Chairman's Opening Statement

Fourth Quarter 2015 Quarterly Banking Profile

February 23, 2016

Good morning, and welcome to our release of fourth quarter 2015 results for FDIC-insured institutions.

Overall, the banking industry had another positive quarter. Revenue and earnings were higher than a year ago, loan growth improved, fewer institutions were unprofitable, and the number of banks on the "Problem List" fell below 200 for the first time in more than 7 years. Full-year 2015 results for the industry also showed continued improvement.

Community banks reported another positive quarter and continued improvement over 2015. Their earnings rose from a year ago, and their revenue growth, loan growth and net interest margins were appreciably higher than the overall industry.

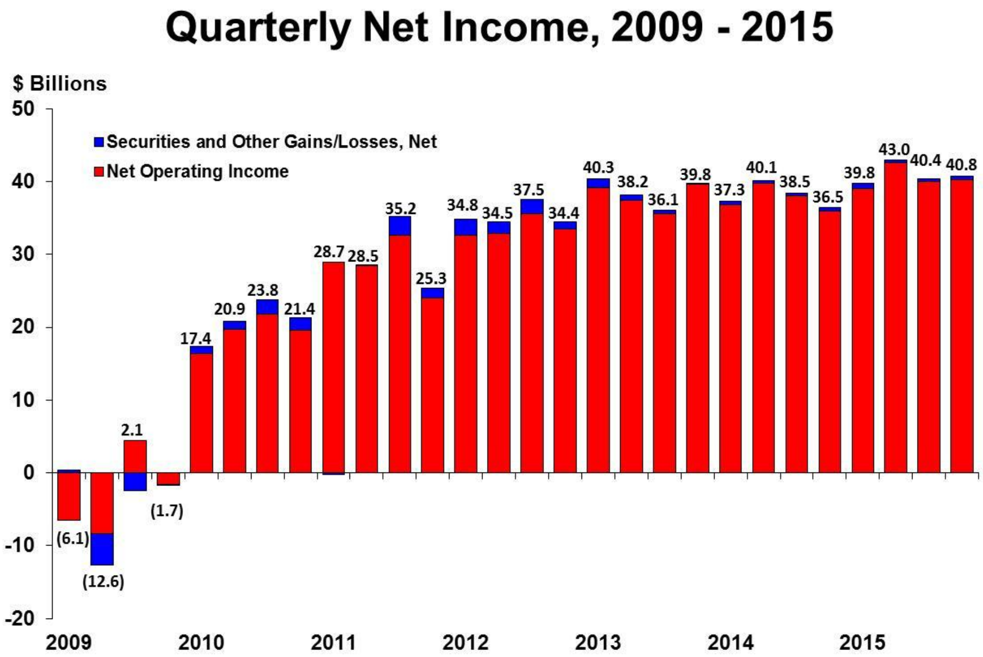
However, the operating environment for banks remains challenging. Interest rates have been exceptionally low for an extended period, and we are seeing signs of growing interest rate risk and credit risk.

Recently, domestic and international market developments have led to heightened concerns about the U.S. economic outlook and prospects for the banking industry. Thus far, the performance of banks has not been impacted materially. However, the full effect of lower energy and other commodity prices remains to be seen.

Going forward, the banking industry is better-positioned to withstand less-favorable economic and financial market conditions. Regulatory agencies have been working together to ensure that banks have strong balance sheets. Capital ratios are significantly higher than they were prior to the crisis, and the percentage of highly liquid assets also is significantly higher.

As events unfold, banks must remain vigilant as they manage interest rate risk, credit risk, and evolving market conditions. These challenges will continue to be a focus of ongoing supervisory attention.

