FDIC State Profile

Spring 2004

Arizona

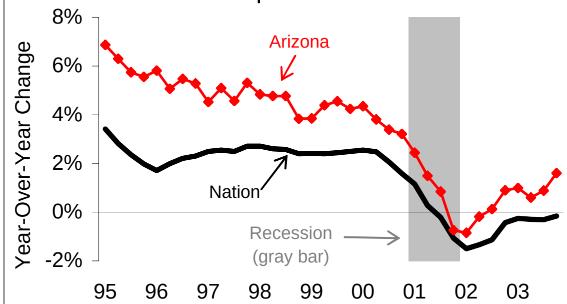
Nonfarm employment in Arizona rebounded through fourth quarter 2003.

- Year-over-year, payroll jobs in the state increased 1.6 percent, in contrast to the flat employment picture nationally (See Chart 1). Employment growth in the construction, retail trade, and several services sectors offset losses in the manufacturing, information, and wholesale trade industries.
- Tax revenue declines slowed employment growth in the state and local government sectors to minus 0.74 percent and 0.1 percent, respectively, during the year ending fourth quarter 2003.
- During the same one-year period, computer and electronic products manufacturing jobs (which includes semiconductors) declined 6.3 percent, information services jobs decreased 3.3 percent, and aerospace products and parts manufacturing jobs sank 1.9% on an annual basis (See Chart 2).
- Although still below the peak volume attained during 2000, worldwide semiconductor sales rebounded in 2003 and are forecast by the ***Semiconductor Industry Association*** to rise nearly 20 percent during 2004. Increased chip orders may presage a rise in high-tech employment.
- Notwithstanding Arizona's defense-related aerospace employment, weak demand for commercial aircraft contributed to a 1.9 percent year-over-year decline in total aerospace manufacturing jobs. Recent defense contract wins by Honeywell and Raytheon could boost employment in this industry in the near term.[1]

Office, industrial, and multifamily vacancy rates in the Phoenix and Tucson MSAs remained above pre-recession levels, but some sectors may be stabilizing.

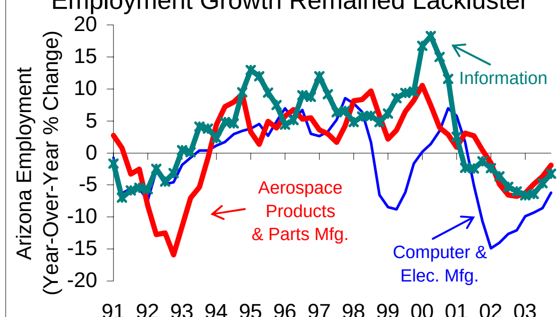
- Between fourth quarter 2002 and fourth quarter 2003, office vacancy rates increased in Tucson but declined in Phoenix (See Chart 3). Industrial vacancy rates in both Phoenix and Tucson deteriorated over the past three

Chart 1: Arizona Nonfarm Employment Growth Outpaced the Nation



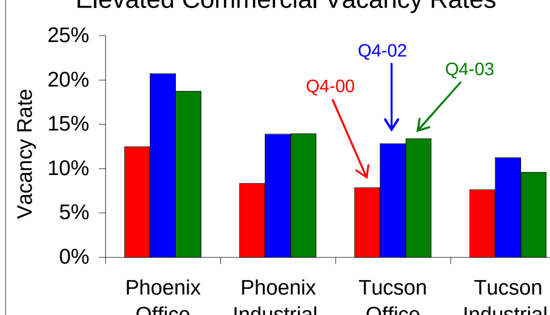
Sources: Bureau of Labor Statistics; National Bureau of Economic Research

Chart 2: Arizona High-Tech and Aerospace Employment Growth Remained Lackluster



Source: Bureau of Labor Statistics

Chart 3: Arizona's Slowing Economy Elevated Commercial Vacancy Rates



Source: Torto Wheaton Research

[1] Shankar, Rakesh, Precis State: Arizona, Economy.com, December 2003.

years. Forecasts by Torto Wheaton Research (TWR) suggest that industrial sector occupancy and rental rates could remain under pressure in the near term. .

