Second Quarter 1988

# The FDIC Quarterly Banking Profile

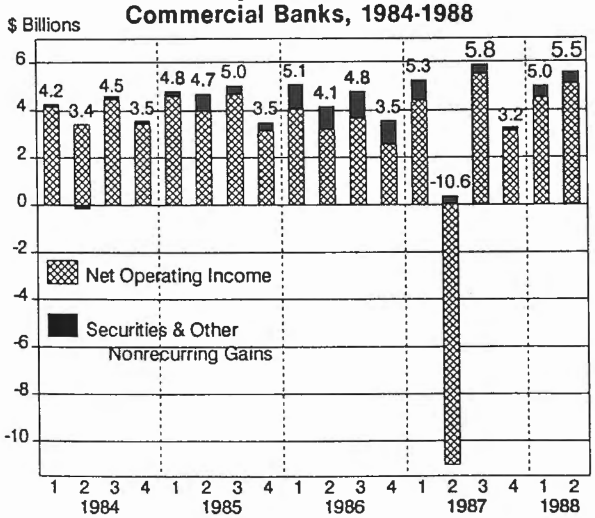
L. William Seidman, Chairman

## COMMERCIAL BANKING PERFORMANCE —SECOND QUARTER 1988

- ***Banks Earn Record $10.5 Billion in First Half — $5.5 Billion in Second Quarter***
- ***Lackluster Performance in Texas Continues to Depress Aggregates***
- ***Asset Growth Led by Real Estate Lending***
- ***Banks Fail at Same Pace as in 1987, Problem Bank List Shrinks***

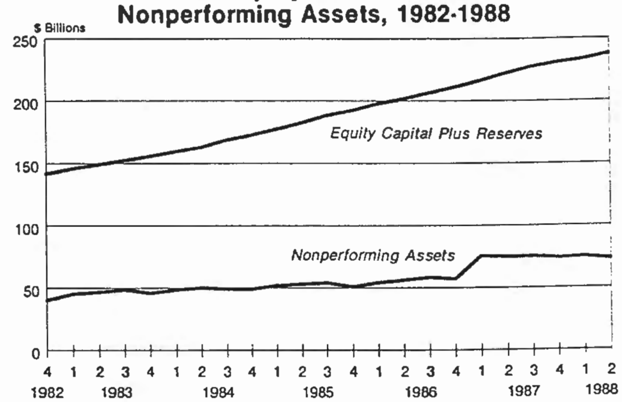
U.S. commercial banks earned $10.5 billion in the first half of 1988, the highest profit ever for a six-month period. These results were a stark contrast to the $5.4 billion loss in the first half of 1987, when many large banks established reserves against troubled loans to developing countries. First-half provisions for loan losses were $16.3 billion less in 1988 than in 1987. Aggregate net income in the second quarter was $5.5 billion, surpassed only by the $5.8 billion earned in the third quarter of 1987. The strong earnings were the result of generally improved performance by banks outside of Texas. Texas banks lost $2.9 billion in the first half of 1988, $1.2 billion in the second quarter; most of this was attributable to banks of First RepublicBank Corporation, which were closed on July 29.

**Chart A — Quarterly Net Income of FDIC-Insured Commercial Banks, 1984-1988**




Equity capital was 7.3 percent higher as of June 30 than a year earlier, and the industry's equity-to-assets ratio improved to 6.15 percent from 6.02 percent a year ago, and from 6.04 percent as of year-end 1987. This trend will continue as large banks rebuild their capital base after their large transfers to reserves a year ago, and take steps to meet new capital standards in the next decade. Primary capital strength also increased, as aggregate primary capital rose $15.1 billion over year-ago levels to $241.1 billion, a 6.7 percent increase. Banks in the largest size group continued to report an exceptionally high ratio of loss reserves to loans, due to their extensive reserving for loans to developing nations.

**Chart B — Equity Plus Reserves and Nonperforming Assets, 1982-1988**




Bank assets grew $37.5 billion during the second quarter, and following the trend of recent years, real estate lending accounted for much of the growth. As competition in traditional commercial lending areas has intensified, banks have increasingly turned to the real estate and consumer lending markets for new business. This has changed the profile of bank loan portfolios, as the dollar volume of real estate loans on their books now exceeds commercial loan outstandings. Reorientation has entailed costs, however, in terms of higher overhead expenses and credit losses.

