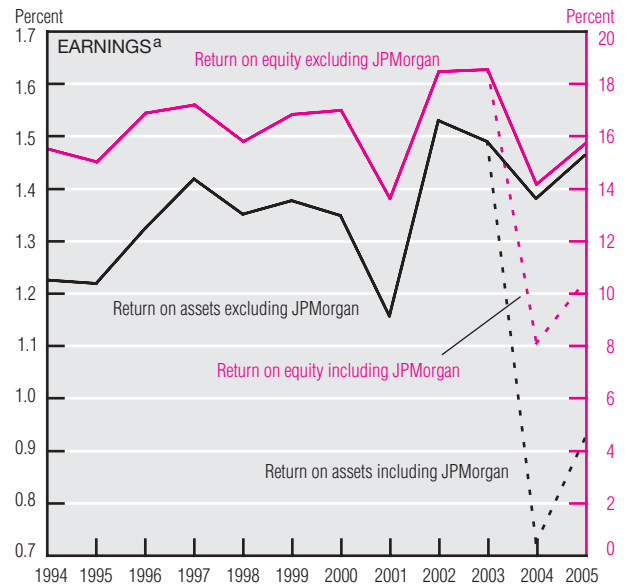
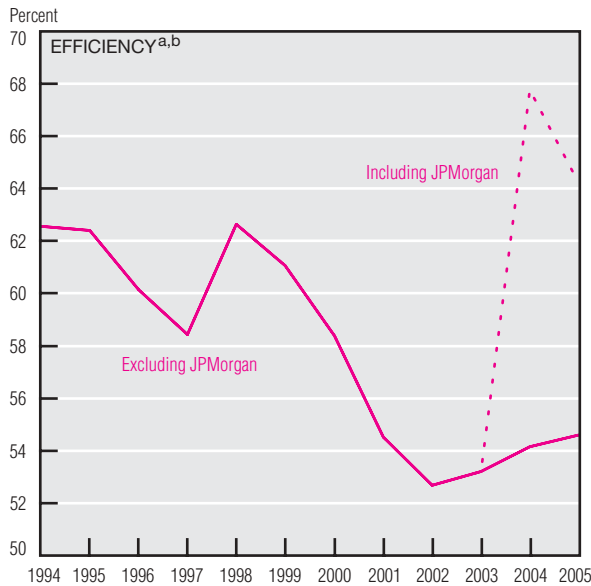
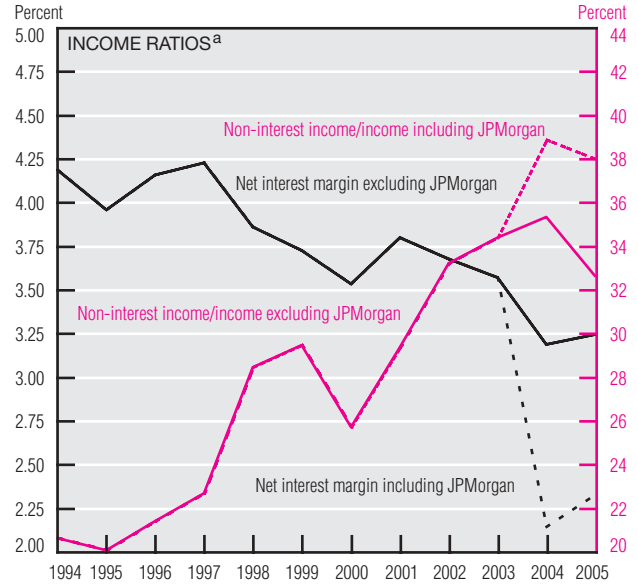
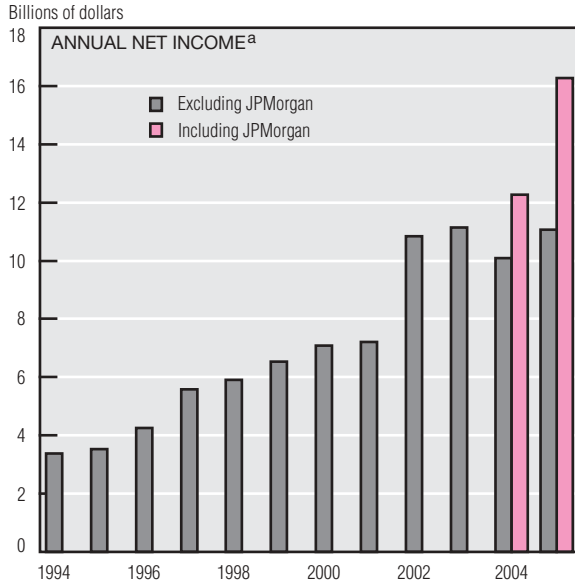


