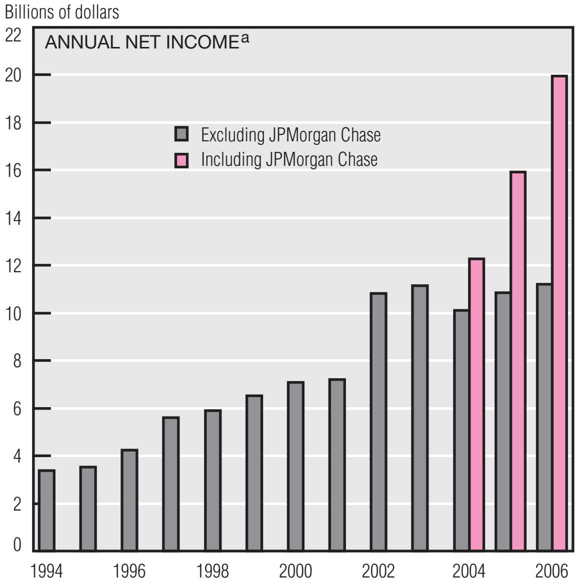
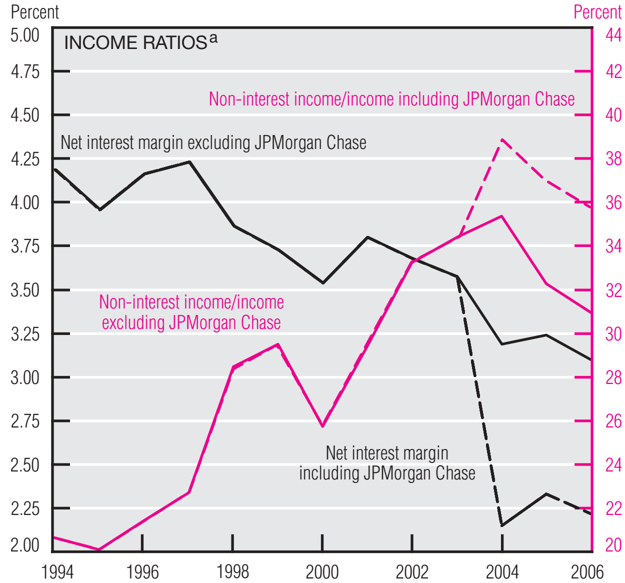
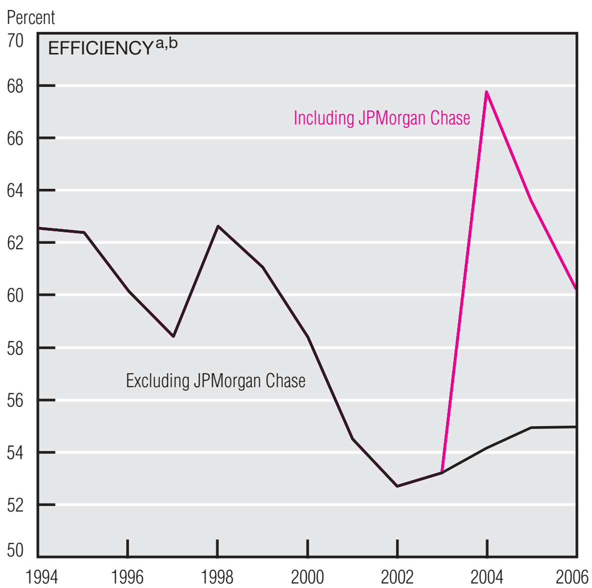
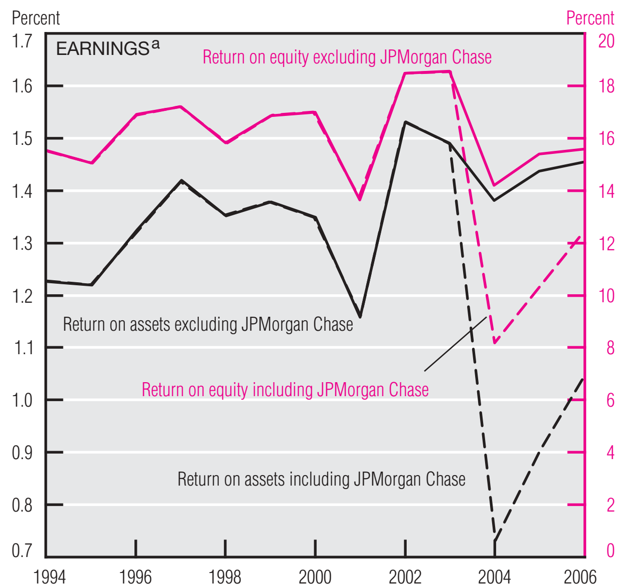
Fourth District Commercial Banks









