HEALTH CHECK: Q1 2020 WEALTH FINANCIALS

LARGE FIRM FINANCIALS, IM&T, CECL, NONTRADITIONALS

LARGE FIRM Q1 FINANCIALS

All things considered, wealth management showed a lot of resiliency in the first quarter.

The first quarter 2020 saw the worst market declines since 2008, yet revenues for 13 of the largest wealth managers were down only slightly year-on-year (Q1 2020 versus Q1 2019). AUM declined only modestly, while lending and deposits were up significantly.

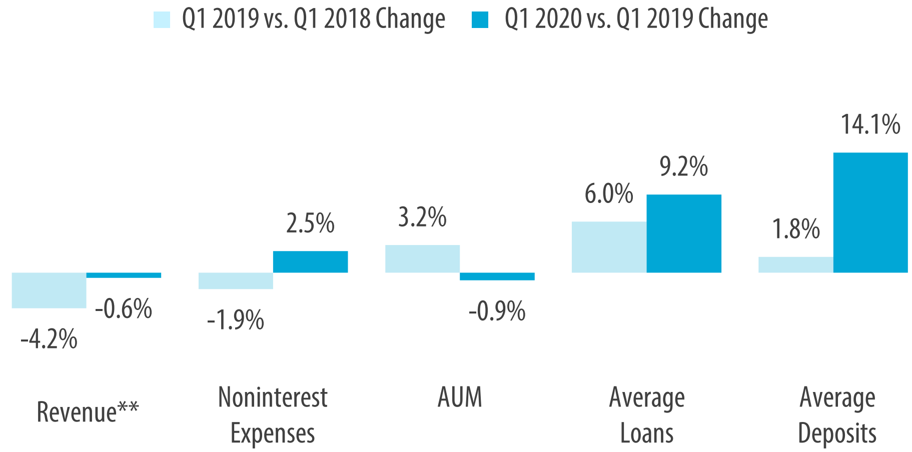
The good:

- Many firms reported higher asset management and brokerage fee revenue.
- Loans were up year-over-year for nearly every firm. Lending increases were credited to low interest rates, residential mortgages, and custom lending.
- Deposits grew significantly, reflecting consumer flight to high-quality, interest-bearing deposits.

The bad:

- Nearly every bank missed projected earnings as provisions for credit losses increased dramatically in anticipation of a wave of Q2 loan defaults.
- Low interest rates remove some of the luster from rising volumes in spread businesses.
- Some wirehouses saw steep declines in transactional revenues.
- AUM underperformed compared to the prior year, likely driven by significant market losses in March.
- Q2 results are likely to be markedly worse, reflecting timing issues and lag effects, strong economic headwinds, and diminished sales pipelines.

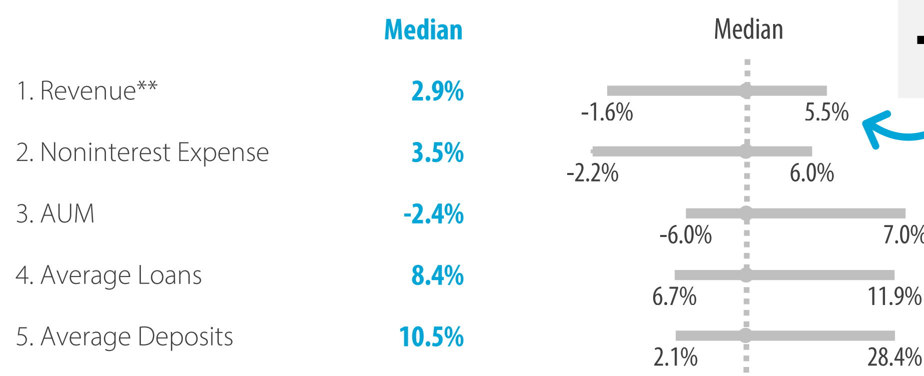
Key Growth Rates, Large Private Banks and Wirehouses*



Provisions for credit losses increased by **429.2%** on average compared to Q1 2019.*

Key Wealth Growth Rates, Interquartile Ranges*

Q1 2020 vs. Q1 2019 Change



- Half of firms grew revenue 2.9%+
- The top quartile grew 5.5%+

Interquartile range: the range from the 25th to 75th percentiles (i.e., the middle 50%), represented by the gray line.

