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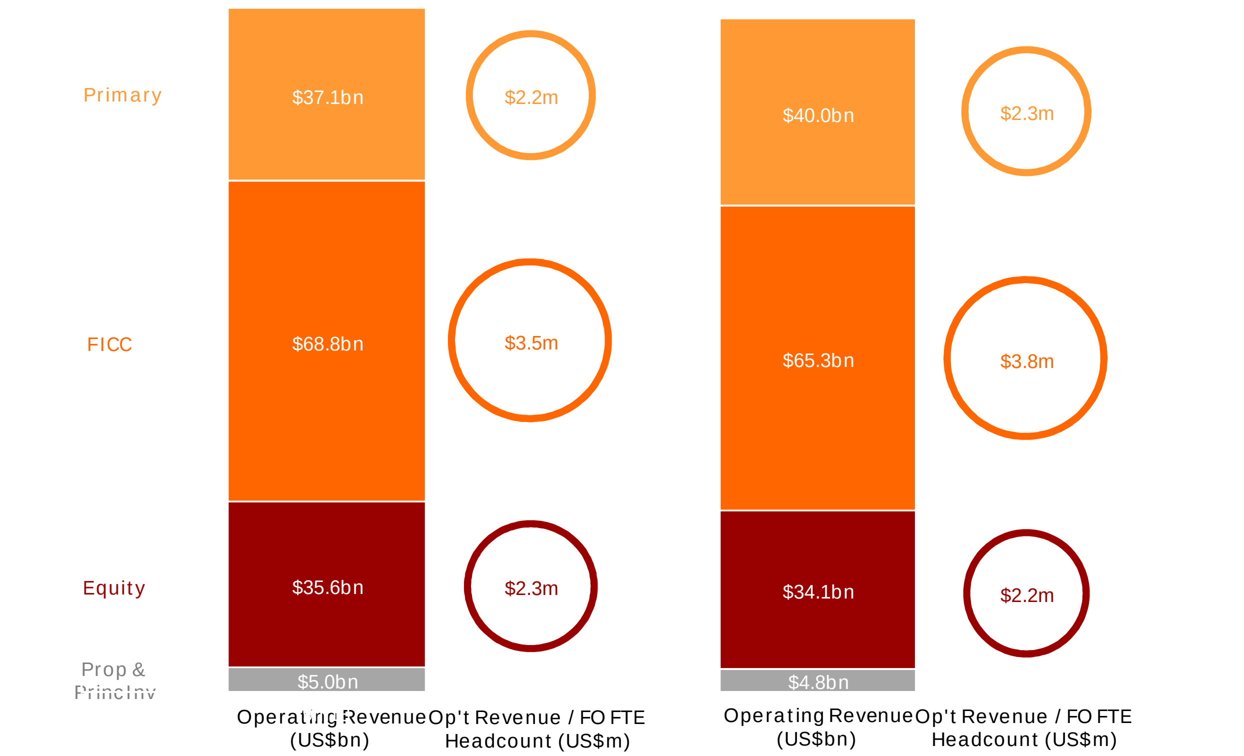
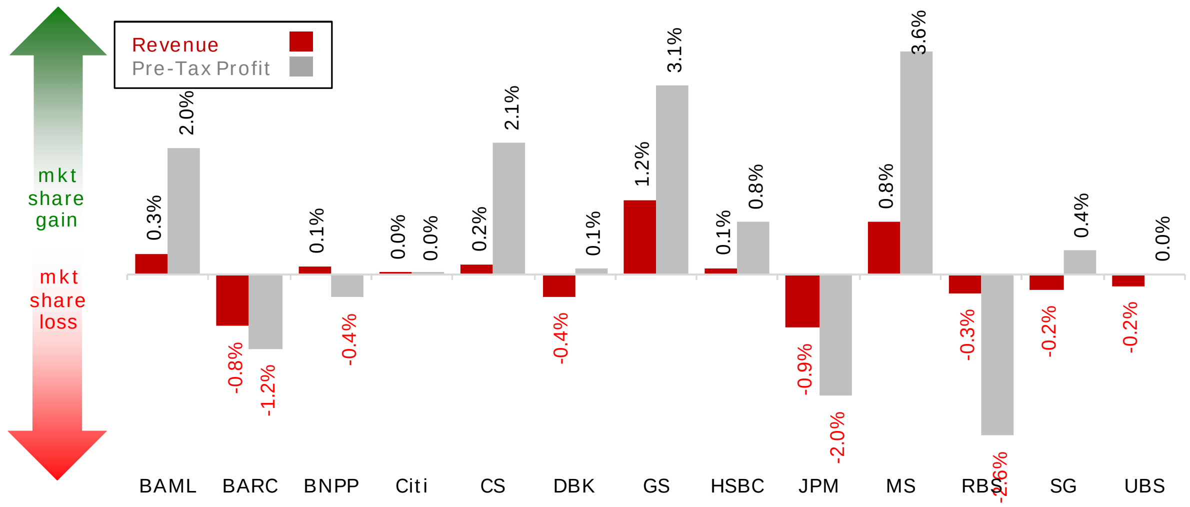
Capital Markets: Results Review 3Q14 / 9m14

