



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

NR 99-60

Washington, DC 20219

For: Immediate Release

Contact: Kevin Mukri (202) 874-5770

Date: June 24, 1999

Bank Trading Revenue Increases 77% To Record \$3.6 Billion For 1st Quarter

WASHINGTON -- During the first quarter 1999, bank trading revenue increased 77 percent to a record \$3.6 billion, as compared to \$2.0 billion for the fourth quarter 1998, the Office of the Comptroller of the Currency (OCC) reported today in its *Bank Derivatives Report: First Quarter 1999*. Recognizing that fourth quarter earnings are generally lower than other quarters, bank trading revenues still grew an impressive 33 percent from the \$2.7 billion reported for the first quarter 1998. Mike Brosnan, OCC Deputy Comptroller for Risk Evaluation, attributed the healthy revenue stream to "the combined effects of continued strong customer activity along with the more favorable market conditions compared to those experienced last fall."

The report is based on information provided by all U.S. commercial banks. Trading revenue is from cash and off-balance sheet positions. The revenue increase came primarily from interest rate and foreign exchange products. Compared to the fourth quarter of 1998, revenue from interest rate products rose from \$669 million to \$1.4 billion; foreign exchange from \$1.2 billion to \$1.6 billion; equity from \$92 million to \$290 million; and commodity and other contracts from \$64 million to \$245 million.

"In addition to favorable conditions in the interest rate markets, events in the foreign exchange markets and commodity markets resulted in particularly favorable returns to those banking firms trading in these markets," said Mr. Brosnan.

The revenue increases came despite the first dip in the notional amount of derivative contracts since the fourth quarter 1995. The notional amount of aggregate derivative contracts declined slightly from \$33 trillion in the fourth quarter of 1998 to \$32.7 trillion at the end of the first quarter of this year. Despite the decline, the notional amount of credit derivatives rose by an estimated \$47 billion during the quarter to a new record of \$191 billion.

-more-

“Over time, we expect to see continuing growth in credit derivatives as bank customers become more comfortable with their understanding of this risk management product,” said Mr. Brosnan. When credit derivative data became available in the fourth quarter 1997, the notional amount was \$55 billion.

Other highlights of the first quarter report include:

- X Interest rate contracts accounted for 77 percent of the notional amount of derivative contracts and foreign exchange contracts accounted for 20 percent. Equity, commodity and credit derivatives accounted for the remaining 3 percent.
- X Seven commercial banks continued to dominate the derivatives market, accounting for 93 percent of the total notional amount in the commercial banking system. The top 25 banks accounted for 99 percent of this business.
- X Over-the-counter contracts comprised 88 percent of the notional amounts for the first quarter compared to 12 percent that were exchange-traded.
- X The notional amounts of short-term contracts (remaining maturities of less than a year) decreased by \$673 billion to \$12.1 trillion. Contracts with remaining maturities of one to five years rose by \$439 billion to \$8.6 trillion, and contracts with maturities of five years or more increased by \$339 billion to \$3.9 trillion.
- X Relative to risk-based capital, total credit exposures for the top seven banks decreased to 309 percent in the first quarter from 324 percent the previous quarter. The \$19 billion decrease in total credit exposure for the quarter is largely attributable to decreases in aggregate market values.
- X During the first quarter, banks charged off \$59 million due to credit losses from off-balance sheet derivatives. That amounts to less than 0.02 percent of the total credit exposure from derivative contracts. By comparison, net loan charge-offs relative to total loans for the quarter were 0.15 percent.

A copy of the *Bank Derivatives Report: First Quarter 1999* is available on the OCC web site: occ.treas.gov.

###

The OCC charters, regulates and examines approximately 2,500 national banks and 61 federal branches and agencies of foreign banks in the United States, accounting for 59 percent of 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.

Related Link:

[Derivatives Report](#)