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Operating environment friendlier in second-half 2004

Standard & Poor's believes that in the next six to 12 months, operating conditions in the US commercial banking industry will likely diverge from those of the past few years, when consumer loan demand was strong, and short-term rates had fallen. Accelerating growth in US gross domestic product (GDP) and rising intermediate and long-term interest rates presage a pickup in both commercial loan demand and short-term interest rates.

We believe that such changes in environment would be favorable for banks with a commercial focus — particularly large-capitalization banks, which in aggregate appear to have put many regulatory, corporate governance, and credit-quality issues behind them. Starting in 2002, commercial banks began repositioning their balance sheets to prepare for a reversal of monetary policy. Anticipating that the Federal Reserve would increase short-term rates, the banks elected to forgo short-term profits in favor of longer-term benefits. As a result, most commercial banks in our universe currently have asset-sensitive balance sheets; they should therefore see their net interest margins widen when short-term interest rates rise.

We believe that short-term interest rates have hit bottom and are not likely to increase rapidly during the rest of the year. Long-term interest rates are already pointing in the direction of higher rates overall, as the US economy appears to be firing on more cylinders than in the last few years. However, change is rarely sudden, and market risks should not be ignored. In the first two quarters of 2004, higher long-term rates began to affect consumer loan demand, as seen in reduced mortgage refinancing activity. However, their impact on commercial loan demand is less clear.

During this phase of change in earnings drivers, we are likely to see varied financial performance within the commercial banking sector. Companies most likely to outperform are those with competitive advantages, diversified revenue streams, and records of consistent earnings growth.

TOP 25 EARNERS IN BANKING — 2003
(Ranked by 2003 net income)

	NET INCOME (MIL. $)		PROFITABILITY RATIOS (%) RETURN ON ASSETS		RETURN ON EQUITY	
COMPANY	2002	2003	2002	2003	2002	2003
1. Citigroup Inc.	13,448	17,853	1.24	1.51	16.20	19.52
2. Bank of America	9,249	10,810	1.44	1.55	18.73	22.01
3. J.P. Morgan Chase	1,663	6,719	0.22	0.87	3.96	15.43
4. Wells Fargo	5,710	6,202	1.74	1.68	19.87	19.14
5. Wachovia	3,579	4,247	1.06	1.14	11.77	13.15
6. US Bancorp	3,326	3,710	1.89	2.01	19.25	19.87
7. Bank One	3,295	3,125	1.21	1.03	15.45	13.63
8. Fleet Boston	1,524	2,555	0.76	1.30	8.89	14.68
9. National City Corp.	1,594	2,117	1.42	1.82	20.32	24.01
10. Fifth Third Bancorp	1,635	1,722	2.15	2.00	20.30	20.27
11. SunTrust Banks	1,332	1,332	1.20	1.10	15.55	14.40
12. Bank of New York	902	1,157	1.14	1.36	13.88	15.31
13. BB&T Corp.	1,293	1,065	1.71	1.25	19.10	12.29
14. PNC Financial Services	1,200	1,029	1.76	1.53	18.91	15.23
15. KeyCorp	976	903	1.17	1.06	15.03	13.08
16. State Street Corp.	1,015	722	1.30	0.83	23.52	13.71
17. Southtrust Corp.	650	705	1.31	1.38	15.13	15.69
18. Mellon Financial	667	677	1.89	1.93	19.40	19.08
19. Comerica	601	661	1.16	1.25	12.32	13.15
20. Regions Financial	620	652	1.33	1.35	15.09	15.11
21. Charter One Financial	578	631	1.44	1.49	19.22	19.84
22. Amsouth Bancorp.	609	626	1.54	1.45	20.07	19.73
23. M&T Bank	485	574	1.50	1.38	15.85	12.90
24. Marshall & Ilsley	480	544	1.58	1.62	17.20	17.10
25. Union Planters Corp.	529	498	1.57	1.51	16.44	15.86

Source: Standard & Poor's Compustat.

First-quarter review

According to data provided by the Federal Deposit Insurance Corporation (FDIC), profits for the 7,712 reporting commercial banks in the United States totaled $27.3 billion in the first three months of 2004, up 9%, year to year, and a record high for any three-month period. Banks' net interest income

rose 1.5%, year to year, as strength in consumer loan demand offset weakness in commercial lending and a narrower net interest margin. The net interest margin narrowed to 3.78%, from 3.89% in the comparable year-earlier period. Commercial banks found it increasingly difficult to reduce interest rates paid to their depositors, even as their borrowers continued to enjoy historically low interest rates.

At March 31, 2004, loans and leases of $5.464 trillion were up 8.4% compared with a year earlier. The fastest growing segment was that of loans secured by real estate (up 12.9%, year to year), followed by loans to individuals (up 10.5%) and other loans and leases (up 7.1%). Declines were experienced in commercial and industrial loans (down 4.0%) and farm loans (down 1.2%). Noninterest-bearing deposits were up 2.4%, year to year, while interest-bearing deposits increased 2.6%.

In the first quarter of 2004, loan loss provisions decreased for the fourth time in five quarters. Banks' credit quality metrics and outlook continued to improve, along with loan charge-offs and noncurrent loans.

Noninterest income climbed 7.09%, as gains from the sale of loans fell 30%. Service charges from deposits (a component of other income) fell approximately $2.2 billion; much of the fee decline reflected the abatement of mortgage loan refinancings as interest rates began to rise. An increase of $1.5 billion in trading revenue partially offset the lower loan servicing income. Declining intermediate- and long-term interest rates enabled banks to realize significant gains from the sale of securities. Such sales totaled $2.6 billion in the first quarter of 2004; although down from $3.7 billion a year earlier, they were up from $736 million in the fourth quarter of 2003. Noninterest expense rose 9.7%, as salary and employee benefits increased approximately 10%, year to year.

Net charge-offs amounted to $8.7 billion in the three months ending March 31, 2004, down 15% from a year earlier. Net charge-offs as a percentage of loans decreased to 0.64%, versus 0.81% in the same period in 2003. Loans to individuals had the highest charge-off rate, at 3.03% of average loans, including a 5.78% rate for credit card borrowing. Real estate loans, which are secured, had the lowest charge-off rate at 0.10%, while commercial and industrial (C&I) loans had a 0.68% rate.

US banks saw a return on assets of 1.42% in the first quarter of 2004, versus 1.41% in the same period a year earlier. Return on equity was 15.52%, versus 15.36%.

As of March 31, 2004, the number of problem commercial banks was 114, with a total of $30 billion in assets, versus 116 commercial banks with $30 billion in assets a year earlier. (The FDIC defines problem institutions as those having financial, operational, or managerial weaknesses that threaten their viability.) Structural changes to the industry in the first three months of 2004 included the conversion from mutual to stock ownership by seven institutions with combined assets of $2.1 billion, the absorption of 91 banks through mergers, and the failure of three insured commercial banks.

Economic and investment outlook uncertain

Although the most recent economic recession officially ended in November 2001, lingering labor market problems and modest GDP growth dampened the economic recovery. In recent months, however, we have seen more frequent and stronger positive economic signals. These signs have decisively changed the consensus economic view and have led to higher interest rates.

According to the June 2004 edition of the Federal Reserve's widely followed *Beige Book*, economic conditions continued to expand in April and May in most of the 12 Federal Reserve districts. As of mid-July, Standard & Poor's expected real GDP growth to accelerate in the second half of 2004, with projected annualized growth rates of 4.7% and 4.8%, respectively, in the third and fourth quarters, versus 3.9% and 4.0% in the first and second quarters. For the full year, we forecast real GDP growth of 4.6%, followed by a 3.9% gain in 2005.

The consensus expectation of a continued improvement of economic conditions led the Federal Reserve to increase short-term interest rates by 25 basis points at its June meeting. As of early August 2004, the 10-year Treasury yield was 4.43%, compared with 4.62% at the end of June and 4.27% at year-end 2003.

Standard & Poor's sees intermediate and long-term rates increasing modestly from current levels and projects a 10-year Treasury yield of 5.0% by the end of 2004 and an average of 5.5% in 2005. We expect short-term rates to begin to rise gradually over the second half of 2004, assuming that the core consumer price index does not spike rapidly. Standard & Poor's sees the three-month Treasury bill at 1.8% at the end of 2004 and averaging 2.8% in 2005.

Although the Federal Reserve will likely raise the federal funds rate by a total of 300 basis points, to 4.0%, we believe, and investors expect, that the program will take place gradually over the next two years. This scenario contrasts with the last 300-basis-point rise in 1994–95, which took place over just 13 months. During that time, the S&P 500 rose only 1.2%.

Stocks in the doldrums

Equity markets have been muted during the first half of 2004. As of July 30, the S&P 500 Composite Stock Index was down 0.9%, year to date, due to worries about numerous factors: unrest in Iraq, indications that interest rates are on the rise, oil prices above $40 per barrel, projected deceleration in corporate earnings growth, an overheating Chinese economy, and the unknown outcome of the 2004 US presidential election. It is our opinion that while oil prices may not fall significantly during the summer months, neither are they likely to rise substantially from current levels.

On August 6, the Standard & Poor's Investment Policy Committee (IPC) recommended that investors seeking a balanced allocation expose 40% of their assets to US equities, 10% to foreign stocks, 40% to cash, and the remaining 10% to fixed-income investments. While equities are projected to outperform bonds and cash in the coming months, a rising interest rate environment also increased the longer-term risk of owning equities. On July 28, the IPC reduced its year-end 2004 target for the S&P 500 to 1150 from 1210.

Strong GDP growth, a sufficiently steep yield curve (*i.e.*, low short-term rates relative to intermediate- and long-term rates), and strong equity markets are all theoretically positive for the banking industry. Over the longer term, these factors should have a net positive impact on the industry's profitability. However, the timing and magnitude of their impact is not likely to be uniform across all types of commercial banks, or even across all business lines, and short-term challenges remain.

For example, the interest rate environment and deposit growth are more important to smaller community banks than they are to larger money-center banks. Smaller banks make most of their profits from spread management, while larger banks are more sensitive to such factors as capital market conditions and commercial loan demand. Strong equity market performance tends to boost fee income from asset management, fiduciary activities (*e.g.*, private banking and trust services), and trading activities, but it can also hurt deposit growth.

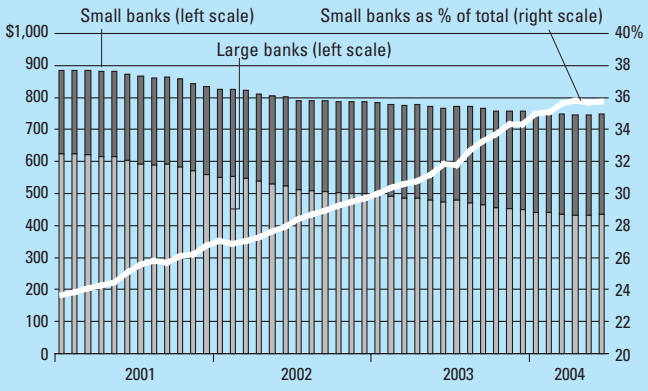
In short, the impact of interest rates on bank profitability is multidimensional. We expect short-term interest rates to rise gradually. However, most banks have positioned their balance sheets to be asset sensitive; that is, assets (such as loans) are repriced at higher rates more quickly than are liabilities (such as deposits). In an environment of rising interest rates, this strategy helps expand net interest margins. In addition, rising rates may signal a stronger economy and a pickup in C&I loan demand.

Mortgage volume decline likely to continue

In the last several quarters, mortgage volume has slipped from its recent record-high levels, and we expect it to continue to fall. As of June 2004, the Mortgage Bankers Association (MBA), a trade association representing the real estate finance industry, forecast that mortgage originations would fall about 36% in 2004, year to year, and decline another 28% in 2005. Much of the drop is expected to occur in the refinance ("refi") market, where historically low mortgage rates in recent years have led numerous homeowners to refinance their mortgages. The MBA expects refinancing's share of total originations to drop to 43% in 2004 and 24% in 2005.

However, we believe that home equity lines will offset some of the drop in mortgage refinancing. In addition, fixed-rate mortgages may be partially replaced by adjustable-rate mortgages. The MBA projects that adjustable-rate mortgages may account for 34% of total origi-

COMMERCIAL AND INDUSTRIAL LOANS
(Domestic banks, in billions of dollars, seasonally adjusted)



Source: Federal Reserve Board.

nations in 2004 and 38% in 2005, up from 19% in 2003 and 17% in 2002.

As the refi boom winds down, we expect commercial banks with sizable mortgage portfolios to return to historically normalized earnings growth. We believe that among banks focused on consumer lending, those with relatively diversified loan portfolios, full consumer product lines, and strong sales cultures are better positioned to compete in a post–mortgage-boom environment.

C&I loan demand mixed at best

Unlike demand for consumer loans, demand for commercial and industrial (C&I) loans has remained weak in recent years. According to the FDIC, the first quarter of 2004 was the thirteenth consecutive quarter of C&I loan declines. However, the FDIC attributes most of the decline to a few large banks. Two banks accounted for more than 90% of the decline in the industry's C&I loans in the first quarter. Excluding five large banks, the industry showed modest growth in outstanding C&I loans in the first quarter of 2004, as more than half the institutions increased their C&I loans.

A further review of the FDIC data reveals that after C&I loan levels peaked at year-end 2000, they declined 16.2% through March 2004, or 6.8% on an annualized basis. During the same period, smaller commercial banks with assets of $1 billion to $10 billion experienced a decline of 14.3%, or 5.9% annually. In the first quarter of 2004, C&I loans for the industry declined 5.2% on annualized basis; for commercial banks with assets of $1 billion to $10 billion, the annual rate of decline was 4.6%.

Weekly data released by the Federal Reserve suggests that C&I loan levels for domestic commercial banks have stabilized. On a seasonally adjusted basis, C&I loans for domestically chartered commercial banks totaled $910.1 billion as of March 31, 2004, compared with $922.2 billion, on average, in December 2003, and $947.0 billion in March 2003.

We therefore believe that C&I demand is stabilizing and expect strong economic growth to boost it over the next six to 12 months. Standard & Poor's current economic forecast calls for nonresidential fixed investment to increase 10.6% in 2004 and 9.1% in 2005. Producers' spending on durable equipment is projected to rise 13.5% in 2004 and 9.9% in 2005.

Credit quality remains a bright spot in the commercial sector, and we believe it is likely to improve further in a stronger economy. According to the FDIC, as of March 31, 2004, loans 30 to 89 days past due comprised 0.71% of total C&I loans on the balance sheet (versus 0.89% a year earlier). Noncurrent C&I loans (including loans that are not accruing interest and loans that are 90 days or more past due) were 1.88% of total C&I loans (down from 2.76%). In the first three months of 2004, C&I net charge-offs represented 0.70% of average C&I loans, down from 1.39% in the corresponding year-earlier period.

We believe that credit quality will improve, particularly for larger banks that in recent years have had problems related to corporate governance scandals and weakened industry fundamentals in the telecom, merchant energy, and airline industries. Our optimism is reinforced by year-to-date quarterly results of larger banks and by the September 2003 Shared National Credit Program — an annual regulatory review of large syndicated loans conducted by the Fed, the FDIC, and the Comptroller of the Currency. According to federal bank regulators, a review of loans and loan commitments of at least $20 million as of June 30, 2003 (latest available data) revealed that their quality had stabilized. Nonetheless, adversely rated loans (also known as criticized credits) — a category that includes loans with inadequate collateral, loans for which collection is doubtful,

TOP ANNOUNCED BANK MERGERS — 2004

(As of July 15; ranked by deal value)

BUYER	TARGET	ANNOUNCED DATE	COMPLETION DATE/STATUS	DEAL VALUE (MIL.$)
1. J.P. Morgan Chase & Co.	Bank One Corp.	01/14/2004	Completed	58,783.3
2. Wachovia Corp.	SouthTrust Corp.	06/21/2004	Pending	14,155.7
3. Royal Bank of Scotland Group	Charter One Financial	05/04/2004	Pending	10,553.6
4. SunTrust Banks Inc.	National Commerce Finl Corp.	05/09/2004	Pending	6,976.8
5. North Fork Bancorp.	GreenPoint Financial Corp.	02/15/2004	Pending	6,396.3
6. Regions Financial Corp.	Union Planters Corp.	01/22/2004	Completed	6,000.8
7. National City Corp.	Provident Financial Group Inc.	02/16/2004	Completed	2,133.9
8. BNP Paribas Group	Community First Bankshares	03/15/2004	Pending	1,216.5
9. Sovereign Bancorp Inc.	Seacoast Financial Services	01/26/2004	Pending	1,099.8
10. Sovereign Bancorp Inc.	Waypoint Financial Corp.	03/08/2004	Pending	984.9
11. Silver Acquisition Corp.	Gold Banc Corp.	02/24/2004	Pending	671.5
12. First Niagara Fin'l. Group	Hudson River Bancorp	04/02/2004	Pending	619.7
13. Associated Banc-Corp	First Federal Capital Corp	04/28/2004	Pending	612.3
14. Huntington Bancshares Inc.	Unizan Financial Corp.	01/27/2004	Pending	587.8
15. Commercial Capital Bancorp	Hawthorne Financial Corp.	01/27/2004	Completed	476.3
16. Central Pacific Financial Corp	CB Bancshares Inc.	04/22/2004	Pending	412.8
17. International Bancshares Corp.	Local Financial Corp.	01/22/2004	Completed	384.7
18. Popular Inc.	Quaker City Bancorp Inc.	03/18/2004	Pending	367.3
19. Umpqua Holdings Corp.	Humboldt Bancorp	03/13/2004	Completed	343.8
20. Sky Financial Group Inc.	Second Bancorp Inc.	01/08/2004	Completed	317.7
21. UnionBanCal Corp.	Jackson Federal Bank	07/02/2004	Pending	305.0
22. BNP Paribas Group	USDB Bancorp	04/27/2004	Pending	245.0
23. First Nat'l Bankshares of FL	Southern Community Bancorp	03/19/2004	Pending	233.1
24. BMO Financial Group	New Lenox Holding Co.	02/04/2004	Completed	228.5
25. KeyCorp	EverTrust Financial Group Inc.	06/24/2004	Pending	194.6

Source: SNL Financial.

loans in default, among others — remained at high levels.

Regionals lead the way in M&A

Although we do not expect to see major acquisitions by large money-center banks in the next few quarters, we foresee greater M&A activity, with small to midsize regional banks (those with assets of less than $10 billion) as likely targets. Narrowing net interest margins and declining consumer loan demand are expected to moderate earnings growth; we forecast high single-digit earnings per share growth in 2004 for the group. Many small to midsize banks in our universe have average price-to-earnings multiples that are higher than their peers'; this is due in part to takeover speculation, especially for banks operating in attractive high-growth markets such as the Southeast, Texas, and parts of the West Coast.

Among potential acquirers, larger regional banks that face a similar profit outlook may resume their acquisition programs in order to enhance their growth rates. SunTrust Banks Inc.'s recent purchase of National Commerce Financial Corp. comes to mind. Larger diversified banks, with a greater proportion of revenues from sources sensitive to capital markets and with most of their credit quality problems behind them, are also likely to become more aggressive on the acquisition front. Many well-known acquirers (for example BB&T Corp., M&T Bank Corp., Wachovia Corp., Wells Fargo & Co., and Banknorth Group Inc.) have largely completed the integration of past acquisitions and are now more likely to resume their deal making. In fact, Wachovia's recent purchase of SouthTrust Corp., which it undertook to gain a quicker entry into the Texas market, lends support to this thesis.

Banks increase dividends

The reduction in the federal tax rate on dividend payments beginning in calendar 2003 has prompted several banks to reexamine their capital reallocation policies. Most notably, in July 2003 Citigroup Inc. announced a 75% increase in its quarterly common dividend and an intention to reduce stock repurchases as a capital reallocation

INCOME DATA — FDIC COMMERCIAL BANKS
(In millions of dollars, as of December 31)

ITEM	2001	2002	2003	% CHANGE 2001–02	% CHANGE 2002–03
Total interest income	402.9	357.5	335.8	(11.3)	(6.1)
Total interest expense	187.7	120.8	95.8	(35.6)	(20.8)
Net interest income	215.2	236.7	240.0	10.0	1.4
Provision for loan losses	43.4	48.2	34.8	11.0	(27.9)
Noninterest income	157.0	172.6	186.5	9.9	8.0
Noninterest expense	222.3	233.6	246.0	5.1	5.3
Securities gains, net	4.5	6.5	5.6	44.3	(13.2)
Applicable income taxes	36.7	44.0	49.2	19.9	11.8
Extraordinary gains, net	(0.2)	(0.1)	0.4	NM	NM
Net income	74.0	89.9	102.6	21.5	14.2
Net operating income	71.1	85.6	98.3	20.3	14.9

NM-Not meaningful.
Source: Federal Deposit Insurance Corporation.

tool. A few days later, Wachovia increased its quarterly common dividend by 21% and its target payout ratio to a range of 40% to 50%, from 30% to 35%. A few weeks earlier, Bank of America Corp. announced a 25% dividend increase.

Smaller regional banks have also responded to the new tax law. Among them, California-based City National Corp. boosted its quarterly common dividend by 37%, resulting in a dividend payout ratio of about 30%, in the bottom half of its long-term target payout ratio of 28% to 34%. On the East Coast, Maine-based Banknorth Group Inc. raised its quarterly dividend by 27% and its payout ratio to more than 35%. Since then, management has noted that another payout increase is under consideration.

We expect that in the longer term, most banks will have dividend payout ratios in the 40% to 50% range. However, we do not anticipate significant changes in the dividend policies of smaller, growth-oriented banks, such as Commerce Bancorp Inc., that need to retain a larger portion of earnings to finance their growth strategies. The aggregate size of stock repurchase programs is likely to decline, but stock repurchases will probably remain an important capital management tool.

