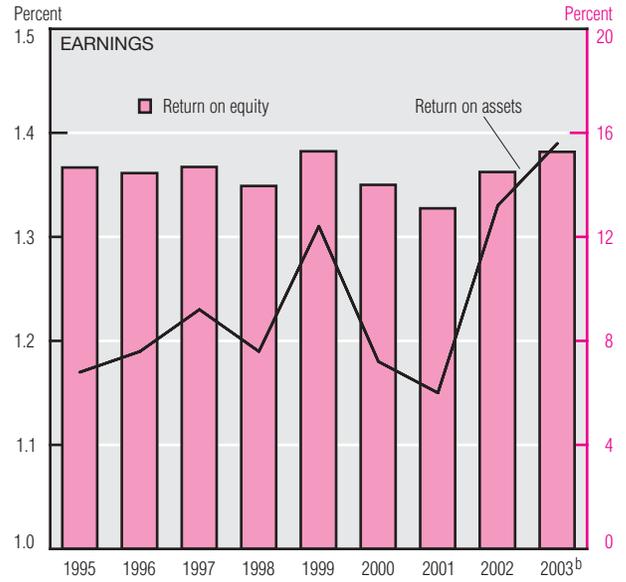
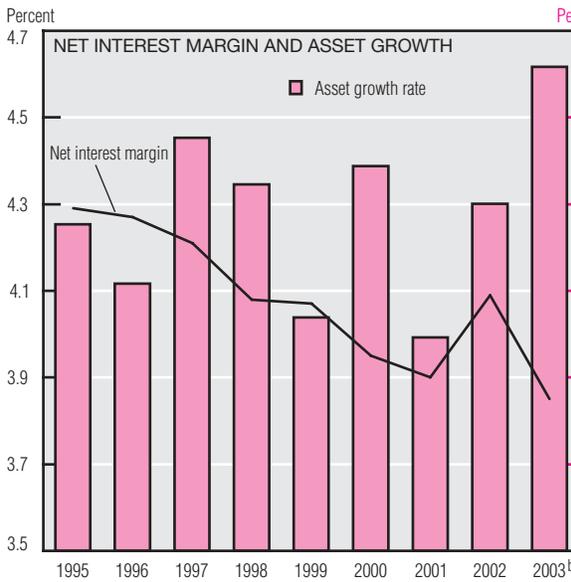
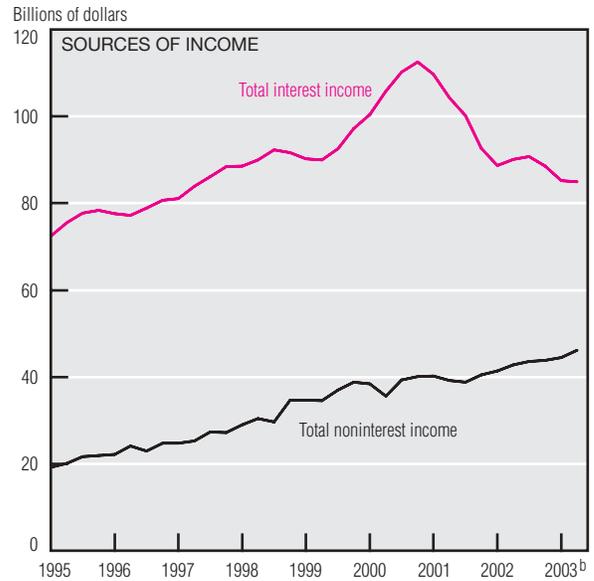
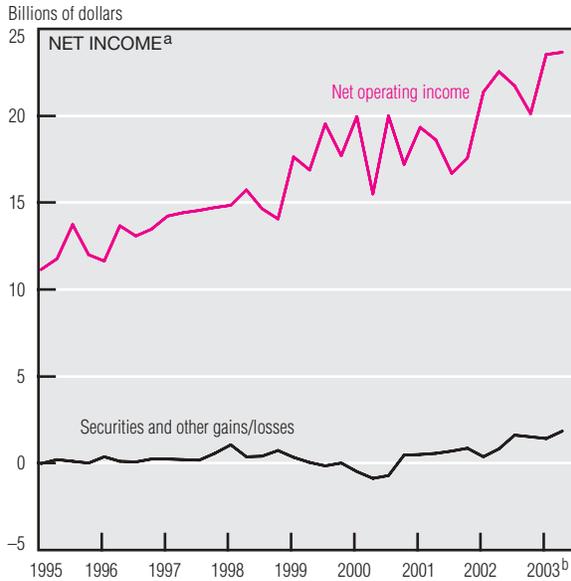


# FDIC-Insured Commercial Banks



a. Net income equals net operating income plus securities and other gains and losses.  
 b. Through 2003:IIQ. Data are annualized.  
 SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

In 2003:IIQ, FDIC-insured commercial banks' net operating income improved slightly from the previous quarter and recovered strongly from its dip in 2002:IVQ. Compared to the second quarter of last year, it was up 5.0%. Net income (net operating income plus securities gains and losses) also improved, increasing 9.2% from a year ago. Lower credit losses and substantial gains on securities sales fuelled overall earnings growth.

Commercial banks' total interest income, \$85 billion, was unchanged

from the previous quarter. Falling interest rates made this figure significantly lower than the \$113 billion reported in 2000:IVQ. Total noninterest income continued to grow, rising 7.9% from a year ago, another sign that the earnings pressures affecting banks during the 2001 recession are finally abating.

