Chairman's Opening Statement

First Quarter 2017 Quarterly Banking Profile

May 24, 2017

Good morning, and welcome to our release of first quarter 2017 results for FDIC-insured institutions.

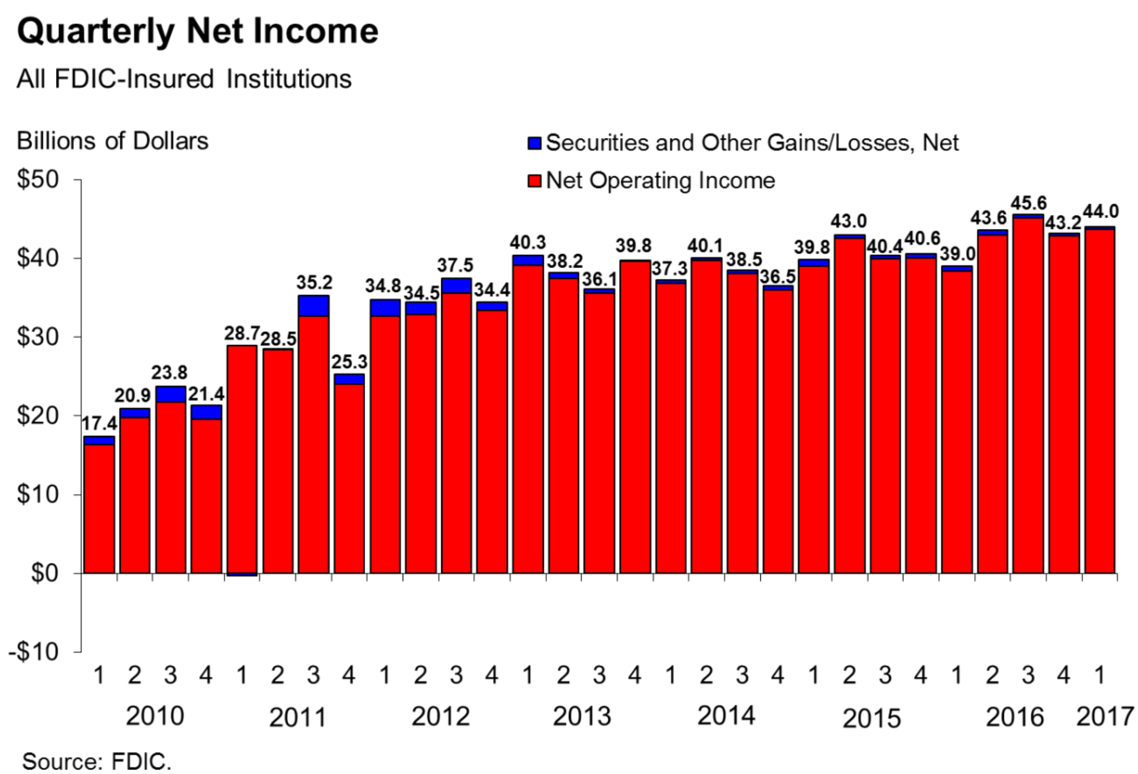
This was another largely positive quarter for the banking industry. Quarterly revenue and net income growth from a year ago were both strong, asset quality improved, and the number of unprofitable banks and "problem banks" continued to fall.

Community banks also reported another solid quarter of revenue and net income growth.

However, loan growth has slowed for the industry in the past two quarters as the economy approaches the end of the eighth year of an expansion marked by modest growth. Still, while loan growth has slowed, it has remained at or above nominal economic growth.

The industry continues to face a challenging interest-rate environment and competitive lending environment. This has led some institutions to "reach for yield" through higher-risk assets and extended asset maturities. The industry must manage interest-rate risk, liquidity risk, and credit risk carefully to continue growing on a long-run, sustainable path. These challenges will continue to be a focus of supervisory attention.