Although the dividend tax cut may make dividend payments preferable to stock repurchases for shareholders, companies are not likely to eliminate stock repurchase programs. Unlike dividend payments, which management cannot revoke without causing shareholder dissatisfaction, the timing of stock repurchases is more fully at the discretion of management, which can readily accelerate or postpone the execution of a program. Moreover, repurchased shares can be used for acquisitions and for the exercise of employee stock options.

New regulations raising costs

Since the beginning of the year, the US banking industry has focused on regulatory issues, such as the corporate governance provisions of the Sarbanes-Oxley Act (*HR 3763*, passed in 2002) and the banking-related parts of the USA Patriot Act (*HR 3162*, passed in 2001). These provisions are now beginning to have an impact. Smaller community banks have contended that it is difficult for them to comply with certain provisions of the Sarbanes-Oxley Act, such as the requirement that audit committees be composed entirely of independent directors and that companies have a "financial expert" on the board of directors. The provisions of the USA Patriot Act require increased investments in technology, though many in the industry have questioned the effectiveness of these investments in preventing the funding of terrorist groups or activities.

New regulations are driving banks to a new level of accuracy and disclosure in a number of other reporting areas. The Basel Committee on Banking Supervision, an agency of the Bank for International Settlements, released its framework for new international capital standards, known as the Basel II Capital Accord, in June 2004. The rules will govern how much capital banks will be required to hold.

US regulators are expected to issue compliance requirements for US banks in 2006, with implementation expected by year-end 2007. The top US banks must be in compliance by then, with risk management systems in place to align their risk measurement and risk capital with their regulatory capital.

Under Basel II, banking companies will be required to accurately report transaction positions, marked to the market, almost daily. Achieving compliance appears to be a complicated process that will demand significant technical and organizational changes. Only about one-third of US banks have completed their assessment of the accord's strategic impact and how to comply with its provisions.

Another new piece of legislation facing US banks is the Check Clearing for the 21st Century Act (*HR 1474*). The act,

passed in October 2003 and scheduled to take effect on October 28, 2004, will require banks to process checks with electronic imaging systems or facsimiles of images instead of actual checks, in order to combat check fraud. By giving legal weight to replacement checks created from digital images, the act is expected to encourage the banking industry to shift its clearing procedures away from original documents. However, image exchange systems in banks' check-processing operations currently are limited. While electronic images are expected to eventually replace paper checks, the process could take a long time, according to industry observers.

Mutual funds on the hot seat

Perhaps the most unsettling regulatory news, however, came once again from the office of New York state attorney general Eliot Spitzer. In September 2003, Mr. Spitzer announced that certain mutual funds had engaged in the improper trading practices — "late trading" and "market timing" — in exchange for expanded business from hedge fund Canary Capital Partners. The settlement announced on that day with Canary Capital Partners listed the mutual fund organizations Bank of America Corp., Strong Capital Management Inc., Janus Capital Group Inc., and Banc One Corp.

Further, Mr. Spitzer stated that other mutual fund companies would be named as participants in improper trading activities. Within the next week, Prudential Securities Inc. (which had merged retail brokerage forces with Wachovia in July 2003) and Alliance Capital Management LP both announced they had laid off mutual fund employees for related reasons. Bank of America announced that it had hired outside advisors to investigate its mutual fund businesses and help develop new policies and procedures; the company pledged to make restitution to any mutual fund holders that lost money.

Although such actions may hasten a resolution, we believe that this investigation poses a potential risk for the commercial banking industry in the form of financial penalties and damage to their reputation. Commercial banks now commonly sell mutual fund products, and more than a few banks have invested in asset management subsidiaries that manage mutual fund assets.

Our banking industry outlook

Standard & Poor's outlook for the commercial banking industry calls for moderate earnings growth in the high single-digit area through mid-2005. As mentioned earlier, we believe that the US economy is improving, and we expect GDP growth to accelerate. In addition, the Treasury yield curve is normal and remains steep enough to allow net interest margins to stabilize; indeed, a majority of banks saw a stabilization of net interest margins in the first half of 2004. We believe that the favorable yield curve, combined with improving commercial loan demand, should lead to progressively stronger net interest income as the year continues. However, total loan growth may be nominal, reflecting weaker demand for consumer loans. We expect net interest income to advance approximately 4% in 2004.

Credit quality trends have been encouraging in recent quarters. We expect continued improvement, which should result in declining provisioning requirements in the quarters ahead. Regional banks, in particular, did an excellent job of preserving credit quality during the most recent recession.

Fee income should remain strong and continue to increase, although the contributions of various fee income sources are likely to change. Growth in deposit fees should return to normalized levels in the mid-single-digit area for full-year 2004, while fees from activities related to equity markets should show meaningful and immediate improvement in the next few quarters. Banks' emphasis on developing sources of non–deposit-related fee income — such as fiduciary and asset management fees, insurance commissions, and security brokerage commissions — should continue to support fee income growth. Our model assumes total fee income growth of 10% in 2004.

Operating expenses are projected to increase 6% in 2004, in line with recent historical experience. Excluding extraordinary items, we see annual operating income growth of 9% in 2004 on a stronger economy. ■

US bank industry consolidation slows

Compared with the banking systems of most developed countries, the US industry is highly fragmented. Thousands of smaller players try to compete with industry leaders in terms of pricing and service. However, the drive to expand market share, increase the number of products and services offered, enhance geographic coverage, and improve efficiency has led to significant consolidation over the past 20 years.

Consolidation activity reached a peak in the mid-1990s, with about 600 banks absorbed by mergers annually. Subsequently, however, some of the more aggressive acquirers encountered problems with their mergers, while other firms have become less eager to pay premium prices in order to make a deal. The stock market malaise of 2001 and 2002 and an inclination to be more risk-averse also dampened the appetite for mergers. By 2003, the number of banks absorbed by mergers dropped to less than 300.

The Federal Deposit Insurance Corp. (FDIC) reports a continuous decline in the number of banks it has insured, from 14,628 in 1975 to 14,500 in 1984 and 10,451 in 1994. There were 9,528 such banks in 1996; 9,143 in 1997; 8,774 in 1998; 8,580 in 1999; 8,315 in 2000; 8,080 in 2001; 7,887 in 2002; 7,770 in 2003; and 7,712 at March 31, 2004.

At March 31, 2004, nine FDIC-insured commercial banks in the United States had assets of more than $100 billion each, totaling $4.49 trillion, or 48% of industry assets of $9.37 trillion, according to the FDIC. The five largest US bank holding companies, ranked by assets, were Citigroup Inc. ($1.32 trillion), Bank of America Corp. ($816 billion), J.P. Morgan Chase & Co. ($801 billion), Wachovia Corp. ($411 billion), and Wells Fargo & Co. ($397 billion).

As of March 31, 2004, 84 banks had assets of more than $10 billion each; their aggregate assets were $5.78 trillion, equal to 74% of total industry assets of $7.81 trillion. At that time, 419 banks had assets of more than $1 billion (totaling approximately 85% of industry assets). By comparison, in 1994, 392 banks had assets of more than $1 billion, representing 75% of total commercial banking assets of $4.01 trillion, according to the FDIC.

According to FDIC statistics, aggregate loans outstanding were valued at $5.51 trillion on March 31, 2004. Loans secured by real estate accounted for 45% of that sum; commercial and industrial loans represented 16%; consumer loans, 29%; and other loans, 10%.

LARGEST US BANK HOLDING COMPANIES
(Ranked by total assets, as of March 31, 2004)

	TOTAL ASSETS (MIL. $)		
COMPANY	3/31/2003	3/31/2004	% CHG.
1. Citigroup Inc.	1,137,373	1,317,591	15.8
2. Bank of America Corp.	680,197	816,012	20.0
3. J.P. Morgan Chase & Co.	755,156	801,078	6.1
4. Wachovia Corp.	348,064	410,991	18.1
5. Wells Fargo & Co.	369,607	397,354	7.5
6. U.S. Bancorp	182,231	192,093	5.4
7. SunTrust Banks Inc.	120,062	125,245	4.3
8. National City Corp.	117,494	111,355	(5.2)
9. BB&T Corp.	79,648	94,282	18.4
10. Fifth Third Bancorp	84,325	93,732	11.2
11. State Street Corp.	79,109	92,896	17.4
12. Bank of New York Co. Inc.	79,548	92,652	16.5
13. KeyCorp	86,490	84,448	(2.4)
14. PNC Financial Services Group Inc.	68,619	74,115	8.0
15. Comerica Inc.	55,805	54,468	(2.4)
16. SouthTrust Corp.	51,349	52,673	2.6
17. Regions Financial Corp.	48,465	48,777	0.6
18. AmSouth Bancorporation	42,099	47,415	12.6
19. UnionBanCal Corp.	40,387	46,102	14.2
20. Charter One Financial Inc.	43,249	41,279	(4.6)

Source: SNL Financial.

Mergers raise industry concentration

As a result of consolidation, some major banking segments have become dominated by

MARKET CAPITALIZATION — 25 LARGEST US BANKING COMPANIES
(In millions of dollars)

	COMPANY	AS OF 6/30/03*	6/30/2004	% CHG.
1.	Citigroup	220,336	240,474	9.1
2.	Bank of America	118,350	172,523	45.8
3.	Wells Fargo	84,674	96,579	14.1
4.	J.P. Morgan Chase	69,380	80,736	16.4
5.	Wachovia	53,753	58,506	8.8
6.	U.S. Bancorp	46,967	52,236	11.2
7.	Fifth Third Bancorp	32,973	32,960	(0.0)
8.	National City	20,008	21,752	8.7
9.	BB&T	16,188	20,507	26.7
10.	SunTrust Banks	16,621	18,355	10.4
11.	State Street	13,096	16,473	25.8
12.	PNC Financial Services	13,820	14,970	8.3
13.	SouthTrust	9,186	12,799	39.3
14.	KeyCorp	10,684	12,265	14.8
15.	M&T Bank	10,031	10,348	3.2
16.	Charter One Financial	7,016	9,890	41.0
17.	Comerica	8,145	9,507	16.7
18.	Amsouth Bancorp.	7,668	8,972	17.0
19.	Marshall & Ilsley	6,932	8,683	25.3
20.	Regions Financial	7,503	8,022	6.9
21.	Synovus Financial	6,528	7,717	18.2
22.	National Commerce Financial	4,540	6,631	46.1
23.	North Fork Bancorp.	5,336	6,526	22.3
24.	First Horizon National	5,546	5,637	1.7
25.	Banknorth Group	4,182	5,596	33.8

*Some data may have been restated to reflect mergers.
Source: Standard & Poor's Compustat.

a few behemoth players. For example, five large banks — Citigroup Inc., MBNA Corp., Bank One Corp., J.P. Morgan Chase & Co. (which has since merged with Bank One), and Providian Financial Corp. — together control more than 60% of the credit card market. In corporate lending, the five largest players (J.P. Morgan Chase, Citigroup, Bank of America Corp., Credit Suisse Group, and Deutsche Bank AG) also control more than 60% of the market. In the mortgage business, the largest 10 companies control about 40% of the market. In retail banking, the 30 largest banks hold about 40% of deposits.

Consolidation has allowed banks to take advantage of scale opportunities and to earn healthy shareholder returns from larger portfolios. Service levels for customers tend to increase as banks devote more resources to specialty businesses. Marketing costs can also be spread over a large cost base. We believe that as long as substantial market share does not wind up in the hands of only one or two players, which would limit competition, companies and customers alike will benefit from the scale advantages that have resulted from increased concentration.

INDUSTRY TRENDS

Among the important and interrelated banking industry trends covered in this section are consolidation, credit quality patterns, and regulatory change.

Long-term consolidation likely to resume

Although less favorable industry conditions and declining stock prices led to a reduced pace of merger activity from 2000 to 2002, consolidation remains one of the industry's most noteworthy trends. In the late 1980s, against a backdrop of concerns about banks' credit quality, mergers and acquisitions (M&A) became common, as strong banks took over weak or failing institutions. M&A activity accelerated in the 1990s, before slowing in recent years. Consolidation may continue over the long term, as banks move to compete more efficiently in a less regulated environment.

Between 1996 and mid-1998, favorable stock prices and excess capital levels gave acquiring banks the means to make purchases without unduly diluting near-term earnings. Sellers found the environment favorable as well, since they were able to command premium prices. However, from mid-1998 through mid-2002, bank stocks witnessed a more difficult deal environment, which reduced bank merger activity.

US banks have achieved remarkable growth in assets since 1989, primarily reflecting the decade of economic prosperity that preceded the recession of 2001. Consolidation has further boosted asset growth for individual banks. In 1989, the 12,709 reporting FDIC-insured commercial banks had aggregate assets of $3.3 trillion, or an average of roughly $260 million per bank. By the end of 2003, the number of reporting banks had fallen to 7,770 (a 39% decline over the 15-year period); total assets, however, had increased to $9.07 trillion, or an average of $1.17 billion per bank (a 350% gain).

Standard & Poor's believes that long-term consolidation will continue to improve effi-

ciency, boost sustainable profits, and help banks to withstand heated competition from other financial services providers, both domestic and international. If stock market conditions remain relatively strong for the rest of 2004, we expect that more small and medium-size regional banks (those with assets of less than $20 billion) will continue to be absorbed by larger domestic or foreign banks.

Motives for merging

The primary factor favoring further consolidation is competition, which has intensified pressure on banks to expand market share, improve efficiency, and offer a broader range of financial products. Consolidation can help banks to fend off competition from other commercial banks and from nonbank providers of financial services as well.

Banks contend that they become financially stronger following a merger because they can reduce the acquired bank's noninterest (operating) costs. Savings are especially noticeable in intramarket deals, in which duplication of bank infrastructure is high. Combining back-office operations and closing branches in overlapping service territories can cut the combined banks' costs by 20% or more.

Normally, if the integration process goes smoothly, only a small portion of the acquired bank's business is lost to competitors when branch offices are sold or closed. Often, branches are sold to satisfy antitrust regulators or because a bank does not want to be in a certain area.

Other benefits of consolidation include expanded delivery networks, geographic and product diversification, and fewer competitors in a given market. We believe that for consumers, consolidation stands to bring lower banking costs, broader products, and greater convenience.

The promise of greater efficiency has generated an "acquire or be acquired" mentality among bank managers. For a bank to remain independent, it must maintain strong earnings and an above-average growth rate.

Inducing efficiency

By reducing operating costs, consolidation has helped the banking industry become more efficient. Banks' concerted efforts to control their expense levels in recent periods have shown up in their efficiency ratios. (The efficiency ratio is calculated as noninterest expenses divided by net operating revenues. Lower expenses mean a lower ratio and, thus, greater efficiency.) In the early 1990s, banks generally strove for an efficiency ratio in the low 60% area. By the late 1990s, the target was lowered, as the most efficient banks were achieving ratios in the low- to mid-50s range. Although efficiency ratios moved up to the 60% area for the three years through 2002, the target remains in the low to middle 50s.

The tame US inflation rate has helped banks exercise tight control over expense items, particularly salaries and other personnel-related costs. Restructurings that involved work force reductions and branch consolidations were common among large banks in the mid- to late 1990s.

In the long term, it will be the lowest-cost providers that not only survive, but thrive. Efficiency, however, cannot come at the expense of customer satisfaction. Banks run the risk of losing customers if their efforts to cut costs lead to perceived reductions in service levels.

To satisfy both fiscal and quality requirements, technological improvements have helped banks control expenses while providing better service. Electronic banking through telephones, automated teller machines, and personal computers improve customer service by offering 24-hour banking capabilities at convenient locations. Meanwhile, the costs of completing such transactions remain well below the more labor-intensive operations at bank branches.

Merger strategies vary

Among straight banking acquisitions, most have been intramarket deals rather than mergers between players operating in different geographic territories. This reflects the stock market's preference for combinations that offer clear and realistic cost-saving benefits. In addition, many investors are averse to acquisitions that dilute earnings, especially if any shortfall cannot be recovered in a reasonably short time.

Yet, as eligible merger partners dwindled in the late 1990s, acquisition trends changed. Notably, out-of-market deals became more frequent. In some large acquisitions, such as the 1998 deals between First Union Corp. (now Wachovia Corp.) and First Fidelity, and between NationsBank Corp. and BankAmerica,

banks bought into new geographic markets. A bank may adopt such a strategy if it cannot find a suitable intramarket merger partner, or if a certain geographic service territory is growing faster than its own.

At that time, the industry also began to favor acquisitions of nonbank financial institutions, which had something to offer other than traditional retail branch networks. Banks appeared to be more willing than before to acquire customer bases for high-margin lines such as credit cards or businesses that give them a national brand-name presence. Large transactions included Citigroup's acquisition of Associates First Capital Corp. in December 2000.

The trend toward diversification may have been dampened in 2001 and 2002 by tighter regulation, weakness in capital markets, and credit quality concerns. Recently, the industry has seen a number of spin-offs and divestitures as banks have returned to a focus on core lending operations. Looking forward, however, as the environment improves, we expect banks that seek external growth may focus on asset management companies and consumer finance companies.

Lull in activity relates to stock prices

The rising stock prices that boosted acquirers' war chests between 1996 and mid-1998 also inflated the cost of takeovers. In early 1995, the average bank was acquired for 1.7 to 1.9 times book value (the dollar value of the company's net assets as stated in its accounting books). As bank stocks peaked in 1999, a price of 3.0 times book became common, and acquisitions began to look less attractive. Conversely, lower stock prices in 2001 and 2002 lowered the price tags of potential acquisitions, but the trend also reduced acquirers' purchasing power. In 2001 and 2002, acquisition prices dropped to around 1.5 times book value. In 2002, the market value of the top 25 completed bank mergers was $17.6 billion, down sharply from $68.8 billion in 2001. (See the "Top announced bank mergers" table in the "Current Environment" section for deals in 2004.)

In 1998, global financial developments — particularly Russia's currency devaluation and Japan's banking crisis — put substantial pressure on bank stock prices. As some bank managers began to balk at ever-increasing book value takeover prices, merger activity slowed somewhat in the first half of 1998 compared with the previous two years. Consolidation slowed again in 1999 and 2000, due at least partly to concerns about Year 2000 software conversions.

Throughout 2001 and 2002, lower bank stock prices again hurt merger activity. In 2002, 297 FDIC-insured commercial banks were absorbed through mergers or other consolidation moves. This number compared with 357 in 2001, 453 in 2000, 417 in 1999, 557 in 1998, 599 in 1997, 554 in 1996, and 606 in 1995. In the six months ended June 30, 2003 (latest available), 103 FDIC-insured commercial banks were absorbed by mergers, compared with 152 in the first half of 2002, and 193 in the same period in 2001.

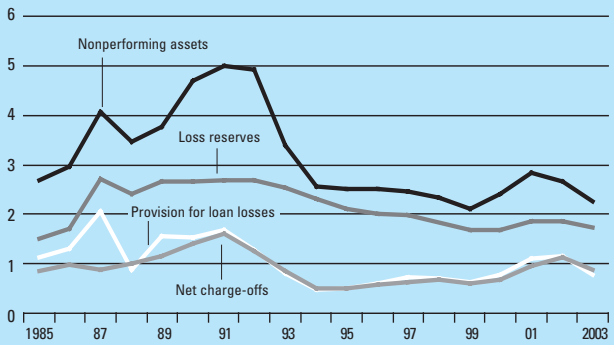
Fewer banks going bust

The banking industry has enjoyed improved health over the past several years, as evidenced by declines in bankruptcies and problem institutions. As of June 30, 2003, the FDIC classified 113 commercial banks, with combined assets of $31 billion, as "problem institutions" — as having financial, operational, or managerial weaknesses that threatened their viability. In contrast, 247 banks with $33 billion in assets were classified as problem institutions at year-end 1994.

As noted above, the decline in the total number of US banks in the late 1980s and early 1990s reflected not only industry mergers, but also a relatively high level of bank failures. Domestic bank failures totaled 221 in 1988, 206 in 1989, 159 in 1990, 108 in 1991, and 100 in 1992. However, the number dwindled to 42 in 1993, 11 in 1994, and just six in 1995. The first quarter of 1994 was a milestone for the industry: for the first time in 16 years, not a single commercial bank failed during the quarter. The low rate of failure has continued in recent years. Five banks failed in 1996, followed by one in 1997, three in 1998, seven in 1999, six in 2000, three in 2001, and 10 in 2002. In the first six months of 2003, two commercial banks failed with total assets of $1.1 billion.

Structural changes among FDIC-insured banks in the first half of 2003 also included the issuance of 47 new bank charters, compared with 42 in the first six months of 2002 and 91 in full-year 2002.

LOAN QUALITY — ALL COMMERCIAL BANKS
(All items as a percentage of total loans and leases)



Source: Federal Deposit Insurance Corporation.

Consumer bankruptcies snowball

Consumer bankruptcies have risen since the late 1990s, and the trend warrants continued concern. According to the Administrative Office of the US Courts, consumer bankruptcy filings reached a record high of 1.613 million in the 12-month period ending June 30, 2003, up from 1.466 million in the corresponding year-earlier period. Consumer bankruptcy filings continued to represent a growing percentage of total bankruptcy filings — 97.7% of total filings in the 12-month period ended June 2003. By contrast, consumers made 86.8% of total filings in 1980.

Industry observers have cited a number of reasons for the continued high number of filings. Many blame creditors, whose aggressive marketing practices — such as mass mailings of preapproved credit cards — push consumers to live beyond their means and eventually to collapse into bankruptcy. Creditors counter by blaming current laws that they say allow consumers to file for bankruptcy too easily, thus enabling debtors to escape responsibility for their financial decisions.

