

## Results Review 4Q18 / FY18

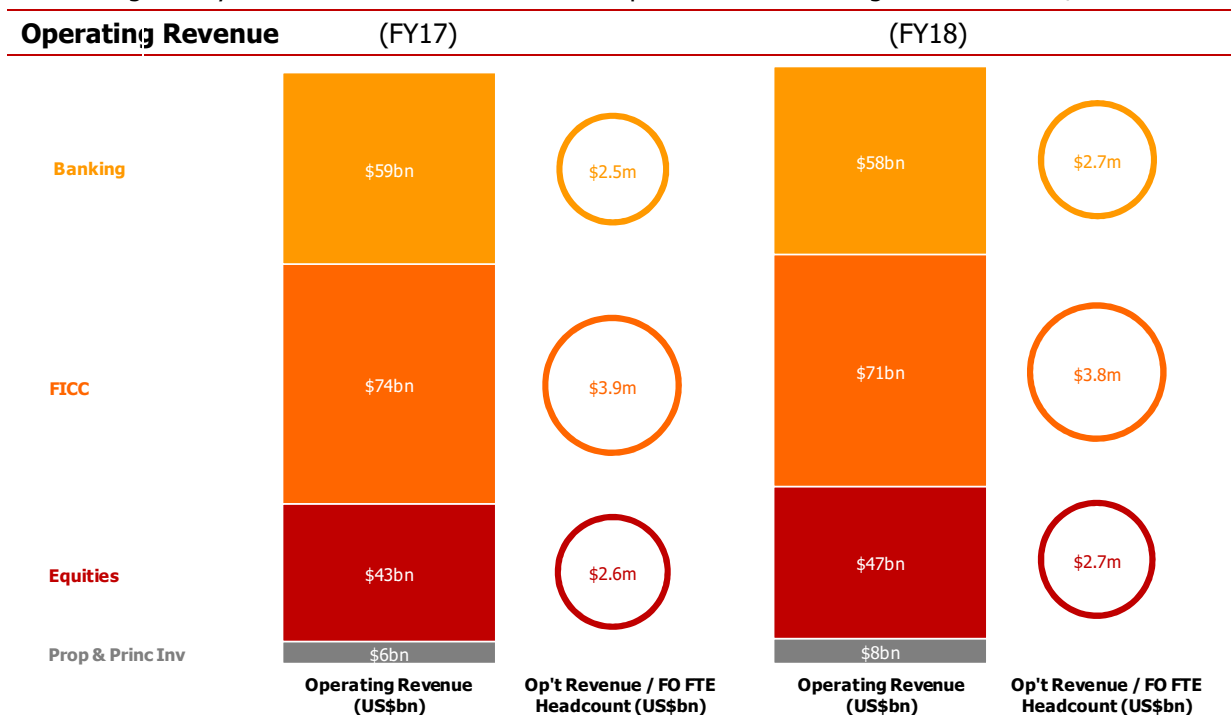
### Capital Markets: Overview

*Based on Tricumen's new product and headcount definitions*

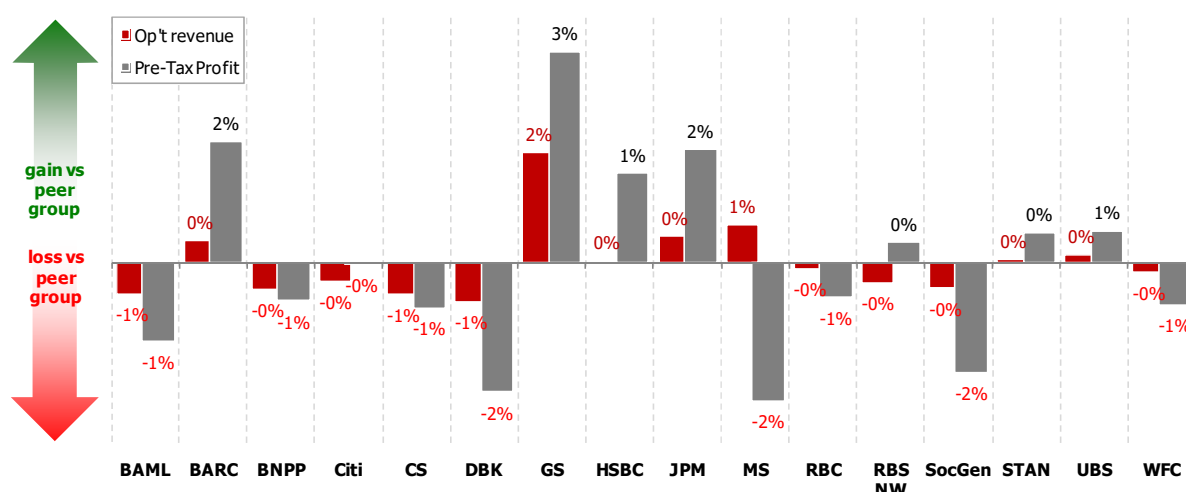
- The 16 banks' aggregate capital markets revenue reached \$184bn, unchanged from FY17. Operating costs, however, grew 3% y/y, leading to a modest decline in pre-tax profits. Extending the patterns of previous quarters, AMER banks again outpaced European peers on both revenue growth (+4% vs -4%) and profits (flat y/y vs -8%) in all areas except Equities. Redundancies added to the seasonal cull of personnel and the bonus season, as anticipated, produced few victors and lots of doughnuts, especially at European banks.

A surge in prop and principal investments revenue was entirely due to strong performance by US banks: European banks suffered a 26% decline from already modest FY17 levels. BNPP closed its prop trading unit, Opera Trading Capital, in Jan-19; SocGen shut down the Hong Kong arm of Descartes and placed London and Paris operations 'under review'.

- The halcyon days of recruitment in Support/Control functions are coming to an end: most banks in this note are reviewing their staffing requirements – even in hitherto sacred Compliance! - and looking at ways to utilise automation and better processes in reducing headcount and/or cost.



