

The 3-D Bomb: Derivative Domino Destruction

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#1: **The 3-D Bomb: Derivative Domino Destruction**

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THE TRIPLE D BOMB: DERIVATIVE DOMINO DESTRUCTION

by Michael Edward

U.S. banks have already duped you by using derivatives to help Enron, WorldCom, Global Crossing, and Parmalat pirates "cook their books."

So, what do they have in store for you now?

THE DANGEROUS MYTH ABOUT DERIVATIVES

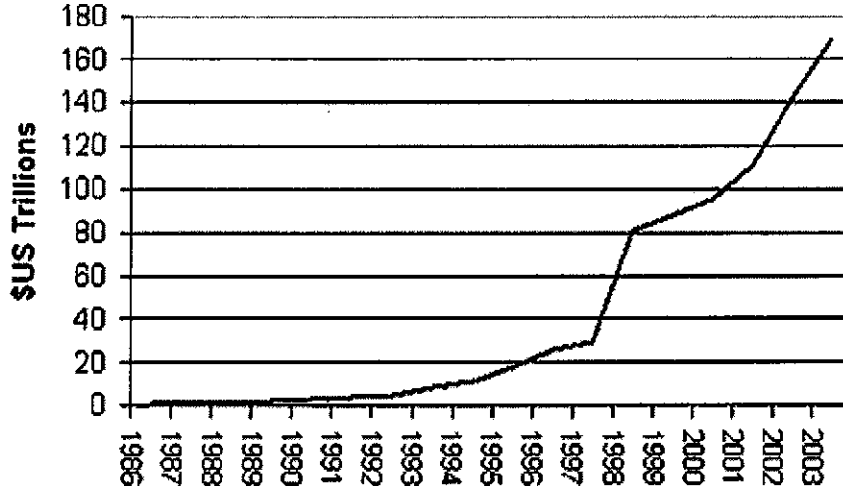
The biggest myth spewed out of the mouths of banks and financial paper brokerages, regarding derivatives, is that they reduce risk. But the reality is that they simply **do not reduce any risk!** In layman's terms, **derivatives transfer risk**, such as from a bank to another bank or entity.

The alchemy of derivatives rests on complicated mathematical models that predict how markets and derivative gambling risks will behave under certain conditions. These computer models use past market performance to predict the future, but they can't account for the unaccountable. Right now, computers worldwide are creating financial plutonium; and as with all nuclear mishaps, there are no small accidents. **Get ready for the Chernobyl of the Financial World.**

THE DOMINO EFFECT

Due in part to the current Parmalat derivatives scam, a chain of events is unfolding that will - sooner more likely than later - set off these derivative time-bombs one-by-one. America's biggest banks are carrying hidden gambling risks that no one has warned you about, and they are all tied up in U.S. bank derivative portfolios.

Outstanding OTC Derivatives



Source: Bank of International Settlements

The problem few people understand is this: With most derivative bets, you have to supply a certain amount of collateral (cash) to the other party in order to cover your bet. This amount depends on the bank's credit rating. If the bank gets into financial difficulties, its credit rating will drop. The result is that the bank will have to supply more cash collateral to its derivative contract. This would easily cause a cash liquidity crisis, which, in turn, would lead to a further credit rating downgrade, which would set off a downward spiral. If only one major U.S. bank falls, they'll all begin to topple like dominoes. Now, get ready for the bad [sic] news...

This nightmare scenario has already begun.

JP MORGAN'S HOUSE IS ENGULFED WITH FLAMES

Right now, U.S. banks are like a group of mountain climbers all tied together with a 'safety' rope. JP Morgan Chase is at the top of that rope. If it falls, the others will topple down the mountain with it, one after the other. **The end result will make the 1929 U.S. economic collapse look small in comparison.**

Ever since Chase Manhattan bid \$33 billion for JP Morgan in September 2000, the bank has been on an out of control downward financial spiral. The bank claimed it would provide huge new growth, but that hasn't come about. But instead of striking new profits, the bank has produced an endless well of red ink. It has lost **billions** of dollar\$ through bad loans and derivatives connected with Enron, K-Mart, Global Crossing, Tyco, Argentina, and Parmalat. In 3 short years, JP Morgan Chase laid off over 10,000 workers and closed hundreds of branches.

JP Morgan Chase has become the largest gambler in economic history. Its derivatives portfolio is equal to 1.5 times the size of the entire global economy. According to the Office of the Comptroller and Currency (OCC), JP Morgan Chase has more U.S. dollar\$ at risk in derivatives than it has in capital. **As of September 2003, It carried a shocking \$7.97 in risk per dollar of capital.** Just a 13% loss on its derivative books would be enough to wipe it out... and that risk keeps rising. Some analysts are estimating that the Parmalat scheme may have eroded 5-8% already.

THE PHANTOM ECONOMY

The hidden financial economy is 17 times the size of the "official" U.S. economy. Since 1990, a lethal economic bubble has been quietly forming in the Over-The-Counter (OTC) Derivatives market. If you don't know what that is, don't feel alone as most investors are completely unaware of what goes on behind the closed doors at banks, major brokerage houses, and large public corporations.

Derivatives have been at the core of almost every major economic disaster since 1987. They were directly responsible for Black Monday, the Asian crisis, the Long-Term Capital Management (LTCM) hedge fund disaster, the crash of Barings Bank, the bankruptcy of Orange County, and the major collapses of Enron, Parmalat, WorldCom, Global Crossing, and even Argentina.

Derivatives will soon be responsible for what will be the greatest economic disaster ever known. Their fast and explosive growth has given birth to an underground economy so powerful and complex that no-one really understands it. This Phantom Economy carries threats that have the power to blow up the U.S. financial system with a single spark.

NERO FIDDLES WHILE U.S. BANKING BURNS

As the U.S. 'Fed' Chairman, Greenspan has refused to allow derivatives be regulated. He claims that derivatives are good for the economy, and that they provide for an efficient, flexible, and safer financial system. Who is he kidding?

In a November 19, 2002 address to the Council on Foreign Relations regarding derivatives, Greenspan admitted that there was a "remote possibility" that they could cause a chain reaction resulting in a financial implosion. Perhaps he defines the word 'remote' different than the rest of us.

Two and a half years prior, in a May 2000 bankers' speech, he admitted that "The rapid growth and increasing importance of derivative instruments has been a particular concern."

In 1986, the global derivatives market was just over \$1 trillion U.S. Dollars. As of September 2003, that figure reached a staggering \$170 trillion according to the latest figures from the Bank of International Settlements. More than 1/3 of these derivatives are concentrated in the hands of just 3 U.S. banks: JP Morgan Chase, Bank of America, and Citigroup.

All these derivative deals are done behind closed doors by a few powerful men. These men are dangerously balancing your future on a complicated portfolio of derivatives bets. **They have been allowed to create monstrously large derivative portfolios without investors and bank depositors being even remotely aware of the mounting tidal wave of risk.**

These men, the "powers that be," have absolutely no responsibility to report or reveal anything about their derivative acts to bank shareholders.

What they have in store for you, and I, and every person in America is a collapse that no generation has ever experienced before.

Happy Friday the 13th.

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Global Economy

Perils of the debt-propelled economy

By Henry C K Liu

Economics is a complex subject. Any subject, however complex, if looked at in the right way, will become even more complex. This fact baffles many experts who tend to avoid small errors meticulously while sweeping on to grand fallacy.

One of the shortcomings of economics is the inadequate attention paid to it as a behavioral science. The problem can be traced to the neoclassical concept of the economic man who is supposed to act rationally in his own interest which in a money economy is generally defined rather simplistically as financial gain. Economics is obviously more than finance, and economic well-being is not synonymous with financial gain. Modern economics of course deals with the problem of human behavior with some sophistication, albeit always through the back door, and always equating self-interest with rational individual response to pricing. A market economy is coordinated through the price system operating on the principle of marginal utility.

Economists construct indifference curves to show consumer preferences. In economics, the effect on consumption of a pure change in price is shown in an income-compensated demand curve (also known as a Hicksian demand curve after economist John Hicks - 1904-89). A Marshallian demand curve (after economist Alfred Marshall - 1842-1924) is based on the concept of marginal utility. Marginal utility is observed only through choices. Marginal utility in consumption is simply a problem of choosing the bundle of goods that maximizes a buyer's utility, subject to the income constraint - the requirement that the bundle the consumer chooses costs no more than the buyer's disposable income.

Yet the demand for goods is affected by human behavior. A good whose consumption increases when its price goes up is called a Giffen good, after Robert Giffen, a 19th-century English statistician, who noted that Irish peasants bought more potatoes when the price of potatoes rose. This contradicted the law of demand, one of the basic laws of economics. For the poor Irish peasants, potatoes, as the main staple, took up a huge share of their income. If the price of potatoes went up, the share of their income available to purchase other foods would shrink markedly, forcing them to consume more potatoes to make up the difference.

Giffen goods are also necessary for conspicuous consumption. When high-price items go up further in price regularly, such as art objects, more buyers will enter the market, bidding up prices even more. Tulip bulbs during the speculative bubble in Holland in the 17th century were overpriced Giffen goods. The stock market is full of Giffen goods. When a share price goes up, it attracts more buyers. Real estate is often a Giffen good, particularly in places like Hong Kong where the real-estate market is fundamentally controlled by the government through control of the supply of land.

When housing prices rise over long periods, more buyers enter the housing market. The increased demand created by anticipated price appreciation more than offsets the fall in demand caused by price increases. And price deflation in housing creates a downward spiral of shrinking demand, a phenomenon easily observed in recent years all over Asia, from Tokyo to Hong Kong to Singapore. Public health and commercial medicine have characteristics of Giffen goods. When the price of medicine rises, more people tend to get ill due to less preventive use of medicine, causing aggregate demand for medicine to rise.

An inferior good is a good that one buys less of when one's income rises, because one can afford a superior good by comparison, even if the inferior good may also rise in price. During periods of prosperity, when income rises generally faster than prices, inferior goods are separated from Giffen goods. During periods of recession, when income falls generally while prices remain the same or continue to rise, inferior goods and Giffen goods tend to merge. A Giffen good must be an inferior good, but most inferior goods are not Giffen goods.

Credit drives the economy, not debt. Debt is the mirror reflection of credit. Even the most accurate mirror does violence to the symmetry of its reflection. Why does a mirror turn an image right to left and not upside down as the lens of a camera does? The scientific answer is that a mirror image transforms front to back rather than left to right as commonly assumed. Yet we often accept this aberrant mirror distortion as uncolored truth and we unthinkingly consider the flawed reflection in the mirror as a perfect representation.

Similarly, we reflexively accept as exact fidelity the encrypted labels assigned to our thoughts by the distorting mirror of language. Such habitual faulty acceptance is consequential because it is through language that ideas are transmitted and around language that culture develops.

In the language of economics, credit and debt are related but not the same. In fact, credit and debt operate in reverse relations. Credit requires a positive net worth and debt does not. One can have good credit and no debt. Too much debt lowers credit rating. When one understands credit, one understands the main force behind the modern economy, which is driven by credit and stalled by debt. Behaviorally, debt distorts marginal utility calculations and rearranges disposable income. Thus debt turns more commodities into Giffen goods and creates what US Federal Reserve Board chairman Alan Greenspan calls "irrational exuberance", the economic man gone mad.

Human behavior is complex beyond the measurement of price. Price alone is not sufficient to influence market behavior. Karl Marx dealt with the concept of fetish as a factor in demand as expressed in price.

Education is a classic dilemma. Economics literature has never dealt satisfactorily with education, being unable to decide whether it is consumption or investment or both. It has done similarly with health care and environmental preservation. If these endeavors are consumption, the law of scarcity dictates that society cannot afford too much of them. If they are investment, then supply-side theory would conclude the more the better. If they are both consumption *and* investment, there should be a limitless upward spiraling supply/demand symbiosis. One could not possibly have an over-educated society or over-healthy population or an over-clean environment, if being more educated, more healthy and more clean is deemed economically productive and thus financially profitable.

It is obvious that debt changes human behavior. A little debt reinforces responsibility. The US social system of private property is built on the notion that homeowners with a life-long mortgage are better citizens than renters. People tend to take better care of their homes and plant roots in their communities if they "own" their homes, even though 90 percent of the purchase value is in debt that is not expected to be paid off until three decades later.

On the other hand, it is clear that excessive debt encourages irresponsibility. The borrower may develop an irresistible incentive to walk away from his debt if he perceives the debt to be beyond his ability to repay, or the cost of the debt to exceed its benefits. Even a central bank, which is the domestic lender of last resort, is wary of the problem of moral hazard, that commercial banks within its system would lend irresponsibly if they knew that their lending errors would be bailed out by the central bank.

The US bankruptcy regime is designed to give trapped debtors a fresh start from distressed debt to reestablish credit. Unlike European precedents, one cannot be jailed in the United States for failing to pay one's debt, unless criminal fraud is involved. In fact, there is a legal concept of lender liability, based on which a distressed debtor can sue the lender for damages for lending money irresponsibly that led the debtor into financial trouble.

Lender liability is embodied in common and statutory law covering a broad spectrum of claims surrounding predatory lending. It is a key concept in environmental-cleanup litigation. If a lender knowingly lends to a borrower who is obviously unable to make reasonable beneficial gain from the use of the funds, or causes the borrower to assume responsibilities that are obviously beyond the borrower's capacity, the lender not only risks losing the loan without recourse but is also liable for the financial damage to the borrower caused by such loans. For example, if a bank lends to a trust client who is a minor, or someone who had no business experience, to start a risky business that resulted in the loss not only of the loan but of the client trust account, the bank may well be required by the court to make whole the client.

on successful business plans. As Henry Kravis, king of the leveraged buyout, famously said: "Debt can be an asset. Debt tightens a company." To less creative minds, debt is still a liability, not an asset. But debt also exaggerates losses when business plans fail. In the US financial system, bankruptcy is a legal if not painless way to refute debt. The comfort to lenders is that equity investors are wiped out first before the lenders' various collateralized positions are endangered.

Banks used to be the sole intermediaries of debt. For this reason, a central bank was formed to supervise and provide liquidity to the banking system. Thus a central bank came into existence in the United States in 1913 on the assumption that the existence of a healthy banking system is in the national interest. And to protect the national interest, the central bank, which in the US version is a government institution privately owned by the banks in the Federal Reserve system, is allowed to act as lender of last resort to the nation's commercial banks with public money, or more accurately, through government authority to create fiat money.

Thus regulation on banks is a fair quid pro quo, a social contract. Bank deregulation without corresponding raising of the threshold for central-bank bailout is a direct breach of this social contract. If for the good of the nation banks cannot be allowed to fail, they should also not be allowed to deregulate.

More ominous, the US credit system has broken through the banking system - the bulk of debt now is intermediated through the unregulated credit markets by debt securitization. Securitization acts as more than just providing a vehicle for investment in debt instruments. It restructures simple debt into complex, hybrid instruments sliced infinite ways until the original debt is beyond recognition.

Debt securitization is guerrilla warfare against a sound credit system. Debt proceeds can be disguised as current income, distorting the financial performance of the debtor. In these brave new credit markets, the government is generally only an interested bystander, so far quite unwilling to regulate even over-the-counter (OTC) derivative trading by banks, which are suppose to be regulated, with an "if I don't smoke, someone else will" mentality.

OTC derivatives are traded off exchanges, directly between counterparties, and as such are not subject to disclosure rules. Adding estimated data from the Bank for International Settlements for OTC derivatives to published figures for exchange-traded derivatives, the total notional principal balance of the reported derivatives market in June 2001 was \$119 trillion, about four times the gross domestic product (GDP) of the Organization of Economic Cooperation and Development (OECD) countries and twice the value of global trade. The amount unreported remains unknown.

This shows that derivatives performed more than a hedge function, as apologists claim. Derivative trading has become a profit center for banks and non-bank financial institutions. True, the notional principal amount is never at risk, because no principal payments are exchanged. The interest payments that are linked to that notional principal amount are at risk. A loss on a derivative contract becomes possible when (a) interest rates or commodity prices move in a direction that makes the contract more or less valuable, and (b) the counterparty on the other side of the contract defaults. Derivatives credit exposure is the present value of the cost of restoring the economic value of a contract should a counterparty default.

All kinds of street rumors are flying at this very moment that one of the world's biggest banks is exposed to derivative trades that would cause serious counterparty credit problems if the market capitalization of this bank should fall below a triggering level, or the price of commodities or interest rates should move against its derivative positions. Because there is no way to dispel or confirm such rumors, and the bank involved remains tight-lipped about its true financial conditions, the uncertainties weigh down on the economy.

There is ample evidence that the level of interest rates does not always control the aggregate level of debt in an economy, popular expectations notwithstanding. When interest rates are high, they often merely reflect the systemic credit-unworthiness of borrowers as a group or the high risk assumed by lenders collectively. High interest rates in fact create more incentive for both lenders and borrowers to take higher risk to shoot for the higher returns needed to meet higher interest cost. High interest rates also direct money to more desperate borrowers. As William Zeckendorf, the bankrupt real-estate tycoon, once said: "I'd rather be alive at 30 percent interest than be dead at 3 percent."

In the United States, although predatory lending is not defined by federal law, and various states define abusive lending differently, it usually involves practices that strip equity away from a homeowner, or equity from a company, or condemn the debtor into perpetual indenture. Predatory or abusive lending practices can include making a loan to a borrower without regard to the borrower's ability to repay, repeatedly refinancing a loan within a short period of time and charging high points and fees with each refinance, charging excessive rates and fees to a borrower who qualifies for lower rates and/or fees offered by the lender, or imposing new unjustifiably harsh terms for rolling over existing debt. Predation breaks the links between an economy's aggregate resource endowment and aggregate consumption and between the interpersonal distribution of endowments and the interpersonal distribution of consumption.

The choice by some to be predators decreases aggregate consumption, both because the predators' resources are wasted and because producers sacrifice production by allocating resources to guarding against predators. Much of welfare economics is based on the concept of Pareto Optimum, which asserts that resources are optimally distributed when an individual cannot move into a better position without putting someone else into a worse position. In an unjust global society, the Pareto Optimum will perpetuate injustice.

Now, there is a close parallel in most Third World debts and International Monetary Fund (IMF) rescue packages to the above predation examples where sophisticated international bankers knowingly lend to dubious schemes in developing economies merely to get their fees and high interest, knowing that "countries don't go bankrupt", as Walter Wriston of Citibank famously proclaimed. The argument for Third World debt forgiveness contains large measures of lender liability and predatory lending. Debt securitization allows these bankers to pass the risk to the credit markets, socializing the potential damage after skimming off the privatized profits.

Credit is reserved financial resources ready for deployment. Debt basically is unearned money secured with a promise to repay the principal sum plus interest with optimistically anticipated earned money in the future, assuming, for example, that the borrower will not become unemployed through no fault of his own or a business will not be adversely affected by unanticipated shifts in business paradigm, or an economy will not be destroyed by global financial contagion.