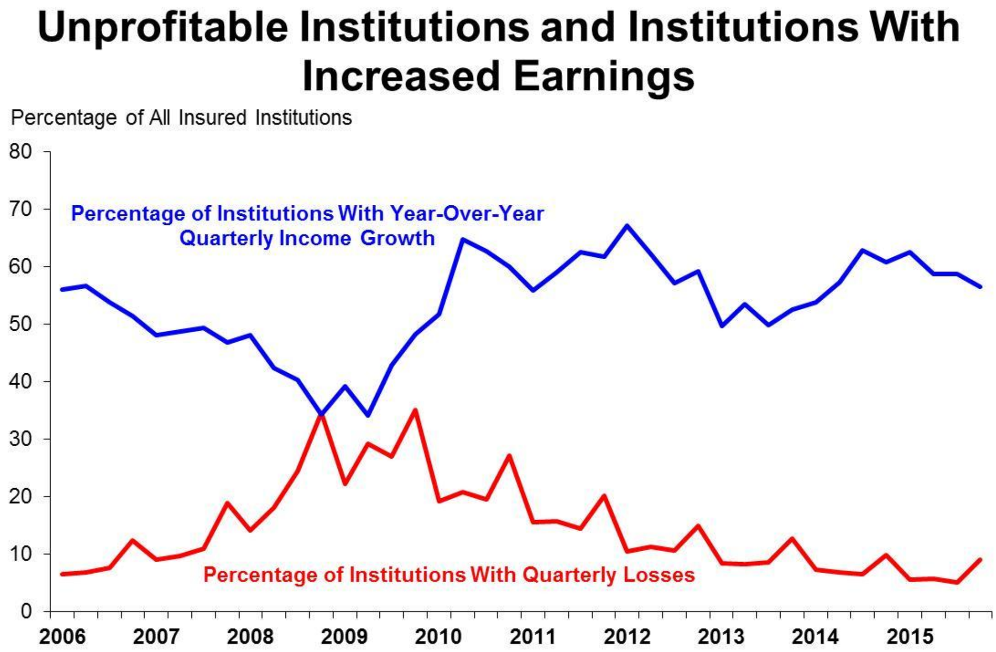
Chart 1:



Our first chart shows that fourth quarter net income was 40.8 billion dollars, up 12 percent from the fourth quarter of 2014. Earnings grew as net operating revenue rose by nearly 7 billion dollars and noninterest expense fell by 2.7 billion dollars. The decline in noninterest expense was largely due to lower litigation charges at a few large institutions.

Community banks also reported improved earnings in the fourth quarter. Community banks benefited from strong balance sheet growth.

Chart 2:



The next chart shows that earnings continued to improve at a majority of institutions. More than half of all banks reported growth in quarterly earnings from a year ago, and the percentage of unprofitable banks continued to trend down on a year-over-year basis.

Chart 3:

