Capital markets planning: Assessing outcomes

In the years following the original 'Credit Crunch', banks' priorities have shifted from writedowns to the 'new realities' of chimeras promising revenue growth, ongoing market turbulence and regulatory pressures. In this report - and without suggesting that rigid adherence to stated targets in the notoriously unpredictable capital markets is wise - we assess the extent to which banks have been able to meet their publicly stated targets and how fast they moved to address shifts in the markets. We also take note of their current FY13-FY15 goals. Highlights:

- Banks reviewed here met most of their 'firm' cost/headcount reductions and RWA/funding targets, but also largely missed their revenue/profitability targets. This, we believe, is primarily a reflection of the turbulence in capital markets in recent years.
- Banks struggled to contain their costs in the early post-crisis years: only Citigroup, Deutsche Bank and UBS reported FY10 costs significantly below the FY07 level. Data for Barclays and J.P.Morgan is not directly comparable due to the transformational mergers/takeovers, but the two banks' cost dynamics during this period suggests that both would have favoured investment over severe cost-cutting.
- In more recent years, as revenue generation slowed down and the outlook deteriorated, banks (re-)focused their efforts on cost control: only the three 'early movers' (Citigroup, Deutsche Bank and UBS) reported their cost base at or above FY10 level. Cost-cutting – alongside headcount reductions, RWA and capital targets - features large in medium-term outlook for most banks included in this note.

Our approach to data sourcing and analysis was based solely on information reported by the banks themselves. Reasoning that banks would have highlighted their most important initiatives and targets, our researchers sourced all relevant information – 'firm'/verifiable targets for capital markets/CIB divisions - from nearly 370 presentations that the eight banks[1] featured here have published from the beginning of 2009 to today. To put banks' various initiatives into perspective, we plotted these against FY07-FY12 revenue, operating expenses and, where available, headcount, all sourced from the banks' published financial statements.

We made no adjustments to the reported numbers.[2] While this renders a direct comparison between different banking models and reporting standards unreliable, it does not affect an assessment of whether a bank met its own targets. We have, however, made small adjustments to the reported figures for individual banks to enable accurate through-the-cycle comparison. For example, Deutsche Bank and J.P.Morgan both changed their reporting format in 4Q12; in both instances, we chose the old reporting format for FY07-3Q12, and then annualised the 4Q12 figures.

Throughout the report, dates in textboxes indicate the date of the announcement. Symbols indicate whether a target was achieved during the period that was specified when an announcement was made, or updated as follows:

✓ = target achieved	✘ = target missed
◖ = target partially achieved	? = outcome not clear

(cont.)

