FDIC State Profile

Summer 2004

Hawaii

Hawaii's job growth, led by the state's strengthening tourism sector, was strong in early 2004 and continued to outpace the national rate of job creation.

- Nonfarm jobs in Hawaii grew 1.8 percent year-over-year in first quarter 2004 (See Chart 1). In particular, the leisure and hospitality, education and health services, professional and business services, construction,[1] and retail trade sectors added the most jobs.

- The size of Hawaii's important government sector, which accounts for over 20 percent of the state's workforce, was essentially unchanged.

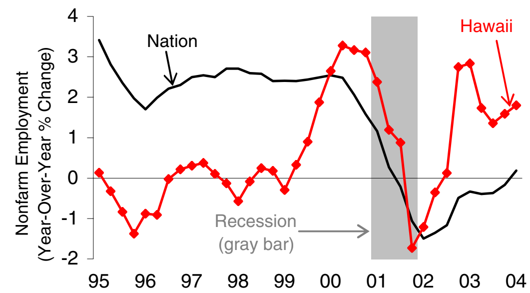
- Going forward, the deployment of 8,000 Oahu-based military personnel in 2004 could dampen economic activity in the near-term. The last such military deployment, during the 1991 Gulf War, contributed to double-digit drops in business for Oahu retailers. Recent efforts at diversification by local merchants and a pickup in military construction could help offset the loss of business associated with this deployment.

Growth in tourist volume from the U.S. mainland offset the decline in foreign visitors, and represents the overall strength in the state's tourism sector.

- Hawaii's visitor counts increased 3.8 percent between first quarter 2003 and first quarter 2004. U.S. mainland tourists, who comprised nearly 65 percent of the state's visitor base, increased 6.6 percent during the same period, largely because of more visitors to Oahu. Visitors coming to Hawaii from other countries such as Canada, Germany, and the U.K. also showed year-over-year gains. As a result, visitor counts were up despite a 1.3 percent decline in Japanese visitors (See Chart 2).

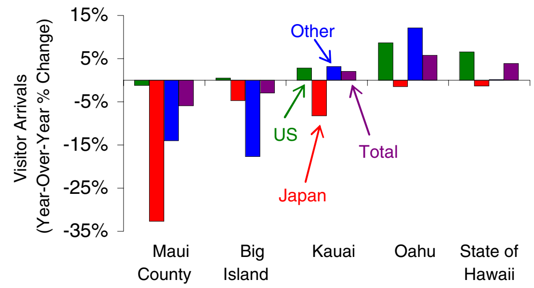
- Strong visitor arrivals translated into solid growth in occupancy levels, room rates, and revenue per available room (RevPAR) at hotels in Oahu, Maui, the Big Island, and Kauai. According to data from ***Smith Travel Research LLC***, Hawaii's hotels had the highest occupancy rate in the nation during first quarter 2004 (80.1 percent) and also outpaced top tourist destinations including New

Chart 1: Job Growth in Hawaii Continued to Outpace the Nation



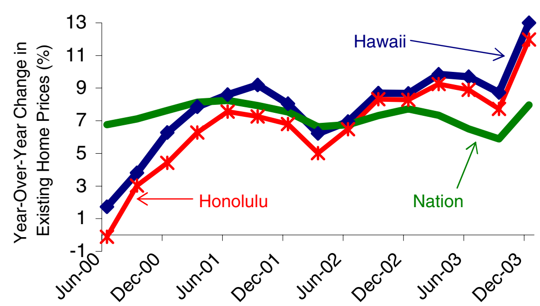
Source: Bureau of Labor Statistics; National Bureau of Economic Research

Chart 2: Arrivals in Early 2004 Were Especially Weak in Maui



Note: Compares year-to-date data from March 2003 to March 2004.
Source: Hawaii Department of Business, Economic Development & Tourism

Chart 3: Home Price Increases Accelerated in 2003 throughout Hawaii



Source: Office of Federal Housing Enterprise Oversight

[1] Because 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.

York, Miami, Phoenix, and San Diego to finish first quarter 2004 with RevPAR over $120.

Housing construction responded to low interest rates and escalating home prices.

- Hawaii's existing home prices increased 13 percent during 2003, versus 8 percent appreciation nationwide (See Chart 3). Strong home price gains extended into early 2004 and across all major islands. In April 2004 single-family home prices gained 20 percent on Oahu, 29 percent on the Big Island, 46 percent on Kauai, and 14 percent on Maui on a year-over-year basis. Condo prices were up by even greater magnitudes on Oahu, Kauai, and Maui.

- Residential construction remained brisk over the past few quarters. The number of new housing units authorized during early 2004 increased 25 percent year-over-year, with single-family construction accounting for the majority of new permits (See Chart 4).

- Although low interest rates, a shortage of available condo units, and demand from out-of-state buyers have done much to boost housing demand, the pace of sales could decline or home price increases could moderate, should interest rates rise.

- Home price trends are important as the median 1-4 family mortgage-to-Tier 1 capital ratio among Hawaii-based insured institutions was 252 percent as of March 31, 2004. The median first quarter 2004 past-due 1-4 family loan ratio was a low and improving 0.52 percent. However, high refinance activity has reduced seasoning in residential mortgage loan portfolios. Additional credit softening could appear with a lag as portfolios age.