Paying down debt with new debt is a Ponzi scheme - the likelihood of its exposure is inversely proportional to its scale of operation. More and more critics are calling the Enron debacle a Ponzi scheme, in that the company filed for bankruptcy even though, for almost a decade up to a few weeks before its bankruptcy filing, many in high places were hailing Enron as the new innovative business model.

Neoliberal economist Paul Krugman publicly hailed Enron as a shining example of free-market entrepreneurship in what he called "a love letter to free markets". He served on its prestigious advisory board for a annual fee of US\$50,000. Neoconservative Weekly Standard editor Bill Kristol received \$100,000 from the same Enron advisory board, while contributing editor Irwin Stelzer praised Enron for "leading the fight for competition".

On November 13, 2001, two weeks before Enron filed bankruptcy on December 2, the Baker Institute honored Greenspan with its Enron Prize, which the official press release said "gives recognition to outstanding individuals for their contributions to public service. The prize is made possible by a generous gift from the Enron Corp ... one of the world's leading electricity, natural-gas and communications companies. Among the previous recipients of the Enron Prize are Colin Powell, current US secretary of state; Mikhail Gorbachev, former president of the Soviet Union; Nelson Mandela, the first black president of South Africa; and Georgian President Eduard Shevardnadze."

Enron officials have since acknowledged that the company has purposely overstated its profits by billions of dollars since 1997 and has disguised billions in debt as revenue through structured finance via offshore special-purpose vehicles. Top Enron executives cashed out more than \$1 billion in company stocks when they were near their peak price of more than \$80. In addition, nearly 600 employees deemed critical to Enron's operations received more than \$100 million in bonuses in November 2001 while the company was on the brink of bankruptcy. Some commitment to public service.

On the corporate level, debt inevitably alters management behavior. Leverage increases profit margin

Banks are protected from this requirement by their discount window at the central bank, which is backed by the full faith and credit of the nation, and by Federal Deposit Insurance Corp (FDIC) insurance. Still, central banks and the Bank of International Settlement (BIS) set capital and reserve requirements for commercial banks to assure risk prudence.

GE, the world's largest non-bank financial conglomerate that incidentally also manufactures, issues credit at the retail level through vendor financing, to capture sales for GE products. It gets its funds wholesale from the commercial paper market, which GE dominates because it has a good credit rating. When GE credit rating was downgraded recently, it faced being frozen out of the commercial paper market, and had to revert back to costly bank credit lines that adversely affected its interest rate spread and profitability.

When a government issues currency and circulates money through the banking system, it is in essence issuing credit to the economy that it is entitled to receive back in taxes. Government then spends the tax money on goods and services that the public provides. The surplus money that is not returned by taxes is government credit floating around the economy to keep it operating financially. *

It is important to understand that money issued by the government, unlike private money, is not IOUs from the issuer. Money, when issued by government as a legal tender, is a credit from the government good for the payment of taxes, and for settling "all debts, public and private", as printed plainly on all Federal Reserve notes. A US dollar is a Federal Reserve note that entitles its holder to exchange it at any of the six Federal Reserve Banks for another Federal Reserve note of the same face value, no more and no less, at least since 1971 when the late president Richard Nixon took the dollar off the gold standard.

Even before 1971, while an ounce of gold was officially pegged at \$35 by president Franklin Roosevelt on January 31, 1931, a domestic holder of a dollar note could only exchange it at a Federal Reserve Bank for another dollar note, since US citizens were forbidden by law to own gold. Only foreigners could demand gold for dollar up to 1971.

A government bond, which on the surface looks like a government debt, is merely a call on government credit previously issued, withdrawing dollars from the money supply by providing a government bond. Government bonds are the living proof that money is not an IOU from the government, otherwise when government sells or redeems bonds, it is perpetrating a Ponzi scheme of paying off old debt with new debt, rather than exchanging debt instruments (bonds) with credit instruments (dollars).

Sovereign debt is fundamentally different from corporate debt. A corporate bond entitles its holder to claim its face value in dollar notes that the bond-issuing corporation cannot create by itself. It must earn dollars with the bond proceeds to pay interest on the bonds. At the time of redemption, if the corporation already spent the bond proceeds, it must then earn back or sell assets or borrow the dollars from somewhere to redeem the bond.

In contrast, a government bond entitles its holder to claim from a Federal Reserve Bank its face value in dollars that the government can print at will, even if it already spent the bond proceeds. The interest on the bond is also paid with dollars of which the government has an unlimited supply. Part of the dollars that the government spends will come back from the public in the form of taxes. The rest will stay in the economy to finance its operations.

So if the government runs a surplus, meaning it takes in more tax money than it spends, it drains money from the economy, forcing the economy to contract. A budget deficit is in essence an injection of more government credit into the economy.

Private citizens can own assets, but whenever such assets are monetized with dollars, one trades those assets for credit from the US government that other market participants in the economy will accept because, aside from its status of legal tender as defined by law, it is good for negotiating tax liabilities.

Technically, a government never borrows. It issues tax credit in the form of money. So when former president Ronald Reagan said the government does not make any money, only the private sector

However, interest rates do affect the distribution of credit in the economy. When rationed by interest rates, debt actually puts money to work for those who need it most desperately, and not necessarily the highest and best use in the economy, or where it is socially needed most. Debts at high interest rates can only be justified by high risk, which tends to destabilize the economy. Debt securitization actually lowers systemic credit quality by socializing risk across the whole system rather than concentrating it on singular, isolatable defaults.

The US Federal Reserve's fixation on interest-rate policy as the sole tool of regulating monetary policy is increasingly taking on the look of shadow boxing, with declining effect on the economy. As chairman Greenspan is fond of saying: "Bad loans are made in good times." As interest rates are artificially raised by Fed action to tighten money supply, distressed borrowers with bad loans made in good times will need to borrow more, thus enlarging the credit pool, defeating the Fed's purpose of a tight monetary policy. As interest rates are artificially lowered by Fed action to stimulate a slowing economy, banks raise their credit threshold to compensate for the narrowing of rate spread, thus reducing the number of qualified borrowers and shrinking aggregate loan volume. This is known as the Fed pushing on a credit string.

Credit rationed by interest rates also discourages economic democracy, since the poor generally find it much harder to obtain or afford credit. The poor also do not have the sophistication to participate in structured finance. There is much truth in the saying that it is not how much you own, it is how much you owe that measures how rich or financially powerful you are.

Debt also encourages carelessness with money, since lending implies faith in the borrower's ability to repay in the future. People tend to be more careful with money they earned in the past in the form of savings because they remember how hard they had to work for it. In contrast, debt is based on future earnings, which is deemed easier money by the existence of debt itself. High interest rates also encourage high risks to justify the high cost of money.

The problem with debt is that it needs to be serviced regularly (except zero coupons, which are discounted from the principal sum at the outset and cost more and are monitored with bond covenants and triggers to activate automatic foreclosure). Unlike a credit-driven economy, a debt-propelled economy will inevitably reach a point where its ability to service the growing debt is exceeded, unless inflation stays ahead of interest charges, in which case the banking system will fail. Thus runaway systemic debt frequently leads to hyperinflation.

Bankruptcy only relieves the debtor, not the economy. If, as economist Hyman Minsky claimed, money is created whenever credit is extended, then the erasure of debt destroys money and shrinks the economy.

There is a circular link among deregulation, debt, overcapacity and bankruptcy. Deregulation has created a havoc of bankruptcy in the airline, health-care, communication, energy and finance sectors. Deregulation permits predatory pricing in the name of competition, which often leads to monopolistic consolidation within industries. The surviving giants then take on massive debt to acquire vanquished competitors and to expand capacity in anticipation of increased demand and soon reach a point where increased sales do not increase net revenue to offset low margin. Once a company is trapped in the whirlpool of debt, a downward spiral of low prices and shrinking revenue will push the cost of debt beyond sustainability, leading to bankruptcy. This is known as the bursting of the debt bubble.

In March 1980, the Depository Institutions Deregulation and Monetary Control Act (DIDMCA) was enacted in the United States. It was a deregulation initiative by the administration of president Jimmy Carter aimed at eliminating many of the distinctions among different types of depository institutions and ultimately removing interest rate ceiling on deposit accounts. Authority for federal savings and loan associations to make risky ADC (acquisition, development, construction) loans was expanded, which ended up with the savings and loan (S&L) crisis five years later. Deregulation of airlines also began under Carter, leading to recurring waves of bankruptcy.

Conventional wisdom suggests that a good credit rating is necessary to borrow. But the financial world works differently in reality. A good credit rating is first necessary to issue credit. Without the ability of some entity to issue credit, no one can borrow. And since no modern financial institution lends its own money, lenders must first secure funds wholesale to lend to retail borrowers. For that, a lender must maintain a good credit rating.

Before the Great Depression, affording a home was difficult for most people in the United States. At that time, a prospective homeowner had to make a down payment of 40 percent and pay the mortgage off in three to five years. Until the last payment, borrowers paid only interest on the loan. The entire principal was paid in one lump sum as the final "balloon" payment.

During the 1920s boom time in real estate, a rudimentary secondary mortgage market was established. The stock-market crash of 1929 ended the real-estate boom and forced many private guarantee companies into insolvency as home prices collapsed. As economic conditions worsened, more and more people defaulted on mortgages because they couldn't come up with the money for the final balloon payment or to roll over their mortgage because of low market value of their homes.

*Parallel FO
2002's*

To help lift the country out of the Depression, Congress created the FHA through the National Housing Act of 1934. The FHA's insurance program protected mortgage lenders from the risk of default on long-term, fixed-rate mortgages. Because this type of mortgage was unpopular with private lenders and investors, Congress in 1938 created Fannie Mae to refinance FHA-insured mortgages.

As soldiers came home from World War II, Congress passed the Serviceman's Readjustment Act of 1944, which gave the Department of Veterans Affairs (VA) authority to guarantee veterans' loans with no down payment or insurance premium requirements. Many financial institutions considered this arrangement a more attractive investment than war bonds.

By revision of Title III in 1954, Fannie Mae was converted into a mixed-ownership corporation, its preferred stock to be held by the government and its common stock to be privately held. It was at this time that Section 312 was first enacted, giving Title III the short title of Federal National Mortgage Association Charter Act.

By amendments made in 1968, the Federal National Mortgage Association was partitioned into two separate entities, one to be known as the Government National Mortgage Association (Ginnie Mae), the other to retain the name Federal National Mortgage Association (Fannie Mae). Ginnie Mae remained in the government, and Fannie Mae became privately owned by retiring the government-held stock. Ginnie Mae has operated as a wholly owned government association since the 1968 amendments. Fannie Mae, as a private company operating with private capital on a self-sustaining basis, expanded to buy mortgages beyond traditional government loan limits, reaching out to a broader income cross-section.

By the early '70s, inflation and interest rates rose drastically. Many investors drifted away from mortgages. Ginnie Mae eased economic tension by issuing its first mortgage-backed security (MBS) guarantee in 1970. Investors found these guaranteed MBSs highly attractive. Also in 1970, under the Emergency Home Finance Act, Congress chartered the Federal Home Loan Mortgage Corp (Freddie Mac) to buy conventional mortgages from federally insured financial institutions. The legislation also authorized Fannie Mae to purchase conventional mortgages. Freddie Mac introduced its own MBS program in 1971.

In the early 1980s, the US economy spiraled into deep recession. Interest rates and housing prices were high, while income growth was stagnant. The US economy faced a dual problem of income deficiency and money devaluation. In this poor housing environment, Ginnie Mae, Fannie Mae and Freddie Mac all created programs to handle adjustable-rate mortgages. The Ginnie Mae guaranty is backed by the full faith and credit of the United States. Today, Ginnie Mae guaranteed securities are one of the most widely held and traded MBSs in the world. Ginnie Mae has guaranteed more than \$1.7 trillion in MBSs. Historically, 95 percent of all FHA and VA mortgages have been securitized through Ginnie Mae. Ginnie Mae is a guarantor, a surety. Ginnie Mae does not issue, sell, or buy MBSs, or purchase mortgage loans.

Fannie Mae operates under a congressional charter that directs it to channel its efforts into increasing the availability and affordability of home ownership for low-, moderate- and middle-income Americans. Yet Fannie Mae receives no government funding or backing, and it is one of the nation's largest taxpayers as well as one of the most consistently profitable corporations in America. The company has evolved to become a shareholder-owned, privately managed corporation supporting the secondary market for conventional loans. It continues to operate under a congressional charter with oversight from the US Department of Housing and Urban Development and the US Treasury.

does, he was merely mouthing conventional wisdom, with no clear understanding of the true nature of money and credit. In fact, money is all that government makes. Thus any government that takes on foreign-currency debt or allows its economy to do so is taking unnecessary risk.

The main function of sovereign debt is not to make up for any shortfalls in government funds. Such shortfalls cannot exist by definition. Rather, sovereign debt instruments act as fundamental collateral for the nation's credit market. The Fed Open Market Desk buys and sells government securities to maintain the Fed funds target rate set by the Federal Reserve Board. The repo (repurchase agreement) market, which provides overnight and short-term funds for banks, operates with government securities as collateral.

Thus IMF conditionalities of reducing sovereign debt by imposing budget surpluses and price deflation as a cure for a distressed credit market of excessive foreign debt is merely adding gasoline to fire.

As a sovereign bond is redeemed with cash, it is in essence replacing a call instrument on government credit with government credit. When government securities are withdrawn and cash floods the economy, the debt market shrinks because the amount of collateral shrinks and the amount of cash increases, reducing the need for credit, and the economy contracts with cash inflation, unless the cash is immediately recirculated as private debt or investment.

* The reason that the market monitors the Fed funds rate as an indication of Fed policy is that the Fed funds rate closely tracks another rate, the repo rate, that the Fed Open Market Desk actively influences during most market days. Every business-day morning at 11:45 Eastern Standard Time, the Fed announces what it intends to do (buying or selling government securities with an agreement to reverse the transaction later) in the repo market to keep the repo rate close to the Fed funds target rate set by the Fed. Changes in the repo rate are normally quickly followed by changes in the Fed funds rate. Thus, indirectly, the Fed appears to influence the federal funds rate through its impact upon the repo rate.

Non-monetarists subscribe to the view that Fed easing means the Fed lowers interest rates. But they are not specific about how these rates are lowered or how the Fed should go about doing this. There are often periods (such as 1990-91) when interest rates dropped but money growth also fell. Non-monetarists (and market participants) view periods like this as Fed easing episodes, while monetarists argue that these are (implicitly) periods of Fed tightening. Thus it is clear that interest rates by themselves do not always determine the money supply.

Since all private debts in a money economy are anchored by government credit, through what economists called high-power money (money created by the Fed through the increase of the total reserves in the banking system, so called because it would be multiplied manifold through the money-creation power of commercial bank loans), credit in an economic democracy should not be rationed by interest rates to the highest bidder, but by national purposes or social needs.

Credit in fact is a financial public utility, much like air and water, and it should be equally accessible to all, not just the rich. Government loan guarantees for students and house mortgages for low- and moderate-income groups and loans to small business are based on this principle.

For example, the US National Housing Act was enacted on June 27, 1934, as one of several economic-recovery measures of the New Deal. It provided for the establishment of a Federal Housing Administration (FHA). Title II of the Act provided for the insurance of home mortgage loans made by private lenders, taking the risk in lending to low income borrowers off the private lenders. Title III of the Act provided for the chartering of national mortgage associations by the administrator. These associations were to be independent corporations regulated by the administrator, and their chief purpose was to buy and sell the mortgages to be insured by the FHA under Title II.

Only one association was ever formed under this authority on February 10, 1938, as a subsidiary of the Reconstruction Finance Corp, a government corporation. Its name was National Mortgage Association of Washington, and this was changed that same year to Federal National Mortgage Association (Fannie Mae). By amendments made in 1948, Title III became a statutory charter for Fannie Mae.

financial market. May Day refers to May 1, 1975, when fixed minimum brokerage commissions ended in the US, ushering in the era of discount brokerage firms and the beginning of diversification by the brokerage industry into a wide range of financial services using computerization and advanced communication systems. This started the offering of new genres of financial products and the emergence of structured finance that made possible a new private-debt economy that turned quickly into a global debt bubble. As the US reaped the fleeting benefits of dollar hegemony, a budget surplus accompanied with sovereign debt reduction merely pushed more debt on to the private sector to feed the debt bubble.

* The most fundamental aspect of a private-debt economy is that it cannot sustain a slowdown, even a soft landing. If Greenspan had been better versed in debt economics, he would have understood that a debt bubble, unlike the conventional business cycle, cannot survive the slightest deflation. Inflation is the oxygen for a debt bubble.

Greenspan's attempt to engineer a soft landing by raising interest rates to fight pending inflation pre-emptively only accelerated the debt bubble's burst. His only option was to prevent the debt bubble from forming by tightening credit quality years ago, but he chose to rely on the market to exercise its discipline. He rejected the suggestion of such Wall Street gurus as Henry Kaufman to raise margin requirements. Instead of discipline, the market gave him an insatiable appetite for addictive debt, which he had previously called "irrational exuberance".

Once the bubble was on its way, Greenspan was on top of a debt tiger that he could not get off without being devoured by the beast. It was not the New Economy, it was not the unprecedented productivity that gave the US its decade-long boom. It was debt. Without debt, there would have been no New Economy, no dotcom industry, no telecom explosion, no structured finance, no budget surplus and no current account deficit or its flip side, capital account surplus.

The 1990s was the debt decade. Much of the technology was invented prior to the beginning of the decade of finance capitalism and became widely applied through debt in the form of vendor finance. The communication revolution was built on debt that had been accumulated in the last decade. The greatest invention of the 1990s was more and more sophisticated debt instruments.

Greenspan warned in December 1996 about "irrational exuberance" when the Dow Jones Industrial Average (DJIA) was at 7,000, that inflation down the road was inevitable unless the Fed started to raise Fed funds rate pre-emptively. Yet as rates rose, the DJIA rose to 12,000 by 2000, because inflation as measured by the government failed take into account the wealth effect.

The reason for this was twofold. Inflation was kept low by imports and inflation was measured mostly by rising wages but not by rising asset value. Stock prices doubled and real-estate prices tripled, but the economy officially did not register inflation because of low wages and cheap imports. As stock prices rose, the price to earnings ratio skyrocketed. As the economy inched toward technical full employment with 4 percent unemployed, Greenspan reflexively raised the interest rate to cut off anticipated wage-pushed inflation. The high interest rate adversely affected the earnings of debt-ridden companies. To boost earnings, companies cut employees, which started the downward spiral.

Since July 1997, the risks of protracted global asset deflation caused by the aftermath of excessive private debt have become reality, first in the emerging markets and now in the United States. Neither the IMF nor the Group of Seven (G-7) have been able to deal effectively with the twin problems of the artificially strong but debt-driven dollar and the spreading manipulated devaluation of other national currencies around the globe.

