The FDIC Quarterly Banking Profile

Donna Tanoue, Chairman

Fourth Quarter 1998

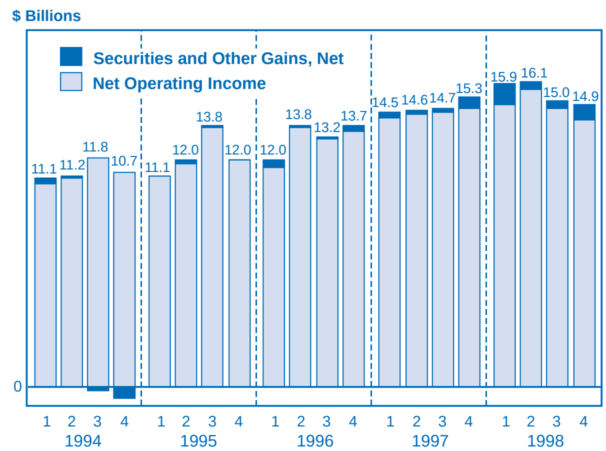
COMMERCIAL BANK PERFORMANCE — FOURTH QUARTER, 1998

- ***Quarterly Profits Fall Below $15 Billion For First Time In 5 Quarters***
- ***Merger-Related Expenses Outweigh Surge In Fee Income***
- ***Savings Deposits Rise Sharply During Fourth Quarter***
- ***Full-Year Earnings Surpass $60 Billion For The First Time***
- ***Net Interest Margins Decline To 7-Year Low In 1998***

Insured commercial banks earned $14.9 billion in the fourth quarter of 1998, a decline of $148 million (1.0 percent) from the third quarter, and $379 million (2.5 percent) less than fourth-quarter 1997 earnings. This is the first time in five quarters that industry earnings have been below $15 billion. Large expenses related to corporate restructurings were a major factor in the earnings decline. Total noninterest expense was $7.5 billion (15.7 percent) higher than in the third quarter, and $10.5 billion (23.6 percent) above the level of a year ago. The sharp rise in noninterest expenses eclipsed a strong increase in noninterest income. Total noninterest revenues rose by $4.7 billion (15.9 percent) from third-quarter levels, and were $7.2 billion (26.5 percent) higher than in the fourth quarter of 1997. Noninterest income provided 42 percent of commercial banks' net operating revenues in the fourth quarter. (Net operating revenues equals net interest income plus noninterest income.)

Gains from securities sales contributed $1.1 billion to pre-tax earnings, the first time since 1992 that quarterly gains have exceeded $1 billion. Fourth-quarter earnings also received a boost from lower loan-loss provisions. Provisions for loan losses totaled $5.5 billion in the fourth quarter, a decline of $1.1 billion (16.0 percent) from the third quarter, and only $17 million higher than a year earlier. The industry's return on assets (ROA) averaged 1.11 percent in the fourth quarter, compared to 1.15 percent in the third quarter and 1.24 percent a year ago. More than half of all banks — 53.5 percent — had ROAs of 1 percent or higher in the fourth quarter, but a majority of commercial banks — 54.6 percent — reported lower ROAs than in the fourth quarter of 1997.

QUARTERLY NET INCOME, 1994–1998



For the full year, commercial bank earnings totaled $61.9 billion, an increase of $2.8 billion (4.7 percent) over 1997 results. This is the first year that the industry's earnings have surpassed $60 billion. Noninterest income was $19.2 billion higher in 1998, while net interest income was up by $8.3 billion, and gains from securities sales were $1.3 billion greater. Much of the positive effect of these improvements was offset by an increase of $24.1 billion in noninterest expense, and a $2.4-billion increase in loan-loss provisions. Loss provisions for international operations were $739 million higher in 1998, as weaknesses in overseas markets also limited

