Respiratory Syndrome (SARS) epidemic.
- Through mid-2003, the statewide reduction in total visitor arrivals was led by **Oahu**, which reported declines in both Japanese and U.S. mainland visitors. However, Oahu's neighbor islands generally reported improved mainland visitor numbers (see Chart 3).
- Differences in visitor levels affected revenue-per-available room (RevPAR) growth across the Hawaiian Islands. Year-to-date through June 2003, RevPAR increased 7.0 percent from the previous year in **Maui** and 5.8 percent in **Kauai**, while Oahu RevPAR increased by a more modest 2.6 percent and Big Island RevPAR increased by only 0.5 percent.²

¹ As a result of data limitations, the growth rate is based on aggregate jobs in the mining and construction sectors; however, construction jobs are believed to dominate the data series.

² RevPAR figures are based on a survey of hotels, condominiums, and other rental units by Smith Travel Research.



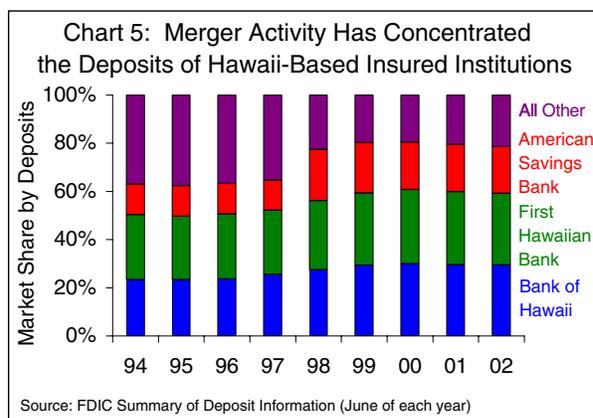
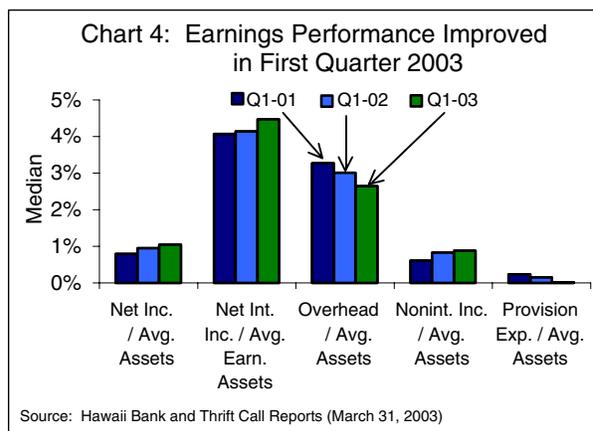
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Insured institutions headquartered in Hawaii reported improved earnings and asset quality performance through early 2003; however, vulnerabilities remain.

- Six of the state's nine insured institutions reported improved return on average asset (ROA) ratios through March 2003 from the same quarter in 2002.
- In first quarter 2003, net interest margins generally benefited from declining interest rates and a steepened yield curve, primarily because most of the state's nine insured institutions are either large, liability-sensitive banks or thrifts specializing in long-term mortgages.
- Declining overhead ratios, rising noninterest income-to-average asset ratios, and lower provision expense ratios also improved ROAs during the period (see Chart 4).
- The median total past-due loan ratio for insured institutions based in Hawaii declined to 1.62 percent, down from 1.77 percent in first quarter 2002. The median past-due commercial real estate loan ratio improved significantly, falling 49 percent to 0.37 percent from 0.71 percent.

Hawaii has increasingly become a concentrated banking market.

- Significant merger activity between first quarter 1992 and first quarter 2003 reduced the number of Hawaii-based insured institutions by nearly two-thirds, from 25 to 9.
- A few local competitors dominate the market. As of June 2002, 79 percent of Hawaii branch deposits were controlled by the three largest in-state insured institutions. In contrast, in 1994, these same three institutions reported a 63 percent market share (see Chart 5).
- Credit unions provide an important source of competition for community banks. The ratio of credit union memberships-to-population in Hawaii was 55.3 percent as of December 2002, nearly twice the



national average and fifth only to D.C., Virginia, Alaska, and Utah.³ At mid-year 2002, the 102 credit unions headquartered within the state controlled nearly \$4.5 billion in deposits, equivalent to about 19 percent of the combined deposits of credit unions, commercial banks, and savings institutions.

- Competition from large, in-state insured institutions and credit unions might place downward pressure on loan yields and upward pressure on deposit costs.

³ Membership-to-population ranking is based on December 2002 membership data from credit union Call Reports (via SNL Securities) and 2001 population estimates from the U.S. Census Bureau (via Haver Analytics).

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Hawaii at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	9	10	10	13	14
Total Assets (in thousands)	30,547,920	29,572,694	30,515,401	30,728,332	30,666,273
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	0
Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	8.58	8.62	8.78	8.67	8.78
Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	1.62%	1.77%	2.04%	2.32%	3.32%
Past-Due and Nonaccrual >= 5%	0	1	1	3	4
ALLL/Total Loans (median %)	1.87%	1.90%	1.82%	1.82%	1.68%
ALLL/Noncurrent Loans (median multiple)	2.88	1.79	1.24	0.65	0.63
Net Loan Losses/Loans (aggregate)	0.16%	0.40%	2.22%	0.41%	0.46%
Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	1	2	1	2	3
Percent Unprofitable	11.11%	20.00%	10.00%	15.38%	21.43%
Return on Assets (median %)	1.04	0.95	0.80	0.85	0.63
25th Percentile	0.64	0.03	0.27	0.21	0.20
Net Interest Margin (median %)	4.47%	4.14%	4.07%	4.14%	4.26%
Yield on Earning Assets (median)	5.58%	6.43%	8.24%	7.92%	7.66%
Cost of Funding Earning Assets (median)	1.19%	1.89%	3.92%	3.78%	3.49%
Provisions to Avg. Assets (median)	0.01%	0.15%	0.23%	0.24%	0.31%
Noninterest Income to Avg. Assets (median)	0.88%	0.83%	0.61%	0.54%	0.59%
Overhead to Avg. Assets (median)	2.64%	3.00%	3.27%	3.26%	3.35%
Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	77.00%	76.97%	85.11%	84.79%	80.13%
Loans to Assets (median %)	59.25%	57.44%	65.78%	66.98%	67.45%
Brokered Deposits (# of institutions)	1	0	2	4	5
Bro. Deps./Assets (median for above inst.)	0.01%	na	0.11%	0.02%	0.08%
Noncore Funding to Assets (median)	24.89%	30.48%	31.47%	31.45%	29.40%
Core Funding to Assets (median)	57.13%	56.52%	55.80%	58.54%	56.55%
Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	5	6	7	9	10
National	1	1	1	1	1
State Member	1	1	0	0	0
S&L	0	1	1	2	2
Savings Bank	2	1	1	1	1
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets (\$000s)	% Inst.	% Assets	
Honolulu HI	9	30,547,920	100.00%	100.00%	