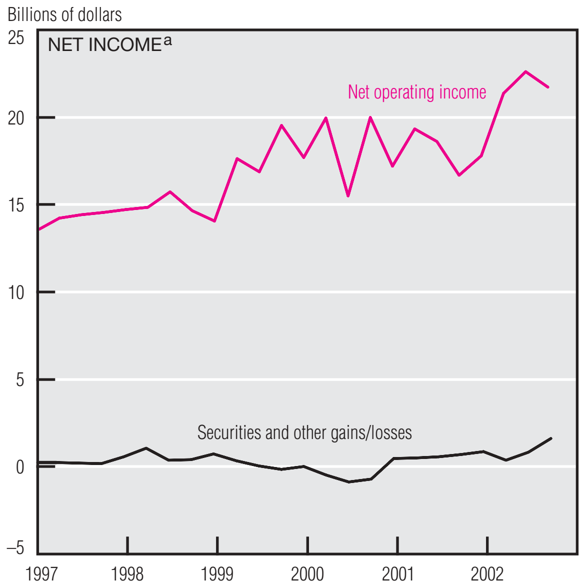
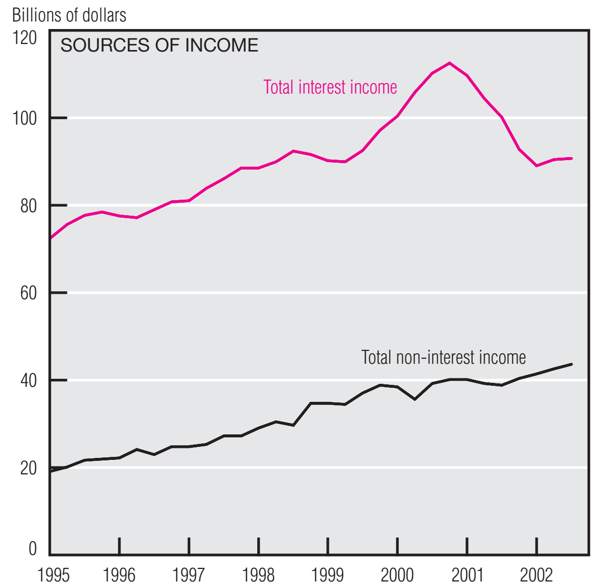
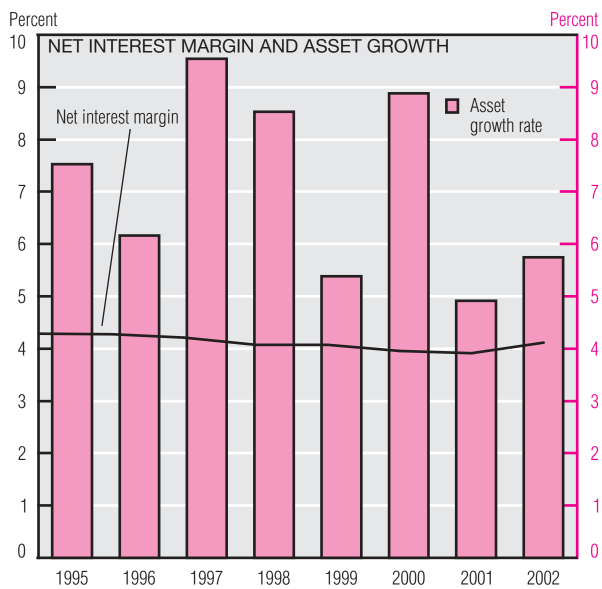
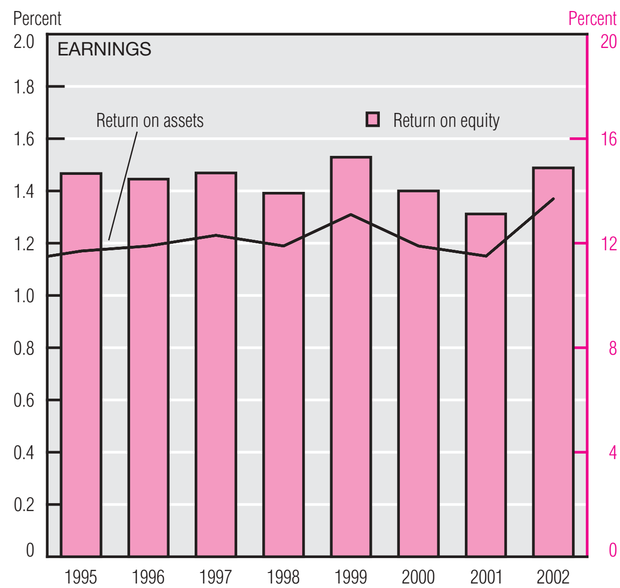
Depository Institutions