For the affected nations, the combination of mountains of foreign-currency debt and massive short-term capital flight through stock-market collapses, exacerbated by IMF conditionalities of high interest rates, austerity measures that insisted on reduced government deficits and sharp currency devaluations coupled with asset deflation, have led to tragic destruction of hard-earned wealth and a severe drop of living standards.

Certainly market forces in a runaway-debt economy have not created Adam Smith's "universal opulence which extends itself to the lowest ranks of the people". The only trickling down has been poverty and misery. In a world of 6 billion people, only about 1,000 currency traders and a small circle of rich investors in their hedge funds seem to enrich themselves further through the unbridled

Fannie Mae has two primary lines of business: Portfolio Investment, in which the company buys mortgages and MBSs as investments, and funds those purchases with debt, and Credit Guaranty, which involves guaranteeing the credit performance of single-family and multi-family loans for a fee.

Its Portfolio Investment business includes mortgage loans purchased throughout the US from approved mortgage lending institutions. It also purchases MBSs, structured mortgage products and other assets in the open market. The corporation derives income from the difference between the yield on these investments and the costs to fund these investments, usually from issuing debt in the domestic and international markets. Fannie Mae has \$3.46 trillion in MBSs outstanding today. *

The corporation accomplishes its mission to provide products and services that increase the availability and the affordability of housing for low-, moderate- and middle-income Americans by operating in the secondary rather than the primary mortgage market. Fannie Mae purchases mortgage loans from mortgage lenders such as mortgage companies, savings institutions, credit unions and commercial banks, thereby replenishing those institutions' supply of mortgage funds. Fannie Mae either packages these loans into MBSs, which it guarantees for full and timely payment of principal and interest, or purchases these loans for cash and retains the mortgages in its portfolio.

Fannie Mae is one of the world's largest issuers of debt securities, the leader in the \$5 trillion US home-mortgage market. Fannie Mae's debt obligations are treated as US agency securities in the marketplace, which is just below US Treasuries and above AAA corporate debt. This agency status is due in part to the creation and existence of the corporation pursuant to a federal law, the public mission that it serves, and the corporation's continuing ties to the US government. It benefits from the appearance, though not the essence, of being backed by government credit. * Agencies

Fannie Mae debt obligations receive favorable treatment from a regulatory perspective. Fannie Mae securities are "exempted securities" under the laws administered by the US Securities and Exchange Commission to the same extent as US government obligations. Also, Fannie Mae debt qualifies for more liberal treatment than corporate debt under US federal statutes and regulations and, to a limited extent, foreign overseas statutes and regulations.

Some of these statutes and regulations make it possible for deposit-taking institutions to invest in Fannie Mae debt more liberally than in corporate debt and mortgage-backed and asset-backed securities. Others enable certain institutions to invest in Fannie Mae debt on par with obligations of the United States and in unlimited amounts. Fannie Mae uses a variety of funding vehicles to provide investors with debt securities that meet their investment, trading, hedging, and financing needs. Fannie Mae is able to issue different debt structures at various points on the yield curve because of its large and consistent funding needs. As the Treasury retires 30-year bonds, agencies have stepped in to fill the void.

The privatization of Fannie Mae and Freddie Mac was an ideological move. It was financially unnecessary and government credit could have funded the entire low-, moderate- and middle-income housing-mortgage needs with no profit siphoned off to private investors. These agency debt instruments played a crucial role in developing and sustaining the credit markets in the US. Boomer

In fact, the funding risk of both agencies was questioned by the Wall Street Journal last February 20 in an editorial about Fannie Mae's and Freddie Mac's safety, soundness and financial management, characterizing both agencies as risky, fast-growing companies that "look like poorly run hedge funds", "unduly exposed to credit risk with large derivative positions", and that they "use all manner of derivatives" and "are exposed to unquantified counterparty risk on these positions". Such concerns would have been avoided if both agencies had been funded with government credit, and the cost of housing to low-, moderate- and middle-income Americans would have been lower.

A government credit economy is different from a private debt economy in its sustainability. The Japanese economy stagnated for more than a decade primarily because it shifted from a government credit economy to a private debt economy in the name of financial liberalization and market fundamentalism. The Japanese version of London's Big Bang started the Japanese private debt bubble that subsequently infected all Asian economies.

The Big Bang in London refers to deregulation on October 27, 1986 of London-based securities markets, an event comparable to May Day in the US, marking a major step toward a single global

manipulation of the free financial market. Even in advanced economies, workers are misled to accept low wages as a trade-off for stock options that become worthless when the debt bubble bursts.

Corporations seduce share owners with fantasy capital gains based on debt to replace regular dividend payouts. When market capitalization of major corporations inflated by debt can fall by 90 percent within a matter of months while top executives can cash out at peak prices and resign with severance packages worth tens of millions of dollars, there is no other way to describe the situation than reversed Robin Hood: robbing the poor to help the dishonest rich.

This view is now shared by increasing numbers across ideological spectrums. Economist John Kenneth Galbraith's famous description of trickling down prosperity was if you feed the horse enough oats, the sparrows will some day benefit from its droppings. In finance capitalism, the poor sparrows are crushed by the wheels of the carriage of debt that the horse pulls.

If debt is dilapidating, foreign-currency debt, mostly dollar debt, is deadly. Thus those governments that had been misled by neoliberals to borrow massive amounts of foreign currency unnecessarily and subsequently dutifully implemented IMF prescriptions, such as Brazil, Argentina, Turkey, South Korea and Indonesia, saw their economies destroyed to the point where recovery may now take decades, if ever, and only if the poisonous IMF medicine is quickly rejected.

The IMF has now admitted that it made a "slight mistake" in dealing with the Asian financial crisis of 1997. It might have been slight for the IMF, but the cost to the economies of Asia was horrendous. Trillions of dollars of hard-earned assets and economic capacities have been destroyed, lost forever. In fact, lives have been lost, children malnourished, families ruined, governments fallen and ethnic animosities intensified. The cooperative partnership among neighboring countries has been undermined and regions destabilized. This is the direct result of predatory lending followed by predatory IMF rescues. The operations were technically successful but the patients died.

Since World War II, the term "capitalism" has been gradually displaced by the more benign label of the free market. Capitalism ceased to be mentioned in most economic literature. In the process, economists also squeezed out of official dialogues the word "capitalism", the once-traditional name for the market system, with its subjective connotation of class struggle between owners, through their professional managers, and workers, through their trade and industrial unions, and with its legitimization of the privileges that go with various levels of wealth.

NOTE The word "capitalism" no longer appears in textbooks for Economics 101. A Harvard economist, N Gregory Mankiw, author of a popular new textbook, *Principles of Economics*, told the New York Times: "We make a distinction now between positive or descriptive statements that are scientifically verifiable and normative statements that reflect values and judgments." A whole new generation of economists have grown up thinking of "capitalism" only as a historical term like "slavery", unreal in the modern world of market fundamentalism.

Capital, when monetized in dollars, is in essence credit from government. Capitalism in a money economy is a system of government credits. Thus a case can be made that in a capitalistic democracy, access to capital and credit should be available equally to all in accordance with national purpose and social needs. The anti-statist posture of neoliberalism is not only logically flawed, but its glorification of a private-debt economy will inevitably lead to self-destruction.

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Skin 2 Skin - A stack of numbers

Somehow, no matter how arranged, some numbers just don't add up.

12.12.2003

4.5 Trillion dollars in US Gov't debt owed to public creditors

15 Trillion dollars in US equity market (both a paper based, dollar denominated and manipulated market)

32 Trillion dollars in US citizen consumer debt

44 Trillion dollars in long term US debt owned to citizenry under existing entitlements

66 Trillion dollars in derivatives - US banks/corps only

149 Trillion dollars in global derivatives in which US banks/corp's participate

SUPPORTED BY

5 Trillion dollars in 'liquidity' - that is, paper currency available and circulating (from debt creation)

9.1 Trillion dollars in US based housing assets calculated based on the attached valuation to support 8 Trillion dollars in mortgage debt

11.2 Trillion dollars US GDP minus

1.2 Trillion to US Gov't for taxes

5.6 Trillion to US States for taxes


remainder = 4.4 Trillion dollars 'available' GDP

2

2

The purpose of paper currencies, also known as fiat currencies, is to accumulate debt. For government, the constraints of precious metals as currencies are that there cannot be debt attached to them, therefore, they are not easily manipulated for political ends. So paper currencies are a repeated adventure or experiment for governments. Note that in all of human history, these paper currency experiments have always ended badly with the middle-class of the society taking the pain of the currencies' collapse.

As stated, the point of paper currencies and these now include digital dollars, is to accumulate debt. Debt is the lubrication of government. By creating debt and passing the obligation on to either future generations, or diluted across a large demographic base, the government can have the population perceive that economic growth is perpetual, and subject to a fine degree of control. All other impacts, including multigenerational effects of entitlement programs or perpetual warfare in support of a military-industrial complex of prime contractors as a method of political control of large scale employment, are the side effects of debt creation for growth. Gold, and silver, are not subject to dilution, attachment of debt (except as proxy or collateral as any other chattel), nor creation at the whim of the monetary authority in order to control the 'business cycle'. As such, paper currencies are required to support a growth model of economic/social evolution.

As of this writing, the US dollar, the global reserve currency, is encumbered with debt. It has served its masters valiantly since its creation in 1913 by the extra legally created entity, the Federal Reserve Bank of the United States, which is not an agent of the US Federal government, and is not a bank as that term is usually applied, and it turns out, is mostly owned by persons not citizens of the United States. Now, this foreign owned money creation organization has as its chief product the dollar, which at this point is worth only 7 cents of the original  purchasing power of the 1913 dollar. Further, there is dispute with the 7 cent number as the statistics given by the Fed R. Bank are not accurate and considered misleading. Some dollar experts believe the real value to be less than one (1) cent

of the original 1913 dollar.

Why is this important?

Well, the point of paper currency, as noted above, and including the dollar, is that it is to be a debt sponge. With the dollar at best only worth 7 cents, and at worst nearing a value less than one cent, there is not very much room for further debt accumulation. In the history of all currencies on planet earth, when that paper currency reached 99 per cent debt to value, it was abandoned, with the expected dire consequences to the generations of humans involved.

Further, while there is speculation that the Euro was created to replace the dollar, two unexpected consequences of recent trends have precipitated a debt crisis within the dollar prior to the Euro being anywhere near mature enough to go global reserve status. First the demographics for birthrate and immigration within the US delivered large numbers of persons right into the other primary trend of credit-as-a-method-of-living. The net result has been a never before seen surge in consumer and corporate debt acceptance. This has further exacerbated the debt to value ratio of the dollar, increasing global pressure on the currency. Further pressures have been created by the surge in liquidity created in response to the various financial system crisis which arise with regularity every 3 years (predictable over the last 27 years). An emerging financial-political crisis is now manifesting as a permanent fixture with periodic (1.5 years) surges of further revelations affecting larger and larger groups. All of the above are known as 'dissipative associations/engines' within chaos theory. These 'side effects' arise directly as a result of dis-harmonious stressor development within the complex system of financial structure within society. The expected result is that at some point the crisis will involve the dollar as this will affect the largest group of all, that is, nearly all humans on earth.

Fundamentally the situation has distilled into a debt-ridden dollar with very little room to absorb further debt still being seen as the 'engine of growth' for the globe. As the dollar will soon reach the point where all 'value' in the currency is

obligated to debt attached, the globe will have to make other arrangements. What those other arrangements shall be is anyone's guess. Some humans, using history as their guide, are guessing that it will be gold/silver again.

Perhaps they shall be correct.

Bona fortuna in nova annum.

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HalfPastHuman





Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

OCC BANK DERIVATIVES REPORT FOURTH QUARTER 2003

GENERAL

The OCC quarterly report on bank derivatives activities and trading revenues is based on call report information provided by U.S. insured commercial banks. The notional amount of derivatives in insured commercial bank portfolios increased by \$3.9 trillion in the fourth quarter, to \$71.1 trillion. Generally, changes in notional volumes are reasonable reflections of business activity but do not provide useful measures of risk. During the fourth quarter, the notional amount of interest rate contracts increased by \$3.6 trillion, to \$61.9 trillion. Foreign exchange contracts increased by \$271 billion to \$7.2 trillion. This figure excludes spot foreign exchange contracts, which decreased by \$379 billion to \$273 billion. Equity, commodity and other contracts decreased by \$16.4 billion, to \$1 trillion. Credit derivatives increased by \$132 billion, to \$1 trillion. The number of commercial banks holding derivatives increased by 1 to 573. [See Tables 1, 2, and 3, Graphs 1 and 3.]

* Eighty-seven percent of the notional amount of derivative positions was comprised of interest rate contracts with foreign exchange accounting for an additional 10 percent. Equity, commodity and credit derivatives accounted for only 3 percent of the total notional amount. [See Table 3 and Graph 3.]
3% is still 2.1 TRILLION

* Holdings of derivatives continue to be concentrated in the largest banks. Seven commercial banks account for 96 percent of the total notional amount of derivatives in the commercial banking system, with more than 99 percent held by the top 25 banks. [See Tables 3, 5 and Graph 4.]

* Over-the-counter (OTC) and exchange-traded contracts comprised 90 percent and 10 percent, respectively, of the notional holdings as of the fourth quarter of 2003. [See Table 3.] OTC contracts tend to be more popular with banks and bank customers because they can be tailored to meet firm-specific risk management needs. However, OTC contracts expose participants to greater credit risk and tend to be less liquid than exchange-traded contracts, which are standardized and fungible.

Break down of Curve

The notional amount of short-term contracts (i.e., with remaining maturities of less than one year) increased by \$23 billion to \$18.3 trillion from the third quarter of 2003. Contracts with remaining maturities of one to five years grew by \$1.9 trillion to \$22.3 trillion, and long-term contracts (i.e., with maturities of five or more years) increased by \$730 billion, to \$13.8 trillion. Longer term contracts present valuable customer service and revenue opportunities. They also pose greater risk management challenges, as longer tenor contracts are generally more difficult to hedge and result in greater counterparty credit risk. [See Tables 8, 9 and 10, Graphs 7, 8 and 9.]

While end-user activity decreased by \$141 billion to \$2.4 trillion in the fourth quarter, the number of commercial banks reporting end-user derivatives activities increased by 6 to 540 banks.

RISK

Explanation of Risk (7 items)

NOTIONAL
The notional amount is a reference amount from which contractual payments will be derived, but it is generally not an amount at risk. The risk in a derivative contract is a function of a number of variables, such as whether counterparties exchange notional principal, the volatility of the currencies, interest rates used as the basis for determining contract payments, the maturity and liquidity of contracts, and the credit worthiness of the counterparties in the transaction. Further, the degree of increase or reduction in risk taking must be considered in the context of a bank's aggregate trading positions as well as its asset and liability structure. Data describing fair values and credit risk exposures are more useful for analyzing point-in-time risk exposure, while data on trading revenues and contractual maturities provide more meaningful information on trends in risk exposure.

6 is Big

Table 4 contains summary data on counterparty credit exposures. The credit exposures shown are measured using the parameters contained in the risk-based capital guidelines of the U.S. banking agencies. *Banking Drains The guidelines*
The presentation of the credit data in Table 4, while consistent across banks, overstates bank credit exposures in two meaningful respects. First, it ignores collateral that banks may have received from clients to secure exposures from derivative contracts. A more meaningful analysis would reduce the current credit exposure amount by liquid collateral held against those exposures. Call reports filed by U.S. banks do not currently require this information. Second, the potential future exposure numbers derived from the risk-based capital guidelines compute an exposure amount over the life of derivatives contracts; longer-term contracts generate larger potential exposures. However, many contracts banks have with their clients, including other bank dealers, contain agreements that allow the bank to close out the transaction if the counterparty fails to post collateral required by the terms of the contracts. As a result, these contracts have potential future exposures that, from a practical standpoint, are often much smaller, due to shorter exposure period, than future exposures derived from the agencies' risk-based capital guidelines. Readers should keep these mitigating factors in mind when interpreting the credit data. *So what!*
[See Tables 4 and 6, Graphs 5a and 5b.]

Total credit exposure, which is the sum of current credit exposure and potential future exposure, increased \$38 billion to \$755 billion. Current credit exposure, which is the gross positive fair value of contracts less the dollar amount of netting benefits, increased by \$10 billion. The change in current credit exposure consists of a \$93 billion decline in gross positive fair values,

due to rising interest rates, which was more than offset by a \$103 billion decline in the dollar amount of netting benefits. Potential future exposure increased \$27.5 billion, largely due to increases in the notional amounts of interest rate and foreign exchange contracts with maturities greater than one year. [See Tables 4 and 6, Graphs 5a and 5b.]

Despite the small dollar decline in netting benefits, this risk mitigation technique reduced current credit exposures by 81.5 percent in the fourth quarter, down from 83.6 percent in the third quarter. Total credit exposures for the top seven banks increased to 263 percent of risk-based capital in the fourth quarter of 2003 from 238 percent in the third quarter.

Past-due derivative contracts remained at nominal levels. For all banks, the fair value of contracts past due 30 days or more aggregated to \$117 million or .016 percent of total credit exposure from derivatives contracts. A more complete assessment of the magnitude of troubled derivative exposures would include restructured derivative contracts, contracts re-written as loans, and those accounted for on a non-accrual basis in addition to past due contracts. Call Report instructions, however, currently require banks to report only past due derivative contracts. Therefore, use of past-due information alone may not provide a complete picture of the extent of troubled derivative exposures.

During the fourth quarter of 2003 banks charged off \$10 million from derivatives, or .0013 percent of the total credit exposure from derivative contracts. For comparison purposes, C&I loan charge-offs relative to total C&I loans for the quarter were .29 percent. [See Graph 5c.]

The Call Report data reflect the significant differences in business strategies among the banks. The preponderance of trading activities, including both customer transactions and proprietary positions, is confined to the very largest banks. The banks with the 25 largest derivatives portfolios hold 96.9 percent of their contracts for trading purposes, primarily customer service transactions, while the remaining 3.1 percent are held for their own risk management needs. Trading contracts represent 97 percent of all notional amounts in the insured commercial banking system. Smaller banks tend to limit their use of derivatives to risk management purposes. [See Table 5.]

The gross positive and gross negative fair values of derivatives portfolios are relatively balanced; that is, the value of positions in which the bank has a gain is not significantly different from the value of those positions with a loss. In fact, for derivative contracts held for trading purposes, the seven largest banks have \$1.12 trillion in gross positive fair values and \$1.1 trillion in gross negative fair values. Note that while gross fair value data is more useful than notional amounts in depicting meaningful market risk exposure, users must be cautioned that these figures do not include risk mitigating or risk adding transactions in cash trading accounts. Similarly, the data are reported on a legal entity basis and consequently do not reflect the effects of positions in portfolios of affiliates. [See Table 6.]

End-user positions, or derivatives held for risk management purposes, have aggregate gross positive fair values of \$26 billion, while the gross negative fair value of these contracts aggregated to \$23 billion. These figures are only useful in the context of a more complete analysis of each bank's asset/liability structure and risk management process. For example, these figures do not reflect the impact of off-setting positions on the balance sheet. [See Table

6.]

