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Federal Deposit Insurance Corporation ● Each Depositor insured to at least $250,000

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**FDIC-Insured Institutions Earned $14.5 Billion in the Third Quarter of 2010, Up from $2 Billion a Year Ago**
Lower Loan-Loss Provisions Were Key Factor in the Year-Over-Year Improvement

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Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported an aggregate profit of $14.5 billion in the third quarter of 2010, a $12.5 billion improvement from the $2 billion the industry earned in the third quarter of 2009. This is the fifth consecutive quarter that earnings have registered a year-over-year increase.

"The industry continues making progress in recovering from the financial crisis. Credit performance has been improving, and we remain cautiously optimistic about the outlook," said FDIC Chairman Sheila C. Bair. "Lower provisions for loan losses are driving bank earnings by allowing a larger share of revenues to reach the bottom line."

But Chairman Bair also said, "At this point in the credit cycle it is too early for institutions to be reducing reserves without strong evidence of sustainable, improving loan performance and reduced loss rates. When it comes to the adequacy of reserves, institutions should always err on the side of caution."

Almost two-thirds of all institutions (63.3 percent) reported improvements in their quarterly net income from a year ago, but nearly one in five institutions (18.9 percent) had a net loss for the quarter. The average return on assets (ROA), a basic yardstick of profitability, rose to 0.44 percent, from 0.06 percent a year ago.

Chairman Bair also indicated that the end of a two-year period of contraction in loan portfolios may have run its course. "Total loans and leases held by FDIC-insured institutions declined by just $6.8 billion, or 0.1 percent, in the third quarter," she said. "Many large banks have had sizable reductions in their loan portfolios over the past couple of years, but in the third quarter, such reductions were notably absent. I hope we are close to seeing genuine increases in loan balances again."

Total assets increased by $163 billion (1.2 percent) during the quarter. Investment securities holdings increased by $113.7 billion (4.5 percent). Assets in trading accounts rose by $86.9 billion (12.8 percent).

The primary factor contributing to the year-over-year improvement in quarterly earnings was a reduction in provisions for loan losses. While quarterly provisions remained high, at $34.9 billion they were $28 billion (44.5 percent) lower than a year earlier. Net interest income was $8.1 billion (8.1 percent) higher than a year ago, and realized gains on securities and other assets improved by $7.3 billion from a year ago.

The FDIC noted signs of further improvement in asset-quality trends as 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. Insured banks and thrifts charged off $42.9 billion in uncollectible loans during the quarter, down $8.1 billion (15.8 percent) from a year earlier. This is the second quarter in a row that net charge-offs posted a year-over-year decline.

Financial results for the third quarter are contained in the FDIC's latest Quarterly Banking Profile, which was released today. Also among the findings:

**Loan-loss reserves declined for the first time since the fourth quarter of 2006.** Although almost 60 percent of all institutions increased their loan-loss reserves in the quarter, the industry's total reserves declined by $9.6 billion (3.8 percent), as a number of large banks reduced their loan-loss provisions. The industry's ratio of reserves to total loans and leases fell from 3.40 percent to 3.27 percent during the quarter, but this is still a very high level by historical standards. The industry's "coverage ratio" of reserves to noncurrent loans declined from 65 percent to 63.9 percent, as the reduction in loss reserves outpaced the decline in noncurrent loans.

**The number of institutions on the FDIC's "Problem List" rose from 829 to 860.** However, the total assets of "problem" institutions declined from $403 billion to $379 billion. The number of "problem" institutions is the highest since March 31, 1993, when there were 928. Forty-one insured institutions failed during the third quarter, bringing the total number of failures for the first three quarters of the year to 127.

**The Deposit Insurance Fund (DIF) balance improved for the third consecutive quarter.** The DIF balance — the net worth of the fund — improved from negative $15.2 billion to negative $8 billion during the third quarter. The improvement stemmed primarily from assessment revenues and from a reduction in the contingent loss reserve. This reserve, which covers the costs of expected failures, declined from $27.5

billion to $21.3 billion during the quarter. While part of the decline reflects the removal of amounts reserved for banks that failed, part also reflects lower costs for future failures.

**The FDIC's liquid resources — cash and marketable securities — remained strong.** Liquid resources stood at $43.7 billion at the end of the third quarter, essentially unchanged from the second quarter.

"While we expect demands on cash to continue," Chairman Bair said, "our projections indicate that our current resources are more than enough to resolve anticipated failures and meet outstanding obligations for banks that have already failed."

Total insured deposits declined by 0.3 percent ($15 billion) during the quarter.

In conclusion, Chairman Bair said, "The industry has come a long way in cleaning up balance sheets, building capital, and adjusting to changes in financial markets and the economy. But the adjustments are not over, and this is no time for complacency."

The complete Quarterly Banking Profile is available at http://www2.fdic.gov/qbp on the FDIC Web site.