FDIC State Profile

Spring 2004

Alaska

Alaska's total nonfarm employment increased 1.8 percent during 2003.

- Employment growth continued to outpace the nation, primarily a result of continued strength in the educational and health services sector (See Chart 1).

- Despite strong nonfarm employment growth, the mining sector lost over 700 jobs in 2003. Job losses were centered in the oil and gas sector, where wages reportedly averaged $96,158 in 2002, more than twice the average wage level for the state. Consequently, employment losses in this sector could have a more pronounced adverse impact on the Alaska economy.[1] Part of the employment decline in the oil industry was attributed to competitive pressures and uncertainty about future market conditions, which have coincided with an absence of large-scale oil field development.

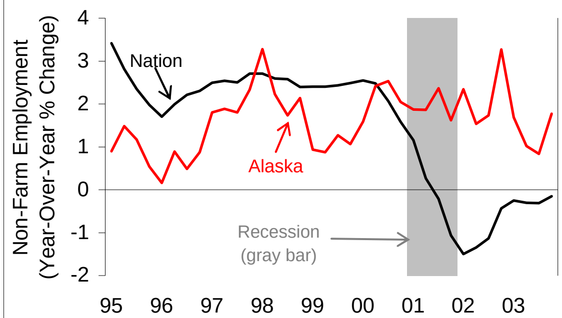
The government sector faces challenges

- Employment in the state and local government sector (representing over 22 percent of the state's total employment) expanded 0.5 percent during the year ending fourth quarter 2003, substantially less that the 3.3 percent growth recorded in the previous year. In response to state budget pressures, the 2004 state budget forecasts a loss of 209 state government jobs.[2],[3] In addition, the budget for the Anchorage school system proposes that 332 jobs be eliminated by June 2004, about half of these jobs are teaching positions.

- Although Alaska's $2.1 billion Stabilization Fund will be used to offset a large portion of the projected 2004 budget deficit, the budget is expected to cut $68 million from health services, $44 million from elderly longevity bonuses, and $37 million from local communities.

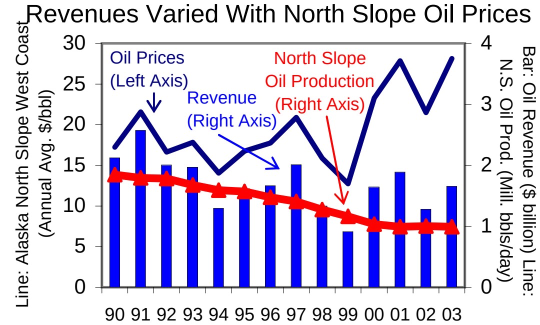
- State government revenues varied significantly over the past decade, because of oil price volatility and a downward trend in oil production (See Chart 2). For example, North Slope oil fell to under $10 a barrel in late 1998, but peaked

Chart 1: Employment in Alaska Continued to Increase During the Recent National Recession



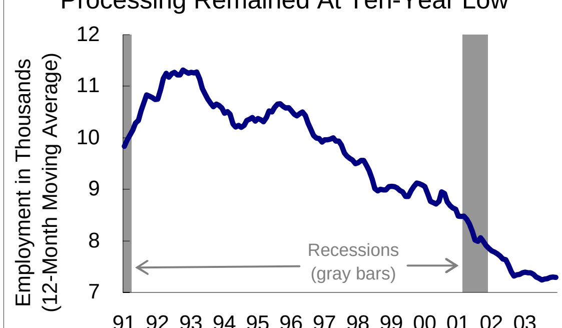
Source: Bureau of Labor Statistics and Bureau of Economic Research

Chart 2: Alaska State Government Oil Revenues Varied With North Slope Oil Prices



Source: AK Dept of Revenue, Revenue Sources; Forecast and Historical Data;

Chart 3: Employment in Alaska's Seafood-Processing Remained At Ten-Year Low



Source: Bureau of Labor Statistics and Bureau of Economic Research (Dec.

[1]"Alaska Economic Trends", September 2003, Volume 23, Number 9. http://labor.state.ak.us/trends/sep03.pdf
[2]Howk, Robert "Governor: 'Fiscal Bleeding' Over", Alaska Journal of Commerce, June 23, 2003.
[3]The 2004 fiscal year began July 1, 2003.

to a price of over $35 a barrel in February 2003. Since 1990, oil production declined by almost half, falling to under one-million barrels per day.

Jobs in the seafood-processing industry were undermined by low salmon prices.

- Employment in the seafood-packing industry declined significantly from 1998 through 2003 (See Chart 3). Competition from other countries such as Chile and Norway, and environmental restrictions, reduced demand for fish products from the state.

- A worldwide salmon glut as well as falling fish prices during 2001 and 2002 led to food-processing plant closures, contributing to an increase in personal bankruptcies and hurting some local economies.[4]

Asset quality weakened in 2003

- The median ratio of past-due loans increased from 1.84 percent at year-end 2002 to 2.20 percent at year-end 2003. Deterioration was centered in the residential real estate and consumer loan portfolios (See Chart 4).

- Although the median reserve coverage of non-current loans increased to 1.69 percent, up from 1.48 percent one-year earlier, it remained below the coverage ratio of 1.85 percent nationwide.

Increased non-interest income offset a shrinking of the net interest margin.

- The median return-on-assets ratio for insured institutions headquartered in Alaska increased from 1.31 percent to 1.46 percent between 2002 and 2003. A narrowing net interest margin (NIM) and an increase in overhead expenses was more than offset by increased fee income.

- The median net interest margin (NIM) fell to 4.86 percent for 2003, down from 5.01 percent one-year earlier (See Chart 5). Despite the decline, the median NIM remained significantly above the national median of 4.00 percent.

