Chairman's Opening Statement

Third Quarter 2016 Quarterly Banking Profile

November 29, 2016

Good morning, and welcome to our release of third quarter 2016 results for FDIC-insured institutions.

The banking industry reported another positive quarter. Revenue and net income were up from a year ago, loan balances increased, asset quality improved, and the number of unprofitable banks and "problem banks" continued to fall.

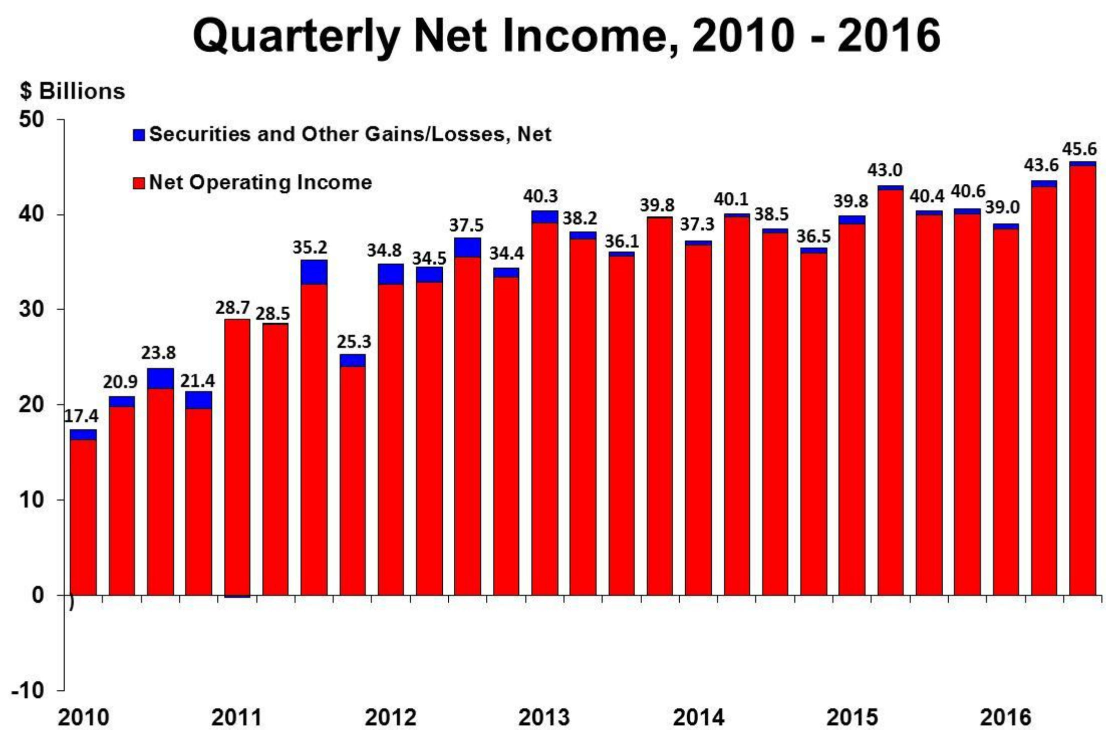
Community banks also reported another solid quarter. Their revenue and loan growth outpaced that of the overall industry.

Despite a relatively strong quarter, the industry faces continued challenges. The persistent, low-rate environment remains an issue. And banks must position themselves for rising interest rates going forward.

Current oil and gas prices continue to put pressure on borrowers that depend on the energy sector. This stress has contributed to modest increases in noncurrent loans and loan charge-offs in energy-dependent regions.

The challenging environment has led some institutions to reach for yield through higher-risk assets and extended asset maturities. Banks must manage their interest-rate risk, liquidity risk, and credit risk prudently to ensure that growth is on a long-run, sustainable path. These challenges continue to be a focus of our supervisory attention.

Chart 1:



Our first chart shows that industry net income was 45.6 billion dollars in the third quarter, up 5.2 billion dollars or 13 percent from a year ago. Net income benefited from rising revenue and moderating expenses. One-time revenue and expense items at a few large banks also contributed to the increase in net income.

Community banks reported net income of 5.6 billion dollars in the third quarter, which was up nearly 600 million dollars or 12 percent from a year ago.

