

Compensation Trends and Financial Performance – July 2020

City HR

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Financial Services Trends

Current Banking Industry Themes

**COVID-19:
Regulator Actions**

**Compensation
Accruals in COVID
Environment**

**Banks' Responses
to COVID:
Employees and
Customers**

**Environment,
Social &
Governance**

**“Stakeholder
Capitalism”**

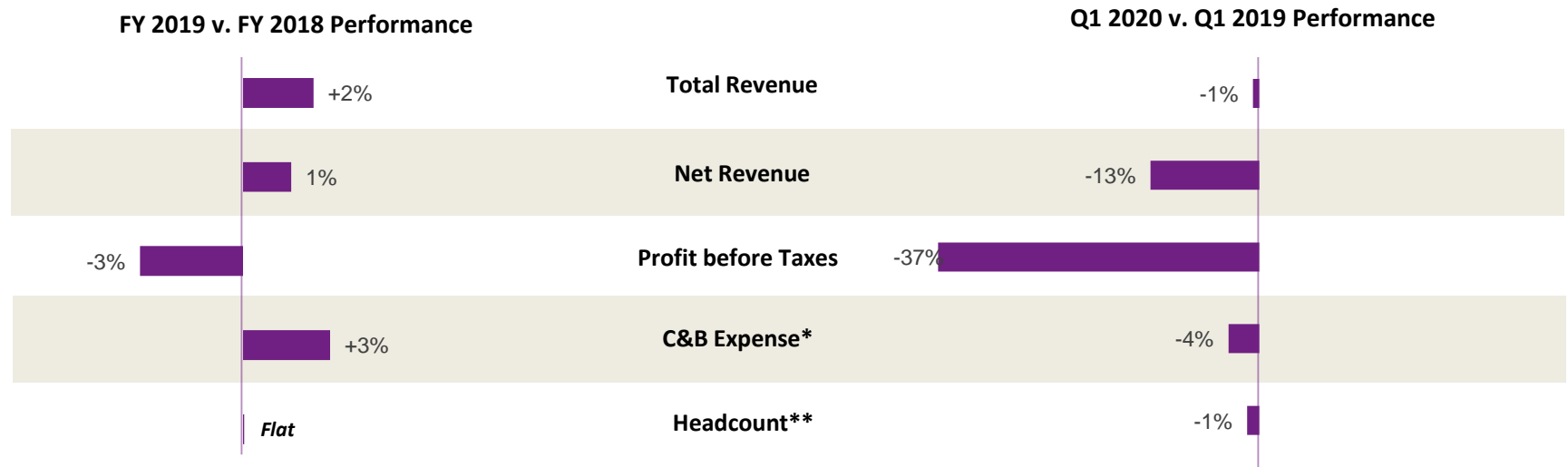
Return to Work Planning

Racial Equality

Financial Performance

Review of Q1 2020 Performance

- Underlying financial performance for the European peer group at Q1 2020 vs. Q1 2019 was relatively flat (as represented by Total Revenue), but credit impairments taken around the COVID-19 pandemic significantly impacted results:
 - Total Revenue (pre-credit loss provisions) results ranged from a decrease of -14% at Commerzbank to +20% at Barclays
 - Net Revenue (post-credit loss provisions) was lower at 15 of 16 firms, and down more than -10% at 9 firms
 - Profits before Tax were down at 14 of 16 firms at Q1, and 4 firms posted pretax loss
- Compensation & Benefits expenses decreased slightly at median, down at 6 of 7 firms reporting* at Q1 2020
 - Headcount was flat at median, generating a slight decrease in terms of C&B on a Per Capita basis (-1% at median)



Peer Group includes: Barclays, BBVA, BNP Paribas, Commerzbank, Credit Agricole, Credit Suisse, Deutsche Bank, HSBC, ING, Lloyds Banking Group, Natixis, RBS, Santander, Société Générale, Standard Chartered and UBS

*Compensation & Benefits expense not reported at Q1 2019 or Q1 2020 for Barclays, BNP Paribas, Commerzbank, Credit Agricole, ING, Lloyds Banking Group, Natixis, Société Générale and Standard Chartered