### % change share of peer group operating revenue and pre-tax profit (FY18 / FY17)



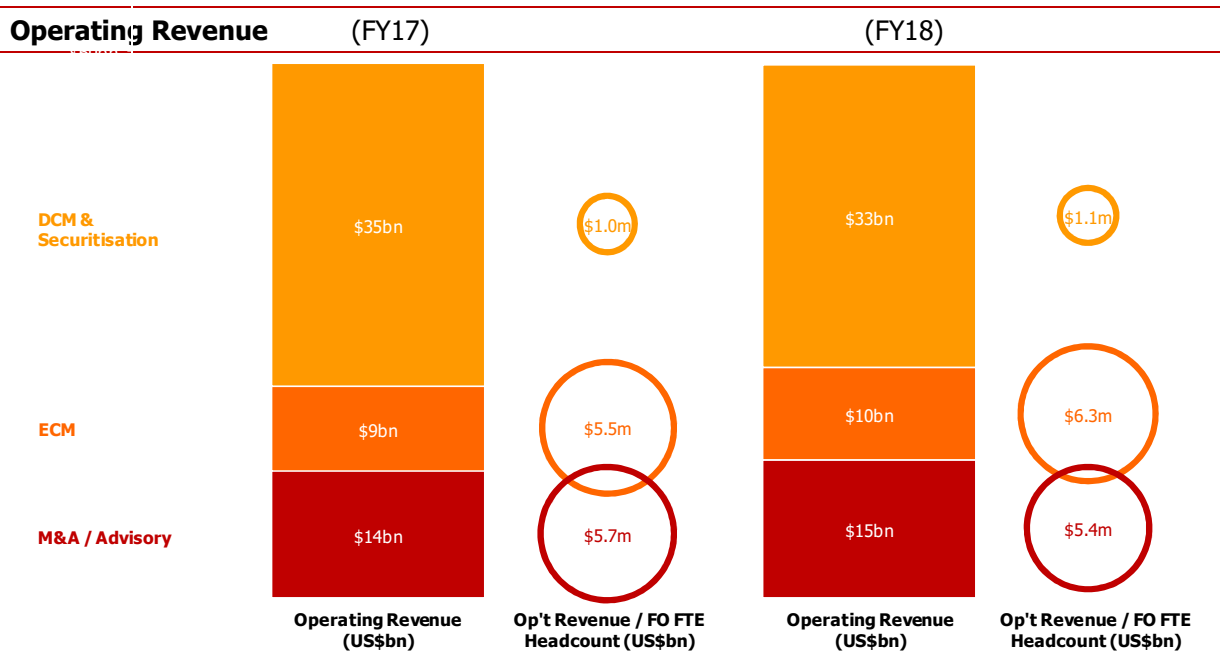
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments..

## Capital Markets (cont.): Banking

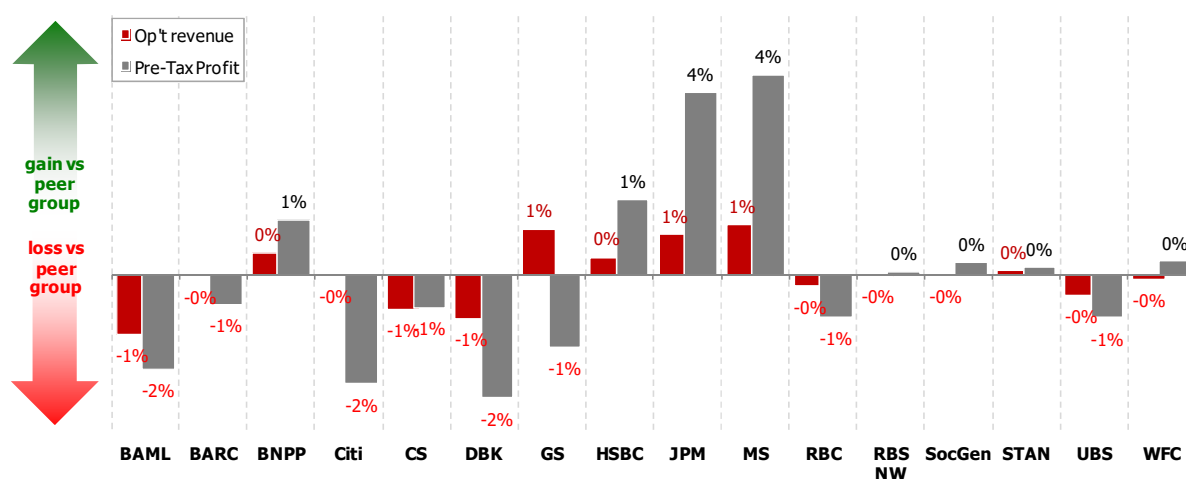
- DCM bond issuance suffered the slowest full year and 4Q in several years: US high grade, global high yield and emerging markets (India, in particular) registered sharp declines. Loan syndication, however, reached record levels, mostly on acquisition-related financing and Americas.

European securitisation had a slow start in 2019 – not helped by market participants awaiting guidance on how to comply with the new STS framework, which came into effect on 17-Jan-19. Meanwhile, ABS structurers are moving away from multiple tranches to single-tranche and customised bilateral instruments, which technically fall outside the regulatory scope.
- In view of the US Government shutdown – which also impacted the IPO activity in January - ECM did reasonably well in 4Q18. On full-year basis, IPOs and converts outperformed. Unlike their European peers, the US leaders maintained their deal margins.

China’s CSRC in Mar-19 scrapped existing limits on first day of gains for new IPOs – it will now allow price fluctuations of <20%; but same-day buying/selling of listed stocks will be restricted.
- Notwithstanding the slowdown in 4Q18, M&A/Advisory enjoyed a lucrative year, reporting \$4tn+ of volume. Private equity buyouts, cross-border and mega deals were particularly strong, as were European and the US volumes. Brexit – and the sterling devaluation that followed the 2016 referendum – appears to have encouraged a surge of inbound M&A from the US into the UK.



