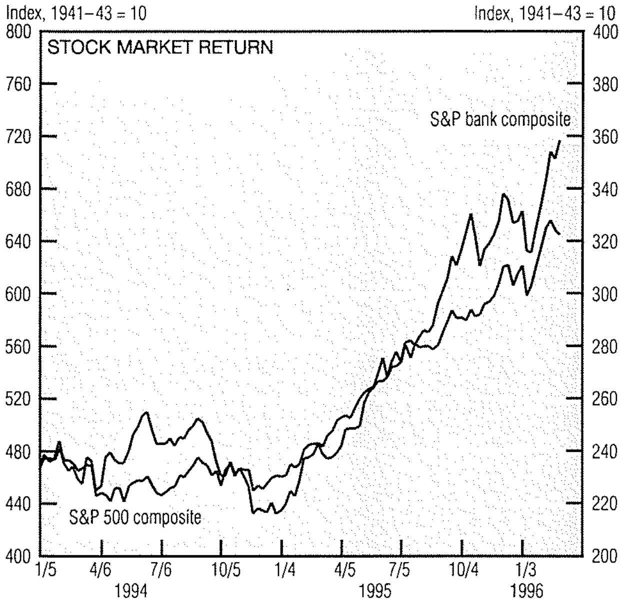
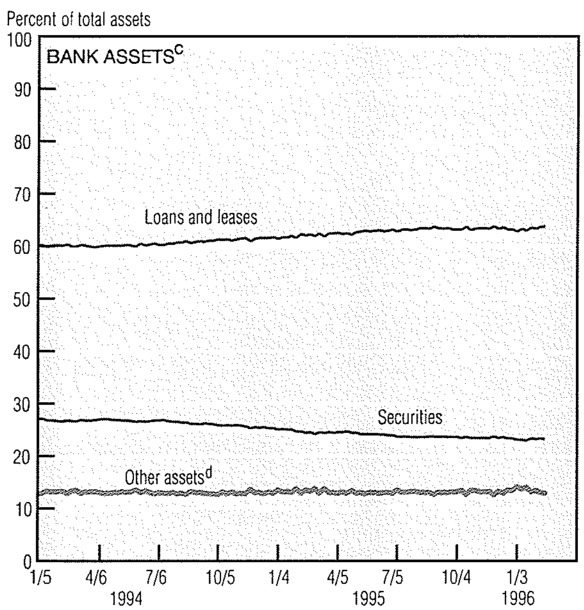
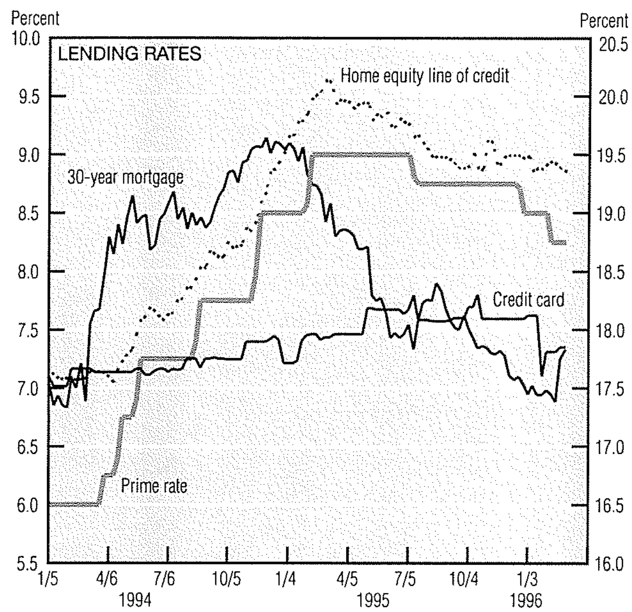
Banking Conditions



Selected Bank Performance Indicators[a]
(Percent)

	1995[b]	1994
Return on assets	1.19	1.15
Return on equity	14.96	14.61
Net interest margin	4.31	4.36
Net charge-offs to loans	0.45	0.50
Asset growth rate	7.81	8.21





a. Data are for FDIC-insured commercial banks.
b. 1995 data are for the first three quarters of the year and are annualized.
c. Data are for domestically chartered commercial banks in the U.S.
d. Includes interbank loans, cash assets, and all other assets.
SOURCES: Standard & Poor's Corporation; Federal Deposit Insurance Corporation; Board of Governors of the Federal Reserve System; and *Bank Rate Monitor.*

The market return on bank stocks grew at a breakneck pace in 1995, with the Standard & Poor's bank composite index increasing a whopping 52.57% for the year; in comparison, the overall S&P 500 composite index rose 34.86%. Several standard commercial-bank performance indicators also paint a picture of a healthy financial sector. Average return on assets and average return on equity both remain strong, while preliminary data indicate that the ratio of net charge-offs to loans fell 10% from 1994. Bank assets continued to expand at a healthy pace, if somewhat more slowly than last year.

This strong performance has come in spite of generally declining interest rates and a falling net interest margin. Following sharp increases throughout 1994, rates on 30-year mortgages and home equity lines of credit both decreased steadily throughout 1995. The prime rate has also fallen 75 basis points from its February 1995 high of 9%. As is typical, credit card rates have remained relatively steady.

These lower rates have contributed to strong loan growth, with net loans and leases expanding 12.3% between the third quarters of 1994 and 1995. As a result, the composition of bank assets has recently shifted toward loans and leases and away from securities and other assets.