The notional amount of credit derivatives reported by insured commercial banks increased by 15.2 percent from third quarter levels, or \$132 billion, to \$1 trillion. The notional amount for the 16 commercial insured institutions that sold credit protection (i.e., assumed credit risk) to other parties was \$471 billion, an increase of \$66 billion from third quarter levels. The notional amount for the 26 commercial banks reporting credit derivatives that bought credit protection (i.e., hedged credit risk) from other parties was \$530 billion, a \$67 billion increase from the third quarter. [See Tables 1, 3 and Graphs 2, 3 and 4.]

REVENUES

The Call Report data include revenue information regarding trading activities involving cash instruments and derivative instruments. The data also show the impact on net interest income and non-interest income from derivatives used in non-trading activities. Note that the revenue data reported in Table 7, Graphs 6a and 6b reflect figures for the fourth quarter alone, and are not annualized.

Relative to the third quarter of 2003, there was a decrease in trading revenues from cash instruments and derivatives activities of \$902 million, to \$2.1 billion in the fourth quarter of 2003. The top seven banks accounted for 74.5 percent of total trading revenue, compared to 80.5 percent in the third quarter. In the fourth quarter, revenues from interest rate positions decreased by \$569 million, to \$669 million, while revenues from foreign exchange positions decreased by \$252 million, to \$1.2 billion. Revenues from equity trading positions decreased by \$42 million, to \$257 million. Revenues from commodity and other trading positions decreased by \$38 million in the fourth quarter to \$40 million. [See Table 7, Graphs 6a and 6b.]

Derivatives held for purposes other than trading did not have a significant effect on either net interest income or non-interest income in the fourth quarter. Non-traded derivatives added \$2.2 billion or 2.1 percent to the gross revenues of banks with derivative contracts in the fourth quarter. These figures reflect an increase of \$1.7 billion from the third quarter. These results are only useful in the context of a more complete analysis of each bank's asset/liability structure and risk management process.

#####

GLOSSARY OF TERMS

Bilateral Netting: A legally enforceable arrangement between a bank and a counterparty that creates a single legal obligation covering all included individual contracts. This means that a bank's obligation, in the event of the default or insolvency of one of the parties, would be the net sum of all positive and negative fair values of contracts included in the bilateral netting arrangement.

Credit Derivative: A contract which transfers credit risk from a protection buyer to a credit protection seller. Credit derivative products can take many forms, such as credit default options, credit limited notes and total return swaps.

Derivative: A financial contract whose value is derived from the performance of assets, interest rates, currency exchange rates, or indexes. Derivative transactions include a wide assortment of financial contracts including structured debt obligations and deposits, swaps, futures, options, caps, floors, collars, forwards and various combinations thereof.

Exchange-Traded Derivative Contracts: Standardized derivative contracts (e.g. futures and options) that are transacted on an organized exchange.

Gross Negative Fair Value: The sum total of the fair values of contracts where the bank owes money to its counterparties, without taking into account netting. This represents the maximum losses the bank's counterparties would incur if the bank defaults and there is no netting of contracts, and no bank collateral was held by the counterparties.

Gross Positive Fair Value: The sum total of the fair values of contracts where the bank is owed money by its counterparties, without taking into account netting. This represents the maximum losses a bank could incur if all its counterparties default and there is no netting of contracts, and the bank holds no counterparty collateral.

High-Risk Mortgage Securities: Securities where the price or expected average life is highly sensitive to interest rate changes, as determined by the FFIEC policy statement on high-risk mortgage securities. See also OCC Banking Circular 228 (rev.)

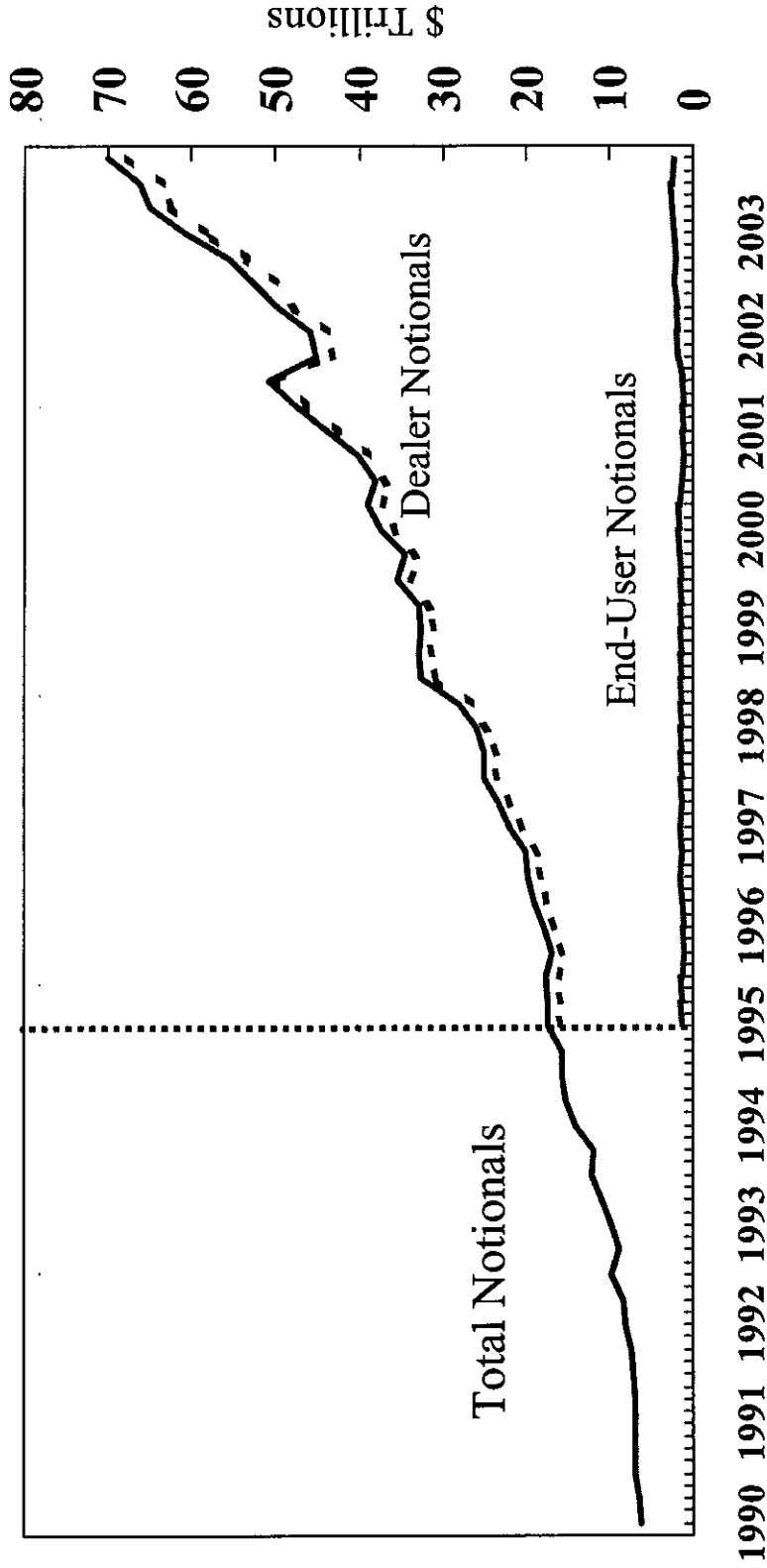
Notional Amount: The nominal or face amount that is used to calculate payments made on swaps and other risk management products. This amount generally does not change hands and is thus referred to as "notional."

Over-the-Counter Derivative Contracts: Privately negotiated derivative contracts that are transacted off organized exchanges.

Structured Notes: Non-mortgage-backed debt securities, whose cash flow characteristics depend on one or more indices and/or have embedded forwards or options.

Total Risk-Based Capital: The sum of tier 1 plus tier 2 capital. Tier 1 capital consists of common shareholders equity, perpetual preferred shareholders equity with noncumulative dividends, retained earnings, and minority interests in the equity accounts of consolidated subsidiaries. Tier 2 capital consists of subordinated debt, intermediate-term preferred stock, cumulative and long-term preferred stock, and a portion of a bank's allowance for loan and lease losses.

Derivatives, Notionals by Type of User Insured Commercial Banks



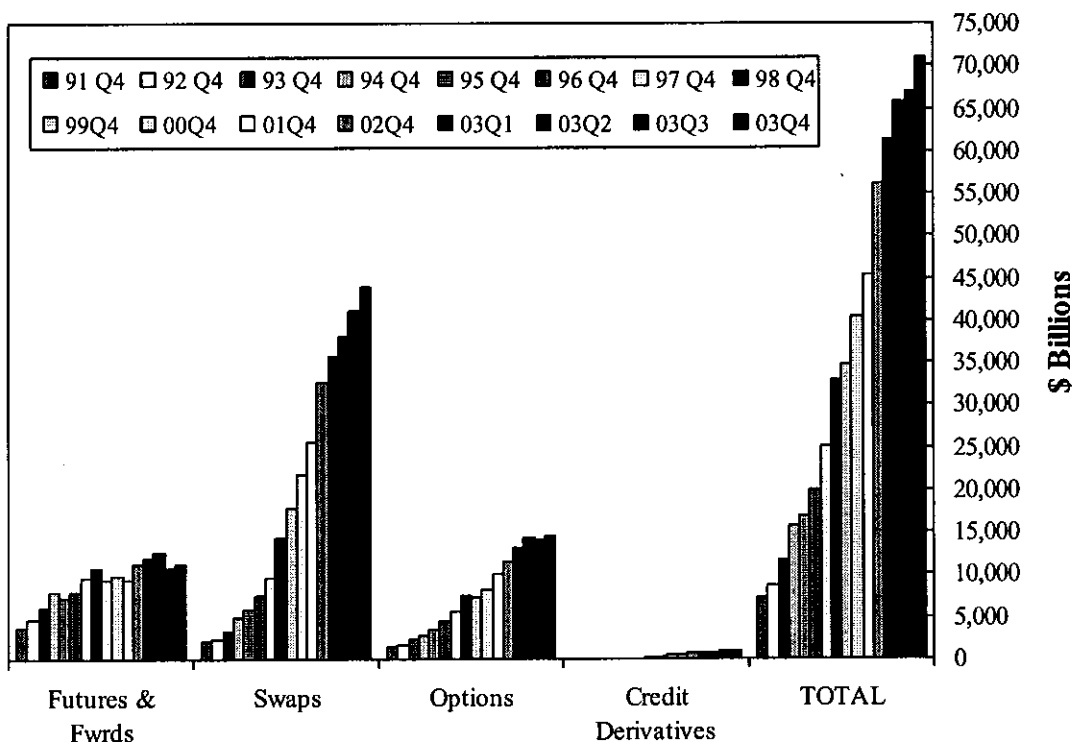
	1995				1996				1997				1998				1999				2000				2001				2002				2003			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4				
Total Notionals	17.3	17.4	17.6	16.9	19.0	19.8	20.0	21.9	23.3	25.0	25.0	26.0	28.0	32.5	32.5	32.8	35.4	34.5	37.3	39.0	37.9	40.1	43.6	47.4	50.9	45.0	45.9	49.6	52.6	55.4	60.7	65.0	66.2	70.1		
Dealer Notionals	15.9	15.9	16.2	15.6	16.5	17.5	18.2	18.5	20.3	21.8	23.5	23.5	24.5	26.6	31.0	31.4	31.0	33.9	33.0	35.7	37.3	36.5	38.9	42.4	46.2	49.6	43.2	43.9	47.5	50.2	53.3	58.3	62.4	63.7		
End-User Notionals	1.4	1.5	1.4	1.3	1.3	1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.6	1.6	1.7	1.5	1.2	1.2	1.2	1.2	1.3	1.8	1.9	2.0	2.4	2.1	2.4	2.6		

Note: Dotted line indicates that beginning in 1Q95, spot foreign exchange was not included in the definition of total derivatives.
 Note: Categories do not include credit derivatives.
 Note: Numbers may not add due to rounding.

Derivative Contracts by Product

All Commercial Banks

Year ends 1991 - 2002, Most recent four quarters - 2003



Derivative Contracts by Product (\$ Billions)*

	91Q4	92Q4	93Q4	94Q4	95Q4	96Q4	97Q4	98Q4	99Q4	00Q4	01Q4	02Q4	03Q1	03Q2	03Q3	03Q4
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Futures & Fwrds	3,876	4,780	6,229	8,109	7,399	8,041	9,550	10,918	9,390	9,877	9,313	11,374	11,911	12,658	10,859	11,393
Swaps	2,071	2,417	3,260	4,823	5,945	7,601	9,705	14,345	17,779	21,949	25,645	32,613	35,714	38,074	41,205	44,083
Options	1,393	1,568	2,384	2,841	3,516	4,393	5,754	7,592	7,361	8,292	10,032	11,452	13,089	14,304	14,180	14,605
Credit Derivatives							55	144	287	426	395	635	710	802	869	1,001
TOTAL	7,339	8,764	11,873	15,774	16,861	20,035	25,064	32,999	34,817	40,543	45,386	56,074	61,423	65,838	67,113	71,082

*In billions of dollars; notional amount of futures, total exchange traded options, total over the counter options, total forwards, and total swaps. Note that data after 1994 do not include spot fx in the total notional amount of derivatives.

Credit derivatives were reported for the first time in the first quarter of 1997. Currently, the Call Report does not differentiate credit derivatives by product and thus they have been added as a separate category. As of 1997, credit derivatives have been included in the sum of total derivatives in this chart.

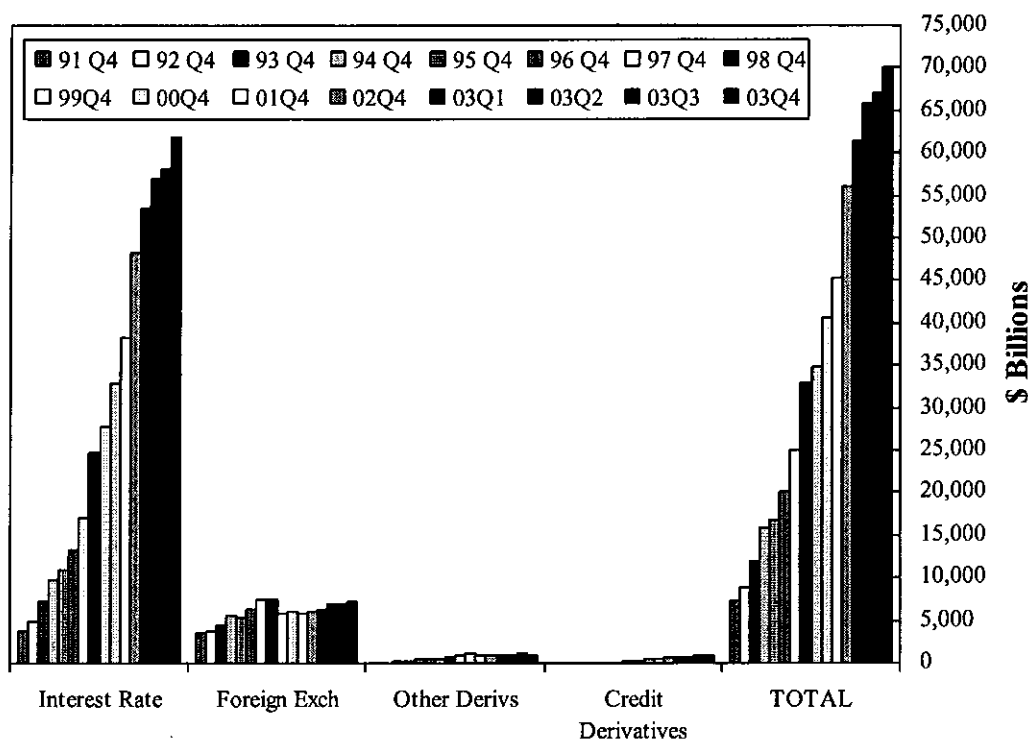
Note: numbers may not add due to rounding.

Data Source: Call Reports

Derivative Contracts by Type

All Commercial Banks

Year ends 1991 - 2002, Most recent four quarters - 2003



Derivative Contracts by Type (\$ Billions)*

	91Q4	92Q4	93Q4	94Q4	95Q4	96Q4	97Q4	98Q4	99Q4	00Q4	01Q4	02Q4	03Q1	03Q2	03Q3	03Q4
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Interest Rate	3,837	4,872	7,210	9,926	11,095	13,427	17,085	24,785	27,772	32,938	38,305	48,347	53,447	56,932	58,275	61,856
Foreign Exch	3,394	3,789	4,484	5,605	5,387	6,241	7,430	7,386	5,915	6,099	5,736	6,076	6,243	7,092	6,911	7,182
Other Derivs	109	102	179	243	378	367	494	684	843	1,080	950	1,016	1,023	1,012	1,059	1,043
Credit Derivatives							55	144	287	426	395	635	710	802	869	1,001
TOTAL	7,340	8,763	11,873	15,774	16,861	20,035	25,064	32,999	34,817	40,543	45,386	56,074	61,423	65,838	67,113	71,082

*In billions of dollars; notional amount of futures, total exchange traded options, total over the counter options, total forwards, and total swaps. Note that data after 1994 do not include spot fx in the total notional amount of derivatives.

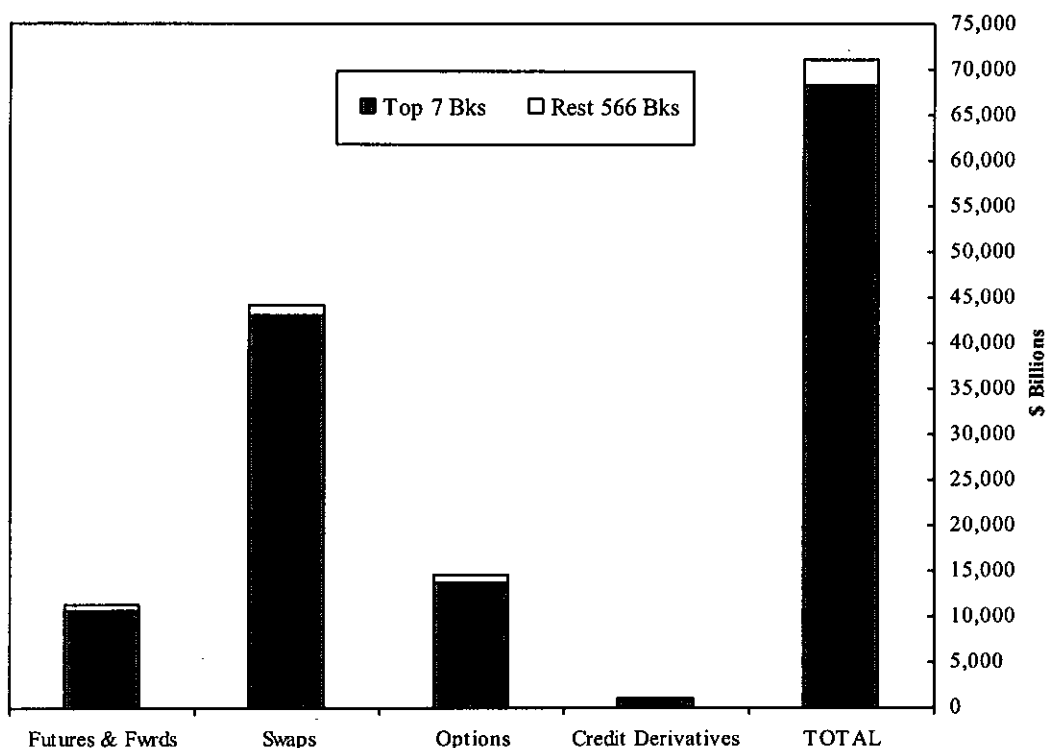
Credit derivatives were reported for the first time in the first quarter of 1997. Currently, the Call Report does not differentiate credit derivatives by product and thus they have been added as a separate category. As of 1997, credit derivatives have been included in the sum of total derivatives in this chart.