- Capital markets operating revenue at the Top 13 investment banks totalled $144bn at the end of 9m14, barely behind 9m13. During the three months of 3Q14, operating revenues reached $43bn, slightly ahead of 3Q13 as strong ECM, M&A, FX and rates offset falls in DCM and equities revenues. The decline in FICC trading predicted by some market analysts did not materialise in 3Q14; on the contrary, only credit revenues declined – slightly. Revenue/headcount productivity rose sharply in FICC compared to 9m13, partly due to banks' continued trimming of staff in 2014.
- Year-to-date operating expenses grew, however, by 6% to $108bn (excluding prop & principal investments), reducing the cumulative pre-tax profit to $31bn, 21% below 9m13. Banking profitability increased during this period by 10%, but FICC and Equities suffered sharp drops. The drop in equities' profitability was largely due to the weak 3Q14, and was more pronounced among cash equity 'flow monsters'.

Operating Revenue (9m13) (9m14)



% change share of peer group operating revenue and pre-tax profit (9m14 / 9m13)

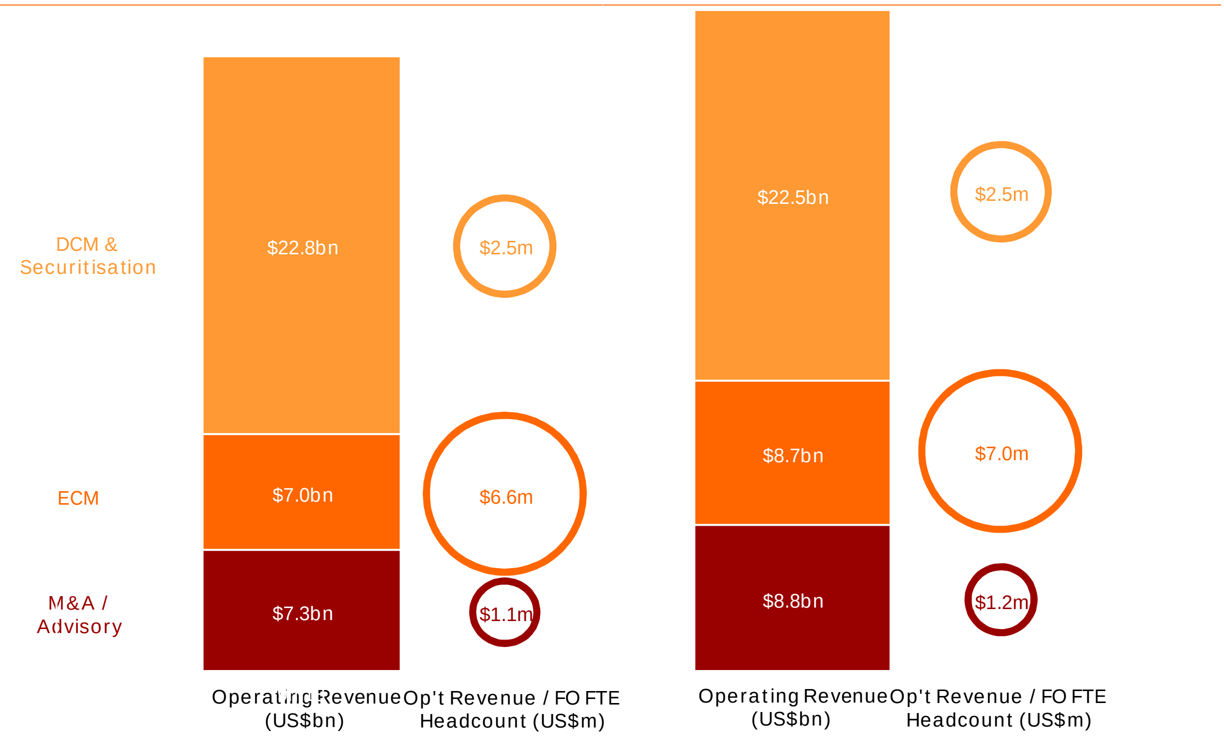


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments..

