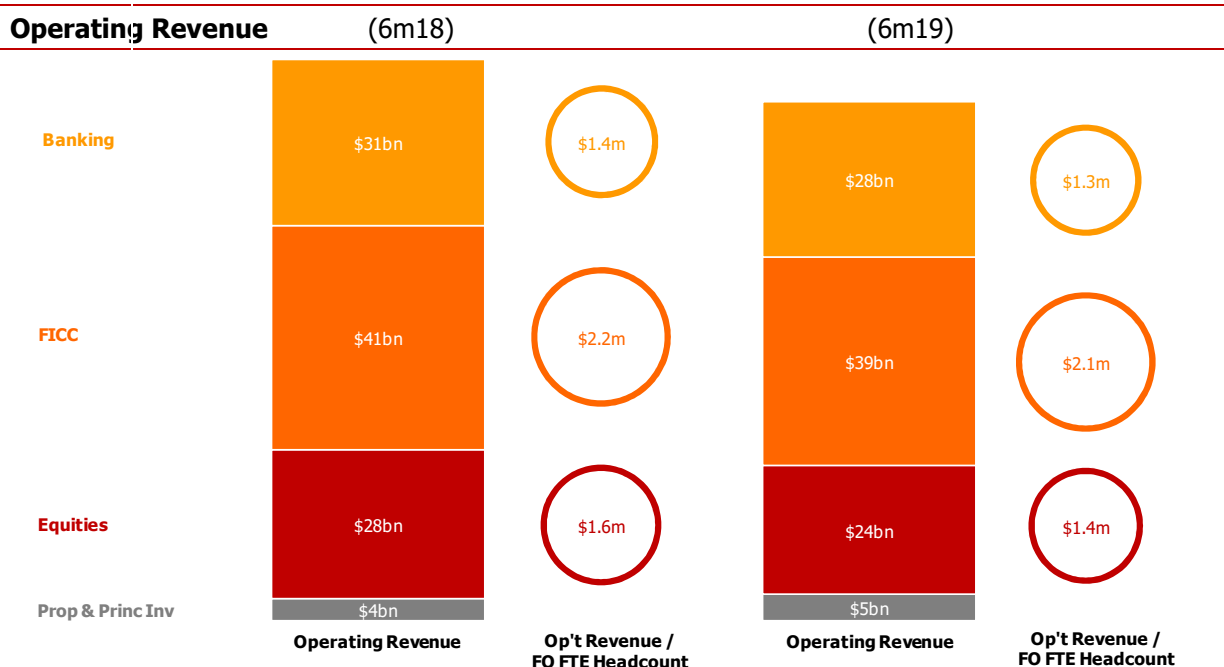


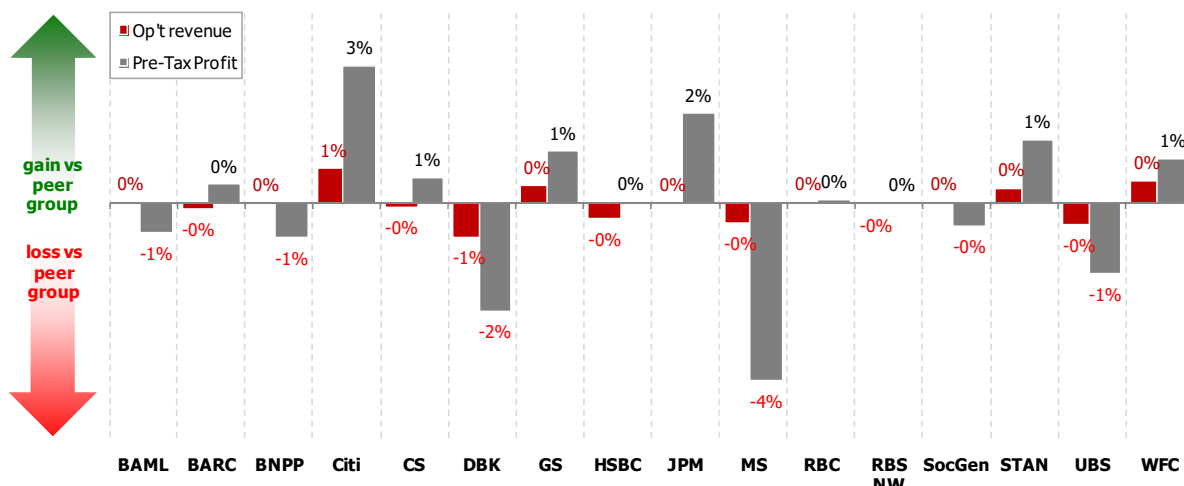
Results Review 2Q19 / 6m19

Capital Markets: Overview

- The aggregate 6m19 operating revenue of banks in this report totalled \$96bn, 8% below 6m18 mostly due to weak Equities revenue – and pre-tax profit dropped 14%. US banks outperformed their EMEA peers across the board, except in FICC profitability, which benefitted from cost-cutting.
- The final version of the Volcker Rule – which applies from 1-Jan-21 - eases restrictions on prop trading and investing in private equity and hedge funds. Banks with consolidated trading assets and liabilities of \$20bn will be subject to six-pillar compliance and annual CEO attestation. Mid-size banks are now subject to simplified compliance (importantly, <\$10bn banks can immediately invest in PE and HFs); and <\$1bn banks are 'presumed compliant'. Also, the new Rule exempts certain trades for underwriting, market-making, hedging and trading by foreign banks outside the US. These amendments won't make much difference to trading behaviour (or revenue) of 'our' banks, but they will ease the burden of compliance and make PE/HF investments easier – and that's good.
- In May-19, in preparation for a no-deal Brexit, several major banks moved some of their swaps from London to Frankfurt; the current intention is to repeat the exercise at regular intervals. So far, though, the volume of business flowing through banks' UK arms has not declined much, implying that banks are ready for 'hard' Brexit and/or that they don't believe Brexit will happen.



