

## BANKING INDUSTRY MARKET OVERVIEW

The *Quarterly Banking Profile* is a quarterly publication that provides the earliest comprehensive summary of financial results for all FDIC-insured institutions. The following is excerpted from the FDIC website: (Source:<http://www2.fdic.gov/qbp/2010sep/qbp.pdf>)

### "Quarterly Banking Profile Third Quarter 2010"

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#### INSURED INSTITUTION PERFORMANCE

- ***Year-Over-Year Earnings Improve for Fifth Consecutive Quarter***
- ***Net Income Totals \$14.5 Billion, Up from \$2 Billion a Year Earlier***
- ***Lower Loan-Loss Provisions Remain Key to Earnings Gains***
- ***Asset Quality Trends Continued to Improve***
- ***Industry Assets Increase by \$163 Billion***

#### **Net Income Continues to Improve**

Resilient revenues and improving asset quality remained a positive combination for insured institution earnings in the third quarter. Net income for the 7,760 insured commercial banks and savings institutions reporting quarterly financial results totaled \$14.5 billion, a considerable improvement over the \$2 billion reported a year ago. Third quarter net income was below the \$17.7 billion and \$21.4 billion reported in the first and second quarters of this year, respectively, but the shortfall was attributable to a \$10.1 billion quarterly net loss at one large institution that had a \$10.4 billion charge for goodwill impairment. Absent this loss, third quarter earnings would have represented a three-year high. Almost two out of every three institutions (63.3 percent) reported higher net income than a year earlier, and fewer than one in five (18.9 percent) was unprofitable. This is the lowest percentage of unprofitable institutions since second quarter 2008. A year ago, more than 27 percent of all institutions reported negative net income.

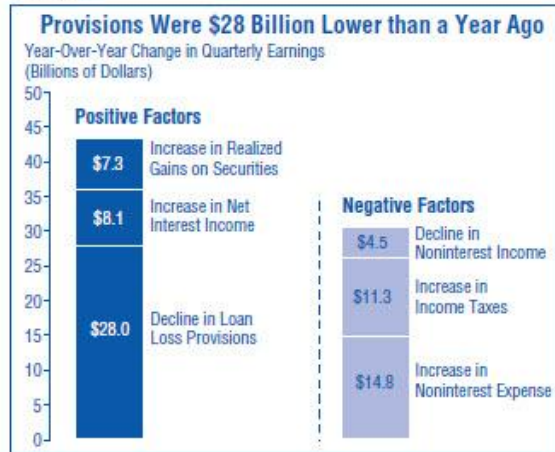
Chart 1



### Quarterly Provisions Are Lowest Since 2007

Provisions for loan losses totaled \$34.9 billion, the lowest quarterly amount since fourth quarter 2007 and \$28 billion (44.5 percent) less than insured institutions set aside a year earlier. Other contributions to the year-over-year improvement in earnings came from net interest income, which increased by \$8.1 billion (8.1 percent), and realized gains on securities and other assets, which totaled \$3.2 billion in the quarter, a \$7.3 billion improvement over the \$4.1 billion in realized losses reported a year earlier. The improvement in net income was limited by higher noninterest expenses, which were \$14.8 billion (16 percent) more than a year earlier and included the large goodwill impairment charge. Increased income taxes (up \$11.3 billion) also reduced reported earnings, as did lower noninterest income, which was \$4.5 billion (7.2 percent) below the level of a year ago. The year-over-year decline in noninterest income was led by a \$2.9 billion reduction in servicing fee income, a \$2.2 billion decline in service charges on deposit accounts, a \$1.8 billion drop in trading revenue, and a \$1 billion decline in securitization income. Much of the year-over-year increase in net interest income and the declines in servicing and securitization income reflect the effect of new accounting rules on financial reporting that became effective in 2010. (See FASB Statements 166 & 177 in *Notes to Users*) Quarterly earnings have improved year-over-year in each of the past five quarters. Loss provisions have declined year-over-year in each of the past four quarters.

