Chairman's Opening Statement

Second Quarter 2017 Quarterly Banking Profile

August 22, 2017

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

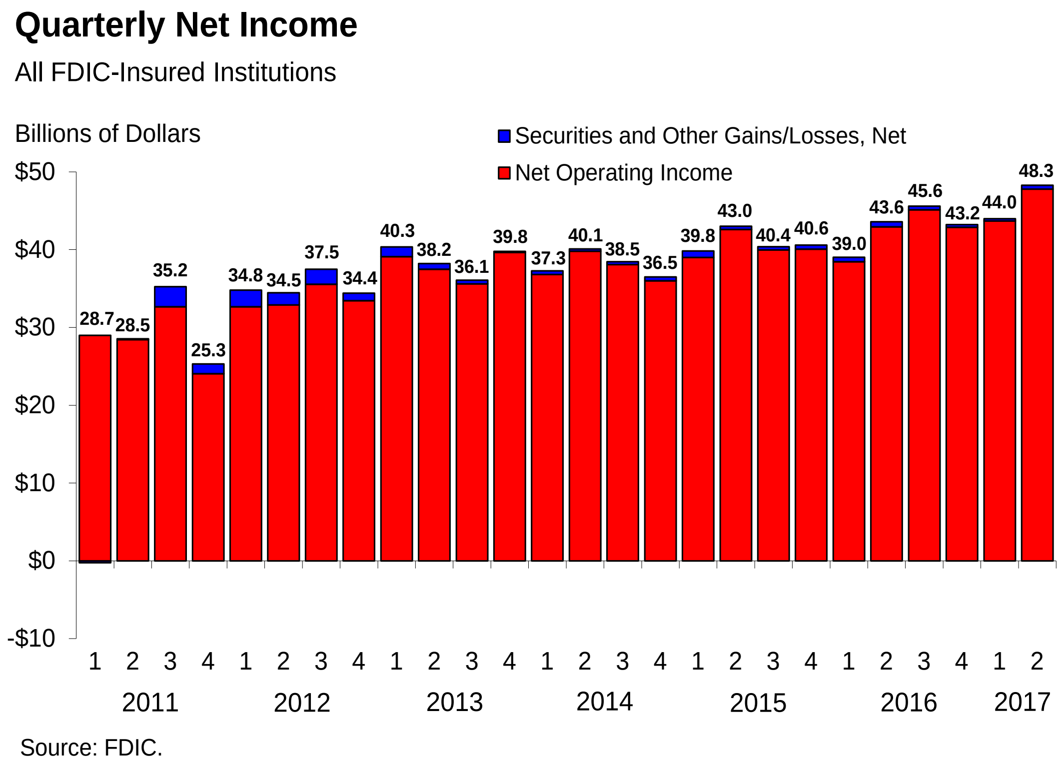
This was another positive quarter for the banking industry, as performance improved compared to last quarter and a year ago. Revenue and net income growth were both strong, profitability reached a post-crisis high, net interest margins improved, and the number of unprofitable banks and "problem banks" continued to fall.

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

However, as the economy enters the ninth year of an expansion characterized by modest growth, the annual rate of loan growth continued to slow for a third consecutive quarter. Nevertheless, loan growth has remained at or above nominal GDP growth.

The interest-rate environment and competitive lending conditions continue to pose challenges for many institutions. Some banks have responded to this environment by "reaching for yield" through higher-risk and longer-term assets. The industry must manage interest-rate risk, liquidity risk, and credit risk carefully to remain on a long-run, sustainable growth path. These challenges will continue to be a focus of supervisory attention.

Chart 1: Quarterly Net Income



Our first chart shows that net income for the industry was 48.3 billion dollars during the quarter, a 10.7 percent increase from a year ago. Nearly two-thirds 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.

The industry's return on assets was 1.14 percent in the second quarter. That is up from 1.06 percent a year ago, and is the highest quarterly return on assets since the second quarter of 2007.

Community banks reported net income of 5.7 billion dollars in the second quarter, an increase of 8.5 percent from a year earlier.

