Opening Statement of Chairman Martin Gruenberg

Fourth Quarter 2014 Quarterly Banking Profile

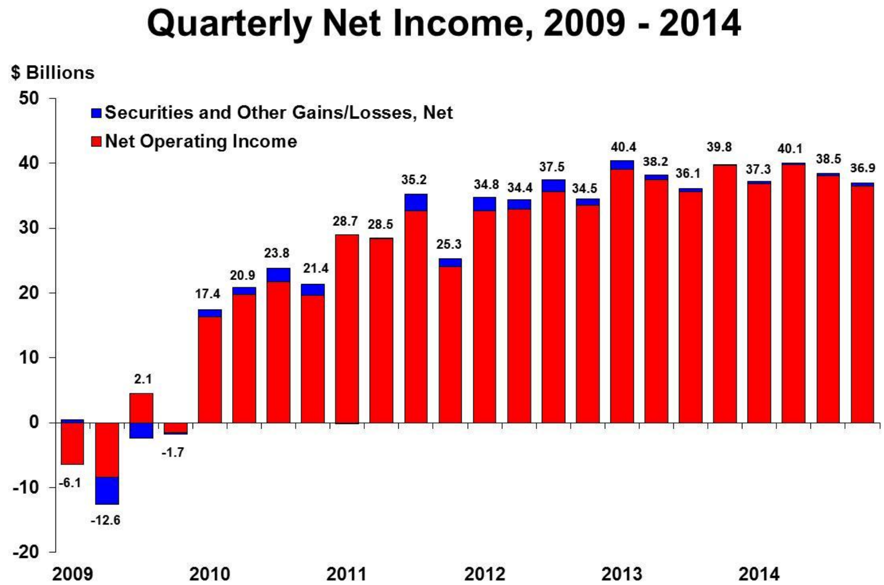
February 24, 2015

Good morning, and welcome to our release of fourth quarter 2014 results for FDIC-insured institutions.

The banking industry continued to improve at the end of the year. Although total industry earnings declined as a result of significant litigation expenses at a few large institutions and a continued decline in mortgage-related income, a majority of banks reported higher operating revenues and improved earnings from the previous year. In addition, banks made loans at a faster pace, asset quality improved, and the number of banks on the problem list declined to the lowest level in six years.

Of particular note, community banks reported greater improvement than the overall industry. Earnings at community banks were up significantly from the previous year, and their pace of loan growth and net interest margins were appreciably higher than the industry.

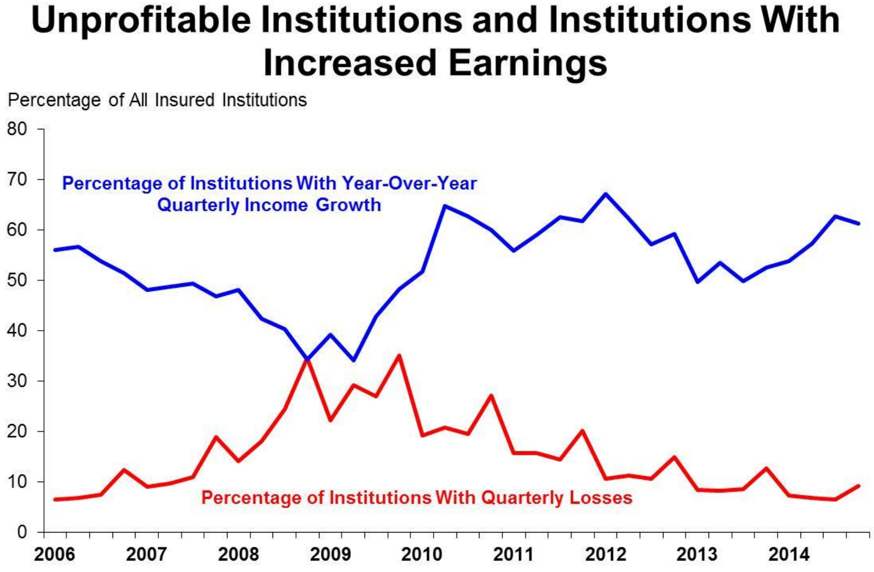
Chart 1



The first chart shows that fourth quarter net income was 36.9 billion dollars, down 7.3 percent from the prior year. The principal reasons for the decline were a 4.4 billion dollar increase in litigation expenses concentrated at a few large institutions and a 1.6 billion dollar decline in mortgage-related noninterest income.