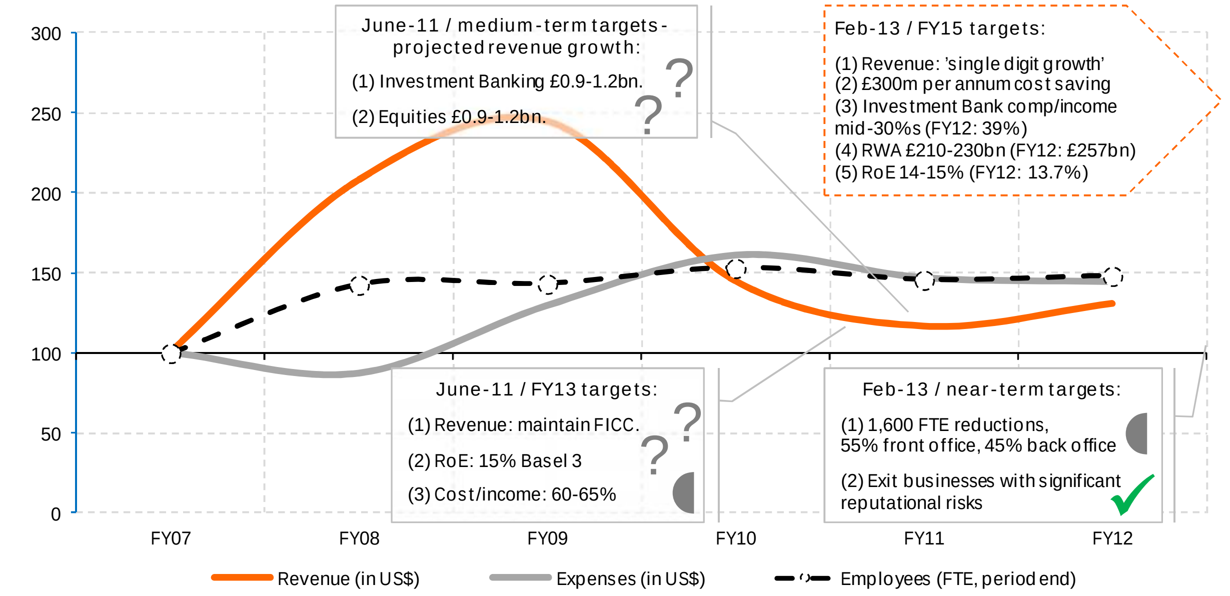
[1] This study does not include five of 'our' core 13 banks. Bank of America Merrill Lynch made extensive changes to its reporting format during the last 6 years, so we could not obtain sufficiently comparable reported figures for the whole FY07-FY12 period. Goldman Sachs and Morgan Stanley did not offer enough data for their capital markets units (so far as we could tell, GS only stated two Group-wide targets, three years apart: return on tangible equity (RoTE) of 20% in Nov-09; and \$1.2bn cost-cutting target, since increased to \$1.9bn, in Nov-12). HSBC's focused operation is not directly comparable to banks featured here. Finally, Royal Bank of Scotland of FY08/09 bears very little resemblance to RBS of today.

[2] We only excluded commission expenses, DVA/equivalents and items that occurred outside the regular course of business. The later does not exclude litigation-related items, 'adaptation cost', severance payments, losses on disposal of assets and similar; they may (or not) be non-recurring, but have, in our view, occurred in the course of 'regular' business. We also made no adjustments for mergers/takeovers (e.g. Barclays/Lehman Brothers' North American business in FY08/09).

Barclays

The relevant - i.e. post-Lehman - targets all cover the period from FY13 and beyond, so it is at best difficult to comment on the progress so far. That said, the targets seem realistic – if rather modest on the cost side! – and we expect BARC will meet most, if not all, of them.

Barclays: Investment Bank (FY07-FY12, indexed to FY07)



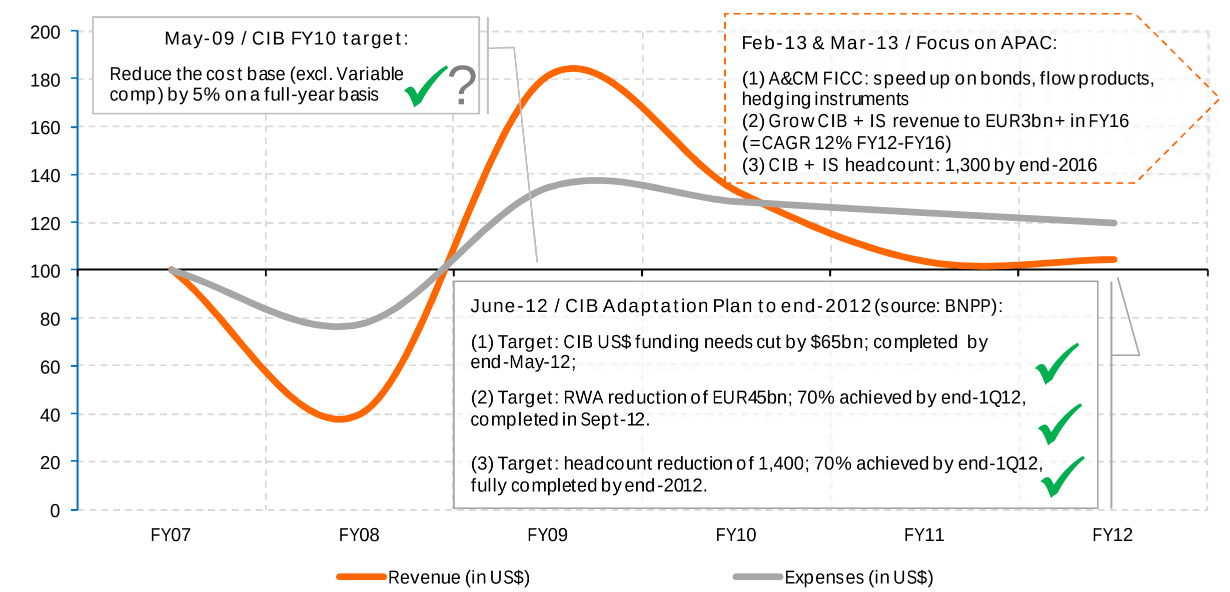
Source: Barclays, Tricumen analysis. Notes: (1) Revenue excludes own credit items. (2) Expenses include amortisation of intangible assets.

