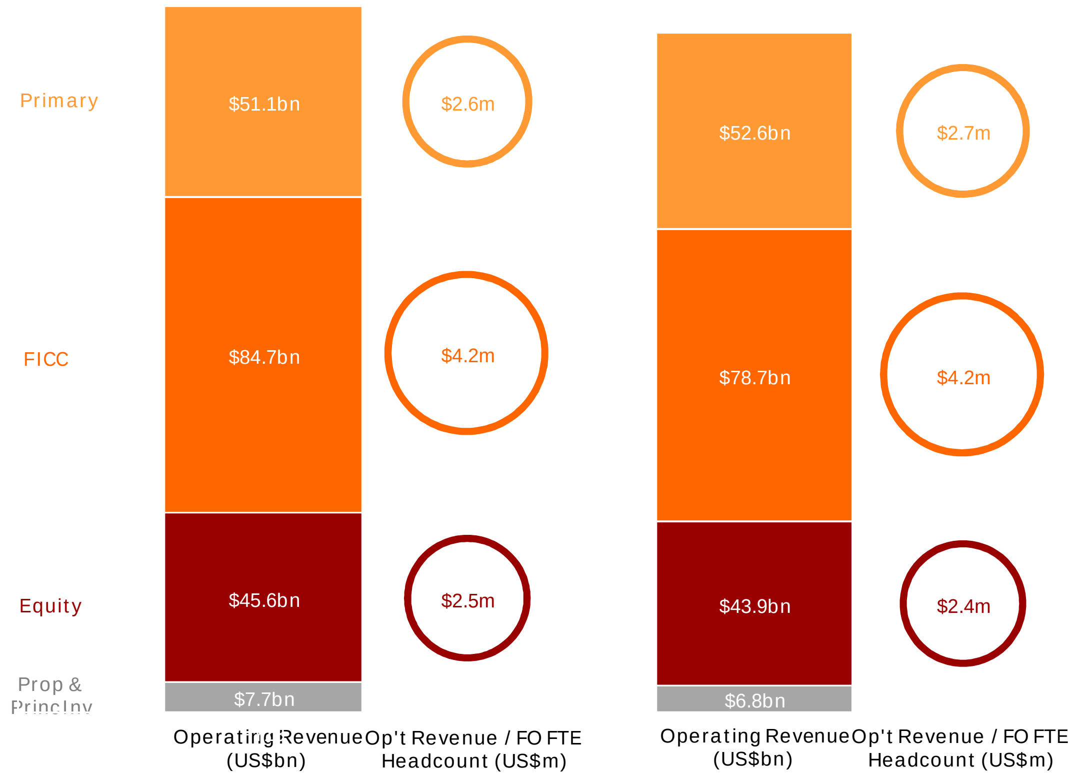
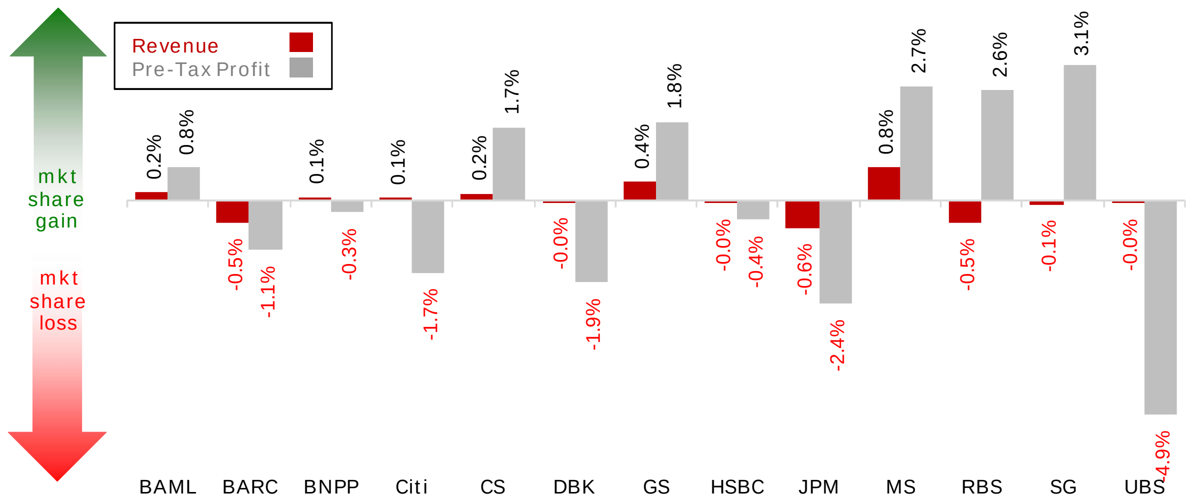
Capital Markets: Results Review 4Q14 / FY14