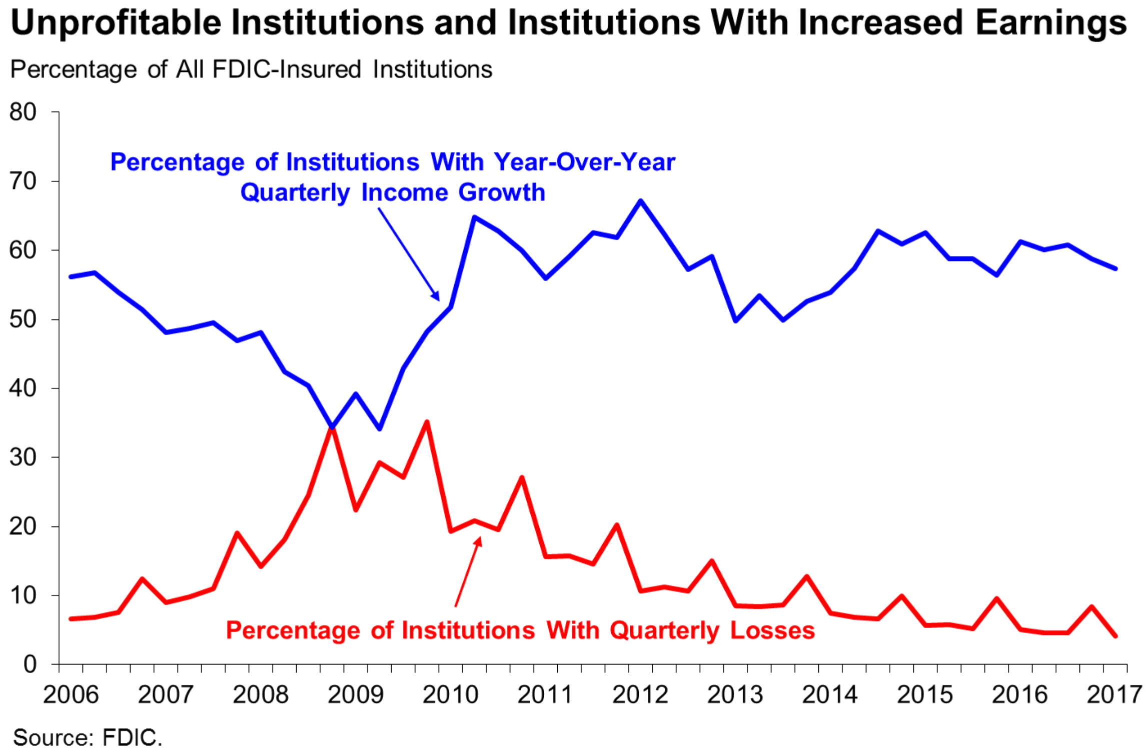
Chart 1:



Our first chart shows that net income for the industry was 44 billion dollars during the first quarter of 2017, a 12.7 percent increase from the first quarter of 2016. The improvement in net income was driven by strong revenue growth.

Community banks reported net income of 5.6 billion dollars in the first quarter, an increase of 10.4 percent from a year earlier.

Chart 2:



Our next chart shows that the majority of banks continued to report higher net income from a year ago, and fewer banks reported a loss. Nearly 60 percent of all banks reported year-over-year growth in quarterly net income and only 4 percent of banks reported a net loss during the quarter.

Chart 3:

