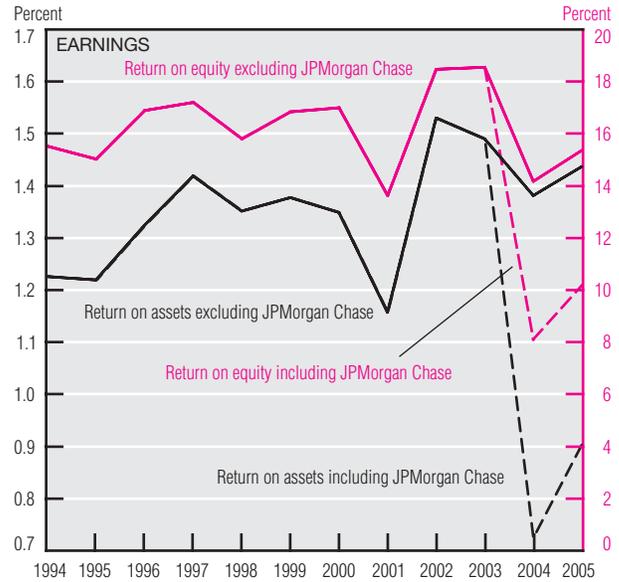
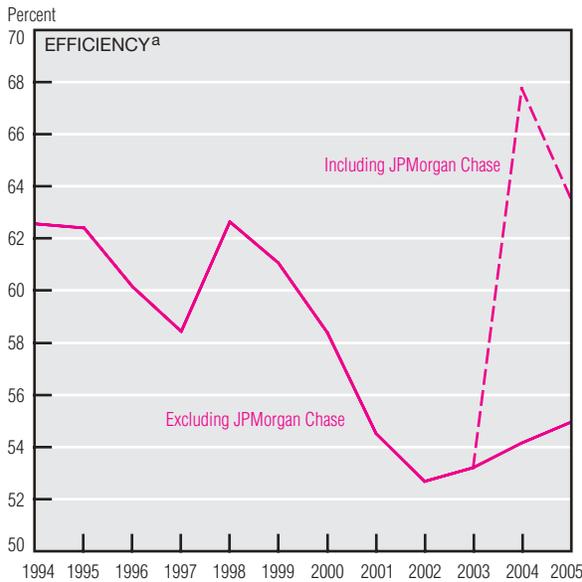
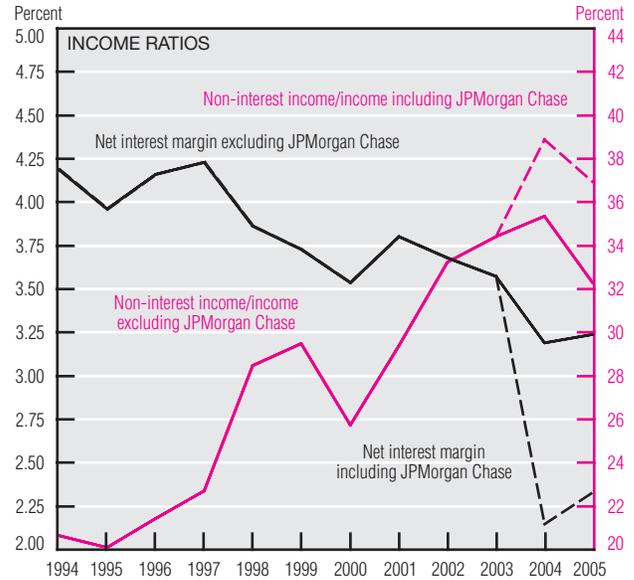
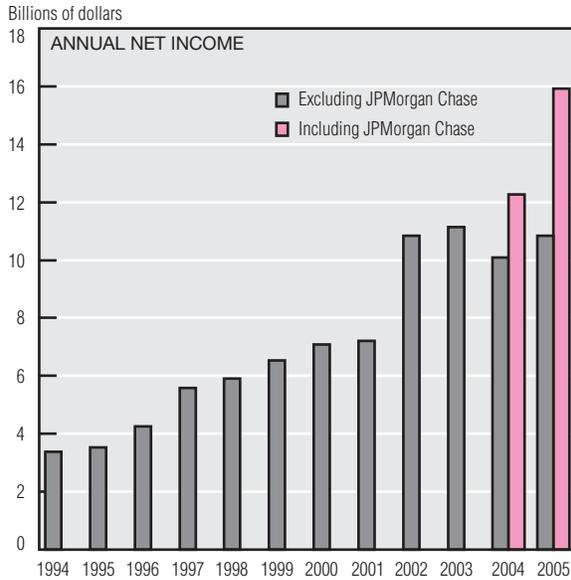