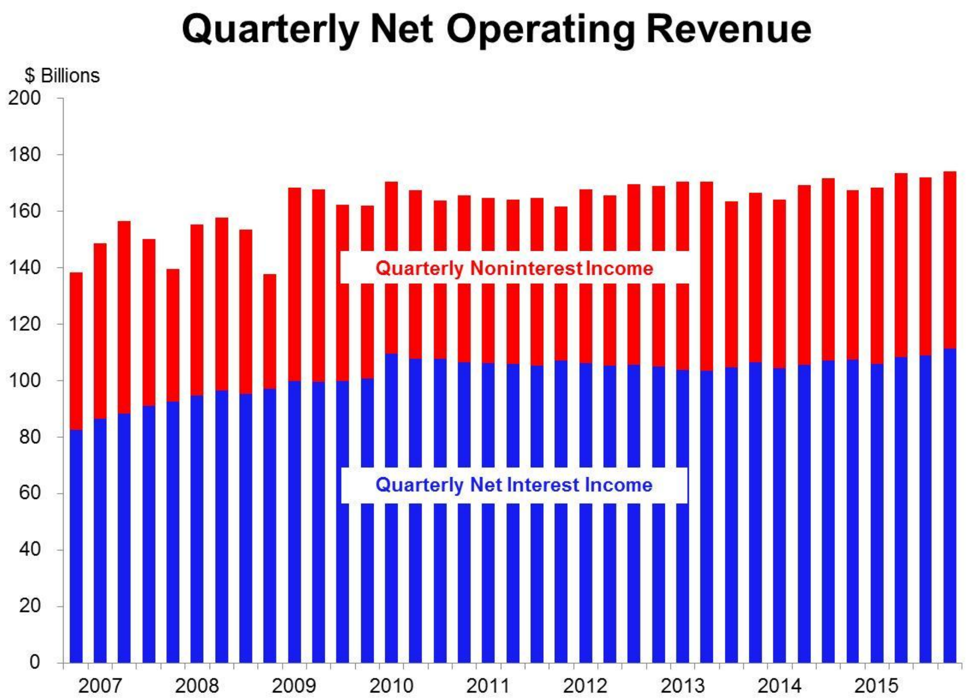
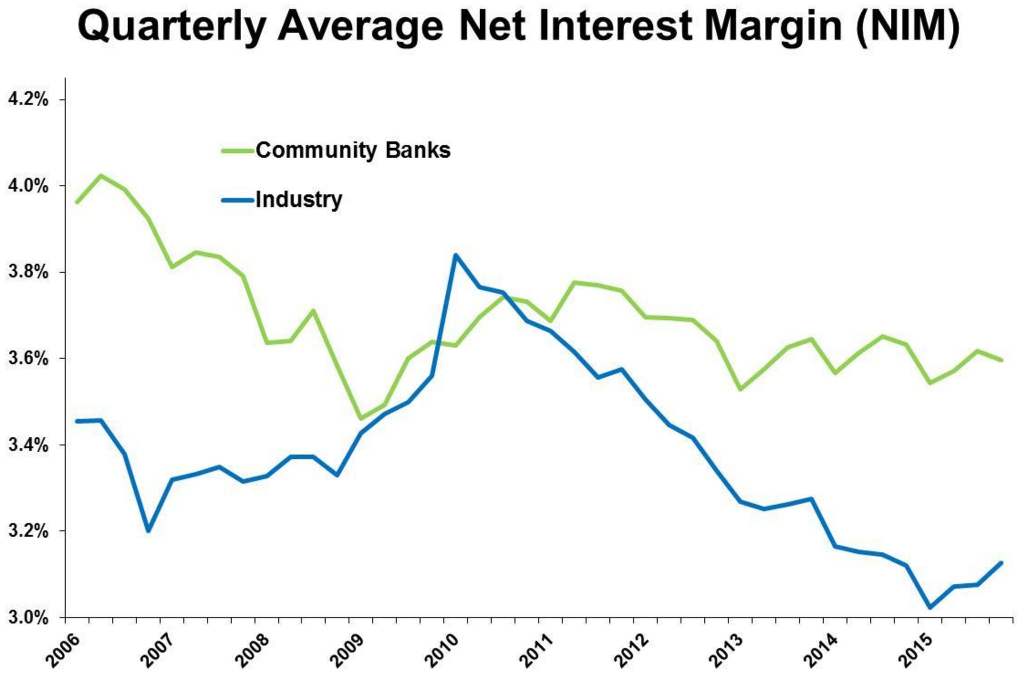


Chart 3 shows that net operating revenue was up 4 percent in the quarter from a year ago. Net interest income increased by 3.6 percent, and noninterest income was 5 percent higher.

More than two out of three banks reported higher net operating revenue from a year ago. Growth was particularly strong at community banks, where net operating revenue rose by 7.4 percent.

Chart 4:



Our next chart shows that net interest margins remain under pressure. While the average industry margin edged up during the quarter, fewer than half of all banks reported year-over-year improvement.

Community banks continue to experience significantly higher net interest margins than the rest of the industry. However, the average margin at community banks was down slightly during the fourth quarter.

Chart 5:

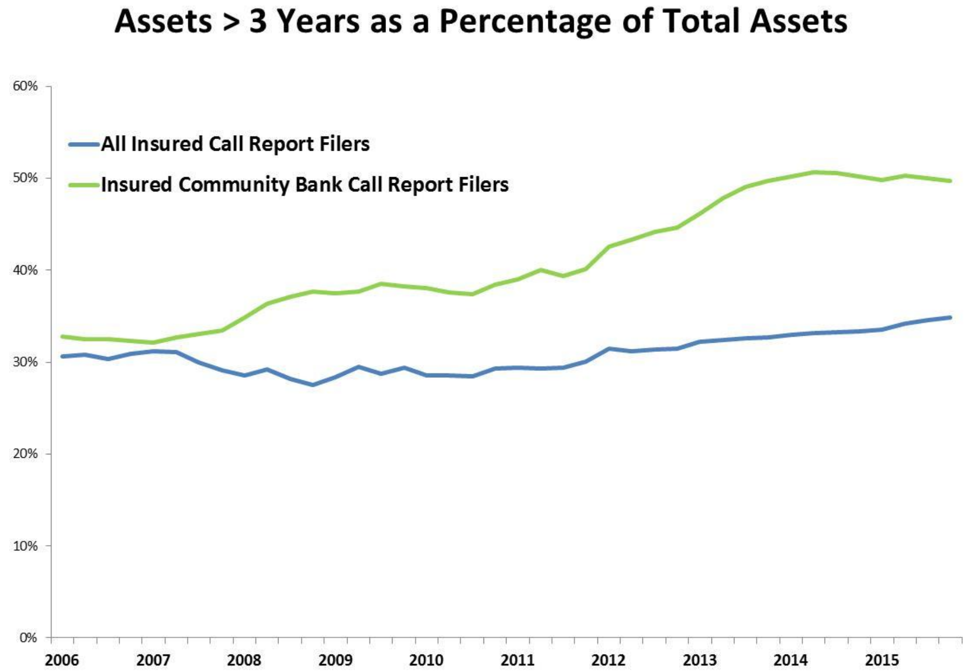
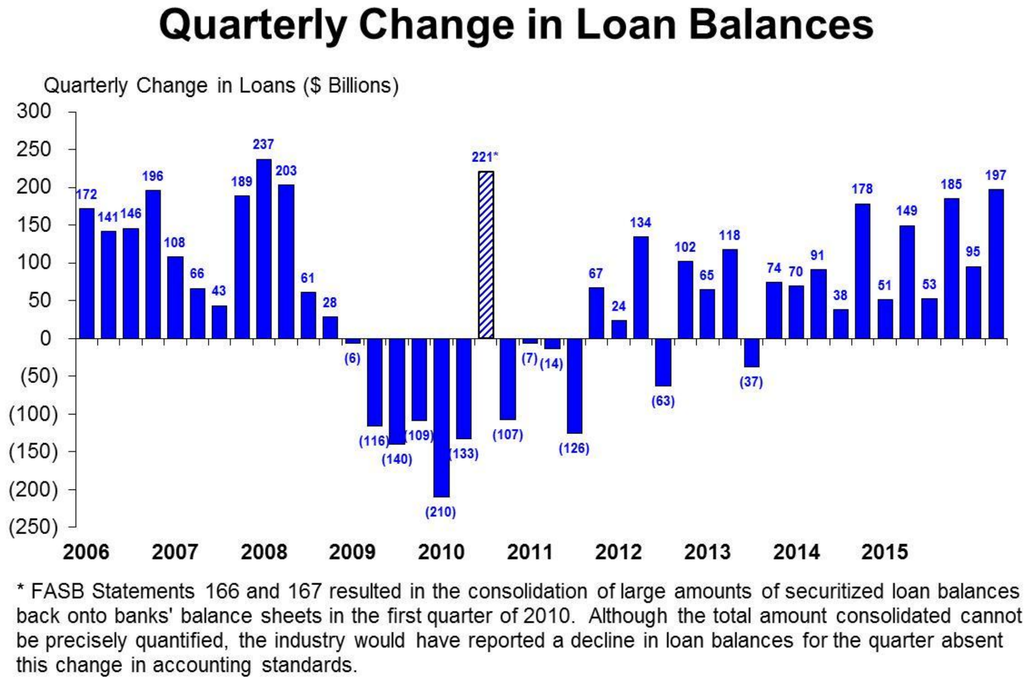


Chart 5 shows that community banks hold a larger share of longer-term assets on their balance sheets than the overall industry. This has helped community banks sustain their net interest margins in the low interest rate environment. However, it also indicates a heightened level of interest rate risk.

The share of longer-term assets peaked at community banks in the second quarter of 2014 at just over 50 percent and has since been relatively flat. In contrast, the share of longer-term assets at larger institutions continues to trend up slowly.

Chart 6:



Loan balances rose by 197 billion dollars during the fourth quarter. This was led by a 39 billion dollar increase in commercial and industrial loans, a 29 billion dollar increase in commercial real estate loans, and a strong seasonal increase of 41 billion dollars in credit card balances.