Methodology

WISE analyzed Q1 2020 earnings reports for 13 of the largest wealth managers in the United States. *Where possible and unless noted, data are for wealth management businesses only. Some public domain data, however, are commingled with other business lines such as brokerage or asset management. For more detail, please see page 7. **Revenue includes both net interest and noninterest revenues.

IM&T IN DETAIL

The broader IM&T business showed modest revenue gains but steeper declines in AUM.

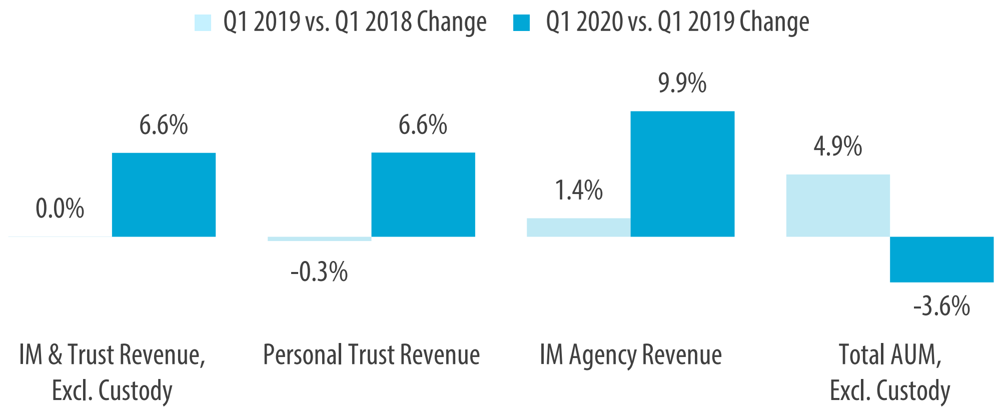
- Total IM&T revenues, on average, grew 2.8% year-over-year (following page). However, the median firm in the FFIEC data set did slightly better, growing revenues 6.6% year-over-year; median AUM declined 3.6% (top chart).
- Investment management agency continues to be the fastest growing business; the median firm grew revenues 9.9%. Revenue growth in the personal trust business was surprisingly strong.
- Assets, notably, declined across nearly every line of business (table below) during Q1 despite decent revenue performance, suggesting that revenues may suffer a similar fate in Q2.

Median Versus Average Growth Rates

Like the industry it covers, the FFIEC dataset comprises a large number of small and midsize firms and a handful of very large companies. The data on this page are medians except where noted and are more reflective of the experiences of a medium-sized trust business. Weighted averages appear on the following page and are more heavily impacted by larger companies.

Key IM & Trust Growth Rates

Total Market **Medians**, FFIEC Call Report Data



IM & Trust Asset Growth by Business Line

Total Market, Q1 2020 vs. Q1 2019 Change

	Median	Average
Total AUM (Excl. Custody)	-3.6%	-6.3%
Total Assets (Excl. Custody)**	-2.9%	-2.3%
Personal Trust**	-4.7%	-4.8%
IM Agency**	-1.8%	-5.0%
IRA**	-3.2%	-3.4%
Employee Benefits**	-6.0%	-4.2%
Corporate Trust**	0.0%	4.5%
Foundations and Endowments**	-6.2%	-1.5%
Custody	-1.8%	-1.3%