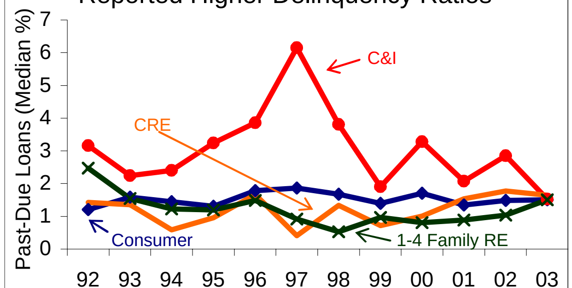
- The median non-interest bearing deposit-to-earning asset ratio in Alaska institutions was 17.43 percent for the fourth quarter of 2003, over 5 percentage points above than the 11.69 percent ratio reported nationally. These sizeable holdings of non-interest bearing deposits resulted in a median interest expense-to-earning asset ratio of 0.84 percent for 2003, approximately half the 1.78 percent ratio reported industry-wide.

Rising interest rates could reduce potential revenue from unrealized securities gains.

- Higher earnings were in part attributable to securities gains. During the low interest rate environment of 2003, six of the seven insured institutions realized security gains. However, this source of income is unlikely to be available should interest rates rise (See Chart 6).

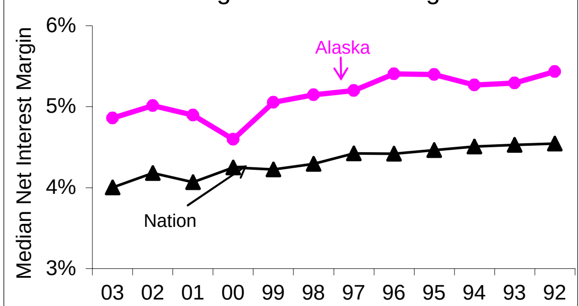
- Securities replaced loans, which typically carry lower yields. Securities, as a percentage of the assets held by insured institutions based in Alaska, increased from 28.12 percent to 34.17 percent from fourth quarter 2002 to fourth quarter 2003, and remained above the national median of 14.69 percent.

Chart 4: Insured Institutions Based in Alaska Reported Higher Delinquency Ratios



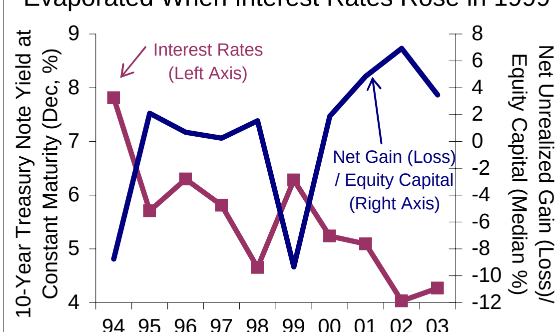
Notes: C&I = commercial and industrial. Commercial real estate (CRE) includes nonfarm-nonresidential, multifamily, and construction loans.
Source: Alaska Bank and Thrift Call Reports

Chart 5: Insured Institutions in Alaska Reported Decreasing Net Interest Margins



Source: Bank Call Reports

Chart 6: Unrealized Securities Gains in Alaska Evaporated When Interest Rates Rose in 1999



Source: Alaska Bank and Thrift Call Reports, and Federal Reserve

[4] Joling, Dan., "Summit Seeks Fix for Low Fish Prices", Kenai Peninsula Online, April 5, 2002.

Alaska at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	7	8	8	8	8
Total Assets (in thousands)	3,863,159	7,182,585	6,605,998	6,477,988	5,707,941
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	0

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	8.92	8.80	8.55	8.87	8.84

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	2.20%	1.84%	1.27%	2.02%	1.28%
Past-Due and Nonaccrual >= 5%	0	0	1	0	0
ALLL/Total Loans (median %)	1.17%	1.32%	1.33%	1.28%	1.37%
ALLL/Noncurrent Loans (median multiple)	1.69	1.48	2.19	1.69	4.37
Net Loan Losses/Loans (aggregate)	0.13%	0.47%	0.24%	0.09%	0.11%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	0	0	0	0	
Percent Unprofitable	0.00%	0.00%	0.00%	0.00%	0.00%
Return on Assets (median %)	1.46	1.31	1.25	1.10	1.15
25th Percentile	1.13	1.03	0.71	1.03	0.80
Net Interest Margin (median %)	4.86%	5.01%	4.90%	4.60%	5.05%
Yield on Earning Assets (median)	5.89%	6.48%	7.77%	8.29%	8.05%
Cost of Funding Earning Assets (median)	0.84%	1.42%	2.70%	3.38%	3.03%
Provisions to Avg. Assets (median)	0.12%	0.21%	0.13%	0.06%	0.10%
Noninterest Income to Avg. Assets (median)	1.21%	1.05%	0.88%	0.79%	1.03%
Overhead to Avg. Assets (median)	3.86%	3.75%	3.83%	3.99%	4.21%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	71.28%	62.18%	62.79%	65.98%	66.73%
Loans to Assets (median %)	47.69%	51.78%	49.04%	49.02%	50.17%
Brokered Deposits (# of Institutions)	2	1	0	1	2
Bro. Deps./Assets (median for above inst.)	1.70%	1.07%	na	1.27%	0.78%
Noncore Funding to Assets (median)	17.74%	20.47%	18.51%	19.76%	17.94%
Core Funding to Assets (median)	73.37%	69.54%	69.71%	68.35%	70.68%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	3	3	3	3	3
National	2	3	3	3	3
State Member	0	0	0	0	0
S&L	0	0	0	0	0
Savings Bank	1	1	1	1	1
Stock and Mutual SB	1	1	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	4	856,106	57.14%	22.16%
Anchorage AK	3	3,007,053	42.86%	77.84%