# Commercial Banks



a. Efficiency is operating expenses as a percent of net interest income plus non-interest income.  
 SOURCE: 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 \$10.84 billion in 2005, a 7.3% increase from 2004. (JPMorgan Chase, chartered in Columbus in 2004, is not included in this discussion because its assets are mostly outside the District and its size—roughly \$1 trillion—dwarfs other District institutions.) For the same period, the U.S. banking industry as a whole posted earnings of \$125.57 billion, 6.1% more than in 2004.

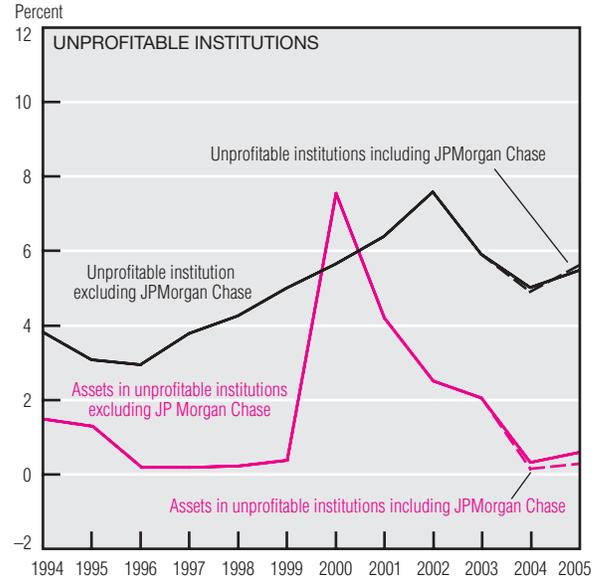
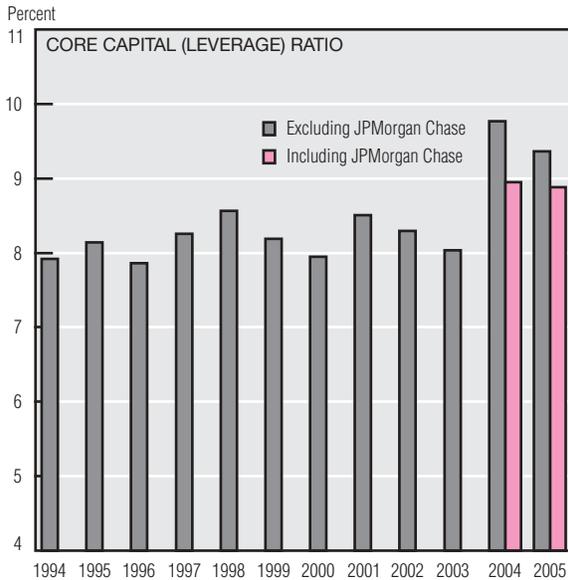
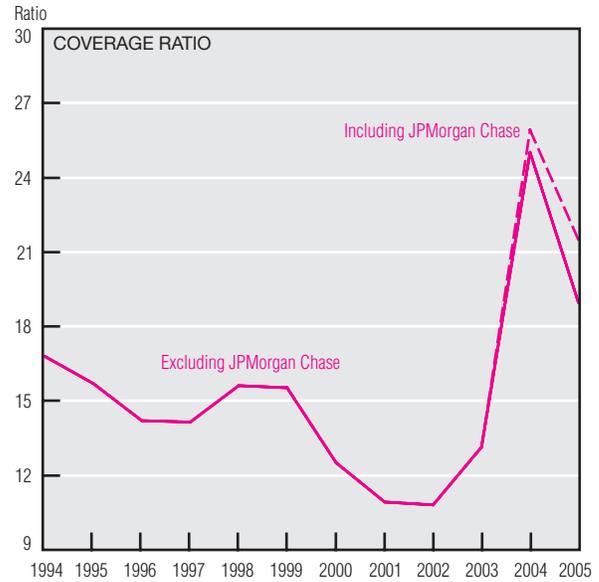
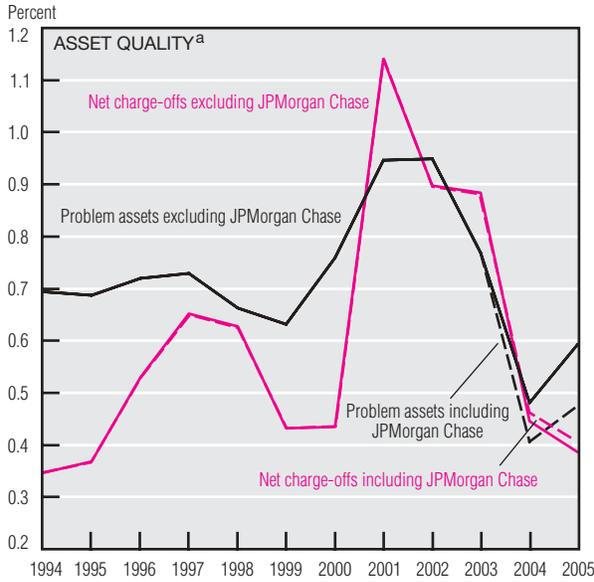
At the end of 2005, Fourth District banks' net interest margin (a measure of core profitability computed as interest income minus interest expense divided by average earning assets) had risen slightly to 3.23%, exceeding the 3.03% U.S. average. Non-interest income, however, fell to 32.21% of total income, the first such decline in five years. Nationwide, net interest margin was slightly down from the end of 2004, and non-interest income dropped to 31.99% of total income.