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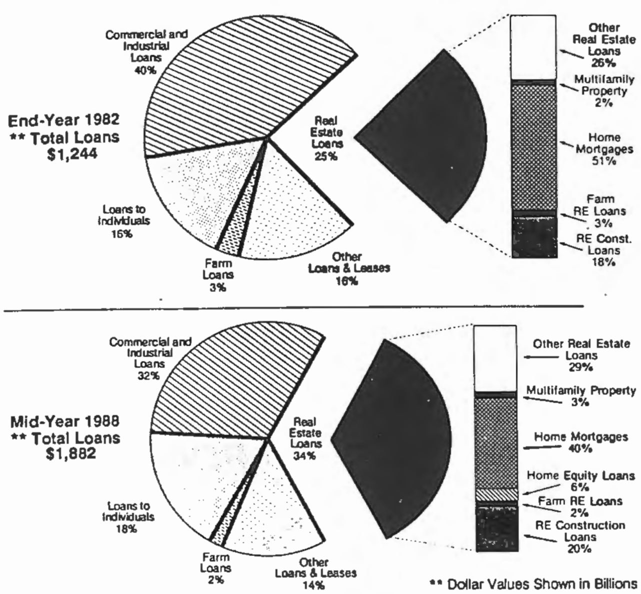
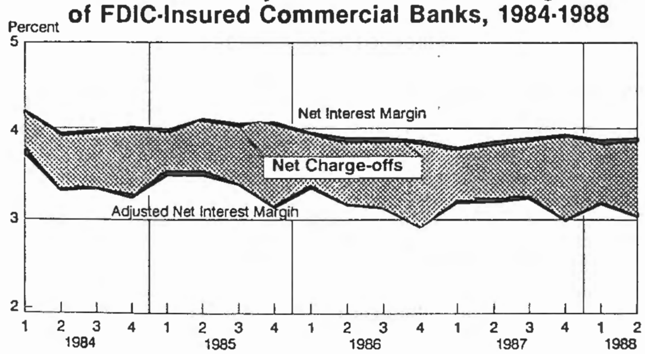
**Chart C — Composition of Total Loans Outstanding and Real Estate Loan Distribution**




Most of the growth in real estate loans has been in commercial real estate lending, such as construction and development financing. In addition, much of the growth on the consumer side has been in home equity lines of credit, rather than purchase money mortgages. It is not clear what the shift from commercial loans to real estate lending will mean for the overall risk profile of bank loan portfolios.

Net interest margins have trended slightly downwards in recent years, narrowed by competitive forces and growth of nonaccrual loans. Greater loan losses have further reduced effective lending margins, suggesting that banks have had difficulties pricing the credit risk in their loan portfolios. This trend has resulted in a decline in profitability through the decade as banks have had to divert large portions of income to bolster reserves for anticipated loan losses. However, for the first time in the 1980s, aggregate loss reserves shrank from the first quarter to the second quarter of 1988, which with the reduction in nonperforming assets and an improving trend in margins begun in 1987, suggests that the credit quality outlook may be improving for the industry as a whole.

**Chart D — Adjusted Net Interest Margin of FDIC-Insured Commercial Banks, 1984-1988**




The number of commercial banks continued to diminish, as merger activity, bank failures, and liberalization of branching laws in some states contributed to the industry's further consolidation. As recently as year-end 1984 there were 14,481 insured commercial banks in the U.S.; their ranks had thinned to 13,444 by mid-year 1988, a 7.2 percent reduction.

Non-deposit funding sources continued to grow in importance during the quarter, especially at larger banks, as "other borrowed funds" were 11.5 percent higher as of June 30 than a year earlier. Recent events have reduced some of the funding advantage of banks' parent holding companies, and banks have tapped the debt markets themselves.

Although the percentage of banks that were unprofitable was virtually unchanged from the first to the second quarter, the number of banks on the "Problem List" fell for the fourth consecutive quarter, and as of June 30 was 9.1 percent below the peak reached a year earlier. Banks failed at the same pace during the first half of 1988 as they did in 1987. Full-year totals will be greater, however, due to the 42 failures attributable to the demise of First RepublicBank in July. Most of the failures have occurred in the Southwest, which continues to suffer from severely depressed real estate markets. Through the first six months of the year, 58 of the 101 banks that failed or required assistance were in the Southwest, 42 of those in Texas, and this pattern should continue through the rest of the year.