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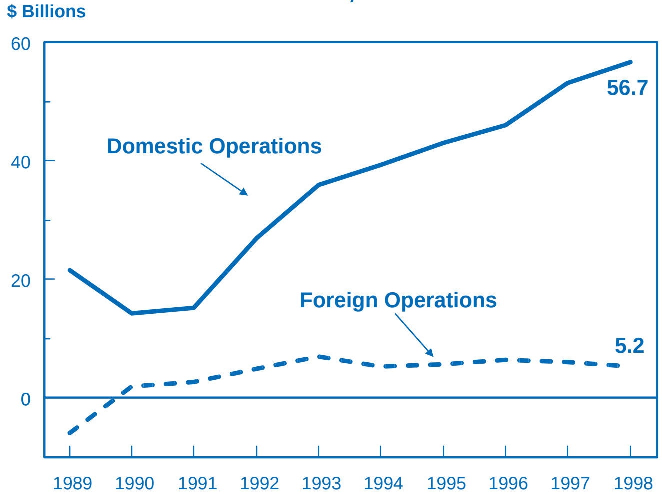
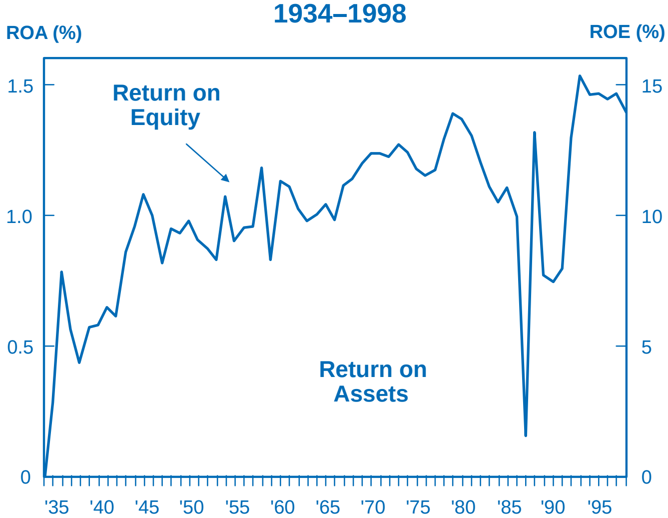
NET INCOME FROM DOMESTIC AND FOREIGN OPERATIONS, 1989–1998



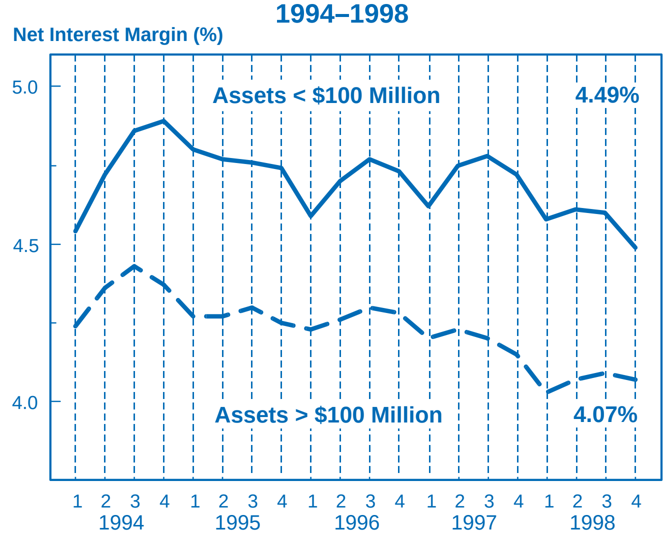
the improvement in bank earnings. Banks' earnings from international operations were $875 million (14.4 percent) lower than in 1997, the second consecutive year that international earnings have declined. The industry's ROA fell to 1.19 percent in 1998, from 1.23 percent in 1997, but remained above 1 percent for the sixth consecutive year. Almost two-thirds of all commercial banks — 63.2 percent — had full-year ROAs of 1 percent or higher in 1998. The percentage of banks reporting full-year losses rose for the third consecutive year. In 1998, 5.8 percent of commercial banks reported net losses, compared to 4.9 percent in 1997. This is the highest proportion of unprofitable banks since 1992, when 6.9 percent lost money. Full-year industry earnings include $384 million in net income reported by 9 commercial banks that are directly owned by other commercial banks. The owners of these banks report income on a consolidated basis, causing this income to be double-counted. Approximately $153 million was double-counted in fourth-quarter earnings (see *Notes to Users*, p. 21).

