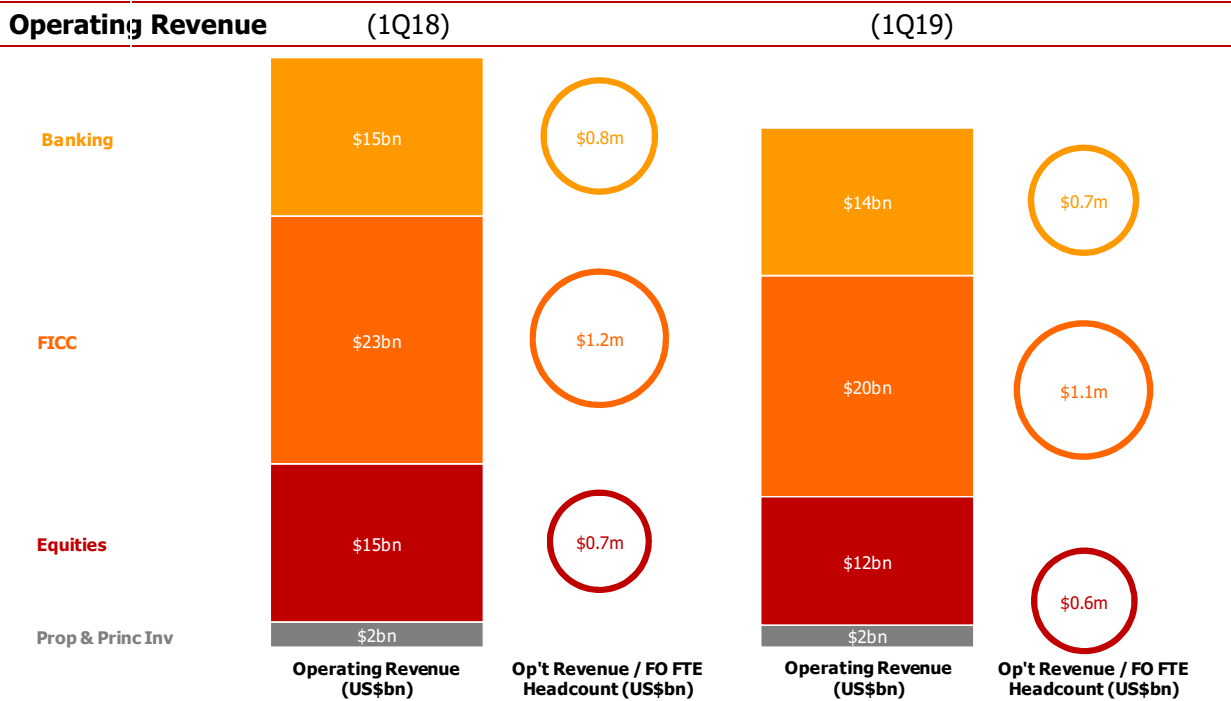


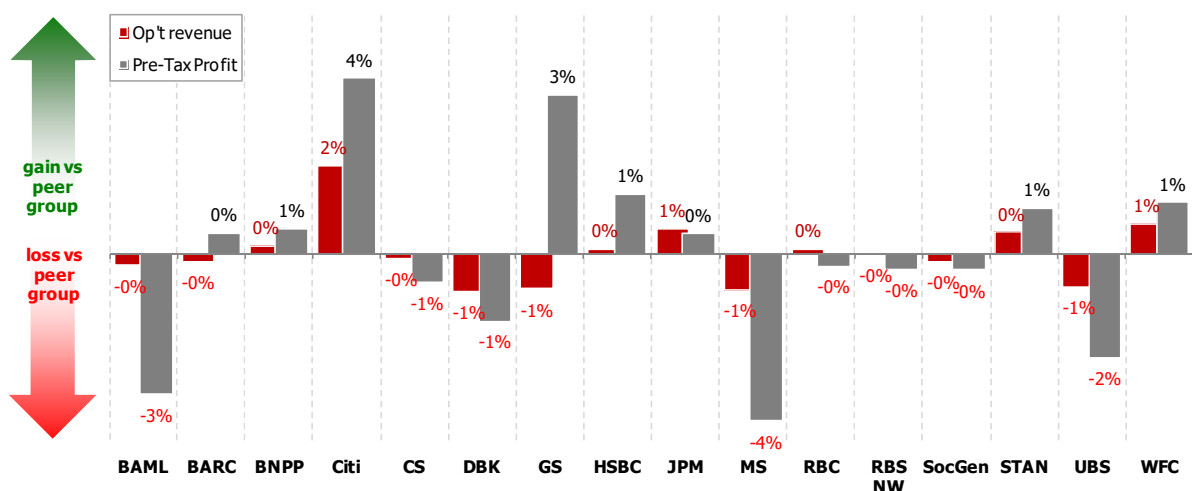
Results Review 1Q19

Capital Markets: Overview

- The banks in this report reported operating revenue of \$48bn in 1Q19, 12% down y/y. This was a difficult quarter, characterised by a rally in govies, flattening of yield curves in the USA and Europe and low volatility in key products; all this led to depressed client activity, especially in January/February. Equities revenue suffered the most relative to the strong 1Q18, followed by FICC and prop/PI.
- In response, banks curtailed costs – most notably, bonus accruals. Based on current revenue trends and management comments, we expect further cuts to bonuses in 2019/18: 15-20% in equity sales and trading (unless Larry Fink’s prediction of a boom comes true – see below) and ECM, and a slightly more modest decline in FICC and DCM.
- Barclays, Deutsche Bank, RBS and UBS are all under fire from market participants advocating severe cuts to capital markets activities. We doubt that Edward Bramson will meet with much success at Barclays; but the other three are more vulnerable.



