The FDIC Quarterly Banking Profile

L. William Seidman, Chairman

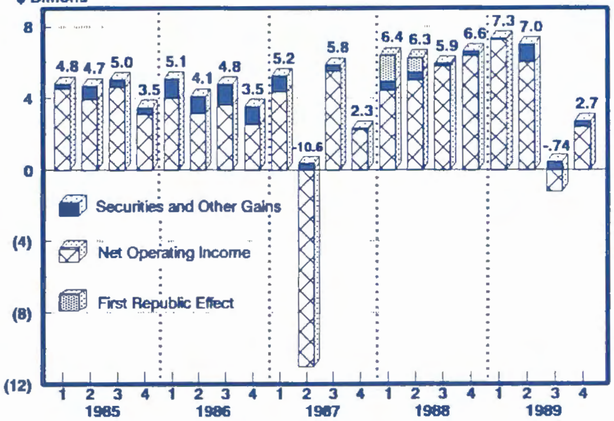
Fourth Quarter 1989

COMMERCIAL BANKING PERFORMANCE - FOURTH QUARTER 1989

- ***Domestic Credit Woes Sharply Reduce Fourth-Quarter Earnings***
- ***Loan Losses Reach Record Levels For Fourth Quarter, Full Year***
- ***Large Banks Hurt By International, Domestic Loan Problems***
- ***Weak Real Estate And Consumer Markets Erode Profits Of Many Banks***
- ***Number Of "Problem" Banks Declines As Small Banks Show Continued Improvement***
- ***Southwest Accounts For Four-Fifths Of 1989 Failures***
- ***Merger Activity Continues To Propel Industry Consolidation***

Commercial banks earned $2.7 billion in the fourth quarter of 1989, less than half the amount earned in the fourth quarter of 1988. Industry earnings totaled $16.3 billion for 1989, a year that saw record first-half profits followed by two of the worst quarters of the eighties. Unlike the previous quarter, in which provisions for international loan losses were mainly responsible for a net loss, the smaller-than-normal profit in the fourth quarter was the result of provisioning for domestic credit losses. Both quarters were especially difficult for large banks in the Northeastern U.S. Five of the ten largest banks in the U.S. reported full-year losses stemming primarily from higher reserving against losses on loans to developing countries (LDCs). One-quarter of all

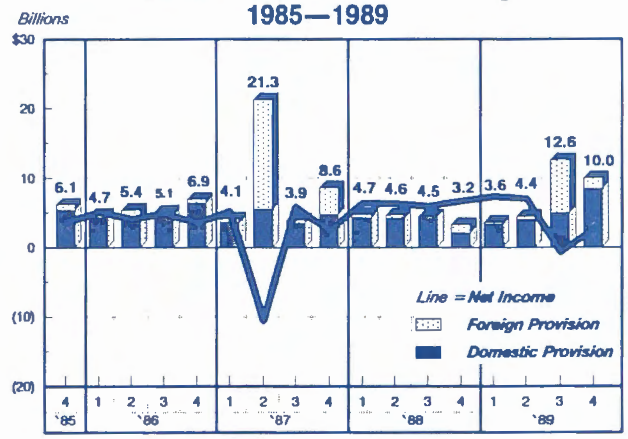
Chart A — Quarterly Net Income of FDIC-Insured Banks 1985—1989



U.S. banks with assets over $10 billion also had net losses for the year, as many regional banks experienced problems in their real estate loan portfolios. Smaller banks, particularly those in the Southwestern U.S., continued to show a recovery in profitability.

The large fourth-quarter loss provisions did not provide a major boost to loss reserves, as banks' net charge-offs of $9.2 billion absorbed almost

Chart B — Quarterly Domestic and International Loss Provisioning 1985—1989



all of the $10 billion set aside for losses. After growing by $7.8 billion in the third quarter, the industry's reserve cushion for future losses grew by only $274 million during the fourth quarter. Both the quarterly and full-year net charge-off

