United States General Accounting Office

GAO

Report to Congressional Requesters

December 1991

MARKET VALUE ACCOUNTING

Debt Investment Securities Held by Banks

GAO/AFMD-92-10

GAO

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Accounting and Financial
Management Division

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The Honorable John D. Dingell
Chairman, Committee on Energy and
Commerce
House of Representatives

The Honorable Edward J. Markey
Chairman, Subcommittee on
Telecommunications and Finance
Committee on Energy and Commerce
House of Representatives

In accordance with your December 6, 1990, request and subsequent discussions with your offices, this report provides information regarding the effect that market value accounting could have on banks' financial statements. Specifically, the report includes information regarding (1) the composition of bank investment security holdings and their significance in relation to total bank assets, (2) the impact of fluctuating interest rates on the market values of bank debt investment security portfolios, and (3) maximum potential effects on earnings and equity capital. Such information is a starting point in considering the merits of market value accounting for bank debt investment securities and related implementation issues.

The Financial Accounting Standards Board (FASB) has issued an exposure draft of a proposed standard requiring market value disclosures. It is also considering an accounting rule that would require holders of debt investment securities to record those securities at market value in their financial statements. In a second report, also as you requested, we will analyze responses received by FASB on its proposal regarding market value disclosures.

Results in Brief

As of December 31, 1990, bank investment securities portfolios comprised an average of 18 percent of bank assets, ranging from a high of about 30 percent for banks with less than $100 million in assets to about 10 percent for the largest banks with more than $30 billion in assets.

Less than 30 percent of debt investment securities held by the smallest banks had maturities of over 5 years, while about 50 percent of securities held by the largest banks had maturities of over 5 years. Most of the investment securities held by banks are issued by the U.S. Treasury or

by government sponsored enterprises, which carry little credit quality risk.

There is an inverse relationship between interest rate changes and debt investment security values. Our analysis of hypothetical interest rate changes on the aggregate market values of debt investment securities held by banks showed that a 1 percent increase in prevailing interest rates would decrease the securities' value by an estimated 3 percent, with the value of securities with long-term maturities decreasing more than those with shorter terms.

Although reductions in the value of bank debt investment securities would tend to reduce bank earnings and equity capital, our estimates do not include the effects of strategies many banks may use which may mitigate the impact of interest rate changes on debt investment securities portfolios and bank earnings and capital. Because aggregate data on such strategies were not available and therefore not considered in our analysis, calculations in this report of the impact of interest rate changes represent maximum potential impacts for the industry in the aggregate rather than the likely effect of interest rate changes on individual banks. FASB has stated that it will consider the existence of these strategies and their effects in promulgating accounting standards for debt investment securities.

Background

We have previously reported that the application of historical cost-based accounting under present generally accepted accounting principles (GAAP) has unduly delayed recognition of loan losses and caused the amounts of such losses when recognized to be understated.[1] Use of the historical cost accounting concept has also to some extent delayed recognition of losses in investment securities portfolios.

The historical cost concept is a key underpinning of present bank accounting. Historical cost is the amount of cash or its equivalent originally paid to acquire an asset. Under market value accounting, the values of assets and liabilities would be periodically increased or reduced as their estimated market values changed. Market value is based upon the concept of fair value, which is generally defined as the price that could be obtained in an arm's length transaction between

[1] Bank Failures: Independent Audits Needed to Strengthen Internal Control and Bank Management (GAO/AFMD-89-25, May 31, 1989), Bank Insurance Fund: Additional Reserves and Reforms Needed to Strengthen the Fund (GAO/AFMD-90-100, September 11, 1990), and Failed Banks: Accounting and Auditing Reforms Urgently Needed (GAO/AFMD-91-43, April 22, 1991).

willing parties in other than a forced or liquidation sale. The assigned market values of debt investment securities will vary depending upon factors such as fluctuations in interest rates and changes in credit quality.

Banks hold debt instruments, such as bonds issued by the federal and state governments, in either trading accounts or investment portfolios. Trading account securities, which comprised an average of 1 percent of bank assets at December 31, 1990, are held by banks for short-term liquidity and speculative trading purposes, not for long-term investment. Trading account securities are generally accounted for at market value.

Debt securities are included in a bank's investment portfolio, as opposed to its trading account, when management has the ability and intent to hold the securities for investment purposes. Debt investment securities held by banks are reflected in bank financial statements at historical cost, adjusted for amortization of premiums or discounts from the face amount of the security. Thus, changes in their value due to fluctuations in interest rates or credit quality determinations made in the market place after their acquisition are generally not recognized. In addition, the market value of bank investment securities are disclosed in periodic reports filed with federal regulators and in the notes to bank annual financial statements. However, banks frequently sell investment securities before maturity, resulting in recognized gains and losses on these sales.