Fourth District Banks



a. Through 2005:IIIQ only. Data for 2005 are annualized.
 b. 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 \$8.29 billion for the first three quarters of 2005 or \$11.06 billion on an annual basis. (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 \$97.23 billion or \$129.64 billion on an annual basis.

At the end of 2005:IIIQ, Fourth District banks' net interest margin (interest income minus interest expense divided by average earning assets) had risen slightly to 3.24%, exceeding the 3.06% U.S. average. Non-interest income, however, fell to 32.59% of total income, the first such decline in five years. Nationwide, the net interest margin was nearly unchanged from the end of 2004, and non-interest income fell to 33.04% of total income.

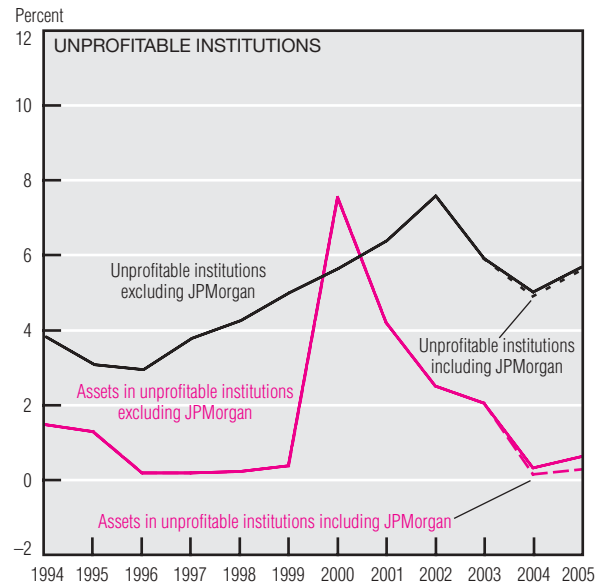
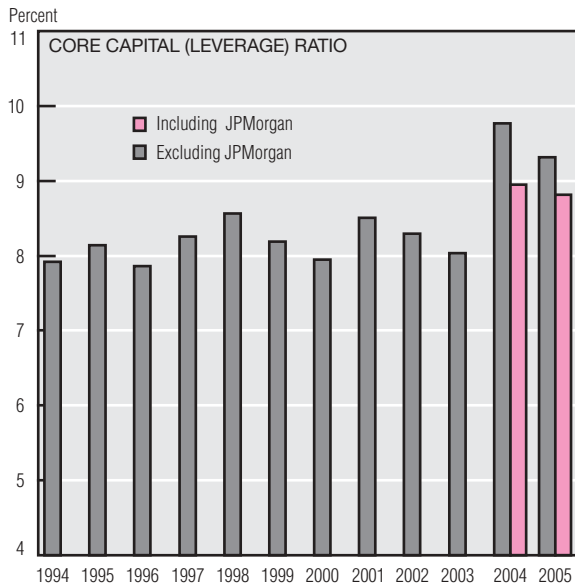
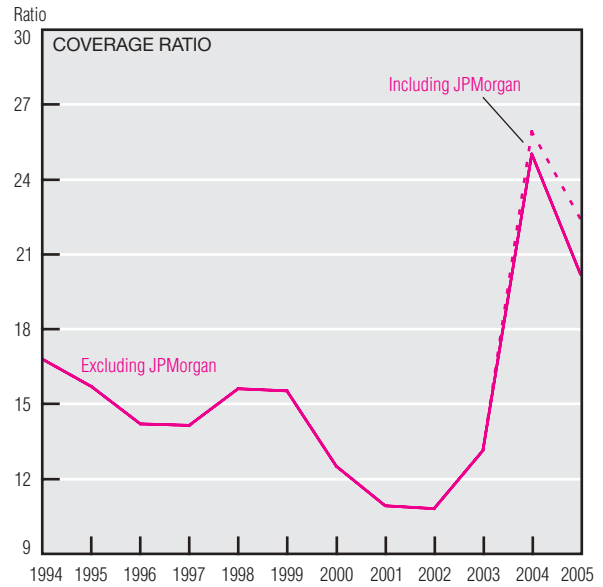
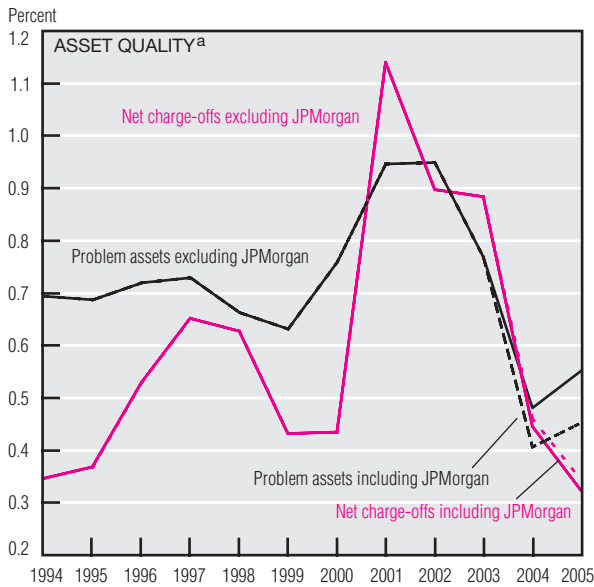
By the end of the third quarter, Fourth District banks' efficiency (operating expenses as a percent of net