- Low home mortgage rates and subdued job growth softened demand for apartment units. Between fourth quarter 2002 and fourth quarter 2003, TWR estimates that multifamily vacancy rates increased from 8.4 percent to 9.1 percent in Phoenix and from 8.7 percent to 9.3 percent in Tucson.

Weakening local CRE market conditions could adversely affect institutions headquartered in the Phoenix and Tucson MSAs holding CRE[2] loans.

- As of fourth quarter 2003, the median CRE loan-to-Tier 1 capital ratio among established community institutions[3] based in the Phoenix and Tucson MSAs increased to 529 percent, 1.9 times the median concentration reported by similar metropolitan institutions nationally (See Chart 4). The group's median construction and development (C&D) loan-to-Tier 1 capital ratio increased to 129 percent, or 2.6 times the year-end levels reported by MSA-based established community institutions nationwide.

- Increasing CRE vacancy rates over the past few years affected past-due CRE loan ratios mildly among Phoenix- and Tucson-based established community institutions.

Earnings among Arizona's insured institutions continued to improve through year-end 2003.

- The median return-on-assets (ROA) ratio increased to 0.88 percent in December 2003, up from 0.81 percent in fourth quarter 2002, but still below the 1.02 percent national median. Despite net interest margin compression, the median ROA improved, prompted by reduced overhead ratios.

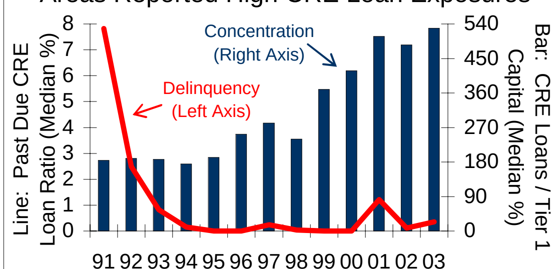
- ROA ratios were weaker among institutions less than nine years old, which accounted for two-thirds of the state's insured institutions (See Chart 5). Older insured institutions reported strong ROA ratios.

Arizona-based institutions reported elevated noncore[4] funds and brokered deposit dependence.

- Among insured institutions, the median noncore funds-to-total asset ratio moderated to 15.3 percent over the past year, after showing a steady increase over the past decade.

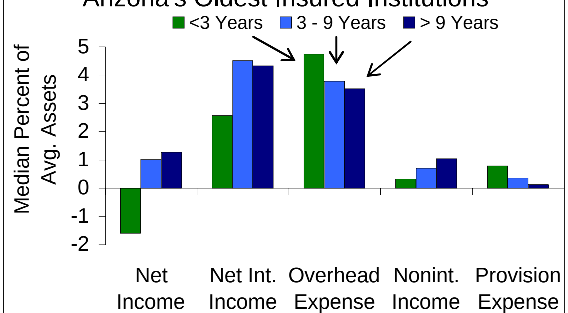
- Roughly 42 percent of Arizona-based insured institutions reported brokered deposit exposures at year-end 2003, a far higher proportion than the 23 percent reported nationally (See Chart 6). Jumbo and brokered deposits could prove volatile or increasingly expensive should competing equity market investments improve or interest rates rise.

