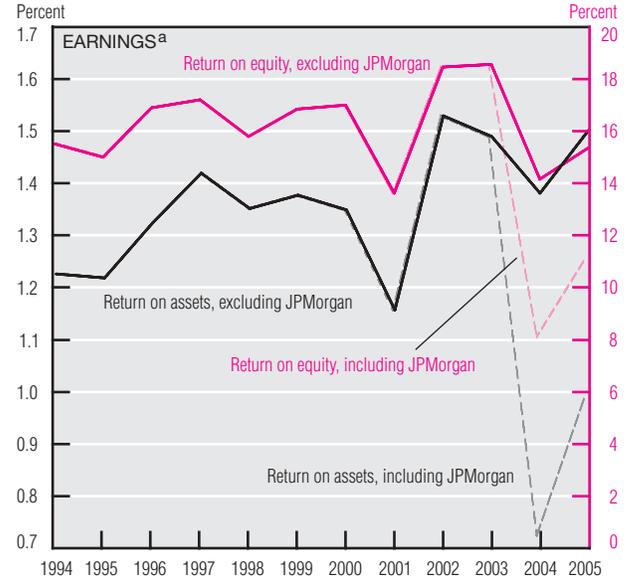
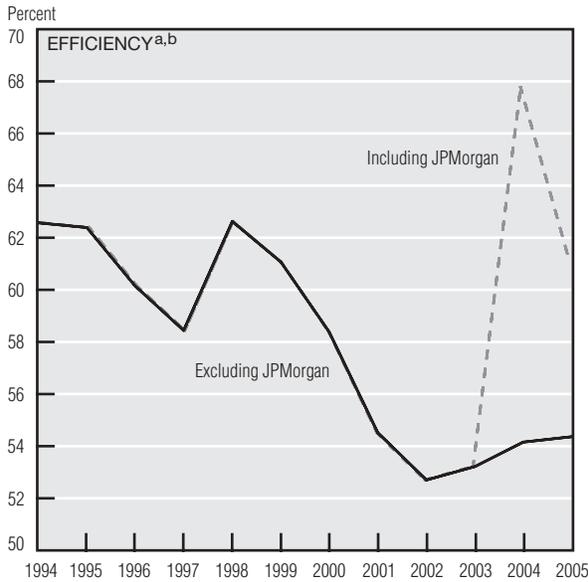
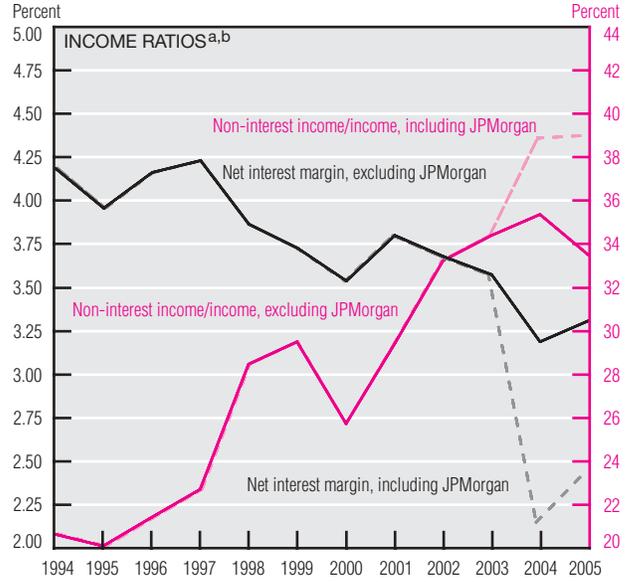
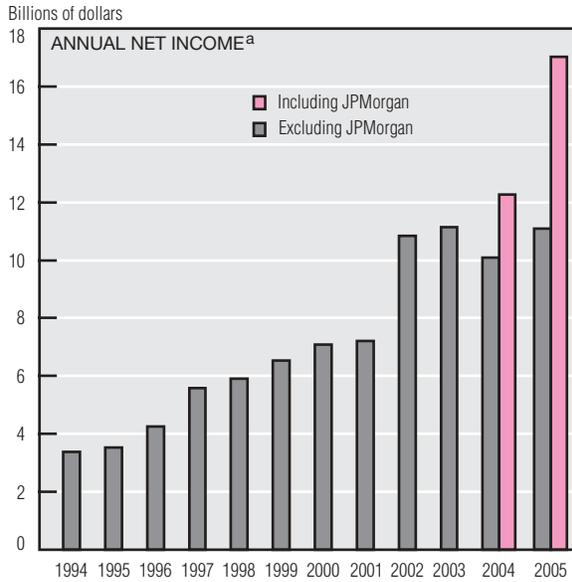


# Fourth District Banks



a. Through 2005:1Q only. Data for 2005 are annualized.  
 b. Efficiency is 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 posted net income of \$2.77 billion for the first quarter of 2005 or \$11.08 billion on an annual basis. (JPMorgan Chase, chartered in Columbus, is not included in this discussion because its assets are mostly outside the District and its size—roughly \$1 trillion—dwarfs other District institutions.) The U.S. banking industry as a whole posted earnings of \$33.60 billion for the same period or \$134.40 billion on an annual basis.

Fourth District banks' net interest margin (interest income minus interest

expense divided by average earning assets) at the end of 2005:1Q rose slightly to 3.30%, exceeding the 3.18% U.S. average. Non-interest income, however, fell to 33.44% of total income, the first such decline in five years. This resembled the performance of U.S. banks, whose net interest margin was up from the end of 2004 and whose non-interest income fell to 34.13% of total income.

