



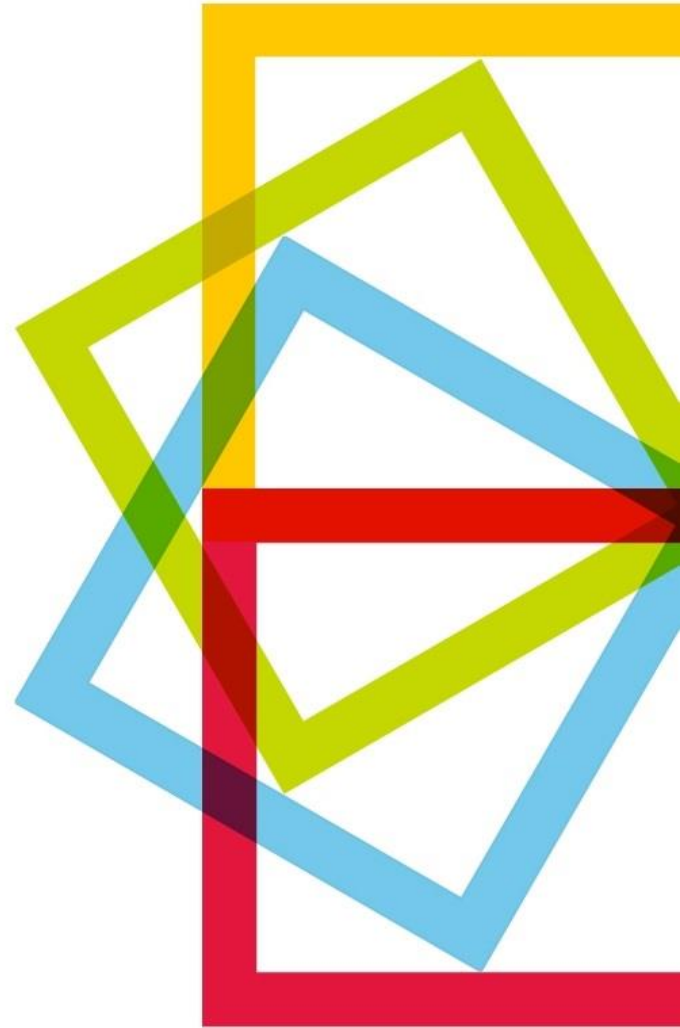
**STANDARD & POOR'S  
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McGRAW HILL FINANCIAL

## **U.S. Banking Sector**

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Annual Risk Conference**

**Financial Institutions Ratings  
March 2016**



# Our 2016 Outlook For U.S. Banks

## Revenue



Expect revenues to remain essentially flat, weighed down by weaker fee income (capital markets and wealth management likely down) and less-than-expected tailwind from margin improvement.

## Expenses



Expect positive operating leverage. Lower expenses--as a result of systematic cost rationalizations and a receding of litigation-related costs--will offer a reprieve.

## Profitability



Core profitability could come under pressure due to revenue headwinds and higher credit provisions.

## Credit Quality



Expect asset quality, which has been holding steady, to slip, driving a transition to reserve build from reserves releases. Specific areas of potential risk include: energy, leveraged loans, and autos.

## Capital



Capital to remain steady at levels much higher than their required regulatory minimums. Capital distributions are likely to stay high but consistent per the more punitive CCAR 2016. We expect some banks to ramp up additional loss-absorbing capacity (ALAC).