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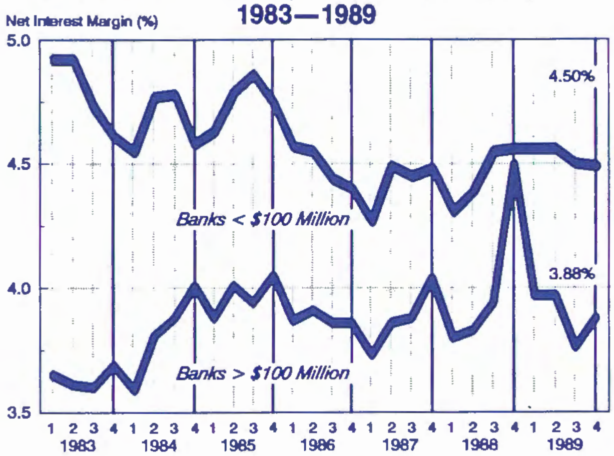
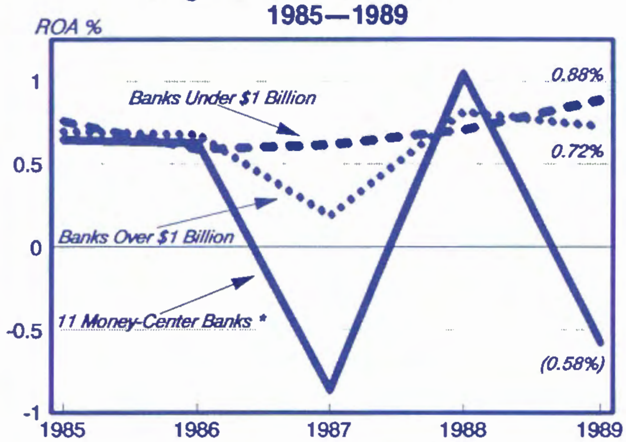
Chart C — Quarterly Net Interest Margins 1983—1989



rates for the banking industry were the highest since banks began reporting the data in 1948. The high level of charge-offs in the fourth quarter hardly made a dent in commercial banks' nonperforming assets, which were reduced by only $428 million.

Net interest margins were generally narrower than 1988 levels in the fourth quarter. This was especially true of banks with international operations, whose fourth-quarter 1988 margins were increased by the restoration of interest payments on delinquent Brazilian loans. For the full year, margins widened from a year earlier among smaller banks, and narrowed at the largest

Chart D — Annual ROA of Money-Center, Regional and All Other Banks 1985—1989



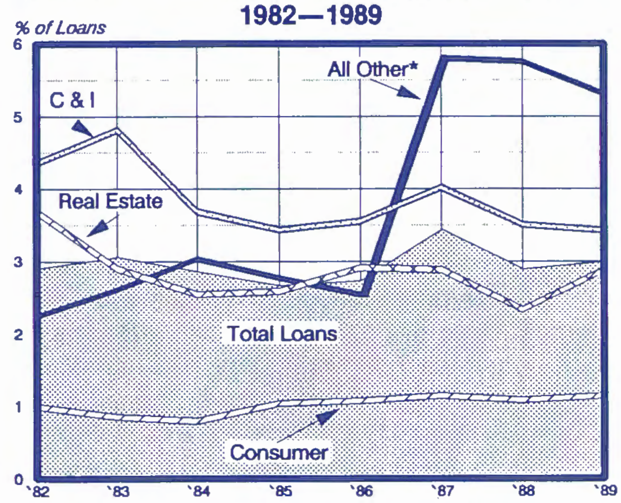
*11 Money Center Banks: CitiBank, Chase Manhattan, Chemical, Bankers Trust, Morgan Guaranty, Manufacturers Hanover, First National Bank of Boston, Bank of New York, Republic National Bank, First Nat'L Chicago, Continental Bank.

banks. The banking industry's aggregate net interest margin for 1989 was unchanged from last year.

The combination of lower earnings and higher dividend payments meant that internal capital generation contributed relatively little to industry net worth in 1989. The only asset size group whose equity-to-assets ratio declined during the year was banks with $10 billion or more in assets. This decline, most of which came in the third quarter amid large LDC loss provisions, was sufficient to cause a slight decline in the equity-to-assets ratio of the entire industry in 1989.