- The FY14 operating revenue at the Top 13 banks totalled $182bn, 4% below FY13, as slight growth in primary fees was offset by a weak FICC (especially in credit) and soft equities (largely due to the weak 3Q14). Banks matched the fall in revenue with reduction in front office staff.
- Operating expenses in FY14 amounted to $142bn, +7% y/y. Most banks cut comp & benefits in 4Q14, partly due to EU regulators limiting the size of bonuses (The UK unsuccessfully challenged this in court); Morgan Stanley, by contrast, cut the deferred level of bonuses and accelerated the vesting of cash awards. Litigation, compliance and IT spend all grew, in some cases sharply.
- The US and EU regulators may be softening their stance on 'risky' banking activities. In the EU, there are signs that regulators' concern about the reduction in liquidity in some markets may lead them to ditch plans for the separation of trading activities; and in the US, The Fed granted banks at least two years reprieve from the 'Volcker Rule'.

Operating Revenue (FY13) (FY14)



% change share of peer group operating revenue and pre-tax profit (FY14 / FY13)

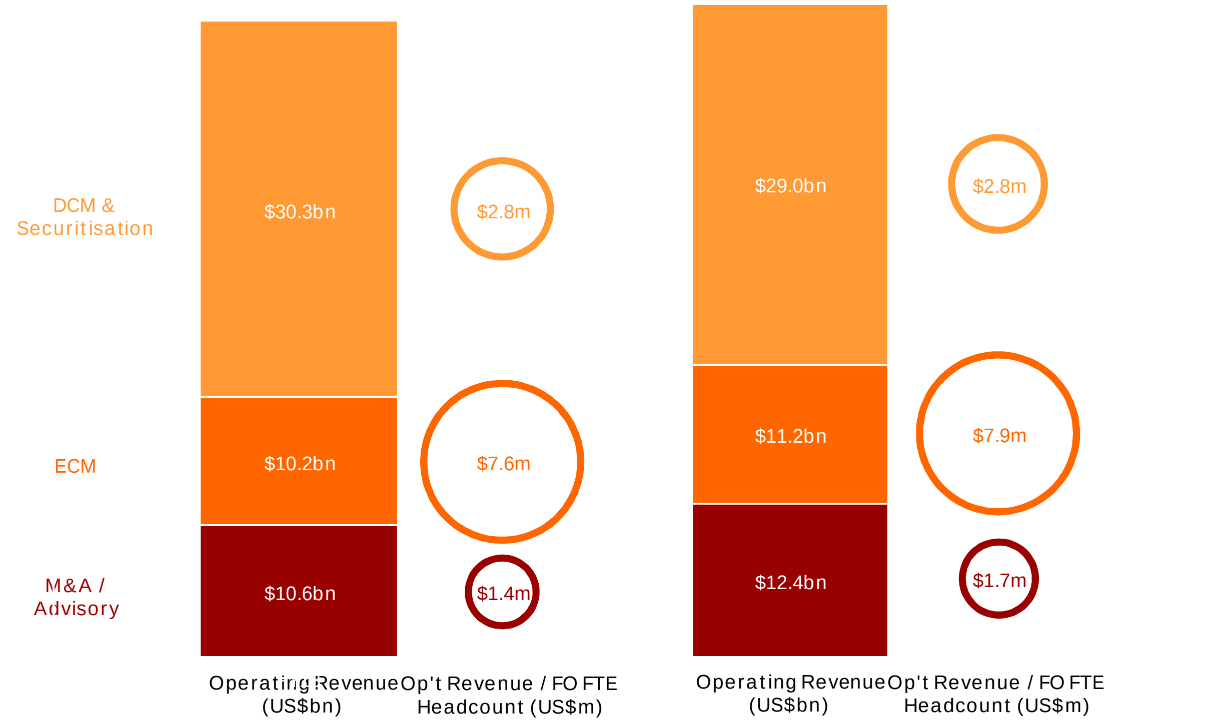


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments..