FASB began a project in 1986 to consider comprehensive disclosures about the credit risk, liquidity, interest rates, and market values of financial instruments. FASB is the private sector organization that establishes standards for financial accounting and reporting. As part of the disclosure project, FASB issued an exposure draft of a proposed standard in December 1990 that would expand market value disclosure requirements to many other types of financial instruments. We testified before FASB in May 1991 in favor of market value disclosures.[2]

Also, in late 1990, the Securities and Exchange Commission (SEC), the American Institute of Certified Public Accountants, and others requested that FASB undertake a project to consider market value accounting for debt securities held as assets. SEC has repeatedly

[2] Disclosures About Market Value of Financial Instruments (GAO/T-AFMD-91-6, May 30, 1991).

encouraged broader use of market based measures in financial statements. In our April 1991 report, we expressed support for market value accounting for investment securities.

Objectives, Scope, and Methodology

Our objectives were to determine

- the significance of debt investment securities in relation to all assets held by banks of varying size;
- the composition, in terms of issuers and maturities, of bank debt investment security holdings, and the implications of these factors regarding interest rate and credit quality risks; and
- the potential effects of interest rate fluctuations on the value of bank debt investment securities portfolios and the corresponding impact on bank earnings and capital positions.

To determine the significance and composition of the debt investment securities held by banks, we extracted data from "Quarterly Consolidated Reports of Condition and Income." These are known as call reports and are submitted by bank management to federal regulators. The reports consist of unaudited financial information that is to be prepared in accordance with federal regulatory requirements, which are for the most part consistent with generally accepted accounting principles. As we noted in our April 1991 report, call reports often do not give an accurate picture of an institution's overall financial condition. However, they provide the best available data on the composition of bank assets and liabilities.

We compiled data from reports on all 12,795 U.S. banks as of December 31, 1990. For purposes of analysis, we grouped the banks by size according to the amount of assets they reported as follows: under $100 million (9,383 banks); $100 million to $1 billion (2,984 banks); $1 billion to $30 billion (416 banks); and $30 billion and above (12 banks).

To determine the consistency of data over a period of years, we compiled data on bank assets and debt investment securities as of December 31, 1987, 1988, 1989, and as of December 31, 1990. We found the data to be reasonably consistent. For purposes of this report, we are only presenting and discussing the data as of December 31, 1990.

Regarding credit quality risk inherent in bank debt investment securities portfolios, we summarized data on the four largest classes of issuers

included in call reports—U.S. Treasury, government sponsored enterprises, state and political subdivisions, and foreign issuers. We did not assess credit quality risk for the last two classes because the identities of the specific issuers of debt investment securities held by banks are not centrally available.

To determine the effects of both increasing and decreasing interest rates on the value of the debt investment securities portfolios held by banks, we estimated the market value of these portfolios under varying interest rate and maturity assumptions and compared them to the portfolios' market values as of December 31, 1990. The interest rate changes we used were a 1 percent decrease, a 1 percent increase, and a 6 percent increase to interest rates in effect on December 31, 1990. For example, for one of our calculations, we determined the effects of increasing interest rates by adjusting the 8.08 percent Treasury note rate in effect at December 31, 1990, to a rate of 9.08 percent. To estimate the effects of interest rate changes on earnings and capital, we added the gain or loss resulting from the changes in portfolio value we had calculated to the earnings and capital reported by banks at December 31, 1990. Our methodology for calculating these effects and our related assumptions are more fully described in pertinent sections of the report and in appendix I.

Banks may apply strategies, including hedging strategies, which may mitigate the impact of interest rate fluctuations on debt investment securities portfolios and the corresponding effects on bank earnings and capital. However, aggregate data necessary to include the impact of such strategies in our calculation of the effect of changing interest rates on securities portfolios and bank earnings and capital were not available and it was impractical to obtain this information on an individual bank basis. In addition, we used pretax computations in our analysis of the impact of changes in interest rates on earnings and capital and did not consider the impact of changes in interest rates on other bank assets and liabilities. Thus, our estimates do not represent the likely impact of interest rate changes on overall bank finances and operations.

Debt Investment Securities Are an Important Component of Bank Assets

Debt investment securities comprise a significant percentage of the assets held by our nation's banks. The market value of such securities can vary due to changes in factors such as the issuers' creditworthiness and fluctuations in interest rates. The significance of these risks to banks is directly related to the (1) dollar value of securities held as a percentage of total bank assets, (2) financial stability of the issuers of