Chart 2



**Charge-Offs Are Lower in Most Loan Categories**

For the second quarter in a row, net charge-offs (NCOs) were lower than in both the previous quarter and the year-earlier quarter. Third quarter NCOs totaled \$42.9 billion, compared to \$49.1 billion in the second quarter and \$50.9 billion in the third quarter of 2009. Prior to the past two quarters of improvement, quarterly NCOs had increased year-over-year for 13 consecutive quarters. NCOs for most major loan categories declined year-over-year in the third quarter. Commercial and industrial (C&I) loan NCOs were \$3.6 billion (41.8 percent) lower than a year earlier, while one-to-four family residential mortgage loan (41.1 percent) lower. Among the loan categories with year-over-year increases in NCOs, credit card NCOs were up by \$4.3 billion (43.3 percent), as a result of the application of FASB 166 and 167, while NCOs of real estate loans secured by nonfarm nonresidential properties were \$1.1 billion (46.2 percent) higher. NCOs of real estate construction and development (C&D) loan NCOs were down by \$2.5 billion (32.4 percent), and NCOs of non-credit card consumer loans were \$2.0 billion. (See FASB Statements 166 & 177 in *Notes to Users*)

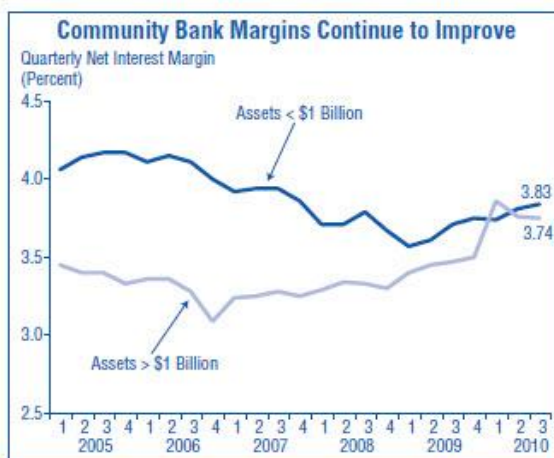
Chart 3



### Noncurrent Loan Balances Decline

The amount of loans and leases that were noncurrent (90 days or more past due or in nonaccrual status) fell for a second consecutive quarter. Noncurrent balances declined by \$8.3 billion (2.1 percent) in the third quarter, after an \$18.9 billion (4.6 percent) decline in the second quarter. Before these two quarterly declines, the industry's noncurrent loan balances had risen for 16 consecutive quarters. As was the case with NCOs, noncurrent balances for most major loan categories declined. The largest declines occurred in C&D loans (down \$5.7 billion, or 8.9 percent in the quarter), credit cards (down \$2 billion, or 11.2 percent), one-to-four family residential mortgages (down \$1.7 billion, or 0.9 percent), and C&I loans (down \$1.5 billion, or 4.3 percent). Noncurrent balances increased in multifamily residential real estate loans (up \$1.2 billion, or 13.6 percent) and in nonfarm nonresidential real estate loans (up \$604 million, or 1.3 percent).

Chart 4



### Lower Provisions Lead to a Fall in Reserves

The industry's reserves for loan losses declined for a second consecutive quarter, falling by \$9.6 billion (3.8 percent), as NCOs took \$42.9 billion out of reserves while loss provisions added only \$34.9 billion. Almost 60 percent of insured institutions increased their reserves during the quarter, but the 34.4 percent that reduced their reserves included nine of the ten largest banks, and 54 of the 100 largest. The reductions in reserves contributed to the industry's coverage ratio of reserves to noncurrent loans falling from 65.0 percent to 63.9 percent during the quarter.

### Leverage Capital Posts Strong Growth

Equity capital increased by \$18.4 billion (1.2 percent) during the quarter, compared to a \$27.2 billion (1.9 percent) increase in the second quarter. The smaller increase in equity in the third quarter reflected the \$10.4 billion write-down of goodwill. Tier 1 leverage capital, which does not include goodwill, increased by \$24 billion (2.1 percent). This is the largest quarterly increase since first quarter 2009, when the Troubled Asset Relief Program (TARP) contributed to a \$67.6

billion surge in leverage capital. Almost three out of four institutions (74.5 percent) increased both their leverage capital and total risk-based capital during the quarter. Insured institutions paid \$13.3 billion in dividends in the third quarter, compared to \$20.1 billion a year earlier.