Chart 2: Quarterly Net Operating Revenue

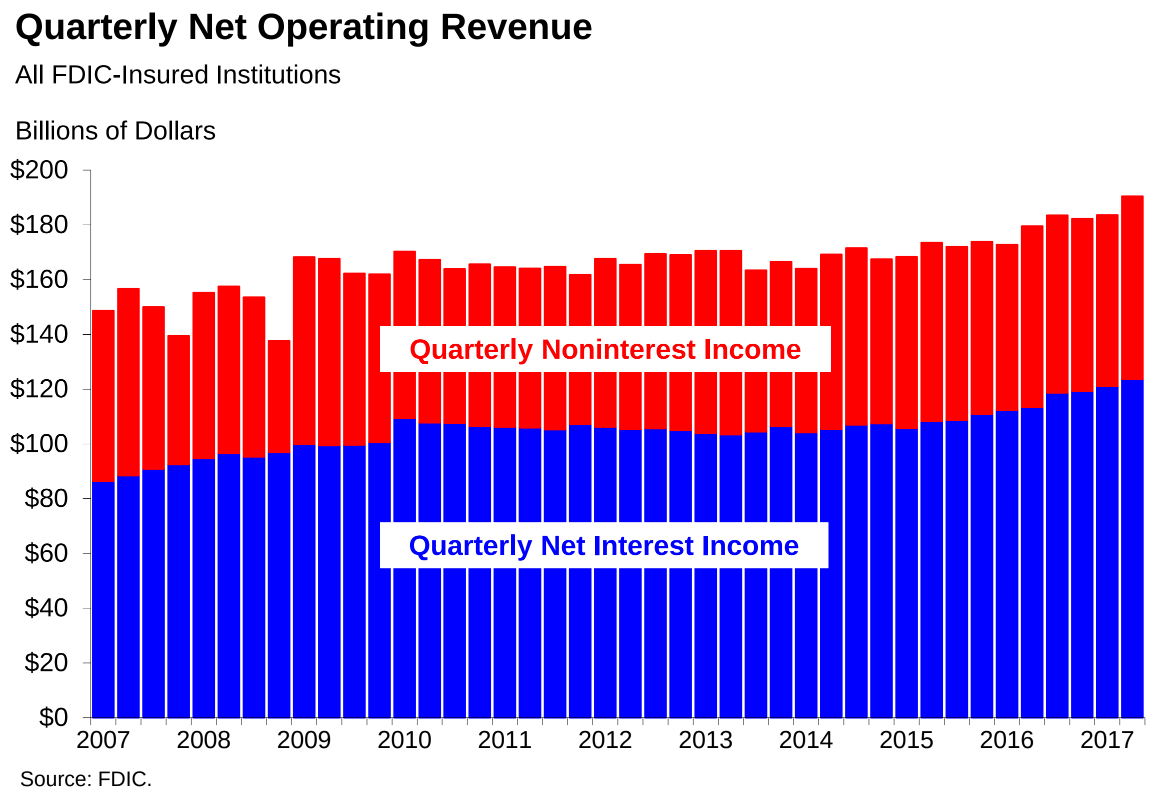
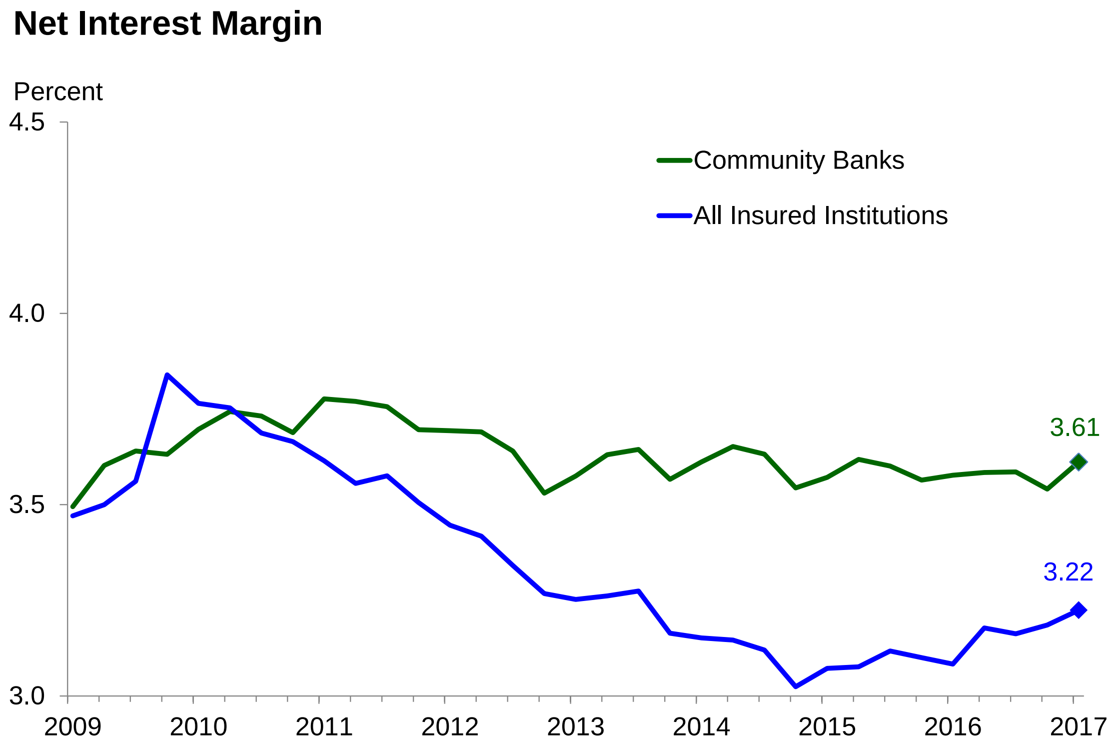


