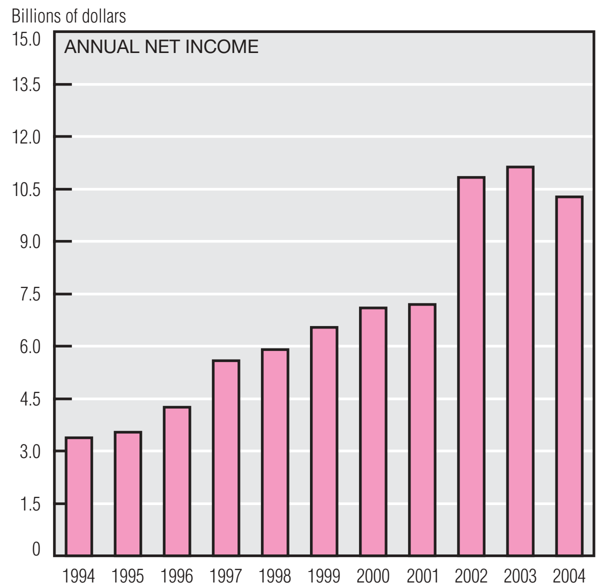
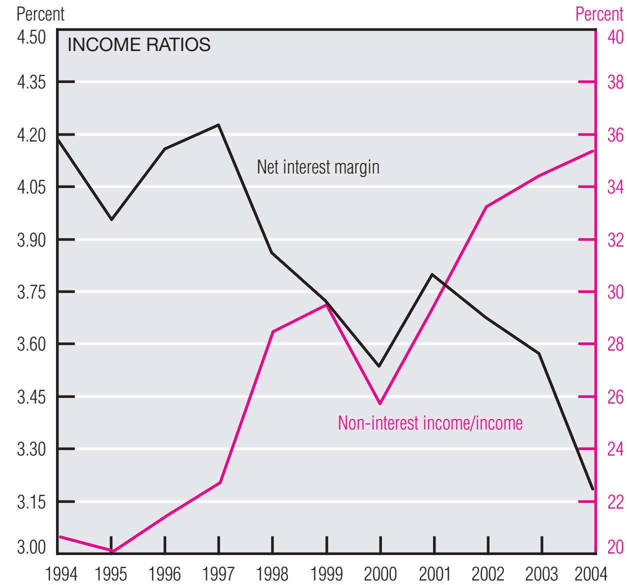
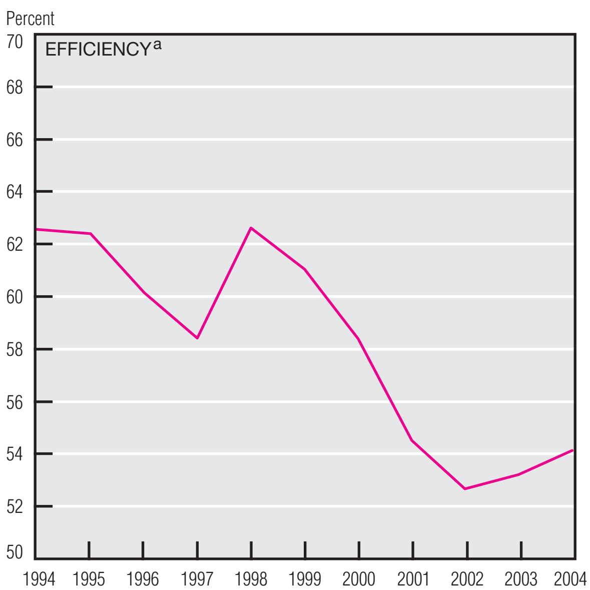
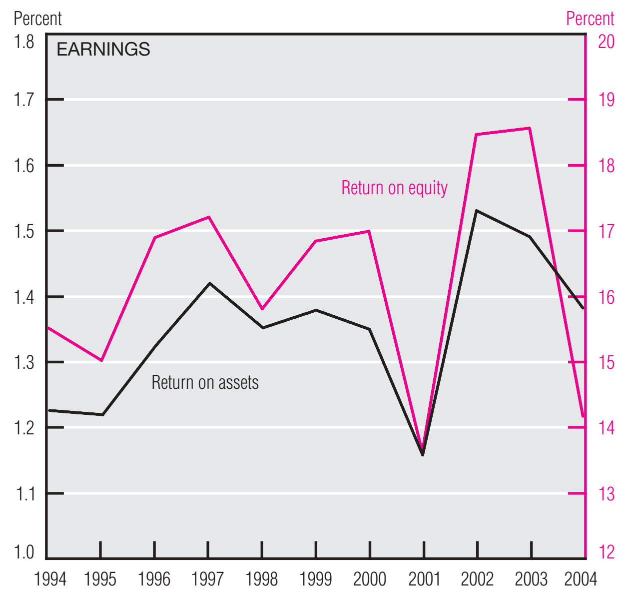
Fourth District Banks









NOTE: Fourth District data do not include the JPMorgan Chase & Co. bank charter.
a. Efficiency is defined as 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 $10.1 billion in 2004, a 9% decline from 2003. The U.S. banking industry as a whole posted earnings of $118.38 billion for the same period, nearly 6% more than in 2003.

Fourth District banks' net interest margin at the end of 2004 dropped to a record low of 3.18%, which was higher than the 3.05% U.S. average. However, strong growth in noninterest income offset smaller margins and reached 35.30% of total income. This performance resembled that of banks nationwide, whose comparable figure was 35.26% (only slightly below a record high 35.61% in 2003).