Other factors may also prompt borrowers to declare bankruptcy with greater frequency. These include medical problems, divorce, greater awareness of the benefits of filing for bankruptcy, financial mismanagement, and the lack of social stigma attached to filing for bankruptcy today. Higher overall debt levels are also clearly a problem. After falling in the early 1990s, households' debt service payments as a percentage of disposable personal income rose steadily from under 12.0% in 1993 to 13.99% in the first quarter of 2003 (latest available), according to the Federal Reserve.

Whatever its causes, the bankruptcy boom's cost to creditors — and to financially responsible debtors — has continued to mount. Although bankruptcy laws are designed to help consumers, the tidal wave of filings has also hurt them in a number of ways. For instance, lenders often pass much of the cost of bankruptcies on to consumers in the form of higher fees and interest charges. In essence, borrowers end up footing the bill for those bankruptcies. Second, the ease of filing for bankruptcy may discourage lenders from making loans to "marginal" borrowers — individuals who barely qualify for credit based on income. Thus, many low-income families may find it more difficult and costly to obtain credit.

Current ways to file

Proposed changes to the US bankruptcy system through the Bankruptcy Abuse Prevention and Consumer Protection Act *(HR 975)* would offer greater financial protection to lenders by reducing the number of individuals allowed to file for bankruptcy under Chapter 7 and steering more debtors into a Chapter 13 bankruptcy. The House of Representatives in late March 2003 approved a bill that would drastically change bankruptcy laws, but the bankruptcy reform bill has since stalled once again at the Senate (as of July 2004) due to continued debate over a provision unrelated to personal bankruptcies.

As the current system now stands, the two primary types of consumer bankruptcies are Chapter 7 and Chapter 13.

◆ **Chapter 7.** In the normal process of a Chapter 7 bankruptcy case, a trustee collects the debtor's present assets (excluding any exempt assets deemed necessary for the debtor's maintenance), liquidates them, and divides the proceeds among the creditors. In exchange, the debtor is discharged from his or her debt, retains all future assets, and is free from creditors' claims. Current laws allow filers to claim Chapter 7, even though they may be able to repay a significant portion of their debt with future earnings.

◆ **Chapter 13.** This is an alternative to Chapter 7 liquidation. In Chapter 13,

debtors retain their present assets and repay creditors out of future income; they must propose a plan to repay creditors through periodic contributions from regular income. Debtors are often required to pay a great deal more to creditors under Chapter 13 than under Chapter 7.

Under current law, the decision to file Chapter 13 is voluntary. Although Chapter 13 offers debtors incentives (such as the ability to retain their assets), debtors opt for Chapter 7 over Chapter 13 by a wide margin. In the second quarter of 2003, for example, the number of people filing for Chapter 7 was 317,604, versus 119,745 filing for Chapter 13.

Return of the deposit insurance premium?

The Bank Insurance Fund (BIF) is required to hold at least $1.25 for every $100 of insured deposits, or a 1.25% reserve ratio. Banks pay premiums to the BIF to insure deposits of up to $100,000; with some exceptions, they are not required to insure deposits beyond that amount.

In response to bank failures, annual premium rates rose from less than 10 cents per $100 of insured deposits in the early 1990s to more than 20 cents in the mid-1990s. In 1996, however, banks that met certain requirements were allowed to stop paying premiums entirely. Thus, about 93% of banks have not paid fees since 1996.

However, deposit insurance premiums for all banks may be on their way back. With the aggregate level of deposits still growing, the FDIC believes it will eventually have to reinstate premiums at some point to prevent the fund from falling under the mandatory 1.25% level. At June 30, 2003 (latest available), the reserve ratio was at 1.29%%, its highest level of the past 18 months. A low level of bank failures, combined with increased unrealized gains on securities available for sale over the last year, have helped keep the fund above the mandatory minimum.

In April 2003, the US House of Representatives passed a bill *(HR 522)* intended to reform the deposit insurance system. A second reform bill *(S 229)* has been introduced in the Senate but has not yet passed. Although the two bills differ in a number of details, both would increase deposit insurance coverage levels and tie future increases to an inflation index, allow the FDIC to set the Designated Reserve Ratio within a range, give credit to banks for insurance assessments paid, and give rebates to banks when the fund rises above a certain level.

With bank failures dwindling in the past several years, Standard & Poor's believes that any new fees imposed will likely be lower than the mid-1990s levels. As such, they would not be a significant burden to profitability.

HOW THE INDUSTRY OPERATES

Commercial banks serve as intermediaries between customers who save money and customers who borrow it. Their principal activities are collecting deposits and disbursing loans.

Individual commercial banks may diverge widely in terms of markets served and earnings sources, as we discuss in this section. Other industry concerns that we consider are: costs related to obtaining and maintaining adequate funding sources; the inherent risks in financing at a given interest rate; Federal Reserve policies and their effect on interest rates; and competitive influences on the retail (consumer) and commercial strategies of regional and money center banks.

Business type

Although mergers and the consolidation of business activities have blurred the lines of distinction in recent years, there are two main categories of banks: money centers and regionals. Money center banks tend to be located in major US financial centers and are typically involved in international lending and foreign currency operations. Regional banks tend to be located in one or a few geographic areas or states, where their lending and deposit activities are generally focused.

The merger of several large regional banks in the late 1980s spurred the creation of a new type of regional bank, the so-called super-regional. Such banks operate across many states or geographic areas and can be national in scope.

The Federal Deposit Insurance Corporation (FDIC) classifies all banks according to the geographic regions in which they operate. The six regions, identified by their major banking

centers, are New York, Atlanta, Chicago, San Francisco, Dallas, and Kansas City. As of March 31, 2004, 7,712 commercial banks operated in the United States, with total assets of $7.81 trillion. New York had 612 banks (with $2.55 trillion in assets); Atlanta, 1,071 banks ($1.75 trillion); Chicago, 1,650 banks ($1.55 trillion); San Francisco, 685 banks ($858 billion); Dallas, 1,731 banks ($471 billion); and Kansas City, 2,021 banks ($411 billion).

Bank assets

A commercial bank's earnings are derived from a variety of sources. These sources, or "earning assets," include loans (commercial, consumer, and real estate) and securities (investment and trading account).

Loans

According to FDIC statistics, aggregate loans outstanding were valued at $5.55 trillion on March 31, 2004. Loans secured by real estate accounted for 59% of that sum; commercial and industrial loans represented 16%; consumer loans, 21%; and other loans, 12%.

Commercial and residential real estate loans, secured by customers' property, are generally long-term installment mortgages. Residential mortgages generate a predictable cash flow and are usually the least risky type of loan. Commercial real estate and interim construction loans are medium-term loans that generate high yields but also carry high risks.

Commercial and industrial (C&I) loans can be made on a short-term, medium-term, or long-term basis, and may be either secured or unsecured. Often the lowest yielding of a bank's loans, C&I loans usually include compensating balance requirements, commitment fees, or both, although these requirements are becoming less common in today's intensely competitive environment. Processing costs are relatively low for C&I loans, and pricing (*i.e.*, interest rates and fees) is flexible.

Consumer loans, comprising installment and credit card lending, are usually medium-term in maturity, with predictable principal and interest payments that reliably generate cash flow. Credit risk and processing costs are generally higher than for business loans, and yields are subject to usury ceilings in some states.

Securities

Banks purchase securities as investments, with some 95% of their portfolios typically invested in fixed-income securities. A fixed-income security's value depends on the interest rate it carries, and the security's value fluctuates with the market level of interest rates. Securities may be taxable (such as US government bonds and other securities) or tax-exempt (such as state and local government securities). The maturities of these financial instruments vary widely.

Banks purchase securities as a means of earning interest on assets while maintaining the liquidity they need to meet deposit withdrawals or to satisfy sudden increases in loan demand. In addition, securities diversify a bank's risk, improve the overall quality of its earning assets portfolio, and help the bank manage interest rate risk.

Investment securities are an important source of a bank's earnings, particularly when lending is weak but funds for investing are plentiful. US banks are major participants in the bond market. Municipal bonds generally have longer terms and less liquidity than US government and Treasury bonds, but their tax-exempt feature is attractive in that it reduces taxable income.

Trading account securities are interest-bearing securities held primarily for realizing capital gains. Because their trading performance is strongly affected by interest rate trends, they carry a high risk. According to the FDIC, banks had aggregate securities of $1.90 trillion at March 31, 2004, up from $1.69 trillion a year earlier.

Bank liabilities

A bank's principal liabilities consist of deposits, debt, and shareholders' equity. Deposits include the following: consumer demand and time deposits, corporate demand and time deposits, foreign deposits and borrowings, and negotiable certificates of deposit (jumbo CDs, usually sold in denominations of $100,000 or more). Debt includes federal funds and other short-term borrowings (such as commercial paper), as well as long-term debt.

Consumer savings plans with commercial banks consist of demand deposits (such

as checking accounts) and time deposits (regular savings, money market, and negotiable order of withdrawal accounts, and six-month money market certificates). These sources of funds, which account for 70% of bank liabilities, have historically proven to be stable and important for banks. The interest rates that they command vary with overall money market interest rates or the duration of the time deposit, and they must be competitive in order to attract and keep depositors.

Low deposit interest rates in the range of 2% to 4% resulted in minimal deposit growth at a low single-digit annual pace in the late 1990s, as consumers sought investments with higher rates of return, such as mutual funds. However, the stock market's malaise in 2001 and 2002 led to a "flight to safety," with more investment dollars going into bank accounts. According to the FDIC, deposits held in domestic offices (US offices of all banks, whether foreign or domestic) grew 7.9% in 2001 and 7.6% in 2002. (FDIC will not report deposits for 2003 until the end of September 2004.) In the first three months of 2004, domestic deposits increased 7.9%. Interestingly, in recent periods, deposit interest rates have been declining and are currently at historically low levels.

Interest rate risks

Assets and liabilities can mature or be repriced in periods ranging from overnight to 30 years. Most, however, mature in less than one year, and few extend beyond five years. Interest rate risk occurs when a liability matures or is repriced at a time that is not synchronized with the asset that it's funding.

As a rule, banks do not match assets and liabilities on a one-to-one basis. Instead, assets and liabilities are grouped together into specific time frames, such as overnight, 30 days, 90 days, one year, and the like. Thus, within a given period, banks can determine their interest rate sensitivity.

If more of its liabilities than assets reach maturity or are repriced, a bank is said to be liability-sensitive, or to have a negative gap. If more assets mature than liabilities, the bank is said to be asset-sensitive, or to have a positive gap. If a bank's assets and liabilities are evenly matched, it is said to be balanced. In a period of falling interest rates, a bank with a negative gap will see net interest margins widen. Conversely, a bank with a positive gap will benefit during a period of rising rates.

The banking industry's concern with limiting its interest rate risk has grown since 1979, when bank policy changes by the Federal Reserve resulted in high and extremely volatile interest rates. As a result, most bank loans now come with variable rates. Consequently, much of the interest rate risk has been shifted from the lender to the borrower. On the funding side, much of the debt, deposits, and preferred stock dividends also carry variable rates, which shifts some risk back to the bank.

Because techniques for managing assets and liabilities have become highly sophisticated, however, banks are generally well hedged against interest rate risks. For example, interest rate hedging with futures and options and the use of "Macaulay duration" matching (which involves balancing liabilities and assets) have been widely adopted.

Regulation: the Fed's influence

Unlike the capital (or stock) market, which deals in long-term investments, the money market is the arena in which banks, corporations, and US government securities dealers can lend or borrow funds for short periods of one day to one year. As a major player in this arena, the Federal Reserve has a great deal of influence over the amount of funds available in the banking system on a day-to-day basis.

The Fed has three methods of adjusting the money supply. One is by conducting open-market operations, such as buying and selling Treasury bills. By virtue of the laws of supply and demand, this method has a direct impact on the rate charged for federal funds (reserves loaned by one bank to another, typically overnight, to cover a shortfall in reserve requirements or to profit from excess reserves). Open-market operations also influence the interest rate structure of the economy as a whole, albeit indirectly.

By reducing the amount of Treasury bills it sells and thus decreasing supply, the Fed can cause the federal funds rate to rise. Rising interest rates curtail demand for borrowing by increasing the cost of funds. In addition, when the money supply is restricted, banks must rely more heavily on expen-

sive purchased funds. Banks must then become more selective in their lending and perhaps even raise their prime rate (the interest rate on loans to large creditworthy corporations).

The Fed's second means of controlling the money supply is to raise or lower banks' reserve requirements on deposits. Far more powerful than open-market operations, this method is rarely used. Raising reserve requirements reduces banks' ability to extend loans, thus tightening money supply.

The Fed most recently changed reserve requirements in February 1992, when it tried to stimulate bank lending by lowering the reserve requirement on checking, negotiable order of withdrawal (NOW), and other transaction accounts to 10% from 12%. The Fed's action marked the first change in reserve requirements on these kinds of accounts since 1980. It released about $8 billion in reserves, which then became available for lending.

Finally, the Fed can control the money supply by raising or lowering the discount rate — the interest rate it charges member banks for loans that use government securities as collateral. Small changes in the discount rate can send signals to the bond markets regarding Federal Reserve monetary policy, thus influencing market interest rates.

Over the past decade, the Fed has been lauded for reducing price inflation through its effective control of the money supply. It's important to note, however, that the Fed's control over the market is not absolute, and that monetary policy does not always achieve the desired effect. For example, a tightening in monetary policy is generally intended to reduce demand for bank credit. However, it can initially increase demand for two reasons. Many creditworthy customers substitute short-term borrowings for long-term debt in the hope of obtaining better terms on permanent financing later. In addition, because customers tend to borrow in advance of actual needs (to ensure that they have adequate funds at their disposal), they may actually increase their borrowing when rates initially rise to avoid even higher costs later.

Glass-Steagall reform brings gradual changes

In November 1999, the US Congress passed the Gramm-Leach-Bliley Act, effectively repealing the Depression-era Glass-Steagall Act. Approved in 1933, the Glass-Steagall Act authorized deposit insurance and restricted banks' ability to engage in debt and securities underwriting. It came about largely in response to the 1929 stock market crash and the many bank failures that occurred during the Great Depression. Glass-Steagall was designed to protect bank depositors from the risk involved when a bank sells or underwrites securities.

Following lengthy debate, the law was revised in 1987 to let commercial banks engage in specific securities activities, subject to limitations. Glass-Steagall's Section 20 provision was relaxed to allow banks to earn up to 5% of their revenues from securities underwriting. That limit was raised to 10% in 1989 and to 25% in late 1996. Concurrent with the 1987 revision, investment banks were allowed to enter commercial banks' traditional turf by offering such services as check writing.

Beginning in 1987, banks were able to create Section 20 subsidiaries — essentially separate units whose unique capital structures enable bank holding companies to conduct securities underwriting. Commercial banks have also pushed their way into the fields of investment management, mutual funds, insurance, municipal finance, and corporate investment banking. Such activities provide diversified sources of noninterest income for commercial banks.

By modifying the Bank Holding Company Act, the Gramm-Leach-Bliley Act allows affiliations between banks and insurance underwriters and prohibits state actions that prevent bank-affiliated firms from selling insurance on an equal basis with other insurance agents. Nonetheless, it preserves the authority of the states to regulate insurance.

The 1999 act also created a new kind of financial holding company that is permitted to expand into a variety of business activities related to financial services. These activities include the underwriting and selling of insurance and securities, conducting commercial and merchant banking, investing in and developing real estate, and other complementary activities. (As before, however, holding companies are restricted from having interests in enterprises that are nonfinancial in nature.)

An existing bank holding company can become a financial holding company, pro-

vided its depository institutions are well capitalized (as described in this *Survey's* "How to Analyze a Bank" section) and well managed, and that they have received a rating of at least "satisfactory" from the most recent Community Reinvestment Act examination.

The Community Reinvestment Act

Congress enacted the Community Reinvestment Act (CRA) in 1977 to encourage federally insured banks and thrifts to help meet the credit needs of their entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations. The CRA requires each federal bank regulatory agency to assess each federally insured institution's record of helping to meet the credit needs of its entire community. The four federal bank regulatory agencies responsible for enforcing the CRA include the Federal Deposit Insurance Corporation, the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

In 1995, CRA regulations were substantially revised to put greater emphasis on performance as opposed to process, and to establish different evaluation tests for different kinds of institutions: large institutions, small institutions, and wholesale and limited-purpose institutions. Streamlined procedures with an emphasis on lending were adopted for small institutions, while large banks are evaluated under a three-part lending, service, and investment test. Wholesale and limited-purpose banks are evaluated under a community development test.

Assessing new opportunities

As noted earlier, many restrictions on banks imposed by the original Glass-Steagall Act had already been whittled away, so Gramm-Leach-Bliley simply brought an old law up to date with economic reality. The reform has not led to a rash of mergers between companies in the three major businesses concerned (commercial banking, insurance, and investment banking), though many banks have diversified into new business areas.

Some of the new businesses in which banks are now authorized to invest, most notably insurance, are not viewed as particularly enticing. One major financial company, Citigroup, was formed through the merger of a bank and an insurance company (the October 1998 merger of Citicorp and Travelers Group), which would not have been permitted under the old law. However, Travelers was involved in several businesses other than insurance — most importantly, investment banking, through its Salomon Smith Barney subsidiary. Indeed, in August 2002, Citigroup spun off Travelers' property-casualty business.

Banks may be tempted to purchase an insurance operation to become more vertically integrated, or to add an insurance company's sizable investment portfolio to its own. However, many insurance lines, such as property-casualty, are actually quite volatile and potentially high in risk, and their investment returns can be lower than those of traditional banking businesses.

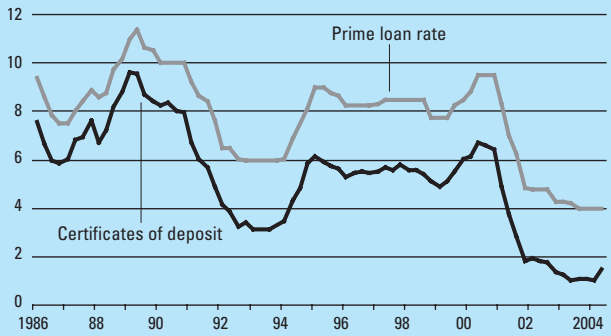
Compared with property-casualty, life insurance would seem to be a better fit with banks' appetite for risk and return. Furthermore, banks do have some potential synergies with insurance companies: notably, banks' large distribution networks and broad customer lists create opportunities for the cross-selling of products and services. Indeed, Citigroup has retained Travelers' life insurance business, and many banks have become active agents of insurance companies by selling annuities and other insurance products.

The industry has also seen some melding of corporate banking and investment banking and brokerage operations, including the merger of the retail brokerage forces of Wachovia and Prudential Financial Inc. in July 2003. However, issues surrounding the independence of stock research, allocation of initial public offerings, and unique financing arrangements got a number of larger diversified banks into some trouble and caused a widespread loss of investor confidence. Following Senate hearings in 2002 and actions by the Securities and Exchange Commission and other regulators, these incidents have led to greater regulatory oversight and may have deterred commercial banks' forays into investment banking activities, at least temporarily.

Interest rates: the key to profits

The outlook for interest rates has important implications for bank profits. Because banks derive most of their profits from net

MONEY RATES VS. LOAN RATES
(In percent)



Source: Federal Reserve Board.

interest income (the interest income received on loans minus the interest expense for borrowed funds), interest rates influence how much money a bank can make.

Net interest margin (a bank's net interest income divided by its average earning assets) is a common measure of a bank's ability to squeeze profits from its loans. Net interest margins widen or narrow depending on the direction of interest rates, the mix of funding sources underlying the loans, and the duration (or time period until expiration) of the investment portfolio.

Falling interest rates have a positive effect on banks for several reasons. They can make net interest margins expand, at least in the short term: while banks are still earning a higher-than-market yield on loans, the cost of funds goes down more quickly in response to the lower rates. Second, declining rates enhance the value of a bank's fixed-rate investment portfolio, since a bond with a higher stated interest rate becomes more valuable as prevailing rates drop. Furthermore, falling rates lower the cost of credit, which often stimulates loan demand and reduces delinquency rates.

Of course, rate decreases do not affect all banks equally. Liability-sensitive banks — those that rely more heavily on borrowed funds than on customer deposits to fund loan growth — typically reap greater benefits.

In the broadest sense, banks are inherently asset-sensitive because they derive a significant portion of their funding from essentially free sources, such as equity issues or demand deposits. This is especially true of the smaller regional banks that focus on garnering retail (consumer) deposits and that have limited access to the purchased money markets. Unless they work to reduce their asset sensitivity, they tend to do better in periods of rising interest rates.

Money center banks, however, rely heavily on borrowed funds, and have a small retail deposit base relative to their asset size. Thus, they tend to be liability-sensitive and their lending operations benefit most during periods of falling rates.

Fluctuations in interest rates, while important, do not have an absolute influence over the net interest margins of commercial banks, primarily because banks are able to adjust to such fluctuations. In theory, banks can match the maturities of their assets (loans and investments) and liabilities (deposits and borrowings) so that rates earned and rates paid move more or less in tandem, while net interest margins remain relatively stable. In practice, however, banks can — and do — deviate from a perfectly balanced position.

Infrastructure and operating costs

Banks' physical capital requirements mainly include constructing and maintaining branch offices (which are either owned or leased), and buying and maintaining computers and other machines used in the course of providing services. Banks try to economize their infrastructure costs by having branch locations within similar geographic regions.

As in most industries, other large cost components consist of salary and benefits, supplies, and insurance. Most expense line items tend to rise over time with inflation. In recent years, the low inflationary environment has allowed banks to restrain cost increases. In addition, technological improvements have provided for the replacement of certain labor-intensive functions with computers or other forms of automation, allowing increased productivity and a related improvement in the salary and benefits cost structure. Separately, mergers and internal consolidation measures have led to substantial gains in overall efficiency.