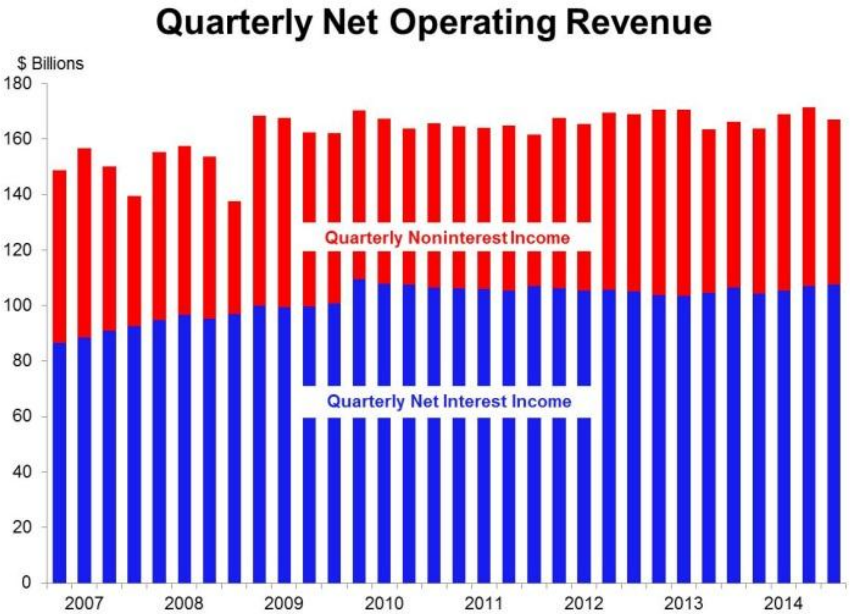
In contrast to the overall industry, community banks reported a 28 percent increase in earnings in the fourth quarter from the previous year. Earnings at community banks benefited from higher revenues and lower loan-loss provisions.

Chart 2



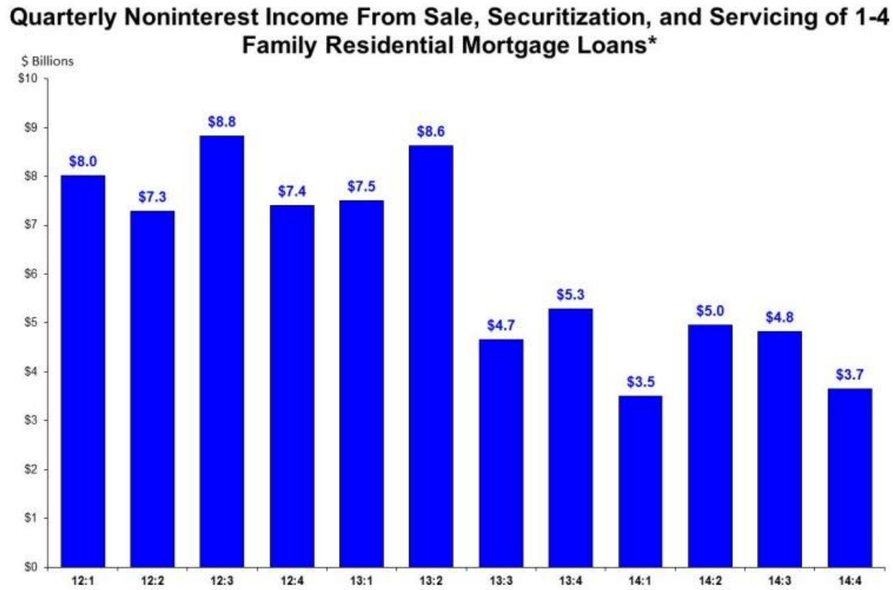
The next chart shows that performance is improving at a growing share of banks. More than three-fifths of all banks reported higher year-over-year growth in quarterly earnings, and the percentage of unprofitable banks continues to trend down on a year-over-year basis.

