

A Year Like No Other

Banking Performance & Pay Trends

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HR Agenda Moving from Crisis Management to Year-End Planning

2020 HR Timeline

YESTERDAY

Crisis Management

Business Continuity

TODAY

Return to Work / Office

Navigating the Unknown / New Normal

TOMORROW

Compensation Planning for Year End

Future of Work & Implications

- FS has been largely committed to **avoiding headcount reductions** during this pandemic
- An “**employee-friendly**” approach adopted by the industry, firms reviewing EVP
- Most large banks remained committed to **maintaining internship** programs

- **Bank performance is under pressure**
- **Fixed costs were already a focus** before this downturn
- **Profits and ROE have declined materially.**
- **Incentive pools are fast becoming the focus.**

2019 Year-End Snapshot

Performance

- **Industry profits flat YOY, ROE marginally lower** for most firms globally
- Strong Q4 in Fixed Income lifts **front office performance to flat at median** across largest firms (FI up YOY; I-Banking and Equities down)
- Trade Wars were the biggest hurdle on the horizon at '19 year-end!

Pay

- Some pressure on incentive pools influenced by **investor expectations previously set by C-suite**, especially among Europeans
- European bulge bank pay trend lags that of largest US firms
- Year-end pay decisions focus on **paying key performers** and overshadowed by outlook of continued industry challenges



Will 2019 Year-End pay be viewed as the benchmark we look back to?

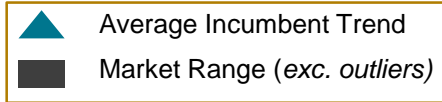
Post Financial Crisis started with 2006 / 2007 look-back, which then moved to 2009

But that re-set was driven by structural changes in the business

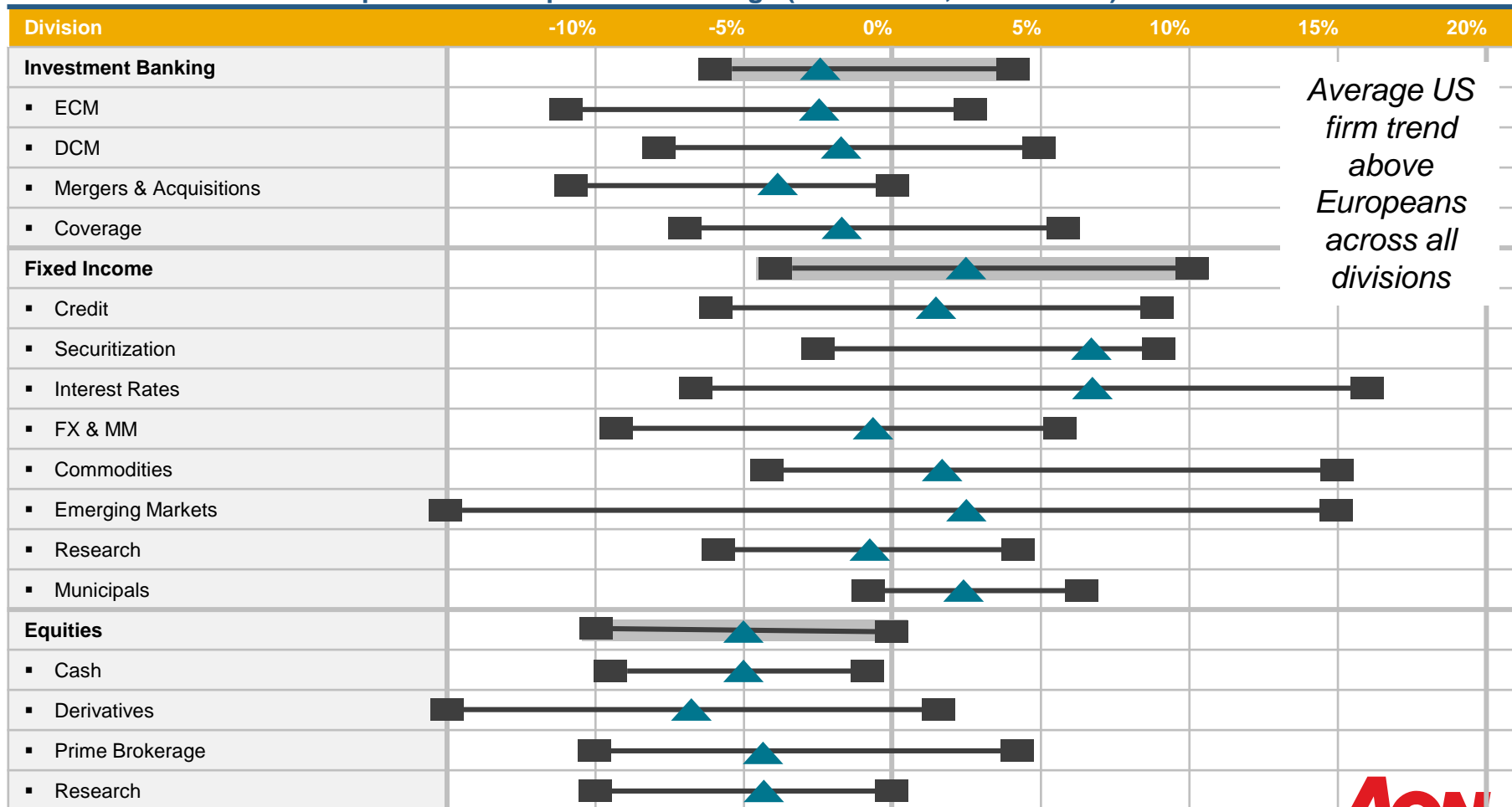
2019 is likely to remain the reference point going forward, both for better performing and paying firms and divisions as well as those with exceptional drops in 2020 incentives