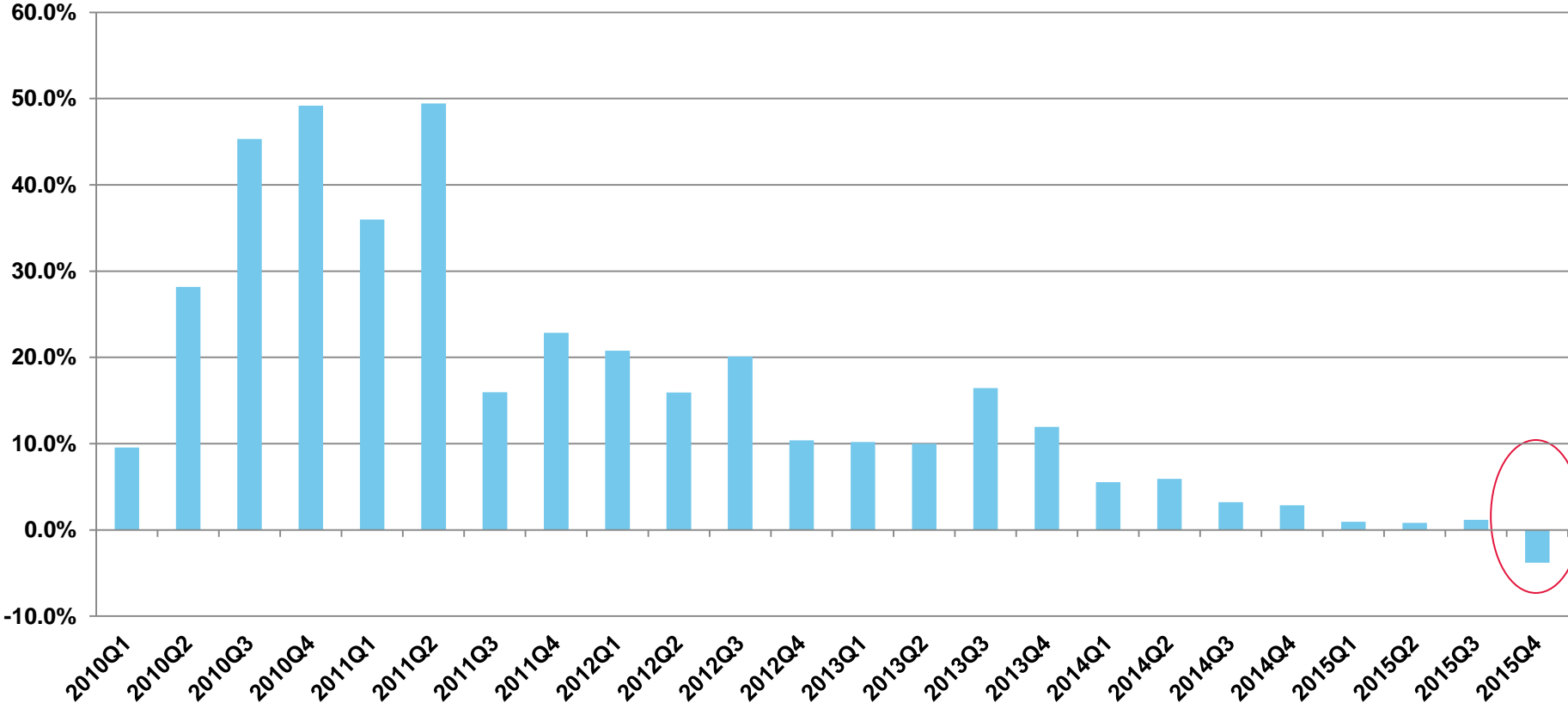
## Funding & Liquidity



Most banks are largely asset sensitive; Funding mix could change if interest rates rise. We will monitor the outflows of noninterest-bearing deposits out of larger LCR-constrained banks into regional banks or other nonbanks, and the pace of funding repricing with an eye on deposit betas.

# Finally Some Reserve Build After Several Years...

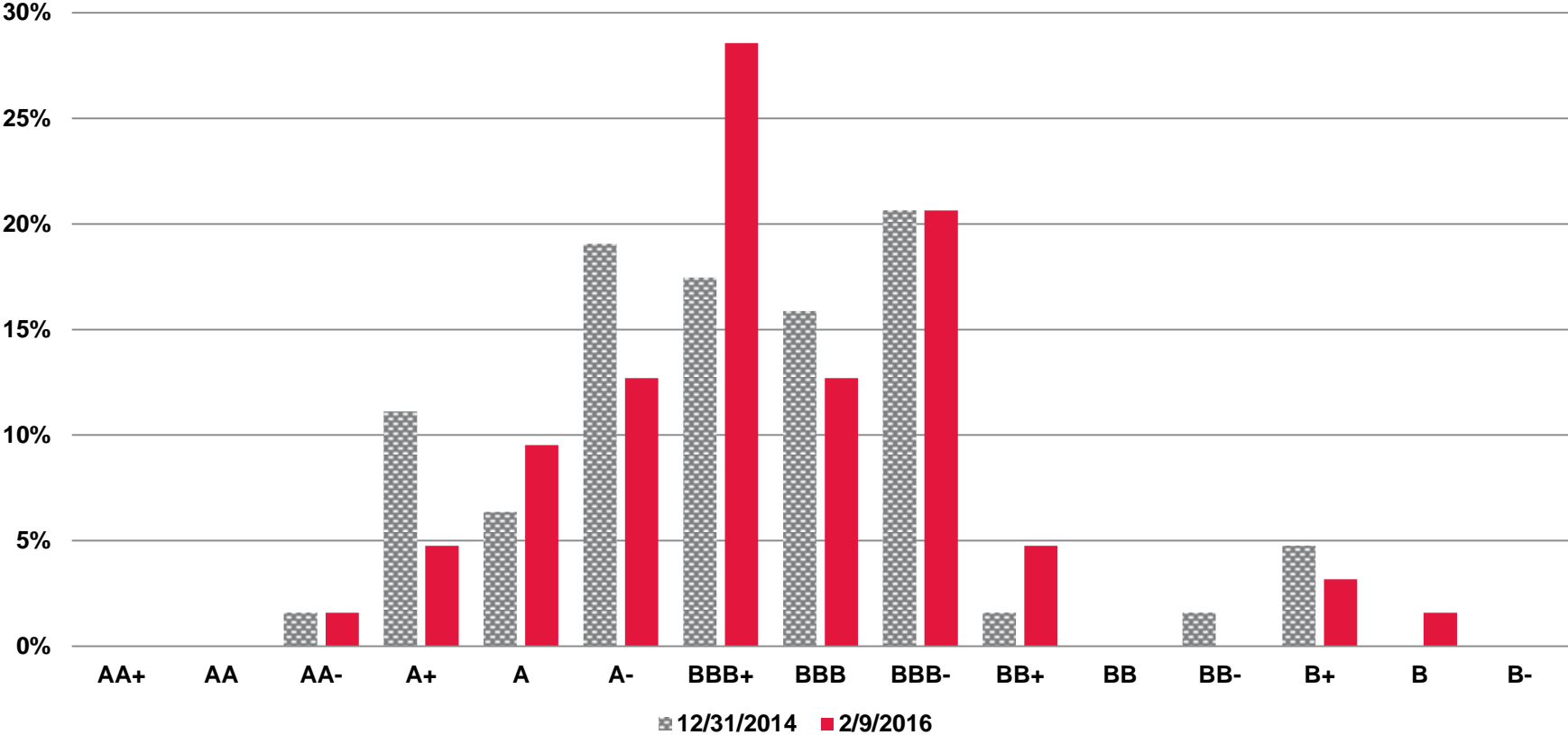
## Reserve Releases/Pre-tax Profit



**We expect provisions to outpace charge-offs at most banks in 2016**

# Current U.S. Bank Holding Company Ratings Distribution

## HoldCo Ratings Distribution





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