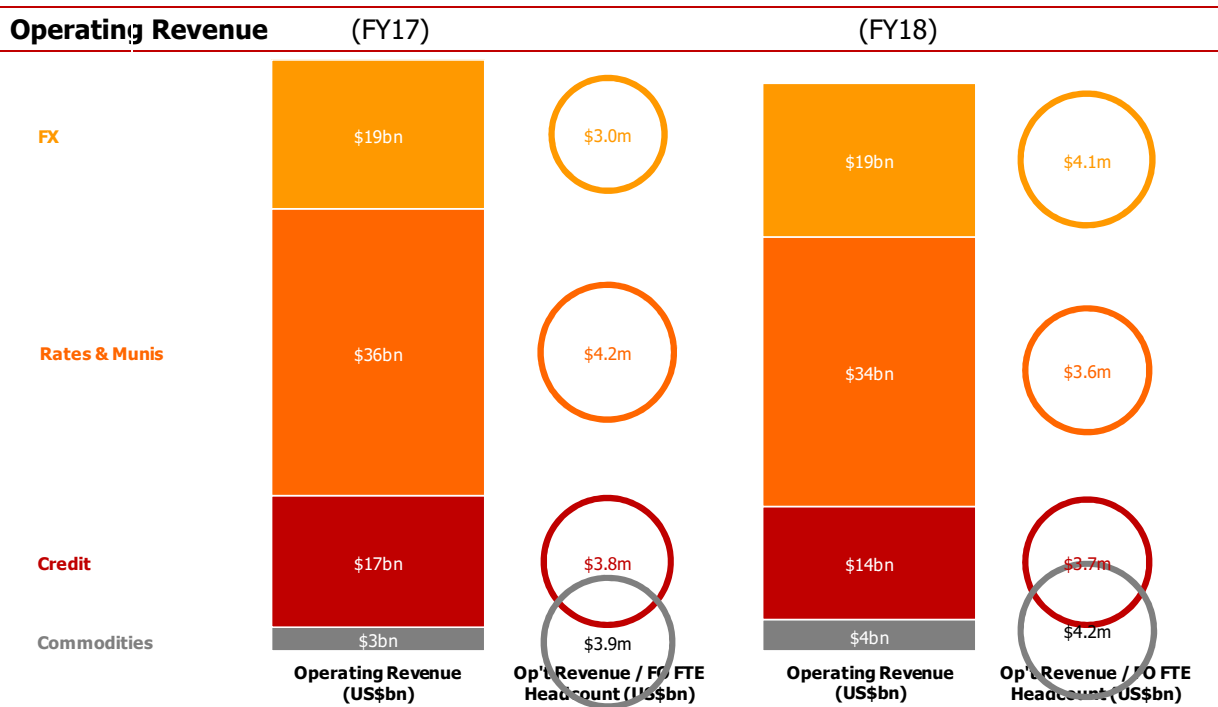
### % change share of peer group operating revenue and pre-tax profit (FY18 / FY17)



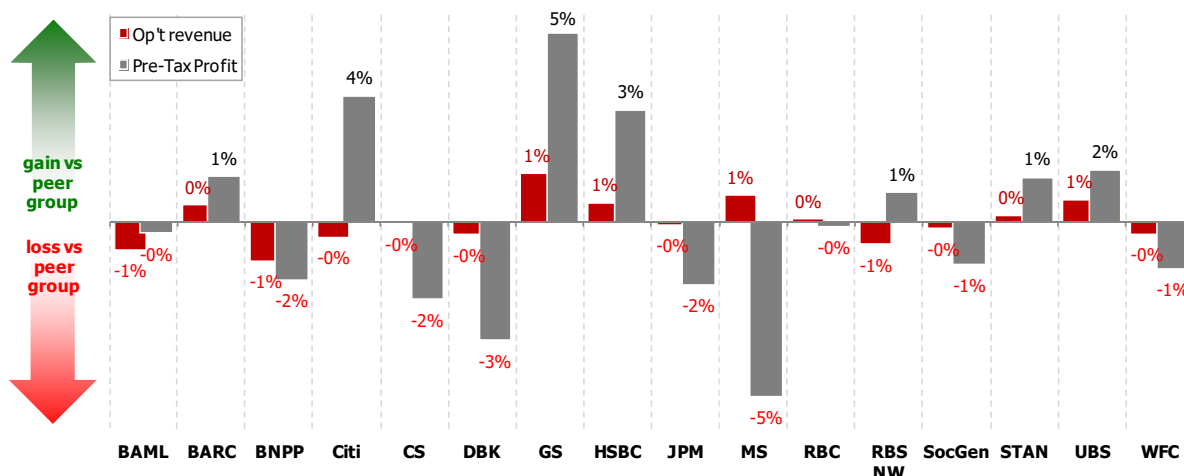
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### Capital Markets (cont.): FICC

- FX revenues were unchanged from FY17 as weakness in G10 spot was offset by comparably strong forwards and options. Emerging markets volumes jumped, especially in late 2018 and in LatAm. In Jan-19, ESMA called for an establishment of an EU-wide coordinated regulation of crypto assets and ICOs, including bringing cryptos within AML legislation. Also, the Basel Committee in Mar-19 set out minimum standards for financial institutions participating in the market.
- A decline in rates revenue was mostly caused by lower muni issuance in 4Q18 and segments in the flow markets e.g. Euro govies and JGBs. Options volumes grew, but volatile rate movements – and banks’ exits - reduced the revenue opportunity.
- Credit revenue was hit by a drop – in FY18 and 4Q18 - in the US high yield and Europe; parts of APAC also weakened. In Mar-19, ISDA proposed that Credit Derivatives Definitions avoid ‘narrowly tailored credit events’ (or ‘manufactured defaults’) after high-profile scandals. GS, JPM, Apollo and others agreed to tie such events to real financial distress and help repair the reputation of CDS. Bloomberg will, from Apr-19, include renminbi bonds in its \$54tn Barclays Global Aggregate Index.
- After a long period of weakness, commodities surged in FY18 on strong energy, industrial metals and related products. Central banks’ demand for gold jumped 74% vs FY17 (with Russia in the lead), but record levels of recycling and global production dampened the impact on price.



