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Derivatives Volume Continues To Increase
But Trading Revenue Declines

WASHINGTON, D.C. -- The notional amount of derivatives activity at commercial banks increased by \$1.4 trillion in the second quarter to \$23.3 trillion, the Office of the Comptroller of the Currency (OCC) reported today in its quarterly report of derivatives activity. For the first half of the year, the notional amount of derivatives activity increased by 16 percent.

Banks reported \$2 billion in revenue in the second quarter from cash instruments and off-balance sheet derivatives -- 18 percent lower than the record \$2.4 billion reported in the first quarter. The top eight banks accounted for 79 percent of second quarter trading revenues. Over the past four quarters, commercial banks have earned \$7.9 billion in trading revenue from these activities. For the eight commercial banks with the most derivatives trading activity, revenue from this source totaled 6 percent of total revenue in the second quarter.

The drop of \$421 million in total trading revenue during the second quarter can be attributed to a decline of revenue from interest rate positions from \$1.35 billion to \$939 million and from commodity and equity positions from \$343 million to \$116 million. Partially offsetting these declines was a \$218 million increase in revenue from foreign exchange positions.

The notional amounts of interest rate derivatives grew during the second quarter by \$1.2 trillion to \$15.8 trillion, and foreign exchange derivative contracts grew by \$165 billion to \$7.1 trillion. Other derivatives grew by \$33 billion to \$439 billion.

For all banks, the book value of contracts past due 30 days or more aggregated only \$15 million, or .005 percent of total credit exposure from derivatives contracts. This low delinquency figure reflects the current healthy economic environment and the generally high credit quality of counterparties and end-users with whom banks presently engage in derivatives transactions, as well as the increased use of collateral.

This quarter, banks reported information on credit derivatives for the second time. These relatively new instruments, which have their value linked to the credit status of an underlying loan or security, are used to help banks and other financial firms manage their credit exposure. The notional amount of credit derivatives rose to \$25.6 billion, 34 percent more than the \$19.1 billion reported the first quarter. One bank, Morgan Guaranty, accounts for three-fourths of the second quarter total.

The number of commercial banks holding derivatives decreased by 40 in the second quarter to 463. The bulk of this decline is due to consolidation in the banking system. Until the last quarter, when there was an increase of 21 banks engaged in derivatives activities, the number of commercial banks holding derivatives had decreased for five consecutive quarters.

Relative to capital, total credit exposures for the top eight banks increased during the quarter from 242 percent to 244 percent. The dollar amount of total credit exposure from off-balance sheet contracts for all banks was \$283 billion, up \$14 billion from the first quarter. This increase is largely due to an increase in the volume of derivatives contracts during the second quarter. Credit exposure would have been significantly higher without the benefit of bilateral netting agreements.

A copy of the OCC Second Quarter 1997 Derivatives Data Fact Sheet and the accompanying 12 tables and 13 graphs may be obtained by writing to Comptroller of the Currency, Public Reference Room (Mail Stop 1-5), Washington, DC 20219; calling the OCC information Fax Line at (202) 479-0141 and request document number 79786 from the news releases; faxing a request to (202) 874-4448; ordering by phone (202) 874-5043; or visiting the OCC's Public Reference Room at 250 E Street, S.W. in Washington, D.C. (9 a.m. - noon and 1 - 3 p.m., Monday-Friday). The document will be available on the OCC's web page at <http://www.occ.treas.gov>.

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The OCC charters, regulates and supervises approximately 2,800 national banks and 66 federal branches and agencies of foreign banks in the U.S., accounting for more than half the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and

economy of the United States.