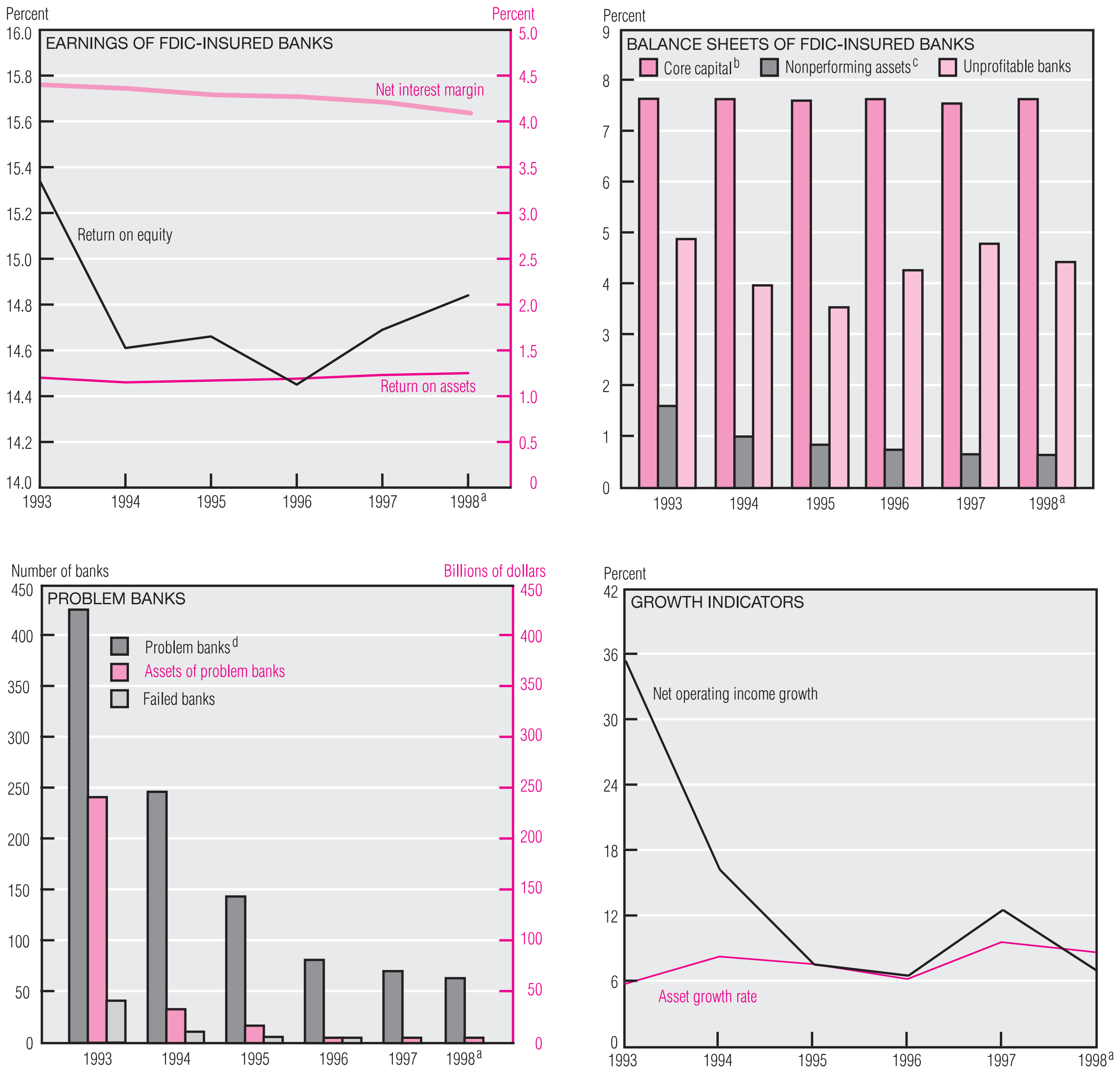
Banking Conditions



a. Data are for first half of 1998.
b. Common equity capital, noncumulative perpetual preferred stock, and minority interest in consolidated subsidiaries, less goodwill and other ineligible intangible assets, as a percent of total assets.
c. Noncurrent assets plus other real estate owned as a percent of total assets.
d. Banks defined by the FDIC as having financial, operational, or managerial weaknesses that threaten their continued financial viability.
NOTE: All data are for FDIC-insured commercial banks.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile,* June 1998.

Balance sheets of insured banks show continued health. During the first half of 1998, bank profitability remained strong, with the net interest margin hovering above 4% and return on equity exceeding 14.8%. For the same period, more than 95% of commercial banks posted positive profits. Core bank capital is another indicator of strength: For the fifth straight year the core capital ratio—defined as common equity capital, noncumulative perpetual preferred stock, and minority interest in consolidated subsidiaries, less goodwill and other intangible assets, as a percent of total assets—exceeded 7.5%. Asset quality also appears to be improving, with nonperforming assets falling to 0.65% of total assets.

Another sign of a robust banking industry is the decline in problem banks. From 1993 to 1998, the number of such banks declined from 426 to 64. Over the same period, assets held by problem banks fell from $242 billion to $5 billion. There have been virtually no bank failures for the past three years.

Finally, for the same three-year period, bank assets and net operating income have grown 6% to 12% annually. The banking sector should continue to grow at current rates without compromising the recent trend in profitability or, more importantly, the improved quality of its assets.