a. Through 2006:IIQ only. Data for 2006 are annualized.
b. Efficiency is operating expenses computed 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 $5.6 billion for the first two quarters of 2006, or $11.21 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 $75.46 billion for the same period, or $150.92 billion on an annual basis.

Fourth District banks' net interest margin (core profitability computed as interest income minus interest expense divided by average earning assets) at the end of 2006:IIQ fell slightly to 3.09% of total income, but still exceeded the 2.98% U.S. average. Fourth District banks' non-interest income edged up to 30.88%, while the national average slipped to 31.14% of total income.

Fourth District banks' efficiency (operating expenses as a percent of total income) stabilized near 54.92% by the end of 2006:IIQ, after deteriorating from the record of 52.64% set in 2002. (Lower numbers correspond to greater efficiency.) Banks outside the Fourth District fared better, as the national average continued to improve to 54.47% at mid-2006 from 56.40% at the end of 2005.

At the end of 2006:IIQ, District banks posted a 1.45% return on assets (up from 1.43% at the end of 2005) and a 15.52% return on equity (up from 15.32% at the end of 2005). The District's performance was in line with the nationwide trend: At the end of 2006:IIQ, the U.S. banking industry reported that return on assets rose to 1.21% (from 1.08% at the end of 2005); return on equity rose to 13.06% (from 11.55% at the end of 2005).

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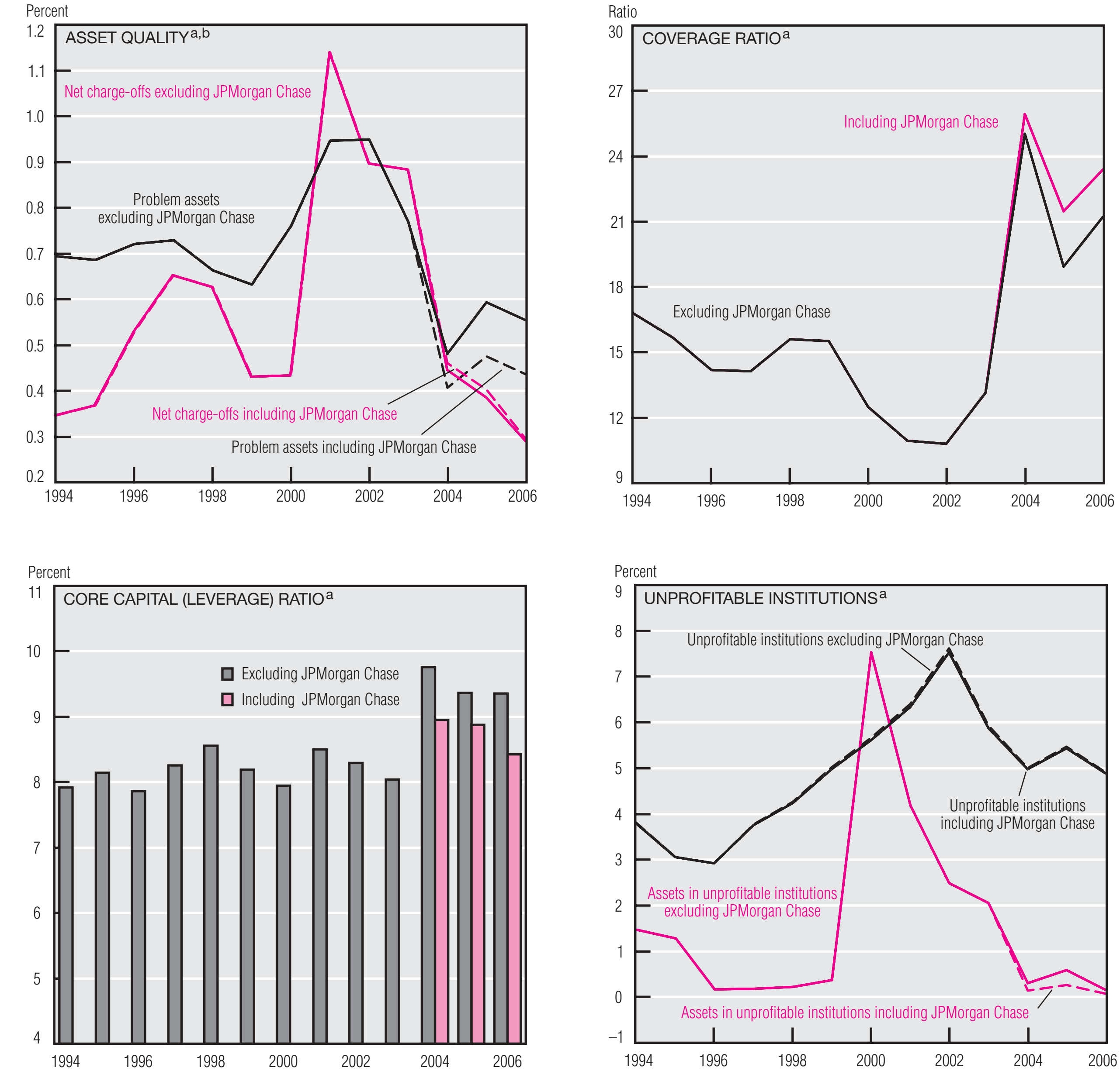
Fourth District Commercial Banks *(cont.)*



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 Counsel, *Quarterly Bank Reports on Condition and Income*.

Overall, Fourth District banks' financial indicators point to stable balance sheets. Asset quality continued to improve in 2006:IIQ. Net charge-offs (losses realized on loans and leases currently in default minus recoveries on previously charged-off loans and leases) dropped to 0.29% of total loans (from 0.38% at the end of 2005), the lowest level in more than a decade. Problem assets (nonperforming loans and repossessed real estate) as a share of total assets also fell, reaching 0.55%, from 0.59% at the end of 2005. District Banks' asset quality was in line with that of the U.S. banking industry, where net charge-offs and nonperforming loans fell to a historically low 0.30% of loans (down from 0.46% at the end of 2005), and nonperforming loans were 0.41% of assets (down from 0.45% at the end of 2005).

Fourth District banks held $21.17 in equity capital and loan loss reserves for every dollar of problem loans, far above the recent coverage-ratio low of 10.75 at the end of 2002 but below the record high of 25.46 at the end of 2004. Equity capital as a percent of these banks' assets (the leverage ratio) fell slightly to 9.35% from 9.36% at the end of 2005.

The share of unprofitable institutions in the Fourth District fell to 4.87% for the first half of 2006 from 5.43% at the end of 2005. Unprofitable banks' asset size also dropped because the share of District banks' assets accounted for by unprofitable banks fell from 0.56% to 0.12%. Industrywide, the proportion of unprofitable institutions rose from 6.28% at the end of 2005 to 6.63% by mid-2006. However, their asset size fell from 1.13% at the end of 2005 to 0.59% at the end of 2006:IIQ.