BNP Paribas

Among the peer group featured here, BNPP CIB was easily the quickest in adjusting its cost base to revenues in the early post-Crunch years. From FY09, BNPP has continiously cut costs without announcing specific targets; the targets that were announced related to revenue growth, RWA, and funding; all were met.

In 2013, CIB will focus on revenues (CIB + Investment Solutions), especially in APAC.

BNP Paribas: CIB Advisory & Capital Markets (FY07-FY12, indexed to FY07)

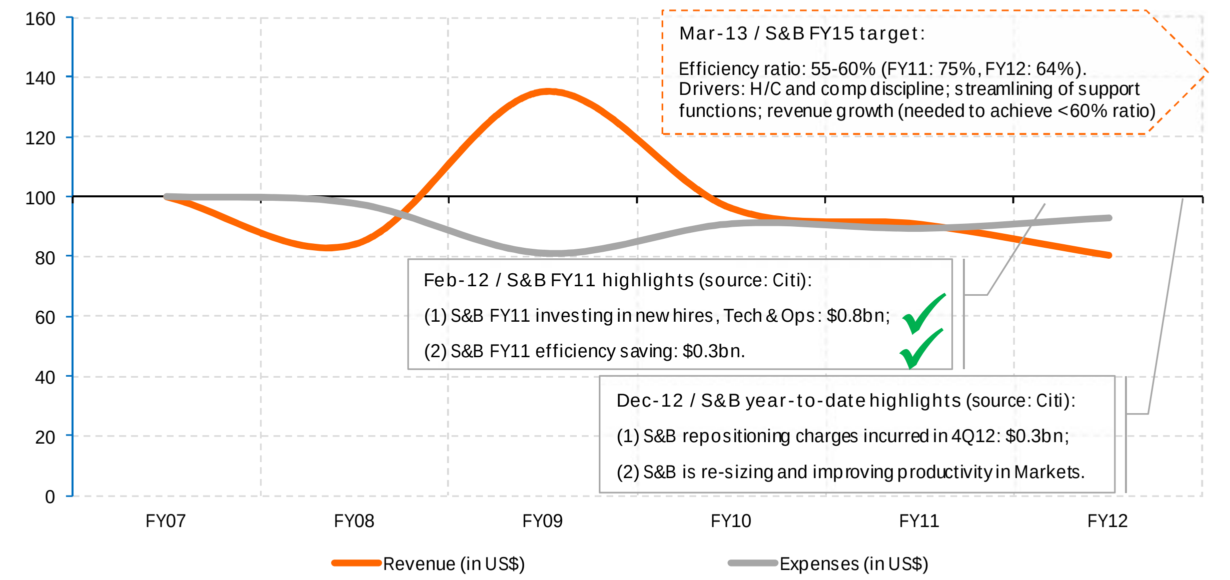


Source: BNPP, Tricumen analysis. Note: Revenues include the impact of losses from sovereign bond sales.