Chart 2:

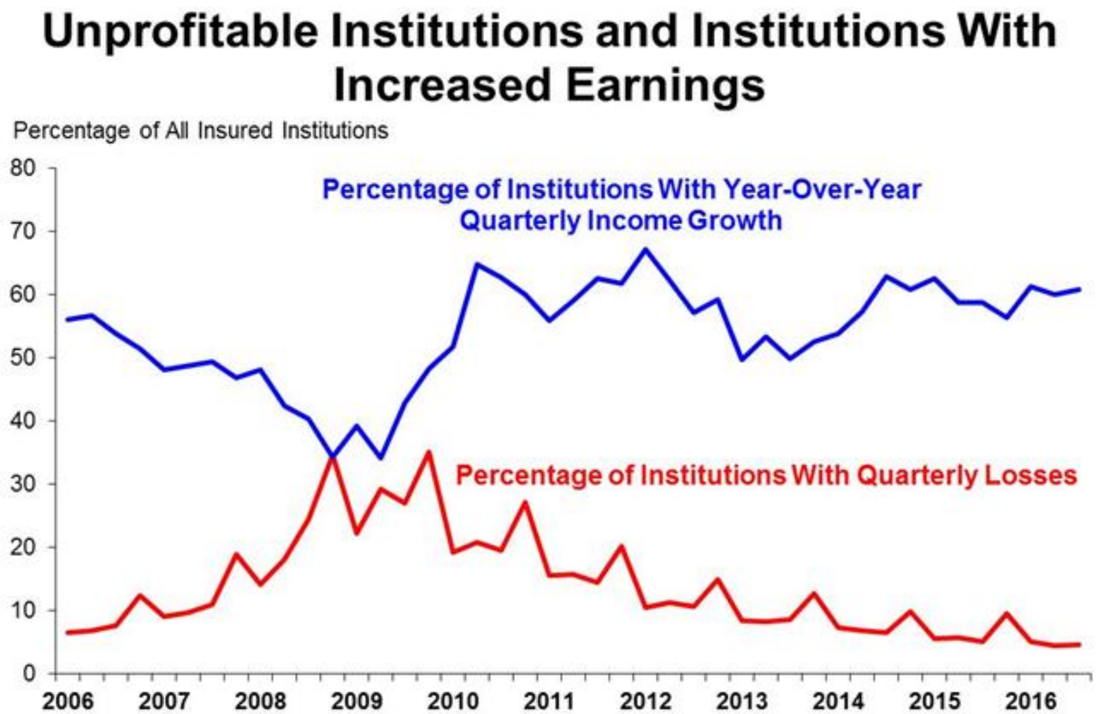
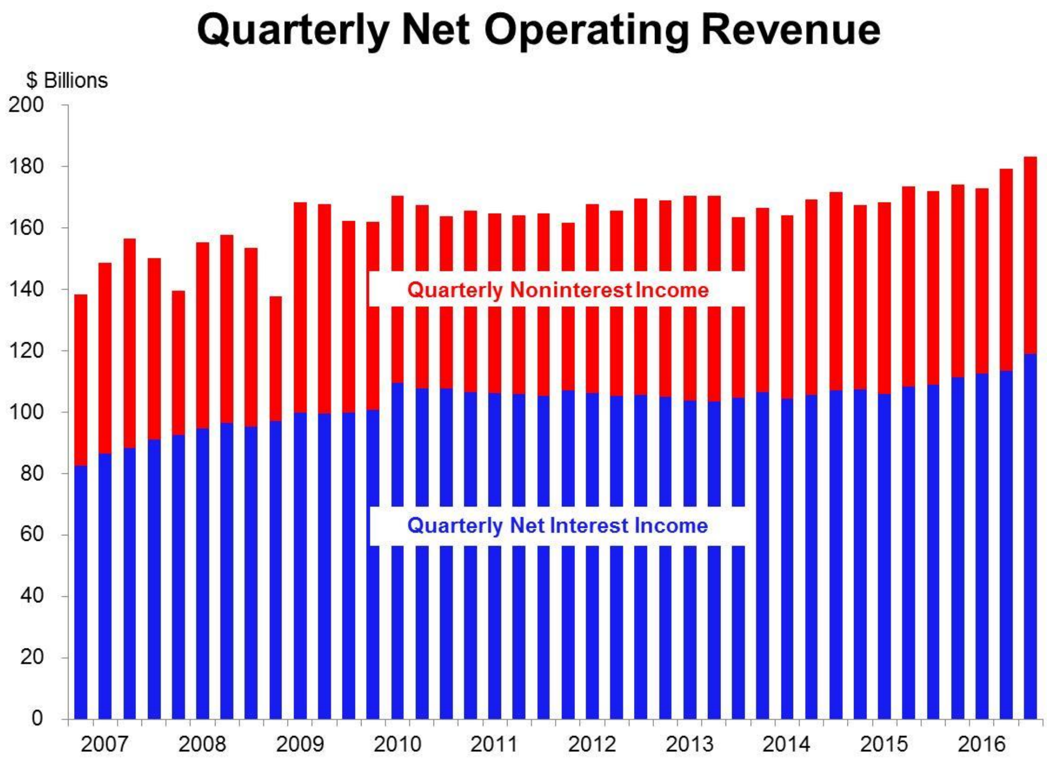


