

PRELIMINARY BANK EARNINGS REPORT -- FIRST QUARTER, 2002

- **BANK EARNINGS RISE TO NEW RECORD OF \$21.7 BILLION**
- **NET INTEREST MARGIN IMPROVEMENT AT LARGE BANKS GIVES LIFT TO PROFITS**
- **ASSET-QUALITY WEAKNESSES CONTINUE TO GROW**
- **CONTRACTION IN INDUSTRY'S LOAN PORTFOLIO IS FIRST IN FIVE YEARS**

Industry Earnings Surpass \$20-Billion Mark For First Time

Wider net interest margins at large banks, combined with slow growth in noninterest expenses, helped propel commercial bank profits to a record \$21.7 billion in the first quarter. Banks achieved the record results despite the drag on earnings from rising expenses for loan losses and lower gains on sales of securities. This is the first time that the industry's quarterly earnings have surpassed \$20 billion, and easily eclipses the previous record of \$19.8 billion, set in the first quarter of last year. While the largest improvements in profitability occurred at large banks, the trend toward improvement was relatively widespread. A majority of banks (55.1 percent) reported higher returns on assets (ROAs) than in the first quarter of 2001, almost two-thirds of all banks (64.0 percent) reported higher net income than a year ago, and only 6.7 percent of all banks reported quarterly losses, compared to 7.0 percent a year earlier. The quarter's ROA of 1.33 percent is the third-highest quarterly ROA ever reported by the industry.

Net Interest Income Growth is Key to Earnings Strength

Net income was \$1.9 billion (9.6 percent) higher than a year earlier, largely because of a \$6.8-billion (13.1-percent) rise in net interest income. Noninterest income grew by only \$1.3 billion (3.3 percent), but this growth outstripped the \$1.1-billion (2.0-percent) rise in noninterest expenses. Extraordinary losses were \$213 million (64.0 percent) lower than a year ago, giving a boost to pre-tax earnings. Among the items that held down earnings, provisions for loan losses were up by \$3.7 billion (46.4 percent), and gains on securities sales were \$481 million (41.1 percent) lower than in the first quarter of 2001. Net income from banks' international operations was \$584 million (26.4 percent) lower than a year ago.

Market-Sensitive Revenues Exhibit Weakness

Noninterest income was boosted by higher securitization income (up \$1.1 billion, or 30.1 percent), increased service charges on deposit accounts (up \$867 million, or 14.1 percent), higher servicing fees (up \$682 million, or 23.9 percent), and increased gains on loan sales (up \$849 million, or 87.5 percent). The 3.3-percent increase in noninterest revenues compared to a year ago was an improvement over the two previous quarters, but was modest by historical standards. Noninterest income growth was slowed by lower market-sensitive revenues, including trading revenues (down \$834 million, or 20.9 percent from a year ago), investment banking income (down \$103 million, or 4.7 percent), and venture capital revenue (down \$101 million, or 73.2 percent). Proceeds from sales of non-loan assets were \$1.1 billion lower than in the first quarter of 2001.

Net Interest Margin Reaches Highest Level in More than Four Years

The industry's net interest margin rose to 4.19 percent in the first quarter, from 4.15 percent in the fourth quarter and 3.83 percent in the first quarter of last year. This is the highest margin since the third quarter of 1997. Back then, however, average margins at banks with less than \$100 million in assets were more than 50 basis points higher than they are now (4.78 percent, vs. 4.26 percent), while margins at banks with more than \$10 billion in assets were almost 30 basis points lower (3.84 percent vs. 4.12 percent). Slightly more than half of all banks (52.1

percent) reported higher margins than a year ago. While the industry's margin has improved in each of the last four quarters, by a total of 36 basis points, the average margin at banks with less than \$100 million in assets has remained flat.

C&I Loans, Credit Cards Lead Rise in Loan Losses

Net charge-offs totaled \$11.1 billion in the first quarter, down from \$12.8 billion in the fourth quarter, but \$4.1 billion (59.4 percent) higher than a year ago. Credit-card charge-offs were higher than charge-offs of commercial and industrial (C&I) loans, but losses on credit cards were inflated by one-time charges related to restructurings and loan sales. Losses on commercial and industrial loans continued to increase; C&I charge-offs were \$1.2 billion (49.2 percent) above the level of a year ago. Charge-offs of C&I loans to non-U.S. borrowers rose by \$243 million (160.9 percent). Charge-offs of credit-card loans jumped sharply in the first quarter, to \$4.9 billion, from \$3.5 billion in the fourth quarter and \$2.6 billion in the first quarter of 2001. Three out of four specialized credit-card lenders registered increases in charge-offs. Consumer loans other than credit cards had a \$390-million (36.1-percent) increase in charge-offs, while charge-offs of leases were \$144 million (72.9 percent) higher than a year ago. Other loan categories (real estate construction loans, residential mortgages, commercial real estate loans, loans to depository institutions) had modest increases in charge-offs compared to year-earlier levels. Fewer than half of all banks -- 47.4 percent -- reported higher overall net charge-off rates in the first quarter than in the first quarter of 2001.

Noncurrent Loans to non-U.S. Borrowers Increased During the Quarter

Noncurrent loans continued to increase, led by growth in noncurrent C&I loans. Noncurrent C&I loans increased by \$1.7 billion during the quarter, representing about three-quarters of the \$2.2-billion increase in total noncurrent loans. Non-U.S. C&I customers accounted for \$921 million -- more than half -- of this increase. Roughly one out of three banks (31.9 percent) reported an increase in noncurrent C&I loans during the quarter, but these banks collectively held more than two-thirds (69.5 percent) of the industry's total C&I loans. At the end of March, 2.61 percent of banks' C&I loans were noncurrent, the highest level since the middle of 1993. C&I loans now comprise 44.2 percent of all noncurrent loans at commercial banks, compared to 41.2 percent a year ago and 42.9 percent at the beginning of the quarter. The largest relative increase in noncurrent loans during the quarter occurred in loans to foreign governments and official institutions, which rose from \$31 million to \$325 million (948 percent), as the noncurrent rate rose from 0.42 percent to 5.08 percent.