Chart 2 shows that net operating revenue was 190.5 billion dollars in the second quarter, an increase of 6.1 percent from a year earlier. The increase in revenue was broad-based across the industry, as three quarters of all banks reported higher revenue than a year ago.

The growth in revenue was due largely to higher net interest income, which grew by 9.1 percent from a year ago. Noninterest income grew by 1 percent.

Chart 3: Net Interest Margin



Source: FDIC.

Strong growth in net interest income was driven by an increase in net interest margins as short-term interest rates have risen. Chart 3 shows that the average margin for the industry was 3.22 percent in the second quarter, up from 3.08 percent a year ago, and 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. However, the gap has narrowed in recent quarters. Large institutions have benefitted more than community banks from rising short-term interest rates, as large institutions have a greater share of assets that reprice quickly.

Chart 4: Loans and Securities > 3 Years as a Percent of Total Assets

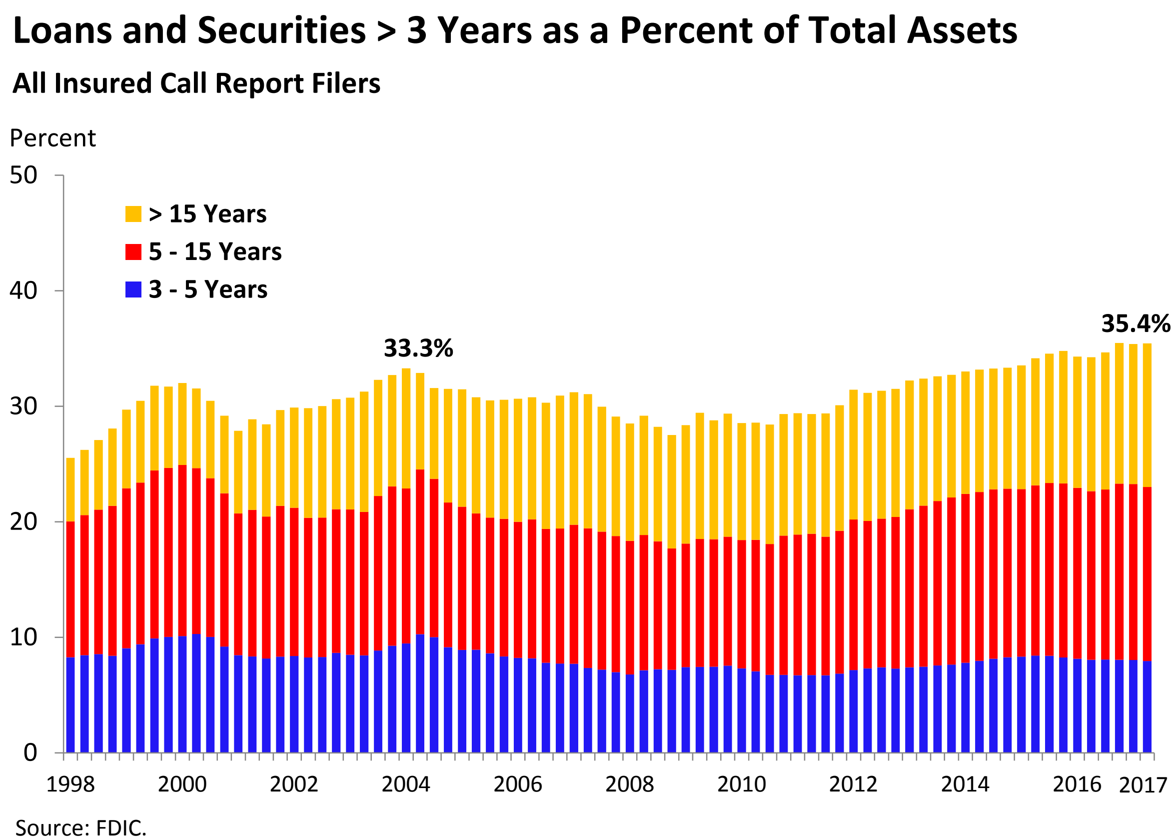
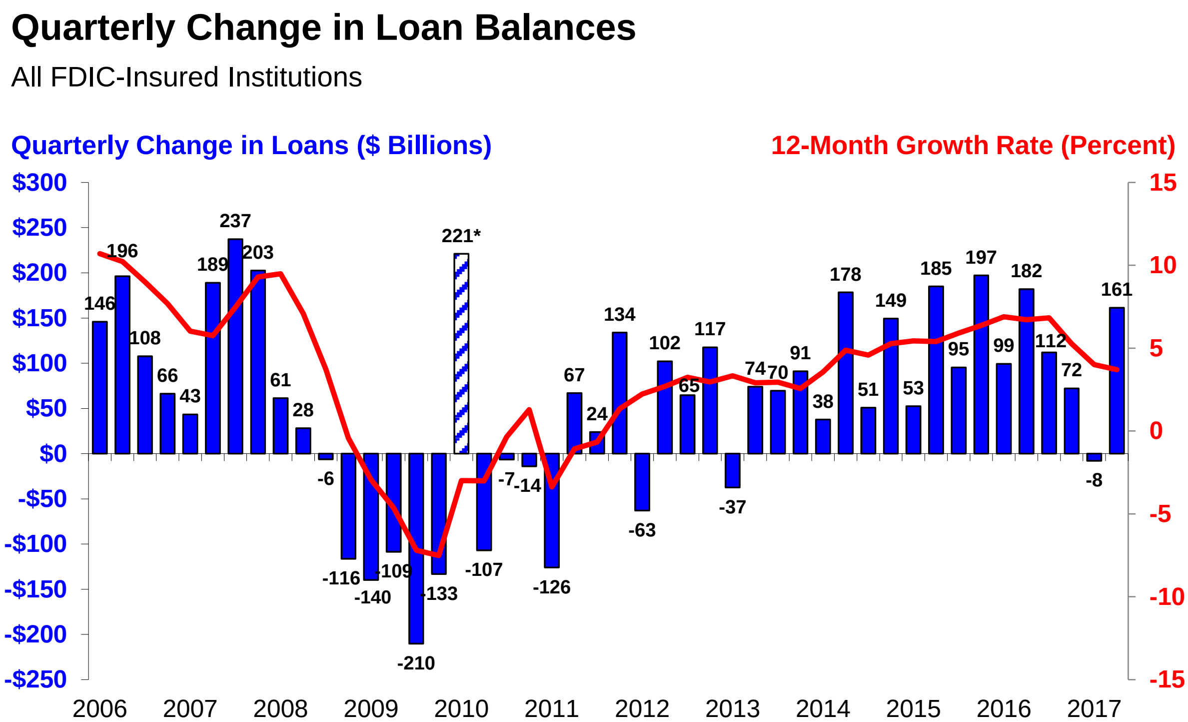