The $30.3 billion that banks set aside in provisions for loan losses in 1989 fell short of 1987's record total of $37.5 billion, but still had a tremendous impact on bank earnings. Large commercial banks set aside a total of $10 billion for future

Chart E — Noncurrent Loan Rates at Year-end 1982—1989

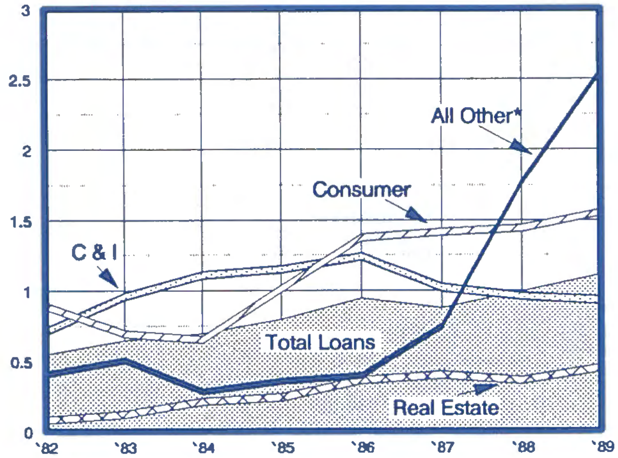


*Includes loans to foreign governments, depository institutions and lease receivables.

losses on their foreign operations in 1989; provisions for domestic losses totaled $20.3 billion. Net income of banks with assets greater than $10 billion declined by 88 percent in 1989, while earnings of banks with under $1 billion in assets increased by almost 18 percent. Industry profitability, as measured by return on assets, fell to 0.52 percent for all of 1989, the second-lowest level of the 1980s after the 0.12 percent of 1987.

Foreign loans remained the most troubled loan category in 1989, with the highest noncurrent and net charge-off rates. The noncurrent rate declined from an even higher level at the end of 1988, due mainly to net charge-offs of more than $7.5 billion in foreign loans during the year. Noncurrent real estate loans were up sharply in 1989, more than doubling at banks in the Northeast Region. Other real estate acquired through

Chart F — Annual Net Charge-off Rates 1982—1989



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foreclosure increased by $2.4 billion in 1989, to $13.1 billion at year-end. Real estate loans remained the main engine of commercial bank asset growth, providing more than half of the $168 billion net increase in assets in 1989. Commercial loan quality improved slightly, though not in all regions. Growth was sluggish in 1989, especially during the fourth quarter, when commercial and industrial loans grew at about a one percent annual rate. Consumer loan delinquency rates ended the year at 3.61 percent, 44 basis points higher than the 3.17 percent of a year ago. Consumer loans increased by 5.5 percent in 1989, down from 7.7 percent in 1988. Credit card plans accounted for the bulk of consumer loan growth. Credit card loans grew by 12 percent in 1989, while other installment loans increased by 4 percent.

Foreign loans had the highest net loss rate of any loan category in 1989. Net losses on real estate loans increased in 1989, but were not the main source of industry charge-offs outside the Southwest and a few other states. Consumer loan net charge-off rates were up, although the net loss rate on credit cards was about the same as in 1988. The charge-off rate on consumer loans has risen in each of the last five years, and now stands at 1.6 percent, well above the net loss rates on real estate and commercial loans. Commercial and industrial loans' net charge-off percentage declined for the third consecutive year.

Loss Rates on real estate loans were below the national average in many Northeast Region states, even though the loss rate for the Region's banks more than doubled in 1989. The percentage of real estate loans that were noncurrent at banks in the Northeast more than doubled also, to well above the national average. The prospect of future losses on many of these noncurrent loans motivated sizable additions to domestic loss reserves by many of the Region's banks. Southwest Region banks continue to labor under the nation's heaviest burden of real estate troubles, with a net charge-off rate on real estate loans almost four times the national average. In contrast, banks in the West Region, with some notable exceptions in Arizona, enjoyed strong real estate loan demand and an improved noncurrent rate in 1989. Southeast Region banks

