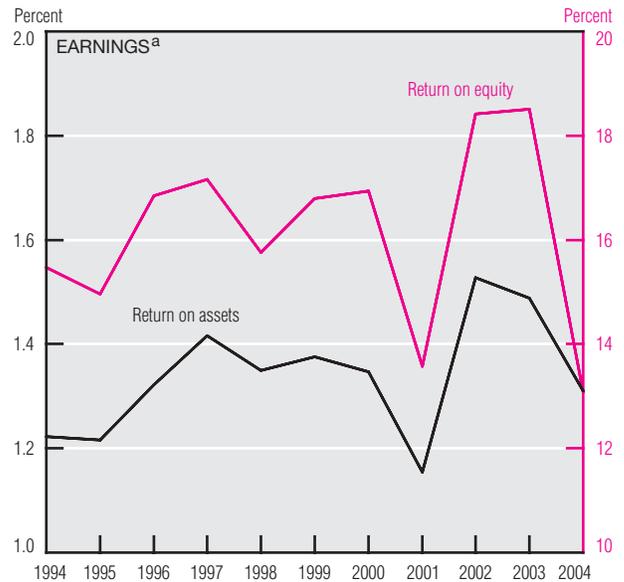
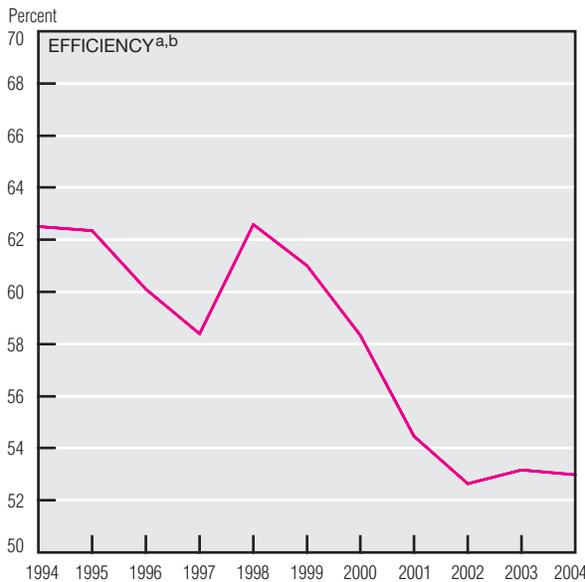
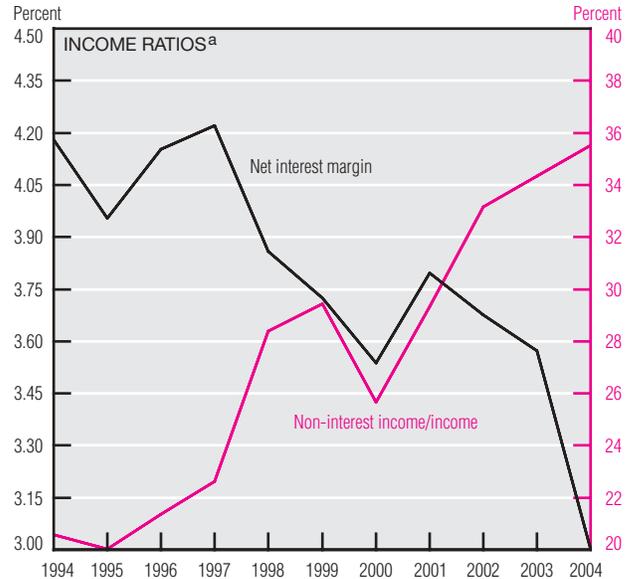
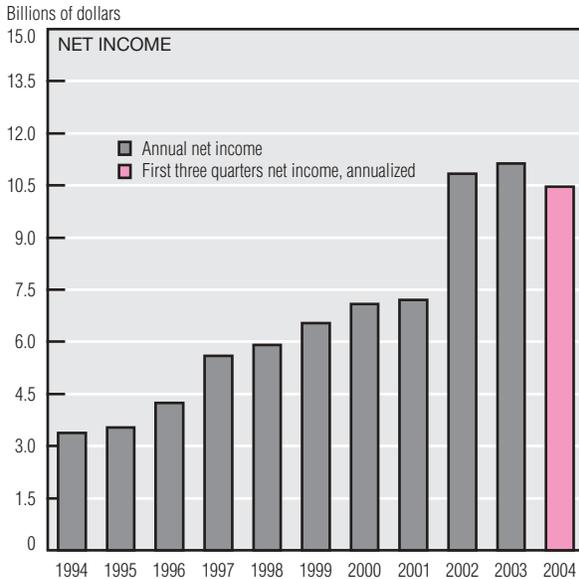


