HEALTH CHECK: Q2 2020 WEALTH FINANCIALS

LARGE FIRM FINANCIALS, PRIVATE BANKING, IM&T

LARGE FIRM Q2 FINANCIALS

Wealth management assets, loans, and deposits grew quickly in Q2; revenue growth lagged behind.

With the exception of revenues, most performance indicators improved in Q2 relative to Q1 and also compared to 2019. For the quarter, however, revenues dropped 1.7% (bottom left) and were down 3.4% versus 2019 (top left). Average IM&T growth rates (page 6) imply that net interest income has gone down faster than noninterest for both periods. Modest expense increases are in-line with longer-term trends and likely to remain low indefinitely; most firms are holding budgets flat or reducing expenses.

The good:

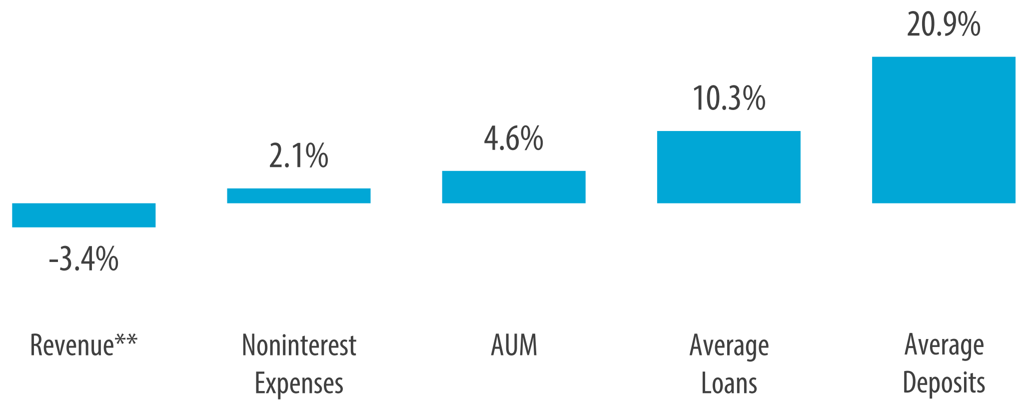
- *Assets*. Firms reported significantly higher AUM in Q2 due to net inflows and a significant market rebound (bottom middle). Attrition rates are likely lower (not shown).
- *Loans*. Loans rose slightly from last quarter as a result of a low interest-rate environment and strong demand for PPP loans (bottom right).
- *Deposits*. Firms saw historic deposit growth due to government stimulus programs, low spending, and clients' desires for liquidity.

The bad:

- Asset-based revenues declined due to poor Q1 market performance.
- Low interest rates are negatively impacting firms' results.
- Credit loss provisions increased for the second straight quarter, which negatively affected net interest revenues.
- Q3 net income will likely be negatively impacted by increases in provisions, although this may be partially offset by asset-based revenue increases.

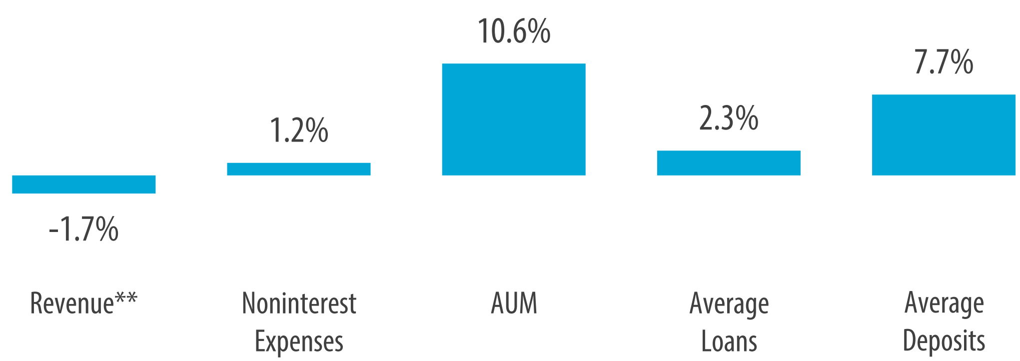
Year-over-year Growth Rates, Large Private Banks and Wirehouses*

Weighted Averages, Q2 2020 vs. Q2 2019 Change



Quarter-over-quarter Growth Rates, Large Private Banks and Wirehouses*

Weighted Averages, Q2 2020 vs. Q1 2020 Change



Methodology

WISE analyzed Q2 2020 earnings reports for 14 of the largest private banks and wirehouses in the US. *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. Goldman Sachs was removed from this quarter's analysis due to its unique revenue performance. For more detail, please see page 7. **Revenues include both net interest and noninterest revenues.