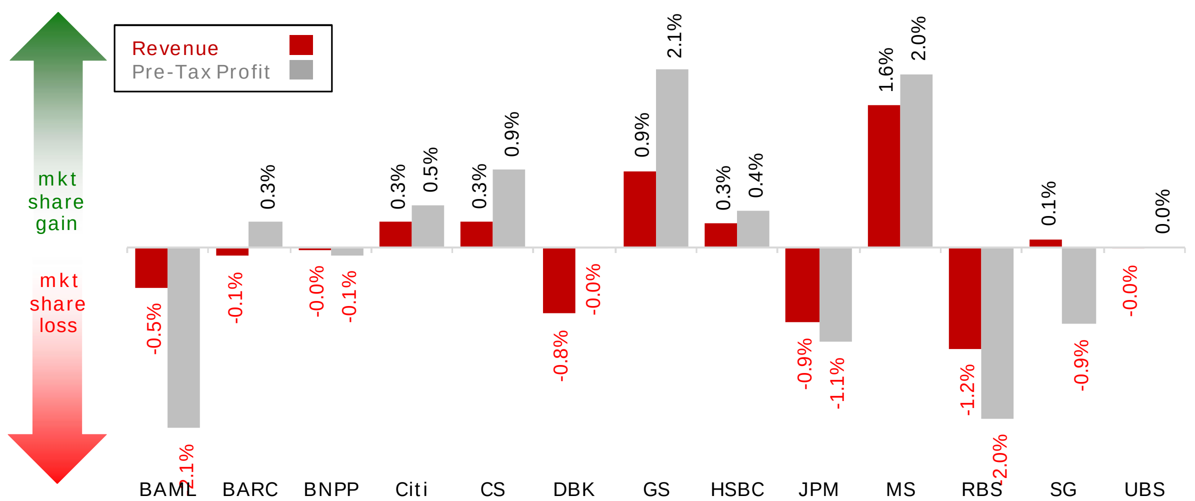
Primary issuance & Advisory

- In DCM bonds, Europe outperformed: in 9m14, volumes grew 10% and fees almost twice as much. That said, sales of new HY bonds slowed to a trickle as prices dropped. In APAC, while margins remain under pressure, bond sales in 9m14 in US$, EUR and Yen exceeded the previous $143bn FY13 record volumes. In 3Q14, most global players in this report saw a decline in fee earnings versus 3Q13; Credit Suisse and HSBC were notable exceptions. The loan market did better: volumes grew slightly versus 3Q13, but most of 'our' banks achieved higher margins.
- ECM maintained the strong growth seen in 1H14: in 9m14, volumes were 25% ahead of 9m13, and estimated fees nearly 40%. Europe outperformed, with marketwide fees more than doubling from 9m13. An area to watch is the converts issuance in APAC: the market is small, but it boomed in 9m14, with volumes up more than 50% compared to 9m13.
- M&A/Advisory fees also recorded strong growth in 3Q14: global volumes and fees were up c.30% versus 3Q13. Banks' fees grew at the fastest rate in Europe; in addition, European companies announced $90bn+ of deals involving US-based target in the first nine months of 2014.