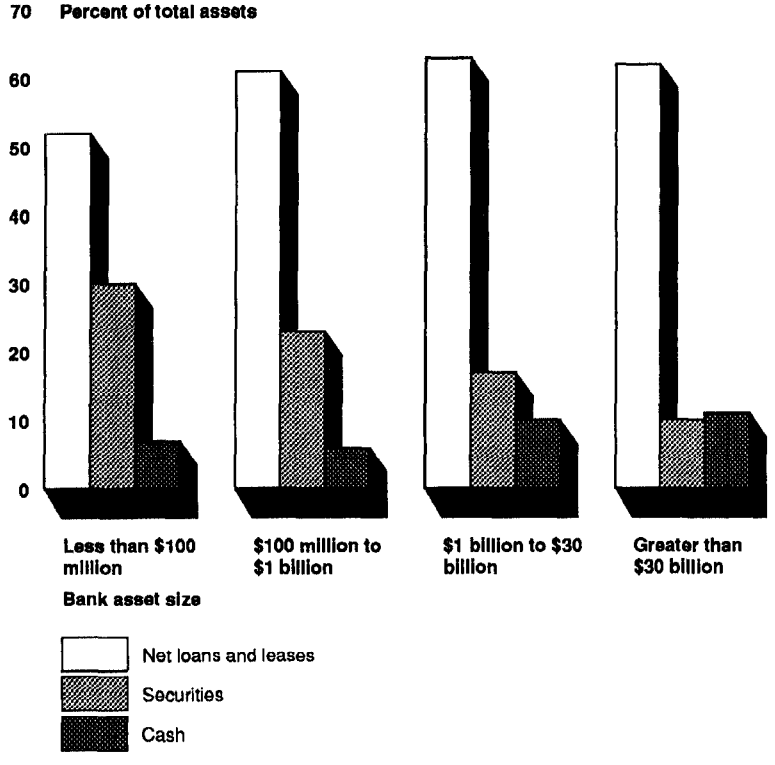
the securities held, and (3) average years to maturity for bank portfolios. The overall risk to banks is a function not only of the portfolio of securities held by the banks, but also of the strategies used by banks to fund the purchase of debt investment securities and other measures taken to mitigate risk.

Debt Investment Securities as a Percentage of Assets Decreases as Bank Size Increases

Investment securities represented the largest category of assets after "net loans and leases" for all but the largest banks. For the largest banks, investment securities constituted the third largest category of assets, following "net loans and leases," and "cash and deposits with other institutions." Appendix II summarizes information reported by banks on their December 31, 1990, balance sheets.

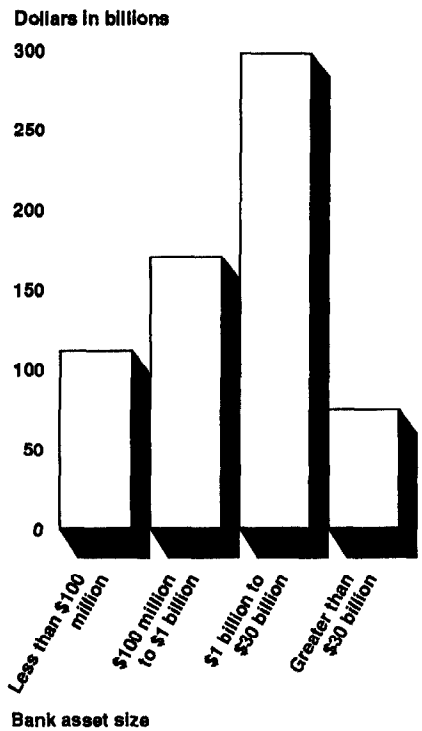
Investment securities constitute a higher percentage of the assets of smaller banks than larger banks. As shown in figure 1, as of December 31, 1990, investment securities as a percentage of total assets ranged from approximately 30 percent for smaller banks to 9.5 percent for the largest banks.

Figure 1: Largest Categories of Assets Held by Banks as of December 31, 1990



Banks reported over $650 billion in investment securities as of December 31, 1990. As figure 2 shows, almost half of those securities were held by banks with $1 billion to $30 billion in assets.

Figure 2: Value of Investment Securities Held by Banks as of December 31, 1990



U.S. Treasury and GSE Securities Are the Largest Categories of Bank Debt Investment Holdings

Banks are significant sources of funds to government sponsored enterprises (GSEs) and the U.S. Treasury, holding $299 billion and $157 billion, respectively, in these securities at December 31, 1990.

Securities of GSEs comprise the largest category of debt investment securities held by banks of all sizes, constituting 48 percent of total debt investment securities for banks with less than $100 million in assets and 37 percent of total debt investment securities for banks with assets over $30 billion. (See appendix III for a listing of the types and amounts of debt investment securities held by banks.)

GSE securities are generally backed by pools of mortgages and other financial instruments, which are guaranteed by the issuing GSE. While such securities are not guaranteed against loss by the U.S. government, the government is widely viewed as having a commitment to back GSEs. As such, securities of GSEs have historically not been a significant source of credit quality risk to banks. However, we have reported that shortcomings in current federal oversight of GSEs could result in decreased

creditworthiness.[3] The extent to which banks would incur losses in the event of financial difficulties of a GSE is uncertain.