Chart 3



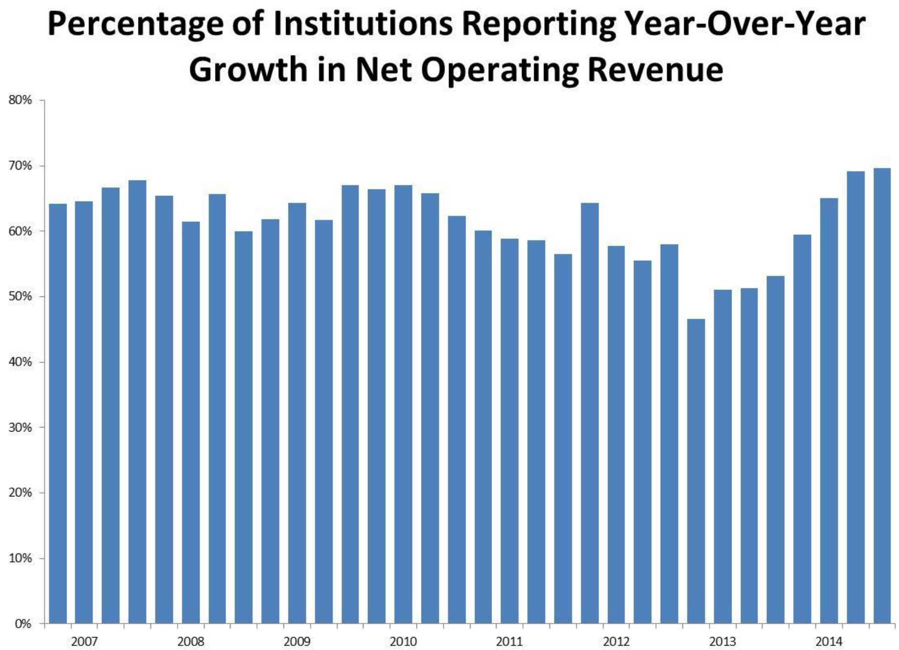
Net operating revenue was up marginally in the fourth quarter from the prior year. A small increase in net interest income from stronger loan growth was partially offset by a slight decline in noninterest income.

Chart 4



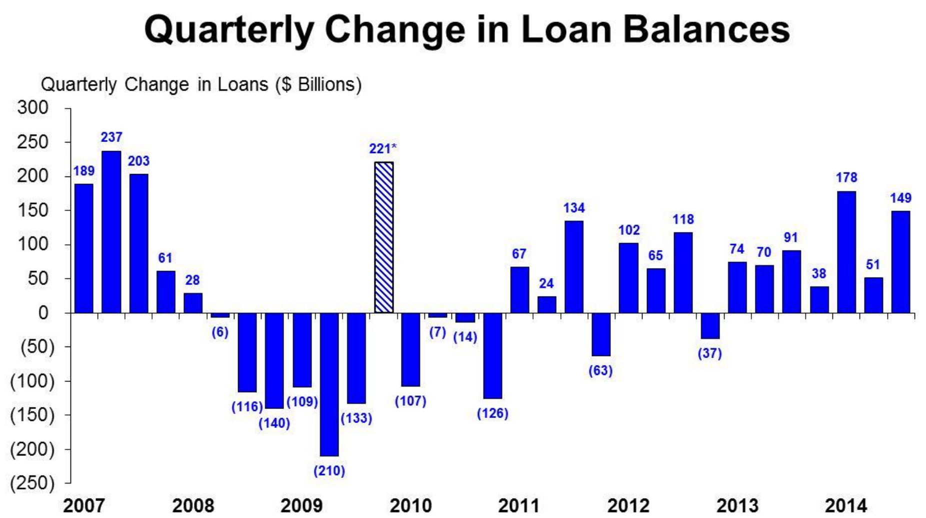
Much of the weakness in noninterest income during the past six quarters reflects a substantial decline in revenue from the sale, securitization, and servicing of residential mortgage loans following the sharp increase in medium- and long-term rates in the second quarter of 2013. Chart 4 shows that this mortgage-related noninterest income fell 1.6 billion dollars in the fourth quarter from a year earlier.

Chart 5:



As you can see in this next chart, more institutions are reporting revenue growth. Almost 70 percent of all banks reported higher net operating revenue in the fourth quarter than in the prior year. This is up from less than half of all banks in first quarter 2013.