Chart 4 shows that the share of longer-term assets relative to total industry assets remains elevated near the record high reached at the end of last year. Banks have been extending asset maturities to increase yields and maintain margins in a low-rate environment. However, this has left many institutions 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 5: Quarterly Change in Loan Balances



Source: FDIC. *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.

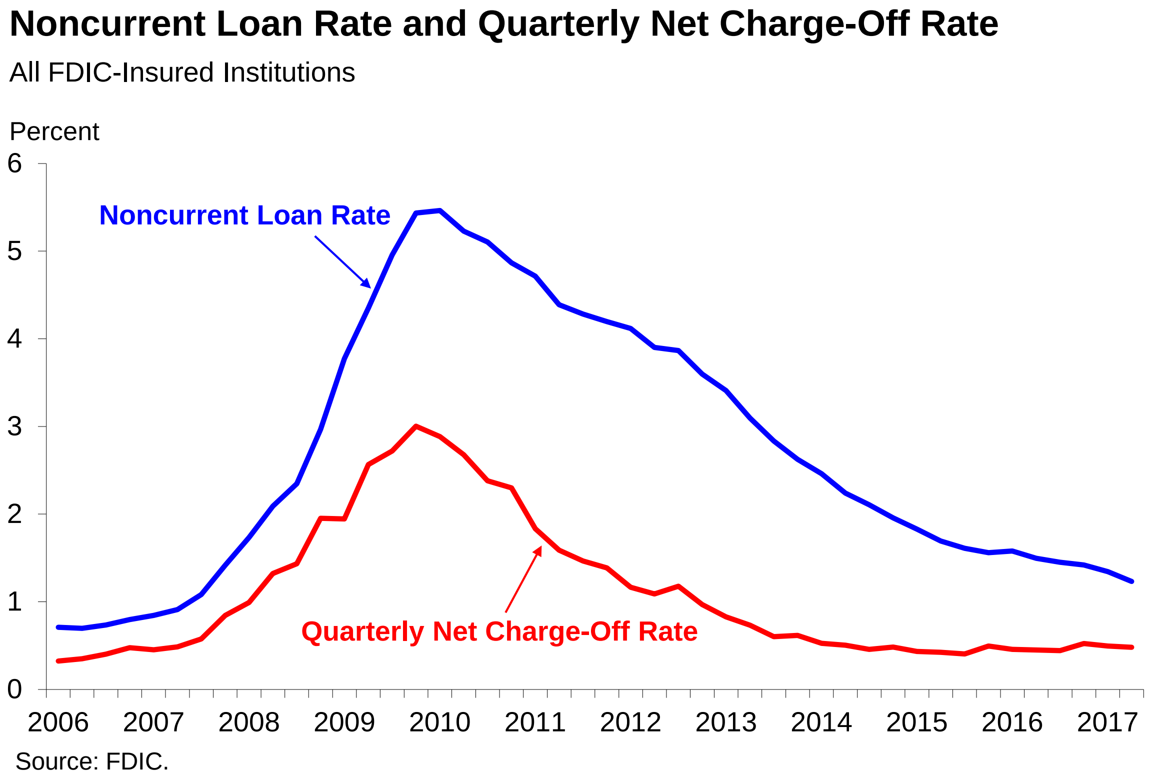
Chart 5 shows that loan balances increased 161 billion dollars during the quarter. The largest increase was in residential mortgage loans, followed by credit card balances and C&I loans. All major loan categories registered growth in the second quarter.