Equities Pay Down; Large Fixed Income Divisions Support Universal Banks; US Firm Trend Above Europeans

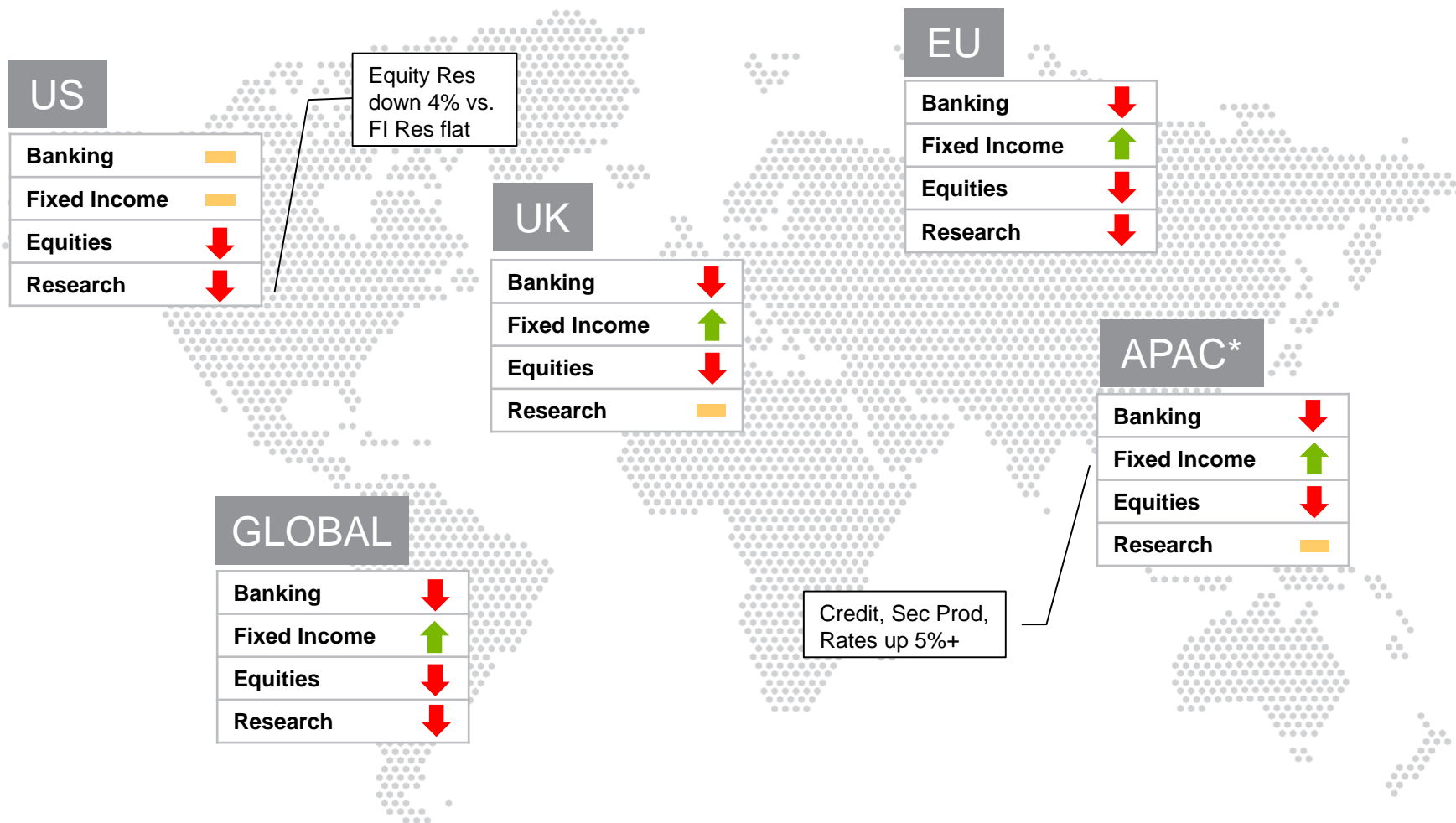
The table below shows the range of same store per capita trends among the largest global banks. Average incumbent trend is shown in addition to the market range, excluding outliers.