RETURN ON ASSETS (ROA) AND EQUITY (ROE), 1934–1998



Net interest margins declined in the fourth quarter, after registering modest gains in the previous two quarters. Average asset yields fell by 26 basis points, while average funding costs declined by 22 basis points. The fourth-quarter net interest margin of 4.09 percent was slightly higher than the 4.06 percent banks registered in the first quarter, but otherwise it was the industry's lowest quarterly margin since the second quarter of 1991. For all of 1998, commercial bank net interest margins declined by 14 basis points, to 4.07 percent from 4.21 percent in 1997. This is the sixth consecutive year that the industry's net interest margin has declined, and the sharpest year-to-year decline since 1974-75, when it fell by 30 basis points.

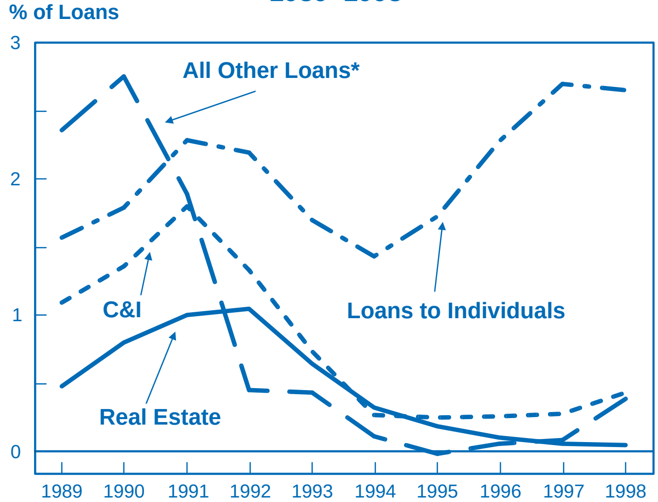
QUARTERLY NET INTEREST MARGINS, 1994–1998



Asset quality showed signs of weakening in 1998. Noncurrent loans increased by $2.7 billion in 1998, the first year since 1990 to have an increase. The rise in noncurrent loans occurred despite higher loan charge-offs. Noncurrent commercial and industrial loans increased by $2.2 billion during 1998, from 0.85 percent to 0.99 percent of total commercial and industrial loans. Banks charged-off $20.7 billion (0.67 percent of their loans) in 1998, an increase of $2.4 billion (13.0 percent) over 1997. Noncurrent loans increased in three of the four quarters of 1998, including a $1.7-billion increase in the fourth quarter. Because of growth in banks' loan portfolios, the percentage of loans that were noncurrent at year-end remained unchanged from a year earlier, at 0.96 percent, slightly higher than the record low level of 0.94 percent registered at the end of the second and third quarters of 1998.

Growth in capital and reserves, which had been strong through most of 1998, slowed in the fourth quarter. Loss reserves increased by only $14 million in the fourth quarter, but for the full year, reserves increased by $2.6 billion (4.7 percent), the largest annual

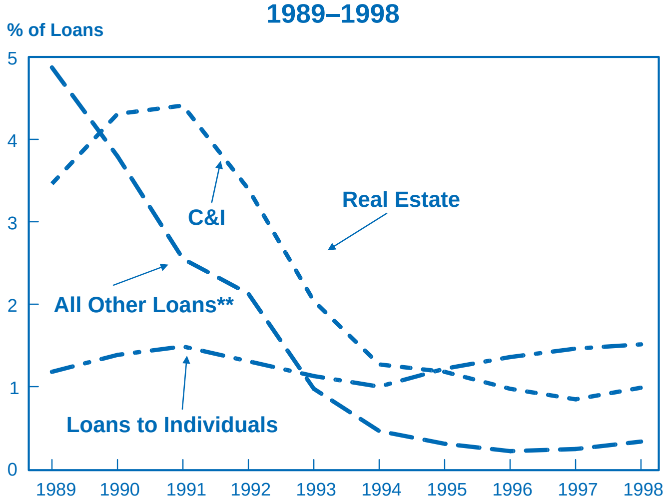
ANNUAL NET CHARGE-OFF RATES ON LOANS, 1989–1998



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

increase since 1989. The industry's "coverage ratio" declined to $1.83 in reserves for every $1.00 of noncurrent loans, from $1.94 at the end of the third quarter and $1.92 at the end of 1997. Equity capital increased by only $4.8 billion in the fourth quarter; this slight increase, combined with the large growth in commercial bank assets, caused the industry's equity-to-assets ratio to decline from 8.68 percent to 8.50 percent during the quarter. For the full year, equity capital increased by $44.3 billion (10.6 percent). Dividends registered their first year-to-year decline since 1991-92, falling by $1.4 billion from 1997 levels, and this decline helped boost retained earnings and supported the strong growth of capital in 1998.