First half operating results were dramatically better than first half 1987 performance, and compare favorably with first half 1985 results in each region except the Southwest. Southwest regional aggregate performance ratios were heavily influenced by Texas banks. In each of that region's other four states, aggregate net income through the first six months of the year was positive. Midwestern banks, having weathered severe problems in the middle of this decade, continued their strong improving trend. Their 1988 results to date, reflected in an annualized return on assets of 1.07 percent, are more in line with their historic levels of performance. However, banks in drought-stressed areas may see some decline in the second half.

The current earnings strength reflects improved asset quality. Reduced levels of problem assets, which declined by $2.2 billion during the second quarter, resulted in improved net interest margins as well as lower loan loss expenses. Strong growth of noninterest revenues has also provided important contributions to the industry's improved bottom-line. With better asset quality, the recent rise in interest rates, the return of Brazilian debt to performing status, and the steps taken last year to fortify reserves, 1988 promises a return to profitability levels not seen in the commercial banking sector since 1985, when industry return on assets was 70 basis points. For the first half of 1988, the aggregate return on assets was 70 basis points, compared to 75 basis points in the first six months of 1985. For the banking industry in general, the outlook for second half of the year is for a continuation of the strong first half.

## Table I. Selected Indicators, FDIC-Insured Commercial Banks

| | *1988** | *1987** | *1987* | *1986* | *1985* | *1984* | *1983* |
|---|---|---|---|---|---|---|---|
| Return on assets | 0.70% | -0.37% | 0.12% | 0.63% | 0.70% | 0.65% | 0.66% |
| Return on equity | 11.41 | -5.94 | 2.00 | 9.94 | 11.31 | 10.73 | 10.70 |
| Equity capital to assets | 6.15 | 6.02 | 6.04 | 6.20 | 6.20 | 6.15 | 6.00 |
| Primary capital ratio | 7.89 | 7.63 | 7.69 | 7.22 | 6.91 | 6.91 | 6.59 |
| Nonperforming assets to assets | 2.40 | 2.59 | 2.46 | 1.94 | 1.87 | 1.97 | 1.97 |
| Net charge-offs to loans | 0.99 | 0.79 | 0.92 | 0.98 | 0.84 | 0.76 | 0.67 |
| Asset growth rate | 4.88 | 5.01 | 2.03 | 7.71 | 8.86 | 7.11 | 6.75 |
| Net operating income growth | N/M | N/M | -85.27 | -20.65 | 6.30 | 3.40 | -3.69 |
| Percentage of unprofitable banks | 13.18 | 16.42 | 17.66 | 19.79 | 17.09 | 13.06 | 10.58 |
| Number of problem banks | 1,455 | 1,601 | 1,559 | 1,457 | 1,098 | 800 | 603 |
| Number of failed/assisted banks | 101 | 99 | 201 | 144 | 118 | 78 | 45 |