Operating Revenue (9m13) (9m14)



% change share of peer group operating revenue and pre-tax profit (9m14 / 9m13)

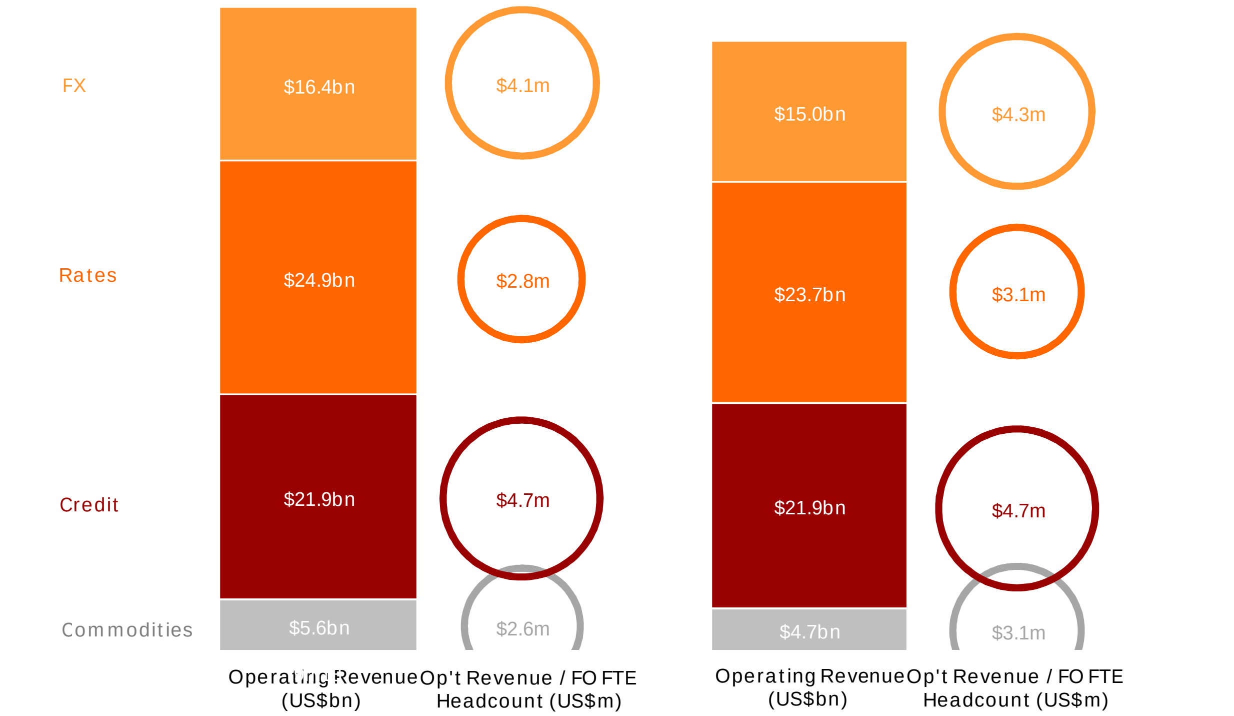


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

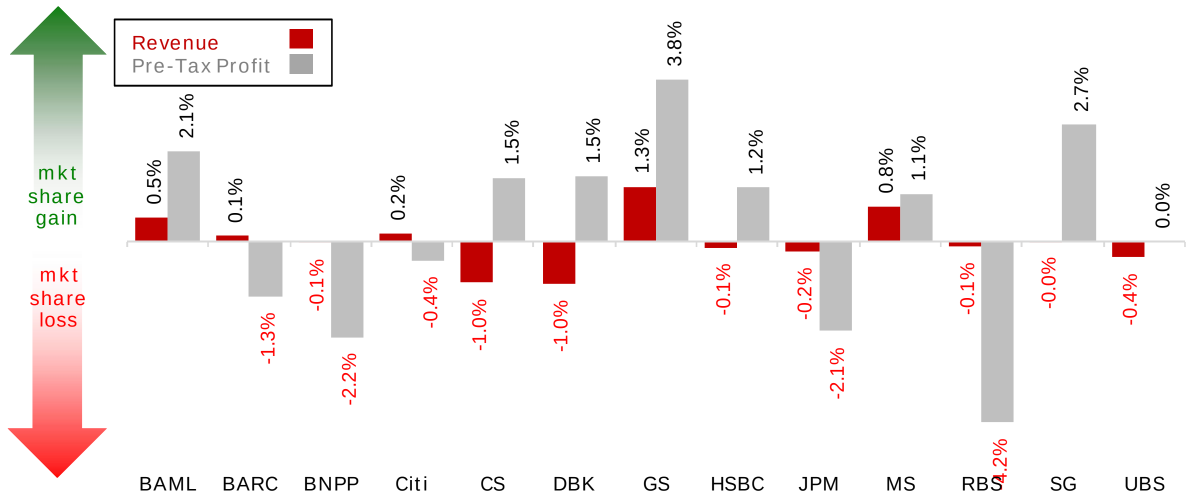
FICC

- In G10 FX, USD/JPY volumes declined from the 2Q14 peak, and margins returned to their Jan-13 lows. In EM, volumes faltered in Brazil and margins tightened in Mexico. Singapore FX remained strong on solid volumes, especially in FX Options. The shift to electronic trading is accelerating.
- In Rates, US repo term volumes surged to 1Q13 highs. The outlook for swap trading is uncertain given sustained decline in volume. Repo margins plummeted in Europe as the LTRO programme took effect, and uncertain economic outlook depressed government bond trading. Options and exotics were steady, aside from an exceptional week in August.
- In European, US HG and HY credit, volumes declined in July and August, but jumped in September (and October). CDS volumes continued their sharp decline from the May high.
- In Commodities, the client revenue opportunity remained unchanged from 3Q13 in the US energy and European and US metals. In 14-Aug, the daily price fix for silver was replaced with an electronic, auction-based system; gold, platinum and palladium may follow soon.

Operating Revenue (9m13) (9m14)



% change share of peer group operating revenue and pre-tax profit: (9m14 / 9m13)