Reserves Keep Pace With Noncurrent Loans

Banks' reserves continued to grow strongly during the first quarter, increasing by \$2.7 billion, following a \$3.9-billion increase in the fourth quarter. The industry's ratio of reserves to loans increased for the sixth consecutive quarter, from 1.85 percent to 1.92 percent. However, the increase in noncurrent loans during the quarter meant that the industry's "coverage ratio" remained unchanged at \$1.31 in reserves for every \$1.00 of noncurrent loans. Equity capital increased by \$7.4 billion, the smallest increase since the third quarter of 1999, but a \$64.8-billion decline in commercial bank assets during the quarter helped the industry's equity-to-assets ratio rise from 9.09 percent to 9.30%. Retained earnings fell to \$2.2 billion from \$6.4 billion a year earlier, as banks paid a record \$19.6 billion in dividends in the first quarter.

Loans Decline for First Time in Five Years

The decline in assets in the first quarter was mainly the result of a seasonal decline in balances due from depository institutions at a few large banks, but it received reinforcement from the first quarterly decline in total loans since the first quarter of 1997. A majority of banks had increases in both loans and assets during the quarter. The industry's holdings of C&I loans fell by \$15.5

billion during the quarter (including a \$9.2-billion decline in loans to non-U.S. borrowers), the fifth consecutive quarter that C&I loans have declined. During this time, C&I loans have dropped by \$84.1 billion (8.0 percent). Other loan categories that registered declines during the first quarter include: residential mortgage loans, down \$18.0 billion, consumer loans other than credit cards, down \$4.8 billion, and agricultural production loans, down \$2.7 billion. Growth in construction loans slowed for the fourth quarter in a row. The 0.7-percent increase in the first quarter was the smallest since the fourth quarter of 1994. Mortgage-backed securities increased by a modest \$2.4 billion during the quarter, while U.S. Treasury securities ended a string of 11 consecutive quarterly declines, growing by \$5.6 billion in the first quarter.

Savings Deposits Continue to Grow Strongly

With lower levels of assets and with equity providing a higher share of funding, total deposits of commercial banks declined by \$39.5 billion during the quarter. The share of total asset funding that is provided by deposits remained unchanged at 66.9 percent. Deposits in foreign offices fell by \$26.0 billion, while domestic deposits declined by \$13.4 billion. In domestic offices, demand deposits declined by \$81.1 billion, time deposits fell by \$17.2 billion, and savings deposits increased by \$84.8 billion.

The number of insured commercial banks reporting financial results declined from 8,080 to 8,005 during the first quarter. There were 16 new charters added during the quarter, while 84 banks were absorbed into other institutions through mergers. Six insured commercial banks failed in the first quarter, the largest number of bank failures in a quarter since the third quarter of 1994. The number of commercial banks on the FDIC's "Problem List" increased from 95 to 102 in the quarter, and assets of "problem" banks rose from \$36 billion to \$37 billion.

Donald E. Inscoe
(202) 898-3940

Ross Waldrop
(202) 898-3951

Unedited Transcript:
Press Briefing: Preliminary Bank Earnings Report
June 3, 2002

Good morning.

Today we are announcing preliminary earnings for commercial banks for the first quarter of the year, and for the first time in the industry's history quarterly earnings exceeded \$20 billion.

As chart one shows in the first three months of the year, commercial banks earned \$21.7 billion.

That's 9.6% more than the previous quarterly record of \$19.8 billion just one year ago. The driving force behind this performance was net interest income, particularly at large institutions.

The improvement in the large bank margins can be seen in chart two. It's been more than four years since banks had a better net interest margin. In the first quarter the industry's net interest margin rose to 4.19% up from 3.83% at this time last year. The last time the margin was higher was in the third quarter of 1997 when it stood at 4.24%.

Another bright spot was the industry's return on assets. For the quarter, return on assets for all banks was 1.33%, the third highest quarterly return on the assets ever reported. The last time the industry had a return on assets of less than 1% was in 1992.

There are a couple of blemishes on this otherwise rosy picture, however. Earnings would have been even higher but for increased expenses for loan losses and lower market-sensitive revenues. Chart three shows the rising level of loan-loss provisions, and the lower relative contribution of non-interest income as well as a favorable trend in non-interest expenses. Gains on security sales, trading revenues, investment banking income, venture capital revenues and net income from international operations were all lower than a year ago.

In the past, several of these activities actually helped banks achieve record income while their core business functions were not as strong. For the first time in five years loan volume declined in the banking sector. While many banks saw their loans grow in the quarter, declines at large institutions caused industry totals to fall.

For the fifth consecutive quarter, commercial and industrial loans declined. These loans were down \$15.5 billion in the quarter and during the five-quarter period C&I loans are down a total of \$84.1 billion, or 8%. Other loan categories that registered declines during the first three months of 2002 include residential mortgages, consumer loans and agricultural production loans.

Even though they declined, C&I loans continue to be a concern; you can see the continued increase in non-current C&I loans in chart four, a trend that began back in 1999. Roughly one out of three banks reported an increase in non-current C&I loans during the quarter. At the end of March, 2.61% of banks' C&I loans were non-current, the highest level since the middle of 1993.

Banks saw a tenfold increase in non-current loans to foreign governments and official institutions during the quarter, going from \$31 million to \$325 million.

Non-current C&I loans accounted for about 75% of the \$2.2 billion increase in total non-current loans in the quarter. Net charge-offs were down from the record pace of the fourth quarter of 2001, but charge-offs of C&I loans were up substantially from the year-ago levels in the first quarter.

The silver lining in all this is that reserves are keeping pace with non-current loans, and capital remains at historically high levels. The coverage ratio for non-current loans remained at \$1.31, \$1.31 in reserves for every \$1 of non-current loans and the industry's equity to asset ratio rose from 9.09% to 9.30%.

Finally the number of commercial banks on our problem list increased from 95 to 102. The last time we had more than 100 banks on our problem list was year-end 1995. The assets of the banks on the list inched up by \$1 billion to \$37 billion.

All in all, the banking sector remains strong: record earnings, high capital, adequate reserves and

encouraging signals on core business functions. But there are still those blemishes that the regulators will need to continue to monitor.

I'll be happy to answer questions.

Yes, sir.

Question: Chairman, banks earn more money on fewer loans. What does that tell you about the state of the banking business and where their money is coming from? And, also, there seems to be an increase in bum loans from the quarter. What does that tell you about the state of the business economy? The first issue, banks are earning more money, and loans have been going down? Thank you.

Answer: That says two or three things. First of all, the margin is better. So, volume is one component of earnings and so is margin, and margin has been very strong. The second issue is that they're controlling expenses, I believe, better than they have in the past, and non-interest income has been an important component. What was the second part of your question?

Question: The number of bum loans has been going up. What does that say about the state of the economy?