Competitive strategies: retail and commercial

Most banks in the United States are small entities competing in limited markets for local business. Often these banks — which have re-

tail as well as commercial operations — must compete for retail business against money center banks and large regional banks operating in their territories.

Retail banking, because it seeks to attract individual consumers, remains a service-oriented business. Today's banks are increasingly investing in new technology to make banking more pleasant and convenient for customers. ATMs, drive-through windows, and home banking services via phone or personal computer are all ways in which banks have attempted to improve the customer experience.

Competition has heated up in the retail market as some banks have expanded and achieved economies of scale through acquisitions. Interstate banks have the servicing advantages of larger ATM networks and more product offerings, such as mutual funds, insurance, and a variety of loan products.

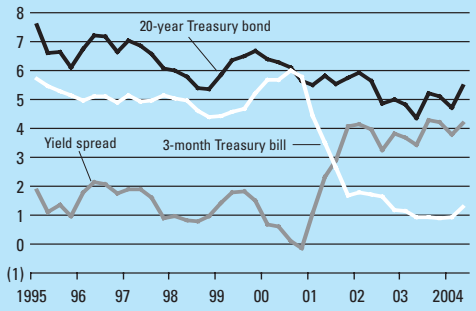
Industry competition has intensified as the consolidation wave has swept into every corner of the financial services industry. Consolidation has forced banks to rethink their corporate strategies in many areas, including geographic expansion, pricing of products and services, and efficiency optimization. Merged companies often set lofty performance goals for themselves to attain improved earnings growth, better return on assets and equity, and enhanced efficiency levels, which also heat up competition.

Increasingly, commercial banks must compete with other types of financial institutions for retail business, such as credit card companies and other specialized consumer lending organizations. Some banks have even turned to buying these institutions to acquire their large customer bases, strong marketing skills, and efficiency levels.

KEY INDUSTRY RATIOS AND STATISTICS

Interest rates. Interest rates are the key macroeconomic indicators affecting banks. For this reason, the banking world is highly concerned with Federal Reserve policy and its influence on interest rates. Bank analysts watch both short-term and long-term rates, as well as the relationship between the short and long markets, which can be graphed as the "yield curve."

SPREAD BETWEEN SHORT-TERM/LONG-TERM YIELDS
(In percent)



Source: Federal Reserve Board.

Short-term rates, generally represented by the discount rate (the rate charged by Federal Reserve banks when they extend credit to depository institutions) or by the federal funds rate (the rate charged among commercial banks for overnight lending), are controlled by Federal Reserve Board policy. Strong economic conditions and/or employment activity, which can generate shortages in both labor and goods and can fuel higher inflation, may lead the Fed to raise interest rates.

Although long-term rates (as represented by the yield on 10-year bonds) are subject to the same economic factors that influence short-term rates, they are controlled by market forces rather than by the Federal Reserve Board. Because market forces make them react more swiftly to daily economic developments, changes in long-term rates often precede those in short-term rates, and thus can be viewed as a leading indicator.

When long-term rates decline but short-term rates do not, it may mean that economic growth is falling or that unemployment is rising. In these circumstances, the Fed may decide to lower interest rates to stimulate the economy. Conversely, when long-term rates have risen but short-term rates have not, the Fed may raise interest rates.

Interest rates can be followed in various financial publications, including the business sections of many newspapers. The Federal Reserve reduced the federal funds rate 13 times from 2001 to 2003. After a 25-basis-point increase in June 2004, the federal funds rate was 1.25%. The yield on the 10-year bond was 4.46% as of early July 2004, up from 4.27% at the end of 2003, but still close to the lowest level seen in 30 years. Previous year-end yields were 4.03% in

2002, 5.09% in 2001, 5.24% in 2000, 6.28% in 1999, 4.65% in 1998, 5.81% in 1997, and 6.30% in 1996.

▶ **Gross domestic product (GDP).** Reported quarterly by the US Department of Commerce, GDP is the market value of all goods and services produced by labor and capital in the United States. As the broadest measure of aggregate economic activity, it is an important macroeconomic indicator for banks. Growth in the economy is measured by changes in inflation- adjusted (or real) GDP.

When the economy is strong, businesses want to borrow to fund expansion. Similarly, when job markets are favorable and consumer confidence is up, demand for consumer credit increases. Conversely, economic slowdowns tend to reduce credit demand. In addition, shortfalls in corporate profits and personal income can hurt credit quality.

In the early phases of an economic cycle, increased business activity tends to stimulate the financial markets, providing opportunities for banks to increase their earnings. The equation is not simple, however. Rapid growth in the economy can eventually drive up interest rates, as credit demand pushes up the cost of credit. In addition, if the Federal Reserve, which watches GDP closely, perceives that the economy is overheating, it will raise interest rates to restrain inflation. Conversely, it will consider reducing rates if inflation is slowing, for which reason loan and profit growth at banks tends to be subdued in an economic expansion's latter stages.

As the US economy rebounded a bit from a recession, real GDP growth was 3.1% in 2003, up from 2.2% in 2002. Standard & Poor's is currently projecting real GDP growth of 4.8% in 2004 and 3.7% in 2005.

HOW TO ANALYZE A BANK

When evaluating a bank, an analyst should consider both its profitability and its financial condition. Taken alone, short-term profit trends can be misleading. For example, if a bank achieves loan growth by engaging in excessively risky lending, it may be vulnerable to developments that would hurt its earnings or even threaten its survival over time.

It's also important to note that the accounting systems of financial institutions are different from those of most other corporations. To judge a particular institution's earnings and financial security, an analyst must use several measures. Such measures are most useful when trends are examined over various periods of time and compared with data from similar banks.

Every bank makes trade-offs between the profitability level it's striving to achieve and the risks it's willing to take. When banks of similar size and business profile are compared, a wide deviation from the norm on any one indicator can signal possible problems or advantages. Before drawing conclusions, however, it is important to pinpoint the reasons for the deviation.

Profitability measures

◆ **Return on assets (ROA).** A comprehensive measure of bank profitability is return on assets — a bank's net income divided by its total average assets during a given period. A trend of rising ROA is generally positive, provided it is not the result of excessive risk-taking.

Historically, most banks have had ROAs within a range of 0.60% to 1.50%. Regional and community banks, with a lower cost of funds and a higher-yielding loan mix, have higher net interest margins. Thus, over the long term, they tend to have ROAs in the upper part of the range.

In the three months ended March 31, 2004, the industry's average ROA was 1.38%, incrementally down from 1.39% in the first quarter 2003, aided by a rise in profitability, according to the Federal Deposit Insurance Corp. (FDIC). In the first quarter of 2004, average ROA was 1.02% for banks with assets of less than $100 million; 1.19% for banks with assets of between $100 million and $1 billion; 1.33% for banks with between $1 billion to $10 billion in assets; and 1.45% for banks with more than $10 billion in assets.

◆ **Return on equity (ROE).** Another measure of profitability, usually considered in conjunction with ROA, is return on equity. A bank's ROE is calculated by dividing net income by average shareholders' equity.

Because shareholders' equity normally backs only a small fraction of a bank's assets

(usually 5% to 10%), ROE is much larger than ROA, typically ranging from 10% to 25%. In the first three months of 2004, the industry's average ROE was 14.86%, compared with 15.07% in the same period a year earlier.

Banks that rely heavily on deposits and borrowings to support assets, rather than on stockholders' equity, tend to have higher ROEs than those that do not. An unusually high ROE versus ROA can indicate that the bank's equity base is too small compared with its debt; this high leverage may limit its ability to borrow further.

◆ **Yield on earning assets (YEA).** Because banks can achieve a given profit level in a variety of ways, the components affecting net income must be considered when evaluating the quality of earnings. Interest-earning assets — loans, short-term money market investments, lease financings, and taxable and nontaxable investment securities — are the principal source of most banks' revenues.

The yield on earning assets is calculated by dividing interest income on earning assets by the average value of these assets during the same period. Because some investment securities are tax-exempt, the interest income side of the ratio is usually calculated on a tax-equivalent basis to account for the added value of nontaxable income. (This is done by subtracting the tax rate from the number one, then dividing nontaxable income by that figure.)

Because it reflects general interest-rate levels, the YEA can fluctuate considerably over time. If a bank's YEA is high relative to those of other banks, it may indicate a high-risk portfolio of earning assets, particularly high-risk loans. If it is substantially lower than those of other banks, it may indicate that the bank's portfolio has several "problem loans" that are yielding less than they should. Alternatively, it may simply show that the bank has overly conservative lending policies.

According to the FDIC, the average US commercial bank had a YEA of 5.14% in the first quarter of 2004, down from 5.36% in the 2003 period.

◆ **Rate paid on funds (RPF).** The "raw material" that banks use to produce income is money, and the cost of obtaining such funds significantly affects bank profits. A measure of this cost is the rate paid on funds, which is also known as yield on earning assets; it is calculated by dividing the interest expense on the funds a bank uses to support earning assets by the total average level of funds employed in that way.

RPF varies with the general level of interest rates and is affected by the make-up of the bank's liabilities. The greater the proportion of a bank's non–interest-bearing demand accounts, low interest-rate savings accounts, and equity, the lower its RPF will be. Consequently, retail-oriented banks that derive a higher proportion of their funds from consumer deposit accounts tend to have lower RPFs than wholesale banks that purchase most of their funds in the money market.

According to the FDIC, the average US commercial bank had an RPF of 1.46% in the first quarter of 2004, versus 1.62% in the first quarter of 2003.

◆ **Net interest margin (NIM).** Net interest margin equals the difference between the yield on earning assets and the rate paid on funds. It can also be calculated by dividing tax-equivalent net interest income by average earning assets. (Tax-equivalent net interest income is calculated by subtracting interest expense from tax-equivalent interest income.)

A NIM of less than 3% is generally considered low, and more than 6% is very high. This range is only a rough guideline, however, because NIM can vary with the particular business mix of individual banks. Net interest margin tends to be higher at small retail banks than at large wholesale banks.

A widening NIM is a sign of successful management of assets and liabilities, while a narrowing NIM indicates a profit squeeze. According to the FDIC, the industry's average NIM was 3.68% in the first three months of 2004, down from 3.80% in the first quarter of 2003.

◆ **Provision for loan losses.** The provision for loan losses should be considered along with the net interest margin when evaluating the quality of a bank's financial performance. The provision, which appears on the income statement, is a quarterly charge taken against earnings; the charge then goes into a cumulative reserve to cover possible loan losses. (The loss reserve is a balance sheet item that is discussed below under the heading "Measures of financial condition.")

The provision's size as a percentage of total loans reflects the success or failure of the bank's credit evaluation procedures and the risk inherent in the bank's loan portfolio. Over the short term, risky, high-interest loans may boost a bank's yield on earning assets and, hence, its net interest margin. However, when a bank makes a greater number of high-risk loans, it needs to increase its provision for loan losses in the long term.

For any given bank, the provision for loan losses rises over time to reflect growing loan portfolios and increases in the dollar level of charge-offs. However, the provision for loan losses can vary greatly from quarter to quarter and from year to year. In recessionary times, when corporate clients find it hard to service their debts, bank managers usually raise the provision for loan losses; they generally keep it at high levels until well after an economic recovery has begun.

A bank's managers can exercise a good deal of discretion in establishing the provision for loan losses. Hence, this provision should be examined in conjunction with the bank's reserve for loan losses, charge-off experience, and level of nonperforming loans, to see whether management is making adequate provisions or is simply using the charge to manipulate reported earnings.

According to the FDIC, provisions for loan losses for commercial banks totaled $7.5 billion in the first quarter of 2004, down from $10.3 billion in the first three months of 2003.

◆ **Noninterest income.** Noninterest income includes service charges on deposit accounts, along with trust, mortgage banking, insurance commissions, and other fees. Additionally, gains or losses from securities transactions, once reported separately, are now included under noninterest income, in accordance with a 1982 Securities and Exchange Commission (SEC) ruling.

The proportion of noninterest income to total income has risen for a number of banks. For most banks, noninterest income now constitutes more than 20% of total revenues (total interest income plus noninterest income). In general, large banks tend to have a greater proportion of their total income attributable to non–interest-bearing sources than do smaller banks. This reflects large banks' involvement in currency and bond trading, trust services, mortgage banking, capital markets activities, corporate finance, and other fee-based financial services.

◆ **Noninterest expenses and the efficiency ratio.** Noninterest expenses represent all expenses incurred in operations, including such items as personnel and occupancy costs. To calculate the efficiency ratio, divide noninterest expenses by net operating revenues. A high or rising efficiency ratio can signal inefficient operations, or it might reflect heavy technology spending or restructuring charges. The typical range is between 55% and 65%.

Also included under noninterest expenses are costs associated with foreclosed properties, which can raise the efficiency ratio.

The industry's efficiency ratios of 57.4% in the first quarter of 2004, 56.4% in the same period a year earlier, and 55.0% in the first quarter of 2002 showed marked improvement from the high levels of about 70% seen in 1993. Foreclosures were partly responsible for the high ratios seen in 1993 and a few other years. However, improvements were also realized through cost-cutting measures related to consolidation.

In general, banks that gather many of their funds from retail customers tend to have higher ratios of noninterest expenses to income than do those that purchase most of their funds. This reflects the costs involved in maintaining branches and servicing retail accounts.

Measures of financial condition

◆ **Reserve for loan losses.** To protect themselves from possible default by loan customers at some point in the future, banks are required to maintain a reserve for loan losses. This reserve appears on a bank's balance sheet as a contra account, or a net reduction, to loans outstanding. It is a set-aside that is built by the provision for loan losses (discussed earlier) and reflects management's judgment regarding the quality of its loan portfolio. For the outside analyst, the value of this measure is that it provides a way to judge the quality of the loan portfolio and whether the bank's officers are adequately managing it.

In general, the reserve for loan losses at most banks falls within a range of 0.50% to 5.00% of total loans outstanding. This repre-

BALANCE SHEET — FDIC-INSURED COMMERCIAL BANKS

(In billions of dollars)

	DEC. 31		MAR. 31		YR-TO-YR % CHANGE*	
ITEM	R2002	2003	2003	2004	DEC.	MAR.
Total assets	7,077	7,601	7,197	7,818	7.4	8.6
Loans and leases						
Real estate loans	2,068	2,272	2,110	2,347	9.9	11.2
Comm'l & industrial loans	912	871	905	865	(4.5)	(4.4)
Loans to individuals	704	770	684	750	9.5	9.7
Farm loans	47	46	44	44	(1.1)	(1.2)
Other loans & leases	429	472	454	486	10.0	7.1
LESS: Unearned income	3	3	3	3	(15.6)	(20.0)
Total loans & leases	4,156	4,429	4,194	4,489	6.6	7.0
LESS: Reserves for losses	77	77	77	76	0.2	(2.0)
Net loans & leases	4,079	4,352	4,116	4,413	6.7	7.2
Securities	1,335	1,456	1,382	1,576	9.1	14.0
Other real estate owned	4	4	4	4	1.7	(3.8)
Goodwill & other intangibles	125	158	129	158	26.7	22.2
All other assets	1,534	1,631	1,565	1,666	6.3	6.5
Total liabilities & capital	7,077	7,601	7,197	7,818	7.4	8.6
Noninterest-bearing deposits	939	957	944	989	1.9	4.7
Interest-bearing deposits	3,751	4,072	3,835	4,192	8.6	9.3
Other borrowed funds	1,251	1,353	1,247	1,405	8.1	12.6
Subordinated debt	95	101	95	100	6.3	5.2
All other liabilities	394	427	416	417	8.3	0.3
Equity capital	648	692	659	715	6.9	8.5

*Based on unrounded data. R-Revised.
Source: Federal Deposit Insurance Corporation.

sents a steep rise since 1983, when the range was 0.60% to 1.00%. According to the FDIC, total industry reserves amounted to 1.52% of loans and leases at March 31, 2004, down from 1.5% a year earlier.

The adequacy of a bank's reserve for loan losses should be judged in relation to the value of its problem loans and loan charge-offs. Ratios at the higher end of the range usually indicate that a bank has a very high level of problem loans, such as nonperforming commercial real estate. However, if a bank has a reserve considerably lower than banks of similar size with comparable loan portfolios, it may indicate a lack of management prudence or a reluctance to reduce reported earnings — which in turn could signal a whole other set of potential problems.

When management deems a loan uncollectible, it writes the loan off the books and deducts the sum from the reserve for loan losses. A loan that is later collected is called a recovery and is added back into the reserve. Therefore, in any given quarter, the reserve will be reduced by the level of net charge-offs (charge-offs, less recoveries). A high level of recoveries may signal conservative bank management because it suggests that management is not reluctant to write off problem loans, even though some of these are later repaid.

Over time (and assuming the volume of loans outstanding remains steady), the provision for loan losses, which appears in the income statement, must at least equal the level of charge-offs in order to maintain the reserve for loan losses at a given proportion of total loans. If the provision for loan losses does not rise to compensate for higher charge-offs, management may be manipulating reported earnings by running down the reserve.

Reserve levels in excess of 150% of nonperforming loans are common. According to the FDIC, as of March 31, 2004, the industry had built a reserve for loan losses totaling $75.9 billion, up from $77.2 billion a year earlier. In the aggregate, those reserves represented coverage of 149% of noncurrent loans and leases, up from 136% a year earlier.

◆ **Nonperforming loans.** Nonperforming loans are loans on which income is no longer being accrued, and for which repayment has been rescheduled. The level of nonperforming loans is another indication of the quality of a bank's portfolio.

The ratio of nonperforming loans to total loans can range upward from 0.5%. When it exceeds 3% — as it has in past years for banks with heavy commercial real estate exposure — it can cause concern. In addition to reducing the flow of interest income, nonperforming loans represent potential charge-offs if their quality deteriorates further.

As the level of nonperforming loans rises, charge-offs and the provision for loan losses frequently rise as well. For a bank with a very high level of nonperforming loans — approaching 7% or more — the future may be in doubt.

◆ **Net charge-offs.** Net charge-offs comprise loans and leases deemed uncollectible by management, less recoveries on previously charged-off loans and leases. They are usually measured as a percentage of average loans outstanding during a given period. For banks, net charge-offs typically range between 0.5% and 1% of total loans. A high percentage of charge-offs implies that a bank has a risky loan portfolio.

Charge-offs usually rise during a recession and decline only after an economic recovery is well under way. For instance, from a high of 1.27% in 1992, net charge-offs declined steadily until 1995, when they reached 0.49%. Since then, however, they have generally trended upward, reaching 0.59% in 2000, 0.83% in 2001, 0.97% in 2002, and 0.78% in 2003, according to the FDIC. Thus far in 2004, the trend appears to have reversed direction once again. In the first quarter of 2004 net charge-offs were 0.64% of average loans and leases, compared with 0.81% in the first three months of 2003.

◆ **Capital levels.** The Federal Reserve System has established two basic measures of capital adequacy with which bank holding companies must comply: a risk-based measure and a leverage measure.

Risk-based standards consider differences in risk profile among banks to account for off–balance-sheet exposure and to encourage banks to hold liquid assets. Assets and off–balance-sheet items are assigned to broad risk categories, each representing various weightings. Capital ratios represent capital as a percentage of total risk-weighted assets. The minimum guideline for the ratio of total capital to risk-weighted assets is 8.0%. At least half of total capital must consist of Tier I capital — common equity and certain preferred stock, less goodwill and other intangible assets.

The Fed's minimum leverage ratio guidelines for bank holding companies provide for a 3.0% minimum ratio of Tier 1 capital to average assets, less goodwill and certain intangible assets. Bank holding companies making acquisitions are expected to maintain capital positions substantially above the minimum supervisory level.

In general, the higher the percentage given for either of these measures, the more conservative the bank. A high capital ratio also indicates the ability to grow through either internal means or acquisitions. Failure to meet capital guidelines could subject a bank to a variety of enforcement actions, including the termination of deposit insurance by the FDIC and restrictions on the bank's business by the FDIC or the Federal Reserve.

Improvement in banks' profitability and risk profiles since the late 1980s has resulted in much stronger capital levels. The vast majority of banks now exceed minimum capital guidelines by a comfortable margin.

◆ **Debt leverage.** Banks incur debt when they invest in productive capacity — whether expanding their facilities or borrowing money to make additional loans for which they do not have sufficient deposits.

The extent of a bank's financial leverage says something about its relative risk profile. One measure of leverage is long-term debt divided by the sum of equity and total debt. For banks, a figure of 45% is generally the upper limit. Banks with lower debt levels have more room to borrow should the need arise.

◆ **Liquidity.** A low debt level contributes to a bank's liquidity — its ability to raise funds for lending and other purposes. One gauge of liquidity is the proportion of loans outstanding to total assets. A bank that is "loaned up" has a high ratio of loans to assets; 65% or more is considered high, or illiquid.

In contrast, a liquid bank has a smaller proportion of its assets in loans, and more in short-term money market investments and investment securities, both of which can be quickly converted into funds and loaned out. If a bank has a high proportion of such investments and a small proportion of loans, it

could indicate a lack of good business opportunities in the bank's market.

◆ **Derivatives.** Derivatives are financial instruments whose value is based on an underlying security or currency or on interest rate levels. Without any value in and of themselves, derivatives involve an agreement between two or more parties, which essentially bet on the future direction of the underlying asset; the party that bets correctly gains, the party that does not, pays.

Banks, multinational corporations, and the like, as well as speculative investors, use derivatives as hedging devices. Derivatives are "sold" by banks and other dealers, which arrange and enforce the contracts. Commercial banks are powerful players in the derivatives market; certain money center banks have been important dealers since the market's birth in the early 1980s. Some regional banks, formerly end users of derivatives, now act as dealers as well.