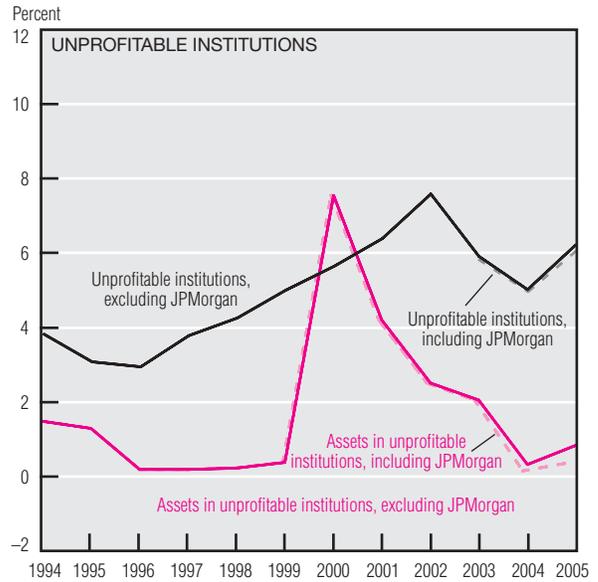
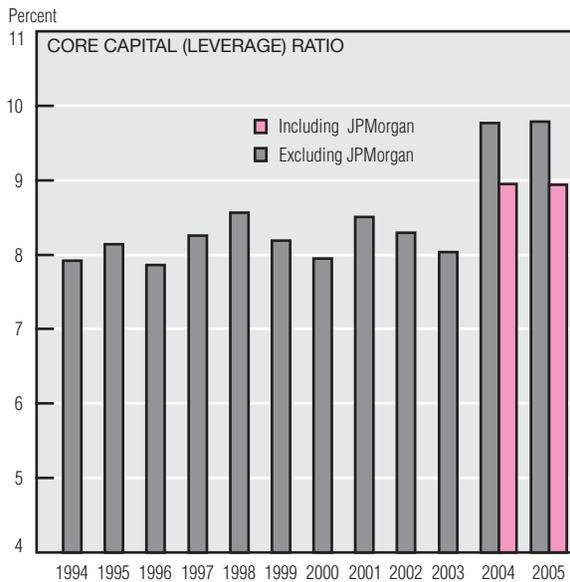
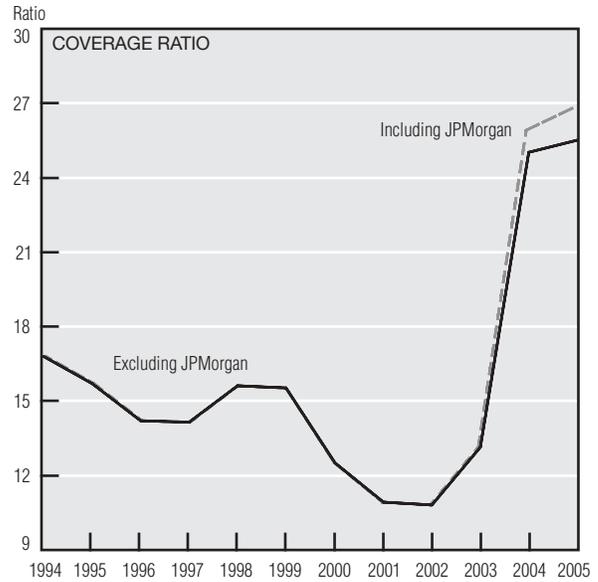
Fourth District banks' efficiency (operating expenses as a percent of net interest income plus non-interest income) had deteriorated to 54.32% by the end of 2005:1Q from the

52.64% record set in 2002. (Lower numbers correspond to greater efficiency.) Nationwide, efficiency improved slightly from the end of 2004:1VQ, dropping to 55.38%.

At the end of 2005:1Q, District banks posted a 1.50% return on assets (up from 1.38% at the end of 2004) and a 15.31% return on equity (up from 14.12% at the end of 2004). The District's performance was in line with the nationwide trend: At the end of 2005:1Q, the U.S. banking industry reported that return on assets rose to 1.24% (from 1.12% at the end of 2004);

(continued on next page)

# Fourth District Banks (cont.)



a. Problem assets are shown as a percent of total assets, net charge-offs as a percent of total loans.  
 SOURCES: Author's calculations from Federal Financial Institutions Examination Council, *Quarterly Bank Reports on Condition and Income*.

return on equity rose to 12.98% (from 11.56% at the end of 2004).

Overall, Fourth District banks' financial indicators point to stable balance sheets. Asset quality continued to improve in 2005:1Q. Net charge-offs (losses realized on loans and leases currently in default minus recoveries on previously charged-off loans and leases) represented 0.38% of total loans. Problem assets (nonperforming loans and repossessed real estate) as a share of total assets fell slightly to 0.47% from 0.48% at the end of 2004. District banks' improved asset quality mirrored that of the U.S.

banking industry, where net charge-offs and nonperforming loans were 0.46% of loans (down from 0.53% at the end of 2004) and nonperforming loans were 0.48% of assets (down from 0.52% at the end of 2004).

Reflecting the industrywide trend toward stronger balance sheets, Fourth District banks held \$25.46 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 from a marked reduction in problem loans as well as a significant strengthening of bank capital. Equity capital as a percent of

District banks' assets (the leverage ratio) rose from 9.76% at the end of 2004 to 9.79% at the end of 2005:1Q.

The first quarter showed an uptick in the percent of unprofitable institutions to 6.18% from 4.97% at the end of 2004. Unprofitable banks' asset size also increased from 0.27% of District banks' assets to 0.80%. Industrywide, the percent of unprofitable institutions fell to 5.43% from 6.07% at the end of 2004. Unprofitable banks' asset size for the U.S., however, increased slightly to 0.65% from 0.62% at the end of 2004.