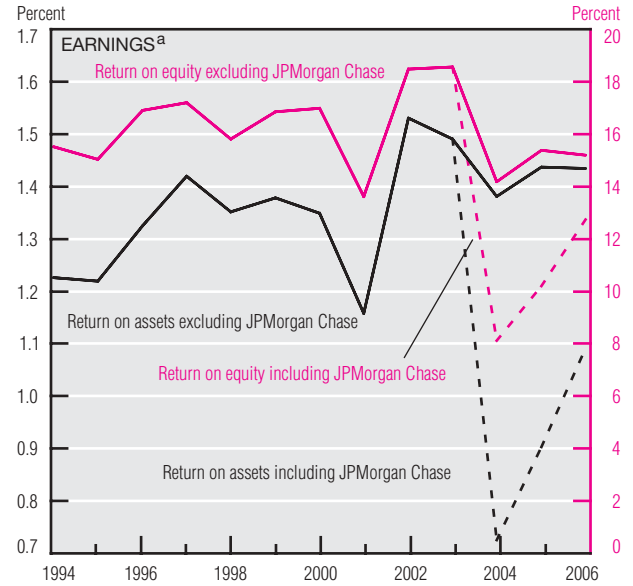
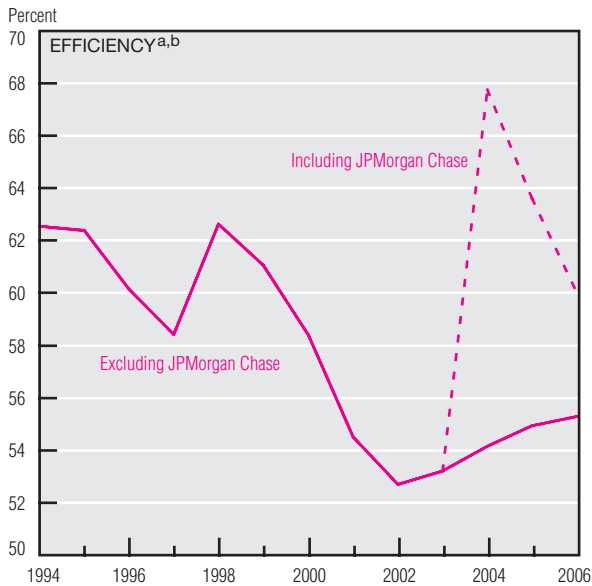
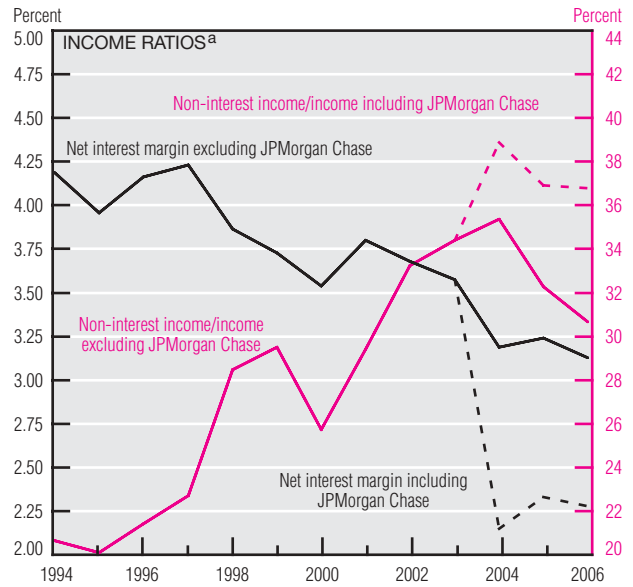
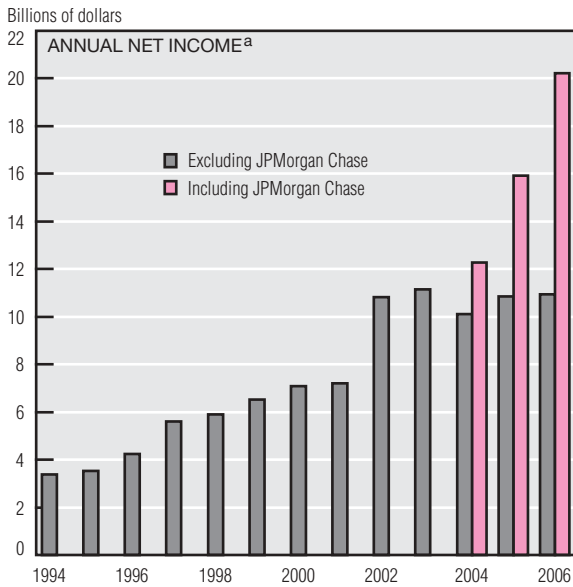