## Table II. Aggregate Condition and Income Data, FDIC-Insured Commercial Banks
*(dollar figures in millions)*

| | *Preliminary 2nd Qtr 1988* | *1st Qtr 1988* | *2nd Qtr 1987* | *%Change 87:2-88:2* |
|---|---|---|---|---|
| Number of banks reporting | 13,403 | 13,542 | 13,947 | -3.9 |
| Total employees (full-time equivalent) | 1,539,320 | 1,530,878 | 1,622,469 | -5.1 |
| ***CONDITION DATA*** | | | | |
| Total assets | $3,055,311 | $3,017,806 | $2,913,069 | 4.9 |
| Real estate loans | 637,665 | 615,609 | 556,641 | 14.6 |
| Commercial & industrial loans | 599,422 | 595,927 | 582,892 | 2.8 |
| Loans to individuals | 358,194 | 350,829 | 332,839 | 7.6 |
| Farm loans | 30,677 | 28,609 | 30,820 | -0.5 |
| Other loans and leases | 256,599 | 257,864 | 265,201 | -3.2 |
| Total loans and leases | 1,882,557 | 1,848,838 | 1,768,393 | 6.5 |
| LESS: Reserve for losses | 49,224 | 50,305 | 47,244 | 4.2 |
| Net loans and leases | 1,833,333 | 1,798,533 | 1,721,149 | 6.5 |
| Temporary investments | 467,406 | 472,352 | 449,656 | 3.9 |
| Securities over 1 year | 387,629 | 392,835 | 375,867 | 3.1 |
| All other assets | 366,943 | 354,086 | 366,397 | 0.1 |
| Total liabilities and capital | $3,055,311 | $3,017,806 | $2,913,069 | 4.9 |
| Noninterest-bearing deposits | 463,070 | 438,870 | 471,716 | -1.8 |
| Interest-bearing deposits | 1,892,280 | 1,880,341 | 1,793,310 | 5.5 |
| Other borrowed funds | 391,060 | 393,987 | 350,579 | 11.5 |
| Subordinated debt | 17,207 | 17,477 | 17,283 | -0.4 |
| All other liabilities | 103,659 | 103,893 | 104,905 | -1.2 |
| Equity capital | 188,035 | 183,238 | 175,276 | 7.3 |
| Primary capital | 241,069 | 237,413 | 225,951 | 6.7 |
| Nonperforming assets | 73,371 | 75,522 | 75,543 | 2.9 |
| Loan commitments and letters of credit | 812,627 | 801,915 | 766,580 | 6.0 |
| Domestic office assets | 2,635,006 | 2,585,095 | 2,495,158 | 5.6 |
| Foreign office assets | 420,305 | 432,711 | 417,911 | 0.6 |
| Domestic office deposits | 2,026,228 | 1,985,484 | 1,929,036 | 5.0 |
| Foreign office deposits | 329,122 | 333,727 | 335,990 | -2.0 |
| Earning assets | 2,688,368 | 2,663,720 | 2,546,672 | 5.6 |
| Volatile liabilities | 1,070,574 | 1,077,501 | 1,007,818 | 6.2 |

| ***INCOME DATA*** | *First Half 1988* | *First Half 1987* | *% Change* | *Preliminary 2nd Qtr 1988* | *2nd Qtr 1987* | *% Change* |
|---|---|---|---|---|---|---|
| Total interest income | $129,437 | $118,662 | 9.1 | $65,325 | $60,236 | 8.4 |
| Total interest expense | 78,070 | 69,910 | 11.7 | 39,452 | 35,599 | 10.8 |
| Net interest income | 51,367 | 48,752 | 5.4 | 25,873 | 24,637 | 5.0 |
| Provisions for loan losses | 9,102 | 25,376 | -64.1 | 4,401 | 21,269 | -79.3 |
| Total noninterest income | 22,144 | 19,068 | 16.1 | 11,080 | 9,657 | 14.7 |
| Total noninterest expense | 50,064 | 47,051 | 6.4 | 25,031 | 23,906 | 4.7 |
| Applicable income taxes | 4,807 | 2,021 | 137.9 | 2,435 | 114 | 2036.0 |
| Net operating income | 9,538 | -6,628 | N/M | 5,086 | -10,995 | N/M |
| Securities gains, net | 537 | 1,131 | -52.5 | 147 | 335 | -56.1 |
| Extraordinary gains, net | 436 | 112 | 289.3 | 300 | 23 | 1204.3 |
| Net income | 10,511 | -5,385 | N/M | 5,533 | -10,637 | N/M |
| Net charge-offs | 9,194 | 6,949 | 32.3 | 5,159 | 3,680 | 40.2 |
| Net additions to capital stock | 323 | 743 | -56.5 | 185 | 703 | -73.7 |
| Cash dividends on capital stock | 6,086 | 4,691 | 29.7 | 2,784 | 2,357 | 18.1 |