Chart G — Noncurrent Real Estate Loan Rates by State December 31, 1989

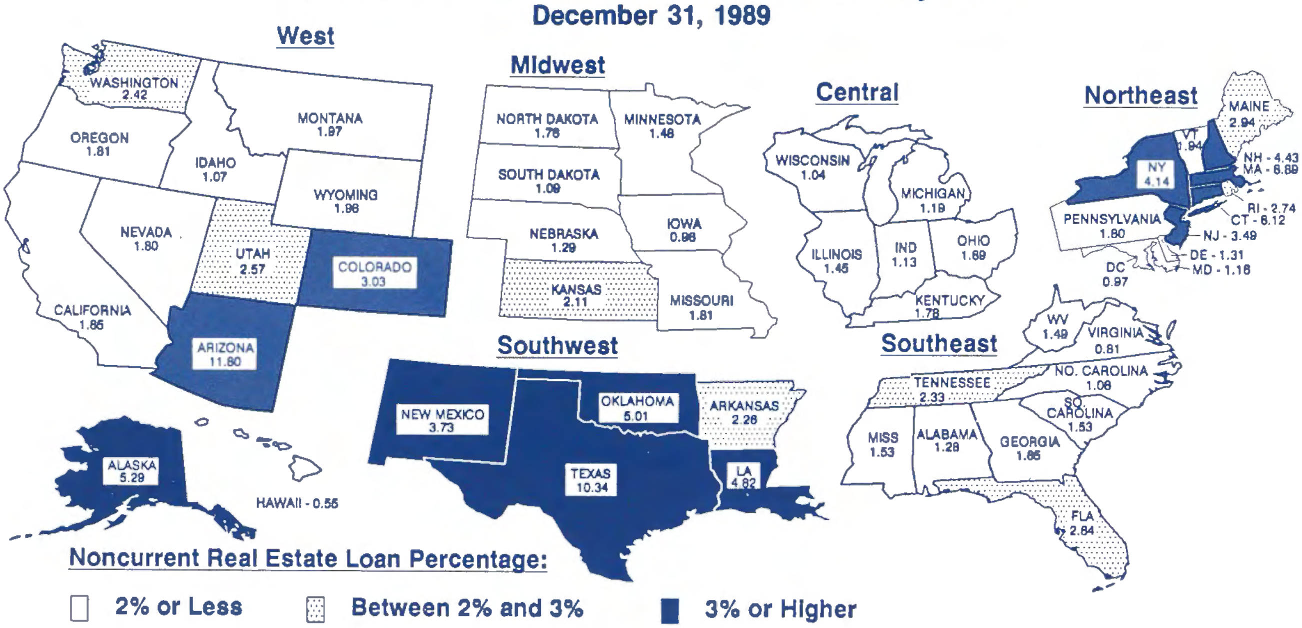
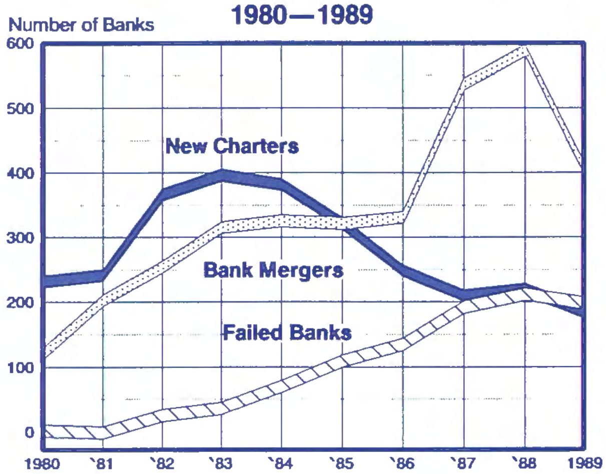


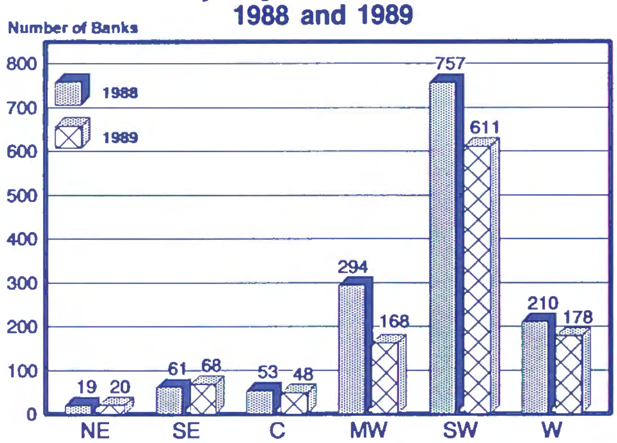
Chart H — Structural Changes Among FDIC-Insured Commercial Banks 1980—1989



saw a strong increase in real estate loans also, but noncurrent and net charge-off rates rose.