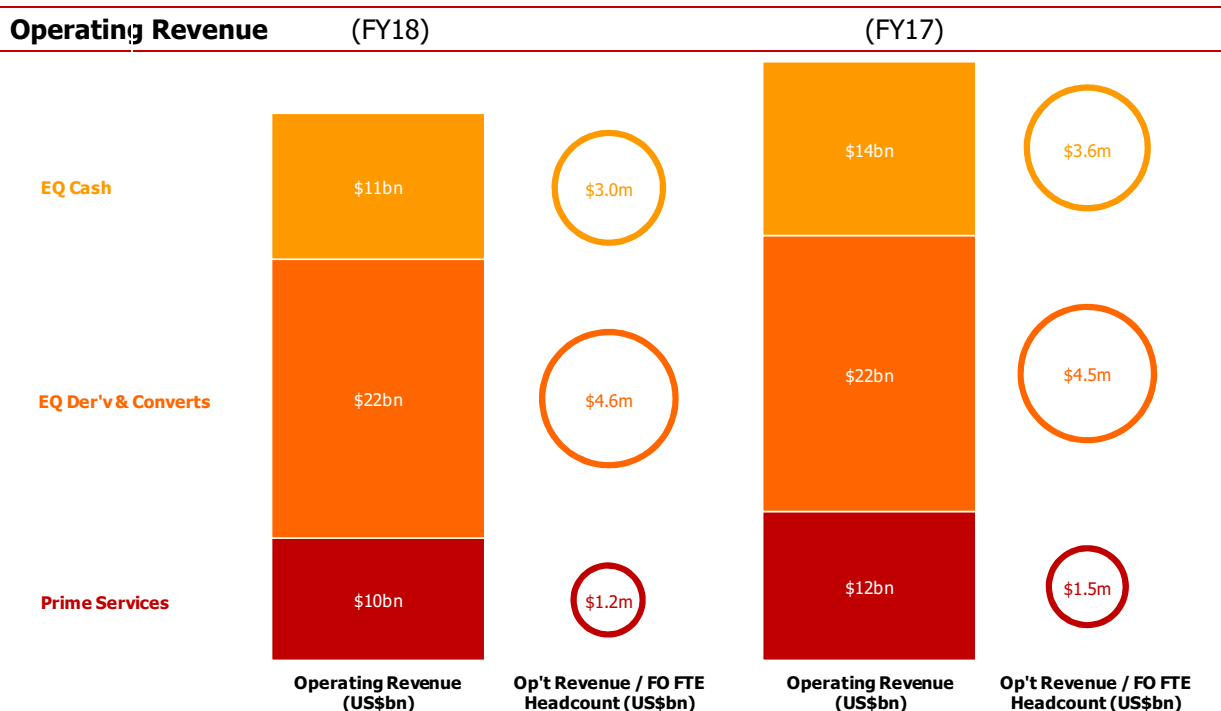
### % change share of peer group operating revenue and pre-tax profit: (FY18 / FY17)



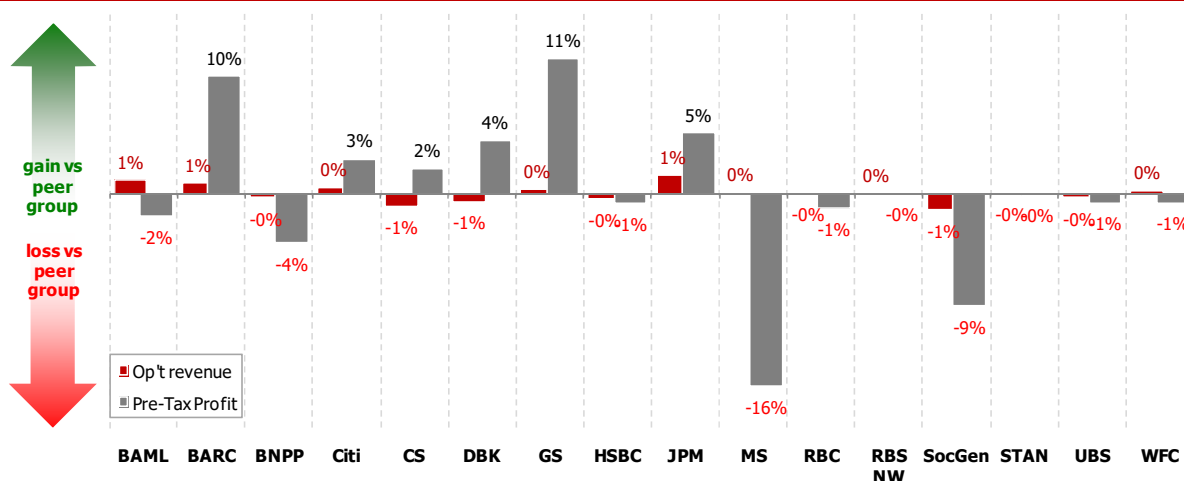
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## Capital Markets (cont.): Equities

- On full year basis, cash equity revenue jumped, driven by strong hi-touch markets in the US, APAC (Shanghai-HK bridge) and European hi-touch markets; APAC, though, stumbled in late 4Q18. European e-trading dropped, especially in 2H18, partly due to regulatory pressure on dark pools. On a related note, periodic auctions – an alternative to MiFID-capped dark pools, which grew to 2% of all European stock trading since the introduction of MiFID in Jan-18 – is under scrutiny by EU regulators, some of which view it as an attempt to circumvent the new rules. Most institutional market participants agree that periodic auctions aid liquidity, offer an effective counterweight to HFTs – and usually offer better trade execution, the key reason for their popularity. Still, we expect additional regulation in the not-too-distant future, and hope that it will be less market-distorting than caps on dark pools.
- Equity derivatives revenues were unchanged versus FY17 as reduced opportunity in options – particularly in the US - offset strong swaps market; regionally, APAC growth outstripped both the US and EMEA. Listed derivatives advanced vs FY17.
- Despite a modest fall in hedge fund AuM and US cash securities lending, prime services revenue grew at a healthy clip, driven by specialised financing and targeted client selection.