Citigroup

The bank favours 'efficiency' over a narrower cost- and/or revenue-specific targets. Looking ahead, the bank's key challenge will be producing revenues from investments and repositioning programmes undertaken in 2011 and 2012.

Citigroup: ICG Securities & Banking (FY07-FY12, indexed to FY07)



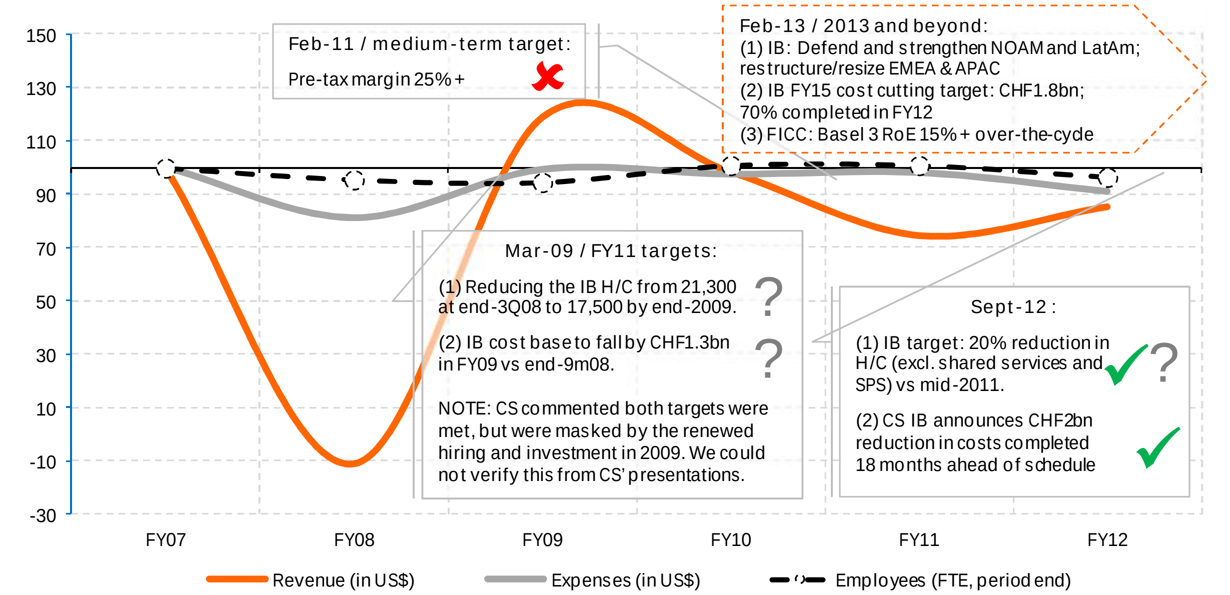
Source: Citigroup, Tricumen analysis. Note: FY08 data is shown as reported in the Citigroupcorp ICG structure, i.e. excludes Citigroup Holdings.

Credit Suisse

One of the more dynamic revenue performers, CS Investment Bank has historically struggled with controlling costs. We say 'historically', because the bank met its CHF2bn cost-cutting target (first announced in Sept-11) 18 months ahead of the schedule.

CS IB's '2013 and beyond' plans include further cost-cutting; but the emphasis is on profitability – FICC RoE target of 15%+, growing the business in Americas, and restructuring of EMEA and APAC.

Credit Suisse: Investment Bank (FY07-FY12, indexed to FY07)