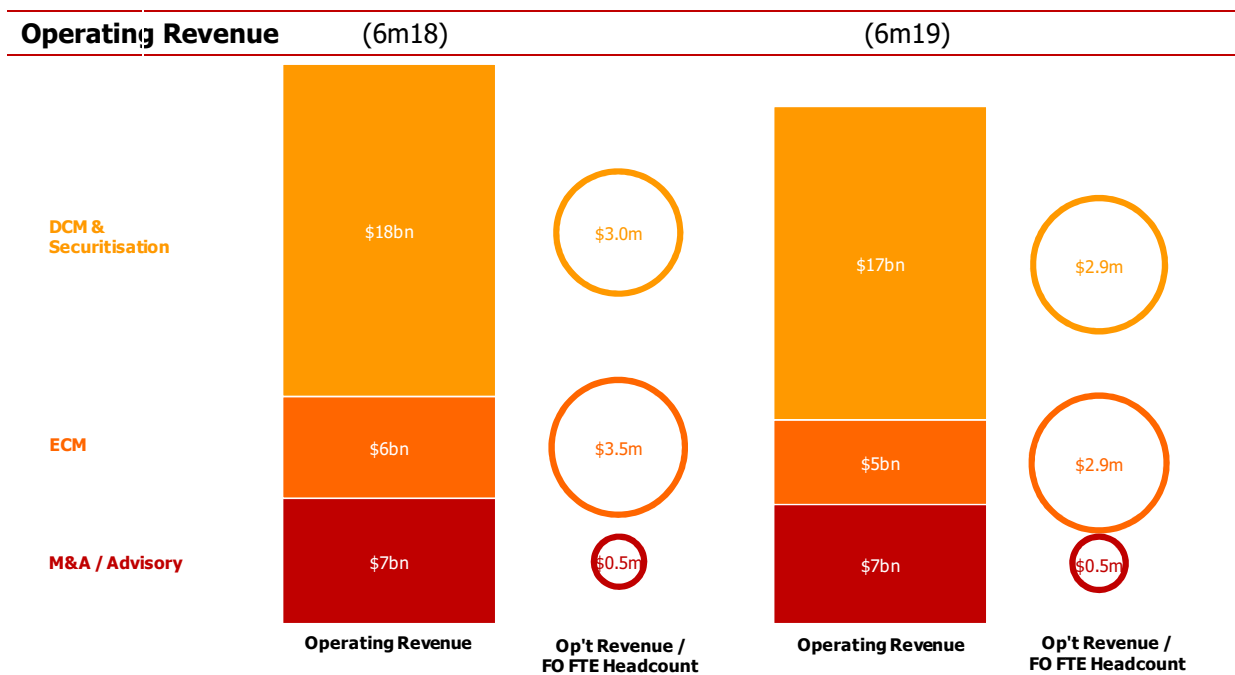
% change share of peer group operating revenue and pre-tax profit (6m19 / 6m18)



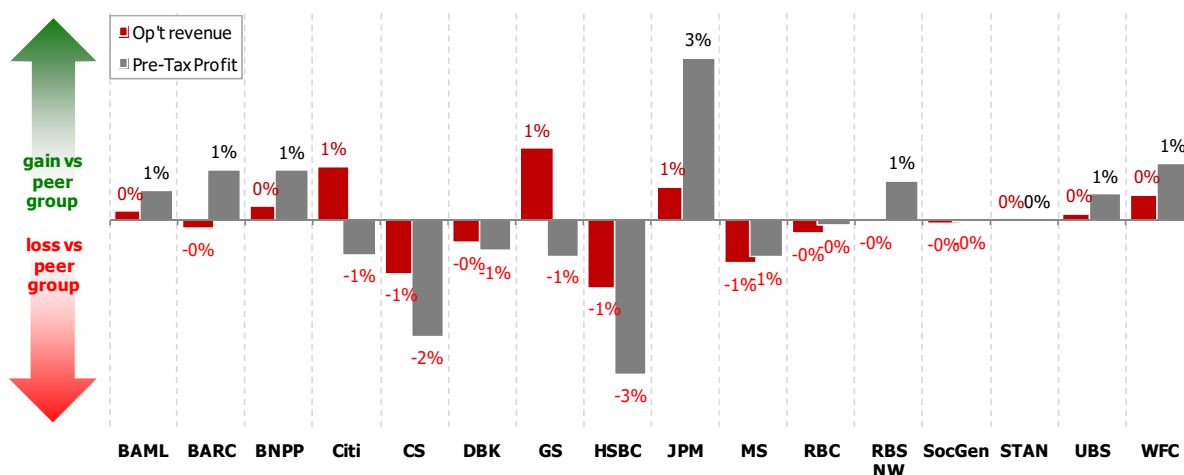
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments..

Capital Markets (cont.): Banking

- Global DCM debt issuance declined 15% sequentially, making the 2Q19 one of the slowest in recent years. This was largely due to weak investment grade corporate market, especially in the US. By contrast – and worryingly, in our view - global high yield issuance surged 20% y/y to hit the 2-year record in 1H19.
- ECM activity in 2Q19 grew strongly q/q: global IPO proceeds almost tripled – despite *very* weak European markets - and converts surged. Still, 1H19 remains one of the weakest half-year periods in recent years. The long-term outlook is not particularly bright: the success of recent direct listings – which don't need banks' underwriting – contrasts with high-profile post-IPO flops, suggesting that (early) private investors benefit substantially more than public.
- M&A/Advisory grew strongly in 2Q19, largely due to a strong US market and mega-deal volumes. By contrast, Europe and APAC – including Japan – plumbed multi-year lows in 1H19. Private equity volumes boomed in the same period, to the post-Crisis record.