Commercial bank performance indicators followed the recent pattern of improvement, or in many cases recovery, in the Western half of the U.S. in 1989, contrasted with an erosion of aggregate performance indicators in the East. While this erosion is in large part a reflection of recent problems at many large Eastern banks, the high percentages of unprofitable banks operating in the Southeast and especially the Northeast Regions indicate that many smaller banks are experiencing earnings difficulties as well. For Southwest Region banks, there were a few hopeful signs in 1989. Nonperforming assets did not increase, even though net charge-offs were lower than in 1988. The percentage of banks with full-year earnings losses fell for the second consecutive year. The Southwest Region still had the highest failure rate of any region; 167 of the 206 banks failing or receiving assistance during the year were in the Southwest.

Chart I — Number of "Problem" Banks By Region at Year-end 1988 and 1989



Forty-four commercial banks failed or received assistance during the fourth quarter, bringing the total for 1989 to 206 failures, fifteen fewer than in 1988. More significantly, the average size of failed and assisted banks in 1989 was almost half the average size of 1988 failures. The percentage of banks on the FDIC's "Problem" list continued to decline, reaching its lowest level since 1985. The "Problem" list shrank by over 300 banks in 1989, to 1,093 at year-end. The pace of new charters and failures both leveled off in 1989 at roughly the same rate. Merger activity continued to drive consolidation in the commercial banking industry. At the end of 1989, there were slightly more than 12,700 FDIC-insured commercial banks, down from a high of 14,496 at the end of 1984. In the past two years, approximately 1,000 banks have disappeared from the industry as a result of mergers and buyouts, while 427 banks have failed. The number of banking offices continues to increase, as consolidation of the industry converts banks into branches and as competition intensifies in consumer lending. New bank charters fell to 192, the lowest number since 1978.

For 1990, the earnings outlook is favorable for money-center institutions, since their loan-loss provisioning is likely to be considerably lower. LDC debt will continue to be a wild card. Regional banks in different areas of the country will have to absorb higher losses on real estate credits. Smaller banks as a group should see better earnings. The failure rate is expected to decline further in 1990, as the number of "problem" banks continues to shrink. If economic conditions deteriorate, loans to highly leveraged commercial borrowers could add to credit losses, and recovery of the banking sector in the Southwest would be dealt a setback.

Chart J — Number of Failed Banks By Region 1988 and 1989

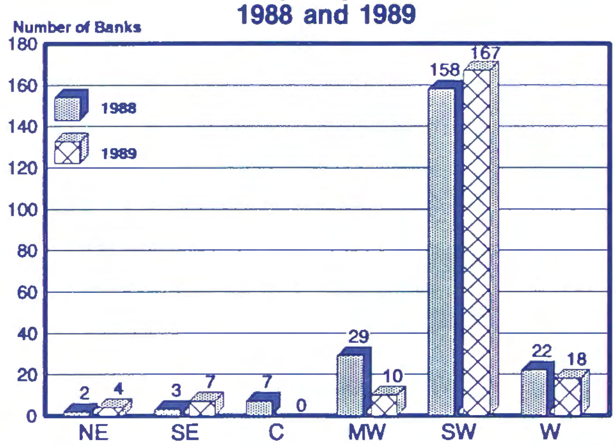


Table I. Selected Indicators, FDIC-Insured Commercial Banks

	1989	1988	1987	1986	1985	1984
Return on assets	0.52%	0.82%	0.12%	0.63%	0.70%	0.64%
Return on equity	8.13	13.31	2.00	9.99	11.31	10.48
Equity capital to assets	6.23	6.28	6.04	6.19	6.20	6.14
Primary capital ratio	7.93	7.85	7.70	7.55	6.91	6.98
Nonperforming assets to assets	2.27	2.14	2.46	1.95	1.87	1.60
Net charge-offs to loans	1.12	1.00	0.92	0.99	0.84	0.75
Asset growth rate	5.37	5.68	2.03	7.71	8.86	7.11
Net operating income growth	-35.97	1666.92	-85.27	-20.65	6.30	3.40
Percentage of unprofitable banks	11.58	14.59	17.66	20.66	17.09	14.05
Number of problem banks	1,093	1,394	1,559	1,457	1,098	800
Number of failed/assisted banks	206	221	201	144	118	78

Table II. Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)