Note: numbers may not add due to rounding.

Data Source: Call Reports

Seven Banks With Most Derivatives Dominate

All Commercial Banks, Fourth Quarter 2003



Concentration of Derivative Contracts, 03Q4 (\$ Billions)*

	\$	%	\$	%	\$	%
	Top 7 Bks	Tot Derivs	Rest 566 Bks	Tot Derivs	All 573 Bks	Tot Derivs
Futures & Fwrds	10,554	14.8	839	1.2	11,393	16.0
Swaps	43,026	60.5	1,057	1.5	44,083	62.0
Options	13,765	19.4	840	1.2	14,605	20.5
Credit Derivatives	971	1.4	30	0.0	1,001	1.4
TOTAL	68,316	96.1	2,766	3.9	71,082	100.0

*In billions of dollars; notional amount of futures, total exchange traded options, total over the counter options, total forwards, and total swaps. Note that data after 1994 do not include spot fx in the total notional amount of derivatives.

Credit derivatives were reported for the first time in the first quarter of 1997. Currently, the Call Report does not differentiate credit derivatives by product and thus they have been added as a separate category.

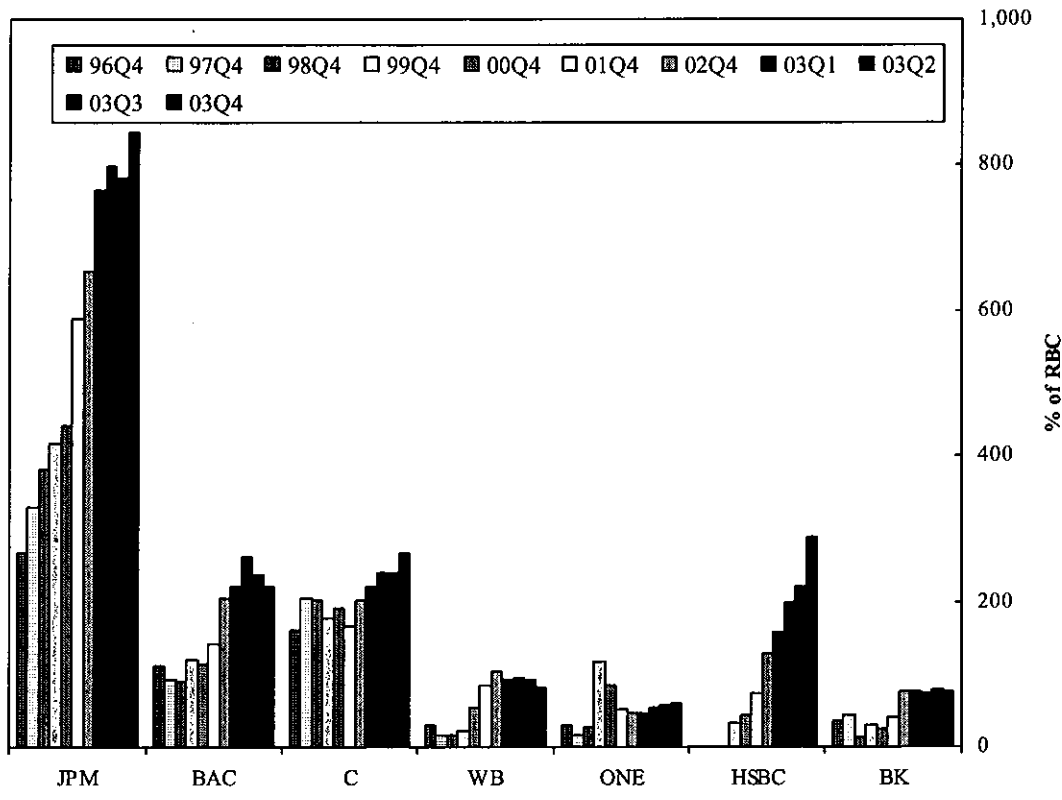
Note: numbers may not add due to rounding.

Data Source: Call Reports

Percentage of Credit Exposure to Risk Based Capital

*Top 7 Commercial Banks with Derivatives

Year ends 1996 – 2002, Most recent four quarters - 2003



Credit Exposure to Risk Based Capital (top banks 03Q4) (%)*

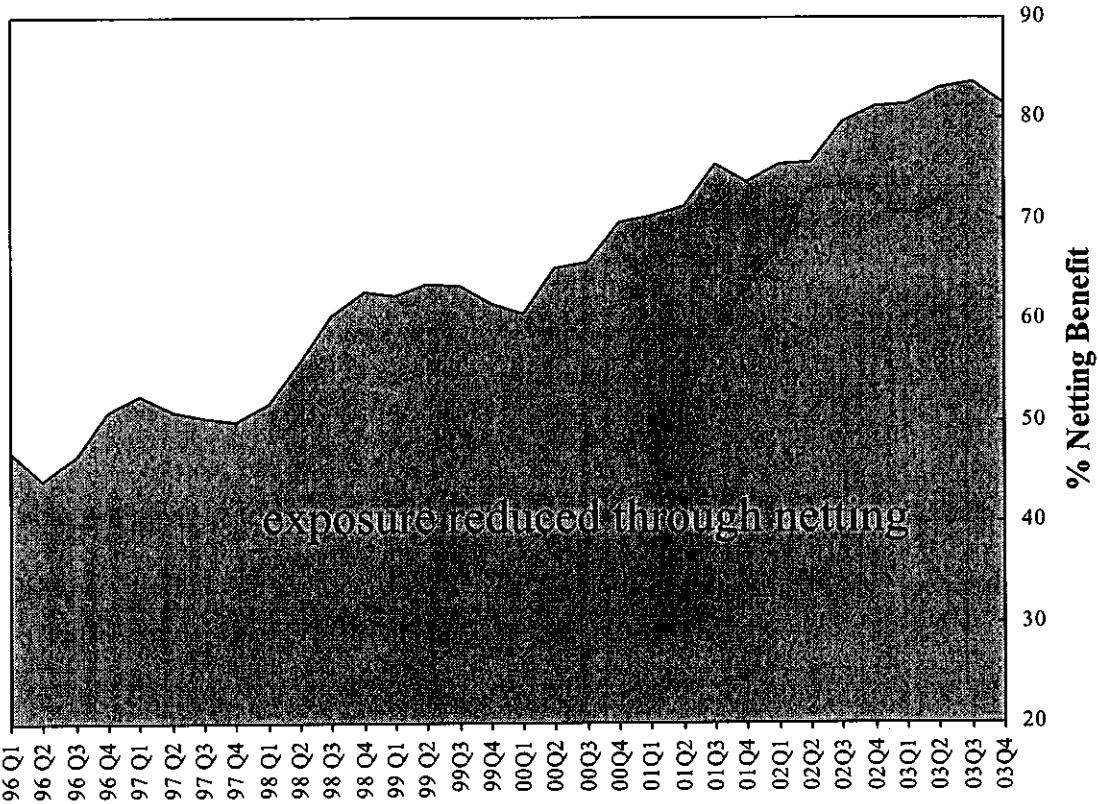
	96Q4	97Q4	98Q4	99Q4	00Q4	01Q4	02Q4	03Q1	03Q2	03Q3	03Q4
JPMorgan Chase (JPM)	265.8	329.5	380.3	416.0	442.5	589.2	654.5	764.4	797.1	783.0	844.6
Morgan Grnty (JPM)	507.7	806.4	820.3	873.3	873.7						
HSBC Bank USA				32.2	44.7	72.4	127.2	157.2	199.6	219.9	288.5
Citibank (C)	162.1	204.9	202.5	176.3	190.6	167.4	201.1	221.3	239.3	240.8	267.1
Bk of America (BAC)	112.0	92.2	90.3	119.8	114.5	141.7	204.9	220.2	260.8	237.1	221.7
NatlonsBank (NB)	120.1	68.2	80.8								
Wachovia (WB)	30.3	16.3	17.5	20.5	55.5	83.9	102.5	93.8	94.1	91.5	80.6
Bank of New York (BK)	35.5	44.1	12.3	28.8	25.0	40.0	75.4	75.0	73.8	77.8	77.6
Banc One (ONE)	29.0	15.2	27.4	116.6	83.6	52.4	45.4	46.6	54.9	57.5	58.7
First Chicago (FCN)	215.5	206.5	219.5								
Avg % (Top Bks)	251.0	310.0	323.8	264.0	254.4	158.5	197.6	220.1	240.4	238.2	262.7
Avg % (All Bks)	6.4	7.4	7.7	6.9	6.9	6.8	6.6	6.1	5.9	5.6	5.5

*Note: The third quarter 1999 Call Report reflected the merger between Bank of America and NationsBank. Here, prior quarters are not merger-adjusted and may not be comparable. The fourth quarter 1999 Call Report reflected the merger between First Chicago and Banc One. Here, prior quarters represent First Chicago's data. The fourth quarter 2001 Call Report reflected the merger between Chase Manhattan and Morgan Guaranty. Here, prior quarters represent Chase Manhattan's data. The second quarter 2002 Call Report reflected the merger between First Union and Wachovia. Here, prior quarters represent First Union's data.

Data Source: Call Report

Netting Benefit: Amount of Gross Exposure Eliminated Through Bilateral Netting

All Commercial Banks with Derivatives, Fourth Quarter 2003



Netting Benefit (%)*

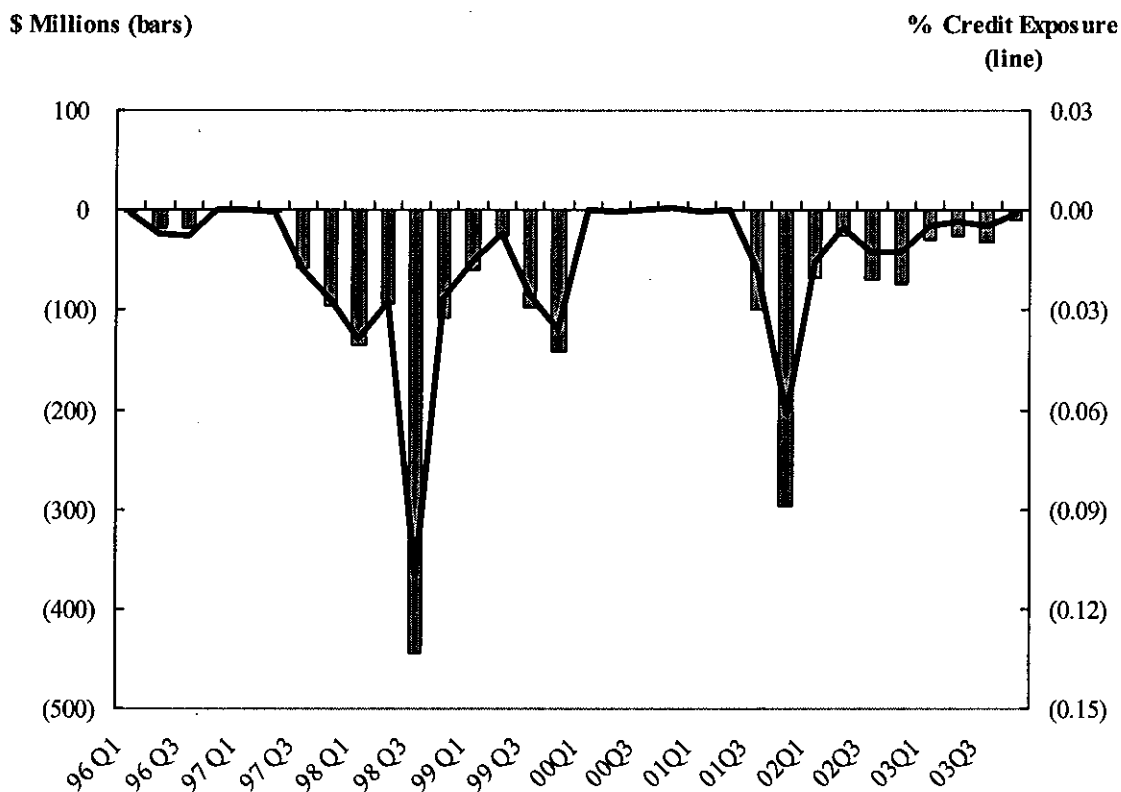
96Q1	96Q2	96Q3	96Q4	97Q1	97Q2	97Q3	97Q4	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2	99Q3	99Q4	00Q1	00Q2	00Q3	00Q4	01Q1	01Q2	01Q3	01Q4	02Q1	02Q2	02Q3	02Q4	03Q1	03Q2	03Q3	03Q4
47.1	44.3	46.6	50.9	52.5	51.0	50.4	50.0	51.7	55.8	60.4	62.8	62.4	63.7	63.4	61.6	60.6	65.2	65.9	69.8	70.4	71.4	75.6	73.7	75.5	75.8	79.6	81.3	81.4	83.1	83.6	81.5

*Note: The ratio of the netting benefit is defined as [1 - (bilaterally netted contracts/gross positive fair values)].

Data Source: Call Report

Quarterly (Charge-Offs)/Recoveries From Derivatives

All Commercial Banks with Derivatives, Fourth Quarter 2003



Quarterly (Charge-Offs)/Recoveries From Derivatives (\$ Millions)

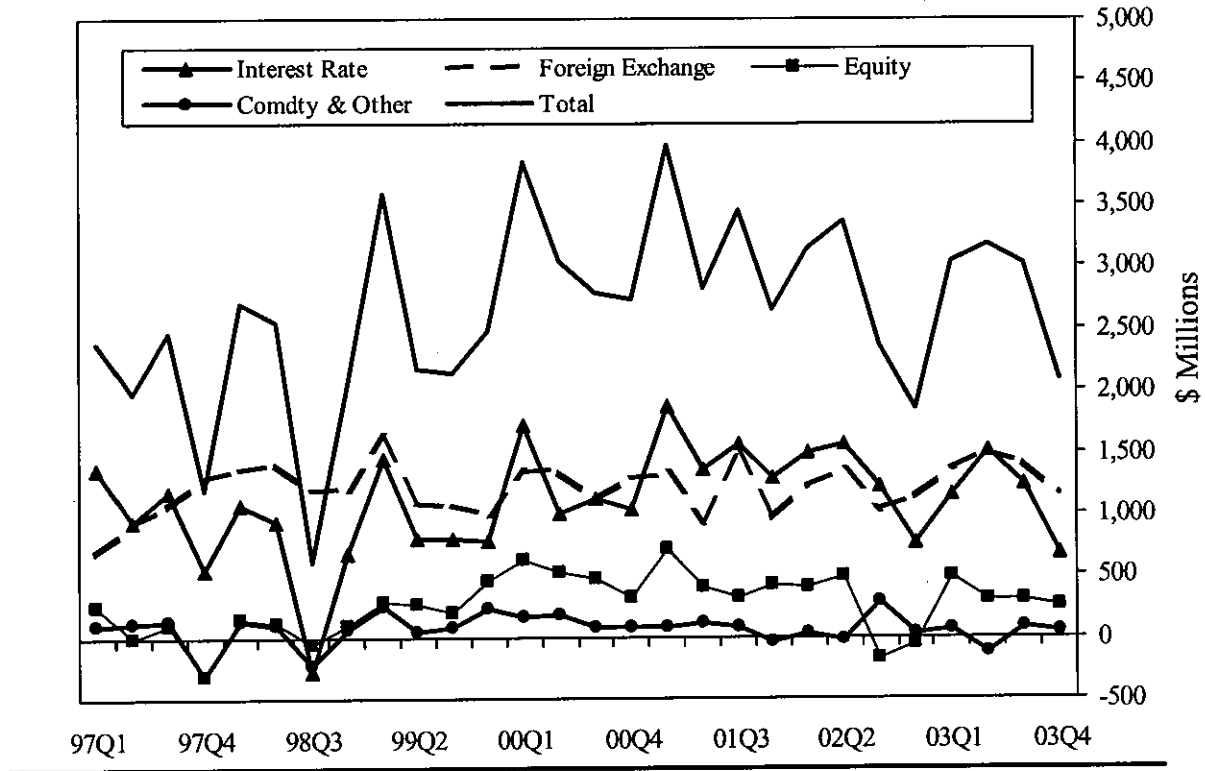
98Q1	98Q2	98Q3	98Q4	99Q1	99Q2	99Q3	99Q4	00Q1	00Q2	00Q3	00Q4	01Q1	01Q2	01Q3	01Q4	02Q1	02Q2	02Q3	02Q4	03Q1	03Q2	03Q3	03Q4
(135.50)	(93.70)	(445.40)	(107.20)	(58.95)	(25.80)	(72.14)	(140.97)	(0.10)	(0.79)	1.00	3.10	(2.00)	1.00	(98.66)	(295.72)	(67.87)	(25.08)	(70.04)	(73.64)	(29.66)	(25.53)	(32.28)	(9.93)

* Note: The figures are for each quarter alone, not year-to-date.