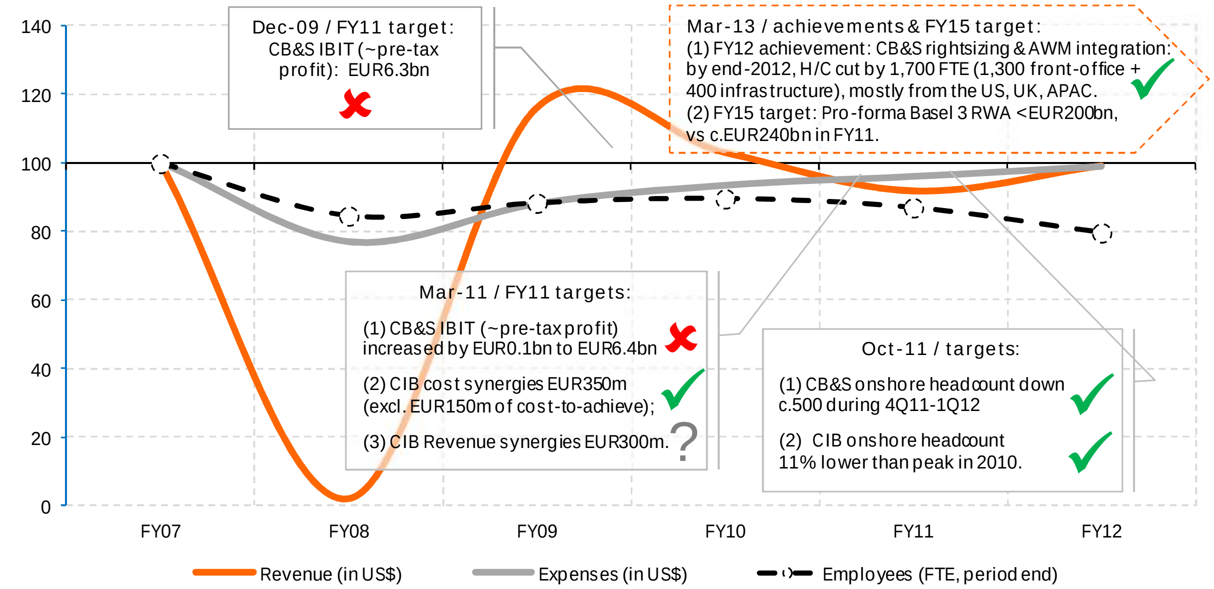


Source: Credit Suisse, Tricumen analysis. Note: Expenses exclude commission expenses and provisions for credit losses.

Deutsche Bank

Throughout 2009 and 2010, DBK CIB's presentations barely mentioned cost control. By Mar-11, however, costs became a 'top priority', and the bank met most, if not all, of its cost and headcount reduction targets for FY11 and FY12.

Deutsche Bank: Corporate Banking & Securities (FY07-FY12, indexed to FY07)