Chart 2 shows that the increase in earnings is broad-based. Just over 60 percent of all banks reported year-over-year growth in their quarterly net income. And only 4.6 percent of banks reported a net loss. This is the lowest percentage of unprofitable banks since the third quarter of 1997.

Chart 3:



Our next chart shows that industry net operating revenue totaled 183 billion dollars in the third quarter. This is 6.5 percent higher than a year ago, as more than 71 percent of all banks reported higher year-over-year operating revenue.

Most of the improvement in revenue resulted from higher net interest income, which was up more than 9 percent from a year ago. Noninterest income was up almost 2 percent, as trading revenue improved at large banks and income from mortgage-origination activity increased.

Community banks grew their revenue by 8.5 percent from a year ago.

Chart 4:

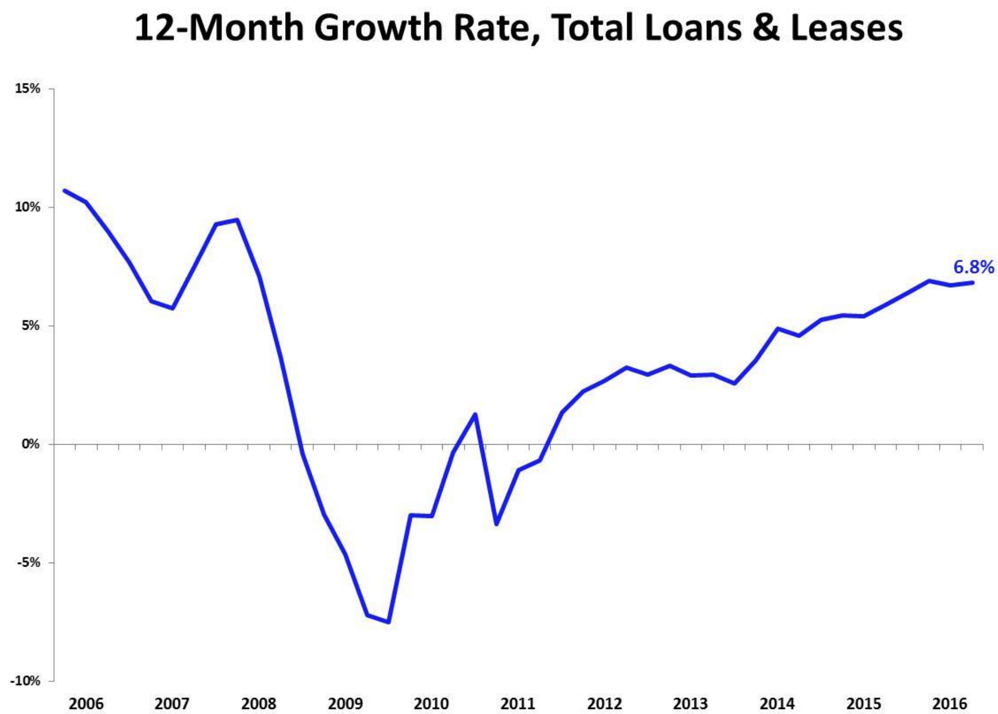
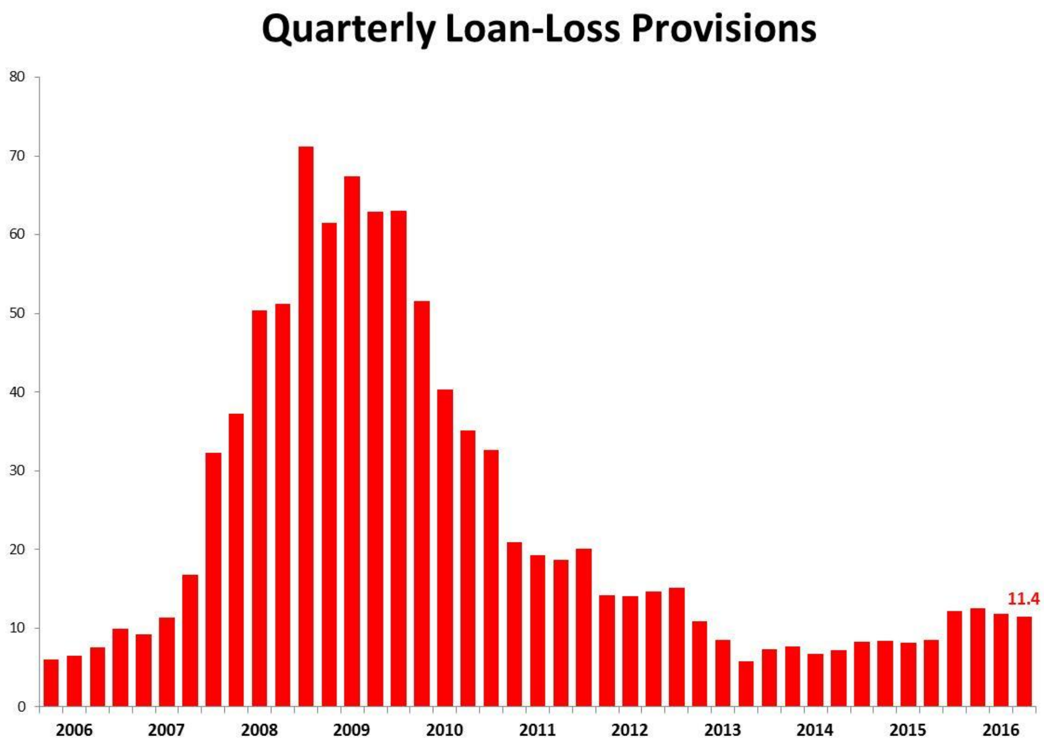


Chart 4 shows that industry loan balances grew by 6.8 percent over the past year. The largest increases were in commercial and industrial (C&I) loans, residential mortgages, and nonfarm nonresidential real estate loans.

Annual loan growth at community banks of 9.4 percent continued to outpace the rest of the industry. Loan growth at community banks was led by commercial real estate loans, residential mortgages, and C&I loans.

Community banks, which account for 43 percent of the industry’s small loans to businesses, continued to grow their small business loans at a faster pace than the rest of the industry.

Chart 5:



Our next chart shows that loan-loss provisions of 11.4 billion dollars in the third quarter were 2.9 billion dollars higher than a year ago. Part of the increase in provision expenses was associated with loan growth and the related credit risk in those new loans. Another part was due to the increase in credit risk associated with loans to borrowers that depend on the energy sector.

Chart 6:

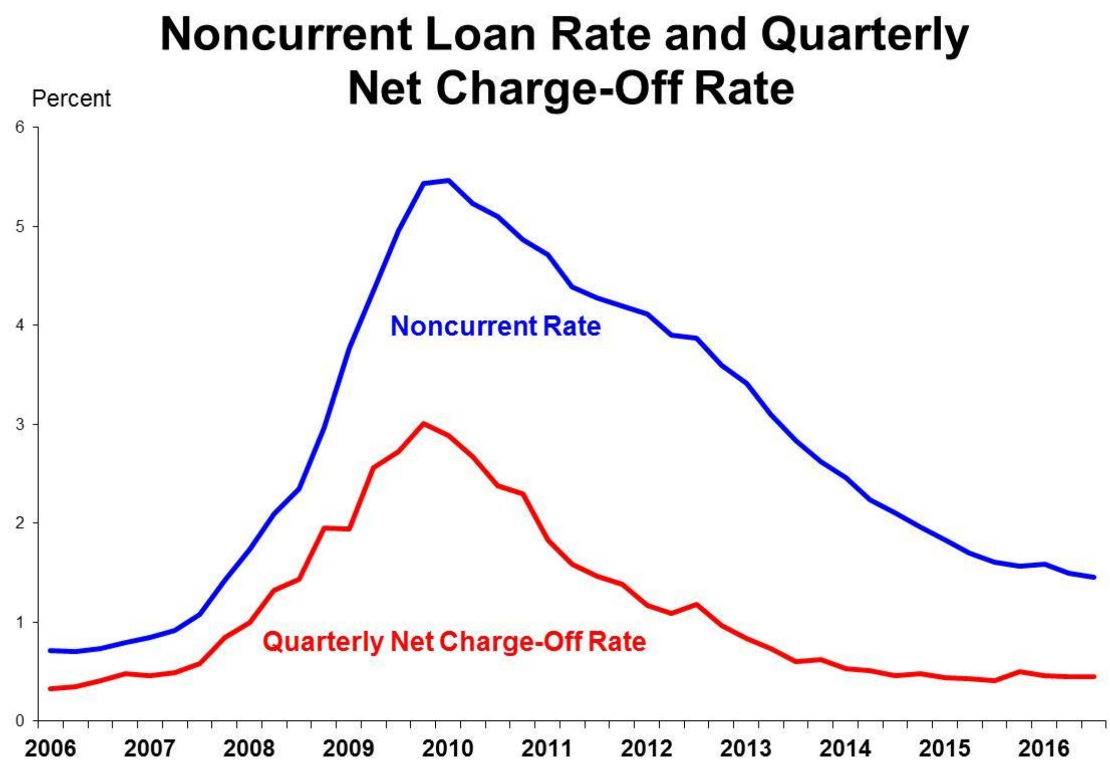
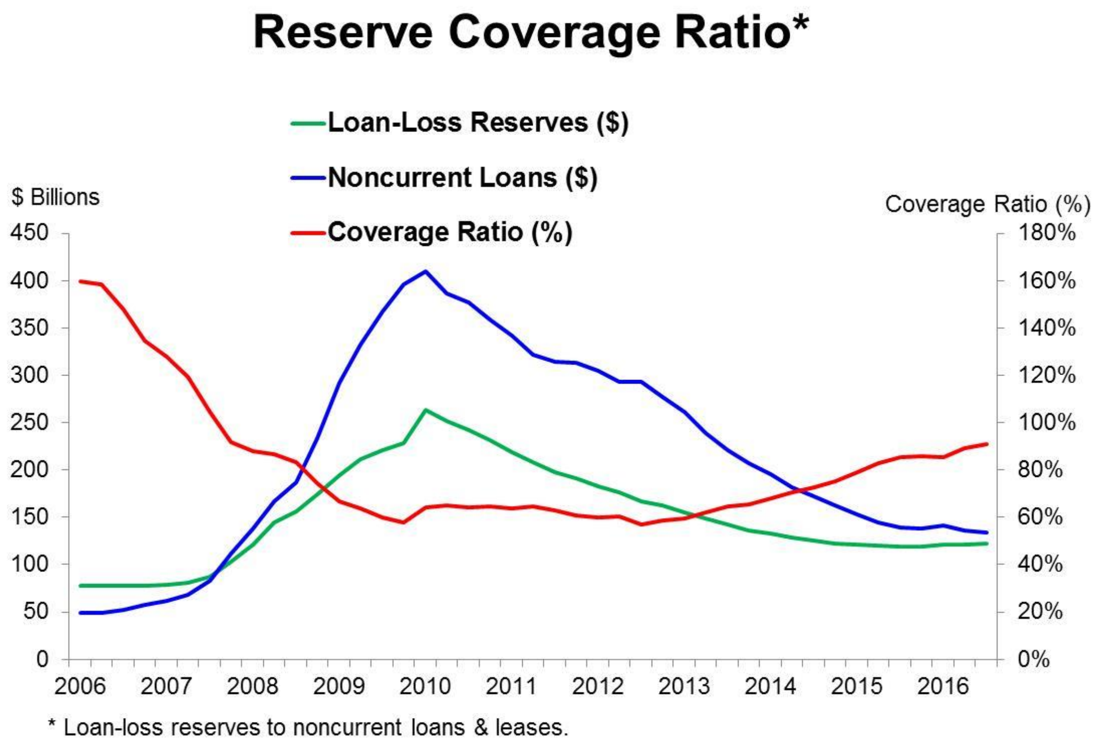