% change share of peer group operating revenue and pre-tax profit (1Q19 / 1Q18)

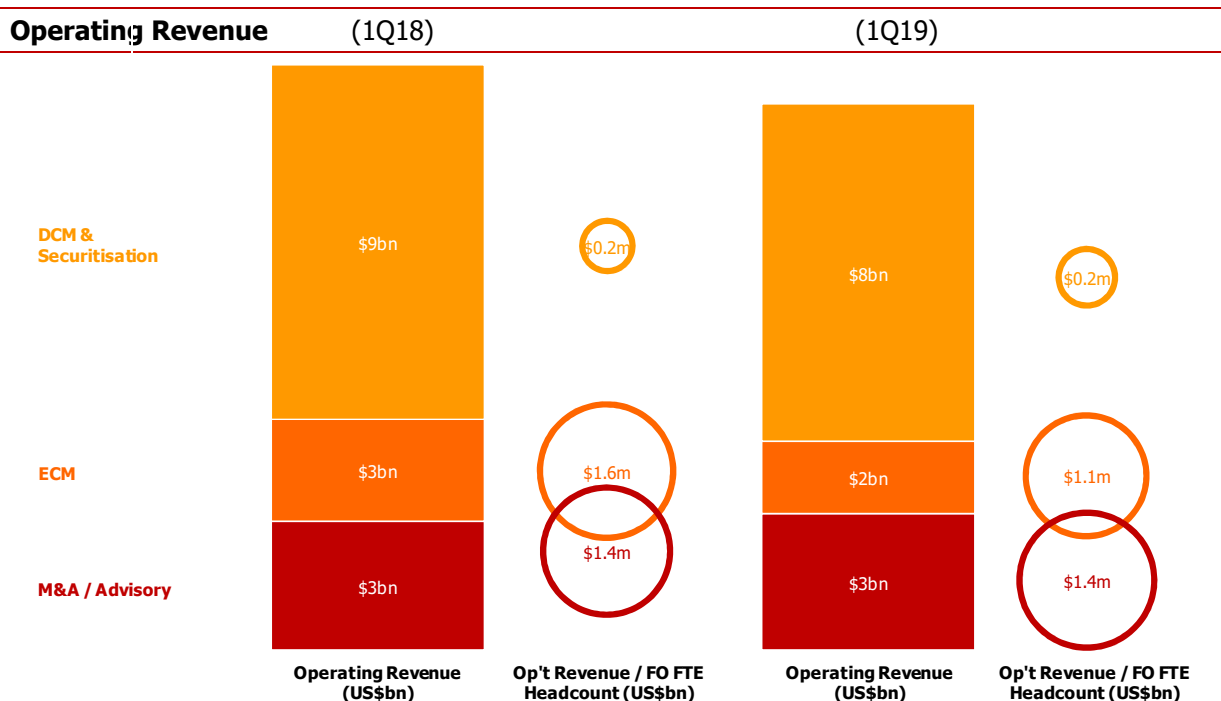


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments..

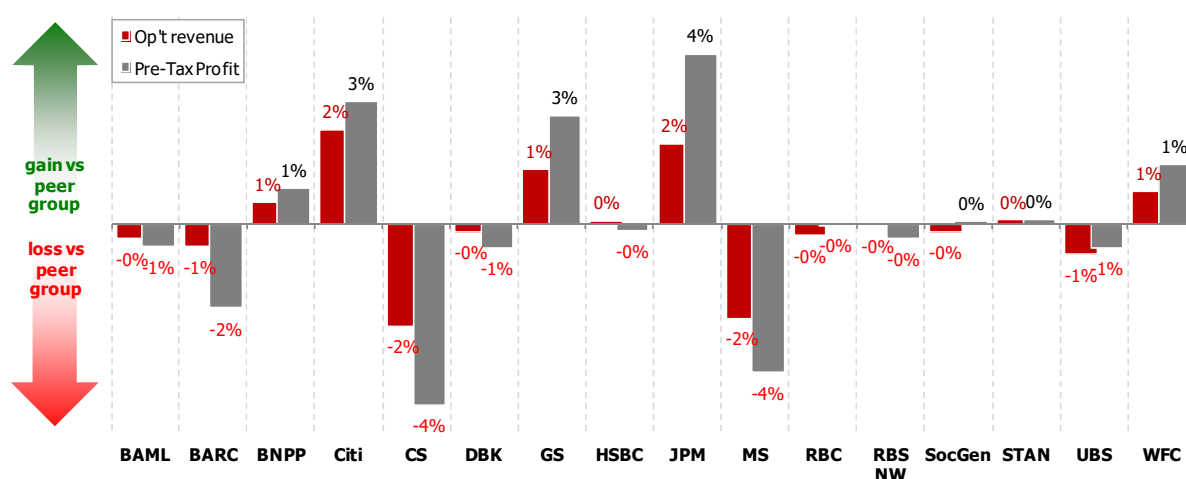
Capital Markets (cont.): Banking

- In the USA, leveraged bonds and loans are flying: Bloomberg data shows that the first week of May was the busiest since 3Q17 *and* issuance of leveraged loans for distribution to owners (say, private equity firms) surged to near-record of the past year. To top it all, high-grade issuance is also accelerating. Unsurprisingly, a growing number of commentators expect the bubble to pop.
- The US Government shutdown muted the ECM activity in January, but then the market surged: at the time of the publication of this note, IPOs raised \$28bn in the USA, the fastest start since 2014. There were, however, high-profile flops, partially due to issuers skipping the price discovery process during the US Government shutdown and instead disclosing the fixed price 20 days prior to the IPO. Brexit saga continues to weight on London markets.
- Global M&A/Advisory 1Q19 fees declined 9% y/y – but this was still one of the strongest 1Qs on record. The US banks had a heavy advantage: the activity in their home market surged, while other regions dropped sharply.