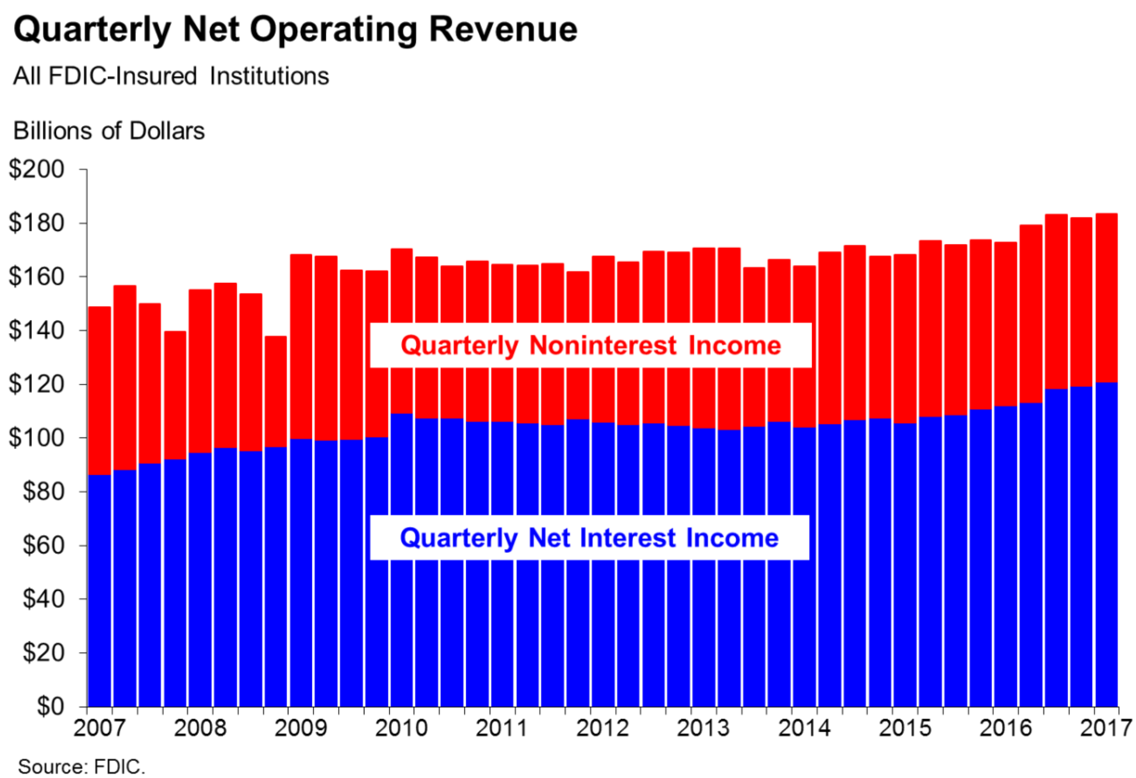
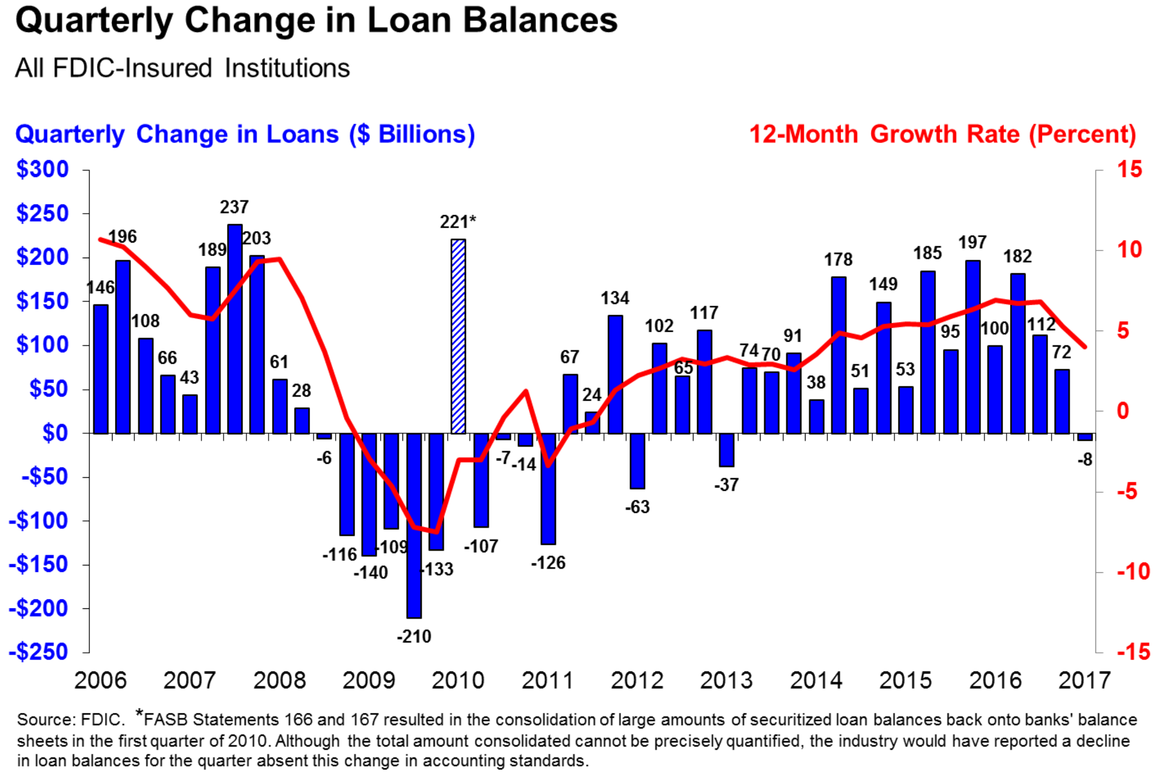


Chart 3 shows that net operating revenue was 184 billion dollars in the first quarter, an increase of 6.3 percent from a year earlier. The increase was broad-based, as 70 percent of banks reported higher net operating revenue during the quarter.

The growth in revenue was due to higher net interest income and higher noninterest income. Net interest income grew 7.8 percent from a year ago and noninterest income grew 3.4 percent.

Noninterest expense increased by 4.3 percent from a year ago, but the increase was more than offset by the increase in revenue.

Chart 4:



Our next chart shows that loan balances fell by 8 billion dollars or 0.1 percent during the first quarter. This is the first quarterly decline in loan balances since the first quarter of 2013. The decline reflects a 44 billion dollar reduction in credit card balances as consumers paid down credit card debt after the holidays. The pay-down of credit card debt is a regular, seasonal occurrence that happens in the first quarter of every year.

Apart from the seasonal decline, we have seen a slowdown in loan growth over the past two quarters. Chart 4 shows that the annual growth rate in loan balances was 4 percent through the first quarter, down from a post-crisis high of nearly 7 percent a year ago.

In contrast to the overall industry, loan balances increased at community banks in the first quarter, although at a slower pace than previous quarters. Loan growth at community banks was 1.1 percent during the first quarter and 7.7 percent over the past 12 months.