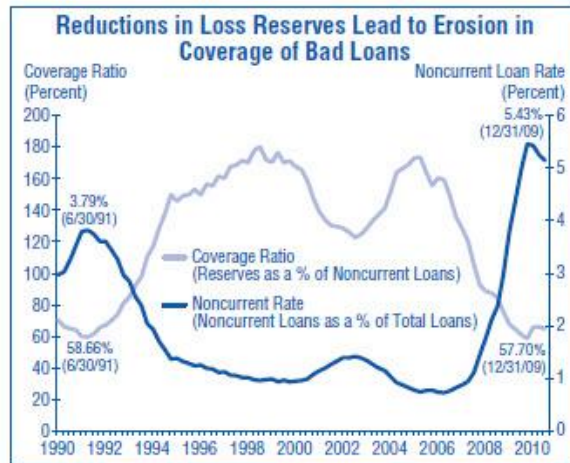
Chart 5



### Securities Portfolios Drive Growth in Industry Assets

Total assets of insured institutions increased by \$163 billion (1.2 percent) during the quarter. Notwithstanding the increase in reported assets in the first quarter that reflected new financial reporting rules, this is the first real growth in industry assets since fourth quarter 2008. Interest-bearing assets increased by \$154.8 billion (1.4 percent), as investment securities portfolios rose by \$113.7 billion (4.5 percent). Assets held in trading accounts were up by \$86.9 billion (12.8 percent). Reported loan balances declined for the eighth time in the past nine quarters. Total loans and leases fell by \$6.8 billion (0.1 percent), as C&D loans declined by \$28.9 billion (7.6 percent) and credit card balances and other loans to individuals fell by \$16.1 billion (1.2 percent). Loans to depository institutions grew strongly during the quarter, increasing by \$27.8 billion (36.4 percent). C&I loans increased for the first time in eight quarters, rising by \$4.9 billion (0.4 percent). One-to-four family residential mortgages increased for the first time in six quarters, rising by \$5.3 billion (0.3 percent). Unused loan commitments were up by \$34.1 billion (0.6 percent). Indications of credit risk in industry assets continued to fall in the third quarter. The ratio of risk-weighted assets (used in calculating risk-based capital ratios) to total assets declined from 69.1 percent to 68.3 percent during the quarter, as total risk-weighted assets increased by only \$2.8 billion (0.03 percent). This is the lowest level for this ratio since first quarter 1995.

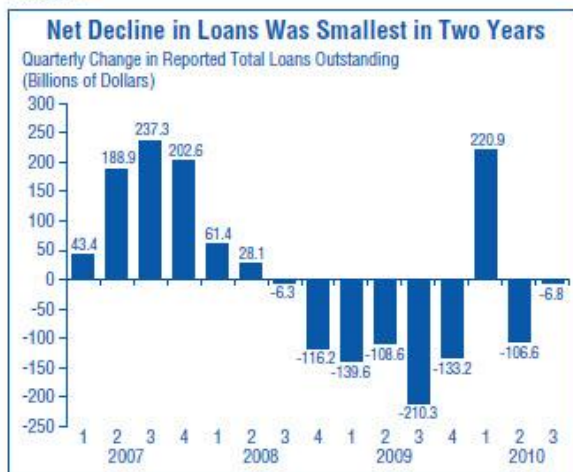
Chart 6



### Deposits Increase by 1.5 Percent

Deposits funded 81 percent (\$132.6 billion) of the growth in assets during the quarter. Deposits in foreign offices increased by \$62.3 billion (4.2 percent), while domestic office deposits rose by \$70.3 billion (0.9 percent). Most of the growth in domestic deposits occurred in large denomination noninterest-bearing deposits. Interest-bearing deposits in domestic offices increased by only \$9.5 billion (0.2 percent), while estimated insured deposits fell by \$15.9 billion (0.3 percent). Time deposits fell for the seventh consecutive quarter, declining by \$73.4 billion (3.4 percent). Nondeposit liabilities increased by only \$12 billion (0.5 percent) during the quarter. Federal Home Loan Bank (FHLB) advances declined by \$43 billion (9.7 percent), marking the eighth consecutive quarter that FHLB advances have fallen. During this period, total balances declined by \$509.1 billion (55.8 percent).

Chart 7



### The Number of “Problem” Institutions Continues to Rise

The number of insured commercial banks and savings institutions reporting quarterly financial results fell from 7,830 in the second quarter to 7,760 in the third quarter. Five new reporting institutions were added during the quarter, while 30 institutions were absorbed into other charters through mergers. Forty-one institutions failed in the third quarter, bringing the total number of failures for the first nine months of 2010 to 127. The number of insured institutions on the FDIC’s “Problem List” increased from 829 to 860 during the quarter. This is the largest number of “problem” institutions since March 31, 1993, when there were 928. Total assets of “problem” institutions declined for the second quarter in a row, from \$403.2 billion to \$379.2 billion. The number of employees (full-time equivalent) increased for a second consecutive quarter, after falling in each of the previous 12 quarters. The 0.4 percent (8,195) increase lifted the industry’s total employment to 2.04 million, which is still 8.2 percent below the peak of 2.22 million reported in first quarter 2007.

Chart 8