**Includes both managed and nonmanaged assets

Methodology and Notes

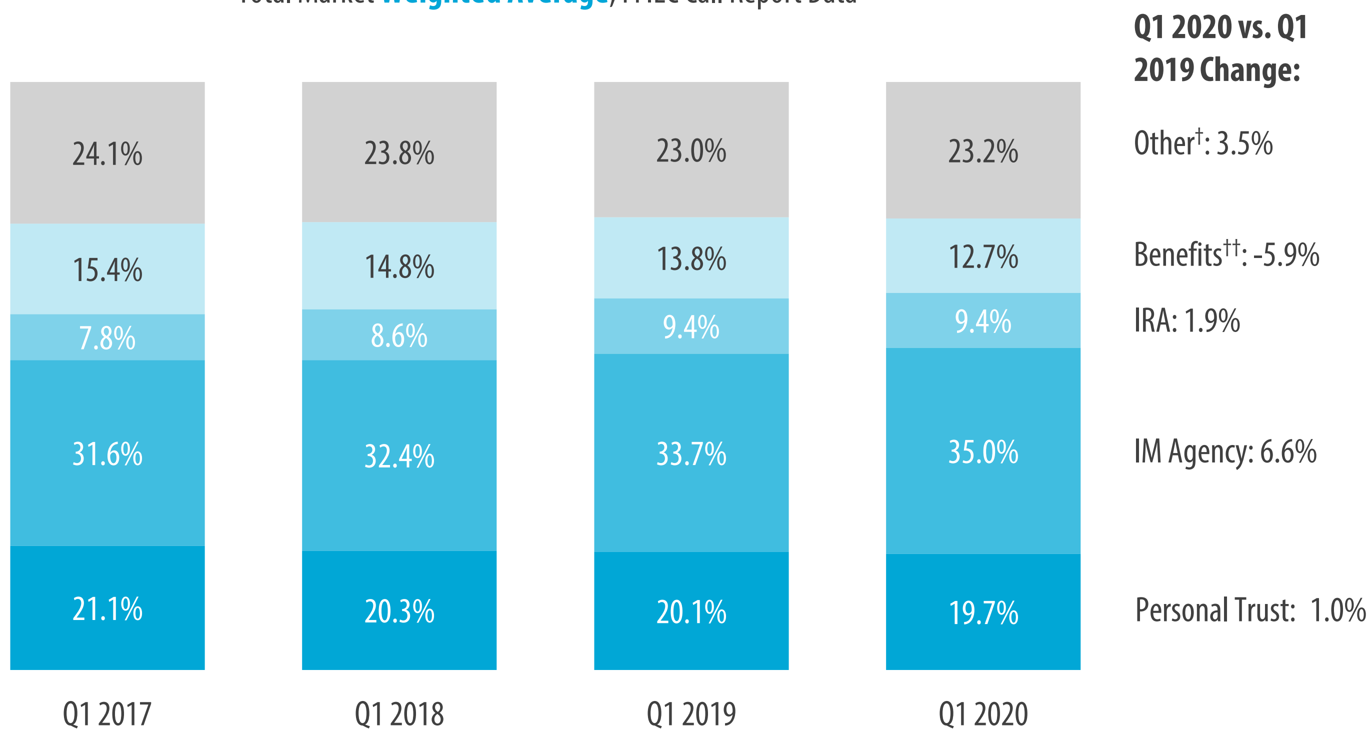
WISE analyzed Q1 2020 FFIEC data to assess the financial performance of the IM&T business. The sample includes every company that files a Consolidated Report of Conditions and Income (AKA a call report). The total sample manages $6.9 trillion in AUM and generates $25B in annual revenue. All metrics on this page exclude custody unless otherwise noted.

IM&T IN DETAIL

Average growth rates demonstrate familiar patterns. Year-on-year, revenues were up 2.8% (bottom gray box). Most of this growth was from the investment management business; all other lines of business grew very slowly. As a share of total revenues, personal trust has fallen below 20% for the first time in at least the past three years. Current period asset figures portend across-the-board revenue declines in Q2.

