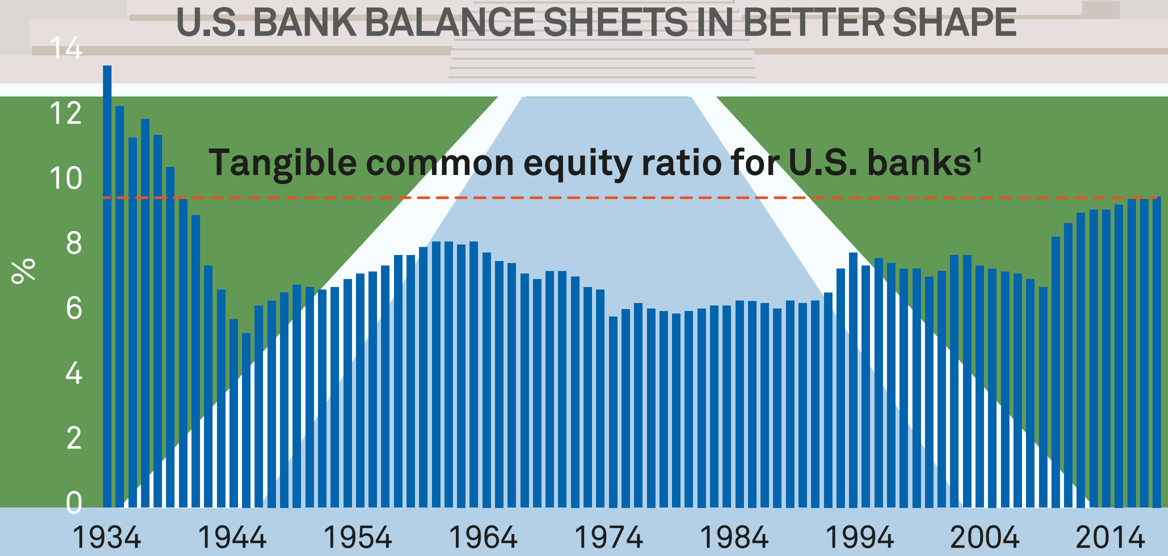
U.S. banking sector raises its game

U.S. BANK BALANCE SHEETS IN BETTER SHAPE



Source: FDIC and NYFRB. 1934-2017. As at December 31, 2017.

Federal Reserve 2018 stress tests passed

CCAR[2]:
SEVERE ADVERSE
SCENARIO TESTS

PASSED

If unemployment increases to **10%**

If real GDP declines **8.9%**

If market declines **65%**

If house prices fall **30%**

If commercial real estate declines **40%**

If 3 month treasury yield declines to 0.1 %

If 10 year treasury yield declines to 0.7%

Source: U.S. Federal Reserve, June 28, 2018.

1 Tangible Common Equity Ratio (TCER) is used to try and estimate how much capital a bank can sustainably lose before shareholder equity starts to become affected. As such, the higher the TCER, the more robust banks' balance sheets are deemed to be.

2 The Comprehensive Capital Analysis and Review (CCAR) is an annual exercise by the Federal Reserve to ensure that institutions have well defined and forward-looking capital planning processes that account for their unique risks and sufficient capital to continue operations through times of economic and financial stress. In the most recent test in June 2018, 34 of the largest 35 banks in the U.S were found to be able to withstand a severe economic downturn.

A decade ago, it may have felt like the world was going to end. The financial system appeared broken and banks were deemed to blame. Share prices in the sector fell dramatically and governments around the globe offered bailouts. A decade on and things have improved. U.S. regulators have imposed higher capital requirements of banks and other financial services companies, so they have been forced to raise their game.

Now, the banking sector is in much better shape and looks very different indeed. U.S.-based financial services firms have less leverage and more liquidity than they have had in decades, as demonstrated by their Tangible Common Equity Ratios.1 In this sense, the global financial crisis provided an opportunity to try and get things moving in the right direction. We believe the U.S. banking sector now looks much more resilient as a consequence.

John Bailer, US equities portfolio manager at Mellon – a BNY Mellon company

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All investments involve risk, including the possible loss of principal.

Equities are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees. The banking and financials industries are subject to extensive government regulation, can be subject to relatively rapid change due to increasingly blurred distinctions between service segments, and can be significantly affected by availability and cost of capital funds, changes in interest rates, the rate of corporate and consumer debt defaults, and price competition.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a period of time, often annually or quarterly.

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