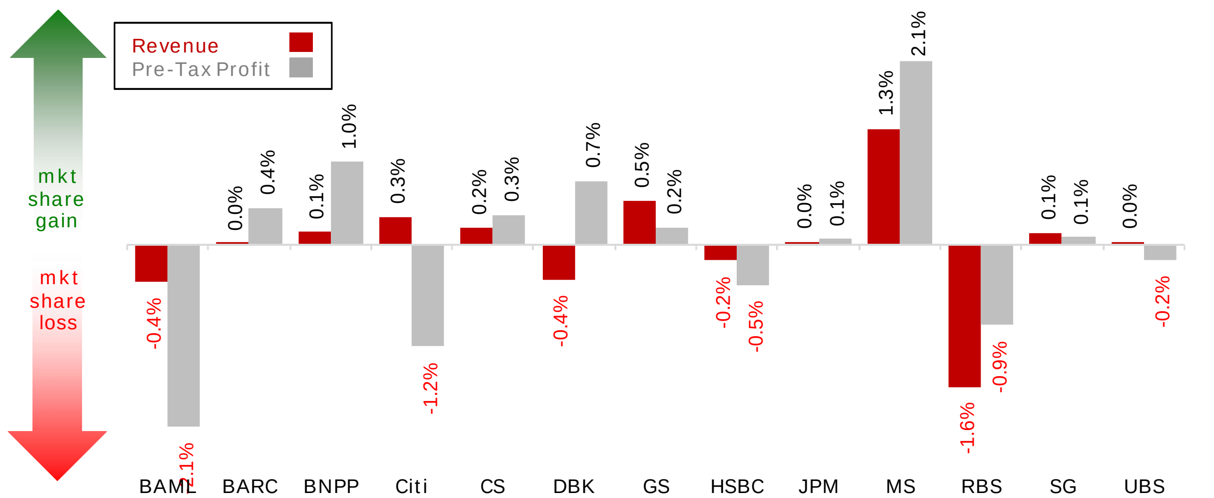
Primary issuance & Advisory

- Despite a slowdown in 4Q14, the growth in European DCM bond issuance outpaced other regions in FY14: deal volumes grew by 3%, but fees jumped by 9%. High yield issuance was spurred by the ECB's quantitative easing programme, and the market enjoyed a very strong 1Q15. Banks' fees in the US were slightly higher versus FY13, with FY14 corporate bond sales exceeding $1.5tn, but other regions' fees and/or margins declined. DCM loan volumes and fees dropped in 4Q14, though FY14 fees were in line with FY13. The ECB (slowly) started buying ABS, which points to a strong 2015. Analysts, however, are divided over the eventual impact: FY15E issuance forecasts range from EUR90-180bn. Meanwhile, the BCBS set tougher ABS capital rules.
- In ECM, a tough 4Q14 blunted the full year numbers, but leaders' global FY14 fees were still 10% ahead of FY13, supported by strong IPOs (even in 4Q14). Interestingly, in December, Goldman Sachs released an app that allows executives to monitor book-building in real-time.
- M&A/Advisory margins and fees were broadly unchanged 4Q14/4Q13. In APAC ex-Japan and the US, FY14 fees grew by 15-20%, though margins declined in all regions. Persistently low interest rates and rising corporate confidence (and cash balances) suggest a strong 2015.

Operating Revenue (FY13) (FY14)



% change share of peer group operating revenue and pre-tax profit (FY14 / FY13)