Loan balances rose 3.7 percent over the past year. This is down from a 4 percent increase last quarter and the post-crisis high of nearly 7 percent a year ago. As the U.S. economy enters the ninth year of expansion, a slowdown in loan growth is not unusual at this stage of the credit cycle. However, loan growth has been at or above nominal GDP growth, which is a typical benchmark against which loan growth is compared.

As has been the case throughout most of the post-crisis period, loan growth was stronger at community banks in the second quarter than the rest of the industry. Loan growth at community banks was 2.7 percent during the quarter and 7.8 percent over the past year.

Community banks, which account for 43 percent of the industry's small loans to businesses, continued to increase their lending to small businesses at a faster pace than the industry. Small loans to businesses by community banks rose 2.7 percent during the past year, compared to a 1 percent increase for the entire industry.

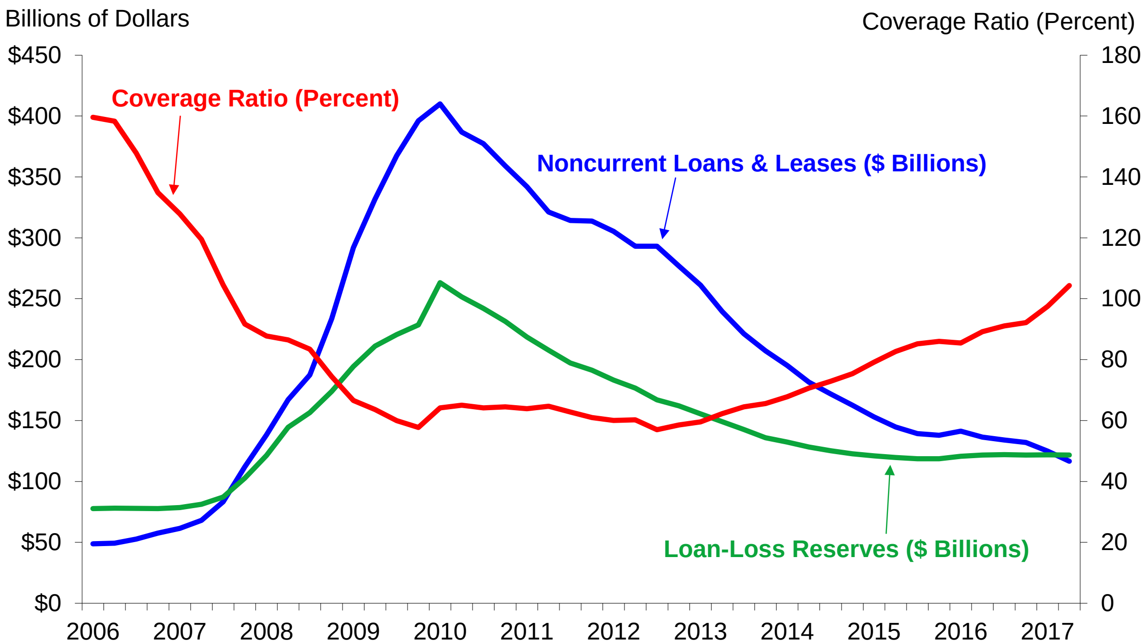
Chart 6: Noncurrent Loan Rate and Quarterly Net Charge-Off Rate



Our next chart shows that overall asset quality remains strong. The noncurrent rate continued to fall in the second quarter, and the net charge-off rate remains near the cyclical low. However, while charge-offs have been declining in most loan categories, they were higher than a year ago for credit cards and auto loans.