By the end of 2005, Fourth District banks' efficiency (operating expenses as a percent of net interest income plus non-interest income) had deteriorated to 54.88% from the 52.64% record set in 2002. (Lower numbers correspond to greater efficiency.) Nationwide, efficiency improved slightly, declining to 56.40% from 56.62% at the end of 2004.

At the end of 2005, District banks posted a 1.43% return on assets (up from 1.38% at the end of 2004) and a 15.32% return on equity (up from

(continued on next page)

# Commercial Banks (cont.)



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

14.12% at the end of 2004). The District's performance was better than the nation's: At the end of 2005, the U.S. banking industry's return on assets declined to 1.08% (from 1.12% at the end of 2004) while return on equity was nearly unchanged at 11.55% (from 11.56% at the end of 2004).

Fourth District banks' overall financial indicators point to fairly strong balance sheets in 2005. 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 (down from 0.44% at the end of 2004), much better than the national average of 0.46% (down from 0.53%). But problem assets (nonperforming loans and repossessed real estate) as a share of total assets increased to 0.59% from 0.48% at the end of 2004, worse than the national average of 0.45% of assets (down from 0.52%).

Fourth District banks held \$18.89 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, but below the record high of 24.97 at the end

of 2004. Equity capital as a share of Fourth District banks' assets (the leverage ratio) fell to 9.36% from the record high of 9.76% at the end of 2004.

The share of unprofitable banks in the Fourth District rose from 4.97% at the end of 2004 to 5.43% at the end of 2005. The average size of such banks also increased, from 0.27% of District banks' assets to 0.56%. Industrywide, the share of unprofitable banks grew from 6.07% at the end of 2004 to 6.28%. Their asset size increased from 0.62% at the end of 2004 to 1.13% at the end of 2005.