Derivatives pose inherent risks. First, there is the chance that the bet will not go in the direction one hopes. Second, a counterparty may fail to fulfill an obligation specified by the derivative contract terms. Failure to fulfill an obligation could be caused by wide swings in interest rates or currency values that lead to a large loss.

In assessing a bank's exposure to derivatives, it is important to understand the difference between notional principal and actual credit exposure. Notional principal is the amount on which interest and other payments in a transaction are based. In most derivative transactions, the parties do not exchange the notional principal; it is only used to calculate payments. Credit exposure is more accurately assessed by the cost to replace the derivative contract at current market rates in case a counterparty defaults before the settlement date; this is referred to as the replacement cost or mark-to-market exposure. Most banks do not deal in derivatives considered complex or highly leveraged. Accordingly, the notional amount of such derivatives tends to be immaterial when compared with a bank's total assets. ■

ANALYZING A HYPOTHETICAL BANK

Since analyzing a financial institution is quite different from analyzing an industrial company, let's walk through a brief analysis of XYZ bank, which has reported the fictitious financial results shown in the tables below.

(a) Divide net operating income by total assets to get ROA: 11/1100 = 1.00%.

Divide net income (minus preferred dividends) by average common stockholders' equity to get the return on equity (ROE): 11/50 = 22%. By both measures, ROA and ROE, the bank is highly profitable.

(b) Divide total interest income by total earning assets to get the gross yield on earning assets (GYEA): 60/995 = 6%.

(c) Divide total interest expense by total earning assets to get the rate paid on funds (RPF): 40/995 = 4%.

(d) Divide net interest income by total earning assets to get the net interest margin (NIM): 20/995 = 2%.

(e) Provision for loan losses does not cover net charge-offs. Consequently, the reserve for loan losses is being run down. Assuming that loans did not grow during the year, the reserve as a percentage of total loans declined from 1.56% at 2001 year-end to 1.11% (14/900 = 1.56%, versus 10/900 = 1.11%). Because the level of nonperforming loans is high (45/900 = 5.00%) and net charge-offs as a percentage of loans is high (6/900 = 0.67%), the reserve should arguably be higher. This would have required a higher provision, which would, in turn, have reduced income.

(f) Long-term debt as a percentage of debt plus equity is fairly high — 35/(35 + 50) = 41% — suggesting that further borrowing could be difficult.

(g) The ratio of loans to total assets (900/1100 = 82%) is very high. The bank is loaned up, and its liquidity is low.

(h) Tier I and total capital are calculated as follows: Tier I = $50 stockholders' equity/$1,095 in risk-adjusted assets ($5 cash is weighted at 0%, the rest at 100% for simplicity's sake, totaling $1,095 in risk adjusted assets) = a Tier I ratio of 4.57%, which is above the FDIC's 1996 guideline of 4.00%. Total capital includes Tier I plus $10 in the reserve for loan losses (up to 1.25% of risk-adjusted assets) plus subordinated notes up to 50% of Tier I capital (or $25 in this example). Total risk-adjusted capital would equal $85/$1,095, or 7.77%, which is below the 8.00% 1996 guideline. Some additional equity financing in conjunction with an addition to the reserve appears to be in order. ■

INCOME STATEMENT FOR XYZ BANK — 2003

Total interest income	60	(b)
Total interest expense	-40	(c)
Net interest income	20	(d)
Provision for loan losses	-2	(e)
Noninterest income	2	
Noninterest expense	-4	
Pretax income	16	
Income taxes	-5	
Net operating income	11	(a)

RESERVE FOR LOAN LOSSES

(XYZ Bank - 2003)

Balance, beginning of year	14	(e)
Provision for loan losses	2	
Charge-offs	-8	
Recoveries	2	
Net charge-offs	-6	(e)
Balance, at end of year	10	(e)
Nonperforming loans	45	(e)

BALANCE SHEET FOR XYZ BANK

(Year ended December 31, 2003)*

Assets			**Liabilities**		
Cash	5	(h)			
Temporary investments	20		Deposits	775	
Investment securities	75	(b)(c)(d)	Short-term borrowings	240	
Loans	900	(e)(g)	Long-term debt	35	(f)
Total earnings assets	995	(b)(c)(d)			
Reserve for loan losses	-10	(e)(h)	Total liabilities	1,050	
Building and equipment	110		Stockholders' equity	50	(a)(f)(h)
Total assets	1,100	(a)(g)(h)	Total liabilities & stockholders' equity	1,100	

*For simplicity's sake, year-end and average figures are assumed to be the same.

Glossary

Basis point — One-hundredth of one percent (0.01%); the unit generally used to measure movements in interest rates or investment returns.

Capital — For commercial banks, capital is the sum of equity capital and loan loss reserves. Under certain conditions, regulators allow some categories of subordinated debt to be included as capital.

Commercial paper — Short-term promissory notes issued by companies and sold to investors, mainly other companies. Commercial paper provides corporations with a way to borrow among themselves, bypassing the banking network.

Core deposits — The total of a bank's demand deposits (checking accounts), consumer time deposits (savings certificates and regular passbook savings accounts), and NOW accounts.

Cross-border outstandings — Loans, acceptances, and deposits made to a foreign country in a currency other than that country's local currency.

Discount rate — Interest rate at which an eligible depository institution may borrow funds, typically for a short period, directly from a Federal Reserve bank.

Earning assets — Interest-bearing financial instruments, comprising commercial, real estate, and consumer loans; investment and trading account securities; money-market investments; lease finance receivables; and time deposits in foreign banks.

Federal funds — Funds, including those in excess of bank reserve requirements, that are deposited by commercial banks at Federal Reserve banks. Commercial banks may lend federal funds to each other on an overnight basis at the federal funds rate.

Federal funds rate — The interest rate charged by banks that loan their excess reserves in a Federal Reserve district bank to other banks that need overnight loans to meet reserve requirements.

Float — The portion of gross checking account (demand deposit) balances that is in the process of being collected.

Gap — The difference between a financial institution's liabilities and its assets as both items mature over time. If more liabilities than assets mature or are repriced, the bank is liability-sensitive (has a negative gap). If more assets mature than liabilities, the bank is asset-sensitive (has a positive gap). In a period of falling interest rates, a bank with a negative gap will see net interest margins widen; conversely, a bank with a positive gap will benefit during a period of rising rates.

Hedging — A strategy used to offset financial risk. A bank looking to minimize its exposure to interest rate or currency risk, for example, would buy or sell futures or options contracts. A perfect hedge is one that eliminates the possibility of future gain or loss.

Interest rate sensitivity — The degree to which an asset is subject to fluctuations in interest rates. The term is typically used with respect to interest-earning assets or interest-bearing liabilities whose interest rates are adjustable within a short period (less than one year), according to maturity or contractual terms. Rate adjustments usually reflect changes in prevailing short-term money rates.

Margin — Net interest income divided by average earning assets.

Negotiable certificates of deposit — Marketable receipts for funds deposited in a bank at interest for a specified period, usually between 30 and 90 days; sold in denominations of $100,000 or more.

Negotiable order of withdrawal (NOW) accounts — Interest-bearing checking accounts written on time deposits. Technically, 30 to 90 days' notice is required before these funds can be withdrawn, but in practice, prior notice isn't needed, and the negotiable order of withdrawal works like a check.

Net charge-offs — The collective amount of loans that are no longer likely to be collected and are written off as bad debt expense, minus recoveries of payments previously charged off.

Net interest income — Total interest revenues minus total interest expenses.

Net interest spread — The difference between the average rate a bank receives from its earning assets and the average rate it pays for deposits and borrowed funds; a measure of the profitability of a bank's lending business.

Nonaccrual (cash-basis) loans — Loans or other assets whose income is recognized when cash is actually collected. In some situations, cash receipts from these assets are credited directly to principal. This method of accounting differs from the standard practice of accruing rights to that income, where banks reasonably expect to continue accruing principal and interest payments.

Nonperforming assets — A bank's total nonaccrual loans, renegotiated-rate loans, and other real estate owned, from which principal and interest payments aren't being received according to original agreements.

Other real estate owned (OREO) — Foreclosed properties of real estate investments acquired in lieu of loan indebtedness.

Prime rate — The base rate that banks use in pricing commercial loans to their best and most creditworthy customers. This key rate is determined by the Federal Reserve's prevailing interest rates for short-term borrowing.

Renegotiated-rate loan — A loan for which the interest rate or repayment terms have been revised due to credit deterioration.

Reserve for loan losses — A reserve fund composed of accumulated earnings that a bank sets aside to protect its loan portfolio from potential losses on loans. It is distinct from the deposits with the Federal Reserve Bank that are mandated to satisfy reserve requirements.

Risk-based capital — A regulatory measurement of a bank's capital adequacy. Guidelines set forth how capital is measured and how assets, including off–balance-sheet items, are risk-adjusted to reflect the level of credit risk they entail.

Taxable equivalent income — Income from tax-exempt securities and certain other tax-exempt assets that for purposes of comparison is increased by the amount of tax that would have been paid if it were taxable at statutory rates.

Tier I capital — Common equity, less goodwill and other intangible assets, plus noncumulative perpetual preferred stock and cumulative preferred stock.

Trading account securities — Bank bond inventories. These securities, held primarily with the expectation that they will generate capital gains, are valued on bank balance sheets at cost or at market value, whichever is lower.

Industry References

PERIODICALS

ABA Banking Journal
Simmons-Boardman Publishing Corp.
345 Hudson St., New York, NY 10014
(212) 620-7224
Web site: http://www.ababj.com
Monthly journal of the American Bankers Association; focuses on regulatory developments and compliance issues.

American Banker
Thomson Media
One State St. Plaza, New York, NY 10004
(212) 803-8200
Web site: http://www.americanbanker.com
Daily newspaper reporting on a broad range of legislative, product, and financial developments affecting depository institutions.

Federal Reserve Bulletin
Board of Governors of the Federal Reserve System
20th St. and Constitution Ave. NW
Washington, DC 20551
(202) 452-3000
Web site:
http://www.federalreserve.gov/publications.htm
Monthly bulletin with data and articles covering banking and economic developments.

Quarterly Banking Profile
Federal Deposit Insurance Corp.
Public Information Center, Room 100
550 17th St., NW, Washington, DC 20429
(877) 275-3342; (202) 736-0000
Web site: http://www2.fdic.gov/qbp/index.asp
Quarterly bulletin with earnings and balance-sheet data for FDIC-insured institutions.

REGULATORY AND OTHER FEDERAL AGENCIES

US Department of Justice (DOJ)
Antitrust Division
950 Pennsylvania Ave. NW, Washington, DC 20530
(202) 514-2401
Web site: http://www.usdoj.gov/atr/index.html
As enforcer of antitrust rules, the DOJ reviews bank mergers for compliance with the Clayton Act, which prohibits mergers or acquisitions that are likely to reduce competition.

Federal Deposit Insurance Corp. (FDIC)
550 17th St. NW, Washington, DC 20429
(202) 736-0000
Web site: http://www.fdic.gov
Independent deposit insurance agency created by Congress to maintain stability and public confidence in the US banking system by identifying, monitoring, and addressing risks to insured depository institutions.

Federal Reserve System, Board of Governors
20th St. and Constitution Ave. NW
Washington, DC 20551
(202) 452-3000
Web site: http://www.federalreserve.gov
Founded by Congress in 1913, the Federal Reserve System supervises and regulates banks; maintains the stability of the financial system; conducts US monetary policy by influencing money and credit conditions; and provides certain financial services to the US government, the public, financial institutions, and foreign official institutions.

TRADE ASSOCIATIONS

American Bankers Association
1120 Connecticut Ave. NW, Washington, DC 20036
(800) 226-5377
Web site: http://www.aba.com
Largest banking trade association; represents all categories of banking institutions, including community, regional, and money center banks.

American Bankruptcy Institute
44 Canal Center Plaza, Ste. 404, Alexandria, VA 22314
(703) 739-0800
Web site: http://www.abiworld.org
A multidisciplinary, nonpartisan organization founded in 1982 to provide Congress and the public with analysis of bankruptcy issues. Membership includes 7,500 attorneys, auctioneers, bankers, judges, professors, turnaround specialists, accountants, and other bankruptcy professionals.

MARKET RESEARCH FIRMS

Sheshunoff Information Services
807 Las Cimas Pkwy., Ste. 300, Austin, TX 78746
(512) 472-2244; (800) 456-2340
Web site: http://www.sheshunoff.com
A market research firm offering financial data and analysis to banks, credit unions, corporations, and accounting and consulting firms.

SNL Financial
One SNL Plaza, PO Box 2124, Charlottesville, VA 22902
(434) 977-1600
Web site: http://www.snl.com
A financial information and research firm that collects, standardizes, and disseminates corporate, financial, market, and M&A data, plus news and analytics for the banking and other industries.

Definitions for Comparative Company Analysis Tables

Operating revenues
The sum of net interest income, taxable equivalent adjustment, and noninterest income. Net interest income is interest and dividend income, minus interest expense. Taxable equivalent adjustment is the increase to render income from tax-exempt loans and securities comparable to fully taxed income. Noninterest income includes service fees and trading and other income; it excludes gains/losses on securities transactions.

Net income
The final profit before dividends (common and preferred) from all sources, after deduction of expenses, taxes, and fixed charges, but before any discontinued operations or extraordinary items.

Net interest margin
A percentage computed by dividing net interest income, on a taxable equivalent basis, by average earning assets. Used as an analytical tool to measure profit margins from providing credit services.

Return on assets
Net income divided by average total assets. Used in industry comparisons and as a measure of asset-use efficiency.

Return on equity
Net income, less preferred dividend requirements, divided by average common shareholder's equity. Generally used to measure performance and to make industry comparisons.

Total assets
Includes interest-earning financial instruments — principally commercial, real estate, and consumer loans and leases; investment securities/trading accounts; cash/money market investments; and other owned assets.

Total loans
All domestic and foreign loans (excluding leases), minus unearned discount and reserve for possible losses. Generally considered a bank's principal asset.

Total deposits
The sum of demand (payable at any time upon demand of depositor) and time (not payable within 30 days) deposits.

Equity/assets
Average common equity divided by average total assets. It is a measure of capital adequacy.

Loans/deposits
Proportion of loans funded by deposits. It is a measure of liquidity and an indication of a bank's ability to write more loans.

Loan loss reserves
Expressed as a percentage of total loans, this is a contra-account to loan assets. Built through provisions for loan losses, it serves as a cushion for possible future loan charge-offs.

Price/earnings ratio
The ratio of market price to earnings, obtained by dividing the stock's high and low market price for the year by earnings per share (before extraordinary items). It essentially indicates the value investors place on a company's earnings.

Dividend payout ratio
The percentage of earnings paid out in dividends. It is calculated by dividing the annual dividend by the earnings. Dividends are generally total cash payments per share over a 12-month period. Although payments are usually calculated from the ex-dividend dates, they may also be reported on a declared basis where this has been established to be a company's payout policy.

Dividend yield
Total cash dividend payments, divided by the year's high and low market prices for the stock.

Earnings per share
The amount a company reports as having been earned for the year (based on generally accepted accounting standards), divided by the number of shares outstanding. Amounts reported in *Industry Surveys* exclude extraordinary items.

Tangible book value per share
The theoretical dollar amount per common share one might expect to receive should liquidation take place. Generally, book value is determined by adding the stated (or par) value of the common stock, paid-in capital, and retained earnings, then subtracting intangible assets, preferred stock at liquidating value, and unamortized debt discount. This amount is divided by the number of outstanding shares to get book value per common share.

Share price
This shows the calendar-year high and low of a stock's market price.

In addition to the footnotes that appear at the bottom of each page, you will notice some or all of the following:
NA—Not available.
NM—Not meaningful.
NR—Not reported.
AF—Annual figure. Data are presented on an annual basis.
CF—Combined figure. In this case, data are not available because one or more components are combined with other items.

Operating Revenues

Ticker		Company	Yr. End	Million $ 2003	2002	2001	2000	1999	1998	Compound Growth Rate (%) 5-Yr.	1-Yr.	Index Basis (1998 = 100) 2003	2002	2001	2000	1999
DIVERSIFIED BANKS‡																
BAC	*	BANK OF AMERICA CORP	DEC	38,827.0	34,996	33,808.0	32,406	32,021.0	29,709	5.5	10.9	130.7	118	114	109	107.8
CMA	*	COMERICA INC.	DEC	2,813.0	2,946	2,754.0	2,473	2,264.0	2,058	6.5	-4.5	136.7	143	134	120	110.0
USB	*	U S BANCORP	DEC	12,456.1	12,384	10,821.8	3,918	3,575.3	2,030	43.7	0.6	613.6	610	533	193	176.1
WB	*	WACHOVIA CORP	DEC	19,558.0	17,441	13,965.0	11,959	13,981.0	12,620	9.2	12.1	155.0	138	111	95	110.8
WFC	*	WELLS FARGO & CO	DEC	28,389.0	24,496	20,150.0	19,007	16,775.0	14,265	14.8	15.9	199.0	172	141	133	117.6
REGIONAL BANKS‡																
ASO	*	AMSOUTH BANCORPORATION	DEC	2,270.4	2,212	2,143.1	1,938	2,054.1	1,046	16.8	2.6	217.1	212	205	185	196.5
ASBC	†	ASSOCIATED BANC CORP	DEC	757.2	722	617.6	568	561.7	543	6.9	4.9	139.5	133	114	105	103.5
BOH	†	BANK OF HAWAII CORP	DEC	542.8	554	807.5	820	817.8	769	-6.7	-2.1	70.6	72	105	107	106.4
BNK	†	BANKNORTH GROUP INC	DEC	1,169.4	1,050	912.9	781	546.1	435	21.9	11.4	268.9	242	210	180	125.6
BBT	*	BB&T CORP	DEC	4,496.5	4,401	3,614.2	2,655	2,283.8	1,761	20.6	2.2	255.3	250	205	151	129.7
CF	*	CHARTER ONE FINANCIAL INC	DEC	1,867.4	1,717	1,464.0	1,296	1,164.7	941	14.7	8.7	198.5	183	156	138	123.8
CYN	†	CITY NATIONAL CORP	DEC	691.8	660	566.5	516	409.2	361	13.9	4.8	191.5	183	157	143	113.2
CNB	†	COLONIAL BANCGROUP	DEC	633.8	563	512.6	465	518.9	447	7.2	12.7	141.9	126	115	104	116.1
CBH	†	COMMERCE BANCORP INC/NJ	DEC	1,088.3	830	598.1	448	359.0	263	32.9	31.1	414.3	316	228	170	136.7
CBSS	†	COMPASS BANCSHARES INC	DEC	1,433.9	1,363	1,195.1	971	875.2	780	12.9	5.2	183.8	175	153	124	112.2
CFR	†	CULLEN/FROST BANKERS INC	DEC	529.1	515	489.2	493	454.1	394	6.1	2.8	134.2	131	124	125	115.1
FITB	*	FIFTH THIRD BANCORP	DEC	5,368.3	4,894	3,882.0	2,449	2,200.1	1,533	28.5	9.7	350.3	319	253	160	143.6
FBP	§	FIRST BANCORP P R	DEC	410.9	325	289.0	241	218.6	224	12.9	26.3	183.1	145	129	107	97.4
FHN	*	FIRST HORIZON NATIONAL CORP	DEC	2,445.8	2,294	1,945.9	1,662	1,712.6	1,526	9.9	6.6	160.3	150	128	109	112.2
FMER	†	FIRSTMERIT CORP	DEC	603.8	608	573.9	540	485.9	399	8.7	-0.7	151.4	152	144	135	121.9
GBBK	†	GREATER BAY BANCORP	DEC	469.4	502	365.9	277	135.6	69	46.9	-6.4	683.3	730	533	404	197.3
HIB	†	HIBERNIA CORP -CL A	DEC	1,020.8	1,057	982.8	859	790.5	715	7.4	-3.4	142.7	148	137	120	110.5
HU	§	HUDSON UNITED BANCORP	DEC	432.3	478	394.8	329	366.7	221	14.4	-9.5	195.5	216	179	149	165.9
HBAN	*	HUNTINGTON BANCSHARES	DEC	1,909.6	2,070	1,405.7	1,386	1,518.5	1,369	6.9	-7.7	139.5	151	103	101	110.9
IFC	§	IRWIN FINL CORP	DEC	601.2	471	418.5	308	275.9	307	14.4	27.6	195.9	153	136	101	89.9
KEY	*	KEYCORP	DEC	4,485.0	4,518	4,378.0	4,801	4,861.0	4,324	0.7	-0.7	103.7	104	101	111	112.4
MTB	*	M & T BANK CORP	DEC	2,369.5	1,760	1,627.7	1,153	1,037.1	914	21.0	34.7	259.4	193	178	126	113.5
MI	*	MARSHALL & ILSLEY CORP	DEC	2,216.4	2,089	1,752.4	1,585	1,551.1	1,409	9.5	6.1	157.3	148	124	112	110.1
MRBK	†	MERCANTILE BANKSHARES CORP	DEC	655.9	586	563.7	534	491.1	462	7.3	12.0	142.0	127	122	116	106.3
NCC	*	NATIONAL CITY CORP	DEC	7,923.9	6,817	6,046.6	5,384	5,343.0	4,846	10.3	16.2	163.5	141	125	111	110.2
NCF	†	NATIONAL COMMERCE FINANCIAL	DEC	1,144.3	1,120	964.6	543	327.9	277	32.8	2.2	412.4	403	348	196	118.1
NFB	*	NORTH FORK BANCORPORATION	DEC	959.4	966	795.4	631	522.3	437	17.1	-0.7	219.8	221	182	144	119.7
PNC	*	PNC FINANCIAL SVCS GROUP INC	DEC	5,158.0	5,394	4,614.0	5,055	4,845.0	5,196	-0.1	-4.4	99.3	104	89	97	93.2
RF	*	REGIONS FINL CORP	DEC	2,852.8	2,751	2,384.1	1,990	1,963.0	1,678	11.2	3.7	170.0	164	142	119	117.0
SOTR	*	SOUTHTRUST CORP	DEC	2,333.0	2,366	2,099.1	1,869	1,810.5	1,557	8.4	-1.4	149.8	152	135	120	116.3
STI	*	SUNTRUST BANKS INC	DEC	5,623.3	5,563	5,304.4	4,840	4,759.9	4,526	4.4	1.1	124.2	123	117	107	105.2
SNV	*	SYNOVUS FINANCIAL CP	DEC	2,132.4	1,952	1,567.5	1,396	1,253.1	1,002	16.3	9.2	212.7	195	156	139	125.0
TCB	†	TCF FINANCIAL CORP	DEC	900.4	918	852.7	780	742.8	717	4.7	-1.9	125.5	128	119	109	103.6
WL	†	WILMINGTON TRUST CORP	DEC	541.3	535	486.8	471	424.0	422	5.1	1.2	128.4	127	115	112	100.6
ZION	*	ZIONS BANCORPORATION	DEC	1,481.2	1,404	1,359.7	950	980.3	696	16.3	5.5	212.9	202	195	137	140.9
OTHER COMPANIES WITH SIGNIFICANT COMMERCIAL BANKING OPERATIONS																
BK	*	BANK OF NEW YORK CO INC	DEC	5,441.0	4,808	5,221.0	4,979	5,194.0	3,934	6.7	13.2	138.3	122	133	127	132.0
C	*	CITIGROUP INC	DEC	77,442.0	71,308	80,057.0	75,188	57,237.0	48,936	9.6	8.6	158.3	146	164	154	117.0
JPM	*	J P MORGAN CHASE & CO	DEC	33,156.0	27,104	26,527.0	31,503	22,069.0	18,127	12.8	22.3	182.9	150	146	174	121.7
MEL	*	MELLON FINANCIAL CORP	DEC	4,184.0	4,291	3,170.0	4,478	4,601.0	4,413	-1.1	-2.5	94.8	97	72	101	104.3
NTRS	*	NORTHERN TRUST CORP	DEC	2,090.4	2,139	2,175.3	2,106	1,754.0	1,549	6.2	-2.3	135.0	138	140	136	113.2
STT	*	STATE STREET CORP	DEC	4,328.0	4,400	3,807.0	3,559	3,318.0	2,742	9.6	-1.6	157.8	160	139	130	121.0

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. ** Not calculated; data for base year or end year not available. A - This year's data reflect an acquisition or merger. B - This year's data reflect a major merger resulting in the formation of a new company. C - This year's data reflect an accounting change. D - Data exclude discontinued operations. E - Includes excise taxes. F - Includes other (nonoperating) income. G - Includes sale of leased depts. H - Some or all data are not available, due to a fiscal year change.