	Preliminary 4th Qtr 1989	3rd Qtr 1989	4th Qtr 1988	%Change 88:4-89:4
Number of banks reporting	12,706	12,824	13,122	-3.2
Total employees (full-time equivalent)	1,514,182	1,527,994	1,527,130	-0.8
CONDITION DATA				
Total assets	$3,299,028	$3,223,117	$3,130,882	5.4
Real estate loans	761,543	743,550	675,073	12.8
Commercial & industrial loans	618,376	616,855	600,317	3.0
Loans to individuals	400,585	388,099	377,965	5.5
Farm loans	31,134	31,801	30,223	3.1
Other loans and leases	245,479	244,406	248,768	-1.3
Total loans and leases	2,057,117	2,024,711	1,932,347	6.5
LESS: Reserve for losses	53,176	52,902	46,681	13.9
Net loans and leases	2,003,941	1,971,809	1,885,666	6.3
Temporary investments	481,487	464,585	466,551	3.2
Securities over 1 year	402,640	400,198	382,384	5.3
All other assets	410,961	386,526	396,280	3.7
Total liabilities and capital	3,299,028	3,223,117	3,130,882	5.4
Noninterest-bearing deposits	483,531	441,771	479,447	0.8
Interest-bearing deposits	2,064,487	2,025,395	1,952,242	5.8
Other borrowed funds	418,382	424,088	380,927	9.8
Subordinated debt	19,648	19,076	17,298	13.6
All other liabilities	107,434	108,580	104,445	2.9
Equity capital	205,547	204,207	196,524	4.6
Primary capital	261,446	260,568	246,633	6.0
Nonperforming assets	74,890	75,318	67,120	11.6
Loan commitments and letters of credit	875,777	858,207	839,401	4.3
Domestic office assets	2,896,491	2,812,066	2,726,256	6.2
Foreign office assets	402,537	411,051	404,626	-0.5
Domestic office deposits	2,236,263	2,143,736	2,116,609	5.6
Foreign office deposits	311,755	323,430	315,079	-1.0
Earning assets	2,888,067	2,836,592	2,734,602	5.6
Volatile liabilities	1,126,691	1,144,860	1,074,182	4.9

INCOME DATA	Preliminary Full Year 1989	Full Year 1988	%Change	Preliminary 4th Qtr 1989	4th Qtr 1988	% Change
Total interest income	$317,313	$272,286	$16.5	$84,202	$76,631	9.9
Total interest expense	205,098	165,032	24.3	55,093	46,315	18.9
Net interest income	112,215	107,254	4.6	29,108	30,316	-4.0
Provision for loan losses	30,300	17,155	76.6	9,965	5,836	70.8
Total noninterest income	51,076	44,940	13.7	14,318	11,820	21.1
Total noninterest expense	107,985	101,313	6.6	29,292	27,543	6.3
Applicable income taxes	9,811	9,995	-1.8	1,786	2,627	-32.0
Net operating income	15,194	23,730	-36.0	2,383	6,129	-61.1
Securities gains, net	799	280	185.1	278	-233	N/M
Extraordinary gains, net	327	832	-60.7	20	241	-91.6
Net income	16,321	24,843	-34.3	2,681	6,137	-56.3
Net charge-offs	22,163	18,626	19.0	9,200	5,849	57.3
Net additions to capital stock	1,458	3,185	-54.2	-61	532	N/M
Cash dividends on capital stock	13,990	13,220	5.8	4,076	4,325	-5.8

