

An Update on Emerging Issues in Banking

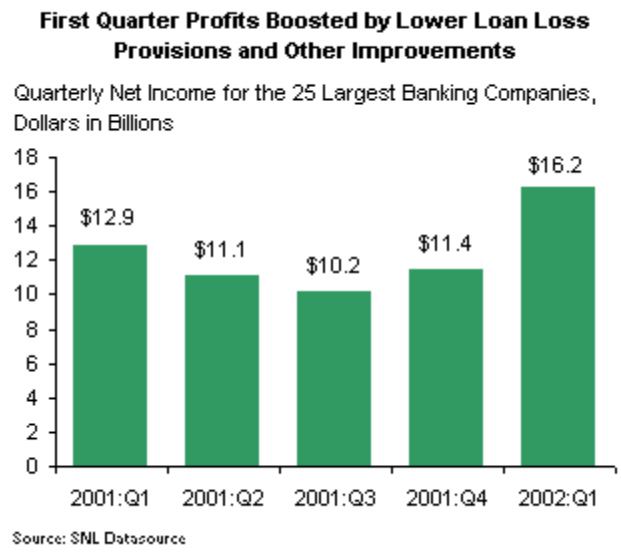
Twenty-Five Largest Banking Companies: First Quarter Net Income Up Sharply

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May 8, 2002

The 25 largest banking companies (25 Largest) grew their earnings significantly in the first quarter of 2002 amid signs of resurgence in U.S. economic activity. Net income of the 25 Largest totaled \$16.2 billion in the quarter. This was a record high for the group, surpassing the \$15.8 billion mark set in the first quarter of 2000. Aggregate first quarter earnings were \$4.8 billion greater than the fourth quarter and \$3.3 billion more than the first quarter of 2001. While net interest income fell slightly from fourth quarter levels, all other major operating components significantly contributed to the earnings improvement, with a drop in loan loss provisions leading the way. In addition, noninterest expense declined sharply in the quarter, primarily due to a decrease in intangibles amortization related to the adoption of SFAS 142.¹ Detailed aggregate and individual company information are in the FDIC report "[Twenty-Five Largest Banking Companies](#)."

Chart 1



Record earnings notwithstanding, the 25 Largest continue to be plagued by nonperforming asset growth and sluggish loan demand. Nonperforming assets grew to \$37.1 billion, almost double the volume at the end of 1999. While gross loans held for investment by the group increased by less than one percent in the quarter, they have fallen by 2.2 percent since the beginning of

2001. Weak commercial and industrial loan demand has been a major contributor to this development.

¹ Statement of Financial Accounting Standards (SFAS) 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets, particularly as they relate to accounting for mergers. A summary of SFAS 142 can be found on the Financial Accounting Standards Board website at: <http://www.fasb.org/st/summary/stsum142.shtml>

Last Updated 05/08/2002

Chart 1

First Quarter Profits Boosted by Lower Loan Loss Provisions and Other Improvements

| Year:Quarter | Quarterly Net Income for the 25 Largest Banking Companies, Dollars in Billions |
|---------------------|---|
| 2001:Q1 | 12.9 |
| 2001:Q2 | 11.1 |
| 2001:Q3 | 10.2 |
| 2001:Q4 | 11.4 |
| 2002:Q1 | 16.2 |