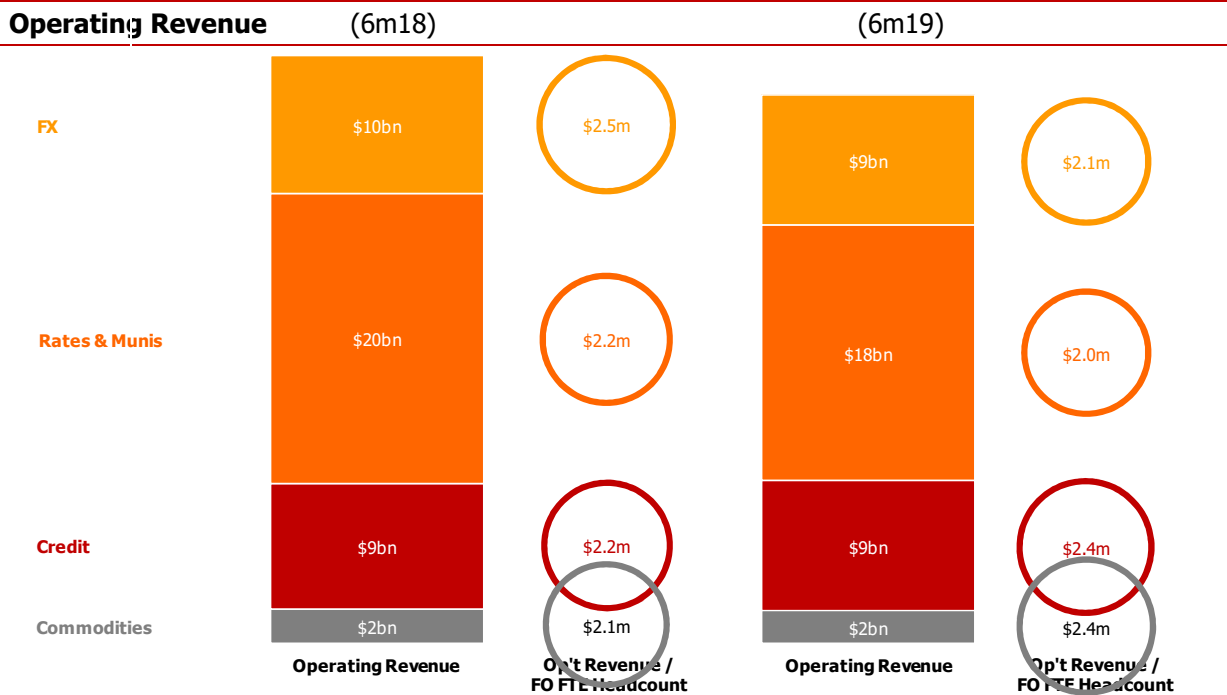
% change share of peer group operating revenue and pre-tax profit (6m19 / 6m18)



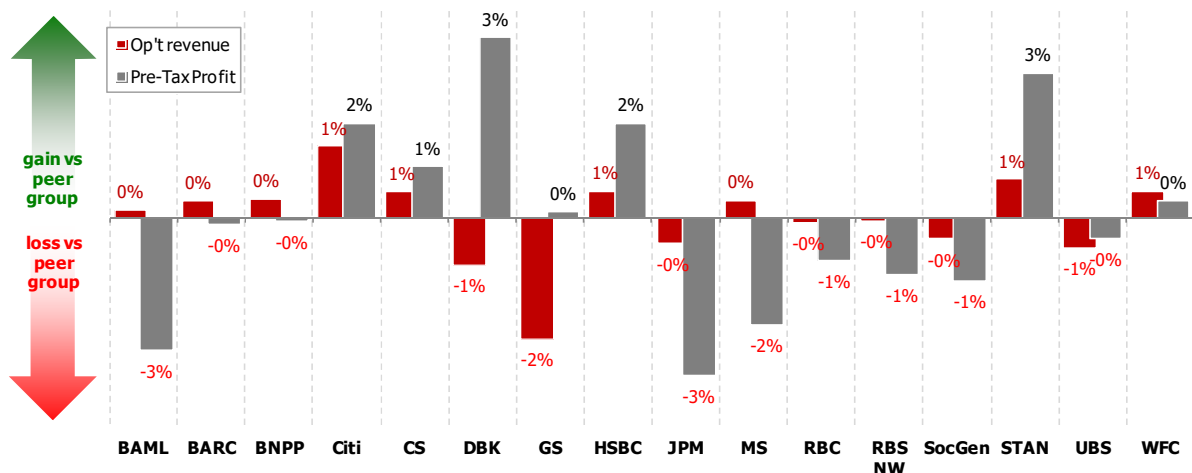
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority.

Capital Markets (cont.): FICC

- FX markets dropped vs 2Q18, hampered by the same adverse trends seen in 1Q19 - above all, low volatility. Generally, spot markets were weaker than forwards. Interestingly, markets seem too calm regarding the swings that sterling (the value of which is of very direct interest to us) could be subjected to in the coming months: despite a rise during the summer, CBOE's volatility index remains well below Nov-18 and Mar-19 peaks. There could be serious winners and losers among 'our' banks. In the UK, a US-style class-action lawsuit, worth c.\$1.3bn (similar to the fine levied by the EU in May-19), is underway against several global banks for alleged rigging of the FX markets.
- There was no recovery in Rates, either: most banks saw their revenue fall y/y in 1H19, especially in exotics and term repo. Brexit: in June-19, Tradition launched its new D2C Clob in Paris – rather than London. Goldman Sachs' flagship muni fund beat a hasty retreat from high-yield munis during 1H19, expecting 'buying opportunities' – i.e. a drop from inflated valuations – in 2019/20.
- In US Credit, healthy HG volumes were partly offset by weaker HY. Europe, however, did well, under the circumstances. The most interesting development of 2Q19 was GTS's entry into the US corporate bond market: only 1/4 of trading is electronic and GTS seems determined to change this.
- In commodities, banks with strong oil and P&G ops (especially in the US) outperformed. The 3Q19 started strongly in Europe: EEX had a 55% y/y surge in power volumes in July, driven by France, Germany, CEE. In the US, expectations of a rate cut pushed the price of gold to a 6-year high.