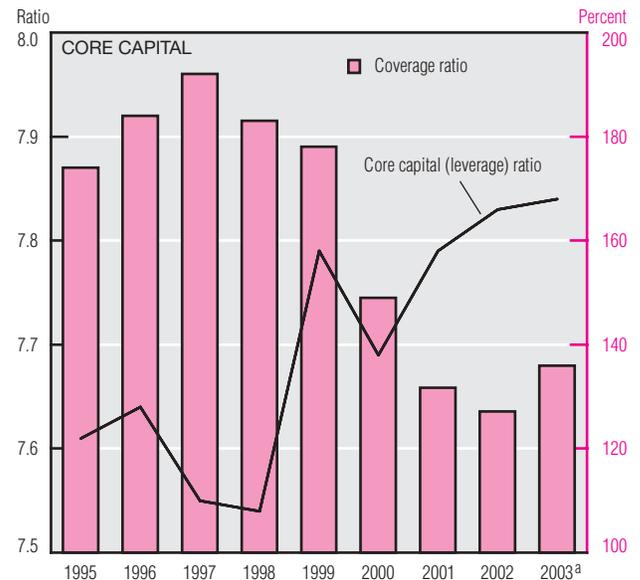
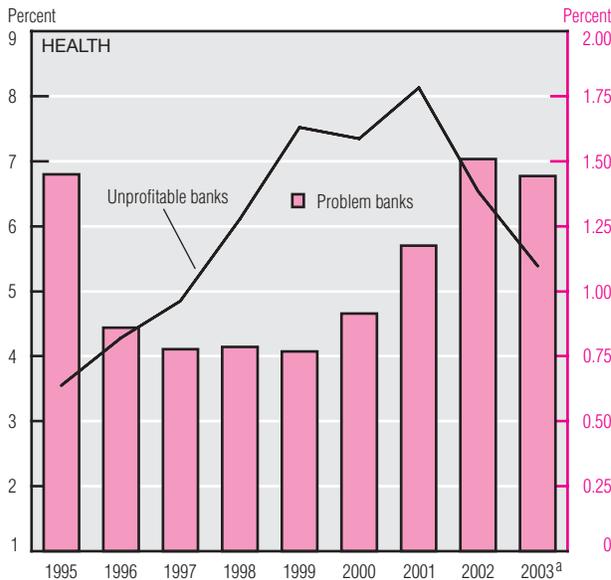
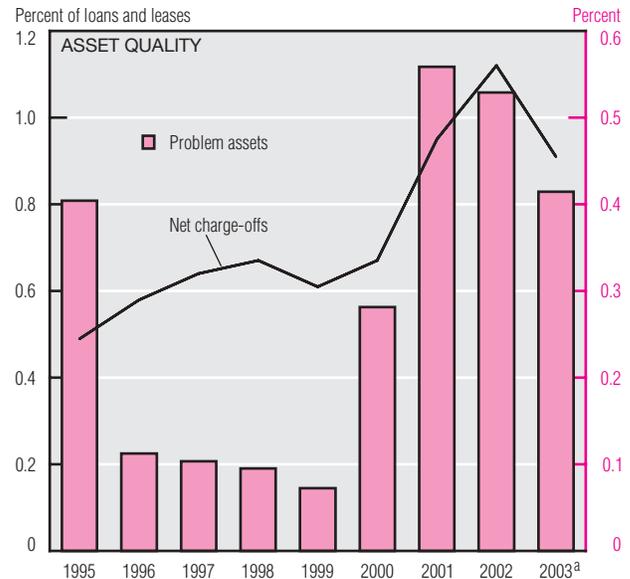
Overall earnings (interest plus dividends earned on interest-bearing assets minus interest paid to depositors and creditors, expressed as a percentage of average earning assets)

improved, even though the net interest margin declined from 4.09% in 2002 to 3.85% in 2003:IIQ.

Low interest rates are one cause of shrinking margins, but strong asset growth is just as important. FDIC-insured commercial banks' assets grew an annualized 11.7% in 2003:IIQ, the best showing in almost a decade. But even with near-record asset growth, depository institutions' 1.4% return on assets was the highest since 1989. At 15.3%, return on equity was also at its highest level since 1999.

(continued on next page)

## FDIC-Insured Commercial Banks (cont.)



a. Through 2003:IIQ. Data are annualized.  
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

In 2003:IIQ, FDIC-insured commercial banks' net loans and leases fell slightly to 56.3% of total assets from 57.8% a year ago. Net loans and leases rose 8.4%, but total assets grew 11.2%, producing a slightly lower year-over-year ratio. Although the ratio was well below the 2000:IIIQ high of 61.3%, lending was brisk in 2003:IQ, partly because low interest rates boosted refinancing activity.

Asset quality showed signs of improvement in 2003:IIQ. Net charge-offs (uncollectible loans and leases

removed from the balance sheet, minus recoveries) fell to 0.9% of total loans, the first decrease since 1999. Problem assets (nonperforming loans and repossessed real estate) fell to 0.41% of loans and leases from 0.53% at the end of 2002. Improved asset quality reflects the lower debt-servicing costs that result from refinancing at lower interest rates and aggressive tightening of lending standards.

FDIC-insured commercial banks' improved asset quality is also apparent in the decline of unprofitable

institutions to a 5.4% share in 2003:IIQ. Problem banks (those with substandard exam ratings) fell to a 1.4% share of all banks. The coverage ratio (prudential reserves as a share of noncurrent loans and leases) rose from 127% at the end of 2002 to 136% in 2003:IIQ, the first increase since 1997. Core capital, which protects commercial banks against unexpected losses, remained flat at 7.84%. All of these performance indicators point to strengthening in the banking sector.