LARGE FIRM Q2 FINANCIALS

The median large wealth manager saw a year-over-year decrease in revenue of 3% (item 1, left); 75% of firms had no year-over-year growth or had decreases. Revenues relative to Q1 declined less rapidly, only 1.5% (item 1, right). As with annual numbers, revenues were flat or down for most. In contrast, most firms reported double-digit growth rates in deposits (item 5, left) and have continued to report modest or better growth rates in Q2 for AUM, loans, and deposits (items 3, 4, 5, right).

Key Wealth Growth Rates, Interquartile Ranges*
Year-over-year (Q2 2020 vs. Q2 2019 Change)

	Median		Median	
1. Revenue**	**-3.0%**	-5.3%		0.0%
2. Noninterest Expense	**0.6%**	-3.2%		5.3%
3. AUM	**6.4%**	-1.1%		10.5%
4. Average Loans	**11.2%**	4.9%		13.1%
5. Average Deposits	**19.7%**	10.8%		26.1%

Key Wealth Growth Rates, Interquartile Ranges*
Quarter-over-quarter (Q2 2020 vs. Q1 2020 Change)

	Median		Median	
1. Revenue**	**-1.5%**	-6.0%		0.3%
2. Noninterest Expense	**-1.1%**	-4.6%		0.7%
3. AUM	**11.0%**	10.2%		12.3%
4. Average Loans	**2.7%**	1.0%		3.6%
5. Average Deposits	**6.5%**	2.4%		11.2%

Interquartile range (IQR): the range from the 25th to 75th percentiles (i.e., the middle 50%). The IQR is represented by the gray line. For example, year-over-year revenue (left chart, item 1) ranged between -5.3% and 0.0% for the middle 50% of firms.

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PRIVATE BANKING

Total Firm

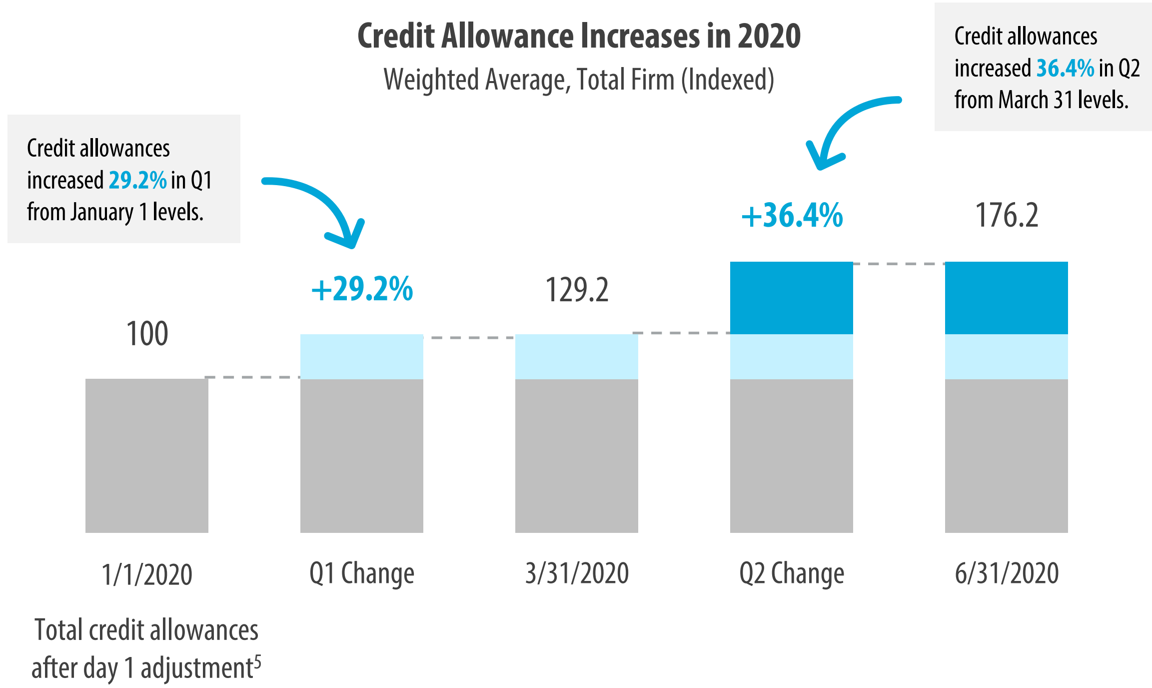
Banks are worried about the economy despite a strong market recovery.
On the heels of dramatic increases in credit allowances in Q1, firms did it again in Q2: allowances rose an additional 36.4% (far right). The US economy shrank by 9.5% between April and June, and numerous earnings reports cited deteriorating economic conditions as the main cause for increases in allowances.[1]

