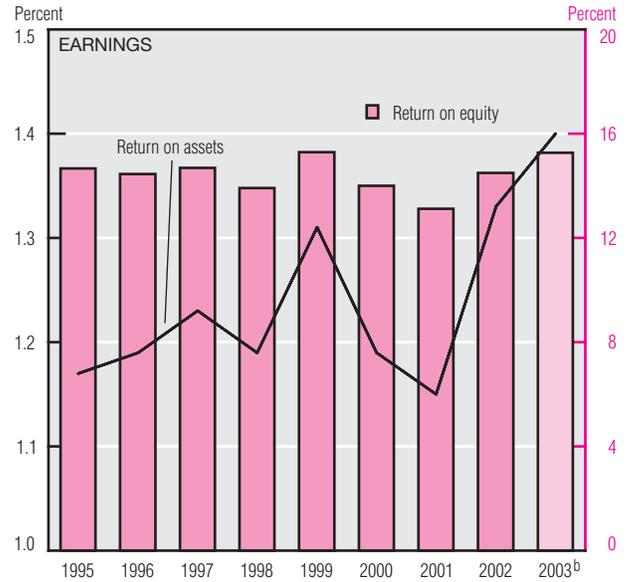
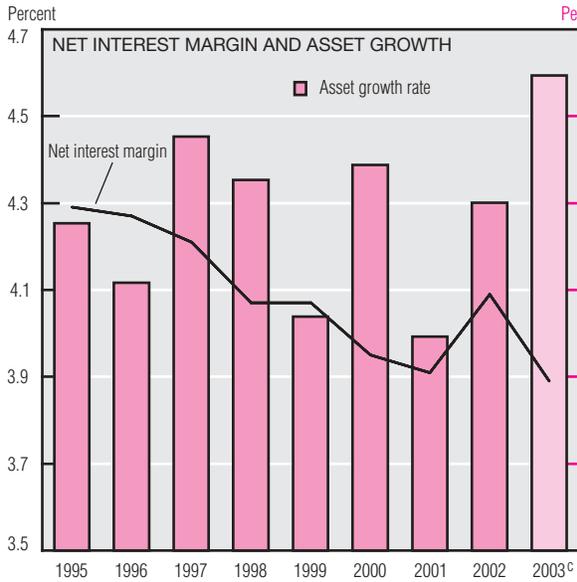
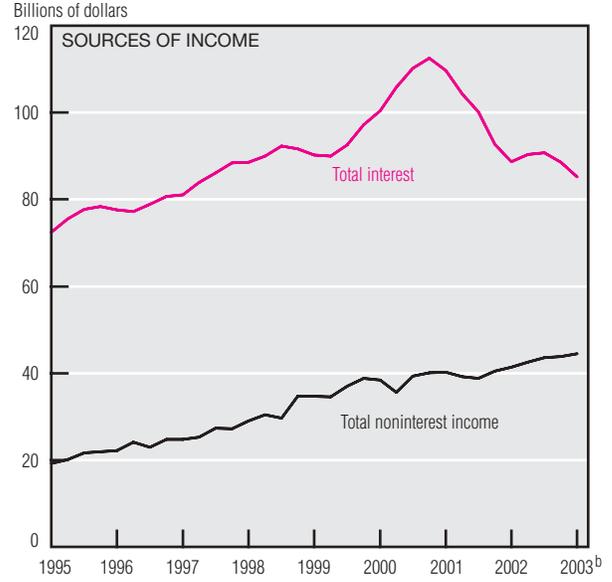
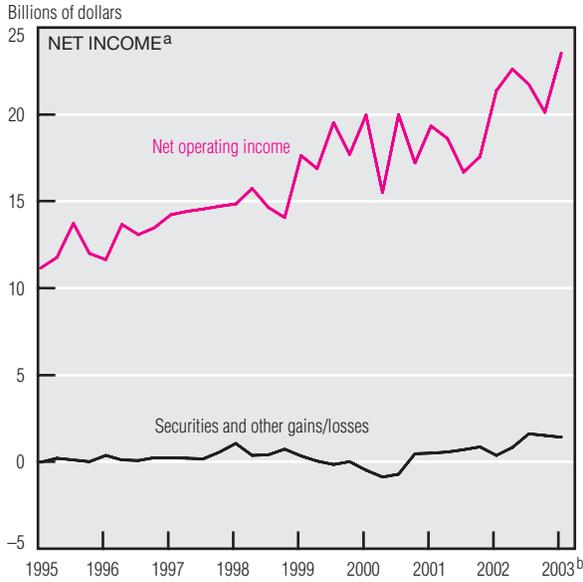