*—through June 30; ratios annualized where appropriate
N/M—Not meaningful

## Table III. Second Quarter Bank Data *(Dollar figures in billions, ratios in %)*

| | All Banks | Asset Size Distribution: Less than $100 Million | $100 Million to $1 Billion | $1-10 Billion | Greater than $10 Billion | Geographic Distribution: EAST: Northeast Region | Southeast Region | Central Region | WEST: Midwest Region | Southwest Region | West Region |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **CURRENT QUARTER** *Preliminary (The way it is . . . )* | | | | | | | | | | | |
| Number of banks reporting | 13,403 | 10,630 | 2,408 | 328 | 37 | 1,082 | 1,932 | 2,966 | 3,160 | 2,743 | 1,520 |
| Total assets | $3,055.3 | $385.4 | $571.8 | $977.9 | $1,120.2 | $1,220.2 | $417.1 | $486.9 | $205.7 | $270.8 | $454.5 |
| Total deposits | 2,355.4 | 343.2 | 488.0 | 734.2 | 790.0 | 883.7 | 332.6 | 391.5 | 160.0 | 221.5 | 365.7 |
| Net income *(in millions)* | 5,533 | 682 | 1,139 | 1,640 | 2,072 | 2,951 | 1,046 | 1,260 | 547 | −1,087 | 816 |
| Percentage of banks losing money | 12.9% | 14.2% | 8.0% | 7.9% | 2.7% | 7.9% | 10.5% | 4.9% | 7.4% | 27.3% | 20.3% |
| **Performance ratios** *(annualized)* | | | | | | | | | | | |
| Yield on earning assets | 9.77% | 9.70% | 9.79% | 9.70% | 10.11% | 10.14% | 9.74% | 9.48% | 9.95% | 9.25% | 9.97% |
| Cost of funding earning assets | 5.90 | 5.30 | 5.40 | 5.52 | 6.87 | 6.63 | 5.48 | 5.57 | 5.62 | 5.89 | 5.19 |
| Net interest margin | 3.87 | 4.40 | 4.39 | 4.18 | 3.24 | 3.51 | 4.26 | 3.91 | 4.33 | 3.36 | 4.78 |
| Net noninterest expense to earning assets | 2.09 | 2.76 | 2.59 | 2.23 | 1.53 | 1.63 | 2.40 | 2.05 | 1.98 | 2.91 | 2.78 |
| Net operating cash flow to assets | 1.57 | 1.49 | 1.63 | 1.72 | 1.45 | 1.64 | 1.66 | 1.65 | 2.10 | 0.39 | 1.68 |
| Net operating income to assets | 0.67 | 0.68 | 0.74 | 0.66 | 0.62 | 0.88 | 0.96 | 1.04 | 1.02 | −1.74 | 0.66 |
| Return on assets | 0.73 | 0.70 | 0.77 | 0.68 | 0.74 | 0.97 | 0.99 | 1.05 | 1.08 | −1.72 | 0.73 |
| Return on equity | 11.92 | 8.01 | 10.41 | 11.04 | 16.40 | 17.44 | 14.31 | 15.63 | 14.43 | −31.45 | 12.65 |
| Net charge-offs to loans and leases | 1.11 | 0.87 | 0.95 | 1.38 | 1.05 | 0.64 | 0.57 | 0.72 | 1.37 | 4.75 | 1.26 |
| Loan loss provision to net charge-offs | 85.31 | 108.96 | 99.52 | 83.10 | 75.81 | 98.83 | 118.97 | 77.88 | 90.15 | 76.11 | 70.50 |
| **Condition Ratios** | | | | | | | | | | | |
| Loss allowance to: | | | | | | | | | | | |
| Loans and leases | 2.61% | 1.67% | 1.56% | 1.79% | 4.13% | 2.99% | 1.30% | 2.08% | 2.03% | 3.92% | 2.89% |