% change share of peer group operating revenue and pre-tax profit: (6m19 / 6m18)



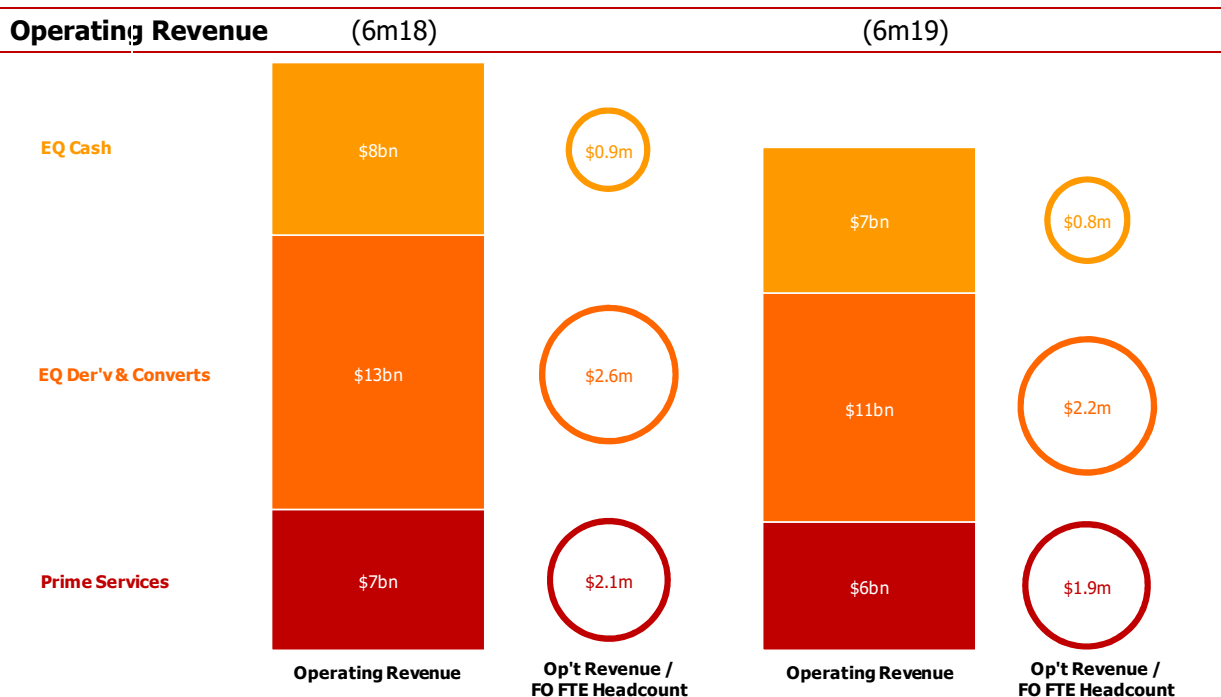
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

Capital Markets (cont.): Equities

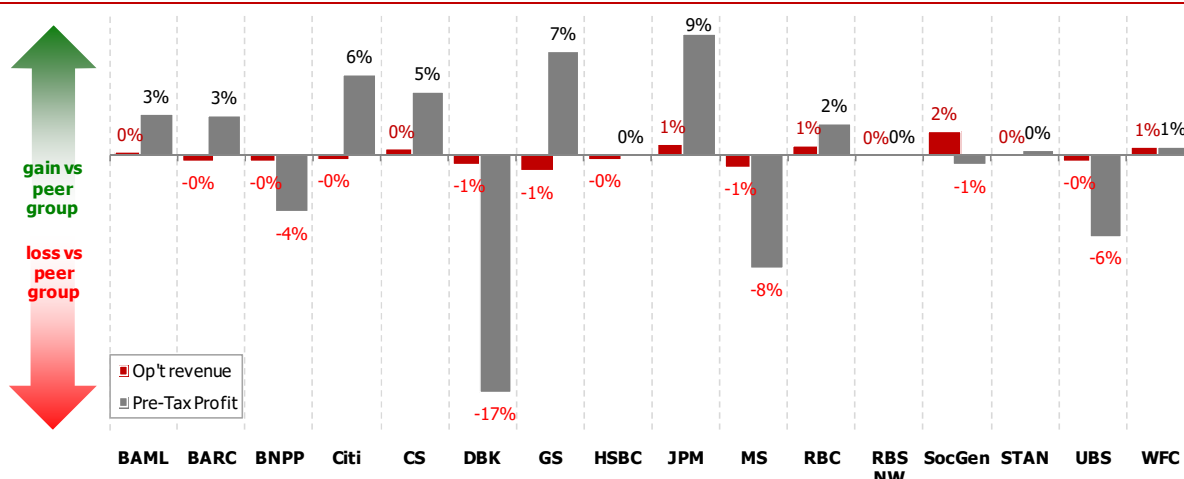
- Despite a few bright spots – e.g. corporate derivatives, electronic trading, financing (at a couple of banks) - global equity revenue weakened in all three main areas in 6m19/6m18, especially in EMEA. However, costs did not change much and, as a result, year-to-date aggregate profits plunged, particularly at EMEA banks.

The aggregate front office headcount declined by only 4% y/y. However, several banks have embarked on sizeable redundancy programmes, the result of which will become apparent before the end of this year.

- In Europe, investors' interest in futures surged in late 2Q19. In view of a 1H19/1H18 drop in cash equity volumes on main European exchanges (except in dark pools, which reached the highest level since the implementation of MiFID 2), this suggests investors' are expecting a fall in valuations, after the 1H19. Either way, the outlook for cash equities players is dire: a sizeable cut in the buy-side' commissions pool in recent years was primarily driven by the rise of passive investing and MiFID 2, and neither trend is likely to disappear in the next couple of years.
- Hedge funds' AuM stabilised in 2Q19. However, this was a reflection of the industry's positive performance in 1H19, rather than inflows of investors' money: outflows continue (primarily from European funds; long/short equities; managed futures; and multi-strategy) albeit at a reduced pace. In 2Q19, the main prime brokers extended their lead over smaller peers.



