PRESS RELEASE

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FDIC REPORTS THAT COMMERCIAL BANKS AND SAVINGS INSTITUTIONS EARNED RECORD PROFITS IN 1997

FOR IMMEDIATE RELEASE

Insured commercial banks had record earnings in the fourth quarter of 1997, as well as for the full year, according to preliminary data released today by the FDIC. Fourth-quarter net income totaled $15.3 billion, an increase of $511 million (3.5 percent) over the previous quarterly record of $14.8 billion in the third quarter of 1997. For all of 1997, banks posted record net income of $59.2 billion, up $6.9 billion (13.1 percent) from 1996 results.

The FDIC attributes the higher bank earnings in 1997 to increased net interest income (primarily from strong growth in loans and other interest-earning assets) and higher noninterest income (reflecting increased revenues from trust business and growth in other fees). Insured savings institutions also had record annual earnings in 1997. Full-year profits were $8.8 billion, or $1.8 billion (25.9 percent) higher than a year earlier. The main reasons for the record earnings were lower noninterest expenses, a decline in provisions for future loan losses, and increased profits from sales of securities.

Fourth-quarter and full-year 1997 results for 9,143 FDIC-insured commercial banks and 1,779 insured savings institutions are contained in the agency's latest Quarterly Banking Profile, which is based on quarterly reports of condition and income filed by all FDIC-insured institutions. The latest Profile analyzes trends in bank and thrift performance during the fourth quarter and for the full year. Highlights follow. Commercial Banks

Banks' return on assets (ROA) - a basic yardstick of profitability - rose to 1.24 percent in the fourth quarter from 1.22 percent in the previous quarter and 1.21 percent in the fourth quarter of 1996. For the full year, commercial banks' ROA was 1.23 percent, the highest annual rate recorded by the industry in the 64 years since the FDIC was established. The previous record was 1.20 percent, set in 1993. The industry's ROA in 1996 was 1.19 percent. More than two out of three commercial banks (68.7 percent) reported an ROA of 1.00 percent or higher in 1997.

Strong growth in loans and other interest-earning assets was responsible for the higher net interest income in 1997. Net interest margins - the average difference between what banks earn on their interest-bearing assets and how much it costs to fund these assets - narrowed for the fifth year in a row. The rise in noninterest income in 1997 reflected increased revenues from banks' trust business, as well as growth in other fees.

The record fourth-quarter earnings were made possible by three key factors: (1) gains from securities sales were $611 million more than in the third quarter; (2) net interest income was up by $422 million; and (3) tax expenses were $802 million less than in the third quarter. The earnings improvement was limited by a $221-million decline in noninterest income, caused by a $1.3-billion drop in revenues from banks' trading activities.

Bank assets increased in 1997 by 9.5 percent ($436.6 billion), their largest percentage gain since 1980. In the fourth quarter alone, industry assets increased by $145.4 billion, to $5.01 trillion at year-end. This marks the first time that industry assets have exceeded $5 trillion. Although overall loan growth slowed for the second consecutive year, loans to commercial borrowers, construction and development loans, and loans to finance commercial real estate registered strong increases in 1997. Banks also increased their holdings of mortgage-backed securities, particularly in the fourth quarter.

Asset-quality indicators remained largely favorable through the end of the year. Net charge-off rates declined for most loan categories in the fourth quarter. However, charge-offs on consumer loans and commercial real estate loans were high enough to raise the quarterly net charge-off rate to an annualized 0.69 percent, the highest in four years. For the full year, banks charged off 0.63 percent of their loans, compared to 0.58 percent in 1996. Credit-card loans accounted for almost two-thirds (64.0 percent) of all loan charge-offs in 1997. The percentage of loans that were noncurrent (90 days or more past due on scheduled payments or no longer accruing interest) declined at year-end to 0.96 percent, the lowest level in the 16 years these data have been reported.

The number of insured commercial banks declined by 72 institutions in the fourth quarter, to 9,143 banks at year-end. There were 54 new banks chartered during the quarter, and 129 banks were absorbed in mergers with other institutions. For the full year, 188 new banks were chartered, the largest number since 193 were chartered in 1989. Mergers absorbed 599 commercial banks in 1997. One insured commercial bank failed during the fourth quarter. This was the first commercial bank failure in 15 months; this matches the longest previous interval between bank failures in 1962-63.

Savings Institutions

Insured savings institutions reported $2.4 billion in net income in the fourth quarter, an increase of $197 million (9.2 percent) from the same period the year before. Fourth-quarter 1997 earnings brought the total for the year to a record $8.8 billion, an increase of $1.8 billion (25.9 percent) from 1996 full-year profits. Savings institutions had an annualized ROA of 0.95 percent in the fourth quarter. For the year, insured thrifts posted an ROA of 0.93 percent, the highest level since 1946.

The year-to-year earnings improvement reflected the impact of a one-time special assessment in 1996 to capitalize the Savings Association Insurance Fund (SAIF). This assessment cost SAIF-insured thrifts an estimated $3.5 billion. As a result of the SAIF capitalization, deposit insurance premiums for SAIF-insured thrifts were approximately $800 million lower in 1997 than in 1996.

Calendar year 1997 also marks the first year since 1959 that no federally insured savings institution failed.

Latest Data Available on the Internet

The latest earnings and condition data on FDIC-insured commercial banks and savings institutions are available on the FDIC's World Wide Web site (www.fdic.gov). In addition to the fourth-quarter Quarterly Banking Profile and its accompanying Graph Book, the Institution Directory (ID) system has been updated to provide financial and demographic information through the end of 1997 on each of the 10,922 banks and thrifts insured by the FDIC. The latest release of ID contains expanded detail on bank and thrift balance sheets and income statements. The system can be used to obtain the latest data on individual institutions and on selected groups of institutions, and to compare the performance and condition of different institutions or groups. The Quarterly Banking Profile and the Institution Directory system can both be found under the Data Bank selection on the FDIC's Web site.

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