Data Source: Call Report

Quarterly Trading Revenue Cash & Derivative Positions

All Commercial Banks, Fourth Quarter 2003



Cash & Derivative Revenue (\$ Millions)*

	97Q1	97Q2	97Q3	97Q4	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2	99Q3	99Q4	00Q1	00Q2	00Q3	00Q4	01Q1	01Q2	01Q3	01Q4	02Q1	02Q2	02Q3	02Q4	03Q1	03Q2	03Q3	03Q4				
Interest Rate	1,159	951	930	930	1,350	939	1,173	534	1,067	930	-284	669	1,406	788	794	772	1,707	993	1,120	1,039	1,871	1,362	1,562	1,291	1,497	1,557	1,228	752	1,147	1,504	1,238	668
Foreign Exchange	628	732	514	767	690	908	1,070	1,281	1,363	1,414	1,185	1,205	1,624	1,078	1,068	1,003	1,338	1,336	1,114	1,292	1,327	924	1,501	967	1,214	1,346	1,081	1,138	1,358	1,488	1,410	1,158
Equity	131	138	93	27	246	1	103	-305	148	114	-66	92	290	264	202	462	624	522	471	321	705	408	310	425	407	460	-172	-64	485	300	299	257
Comdty & Other	60	95	137	82	97	115	125	-320	124	98	-222	64	245	41	73	235	170	183	78	84	72	119	81	-35	24	-26	278	30	55	-117	78	41
Tot Trading Rev*	1,978	1,917	1,734	1,866	2,383	1,962	2,471	1,190	2,718	2,556	614	2,000	3,596	2,172	2,137	2,472	3,839	3,084	2,783	2,736	3,975	2,812	3,454	2,649	3,141	3,366	2,364	1,856	3,045	3,175	3,025	2,128

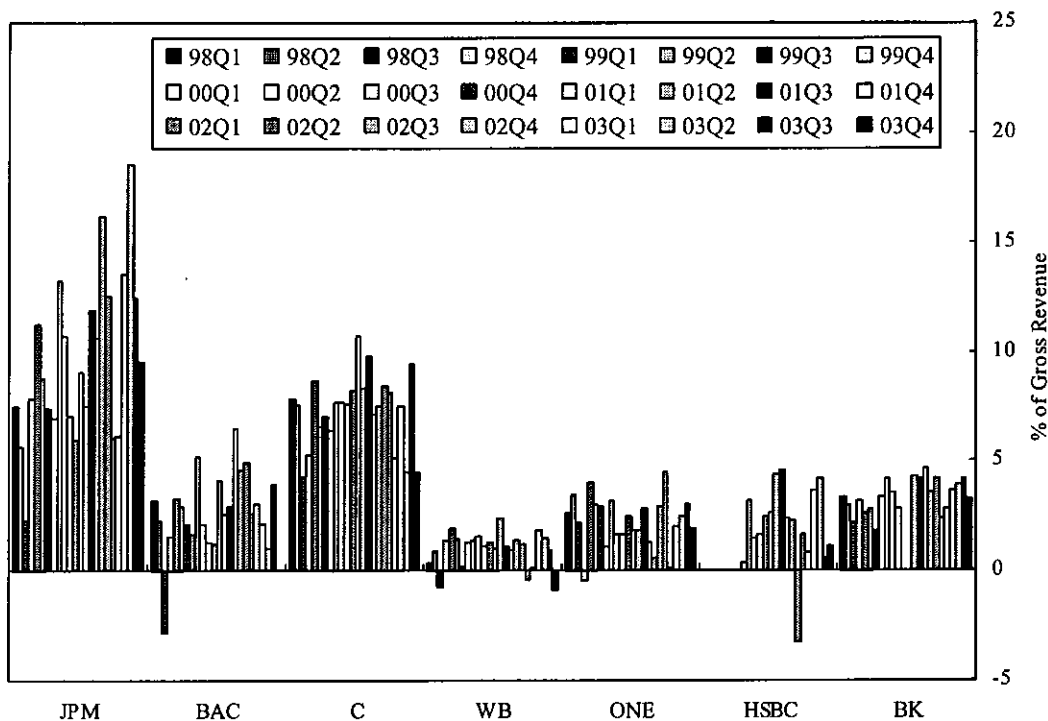
* Note: The trading revenue figures above are for cash and derivative activities. Revenue figures are for each quarter alone, not year-to-date.

Note: Numbers may not add due to rounding.

Data Source: Call Report

Quarterly Trading Revenue as a Percentage of Gross Revenue Cash & Derivative Positions

Top Commercial Banks with Derivatives, Fourth Quarter 2003



Trading Revenue as a Percentage of Gross Revenue (top banks, 03Q4 ranking, ratios in %)*

	99Q1	99Q2	99Q3	99Q4	00Q1	00Q2	00Q3	00Q4	01Q1	01Q2	01Q3	01Q4	02Q1	02Q2	02Q3	02Q4	03Q1	03Q2	03Q3	03Q4
JPMorgan Chase (JPM)	11.2	8.8	7.4	6.9	13.2	10.7	7.0	5.9	9.0	7.5	11.9	10.6	16.2	12.5	6.0	6.1	13.5	18.5	12.4	9.5
Citibank (C)	8.7	6.6	7.0	6.4	7.7	7.7	7.6	8.2	10.7	8.3	9.8	7.1	7.5	8.4	8.1	5.1	7.5	4.5	9.4	4.5
Bank of New York (BK)	2.7	2.8	1.8	3.4	4.2	3.6	2.8	3.2	3.9	4.3	4.2	4.7	3.6	4.2	2.4	2.8	3.7	3.9	4.2	3.3
Bank America (BAC)	3.3	2.9	2.1	1.7	5.2	2.1	1.3	1.2	4.1	2.6	2.9	6.5	4.6	4.9	2.6	3.0	2.1	1.0	3.9	2.8
Banc One (ONE)	4.0	3.0	2.9	1.1	3.2	1.7	1.7	2.5	1.8	1.8	2.8	1.3	0.6	2.9	4.5	0.1	2.0	2.5	3.0	1.9
HSBC Bank USA				0.4	3.2	1.5	1.7	2.5	2.7	4.4	4.6	2.4	2.3	-3.3	1.7	0.8	3.7	4.2	0.6	1.2
Wachovia (WB)	1.9	1.5	0.2	1.3	1.4	1.6	1.1	1.3	1.0	2.4	1.1	0.9	1.4	1.2	-0.4	0.1	1.8	1.5	0.9	-0.9
Total % (Top Banks)	9.6	5.8	5.7	5.4	8.3	6.2	5.5	5.0	7.1	5.8	7.0	5.9	6.9	6.8	4.4	3.3	5.8	5.8	6.0	4.0
Total % (All Banks)	3.7	2.2	2.1	2.3	3.5	2.7	2.4	2.3	3.4	2.6	3.3	2.6	3.1	3.3	2.3	1.8	3.0	3.1	2.9	2.0

* Note that the trading revenue figures above are for cash and derivative activities. Revenue figures are for each quarter alone, not year-to-date.

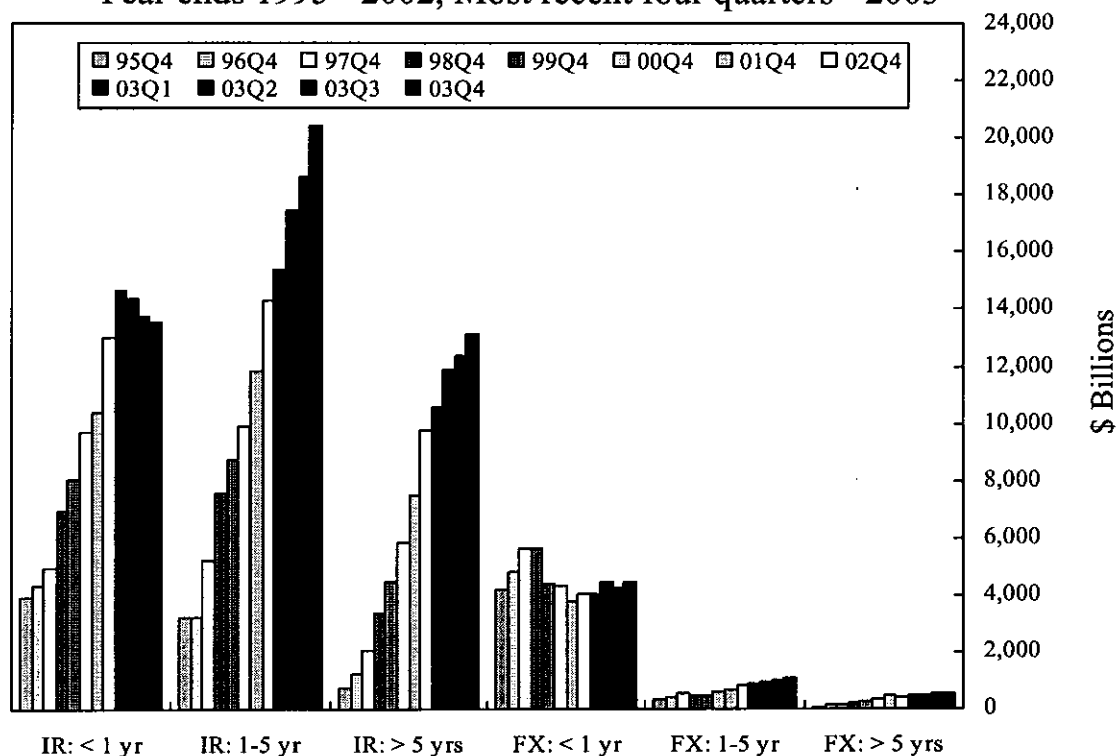
* Note: The third quarter 1999 Call Report reflected the merger between Bank of America and NationsBank. The fourth quarter 1999 Call Report reflected the merger between First Chicago and Banc One. The fourth quarter 2001 Call Report reflected the merger between Chase and JPMorgan. Prior quarters include the sum of Bank of America and NationsBank's trading figures for comparison purposes. However, prior quarters for Banc One reflect First Chicago's data and prior quarters for JPMorgan Chase reflect Chase's data.

Data Source: Call Report

Notional Amounts for Interest Rate and Foreign Exchange Contracts by Maturity

All Commercial Banks

Year ends 1995 - 2002, Most recent four quarters - 2003



Notional Amounts: Interest Rate and Foreign Exchange Contracts by Maturity (\$ Billions)*

	95Q4	96Q4	97Q4	98Q4	99Q4	00Q4	01Q4	02Q4	03Q1	03Q2	03Q3	03Q4
IR: < 1 yr	3,942	4,339	4,974	6,923	8,072	9,702	10,357	12,972	14,651	14,342	13,736	13,573
IR: 1-5 yr	3,215	3,223	5,230	7,594	8,730	9,919	11,809	14,327	15,387	17,498	18,642	20,400
IR: > 5 yrs	775	1,214	2,029	3,376	4,485	5,843	7,523	9,733	10,622	11,894	12,406	13,114
FX: < 1 yr	4,206	4,826	5,639	5,666	4,395	4,359	3,785	4,040	4,070	4,500	4,260	4,470
FX: 1-5 yr	324	402	516	473	503	592	661	829	885	964	1,036	1,114
FX: > 5 yrs	87	113	151	193	241	345	492	431	450	491	563	577

*Note: Figures above exclude foreign exchange contracts with an original maturity of 14 days or less, futures contracts, written options, basis swaps, and any other contracts not subject to risk-based capital requirements.

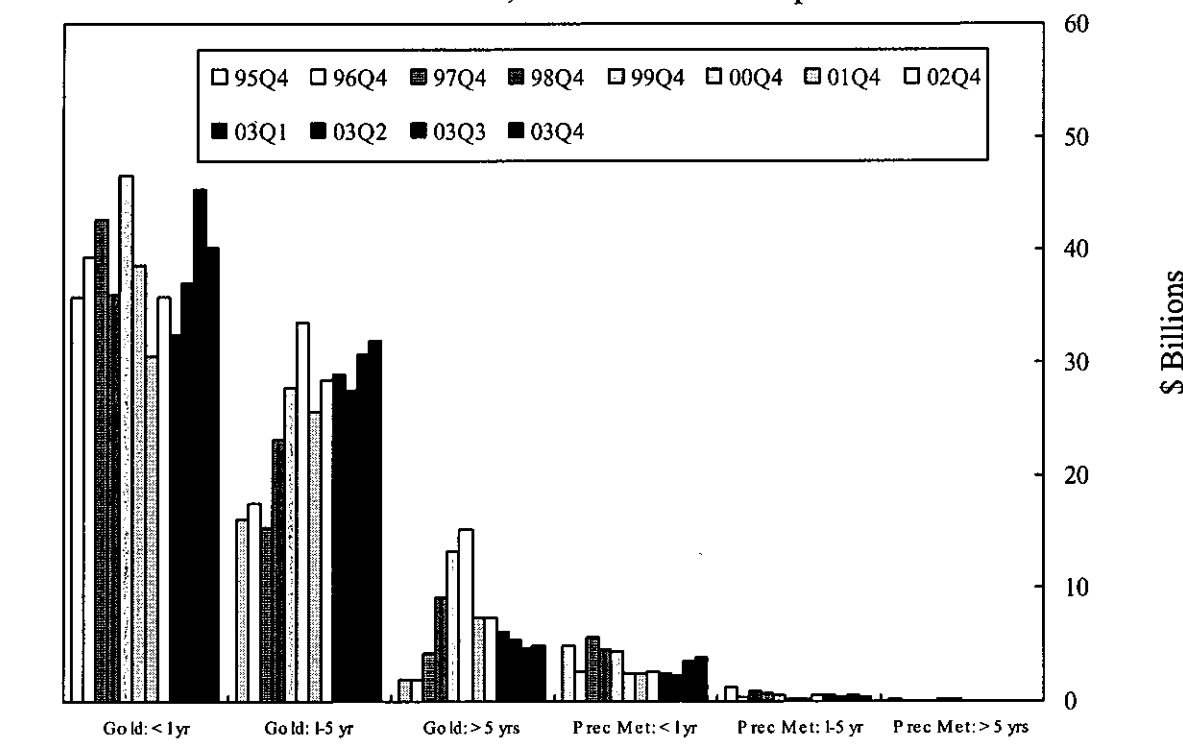
*Note: Currently, the Call Report does not include maturity breakouts for credit derivatives. Credit derivatives have been excluded here.

Data Source: Call Report

Notional Amounts for Gold and Precious Metals Contracts by Maturity

All Commercial Banks

Year ends 1995 - 2002, Most recent four quarters - 2003



Notional Amounts: Gold and Precious Metals Contracts by Maturity (\$ Billions)*

	95Q4	96Q4	97Q4	98Q4	99Q4	00Q4	01Q4	02Q4	03Q1	03Q2	03Q3	03Q4
Gold: < 1 yr	35.9	39.4	42.6	36.0	46.5	38.7	30.5	35.8	32.4	37.0	45.3	40.2
Gold: 1-5 yr	16.1	17.4	15.4	23.2	27.8	33.6	25.6	28.4	28.9	27.6	30.7	31.9
Gold: > 5 yrs	1.9	2.0	4.2	9.2	13.3	15.2	7.4	7.5	6.2	5.5	4.8	4.9
Prec Met: < 1 yr	5.0	2.6	5.7	4.6	4.4	2.5	2.4	2.7	2.4	2.3	3.6	3.9
Prec Met: 1-5 yr	1.3	0.4	0.9	0.6	0.5	0.2	0.2	0.5	0.5	0.4	0.6	0.3
Prec Met: > 5 yrs	0.1	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0

*Note: Figures above exclude foreign exchange contracts with an original maturity of 14 days or less, futures contracts, written options, basis swaps, and any other contracts not subject to risk-based capital requirements.

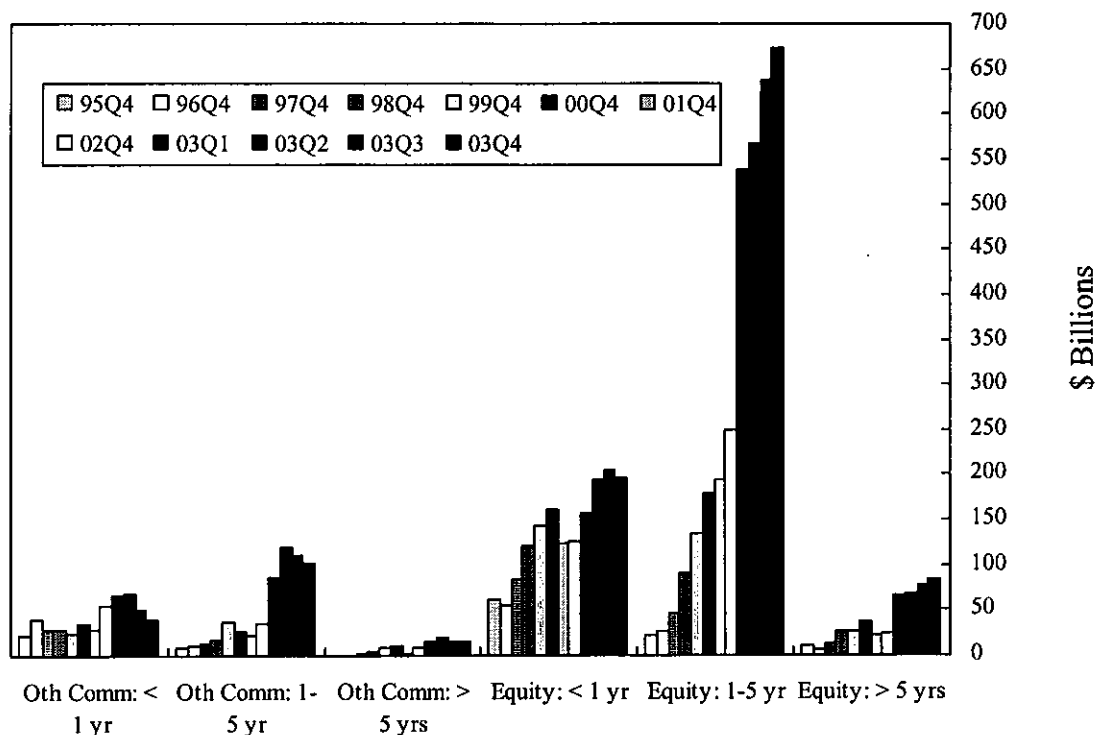
*Note: Currently, the Call Report does not include maturity breakouts for credit derivatives. Credit derivatives have been excluded here.

Data Source: Call Report

Notional Amounts for Commodity and Equity Contracts by Maturity

All Commercial Banks

Year ends 1995 - 2002, Most recent four quarters - 2003



Notional Amounts: Commodity and Equity Contracts by Maturity (\$ Billions)*

	95Q4	96Q4	97Q4	98Q4	99Q4	00Q4	01Q4	02Q4	03Q1	03Q2	03Q3	03Q4
Oth Comm: < 1 yr	22.3	39.6	29.3	29.8	23.6	35.6	28.4	55.1	65.8	68.6	50.9	40.5
Oth Comm: 1-5 yr	9.1	11.4	12.5	18.3	36.9	27.2	22.8	35.5	86.7	119.5	111.2	101.9
Oth Comm: > 5 yrs	0.4	0.9	2.1	3.6	8.3	10.7	1.8	9.1	14.7	19.8	14.6	14.4
Equity: < 1 yr	61.8	54.2	84.0	121.8	143.1	162.1	124.2	126.8	157.3	193.9	205.5	196.8
Equity: 1-5 yr	22.8	27.2	47.4	90.3	133.8	179.9	194.8	249.3	538.0	568.2	637.8	674.4
Equity: > 5 yrs	11.1	6.1	13.4	26.3	25.4	38.0	23.1	24.9	66.8	68.9	76.2	84.1

*Note: Figures above exclude foreign exchange contracts with an original maturity of 14 days or less, futures contracts, written options, basis swaps, and any other contracts not subject to risk-based capital requirements.

