Fourth Quarter 1986

Quarterly Banking Profile

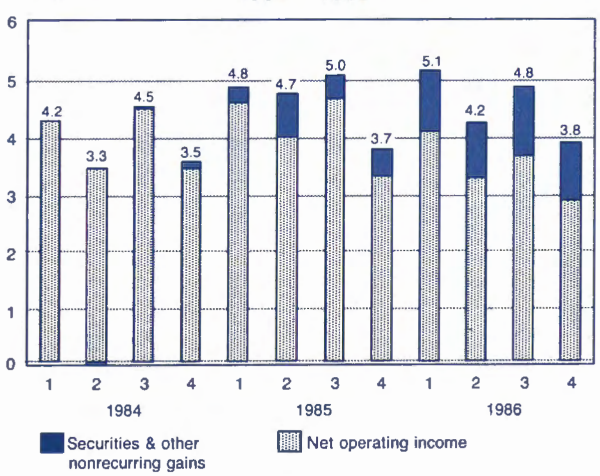
FEDERAL DEPOSIT INSURANCE CORPORATION
L. William Seidman, Chairman

COMMERCIAL BANKING PERFORMANCE — FOURTH QUARTER, 1986

Commercial banks' net income totalled $17.8 billion in 1986, down 1.4 percent from the record $18.1 billion reported in 1985, but still the second highest total ever reported, according to preliminary data. Fourth-quarter net income was $3.8 billion, up 7.7 percent from the fourth quarter a year ago. Net operating earnings were down 16.3 percent in 1986, despite earning asset growth of nearly 8 percent. For the full year, nonrecurring items and gains from the sale of securities amounted to $4.2 billion, or nearly one-fourth of bottom-line net income.

Quarterly Net Income of FDIC-Insured Commercial Banks 1984—1986

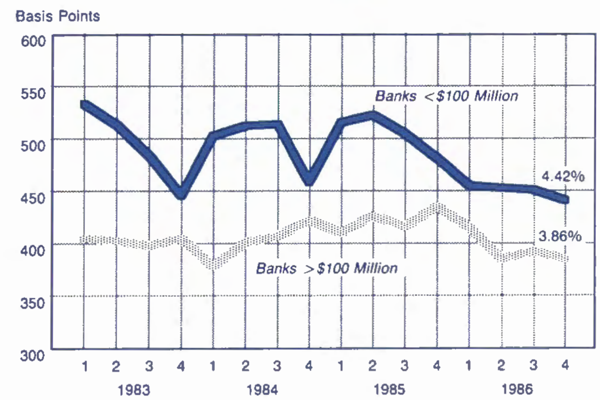
$ Billions



During 1986, total bank assets, loans, deposits and equity capital grew at almost identical rates. Weak loan demand and lower interest rates caused banks to adjust the composition of their balance sheets. The need to increase high-yielding assets prompted them to lengthen maturities in investment securities portfolios and to emphasize mortgage and consumer lending. While total loans grew 7.6 percent, real estate loans expanded a robust 17.2 percent and consumer loans increased 8.6 percent. Commercial and industrial loans, in contrast, grew only 4.0 percent, reflecting softness in demand and heightened nonbank competition.

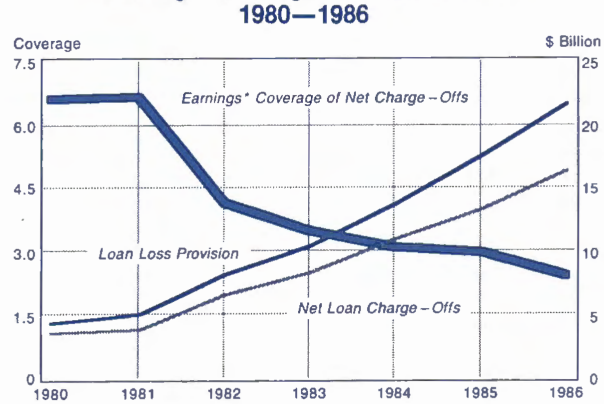
Falling interest rates also contributed to year-to-year reductions in both interest income and expense. Net

Commercial Bank Net Interest Margins 1983—1986



interest margins, which contracted 13 basis points for the year, were hurt by the 12.6 percent growth of nonperforming assets. Noninterest income made a larger contribution to earnings in 1986, growing nearly 16 percent. Noninterest expense grew roughly in line with assets, and as a result, net noninterest expense declined to 1.85 percent of assets from 1.88 percent in 1985. Most of this improvement was centered in the largest banks.