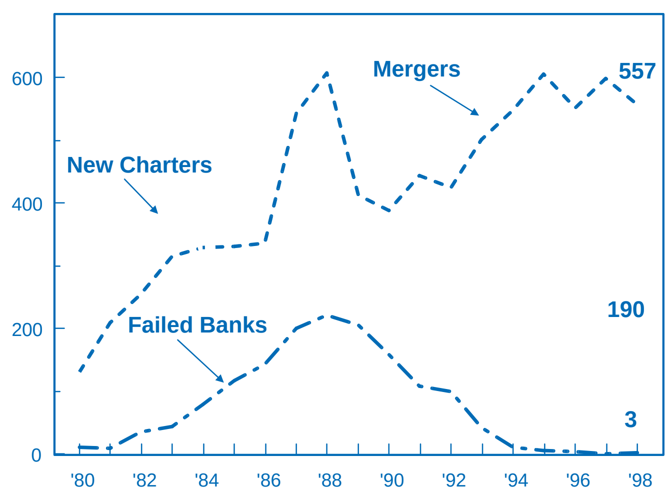
NONCURRENT LOAN RATES AT YEAR-END,* 1989–1998



*Noncurrent loan rates represent the percentage of loans that are past due 90 days or more or in nonaccrual status.
**Includes loans to foreign governments, depository institutions and lease receivables.

The $171.8-billion increase in commercial bank assets in the fourth quarter set a new quarterly record, surpassing the previous record of $145.7 billion set in the fourth quarter of 1997. Growth in residential mortgage assets was especially strong. Banks' holdings of 1-4 family residential mortgages increased by $26.0 billion (3.5 percent), while their mortgage-backed securities increased by $36.7 billion (8.5 percent). Commercial real estate loans grew by $13.5 billion, and cash items in process of collection and credit-card loans had seasonal increases of $21.4 billion and $12.9 billion, respectively. On the funding side of the balance sheet, domestic-office deposits had their largest quarterly increase ever, rising by $157.4 billion. Much of the increase occurred in savings deposits, which rose by $93.6 billion, with money-market deposit accounts (MMDAs) accounting for $63.6 billion. Demand deposits had a strong seasonal increase of $45.5 billion in the fourth quarter.

STRUCTURAL CHANGES AMONG FDIC-INSURED COMMERCIAL BANKS, 1980–1998



The number of insured commercial banks reporting financial results fell by 135 institutions in the fourth quarter, to 8,774 at year-end. Mergers absorbed 198 commercial banks, while there were 65 new charters, one voluntary liquidation, and one bank that did not file a year-end report. No insured commercial banks failed during the fourth quarter. For all of 1998, the net decline totaled 368 banks, as 557 banks were absorbed by mergers, 190 new banks were chartered, 3 banks failed, and 2 noninsured institutions became insured. At the end of 1998, there were 69 commercial banks with $5.4 billion in assets on the FDIC's "Problem List," down from 70 "problem" banks at the end of the third quarter, and 71 at the beginning of the year.