Chart 4: Institutions in the Tucson and Phoenix Areas Reported High CRE Loan Exposures



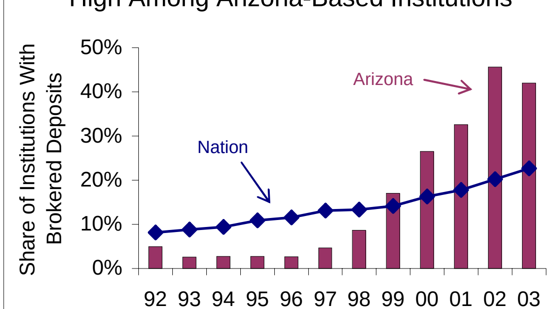
Notes: Includes insured institutions based in the Phoenix and Tucson metropolitan areas, open at least three years, with less than $1 billion in assets, and excludes specialty institutions. CRE = commercial real estate.
Source: Bank and Thrift Call Reports (December of each year)

Chart 5: Earnings Were Strongest among Arizona's Oldest Insured Institutions



Source: Arizona Bank and Thrift Call Reports (December 31, 2003)

Chart 6: Brokered Deposit Usage Remained High Among Arizona-Based Institutions



Source: Bank and Thrift Call Reports (December of each year)

[2]CRE loans include construction, multifamily, and nonfarm-nonresidential mortgages.
[3]Established community institutions are defined as insured institutions holding less than $1 billion in total assets and open at least three years, excluding industrial loan companies and specialty institutions.
[4]Noncore funds include brokered deposits, jumbo time deposits, foreign office deposits, and other borrowed funds such as Federal funds purchased and reverse repurchase agreements.

Arizona at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	50	46	46	49	47
Total Assets (in thousands)	60,738,387	48,888,276	44,232,964	62,655,059	48,600,552
New Institutions (# < 3 years)	13	13	12	16	15
New Institutions (# < 9 years)	33	28	26	27	26

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	10.31	9.59	9.25	9.20	9.42

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	0.60%	0.44%	1.19%	0.81%	0.51%
Past-Due and Nonaccrual >= 5%	2	0	7	4	2
ALLL/Total Loans (median %)	1.17%	1.19%	1.30%	1.29%	1.18%
ALLL/Noncurrent Loans (median multiple)	2.99	4.14	1.72	2.87	4.52
Net Loan Losses/Loans (aggregate)	4.05%	4.95%	3.23%	1.70%	2.44%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	11	10	16	14	11
Percent Unprofitable	22.00%	21.74%	34.78%	28.57%	23.40%
Return on Assets (median %)	0.88	0.81	0.87	1.12	1.04
25th Percentile	0.16	0.17	-1.16	-0.30	0.30
Net Interest Margin (median %)	4.66%	4.67%	5.05%	5.46%	5.30%
Yield on Earning Assets (median)	5.98%	6.75%	8.38%	9.15%	8.34%
Cost of Funding Earning Assets (median)	1.30%	1.87%	3.34%	3.84%	3.11%
Provisions to Avg. Assets (median)	0.28%	0.21%	0.35%	0.33%	0.29%
Noninterest Income to Avg. Assets (median)	0.70%	0.77%	0.71%	0.66%	0.85%
Overhead to Avg. Assets (median)	3.74%	4.28%	4.46%	4.49%	4.32%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	86.96%	86.49%	81.78%	79.40%	82.32%
Loans to Assets (median %)	69.39%	69.10%	70.16%	68.01%	67.93%
Brokered Deposits (# of Institutions)	21	21	15	13	8
Bro. Deps./Assets (median for above inst.)	7.09%	8.15%	17.93%	5.52%	7.91%
Noncore Funding to Assets (median)	15.29%	17.42%	17.54%	14.91%	15.40%
Core Funding to Assets (median)	67.15%	64.13%	60.59%	64.51%	70.04%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	28	21	20	20	21
National	16	17	17	18	17
State Member	2	5	6	7	6
S&L	0	0	0	0	0
Savings Bank	4	3	3	4	3
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Phoenix-Mesa AZ	35	55,949,745	70.00%	92.12%
Tucson AZ	5	3,413,604	10.00%	5.62%
Las Vegas NV-AZ	4	1,066,718	8.00%	1.76%
Yuma AZ	3	188,103	6.00%	0.31%
No MSA	2	72,209	4.00%	0.12%
Flagstaff AZ	1	48,008	2.00%	0.08%