Loan-Loss Expense, Net Loan Charge-Offs and Earnings Coverage of Loan Losses 1980—1986



* Earnings are net operating earnings before loan loss provisions and taxes

Note: Left and right hand scales are not related.

Banks' loan-loss expense continued to be a drag on earnings. Provisions totalled $21.7 billion in 1986, up over $4 billion from year-ago levels — a 22.7 percent increase. They covered $16.3 billion in net loan

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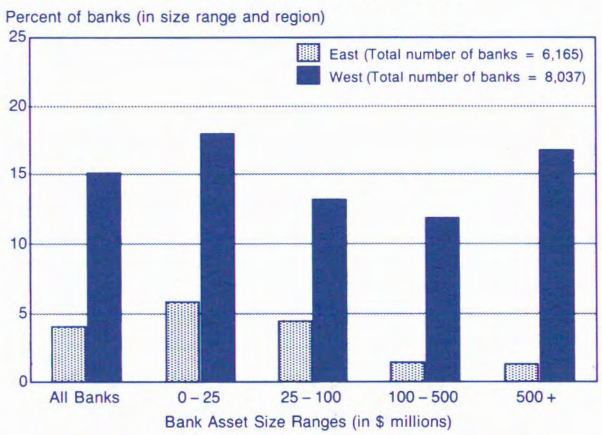
charge-offs, and still boosted loss reserves 23.6 percent during 1986. At year-end, the ratio of loss reserves to nonperforming assets stood at 50 percent, compared with 45 percent a year ago. Nonperforming assets ended the year at 1.96 percent of total assets, up from 1.87 percent in 1985.

The number of banks reporting losses (net income less than zero) in 1986 climbed to 2,784, or nearly 20 percent of all insured commercial banks, compared with 2,453 in 1985. In the fourth quarter, 4,354 banks reported a net loss, down from 4,395 in the same period of 1985. It should be noted that quarterly income and loss figures are affected by the fact that many banks concentrate loan loss provisions in the fourth quarter of each year.

Most (81.4 percent) of the unprofitable banks in 1986 were located west of the Mississippi. In general, banks in the eastern part of the U.S. have had better asset growth, better credit quality, higher profitability and fewer problem institutions or failures than their western counterparts. The influences of agricultural problems on smaller banks and energy-related problems on small and large banks in the west account for much of these differences.

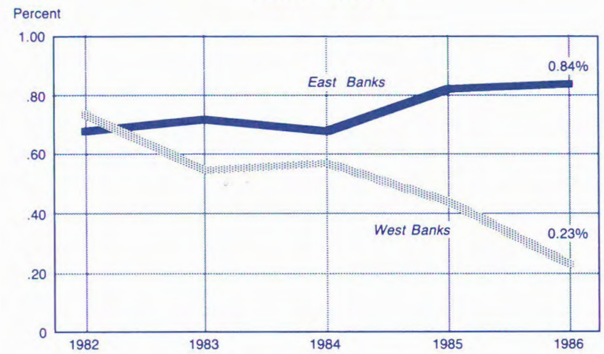
Distribution of Problem Banks by Asset Size and Region



Includes commercial banks on the FDIC "Problem List". East/West separated by Mississippi River.

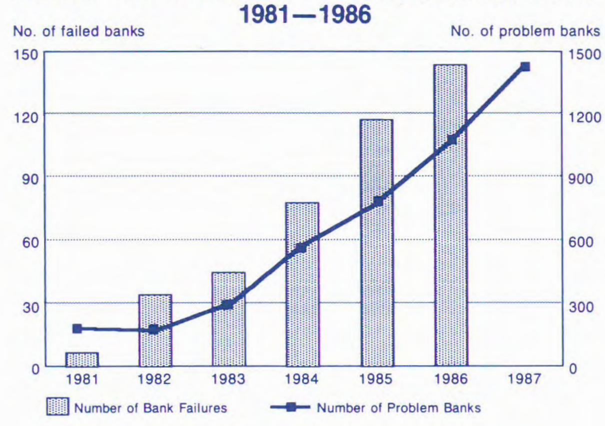
Banks in all three regions in the western half of the nation have seen their income reduced by exceptionally high loan losses. In the West region, these losses have centered around real estate and energy-related credits; banks in the Midwest region have been squeezed by losses stemming from depressed farm prices. The Southwest region has also had sizable losses associated with commercial real estate and agricultural problems, but loans to the energy sector have had the greatest negative impact. Despite the highest charge-off rate of any region in 1986, Southwest banks still were left with the highest level of nonperforming assets — over four percent of total assets — at year-end. Sixty-two of the 144 commercial banks that failed or received assistance in 1986 were in the Southwest. The region also had the highest proportion of unprofitable banks in 1986 — 35 percent — while the West region had the largest share of banks on the "problem" list. The Southeast, Northeast and Central regions had the fewest troubled institutions, and showed improving trends in this area.