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

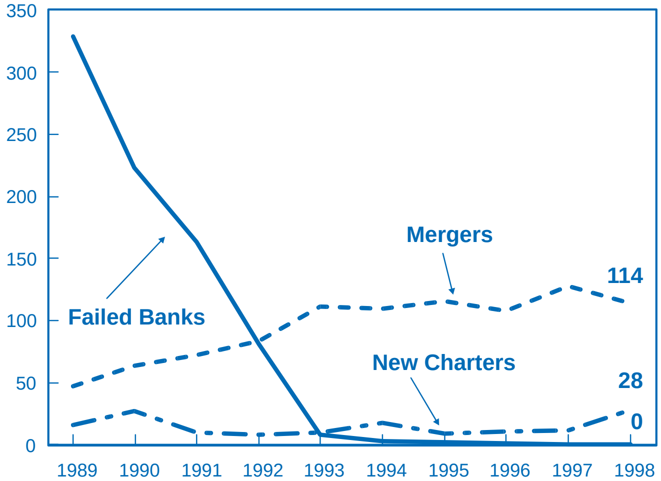
		Asset Size Distribution				Geographical Distribution by Region					
						East			West		
December 31, 1998	All Institutions	Less than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	Greater than $10 Billion	North-east	South-east	Central	Mid-west	South-west	West
Percent of Loans 30-89 Days Past Due											
All loans secured by real estate	1.26	1.47	1.10	1.19	1.32	1.25	1.34	1.32	1.15	1.49	1.00
Construction and development	1.50	1.21	1.03	1.47	1.80	1.19	1.53	1.88	1.46	1.80	1.08
Commercial real estate	0.99	1.07	0.75	1.07	1.07	0.94	1.13	1.08	0.90	1.11	0.70
Multifamily residential real estate	0.87	0.50	0.58	0.82	1.04	0.69	0.95	1.03	0.87	0.64	0.93
Home equity loans	0.98	0.91	0.94	1.00	0.99	0.97	0.99	1.18	0.66	0.81	0.82
Other 1-4 Family residential	1.44	1.92	1.45	1.27	1.45	1.42	1.49	1.45	1.25	1.80	1.33
Commercial and industrial loans*	0.88	1.62	1.35	1.14	0.67	0.57	0.83	1.15	1.55	1.51	0.86
Loans to individuals	2.43	2.54	2.36	2.48	2.42	2.67	2.36	2.53	2.32	2.08	2.02
Credit card loans	2.58	2.56	3.73	2.52	2.54	2.72	2.68	2.77	2.53	1.44	2.17
Other loans to individuals	2.33	2.54	2.09	2.43	2.33	2.60	2.24	2.48	2.14	2.11	1.84
All other loans and leases (including farm)	0.51	N/A	N/A	0.97	0.48	0.37	0.44	1.01	0.63	0.96	0.28
Memo: Commercial RE loans not secured by RE	0.61	0.56	0.35	0.40	0.63	0.22	0.68	2.08	0.86	1.50	0.17
Percent of Loans Noncurrent**											
All real estate loans	0.91	0.87	0.71	0.84	1.02	1.22	0.85	0.78	0.59	0.94	0.86
Construction and development	0.81	0.82	0.65	0.68	0.95	1.40	0.72	0.76	0.66	0.69	0.79
Commercial real estate	0.95	0.86	0.75	0.92	1.08	1.31	0.90	0.81	0.56	1.09	0.91
Multifamily residential real estate	0.85	0.84	0.64	0.91	0.90	1.03	0.99	0.71	0.37	0.73	0.78
Home equity loans	0.43	0.53	0.41	0.51	0.40	0.53	0.37	0.46	0.28	0.32	0.39
Other 1-4 Family residential	0.88	0.80	0.69	0.85	0.95	0.99	0.89	0.82	0.56	0.83	0.94
Commercial and industrial loans*	0.99	1.40	1.24	0.90	0.89	1.14	0.73	0.86	1.21	1.36	0.93
Loans to individuals	1.52	0.92	0.81	1.54	1.69	2.24	0.87	1.10	1.09	0.57	1.67
Credit card loans	2.22	1.81	1.93	1.99	2.39	2.35	1.57	2.39	1.57	0.74	2.66
Other loans to individuals	1.06	0.88	0.59	1.07	1.20	2.11	0.62	0.81	0.66	0.56	0.43
All other loans and leases (including farm)	0.34	N/A	N/A	0.50	0.33	0.42	0.28	0.36	0.29	0.39	0.22
Memo: Commercial RE loans not secured by RE	0.34	0.57	0.30	0.43	0.33	0.22	0.29	0.26	0.12	0.57	0.60
Percent of Loans Charged-off (net, YTD)											
All real estate loans	0.05	0.04	0.06	0.06	0.05	0.06	0.05	0.06	0.03	0.04	0.05
