FDIC State Profile

Fall 2004

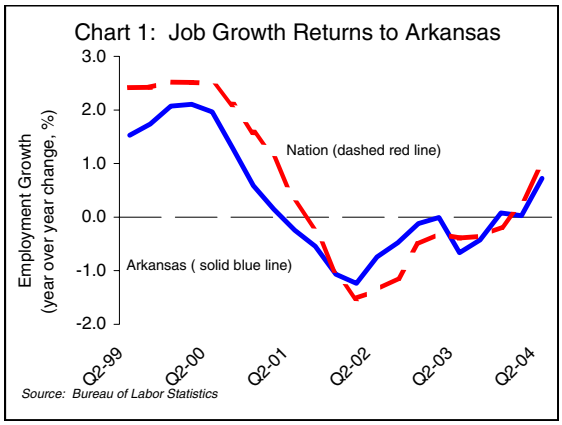
Arkansas

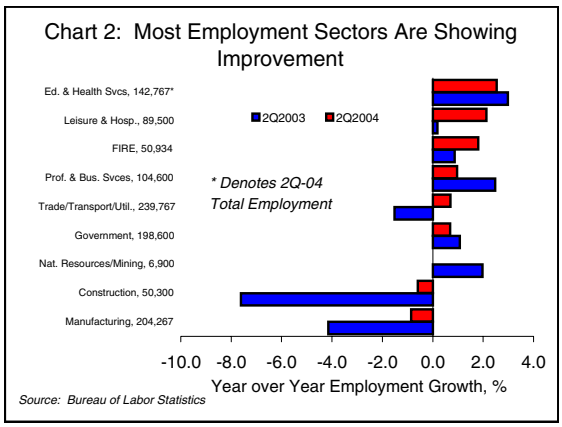
Economic improvement appears underway in Arkansas.

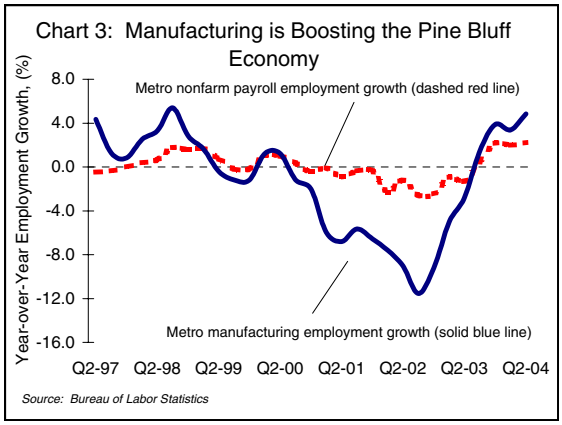
- Total non-agricultural employment grew 0.7 percent year-over-year, as of second quarter 2004. This marks the first three consecutive quarters of positive employment growth in Arkansas since first quarter 2001 (See Chart 1).
- Job growth occurred in every sector except for construction and manufacturing. The largest growth rate among major sectors was in education and health services with a 2.5 percent year-over-year increase (See Chart 2).
- Employment in the manufacturing sector continued to fall in the second quarter, but the 0.9 percent year-over-year decline represents the smallest drop since third quarter 2000. Nearly half of these job losses occurred in furniture and related products manufacturing. In contrast, the food industry, which accounts for approximately 25 percent of total manufacturing employment in the state, experienced year-over-year growth of 2 percent.
- Recent news of a $160 million auto parts plant breaking ground in **Crittenden County** and a $700 million steel mill planned for **Mississippi County** indicate a likely boost to local employment in construction and manufacturing.
- Commercial banks have also reported strength in commercial and industrial lending with double-digit growth in loans of over a million dollars during the year ending second quarter 2004.

The Pine Bluff economy is recovering.

- **Pine Bluff,** an economy historically noted for high unemployment rates, posted strong year-over-year employment gains and far surpassed state and national averages in each of the past three quarters.[1] In contrast to most of the state, manufacturing growth has been the catalyst for the turnaround[2] (See Chart 3). Additionally, education and health services and professional and







[1] 2.2 percent in fourth quarter 2003 and 2.0 percent in first quarter 2004.
[2] 4.9 percent year over year growth in second quarter 2004.

business services have contributed to growth. As of June 30, 2004, the current jobless rate of 9.3 percent, which ranks as the 9th highest unemployment rate of any major metro area in the nation, has not declined primarily because formerly discouraged workers are returning to the labor force.

Demand effects prices for key Ag products.

- Forecasts for high global cotton production weighed on prices during the early growing season with a resulting drop of $0.08 per pound in prices paid to farmers between October 2003 and July 2004 (See Chart 4). Recent high crop estimates for 2004 pushed December futures near $0.45 and suggest prices may not recover in the near term. Depressed prices and the potential elimination of billions of dollars in crop subsidies[3] resulting from current trade negotiations could adversely affect land prices.[4]

- The prospects for rice producers appear better because of strong global demand, particularly from China. Arkansas led the nation in rice production in 2003 with 48 percent of the U.S. total.[5] The growing demand for rice and possible reduction of global trade barriers indicates the favorable pricing trend should continue.

Banks in Arkansas report solid performance.