interest income plus non-interest income) had deteriorated to 54.54% from the 52.64% record set in 2002. (Lower numbers correspond to greater efficiency.) Nationwide, efficiency improved slightly, dropping to 55.94% from 56.62% at the end of 2004.

District banks also posted a 1.46% return on assets at the end of the third quarter, (up from 1.38% at the end of 2004) and a 15.68% return on equity (up from 14.12%). The District outperformed the nation: By the end of

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

2005:IIIQ, the U.S. banking industry's return on assets had edged up to 1.13% (from 1.12% at the end of 2004); return on equity had climbed to 12.08% (from 11.56%).

Fourth District banks' financial indicators point to strong balance sheets overall, with asset quality continuing to improve in 2005:IIIQ. Net charge-offs (losses realized on loans and leases currently in default minus recoveries on previously charged-off loans and leases) represented 0.32% of total loans (down from 0.44% at the end of 2004), much better than the

national average of 0.45% (down from 0.53%). Problem assets (nonperforming loans and repossessed real estate) as a share of total assets increased slightly to 0.55% from 0.48% at the end of 2004, slightly worse than the national average of 0.44% of assets (down from 0.52%).

Fourth District banks held \$20.14 in equity capital and loan loss reserves for every dollar of problem loans, which was 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 9.32% from the record high of 9.76% at the end of 2004.

The share of unprofitable banks in the District rose from 4.97% at the end of 2004 to 5.65% at the end of 2005:IIIQ. Unprofitable banks' asset size also increased from 0.27% of District banks' assets to 0.59%. Industrywide, the share of unprofitable banks fell to 6.01% from 6.07% at the end of 2004. Their asset size dropped from 0.62% at the end of 2004 to 0.50% at the end of 2005:IIIQ.