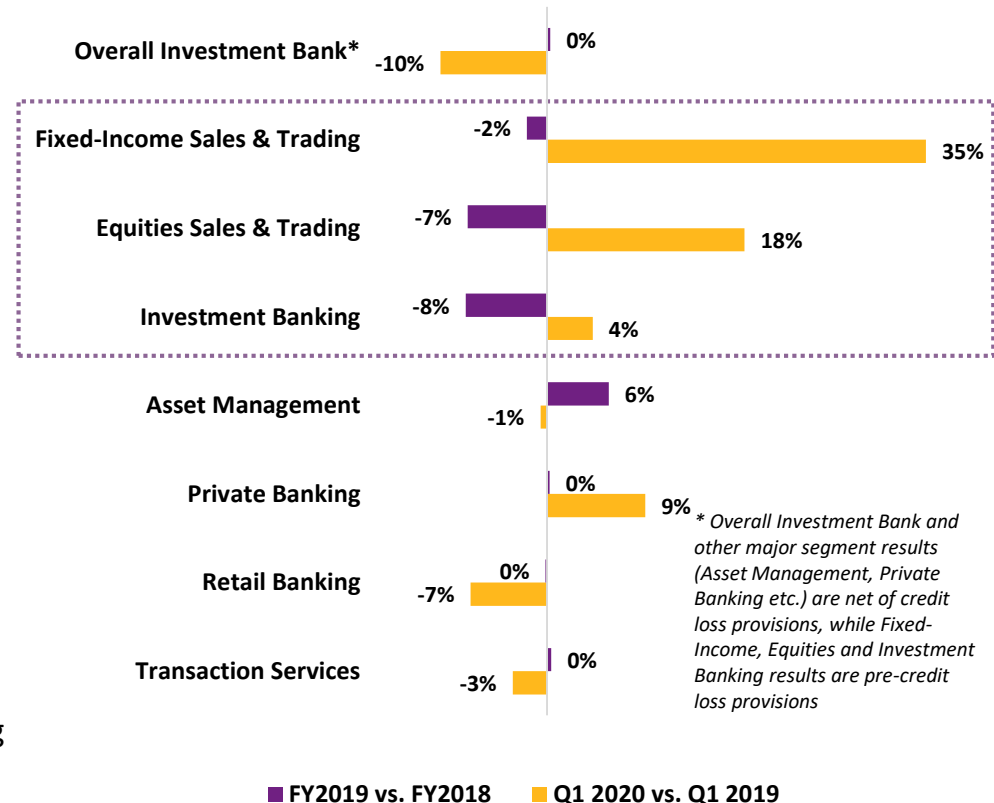
** Headcount not reported at Q1 2019 and Q1 2020 for Barclays, BNP Paribas, Credit Agricole, Natixis, Societe Generale and Standard Chartered

Data based on WTW analysis of publicly available results

Financial Performance – By Business Segment

- Investment Bank performance at Q1 2020 diverged significantly as initial pandemic impact set in:
 - Fixed-Income Sales & Trading showed substantial gains due to increased client activity in volatile trading environment
 - Equities Sales & Trading likewise benefitted from increased client activity amidst high volatility
 - Investment Banking was helped by relatively strong underwriting, offsetting tough Advisory environment
- Asset Management relatively flat; impact of market declines on performance and management fees not yet fully reflected due to timing of pandemic impact
- Private Banking continued to benefit from strong fee-based revenues and transaction volumes
- Retail banking revenues now under significant pressure from credit impairment and further narrowing of interest rate spreads
- Transaction Services declined slightly, note Trade Finance revenues could be significantly impacted moving forward

Median Revenue Trend by Business Segment



Peer Group Includes: Barclays, BBVA, BNP Paribas, Commerzbank, Credit Agricole, Credit Suisse, Deutsche Bank, HSBC, ING, Lloyds, Natixis, RBS, Santander, Société Générale, Standard Chartered, UBS