Chart 7: Reserve Coverage Ratio

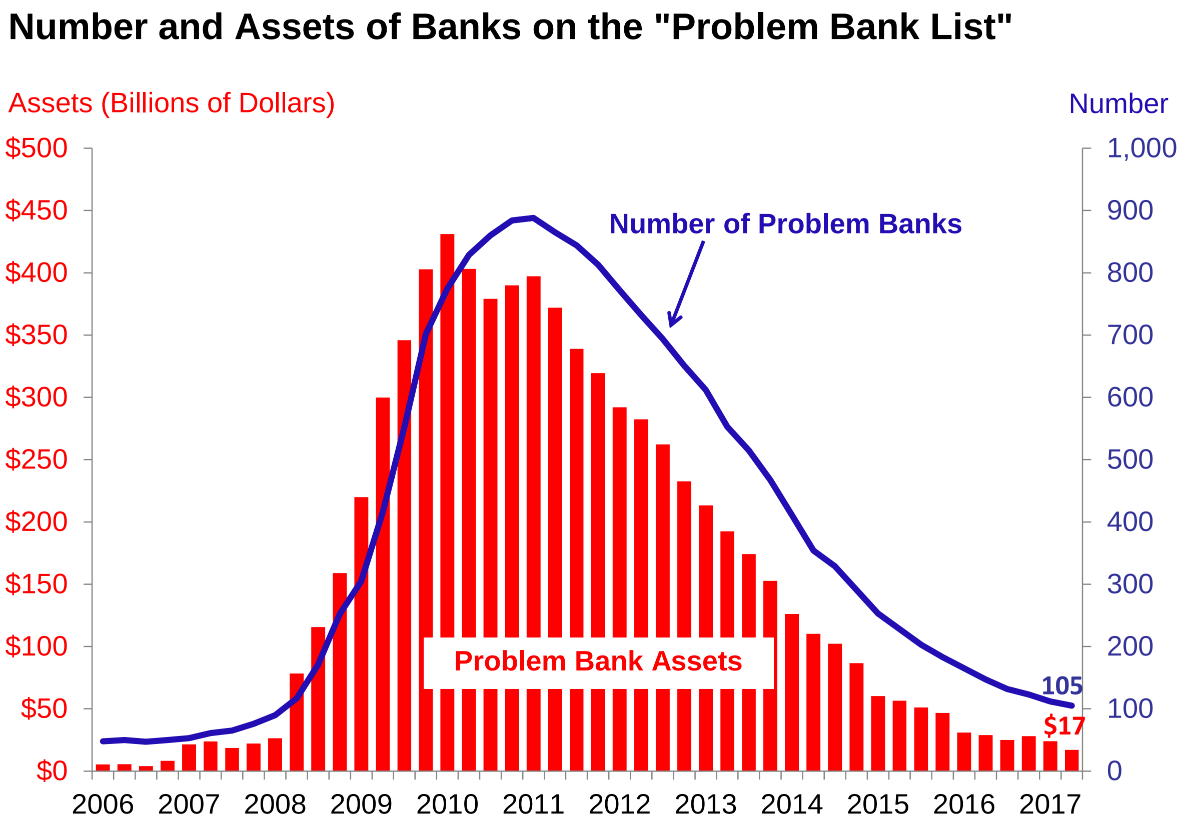
Reserve Coverage Ratio*



Source: FDIC.
*Loan-loss reserves to noncurrent loans & leases.

Chart 7 shows that the industry's reserve coverage ratio, which measures loan-loss reserves relative to total noncurrent loan balances, was 104 percent at the end of the quarter. This is the highest level since the third quarter of 2007. It shows that the industry's capacity to absorb credit losses continues to improve as noncurrent loan balances decline and loan-loss reserves remain relatively stable.