Loan balances grew by 6.4 percent during 2015, the highest 12-month growth rate since mid-2008.

Loan growth was even stronger among community banks at 8.6 percent during 2015. Growth was led by commercial real estate loans, 1-4 family residential mortgages, and commercial and industrial loans. And community banks, which account for 44 percent of the industry's small loans to businesses, grew their small business loans at a faster pace than the industry during 2015.

Chart 7:

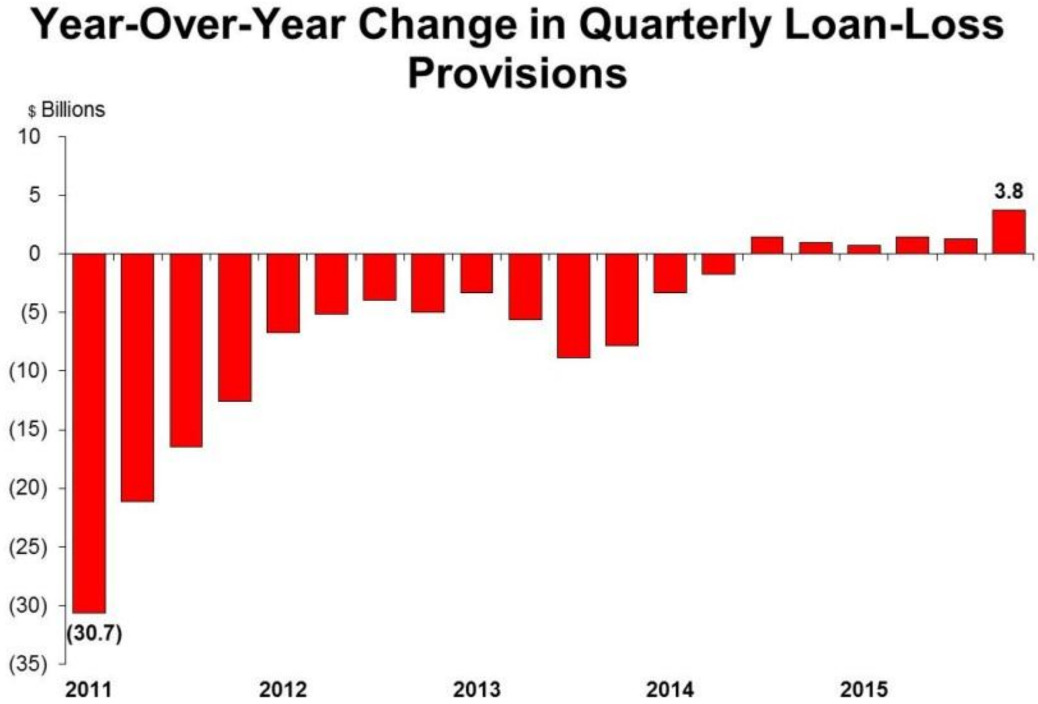
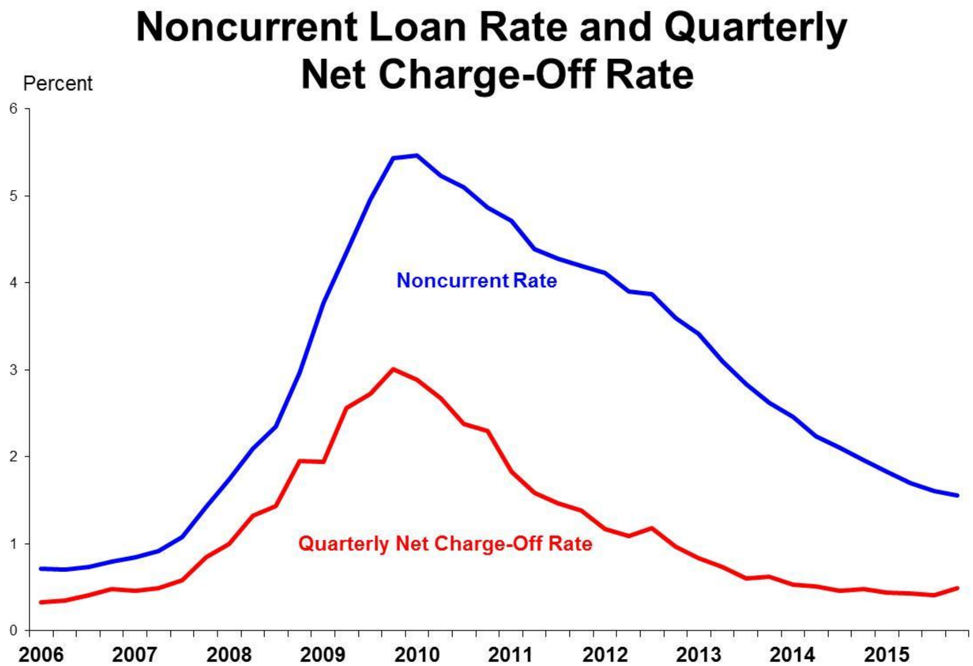