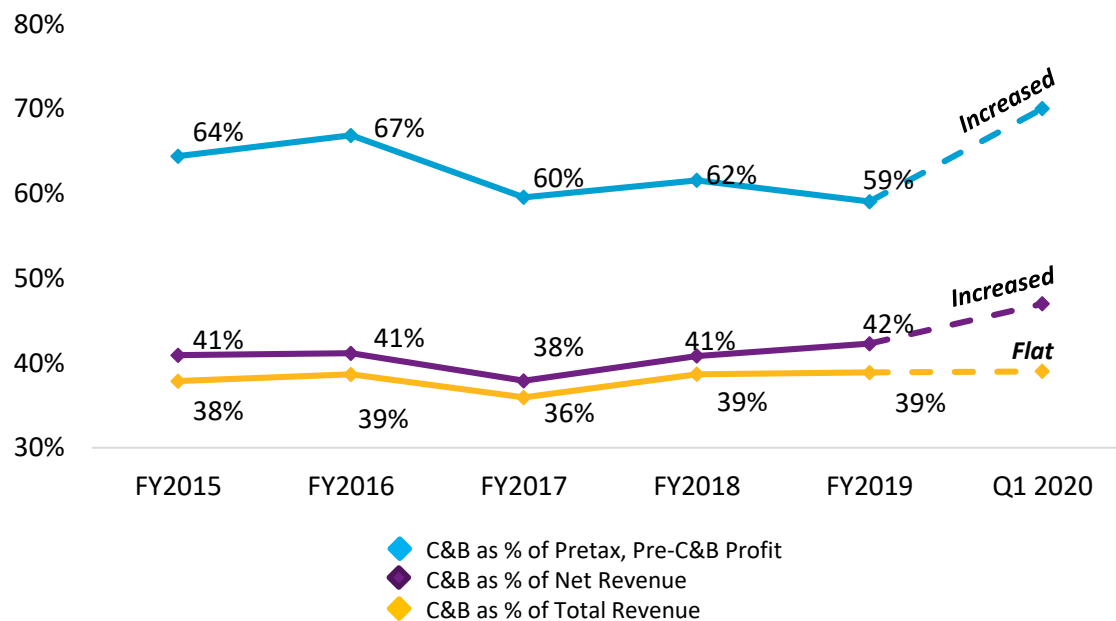
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Financial Performance - European Banks Results

Compensation Payout Ratios

- Median compensation pay-out ratios in relation to both Total Revenues and Net Revenues have remained largely flat in recent years
- Limited number of firms report Compensation & Benefits (C&B) accrual on a quarterly basis, but the following trends are observed at Q1 2020 post initial impact of pandemic:
 - C&B accruals as percentage of Total Revenue (pre-credit loss provisions) generally maintained largely flat to prior years
 - C&B accruals as percentage of Net Revenue (post-credit loss provision) and Pre-Tax Profits increased significantly