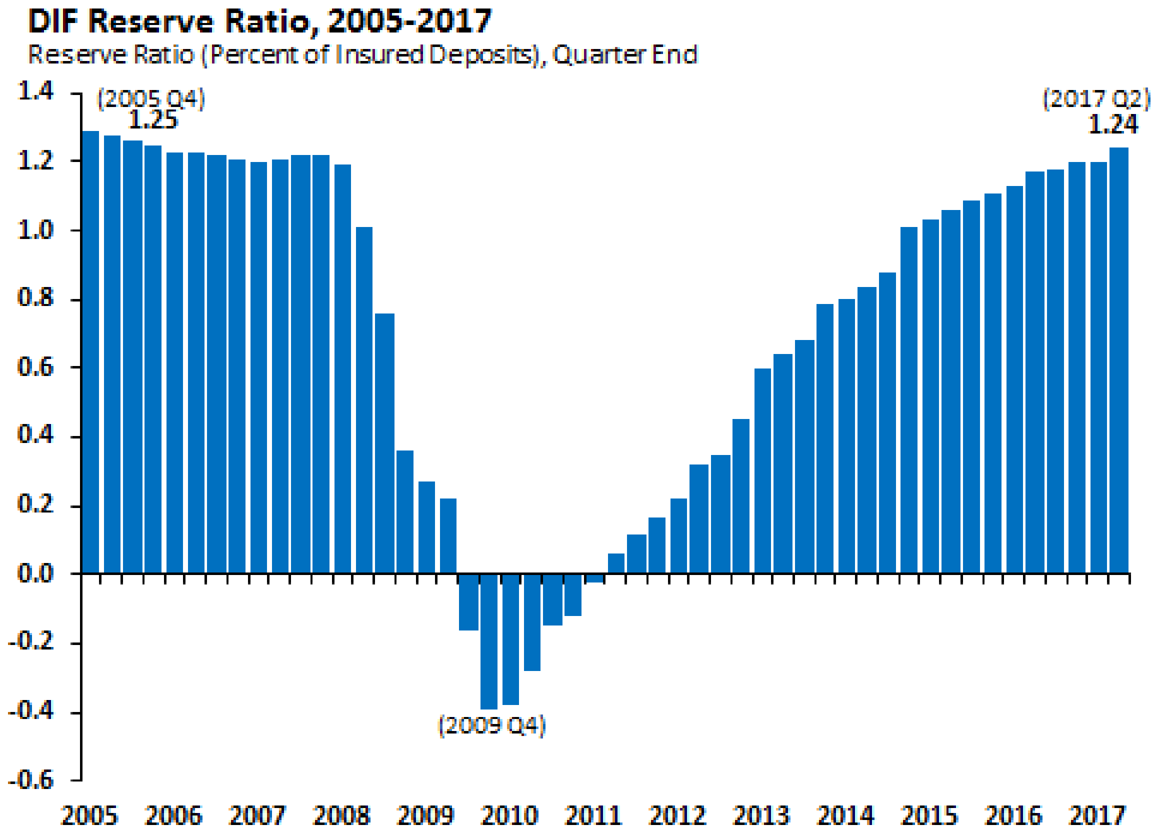
Chart 8: Number and Assets of Banks on the "Problem Bank List"



Source: FDIC.

Chart 8 shows that the number of banks on the FDIC's "Problem Bank List" fell from 112 to 105 during the quarter. This is the smallest number of problem banks since the first quarter of 2008. Three banks failed during the second quarter.

Chart 9: DIF Reserve Ratio, 2005-2017



The Deposit Insurance Fund balance was 87.6 billion dollars on June 30, 2017, up 2.7 billion dollars from March 31. Assessment income largely drove the quarterly increase. Estimated insured deposits totaled 7.1 trillion dollars at the end of June, 0.4 percent lower than the March 31 level but 5.5 percent higher than insured deposits on June 30 of last year.

Chart 9 shows that the reserve ratio was 1.24 percent on June 30, up from 1.20 percent at the end of last quarter. This is the highest reserve ratio since the fourth quarter of 2005.

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, second quarter results for the banking industry were largely positive. Revenue and net income growth were strong, margins improved, and the number of unprofitable banks and "problem banks" continued to fall.

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

Annual loan growth remains at or above nominal GDP growth. However, as the economy enters the ninth year of a relatively modest expansion, the industry continued to see a gradual slowdown in the annual rate of loan growth.

While the quarterly results were largely positive, the operating environment for banks remains challenging. An extended period of low interest rates and an increasingly 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.