In 1Q19, mega-deals (\$5bn+) accounted for more than 50% of total announced volumes, an all-time high. However, the number of those deals fell (as did cross-border activity); unsurprisingly, mega-banks are focusing on mid-market: for example, BAML, Goldman Sachs and J.P.Morgan are hiring for regional teams and Goldman Sachs has a 30-strong team targeting private equity firms.



% change share of peer group operating revenue and pre-tax profit (1Q19 / 1Q18)



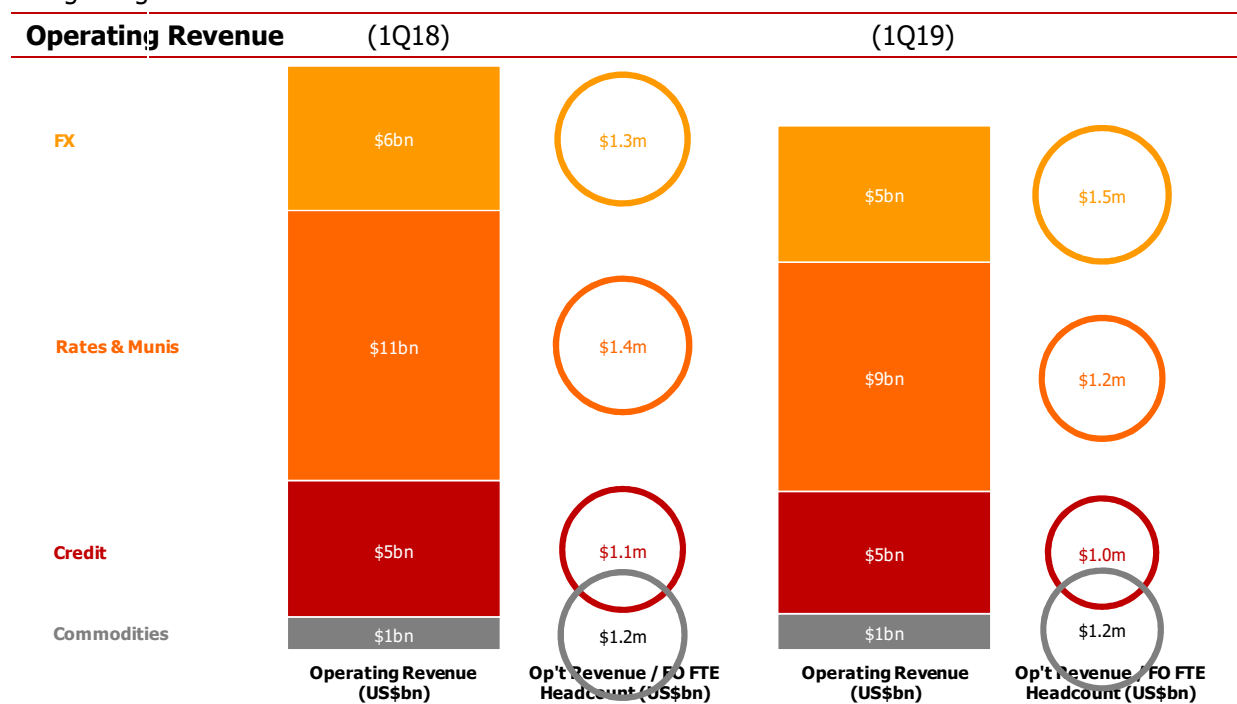
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority.

Capital Markets (cont.): FICC

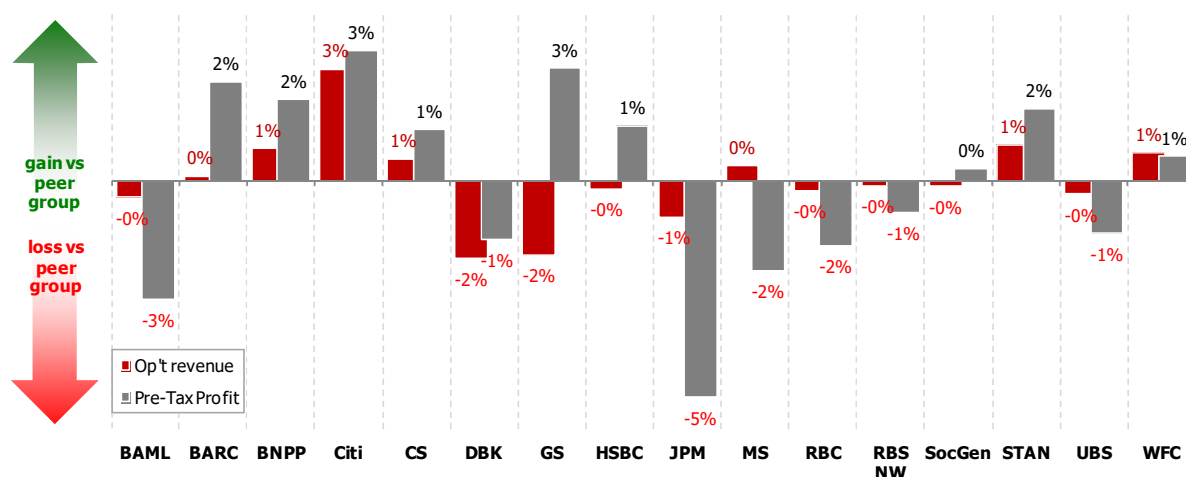
- FICC suffered from tightening spreads, declining interest rates, low volatility and uneven client demand across products. Macro investors were wary of The Fed, Brexit and the US-China trade spat.
- The lack of volatility in FX markets caused in slump in demand for hedging, especially from multinationals, and there are few signs of a pickup in demand so far in 2Q19. Macro emerging markets continued gaining ground vs developed markets as investors hunted higher returns: EM FX revenues, benefiting from elevated volatility in caused by geopolitical events, caught up with G10 FX. In crypto, exchanges are discovering that they are more vulnerable to HFT bots' spoofing, front-running and other edgy tactics than better established equity exchanges.