Private Banking[2]

Businesses are healthy despite concerns about the future.
In many respects, firms' lending businesses are healthy. Loan volumes are rising and firms report strong pipelines. The underlying credit quality of loan portfolios is stable despite small upticks in delinquencies due to COVID. Some firms report more rapid PPP paydowns in wealth management relative to commercial banking and other lines of business.

The news is not all good, however. Deposit balances are high, but not high enough to offset spread compression. CECL implementation requires more reserve provisioning for mortgages, HELOCs, and other types of credit products and will cause wealth divisions more pain than their commercial counterparts.

Perhaps unsurprisingly, industry professionals anticipate a worsening of HNW credit economics in the near-term. While the majority expect pricing to remain about the same over the next year or two, they are expecting the costs of lending to increase. **In terms of growth rates over the next 12 months, most firms expect noninterest revenue to drive the topline, not net interest income.**



CECL's full impact is difficult to measure because firms are "still in the eye of the hurricane".
The full implications of CECL implementation remain unknown. Firms' expectations run the gamut: some expect it to be disruptive, others are unperturbed. Given the uncertainties, the ABA recently called on the Treasury Department to examine the effects of CECL, including several issues specifically: the impact on lending to key constituencies like small-business owners; tactics for addressing coronavirus-related forecasting; and the overall reliability of forecasting.[3,4]

1. Washington Post, "US Economy Contracted at Fastest Quarterly Rate on Record from April to June," July 30, 2020;
2. Private banking commentary sourced from WISE forum for wealth management finance professionals, July 2020;
3. American Bankers Association, "ABA Recommends Focus for Congressionally Mandated CECL Study," August 11, 2020;
4. Zach Fox, Rucha Khole, "Credit Quality Unknowns Remain Focus for US Bank Q2 Earnings," July 13, 2020;
5. Day 1 CECL adjustment is the change made to banks' credit allowances strictly due to the rule change; Data are from a WISE analysis of financials from twelve large commercial banks.

IM&T IN DETAIL

Investment management and trust revenue indicators are flat or down, despite strong rebounds in assets.

Key performance outcomes in the larger and more diverse FFIEC dataset are similar to those for large wealth managers (page 2). Observations:

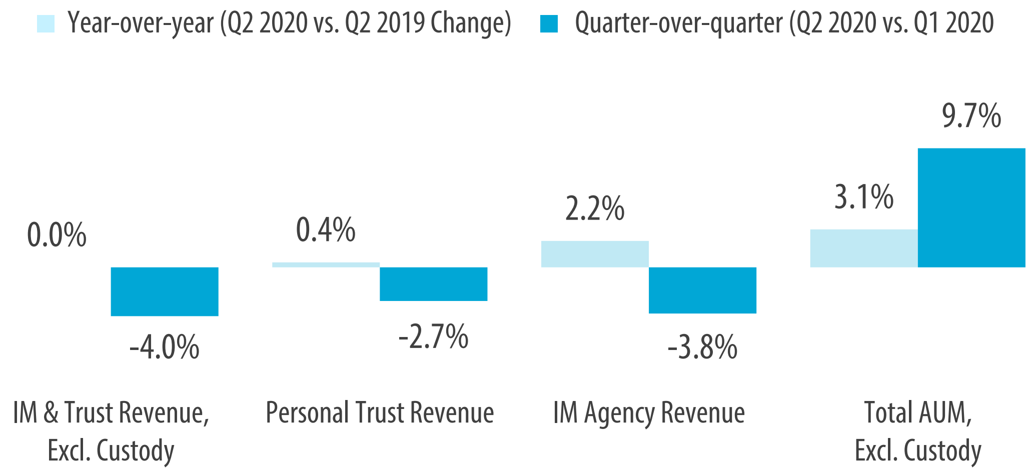
- *Q2 revenues*. Revenues for the median firm declined 4% versus Q1 and were flat compared to this time last year (top left). Assets for the quarter were up nearly 10% (far right), but most revenue categories have gone down since Q1.
- *Q3 revenues*. Steep increases in assets bode well for Q3 revenue performance, which will provide a timely tailwind given the difficulties of developing new business during the pandemic.
- *Assets*. Assets rebounded sharply across nearly every line of business during Q2 (gray box, right). Average versus median growth rates imply that larger firms grew slightly faster for the period.