Return on Average Assets, East vs. West 1982—1986



Continued growth in the number of "problem" banks, up 33 percent over 1985's level to 1,457 at year-end, suggests 1987 will see another substantial increase in the number of bank failures. For the banking industry, 1987 is likely to be marked by continued credit-quality problems among commercial and real-estate loans stemming from lingering weakness in the agricultural and energy sectors. Beyond the domestic portfolio, uncertainty has increased regarding LDC loans, although the level of exposure from these loans has fallen relative to bank capital.

Numbers of Problem and Failed Commercial Banks 1981—1986



NOTE: Number of problem banks represents those on the FDIC "Problem List" as of the beginning of the year.

Deteriorating domestic credit quality in general, as well as uncertainties surrounding LDC loan exposure, call for a guarded earnings outlook for 1987. It should be noted, however, that the banking industry has continued to augment its capital position. During 1986, total primary capital increased by 9.2 percent to $208 billion, the highest level ever. The ratio of primary capital to assets now stands at 7.04 percent, up from 6.97 percent a year ago.

U.S. COMMERCIAL BANKING INDUSTRY QUARTERLY PROFILE

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

	Preliminary 4th Qtr 1986	*3rd Qtr 1986*	*4th Qtr 1985*	*% Change 85:4-86:4*
Number of banks reporting	14,181	14,306	14,404	-1.5
Total employees (full-time equivalent)	1,562,433	1,568,231	1,561,698	0.0
CONDITION DATA				
Total Assets	$2,938,400	$2,801,855	$2,730,498	7.6
Real estate loans	514,001	486,839	438,426	17.2
Commercial & industrial loans	600,871	572,084	577,738	4.0
Loans to individuals	335,441	326,102	308,930	8.6
Farm loans	31,686	34,204	36,107	-12.2
Other loans and leases	272,750	263,913	269,581	1.2
Total loans and leases	1,754,749	1,683,142	1,630,782	7.6
LESS: Reserve for losses	28,701	27,252	23,216	23.6
Net loans and leases	1,726,048	1,655,890	1,607,566	7.4
Temporary investments	463,644	450,889	451,700	2.6
Securities over 1 year	367,249	343,163	303,381	21.1
All other assets	381,459	351,913	367,851	3.7
Total liabilities and capital	$2,938,400	$2,801,855	$2,730,498	7.6
Noninterest-bearing deposits	532,211	446,555	471,340	12.9
Interest-bearing deposits	1,748,603	1,713,022	1,646,436	6.2
Other borrowed funds	358,809	339,243	320,366	12.0
Subordinated debt	16,888	16,500	14,659	15.2
All other liabilities	99,394	107,012	108,497	-8.4
Equity capital	182,495	179,523	169,200	7.9
Nonperforming assets	57,526	58,749	51,090	12.6
Loan commitments and letters of credit	750,935	745,697	728,546	3.1
Domestic office assets	2,529,385	2,385,749	2,325,024	8.8
Foreign office assets	409,015	416,106	405,474	0.9
Domestic office deposits	1,967.019	1,834,817	1,795,932	9.5
Foreign office deposits	313,795	324,760	321,844	-2.5

INCOME DATA	*Prelim. Full Year 1986*	*Full Year 1985*	*% Change*	*Prelim. 4th Qtr 1986*	*4th Qtr 1985*	*% Change*
Total interest income	$237,661	$248,210	-4.3	$57,655	$62,479	-7.7
Total interest expense	142,691	157,300	-9.3	33,451	38,758	-13.7
Net interest income	94,970	90,910	4.5	24,204	23,721	2.0
Provisions for loan losses	21,738	17,717	22.7	6,621	6,146	7.7
Total noninterest income	35,869	31,037	15.6	9,834	8,702	13.0
Total noninterest expense	90,094	82,320	9.4	24,052	22,161	8.5
Applicable income taxes	5,397	5,644	-4.4	554	959	-42.2
Net operating income	13,610	16,266	-16.3	2,811	3,157	-11.0
Securities gains, net	3,927	1,567	150.6	944	386	144.6
Extraordinary gains, net	270	224	20.5	57	-5	1240.0
Net Income	17,807	18,057	-1.4	3,812	3,538	7.7
Net charge-offs	16,342	13,245	23.4	5,250	4,944	6.2
Net additions to capital stock	3,192	2,395	33.3	2,205	1,651	33.6
Cash dividends on capital stock	9,208	8,529	8.0	3,226	2,844	13.4