Answer: Well, I think it's two things. Number one, I think banks have been quicker to recognize problem loans than they have in the past. And I think that's a very positive approach that the banks have been doing. And they're also providing for those problem loans, as we said in our report, the coverage ratio is keeping pace. In fact, it's increasing its pace along with problem loans.

Question: On the matter of margins, how are banks making more money while making fewer loans? Where is the extra margin coming from?

Answer: Well, I think the extra margin is coming from what their assets are earning -- the spread is wider than it has been in the past. Interest-bearing liabilities, the cost of those has been going down, and the rate on the interest-earning assets has been going down at a less rapid pace.

Question: It's the Fed that keeps lowering interest rates that makes it possible for this to happen?

Answer: It's the margins.

Other questions?

Rob?

Question: [inaudible] How will the BIF ratio be affected this quarter?

Answer: I'm not sure. I haven't seen those numbers yet, but I think it's another indication of why deposit insurance reform is very important, managing the fund. As I -- managing, as I indicated, I think we're seeing an industry that is strong. Record earnings, increasing capital, lots of diversity and an industry that is recognizing the problems. That doesn't mean that there won't still be problem banks out there.

As you know, the fund, the Bank Insurance Fund is right at that 1.25%. Should we have an increase in deposits at a stronger pace than it has been in the past or we have some institutions that fail, we could dip below the 1.25, and we do not have a choice. We obviously have to assess premiums to the industry. That's the reason why deposit insurance reform is so important that if we had had -- If deposit insurance reform passes as now in the House bill and with some of the considerations in the Senate, we wouldn't have to do that.

Other questions?

Yes, sir.

Question: What would the effect be on bank earnings as interest rates inch up, as most observers think they will?

Answer: Well, that's an assumption that I'm not sure that all would agree with, but should, in fact, that happen, I think the banking industry is -- will recognize that that's always a probability and a possibility and part of risk management is to make sure that in case we have interest rates that increase, especially at a rapid level, that they have procedures in place that will recognize it. And I don't think -- again, it depends upon the pace -- I don't think we'll see that much of a squeeze on institutions.

Yes, sir.

Question: Is credit card debt a matter of concern?

Answer: Credit card debt is some concern. Credit card debt, bankruptcies, spending outpacing income -- those are all issues that I think we'll be watching as time goes on.

Question: For bad debt?

Answer: Yes, bankruptcy, bad debt. Again, I think we're spending at a pretty fast pace, and our income needs to keep up with that, and most of that spending is in the form of debt, and so we need to manage the debt. It's something we watch.

Yes, sir.

Question: [inaudible] Regulators have recently issued Financial Institution Letters advising banks on loan securitizations. Are banks trying to prop these things up or doing things that you guys find to be unsafe and unsound?

Answer: Well, I think we as regulators are always -- that's a particular issue. Securitization is one issue, and it's really an accounting issue of how banks recognize and how they account for securitizations and those receivables. I think it's perhaps separate from credit card debt out in the marketplace, per se, but as you know, some institutions align their business as subprime credit cards and obviously those call for a greater oversight than those that are not.

Question: [inaudible]

Answer: I'm not sure exactly which one you're talking about. John, do you know exactly which one he is referring to? Number two, covenants and another one about trying to prop up securitizations. Maybe capital -- go ahead, John.

This is John Lane with the Division of Supervision. And the two pronouncements, one of them talked about unsafe and unsound covenants and securitization documents, and that was to basically address situations where we may take supervisory actions and those could not become triggers and if they're embedded as covenants in the

securitization documents, then we're going to say those are unsafe and unsound. The second had to do with all securitizations and how they are accounted for on particular transactions.

The first one, I forgot about that. That's the one where if certain covenants were out there, such as if an institution goes under enforcement action and triggers the payment, as John said, that's what we spoke to.

Other questions?

Yes, sir.

Question: Do you think the problems banks have had over the last several quarters with commercial and industrial loans -- has that bottomed out, and it's starting to improve? Or do we still have several quarters where that will be an issue?

Answer: As you know, banks just mirror the economy and depending on what the economy does, I think there's some -- there's really not consensus among economists as we go forward, but clearly I think the industry is in great shape. Lots of capital, record earnings to withstand problems should there be any bump in the road.

Yes, Ron.

Question: [inaudible] Have you seen any signs that difficulties in obtaining disaster insurance since 9-11 have reduced bank lending for large real estate projects?

Answer: You guys? I'm not aware of any pattern that would fit that. I think we've seen a slowing in the rate of growth in construction loans that seems to have more or less followed, you know, the general economy. Again, in specific instances, it's certainly a possibility but we're not aware of that driving the trend. We wouldn't be able to detect that in the data unless there was an abrupt change, and we haven't seen any abrupt changes.

Yes, ma'am.

Question: Chairman Powell, how do you make sense out of the fact that you had these great bank earnings in the midst of a recession? It just -- I mean, I see the data, but how would you make sense of it? Is it something like the housing sector that has had unprecedented growth during the recession?

Answer: Well, I think -- I think two or three things. I think bankers have learned from past mistakes. I think there's lots of diversity in the banking industry. I think also some of the high risk credits are outside the banking industry. I believe also that bankers have better control of their expenses than they had in the past. They're more productive. They're reliant more on non-interest income than they have been in the past. So other

income besides credit risk. So I think all those are combined together with the margin that we mentioned a moment ago as one that's upbeat.

Yes.

Question: There were six failures as noted here in the first quarter and there so far haven't been any in the second quarter. I'm sorry. There were six failures, bank failures during the first quarter and there haven't been any so far in the second quarter. That's good. [laughter] Is there -- are we basically past the point? Why were there so many in the first and so far none in the second?

Answer: I'm not sure we know the answer to that. I think they were more or less random events as far as the timing. I think the best indicator we have of a trend is the direction of the problem banks and while it's still going up, you know, the rate of growth has slowed in that regard, so I don't -- you know -- I don't think that the six and -- it's obviously not a trend since we haven't had any since. There's some fraud associated with some of those failures too.

Question: How concerned are you that the problem bank list is over 100?

Answer: I'm not concerned. You know, it's something we watch. But going forward we don't want it to increase. But I don't think it's a big concern. You look at the last recession: Coming out of the last recession, we had over a thousand banks on the problem list. In comparison, 100 looks relatively mild.

Okay.

Question: One last question.

Answer: One last question. You bet.

Question: I'll ask you about deposit insurance reform.