| Noncurrent loans and leases | 80.38 | 65.32 | 73.49 | 82.22 | 83.36 | 83.76 | 100.07 | 117.44 | 83.55 | 49.90 | 80.12 |
| Nonperforming assets to assets | 2.40 | 2.05 | 1.78 | 1.72 | 3.36 | 2.33 | 1.02 | 1.21 | 1.74 | 6.25 | 2.98 |
| Equity Capital Ratio | 6.15 | 8.79 | 7.36 | 6.20 | 4.58 | 5.67 | 7.02 | 6.76 | 7.53 | 5.45 | 5.79 |
| Primary capital ratio | 7.77 | 9.64 | 8.24 | 7.27 | 7.64 | 7.65 | 7.70 | 7.96 | 8.63 | 7.35 | 7.82 |
| Net loans and leases to deposits | 77.84 | 58.24 | 69.95 | 84.90 | 84.65 | 82.74 | 77.42 | 73.03 | 71.53 | 64.61 | 82.2[illegible] |
| **Growth Rates** *(year-to-year)* | | | | | | | | | | | |
| Assets | 4.9% | 5.9% | 10.6% | 13.2% | 3.1% | 7.2% | 9.3% | 5.2% | 1.8% | −5.4% | 2.8% |
| Equity capital | 7.3 | 4.0 | 8.9 | 12.3 | 11.4 | 14.7 | 10.7 | 6.4 | 2.8 | −19.3 | 8.9 |
| Net interest income | 5.0 | 5.1 | 9.1 | 9.2 | 3.4 | 8.3 | 5.0 | 5.2 | 4.6 | −4.8 | 2.9 |
| Net income | N/M | 15.1 | 14.0 | 680.6 | N/M | N/M | 34.9 | N/M | 790.8 | N/M | N/M |
| Nonperforming assets | −2.9 | −2.1 | 10.5 | 11.4 | −4.2 | −3.1 | −0.4 | −13.5 | −17.7 | 19.1 | −15.5 |
| Net charge-offs | 40.2 | −13.3 | 32.2 | 102.1 | 39.7 | 16.8 | 10.4 | 42.9 | 1.2 | 119.1 | 21.5 |
| Loan loss provision | −79.3 | −17.1 | −0.9 | −42.8 | −91.5 | −90.2 | −39.0 | −82.6 | −57.8 | −1.2 | −82.8 |
| **PRIOR SECOND QUARTERS** *(The way it was . . . )* | | | | | | | | | | | |
| Return on assets . . . 1987 | −1.48% | 0.59% | 0.53% | 0.06% | −4.57% | −2.84% | 0.86% | −0.56% | 0.11% | −1.22% | −1.80% |
| . . . 1985 | 0.74 | 0.88 | 0.96 | 0.94 | 0.37 | 0.83 | 1.09 | 0.85 | 0.87 | 0.70 | 0.16 |
| . . . 1983 | 0.72 | 1.12 | 0.92 | 0.54 | 0.55 | 0.68 | 1.00 | 0.74 | 1.09 | 0.80 | 0.41 |
| Equity capital ratio . . . 1987 | 6.02 | 8.65 | 7.38 | 6.09 | 4.22 | 5.29 | 6.92 | 6.68 | 7.45 | 6.39 | 5.47 |
| . . . 1985 | 6.27 | 8.68 | 7.23 | 5.95 | 4.87 | 5.64 | 6.83 | 6.88 | 7.62 | 7.07 | 5.54 |
| . . . 1983 | 6.02 | 8.72 | 7.19 | 5.69 | 4.31 | 5.25 | 6.94 | 6.69 | 7.68 | 7.02 | 5.08 |
| Nonperforming assets to assets . . . 1987 | 2.59 | 2.31 | 1.96 | 1.84 | 3.64 | 2.58 | 1.12 | 1.48 | 2.16 | 4.97 | 3.63 |
| . . . 1985 | 2.08 | 2.08 | 1.67 | 1.66 | 2.67 | 1.85 | 1.07 | 1.65 | 2.33 | 2.62 | 3.22 |
| . . . 1983 | 2.10 | 1.61 | 1.69 | 2.04 | 2.61 | 1.69 | 1.27 | 2.24 | 1.65 | 2.24 | 3.40 |
| Net charge-offs to loans and leases . . . 1987 | 0.86 | 1.17 | 0.91 | 0.81 | 0.78 | 0.60 | 0.58 | 0.54 | 1.44 | 2.13 | 1.08 |
| . . . 1985 | 0.76 | 1.17 | 0.73 | 0.60 | 0.74 | 0.43 | 0.54 | 0.66 | 1.48 | 1.17 | 1.10 |
| . . . 1983 | 0.63 | 0.81 | 0.61 | 0.78 | 0.49 | 0.37 | 0.62 | 0.76 | 0.60 | 1.14 | 0.75 |