Selected Performance and Condition Indicators, FDIC-Insured Commercial Banks

	1982	*1983*	*1984*	*1985*	*1986*
Return on assets	0.71%	0.66%	0.65%	0.70%	0.64%
Return on equity	12.11	10.70	10.73	11.31	10.18
Equity capital to assets	5.87	6.00	6.15	6.20	6.21
Nonperforming assets to assets	1.85	1.97	1.97	1.87	1.96
Net charge-offs to loans	0.56	0.67	0.76	0.84	0.99
Asset growth rate	8.12	6.75	7.11	8.86	7.62
Net operating income growth	-0.62	-3.69	3.40	6.30	-16.20
Number of unprofitable banks	1,196	1,530	1,891	2,453	2,784
Number of problem banks	326	603	800	1,098	1,457
Number of failed banks	34	45	78	118	144

Preliminary Bank Data and Performance and Condition Ratios, Distributed by Asset Size and by Region, Fourth Quarter 1986 *(Dollar figures in billions, ratios in %)*

		Asset Size Distribution						Geographic Distribution					
								EAST			WEST		
	All Banks	Less than $25 Million	$25-100 Million	$100-300 Million	$300-1,000 Million	$1-10 Billion	Greater than $10 Billion	Northeast Region	Southeast Region	Central Region	Midwest Region	Southwest Region	West Region
Number of banks reporting	14,181	4,813	6,581	1,899	549	306	33	1,080	1,950	3,122	3,315	3,135	1,579
Total assets	$2,938.4	$71.0	$333.5	$304.4	$276.2	$897.9	$1,055.4	$1,133.4	$380.7	$463.6	$205.1	$301.7	$453.9
Total deposits	2,280.7	63.0	298.9	268.7	232.3	680.8	737.1	826.2	304.2	370.9	160.1	246.2	373.1
% of total banks	100.0%	33.9%	46.4%	13.4%	3.9%	2.2%	0.2%	7.6%	13.8%	22.0%	23.4%	22.1%	11.1%
Asset share (%)	100.0	2.4	11.3	10.4	9.4	30.6	35.9	38.6	13.0	15.8	7.0	10.3	15.4
Deposit share (%)	100.0	2.8	13.1	11.8	10.2	29.8	32.3	36.2	13.3	16.3	7.0	10.8	16.4
Number of unprofitable banks	4,354	2,082	1,814	357	79	22	0	118	411	572	1,172	1,513	568
Number of failed banks	37	18	17	1	1	0	0	0	1	0	11	17	8
Performance ratios *(annualized)*													
Yield on earning assets	9.38%	10.10%	9.82%	9.68%	10.12%	9.11%	9.14%	9.15%	9.83%	9.20%	9.93%	8.92%	9.82%
Cost of funding earning assets	5.44	5.47	5.45	5.32	5.49	5.08	5.77	5.54	5.37	5.37	5.66	5.57	5.15
Net interest margin	3.94	4.63	4.37	4.37	4.63	4.03	3.37	3.61	4.47	3.83	4.27	3.35	4.67
Net noninterest expense to earning assets	2.31	3.66	2.99	2.73	2.81	2.32	1.73	1.92	2.78	2.28	2.03	2.60	2.92
Net operating income to assets	0.40	-0.66	-0.00	0.33	0.28	0.59	0.48	0.64	0.68	0.65	0.46	-1.30	0.32
Return on assets	0.54	-0.48	0.17	0.47	0.42	0.72	0.63	0.76	0.88	0.74	0.63	-1.04	0.42
Return on equity	8.46	-4.99	2.04	6.27	6.09	11.86	12.09	12.88	13.18	10.71	8.55	-15.67	7.38
Net charge-offs to loans and leases	1.24	2.99	2.24	1.62	1.62	0.95	1.01	0.74	0.90	0.96	2.48	3.26	1.37
Condition Ratios													
Loss reserve to loans and leases	1.64%	1.74%	1.53%	1.46%	1.59%	1.46%	1.83%	1.49%	1.29%	1.44%	1.93%	2.26%	1.86%
Nonperforming assets to assets	1.96	2.60	2.17	1.88	1.90	1.46	2.29	1.54	1.02	1.30	2.02	4.06	2.99
Equity capital ratio	6.21	9.59	8.16	7.28	6.74	5.95	5.14	5.81	6.57	6.80	7.15	6.46	5.68
Primary capital ratio	7.04	10.42	8.91	7.97	7.51	6.60	6.19	6.58	7.07	7.52	8.11	7.69	6.74
Net loans and leases to assets	58.74	48.20	50.49	54.43	59.25	60.45	61.69	59.62	57.58	56.16	51.88	55.00	65.69
Net assets repriceable in one year or less to assets	-5.14	-5.28	-7.25	-6.60	-6.52	-3.76	-4.87	-4.20	-9.35	-3.49	-10.88	-6.32	-2.28
Growth Rates *(from year-ago quarter)*													
Assets	7.6%	6.3%	8.0%	10.8%	12.6%	16.0%	6.7%	11.9%	18.2%	9.2%	14.4%	0.8%	9.0%
Earning assets	7.9	6.4	7.9	10.5	12.2	16.1	7.4	12.9	18.6	8.7	14.6	0.9	8.1
Loans and leases	7.6	4.1	5.0	9.1	13.7	18.1	7.3	13.5	18.8	9.9	11.5	-2.5	10.2
Loss reserve	23.6	15.3	17.2	23.3	31.7	30.8	29.0	24.2	22.2	15.8	33.0	44.0	35.7
Net charge-offs	6.2	2.1	1.9	21.9	45.6	34.2	2.3	25.3	10.4	4.0	-1.3	29.2	-10.4
Nonperforming assets	12.6	14.2	15.9	18.5	33.4	18.0	16.5	11.4	20.3	-4.4	4.7	57.1	18.5
Deposits	7.6	7.2	8.6	11.4	13.6	15.8	6.9	13.0	18.7	9.1	12.5	0.1	10.2
Equity capital	7.9	0.5	5.4	8.3	10.7	15.8	10.2	14.5	17.9	9.2	10.1	-6.1	12.4
Interest income	-7.7	-6.2	-5.4	-2.8	0.3	0.2	-11.5	-5.8	-1.4	-6.6	-9.4	-15.4	-10.8
Interest expense	-13.7	-10.2	-9.1	-7.4	-6.3	-7.5	-17.2	-13.3	-6.2	-12.0	-12.7	-16.1	-19.0
Net interest income	2.0	-0.7	-0.0	3.6	9.4	11.8	0.5	8.5	5.0	2.6	-4.8	10.1	0.6
Loan loss expense	7.7	-16.3	-5.7	22.1	33.5	30.6	12.5	42.4	-2.3	-8.5	-17.6	26.5	-8.9
Noninterest income	13.0	9.2	7.9	18.9	18.7	8.3	22.9	11.9	9.0	10.0	42.6	-0.2	15.8
Noninterest expense	8.5	2.9	5.3	8.2	14.1	14.1	13.4	13.1	9.6	6.5	8.0	3.4	5.1
Net operating income	-11.0	19.9	-94.6	-33.7	-51.3	-19.9	17.4	-4.8	-7.7	4.6	94.0	-317.2	448.1
Net income	7.7	32.2	3.9	-17.3	-33.8	-3.1	31.9	9.5	16.1	6.5	126.0	-587.2	222.5