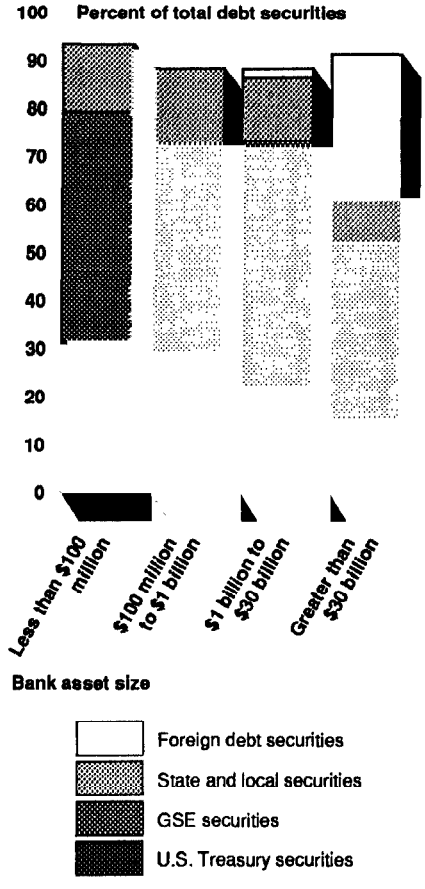
U.S. Treasury securities constitute 32 percent of bank debt investment securities held by the smallest banks, but only 15 percent for the largest banks. U.S. Treasury issues are generally assumed to be risk-free assets because they are backed by the full faith and credit of the U.S. government.

At an average of 13 percent, the securities of state and local political subdivisions represent the third largest category of debt securities for all but the largest banks. Securities of state and local governments have not historically been sources of significant financial losses to banks, but the current unfavorable financial condition of a number of large municipalities could lead to losses for banks. We could not assess the risk of banks' specific state and local holdings because a listing of individual issuers was not available.

As shown in figure 3, for the 12 largest banks, foreign debt securities constitute the largest holdings after GSEs, amounting to 30 percent of total debt securities. Foreign debt securities comprise $22 billion of the aggregate $72 billion portfolio of the largest banks. We did not review these securities for credit quality risk due to a lack of information on specific issuers.

[3] Government Sponsored Enterprises: The Government's Exposure to Risks (GAO/GGD-90-97, August 15, 1990).

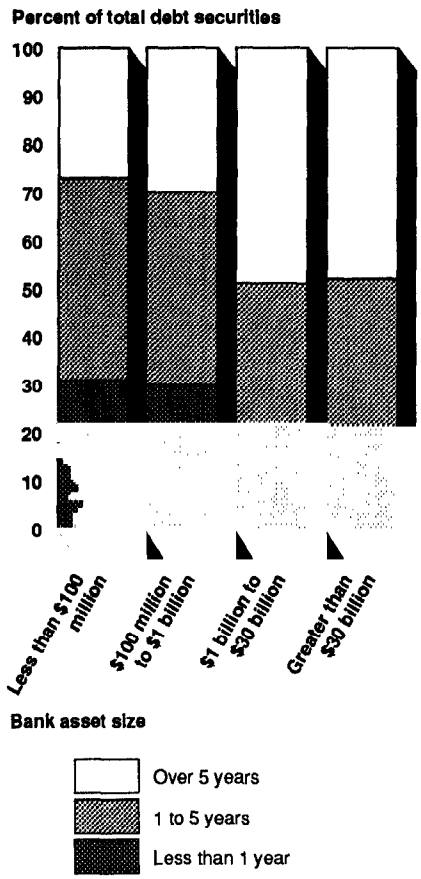
Figure 3: Major Types of Debt Securities Held by Banks as of December 31, 1990



Larger Banks Hold a Higher Percentage of Longer Term Debt Securities

As of December 31, 1990, approximately 50 percent of the debt securities held by banks with assets over $1 billion had maturities of over 5 years. On the other hand, as figure 4 shows, less than 30 percent of the debt securities held by banks with assets of less than $1 billion had maturities of over 5 years. (See appendix IV for banks' debt maturity structure according to bank asset size.)

Figure 4: Maturities of Debt Securities as of December 31, 1990



Changes in Interest Rates Affect Securities' Market Values

Generally, the value of a securities portfolio will decrease as interest rates increase. Also, the longer the average maturity, the greater the impact of interest rate fluctuations on portfolio market values.

To determine the effects of changing interest rates on the value of banks' debt investment securities, we had to assume an average maturity for the securities in each of the maturity ranges used in bank call reports. We assumed an average maturity of 3 years for securities in the 1- to 5-year maturity range and 8- and 18-year average maturity levels for securities with maturities of over 5 years.

Figures 5 and 6 show the effects we calculated. Figure 5 assumes short-term average maturities of 3 years and long-term average maturities of

8 years. Figure 6 also assumes short-term average maturities of 3 years, but assumes long-term average maturities of 18 years. Both figures assume constant values for securities with maturities of less than 1 year.