Chart 6 shows that overall asset quality in the banking industry remains strong. Both the noncurrent rate and the net charge-off rate are near cyclical lows. While asset quality continued to improve in many loan portfolios during the quarter, noncurrent loan balances and net charge-offs increased for credit cards and C&I loans.

Chart 7:



The next chart shows a steady rise in the industry's reserve coverage ratio, which is loan-loss reserves relative to noncurrent loan balances. The decline in noncurrent loans, combined with recent additions to loan-loss reserves, has improved the industry's ability to absorb credit deterioration. The reserve coverage ratio was 91 percent at the end of the third quarter, the highest level since the end of 2007.

Chart 8:

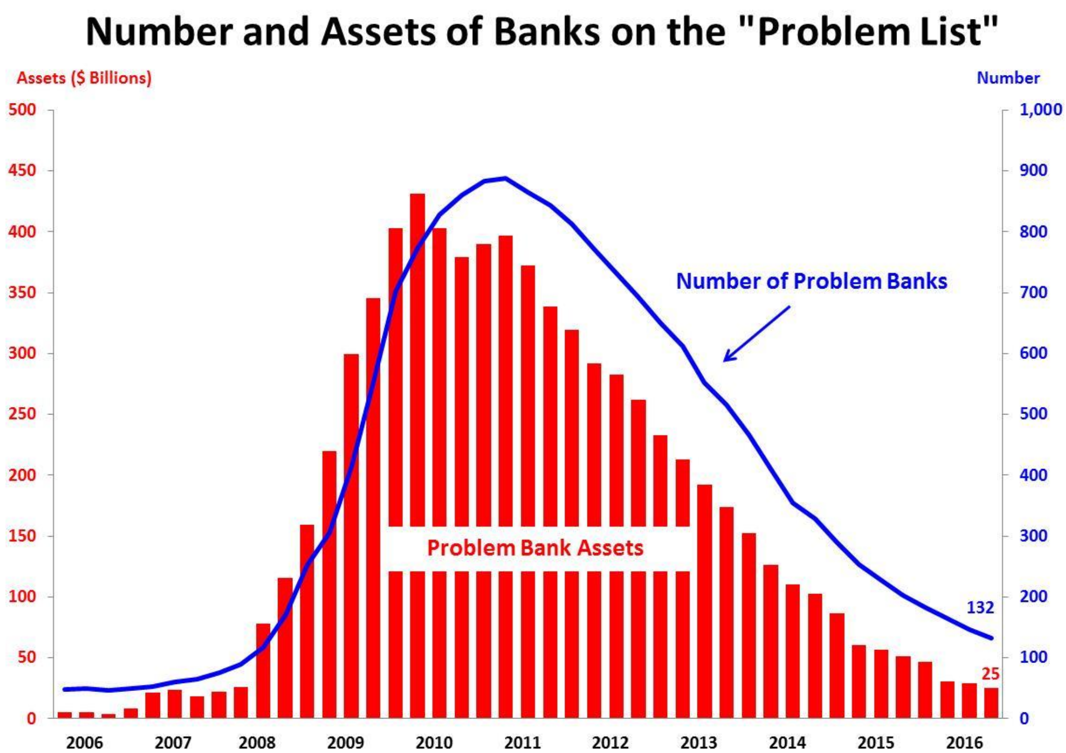
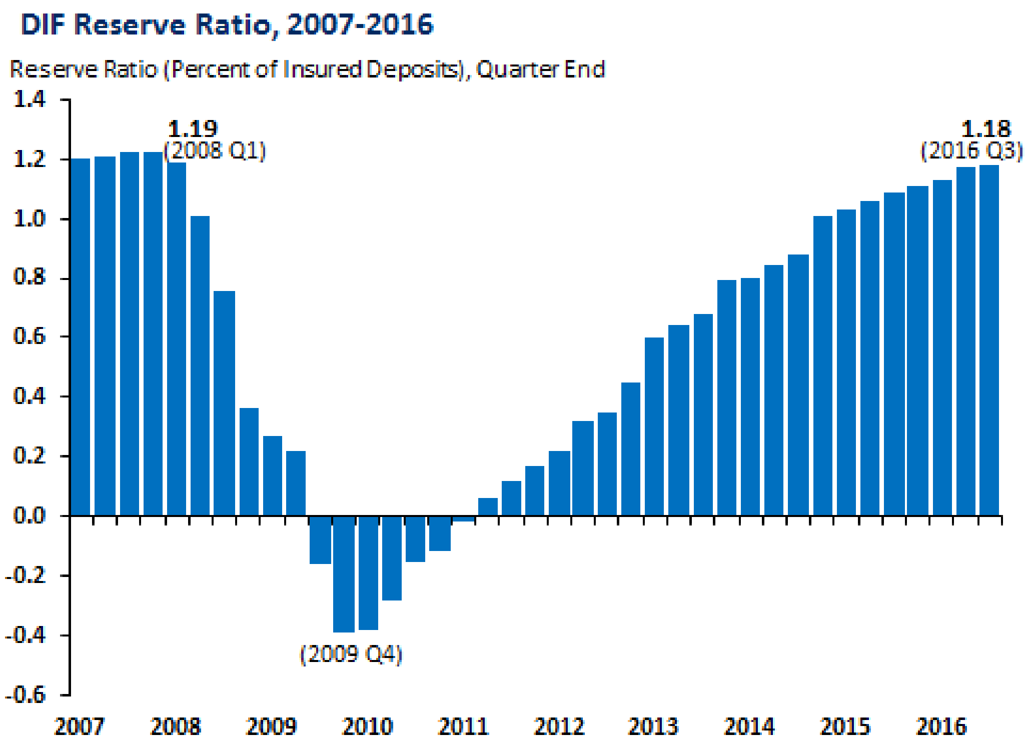