# Fourth District Banking Conditions



a. Through 2006:1Q only. Data for 2006 are annualized.  
 b. Efficiency is operating expenses as a percent of net interest income plus non-interest income.  
 SOURCE: Author's calculations 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 \$2.74 billion for 2006:1Q (\$10.94 billion on an annual basis), up about 1% from 2005. (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 that of other District institutions.) For the same period, the U.S. banking industry as a whole posted earnings of \$37.69 billion (\$150.76 billion on an annual basis), an increase of about 20% from the end of 2005.

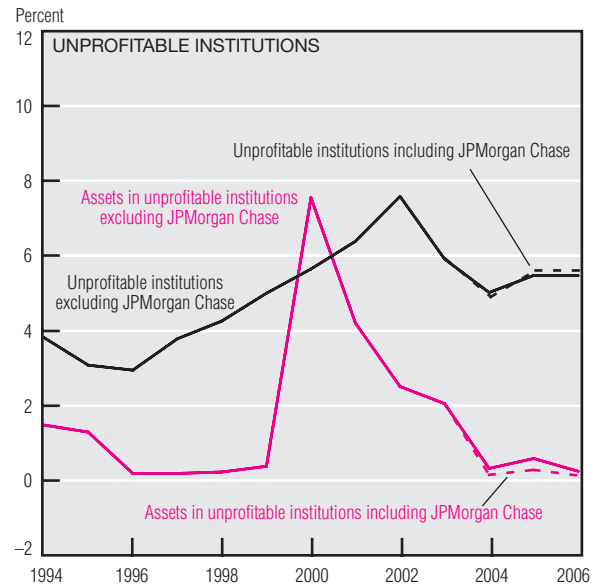
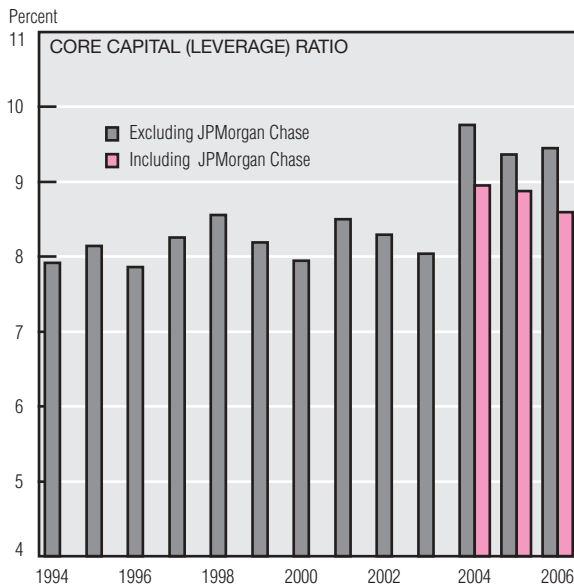
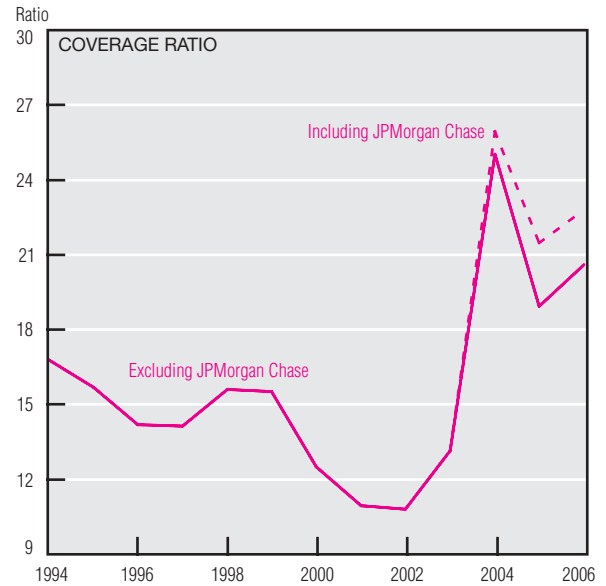
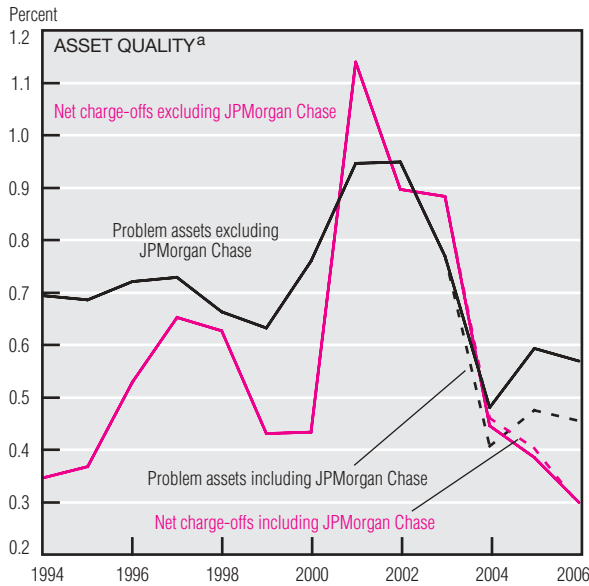
At the end of 2006:1Q, Fourth District banks' net interest margin (a measure of core profitability computed as interest income minus interest expense divided by average earning assets) had fallen slightly to 3.12% but still exceeded the 3.04% U.S. average. Non-interest income, however, fell to 30.60% of total income, about a 13% decline from the peak of 35.30% at the end of 2004. Nationwide, net interest margin was nearly unchanged from the end of 2005. Non-interest income fell to 31.63% of total income. This trend suggests that in an environment of rising interest rates, interest income