2019 Global Per Capita Total Compensation Change (VP & Above, Same-Store)



Fixed Income Pay Trend More Favorable Outside the US

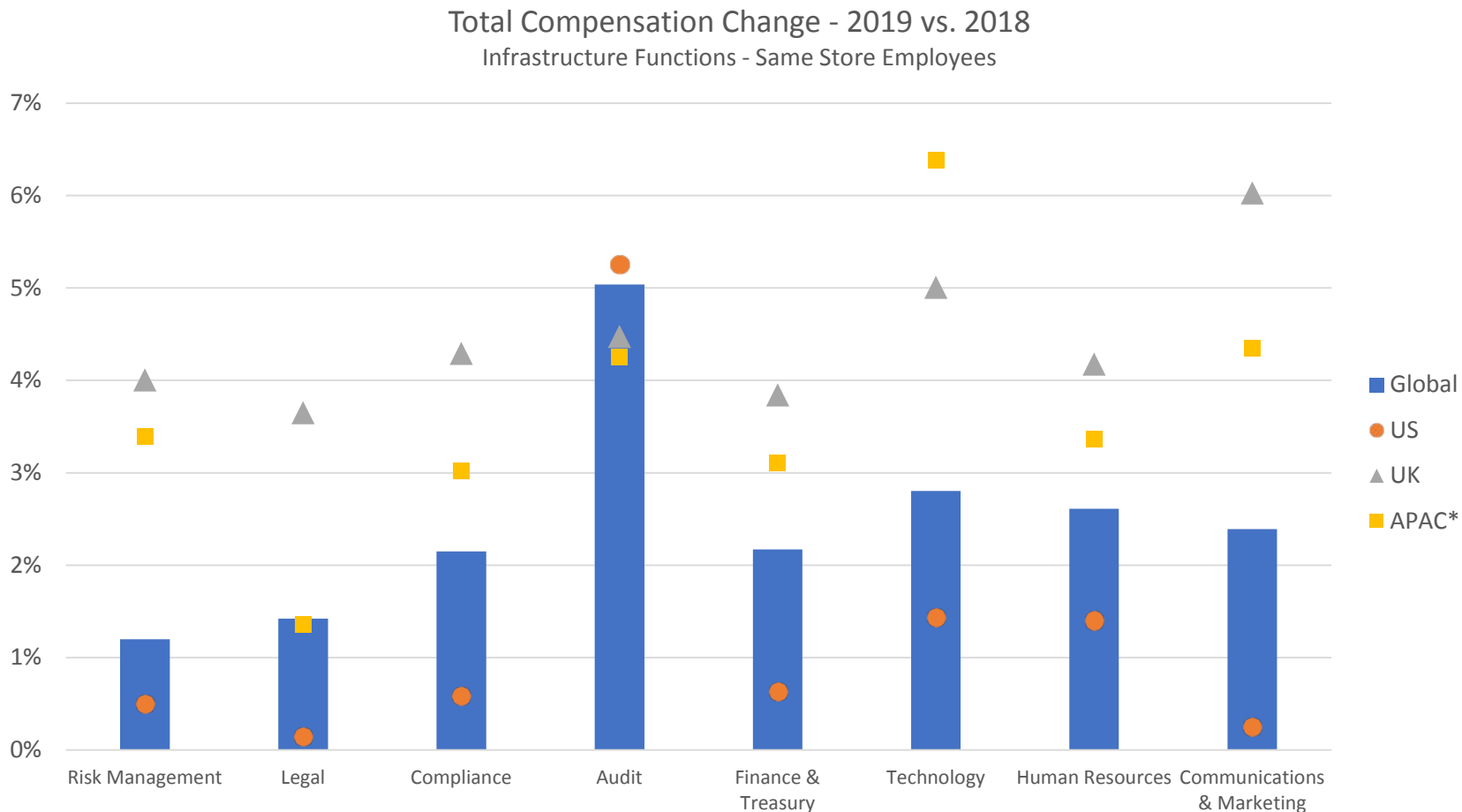


Average Total Comp Change YoY

Flat = +/- 2% | One Arrow = +/- 3 to 9% | Two Arrows = +/- 10%

*Excludes Japan

Modest 2019 Same Store Increases Across Infrastructure; US Lags Other Regions Across Major Functions



Based on the Largest Global Banks

* Excludes India and Philippines

Looking Back to Financial Crisis – Any Lessons to be Learned in Reward?

I. Senior Staff took the biggest hit to pay

- Total compensation for MDs and Directors across BCM divisions all **declined 45 - 50% at median**
- Total pay for MD's in Infrastructure declined 30% across functions

What does it mean for 2020?

Affordability will drive the result. Highest Paid have to take the pain if pools are down materially.

II. Variances Across Firms

- Total YOY compensation decline for lower trending firms was twice that of “better paying firms”