Depository Institutions



a. Net income equals net operating income plus securities and other gains and losses.
 b. Annualized data.
 c. For 12 months ending March 31.
 SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

FDIC-insured depository institutions' net operating income recovered energetically from the dip it took in 2002:IVQ. By the end of 2003:IQ, it was up to \$23.5 billion; this was an increase of 16.9% from the previous quarter and 10.1% from the same quarter a year earlier. Net income, the sum of net operating income plus securities gains and losses, was also up 14.9% from the same quarter of 2002. Declining credit losses and substantial gains on securities sales promoted overall earnings growth.

Depository institutions' total interest income declined slightly from

2002:IVQ to 2003:IQ, when it had dropped to \$85 billion. Falling interest rates brought the number significantly lower than the \$113 billion posted in 2000:IVQ. Total noninterest income continued to grow in 2003:IQ and was 7.4% higher than the same quarter a year earlier, another sign that the earnings pressures that affected banks during the 2001 recession are finally abating.

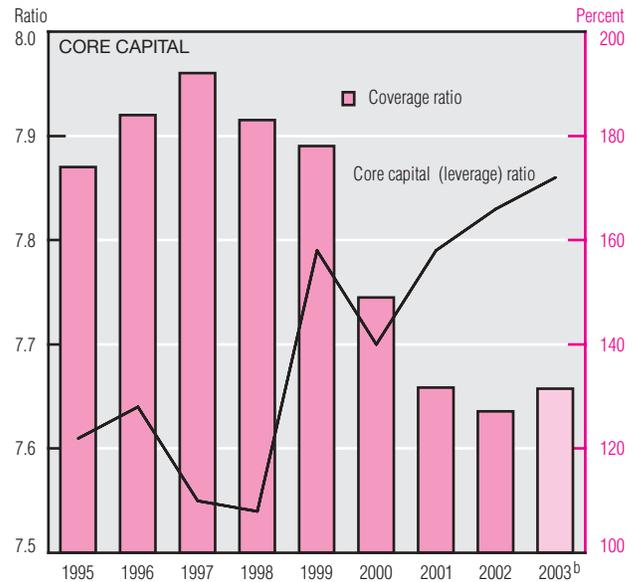
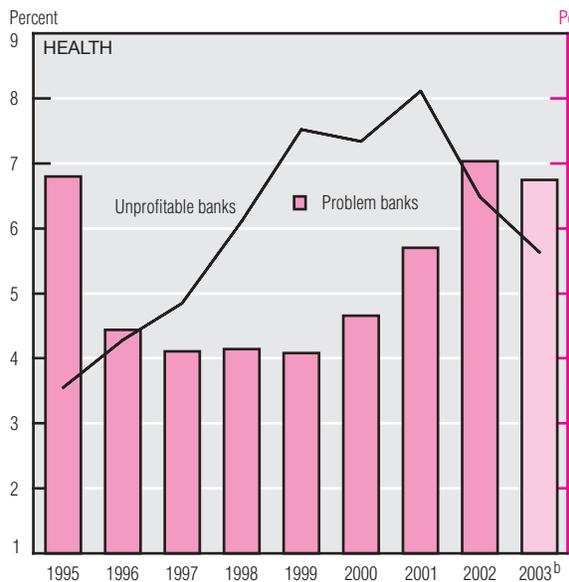
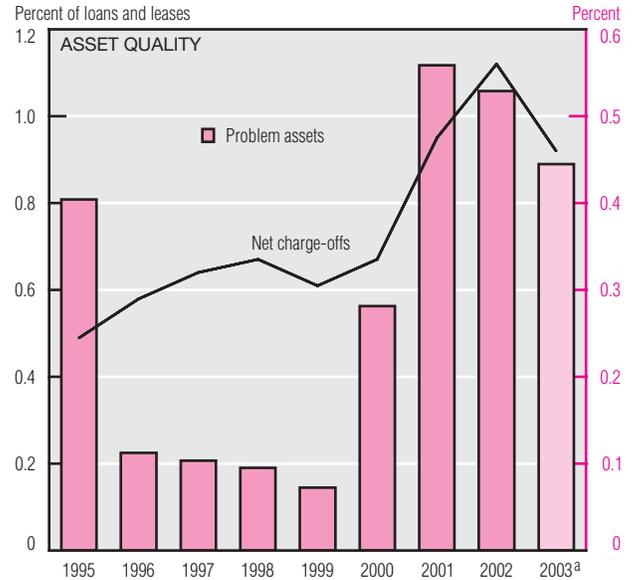
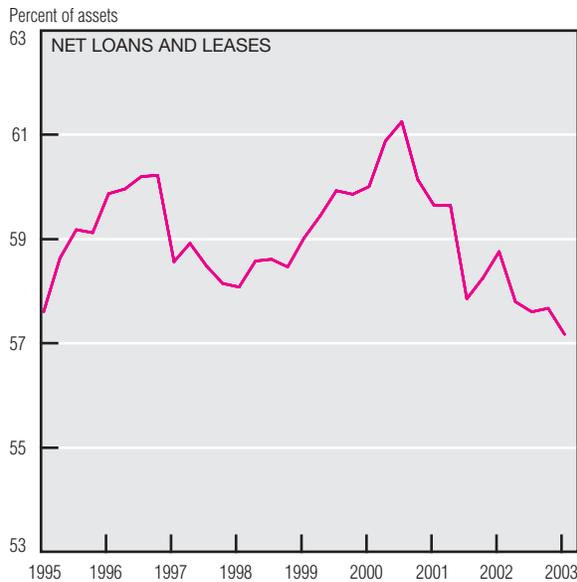
Despite improved overall earnings, the net interest margin reversed its recent upward trend, resuming a decade-long descent. Net interest margin is interest plus dividends