- Home price swings have contributed to credit quality problems in the past. Declining home values during the mid- to late-1990s produced a median past-due 1-4 family mortgage ratio of 4.3 percent among Hawaii-based insured institutions in first quarter 1998.

Insured institutions headquartered in Hawaii reported improved earnings and asset quality performance through first quarter 2004.

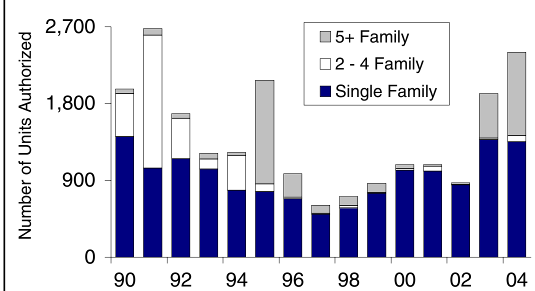
- Five of the state's eight insured institutions reported year-over-year improvements in return on average asset (ROA) ratios in early 2004. Some boost in earnings resulted from possibly non-recurring security and loan sales.

- Over the past few years, net interest margins (NIMs) generally benefited from declining interest rates and a steepened yield curve, primarily because most of the state's eight insured institutions were either large, liability-sensitive banks or thrifts specializing in long-term mortgages. However, this pattern implies that NIMs may compress should interest rates increase.

- Declining provision expense ratios contributed to improved ROAs during first quarter 2004 (See Chart 5).

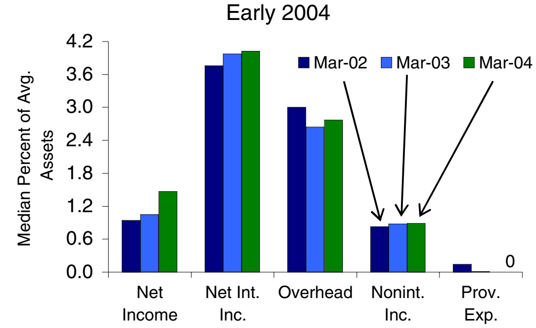
- The median overall past-due loan ratio for insured institutions based in Hawaii declined to 0.87 percent in first quarter 2004, down from 1.62 percent in first quarter 2003. Over the period, delinquency ratios fell across all major loan categories. The state's strong economic performance likely contributed to the trend.

Chart 4: Hawaii's First Quarter Residential Permit Activity Escalated in 2003 and 2004



Note: Number of year-to-date units authorized through March of each year.
Source: Census Bureau via Haver Analytics

Chart 5: Earnings Performance Improved in Early 2004



Source: Hawaii Bank and Thrift Call Reports (March 31, 2004)

Hawaii at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	8	9	10	10	13
Total Assets (in thousands)	32,554,392	30,547,920	29,572,694	30,515,401	30,728,332
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	0

Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	8.24	8.58	8.62	8.78	8.67

Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	0.87%	1.62%	1.77%	2.04%	2.32%
Past-Due and Nonaccrual >= 5%	0	0	1	1	3
ALLL/Total Loans (median %)	1.79%	1.87%	1.90%	1.82%	1.82%
ALLL/Noncurrent Loans (median multiple)	4.73	2.88	1.79	1.24	0.65
Net Loan Losses/Loans (aggregate)	0.18%	0.16%	0.40%	2.22%	0.41%

Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	0	1	2	1	2
Percent Unprofitable	0.00%	11.11%	20.00%	10.00%	15.38%
Return on Assets (median %)	1.47	1.05	0.95	0.80	0.85
25th Percentile	1.06	0.64	0.03	0.27	0.21
Net Interest Margin (median %)	4.44%	4.47%	4.14%	4.07%	4.14%
Yield on Earning Assets (median)	5.23%	5.58%	6.43%	8.24%	7.92%
Cost of Funding Earning Assets (median)	1.07%	1.19%	1.89%	3.92%	3.78%
Provisions to Avg. Assets (median)	0.00%	0.01%	0.15%	0.23%	0.24%
Noninterest Income to Avg. Assets (median)	0.89%	0.88%	0.83%	0.61%	0.54%
Overhead to Avg. Assets (median)	2.77%	2.64%	3.00%	3.27%	3.26%

Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	77.20%	77.00%	76.97%	85.11%	84.79%
Loans to Assets (median %)	59.50%	59.25%	57.44%	65.78%	66.98%
Brokered Deposits (# of Institutions)	3	1	0	2	4
Bro. Deps./Assets (median for above inst.)	0.11%	0.01%	na	0.11%	0.02%
Noncore Funding to Assets (median)	25.38%	24.89%	30.48%	31.47%	31.45%
Core Funding to Assets (median)	59.84%	57.13%	56.52%	55.80%	58.54%

Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	4	5	6	7	9
National	1	1	1	1	1
State Member	1	1	1	0	0
S&L	0	0	1	1	2
Savings Bank	2	2	1	1	1
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Honolulu HI	8	32,554,392	100.00%	100.00%