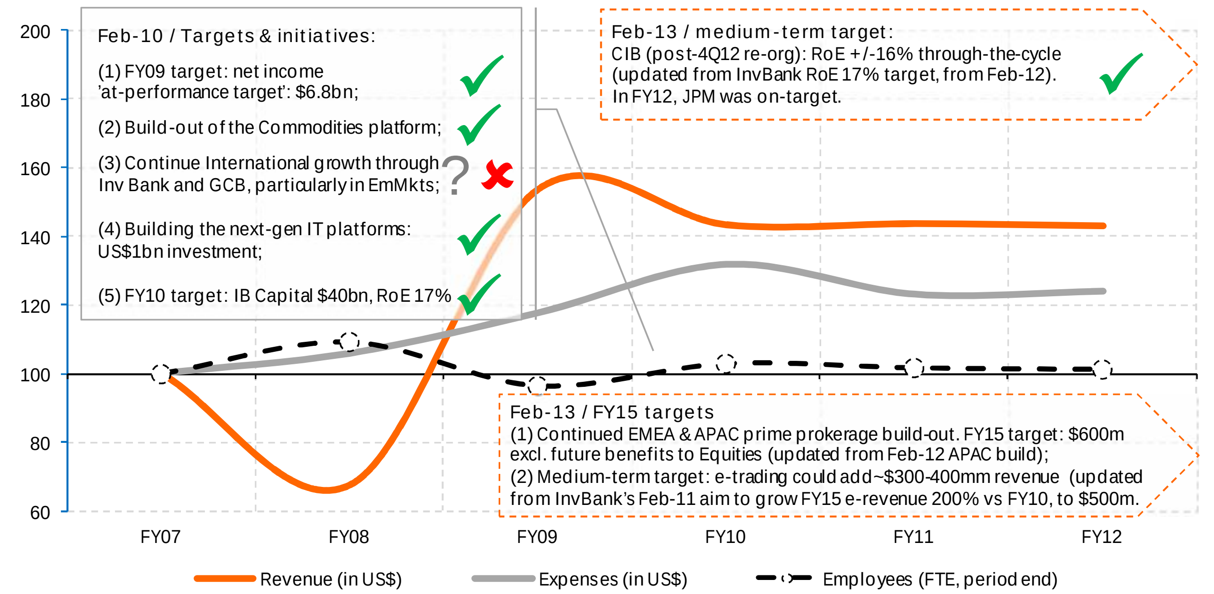


Source: Deutsche Bank, Tricumen analysis. Notes: (1) Revenue and Expenses presented in the pre-4Q12 reorganisation format; 4Q12 estimated, other as reported. (2) Expenses exclude provision for credit losses and policyholder benefits & claims.

J.P.Morgan

Prior to the re-org and the subsequent adoption of the CIB reporting format (from 4Q12), the bank announced very few firm targets - and that was as far back as Feb-10. Thus far, JPM is on-target to meet its stated medium-term/FY15 RoE and revenue targets.

J.P.Morgan: Investment Bank (FY07-FY12, indexed to FY07)

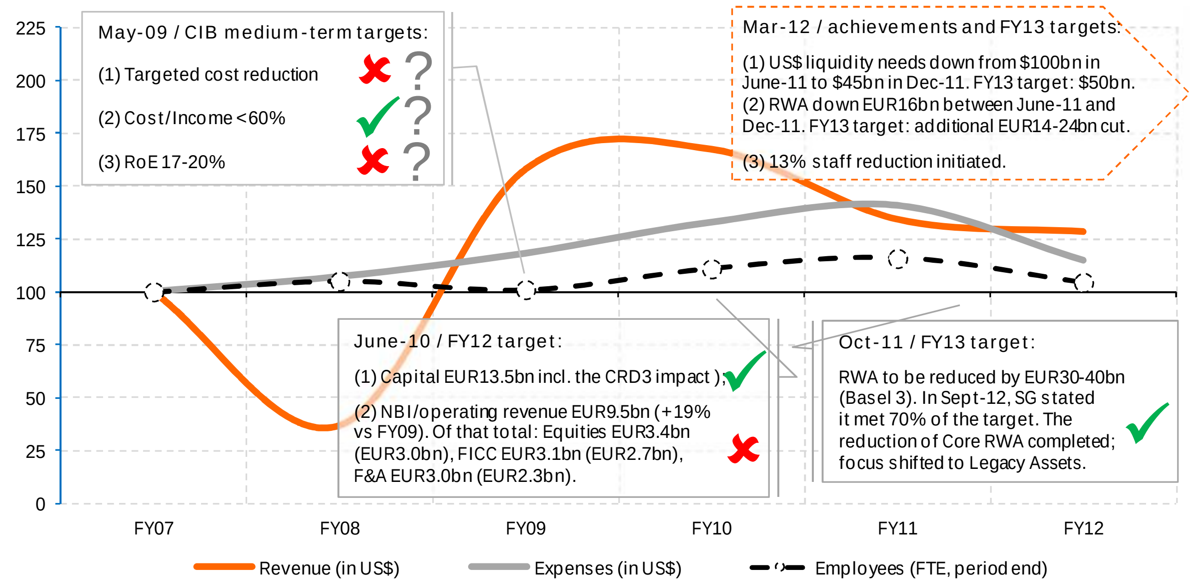


Source: JPM, Tricumen analysis. Notes: Results for 2008 include 7 months of JPM + Bear Stearns results and 5 months of heritage JPM results. 2007 reflects heritage JPMorgan Chase & Co.'s results only. All data is presented in pre-4Q12 Investment Bank format; the 4Q12 (which was reported in the new CIB format) was estimated by Tricumen.