Net Income

			Million $							Compound Growth Rate (%)			Index Basis (1993 = 100)				
Ticker	**Company**	**Yr. End**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1993**	**10-Yr.**	**5-Yr.**	**1-Yr.**	**2003**	**2002**	**2001**	**2000**	**1999**
DIVERSIFIED BANKS‡																	
BAC	* BANK OF AMERICA CORP	DEC	10,810.0	9,249.0	6,792.0	7,517.0	7,882.0	5,165.0	1,301.0	23.6	15.9	16.9	831	711	522	578	606
CMA	* COMERICA INC.	DEC	661.0	601.0	709.6	749.3	672.6	607.1	340.6	6.9	1.7	10.0	194	176	208	220	197
USB	* U S BANCORP	DEC	3,710.1	3,326.4	1,706.5	1,283.6	875.3	430.1	100.3	43.5	53.9	11.5	3,700	3,317	1,702	1,280	873
WB	* WACHOVIA CORP	DEC	4,247.0	3,579.0	1,619.0	138.0	3,223.0	2,891.0	817.5	17.9	8.0	18.7	519	438	198	17	394
WFC	* WELLS FARGO & CO	DEC	6,202.0	5,710.0	3,423.0	4,026.0	3,747.0	1,950.0	653.6	25.2	26.0	8.6	949	874	524	616	573
REGIONAL BANKS‡																	
ASO	* AMSOUTH BANCORPORATION	DEC	626.1	609.1	536.3	329.1	340.5	262.7	146.2	15.7	19.0	2.8	428	417	367	225	233
ASBC	† ASSOCIATED BANC CORP	DEC	228.7	210.7	179.5	168.0	164.9	157.0	36.2	20.2	7.8	8.5	631	581	495	463	455
BOH	† BANK OF HAWAII CORP	DEC	135.2	121.2	117.8	113.7	133.0	107.0	132.6	0.2	4.8	11.6	102	91	89	86	100
BNK	† BANKNORTH GROUP INC	DEC	350.8	298.6	243.0	191.7	142.4	100.6	15.5	36.6	28.4	17.5	2,260	1,924	1,565	1,235	918
BBT	* BB&T CORP	DEC	1,064.9	1,293.2	973.6	626.4	612.8	501.8	75.6	30.3	16.2	(17.7)	1,409	1,711	1,288	829	811
CF	* CHARTER ONE FINANCIAL INC	DEC	630.9	577.7	500.7	434.0	335.5	277.0	61.4	26.2	17.9	9.2	1,027	940	815	706	546
CYN	† CITY NATIONAL CORP	DEC	186.7	183.1	146.2	131.7	108.1	96.2	(14.0)	NM	14.2	2.0	NM	NM	NM	NM	NM
CNB	† COLONIAL BANCGROUP	DEC	149.9	140.9	122.7	117.8	119.6	55.2	18.0	23.6	22.1	6.4	832	782	681	654	664
CBH	† COMMERCE BANCORP INC/NJ	DEC	194.3	144.8	103.0	80.0	66.0	49.3	14.6	29.5	31.5	34.2	1,329	991	705	548	451
CBSS	† COMPASS BANCSHARES INC	DEC	341.9	314.4	270.4	240.6	217.0	180.9	89.3	14.4	13.6	8.7	383	352	303	270	243
CFR	† CULLEN/FROST BANKERS INC	DEC	130.5	122.2	77.9	108.8	97.6	75.6	38.8	12.9	11.5	6.8	336	315	201	280	252
FITB	* FIFTH THIRD BANCORP	DEC	1,721.6	1,634.7	1,100.6	862.9	668.2	476.1	196.4	24.2	29.3	5.3	876	832	560	439	340
FBP	§ FIRST BANCORP P R	DEC	152.3	108.0	87.0	67.3	62.1	51.8	22.0	21.4	24.1	41.1	694	492	396	306	283
FHN	* FIRST HORIZON NATIONAL CORP	DEC	473.3	376.5	329.6	232.6	247.5	226.4	120.7	14.6	15.9	25.7	392	312	273	193	205
FMER	† FIRSTMERIT CORP	DEC	121.7	154.4	122.6	159.8	125.7	97.5	55.2	8.2	4.5	(21.2)	220	280	222	289	228
GBBK	† GREATER BAY BANCORP	DEC	92.0	124.3	79.8	58.5	27.8	16.6	NA	NA	40.9	(26.0)	**	**	**	**	NA
HIB	† HIBERNIA CORP -CL A	DEC	258.3	249.9	218.8	170.6	175.1	178.6	48.0	18.3	7.7	3.4	539	521	456	356	365
HU	§ HUDSON UNITED BANCORP	DEC	112.3	123.2	94.5	49.8	69.3	23.2	14.2	23.0	37.1	(8.8)	791	868	665	351	488
HBAN	* HUNTINGTON BANCSHARES	DEC	385.7	333.1	178.5	328.4	422.1	301.8	236.9	5.0	5.0	15.8	163	141	75	139	178
IFC	§ IRWIN FINL CORP	DEC	72.8	52.8	45.3	35.7	33.2	30.5	15.6	16.7	19.0	37.8	467	339	291	229	213
KEY	* KEYCORP	DEC	903.0	976.0	157.0	1,002.0	1,107.0	996.0	709.9	2.4	(1.9)	(7.5)	127	137	22	141	156
MTB	* M & T BANK CORP	DEC	573.9	485.1	378.1	286.2	265.6	208.0	102.0	18.9	22.5	18.3	563	476	371	281	260
MI	* MARSHALL & ILSLEY CORP	DEC	544.1	480.3	337.9	317.4	354.5	301.3	125.5	15.8	12.5	13.3	434	383	269	253	282
MRBK	† MERCANTILE BANKSHARES CORP	DEC	196.8	190.2	181.3	175.2	157.7	147.1	82.4	9.1	6.0	3.5	239	231	220	213	191
NCC	* NATIONAL CITY CORP	DEC	2,117.1	1,593.6	1,388.1	1,302.4	1,405.5	1,070.7	404.0	18.0	14.6	32.8	524	394	344	322	348
NCF	† NATIONAL COMMERCE FINANCIAL	DEC	286.8	323.6	225.3	45.3	107.2	85.1	39.4	22.0	27.5	(11.4)	728	821	572	115	272
NFB	* NORTH FORK BANCORPORATION	DEC	396.4	416.9	331.5	234.8	220.4	168.0	15.1	38.7	18.7	(4.9)	2,625	2,761	2,196	1,555	1,460
PNC	* PNC FINANCIAL SVCS GROUP INC	DEC	1,029.0	1,200.0	377.0	1,214.0	1,264.0	1,115.2	745.3	3.3	(1.6)	(14.3)	138	161	51	163	170
RF	* REGIONS FINL CORP	DEC	651.8	619.9	508.9	527.5	525.4	421.7	112.0	19.3	9.1	5.2	582	553	454	471	469
SOTR	* SOUTHTRUST CORP	DEC	705.2	649.9	554.5	482.3	443.2	368.6	150.5	16.7	13.9	8.5	468	432	368	320	294
STI	* SUNTRUST BANKS INC	DEC	1,332.3	1,331.8	1,369.2	1,294.1	1,124.0	971.0	473.7	10.9	6.5	0.0	281	281	289	273	237
SNV	* SYNOVUS FINANCIAL CP	DEC	388.9	365.3	311.6	262.6	225.3	187.1	74.1	18.0	15.8	6.5	525	493	421	355	304
TCB	† TCF FINANCIAL CORP	DEC	215.9	232.9	207.3	186.2	166.0	156.2	38.0	19.0	6.7	(7.3)	569	613	546	490	437
WL	† WILMINGTON TRUST CORP	DEC	134.4	133.2	124.0	120.9	107.3	114.3	82.8	5.0	3.3	0.9	162	161	150	146	130
ZION	* ZIONS BANCORPORATION	DEC	339.6	317.1	290.2	161.7	194.1	130.0	51.4	20.8	21.2	7.1	661	617	565	315	378
OTHER COMPANIES WITH SIGNIFICANT COMMERCIAL BANKING OPERATIONS																	
BK	* BANK OF NEW YORK CO INC	DEC	1,157.0	902.0	1,343.0	1,429.0	1,739.0	1,192.0	559.0	7.5	(0.6)	28.3	207	161	240	256	311
C	* CITIGROUP INC	DEC	17,853.0	13,448.0	14,284.0	13,519.0	9,994.0	5,807.0	951.0	34.1	25.2	32.8	1,877	1,414	1,502	1,422	1,051
JPM	* J P MORGAN CHASE & CO	DEC	6,719.0	1,663.0	1,719.0	5,727.0	5,446.0	3,782.0	1,569.0	15.7	12.2	304.0	428	106	110	365	347
MEL	* MELLON FINANCIAL CORP	DEC	677.0	667.0	436.0	1,007.0	989.0	870.0	361.0	6.5	(4.9)	1.5	188	185	121	279	274
NTRS	* NORTHERN TRUST CORP	DEC	423.3	447.1	487.5	485.1	405.0	353.9	167.9	9.7	3.6	(5.3)	252	266	290	289	241
STT	* STATE STREET CORP	DEC	722.0	1,015.0	628.0	595.0	619.0	436.0	179.8	14.9	10.6	(28.9)	401	564	349	331	344

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. ** Not calculated; data for base year or end year not available.

				Net Interest Margin (%)					Return on Assets (%)					Return on Equity (%)				
Ticker		**Company**	**Yr. End**	**2003**	**2002**	**2001**	**2000**	**1999**	**2003**	**2002**	**2001**	**2000**	**1999**	**2003**	**2002**	**2001**	**2000**	**1999**
DIVERSIFIED BANKS‡																		
BAC	*	BANK OF AMERICA CORP	DEC	3.4	3.8	3.7	3.2	3.5	1.5	1.4	1.1	1.2	1.3	22.0	18.7	14.1	16.3	17.4
CMA	*	COMERICA INC.	DEC	4.0	4.6	4.6	4.4	4.6	1.2	1.2	1.5	1.8	1.7	13.1	12.3	16.3	21.0	21.8
USB	*	U S BANCORP	DEC	4.5	4.6	4.4	3.5	4.1	2.0	1.9	1.4	1.7	1.6	19.9	19.2	14.8	20.0	17.8
WB	*	WACHOVIA CORP	DEC	3.7	3.9	3.6	3.5	3.8	1.1	1.1	0.6	0.1	1.3	13.2	11.8	7.4	0.9	19.0
WFC	*	WELLS FARGO & CO	DEC	5.1	5.6	5.4	5.3	5.7	1.7	1.7	1.2	1.6	1.8	19.1	19.9	12.8	16.7	17.6
REGIONAL BANKS‡																		
ASO	*	AMSOUTH BANCORPORATION	DEC	3.8	4.4	4.2	3.8	4.0	1.5	1.5	1.4	0.8	1.1	19.7	20.1	18.6	11.4	15.5
ASBC	†	ASSOCIATED BANC CORP	DEC	3.8	4.0	3.6	3.4	3.7	1.5	1.5	1.3	1.3	1.4	17.5	18.0	17.6	17.9	18.4
BOH	†	BANK OF HAWAII CORP	DEC	4.2	4.0	3.9	4.3	4.3	1.4	1.2	1.0	0.8	0.9	14.9	10.7	9.2	9.0	11.1
BNK	†	BANKNORTH GROUP INC	DEC	3.7	4.1	4.0	3.7	3.7	1.4	1.3	1.2	1.2	1.2	15.3	15.5	15.6	17.6	17.7
BBT	*	BB&T CORP	DEC	4.1	4.3	4.2	4.2	4.3	1.2	1.7	1.5	1.2	1.6	12.3	19.1	17.8	15.7	20.6
CF	*	CHARTER ONE FINANCIAL INC	DEC	2.9	3.2	3.0	3.0	3.2	1.5	1.4	1.4	1.3	1.2	19.8	19.2	18.6	17.9	15.7
CYN	†	CITY NATIONAL CORP	DEC	4.7	5.3	5.3	5.4	5.6	1.5	1.7	1.5	1.6	1.6	16.0	18.3	17.9	20.0	19.1
CNB	†	COLONIAL BANCGROUP	DEC	3.5	3.6	3.6	3.7	4.0	0.9	1.0	1.0	1.0	1.1	13.3	14.6	15.1	16.2	17.9
CBH	†	COMMERCE BANCORP INC/NJ	DEC	4.4	4.6	4.8	4.6	4.7	1.0	1.0	1.0	1.1	1.1	17.7	18.6	18.3	18.9	20.1
CBSS	†	COMPASS BANCSHARES INC	DEC	4.0	4.4	4.2	3.9	4.0	1.3	1.3	1.3	1.3	1.2	18.0	17.2	16.9	18.0	18.2
CFR	†	CULLEN/FROST BANKERS INC	DEC	4.0	4.6	4.9	5.3	5.2	1.4	1.4	1.0	1.5	1.4	17.7	18.8	13.3	20.1	19.1
FITB	*	FIFTH THIRD BANCORP	DEC	3.6	4.0	3.1	3.8	4.0	2.0	2.2	1.9	2.0	1.9	20.3	20.3	17.6	19.2	18.4
FBP	§	FIRST BANCORP P R	DEC	3.2	3.6	4.1	3.9	4.8	1.1	0.9	1.0	1.1	1.3	25.0	21.1	23.4	25.2	24.3
FHN	*	FIRST HORIZON NATIONAL CORP	DEC	3.8	4.3	4.3	3.7	3.8	2.0	1.7	1.7	1.3	1.3	26.4	23.8	23.0	17.7	21.1
FMER	†	FIRSTMERIT CORP	DEC	4.0	4.4	4.2	3.9	4.4	1.1	1.5	1.2	1.6	1.5	12.5	16.5	13.4	18.3	15.7
GBBK	†	GREATER BAY BANCORP	DEC	4.2	4.8	5.1	5.7	4.9	1.1	1.5	1.2	1.5	1.3	13.7	22.6	20.3	24.2	21.9
HIB	†	HIBERNIA CORP -CL A	DEC	4.2	4.6	4.4	4.2	4.4	1.4	1.5	1.3	1.0	1.1	14.9	15.4	14.5	12.3	13.5
HU	§	HUDSON UNITED BANCORP	DEC	4.1	4.7	4.7	4.3	4.0	1.4	1.7	1.4	0.6	0.8	25.2	30.2	25.1	11.2	14.2
HBAN	*	HUNTINGTON BANCSHARES	DEC	3.5	3.8	4.0	3.7	4.1	1.3	1.2	0.6	1.1	1.5	16.9	14.2	7.5	14.4	19.5
IFC	§	IRWIN FINL CORP	DEC	5.8	6.0	5.3	5.4	5.4	1.5	1.3	1.5	1.7	1.8	18.4	17.9	21.7	20.6	21.8
KEY	*	KEYCORP	DEC	3.8	4.0	3.8	3.7	3.9	1.1	1.2	0.2	1.2	1.4	13.1	15.0	2.5	15.4	17.6
MTB	*	M & T BANK CORP	DEC	4.1	4.4	4.2	4.0	4.0	1.4	1.5	1.3	1.1	1.2	12.9	15.8	13.4	12.7	15.6
MI	*	MARSHALL & ILSLEY CORP	DEC	3.7	4.0	3.7	3.1	3.6	1.6	1.6	1.3	1.2	1.5	17.1	17.2	14.1	14.4	16.0
MRBK	†	MERCANTILE BANKSHARES CORP	DEC	4.3	4.7	4.8	5.3	5.2	1.6	1.8	1.9	2.1	2.0	12.4	14.9	15.1	16.3	16.0
NCC	*	NATIONAL CITY CORP	DEC	4.1	4.3	4.1	3.8	4.0	1.8	1.4	1.4	1.5	1.6	24.0	20.3	19.6	20.9	22.2
NCF	†	NATIONAL COMMERCE FINANCIAL	DEC	3.9	4.3	4.4	4.1	4.1	1.3	1.6	1.2	0.4	1.7	10.5	12.6	9.3	3.1	22.2
NFB	*	NORTH FORK BANCORPORATION	DEC	4.2	4.9	4.8	4.4	4.2	1.9	2.2	2.1	1.7	1.9	26.5	28.3	25.0	25.6	30.4
PNC	*	PNC FINANCIAL SVCS GROUP INC	DEC	3.6	4.0	3.8	3.6	3.7	1.5	1.8	0.5	1.6	1.6	15.2	18.9	5.9	19.0	20.8
RF	*	REGIONS FINL CORP	DEC	3.7	3.7	3.7	3.5	3.9	1.4	1.3	1.1	1.2	1.3	15.1	15.1	13.6	16.2	17.3
SOTR	*	SOUTHTRUST CORP	DEC	3.6	3.8	3.6	3.4	3.7	1.4	1.3	1.2	1.1	1.1	15.7	15.1	15.2	15.4	15.6
STI	*	SUNTRUST BANKS INC	DEC	3.1	3.4	3.6	3.5	3.9	1.1	1.2	1.3	1.3	1.2	14.4	15.6	16.5	16.3	14.2
SNV	*	SYNOVUS FINANCIAL CP	DEC	4.3	4.7	4.7	4.7	5.1	1.9	2.0	2.0	1.9	2.0	18.1	19.6	20.0	19.9	19.6
TCB	†	TCF FINANCIAL CORP	DEC	4.5	4.7	4.5	4.3	4.5	1.8	2.0	1.8	1.7	1.6	22.7	24.6	22.7	21.7	20.1
WL	†	WILMINGTON TRUST CORP	DEC	3.6	4.0	4.0	3.9	4.1	1.6	1.7	1.7	1.7	1.6	17.4	18.7	19.5	22.2	20.5
ZION	*	ZIONS BANCORPORATION	DEC	4.4	4.6	4.6	4.3	4.3	1.2	1.2	1.3	0.8	1.0	13.8	13.6	14.3	9.4	12.7
OTHER COMPANIES WITH SIGNIFICANT COMMERCIAL BANKING OPERATIONS																		
BK	*	BANK OF NEW YORK CO INC	DEC	2.2	2.6	2.6	3.0	3.1	1.4	1.1	1.7	1.9	2.5	15.3	13.9	21.5	25.3	32.8
C	*	CITIGROUP INC	DEC	NA	NA	NA	NA	NA	1.5	1.2	1.5	1.7	1.4	19.5	16.2	19.7	23.9	22.3
JPM	*	J P MORGAN CHASE & CO	DEC	2.1	2.1	2.0	1.9	3.0	0.9	0.2	0.2	1.0	1.4	15.4	4.0	4.1	17.7	23.6
MEL	*	MELLON FINANCIAL CORP	DEC	2.6	2.7	2.5	3.6	3.7	1.9	1.9	1.0	2.0	2.0	19.1	19.4	11.4	24.7	23.2
NTRS	*	NORTHERN TRUST CORP	DEC	1.7	1.9	2.0	2.0	2.0	1.0	1.1	1.3	1.5	1.4	14.2	16.1	19.4	21.8	20.7
STT	*	STATE STREET CORP	DEC	1.2	1.4	1.7	1.7	1.7	0.8	1.3	0.9	0.9	1.1	13.7	23.5	17.7	20.1	24.9