EU antitrust regulators fined Barclays, Citi, J.P.Morgan, MUFG and RBS \$1.2bn for rigging the FX spot markets (CS denies wrongdoing and is fighting the charges; UBS was exempt from EUR285m fine because it alerted the EC to cartels). In the US, banks have pled guilty and paid \$2.8bn fine.

- Credit did well in 1Q19, but with a *very* wide spread between top and bottom performers. In the US, the strong economy and The Fed's accommodating policy supported the surge in HY markets, but banks and investment firms' accelerated hiring suggests they expect elevated activity, soon. All-to-all trading in corporate bonds – which typically cuts out the bank as an intermediary – is gaining steam.



% change share of peer group operating revenue and pre-tax profit: (1Q19 / 1Q18)



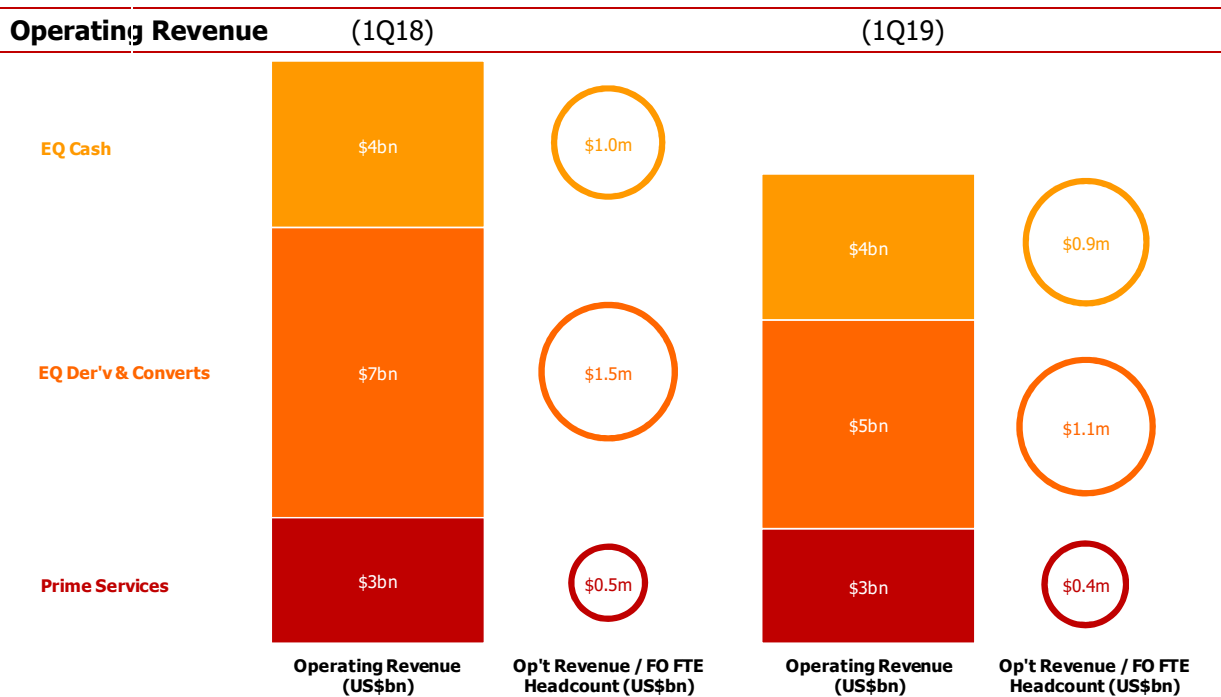
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

Capital Markets (cont.): Equities

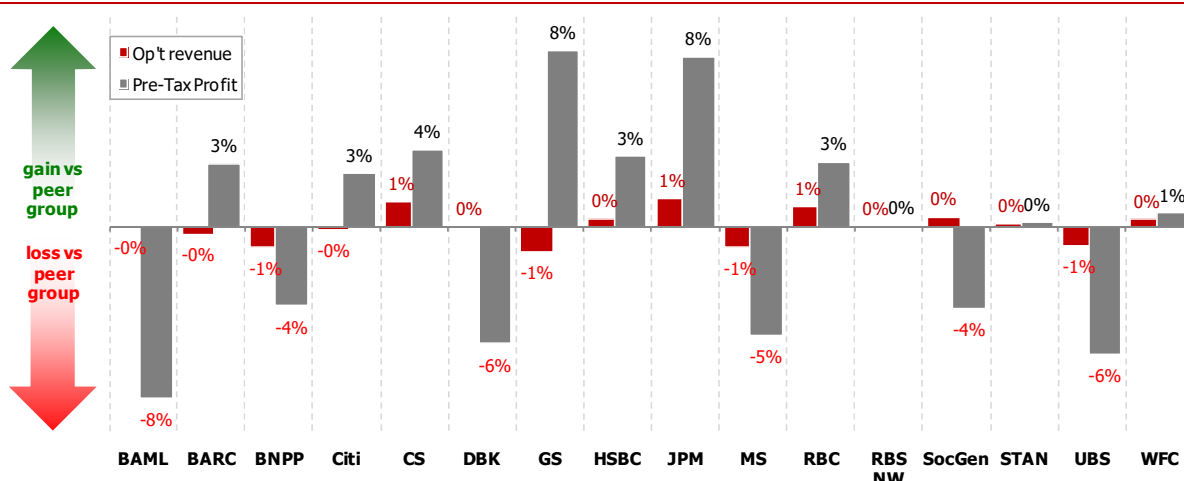
- Cash equity had a slow start to the year, but then surged ahead. Market commentators disagree regarding the outlook: generally, bankers are less than hopeful but importantly, money managers – Blackrock’s Larry Fink foremost among them – expect a surge in activity in 2H19 as investors redeploy funds from cash accounts and fixed income funds.