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, Q2 2020 vs. Q1 2020 Change

	Median	Average
Total AUM (Excl. Custody)	9.7%	11.8%
Total Assets (Excl. Custody)**	9.2%	9.2%
Personal Trust**	8.0%	8.9%
IM Agency**	10.1%	11.7%
IRA**	11.7%	19.6%
Employee Benefits**	11.2%	6.7%
Corporate Trust**	0.0%	4.1%
Foundations and Endowments**	11.0%	10.9%
Custody	5.9%	11.2%

**Includes both managed and nonmanaged assets

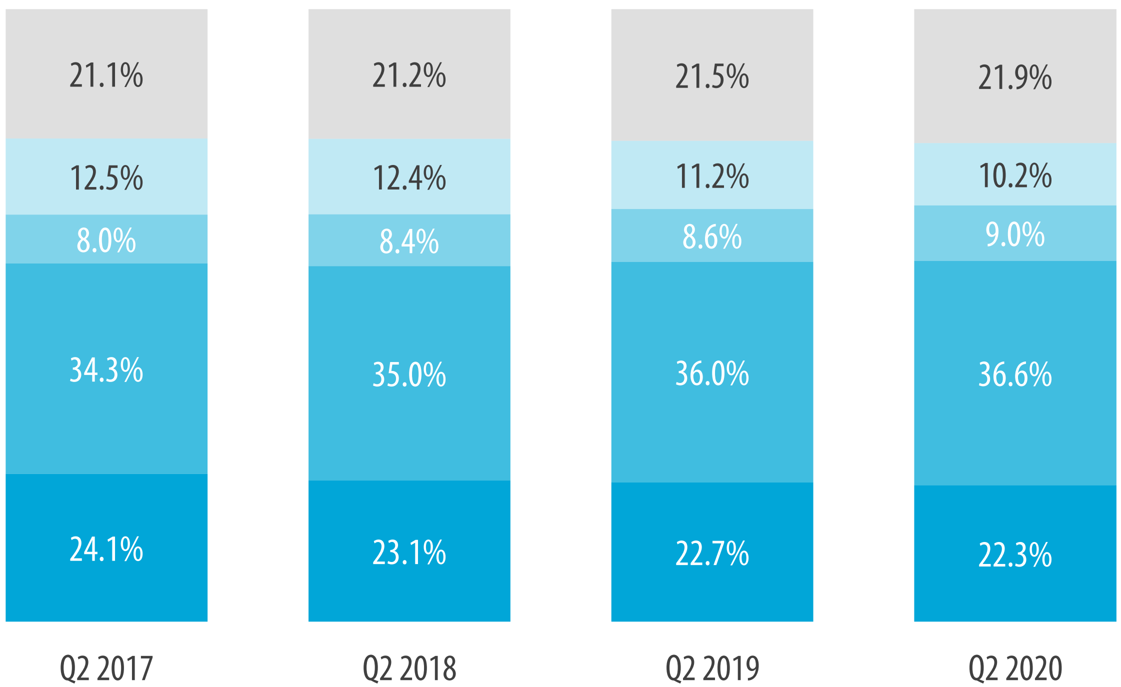
Notes: *For full methodology, see page 6.