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

			Total Assets (Million $)					Total Loans (Million $)					Total Deposits (Million $)				
Ticker	**Company**	**Yr. End**	**2003**	**2002**	**2001**	**2000**	**1999**	**2003**	**2002**	**2001**	**2000**	**1999**	**2003**	**2002**	**2001**	**2000**	**1999**
DIVERSIFIED BANKS‡																	
BAC	* BANK OF AMERICA CORP	DEC	736,445	660,458	621,764	642,191	632,574	365,300	335,904	322,278	385,355	363,834	414,113	386,458	373,495	364,244	347,273
CMA	* COMERICA INC.	DEC	52,592	53,301	50,732	41,985	38,653	39,499	41,490	40,541	35,522	32,217	41,463	41,775	37,570	27,168	23,291
USB	* U S BANCORP	DEC	189,286	180,027	171,390	77,585	72,788	115,866	113,829	111,948	52,986	49,911	119,052	115,534	105,219	56,278	51,886
WB	* WACHOVIA CORP	DEC	401,032	341,839	330,452	254,170	253,024	163,067	160,299	160,806	122,038	133,809	221,225	191,518	187,453	142,668	141,047
WFC	* WELLS FARGO & CO	DEC	387,798	349,259	307,569	272,426	218,102	249,182	192,772	168,738	157,405	116,294	247,527	216,916	187,266	169,559	132,708
REGIONAL BANKS‡																	
ASO	* AMSOUTH BANCORPORATION	DEC	45,616	40,571	38,600	38,936	43,407	28,955	26,969	24,761	24,236	25,903	30,440	27,316	26,167	26,623	27,912
ASBC	† ASSOCIATED BANC CORP	DEC	15,248	15,043	13,604	13,128	12,520	10,114	10,141	8,892	8,793	8,245	9,793	9,125	8,613	9,292	8,692
BOH	† BANK OF HAWAII CORP	DEC	9,462	9,516	10,628	14,014	14,440	5,628	5,216	5,494	9,168	9,281	7,333	6,920	6,674	9,081	9,394
BNK	† BANKNORTH GROUP INC	DEC	26,454	23,419	21,077	18,234	13,920	16,114	13,848	12,525	10,692	6,737	17,901	15,665	14,221	12,107	8,115
BBT	* BB&T CORP	DEC	90,467	80,217	70,870	59,340	43,481	60,795	50,417	44,891	38,932	28,524	59,350	51,280	44,733	38,015	27,251
CF	* CHARTER ONE FINANCIAL INC	DEC	42,628	41,896	38,175	32,971	31,819	28,130	25,853	25,396	23,950	22,277	27,203	27,528	25,123	19,606	19,074
CYN	† CITY NATIONAL CORP	DEC	13,018	11,870	10,176	9,097	7,214	7,717	7,835	7,016	6,392	5,357	10,937	9,840	8,131	7,409	5,669
CNB	† COLONIAL BANCGROUP	DEC	16,273	15,822	13,185	11,728	10,854	11,450	11,557	10,245	9,310	8,132	9,769	9,320	8,323	8,143	7,968
CBH	† COMMERCE BANCORP INC/NJ	DEC	22,712	16,404	11,364	8,297	6,636	7,329	5,732	4,516	3,639	2,923	20,701	14,549	10,186	7,388	5,609
CBSS	† COMPASS BANCSHARES INC	DEC	26,963	23,885	23,015	19,992	18,151	17,121	16,248	13,516	11,341	10,646	15,688	15,135	13,735	14,033	12,809
CFR	† CULLEN/FROST BANKERS INC	DEC	9,672	9,552	8,370	7,660	6,997	4,449	4,436	4,446	4,471	4,108	8,069	7,628	7,098	6,500	5,954
FITB	* FIFTH THIRD BANCORP	DEC	91,143	80,894	71,026	45,857	41,589	51,538	45,245	40,924	25,569	24,597	57,095	52,208	45,854	30,948	26,083
FBP	§ FIRST BANCORP P R	DEC	12,668	9,644	8,198	5,920	4,722	6,906	5,515	4,213	3,421	2,636	6,765	5,483	4,099	3,346	2,565
FHN	* FIRST HORIZON NATIONAL CORP	DEC	24,507	23,823	20,617	18,555	18,373	13,830	11,201	10,128	10,096	9,224	15,680	15,714	13,606	12,189	11,359
FMER	† FIRSTMERIT CORP	DEC	10,474	10,688	10,193	10,215	10,115	6,454	7,092	7,262	7,129	6,909	7,503	7,711	7,539	7,615	6,860
GBBK	† GREATER BAY BANCORP	DEC	7,601	8,076	7,877	5,130	2,625	4,412	4,662	4,371	3,517	1,715	5,313	5,272	4,990	4,165	2,301
HIB	† HIBERNIA CORP -CL A	DEC	18,560	17,393	16,618	16,698	15,314	12,670	11,279	11,045	11,946	10,701	14,160	13,481	12,953	12,693	11,856
HU	§ HUDSON UNITED BANCORP	DEC	8,101	7,651	7,000	6,817	9,686	4,592	4,268	4,375	5,182	5,572	6,243	6,200	5,984	5,813	6,455
HBAN	* HUNTINGTON BANCSHARES	DEC	30,484	27,557	28,500	28,599	29,037	22,000	20,561	21,191	20,312	20,369	18,487	17,499	20,187	19,777	19,793
IFC	§ IRWIN FINL CORP	DEC	4,988	4,885	3,440	2,422	1,681	3,097	2,764	2,115	1,222	725	2,900	2,694	2,309	1,443	870
KEY	* KEYCORP	DEC	84,487	85,202	80,938	87,270	83,395	58,931	58,902	59,576	63,675	59,689	50,858	49,346	44,795	48,649	43,233
MTB	* M & T BANK CORP	DEC	49,826	33,175	31,450	28,949	22,409	35,158	25,291	24,763	22,368	17,091	33,115	21,665	21,580	20,233	15,374
MI	* MARSHALL & ILSLEY CORP	DEC	34,373	32,875	27,254	26,078	24,370	24,801	23,259	19,027	17,352	16,109	22,270	20,394	16,493	19,249	16,435
MRBK	† MERCANTILE BANKSHARES CORP	DEC	13,695	10,790	9,929	8,938	7,895	9,117	7,173	6,765	6,555	5,601	10,263	8,261	7,447	6,797	5,925
NCC	* NATIONAL CITY CORP	DEC	113,933	118,258	105,817	88,535	87,122	78,154	71,036	67,043	64,676	59,233	63,930	65,119	63,130	55,256	50,066
NCF	† NATIONAL COMMERCE FINANCIAL	DEC	23,017	21,472	19,274	17,746	6,806	13,080	12,761	11,818	10,865	3,926	15,550	14,495	12,619	11,980	4,496
NFB	* NORTH FORK BANCORPORATION	DEC	20,962	21,413	17,232	14,841	12,108	12,223	11,254	10,296	9,305	6,549	15,116	13,193	11,303	9,169	6,545
PNC	* PNC FINANCIAL SVCS GROUP INC	DEC	68,168	66,377	69,568	69,844	75,413	33,448	34,777	37,344	49,926	49,372	45,241	44,982	47,304	47,664	46,668
RF	* REGIONS FINL CORP	DEC	48,598	47,939	45,383	43,688	42,714	31,730	30,549	30,466	31,000	27,806	32,733	32,926	31,548	32,022	29,989
SOTR	* SOUTHTRUST CORP	DEC	51,925	50,571	48,755	45,147	43,263	34,779	33,739	32,939	30,946	31,255	34,747	32,945	32,634	30,703	27,739
STI	* SUNTRUST BANKS INC	DEC	125,393	117,323	104,741	103,496	95,390	79,790	72,238	68,092	71,365	65,132	81,190	79,707	67,536	69,533	60,101
SNV	* SYNOVUS FINANCIAL CP	DEC	21,633	19,036	16,658	14,908	12,547	16,239	14,264	12,247	10,604	8,941	15,942	13,929	12,146	11,162	9,440
TCB	† TCF FINANCIAL CORP	DEC	11,319	12,202	11,359	11,197	10,662	8,271	8,044	8,169	8,480	7,840	7,612	7,710	7,099	6,892	6,585
WL	† WILMINGTON TRUST CORP	DEC	8,820	8,131	7,518	7,322	7,202	6,135	5,940	5,407	5,112	4,743	6,577	6,337	5,591	5,286	5,369
ZION	* ZIONS BANCORPORATION	DEC	28,558	26,566	24,304	21,939	20,281	19,475	18,471	16,752	14,001	12,382	20,897	20,132	17,842	15,070	14,062
OTHER COMPANIES WITH SIGNIFICANT COMMERCIAL BANKING OPERATIONS																	
BK	* BANK OF NEW YORK CO INC	DEC	92,397	77,564	81,025	77,114	74,756	34,615	30,508	35,131	35,645	36,952	56,406	55,387	55,711	56,376	55,751
C	* CITIGROUP INC	DEC	1,264,032	1,097,190	1,051,450	902,210	716,937	546,608	511,457	474,710	431,088	306,184	479,959	414,886	381,445	297,191	256,538
JPM	* J P MORGAN CHASE & CO	DEC	770,912	758,800	693,575	715,348	406,105	214,995	211,014	212,920	212,385	172,702	326,492	304,753	293,650	279,365	241,745
MEL	* MELLON FINANCIAL CORP	DEC	33,983	36,231	34,360	50,364	47,946	7,364	8,311	8,414	25,976	29,845	20,843	22,657	20,715	36,890	33,421
NTRS	* NORTHERN TRUST CORP	DEC	41,450	39,478	39,665	36,022	28,708	17,665	17,903	17,818	17,982	15,224	26,270	26,062	25,019	22,828	21,371
STT	* STATE STREET CORP	DEC	87,534	85,794	69,896	69,298	60,896	4,960	4,113	5,283	5,216	4,245	47,516	45,468	38,559	37,937	34,145

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

				Equity/Assets (%)					Loan/Deposits (%)					Loan Loss Reserves (%)				
Ticker		Company	Yr. End	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
DIVERSIFIED BANKS‡																		
BAC	*	BANK OF AMERICA CORP	DEC	6.5	7.6	7.8	7.4	7.0	0.9	0.9	0.9	1.1	1.0	0.8	1.0	1.1	1.1	1.1
CMA	*	COMERICA INC.	DEC	9.7	9.3	9.5	8.9	8.3	1.0	1.0	1.1	1.3	1.4	1.5	1.5	1.3	1.3	1.2
USB	*	U S BANCORP	DEC	10.2	10.1	9.6	8.4	8.7	1.0	1.0	1.1	0.9	1.0	1.3	1.3	1.4	0.9	1.0
WB	*	WACHOVIA CORP	DEC	8.1	9.4	8.6	6.0	6.6	0.7	0.8	0.9	0.9	0.9	0.6	0.8	0.9	0.7	0.7
WFC	*	WELLS FARGO & CO	DEC	8.9	8.7	8.8	9.6	10.0	1.0	0.9	0.9	0.9	0.9	1.0	1.1	1.2	1.4	1.5
REGIONAL BANKS‡																		
ASO	*	AMSOUTH BANCORPORATION	DEC	7.1	7.7	7.7	7.2	6.8	1.0	1.0	0.9	0.9	0.9	0.8	0.9	0.9	1.0	0.8
ASBC	†	ASSOCIATED BANC CORP	DEC	8.8	8.5	7.9	7.4	7.3	1.0	1.1	1.0	0.9	0.9	1.2	1.1	0.9	0.9	0.9
BOH	†	BANK OF HAWAII CORP	DEC	8.4	10.7	11.7	9.3	8.4	0.8	0.8	0.8	1.0	1.0	1.4	1.5	1.5	1.8	1.3
BNK	†	BANKNORTH GROUP INC	DEC	9.5	8.8	8.5	7.3	6.1	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.8	0.8
BBT	*	BB&T CORP	DEC	11.0	9.2	8.7	8.1	7.4	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9
CF	*	CHARTER ONE FINANCIAL INC	DEC	7.7	7.4	7.7	7.4	7.5	1.0	0.9	1.0	1.2	1.2	0.9	0.8	0.7	0.6	0.6
CYN	†	CITY NATIONAL CORP	DEC	9.4	9.4	8.8	8.2	7.9	0.7	0.8	0.9	0.9	0.9	1.3	1.4	1.4	1.5	1.9
CNB	†	COLONIAL BANCGROUP	DEC	7.2	6.8	6.6	6.5	6.4	1.2	1.2	1.2	1.1	1.0	0.9	0.9	0.9	0.9	0.9
CBH	†	COMMERCE BANCORP INC/NJ	DEC	5.6	5.6	5.6	5.9	5.4	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6
CBSS	†	COMPASS BANCSHARES INC	DEC	6.9	8.1	7.5	7.4	6.6	1.1	1.1	1.0	0.8	0.8	0.9	1.0	0.8	0.8	0.8
CFR	†	CULLEN/FROST BANKERS INC	DEC	8.0	7.4	7.1	7.5	7.3	0.6	0.6	0.6	0.7	0.7	0.9	0.9	0.9	0.8	0.8
FITB	*	FIFTH THIRD BANCORP	DEC	9.3	10.5	10.7	10.7	9.8	0.9	0.9	0.9	0.8	0.9	0.8	0.8	0.9	0.8	0.9
FBP	§	FIRST BANCORP P R	DEC	4.3	4.5	4.1	4.6	4.3	1.0	1.0	1.0	1.0	1.0	1.0	1.2	1.1	1.3	1.5
FHN	*	FIRST HORIZON NATIONAL CORP	DEC	7.7	7.1	7.2	7.5	6.8	0.9	0.7	0.7	0.8	0.8	0.7	0.6	0.8	0.8	0.8
FMER	†	FIRSTMERIT CORP	DEC	9.4	9.0	8.9	8.9	8.2	0.9	0.9	1.0	0.9	1.0	0.9	1.1	1.2	1.1	1.0
GBBK	†	GREATER BAY BANCORP	DEC	8.7	7.4	5.9	6.3	6.1	0.8	0.9	0.9	0.8	0.7	1.7	1.6	1.6	1.6	1.4
HIB	†	HIBERNIA CORP -CL A	DEC	9.6	9.7	9.4	8.3	8.3	0.9	0.8	0.9	0.9	0.9	1.1	1.2	1.2	1.1	1.0
HU	§	HUDSON UNITED BANCORP	DEC	5.7	5.7	5.5	5.4	5.4	0.7	0.7	0.7	0.9	0.9	0.8	0.9	1.0	1.4	1.0
HBAN	*	HUNTINGTON BANCSHARES	DEC	7.5	8.3	8.5	8.3	7.5	1.2	1.2	1.0	1.0	1.0	1.1	1.2	1.4	1.0	1.0
IFC	§	IRWIN FINL CORP	DEC	8.7	7.4	6.7	7.7	9.5	1.1	1.0	0.9	0.8	0.8	1.3	1.0	0.6	0.5	0.5
KEY	*	KEYCORP	DEC	8.2	8.0	7.6	7.6	7.7	1.2	1.2	1.3	1.3	1.4	1.7	1.7	2.1	1.1	1.1
MTB	*	M & T BANK CORP	DEC	11.5	9.6	9.3	9.3	8.0	1.1	1.2	1.1	1.1	1.1	1.2	1.3	1.4	1.3	1.4
MI	*	MARSHALL & ILSLEY CORP	DEC	9.7	9.2	9.1	8.6	8.7	1.1	1.1	1.2	0.9	1.0	1.0	1.0	1.0	0.9	0.9
MRBK	†	MERCANTILE BANKSHARES CORP	DEC	13.4	12.3	12.4	13.1	12.3	0.9	0.9	0.9	1.0	0.9	1.1	1.3	1.4	1.6	1.5
NCC	*	NATIONAL CITY CORP	DEC	8.2	7.0	7.0	7.6	6.5	1.2	1.1	1.1	1.2	1.2	1.0	0.9	0.9	1.0	1.1
NCF	†	NATIONAL COMMERCE FINANCIAL	DEC	12.1	12.5	12.7	13.3	8.2	0.8	0.9	0.9	0.9	0.9	0.7	0.8	0.8	0.8	0.9
NFB	*	NORTH FORK BANCORPORATION	DEC	7.1	7.1	8.3	8.2	5.1	0.8	0.9	0.9	1.0	1.0	0.6	0.5	0.6	0.6	0.6
PNC	*	PNC FINANCIAL SVCS GROUP INC	DEC	9.7	10.3	8.4	9.5	7.9	0.7	0.8	0.8	1.0	1.1	0.9	1.0	0.9	1.0	0.9
RF	*	REGIONS FINL CORP	DEC	9.2	8.7	8.9	7.9	7.2	1.0	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.8
SOTR	*	SOUTHTRUST CORP	DEC	8.4	9.2	8.1	7.4	6.8	1.0	1.0	1.0	1.0	1.1	1.0	1.0	1.0	1.0	1.0
STI	*	SUNTRUST BANKS INC	DEC	7.8	7.5	8.0	8.0	8.0	1.0	0.9	1.0	1.0	1.1	0.8	0.8	0.8	0.8	0.9
SNV	*	SYNOVUS FINANCIAL CP	DEC	10.4	10.7	10.2	9.5	9.8	1.0	1.0	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0
TCB	†	TCF FINANCIAL CORP	DEC	8.1	8.0	8.1	8.1	7.6	1.1	1.0	1.2	1.2	1.2	0.7	0.6	0.7	0.6	0.5
WL	†	WILMINGTON TRUST CORP	DEC	9.1	9.1	9.1	8.1	6.9	0.9	0.9	1.0	1.0	0.9	1.0	1.0	1.1	1.0	1.1
ZION	*	ZIONS BANCORPORATION	DEC	8.9	8.9	9.4	8.1	8.2	0.9	0.9	0.9	0.9	0.9	0.9	1.1	1.1	0.9	1.0
OTHER COMPANIES WITH SIGNIFICANT COMMERCIAL BANKING OPERATIONS																		
BK	*	BANK OF NEW YORK CO INC	DEC	9.1	8.6	7.8	8.0	6.9	0.6	0.6	0.6	0.6	0.7	0.7	1.1	0.8	0.8	0.8
C	*	CITIGROUP INC	DEC	7.7	7.8	7.6	7.1	6.7	1.1	1.2	1.2	1.5	1.2	NA	NA	NA	NA	NA
JPM	*	J P MORGAN CHASE & CO	DEC	5.9	5.4	5.8	5.7	5.6	0.7	0.7	0.7	0.8	0.7	0.6	0.7	0.7	0.5	0.9
MEL	*	MELLON FINANCIAL CORP	DEC	10.9	9.4	10.1	8.2	8.4	0.4	0.4	0.4	0.7	0.9	0.3	0.4	0.4	0.8	0.8
NTRS	*	NORTHERN TRUST CORP	DEC	7.4	7.3	6.7	6.5	7.2	0.7	0.7	0.7	0.8	0.7	0.4	0.4	0.4	0.5	0.5
STT	*	STATE STREET CORP	DEC	6.6	5.6	5.5	4.7	4.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Note: Data as originally reported. ‡FDIC-insured commercial banks in the Banks group of the Standard & Poor's 1500 Index with operating revenues greater than $400 million. *Company included in the Standard & Poor's 500 Index. †Company included in the Standard & Poor's MidCap Index. §Company included in the Standard & Poor's SmallCap Index. NA-Not available. # Of the following calendar year.