is returning to its traditional role as banks' primary source of income.

At the end of 2006:1Q, District banks' efficiency (operating expenses as a percent of net interest income plus non-interest income) had deteriorated to 55.23% from the 52.64% record set in 2002 (lower numbers correspond to greater efficiency). Nationwide, efficiency improved significantly, declining to 54.92% from 56.40% at the end of 2005.

At the end of 2006:1Q, District banks posted a 1.43% return on assets (unchanged from the end of 2005) and a 15.15% return on equity (slightly *(continued on next page)*)

## Fourth District Banking Conditions (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*.

down from 15.32% at the end of 2005). Despite a hiccup in income numbers relative to the nation, the District performed better than the industry nationwide. At the end of 2006:1Q, the U.S. banking industry's return on assets was 1.25% (up from 1.08% at the end of 2005), while return on equity was 13.32% (up from 11.55% at the end of 2005).

Fourth District banks' overall financial indicators pointed to fairly strong balance sheets at the end of 2006:1Q. Net charge-offs (losses realized on loans and leases currently in default minus recoveries on previously

charged-off loans and leases) represented 0.30% of total loans (down from 0.38% at the end of 2005), the same as the U.S. average (down from 0.46%). Problem assets (nonperforming loans and repossessed real estate) as a share of total assets fell slightly to 0.57% from 0.59% at the end of 2005, worse than the national average of 0.42% of assets (down from 0.45%).

Fourth District banks held \$20.54 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) rose from 9.36% at the end of 2005 to 9.45% at the end of 2006:1Q.

The share of unprofitable banks in the Fourth District fell from 5.43% at the end of 2005 to 5.17% at the end of 2006:1Q. The average size of such banks also fell, from 0.56% of District banks' assets to 0.20%. Industrywide, the share of unprofitable banks grew from 6.28% at the end of 2005 to 6.54% at the end of 2006:1Q; their asset size, however, fell from 1.13% to 0.76% during the same period.