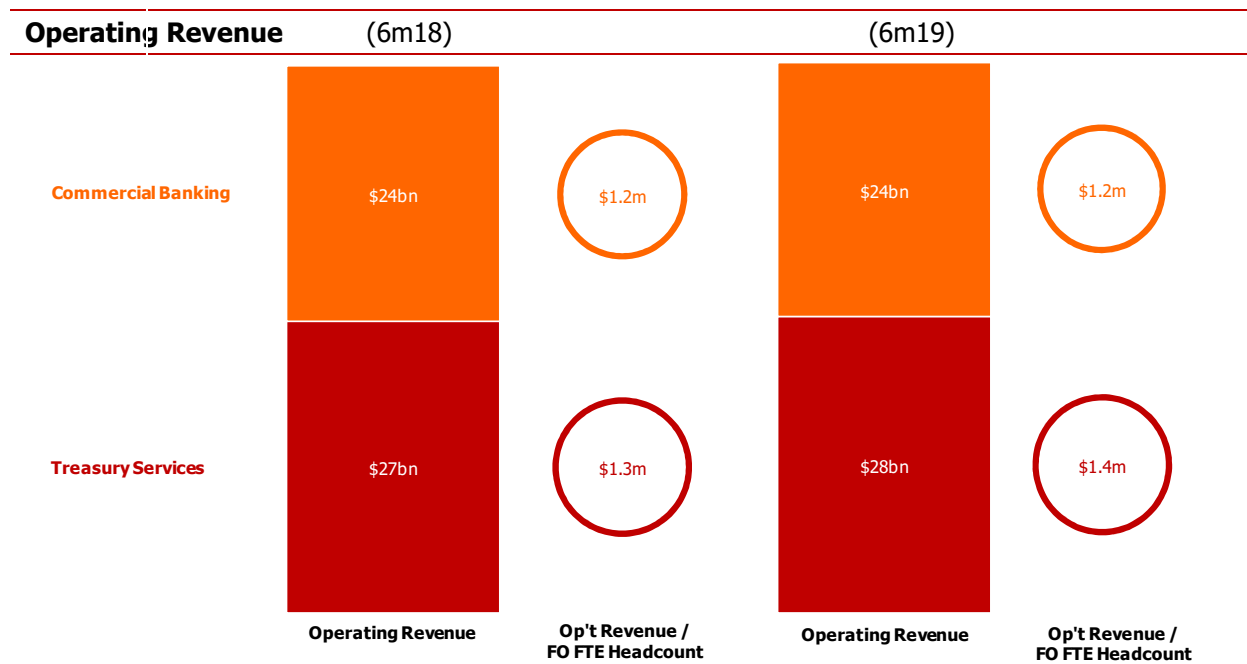
% change share of peer group operating revenue and pre-tax profit (6m19 / 6m18)



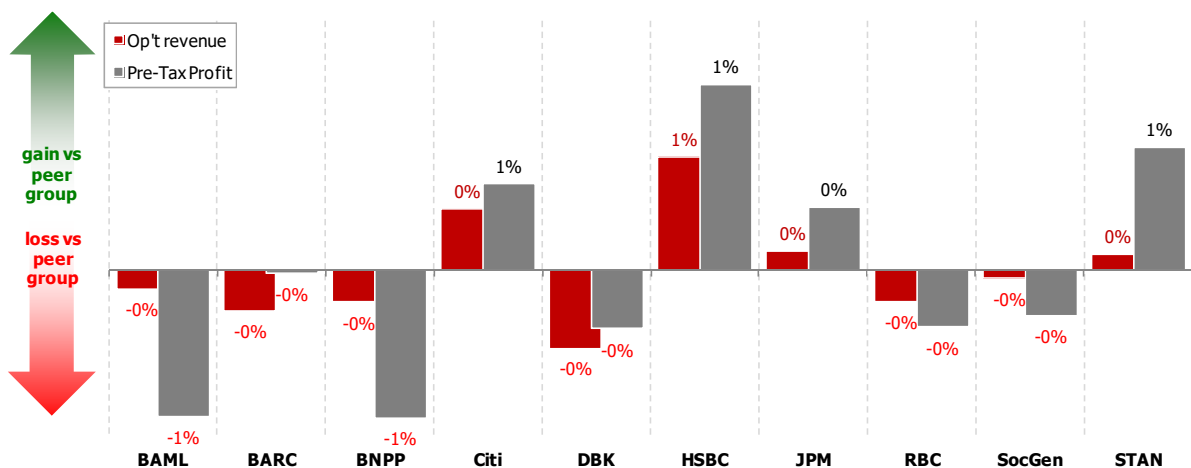
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

Commercial Banking & Treasury Services

- After a brief pause in Mar/Apr-19, commercial lending in the US and large EU economies continued a steady – if *very* slow - growth in 2Q19. Margin pressures, however, intensified in the USA, the EU and APAC – especially in the LME sector - and several of 'our' banks reported higher hedging costs.
- In transaction banking, 1H19 payment volumes grew 5%, led by Americas and APAC.
The pressure from new entrants – e.g. trade networks - grows. Payment services, FX, liquidity pools and trade and supply chains – all core transaction businesses – are generally seen as the most threatened in the near term. A smaller - but growing – threat comes from private banks' DAC services – see overleaf.
- Trade finance volumes declined modestly versus 1H18.