*Note: Currently, the Call Report does not include maturity breakouts for credit derivatives. Credit derivatives have been excluded here.

Data Source: Call Report

TABLE 1

**NOTIONAL AMOUNT OF DERIVATIVES CONTRACTS OF THE 25
COMMERCIAL BANKS AND TRUST COMPANIES WITH THE MOST DERIVATIVE CONTRACTS
DECEMBER 31, 2003, \$ MILLIONS
NOTE: DATA ARE PRELIMINARY**

RANK	BANK NAME	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	TOTAL FUTURES (EXCH TR)	TOTAL OPTIONS (EXCH TR)	TOTAL FORWARDS (OTC)	TOTAL SWAPS (OTC)	TOTAL OPTIONS (OTC)	TOTAL CREDIT DERIVATIVES (OTC)	SPOT FX
1	JPMORGAN CHASE BANK	NY	628,662	34,805,757	1,362,308	1,372,671	3,343,600	24,371,838	5,777,627	577,693	21,915
2	BANK OF AMERICA NA	NC	617,962	14,869,220	1,605,142	722,659	1,270,386	9,228,325	1,903,912	138,597	32,878
3	CITIBANK NATIONAL ASSN	NY	582,123	11,167,882	297,458	105,654	1,762,939	6,882,031	1,953,607	166,103	131,109
4	WACHOVIA BANK NATIONAL ASSN	NC	353,541	2,326,465	172,390	520,965	125,069	873,002	599,442	35,597	37,342
5	HSBC BANK USA	NY	92,958	1,333,741	116,934	36,655	123,365	675,487	369,932	31,368	14,320
6	BANK ONE NATIONAL ASSN	IL	256,787	1,232,095	37,804	9,652	204,464	807,035	152,716	20,424	8,481
7	BANK OF NEW YORK	NY	89,258	561,694	84,487	38,622	47,713	188,349	201,133	1,380	4,331
8	WELLS FARGO BANK NA	CA	250,474	557,161	55,576	132,300	166,048	82,023	117,938	3,276	4,095
9	FLEET NATIONAL BANK	RI	192,265	443,708	21,114	137,980	18,345	171,907	129,312	15,930	1,900
10	STATE STREET BANK & TRUST CO	MA	80,435	369,845	40,005	-	283,836	40,709	3,295	-	6,066
11	NATIONAL CITY BANK	OH	46,276	232,854	11,067	1,450	9,636	97,135	134,888	148	287
12	NATIONAL CITY BANK OF IN	IN	42,349	133,390	2,205	-	19,543	34,924	75,470	-	-
13	KETBANK NATIONAL ASSN	OH	74,321	91,846	13,124	-	7,126	68,608	2,928	60	854
14	MELLON BANK NATIONAL ASSN	PA	20,839	88,508	10,082	411	51,063	14,963	11,175	612	4,116
15	STANDARD FEDERAL BANK NA	MI	45,870	78,521	10,081	-	8,662	53,795	5,984	-	-
16	SUNTRUST BANK	GA	124,454	77,333	3,861	-	9,807	51,454	11,769	441	741
17	LASALLE BANK NATIONAL ASSN	IL	61,259	70,199	5,030	-	-	61,762	3,408	-	-
18	FNC BANK NATIONAL ASSN	PA	62,057	48,145	958	133	2,248	40,966	3,674	166	450
19	U S BANK NATIONAL ASSN	OH	189,159	43,691	-	-	4,151	37,542	1,808	190	50
20	DEUTSCHE BANK TR CO AMERICAS	NY	34,068	46,475	-	-	385	37,540	4,811	3,739	30
21	MERRILL LYNCH BANK USA	UT	66,643	35,374	2,194	-	1,857	27,957	400	2,967	2
22	CAPITAL ONE BANK	VA	24,515	28,190	-	-	967	27,224	-	-	-
23	NORTHERN TRUST CO	IL	33,403	26,532	-	-	25,642	782	30	79	2,792
24	IRWIN UNION BANK & TRUST CO	IN	4,656	19,991	8,120	-	966	99	10,806	-	-
25	UNION BANK OF CALIFORNIA NA	CA	41,929	19,564	-	-	1,668	10,339	7,557	-	272
TOP 25 COMMERCIAL BANKS & TCs WITH DERIVATIVES				\$70,747,980	\$3,859,936	\$3,079,151	\$7,489,505	\$43,834,937	\$11,485,682	\$998,769	\$272,031
OTHER 548 COMMERCIAL BANKS & TCs WITH DERIVATIVES				\$533,861	\$5,584	\$1,774	\$37,644	\$247,740	\$38,721	\$2,399	\$1,005
TOTAL AMOUNTS FOR ALL 573 BKS & TCs WITH DERIVATIVES				\$71,081,841	\$3,865,520	\$3,080,924	\$7,527,149	\$44,082,677	\$11,524,402	\$1,001,168	\$273,036

Note: Currently, the Call Report does not differentiate credit derivatives by contract type. Credit derivatives have been included in the sum of total derivatives here.
 Note: Before the first quarter of 1995 total derivatives included spot foreign exchange. Beginning in the first quarter, 1995, spot foreign exchange was reported separately.
 Note: Numbers may not add due to rounding.
 Data source: Call Report, schedule AC-L.

TABLE 2

NOTIONAL AMOUNT OF DERIVATIVE CONTRACTS OF THE 25
HOLDING COMPANIES WITH THE MOST DERIVATIVES CONTRACTS
DECEMBER 31, 2006, \$ MILLIONS
NOTE: DATA ARE PRELIMINARY

RANK	HOLDING COMPANY	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	FUTURES (EXCH TR)	OPTIONS (EXCH TR)	FORWARDS (OTC)	SWAPS (OTC)	OPTIONS (OTC)	CREDIT DERIVATIVES (OTC)	SPOT FX
1	J.P. MORGAN CHASE & CO.	NY	770,912	37,420,408	1,463,793	1,733,372	3,531,452	24,341,359	5,772,739	577,693	21,915
2	BANK OF AMERICA CORPORATION	NC	736,487	15,153,349	1,615,285	744,143	1,573,809	9,180,151	1,903,175	136,787	32,878
3	CITIGROUP INC.	NY	1,264,032	12,578,666	595,905	167,367	2,170,795	7,350,222	2,101,994	192,083	116,390
4	WACHOVIA CORPORATION	NC	401,032	2,336,173	173,812	541,331	131,906	858,952	594,575	35,597	37,342
5	HSBC NORTH AMERICA INC.	NY	125,950	1,367,753	173,913	36,655	131,014	680,403	370,379	31,300	14,451
6	WELLS FARGO & COMPANY	CA	383,798	566,022	55,576	132,785	166,051	86,990	119,204	5,416	4,095
7	BANK OF NEW YORK COMPANY, INC., THE	NY	92,405	557,162	84,487	38,622	47,504	184,214	201,123	1,413	4,321
8	FLEETBOSTON FINANCIAL CORPORATION	MA	200,356	443,708	21,114	137,980	18,365	121,007	129,312	15,930	1,900
9	COUNTRYWIDE FINANCIAL CORPORATION	CA	97,958	378,821	22,258	170,875	124,121	13,969	47,598	-	-
10	STATE STREET CORPORATION	MA	87,534	368,401	40,003	-	283,836	39,267	5,295	-	6,066
11	TAUNUS CORPORATION	NY	291,375	374,735	83,116	81,896	118,674	76,251	7,836	6,962	305
12	NATIONAL CITY CORPORATION	OH	113,933	168,353	8,864	1,450	20,279	58,283	79,329	148	287
13	KEYCORP	OH	84,147	96,172	13,124	-	7,126	71,738	4,124	60	854
14	MELLON FINANCIAL CORPORATION	PA	34,049	86,392	10,090	411	50,941	13,162	11,175	612	4,116
15	SUNTRUST BANKS, INC.	GA	125,393	75,288	3,861	-	9,807	49,410	11,769	441	741
16	U.S. BANKCORP	MN	189,286	46,340	-	-	4,151	40,189	1,809	191	50
17	PNC FINANCIAL SERVICES GROUP, INC., THE	PA	68,193	46,080	-	-	2,259	38,920	3,645	166	450
18	CIBC DELAWARE HOLDINGS INC.	NY	39,210	40,437	20,223	12,524	-	6,727	10	953	-
19	METLIFE, INC.	NY	326,842	34,645	1,348	6,064	2,005	15,270	9,959	-	-
20	DORAL FINANCIAL CORPORATION	PR	10,394	27,194	1,427	23,228	40	200	2,300	-	-
21	UNIONBANCAL CORPORATION	CA	42,488	18,764	-	-	1,668	9,539	7,557	-	272
22	UTRECHT-AMERICA HOLDINGS, INC.	NY	27,050	20,478	-	-	-	17,068	1,633	-	-
23	FIRST TENNESSEE NATIONAL CORPORATION	TN	24,471	16,603	-	-	8,100	5,937	2,565	-	1
24	FIFTH THIRD BANCORP	OH	91,143	14,944	-	-	4,745	7,461	2,757	-	141
25	BB&T CORPORATION	NC	90,467	14,585	7	-	1,484	9,437	3,677	-	23
TOTALS FOR THE TOP 25 HOLDING COMPANIES WITH DERIVATIVES					4,333,163	3,828,834	\$8,409,912	\$43,276,515	\$11,395,518	\$1,007,528	\$246,598

Note: Currently, the Y-9 report does not differentiate credit derivatives by contract type. Credit derivatives have been included in the sum of total derivatives.
Note: In previous quarters, total derivatives included spot foreign exchange. Beginning in the first quarter, 1995, spot foreign exchange is reported separately.
Note: Numbers may not add due to rounding.

Data source: Consolidated Financial Statements for Bank Holding Companies, FR Y-9, schedule HC-F

TABLE 3

**DISTRIBUTION OF DERIVATIVES CONTRACTS OF THE 25
COMMERCIAL BANKS AND TRUST COMPANIES WITH THE MOST DERIVATIVE CONTRACTS
DECEMBER 31, 2003, \$ MILLIONS, RATIOS IN PERCENT
NOTE: DATA ARE PRELIMINARY**

RANK	BANK NAME	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	PERCENT EXCH TRADED CONTRACTS (%)	PERCENT OTC CONTRACTS (%)	PERCENT INT RATE CONTRACTS (%)	PERCENT FOREIGN EXCH CONTRACTS (%)	PERCENT OTHER CONTRACTS (%)	PERCENT CREDIT DERIVATIVES (%)
1	JPMORGAN CHASE BANK	NY	628,662	36,805,757	7.4	92.6	89.0	7.5	1.0	1.6
2	BANK OF AMERICA NA	NC	617,962	14,869,220	15.7	84.3	89.8	8.6	0.3	0.9
3	CITIBANK NATIONAL ASSN	NY	582,123	11,167,882	3.6	96.4	78.3	19.3	0.5	1.5
4	WACHOVIA BANK NATIONAL ASSN	NC	353,541	2,326,465	29.8	70.2	94.3	2.7	0.7	1.5
5	HSBC BANK USA	NY	92,958	1,353,741	11.3	88.7	80.8	13.4	1.8	2.3
6	BANK ONE NATIONAL ASSN	IL	256,787	1,232,095	3.9	96.1	85.9	11.5	0.5	1.7
7	BANK OF NEW YORK	NY	89,258	561,694	21.9	78.1	86.9	12.8	0.0	0.2
8	WELLS FARGO BANK NA	CA	250,474	557,161	33.7	66.3	95.0	4.1	0.2	0.6
9	FLEET NATIONAL BANK	RI	192,265	443,708	35.9	64.1	85.9	9.8	0.3	3.6
10	STATE STREET BANK&TRUST CO	MA	80,435	369,843	10.8	89.2	13.4	86.6	0.0	0.0
11	NATIONAL CITY BANK	OH	46,276	252,854	4.4	95.6	99.5	0.4	0.0	0.1
12	NATIONAL CITY BANK OF IN	IN	42,549	133,390	2.7	97.3	100.0	0.0	0.0	0.0
13	KEYBANK NATIONAL ASSN	OH	74,321	91,846	14.3	85.7	89.5	10.2	0.1	0.1
14	MELLON BANK NATIONAL ASSN	PA	20,839	88,308	11.9	88.1	32.5	66.2	0.3	0.7
15	STANDARD FEDERAL BANK NA	MI	45,670	78,521	12.8	87.2	99.9	0.0	0.1	0.0
16	SUNTRUST BANK	GA	124,454	77,333	5.0	95.0	89.1	7.9	1.2	0.6
17	LASALLE BANK NATIONAL ASSN	IL	61,259	70,199	7.2	92.8	99.6	0.0	0.2	0.0
18	PNC BANK NATIONAL ASSN	PA	62,037	48,145	2.3	97.7	90.7	5.5	1.7	0.3
19	U S BANK NATIONAL ASSN	OH	189,159	43,691	0.0	100.0	95.1	4.5	0.0	0.4
20	DEUTSCHE BANK TR CO AMERICAS	NY	34,068	46,475	0.0	100.0	26.9	5.2	29.9	8.0
21	MERRILL LYNCH BANK USA	UT	66,643	35,374	6.2	93.8	86.5	5.1	0.0	8.4
22	CAPITAL ONE BANK	VA	24,515	28,190	0.0	100.0	94.6	5.4	0.0	0.0
23	NORTHERN TRUST CO	IL	33,403	26,532	0.0	100.0	2.6	97.1	0.0	0.3
24	IRWIN UNION BANK&TRUST CO	IN	4,656	19,991	40.6	59.4	99.6	0.4	0.0	0.0
25	UNION BANK OF CALIFORNIA NA	CA	41,929	19,564	0.0	100.0	90.7	9.3	0.0	0.0
TOP 25 COMMERCIAL BANKS & TCs WITH DERIVATIVES			\$4,016,242	\$70,747,980	\$6,939,087	\$63,808,893	\$61,555,332	\$7,154,738	\$1,039,140	\$998,769
OTHER 548 COMMERCIAL BANKS & TCs WITH DERIVATIVES			\$2,136,073	\$333,861	\$7,358	\$326,503	\$300,836	\$27,029	\$3,597	\$2,399
TOTAL AMOUNTS FOR ALL 573 BKS & TCs WITH DERIVATIVES			\$6,152,315	\$71,081,841	\$6,946,445	\$64,135,397	\$61,856,168	\$7,181,767	\$1,042,737	\$1,001,168
TOP 25 COMMERCIAL BANKS & TC: % OF ALL 573 BKS & TCs WITH DERIVATIVES				99.5	9.8	89.8	86.6	10.1	1.5	1.4
OTHER 548 COMMERCIAL BANKS & TCs: % OF ALL 573 BKS & TCs WITH DERIVATIVES				0.5	0.0	0.5	0.4	0.0	0.0	0.0
TOTAL AMOUNTS FOR ALL 573 BKS & TCs: % OF ALL 573 BKS & TCs WITH DERIVATIVES				100.0	9.8	90.2	87.0	10.1	1.5	1.4

Note: Currently, the Call Report does not differentiate credit derivatives by over the counter or exchange traded. Credit derivatives have been included in the "over the counter" category as well as in the sum of total derivatives here.
 Note: "Foreign Exchange" does not include spot fx.
 Note: Before the first quarter of 1995 total derivatives included spot foreign exchange. Beginning in the first quarter, 1995, spot foreign exchange was reported separately.
 Note: Numbers may not add due to rounding.
 Data source: Call Report, schedule RC-1.

TABLE 4

COMMERCIAL BANKS AND TRUST COMPANIES WITH THE MOST DERIVATIVES CONTRACTS
 DECEMBER 31, 2003, \$ MILLIONS, RATIOS IN PERCENT
 NOTE: DATA ARE PRELIMINARY

RANK	BANK NAME	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	BILATERALLY NETTED CURRENT EXPOSURE	FUTURE EXPOSURE (NEW RBC ADD ON)	TOTAL CREDIT EXPOSURE FROM ALL CONTRACTS	TOTAL CREDIT EXPOSURE TO CAPITAL RATIO (%)
1	JPMORGAN CHASE BANK	NY	628,662	36,805,757	70,997	311,530	382,527	844.6
2	BANK OF AMERICA NA	NC	617,962	14,869,220	35,546	84,103	119,649	221.7
3	CITIBANK NATIONAL ASSN	NY	582,123	11,167,882	51,569	91,824	143,393	267.1
4	WACHOVIA BANK NATIONAL ASSN	NC	353,541	2,326,465	13,287	11,140	24,427	80.6
5	HSBC BANK USA	NY	92,958	1,353,741	8,642	12,492	21,134	288.5
6	BANK ONE NATIONAL ASSN	IL	256,787	1,232,095	5,303	8,061	13,364	58.7
7	BANK OF NEW YORK	NY	89,258	561,694	3,764	2,650	6,414	77.7
8	WELLS FARGO BANK NA	CA	250,474	557,161	4,691	1,347	6,038	26.7
9	FLEET NATIONAL BANK	RI	192,265	443,708	2,608	1,437	4,045	20.2
10	STATE STREET BANK&TRUST CO	MA	80,435	369,843	4,535	2,871	7,406	161.0
11	NATIONAL CITY BANK	OH	46,276	252,854	1,944	931	2,875	61.2
12	NATIONAL CITY BANK OF IN	IN	42,549	133,390	849	732	1,581	47.2
13	KEYBANK NATIONAL ASSN	OH	74,321	91,846	1,975	472	2,447	29.1
14	MELLON BANK NATIONAL ASSN	PA	20,839	88,308	1,117	807	1,924	72.1
15	STANDARD FEDERAL BANK NA	MI	45,670	78,521	37	486	524	9.7
16	SUNTRUST BANK	GA	124,454	77,333	2,201	569	2,769	22.7
17	LASALLE BANK NATIONAL ASSN	IL	61,259	70,199	142	572	714	13.3
18	PNC BANK NATIONAL ASSN	PA	62,037	48,145	971	318	1,288	19.3
19	U S BANK NATIONAL ASSN	OH	189,159	43,691	687	177	864	5.1
20	DEUTSCHE BANK TR CO AMERICAS	NY	34,068	46,475	1,985	1,985	2,642	37.1
21	MERRILL LYNCH BANK USA	UT	66,643	35,374	166	155	321	6.8
22	CAPITAL ONE BANK	VA	24,515	28,190	-	194	194	4.6
23	NORTHERN TRUST CO	IL	33,403	26,532	616	197	813	29.9
24	IRWIN UNION BANK&TRUST CO	IN	4,656	19,991	3	2	4	0.7
25	UNION BANK OF CALIFORNIA NA	CA	41,929	19,564	219	94	313	8.1
TOP 25 COMMERCIAL BANKS & TCs WITH DERIVATIVES								
OTHER 548 COMMERCIAL BANKS & TCs WITH DERIVATIVES			\$4,016,242	\$70,747,980	\$212,524	\$535,148	\$747,673	Average% 96.6
TOTAL AMOUNTS FOR ALL 573 BKS & TCs WITH DERIVATIVES			\$2,136,073	\$333,861	\$4,903	\$2,518	\$7,421	N/A
			\$6,152,315	\$71,081,841	\$217,427	\$537,667	\$755,094	5.5