			Yr. End	Price / Earnings Ratio (High-Low)					Dividend Payout Ratio (%)					Dividend Yield (High-Low, %)				
Ticker		**Company**		**2003**	**2002**	**2001**	**2000**	**1999**	**2003**	**2002**	**2001**	**2000**	**1999**	**2003**	**2002**	**2001**	**2000**	**1999**
DIVERSIFIED BANKS‡																		
BAC	*	BANK OF AMERICA CORP	DEC	12-9	13-9	15-11	13-8	17-10	40	40	54	45	41	4.5-3.4	4.5-3.2	5.1-3.5	5.7-3.4	3.9-2.4
CMA	*	COMERICA INC.	DEC	15-10	19-10	17-11	13-7	17-10	53	56	45	34	34	5.4-3.5	5.5-2.9	4.0-2.7	4.9-2.6	3.3-2.1
USB	*	U S BANCORP	DEC	16-10	14-9	29-19	21-12	40-22	44	45	84	49	52	4.6-2.9	4.9-3.2	4.5-2.9	4.2-2.3	2.4-1.3
WB	*	WACHOVIA CORP	DEC	15-10	15-11	25-17	NM-NM	20-10	39	38	65	NM	56	3.9-2.7	3.5-2.5	3.8-2.6	8.2-4.9	5.9-2.9
WFC	*	WELLS FARGO & CO	DEC	16-12	16-12	28-19	24-13	22-14	41	33	50	38	35	3.5-2.5	2.7-2.0	2.6-1.8	2.9-1.6	2.4-1.6
REGIONAL BANKS‡																		
ASO	*	AMSOUTH BANCORPORATION	DEC	14-11	14-10	14-10	23-14	40-22	52	52	58	94	81	4.9-3.8	5.0-3.9	5.7-4.2	6.9-4.0	3.8-2.0
ASBC	†	ASSOCIATED BANC CORP	DEC	14-10	14-10	14-11	13-8	17-12	43	43	45	45	45	4.2-3.1	4.5-3.2	4.2-3.3	5.5-3.5	3.8-2.6
BOH	†	BANK OF HAWAII CORP	DEC	19-13	18-13	19-11	16-8	15-10	38	42	48	50	41	3.0-2.0	3.2-2.4	4.3-2.5	6.4-3.1	3.9-2.7
BNK	†	BANKNORTH GROUP INC	DEC	15-9	14-10	14-10	16-8	15-10	32	29	30	38	34	3.4-2.1	2.8-2.1	2.9-2.2	4.8-2.4	3.3-2.3
BBT	*	BB&T CORP	DEC	19-15	14-11	18-14	24-14	22-15	58	40	46	55	40	4.0-3.1	3.5-2.8	3.2-2.5	4.0-2.2	2.8-1.8
CF	*	CHARTER ONE FINANCIAL INC	DEC	12-10	14-9	14-10	15-7	19-11	35	33	33	33	38	3.6-2.8	3.5-2.4	3.2-2.4	4.6-2.3	3.4-2.0
CYN	†	CITY NATIONAL CORP	DEC	17-10	15-11	16-11	15-9	18-13	25	21	24	25	28	2.5-1.5	1.9-1.4	2.2-1.5	2.7-1.7	2.2-1.6
CNB	†	COLONIAL BANCGROUP	DEC	15-9	14-9	14-10	11-8	14-9	47	44	45	42	36	5.3-3.1	4.7-3.2	4.7-3.2	5.4-3.8	3.8-2.5
CBH	†	COMMERCE BANCORP INC/NJ	DEC	20-13	23-17	25-16	27-12	21-16	24	28	35	38	37	1.8-1.2	1.7-1.2	2.1-1.4	3.2-1.4	2.2-1.7
CBSS	†	COMPASS BANCSHARES INC	DEC	15-11	15-11	14-9	12-8	16-11	41	41	43	44	42	3.8-2.8	3.8-2.8	4.9-3.1	5.7-3.6	3.9-2.6
CFR	†	CULLEN/FROST BANKERS INC	DEC	17-11	17-12	28-16	21-9	17-12	37	36	56	36	37	3.2-2.1	3.1-2.1	3.6-2.0	3.9-1.7	3.0-2.2
FITB	*	FIFTH THIRD BANCORP	DEC	21-16	25-20	34-24	33-16	35-27	38	35	43	38	40	2.4-1.8	1.8-1.4	1.8-1.3	2.4-1.1	1.5-1.2
FBP	§	FIRST BANCORP P R	DEC	14-7	14-9	11-7	11-7	15-10	14	20	20	20	18	1.9-1.1	2.2-1.4	2.7-1.7	2.7-1.8	1.9-1.2
FHN	*	FIRST HORIZON NATIONAL CORP	DEC	13-10	14-10	15-11	16-9	24-14	35	35	35	49	42	3.7-2.7	3.5-2.6	3.4-2.4	5.5-3.0	2.9-1.7
FMER	†	FIRSTMERIT CORP	DEC	19-13	16-10	20-14	15-7	21-16	71	54	65	48	55	5.7-3.7	5.3-3.3	4.5-3.3	6.4-3.1	3.4-2.6
GBBK	†	GREATER BAY BANCORP	DEC	18-8	16-6	27-12	31-12	19-12	33	29	27	25	21	4.3-1.8	4.9-1.8	2.2-1.0	2.0-0.8	1.7-1.1
HIB	†	HIBERNIA CORP -CL A	DEC	14-10	14-10	14-9	13-8	16-10	38	36	39	47	41	3.9-2.6	3.5-2.6	4.5-2.7	5.6-3.5	4.2-2.5
HU	§	HUDSON UNITED BANCORP	DEC	16-12	12-8	15-10	28-18	27-19	47	40	50	73	74	4.0-2.9	4.8-3.3	5.2-3.4	4.2-2.7	3.9-2.8
HBAN	*	HUNTINGTON BANCSHARES	DEC	13-11	16-12	27-18	17-9	19-12	40	47	101	58	42	3.8-3.0	4.0-2.9	5.7-3.7	6.1-3.5	3.6-2.2
IFC	§	IRWIN FINL CORP	DEC	12-6	10-7	13-7	13-8	19-11	11	14	12	14	13	1.8-0.9	2.0-1.3	1.8-0.9	1.8-1.1	1.2-0.7
KEY	*	KEYCORP	DEC	14-10	13-9	79-55	12-7	15-9	57	52	319	48	42	5.5-4.1	5.7-4.1	5.8-4.0	7.2-3.9	5.0-2.7
MTB	*	M & T BANK CORP	DEC	19-15	17-13	21-15	19-10	17-12	24	20	25	18	13	1.6-1.2	1.6-1.2	1.7-1.2	1.8-0.9	1.1-0.8
MI	*	MARSHALL & ILSLEY CORP	DEC	16-10	14-10	20-15	21-13	22-16	29	24	35	34	28	2.8-1.8	2.4-1.7	2.4-1.8	2.7-1.7	1.7-1.3
MRBK	†	MERCANTILE BANKSHARES CORP	DEC	17-11	17-12	17-13	18-9	18-13	48	43	43	40	41	4.3-2.8	3.7-2.6	3.3-2.5	4.3-2.3	3.1-2.4
NCC	*	NATIONAL CITY CORP	DEC	10-8	13-9	14-10	14-7	17-10	36	46	50	53	47	4.7-3.6	4.9-3.6	4.9-3.5	7.1-3.8	4.8-2.8
NCF	†	NATIONAL COMMERCE FINANCIAL	DEC	20-14	19-14	25-18	87-52	27-18	53	41	51	162	38	3.8-2.6	3.0-2.2	2.8-2.0	3.1-1.9	2.1-1.4
NFB	*	NORTH FORK BANCORPORATION	DEC	16-11	16-12	16-11	18-10	16-11	41	38	39	51	35	3.8-2.6	3.1-2.3	3.6-2.4	5.0-2.9	3.4-2.1
PNC	*	PNC FINANCIAL SVCS GROUP INC	DEC	15-11	15-8	60-40	18-9	15-10	53	45	151	44	40	4.7-3.5	5.9-3.1	3.8-2.5	5.1-2.4	3.9-2.7
RF	*	REGIONS FINL CORP	DEC	13-10	14-10	15-11	12-8	18-10	42	42	50	45	42	4.2-3.3	4.3-3.0	4.4-3.4	5.9-3.9	4.3-2.4
SOTR	*	SOUTHTRUST CORP	DEC	16-12	15-11	17-12	14-7	16-12	40	36	35	35	33	3.5-2.5	3.3-2.5	2.9-2.1	4.8-2.4	2.7-2.1
STI	*	SUNTRUST BANKS INC	DEC	15-11	15-11	15-12	16-10	23-17	38	37	34	34	39	3.5-2.5	3.3-2.5	2.8-2.2	3.6-2.2	2.3-1.7
SNV	*	SYNOVUS FINANCIAL CP	DEC	23-13	26-13	32-21	29-15	31-22	51	48	48	47	45	3.8-2.3	3.6-1.8	2.2-1.5	3.1-1.6	2.1-1.4
TCB	†	TCF FINANCIAL CORP	DEC	18-12	17-11	19-12	19-8	15-11	42	36	37	35	36	3.6-2.4	3.3-2.1	3.0-2.0	4.6-1.8	3.3-2.4
WL	†	WILMINGTON TRUST CORP	DEC	18-13	17-12	18-13	17-11	19-14	52	50	50	47	51	4.1-2.9	4.0-2.9	3.8-2.8	4.4-2.8	3.7-2.6
ZION	*	ZIONS BANCORPORATION	DEC	17-10	17-10	20-13	34-17	33-21	27	23	25	48	31	2.6-1.6	2.3-1.3	1.9-1.3	2.8-1.4	1.5-0.9
OTHER COMPANIES WITH SIGNIFICANT COMMERCIAL BANKING OPERATIONS																		
BK	*	BANK OF NEW YORK CO INC	DEC	22-13	37-17	32-16	30-15	20-14	49	61	39	34	25	3.9-2.3	3.6-1.6	2.4-1.2	2.2-1.1	1.8-1.3
C	*	CITIGROUP INC	DEC	14-9	20-9	20-12	22-13	20-11	32	27	21	18	18	3.6-2.2	2.9-1.3	1.7-1.0	1.4-0.8	1.7-0.9
JPM	*	J P MORGAN CHASE & CO	DEC	12-6	49-19	68-35	22-11	14-10	41	168	160	41	24	6.8-3.6	8.9-3.4	4.6-2.3	3.8-1.8	2.4-1.7
MEL	*	MELLON FINANCIAL CORP	DEC	21-13	27-13	56-30	25-13	21-16	36	32	89	42	41	2.9-1.7	2.4-1.2	3.0-1.6	3.2-1.7	2.5-1.9
NTRS	*	NORTHERN TRUST CORP	DEC	25-14	31-15	38-19	42-22	30-22	36	34	29	26	27	2.5-1.4	2.2-1.1	1.5-0.8	1.2-0.6	1.2-0.9
STT	*	STATE STREET CORP	DEC	25-14	19-10	33-19	37-17	25-14	26	15	21	19	16	1.8-1.0	1.5-0.8	1.1-0.6	1.1-0.5	1.1-0.6

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

			Yr. End	Earnings per Share ($)					Tangible Book Value per Share ($)					Share Price (High-Low, $)				
Ticker		Company		2003	2002	2001	2000	1999	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
DIVERSIFIED BANKS‡																		
BAC	*	BANK OF AMERICA CORP	DEC	7.27	6.08	4.26	4.56	4.56	22.76	23.77	20.79	19.00	15.66	84.90 -64.26	77.09 -53.95	65.54 -45.00	61.00 -36.31	76.38 -47.63
CMA	*	COMERICA INC.	DEC	3.78	3.43	3.93	4.68	4.20	27.68	26.80	25.18	21.53	18.41	56.34 -37.10	66.09 -35.20	65.15 -44.02	61.13 -32.94	70.00 -44.00
USB	*	U S BANCORP	DEC	1.93	1.74	0.89	1.33	0.89	5.77	4.93	4.64	4.75	4.66	30.00 -18.56	24.50 -16.05	26.06 -16.50	28.00 -15.38	35.33 -19.56
WB	*	WACHOVIA CORP	DEC	3.20	2.62	1.47	0.12	3.35	15.27	14.48	11.50	11.92	11.21	46.74 -32.12	39.88 -28.57	36.60 -25.22	38.88 -23.50	65.75 -32.00
WFC	*	WELLS FARGO & CO	DEC	3.69	3.35	1.99	2.36	2.26	10.13	8.94	6.05	5.77	5.02	59.18 -43.27	54.84 -41.50	54.81 -38.25	56.38 -31.38	49.94 -32.19
REGIONAL BANKS‡																		
ASO	*	AMSOUTH BANCORPORATION	DEC	1.79	1.70	1.46	0.86	0.87	8.32	7.96	7.29	6.61	6.48	24.62 -19.05	23.06 -17.75	20.24 -15.00	20.06 -11.69	34.58 -18.75
ASBC	†	ASSOCIATED BANC CORP	DEC	2.07	1.88	1.65	1.49	1.43	9.64	9.14	9.02	7.90	6.91	29.00 -21.33	25.63 -18.01	22.41 -17.42	18.94 -12.19	24.79 -16.63
BOH	†	BANK OF HAWAII CORP	DEC	2.32	1.75	1.49	1.43	1.66	13.46	15.09	16.16	13.93	12.57	42.99 -29.25	31.05 -22.79	28.30 -16.88	23.19 -11.06	24.94 -17.38
BNK	†	BANKNORTH GROUP INC	DEC	2.18	2.01	1.73	1.33	1.38	8.35	9.06	8.69	7.94	6.76	33.57 -20.60	27.45 -20.68	24.39 -18.13	21.13 -10.38	20.25 -14.31
BBT	*	BB&T CORP	DEC	2.09	2.73	2.15	1.57	1.86	10.92	12.04	13.50 J	11.91 J	9.66 J	39.69 -30.66	39.47 -31.03	38.84 -30.24	38.25 -21.69	40.63 -27.19
CF	*	CHARTER ONE FINANCIAL INC	DEC	2.82	2.52	2.14	1.84	1.36	12.02	11.43	10.35	9.42	8.63	34.87 -27.05	34.77 -23.89	29.91 -22.29	27.21 -13.17	26.43 -15.12
CYN	†	CITY NATIONAL CORP	DEC	3.84	3.69	3.05	2.79	2.37	18.65	17.42	14.81	11.50	9.78	64.49 -38.70	56.42 -40.10	49.75 -32.97	40.81 -25.50	41.56 -29.63
CNB	†	COLONIAL BANCGROUP	DEC	1.20	1.18	1.07	1.06	1.07	7.06	6.58	6.52	6.19	3.37	18.10 -10.63	16.19 -11.01	14.98 -10.19	11.63 -8.19	15.00 -9.88
CBH	†	COMMERCE BANCORP INC/NJ	DEC	2.73	2.16	1.59	1.29	1.13	16.70 J	13.53 J	9.65	7.70	5.93	53.47 -36.23	50.49 -36.10	39.60 -26.00	35.41 -15.44	23.81 -18.45
CBSS	†	COMPASS BANCSHARES INC	DEC	2.74	2.46	2.13	2.01	1.90	12.56	12.71	11.36	9.77	8.40	39.84 -29.60	36.12 -26.00	29.46 -18.75	24.44 -15.50	30.75 -20.50
CFR	†	CULLEN/FROST BANKERS INC	DEC	2.54	2.40	1.51	2.09	1.83	12.65	11.40	9.17	8.56	7.03	43.75 -29.05	40.75 -28.30	41.94 -23.61	43.44 -19.63	30.38 -22.69
FITB	*	FIFTH THIRD BANCORP	DEC	3.01	2.82	1.91	1.86	1.45	12.92	12.65	11.46	9.15	7.62	62.15 -47.05	69.70 -55.26	64.77 -45.69	60.88 -29.33	50.29 -38.58
FBP	§	FIRST BANCORP P R	DEC	3.04	2.04	1.77	1.48	1.33	13.48	10.13	8.39	6.80	4.87	41.50 -22.70	28.00 -18.27	20.00 -13.00	16.46 -10.83	20.25 -12.83
FHN	*	FIRST HORIZON NATIONAL CORP	DEC	3.73	2.97	2.58	1.79	1.90	7.06	8.41	4.99	4.03	2.17	48.50 -35.58	41.00 -29.76	37.49 -27.13	29.31 -15.94	45.38 -27.38
FMER	†	FIRSTMERIT CORP	DEC	1.44	1.82	1.43	1.80	1.39	9.94	9.68	9.06	8.74	9.24	27.92 -18.05	29.51 -18.55	28.00 -20.66	27.75 -13.38	29.13 -22.56
GBBK	†	GREATER BAY BANCORP	DEC	1.65	2.35	1.61	1.42	1.14	8.25	7.92	9.30	7.69	6.28	29.54 -12.69	37.18 -13.62	43.19 -19.35	43.56 -17.59	21.88 -13.78
HIB	†	HIBERNIA CORP -CL A	DEC	1.67	1.59	1.37	1.05	1.07	9.26	8.51	7.79	6.92	6.26	23.84 -16.25	21.71 -16.25	19.35 -11.75	13.94 -8.75	17.50 -10.25
HU	§	HUDSON UNITED BANCORP	DEC	2.51	2.73	2.02	0.93	1.21	7.91	7.38	6.50	5.58	7.07	41.00 -29.57	33.00 -22.90	29.50 -19.50	25.63 -16.36	32.10 -22.67
HBAN	*	HUNTINGTON BANCSHARES	DEC	1.68	1.37	0.71	1.32	1.66	8.99	8.90	6.77	9.43 J	8.67 J	22.55 -17.78	21.77 -16.00	19.28 -12.63	21.82 -12.52	30.89 -19.49
IFC	§	IRWIN FINL CORP	DEC	2.61	1.97	2.14	1.70	1.54	1.85	6.68	0.08	2.61	0.99	32.15 -15.95	20.66 -13.20	27.70 -14.49	22.00 -13.25	28.88 -16.88
KEY	*	KEYCORP	DEC	2.13	2.29	0.37	2.32	2.47	13.88	13.35	11.85	12.42	11.14	29.41 -22.31	29.40 -20.98	29.25 -20.49	28.50 -15.56	38.13 -21.00
MTB	*	M & T BANK CORP	DEC	5.08	5.25	3.95	3.55	3.40	21.42	21.36	17.84	16.10	14.88	98.98 -74.71	90.05 -67.70	82.11 -59.80	68.42 -35.70	58.25 -40.60
MI	*	MARSHALL & ILSLEY CORP	DEC	2.41	2.24	1.60	1.50	1.66	9.96	8.61	9.16	9.22	8.27	38.46 -24.60	32.12 -23.11	32.12 -23.53	31.13 -19.13	36.38 -27.19
MRBK	†	MERCANTILE BANKSHARES CORP	DEC	2.70	2.74	2.57	2.53	2.27	15.83	17.64	16.03	14.91	13.44	45.95 -30.16	45.36 -32.07	44.50 -33.63	45.13 -23.75	39.94 -30.00
NCC	*	NATIONAL CITY CORP	DEC	3.46	2.61	2.30	2.14	2.25	11.33	10.70	8.36	9.09	7.23	34.97 -26.53	33.75 -24.60	32.70 -23.69	29.75 -16.00	37.81 -22.13
NCF	†	NATIONAL COMMERCE FINANCIAL	DEC	1.40	1.57	1.10	0.29	1.00	7.42	6.66	6.13	5.57	5.02	28.25 -19.25	29.60 -21.20	27.88 -20.00	25.19 -15.19	26.50 -17.50
NFB	*	NORTH FORK BANCORPORATION	DEC	2.63	2.61	2.08	1.40	1.63	6.92	6.87	6.20	5.39	4.20	41.01 -28.65	42.74 -31.22	33.73 -22.31	25.00 -14.44	26.75 -17.13
PNC	*	PNC FINANCIAL SVCS GROUP INC	DEC	3.68	4.23	1.27	4.12	4.19	14.22	14.78	12.19	14.42	6.20	55.55 -41.63	62.80 -32.70	75.81 -51.14	75.00 -36.00	62.00 -43.00
RF	*	REGIONS FINL CORP	DEC	2.93	2.76	2.26	2.39	2.37	14.59	13.60	12.47	12.99	11.38	37.90 -29.83	38.40 -27.10	32.99 -25.73	28.00 -18.31	41.63 -23.19
SOTR	*	SOUTHTRUST CORP	DEC	2.08	1.87	1.62	1.43	1.32	10.78	11.04	9.20	8.20	6.74	33.06 -24.19	27.32 -20.52	27.18 -19.25	20.53 -10.44	21.44 -16.38
STI	*	SUNTRUST BANKS INC	DEC	4.79	4.71	4.76	4.35	3.54	28.43	25.46	26.15	25.07	22.12	71.73 -51.44	70.20 -51.48	72.35 -57.29	68.06 -41.63	79.81 -60.44
SNV	*	SYNOVUS FINANCIAL CP	DEC	1.29	1.23	1.07	0.93	0.80	6.50	6.40	5.75 J	4.97	4.23	29.25 -17.24	31.93 -16.48	34.74 -22.75	27.38 -14.00	25.13 -17.25
TCB	†	TCF FINANCIAL CORP	DEC	3.06	3.17	2.73	2.37	2.01	10.18	10.31	9.91	8.79	7.50	54.25 -36.50	54.60 -35.10	51.12 -32.81	45.56 -18.00	30.69 -21.69
WL	†	WILMINGTON TRUST CORP	DEC	2.04	2.03	1.90	1.87	1.63	8.08	7.31	7.25	6.48	5.17	36.47 -26.00	34.63 -25.05	33.50 -25.10	31.69 -20.28	31.75 -22.38
ZION	*	ZIONS BANCORPORATION	DEC	3.77	3.46	3.18	1.87	2.29	20.23	17.21	15.19	13.06	11.61	63.86 -39.31	59.65 -34.14	64.00 -42.30	62.88 -32.00	75.88 -48.25
OTHER COMPANIES WITH SIGNIFICANT COMMERCIAL BANKING OPERATIONS																		
BK	*	BANK OF NEW YORK CO INC	DEC	1.54	1.25	1.84	1.95	2.31	5.59	5.66	5.80	8.31 J	6.96 J	33.49 -19.25	46.50 -20.85	58.13 -29.75	59.38 -29.75	45.19 -31.81
C	*	CITIGROUP INC	DEC	3.49	2.63	2.82	2.69	2.21	10.75	9.70	15.48 J	12.84 J	10.64 J	49.15 -30.25	52.20 -24.48	57.38 -34.51	59.13 -35.34	43.69 -24.50
JPM	*	J P MORGAN CHASE & CO	DEC	3.32	0.81	0.84	2.99	4.33	14.76	14.21	12.54	12.96	18.29 J	38.26 -20.13	39.68 -15.26	57.33 -29.04	67.17 -32.38	60.75 -43.88
MEL	*	MELLON FINANCIAL CORP	DEC	1.59	1.53	0.92	2.05	1.92	3.30	2.82	3.66	4.29	3.72	33.83 -19.89	40.80 -20.42	51.63 -27.75	51.94 -26.81	40.19 -31.00
NTRS	*	NORTHERN TRUST CORP	DEC	1.92	2.02	2.18	2.17	1.81	12.78	12.51	11.41	9.91	8.67	48.75 -27.64	62.67 -30.41	82.25 -41.40	92.13 -46.75	54.63 -40.16
STT	*	STATE STREET CORP	DEC	2.18	3.14	1.94	1.85	1.92	11.65	12.92	11.88 J	10.09 J	8.31 J	53.63 -30.37	58.36 -32.11	63.93 -36.25	68.40 -31.22	47.63 -27.75

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. J-This amount includes intangibles that cannot be identified.

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