Chart 5:

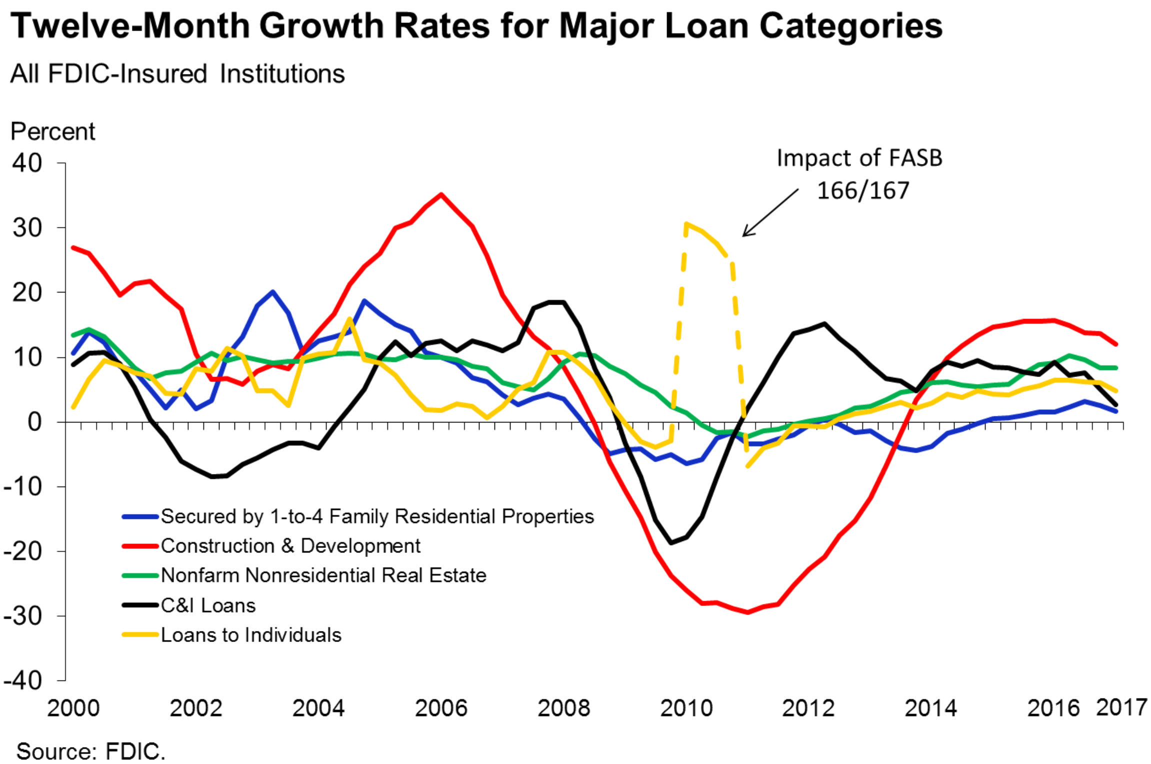


Chart 5 shows that the slowdown in loan growth has been broad-based across major loan categories. As the U.S. economy approaches the end of the eighth year of expansion, a slowdown in loan growth is not unusual at this stage of the credit cycle. It is also worth noting that despite the slowdown, loan growth has remained at or above nominal GDP growth, which is a typical benchmark against which loan growth is compared.

Chart 6:

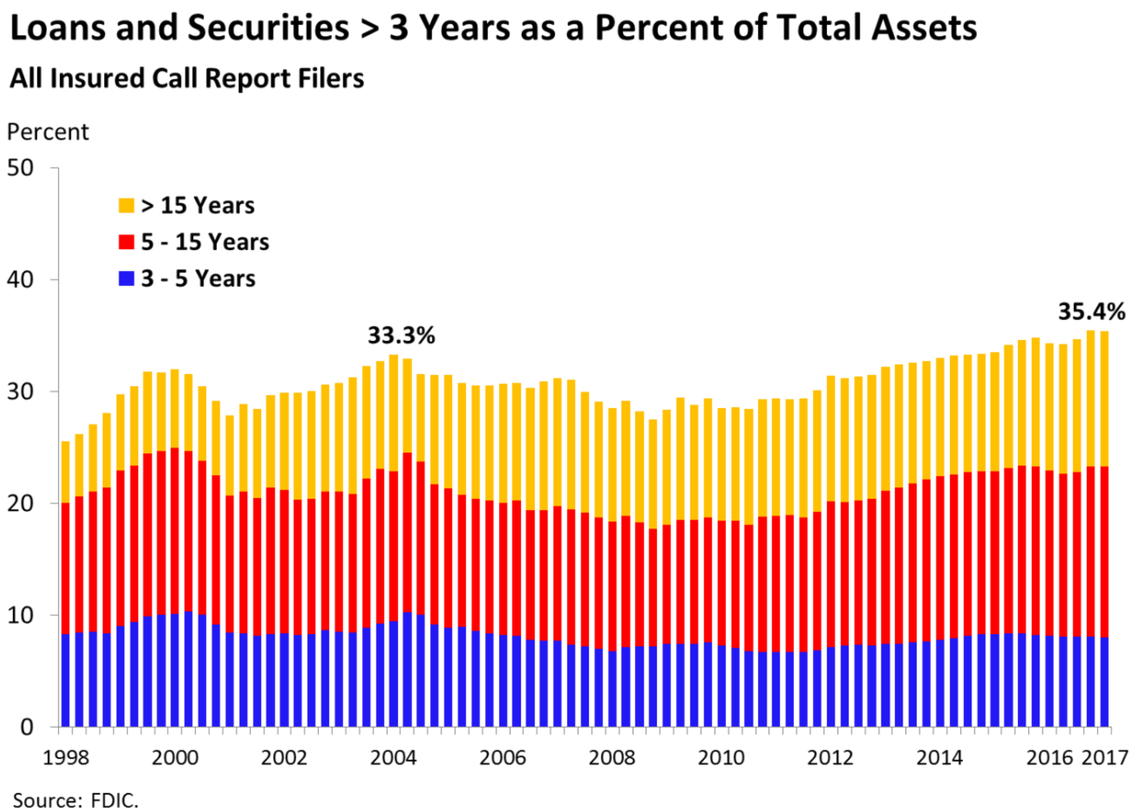


Chart 6 shows that the share of longer-term assets to total industry assets remains elevated and near the record high reached last quarter. Banks have been extending asset maturities to increase yield in a low-rate environment. However, this has left many institutions vulnerable to interest-rate risk.

Community banks are particularly vulnerable to interest-rate risk, as half of their assets mature or reprice in three or more years.

Chart 7:

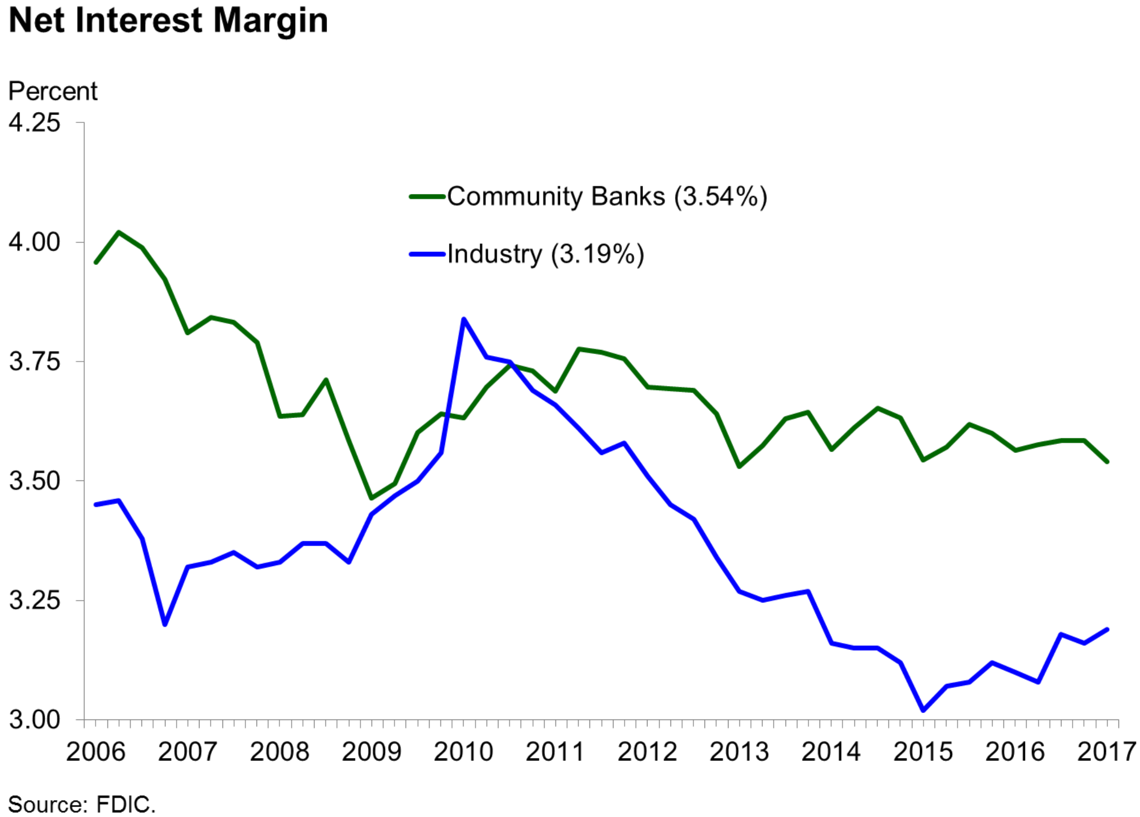
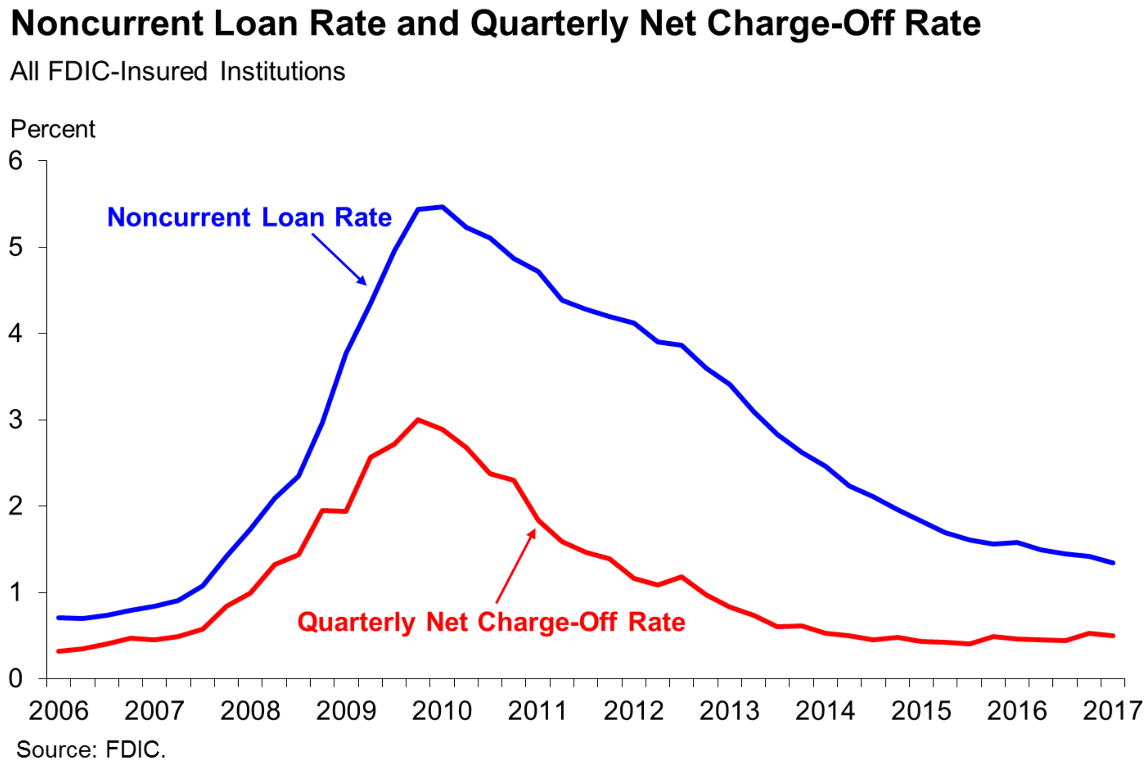