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

NOTES TO USERS

Computation Methodology for Performance and Condition Ratios

All income figures used in calculating performance ratios represent amounts for that quarter, annualized.

All asset and liability figures used in calculating performance ratios represent *average* amounts (beginning-of-period amount plus end-of-period amount, divided by two).

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

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 but before gains (or losses) from securities transactions and nonrecurring items. The profit earned on banks' regular banking business.

Return on Assets — net income (including securities transactions and nonrecurring items) as a percentage of average total assets. A 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 due to uncollectibility, less amounts recovered on previous charge-offs.

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

Primary Capital — total equity capital plus the allowance for loan and lease losses plus minority interests in consolidated subsidiaries plus qualifying mandatory convertible debt, 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.

Net Assets Repriceable in One Year or Less — short-term and variable rate interest-earning assets, minus interest-bearing liabilities maturing or repriceable within the same one-year interval. A measure of banks' sensitivity to interest rate changes, where a positive value indicates that banks' income from assets is more sensitive to movements in interest rates than is the expense of their liabilities, and vice-versa for a negative value.

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. These are banks' more liquid investments.

Loan Loss Expense — the addition to the allowance for loan and lease losses, the reserve maintained to absorb expected loan losses.

Additional information regarding bank performance, bank failures and economic issues affecting the banking industry is available in the *Banking and Economic Review,* published by the Division of Research and Strategic Planning, FDIC. Information on legislative issues and changes in state and federal laws and regulations governing banks is contained in the *Regulatory Review,* also published by the Division of Research and Strategic Planning. Single-copy subscriptions are available to the public free of charge. Requests should be mailed to:

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