Fourth District Banking



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

FDIC-insured commercial banks headquartered in the Fourth Federal Reserve District posted net income of \$7.85 billion for the first three quarters of 2004 (\$10.46 billion on an annual basis). This suggests that the District is likely to maintain the fast pace of earnings growth set in the first two quarters and that 2004 earnings are apt to match the strong performance of the previous two years. The U.S. banking industry as a whole posted earnings of \$88.67 billion for the same period (\$118.22 on an annual basis), which will probably take the actual 2004 earnings above the \$111.76 billion in 2003.

Fourth District banks' net interest margin at the end of the third quarter

reached a record low of 2.99%, not much less than the 3.09% U.S. average. By the end of 2004:IIIQ, Fourth District banks had offset smaller margins with strong growth in non-interest income, which made up 35.52% of total income, only 24 basis points down from the record high of 35.76% at the end of 2004:IIQ. This resembled the performance of banks nationwide, whose comparable figure was 35.38%, slightly below the 36.47% posted in the previous quarter.

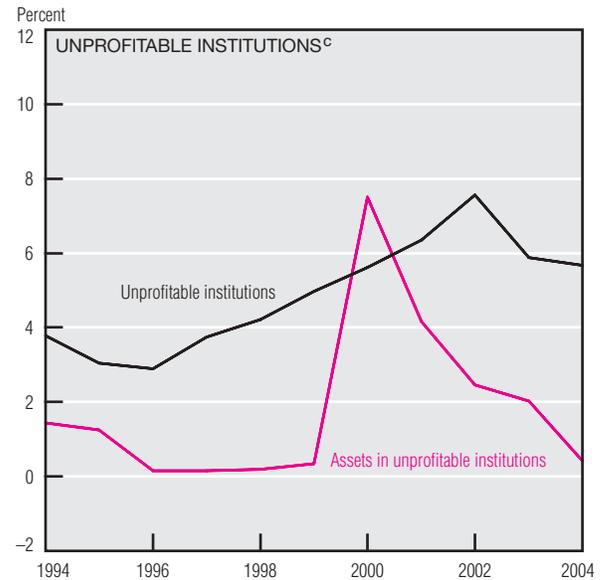
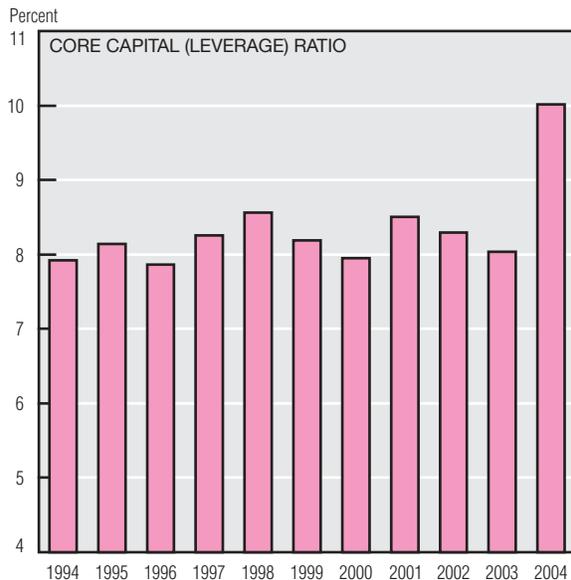
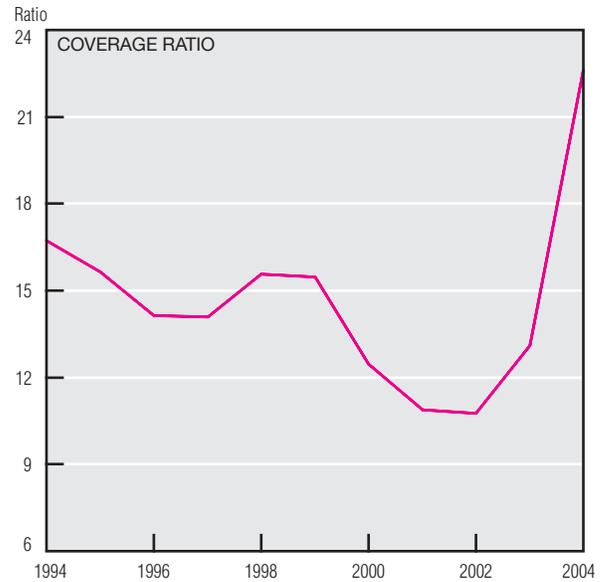
Efficiency (operating expenses as a percent of net interest income plus noninterest income) remained flat for Fourth District banks in 2004:IIIQ, reaching 52.97%, only slightly more