Figure 5: Effects of Interest Rate Changes Assuming 8-Year Average Maturity for Long-Term Securities

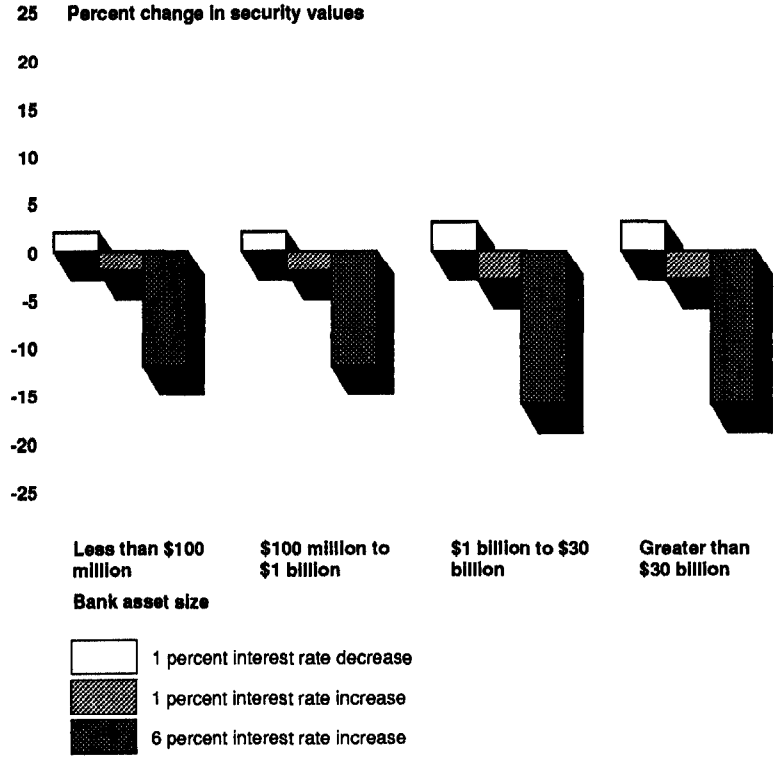
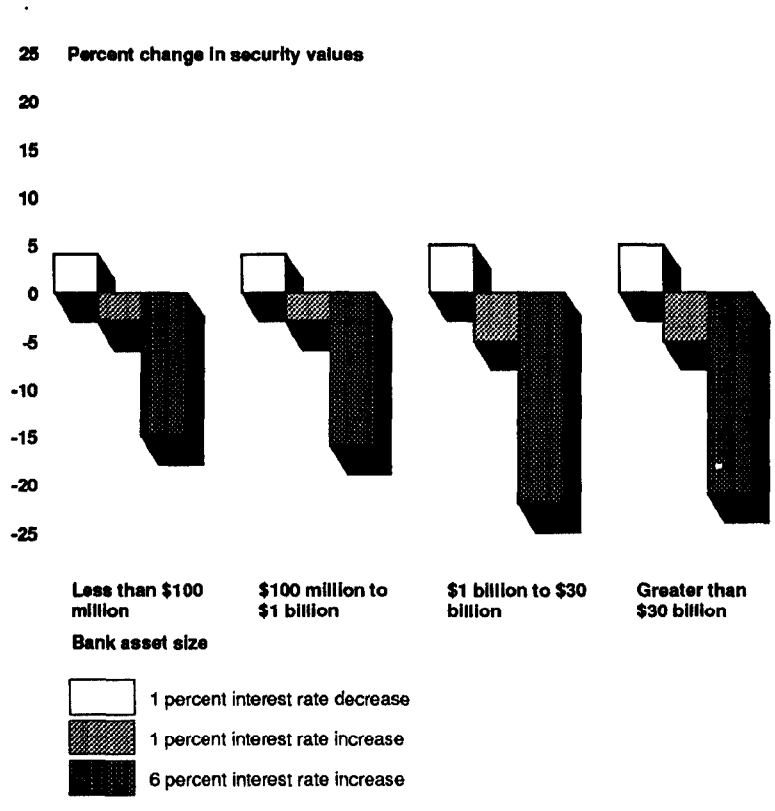


Figure 6: Effects of Interest Rate Changes Assuming 18-Year Average Maturity for Long-Term Securities



Our analysis showed that the combination of an increase of 1 percent in interest rates and an average maturity of 8 years on longer term holdings would result in a 3 percent decrease in the aggregate value of debt investment securities held by all banks. A combination of a 6 percent rise in interest rates and an assumed 18-year average maturity on longer term holdings would result in a 20 percent aggregate decrease in the value of the debt securities portfolios. On the other hand, a 1 percent decrease in interest rates combined with an 8-year average maturity for longer term securities would produce a 3 percent increase in the value of debt securities portfolios, while an 18-year average maturity would produce a 5 percent increase.

However, as discussed in the methodology section of this letter, we could not evaluate the offsetting effects of strategies and funding sources that banks may use which may mitigate the impact of interest rate changes on debt investment securities portfolios. Thus, these

impacts represent the maximum potential effects of interest rate changes on debt investment securities portfolios.