### % change share of peer group operating revenue and pre-tax profit (FY18 / FY17)

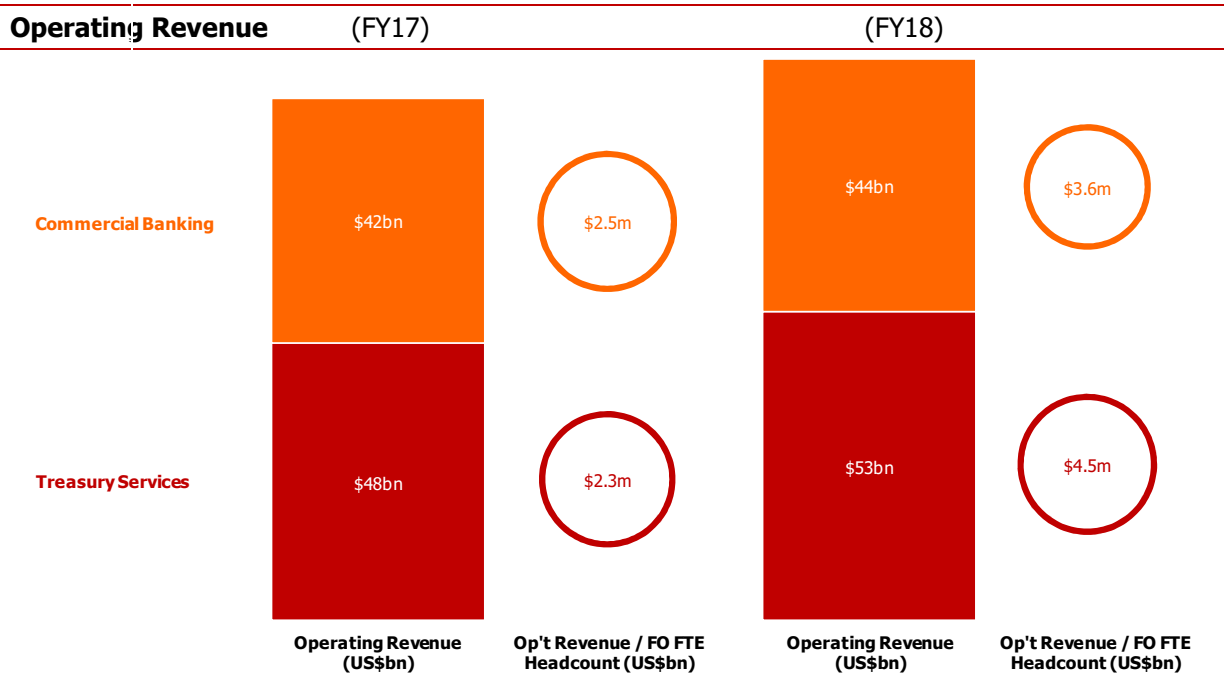


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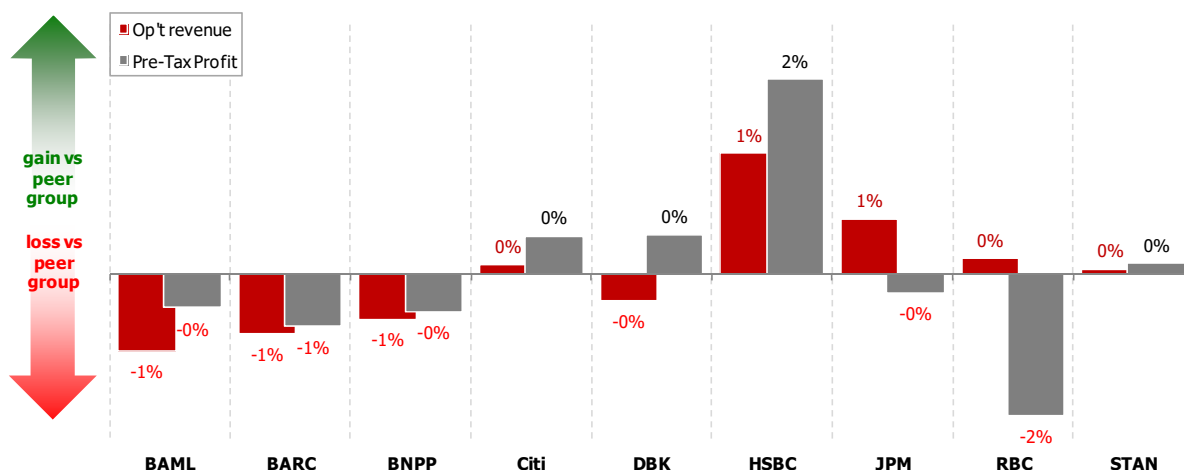
## Commercial Banking & Treasury Services

### New arrival: Barclays

- Despite some margin compression, commercial lending grew in the US by c.4% y/y in FY18. Lending in major European economies declined 10% y/y due to a combination of tightening net interest margins and lower business volume. The US registered a sharp drop: the volume of new loans to businesses was down 20% y/y.
- In transaction banking, FY18 payment volumes grew 10% vs FY17, with APAC and AMER accounting for the majority of the uplift.  
Technology investment has been a common theme in 2018; this, together with the quality of the client relationship offering has become *the* factor in clients' buying decisions. Many banks have also been looking at the integration of payment systems and processes serving business, SME, large cap and MNC clients. Cyber security has also been a growing concern for clients.
- Trade finance grew modestly in FY18, reversing the contraction seen in previous quarters. That said, APAC remains a concern, not least due to the ongoing uncertainty regarding the US-China trade talks.



### % change share of peer group operating revenue and pre-tax profit (FY18 / FY17)



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## Wealth Management

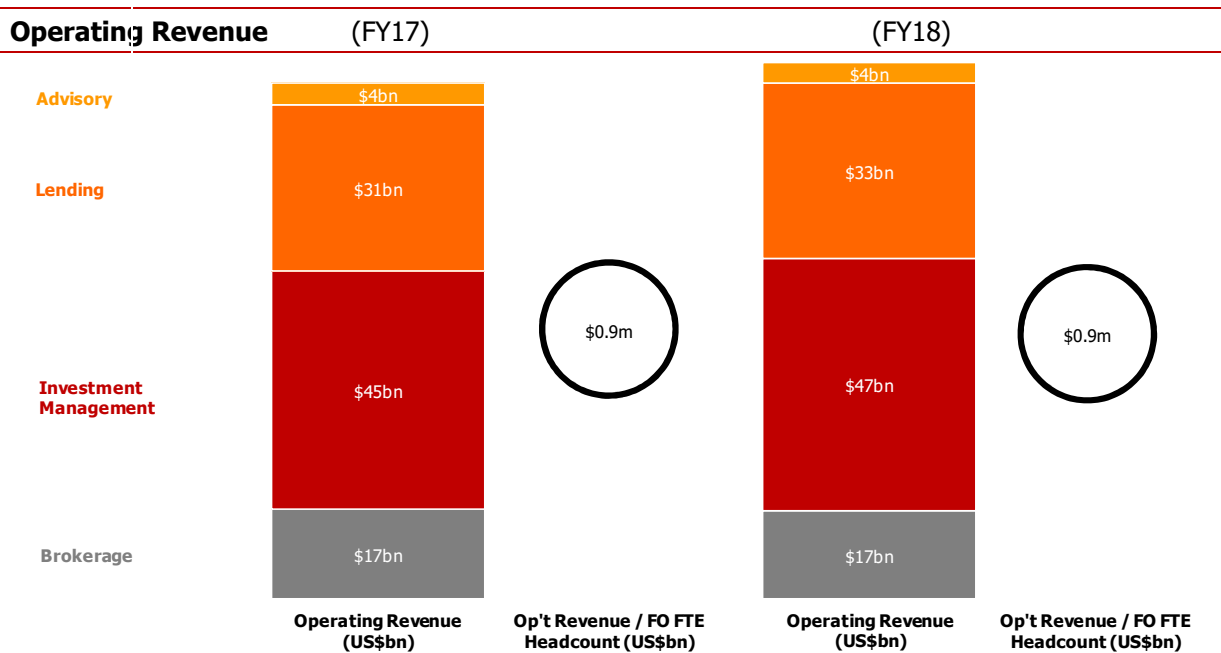
### New arrival: Royal Bank of Canada

- Despite the spike in volatility in 4Q18 – caused largely by US-China tensions and the normalisation of The Fed’s monetary policy, but also Brexit and the US Government shutdown – the FY18 operating revenue for banks featured here grew 4% to \$101bn on higher margins and loan volumes.