earned on interest-bearing assets minus interest paid to depositors and creditors, expressed as a percentage of average earning assets. It declined from 4.09% in 2002:IQ to 3.89% in 2003:IQ.

Low interest rates are one reason for the shrinking margins; another reason, just as important, is the staggering growth of assets to 10.9% (annualized) in 2003:IQ, the highest in almost a decade. Even with strong asset growth, depository institutions showed overall improvement in earnings. Their return on assets rose to

(continued on next page)

Depository Institutions (cont.)



a. Net charge-offs are annualized.

b. First-quarter data.

SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

1.4%, the highest level since 1989, and their return on equity to 15.3%, the highest level since 1999.

Net loans and leases as a share of total assets decreased slightly from 58.8% in 2002:IQ to 57.2% in 2003:IQ. Net loans and leases grew 8.0%, but total assets grew 10.9%, so the year-over-year ratio decreased slightly. Although the first quarter's 57.2% ratio was well below the recent high of 61.3% in 2000:IIIQ, lending was brisk, partly because low interest rates stimulated refinancing activity.

Asset quality showed signs of improvement. Net charge-offs (loans and leases removed from balance sheets because of uncollectibility, minus recoveries) fell to 0.9% of total loans, the first drop since 1999. Problem assets (nonperforming loans and repossessed real estate) as a share of loans and leases fell to 0.44% from 0.53% in 2002. The improvement in asset quality was caused by the lower debt-servicing costs that resulted from refinancing at lower interest rates, as well as aggressive tightening of lending standards.

Better asset quality is also reflected in the decline of unprofitable institutions to 5.6% in the first quarter. Problem banks (those with substandard exam ratings) as a share of total banks fell to 1.4%. The coverage ratio (prudential reserves as a share of noncurrent loans and leases) rose to 131% in the first quarter from 127% at the end of 2002, the first increase since 1997. Core capital, which protects depository institutions against unexpected losses, remained flat at 7.86%. All of these performance indicators point to a strengthening banking sector.