Societe Generale

Thus far, SG CIB has failed to meet the majority of its profit-and-loss targets, and has proved very slow in matching costs to its somewhat volatile revenues. The bank has, however, exceeded its capital, RWA and liquidity targets, and seems likely to meet its FY13 goals too.

Societe Generale: Corporate & Investment Banking (FY07-FY12, indexed to FY07)



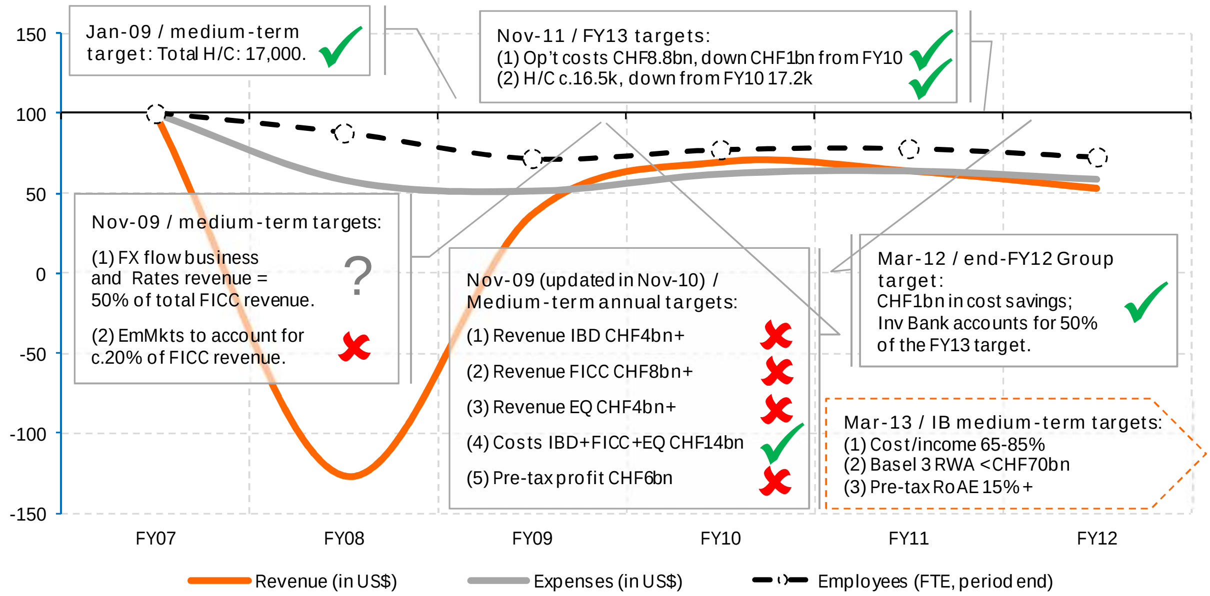
Source: SG, Tricumen analysis. Notes: (1) Revenue and expenses include CIB Core Activities and Legacy Assets. (2) Revenue includes net discount on loan sales. (3) Expenses include restructuring charges. (4) Headcount is end-of period, excludes temporary staff.

UBS

Perhaps uniquely among its peers, UBS met or exceeded every one of its cost and headcount target from early 2009 to early 2012; but it has also - thus far - missed its medium-term revenue targets.

The new era began in Oct-12, when the Investment Bank restructured its FICC division: the new profitability and RWA targets, first announced in Nov-12 and updated in Mar-13, seem attainable.

UBS: Investment Bank (FY07-FY12, indexed to FY07)



Source: UBS, Tricumen analysis. Notes: (1) Revenue indexed to 2006, due to losses in FY07 and FY08; (2) Revenue includes credit loss expense/recovery and unauthorised trading incident (FY11); (3) Expenses include services to/from other business divisions, exclude impairment of goodwill (FY12).

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Tricumen was founded in 2008. It quickly become a strong provider of diversified market intelligence across the capital markets and has since expanded into transaction and corporate banking coverage. 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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