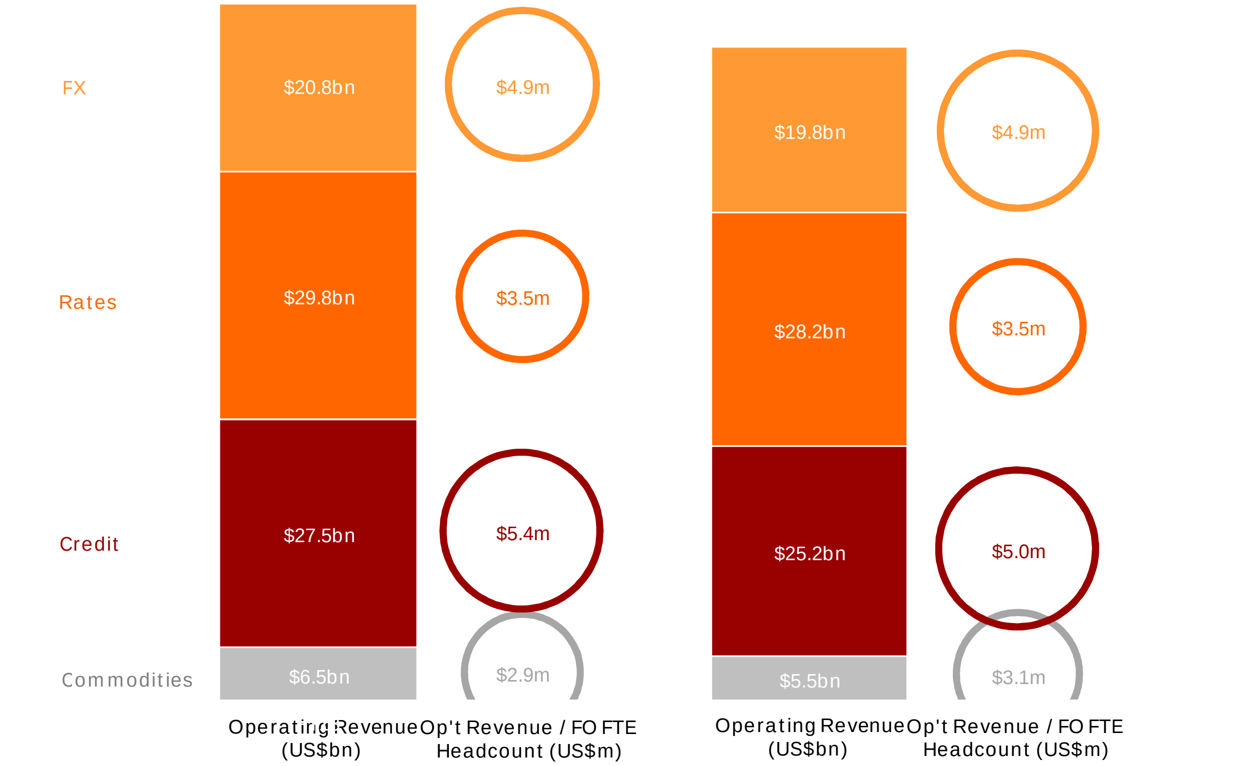


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

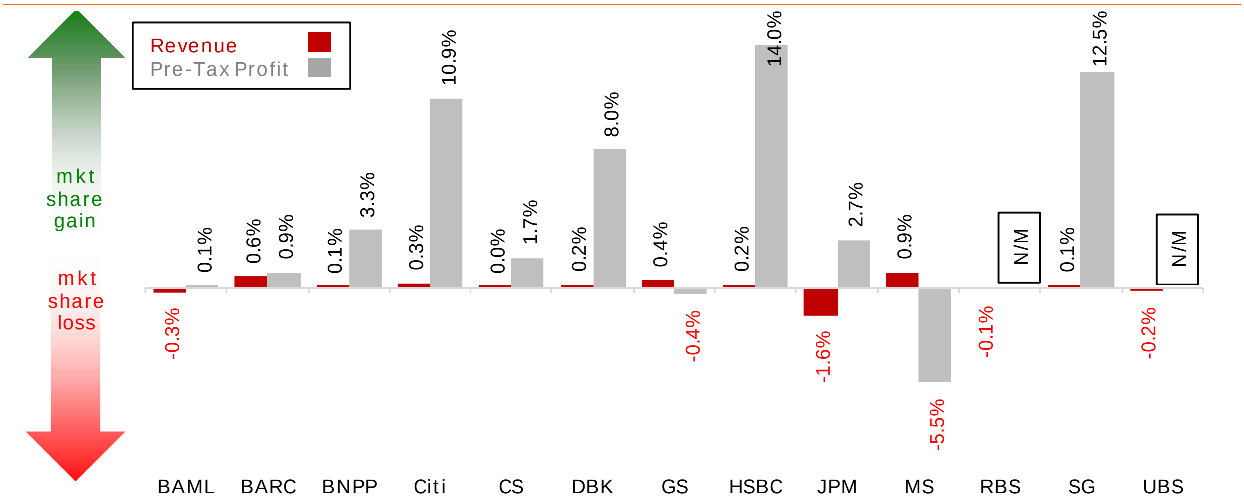
FICC

- The spot FX market soared in most currency pairs (though not in emerging markets – e.g. Latin America) as monetary policy diverged. FX Options benefited, as an investible asset and a hedge.
- In Rates, US term repo continued the rebound seen in 3Q14; by contrast, ECB's TLTRO programme continues to depress European repo. Having flatlined since mid-2013, swaps in the US and Europe enjoyed a stronger activity in 4Q14. Exotics declined as the US banks adjusted more actively to Basel 3. Yields on govts in key economies of Europe fell to record lows.