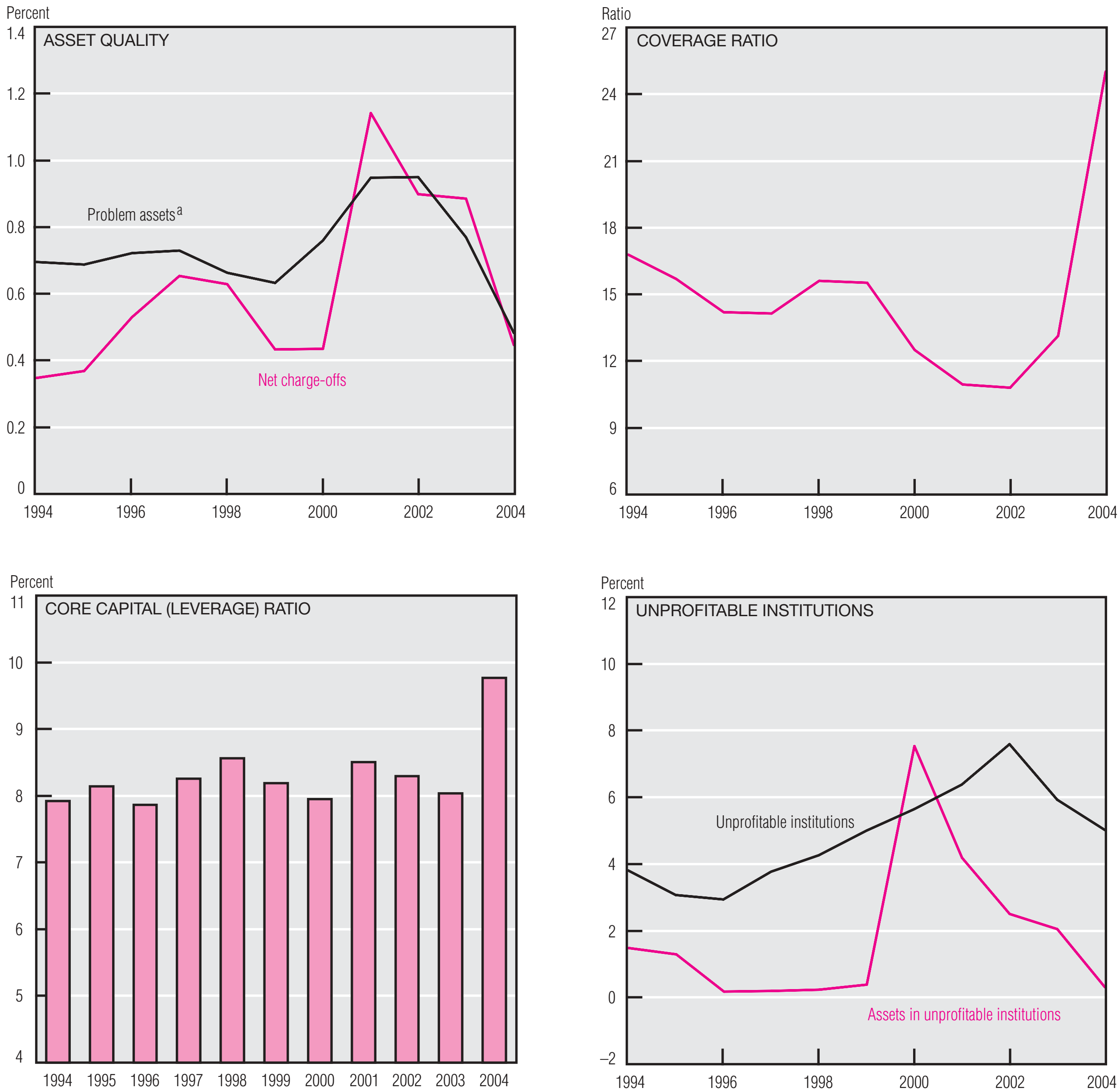
Fourth District banks' efficiency (operating expenses as a percent of net interest income plus noninterest income) deteriorated by the end of 2004 to 54.10%, above the record low of 52.64% in 2002. (Lower numbers correspond to greater efficiency.) Efficiency worsened nationwide too, reaching 56.62%, worse than the record low of 55.08% in 2002.

District banks posted a 1.38% return on assets at the end of 2004, down from 1.49% a year earlier. Return on equity fell sharply, reaching 14.12% at the end of 2004 (versus 18.51% at the end of 2003) because a few large banks increased their capital positions significantly. Abstracting from this, Fourth District banks performed well in 2004 compared both to recent years and to the U.S. banking industry, which reported a 1.12% return on assets and an 11.56% return on equity.

Overall, Fourth District banks' financial indicators point to strengthening balance sheets. Asset quality continued to improve in 2004. Net

(continued on next page)

Fourth District Banks *(cont.)*



NOTE: Fourth District data do not include the JPMorgan Chase & Co. bank charter.
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*.

charge-offs (losses realized on loans and leases currently in default minus recoveries on previously charged-off loans and leases) represented 0.44% of total loans. Problem assets (nonperforming loans and repossessed real estate) as a share of total assets fell to 0.48% from 0.77% at the end of 2003. District Banks' improved asset quality mirrored that of the U.S. banking industry, where net charge-offs and nonperforming loans were 0.53% of loans (down from 0.76% in 2003) and nonperforming loans were 0.52% of assets (down from 0.74% in 2003).

Following the industrywide trend toward stronger balance sheets, Fourth District banks held $24.97 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 the 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 9.76% at the end of 2004.

Improved asset quality was also reflected in the percent of unprofitable institutions, which fell to 4.97% 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 to 0.27%. Industrywide, the percent of unprofitable institutions remained flat at 6.07%. Unprofitable banks' average size stayed nearly flat (0.62% at the end of 2004 compared to 0.59% a year earlier).