Chart 7 shows that loan-loss provisions have increased on a year-over-year basis for six consecutive quarters. The industry has largely moved beyond the post-crisis recovery phase to a more normal phase of the credit cycle where reserve balances are once again increasing in line with the growth in loan portfolios. In addition, we believe that some of the increase in loss provisions also is attributable to stress in the energy sector.

Chart 8:



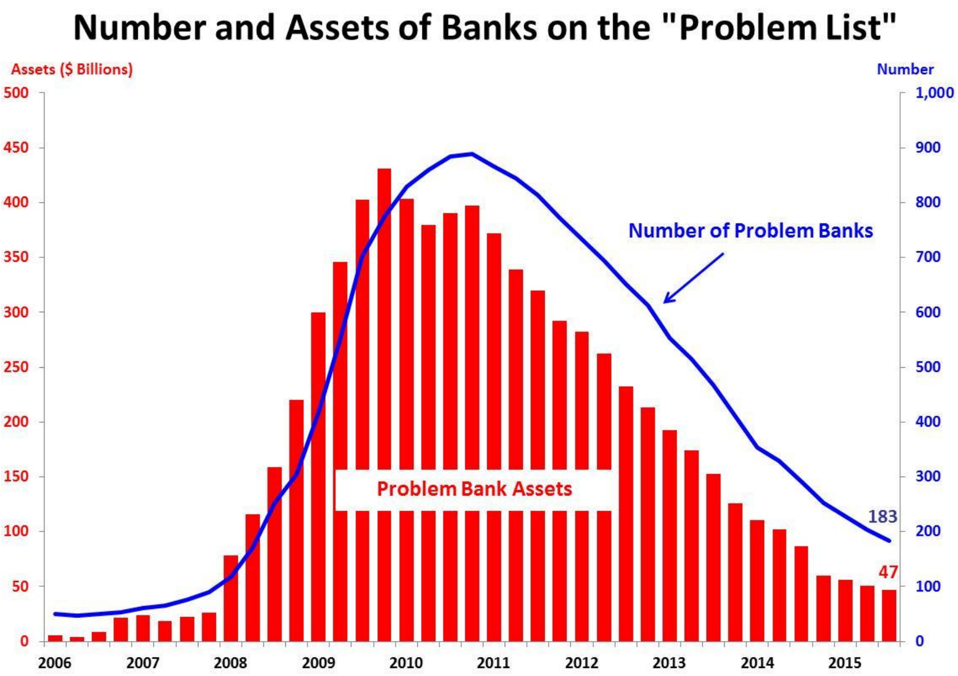
Our next chart shows that asset quality indicators continue to reflect a strong banking industry.

The noncurrent loan rate has been falling for nearly six years.

While net charge-offs posted their first year-over-year increase in five and a half years, the industry's net charge-off rate is at its pre-crisis level.

The increase in charge-offs was led by commercial and industrial loans, where low oil prices have put pressure on energy sector borrowers. The remaining increase was in consumer loan portfolios, where credit losses are tracking consumer loan growth. Charge-offs continued to improve in other major loan categories, including residential and commercial real estate loans.