% change share of peer group operating revenue and pre-tax profit (6m19 / 6m18)

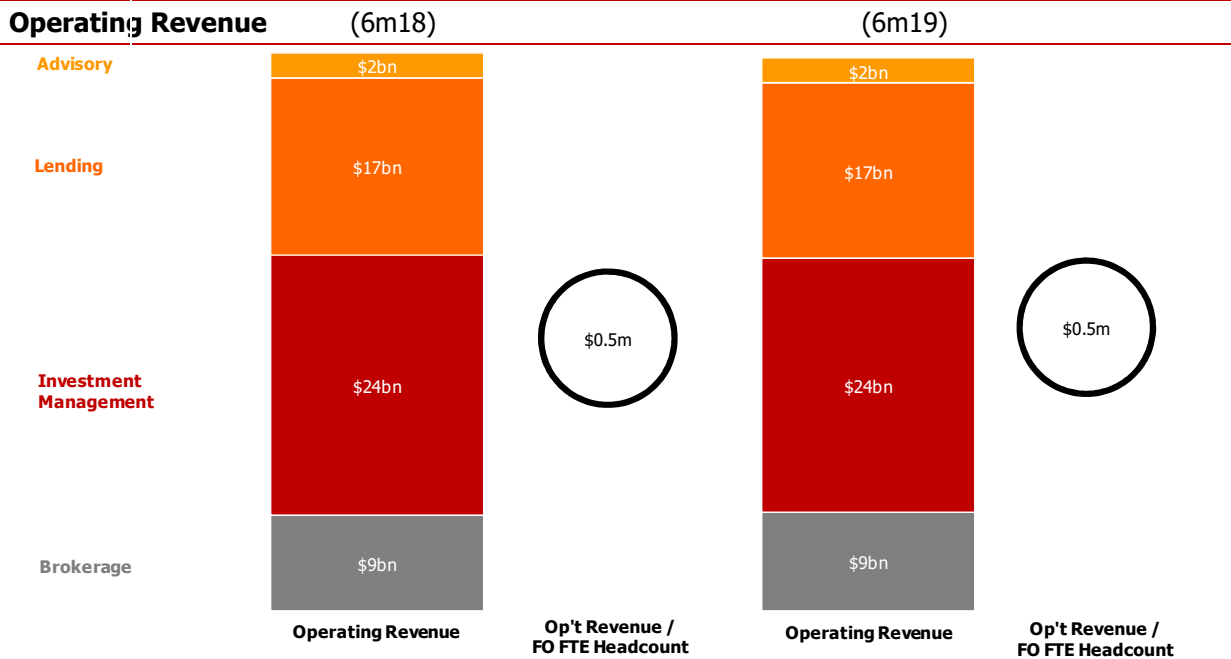


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) In-scope: Large Cap/MNC and Mid-Cap/SMEs.

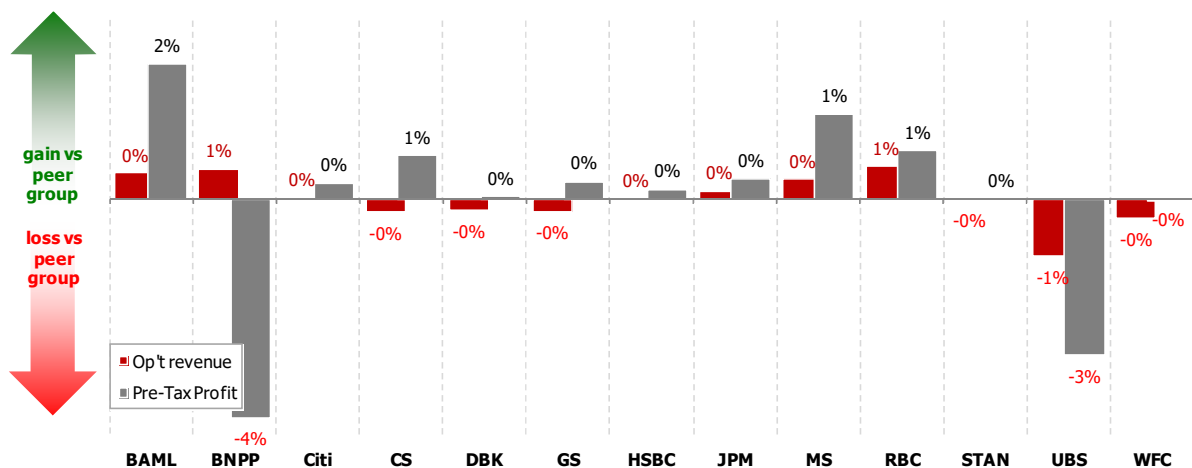
Wealth Management

New arrival: Goldman Sachs

- The aggregate 1H19 pre-tax profit for the 13 banks featured here was slightly below 1H18. However, there was a visible divergence between EMEA and AMER banks: the latter grew profits by 4% y/y while their European counterparts saw their combined profits drop 17%.
- In most markets, clients continued shifting money from funds (especially equities) into cash, pressuring banks' margins. Weak net interest income and transaction revenues are pushing banks to other activities: advisory (in few select cases) and, more significantly, lending. Goldman Sachs, Morgan Stanley and BAML are all looking to (continue to) grow their lending portfolio with big numbers, and DBK recently started offering loans for high-end homes in London - without collateral. The main attraction of the lending business is that it is 'sticky', especially with hard-to-value loans; and, importantly, banks in this report have *very* low loan loss rate.
- Several US banks are moving into large European markets.
- Direct Access (DAC) services are rapidly gaining ground, particularly in APAC. DACs offer services very similar to 'traditional' Treasury - hedging, cash management and financing – and their main clients are family offices, which are frequently led by a person/team with Treasury backgrounds. For the moment, FX services appear to be the most popular, with several banks reporting double-digit y/y growth; but there is little doubt other products and services will grow, and soon.