Chart 6



* FASB Statements 166 and 167 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the total amount consolidated cannot be precisely quantified, the industry would have reported a decline in loan balances for the quarter absent this change in accounting standards.

Meanwhile, total loan balances rose 149 billion dollars, or 1.8 percent, in the fourth quarter. For all of 2014, loan balances grew 5.3 percent, the highest 12-month growth rate since mid-2008.

Loan growth was even stronger among community banks at 2.5 percent in the quarter and 8.6 percent for the full year, with strong growth in commercial and industrial loans, 1-4 family residential mortgages, and commercial real estate loans. And community banks, which account for 45 percent of the industry's small loans to businesses, grew their small business loans at a faster pace than the industry during the fourth quarter and over the full year.

Chart 7

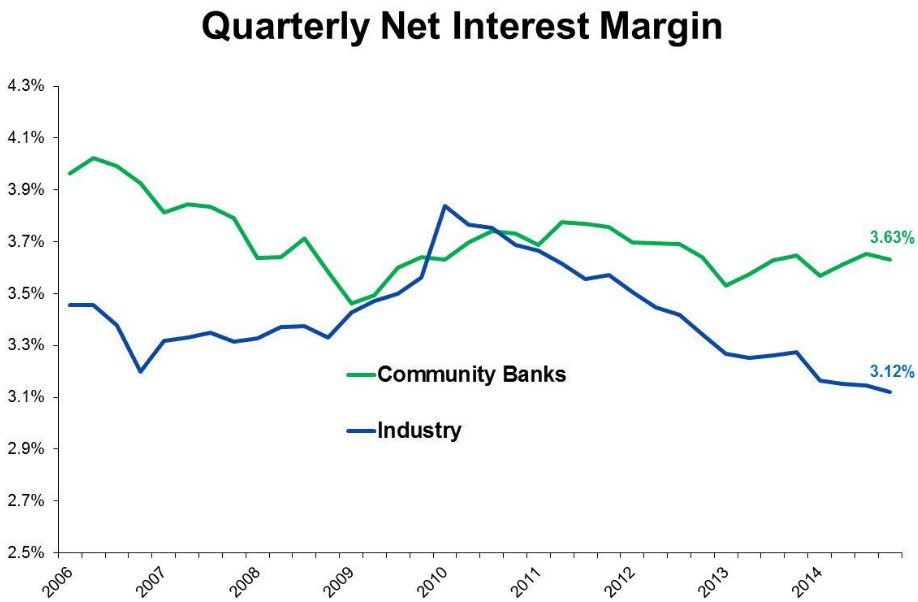
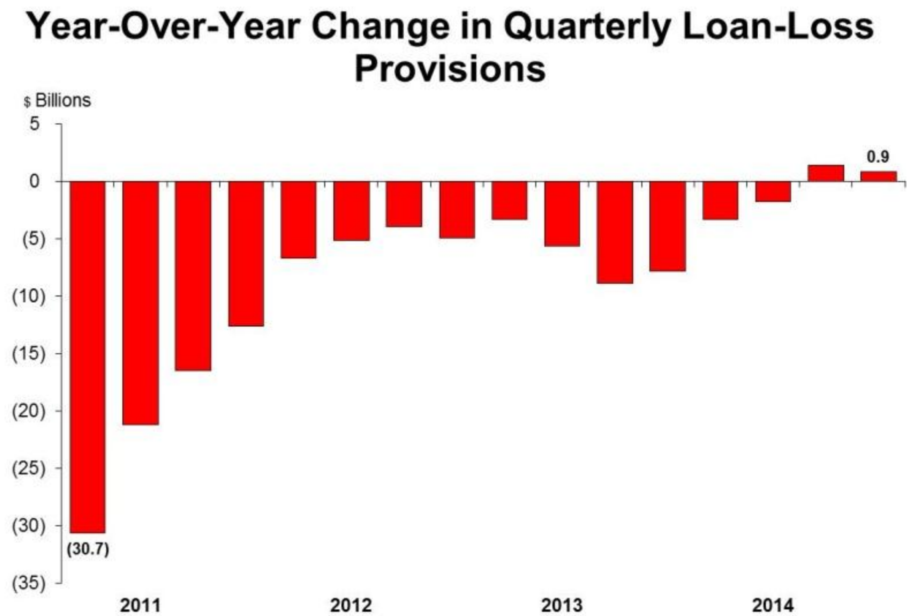


Chart 7 shows community banks have been able to avoid much of the erosion in net interest margins experienced by the rest of the industry. Community banks have had stronger growth in longer-term, higher-yielding loans, while a larger share of the asset growth at other institutions has consisted of lower-yielding, liquid investments.