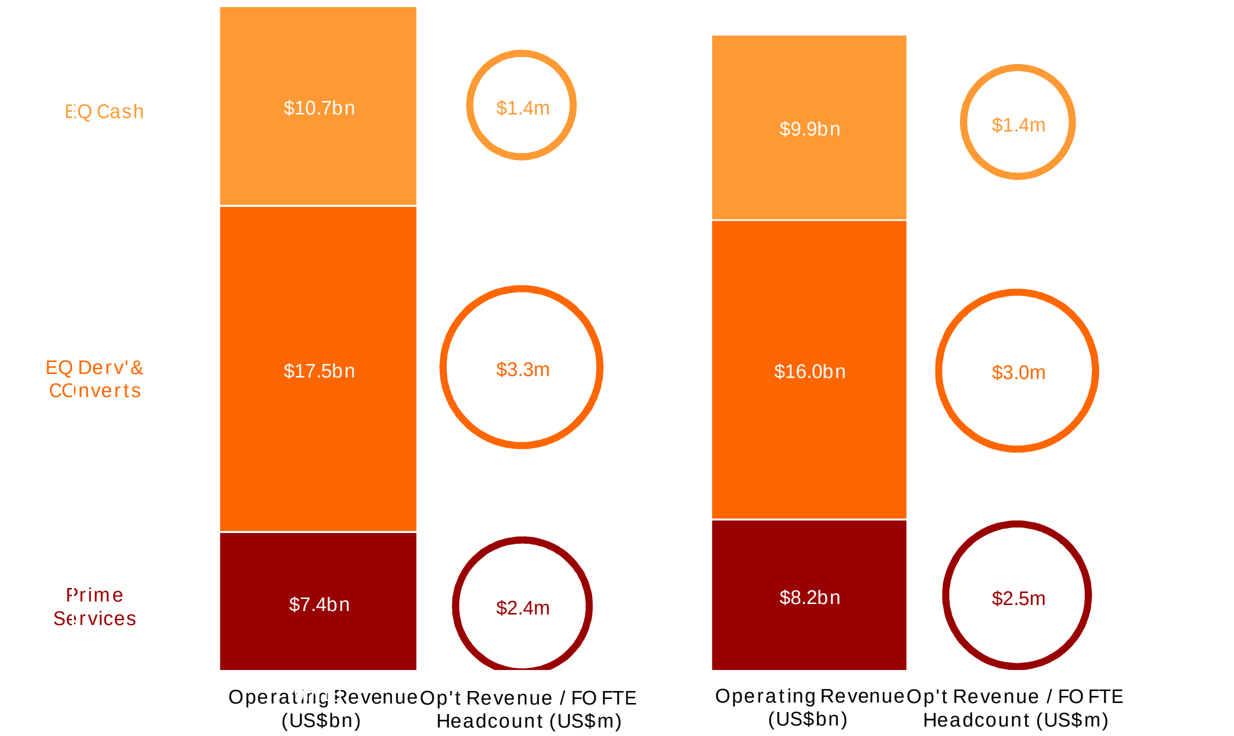


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

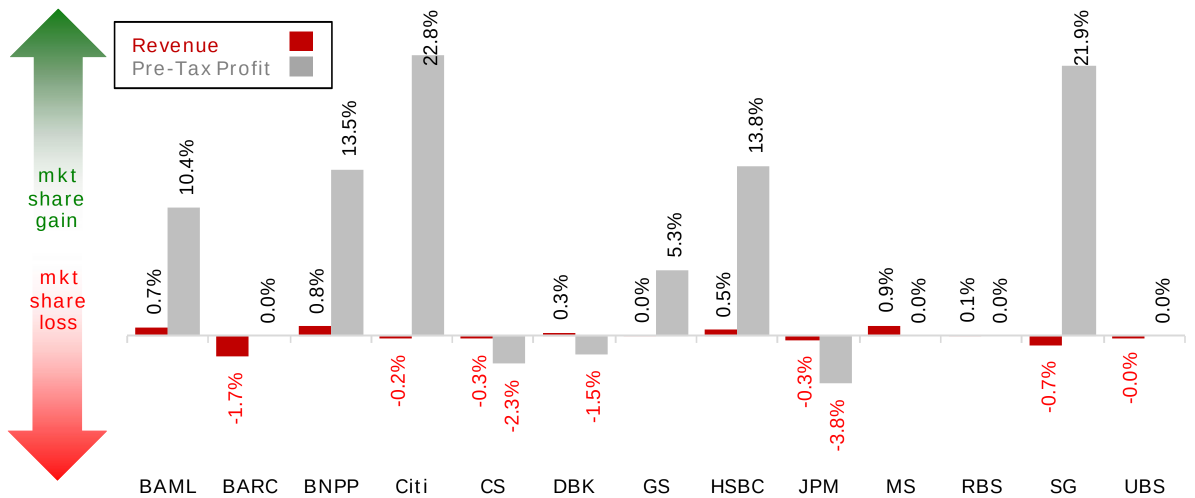
Equities

- In North America, cash equity high-touch volumes remained steady versus 3Q13; low-touch declined from the March peak, but remained well above the prior-year period. Europe was subdued in comparison, and APAC declined. In emerging markets, Brazil volumes declined after the reversal of the rally that had accompanied the elections in the country.
- Flow equity derivatives options volumes grew in both the Americas and Asia; EMEA volumes were muted. Structured product issuance declined in the US after a strong 1H14; APAC also declined.
- In prime services, banks reported a strong 3Q14; a strong September for securities lending in the US partly offset the weak June-August volumes. Contrary to what some market commentators observed, hedge fund balances steadily declined from their June-14 peak.

Operating Revenue (9m13) (9m14)



% change share of peer group operating revenue and pre-tax profit (9m14 / 9m13)



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.

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Revenue dynamics

9m14/9m13 (Operating revenue, % change, US$, Global Level 1)