Answer: I'm for it. [laughter]

Question: It's passed the House. Have you had conversations with Senator Sarbanes or are you aware of progress that's been made in the Senate?

Answer: We're beginning to visit with Senator Sarbanes' staff, encouraging him to move that bill forward, and I'm optimistic that his leadership will prevail and we'll hopefully have a mark-up on the bill relatively soon. It's good public policy.

Question: Just a follow-up on that. Does he support indexing deposit insurance, because he hasn't made any public statements as to whether he supports increasing or indexing it.

Answer: He hasn't shared with me any more information on that.

Question: Did you have any chats with Senator Gramm about deposit insurance?

Answer: Yes, I have.

Question: Do you think -- a lot of people seem to think he is the main obstacle for it being passed in the Senate. Do you agree with that?

Answer: Senator Gramm is a smart, courageous man. Yes, I read the same thing. He has mentioned to me his concerns about coverage, but I also believe that Senator Gramm recognizes good public policy. I think most of this bill -- it's more than coverage. It's got lots of good stuff in it -- that I'm confident that Senator Gramm will support.

Okay. Thank you.

TABLE I-A. Selected Indicators, FDIC-Insured Commercial Banks

	2002*	2001*	2000*
Return on assets (%)	1.33	1.26	1.25
Return on equity (%)	14.47	14.71	13.70
Core capital (leverage) ratio (%)	7.95	7.68	7.60
Noncurrent assets plus other real estate owned to assets (%)	0.97	0.79	0.75
Net charge-offs to loans (%)	1.14	0.73	0.65
Asset growth rate (%)	2.98	8.06	5.10
Net interest margin (%)	4.19	3.83	3.75
Net operating income growth (%)	10.58	-3.12	-1.10
Number of institutions reporting	8,005	8,238	8,000
Percentage of unprofitable institutions (%)	6.71	6.97	7.00
Number of problem institutions	102	78	75
Assets of problem institutions (in billions)	\$37	\$17	\$15
Number of failed/assisted institutions	6	1	1

* Through March 31, ratios annualized where appropriate. Asset growth rates are for 12 months ending March 31.

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

(dollar figures in millions)	Preliminary 1st Quarter 2002	4th Quarter 2001	1st Quarter 2001	%Change 01:1-02:1
Number of institutions reporting	8,005	8,080	8,238	-2.8
Total employees (full-time equivalent)	1,722,816	1,705,104	1,683,014	2.4
CONDITION DATA				
Total assets	\$6,504,572	\$6,569,346	\$6,316,420	3.0
Loans secured by real estate	1,810,455	1,803,626	1,702,445	6.3
Commercial & industrial loans	966,941	982,404	1,045,525	-7.5
Loans to individuals	649,224	631,627	597,496	8.7
Farm loans	45,083	47,755	46,213	-2.4
Other loans & leases	425,396	433,361	442,453	-3.9
Less: Unearned income	3,844	3,110	2,790	37.8
Total loans & leases	3,893,291	3,895,663	3,831,342	1.6
Less: Reserve for losses	74,855	72,138	64,738	15.6
Net loans and leases	3,818,435	3,823,525	3,766,604	1.4
Securities	1,185,904	1,179,694	1,049,095	13.0
Other real estate owned	3,809	3,569	3,065	24.3
Goodwill and other intangibles	131,787	122,417	100,855	30.7
All other assets	1,364,631	1,440,141	1,396,801	-2.3
Total liabilities and capital	6,504,579	6,569,346	6,316,420	3.0
Noninterest-bearing deposits	804,097	873,455	722,751	11.3
Interest-bearing deposits	3,548,014	3,518,157	3,463,529	2.4

Other borrowed funds	1,135,546	1,130,498	1,144,609	-0.8
Subordinated debt	92,983	95,317	90,525	2.7
All other liabilities	319,067	354,522	347,489	-8.2
Equity capital	604,778	597,397	547,517	10.5
Loans and leases 30-89 days past due	49,055	53,289	47,281	3.8
Noncurrent loans and leases	57,225	55,018	46,115	24.1
Restructured loans and leases	1,881	1,027	1,148	63.9
Direct and indirect investments in real estate	260	264	277	-6.0
1-4 Family residential mortgages	960,522	966,292	926,956	3.6
Mortgage-backed securities	615,956	613,585	494,613	24.5
Earning assets	5,619,843	5,598,728	5,447,182	3.2
Long-term assets (5+ years)	1,324,890	1,342,542	1,160,815	14.1
Volatile liabilities	2,043,632	2,061,749	2,152,994	-5.1
Foreign office deposits	603,522	629,506	671,096	-10.1
FHLB Advances	204,009	198,759	179,619	13.6
Unused loan commitments	5,067,012	4,828,892	4,549,139	11.4
Derivatives	46,503,351	45,168,268	44,352,565	4.8

TABLE III-A. First Quarter 2002, FDIC-Insured Commercial Banks

FIRST QUARTER Preliminary (The way it is...)	All Institutions	Asset Size Distribution				Geographic Distribution by Region					
		Less than \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$10 Billion	Greater than \$10 Billion	East			West		
						North-east	South-east	Central	Mid-west	South-west	West
Number of institutions reporting	8,005	4,436	3,178	310	81	636	1,378	1,712	2,082	1,328	869
Total assets (in billions)	\$6,504.6	\$221.0	\$821.2	\$896.7	\$4.565.7	\$2.224.9	\$1.616.9	\$1.297.7	\$372.6	\$276.5	\$716.1
Total deposits (in billions)	4,352.2	187.7	671.2	610.3	2,883.1	1,413.5	1,125.1	840.0	251.8	226.6	495.3
Net income (in millions)	21,736	552	2,483	3,314	15.387	6,497	5,606	4,412	1,512	864	2,845
% of unprofitable institutions	6.7	10.1	2.5	2.3	2.5	10.5	8.3	4.6	4.4	6.0	12.0
% of institutions with earnings gains	64.0	58.1	70.9	76.5	71.6	67.5	67.7	68.8	62.8	57.6	59.0
Performance ratios (annualized, %)											
Yield on earning assets	6.35	6.88	6.87	6.55	6.18	6.18	6.28	6.16	7.29	6.51	6.80
Cost of funding earning assets	2.17	2.62	2.48	2.24	2.07	2.27	2.16	2.25	2.24	2.07	1.72
Net interest margin	4.19	4.26	4.39	4.31	4.12	3.91	4.12	3.91	5.05	4.44	5.08
Noninterest income to earning assets	2.96	1.05	1.68	2.76	3.35	3.86	2.60	2.24	3.03	1.59	2.93
Noninterest expense to earning assets	4.01	3.65	3.81	3.92	4.08	4.48	3.88	3.28	4.44	3.76	4.10
Loan and lease loss provision to assets	0.71	0.23	0.34	0.62	0.82	0.97	0.43	0.55	0.94	0.31	0.88
Net operating income to assets	1.31	0.99	1.23	1.46	1.31	1.12	1.35	1.33	1.60	1.25	1.63
Pretax return on assets	2.01	1.30	1.72	2.24	2.06	1.80	2.04	2.01	2.37	1.74	2.53
Return on assets	1.33	1.01	1.22	1.49	1.34	1.16	1.38	1.35	1.62	1.25	1.59
Return on equity	14.47	9.24	12.57	14.93	15.04	13.32	14.51	15.64	16.48	13.06	15.08
Net charge-offs to loans and leases	1.14	0.23	0.34	0.91	1.39	1.85	0.62	0.84	1.33	0.38	1.26