Commercial banks also hold on-balance sheet assets in volumes that are multiples of bank capital. For example:

EXPOSURES FROM OTHER ASSETS	EXPOSURE TO RISK BASED CAPITAL:
ALL COMMERCIAL BANKS	ALL BANKS
1-4 FAMILY MORTGAGES	176%
C&I LOANS	120%
SECURITIES NOT IN TRADING ACCOUNT	201%

Note: The numbers reported above for future credit exposures reflect gross add-ons.
 Note: The total credit exposure to capital ratio is calculated using risk based capital (tier one plus tier two capital).
 Note: Currently, the Call Report does not differentiate credit derivatives by contract type. Credit derivatives have been included in the sum of total derivatives here.
 Note: Before the first quarter of 1995 total derivatives included spot foreign exchange. Beginning in the first quarter, 1995, spot foreign exchange was reported separately.
 Note: Numbers may not add due to rounding.
 Source: Call Report, Schedule RC-R

TABLE 5

**NOTIONAL AMOUNTS OF DERIVATIVES CONTRACTS HELD FOR TRADING OF THE 7
COMMERCIAL BANKS AND TRUST COMPANIES WITH THE MOST DERIVATIVES CONTRACTS
DECEMBER 31, 2003, \$ MILLIONS, RATIOS IN PERCENT
NOTE: DATA ARE PRELIMINARY**

RANK	BANK NAME	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	TOTAL HELD FOR TRADING & MTM	% HELD FOR TRADING & MTM	TOTAL NOT TRADED MTM	% NOT TRADED MTM
1	JPMORGAN CHASE BANK	NY	628,662	36,228,064	36,101,761	99.7	126,303	0.3
2	BANK OF AMERICA NA	NC	617,962	14,730,624	14,233,518	96.6	497,106	3.4
3	CITIBANK NATIONAL ASSN	NY	582,123	11,001,779	10,826,557	98.4	175,222	1.6
4	WACHOVIA BANK NATIONAL ASSN	NC	353,541	2,290,868	1,982,872	86.6	307,996	13.4
5	HSBC BANK USA	NY	92,958	1,322,374	1,315,329	99.5	7,045	0.5
6	BANK ONE NATIONAL ASSN	IL	256,787	1,211,671	1,194,742	98.6	16,929	1.4
7	BANK OF NEW YORK	NY	89,258	560,314	548,796	97.9	11,518	2.1
TOP 7 COMMERCIAL BANKS & TCs WITH DERIVATIVES								
			\$2,621,291	\$67,345,693	\$66,203,574	98.3	\$1,142,119	1.7
OTHER 566 COMMERCIAL BANKS & TCs WITH DERIVATIVES			\$3,531,023	\$2,734,980	\$1,513,498	55.3	\$1,221,482	44.7
TOP 25 COMMERCIAL BANKS & TCs WITH DERIVATIVES			\$4,016,242	\$69,749,211	\$67,610,952	96.9	\$2,138,259	3.1
OTHER 548 COMMERCIAL BANKS & TCs WITH DERIVATIVES			\$2,136,073	\$331,462	\$106,120	32.0	\$225,342	68.0
TOTAL AMOUNTS FOR ALL 573 BKS & TCs WITH DERIVATIVES			\$6,152,315	\$70,080,673	\$67,717,072	96.6	\$2,363,601	3.4

Note: Currently, the Call Report does not differentiate between traded and non-traded credit derivatives. Credit derivatives have been excluded from the sum of total derivatives here.

Note: In previous quarters, total derivatives included spot foreign exchange. Beginning in the first quarter, 1995, spot foreign exchange is reported separately.

Note: Numbers may not add due to rounding.

Data source: Call Report, schedule RC-L.

TABLE 6

**GROSS FAIR VALUES OF DERIVATIVE CONTRACTS OF THE 7
COMMERCIAL BANKS AND TRUST COMPANIES WITH THE MOST DERIVATIVE CONTRACTS
DECEMBER 31, 2003, \$ MILLIONS
NOTE: DATA ARE PRELIMINARY**

RANK	BANK NAME	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	TRADED:			NOT TRADED:		
					(MTM) GROSS POSITIVE FAIR VALUE*	(MTM) GROSS NEGATIVE FAIR VALUE**	(MTM) GROSS POSITIVE FAIR VALUE*	(MTM) GROSS NEGATIVE FAIR VALUE**		
1	JPMORGAN CHASE BANK	NY	628,662	36,228,064	623,073	612,143	831	830		
2	BANK OF AMERICA NA	NC	617,962	14,730,624	224,595	218,224	6,185	4,993		
3	CITIBANK NATIONAL ASSN	NY	582,123	11,001,779	198,728	198,939	3,397	2,393		
4	WACHOVIA BANK NATIONAL ASSN	NC	353,541	2,290,868	28,730	27,602	4,546	4,027		
5	HSBC BANK USA	NY	92,958	1,322,374	17,016	17,767	211	53		
6	BANK ONE NATIONAL ASSN	IL	256,787	1,211,671	23,461	22,194	17	193		
7	BANK OF NEW YORK	NY	89,258	560,314	7,888	7,702	307	431		
TOP 7 COMMERCIAL BANKS & TCs WITH DERIVATIVES					\$2,621,291	\$1,104,571	\$15,494	\$12,920		
OTHER 566 COMMERCIAL BANKS & TCs WITH DERIVATIVES					\$3,531,023	\$22,948	\$10,353	\$9,801		
TOTAL AMOUNTS FOR ALL 573 BKS & TCs WITH DERIVATIVES					\$6,152,315	\$1,127,519	\$25,847	\$22,721		

Note: Currently, the Call Report does not differentiate credit derivatives by gross negative and positive fair values. Credit derivatives have been excluded from the sum of total derivatives here.

Note: Before the first quarter of 1995 total derivatives included spot foreign exchange. Beginning in the first quarter, 1995, spot foreign exchange was reported separately.

*Market value of contracts that have a positive fair value as of the end of the fourth quarter, 2003.

**Market value of contracts that have a negative fair value as of the end of the fourth quarter, 2003.

Note: Numbers may not sum due to rounding.

Data source: Call Report, schedule RC-L.

TABLE 7

TRADING REVENUE FROM CASH INSTRUMENTS AND DERIVATIVES OF THE 7
COMMERCIAL BANKS AND TRUST COMPANIES WITH THE MOST DERIVATIVE CONTRACTS
DECEMBER 31, 2003, \$ MILLIONS

NOTE: REVENUE FIGURES ARE FOR FOURTH QUARTER (NOT YEAR-TO-DATE)
DATA ARE PRELIMINARY

RANK	BANK NAME	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	TOTAL TRADING REV FROM CASH & OFF BAL SHEET POSITIONS	TRADING REV FROM INT RATE POSITIONS	TRADING REV FROM FOREIGN EXCH POSITIONS	TRADING REV FROM EQUITY POSITIONS	TRADING REV FROM COMMOD & OTH POSITIONS
1	JPMORGAN CHASE BANK	NY	628,662	36,228,064	716	611	26	63	16
2	BANK OF AMERICA NA	NC	617,962	14,730,624	259	41	140	79	(1)
3	CITIBANK NATIONAL ASSN	NY	582,123	11,001,779	530	(217)	752	(7)	2
4	WACHOVIA BANK NATIONAL ASSN	NC	353,541	2,290,868	(48)	(56)	24	(16)	-
5	HSBC BANK USA	NY	92,938	1,322,374	13	(102)	29	72	13
6	BANK ONE NATIONAL ASSN	IL	256,787	1,211,671	60	184	(130)	(3)	9
7	BANK OF NEW YORK	NY	89,258	560,314	52	3	49	0	(0)
TOP 7 COMMERCIAL BANKS & TCs WITH DERIVATIVES					\$1,582	\$464	\$890	\$188	\$39
OTHER 566 COMMERCIAL BANKS & TCs WITH DERIVATIVES					\$542	\$205	\$267	\$69	\$1
TOTAL AMOUNTS FOR ALL 573 BKS & TCs WITH DERIVATIVES					\$2,124	\$669	\$1,158	\$257	\$40

Note: Currently, the Call Report does not include trading revenues from credit derivatives. Credit derivatives have been excluded from the sum of total derivatives here.

Note: Trading revenue is defined here as "trading revenue from cash instruments and off balance sheet derivative instruments."

Note: Before the first quarter of 1995 total derivatives included spot foreign exchange. Beginning in the first quarter 1995, spot foreign exchange was reported separately.

Note: Numbers may not sum due to rounding.

Data source: Call Report, schedule RC-1

TABLE 8

**NOTIONAL AMOUNT OF DERIVATIVES CONTRACTS BY CONTRACT TYPE & MATURITY FOR THE 7
COMMERCIAL BANKS AND TRUST COMPANIES WITH THE MOST DERIVATIVE CONTRACTS
DECEMBER 31, 2003, \$ MILLIONS
NOTE: DATA ARE PRELIMINARY**

RANK	BANK NAME	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	INT RATE MATURITY < 1 YR		INT RATE MATURITY 1 - 5 YRS		INT RATE MATURITY > 5 YRS		FOREIGN EXCH MATURITY < 1 YR		FOREIGN EXCH MATURITY 1 - 5 YRS		FOREIGN EXCH MATURITY > 5 YRS		FOREIGN EXCH ALL MATURITIES	
					INT RATE MATURITY < 1 YR	INT RATE MATURITY 1 - 5 YRS	INT RATE MATURITY > 5 YRS	INT RATE MATURITY < 1 YR	INT RATE MATURITY 1 - 5 YRS	INT RATE MATURITY > 5 YRS	FOREIGN EXCH MATURITY < 1 YR	FOREIGN EXCH MATURITY 1 - 5 YRS	FOREIGN EXCH MATURITY > 5 YRS	FOREIGN EXCH ALL MATURITIES				
1	JPMORGAN CHASE BANK	NY	628,662	36,228,064	7,540,149	12,040,265	7,581,035	27,161,449	1,478,096	577,021	321,865	1,478,096	577,021	321,865	2,376,982			
2	BANK OF AMERICA NA	NC	617,962	14,730,624	1,620,368	3,401,023	2,549,571	7,570,962	852,768	154,324	99,728	852,768	154,324	99,728	1,106,820			
3	CITIBANK NATIONAL ASSN	NY	582,123	11,001,779	2,641,090	2,884,867	1,864,635	7,390,592	1,462,976	274,918	125,215	1,462,976	274,918	125,215	1,863,109			
4	WACHOVIA BANK NATIONAL ASSN	NC	353,541	2,290,868	627,039	535,385	330,502	1,492,926	27,652	24,427	8,428	27,652	24,427	8,428	60,507			
5	HSBC BANK USA	NY	92,958	1,322,374	248,574	326,620	230,513	805,707	95,688	33,609	13,654	95,688	33,609	13,654	142,951			
6	BANK ONE NATIONAL ASSN	IL	256,787	1,211,671	271,529	461,226	189,465	922,220	94,864	16,204	4,624	94,864	16,204	4,624	115,467			
7	BANK OF NEW YORK	NY	89,238	560,314	50,129	130,160	68,208	248,696	51,837	6,237	521	51,837	6,237	521	58,594			
TOP 7 COMMERCIAL BANKS & TCs WITH DERIVATIVES																		
OTHER 366 COMMERCIAL BANKS & TCs WITH DERIVATIVES					\$2,621,291	\$67,345,693	\$12,998,877	\$19,779,546	\$12,813,929	\$45,592,352	\$1,086,740	\$574,035	\$4,063,880	\$1,086,740	\$574,035	\$5,724,655		
TOTAL AMOUNTS FOR ALL 373 BKs & TCs WITH DERIVATIVES					\$3,531,023	\$32,734,980	\$574,386	\$520,400,099	\$300,136	\$1,494,985	\$327,499	\$4,067,714	\$327,499	\$4,067,714	\$2,982	\$436,195		
					\$6,152,315	\$70,080,673	\$13,573,263	\$20,400,099	\$13,114,063	\$47,087,337	\$1,114,239	\$4,469,594	\$1,114,239	\$4,469,594	\$577,017	\$6,160,850		

Note: Currently, the Call Report does not include maturity breakdowns for credit derivatives. Credit derivatives have been excluded from the sum of total derivatives here.
 Note: Before the first quarter of 1995 total derivatives included spot foreign exchange. Beginning in the first quarter, 1995, spot foreign exchange was reported separately.
 Note: Figures above exclude foreign exchange contracts with an original maturity of 14 days or less, futures contracts, written options, basis swaps, and any contracts not subject to risk-based capital requirements.
 Note: Therefore, the total notional amount of derivatives by maturity will not add to the total derivatives figure in this table.
 Note: Numbers may not add due to rounding.
 Data source: Call Report, schedule RCR

TABLE 9

NOTIONAL AMOUNT OF DERIVATIVES CONTRACTS BY CONTRACT TYPE & MATURITY FOR THE 7
COMMERCIAL BANKS AND TRUST COMPANIES WITH THE MOST DERIVATIVE CONTRACTS
DECEMBER 31, 2003, \$ MILLIONS
NOTE: DATA ARE PRELIMINARY

RANK	BANK NAME	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	GOLD MATURITY			PREC METALS MATURITY			GOLD ALL MATURITIES	PREC METALS ALL MATURITIES			
					<1 YR	1-5 YRS	>5 YRS	<1 YR	1-5 YRS	>5 YRS		<1 YR	1-5 YRS	>5 YRS	
1	JPMORGAN CHASE BANK	NY	628,662	36,228,064	20,292	17,204	3,622	855	27	-	41,118	882	-	-	
2	BANK OF AMERICA NA	NC	617,962	14,730,624	-	-	-	-	-	-	-	-	-	-	
3	CITIBANK NATIONAL ASSN	NY	582,123	11,001,779	6,564	8,653	1,022	-	-	16,239	-	-	-	257	
4	WACHOVIA BANK NATIONAL ASSN	NC	353,541	2,290,868	-	-	-	257	-	-	-	-	-	-	
5	HSBC BANK USA	NY	92,958	1,322,374	13,318	6,017	257	2,649	305	19,592	-	-	-	2,953	
6	BANK ONE NATIONAL ASSN	IL	256,787	1,211,671	-	-	-	-	-	-	-	-	-	-	
7	BANK OF NEW YORK	NY	89,258	560,314	-	-	-	-	-	-	-	-	-	-	
TOP 7 COMMERCIAL BANKS & TCs WITH DERIVATIVES					\$2,621,291	\$67,345,693	\$4,901	\$3,761	\$332	\$0	\$76,949	\$4,092	\$0	\$0	\$110
OTHER 366 COMMERCIAL BANKS & TCs WITH DERIVATIVES					\$3,531,023	\$2,734,980	\$0	\$110	\$0	\$0	\$55	\$110	\$0	\$0	\$0
TOTAL AMOUNTS FOR ALL 373 BKS & TCs WITH DERIVATIVES					\$6,152,315	\$70,080,673	\$40,229	\$31,874	\$4,901	\$3,871	\$77,004	\$332	\$332	\$0	\$4,202

Note: Currently, the Call Report does not include maturity breakdowns for credit derivatives. Credit derivatives have been excluded from the sum of total derivatives here.

Note: Before the first quarter of 1995 total derivatives included spot foreign exchange. Beginning in the first quarter, 1995, spot foreign exchange was reported separately.

Note: Figures above exclude foreign exchange contracts with an original maturity of 14 days or less, futures contracts, written options, basis swaps, and any contracts not subject to risk-based capital requirements.

Note: Therefore, the total notional amount of derivatives by maturity will not add to the total derivatives figure in this table.

Note: Numbers may not add due to rounding.

Data source: Call Report, schedule RC-R

TABLE 10

**NOTIONAL AMOUNT OF DERIVATIVES CONTRACTS BY CONTRACT TYPE & MATURITY FOR THE 7
COMMERCIAL BANKS AND TRUST COMPANIES WITH THE MOST DERIVATIVE CONTRACTS
DECEMBER 31, 2003, \$ MILLIONS
NOTE: DATA ARE PRELIMINARY**

BANK	BANK NAME	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	OTHER COMM Maturity < 1 YR	OTHER COMM Maturity 1-5 YRS	OTHER COMM Maturity > 5 YRS	OTHER COMM ALL MATURITIES	EQUITY Maturity < 1 YR	EQUITY Maturity 1-5 YRS	EQUITY Maturity > 5 YRS	EQUITY ALL MATURITIES
1	JPMORGAN CHASE BANK	NY	628,662	36,228,064	14,255	82,289	13,377	109,921	127,458	514,052	63,667	705,177
2	BANK OF AMERICA NA	NC	617,962	14,730,624	15,984	4,888	97	20,969	17,272	19,465	3,380	40,117
3	CITIBANK NATIONAL ASSN	NY	582,123	11,001,779	2,897	10,571	901	14,369	22,851	83,356	13,379	119,586
4	WACHOVIA BANK NATIONAL ASSN	NC	353,341	2,290,868	-	-	-	-	7,560	9,608	1,535	18,703
5	HSPC BANK USA	NY	92,958	1,322,374	1,583	1,052	24	2,658	1,904	31,286	1,748	34,939
6	BANK ONE NATIONAL ASSN	IL	256,787	1,211,671	2,341	2,081	38	4,460	2,393	2,115	52	4,560
7	BANK OF NEW YORK	NY	89,258	560,314	-	-	-	-	498	934	24	1,455
TOP 7 COMMERCIAL BANKS & TCs WITH DERIVATIVES					\$37,060	\$100,880	\$14,437	\$152,377	\$179,936	\$660,816	\$83,785	\$924,537
OTHER 566 COMMERCIAL BANKS & TCs WITH DERIVATIVES					\$3,531,023	\$1,017	\$0	\$4,439	\$16,895	\$13,562	\$337	\$30,794
TOTAL AMOUNTS FOR ALL 573 BKS & TCs WITH DERIVATIVES					\$6,152,315	\$101,898	\$14,437	\$156,816	\$196,831	\$674,378	\$84,121	\$955,331

Note: Currently, the Call Report does not include maturity breakdowns for credit derivatives. Credit derivatives have been excluded from the sum of total derivatives here.
 Note: Before the first quarter of 1995, total derivatives included spot foreign exchange. Beginning in the first quarter, 1995, spot foreign exchange was reported separately.
 Note: Figures above exclude foreign exchange contracts with an original maturity of 14 days or less, futures contracts, written options, basis swaps, and any contracts not subject to risk-based capital requirements.
 Therefore, the total notional amount of derivatives by maturity will not add to the total derivatives figure in this table.
 Note: Numbers may not add due to rounding.
 Data source: Call Report, schedule RC-R.