REGIONS: Northeast — Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont

Southeast — Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia

Central — Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin

Midwest — Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

Southwest — Arkansas, Louisiana, New Mexico, Oklahoma, Texas

West — Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, Oregon, Pacific Islands, Utah, Washington, Wyoming

## Table IV. First Half 1988 Bank Data *(Dollar figures in billions, ratios in %)*

| | | Asset Size Distribution | | | | Geographic Distribution | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | EAST | | | WEST | | |
| | All Banks | Less than $100 Million | $100 Million to $1 Billion | $1-10 Billion | Greater than $10 Billion | Northeast Region | Southeast Region | Central Region | Midwest Region | Southwest Region | West Region |
| **FIRST HALF** *PRELIMINARY* *(The way it is . . . )* | | | | | | | | | | | |
| Number of banks reporting | 13,403 | 10,630 | 2,408 | 328 | 37 | 1,082 | 1,932 | 2,966 | 3,160 | 2,743 | 1,520 |
| Net Income *(in millions)* | $10,511 | $1,401 | $2,209 | $3,292 | $3,609 | $5,752 | $2,085 | $2,596 | $1,079 | $-2,735 | $1,735 |
| Percentage of banks losing money | 13.2% | 14.6% | 7.7% | 7.9% | 2.7% | 6.8% | 9.6% | 3.5% | 7.0% | 28.5% | 20.1% |
| **Performance ratios** *(annualized)* | | | | | | | | | | | |
| Yield on earning assets | 9.73% | 9.64% | 9.69% | 9.66% | 10.06% | 10.08% | 9.69% | 9.39% | 9.96% | 9.25% | 9.92% |
| Cost of funding earning assets | 5.87 | 5.29 | 5.36 | 5.49 | 6.81 | 6.57 | 5.45 | 5.53 | 5.63 | 5.87 | 5.18 |
| Net interest margin | 3.86 | 4.35 | 4.33 | 4.17 | 3.25 | 3.51 | 4.24 | 3.86 | 4.33 | 3.38 | 4.74 |
| Net noninterest expense to earning assets | 2.10 | 2.76 | 2.60 | 2.29 | 1.47 | 1.63 | 2.41 | 2.00 | 2.03 | 2.97 | 2.77 |
| Net operating cash flow to assets | 1.55 | 1.44 | 1.57 | 1.66 | 1.51 | 1.63 | 1.62 | 1.66 | 2.06 | 0.35 | 1.68 |
| Net operating income to assets | 0.63 | 0.70 | 0.75 | 0.65 | 0.54 | 0.88 | 0.97 | 1.05 | 1.02 | −2.10 | 0.71 |
| Return on assets | 0.70 | 0.75 | 0.79 | 0.69 | 0.64 | 0.96 | 1.02 | 1.09 | 1.07 | −2.05 | 0.78 |
| Return on equity | 11.41 | 8.59 | 10.75 | 11.20 | 14.44 | 17.36 | 14.77 | 16.29 | 14.23 | −35.65 | 13.49 |
| Net charge-offs to loans and leases | 0.99 | 0.75 | 0.75 | 1.17 | 1.03 | 0.66 | 0.63 | 0.75 | 1.38 | 3.42 | 1.01 |
| Loan loss provision to net charge-offs | 99.00 | 115.16 | 113.04 | 91.46 | 96.32 | 95.07 | 97.15 | 76.72 | 85.24 | 123.59 | 87.24 |
| **Growth Rates** *(year to year)* | | | | | | | | | | | |
| Net interest income | 5.4 | 4.7 | 8.8 | 13.7 | 4.3 | 8.3 | 5.8 | 6.5 | 4.7 | −6.1 | 3.9 |
| Net income | N/M | 10.6 | 3.9 | 62.4 | N/M | N/M | 16.1 | 483.7 | 119.1 | N/M | N/M |
| Net charge-offs | 32.3 | −16.4 | 16.0 | 89.0 | 34.0 | 24.6 | 37.9 | 62.6 | −0.1 | 79.4 | −0.3 |
| Loan loss provision | −64.1 | −19.3 | 3.1 | −21.6 | −80.9 | −82.7 | −24.0 | −69.8 | −47.9 | 56.0 | −73.0 |
| **PRIOR FIRST HALFS** *(The way it was . . . )* | | | | | | | | | | | |
| Return on assets . . . 1987 | −0.37% | 0.66% | 0.70% | 0.45% | −2.00% | −1.06% | 0.96% | 0.19% | 0.49% | −0.51% | −0.63% |
| . . . 1985 | 0.75 | 0.90 | 0.91 | 0.87 | 0.48 | 0.80 | 1.10 | 0.84 | 0.84 | 0.64 | 0.34 |
| . . . 1983 | 0.75 | 1.15 | 0.94 | 0.60 | 0.55 | 0.69 | 1.03 | 0.76 | 1.11 | 0.94 | 0.40 |
| Net charge-offs to loans and leases . 1987 | 0.79 | 0.99 | 0.81 | 0.71 | 0.80 | 0.57 | 0.51 | 0.49 | 1.43 | 1.80 | 1.04 |
| . . . 1985 | 0.66 | 0.93 | 0.60 | 0.56 | 0.67 | 0.39 | 0.44 | 0.56 | 1.27 | 1.03 | 0.95 |
| . . . 1983 | 0.58 | 0.63 | 0.54 | 0.72 | 0.49 | 0.38 | 0.54 | 0.66 | 0.54 | 0.96 | 0.70 |