TABLE IV-A. Full Year 2001, FDIC-Insured Commercial Banks

December 31, 2001	All Institutions	Asset Size Distribution				Geographic Distribution by Region					
		Less than \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$10 Billion	Greater than \$10 Billion	East			West		
						North-east	South-east	Central	Mid-west	South-west	West
Number of institutions reporting	8,080	4,486	3,194	320	80	651	1,392	1,721	2,094	1,342	880
Total assets (in billions)	\$6,569.3	\$221.6	\$819.8	\$915.5	\$4.612.4	\$2.259.3	\$1.634.0	\$1.321.6	\$36.3.7	\$27.6.7	\$71.4.1
Total deposits (in billions)	4,391.6	187.7	668.4	625.1	2,910.5	1,432.7	1,127.4	860.7	253.9	226.1	491.0
Net income (in millions)	74,248	1,888	9,293	11,513	51.554	23.693	18.254	13.271	5.005	3.088	10,937
% of unprofitable institutions	7.8	11.6	3.1	3.1	1.3	10.6	12.8	5.9	4.2	6.0	12.8
% of institutions with earnings gains	56.4	49.3	65.1	69.1	62.5	65.8	55.5	60.0	55.2	50.2	56.3
Performance Ratios (%)											
Yield on earning assets	7.29	7.83	7.90	7.76	7.06	6.96	7.20	7.31	8.03	7.62	8.05
Cost of funding earning assets	3.40	3.61	3.54	3.45	3.35	3.50	3.31	3.52	3.51	3.21	3.06
Net interest margin	3.90	4.22	4.36	4.31	3.71	3.46	3.89	3.79	4.51	4.41	4.99
Noninterest income to earning assets	2.85	1.11	1.71	2.62	3.19	3.66	2.45	2.05	2.88	1.58	3.22
Noninterest expense to earning assets	4.03	3.74	3.87	4.02	4.07	4.36	3.87	3.40	4.33	3.89	4.44
Loan and lease loss provision to assets	0.67	0.32	0.38	0.66	0.74	0.74	0.51	0.73	0.66	0.33	0.88
Net operating income to assets	1.11	0.88	1.16	1.26	1.08	1.01	1.09	0.98	1.46	1.11	1.56
Pretax return on assets	1.73	1.18	1.68	2.02	1.71	1.61	1.67	1.51	2.17	1.62	2.51
Return on assets	1.15	0.90	1.19	1.31	1.13	1.05	1.13	1.03	1.49	1.16	1.63
Return on equity	13.09	7.97	12.21	13.76	13.43	12.74	12.21	12.35	16.48	12.13	15.95
Net charge-offs to loans and leases	0.94	0.35	0.42	1.03	1.06	1.20	0.74	0.80	0.87	0.45	1.24
Loan and lease loss provision to net charge-offs	118.23	149.65	139.71	101.80	119.45	120.80	105.48	133.77	112.90	125.88	110.78

Efficiency ratio	57.72	69.63	62.85	55.75	56.83	59.37	58.66	56.09	57.59	63.32	52.11
Condition Ratios (%)											
Earning assets to total assets	85.23	91.38	91.15	89.48	83.03	82.09	84.28	88.11	90.44	89.41	87.69
Loss allowance to:											
Loans and leases	1.85	1.42	1.44	1.80	1.97	2.12	1.61	1.76	1.72	1.43	2.08
Noncurrent loans and leases	131.12	129.29	152.22	167.73	123.46	124.98	125.36	120.57	165.97	136.49	174.56
Noncurrent assets plus other real estate owned to assets	0.92	0.81	0.73	0.73	1.00	0.97	0.88	1.04	0.77	0.72	0.81
Equity capital ratio	9.09	10.89	9.68	9.76	8.77	8.60	9.73	8.45	8.92	9.48	10.34
Core capital (leverage) ratio	7.79	10.62	9.18	8.74	7.23	7.24	7.99	7.60	8.48	8.57	8.83
Tier 1 risk-based capital ratio	9.90	15.86	12.87	11.83	8.86	9.75	9.76	9.02	11.32	12.56	10.84
Total risk-based capital ratio	12.72	16.96	14.05	13.77	12.17	12.70	12.64	12.15	13.01	14.09	13.52
Net loans and leases to deposits	87.06	71.10	78.56	88.73	89.69	79.25	88.06	99.43	94.64	70.08	89.82
Structural Changes											
New charters	128	123	4	0	1	17	37	19	14	8	33
Banks absorbed by mergers	356	159	163	25	9	35	73	97	60	44	47
Failed banks	3	3	0	0	0	1	0	1	0	1	0
PRIOR FULL YEARS (The way it was)											
Number of institutions											
2000	8,315	4,837	3,081	314	83	664	1,426	1,792	2,144	1,383	906
1998	8,773	5,408	2,973	321	71	693	1,445	1,904	2,265	1,517	949
1996	9,527	6,203	2,926	325	73	743	1,577	2,109	2,401	1,683	1,014
Total assets (in billions)											
2000	6,244.6	230.9	773.6	879.4	4,360.7	2,180.8	1,611.9	1,072.4	419.0	302.3	658.2
1998	5,442.5	252.3	726.8	921.8	3,541.6	1,922.4	1,211.5	889.3	376.5	304.7	738.3
1996	4,578.3	280.0	713.5	1,002.4	2,582.5	1,730.7	805.4	716.8	297.2	334.4	693.8
Return on assets (%)											
2000	1.19	1.00	1.28	1.28	1.16	1.30	1.05	1.03	1.42	0.97	1.38