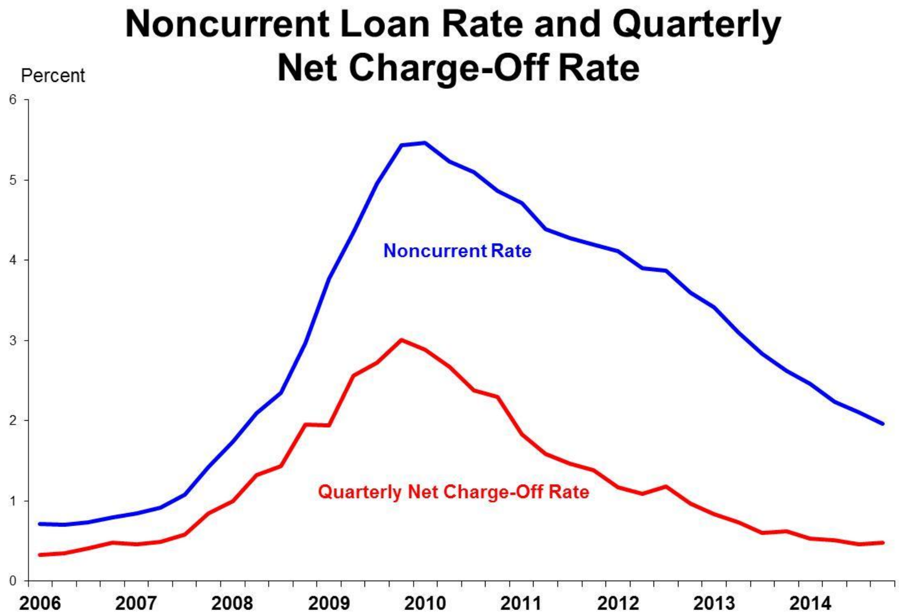
This “reach for yield” has benefited net interest income at many institutions, and community banks in particular. However, it has left these institutions more vulnerable to interest rate risk as rates rise, which is a matter of ongoing supervisory attention.

Chart 8



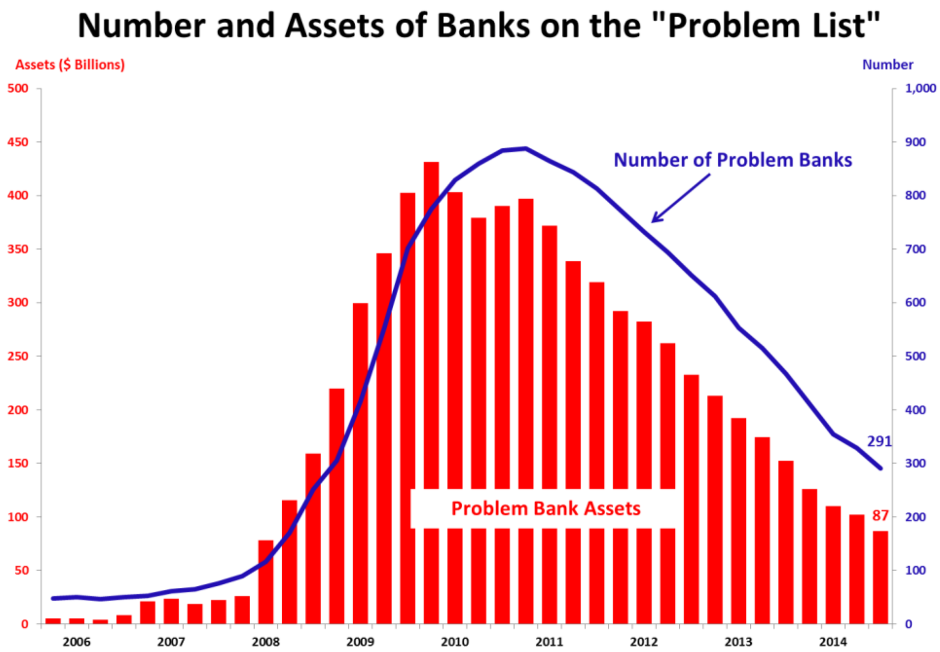
For the second consecutive quarter, quarterly loan-loss provisions were higher than they were a year earlier. This is a reflection of the industry having largely worked through credit-related issues from the crisis period, as well as the growing number of new loans

