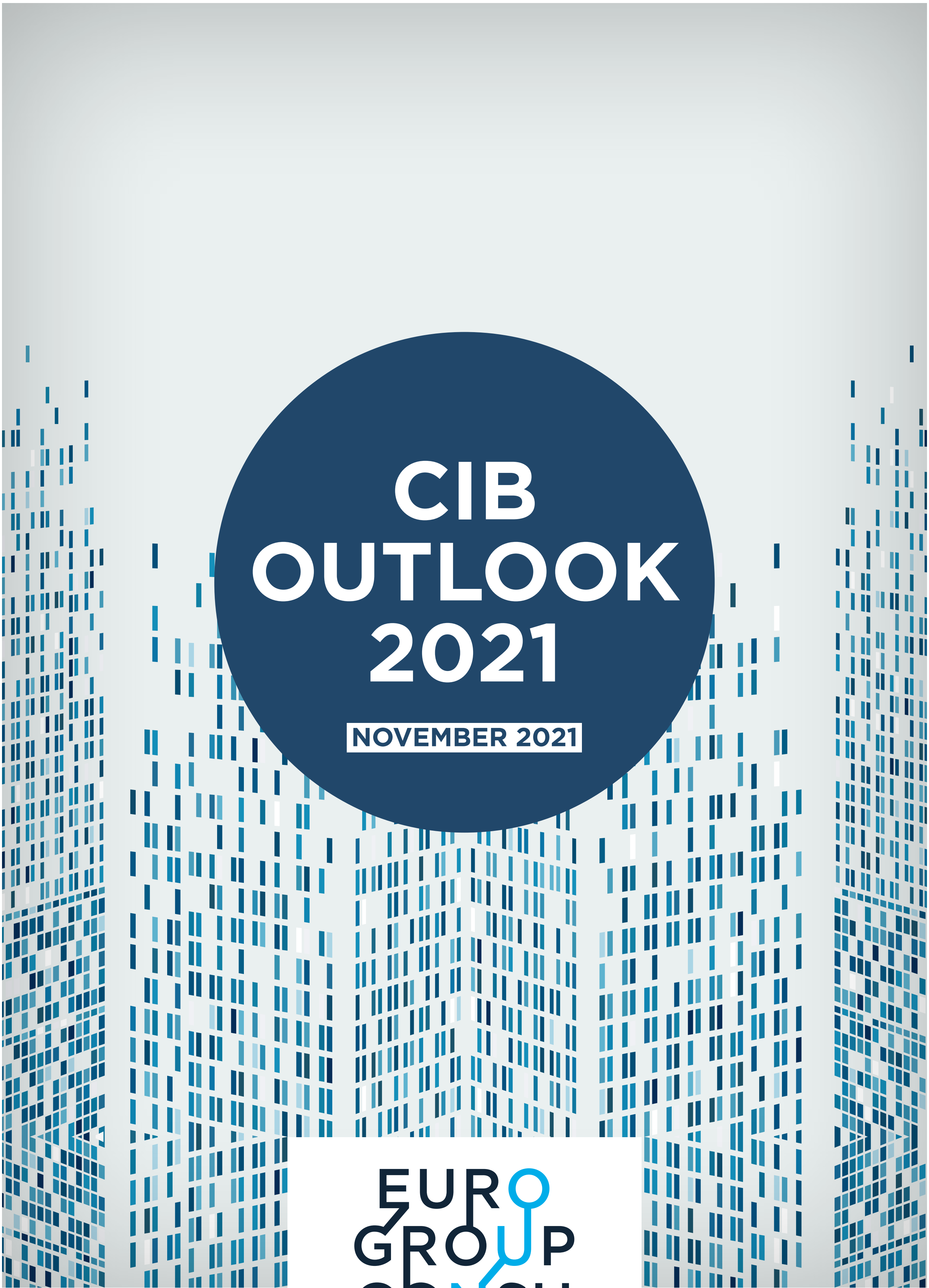

CIB OUTLOOK 2021

NOVEMBER 2021

EURO GROUP CONSULTING

Leading positive transformation

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EXECUTIVE SUMMARY

01.

Against all expectations, the COVID crisis has resulted in corporate and investment banks breaking out of the contracting environment since the last crisis in 2008. Delivering top-line growth for the first time in a while, they now have the resources to invest in transformation. Banks should focus on accelerating their structural transformations and reviewing their operational models, in anticipation of future downward cycles, as we emerge from the sanitary crisis.

02.

Most stakeholders now understand the necessity of taking into account the extra-financial impact of corporates and institutions. The challenge is how to integrate ESG criteria into our economic models, which have historically primarily considered financial performance. Corporate and investment banks, major players in our economic system, have a decisive role to play in the ESG transitions.

03.

Back in our CIB Outlook 2020, we were mentioning cooperation as the key lever for Corporate and Investment Banks to attract and retain top talents in the long run. However with today's labour force shortage, the recent pandemic, and employees' new aspirations, banks should analyse their employees' perception of their culture and rethink it to realign their promises with the work environment they build. More than ever, talents are looking for corporations they can trust and empower them in return, so banks must be able to follow up on the expectations they create.

FOLLOWING THE COVID-19 CRISIS, CAN CORPORATE AND INVESTMENT BANKS INVEST IN THE ELASTICITY OF THEIR OPERATING MODEL AND PREPARE FOR A POSSIBLE FUTURE DOWNTURN?

1 AN ECONOMIC SYSTEM UNDER STRESS HIT BY AN UNPRECEDENTED HEALTH CRISIS: A PARADIGM SHIFT FOR INVESTMENT BANKING?

Throughout the decade following the financial crisis of 2007-2008, signs that the Corporate and Investment banking sector was in the last phase of a growth business cycle were rather clear as the industry as a whole was facing a contracting market.

Growth in revenue volumes declined gradually over the period and the volume of all registered granted loans stalled. Overall, Corporate and Investment Banks (CIBs) underperformed compared to other economic sectors and to national GDP growth. Yield curves flattened and spread out, resulting in investors consistently losing confidence and postponing risky and leveraged investments.

Exhibit 1

Global revenues – Investment banking and securities dealing

Total annual revenue for Investment Banking and Securities Dealing, 348 firms, Millions of Dollars

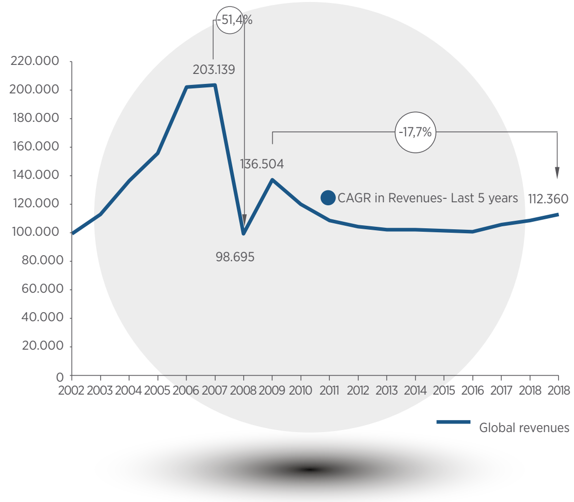
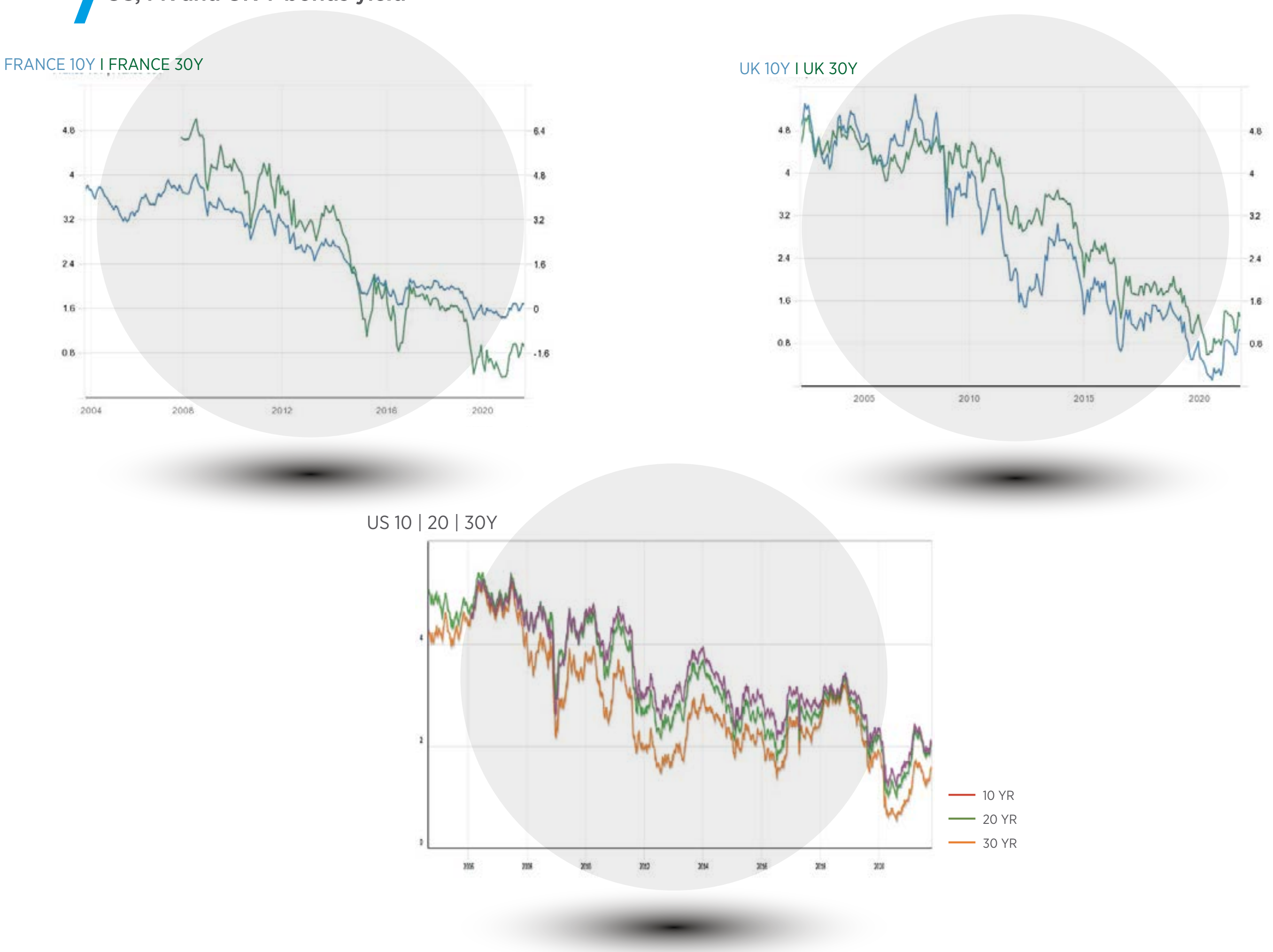