1998	1.19	1.13	1.31	1.52	1.08	1.06	1.30	1.25	1.5	1.1	1.1
1996	1.19	1.16	1.28	1.31	1.12	1.10	1.22	1.21	1.4	1.2	1.2
Net charge-offs to loans & leases (%)											
2000	0.67	0.41	0.33	0.70	0.75	0.79	0.61	0.40	0.8	0.4	1.0
1998	0.67	0.31	0.40	1.02	0.65	0.91	0.43	0.44	0.7	0.4	0.8
1996	0.58	0.27	0.42	0.89	0.52	0.63	0.45	0.44	0.7	0.3	0.7
Noncurrent assets plus OREO to assets (%)											
2000	0.74	0.67	0.61	0.64	0.79	0.74	0.82	0.74	0.6	0.6	0.7
1998	0.65	0.71	0.62	0.71	0.64	0.78	0.55	0.56	0.5	0.5	0.6
1996	0.75	0.77	0.74	0.85	0.71	0.84	0.68	0.57	0.6	0.6	0.8
Equity capital ratio (%)											
2000	8.50	11.06	9.59	8.98	8.07	8.00	8.66	7.91	9.4	8.9	9.8
1998	8.49	10.95	9.52	9.46	7.85	7.80	9.10	8.27	8.7	8.8	9.2
1996	8.20	10.54	9.44	8.77	7.38	7.36	8.48	8.43	8.7	8.7	9.2

TABLE V-A. Loan Performance, FDIC-Insured Commercial Banks

		Asset Size Distribution					Geographic Distribution by Region					
		All Institutions	Less than \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$10 Billion	Greater than \$10 Billion	East			West		
			North	South	Central	Midwest	Southwest	West				
March 31, 2002												
Percent of Loans 30-89 Days Past Due												
All loans secured by real estate		1.16	1.50	1.09	1.00	1.21	1.11	0.98	1.56	1.1	1.16	0.97
Construction and development		1.23	1.59	1.15	1.26	1.23	0.92	0.88	1.56	1.0	1.50	1.65
Commercial real estate		0.85	1.20	0.85	0.89	0.80	0.81	0.68	1.19	0.9	0.87	0.66

Multifamily residential real estate	0.64	0.60	0.53	0.49	0.73	0.35	0.48	1.18	0.20	0.61	0.57
Home equity loans	0.62	0.71	0.56	0.64	0.63	0.46	0.61	0.79	0.58	0.42	0.51
Other 1-4 Family residential	1.44	1.73	1.40	1.09	1.52	1.24	1.31	2.07	1.19	1.33	1.13
Commercial and industrial loans	1.09	1.98	1.51	1.46	0.95	1.06	0.72	1.29	1.68	1.42	1.27
Loans to individuals	2.06	2.43	2.07	2.07	2.05	2.26	1.78	1.86	2.32	1.77	1.94
Credit card loans	2.50	2.25	4.67	2.45	2.44	2.65	2.80	2.06	2.57	1.40	2.07
Other loans to individuals	1.79	2.43	1.76	1.85	1.75	1.90	1.63	1.83	1.89	1.78	1.74
All other loans and leases (including farm)	0.87	1.87	1.48	0.86	0.79	0.73	0.55	1.12	1.65	1.66	0.82
Total loans and leases	1.26	1.73	1.29	1.26	1.23	1.30	0.97	1.47	1.57	1.33	1.20
Memo: Commercial RE loans not secured by RE	1.14	0.49	0.73	1.26	1.16	0.30	1.01	1.52	3.13	1.55	1.96
Percent of Loans Noncurrent*											
All real estate loans	1.00	1.02	0.87	0.86	1.08	1.12	0.81	1.34	0.77	0.93	0.77
Construction and development	1.06	1.01	1.01	1.04	1.10	1.15	0.88	1.25	0.82	0.87	1.28
Commercial real estate	1.01	1.13	0.95	0.94	1.07	1.00	0.89	1.33	0.93	1.01	0.84
Multifamily residential real estate	0.43	0.75	0.52	0.39	0.40	0.28	0.40	0.56	0.49	0.86	0.35
Home equity loans	0.36	0.34	0.33	0.38	0.36	0.28	0.32	0.50	0.29	0.34	0.25
Other 1-4 Family residential	1.05	0.88	0.76	0.83	1.18	1.09	0.85	1.66	0.66	0.83	0.59
Commercial and industrial loans	2.61	1.74	1.45	1.78	2.92	3.22	2.51	2.37	1.29	1.71	2.32
Loans to individuals	1.49	0.95	0.88	1.27	1.62	2.11	0.81	0.75	1.67	0.70	1.45
Credit card loans	2.28	1.69	3.30	2.34	2.24	2.50	2.07	1.65	2.15	1.04	2.06
Other loans to individuals	1.01	0.93	0.59	0.66	1.16	1.75	0.62	0.62	0.84	0.70	0.45
All other loans and leases (including farm)	0.90	1.26	1.24	0.76	0.88	0.85	0.81	0.88	1.35	1.36	1.01
Total loans and leases	1.47	1.16	0.99	1.11	1.65	1.90	1.21	1.48	1.14	1.10	1.23