Construction and development	0.01	0.05	0.05	-0.01	0.00	-0.02	0.02	0.02	0.05	0.02	-0.01
Commercial real estate	0.00	0.05	0.05	0.06	-0.05	-0.09	0.03	0.06	-0.05	0.02	0.01
Multifamily residential real estate	0.05	0.08	0.04	-0.01	0.07	0.01	0.06	0.01	0.02	0.00	0.15
Home equity loans	0.14	0.05	0.07	0.17	0.14	0.18	0.11	0.15	0.11	0.38	0.09
Other 1-4 Family residential	0.07	0.05	0.06	0.06	0.07	0.08	0.06	0.05	0.06	0.06	0.07
Commercial and industrial loans	0.43	0.44	0.47	0.49	0.39	0.42	0.39	0.35	0.44	0.50	0.59
Loans to individuals	2.66	0.92	1.67	3.17	2.72	3.41	1.84	1.74	2.97	1.26	3.41
Credit card loans	5.12	4.14	6.44	5.32	4.92	5.24	4.43	5.27	5.28	4.11	5.22
Other loans to individuals	1.04	0.65	0.73	0.92	1.21	1.27	0.91	0.85	0.79	1.04	1.28
All other loans and leases (including farm)	0.39	N/A	N/A	0.36	0.43	0.41	0.23	0.32	0.23	0.16	0.68
Memo: Commercial RE loans not secured by RE	-0.05	0.99	0.39	-0.57	-0.02	-0.18	0.01	0.05	0.05	0.29	-0.06
Loans Outstanding (in billions)											
All real estate loans	$1,345.4	$81.4	$273.6	$273.0	$717.5	$323.8	$382.0	$263.5	$115.3	$74.4	$186.4
Construction and development	106.7	6.0	26.0	25.6	49.1	11.9	36.8	20.9	9.5	9.2	18.4
Commercial real estate	371.0	22.1	95.2	82.9	170.8	69.4	102.3	77.2	28.7	27.0	66.4
Multifamily residential real estate	42.7	1.7	8.7	10.2	22.2	11.4	9.7	8.8	3.1	2.0	7.6
Home equity loans	96.7	1.8	11.9	18.5	64.5	21.1	29.3	23.2	4.8	0.9	17.4
Other 1-4 Family residential	668.6	39.4	120.8	132.1	376.3	182.6	198.1	126.0	59.7	32.2	70.1
Commercial and industrial loans	898.8	24.5	80.9	119.5	673.9	313.8	190.7	161.0	53.4	44.9	135.0
Loans to individuals	571.1	21.1	62.2	158.6	329.2	209.8	112.2	86.2	49.6	32.4	80.9
Credit card loans	229.0	1.1	10.2	82.0	135.8	113.7	29.6	15.8	23.6	1.3	44.9
Other loans to individuals	342.1	20.1	52.0	76.6	193.5	96.2	82.6	70.4	26.0	31.0	35.9
All other loans and leases (including farm)	427.3	18.8	24.9	37.1	346.4	158.3	70.5	67.8	33.3	15.6	81.8
Memo: Commercial RE loans not secured by RE	37.1	0.2	0.9	2.6	33.4	12.0	8.9	3.7	2.5	1.7	8.4
Memo: Other Real Estate Owned (in millions)											
All other real estate owned	$3,147.5	$287.0	$732.0	$496.8	$1,631.8	$1,011.9	$800.5	$367.8	$198.4	$238.0	$531.0
Construction and development	300.9	31.1	128.3	55.7	85.7	60.9	114.5	31.2	30.0	14.1	50.1
Commercial real estate	1,318.4	121.0	320.8	214.2	662.4	391.0	286.1	153.0	73.3	132.0	283.0
Multifamily residential real estate	71.9	7.4	18.5	26.6	19.4	26.3	18.6	6.6	6.5	1.9	12.0
1-4 Family residential	1,136.3	97.9	238.6	193.3	606.5	280.2	371.9	171.4	69.4	67.5	175.9
Farmland	67.1	29.6	25.9	6.8	4.8	3.4	9.3	5.5	19.2	22.5	7.1
Other real estate owned in foreign offices	253.0	0.0	0.0	0.1	252.9	250.0	0.2	0.0	0.0	0.0	2.8