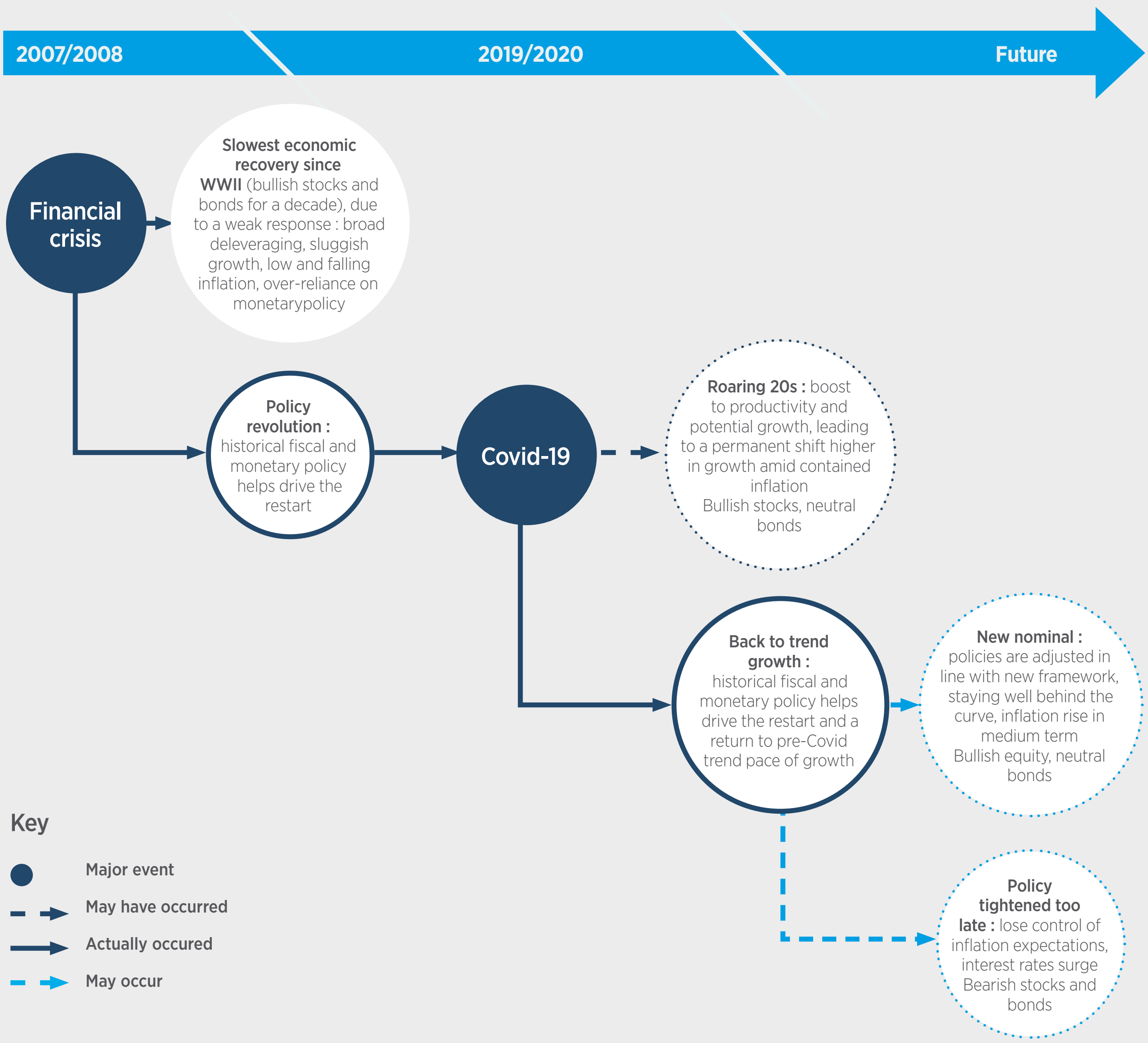
Exhibit 2

US, FR and UK T-bonds yield



All this suggested a shift towards a phase of paroxysm and reversal. This would be characterized by excessive caution from the investor's standpoint, leading to a globalized drop in asset prices and a return to a bearish market.

Exhibit 3
What happened post 2008 and what to expect for the near future



Moreover, the 2008 global financial crisis led to stricter regulations due to failures in banking supervision. One might consider those are overly complex and do not sufficiently reflect the consideration of systemic and global risks. This emphasizes a backwardness from the regulators on considering financial issues in a broader economic framework.

An economic cycle running out of steam linked with regulations ill-adapted to market developments usually precedes an end to the period of movement and a near market downturn.

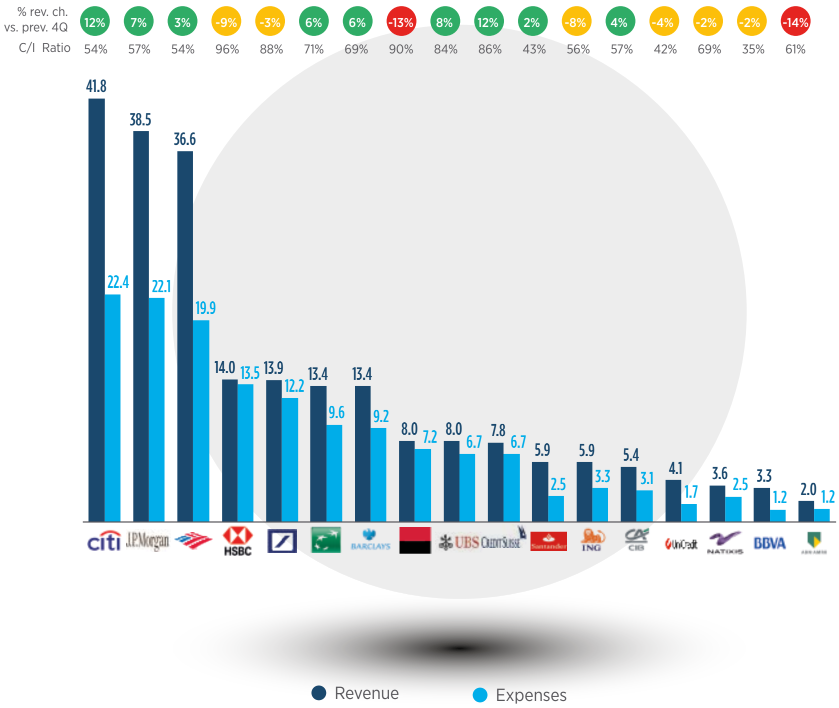
A sudden paradigm shift in those conditions would send stressed-out financial institutions into a downward spiral and lead to a new financial crisis.

Unexpectedly, the COVID-19 pandemic impacted the world economy as a whole and has raised fears of an economic crisis unmatched in the 21st century. But did it really impact investment banks and accelerate the transition to an economic recession?

Exhibit 4

Revenue and Expenses for major CIBs

(Q2'19 to Q1'20, USD billions)



An analysis of revenues and expenses shows that overall CIB revenues grew by 3,3% over the period Q2'19 to Q1'20, while costs grew by 5,4%. Looking closer at the banks in our sample, we observe that the rise in revenues was mostly driven by US players, for which the impact of the crisis was slightly delayed compared to European players: Revenues of US CIBs grew up indeed by an average of 7,5%, while their EU peers saw revenues contracting by - 0,9% in comparison with the period Q2'18 to Q1'19.

During this period, US CIB's outperformed EU peers in terms of average C/I Ratio (55% vs 68%). Indeed, the dynamic observed in previous years do not fundamentally change as the ranking by revenues among players remains essentially the same.

However, we observe that only European banks suffered a loss in revenues (notably Société Générale, ABN and ING), not offset by efficiency gains.

2 CONTRARY TO EXPECTATIONS, THE COVID-CRISIS DID NOT HAVE SUCH A NEGATIVE IMPACT ON THE PLAYERS BUT FORCED THEM TO HASTEN NECESSARY TRANSITIONS

Following the global health crisis, which was destructive for the world economy, a sudden reversal of an upward economic cycle was to be expected, along with a collapse in revenues for all players. However, the actual trend defies all expectations.

Covid shook the economic fundamentals to its core and introduced a wall between demand and supply from the beginning of the crisis. As contraction in demand looped into a contraction in supply and caused a large destruction of economic surplus, stock markets plummeted to 2/3 of their previous values between the end of february and the end of march 2020. Volatility indexes spiked, hitting readings not seen since the last financial crisis. Yields on government bonds rose significantly across the globe and inflation expectations fell due to a drop in comodity prices.

Governments and central banks were forced to intervene in economic life with mitigating measures of increasing force. Financial markets responded positively to such measures but remained unusually sensitive to fluctuating medical and political developments.

This all shifted after March 2020, with most of the investment banks considered having one of the best performance streaks since before the last financial crisis, leading to a record year during the Covid period.

From Q2'20 to Q1'21, revenues soared for most of the sampled players, with overall revenues growing by 17.4% on average while costs increased only by 3.8%. The increase in revenue was similar between the US and EU players (16.8% & 18.0% respectively), mostly driven by surges from JPMorgan, Deutsche Bank, BNP & Crédit Suisse.

However, cost base evolution differs greatly between the two groups, with the US bank reporting an average increase in costs of 9.3% and the European banks a slight drop of -0.6%. The gap between US and EU players remains the same as in previous periods, with the three US-based banks representing 52.0% of the sample's aggregated revenues.