IM&T IN DETAIL

On average, total revenues declined 1.1% year-over-year (bottom gray box). Personal trust revenues declined 3.1%, and benefits went down 9.9% (note: the charts below show the average growth rate, versus the medians on the preceding page). Most revenues were down or flat versus Q1 2020 (gray box, far right).

Investment Management and Trust Revenue Composition

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



Q2 2020 vs. Q2 2019 Change, Average:

Other†: 0.7%

Benefits††: -9.9%

IRA: 4.0%

IM Agency: 0.7%

Personal Trust: -3.1%

Q2 2020 vs. Q2 2019 Change, IM & Trust Revenue Excl. Custody: -1.1%

Q2 2020 vs. Q1 2020 Change, Average

Other	2.9%
Benefits	-0.5%
IRA	-1.0%
IM Agency	-3.6%
Personal Trust	0.6%
IM&T Revenue	**-0.7%**

Methodology and Notes

WISE analyzed Q2 2020 FFIEC data to assess the financial performance of the IM&T business. †Other: Foundations and endowments, corporate trust, other fiduciary accounts and revenue. ††Employee benefits: Defined contribution and defined benefit plans. All metrics on this page exclude custody unless otherwise noted. *Due to FFIEC filing limitations, not all firms reported quarter-end information for each year. In addition, a few firms failed standard outlier tests and were removed from the sample. As a result, the chart may vary slightly from previous versions due to small variations in the sample.

APPENDIX

Large Firms, Key Q2 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 Q2 2020 Earnings Report: Global Wealth and Investment Management
2. BNY Mellon Q2 2020 Earnings Report: Investment Management
3. Boston Private Bank Q2 2020 Earnings Report: Total Bank
4. Fifth Third Q2 2020 Earnings Report: Wealth and Asset Management
5. First Republic Bank Q2 2020 Earnings Report: Wealth Management
6. Goldman Sachs Q2 2020 Earnings Report: Total Firm
7. JPMorgan Chase Q2 2020 Earnings Report: Asset and Wealth Management
8. Morgan Stanley Q2 2020 Earnings Report: Wealth Management
9. Northern Trust Q2 2020 Earnings Report: Wealth Management
10. PNC Q2 2020 Earnings Report: Asset Management Group
11. RBC Q2 2020 Earnings Report: Wealth Management
12. Regions Q2 2020 Earnings Report: Wealth Management
13. US Bank Q2 2020 Earnings Report: Wealth Management and Investment Services
14. Wells Fargo Q2 2020 Earnings Report: Wealth and Investment Management

Large Firms, Credit Allowance Data

All financial data used for the credit allowance analysis were taken directly from each firm's earnings presentations and releases. This analysis uses credit allowances for the **total firm**.

1. Bank of America Q2 2020 Supplemental Information Release
2. BNY Mellon Q2 2020 Financial Supplement Release
3. Boston Private Bank Q2 2020 Earnings Presentation
4. Fifth Third Q2 2020 Earnings Release
5. First Republic Bank Q2 2020 Earnings Release
6. JPMorgan Chase Q2 2020 Earnings Presentation
7. Morgan Stanley Q2 2020 Financial Supplement
8. Northern Trust Q2 2020 Trend Report
9. PNC Q2 2020 Earnings Presentation
10. Regions Q2 2020 Earnings Presentation
11. US Bank Q2 2020 Earnings Release
12. Wells Fargo Q2 2020 Press Release

FFIEC Results

WISE analyzed Q2 2020 FFIEC data for the total IM&T business to measure the impact of the pandemic on Q2 financials. The sample includes every company that files a Consolidated Report of Conditions and Income (AKA a call report). Due to FFIEC filing limitations, not all firms reported quarter-end information for each year. The overall impact of these firms is minor, but a few significant outliers were excluded from the results due to their outsized impact.

Data includes $6.5 trillion in total AUM and $25 billion in annual revenue (excluding custody).

WISE

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www.wisegateway.com

AUTHORS

David Lincoln, Partner
david.lincoln@wisegateway.com
(202) 997-5962

Jack Miossi, Senior Research Analyst
jack.miossi@wisegateway.com

Sunghoon Park, Senior Director
sunghoon.park@wisegateway.com