NOTE: Observations for 2002 are third-quarter annualized data.
a. Net income equals net operating income plus securities and other gains and losses.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

In 2002:IIIQ, FDIC-insured depository institutions' net operating income declined 3.9% from the previous quarter to $21.7 billion. However, it was still 21.7% higher for the first three quarters of 2002 than for the same period a year earlier. Net income, the sum of net operating income and securities gains and losses, was essentially flat in 2002:IIIQ at $23.3 billion.

Depository institutions' total interest income increased slightly to $91 billion in 2002:IIIQ, marking two consecutive quarterly improvements for the first time since 2000. Total non-interest income, however, continued to grow and was 12.3% higher than a year ago. Both measures indicate that the earnings pressures that tormented banks in the second and third quarters of 2001 are finally abating.

Commercial banks' strong earnings performance is apparent again in the net interest margin, interest plus dividends earned on interest-bearing assets minus interest paid to depositors and creditors (expressed as a percentage of average earning assets). During 2002:IIIQ, the net interest margin rose to 4.11%, the highest level since 1997. Income growth offset assets' 5.75% growth, raising depository institutions' return on assets to 1.37%, the highest since 1989. Third-quarter annualized return on equity, at 14.88%, was the highest since 1999.

Net loans and leases as a share of total assets fell from 57.8% in 2002:IIQ to 57.6% in 2002:IIIQ.