Memo: Commercial RE loans not secured by RE	0.73	0.56	0.14	0.60	0.77	0.08	1.15	1.36	1.01	0.28	0.33
Percent of Loans Charged-off (net, annual)											
All real estate loans	0.15	0.06	0.09	0.14	0.18	0.12	0.12	0.29	0.08	0.07	0.09
Construction and development	0.14	0.09	0.10	0.25	0.11	0.22	0.08	0.12	0.09	0.03	0.29
Commercial real estate	0.16	0.10	0.11	0.15	0.19	0.09	0.11	0.35	0.12	0.08	0.08
Multifamily residential real estate	0.04	0.05	0.05	0.06	0.03	0.01	0.01	0.12	0.02	0.01	0.03
Home equity loans	0.21	0.03	0.04	0.16	0.24	0.06	0.19	0.38	0.14	0.14	0.06
Other 1-4 Family residential	0.14	0.05	0.07	0.10	0.17	0.08	0.12	0.30	0.06	0.08	0.03
Commercial and industrial loans	1.45	0.47	0.50	1.22	1.63	1.48	1.42	1.47	0.66	0.75	1.96
Loans to individuals	3.98	0.73	1.67	3.29	4.52	5.93	1.57	2.01	4.71	0.98	4.09
Credit card loans	8.19	3.62	8.40	6.87	8.42	10.68	3.52	5.34	7.12	3.37	5.60
Other loans to individuals	1.47	0.65	0.83	1.22	1.69	1.86	1.27	1.48	0.45	0.91	1.52
All other loans and leases (including farm)	0.45	0.20	0.27	0.40	0.47	0.45	0.22	0.67	0.17	0.37	0.72
Total loans and leases	1.14	0.23	0.34	0.91	1.39	1.84	0.62	0.84	1.33	0.37	1.26
Memo: Commercial RE loans not secured by RE	0.12	1.30	0.06	0.21	0.11	0.13	0.20	0.02	0.05	0.30	0.4
Loans Outstanding (in billions)											
All real estate loans	\$1,810.5	\$80.1	\$355.9	\$314.9	\$1,059.6	\$371.0	\$546.9	\$433.6	\$118.6	\$91.6	\$248.8
Construction and development	194.5	7.3	44.6	40.9	101.6	20.7	69.5	47.8	10.5	14.3	31.6
Commercial real estate	518.6	23.9	140.1	112.6	242.0	85.5	158.1	122.0	32.5	35.0	85.5
Multifamily residential real estate	65.8	1.8	12.6	13.9	37.6	15.5	16.5	17.2	3.4	2.8	10.4
Home equity loans	166.5	2.3	16.1	19.2	128.9	33.7	53.0	52.8	5.6	1.6	19.8
Other 1-4 Family residential	794.0	34.5	127.7	123.8	508.0	182.9	239.6	184.7	55.5	33.9	97.4
Commercial and industrial loans	966.9	23.1	94.4	114.5	734.9	327.9	240.1	223.3	42.7	37.2	95.7

Loans to individuals	649.2	16.4	56.4	92.9	483.5	265.6	122.7	95.3	61.1	22.1	82.4
Credit card loans	247.9	0.4	6.1	33.4	208.0	128.6	16.1	12.6	38.6	0.6	51.3
Other loans to individuals	401.3	16.0	50.4	59.6	275.4	137.0	106.6	82.8	22.5	21.5	31.1
All other loans and leases (including farm)	470.5	15.3	27.0	37.7	390.5	189.7	97.5	113.5	28.8	9.6	31.3
Total loans and leases	3,897.1	134.9	533.8	559.9	2,668.5	1,154.2	1,007.2	865.8	251.3	160.5	458.2
Memo: Commercial RE loans not secured by RE	41.7	0.3	1.7	3.5	36.3	12.0	11.8	8.9	0.9	0.7	7.5
Memo: Other Real Estate Owned (in millions)											
All other real estate owned	\$3,808.6	\$325.5	\$974.6	\$633.4	\$1,875.1	\$570.7	\$1,383.9	\$798.7	\$279.0	\$322.7	\$453.6
Construction and development	358.8	34.8	170.7	67.2	86.1	51.9	127.6	55.5	33.7	46.2	44.0
Commercial real estate	1,822.5	146.9	414.7	337.4	923.5	263.3	749.8	255.6	114.5	160.4	278.8
Multifamily residential real estate	64.6	8.0	37.0	10.2	9.5	9.4	13.4	15.4	13.7	5.0	7.8
1-4 Family residential	1,380.1	111.1	308.5	213.0	747.5	141.8	479.5	461.0	97.7	90.4	109.7
Farmland	76.7	24.6	42.3	4.2	5.5	2.0	13.6	11.2	19.2	20.8	9.8
Other real estate owned in foreign offices	105.9	0.0	1.4	1.5	103.0	102.3	0.0	0.0	0.0	0.0	3.6

*Noncurrent loan rates represent the percentage of loans in each category that are past due 90 days or more or that are in nonaccrual status

