WASHINGTON, D.C. -- Reversing a fourth quarter decline, revenue from trading activities at commercial banks more than doubled to a record $2.7 billion during the first three months of 1998, the Office of the Comptroller of the Currency (OCC) reported today.

"The first quarter recovery primarily reflects efforts to hedge currency and interest rate risks after the volatility in Asia and elsewhere since last fall," said Mike Brosnan, the OCC's Deputy Comptroller for Risk Evaluation. In the fourth quarter of 1997, revenues from trading at these banks fell 52 percent to $1.2 billion.

The notional amount of derivatives activity at commercial banks increased for the ninth consecutive quarter to a record $26 trillion, up $985 billion from year-end 1997 and $4.2 trillion since the beginning of 1997, according to the OCC's quarterly report on bank derivatives activities.

Credit derivatives, which were reported for the first time in March, 1997 at $19 billion, jumped to a notional amount of $91 billion for the first quarter of 1998 -- nearly quintupling during that five-quarter time frame.

"The growth in credit derivatives reflects the increasing interest in and ability of credit risk managers to control their concentration risks," Mr. Brosnan said. Seventeen insured commercial banks reported using credit derivatives during the quarter, an increase of two from the previous quarter.

Swaps products, which surpassed futures and forwards products for the first time during the third quarter of 1997, consolidated their first place position among product types during the last quarter. Swaps accounted for a notional amount of $10.1 trillion, forwards and futures for $9.4 trillion, and options for $6.5 trillion.

Interest rate contracts continued to dominate the derivatives market, growing 7.5 percent in the quarter to a notional amount of $18.4 trillion. The notional amount of foreign exchange contracts fell 4.9 percent from the previous quarter to $7.1 trillion, while equity, commodity and other derivatives increased $35 billion to $529 billion. Approximately 70 percent of the notional amount of derivative positions comprised interest rate contracts with an additional 27 percent made up of foreign exchange contracts. Equity, commodity and other contracts accounted for two percent of the total.

The largest eight commercial banks account for 94 percent of the notional amount of derivatives trading. All together, 451 banks reported engaging in derivatives activities during the first
quarter, a drop of eight banks from the previous quarter.

Revenue from foreign exchange derivatives has shown steady growth over the last five quarters to $1.4 billion in the first quarter. Revenue from interest rate trading has been more volatile over the past five quarters with $1.1 billion generated in the first quarter.

Revenues from equity, commodity and other trading positions, which together lost $625 million industry-wide during the fourth quarter of 1997, posted a gain of $272 million during the first quarter of 1998. Trading revenue averaged eight percent of gross revenue for the top eight banks.

Past due derivative contracts remained at nominal levels. For all banks, the book value of contracts past due 30 days or more aggregated only $2.3 million, or .0007 percent of total credit exposure from derivatives contracts. During the first quarter, banks charged off $157 million in credit losses from off-balance sheet derivatives. This represents an increase of more than 60 percent from the amount charged-off from the previous quarter. Mr. Brosnan said "the recent upturn in derivative related credit losses primarily reflects the maturing nature of this business as dealers have continued to expand market share coupled with the reality that some customers in economically troubled regions are experiencing severe financial difficulties."

A copy of the OCC First Quarter 1998 Derivatives Data Fact Sheet and the accompanying tables and graphs may be obtained by: writing to Comptroller of the Currency, Public Reference Room (Mail Stop 1-5), Washington, DC 20219; calling the OCC Information Fax Line at (202) 479-0141 and requesting document number 79860 under news releases; faxing a request to (202) 874-4448; ordering by phone (202) 874-5043; or visiting the OCC's Public Reference Room at 250 E Street, S.W. in Washington, D.C. (9 a.m. - noon and 1 - 3 p.m., Monday - Friday). The document will be available on the OCC's web page at http://www.occ.treas.gov.

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The OCC charters, regulates and examines approximately 2,600 national banks and 66 federal branches and agencies of foreign banks in the United States, accounting for 58 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.