Chart 9:

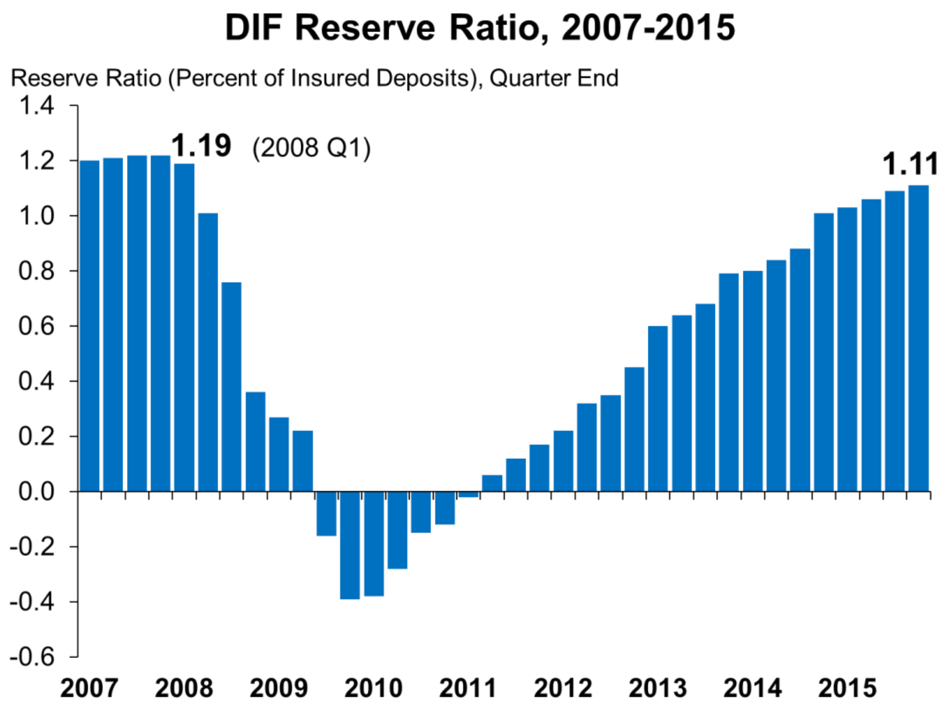


The number of banks on the "Problem List" fell to 183 at the end of 2015. This is the fewest problem banks since the third quarter of 2008.

Total assets of problem banks fell to 47 billion dollars. This is the first time problem bank assets have been below 50 billion dollars since the first quarter of 2008.

There were two bank failures during the fourth quarter, bringing the total to eight failures for all of 2015. This is down from 18 failures in 2014, and is the lowest full-year total since 2007.

Chart 10:



The Deposit Insurance Fund balance was 72.6 billion dollars on December 31, up 2.5 billion dollars from September 30. Assessment revenue was primarily responsible for the increase.

Estimated insured deposits rose to 6.5 trillion dollars at the end of December, an increase of 1.8 percent from September 30.

Chart 10 shows that the reserve ratio, which is the Fund balance as a percentage of estimated insured deposits, increased to 1.11 percent on December 31 from 1.09 percent on September 30.

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

We are on track to meet this mandate.

In summary, the banking industry continued to improve in the fourth quarter. Revenue and income were up from the previous year, overall asset quality continued to improve, loan balances increased, and there were fewer banks on the problem list.

Community banks also reported strong results. Their revenue growth, average net interest margin, and rate of loan growth were appreciably higher than the industry. And their small loans to businesses increased at a faster pace than the industry during 2015.

However, banks are operating in a challenging environment. Revenue growth continues to be held back by narrow interest margins. Many institutions are reaching for yield, given the competition for borrowers and low interest rates. And there are signs of growing credit risk, particularly among loans related to energy and agriculture. As we have noted previously, credit risk and interest rate risk are matters of ongoing supervisory attention.

Recently, the operating environment for banks has been unsettled. Global economic events and volatile financial markets underline the fact that banks confront considerable uncertainty going forward.

Nevertheless, fourth quarter results for the banking industry were positive, and for community banks in particular. They serve as a reminder that the condition of the U.S. banking industry is much improved, and that insured institutions are in a much better position today to handle uncertain conditions than they were in the past.

Thank you.

I am happy to take your questions.