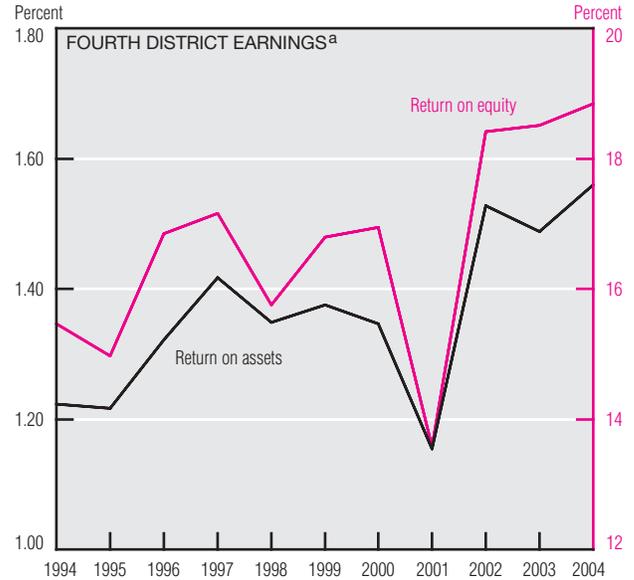
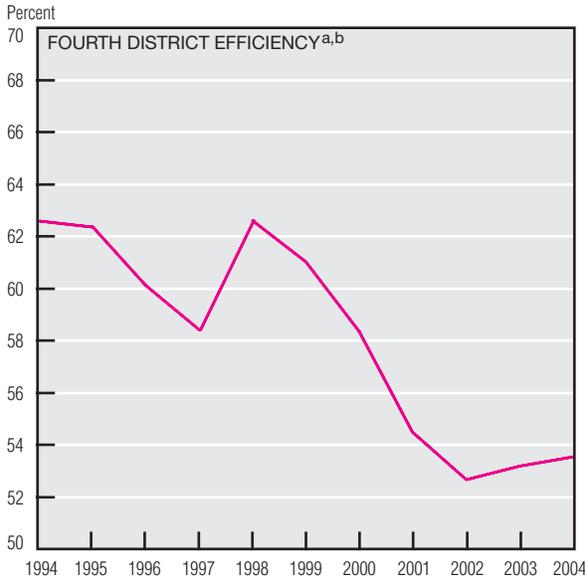
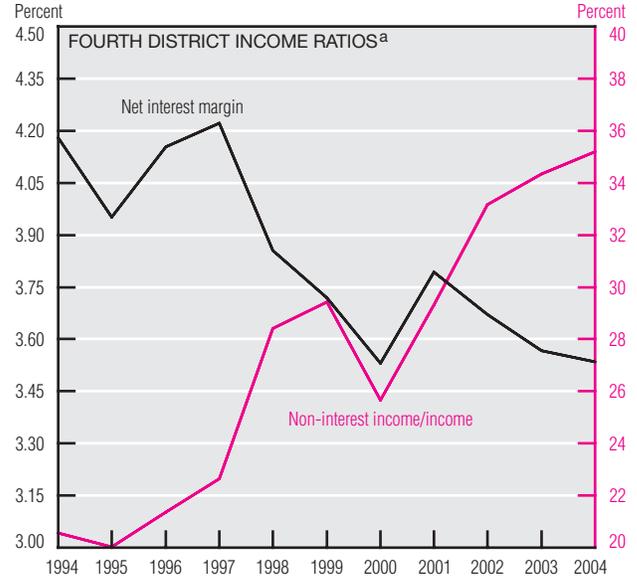
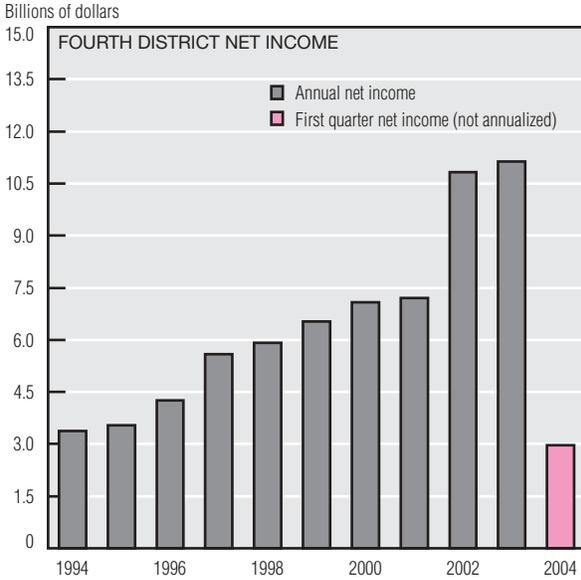


# Fourth District Commercial Banks



a. Through 2004:1Q quarter only. Data for 2004 are annualized.  
 b. Efficiency defined as operating expenses as a percent of net interest income plus non-interest income.  
 SOURCES: Author's calculation from Federal Financial Institutions Examination Council, *Quarterly Bank Reports of Condition and Income*.

FDIC-insured commercial banks headquartered in the Fourth Federal Reserve District continued their strong earnings performance of 2002–03 into 2004:1Q. Net income for the quarter was \$2.97 billion (an annual \$11.9 billion), putting them on pace to exceed their record \$11.1 billion in 2003. Overall, their performance is representative of the U.S. banking industry, which posted its fifth consecutive quarter of record earnings.

Banks' earnings growth has continued despite further shrinkage in the net interest margin, a consequence of low interest rates as the

yield on earning assets has fallen more quickly than the cost of funds. Like their U.S. counterparts, the Fourth District's banks have offset declining lending margins with sharp growth in non-interest income, which made up a record 35.2% of total income for the Fourth District's banks and 36.4% for the nation's during 2004:1Q.

Another reason for stellar earnings performance in the past few years has been improved efficiency, measured as operating expenses as a percent of net interest income plus noninterest income. (Lower numbers correspond

to greater efficiency.) Although Fourth District banks' 53.5% efficiency ratio at the end of the first quarter reflects a slight deterioration from 52.6% the end of 2002, this ratio remains well below its recent peak of 62.6% in 1998.

Fourth District banks' return on assets increased to 1.56% in 2004:1Q because income growth exceeded assets growth. Return on equity also rose, reaching 18.8% for the quarter. This compares favorably to U.S. banks' profits performance for the quarter and to the Fourth District's own showing in recent years.