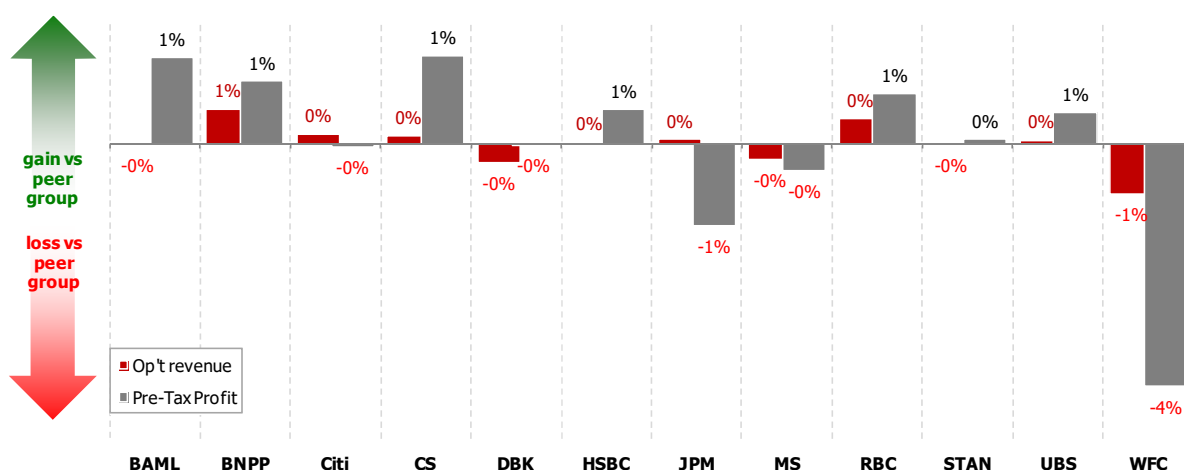
Heavy hiring (at least until the 4Q18 sell-off) and considerable tech investment led to a modest growth in costs; but the resulting pre-tax profit was still up a very respectable 8% y/y, heavily skewed in favour of European banks – their FY18 pre-tax profit jumped 20% y/y, compared to mere 2% for North America peers.

- Trends likely to shape 2019: (1) continued popularity of ESG investments – increasingly driven by large institutional investors; (2) a modest shift away from robo- and back to human advisors – assuming the market volatility persists; but also (3) more visible differentiation between the quality of model portfolios on offer; (4) more outsourcing/networking via platforms.

On a related note, in APAC, banks are reporting an increase in discretionary mandates - and a very profitable and recurrent revenue stream – from (U)HNWIs. There is plenty of room for further growth: according to a large market participant, only 8% of APAC portfolios are discretionary, compared to 30%+ in Europe. Market leaders - CS and UBS among them - have already recorded c.20%+ annual growth in this area.



### % change share of peer group operating revenue and pre-tax profit (FY18 / FY17)



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## Revenue dynamics

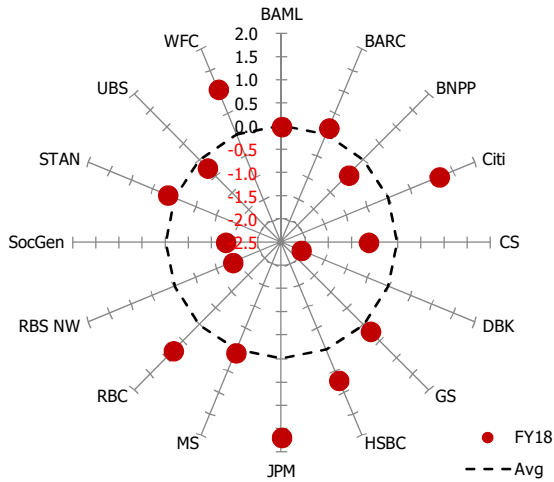
### FY18/FY17 (Operating revenue, % change, US\$, Global Level 1)

	BAML	BARC	BNPP	Citi	CS	DBK	GS	HSBC	JPM	MS	RBC	RBS NW	SocGen	STAN	UBS	WFC
Capital Markets	↘	↗	↘	↘	↘	↘	↗	↘	↘	↗	↘	↘	↘	↘	↘	↘
Banking	↘	↘	↗	↘	↘	↘	↘	↗	↘	↘	↘	↘	↘	↗	↘	↘
DCM Bonds	↘	↘	↗	↘	↘	↘	↘	↗	↘	↘	↘	↘	↘	↘	↘	↘
DCM Loans	↘	↘	↗	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘
Securitisation	↗	↗	↗	↘	↘	↘	↘	↘	↘	↘	↘	↗	↘	↘	↗	↘
ECM	↗	↗	↘	↘	↘	↘	↗	↘	↘	↗	↘	↗	↘	↘	↗	↘
M&A / Advis	↘	↘	↘	↗	↗	↗	↗	↗	↗	↗	↘		↘	↘	↘	↘
Markets	↘	↗	↘	↘	↘	↘	↗	↘	↘	↘	↘	↘	↘	↘	↗	↘
FICC	↘	↘	↘	↘	↘	↘	↗	↘	↘	↘	↘	↘	↘	↘	↗	↘
FX	↘	↘	↘	↘	↘	↘	↗	↘	↘	↘	↘	↘	↗	↘	↗	↘
Rates & Munis	↘	↘	↘	↘	↘	↘	↗	↘	↘	↘	↘	↘	↘	↘	↗	↘
Credit	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↗	↘
Commodities	↘	↘	↘	↘	↘	↘	↗	↘	↘	↘	↘	↘	↘	↘	↘	↘
Equities	↗	↗	↘	↘	↘	↘	↗	↘	↘	↘	↘		↘	↘	↘	↗
EQ Cash	↘	↘	↘	↘	↘	↘	↗	↘	↘	↘	↘		↘	↘	↘	↘
EQ Der'v & Conv't	↗	↗	↘	↘	↘	↘	↘	↘	↘	↘	↘		↘	↘	↘	↗
Prime Services	↘	↘	↘	↘	↗	↘	↘	↘	↘	↘	↘		↘	↘	↘	↘
Prop & PI			↘	↘	↘	↘	↘	↘	↘	↘	↘		↘		↘	↘
Comm Bank / Treas Serv	↘	↘	↘	↘		↘	↗	↗	↗		↗			↘		
Comm Bank	↘	↘	↘	↗		↘	↗	↗	↗		↗			↗		
Treas Serv	↗	↘	↗	↗		↘	↗	↗	↗		↗			↗		
Wealth Management	↘		↗	↘	↘	↘		↘	↘	↘	↗			↘	↘	↘
Advisory	↗		↗	↗	↘	↘		↗	↘	↘	↗			↗	↘	↘
Lending	↘		↗	↗	↘	↘		↗	↘	↘	↗			↗	↘	↘
Investment Management	↘		↗	↘	↘	↘		↘	↘	↘	↗			↘	↘	↘
Brokerage	↗		↗	↗	↗	↘		↗	↗	↘	↘			↗	↘	↘