* N/M—Not meaningful

Table III. Full Year 1989 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
FULL YEAR *Preliminary* *(The way it is . . .)*											
Number of banks reporting	12,706	9,720	2,608	334	44	1,087	1,962	2,836	3,016	2,325	1,480
Total assets	$3,299.03	$ 365.49	$ 624.95	$ 1,056.37	$ 1,252.22	$ 1,292.92	$ 483.94	$ 533.23	$ 214.21	$ 267.39	$ 507.33
Total deposits	2,548.02	324.98	536.02	791.90	895.12	934.30	381.42	426.74	171.88	225.14	408.53
Net income *(in millions)*	16,321	2,829	5,459	6,687	1,345	231	4,131	5,147	2,074	−151	4,887
Percentage of banks losing money	11.6%	12.8%	7.1%	10.5%	25.0%	14.9%	13.5%	4.3%	4.7%	23.4%	16.0%
Percentage of banks with earnings gains	64.4%	63.0%	70.3%	61.7%	38.6%	60.0%	63.5%	67.9%	61.9%	62.1%	70.5%
Performance Ratios											
Yield on earning assets	11.44%	10.53%	10.85%	11.07%	12.35%	12.35%	10.80%	10.65%	10.97%	10.18%	11.43%
Cost of funding earning assets	7.40	6.00	6.26	6.77	8.96	8.72	6.61	6.69	6.50	6.66	6.25
Net interest margin	4.05	4.53	4.59	4.30	3.40	3.62	4.20	3.96	4.46	3.52	5.18
Net noninterest expense to earning assets	2.05	2.79	2.58	2.19	1.44	1.73	2.36	1.98	2.10	2.16	2.58
Net operating cash flow to assets	1.75	1.58	1.82	1.87	1.66	1.65	1.63	1.77	2.12	1.15	2.24
Net operating income to assets	0.48	0.77	0.91	0.64	0.06	−0.01	0.87	1.02	0.97	−0.11	0.92
Return on assets	0.52	0.81	0.92	0.67	0.11	0.02	0.90	1.00	1.01	−0.06	1.01
Return on equity	8.13	8.82	12.19	10.65	2.20	0.32	12.85	14.62	13.11	−1.01	16.38
Net charge-offs to loans and leases	1.12	0.73	0.73	1.05	1.46	1.31	0.59	0.90	1.21	1.91	1.01
Loan loss provision to net charge-offs	136.71	118.39	120.06	135.60	143.67	168.74	131.33	82.53	98.18	121.84	114.57
Condition Ratios											
Loss allowance to:											
Loans and leases	2.58%	1.65%	1.57%	1.94%	3.88%	3.51%	1.38%	1.71%	1.83%	2.89%	2.39%
Noncurrent loans and leases	85.96	78.89	78.53	86.17	88.32	87.09	92.63	100.72	99.95	54.94	89.46
Nonperforming assets to assets	2.27	1.75	1.66	1.82	3.11	2.79	1.21	1.18	1.40	4.40	2.34
Equity capital ratio	6.23	8.95	7.50	6.15	4.87	5.59	6.96	6.86	7.61	5.57	6.27
Primary capital ratio	7.93	9.89	8.48	7.46	7.48	7.92	7.86	7.91	8.75	7.12	8.08
Net loans and leases to deposits	78.65	58.27	69.96	85.96	84.78	85.22	78.30	73.45	71.28	56.19	84.83
Growth Rates *(year-to-year)*											
Assets	5.4%	6.4%	9.4%	9.9%	5.8%	4.0%	10.0%	5.3%	1.9%	2.2%	8.0%
Equity capital	4.6	5.5	10.4	9.1	1.0	−1.9	10.4	7.0	4.2	0.6	14.8
Net interest income	4.6	8.8	12.3	10.5	0.1	0.3	7.0	6.5	3.1	−0.2	12.5
Net income	−34.3	21.9	15.5	−13.8	−88.1	−98.1	1.3	−0.7	14.2	N/M	32.8
Nonperforming assets	11.6	2.9	20.0	36.7	7.9	23.4	30.5	8.3	−5.7	−1.0	−4.9
Net charge-offs	19.0	−1.3	17.7	11.9	39.0	66.0	3.6	32.5	−4.4	−24.3	−11.5
Loan loss provision	76.6	−3.2	16.4	57.9	210.9	208.1	26.3	31.7	1.6	−11.8	24.6
PRIOR FULL YEARS *(The way it was . . .)*											
Return on assets . . . 1988	0.82%	0.64%	0.75%	0.79%	0.95%	0.98%	0.98%	1.07%	0.90%	−0.73%	0.83%
. . . 1986	0.63	0.46	0.66	0.76	0.57	0.78	1.02	0.88	0.73	−0.39	0.34
. . . 1984	0.64	0.77	0.89	0.78	0.35	0.69	0.98	0.49	0.78	0.65	0.42
Equity capital ratio . . . 1988	6.28	8.73	7.23	6.15	5.10	5.93	6.93	6.75	7.44	5.65	5.90
. . . 1986	6.19	8.35	6.97	5.95	5.14	5.81	6.57	6.79	7.12	6.39	5.67
. . . 1984	6.14	8.53	7.06	5.71	4.84	5.53	6.65	6.68	7.38	6.86	5.57
Nonperforming assets to assets . . . 1988	2.14	1.92	1.72	1.53	2.96	2.35	1.02	1.15	1.52	4.55	2.66
. . . 1986	1.95	2.24	1.89	1.44	2.30	1.55	0.96	1.30	2.01	4.10	2.98
. . . 1984	1.60	0.70	0.86	1.41	2.60	1.65	0.66	1.29	1.13	1.57	2.64
Net charge-offs to loans and leases . . . 1988	1.00	0.88	0.78	1.06	1.08	0.82	0.63	0.73	1.33	2.39	1.27
. . . 1986	0.99	1.57	1.08	0.79	0.92	0.62	0.62	0.70	2.14	2.12	1.25
. . . 1984	0.75	0.92	0.63	0.65	0.81	0.39	0.43	1.14	1.07	1.13	0.94