% change share of peer group operating revenue and pre-tax profit (6m19 / 6m18)



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

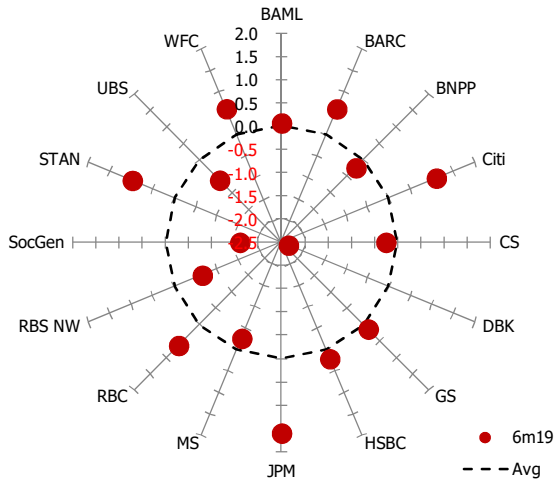
6m19/6m18 (Operating revenue, % change, US\$, Global Level 1)

	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	↘	↘	↗	↘	↓	↓	↓	↘	↘	↘	↘	↘	↘	↘	↓	↘

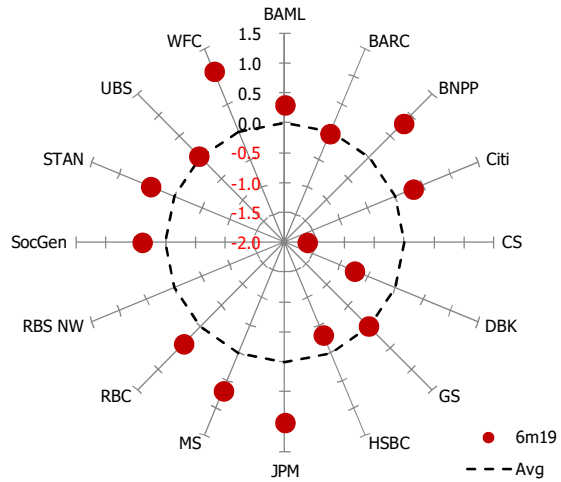
Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. (3) Operating revenue is post-writedowns, excludes DVA/equivalent and one-offs. (4) Commercial/Transaction Banking includes Large Cap/MNC and Mid-Cap/SMEs.