YOY TCOMP CHG	IB	FI	EQ
Low End Firm	-32%	-27%	-29%
High End Firm	-75%	-50%	-59%

Understanding the current competitiveness of pay and year-end pay trends

III. Differentiation Within Firms – Zero Bonus

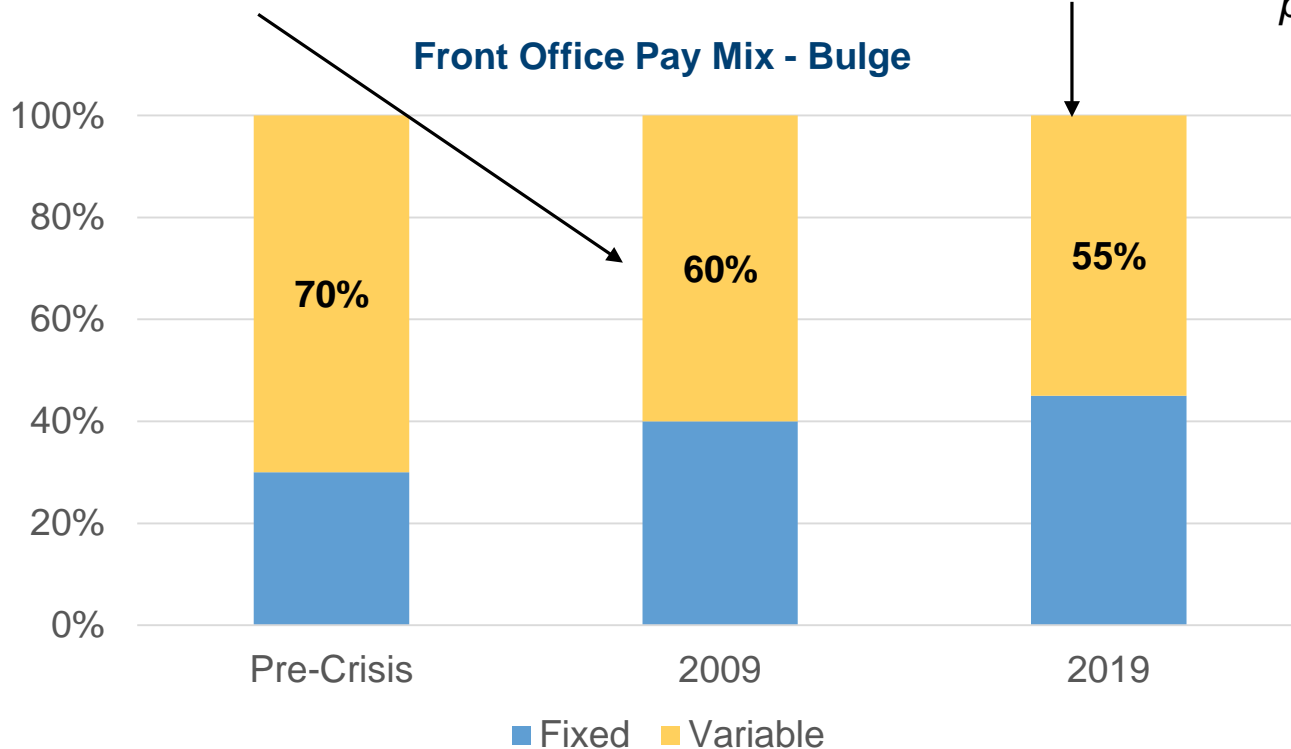
- 15 – 20% of Infrastructure staff in the broad market received no bonus in 2008. However, **by firm this ranged from 5% to 30% of staff**