Investment Management and Trust Revenue Composition

Total Market **Weighted Average**, FFIEC Call Report Data



Q1 2020 vs. Q1 2019 Change,
IM & Trust Revenue Excl. Custody: 2.8%

Methodology and Notes

WISE analyzed Q1 2020 FFIEC data to assess the financial performance of the IM&T business. The sample includes every company that files a Consolidated Report of Conditions and Income (AKA a call report). The total sample manages $6.9 trillion in AUM and generates $25B in annual revenue. †Other: Foundations and endowments, corporate trust, other fiduciary accounts and revenue. ††Employee benefits: Defined contribution and defined benefit accounts. All metrics on this page exclude custody unless otherwise noted.

CECL HAS ARRIVED

CECL is finally here, but the pandemic and economy may be overshadowing its significant implications.
FASB's Current Expected Credit Losses (CECL) rule has been controversial since its announcement given the rule's reliance on long-term forecasting, its potential to tie up capital, reduce lending and stunt a recovery.[1,2]

An immediate implication: a sizable portion of Q1 credit allowance increases are due to CECL.
Approximately one-third of the increase in credit allowances between Q4 and Q1 for nine large US banks was due to CECL. Banks attributed nearly two-thirds to the economy and expected defaults, for a total increase of an eye-popping 56%. CECL also has important longer-term implications (gray box).

CECL may improve the relative attractiveness of fee-based businesses by increasing the costs of credit. With pretax operating margins up to 50% less than those of credit, IM&T is sometimes the "misunderstood cousin" to private banking. The underlying dynamics may change significantly if credit profitability is reduced.

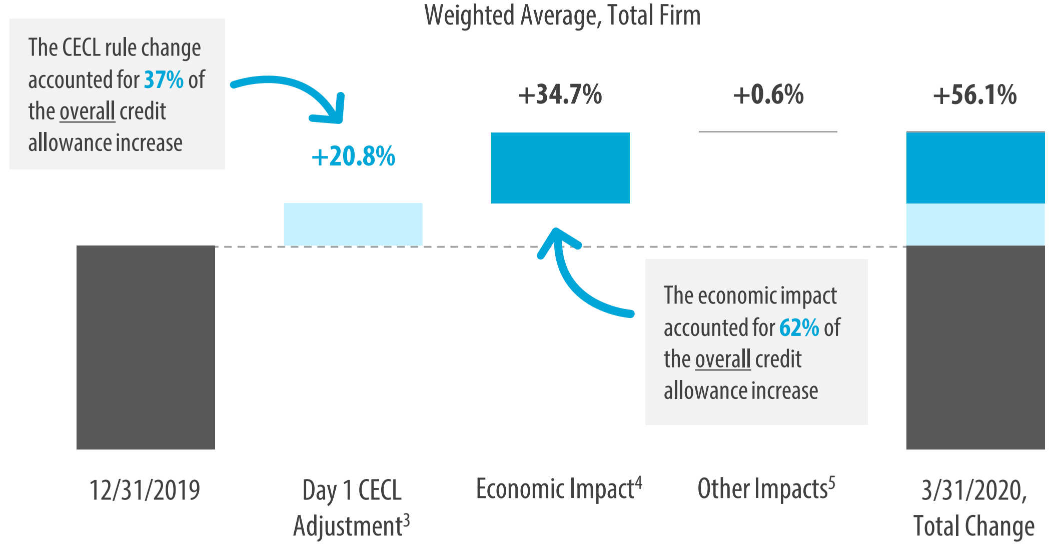
Diminished credit economics could reshape wealth. In general, it may lead to big shifts in the ways firms allocate resources. Longstanding practices, such as extending credit to cross-sell asset management may become less appealing (e.g. as single-service credit relationships become cost-prohibitive).

Credit operations may change dramatically. For example, employing field personnel to support custom credit in local offices may become untenable; credit underwriting may be largely limited to centralized teams.