- In Credit, as 4Q14 progressed investors started to shift their focus from European to US high-grade corporate debt (in high yield, the opposite was the case). This shift led to banks charging sellers a premium in Europe (some ended up with difficult positions) and, conversely, offering better terms to investors in the US as demand and liquidity grew. Globally, client revenue in CDS declined to a year-low as a result of SEF trading increasing the liquidity in the cash market.
- Commodities revenue recovered somewhat in 4Q14 as investors took advantage of trending markets and corporates' appetite for hedging increased.

Operating Revenue (FY13) (FY14)



% change share of peer group operating revenue and pre-tax profit: (FY14 / FY13)



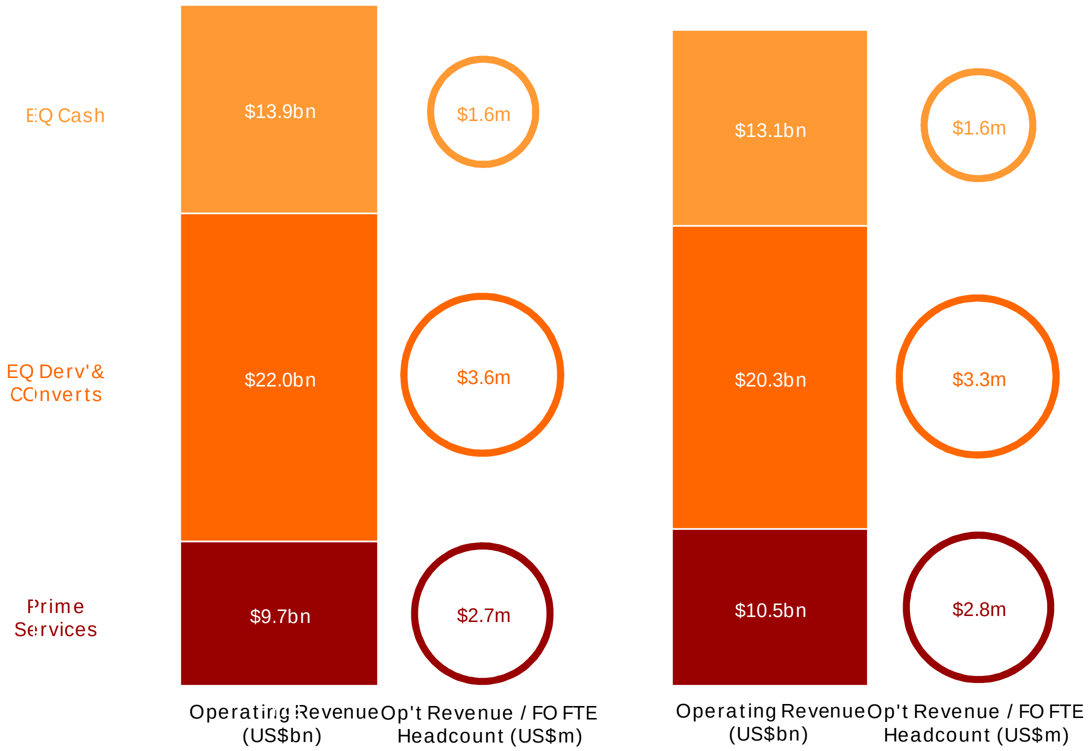
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