Chart 7 shows that net interest margins have improved for the industry as short-term interest rates have risen. The average margin for the industry was 3.19 percent in the first quarter, up from a post-crisis low of 3.02 percent in the first quarter of 2015.

Community banks continue to report higher net interest margins than the overall industry. The gap has been narrowing, however, as larger institutions have more assets that reprice in the near term and are better-positioned than community banks to benefit from rising short-term interest rates.

Chart 8:



Our next chart shows that overall asset quality continues to improve. The noncurrent rate continues to fall and the net charge-off rate remains near the cyclical low. However, while most loan categories have seen a decline, charge-offs increased in the first quarter from a year ago for credit cards, auto loans, and other consumer loans.

Chart 9:

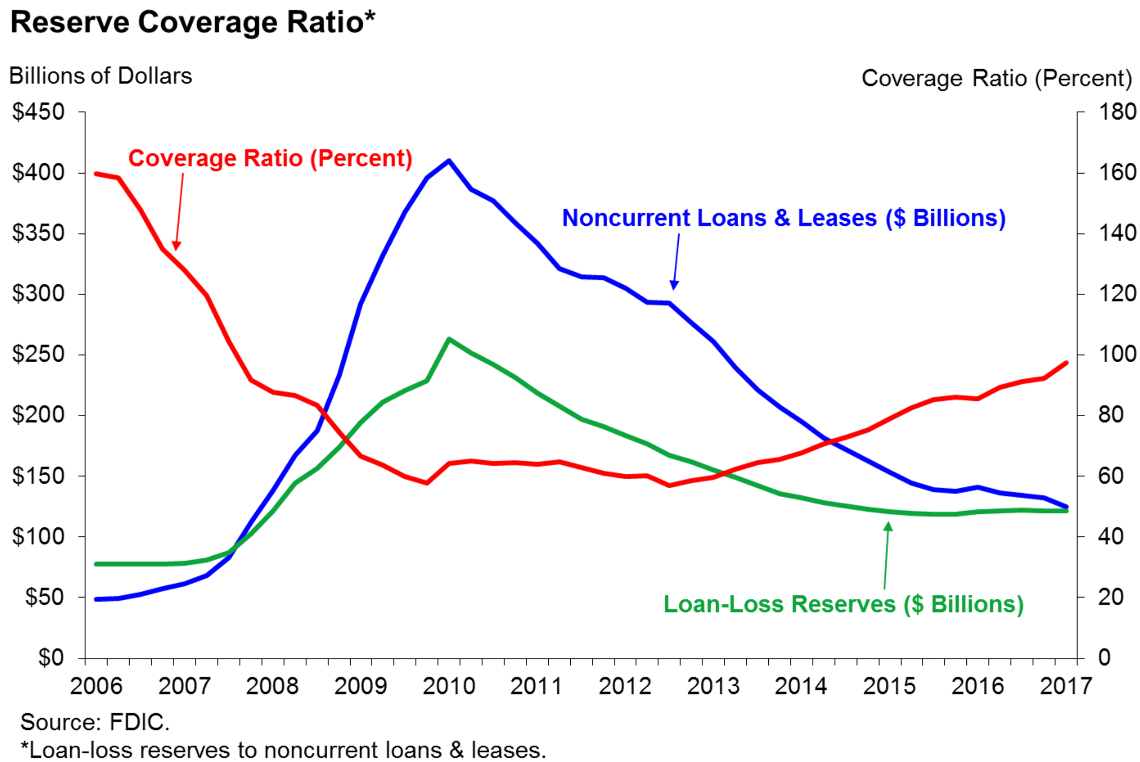


Chart 9 shows that the industry's reserve coverage ratio, which measures loan-loss reserves relative to total noncurrent loan balances, continues to improve. The reserve coverage ratio was greater than 97 percent at the end of the quarter, which is the highest level since the third quarter of 2007. The industry's capacity to absorb credit losses continues to improve as noncurrent loan balances decline and loan-loss reserves rise.

Chart 10:

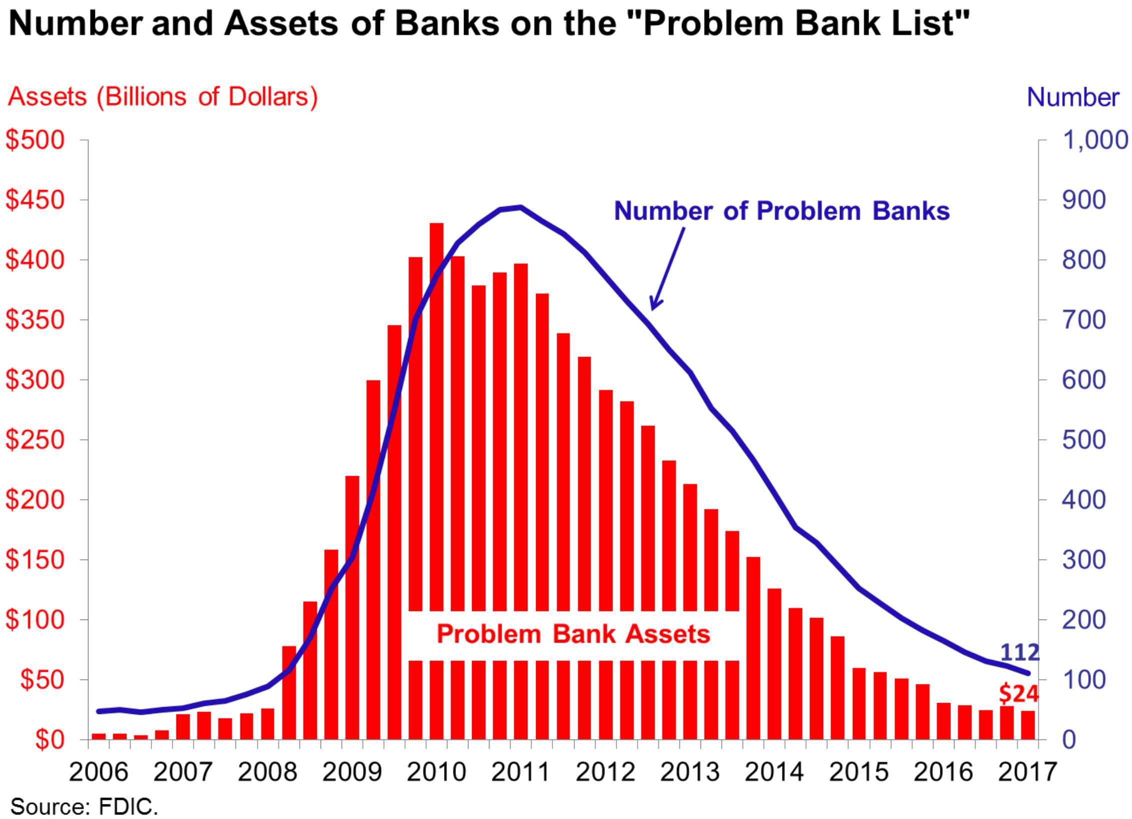
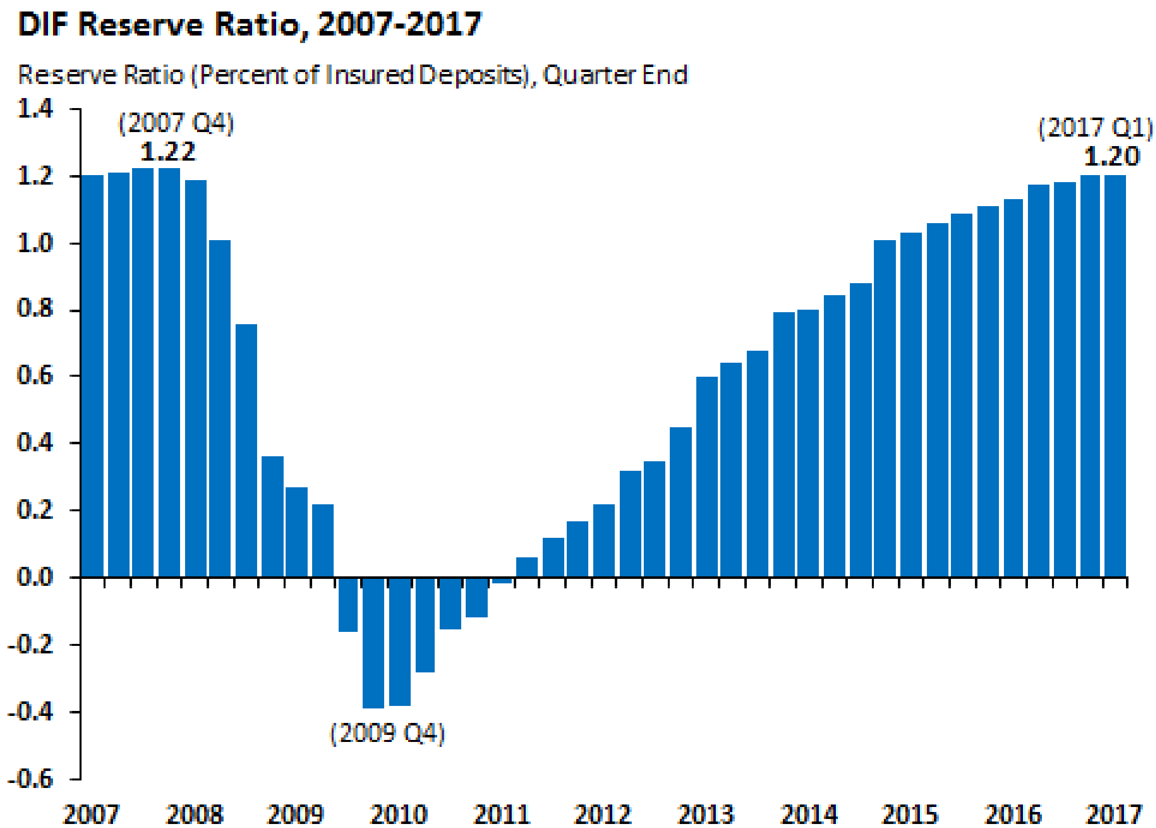