Changes in Interest Rates Have Potential Related Effects on Earnings and Capital

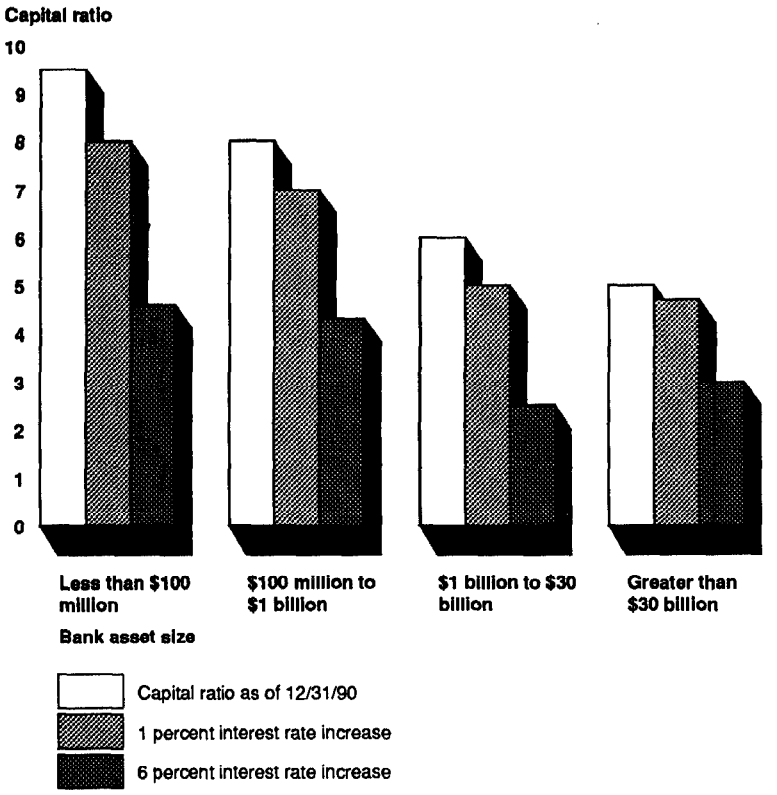
For illustrative purposes, we included in our analysis an indication of how changes in interest rates and changes in debt investment securities values might affect earnings and equity capital.

Any combination of rising interest rates and average maturity assumptions we used would totally or almost totally erase bank earnings if debt investment securities portfolios were accounted for at market value. Our analysis also showed that the combination of a 1 percent rise in interest rates and an 8-year average maturity assumption for longer term securities would produce an 8 percent decrease in bank equity capital. A 6 percent rise in rates and an 8-year average maturity assumption for longer term securities would reduce equity capital by 43 percent.

A key indicator of a bank's financial condition is its capital ratio, which is derived by dividing a bank's equity capital by its assets. The higher the capital ratio, the greater is a bank's ability to absorb losses. Figure 7 shows the effects of rising interest rates on capital ratios for each of the bank asset categories assuming an 18-year average maturity for longer term securities.

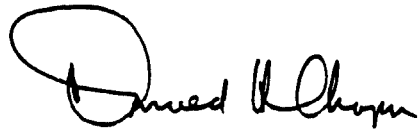
However, the offsetting effects of strategies that banks may use to mitigate the impact of interest rate changes on the value of their securities portfolios would also flow through to bank earnings and capital. Because, as previously discussed, we could not consider such strategies, the changes we calculated would not represent the likely impact of interest rate changes on earnings and capital. In addition, changes in interest rates would affect other bank assets and liabilities not included in our analysis which could also affect earnings and capital.

Figure 7: Impact of Rising Interest Rates on Bank Capital Ratio Assuming 18-Year Average Maturity for Long-Term Securities



As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Chairmen and Ranking Minority Members of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs and other interested parties. Copies will be available to others on request.

This report was prepared under the direction of Robert W. Gramling, Director, Corporate Financial Audits, who can be reached on (202) 275-9406 if you or your staffs have any questions. Major contributors are listed in appendix V.



Donald H. Chapin
Assistant Comptroller General

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Abbreviations

FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
GAO	General Accounting Office
GSE	government sponsored enterprise
SEC	Securities and Exchange Commission

Methodology Used to Calculate the Effects of Interest Rates on the Value of Debt Securities

To determine the effects of both increasing and decreasing interest rates on the value of banks' debt investment securities portfolios, we estimated the market value of these portfolios under varying interest rate and maturity assumptions and compared them to the portfolios' market values as of December 31, 1990. The interest rate changes we used were a 1 percent decrease, a 1 percent increase, and a 6 percent increase to the interest rates in effect on December 31, 1990.

As a first step in our methodology, we grouped all 12,795 U.S. banks into four categories by bank size according to the amount of assets reported in call reports as of December 31, 1990. These categories were: under $100 million (9,383 banks), $100 million to $1 billion (2,984 banks), $1 billion to $30 billion (416 banks), and $30 billion and above (12 banks).

Using bank call reports, we determined the market value of debt investment securities held by banks in each of four maturity categories as of December 31, 1990. Bank call reports classify debt investment securities into four maturity categories: 3 months or less, 3 to 12 months, 1 to 5 years, and over 5 years. Although aggregate historical costs and market values are available for all debt investment securities held by each bank size category, only historical costs are available in call reports for each of the maturity categories. To estimate aggregate market values for each of these maturity categories, we adjusted historical cost data to reflect aggregate differences (which were not significant—less than 1 percent) between market values and historical costs of bank debt investment securities at December 31, 1990. We did this by allocating such differences based on the percentage that debt investment securities in each maturity category comprised of the total historical cost of bank debt investment securities.