Exhibit 5

Revenue and Expenses for major CIBs

(Q2'20 to Q1'21, USD billions)

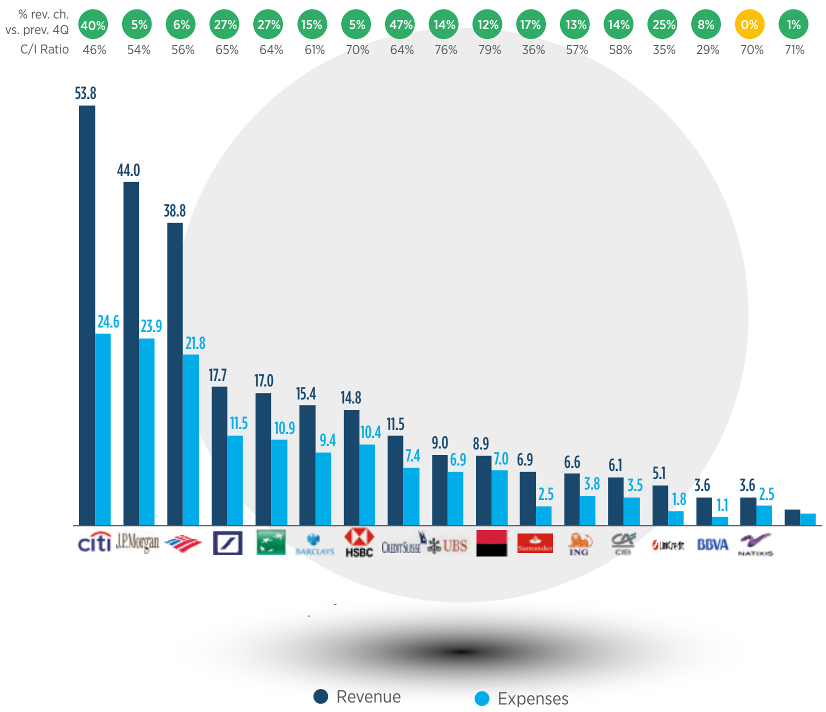
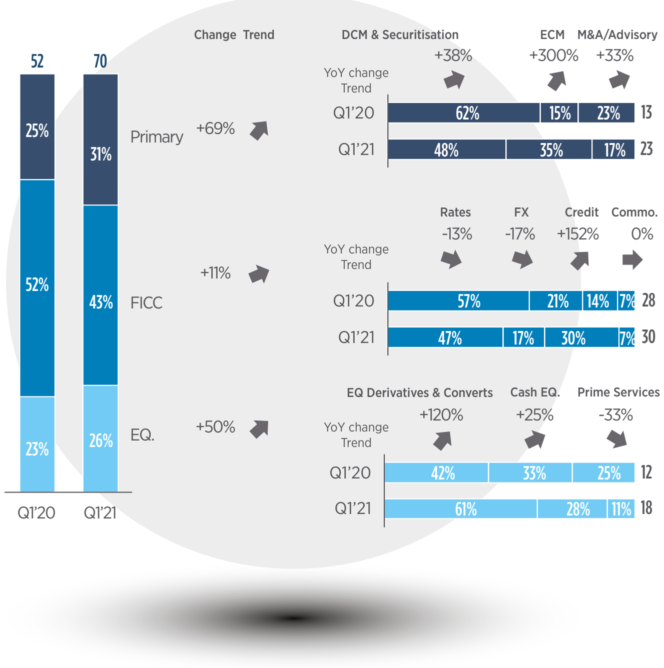


Exhibit 6
Capital markets & Advisory [%][1]
[USD bn, selection of top 15 CIBs]

Exhibit 7
Zoom per activity [%] [1]



If we take a closer look at the market, banks mainly experienced am extraordinary increase in both primary markets and in equity markets.

They performed especially well in ECM, Credit and EQ Derivatives & Converts:

- **ECM:** ECM fees driven by IPOs smashed previous records, with revenues quadrupling vs 1Q'20. However, caution must be exercised in 2Q'21 with red-hot markets cooling and volat ility surging.
- **Credit:** credit revenues surged vs prev. Q, led by US majors. It appears that investors fearing tightening monetary policies favour high-yield and direct cashflows into dedicated ETFs.
- **Equity Derivatives & Cash Equity:** The Archegos incident and French banks' structured equity derivatives losses in 1Q20 distort comparisons with the prior-year period, but all players reported significantly stronger underlying execution revenues in both cash and derivatives, especially in structured products, APAC and North America. ETD's revenues were soft, but favourable market conditions, strong client activity and higher Prime balances boosted financing revenues. However, this was more than offset by Archegos-related losses.

The COVID-19 crisis forced a swift change of perspective. While most CIBs had been trying to implement more flexibility in their processes over the last decade, certain jobs were considered impossible to be done remotely.

Everything changed at the back end of March 2020 with the first stay-at-home order. Overnight, it appeared that everything could be done remotely and dematerialized, and no proof was needed anymore.

The implementation of solutions based on technological levers had to be sped up. In a way, the COVID crisis accelerated that were already well underway in recent years, with players desperately needing digitalized and dematerialized processes.

CIBs underwent inner transformations to stay in touch with their customers. In particular, they had to accelerate the digitalization of customer platforms and hence to bridge the gap between front and back offices while reinventing back-office management in customer relations. They also had to forego reluctance to heavily rely on AI solutions and automatize analysis and research activities.

Now is the time to think about what comes next and consider future crucial stakes. After a golden year, favoring structural changes and enabling all the transformations they had been struggling to implement, CIBs may be in the best possible conditions to do so. Most of them have

now resources available from the past quarters and will be able to reflect on how fostering changes that suits them and embed them in working methods and processes.

Banks need to reinvent their operating model and lock in sustainable cost optimization. Across their operating model, there are three categories that banks could investigate to identify cost-saving opportunities: process, IT and organisation. A smart approach within these 3 areas would be to investigate possible simplifications and investments that could improve both customer's and employee's journeys.

To give concrete example, some major banks are accelerating their transformation plans such as HSBC. HSBC chose to grow its investments in technology to drive down costs, including a reduction in manual client processes and a reduction in their commercial real estate footprint. They plan to invest approximately $7bn to achieve deliver their cost saving objectives.

This is also the case for a European bank, which is reworking its operating model across its 4 businesses by simplifying its legal entity structure and investing heavily in digital and data.

Looking back at 2020, the sharp drop in interest rates led to a collapse of Net Interest Income on deposits, and effectively denied expected growth from the prior three years. These lost revenues can be recovered over the next cycle, through optimization of the existing business – reorienting the commercial model toward recurring fee income, increasing discipline in liability management, and strengthening cross-selling.

Leading wholesale banks are transitioning from transactional to services-based models through the development, for example, of Banking as a Service (BaaS) offerings and Banking as a Platform (BaaP). These longer-term value creation plays address changing client expectations and needs, adapt to the growing ecosystem of financial service providers, and mostly target the areas of greatest payments growth. In many instances, such offerings target clients and require capabilities that are typically outside the Transaction Bank area – forcing banks to look beyond traditional models and manage across internal silos and work with partner networks. Investment banks can also anticipate this shift and start rethinking their service offering.

The last years have reinforced the earnings of investment banking divisions, as the model focused on less capital-intensive activities, therefore reducing the risk. While there will always be risk in the business, the dynamics mostly evolved as a result of post-Global Financial Crisis reforms.

3 THE END OF THE CRISIS WILL HAVE TO BE FOLLOWED BY A WELL-THOUGHT TRANSFORMATION AND THE ACKNOWLEDGEMENT OF NEW CHALLENGES

The context seems less favorable at the end of the crisis: a strong decrease in revenues compared to the previous quarter, greater than that of the expenses despite all solutions and changes implemented.

However, taking a close look at 2Q'21 and comparing it to 2Q'20, we notice a sharp decline in revenues for all banks and a slight decrease in their cost base.

Indeed, revenue of US CIBs declined by an average 13,3%, while EU CIBs saw their revenue declined by 12,3% in comparison with Q2'20 to Q2'21 (excluding Nomura).

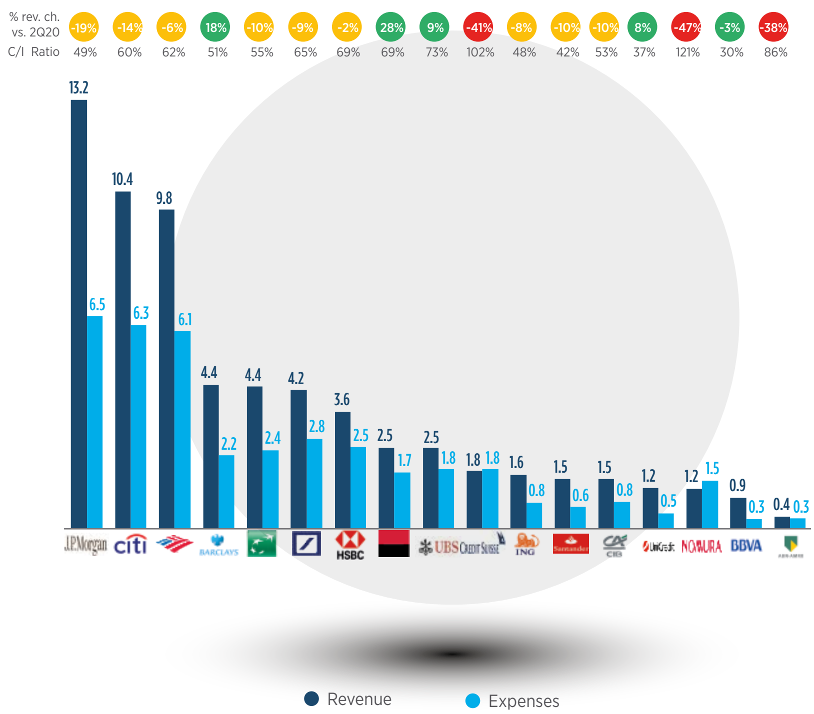
However, the combined revenues of the 3 US banks remain slightly higher than those of the 14 European banks (33,4 $Bn vs 26,5 $Bn).

Over the last 4 quarters, the Cost to Income ratio increased by an overall 16%, mainly due to the revenue decrease in the last quarter.

It appears CIBs are falling back into the pre-COVID cycle. The trends seen during the COVID period seems to only be a singularity in the economic cycle well underway during the previous decade. Investment banks should now confront the possibility of an economic reversal and capitalize on the past few quarters to anticipate the challenges of the future. One of the major challenges they will face will be to anticipate and prepare for the next period of recession.

Exhibit 8

Revenue and Expenses for major CIBs (Q2'21, USD billions)



4 IS IT POSSIBLE FOR CORPORATE AND INVESTMENT BANKS TO ANTICIPATE ECONOMIC DOWNTURNS DESPITE NEEDING TO ADDRESS SUCH ISSUES?

With all these considerations in mind, one can ask: now, what's next? There is no denying that CIBs will have to face critical challenges in the near future. However, the main challenge here will be the anticipation and forecasting of economic downturns, along with periods of depression and recession.

One of the ways to achieving such preparation is to focus on creating and maintaining operating cost elasticity during all cycles, whether the market is bullish or bearish.

However, trying to achieve maximum elasticity will raise two critical questions. First, until which point can one tend toward this objective? In this case, the best analogy is one of a rubber band: put too much strain on it and it will definitely snap and create a painful backlash.