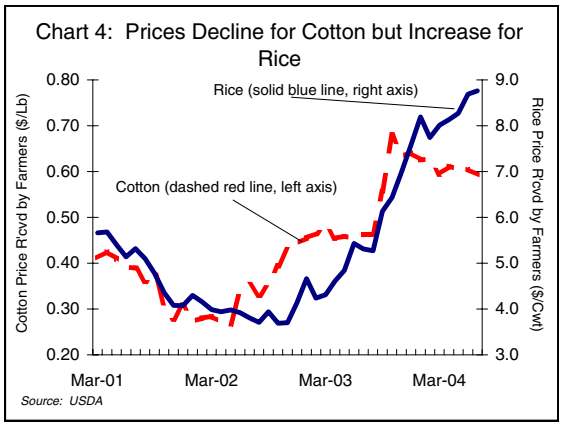
- Solid loan growth[6] helped Arkansas headquartered banks achieve record net income of $117 million in second quarter 2004, up from $108 million the previous year. The median return-on-assets (ROA) and median net interest margin (NIM) increased slightly from the previous quarter to 1.13 percent and 4.09 percent, respectively. This compares favorably to national medians of 1.03 (ROA) and 3.98 (NIM) percent.

- The median past-due and nonaccrual loan ratio was 2.38 percent in the second quarter 2004, down 12 basis points from the first quarter. However, this level remains well above the national median past-due ratio of 1.49 percent and is the second highest past-due ratio of any state in the nation.

- Financial institutions headquartered in Arkansas appear well positioned to manage any unexpected deterioration of asset quality with a median tier one leverage capital ratio of 9.91 percent.

Banking competition set to increase in northwest Arkansas.

- The **Fayetteville-Springdale-Rogers** MSA is becoming increasingly more competitive with 5 additional institutions planning to join with the 19 institutions currently competing for market share. Total deposits in this market are $4.7 billion, as of June 30, 2003.[7]



[3]In July 2004, the World Trade Organization developed a framework for future negotiation which would eventually result in elimination of billions of dollars from subsidies for crops including rice and cotton.
[4]Arkansas ranked 4th in the nation in 2003 for total cotton acres planted with 980,000 acres.
[5]National Agricultural Statistics Service Crop Report August 2004, Agricultural Statistics Board, U.S. Department of Agriculture.
[6]6.6 percent, as of June 30, 2004.

[7]Most recent data available.

Arkansas at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	168	174	178	192	204
Total Assets (in thousands)	39,092,594	36,934,972	34,132,533	30,091,442	29,594,319
New Institutions (# < 3 years)	0	3	5	8	9
New Institutions (# < 9 years)	14	14	17	19	23

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.91	9.51	9.23	9.36	9.43

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	2.38%	2.73%	2.64%	2.55%	2.19%
Past-Due and Nonaccrual >= 5%	21	32	32	28	18
ALLL/Total Loans (median %)	1.47%	1.37%	1.28%	1.18%	1.16%
ALLL/Noncurrent Loans (median multiple)	1.39	1.19	1.17	1.34	1.48
Net Loan Losses/Loans (aggregate)	0.29%	0.41%	0.41%	0.27%	0.18%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	6	8	7	14	16
Percent Unprofitable	3.57%	4.60%	3.93%	7.29%	7.84%
Return on Assets (median %)	1.12	1.12	1.12	1.01	1.12
25th Percentile	0.89	0.81	0.84	0.62	0.83
Net Interest Margin (median %)	4.09%	4.08%	4.13%	3.82%	4.05%
Yield on Earning Assets (median)	5.63%	6.09%	6.81%	8.12%	7.92%
Cost of Funding Earning Assets (median)	1.54%	1.98%	2.65%	4.27%	3.91%
Provisions to Avg. Assets (median)	0.16%	0.21%	0.25%	0.19%	0.14%
Noninterest Income to Avg. Assets (median)	0.73%	0.75%	0.70%	0.72%	0.64%
Overhead to Avg. Assets (median)	2.75%	2.77%	2.71%	2.78%	2.69%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	72.46%	74.24%	74.99%	75.14%	74.97%
Loans to Assets (median %)	60.32%	60.97%	63.35%	63.95%	62.05%
Brokered Deposits (# of Institutions)	38	39	40	49	39
Bro. Deps./Assets (median for above inst.)	5.07%	4.74%	4.05%	3.17%	4.00%
Noncore Funding to Assets (median)	25.58%	24.15%	23.88%	23.64%	23.42%
Core Funding to Assets (median)	63.80%	64.18%	65.11%	65.19%	66.05%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	100	102	107	113	118
National	41	42	41	41	46
State Member	20	22	22	29	30
S&L	3	3	3	3	4
Savings Bank	4	5	5	6	6
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	123	18,029,537	73.21%	46.12%
Little Rock-N Little Rock AR	18	6,307,618	10.71%	16.14%
Fayetteville-Springdale-Rogers AR	11	9,453,025	6.55%	24.18%
Ft Smith AR-OK	6	1,400,590	3.57%	3.58%
Jonesboro AR	5	2,234,629	2.98%	5.72%
Pine Bluff AR	3	1,413,045	1.79%	3.61%
Memphis TN-AR-MS	2	254,150	1.19%	0.65%