In the post-MiFID 2 world and despite extensive investment in recent years, banks are losing ground to specialised algo brokers, especially in the most important are, the consistency of execution. On average, long-only buy-side firms consistently engage with only two or three algo providers (and that number has been declining in recent years), so this is worth watching.

- Most – though not all – banks in this report highlighted equity derivatives as the key areas of weakness: 1Q19 revenues dropped sharply versus a strong 1Q18 due to low volatility and reduced client activity. Hedge funds don’t expect the return of volatility anytime soon: CFTC data shows that they are shorting VIX at a rate not seen since at least 2004. In China, regulators further relaxed restrictions on index futures trading.
- Prime services registered a small y/y decline in revenue, though a few of ‘our’ banks managed a modest increase versus a reasonably strong 1Q18. After a dismal 2018, hedge funds are on the mend – in April, they extended strong gains seen in 1Q19, led by equity long-biased strategies.



% change share of peer group operating revenue and pre-tax profit (1Q19 / 1Q18)

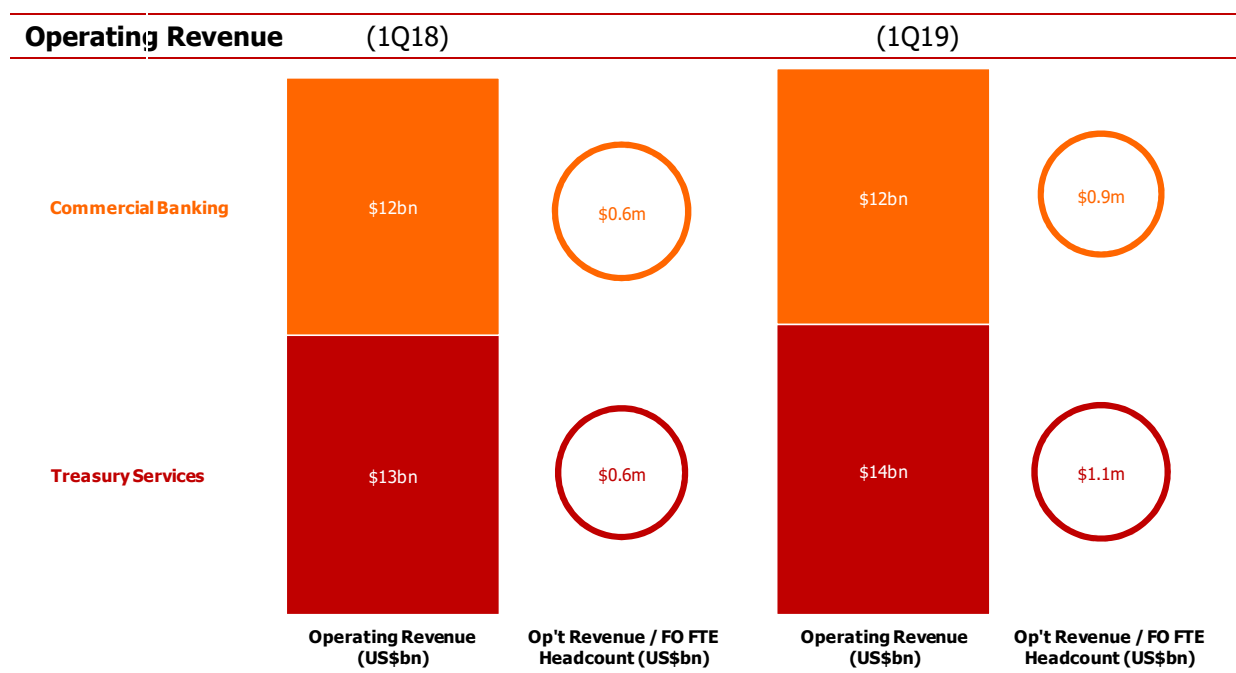


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

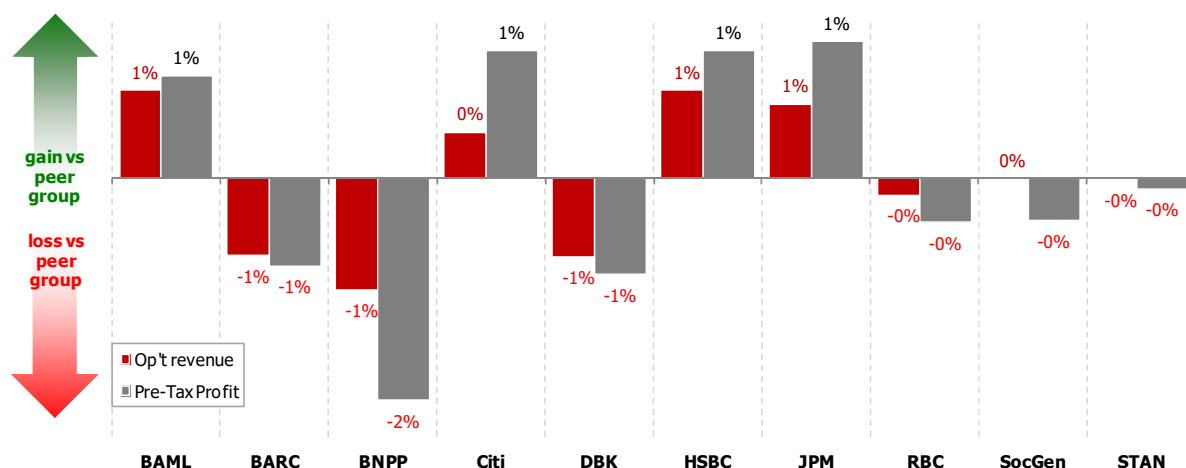
Commercial Banking & Treasury Services

New arrival: Societe Generale

- Due to ongoing client work, we are temporarily suspending commentary.