Courtesy Dave Coffaro, Principal, Strategic Advisory Consulting Group, www.sacgusa.com

Contributions of CECL and the Economy to Credit Allowances

Weighted Average, Total Firm



Interquartile Ranges

Ranges are calculated independently and may not tie; numbers are total firm, not wealth

	Day 1 CECL Adjustment	Economic Impact	Other Impacts	Total Change
Median Change	+30.1%	+29.9%	0.0%	+52.3%
25th Percentile	+1.3%	+16.2%	3.9%	+43.6%
75th Percentile	+33.4%	+47.6%	+3.9%	+77.6%

Interquartile range: the range from the 25th to 75th percentiles (i.e., the middle 50%)

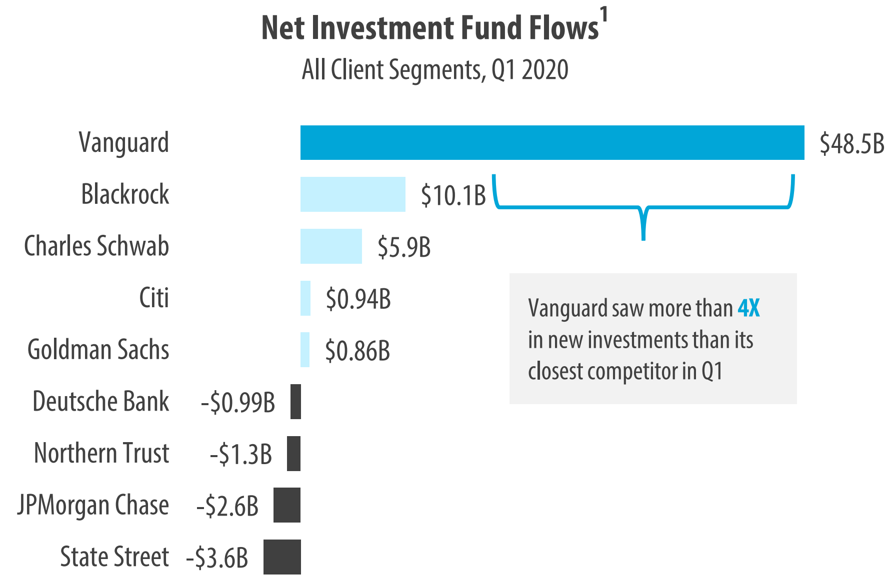
1. Joshua Ronen, "A new accounting rule on loan losses could be disastrous for the economy," April 22, 2019; 2. Bank Policy Institute, "CECL Regulatory Capital Proposal Leaves Many Important Questions Unanswered", May 25, 2018; 3. Day 1 CECL adjustment is the change made to banks' credit allowances strictly due to the rule change; 4. Economic impact includes all allowance changes as a result of economic impacts from COVID-19. 5. Other impacts include portfolio changes like new loans, changes in credit quality and charge-offs and recoveries. Data are from a WISE analysis of financials from nine large commercial banks.

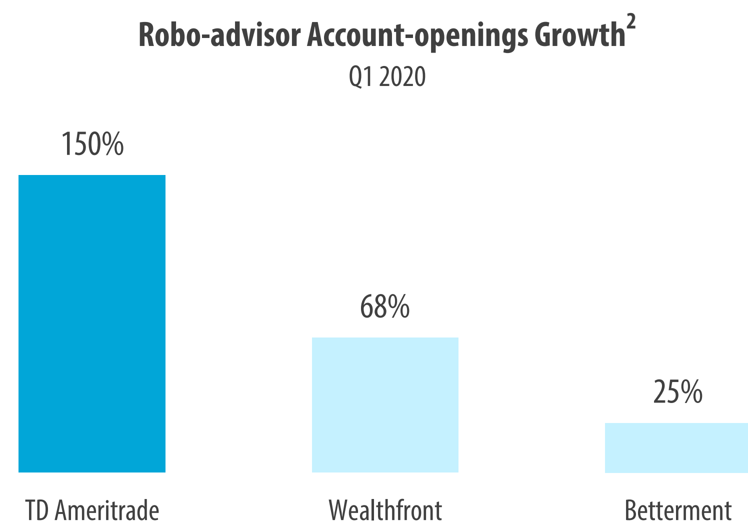
NONTRADITIONALS

Vanguard continues to report exceptional results.
The asset manager hauled in an enormous volume of assets in Q1, with over $48.5 billion going into its investment funds (top chart, top bar). In contrast, the closest runner-up, Blackrock, brought in less than a quarter of total flows.[1]