- In the front office the percentage of staff receiving zero bonuses ranged from **just under 10% of staff to more than 35%** at a couple of firms

Focus on differentiation and retaining key performers

Front Office has Significantly Less Leverage in Pay Today vs 2008

Shift mix post crisis drives material increase to fixed pay spend in front office

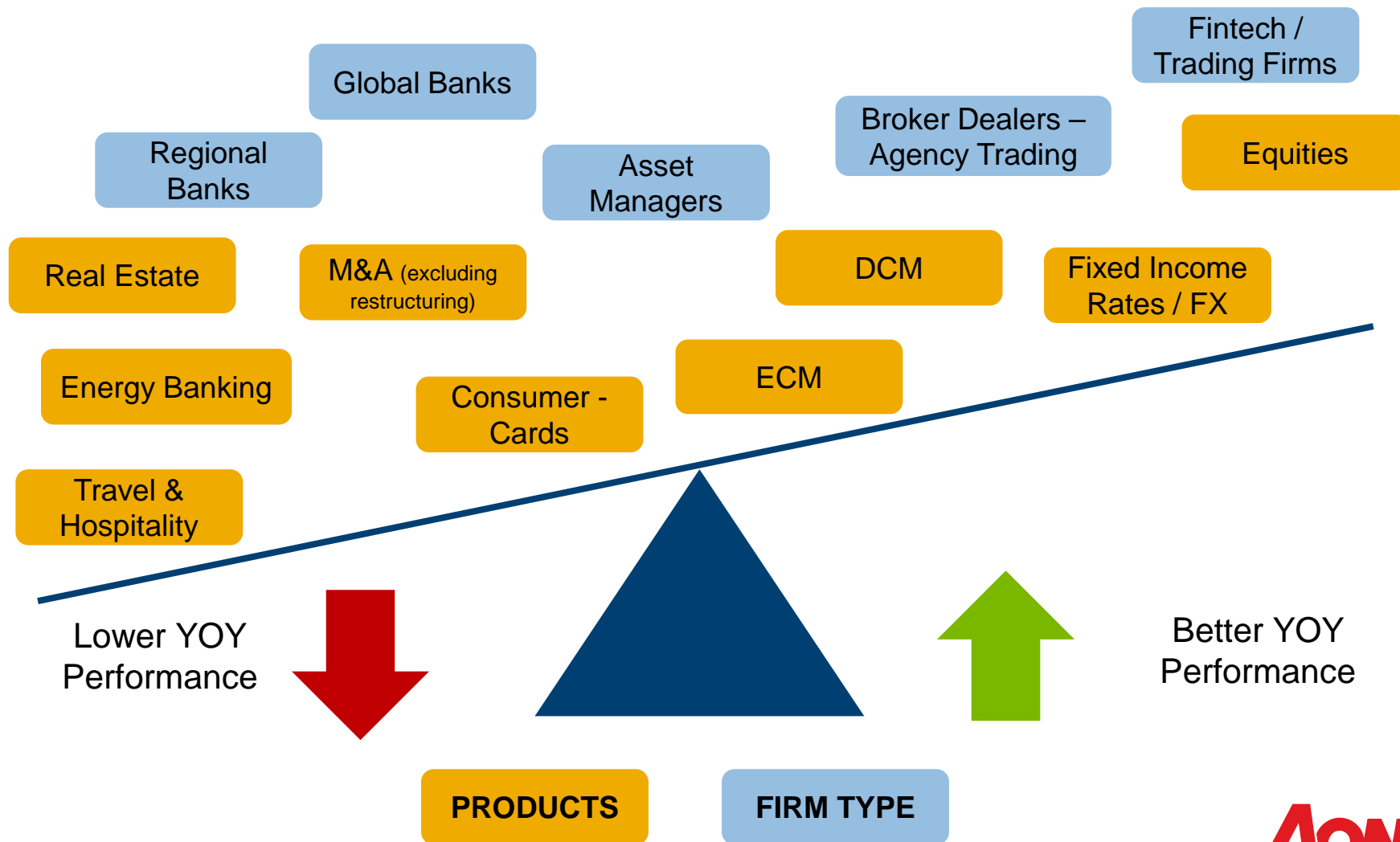
Declining total compensation levels since '09 (FI and EQ more than I-Banking) drive down variable portion