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. Fourth Quarter 1989 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
FOURTH QUARTER *Preliminary (The way it is . . .)*											
Number of banks reporting	12,706	9,720	2,608	334	44	1,087	1,962	2,836	3,016	2,325	1,480
Net income	$2,681	$439	$1,175	$577	$490	-$659	$888	$1,191	$370	-$348	$1,239
Percentage of banks losing money	19.8%	22.2%	10.7%	18.0%	27.3%	22.8%	21.6%	10.8%	16.4%	30.5%	22.2%
Percentage of banks with earnings gains	53.3%	52.4%	56.8%	53.3%	38.6%	43.4%	51.5%	55.2%	52.4%	54.4%	59.0%
Performance Ratios *(annualized)*											
Yield on earning assets	11.83%	10.61%	10.97%	11.03%	13.37%	13.24%	10.85%	10.67%	11.03%	10.43%	11.51%
Cost of funding earning assets	7.74	6.11	6.38	6.74	9.85	9.50	6.68	6.69	6.55	6.96	6.32
Net interest margin	4.09	4.50	4.59	4.29	3.52	3.74	4.16	3.98	4.48	3.47	5.19
Net noninterest expense to earning assets	2.10	3.04	2.59	2.26	1.42	1.81	2.38	2.04	2.37	1.95	2.62
Net operating cash flow to assets	1.74	1.32	1.81	1.80	1.77	1.68	1.59	1.73	1.89	1.29	2.21
Net operating income to assets	0.29	0.45	0.76	0.19	0.10	–0.25	0.70	0.99	0.65	–0.59	0.85
Return on assets	0.33	0.49	0.77	0.22	0.16	–0.21	0.75	0.90	0.70	–0.53	0.99
Return on equity	5.26	5.37	10.11	3.56	3.27	–3.67	10.66	13.10	9.13	–9.32	15.81
Net charge-offs to loans and leases	1.81	1.11	1.06	1.41	2.70	2.39	0.85	1.61	1.49	3.24	1.07
Loan loss provision to net charge-offs	108.31	102.28	109.48	147.73	90.56	121.56	125.77	46.74	98.26	113.92	110.85
Growth Rates *(year-to-year)*											
Net interest income	–4.0	4.6	7.9	3.7	–14.5	–11.6	5.1	3.4	1.6	–12.3	0.5
Net income	–56.3	35.2	23.4	–67.9	–85.5	N/M	–5.1	–8.6	69.9	N/M	36.8
Net charge-offs	57.3	–2.4	31.4	26.1	117.2	126.0	21.4	102.0	8.5	20.5	–25.3
Loan loss provision	70.8	–14.8	9.9	76.7	146.7	170.3	36.9	8.9	8.6	18.1	–5.1
PRIOR FOURTH QUARTERS *(The way it was . . .)*											
Return on assets . . . 1988	0.79%	0.30%	0.54%	0.78%	1.08%	1.04%	0.87%	1.04%	0.42%	–0.72%	0.79%
. . . 1986	0.48	–0.14	0.27	0.72	0.62	0.76	0.85	0.72	0.59	–1.31	0.37
. . . 1984	0.59	0.21	0.74	0.81	0.49	0.76	0.85	0.70	0.46	0.27	0.19
Net charge-offs to loans and leases . 1988	1.23	1.33	1.00	1.16	1.36	1.11	0.77	0.85	1.42	2.52	1.61
. . . 1986	1.30	2.51	1.71	0.95	1.01	0.75	0.92	0.99	2.53	3.47	1.40
. . . 1984	0.99	1.75	0.99	0.84	0.82	0.56	0.70	0.92	1.87	1.61	1.37

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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