Good-quality data are hard to find, but robo-advisors appear to be navigating their first major period of volatility well.
Public domain data are thin, but the anecdotal results for well-known robo-advisors are positive. For example, TD Ameritrade, Wealthfront, and Betterment all reported account-opening increases for their robo-advisor platforms following the beginning of the market downturn in late February, and despite average portfolio performance of -14.5%.[2]

As an unconventional year unfolds, financials may shed light on the merits of competing value propositions.
Both traditional and nontraditional approaches bring obvious strengths to unprecedented times. Banks and brokers offer the ability to talk to a human being, manage the significant emotional aspects of volatility and uncertainty, and deliver planning and advice. Established nontraditionals like Vanguard and Fidelity, as well as newer digital services are, in a sense, the takeout restaurants of asset and wealth management: firms whose existing models are well-suited to the constraints of the times. Protracted periods of physical distancing may favor businesses whose models are setup for remote delivery and online sales.





1. MarketWatch, "Vanguard Blew Away the Competition in Q1, Fund Flow Data Show", April 8, 2020; Net flows include all new money invested in a firm's investment funds. 2. Barron's, "Robo-advisors Kept Investors Calm During Tumult – With Help From Humans at Times," April 1, 2020; Bloomberg, "Robo-advisors Gain New, Younger Clients Amid Market Turmoil," March 30, 2020.

APPENDIX

Large Firms, Key Q1 2020 Financial Metrics

All financial data used for the large firm segment were taken directly from each firm's earnings report using the segments identified after the colon. Where possible, WISE used each firm's wealth management segment; however, the vast majority of firms combine their wealth management segment with other business units like brokerage or asset management.

1. Bank of America Q1 2020 Earnings Report: Global Wealth and Investment Management
2. BNY Mellon Q1 2020 Earnings Report: Investment Management
3. Fifth Third Q1 2020 Earnings Report: Wealth and Asset Management
4. First Republic Bank Q1 2020 Earnings Report: Wealth Management
5. Goldman Sachs Q1 2020 Earnings Report: Total Firm
6. JPMorgan Chase Q1 2020 Earnings Report: Asset and Wealth Management
7. Morgan Stanley Q1 2020 Earnings Report: Wealth Management
8. Northern Trust Q1 2020 Earnings Report: Wealth Management
9. PNC Q1 2020 Earnings Report: Asset Management Group
10. RBC Q1 2020 Earning Report: Wealth Management
11. Regions Q1 2020 Earning Report: Wealth Management
12. US Bank Q1 2020 Earnings Report: Wealth Management and Investment Services
13. Wells Fargo Q1 2020 Earnings Report: Wealth and Investment Management

FFIEC Results

WISE analyzed Q1 2020 FFIEC data for the total IM&T business to measure the impact of the pandemic on Q1 financials. Sample includes every company that files a Consolidated Report of Conditions and Income (AKA a call report).

Data includes $6.9 trillion in total AUM and $25 billion in annual revenue.

Large Firms, CECL Data

All financial data used for the CECL impact analysis were taken directly from each firm's earnings presentations and releases. The CECL analysis uses credit allowances for the **total firm**. The day 1 adjustment and economic impact data were often labeled as such in the earnings reports.

1. Bank of America Q1 2020 Supplemental Information Release
2. BNY Mellon Q1 2020 Financial Supplement Release
3. Fifth Third Q1 2020 Earnings Release
4. First Republic Bank Q1 2020 Earnings Release
5. JPMorgan Chase Q1 2020 Earnings Presentation
6. PNC Q1 2020 Earnings Presentation
7. Regions Q1 2020 Earnings Presentation
8. US Bank Q1 2020 Earnings Release
9. Wells Fargo Q1 2020 Press Release

WISE

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