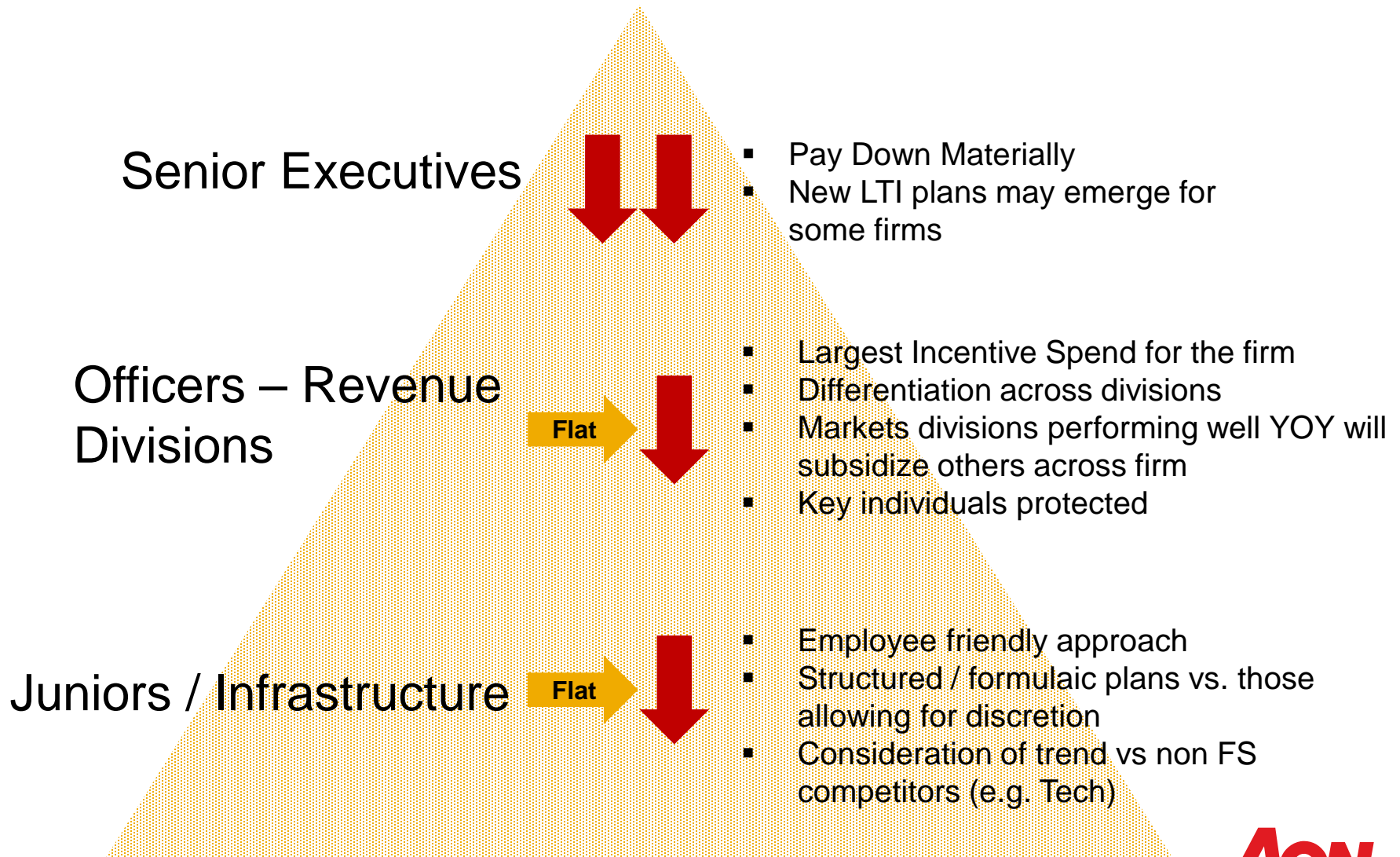
Significant Changes Across Infrastructure Since the Financial Crisis