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

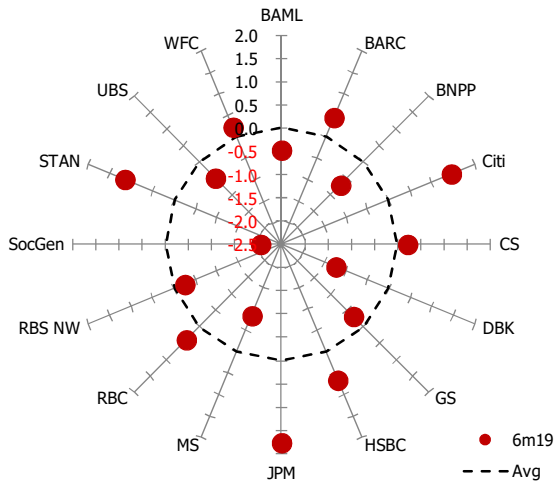
Capital Markets



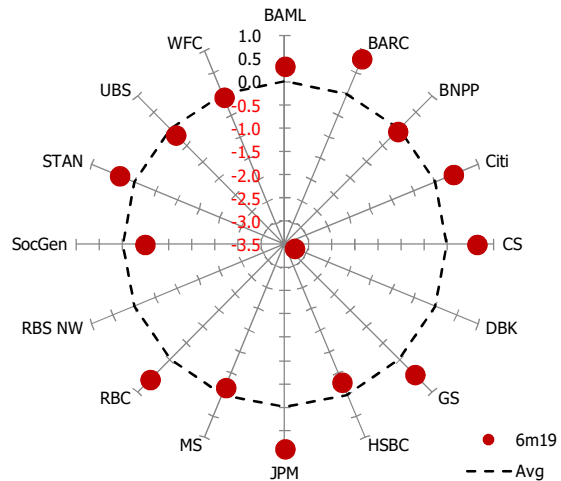
Banking



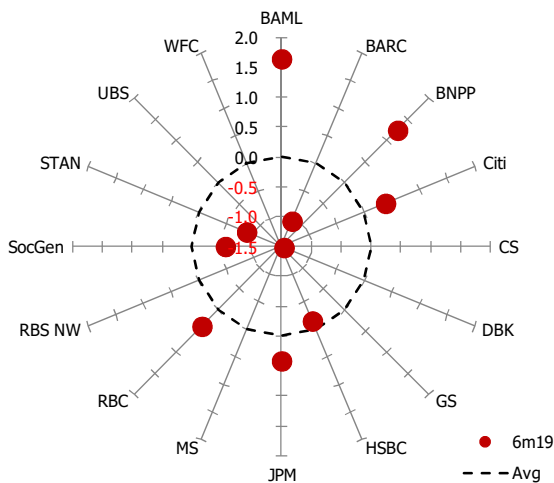
FICC



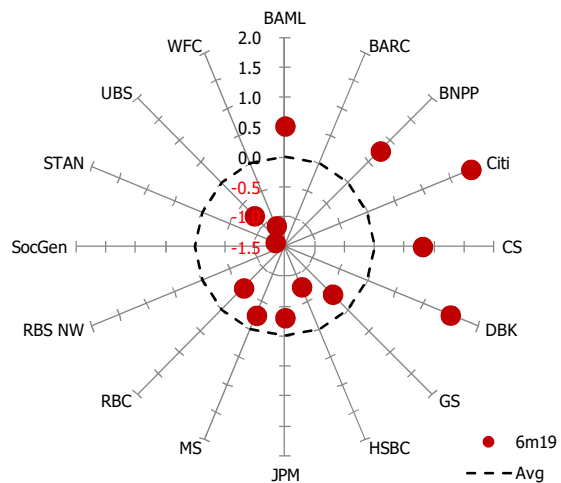
Equities



Commercial Banking / Treasury Services



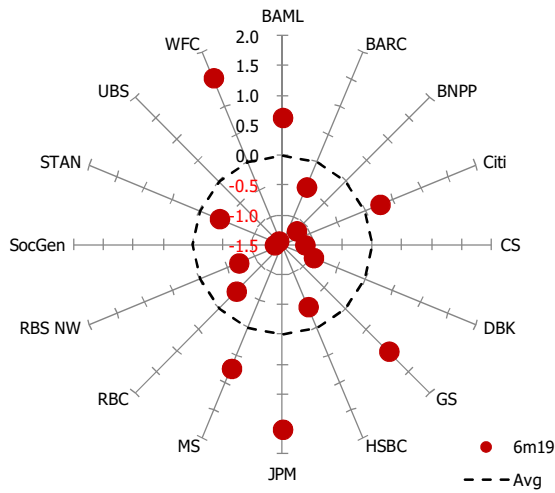
Wealth Management



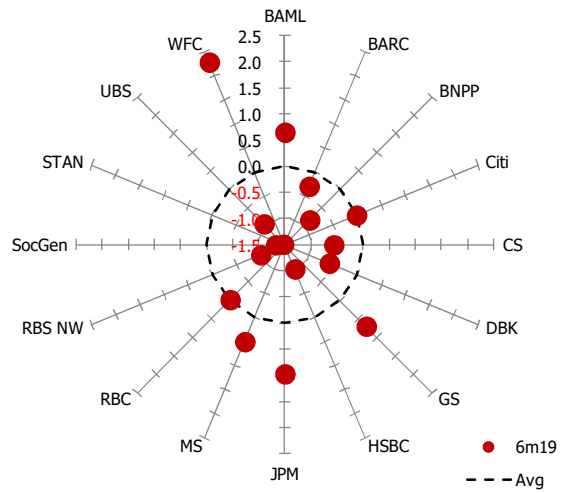
Source: Tricumen. Notes: (1) TRIC product definitions, standard deviation, product Level 1; (2) Operating expenses exclude one-off non-operational items, insurance-related benefits & claims, and credit expense/recovery/NPL provisions. Capital expenditure is included as accrued. Litigation expense is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

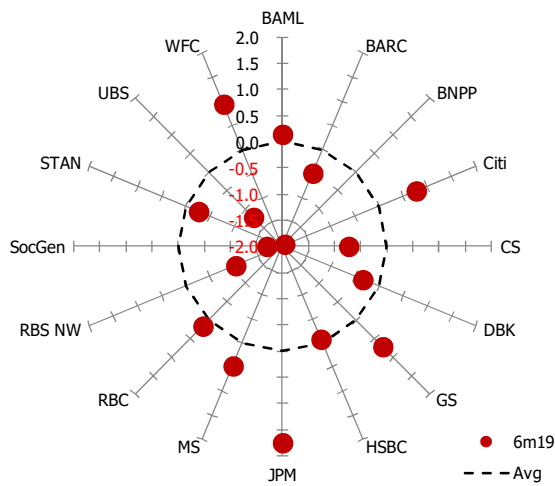
Capital Markets



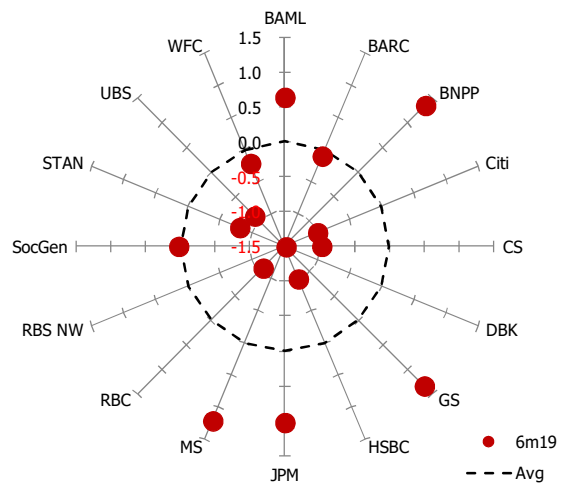
Banking



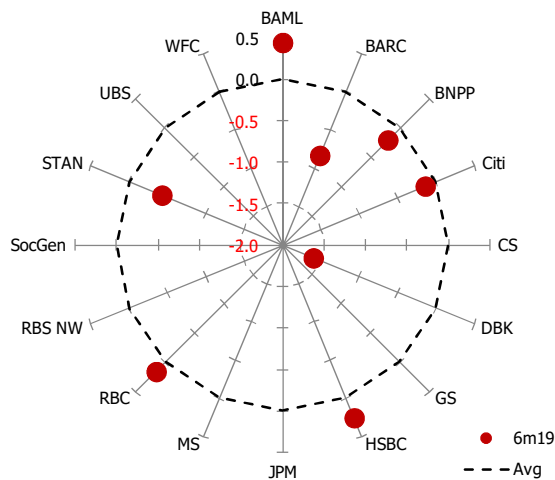
FICC



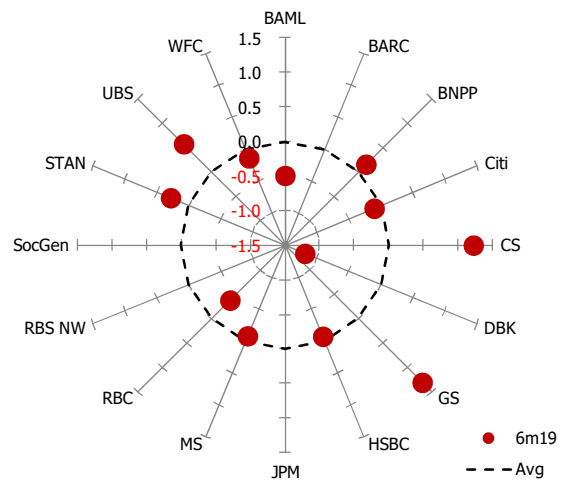
Equities



Commercial Banking / Treasury Services



Wealth Management



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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