Chart 9



Asset quality indicators continue to show improvement. The percentage of noncurrent loans fell below two percent for the first time since the first quarter of 2008, and the charge-off rate has returned to its pre-crisis level.

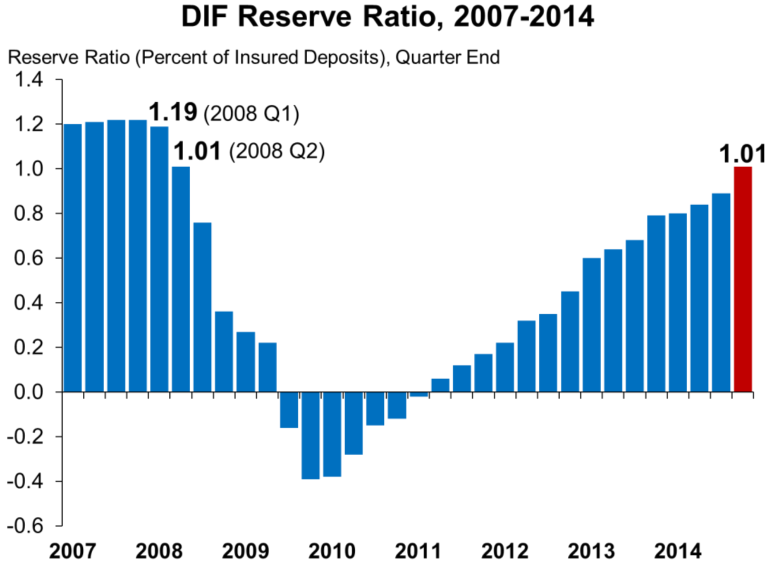
Chart 10



The number of banks on the problem list fell to the lowest level since the third quarter of 2008. There were 291 banks on the problem list at the end of 2014, less than one-third of the 888 problem banks at the peak in March 2011. Total assets of banks on the problem list fell to 87 billion dollars.

This is the first time problem bank assets have been below 100 billion dollars since March 2008.

Chart 11



The Deposit Insurance Fund balance stood at 62.8 billion dollars as of December 31, up 8.5 billion dollars from September 30. Most of the increase resulted from a reduction in estimated losses associated with past bank failures.

Estimated insured deposits were 6.2 trillion dollars, up 1.0 percent from September 30. Chart 11 shows the reserve ratio, which is the Fund balance as a percentage of estimated insured deposits, increased to 1.01 percent on December 31 from 0.88 percent on September 30.

This is the first time the reserve ratio has exceeded one percent since the second quarter of 2008. As required by law, the Deposit Insurance Fund must achieve a minimum reserve ratio of 1.35 percent by September 30, 2020.

We are well on track to achieving that goal.

In summary, the banking industry continued to show further improvement in the fourth quarter, notwithstanding the impact on earnings of significant litigation expenses at a few large institutions. Revenues and income were up from the previous year at a majority of banks, asset quality continued to improve, loan balances increased, and there were fewer banks on the problem list.

Community banks performed especially well during the quarter. Their earnings were up 28 percent from the previous year, their net interest margin and rate of loan growth were appreciably higher than the industry, and they increased their small loans to businesses at a faster pace.

Still, the current operating environment remains challenging. Revenue growth continues to be held back by narrow interest margins and lower mortgage-related income. And many institutions are reaching for yield given the low interest-rate environment, which is a matter of ongoing supervisory attention.

Nevertheless, results from the fourth quarter generally were positive for the banking industry, and for community banks in particular.

Thank you.

I am happy to take your questions.