than the record low of 52.64% in 2002. (Lower numbers correspond to greater efficiency.) Nationwide, efficiency improved somewhat, reaching 56.28%, which was better than 2002 and 2003.

District banks posted a return on assets of 1.31% for the first three quarters of 2004, down from 1.49% at the end of 2003. Return on equity fell sharply, reaching 13.08% for the first three quarters of 2004 (versus 18.51% at the end of 2003) because the capital position of a few large banks increased significantly. Three-quarter profit performance for District

(continued on next page)

Fourth District Banking (cont.)



NOTE: All 2004 data are for the first three quarters.

a. Problem assets are shown as a percent of total assets, net charge-offs as a percent of total loans.

b. For net charge-offs, the 2004 observation is annualized on the basis of the first three quarters.

c. An institution is considered to be unprofitable if its return on assets is negative.

SOURCES: Author's calculations from Federal Financial Institutions Examination Council, *Quarterly Bank Reports on Condition and Income*.

banks compares favorably to recent years and exceeds the corresponding performance of the U.S. banking industry, which posted a 1.14% return on assets and a 12.26% return on equity.

Overall, Fourth District banks' financial indicators point to strengthening balance sheets. Asset quality continued to improve in the first three quarters of 2004. Net charge-offs (losses realized on loans and leases currently in default minus recoveries on previously charged-off loans and leases) for those months represented an annualized 0.43% of total loans.

Problem assets (nonperforming loans and repossessed real estate) as a share of loans and leases fell to 0.54% from 0.77% at the end of 2003. District banks' improvement in asset quality mirrored that of the overall banking industry, in which net charge-offs and nonperforming loans were 0.52% of loans and nonperforming loans were 0.57% of assets.

Reflecting the industrywide trend toward stronger balance sheets, Fourth District banks held \$22.61 in equity capital and loan-loss reserves for every dollar of problem loans, well above the recent coverage ratio

low of 10.75 at the end of 2002. This improvement resulted largely from a marked reduction in problem loans and a significant strengthening of bank capital. Equity capital as a percent of Fourth District banks' assets (the leverage ratio) rose from 8.04% at the end of 2003 to 10.01% by the end of 2004:IIIQ.

Improved asset quality was also reflected in the percent of unprofitable banks, which fell to 5.68% from nearly 5.88% at the end of 2003. Unprofitable banks' average size also declined, with assets dropping from 2.02% of District banks' assets in 2003 to 0.42%.