Chart 10 shows that the number of banks on the FDIC's "Problem Bank List" fell from 123 to 112 during the quarter. This is the smallest number of problem banks since the first quarter of 2008. Three banks failed during the first quarter, and there were two new bank charters.

Chart 11:



The Deposit Insurance Fund balance was 84.9 billion dollars on March 31, up 1.8 billion dollars from the end of last year. The increase in the fund was largely driven by assessment income. Estimated insured deposits rose to 7.1 trillion dollars at the end of March, an increase of 2.3 percent during the quarter and a 6.2 percent increase over the past four quarters.

Chart 11 shows that the reserve ratio was 1.20 percent on March 31, unchanged from the end of last year, due in part to strong growth in estimated insured deposits.

As required by law, the Deposit Insurance Fund must achieve a minimum reserve ratio of 1.35 percent by September 30, 2020.

We remain on track to meet this mandate.

In summary, the banking industry reported largely positive results for the first quarter. Revenue and net income growth were strong, asset quality improved, and the number of unprofitable banks and "problem banks" continued to fall.

Community banks reported another quarter of solid revenue and net income growth.

However, in the past two quarters, the industry has seen a slowdown in loan growth that is broad-based across major lending categories. This slowdown has occurred as the economy approaches the end of the eighth year of a relatively modest expansion. Still, loan growth has remained at or above nominal GDP growth.

While the quarterly results were largely positive, the operating environment continues to pose challenges for banks. Low interest rates for an extended period and a competitive lending environment have led some institutions to reach for yield. This has led to heightened exposure to interest-rate risk, liquidity risk, and credit risk.

These risks must be managed prudently for the industry to continue to grow on a long-run, sustainable path. We will continue to monitor closely the environment in which banks operate, and we will remain vigilant as we conduct our supervision of the industry.

Thank you.

I am happy to take your questions.