Equities

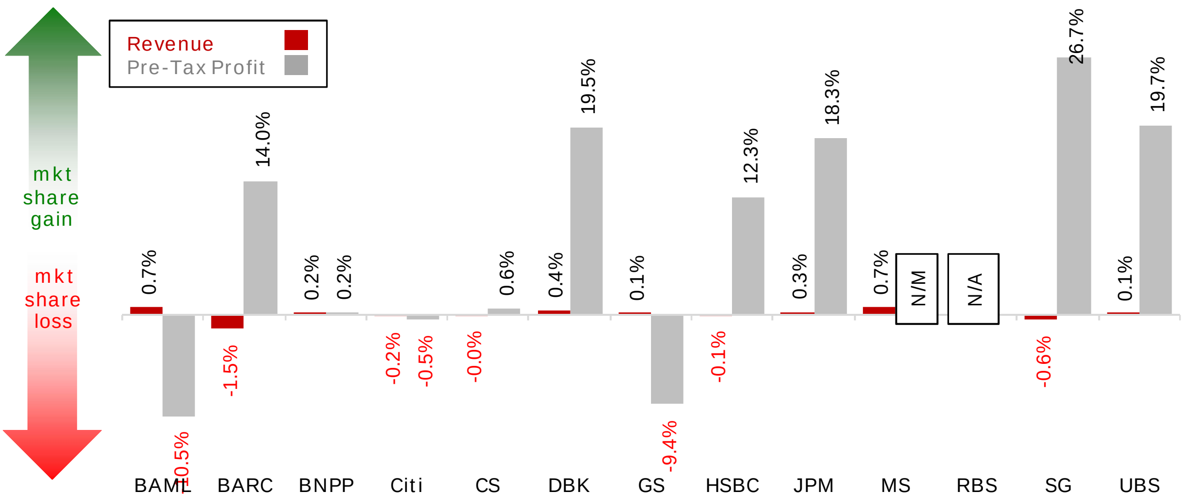
- The cash equities markets see-sawed in 4Q14. A strong October was followed by a weak(er) November and December in both the US and Europe, electronic and hi-touch markets; banks' margins grew. APAC – and especially Japan hi-touch - remains subdued.

  In Europe, ESMA and the EC proposed that the buy-side pay separately for brokers' research and trading (which both brokers and asset managers promptly described as 'unworkable'); and, under MiFID II, introducing trading caps on dark pools. Rather proactively, six global banks plan to establish a new European not-for-profit trading platform, Plato Partnership.
- Equity derivatives trading peaked in October as the market corrections in the cash equity markets led to a number of days of intense volatility. The flow markets also benefited as dealers slashed counterparty risk spreads. Structured products grew versus 3Q14 in all three regions.
- In prime services, US securities lending grew steadily, supported by record assets under management in hedge funds.

Operating Revenue (FY13) (FY14)



% change share of peer group operating revenue and pre-tax profit (FY14 / FY13)



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.

Revenue dynamics

FY14/FY13 (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	→	↓	↑	→	→	→	↑	↓	↓	↑	↓	↓	↓	-1%	-5%
Primary	↓	↓	↑	→	→	↓	→	↓	↓	↑	↓	↑	→	+7%	-1%
DCM Bonds	↓	→	→	→	↓	→	↓	↓	↓	↑	↓	↑	↑	+3%	-10%
DCM Loans	↓	↓	→	→	↓	↓	↑	→	→	↑	↓	↑	↓	+2%	-12%
Securitisation	→	↓	→	↓	→	↓	↓	↑	↓	→	↓	↑	↑	+15%	-2%
ECM	↓	→	↑	→	↓	↓	↓	↑	↓	→	N/M	↑	↓	+29%	+5%
M&A / Advisory	↓	→	→	↓	↓	→	↑	↓	↑	↑	N/M	↓	→	+20%	+9%
Secondary	↑	↓	→	↓	→	→	↑	→	↓	↑	↓	↓	↓	-4%	-8%
FX	→	→	→	↓	→	↓	↑	↓	↓	↑	↓	↑	↓	+1%	-7%
Rates	→	↓	↑	↓	↓	→	→	↑	↓	↑	↓	↓	↓	+1%	-14%
Credit	↓	↑	↓	↑	→	→	↓	N/M	↓	↑	↓	→	N/M	-1%	-18%
Commodities	↑	↓	→	↑	↓	↓	↑	→	↓	↓	N/M	→	↓	-4%	-37%
EQ Cash	→	↓	↑	↓	↓	↓	↓	↓	↑	→	N/M	↑	→	+6%	-16%
EQ Derv & Converts	↑	↓	→	→	→	↑	↓	↑	↓	↓	N/M	↓	↓	+1%	-10%
Prime Services	→	↓	↓	↓	→	↑	↑	↓	↓	↑	N/M	↓	→	+10%	+3%
Prop Trading	N/M	↓	↓	→	↑	N/M	↑	→	↓	N/M	N/M	↓	N/M	+8%	-12%
Principal Investments	N/M	N/M	N/M	N/M	→	↓	→	↑	N/M	↓	N/M	N/M	N/M	-5%	-66%