	Pre-Financial Crisis	Post-Financial Crisis	Implication
Pay Mix	<ul style="list-style-type: none"> ~70% fixed, 30% variable 	<ul style="list-style-type: none"> ~80% fixed, 20% variable 	<ul style="list-style-type: none"> Less flexibility in infrastructure IC pool
Size of Control Functions	<ul style="list-style-type: none"> A fraction of the size of IT & Ops 	<ul style="list-style-type: none"> Ballooned post financial crisis due to regulation 	<ul style="list-style-type: none"> Cutting headcount in Control Functions may be challenging due to regulatory scrutiny
Role of Technology	<ul style="list-style-type: none"> Primarily utilized as an enablement function 	<ul style="list-style-type: none"> Significant investment to drive innovation, growth and efficiencies 	<ul style="list-style-type: none"> Cutting Tech spend would impact future business strategy Competing for talent with tech firms performing well in 2020
Job Architecture / Career Architecture	<ul style="list-style-type: none"> Limited job structure / role frameworks 	<ul style="list-style-type: none"> Continues to evolve but significant investment made over last several years. 	<ul style="list-style-type: none"> Financial Services industry have a better sense of roles & skills needed
Location Strategy	<ul style="list-style-type: none"> Significantly concentrated in high cost locations 	<ul style="list-style-type: none"> Significant headcount growth in medium and low cost locations 	<ul style="list-style-type: none"> FS compete with a broader set of firms than ever before Future locations and virtual work changing the discussion
Pay Philosophy	<ul style="list-style-type: none"> Financial Services pay significant premium compared to other industry segments. 	<ul style="list-style-type: none"> Financial Services pay premium has deteriorated vs. other industry segments (i.e. Tech Firms) 	<ul style="list-style-type: none"> Harder to attract / retain top talent

Significant Variance in 2020 Expected Performance



Some Early Thoughts on Application of Incentive Pool



2020 Year-End Outlook

Profitability and Pay Crisis Perhaps, But Not a Financial Crisis

- **Top Line Revenues vs Profits vs ROE / EPS tell a different story**
- **UK / European banks face additional pressure on pay from regulators**
- **Cross-subsidization will be key**
- **Front Office Markets staff Total Comp Flat to down 20% for global banks (with revenues up YOY)**
- **Executive pay takes the biggest hit**
- **New vehicles / LTI structures may emerge for some firms & populations**
- **Individual differentiation and paying key roles and top performers among highest priorities**
- **Pay equity, diversity and inclusion an increased focus for all**
- **Performance management / year-end reviews adjustments**