### NOTES TO USERS

**COMPUTATION METHODOLOGY FOR PERFORMANCE AND CONDITION RATIOS**

All income figures used in calculating performance ratios represent amounts for that period, annualized (multiplied by the number of periods in a year).

All asset and liability figures used in calculating performance ratios represent **average** amounts for the period (beginning-of-period amount plus end-of-period amount plus any periods in between, divided by the total number of periods).

All asset and liability figures used in calculating the condition ratios represent amounts as of the end of the quarter.

**DEFINITIONS**

**"Problem" Banks**—Federal regulators assign to each financial institution a uniform composite rating, based upon an evaluation of financial and operational criteria. The rating is based on a scale of 1 to 5 in ascending order of supervisory concern. "Problem" banks are those institutions with financial, operational or managerial weaknesses that threaten their continued financial viability. Depending upon the degree of risk and supervisory concern, they are rated either "4" or "5".

**Earning Assets**—all loans and other investments that earn interest, dividend or fee income.

**Yield on Earning Assets**—total interest, dividend and fee income earned on loans and investments as a percentage of average earning assets.

**Cost of Funding Earning Assets**—total interest expense paid on deposits and other borrowed money as a percentage of average earning assets.

**Net Interest Margin**—the difference between the yield on earning assets and the cost of funding them, i.e., the profit margin a bank earns on its loans and investments.

**Net Noninterest Expense**—total noninterest expense, excluding the expense of providing for loan losses, less total noninterest income. A measure of banks' overhead costs.

**Net Operating Income**—income after taxes and before gains (or losses) from securities transactions and from nonrecurring items. The profit earned on banks' regular banking business.

**Net Operating Cash Flow**—pre-tax net operating income before the provision for loan and lease losses; a measurement of banks' cash flow, net of interest and overhead expenses, from regular operations. Previously referred to as "adjusted net operating income".

**Return on Assets**—net income (including securities transactions and nonrecurring items) as a percentage of average total assets. The basic yardstick of bank' profitability.

**Return on Equity**—net income as a percentage of average total equity capital.

**Net Charge-offs**—total loans and leases charged off (removed from balance sheet because of uncollectibility) during the quarter, less amounts recovered on loans and leases previously charged off.

**Nonperforming Assets**—the sum of loans past-due 90 days or more, loans in nonaccrual status, and noninvestment real estate owned other than bank premises.

**Noncurrent Loans & Leases**—the sum of loans past-due 90 days or more and loans in nonaccrual status.

**Primary Capital**—total equity capital plus the allowance for loan and lease losses plus minority interests in consolidated subsidiaries plus qualifying mandatory convertible debt (cannot exceed 20 percent of total primary capital), less intangible assets except purchased mortgage servicing rights.

**Net Loans and Leases**—total loans and leases less unearned income and the allowance for loan and lease losses.

**Temporary Investments**—the sum of interest-bearing balances due from depository institutions, federal funds sold and resold, trading-account assets and investment securities with remaining maturities of one year or less.

**Volatile Liabilities**—the sum of large denomination time deposits, foreign office deposits, federal funds purchased, and other borrowed money.

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