4Q14/4Q13 (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%	-13%
Primary	↓	→	→	→	↓	↑	↓	↓	↑	→	↓	↑	↓	-5%	-14%
DCM Bonds	↑	↓	→	→	↓	↑	↓	↓	↑	→	↓	→	↓	+8%	-56%
DCM Loans	↓	↑	↓	→	→	→	↓	↓	↑	↓	↓	↑	→	-10%	-33%
Securitisation	↑	↓	↑	→	↑	→	↓	→	↓	↓	↓	↓	↓	+4%	-10%
ECM	↓	↑	→	↓	↓	↓	↓	→	↓	→	N/M	↑	↑	-4%	-26%
M&A / Advisory	↓	↑	↓	↓	→	↑	↑	↓	↓	→	N/M	↓	→	+16%	-0%
Secondary	↓	↑	↓	→	↓	→	↓	→	↓	↑	↓	↑	→	+1%	-14%
FX	→	↓	↑	↓	↓	↓	→	↑	↓	→	↓	↑	→	+19%	-4%
Rates	→	↓	↑	↓	↑	→	↓	→	↓	↑	↓	↓	→	+54%	-15%
Credit	↓	↑	N/M	↑	↓	→	↓	↑	↓	→	N/M	↑	↓	-8%	-57%
Commodities	↓	→	N/M	↑	→	↓	↑	↓	→	↓	N/M	→	↓	+2%	-21%
EQ Cash	↑	↓	↓	↓	→	↓	↑	↓	↑	↓	N/M	→	→	+5%	-7%
EQ Derv & Converts	→	↓	↓	↓	→	↑	↓	→	↑	↓	N/M	↓	↑	+11%	-3%
Prime Services	→	↓	↓	→	↑	↓	→	↓	↑	↑	N/M	↓	↓	+8%	-0%
Prop Trading	N/M	↓	↓	↑	→	N/M	↓	↑	→	N/M	N/M	↓	N/M	+7%	-9%
Principal Investments	N/M	N/M	N/M	N/M	→	N/M	↑	↓	N/M	↓	N/M	N/M	N/M	-45%	-65%

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.

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 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.

Notes & Caveats

Tricumen Limited has used all reasonable care in writing, editing and presenting the information found in this report. All reasonable effort has been made to ensure the information supplied is accurate and not misleading. For the purposes of cross- market comparison, all numerical data is normalised in accordance to Tricumen Limited's proprietary product classification. Fully-researched dataset may contain margin of error of 10%; for modelled datasets, this margin may be wider.

The information and commentary provided in this report has been compiled for informational purposes only. We recommend that independent advice and enquiries should be sought before acting upon it. Readers should not rely on this information for legal, accounting, investment, or similar purposes. No part of this report constitutes investment advice, any form of recommendation, or a solicitation to buy or sell any instrument or to engage in any trading or investment activity or strategy. Tricumen Limited does not provide investment advice or personal recommendation nor will it be deemed to have done so.

Tricumen Limited makes no representation, guarantee or warranty as to the suitability, accuracy or completeness of the report or the information therein. Tricumen Limited assumes no responsibility for information contained in this report and disclaims all liability arising from negligence or otherwise in respect of such information.

Tricumen Limited is not liable for any damages arising in contract, tort or otherwise from the use of or inability to use this report or any material contained in it, or from any action or decision taken as a result of using the report.