This example leads directly to our second critical question. There are unavoidable fixed charges, costs that cannot by definition be flexible. Some functions such as Realestate, IT security or Human Resources, cannot easily be shored or outsourced. The stakes are mainly about security and proximity (physical and digital including data, transaction details, specificity and specialities). Another simple analogy regarding fixed costs is one of a spring. If one compresses it too much, the same happens that with the rubber band. It will simply explode and leave you with nothing except a painful experience.

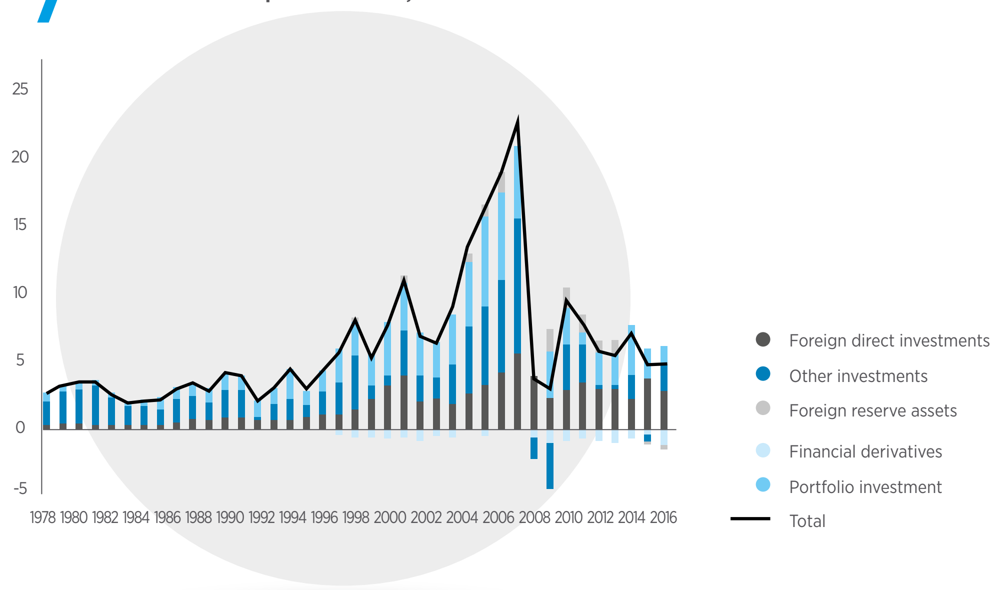
In this regard, digital and artificial intelligence technologies can be both a complement and a substitute for manual intervention. The World Bank estimates that every 10% technology driven improvement in labor productivity reduces employment by 2% in advanced economies. However, employees benefit largely from the transition and from a positive income effect from such improvements. But while this is a lever for reducing labor costs, it also impacts the necessary elasticity in workforce since technological innovation requires the retention of specific cross-skilled profiles to carry out medium to long term projects and run the new technology. Accelerating the time-to-market delivery is what all financial institutions are working towards, but this is in fact quite opposed to achieving optimal elasticity.

In order to determine possible answers as how to foresee and prepare for cycle reversals, one can look at more economic concepts, especially the notions of cycles.

One of the first to theorise about up and down cycles was the Soviet economist Kondatriev in 1926. According to Kondatriev, an ascending phase is gradually characterised by an excess of investment driven by fierce competition between players, causing prices to rise as producers pass on their production costs to products. As a result, interest rates rise as well in the face of strong demand for cash. All this leads to a decline in economic activity during which prices fall, due to an excess of supply and a fall in demand, as well as interest rates. As a result, the fall in consumption and investment leads to a fall in the demand for cash, allowing for a purge of the system and preparing the ground for a new phase of growth.

Looking at the global financial openness rate, we can observe a sharp drop during 2007-2008, followed by a sluggish recovery during the following decade, suggesting an entry into a downward cycle around this time.

Exhibit 9
Global financial openness rate, FMI



However, theorising solely based on these notions can be tricky because the economic world has largely evolved since Kondratiev. Logics of globalisation and demography changed drastically and became major accelerators of economic and social change. Asia is increasingly asserting itself as the world's centre of gravity, and industrialised countries will potentially become the epicentre of cashflows. Green globalisation and new technologies will be paramount and should generate potential clusters of innovation, leading to numerous social changes and once again to a growth market.

This analysis leads us to look at Schumpeter and his theory of alternating cycles of creative destruction and innovation documented in 1939. Its cycles are much shorter than Kondratiev's but follow a similar logic. According to him, the solution to cope with a shifting economic trend would be to abandon activities rendered obsolete by systemic changes in order to concentrate on more productive and wealth-generating activities. A number of banks, including Crédit Suisse are good examples on these matters, making continuous progress in exiting businesses and refocusing activities in order to optimise allocation of resources and thus increasing the weight of higher-return activities.

For the French economist Clément Juglar, cycles of decennial crisis are mostly brought about by periodic credit disturbances and its cycles are divided into three phases: prosperity, crisis and liquidation. As the prosperity phase is marked by euphoria and high confidence, investors are led to excessive expectations of future gains. The crisis then hits as a surprise, shattering expectation when no real opportunities are left for them to thrive on. A shift in paradigm then begins, as borrowers try to discount their claims in order to meet their commitments and banks' portfolios increase dramatically, forcing them to raise their interest rates and turn, thus causing investments to fall. The liquidation phase is then triggered by the need for investors to sell, even at a loss. Companies are left with unprofitable capital and excess inventory, confidence disappears, and the economy enters a period of deflation marked by a chain of bankruptcies. Low prices and low interest rates then lead to a recovery in investment and activity, which restores the economy to health.

Keeping the notion of cycles in mind, and in a more operational sense, a few key points could then help CIBs prepare for recession cycles.

The first one would be to closely follow investor's gearing and voluntarily curbing on the euphoria phase before reaching a breaking point, or "Minsky moment". However, solely relying on an intervention by regulatory bodies could be unwise, and such actions should probably be self-managed to some extent.

The second one would be to focus on operational resilience. By investing into the embedding of capabilities, processes, behaviours and systems, CIBs would be able to continue carrying their operations, even in the face of disruption and regardless of its source. Investing more into this protective discipline in order to anticipate, protect and plan for recovery at all times can only be advised.

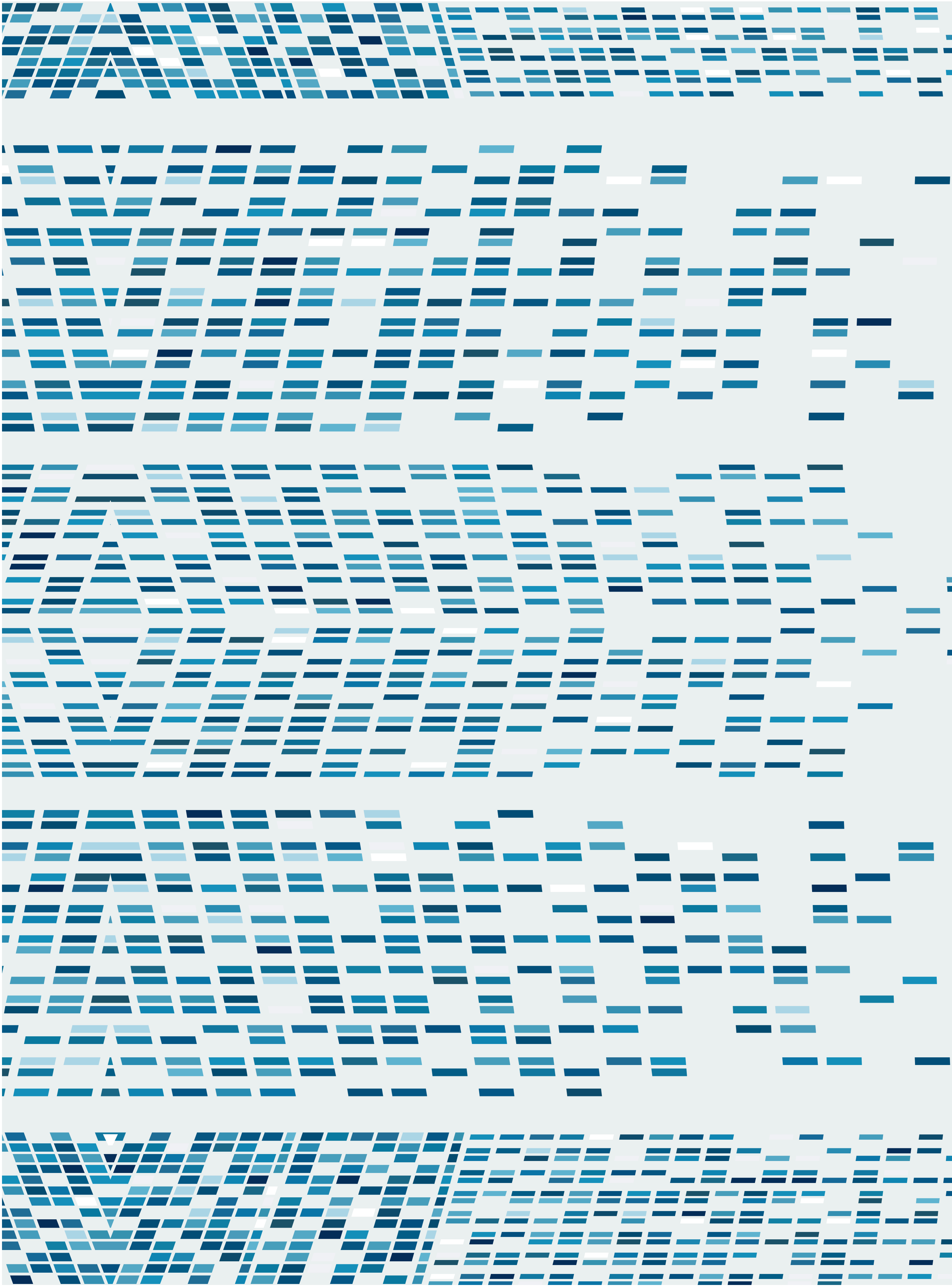
The third one would be to embrace two major opportunities which will be further developed later in this publication: ESG and talent.

Notably, the rise of ESG criteria weight in investment choices represents a major opportunity for all players and a non-negligible differentiation lever, considering the impact that an event such as Covid-19 can have on business.