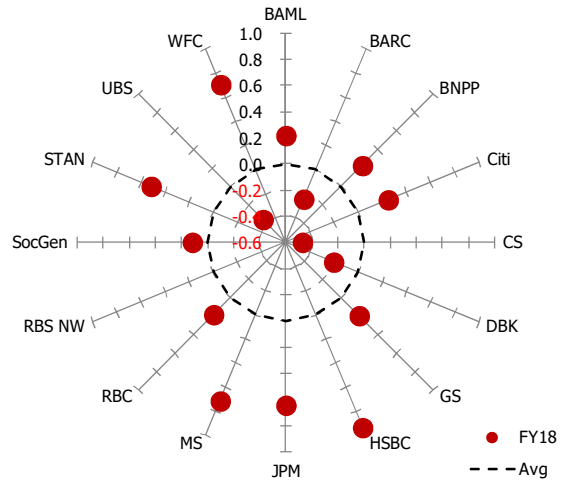
Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. (3) Operating revenue is post-writedowns, excludes DVA/equivalent and one-offs. (4) Commercial/Transaction Banking includes Large Cap/MNC and Mid-Cap/SMEs.

Operating cost / income (US\$, Global Level 1)

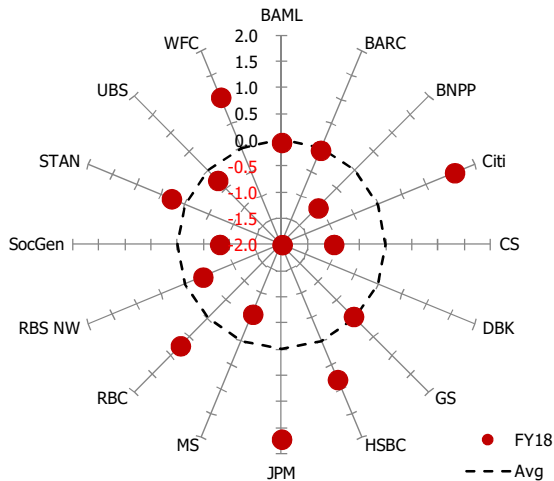
Capital Markets



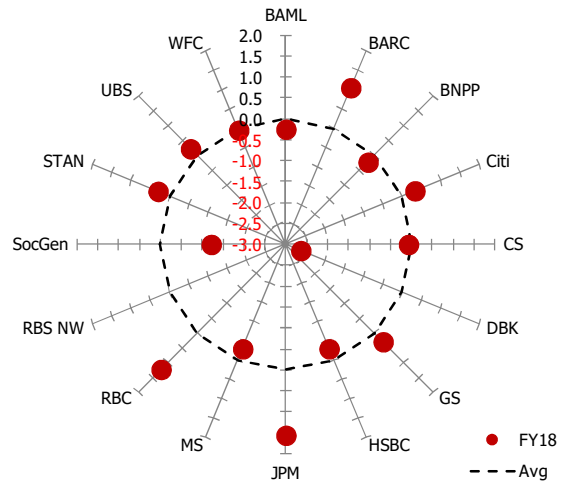
Banking



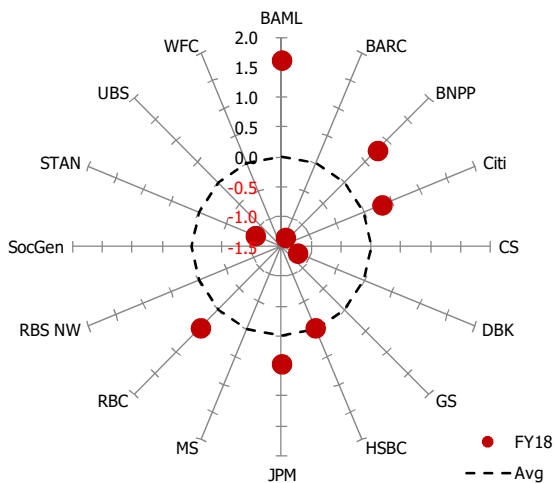
FICC



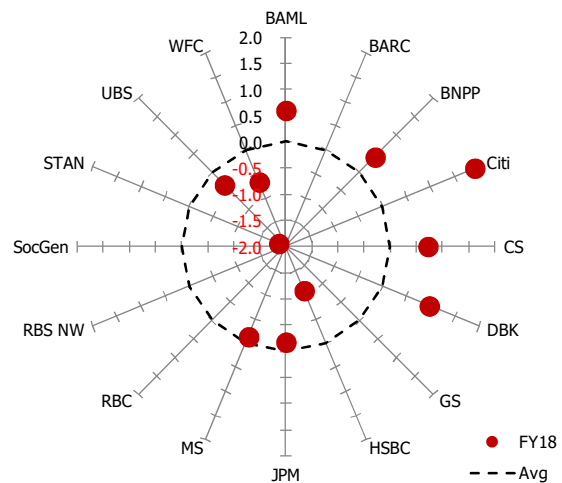
Equities



Commercial Banking / Treasury Services



Wealth Management

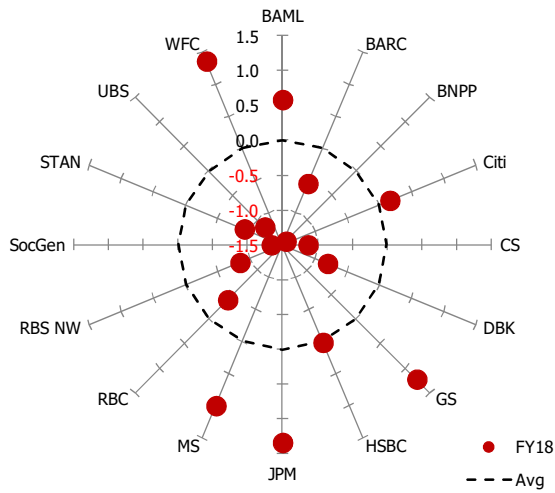


Source: Tricumen. Notes: (1) TRIC product definitions, standard deviation, product Level 1; (2) Operating expenses exclude one-off non-operational items, insurance-related benefits & claims, and credit expense/recovery/NPL provisions. Capital expenditure is included as accrued. Litigation expense is allocated to front-line units. (3) positive values = outperformance; negative values = underperformance, relative to the peer group featured in this report; (4) missing values = not included in ongoing coverage or a bank is not a significant competitor in this market; (4) outliers are excluded.