Chart 8 shows that the number of banks on the FDIC's "Problem List" fell from 147 to 132 over the quarter. This is the fewest problem banks since the third quarter of 2008.

There were two bank failures during the third quarter, the same number as a year ago.

Chart 9:



The Deposit Insurance Fund balance was 80.7 billion dollars on September 30, up 2.8 billion dollars from the end of June. Assessment revenue, including surcharges on large banks, was primarily responsible for the increase.

Estimated insured deposits rose to 6.8 trillion dollars at the end of September, an increase of 2.1 percent during the quarter.

Chart 9 shows that the reserve ratio increased to 1.18 percent on September 30 from 1.17 percent at the end of June.

Because the reserve ratio surpassed 1.15 percent on June 30, lower regular assessment rates on all institutions went into effect in the third quarter, pursuant to FDIC regulation.

However, as required by law, the Deposit Insurance Fund must achieve a minimum reserve ratio of 1.35 percent by September 2020, and institutions with total assets of 10 billion dollars or more must bear the cost of the increase in the reserve ratio from 1.15 percent to 1.35 percent. To implement this requirement, temporary assessment surcharges on large banks began in the third quarter, pursuant to a rule approved by the FDIC Board earlier this year.

The FDIC projects the reserve ratio will reach 1.35 percent in 2018, after which the surcharges will cease.

In summary, the banking industry reported largely positive results for the third quarter. Revenue and net income increased from a year ago, loan balances grew, asset quality improved, and the number of unprofitable banks and "problem banks" continued to fall.

Community banks also reported solid results for the quarter with strong income, revenue, and loan growth.

Nevertheless, the banking industry continues to operate in a challenging environment. Low interest rates for an extended period have led some institutions to reach for yield, which has increased their exposure to interest-rate risk, liquidity risk, and credit risk. Current oil and gas prices continue to affect borrowers that depend on the energy sector and have had an adverse effect on asset quality. These challenges will only intensify as interest rates normalize.

Banks must manage risks prudently to ensure that growth is 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.