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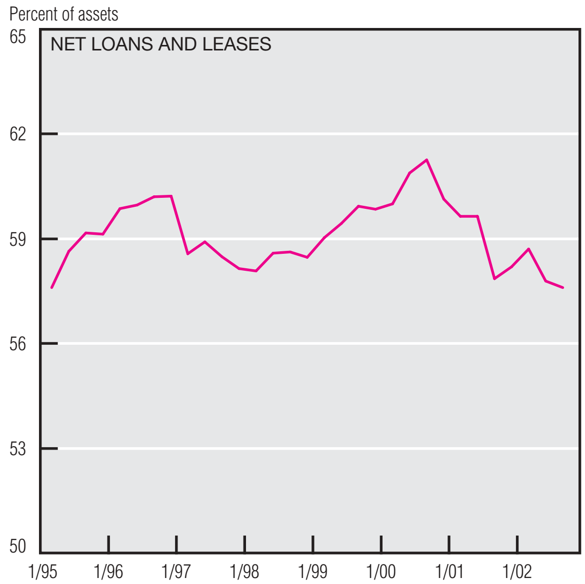
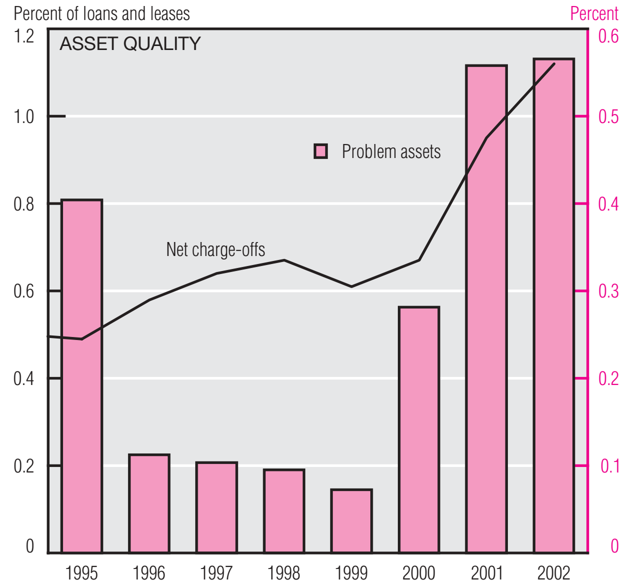
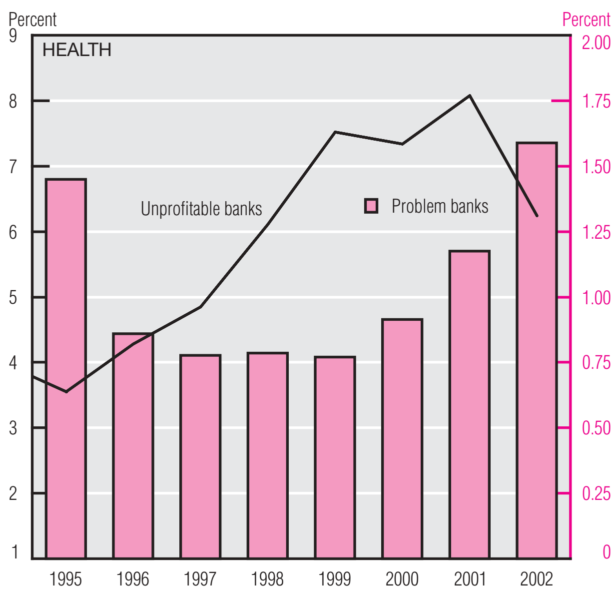
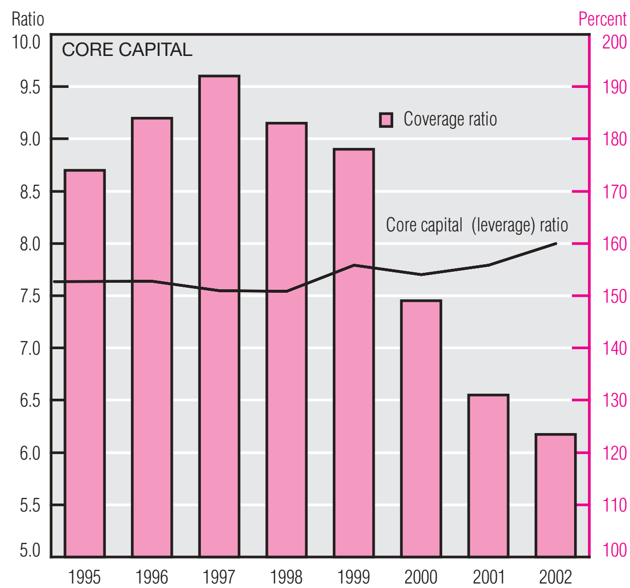
Depository Institutions *(cont.)*









NOTE: Observation for 2002 is third-quarter annualized data.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

Although net loans and leases grew at a 2.7% rate, total assets grew at 3.0%, resulting in a slightly lower ratio for the period. Although the ratio was well below its recent high of 61.3% in 2000:IIIQ, lending was brisk in 2002:IIIQ, partly because refinancing activity increased in response to low interest rates in the lending market.

Asset quality deteriorated in 2002:IIIQ. Net charge-offs (uncollectible loans and leases removed from balance sheet minus recoveries) have risen since 1999 to $11.5 billion, about 1.1% of depository institutions' commercial and industrial loans. Problem assets (non-performing loans and repossessed real estate) as a percent of loans and leases rose slightly to 0.57%.

Problem banks (those with substandard exam ratings) reached 1.59%, the largest share since 1995. However, declining asset quality is not a significant problem for FDIC-insured depository institutions, where the share of unprofitable institutions has been falling and now stands at 6.24%. The coverage ratio (prudential reserves as a share of noncurrent loans and leases) fell to 123%, the ratio's eleventh consecutive quarterly decline. Core capital, which protects depository institutions against unexpected losses, stands at a record level 8%, up from 7.79% in 2001. These indicators point to a mixed performance in the banking sector.