* Includes "All other loans" for institutions under $1 billion in asset size.

N/A - Not Available

** 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.

STRUCTURAL CHANGES AMONG FDIC-INSURED SAVINGS INSTITUTIONS, 1989–1998

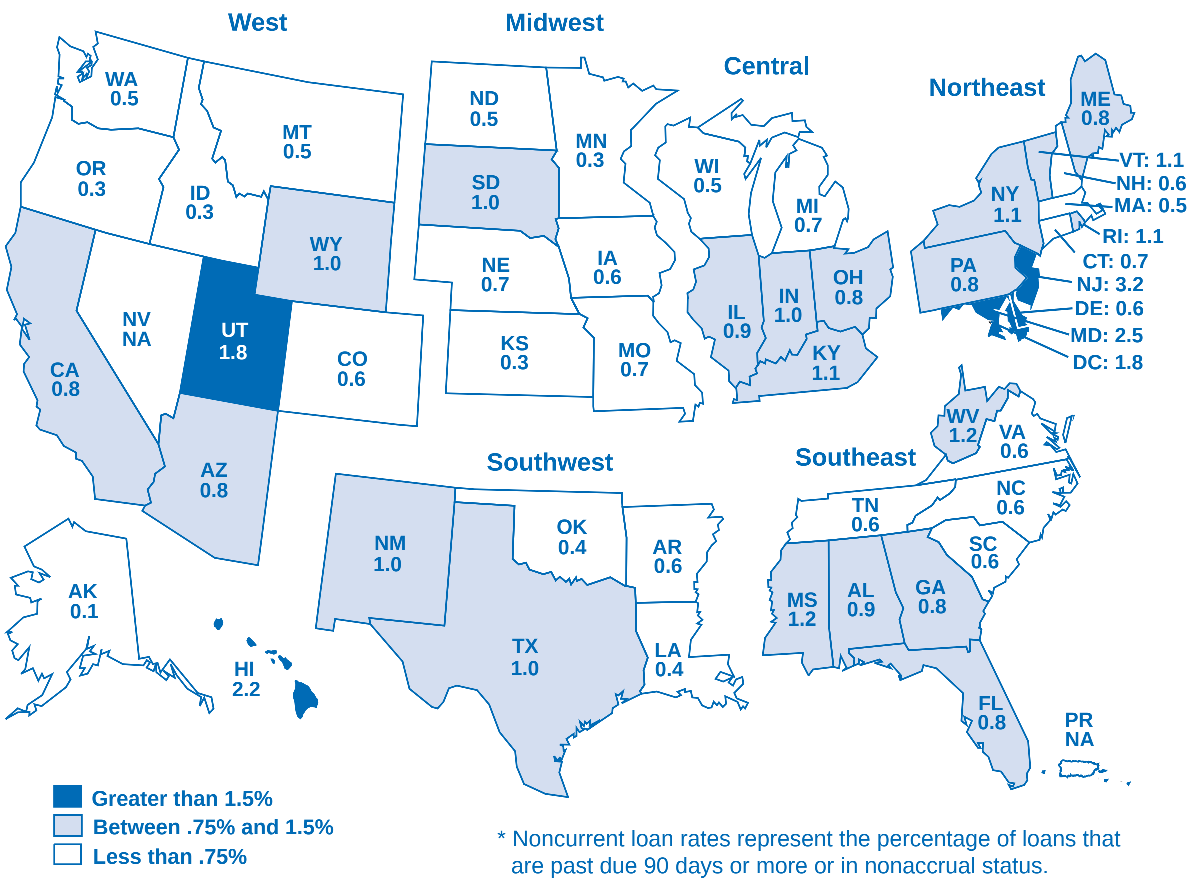


year since 1986. Also during the fourth quarter, 3 commercial banks (with $1.1 billion in assets) and 2 uninsured institutions (with $18 million in assets) converted their charters to federally insured thrift charters. Commercial banks absorbed 17 savings institutions with $12.3 billion in assets, while savings institutions absorbed another 15 thrifts, with $64.1 billion in assets. The latter group included the merger of two of the largest thrifts in the industry.[2] Three savings institutions with $2.1 billion in assets converted to commercial bank charters. During the fourth quarter, 17 thrifts with $4.5 billion in assets converted from mutual to stock ownership and savings institutions absorbed 4 commercial banks with $455 million in assets.

As in 1997, no savings institution failed during the year. Since the Resolution Trust Corporation stopped taking failed thrifts (in the middle of 1995), only one savings institution has failed (in 1996). The number of "problem" thrifts fell to 15 from 18 during the fourth quarter, but the assets of this group rose to $5.9 billion from $2.9 billion.

[2]Washington Mutual, Inc., with $156.2 billion in assets, completed its merger with H.F. Ahmanson & Company, which owned Home Savings of America, a thrift with $50.3 billion in assets.

NONCURRENT LOAN RATES,*
DECEMBER 31, 1998



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