N/A - Not Available

Chart 1

Net Income Sets New Record

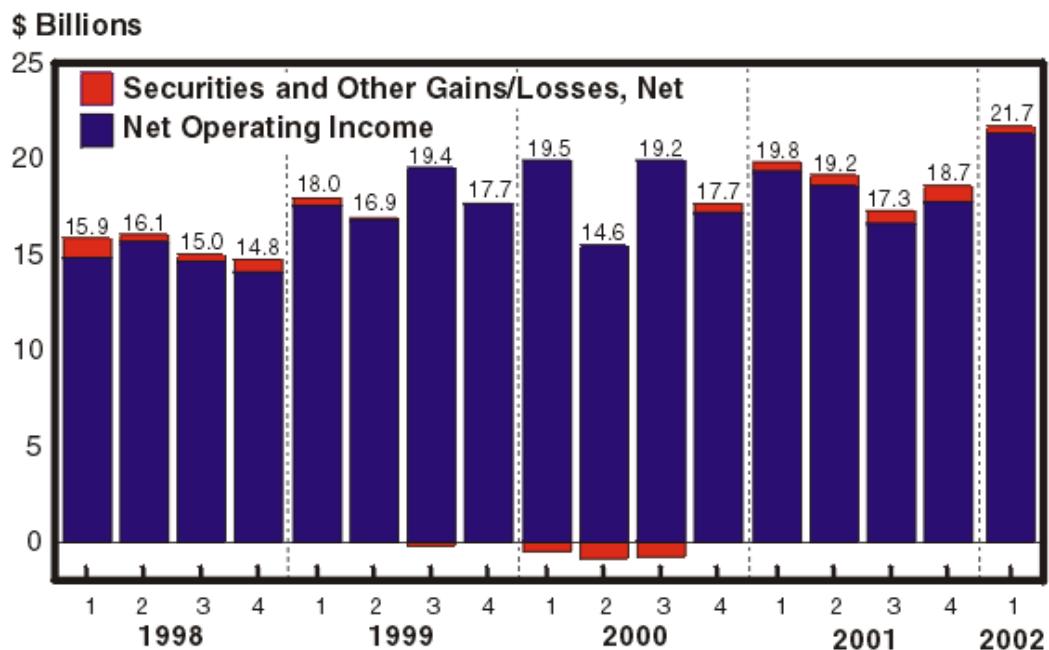


Chart 2

Gap Between Large and Small Bank Margins Continues to Narrow

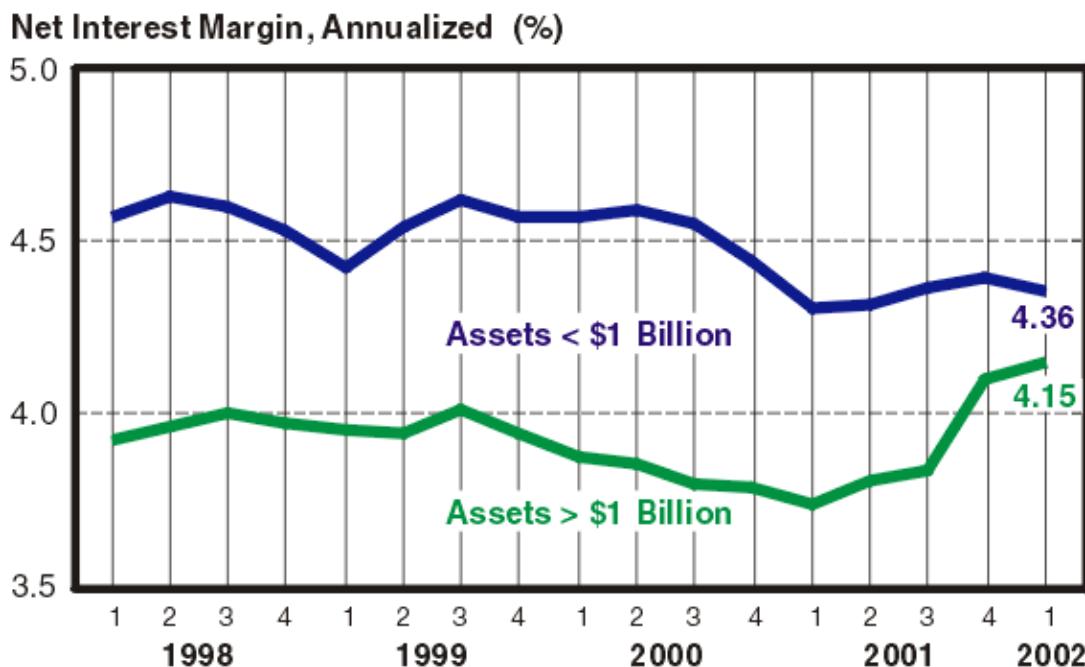


Chart 3

Noninterest Expenses Absorb a Smaller Share of Net Operating Revenue

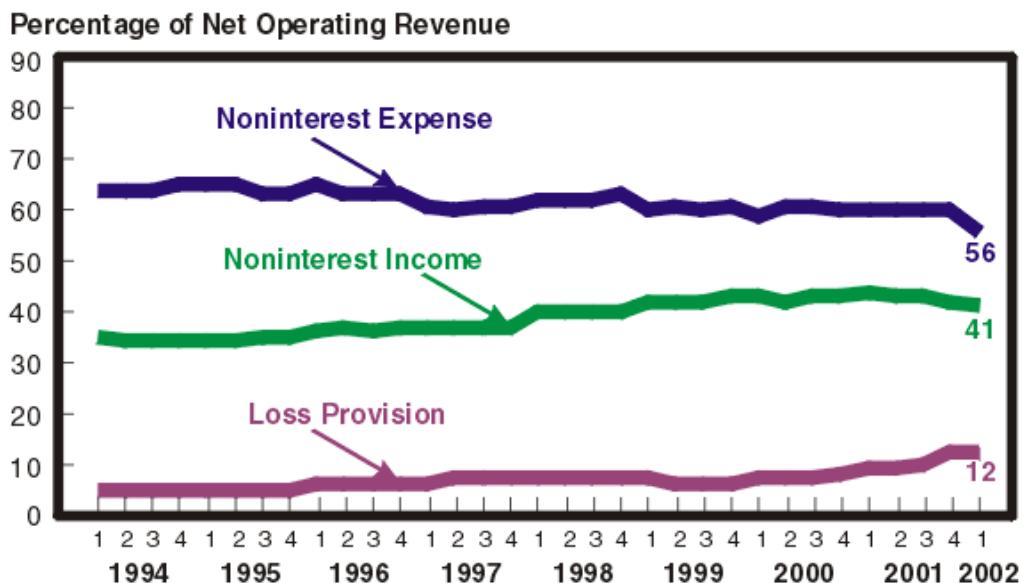


Chart 4

C&I Charge-offs Decline, But Noncurrent C&I Loans Are Still Growing

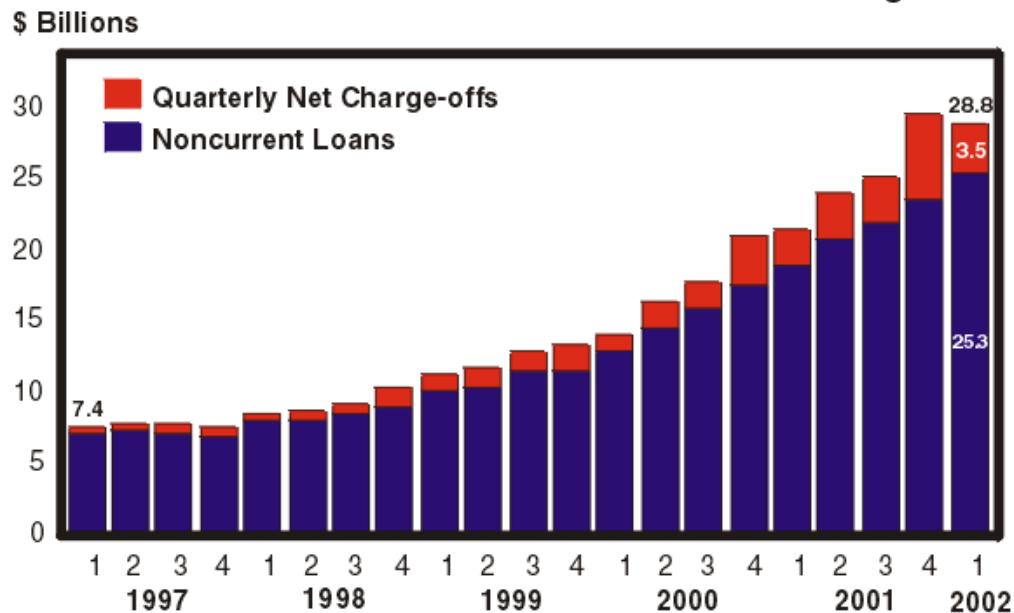


Chart 5

**Credit Card Loss Rates and Personal Bankruptcies
Stay on Record Pace**