Taking these issues into consideration could also help with recruiting and retaining talents. A number of professionals are indeed finding themselves drawn to more innovative fields, such as technology firms or innovative start-ups. As a result, most financial institutions are not only competing with each other in attracting talents, but also with innovative businesses to hire the best people with cross-industry skills. As CIBs are currently undergoing digital transformations the needs for an adaptive workforce with the skills to foster new technologies and digital services as they are developed is decisive.

In conclusion, given what happened over the past few quarters, CIBs will need to address these challenges as soon as possible. They are currently in the best possible conditions to do so and should sought to be as prepared as possible for the next economic downturn and recession.

The health crisis and the results achieved over the period have created conditions of unprecedented economic vitality in a depressed dynamic. Such an opportunity is unlikely to be repeated in the near future.



ESG INVESTMENTS: HOW CAN CORPORATE AND INVESTMENT BANKS BE REPOSITIONED AT THE CENTRE OF THE CHANGE TOWARDS A MORE SUSTAINABLE ECONOMY?

1 CONTRARY TO EXPECTATIONS, THE COVID-CRISIS DID NOT HAVE SUCH A NEGATIVE IMPACT ON THE PLAYERS BUT FORCED THEM TO HASTEN NECESSARY TRANSITIONS

A GROWING LEGITIMACY OF ESG CRITERIA ....

Incorporating ESG values into investments portfolios has grown very popular these last years. The proliferation of new ESG funds products with various styles and approaches along with a rising debate around their performance is a major proof that a shift is taking place. However, ESG or socially responsible investments (SRI) have been burdened with the reputation of being non performant investment vehicles.

The fact is that today investors and Corporate and Investment Banks have the possibility and the duty to act regardless of the short-term financial performance of ESG investments by taking a higher perspective and realizing the externalities of corporate strategies on climate change that literally threatens the future of earth and humanity.

Before exposing all the initiatives aiming to increase transparency around ESG investments and opening the debate about the role that CIBs could play in this shift towards a greener economy, let's take a stroll down memory lane.

The movement started more than a century ago as a political matter involving only major states through agreements and the creation of international institutions under the pressure of green movements developing all over the world. As a result of repeated warnings from various actors, and now that climate change impacts are tangible, a general awareness emerged outside the political sphere, reaching investors and even households who became aware of the role they could play.

Indeed, investors are witnessing that nonfinancial risks can significantly affect corporate valuations. For instance, the COVID 19 sanitary crisis highlights the rapid consequences of nonfinancial events on corporate value. The Uyghur scandal can also be mentioned as an example of how corporate value is impacted negatively as investors grant more and more importance to ethics and socially responsible investments.

All the above lead to high pressure and high expectations around the COP 26 that was held in Glasgow from the 31st of October 2021, 6 years after the Paris agreements, 2 years post the last United Nations conference and less than 3 months after the GIEC report of August 9th, 2021.

When asked to comment on his expectations from the COP26, Nicolas Mottis, a professor at the Ecole Polytechnique and ESG expert highlighted the importance of firm commitments by states, especially China, on energy mixes with a priority to reduce the GHG emissions. He added that one of the main challenges now will mostly be to manage and monitor the adaptation in local territories.

The signing parties of the Paris Agreement have met to negotiate and find a compromise around the blocking points of the implementation of the international treaty on global warming adopted in 2015. They have also discussed around the contributions made by each State to fight and adapt to the climate change, the financing of climate released by developed countries to support developing countries, and the carbon pricing with the desire for transparency in order to achieve carbon neutrality by 2050.

Moreover, regulators all over the world have increased their sustainable reporting requirements.

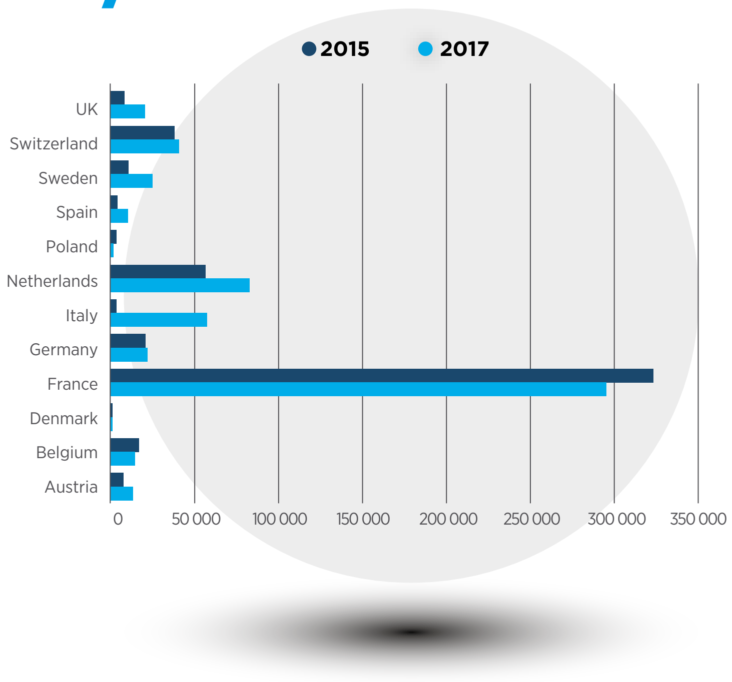
As an example, the European Union has started with the establishment of corporate reporting guidelines, which require listed companies to publish an extra-financial statement on their sustainable economic activities. The UK now imposes an obligation to publish climate-related financial information. In Singapore, regulators have issued guidelines on environmental risk management.

More recently, the EU implemented the Regulation on the Disclosure of Sustainability Information in the Financial Services Sector, which requires asset managers to disclose information on ESG characteristics for all investment products, their portfolios, whether they are labeled "ESG" or not.

One of the most accurate examples of the will to increase transparency is the SFDR initiative (Sustainable Finance Disclosure Regulation) that imposes transparency rules on financial market participants and EU financial advisers regarding the integration of sustainability risks and the consideration of negative impacts on sustainability in their business processes.

Exhibit 10

Best in class investments by country[2]:



… WITH MORE AND MORE INVESTORS TAKING A CLOSER LOOK

Green investments represent a major opportunity for both long term investors and goodwilled policy makers. Financial impacts and performance do still drive investment choices, but they are no more the only criteria to be considered. It seems that sustainable investing has finally convinced investors. Nonetheless, while this success deserves to be highlighted (see figures below), it has also invited investors and the financial sector including corporate and investment banks to ask themselves: «What exactly are we trying to achieve? « and "how can we contribute to the transition?"

Undeniably, the increase of ESG investment can be demonstrated through significant figures[1]:

During the last quarter of 2020m ESG strategies have achieved record flows up to $152 billion, with a record in terms of assets under management $1.6 trillion and have led to a record of 196 new product launches.

Fund selectors who operate investment platforms within private banks, as well as brokers and other organizations have also reported higher levels of adoption, with the number of those integrating ESG criteria increasing from 65% to 77% in three years.

On a global level, financial advisers report that 16% of client assets are invested in ESG strategies. The countries with the highest level of investment are Germany, where advisers report 36% of client assets are invested in ESG, France, where it is 29%, and Switzerland, where it is 27%.

Today, institutional teams do no longer see ESG investing as something that is forced upon them.

In 2020, 57% of institutions declared that they had taken ESG criteria into account in order to align assets with corporate values. Only a quarter of them still mentioned an IPS constraint.

In France, the sector of ESG investment has grown strongly over the last decade, starting from a few millions of outstanding early 2000 reaching today hundreds of billion with a double-digit annual growth. The challenge now is to demonstrate the impact of extra financial strategies on corporate values.

Given the high stakes, multiple actors work on the development of standards and frameworks to help assess companies' alignment to ESG criteria.

2 FROM NO FRAMEWORK TO A MULTITUDE OF STANDARDS AND FRAMEWORKS: A PANORAMA OF TOOLS TO BE USED BY MAJOR ESG INVESTING ACTORS

THE ONE THOUSAND' FRAMEWORK...

Indeed, we went from no guidance around extra-financial performance communication to a multitude of frameworks, standards and other type of material produced by different actors.

A first type of actors shares publicly guidance to help companies disclose material concerning their non-financial performance while a second type of actors score directly companies on these criteria.

First type of actors work on frameworks and standards that aim to define material (e.g., definitions, taxonomy, indicators, rules) to help a company communicate on extra-financial performance taking into consideration its different characteristics. For instance, we can refer to the work of the Sustainability Accounting Standards Board (SASB), an NGO founded in 2011, that identified material factors for business leaders in 11 industries and 77 subsectors. We can also mention the Global Reporting Initiative (GRI), which is an international initiative founded in 1997 involving companies, NGOs, consulting firms, and universities. Their objective was to build a common standard for all organizations – large or small, private or public – with two broad categories the core and the comprehensive options which include a broader extent of disclosures in the report. Last example, the Task Force on Climate-Related Financial Disclosures (TCFD), a non-profit organisation gathering 32 members from across G20 representing both users and preparers of financial disclosures. This later actor recommends disclosing information in 4 parts: governance, strategy, risk management and metrics and targets.

GRI, SASB and TCFD along with two other standards editors (CDP, IIRC) announced in September 2020 that they will work together to converge as much as possible towards a global standard.

In order to complete the picture, and on top of all what we have mentioned above, we should not forget to talk about the United Nations Sustainable Development Goals. In 2015, the United Nations paved the way for a better and more sustainable future by editing 17 sustainable development goals (SDG).

Historically, companies used the SDGs as an additional standard for matching CSR practices, sometimes as a «tick-in-the-box» exercise. Hence, most companies seemed to have succeeded in checking all 17 SDGs. However, we have recently started to notice a shift towards a more integrated and personalised approach: companies select and evaluate the SDGs to which they could really contribute with a better consideration of their impacts.

Now that we have shared a couple of examples of standards and frameworks, one can wonder if companies and other ESG actors use them, be it by choice or by obligation?

Well, In the UK, a recent law requires companies to disclose extra-financial reports based on TCFD by 2022. Currently in France, according to published studies conducted over a panel of 100 SFB120's companies 63% refer to the TCFD, 46% share a grid in concordance with the GRI and 2% are aligned to the guidance of SASB.

That said, different industries use different metrics. Even within the same industry, companies use different thresholds, frameworks, and standards to assess the extra financial performance on ESG topics. Given the multiplicity of factors that can be considered relevant to the ESG, it is difficult to determine which are the most important.

Investors moving into ESG may wish to consider these differences very carefully to ensure that their investments are aligned with their own investment principles. Alongside fundamental analysis, risk/reward considerations, sector and geographic exposures, attaining a good understanding of fund ESG policies can help investors make more informed decisions in this regard.