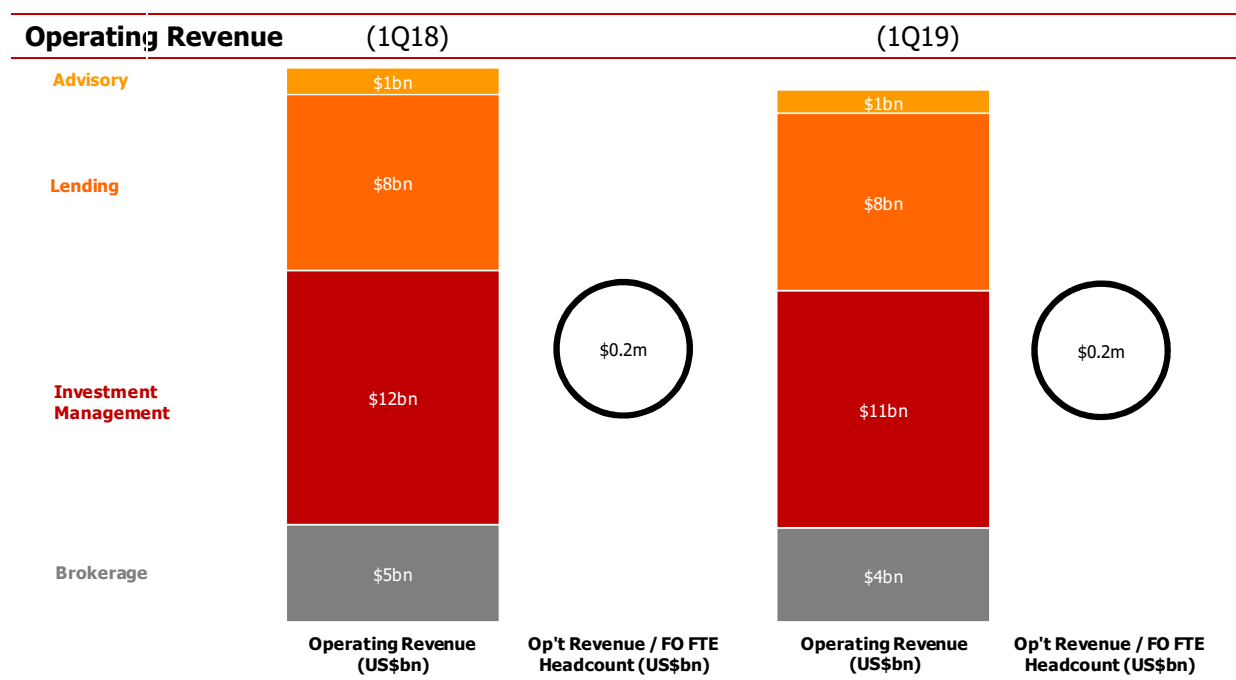
% change share of peer group operating revenue and pre-tax profit (1Q19 / 1Q18)



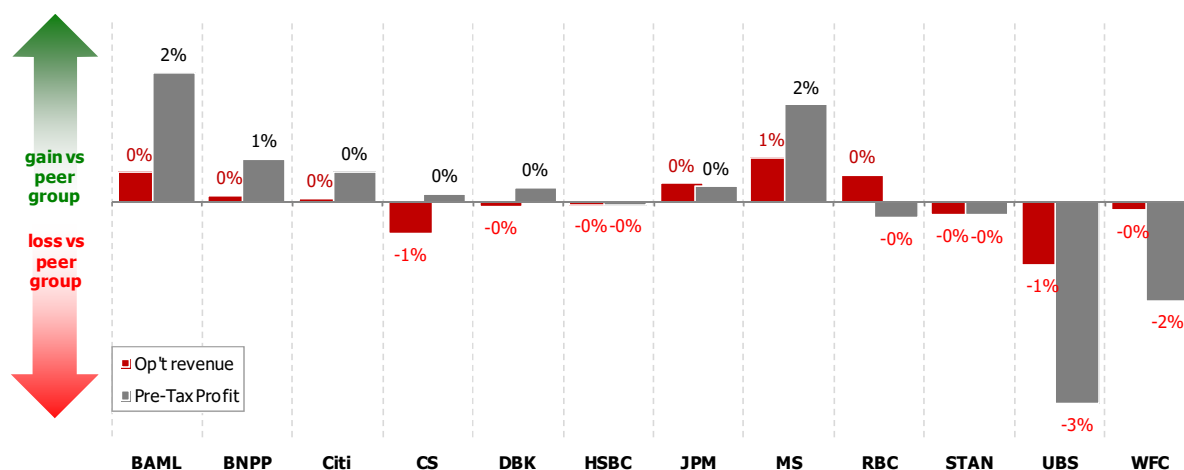
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) In-scope: Large Cap/MNC and Mid-Cap/SMEs.

Wealth Management

- The peer group combined revenues dipped in 1Q19 relative to prior-year quarter, due to weaker investment management and brokerage revenue and, in some cases, lower deposit spreads. European banks underperformed their Americas rivals, in terms of both revenue and profits.
- Established players may soon be facing fresh, and well-funded new entrants: alternative asset managers. Private equity/debt specialists and hedge funds have accelerated hiring of experienced wealth managers in recent times and are targeting family office as well as ultra-rich private clients.



% change share of peer group operating revenue and pre-tax profit (1Q19 / 1Q18)



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.