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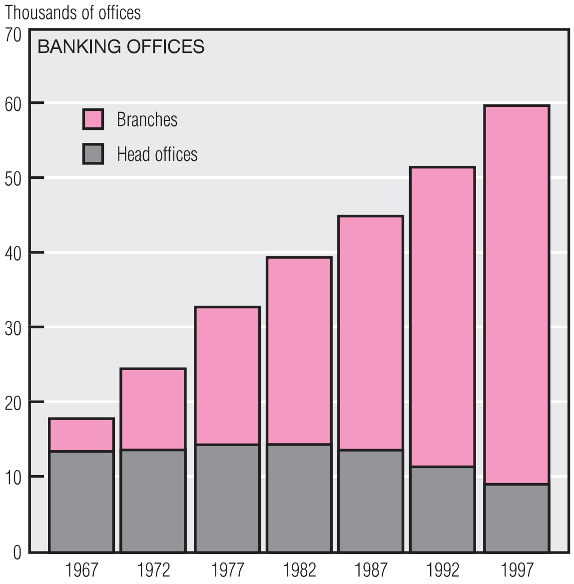
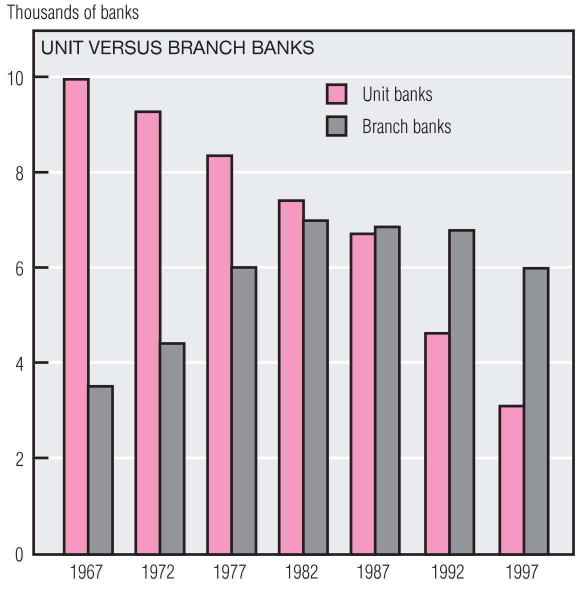
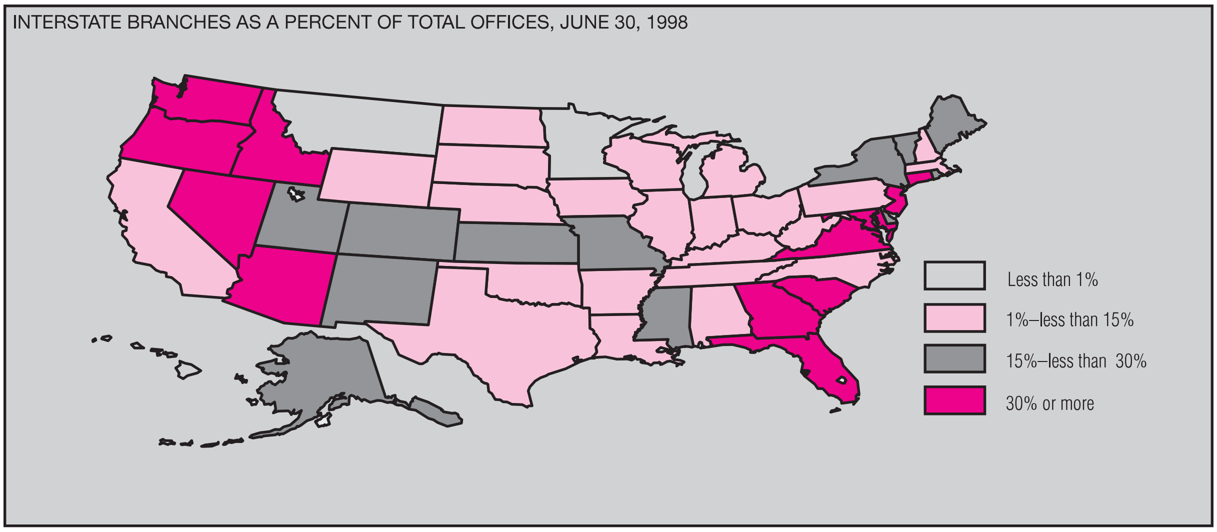
Banking Conditions (cont.)







NOTE: All data are for FDIC-insured commercial banks.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile,* June 1998.

Passage of the 1994 Reigle–Neal Interstate Banking and Branching Efficiency Act has further accelerated the banking industry's consolidation. The number of U.S. banks has declined from 13,506 in 1967 to 9,125 in 1997. Yet, even as that number has fallen, the number of banking offices has risen from 30,371 to 68,898. This tally does not include alternative vehicles for delivering banking services, such as automated teller machines, telephone banking, and online banking. Thus, while the number of banks continues to decline, the availability of banking services arguably has increased for the average consumer.

Despite the relaxation of intrastate and interstate restrictions over the past two decades, unit banks continue to play an important role as an organizational form in the banking industry. Of the 9,125 banks in existence in 1997, over one-third had only a single banking office.

However, consolidation continues apace elsewhere in the industry, as evidenced by the large number of states reporting that more than 15% of their bank branches belong to out-of-state banks. This number undoubtedly will continue to grow as institutions such as Bank of America and NationsBank, both prominent interstate players, continue to consolidate.