Median Compensation Payout Trends



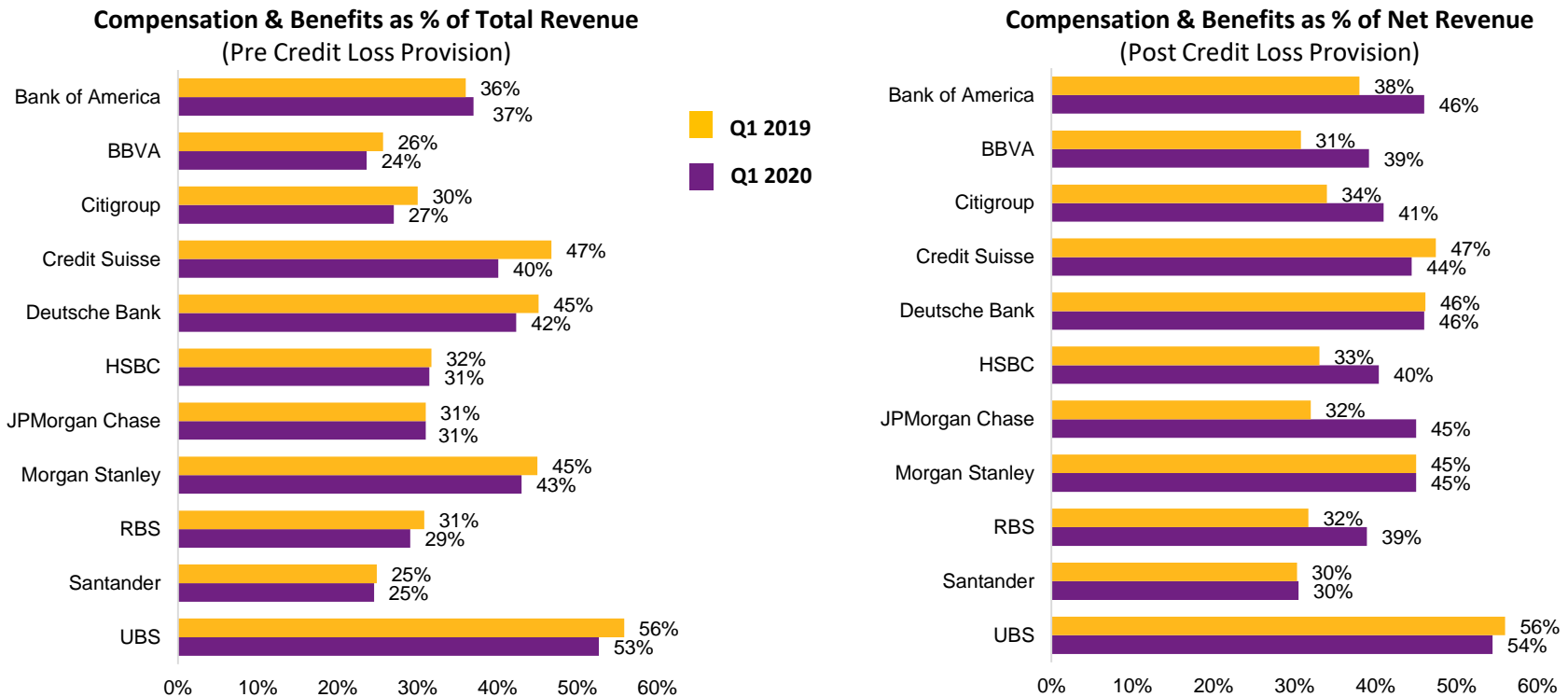
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Financial Performance

Q1 C&B Ratio Accrual Comparison by Firm

- While firms significantly increased Credit Loss Provisions at Q1 2020 to cover expected loan losses as a result of COVID-19, most maintained Compensation & Benefits accrual as a percentage of Total Revenue (pre-credit loss provision) similar to the prior year
 - COVID-19's negative impact on C&B expense will likely be more visible at midyear
 - Note the comparisons below include additional American HQ firms for purpose of comparison at Q1



Data based on WTW analysis of publicly available results

Current Themes: COVID-19 Impact on Work and Regulation

COVID-19 Response: Major actions taken

- **Executive pay actions:**
 - Salary cuts
 - Postponed LTI pay-outs
 - Fixed pay sacrifices to relief efforts
- **Broader workforce actions:**
 - Commitments to maintain staffing levels
 - Continuing pay and benefits to hourly staff
 - Extensions of paid leave
 - Special bonuses and/or pay
- **Customer relief:**
 - Deferrals on consumer loan payments, waiving of late fees, etc.

Regulatory Stance around impact COVID-19

European regulators have pressured banks to restrain bonuses and capital distributions; contrasting with less restrictive approach to date in the US:

- ESRB recommended cancellation of dividends, share buybacks and bonuses for MRTs until at least 1 January 2021
- The ECB ordered banks not to pay dividends until at least 1 October 2020 - banks were also warned to show 'extreme moderation' in bonus payments
- The PRA urged UK banks to cancel outstanding 2019 dividend payouts and suspend dividends and buybacks through 2020
- European Parliament may place a 1-year ban on bank bonuses in exchange for national government COVID-19 relief packages

Post COVID-19: Return to Work

- Health and safety remains a top priority
- Phased return of prioritized groups (e.g., traders) at a very low rate of capacity
- On-going encouragement for employees to work from home