Revenue dynamics

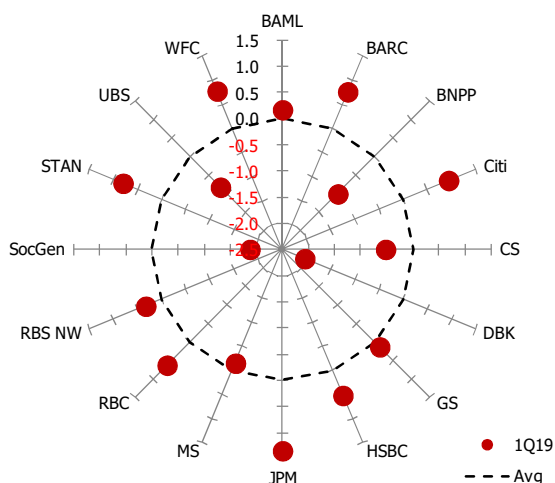
1Q19/1Q18 (Operating revenue, % change, US\$, Global Level 1)

	BAML	BARC	BNPP	Citi	CS	DEK	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	↘	↘	↘	↘	↘	↘	↘	↘	↗	↘	↘	↘	↘	↘	↘	↘

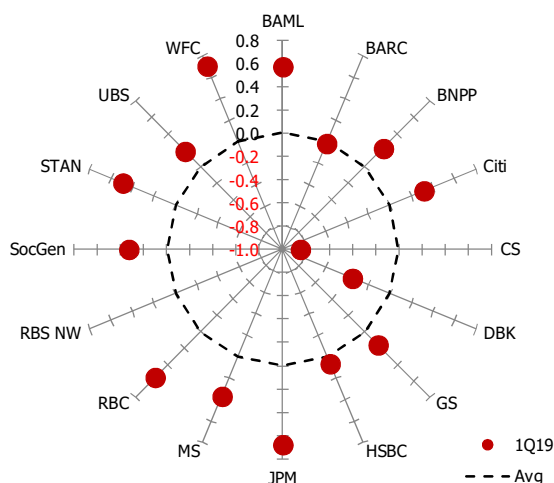
Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up/down-arrows: top-/bottom-quartile. (3) Operating revenue is post-writedowns, excludes DVA/equivalent and one-offs. (4) Commercial/Transaction Banking includes Large Cap/MNC and Mid-Cap/SMEs.