	BAML	BARC	BNPP	Citi	CS	DBK	GS	HSBC	JPM	MS	RBS	SG	UBS	Top 25%	Bottom 25%
Capital Markets: Total	→	↓	↑	→	→	↓	↑	→	↓	↑	↓	↓	↓	+2%	-8%
Primary	↓	↓	↓	→	→	↓	↑	↑	↓	↑	↓	→	→	+15%	+4%
DCM Bonds	↓	→	↓	→	→	↓	↓	↑	↓	→	↓	↑	↑	+8%	-9%
DCM Loans	↓	↓	→	→	↓	↓	↑	↑	↓	↑	→	→	↓	+8%	-10%
Securitisation	→	↓	→	↓	→	↓	↓	↑	↓	↑	↓	→	↑	+22%	+1%
ECM	↓	↓	↓	→	→	↓	→	↑	↓	↑	N/M	↑	↓	+36%	+17%
M&A / Advisory	↓	↓	↑	→	↓	↓	↑	↓	↑	↑	N/M	↓	→	+27%	+11%
Secondary	→	↓	↑	→	↓	→	↑	→	↓	↑	↓	↓	↓	+1%	-10%
FX	→	→	→	↓	→	↓	↑	↓	↓	↑	↓	↑	↓	+0%	-10%
Rates	↓	↓	→	↓	↓	→	↑	→	↓	↑	→	→	↓	+6%	-14%
Credit	→	N/M	↓	→	→	↓	↑	N/M	↓	→	↓	↓	N/M	+6%	-13%
Commodities	↑	↓	→	↑	↓	↓	→	↑	↓	↓	N/M	→	↓	-4%	-30%
EQ Cash	→	↓	↑	↓	↓	↓	↓	↓	↑	→	N/M	↑	→	+5%	-17%
EQ Derv & Converts	→	↓	↑	→	↓	→	→	↑	↓	↓	→	↓	↓	+1%	-14%
Prime Services	→	→	↓	↓	↓	↑	→	↓	↓	↑	N/M	↓	↑	+12%	+3%
Prop Trading	N/M	↓	→	→	↑	N/M	↑	↓	↓	N/M	N/M	↓	N/M	+12%	-23%
Principal Investments	N/M	N/M	N/M	N/M	→	↓	→	↑	N/M	↓	N/M	N/M	N/M	+17%	-60%

3Q14/3Q13 (Operating revenue, % change, US$, Global Level 1)

	BAML	BARC	BNPP	Citi	CS	DBK	GS	HSBC	JPM	MS	RBS	SG	UBS	Top 25%	Bottom 25%
Capital Markets: Total	↑	↓	↓	↑	→	↓	↑	→	→	→	↓	↓	↓	+8%	-8%
Primary	↓	↓	↓	↑	→	↓	→	↑	↓	↑	↓	→	→	+19%	+1%
DCM Bonds	↓	↓	→	↑	→	↓	→	↓	↓	↑	↓	→	↑	-2%	-27%
DCM Loans	→	↓	→	↑	↑	↓	↓	↓	↓	→	↓	→	↑	+5%	-9%
Securitisation	↑	↓	→	↓	↑	↓	↓	→	↓	→	↓	↑	↑	+17%	-8%
ECM	↓	↓	↓	→	→	↓	→	↑	↓	↑	N/M	↑	↓	+54%	+15%
M&A / Advisory	→	↓	↓	↑	↓	↓	↑	↓	→	↑	N/M	↓	→	+31%	-5%
Secondary	↑	↓	↓	→	↓	→	↑	→	→	↑	↓	↓	↓	+6%	-10%
FX	→	↓	↓	→	↑	↓	↑	↓	→	→	↓	↑	↓	+39%	+2%
Rates	→	↓	↑	→	↑	↓	→	↓	↓	↑	↓	→	↓	+74%	-7%
Credit	↑	→	↓	→	↓	→	↑	↓	↑	→	↓	↓	↓	+3%	-48%
Commodities	↑	↓	→	→	↓	↓	↑	→	↓	↓	N/M	↑	↓	+14%	-17%
EQ Cash	↑	↓	↓	→	↓	→	↓	↓	↑	→	N/M	↑	↓	+9%	-17%
EQ Derv & Converts	↑	↓	↓	↑	→	→	↑	↓	→	→	↓	↓	↓	+4%	-35%
Prime Services	↑	↓	↓	→	↓	↑	↑	↓	↓	→	N/M	↓	→	+14%	+2%
Prop Trading	N/M	→	↓	→	↑	N/M	↑	↓	↓	N/M	N/M	↓	N/M	+14%	-33%
Principal Investments	N/M	N/M	N/M	N/M	→	↓	↑	→	N/M	↓	N/M	N/M	N/M	-23%	-88%

Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. (3) Revenue is post-writedowns, excludes DVA/equivalent and one-offs, as described in the Company Section.

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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 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.

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