Because detailed information on the average maturities of debt securities held by banks was not available, we had to make certain assumptions concerning average maturities within these broad maturity categories. We combined maturities of 3 months or less and 3 to 12 months into one category. In calculating the effects of changing interest rates, we kept the values of these securities constant because the impact of interest rate changes on debt investment securities with maturities of less than 1 year is generally not significant. Secondly, we assumed 3 years as the average maturity figure for securities reported as having maturities of 1 to 5 years, 3 years being the mid-point in that range. Finally, we used two different average maturity assumptions, 8 and 18 years, for securities with reported maturities over 5 years. We chose

these two maturity assumptions because our review of footnote disclosures in the financial statements of a judgmentally selected sample of banks indicated that they were representative of the range of maturities of the longer term debt investment securities held by banks.

In addition to maturity assumptions, we chose certain interest rates as starting points in calculating the effects of changing rates on debt investment securities values. Because average yields on debt securities held by banks were not available from call report information, we selected rates in effect on U.S. Treasury securities at December 31, 1990. The Department of the Treasury publishes the rates for securities of various maturity levels, such as 5 years and 30 years. We selected the published Treasury rates that most closely corresponded to the average maturities we had chosen. Specifically, these rates were 7.40 percent (3-year Treasury notes); 8.08 percent (10-year Treasury notes); and 8.26 percent (30-year Treasury bonds).

Using the market values we had calculated and the maturities and interest rates we had selected, we devised a formula for calculating the effects of interest rate changes on the value of debt investment securities held by banks. This formula determined, starting with the market value of debt securities at December 31, 1990, the present values of the principal and interest payments of those securities under each of our maturity and interest rate assumptions. As different combinations of interest rates and maturities were entered in the formula for each bank asset category, the present values of debt investment securities would either increase or decrease.

The interest rate effects we chose to measure involved a decline of 1 percent, an increase of 1 percent, and an increase of 6 percent. The latter figure represents the rise in interest rates that occurred in the early 1980s, the largest increase in rates over the past 40 years. We assumed that the composition of bank debt investment portfolios remained constant, and that, after the initial change of -1, +1, or +6 percent, interest rates remained constant. We also assumed that principal payments would occur at the end of the maturity period with no prepayments or periodic reductions in principal.

To estimate the related effects of interest rate changes on earnings, we obtained from call reports the amounts of before tax earnings for the year ended December 31, 1990, for each of the four bank asset categories. From these earnings figures we added or subtracted, as appropriate, the gain or loss in securities values we had calculated. Similarly,

to estimate the effects on capital, we obtained from call reports the amounts of equity capital for each of four bank size categories at December 31, 1990. From these amounts we added or subtracted the increases or decreases in securities values as calculated.

As noted previously, we analyzed only the effects of changing interest rates on debt investment securities. Our analysis did not attempt to estimate the net impact of changing rates on bank operations and finances.

Balance Sheet for U.S. Banks as of December 31, 1990

Dollars in millions

	Bank Asset Size									
	Less than $100 million		$100 million to $1 billion		$1 billion to $30 billion		Greater than $30 billion		Total	
Assets	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Cash and noninterest bearing deposits	$17,562	5	$36,832	5	$117,230	7	$47,343	6	$218,967	6
Interest bearing deposits	7,444	2	9,912	1	51,205	3	36,043	5	104,604	3
Total cash and deposits	25,006	7	46,744	6	168,435	10	83,386	11	323,571	9
Federal funds sold and reverse repos	24,270	7	36,713	5	67,964	4	22,433	3	151,380	4
Investment securities	110,604	30	170,488	23	297,005	17	74,194	10	652,291	18
Gross loans and leases	195,885	52	465,662	63	1,114,857	64	506,904	65	2,283,308	64
Less: Unearned income	(1,808)	0	(4,070)	−1	(5,658)	0	(2,762)	0	(14,298)	0
Total loans and leases	194,077	52	461,592	62	1,109,199	64	504,142	65	2,269,010	64
Less: Reserves	(3,235)	−1	(7,719)	−1	(28,038)	−2	(18,966)	−3	(57,958)	−2
Net loans and leases	190,842	51	453,873	61	1,081,161	62	485,176	62	2,211,052	62
Assets held in trading accounts	177	0	1,452	0	12,569	1	34,286	4	48,484	1
Premises and fixed assets	6,155	2	11,770	2	23,532	1	12,696	2	54,153	1
Other real estate owned	2,376	1	5,859	1	12,436	1	4,775	1	25,446	1
Investments in subsidiaries	63	0	406	0	1,841	0	1,228	0	3,538	0
Customer acceptances liability	17	0	170	0	10,002	1	11,536	1	21,725	1
Mortgage servicing rights	16	0	172	0	1,481	0	271	0	1,940	0
Goodwill	169	0	627	0	3,807	0	672	0	5,275	0
Other intangible assets	120	0	915	0	2,922	0	1,126	0	5,083	0
Other assets	6,428	2	12,913	2	46,384	3	48,914	6	114,639	3
Total Assets	**$366,243**	**100**	**$742,102**	**100**	**$1,729,539**	**100**	**$780,693**	**100**	**$3,618,577**	**100**