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

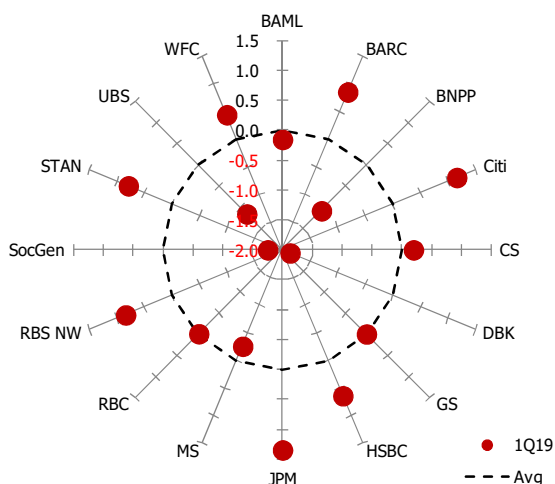
Capital Markets



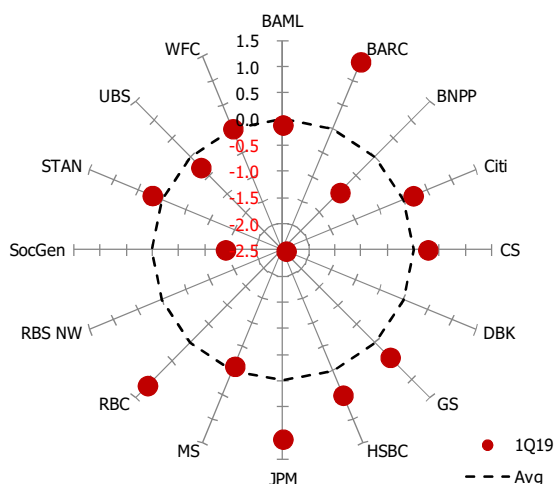
Banking



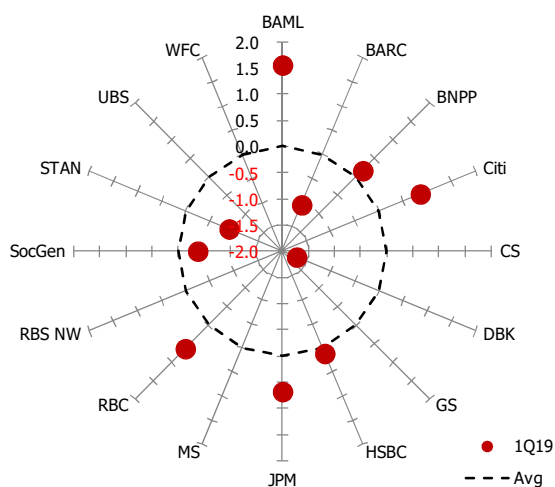
FICC



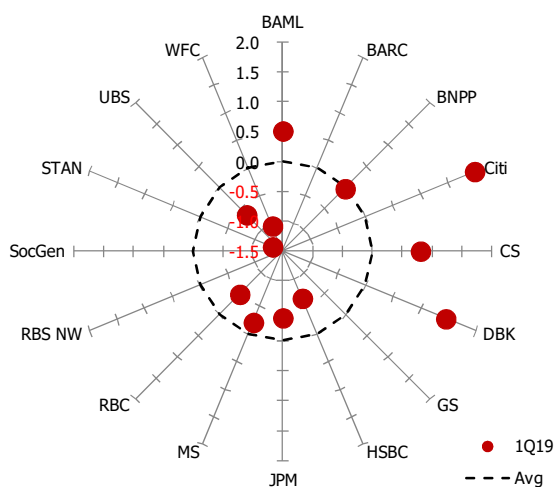
Equities



Commercial Banking / Treasury Services



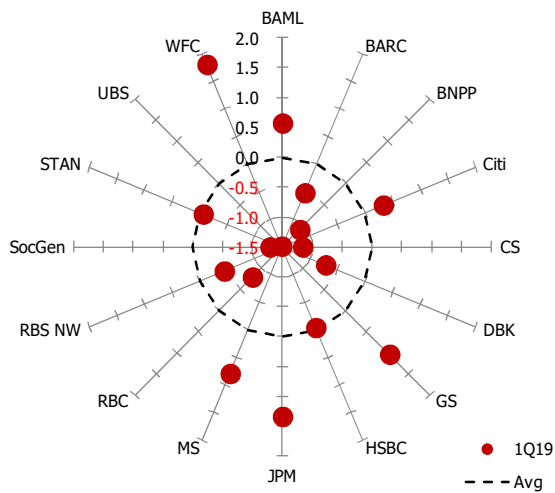
Wealth Management



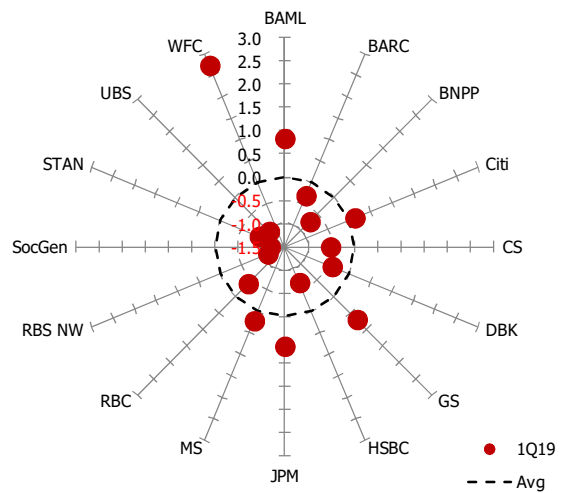
Source: Tricumen. Notes: (1) TRIC product definitions, standard deviation, product Level 1; (2) Operating expenses exclude one-off non-operational items, insurance-related benefits & claims, and credit expense/recovery/NPL provisions. Capital expenditure is included as accrued. Litigation expense is 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)

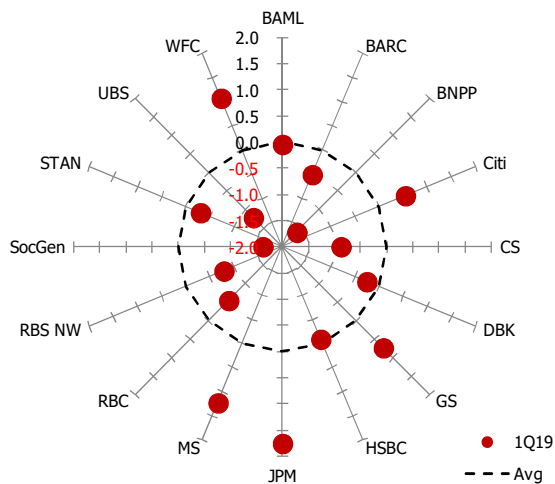
Capital Markets



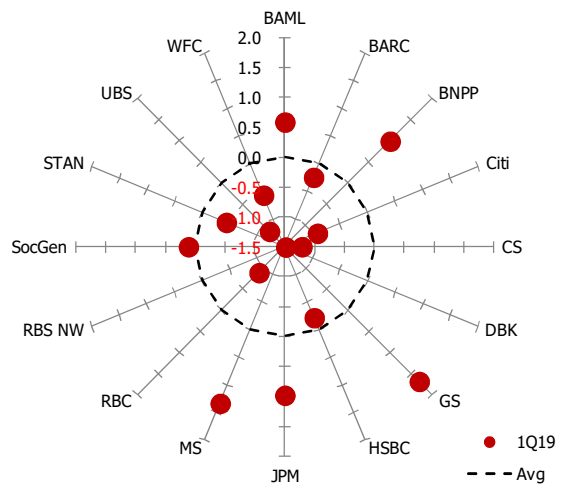
Banking



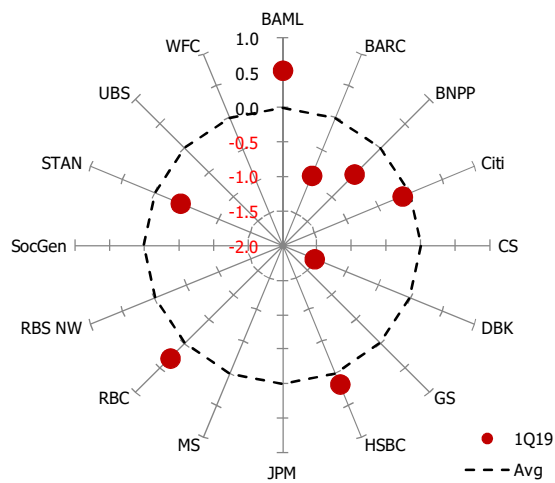
FICC



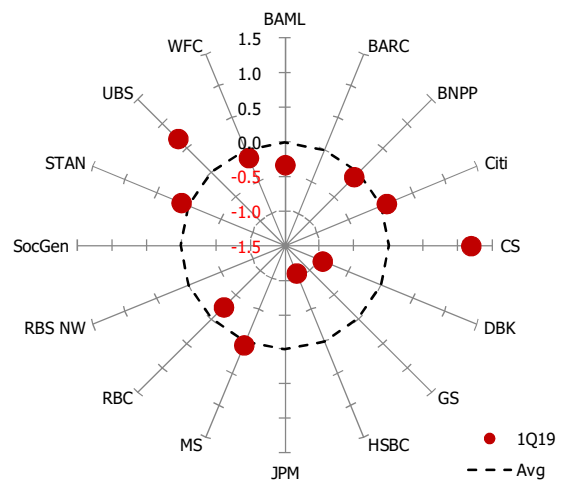
Equities



Commercial Banking / Treasury Services



Wealth Management



Source: Tricumen. Notes: (1) TRIC product definitions, standard deviation, product Level 1; (2) positive values = outperformance; negative values = underperformance, relative to the peer group featured in this report; (3) missing values = not included in ongoing coverage or a bank is not a significant competitor in this market; (4) outliers are excluded.

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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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