Companies have complained that the reporting requirements are onerous and non-applicable to all sectors. Indeed, corporate leaders demand simpler reporting processes with a common taxonomy and investors ask for more transparency. Both actors have indicated that they are looking for a standard way to report and assess ESG economic activities and their impacts.

> THE SDGS ARE CLEAR, EASY TO UNDERSTAND FOR ALL STAKEHOLDERS AND OPERATIONAL AS THEY INCLUDE PRECISE TARGETS AND KPIS. A COMPANY CAN TAKE THEM INTO ACCOUNT WHEN BUILDING ITS TRANSITION STRATEGY AND THINKING ABOUT ITS FUTURE COMMITMENTS
>
> **Nicolas Mottis, Professor at the Ecole Polytechnique and ESG expert.**

…AND THE IMPACT OF RATINGS AGENCIES

Rating agencies are independent companies analysing ESG impacts of companies and compiling it into ratings. Their objective is to provide a straightforward overview of the company's impact on ESG criteria that CIBs can use to manage their portfolios.

Still, in this field numerous rating agencies coexist. Each agency relies on its own analysis and algorithms to synthesize disclosures of ESG metrics, such as a company's carbon emissions, board diversity, or safety policies, into separate environmental, social, and governance scores, which are then consolidated into one ESG score.

Exposed to all these different sources of information and multitude of standards, frameworks and guidelines, the question is how do ESG investment actors and particularly CIBs integrate ESG criteria?

3 FROM THEORY TO PRACTICE

In this ecosystem of ESG investments we can distinguish between several actors: Investors, Brokers, Corporate and Investment bankers, Asset Managers, Funds, Ranking agencies, States, Final Consumers, Corporates… all of which have a role to play in the shift towards a greener and more socially responsible economy.

One of the main actors in France and Europe is Eurazeo that selects its investments by studying a list of criteria based on a cross-analysis of several French and international benchmarks (refer to the table on the right):

Eurazeo carries out a cross-analysis of data related to the company with a focus on 28 themes. The objective is to study the target company from three angles: The ESG performance of the target company itself, the positioning of the company in relation to its industry and its competitors, and the expectations of stakeholders.

Another example is the well-known asset manager Blackrock that uses an enriched mix of SASB and TCFD to build a homemade scorecard on which it bases its investment choices.

In March 2020, Blackrock won the EU's call for tenders to work on how to apply ESG criteria in the banking environment. This choice of the EU was strongly criticised as the company still invests in sectors such as arms manufacturers and fossil fuel companies. The same criticism has been made for the banks Blackrock was commissioned to analyse.

The results of the analysis that were published in August 2020 point to the lack of a clear definition of ESG amongst banks and regulators. They also call for the introduction of measures to increase accountability at the executive and board level. Those same results were qualified as being insufficient by major stakeholders. Nevertheless, some have admitted that BlackRock has at least succeeded to define a "climate focus" universe for banks.

Exhibit 11

Large-cap active sector weights

The Declaration of Extra-Financial Performance	The Materiality Map of the Sustainability Accounting Standards Boards (SASB)
The law on the Duty of Vigilance	The Task Force on Climate-related financial Disclosure (TCFD); The Global Reporting Initiative
The 10 principles of the United Nations Global Compact	The CDP climate questionnaire
The United Nations Sustainable Development Goals	The work of the ESG Commission of France Invest
The Principles for Responsible Investment (PRI)	The negative impact indicators included in the draft regulatory technical standards associated with the regulation (EU) 2019/2088 ("Disclosure" regulation)

We can also mention the example of Bpifrance, a French public investment bank: As part of the public interest mission entrusted to it, the bank has defined a responsible investment approach in line with international benchmarks and considering proactive practices in the field. Indeed, in the due diligence phase, they have developed an internal tool to identify the company's priority ESG issues according to its sector of activity and size. The result of the ESG analysis, which is based on an essentially qualitative approach prior to the investment, the current situation, risks, CSR approach and company practices, areas for improvement is included in the investment memo presented to the investment committee and forms part of the assessment of the company.

A last example is Société Générale, that has worked on a consolidated "Sustainable and Positive Impact Finance" proposition, with the objective of developing and diversifying a range of products and services through the implementation of more structuring expertise and advice on impact analysis and measurement, whilst incorporating the United Nations 17 SDGs.

We can enumerate endless examples, yet the conclusion would be the same: all actors use their own internal framework to assess their investments. The absence of common standards that can be applied cross sectors coupled with disintegrated approaches and the difficulty to access qualitative data make the selection process hardly transparent.

Still, we can note that all actors communicate on their ESG related initiatives and efforts are being done to increase transparency and help finance the transition.

Now that we have commented a couple of investment selection approaches and ESG initiatives, let us have a closer look at the evolution of the allocation of ESG investments by sectors.

For a long time, ESG investments were less performing except for the occasional negative sector events that provided brief benefits, such as a drop in energy prices or lawsuits against tobacco companies. As ESG funds have matured and stock selection has become more focused on positive ESG stories, fund performance has improved.

Below are charts comparing large cap active ESG average sector weights to the S&P 500 sector weights.

Exhibit 12
Large-cap active sector weights

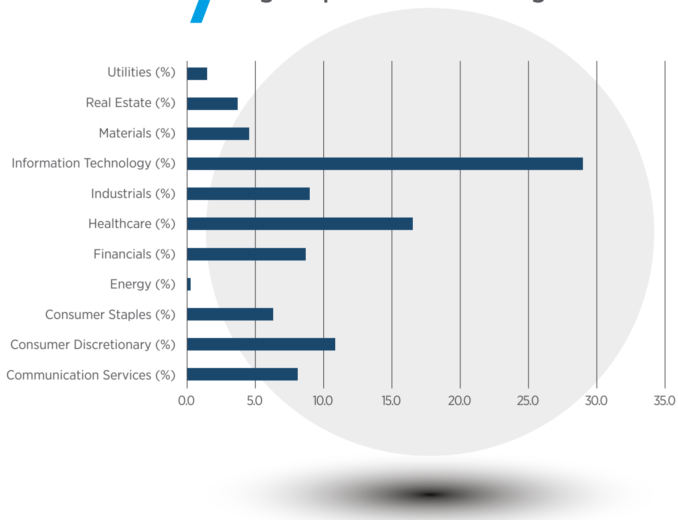
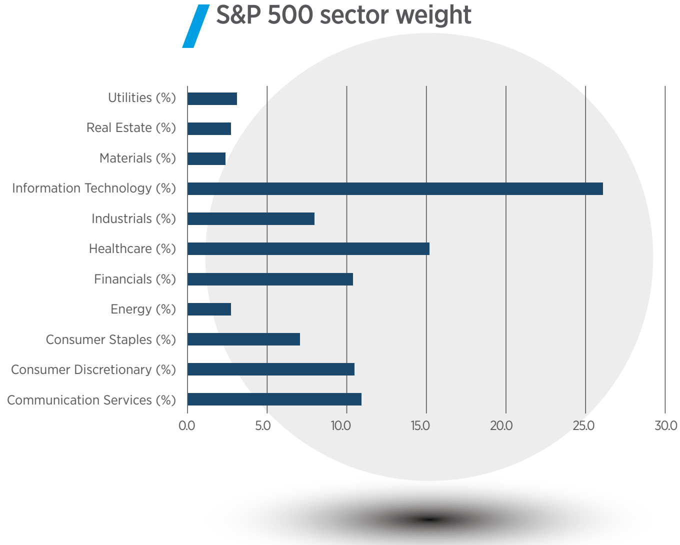


Exhibit 13
S&P 500 sector weight



Main outcomes:

- The energy sector has clearly been banished from portfolios over the past few years
- Utilities sector has also taken a hit
- The rising sector is undeniably information technology
- Sectors such as financials and healthcare kept their positioning

When asked to comment about the sudden outperformance of ISR funds, Nicolas Mottis responded:

"When considering the relatively good performance of ESG funds' performances during the Covid crisis, always keep in mind these two elements. The first element is the sectorial biases. For instance, the Covid crisis had a positive effect on healthcare and information technology sectors which are traditionally very well represented in ESG funds. The second element is the asymmetric nature of some ESG performances. Indeed, history has demonstrated that in time of crisis the effects of a strong governance is very positive on financial performance whereas it does not necessarily "pay" in normal times".

Nicolas Mottis, Professor at the Ecole Polytechnique and ESG expert.

If one bases her/his opinion solely on extra financial figures published by main actors, one would believe that a shift has been engaged. However, it seems that most of the initiatives are more about marketing, communication to answer the growing demand of investors (corporate and private) to invest in ethical funds as well as meeting reporting constraints more than real actions to promote, support and finance the transition.

It can be perceived that companies harness the growing interest of consumers in the environment to increase their share of revenues without really acting for sustainability. The phenomenon is well known as greenwashing and consists in a company communicating a green image while the reality is quite the opposite. We can enumerate multiple scandals in the textile industry, food industry, energy sector, automobile industry, financial sector…

However, our purpose here is to open the debate on towards a more sustainable economy. They can commit to slowly reduce the exposure to non-renewable energy and help the companies achieve a carbon neutral shift. They have the funds, the resources and sufficient data and knowledge to significantly help shape the companies' ESG strategies.

Moreover, CIBs should work towards demonstrating tangible impacts of their own ESG strategies and of the companies invested in ESG strategies beyond financial performance.

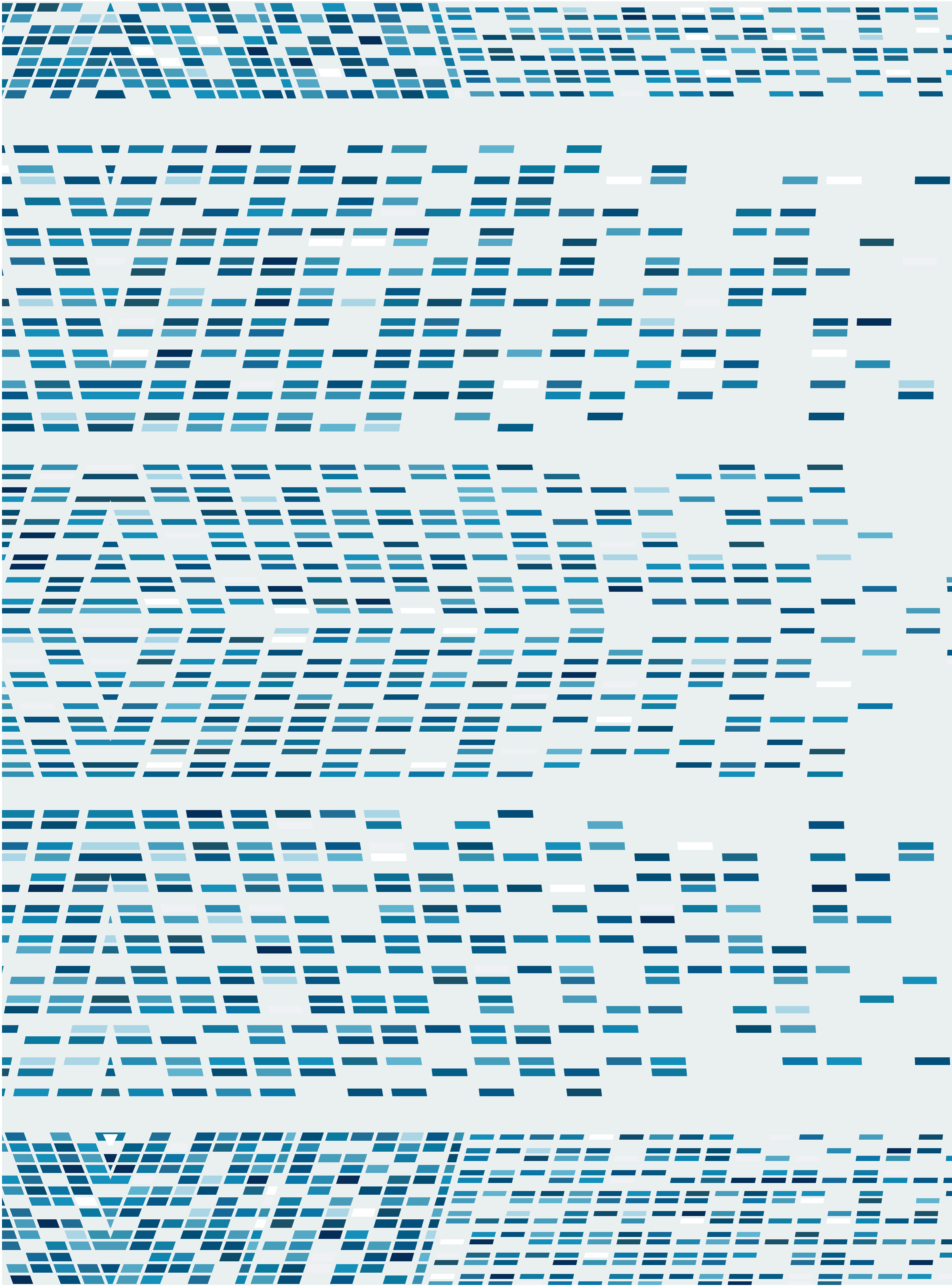
When asked about the role that CIB's can play in the transition Nicolas Mottis responded as follows:

> **"CIBs can leverage on their position allowing them to have a holistic view of a company and its environment, they can provide the company with a global vision identifying the levers that it can operate across the entire value chain to manage the transition."**

We asked then how to integrate extra-financial indicators into a system that values financial performance, to which he commented:

> **"Assessment approaches remain traditional in most cases with a clear focus on financials (EBITDA and Risks vs Return). Here are a few suggestions:**
>
> - **Extend time horizons: Cycle of 4 or 5 years should be considered when building and assessing a business plan**
> - **Think F.E.S.G.: integrated approaches when building a company transition strategy or business models that evaluates simultaneously financial, environmental, social and governance criteria."**
>
> **Nicolas Mottis, Professor at the Ecole Polytechnique and ESG expert.**

Corporate and Investment Banks can slowly but surely reposition themselves at the center of the transition as key actors that enable investors and corporates to reconcile financial and extra financial performances and leverage their sectorial expertise to bring valuable insights to companies' executives and removing hurdles from the path of transition strategies.



WHY CORPORATE AND INVESTMENT BANKS SHOULD ANALYSE THEIR DNA TO FIGHT THE POST PANDEMIC TALENT WAR?

1 "WHEN YOU DON'T KNOW WHERE YOU ARE GOING, LOOK AT WHERE YOU COME FROM"

Q4 2021 is perfect timing for CIBs to look inward from an HR perspective. A global pandemic has highjacked employment at a global scale, and rules that applied a year ago aren't relevant any longer. Uncertainty affects job seekers, employees and employers. In such a shifting environment, being able to identify stable and comforting areas is a key asset to differentiate an organization and increase its agility and ability to face the unknown. "Know thyself" isn't only applicable to aspiring philosophers: it is time to take a moment to focus on what remains after a year of business ups and downs and employees' highs and lows.

With a thriving environment in 2021, CIBs have tried to keep up with skyrocketing activities. Stimulated by Brexit and the pandemic, this year has seen €213 billion worth of M&A deals according to figures from Dealogic. In equity capital market, the situation is similar withover $1 tr that has been raised in ECM globally, which represents $244.9 bn more than the same period in 2020. Overall, 2021 has been the busiest year on record for global ECM issuance. Hence, all CIBs are seeking additional labour force at all levels (graduates, but also analysts, associates and vice-president level bankers) to address such workload.

However, banks have responded to the last financial crisis by cutting staff, shoring or merging teams or 'juniorising' certain roles – promoting less experienced and cheaper staff. Human capital has been the first area hit by CIBs' strategic transformations and cost cutting programs. In late 2019-2020, Deutsche Bank finished cost cutting in its Front Office investment bank after removing 10% of staff, however the 2021 context is pushing for more recruits to come in EMEA FX sales business, M&A, healthcare banking and about 1000 technologists in India. This ultimately led to steady drain of talents from big banks to independent corporate finance firms. Instead of the 10% increase in US bank costs expected for 2021, executives forecasts have at least doubled annual expenses due to pay increases for bankers and bigger investments in marketing and technology to keep up with Fintech competition.

Those structural factors have ultimately led to labour shortages within the finance industry, and a talent war that goes beyond the sector. CIBs are now not only fighting for talent between each other, but also with other industries like private equity, M&A boutiques, FinTechs or BigTechs, offering similar recruiting packages with aggressive poaching strategies, through headhunters and social networks. Some UK executives at Credit Suisse or Nomura have moved in 2020 to strategic positions at Amazon or Salesforce, leaving investment banking for strategic corporate development and M&A. On the other side, due to Brexit, the Parisian scene have seen competition growing with major international banks entering the employer market with very attractive offerings.

Correlated with a 2021 tense labour market, the work life balance has also been shaken up at banks, who needed to cope with hybrid ways of working, extending working hours to accommodate rising activities. This all leaves teams psychologically affected by the pandemic but also the search for personal meaning. Hence, beyond the challenge to find enthusiastic and multi skilled bankers (digitally knowledgeable for example), the job market has evolved with younger generations craving for jobs with high impact but also high salaries. In the US, the typical annual rate for juniors has risen from $85.000 to $100.000. According to Aurore Van Der Werf, Head of Group HR at ODDO BHF, this year has been unprecedented in terms of salary expectations for junior recruits. "We have reached a stage where unexperienced bankers are demanding salaries of bankers with 7 years-experience. How can we promise future salary developments when starting salaries are so high? There is a risk that the curve will reverse in the next few years." According to Aurore, the emotional bond that employees used to have with their employer is gradually disappearing.

> TODAY, OUR MAIN HR AMBITION IS TO FIND THE PERFECT MATCH BETWEEN EMPLOYEES VALUES AND LONG TERM GOALS WITH THE BANK'S VALUE PROPOSAL IN ORDER FOR EMPLOYEES TO FIND MEANING AND PERFORM IN THEIR POSITION
>
> **Aurore Van Der Werf, Head of Group HR at ODDO BHF**

For years, CIBs transformation have been focusing on cost cutting. Forced by an evolving job market and the talent war, they now need to reassess their overall transformation plan, integrating the perceptions, aspirations and requirements of top talents to stay in the game.

2 DNA: THE MISSING WEAPON IN CIB'S ARTILLERY?

Fortunately, investment banks can count on their notoriety and prestige to stick out in the minds of junior employees while they are choosing their initial career path. Investment banks can diversify their recruitment profiles, both juggling with recruitment sources and target profile types, capitalizing on online recruitment trends.

> THE PANDEMIC HAS ALLOWED US TO REACH MORE UNIVERSITIES, MORE SCHOOLS THANKS TO VIRTUAL CAREER FAIRS. WE HAVE A BETTER PROCESS FOR SELECTING CVS AND SO WE HAVE BECOME MORE DIVERSE IN THE SOURCES OF OUR TALENT[2]
>
> **Maria Diaz del Rio, Citi EMEA BCMA group Chief of Staff**

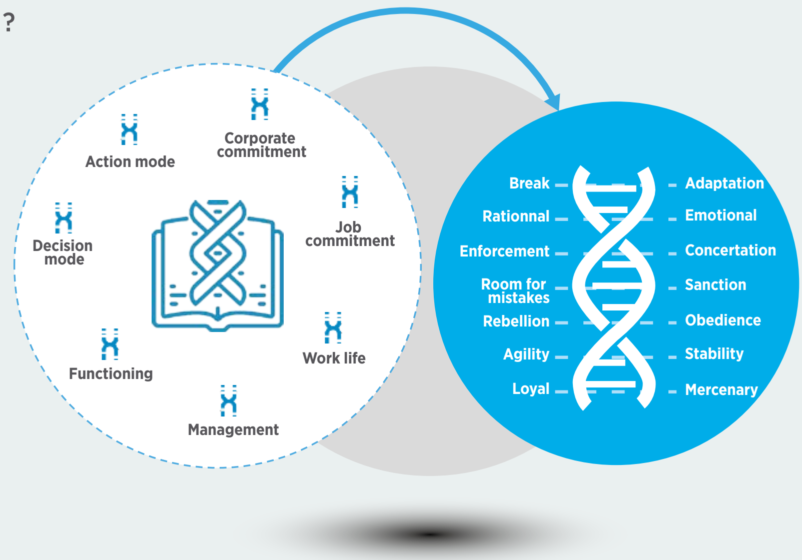
Branding is a significant attractivity advantage for major CIBs, although the honeymoon effect on new recruits often vanishes after a few months. Retention is highly correlated to how new joiners perceive the brand beginning with their recruitment experience, and how the bank truly put its promises into practice. The wider the gap is between the employee's perception of corporate culture and the reality they find in the team, the higher the turnover rate will be.

At this point, one nuance must be acknowledged: new generations expect the company to make them dream, through its mission and the values it promotes, although being less and less affected by emotional corporate bonding. This complexity is one of the many conflicting topics that companies have been facing, closely related to socio-cultural trends.

In fact, those cultural aspects can be assessed at the individual but also the corporate level, through a DNA assessment framework developed at Eurogroup Consulting. Better understanding the cultural traits a company is diffusing amongst their employees, and comparing it to the actual company's storytelling is a key step for CIBs to identify attractivity and retention levers, and assess gaps generated by years of transformation programs. Each company's specificities, whether due to its history or corporate structure, can play a vital role in successful transformations.

> YOUNGER GENERATIONS ARE NOT ONLY IN [THE CIB] INDUSTRY FOR THE SALARY. THEY WANT TO BE SURE TO WORK FOR A FIRM THAT HAS VALUES THEY CAN RELATE TO[3]
>
> **Alex Pierre, Global Head of structured solutions and EMEA head of capital markets and solutions at MUFG**

Exhibit 14
What is DNA ?



7 categories	Category characteristics	Operational stakes addressed through this category	CIB common cultural traits (2021)
Action mode	**The set of elements that influence the execution of tasks within an organisation**	• *Develop initiative-taking* • *Improve responsiveness and anticipation* • *Identify catalysts for action*	• *Professionalism* • *Reactivity* • *Adaptation* • *Security* • *Procedural* • *Focus*
Decision mode	**The set of elements that intervene and influence decision-making in an organisation**	• *Strengthen management and data governance* • *Develop processes* • *Develop decision-making cycles*	• *Quantitative* • *Short-term minded* • *Rational* • *Risk balance between speed of decision/ security of decision* • *Top down / imposed messages*
Management	**All the factors that define and intervene in the relationship between management and employees**	• *Define and standardise management methods* • *Provide managers with the necessary tools (evaluation, recognition, etc.)*	• *Unambiguous* • *No right to make mistakes* • *Results-oriented* • *Obedience* • *Control* • *Financial incentivizing* • *Individual incentivizing* • *Localized team management*
Functioning	**The impact of organisation and inter-personal relationships on activity**	• *Standardize operating methods* • *Define/stabilise the organisation* • *Decentralising/de-compartmentalising the organisation*	• *Upright* • *Siloed* • *Unique and shared processes* • *Stability* • *Community of peers*
Corporate commitment	**Traits characterising the relationship of employees with the organisation that employs them**	• *Knowing how to take a step back and question the current situation* • *Helping each employee to grow while promoting their well-being*	• *Simple relationship* • *Hierarchical* • *Contractual* • *Personal commitment* • *Social status* • *Challenging corporate*
Job commitment	**The aspects that motivate and characterise the ways of working**	• *Develop the ability to face the external environment* • *Simplify ways of working on business tasks* • *Develop autonomy*	• *Profit seeking* • *Turned towards external environment* • *Experts* • *"Hunter" type* • *Content-oriented*
Work life	**All aspects that characterise the internal working climate**	• *Promote well-being at work* • *Improve information sharing and cooperation*	• *Diplomacy and politics* • *Internal competition* • *Extended working hours* • *Siloed communication* • *Accessible managers* • *Balance between relationships/ transactional*

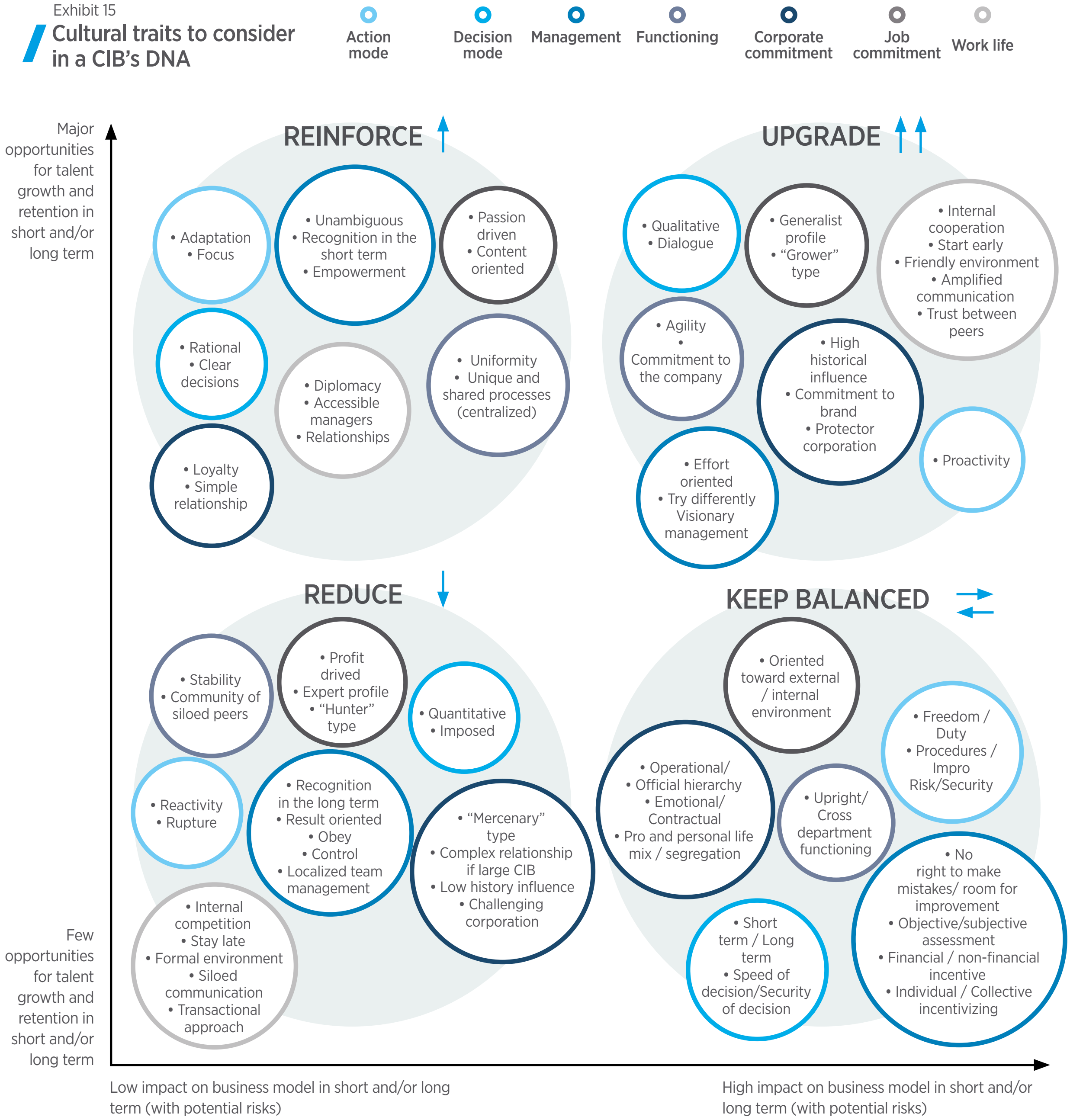
Hence, this initial assessment can help us build a first analysis of the main strengths and improvements CIB HR teams should consider when addressing current talent challenges, bearing in mind there is no perfect culture. The objective of a successful transformation strategy is to leverage areas where cultural discrepancies are too wide between different hierarchical levels (top management/ juniors) or different business lines. A first outline can then serve as a base for discussions to build the bank's action and remediation plan, in the light of ongoing transformations and strategic business objectives.

Based on their cultural assessments, CIBs would be able to reconcile and empower their employee base around key areas:

- Purpose and sense of value, within the company and beyond
- Learning and personal growth
- Valuing the output over the process
- Diversity, inclusion, equity
- Multiculturalism
- Responsiveness
- Sincerity and authenticity

Exhibit 15

Cultural traits to consider in a CIB's DNA



3 CIBS MUST BE BOLD AND DISRUPTIVE TO STAND OUT IN THE POST PANDEMIC TALENT WAR

> OUR CURRENT MAIN THREAT IS REACTING TO THE COMPETITION, AS OPPOSED TO ANTICIPATION. WE ARE FACING A GENERATION THAT MAKES US THINK DIFFERENTLY.
>
> **Aurore Van Der Werf, Head of Group HR at ODDO BHF**

In order to respond to a quickly shifting world, CIBs must understand the environment they evolve in, and their employees' aspirations. HR departments should benchmark more than ever to ensure their transformation's success and to make sure it responds to the economic dynamics of the sector. Some actions have been implemented to react to such job market trends, including retention plans targeting 27-35 year old staff on specific business expertise (compliance, asset management,...) or functions (cybersecurity, audit,...). Often, internal high potential profiles have been identified and are the first in line for HR retention strategies, or mobility programs (promotions, higher responsibilities, larger activity scope,...).

Recreating bonds between peers has also become one of the top priorities of CIBs to leverage their historical competitive advantage: their environment and network. Stimulation, inspiration, and creativity if cultivated internally, can become major success factors for attracting and attaining talent, with practices such as corporate rituals, seminars, team bonding moments and cross department / cross regional networking events.

Finally, corporate culture and DNA assessments are a way for CIBs to strengthen their storyline. CIBs should align their promise to their offer, providing the environment for individuals' fulfilment, but ultimately CIBs should not take responsibility for their employees' happiness: individuals need to decide what is best for them. The ultimate bond between a company's values and its employees' will come from a mutual understanding and appreciation.

NOTES AND SOURCES

1. Source: efinancialcareers – Where banks are hiring (2021)
2. Source: Global Capital, 2021
3. Source: Global Capital, 2021

Exhibit 1–Source : Economic Research Division, Federal Reserve Bank of St. Louis
Exhibit 2–Source : Trading economics
Exhibit 2 US–Source : Nasdaq Data Link
Exhibit 3–Source : BlackRock 2021 global outlook
Exhibit 4–Exhibit 5–Exhibit 8–Source: Quarterly Series / Eurogroup Consulting Analysis
Data converted to USD, using fixed FX as of quarter-end HSBC and UniCredit still to publish their year-end financial results at time of printing
Exhibit 6–Exhibit 7–Source: Tricumen analysis
Exhibit 9–Source: FMI
Exhibit 10–Source - European-SRI-2018-Study - eurosif
Exhibit 12–Exhibit 13–Source GLOBAL FUND INSIGHTS REPORT (Refinitiv, 2020).
Exhibit 14–Source: Eurogroup Consulting analysis
Exhibit 15–Source: Extract from Eurogroup Consulting framework, based on 2021 CIBs samples

CONTRIBUTORS

We would particularly like to thank a number of senior executives in the banking industry for their insightful contribution to this CIB outlook, our internal Managerial Innovation Laboratory and our partner La Javaness for their precious insights on current market trends.

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