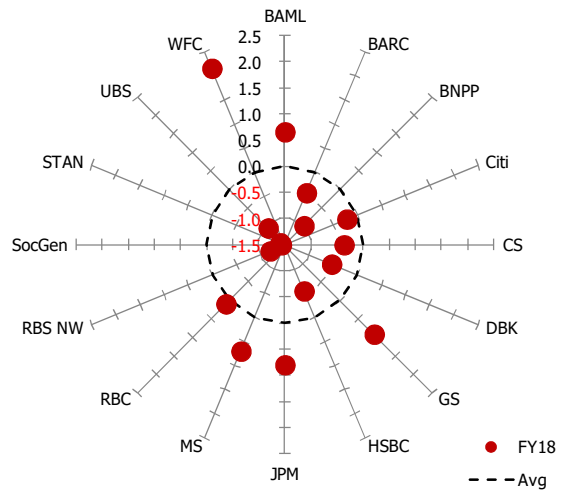


**Operating Revenue / Front Office FTE (US\$, Global Level 1)**

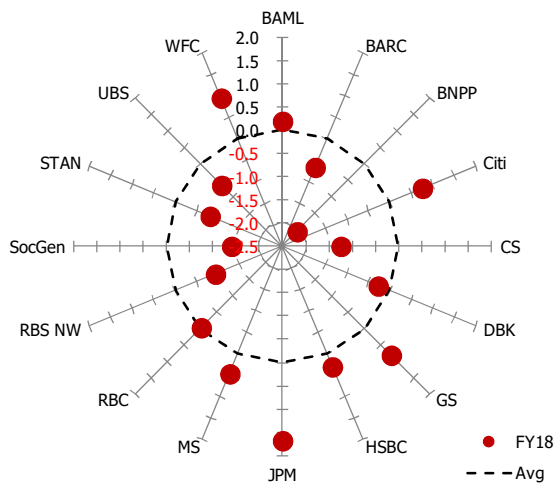
**Capital Markets**



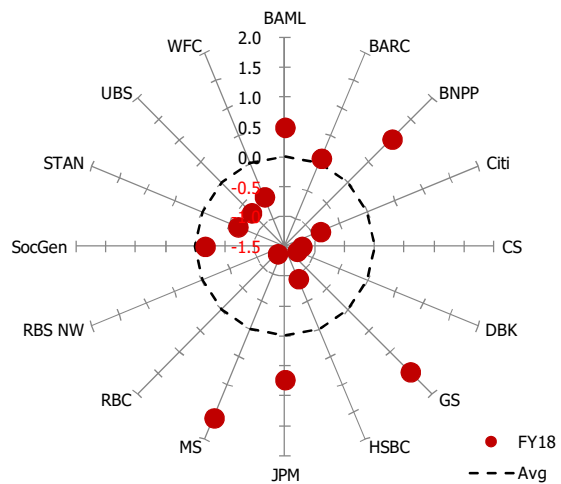
**Banking**



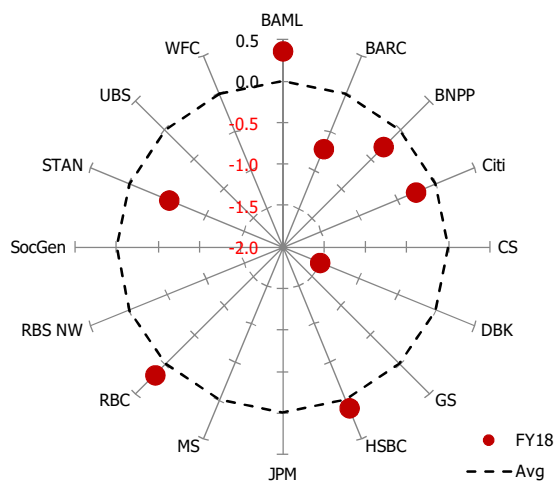
**FICC**



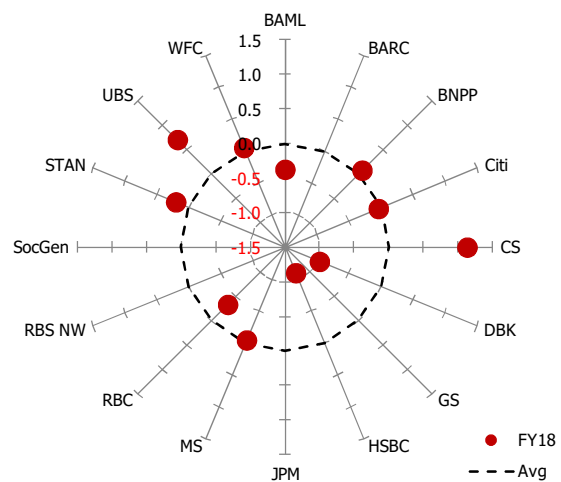
**Equities**



**Commercial Banking / Treasury Services**



**Wealth Management**



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## About Tricumen

Tricumen was founded in 2008. It quickly became a strong provider of diversified market intelligence across the capital markets and has since expanded into transaction and corporate banking as well as asset and wealth management. Tricumen's data has been used by many of the world's leading investment banks as well as strategy consulting firms, investment managers and 'blue chip' corporations.

Situated near Cambridge in the UK, Tricumen is almost exclusively staffed with senior individuals with an extensive track record of either working for or analysing banks; and boasts what we believe is the largest capital markets-focused research network of its peer group.

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