Dollars in millions

	Bank Asset Size									
	Less than $100 million		$100 million to $1 billion		$1 billion to $30 billion		Greater than $30 billion		Total	
Liabilities	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Total domestic deposits	$325,309	89	$634,076	85	$1,244,919	72	$341,369	44	$2,545,673	70
Total foreign deposits	137	0	3,394	0	69,377	4	220,538	28	293,446	8
Total deposits	325,446	89	637,470	85	1,314,296	76	561,907	72	2,839,119	78
Federal funds purchased and repos	2,744	1	23,467	3	176,703	10	48,362	6	251,276	7
Demand notes issued to Treasury	426	0	2,895	0	14,164	1	5,761	1	23,246	1
Other borrowed money	593	0	11,562	2	66,768	4	49,912	6	128,835	4
Mortgage and capitalized leases	146	0	442	0	1,394	0	354	0	2,336	0
Bankers' acceptances liability	17	0	170	0	10,040	1	11,699	2	21,926	0
Subordinated debt	119	0	827	0	8,191	0	15,261	2	24,398	1
Other liabilities	3,831	1	7,989	1	31,848	2	48,520	6	92,188	2
Total Liabilities	333,322	91	684,822	91	1,623,404	94	741,776	95	3,383,324	93
Limited life preferred stock	2		3		181		0		186	
Equity Capital										
Preferred stock	112	0	427	0	934	0	400	0	1,873	0
Common stock	6,095	2	7,455	1	12,572	0	5,500	1	31,622	1
Surplus	12,848	3	23,819	4	46,482	3	18,254	2	101,403	3
Retained earnings	13,962	4	25,829	4	46,283	3	15,327	2	101,401	3
Less: Unreal loss market securities	(98)	0	(261)	0	(338)	0	(3)	0	(700)	0
Foreign currency adjustment	0	0	8	0	21	0	(561)	0	(532)	0
Total Equity Capital	32,919	9	57,277	9	105,954	6	38,917	5	235,067	7
Total Liabilities and Equity Capital	**$366,243**	**100**	**$742,102**	**100**	**$1,729,539**	**100**	**$780,693**	**100**	**$3,618,577**	**100**

Bank Investment Securities as of December 31, 1990

Dollars in millions

	Bank Asset Size					
	Less than $100 Million			$100 Million to $1 Billion		
Debt securities	**Historical cost**	**Market value**	**Percent**	**Historical cost**	**Market value**	**Percent**
U.S. Treasury	$34,356	$34,742	32	$48,462	$49,063	30
Government sponsored enterprises	51,900	52,224	48	72,305	72,817	43
State and political	15,443	15,666	14	26,351	26,920	16
Nongovernment Certificate of Participation	402	401	0	1,156	1,149	1
Other domestic debt securities	7,079	7,051	6	17,444	17,272	10
Foreign debt securities	4	4	0	773	754	0
Total debt securities	109,184	110,088	100	166,490	167,974	100
Total equity securities	1,420	1,445		3,998	4,192	
Total Securities	**$110,604**	**$111,533**		**$170,488**	**$172,166**	

Bank Asset Size								
$1 Billion to $30 Billion			Greater than $30 Billion			Total		
Historical cost	Market value	Percent	Historical cost	Market value	Percent	Historical cost	Market value	Percent
$63,938	$64,638	22	$10,410	$10,513	15	$157,166	$158,955	25
148,392	149,103	50	26,676	26,990	37	299,273	301,135	47
36,322	37,283	13	6,565	6,712	9	84,682	86,581	13
4,871	4,858	2	444	444	1	6,872	6,852	1
32,067	31,663	11	6,193	6,150	9	62,782	62,136	10
6,097	5,912	2	21,981	21,311	29	28,855	27,981	4
291,687	293,457	100	72,269	72,120	100	639,630	643,639	100
5,318	5,684		1,925	1,982		12,661	13,303	
$297,005	**$299,141**		**$74,194**	**$74,102**		**$652,291**	**$656,942**	

Note: Totals may not add due to rounding.

Maturity Structure of Bank Debt Investment Securities as of December 31, 1990

Dollars in millions

	Bank Asset Size							
	Less than $100 million		$100 million to $1 billion		$1 billion to $30 billion		Greater than $30 billion	
Maturities	**Market value**	**Percent**	**Market value**	**Percent**	**Market value**	**Percent**	**Market value**	**Percent**
Less than 1 year	$34,656	31	$51,389	31	$65,131	22	$15,596	22
1 to 5 years	46,167	42	67,850	40	84,203	29	22,450	31
Over 5 years	29,265	27	48,735	29	144,123	49	34,074	47
Total	**$110,088**	**100**	**$167,974**	**100**	**$293,457**	**100**	**$72,120**	**100**

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