

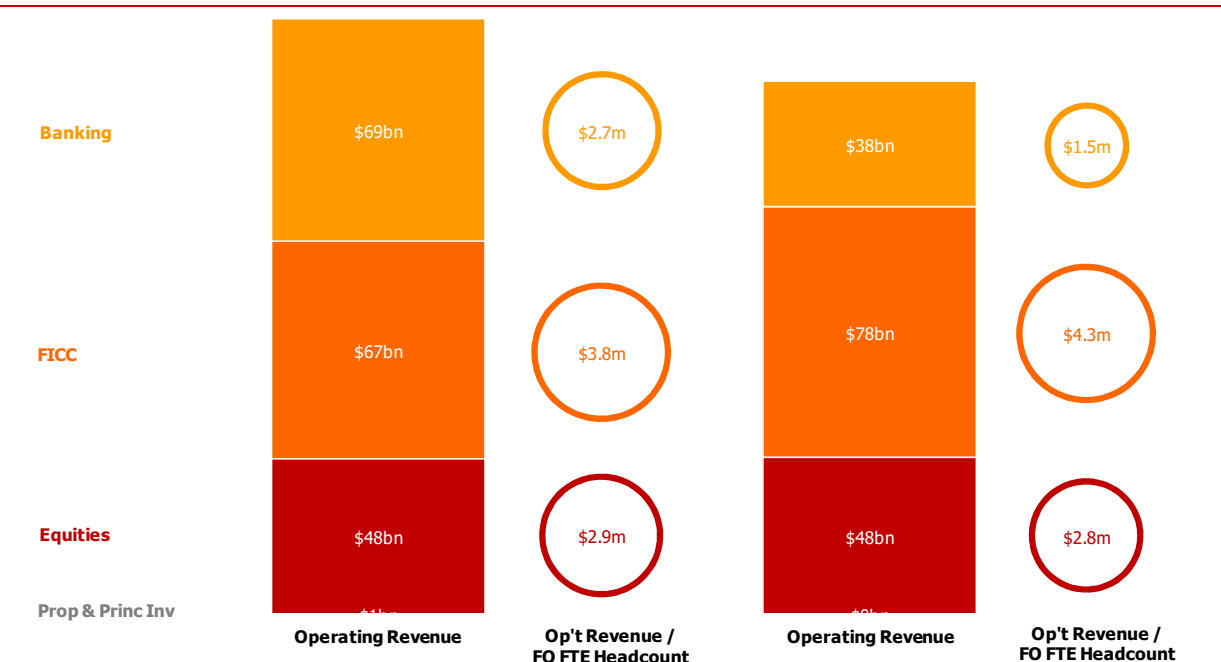
Results Review 3Q22 / 9m22

Capital Markets: Overview

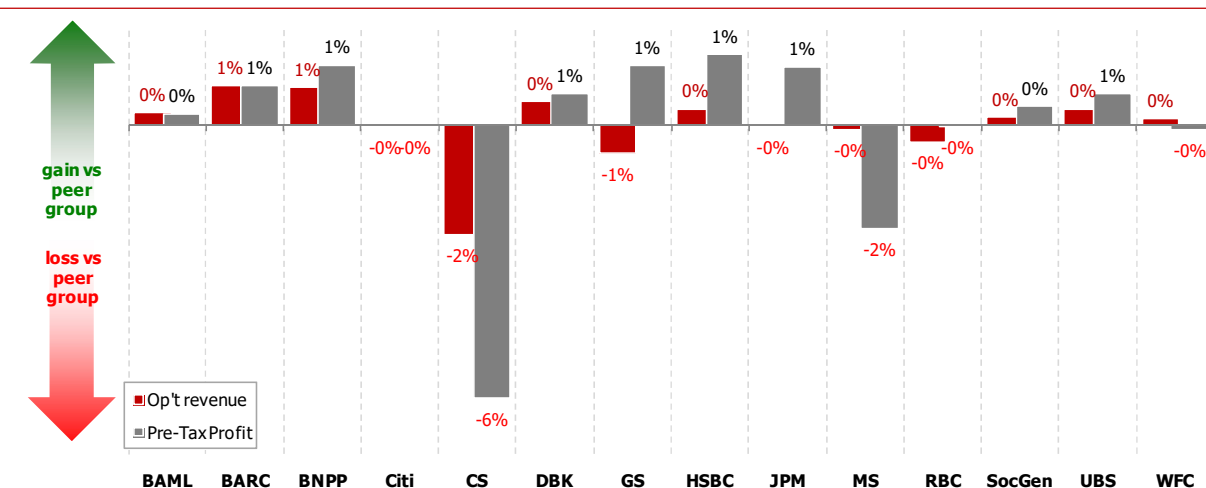
- In difficult markets, banks' earnings remained weak – weaker, in fact, than was the case in 1H22. In 9m22, the 14 banks in this note reported operating revenue of \$154bn, 16% below the prior-year period. Revenue in 3Q22 totalled \$46bn, 21% down y/y. Primary/issuance fees halved vs 9m21 and 3Q21 and Equities revenue dipped 7% vs 9m21. FICC, however, advanced, as strong macro revenue more than offset weakness in spread products.
- Banks' reduced their cost base by 11% overall, to \$95bn in 9m22. Banking bore the brunt of these initiatives, but Equities and FICC also saw reductions. There were no large-scale redundancies so far, several banks are ready to 'rightsized' and severely reduce bonuses.
- The peer group's pre-tax profit declined 41% y/y in 3Q22 and by 24% y/y in 9m22.

Revenue & productivity (9m21)

(9m22)



% change share of peer group operating revenue and pre-tax profit (9m22 / 9m21)



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

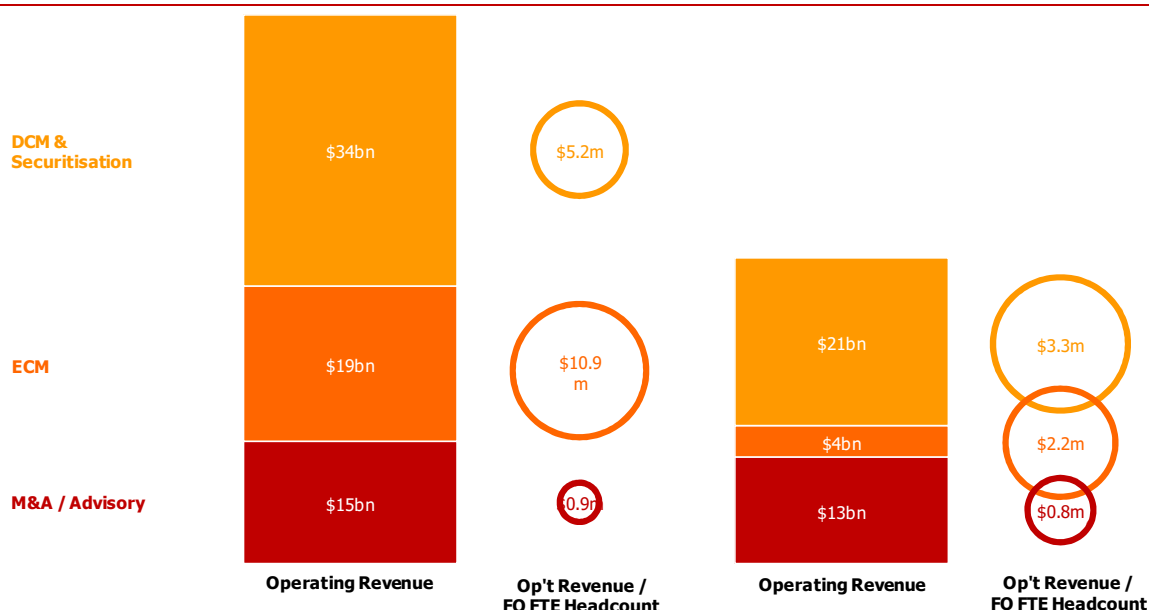
- In 3Q22, global DCM bond and loan fees declined 40% and 20% y/y, respectively. Investors favoured high-grade issues; by contrast, high yield loans dropped 80% 9m22/9m21, and emerging markets – with exception of APAC ex-Japan – also suffered sharp falls as their economic outlook worsened.

In 2Q22, banks in this report wrote down \$1.2bn in leveraged and bridge loans (the global figure was c.\$2bn), well below the consensus forecast. Contrary to expectations, 3Q22 also produced no significant blow-ups; these banks reported \$0.8bn of MtM losses on leveraged portfolios. However, there is little optimism in the industry regarding the outlook: several recent deals could translate into sizeable losses for underwriters and institutional investors don't expect banks to start financing debt for LBOs before late 4Q22/early 1Q23.

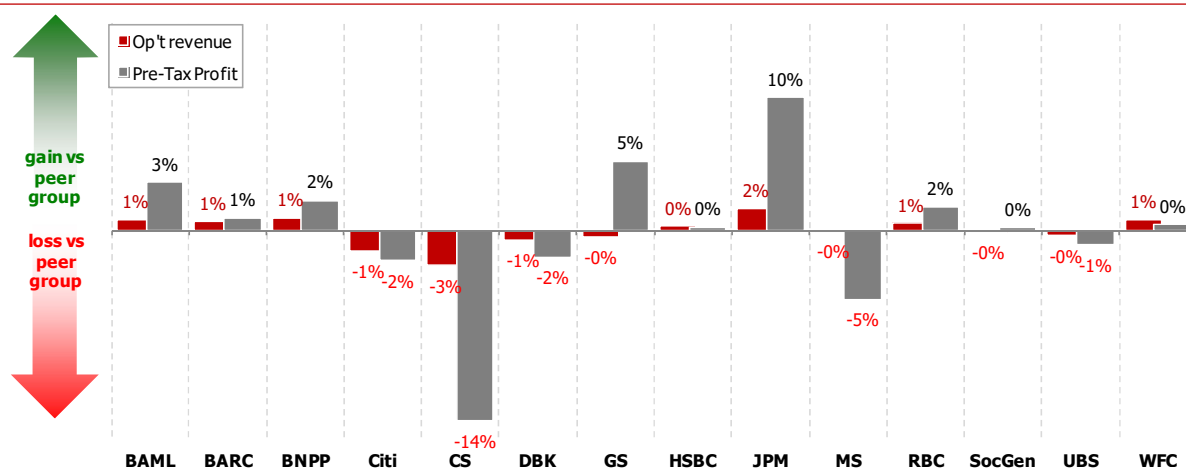
- The decline in ECM fees and volumes almost matched a sharp drop seen in 1H22. IPOs (including SPACs) declined the most, followed by APOs. APAC outperformed both EMEA and AMER. Private capital markets in Europe held up well – below the record 2021, but well ahead of 2020.
- A 60% y/y drop in 3Q22 M&A volumes was driven by fears of recession, rising interest rates and the freeze in deal financing. On a more positive note, banks were, to a degree, able to increase their pricing. Top competitors registered a sharper drop in fees than boutiques. Media and real estate suffered the steepest decline.

Revenue & productivity (9m21)

(9m22)



% change share of peer group operating revenue and pre-tax profit (9m22 / 9m21)



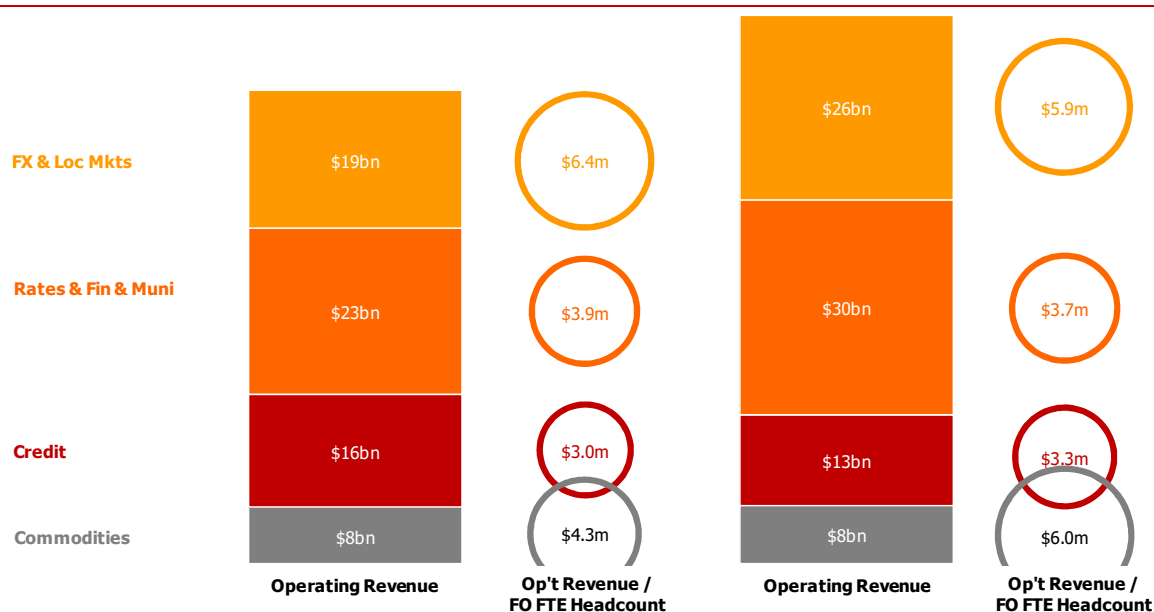
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority.

Capital Markets (cont.): **FICC**

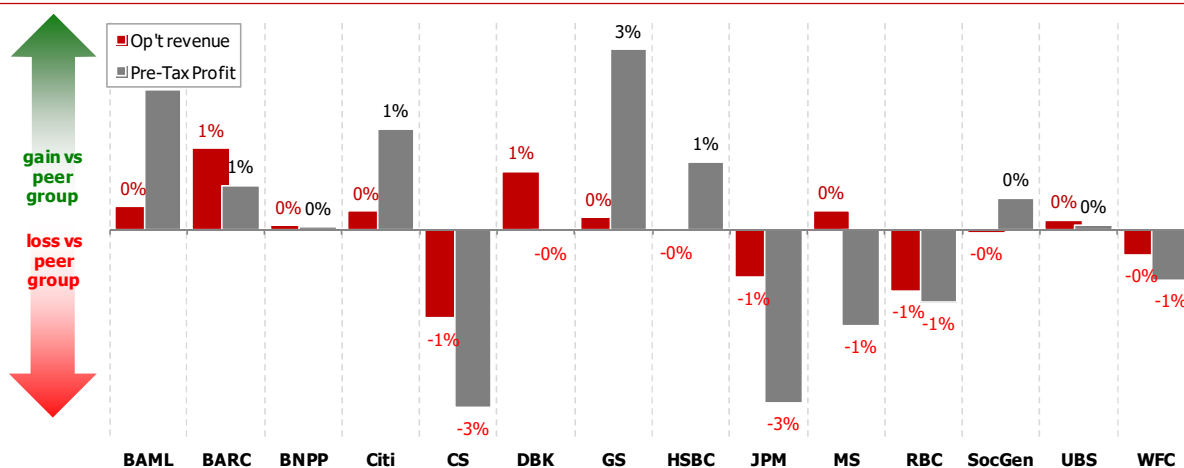
- Prompted by the Fed's rate hikes, US investors are choosing money markets and ultra-short bonds. By the end of September, total holdings – now producing decent *and* low-risk returns – jumped to c.\$5tn and cash ETF posted inflows of c.\$36bn.
- FX spot and options benefitted from high volatility and trading volumes (especially institutional) as clients reconsidered their hedging programmes. In emerging markets, Sberbank started to lend in Chinese yuan; VTB (which already made yuan transfers to China outside of SWIFT) will follow suit, probably in 4Q22.
- In rates products, inflation bond trading advanced strongly; as did – to a lesser degree - swaps and financing. Rising costs for issuers, rising interest rates, the amount of underutilised Covid-19 stimulus financing, and availability of bank financing all caused a slump in the sales of muni bonds. European govie volumes jumped in September, driven by higher rates and record activity in gilts.
- In spreads, banks suffered MtM losses on mortgage inventories, diminished demand for structured product and a slowdown in securitization. Leveraged markets remains key uncertainty: if they cannot bundle purchases into CLOs, institutions may liquidate holdings, depressing the price. