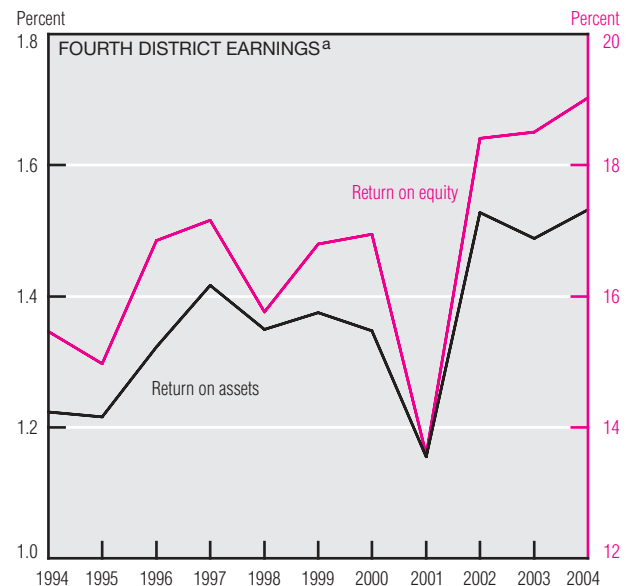
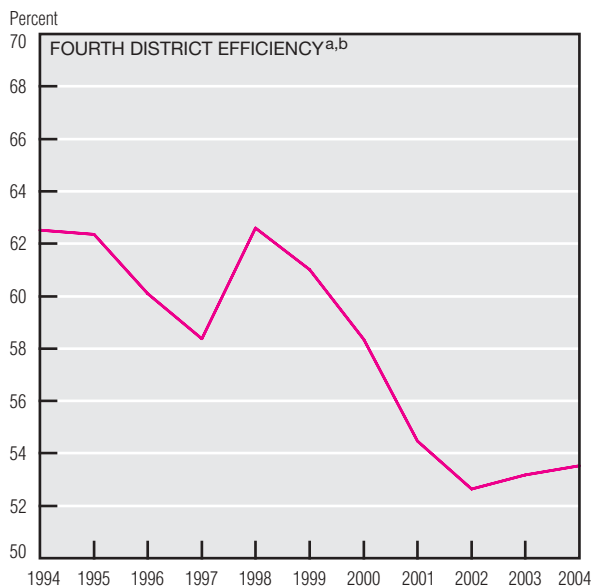
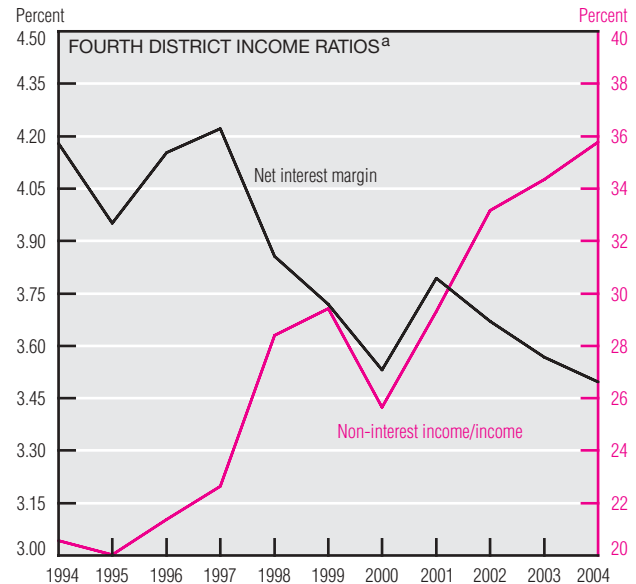
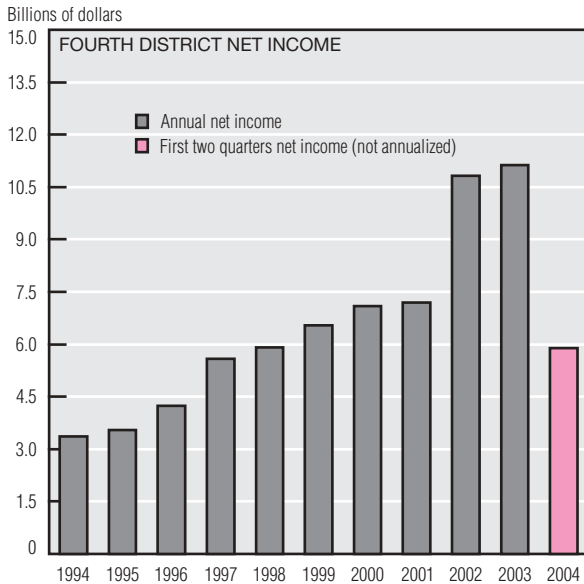


Fourth District Commercial Banks



a. Through 2004:IIQ only. Data for 2004 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 continued the past two years' strong earnings performance into the first half of 2004. Their net income was \$5.88 billion for these six months (\$11.76 billion on an annual basis); this set a pace that, if maintained, will break the record of \$11.1 billion in 2003. Overall, Fourth District bank performance was representative of the U.S. banking industry, which posted unprecedented earnings in the first half of 2004.

Bank earnings remained strong—despite continued shrinkage in the

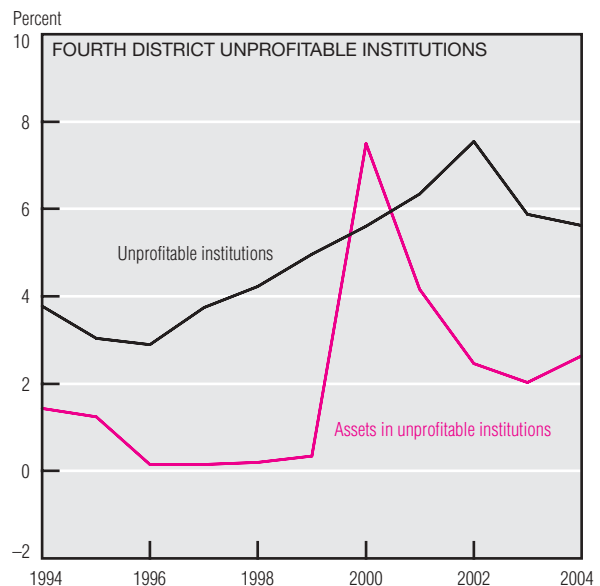
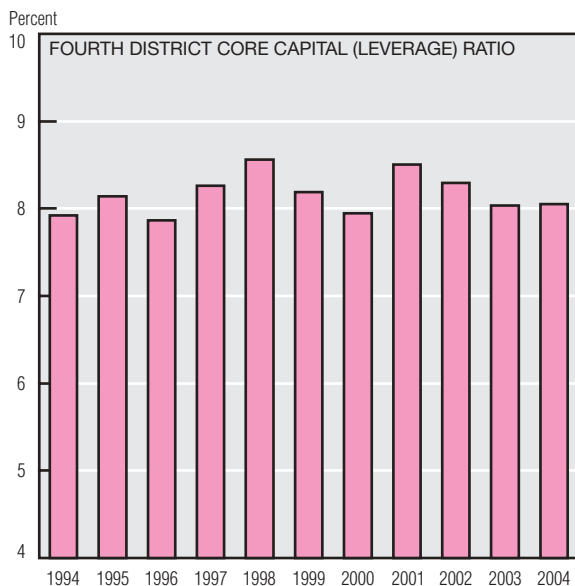
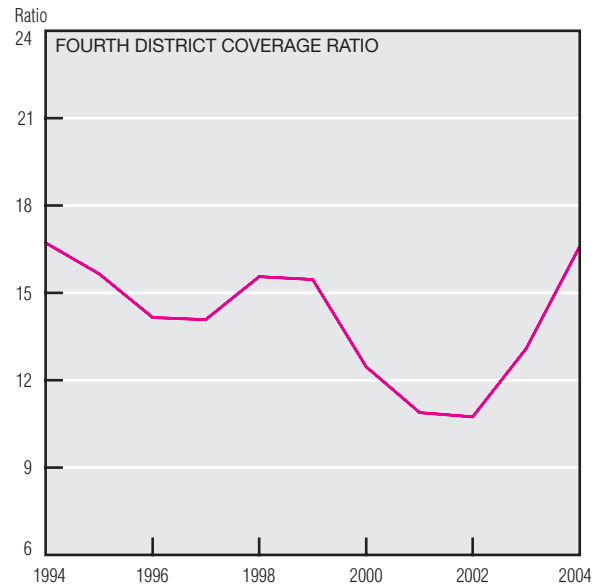
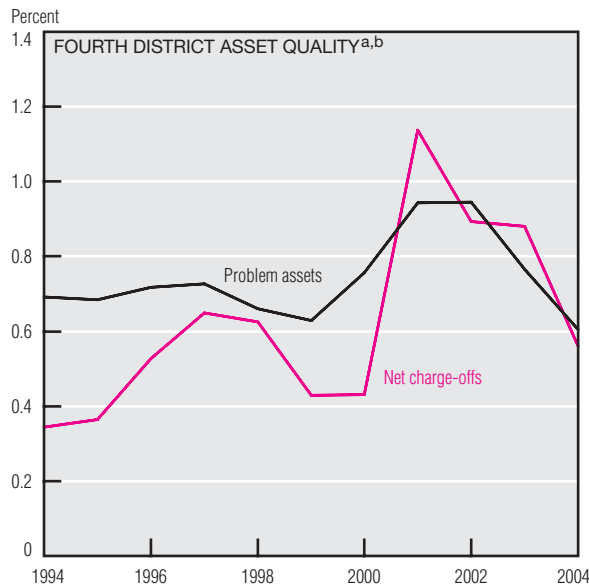
net interest margin caused by low interest rates—because the yield on earning assets fell more quickly than the cost of funds. By the end of 2004:IIQ, Fourth District banks offset smaller margins with sharp growth in non-interest income, which made up a record 35.76% of total income. This performance was similar to that of their counterparts nationwide, whose comparable figure was 36.47%.

Improved efficiency was another factor in banks' stellar earnings performance in the past few years. Efficiency is measured by operating expenses as a percent of net interest income plus

non-interest income, so lower numbers correspond to greater efficiency. Although Fourth District banks' 53.6% efficiency ratio at the end of 2004:IIQ did not quite equal their 52.6% at the end of 2002, this ratio (which is inversely related to efficiency) remained well below its recent high of 62.6% in 1998.

District banks posted a return on assets of 1.53% for the first half of 2004, up slightly from 1.49% at the end of 2003; return on equity also rose, reaching 19.0%. This compared favorably with their own first-half
(continued on next page)

Fourth District Commercial Banks (cont.)



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

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

profit performance in recent years and with the nation's 1.19% return on assets and 13.72% return on equity.

Overall, financial indicators for banks in the Fourth Federal Reserve District point to strengthening balance sheets. Asset quality showed continued signs of improvement during the first half of 2004. Net charge-offs (losses realized on loans and leases currently in default minus recoveries on previously charged-off loans and leases) for the first six months of the year represented an annualized 0.56% of total loans. Problem assets (nonperforming loans and

repossessed real estate) as a share of loans and leases fell to 0.61% from 0.77% at the end of 2003. Fourth District Banks' improvement in asset quality mirrored that of the overall banking industry, in which net charge-offs were 0.58% of loans and nonperforming loans were 0.59% of assets.

Reflecting an industrywide trend toward stronger balance sheets, Fourth District banks held \$16.61 in equity capital and loan loss reserves for every dollar of problem loans, well above the recent low in the coverage ratio of 10.75 at the end of 2002. This improvement resulted largely from a

marked reduction in problem loans and a slight strengthening of bank capital. Equity capital as a percent of Fourth District banks' assets rose somewhat, moving from 8.04% at the end of 2003 to nearly 8.05% by the end of 2004:IIQ.

Improved asset quality was also reflected in the percent of unprofitable institutions, which fell to 5.61% from nearly 5.88% at the end of 2003. However, the average size of unprofitable banks increased in 2004 as assets in unprofitable institutions increased slightly from 2.02% to 2.63% of Fourth District banks' assets.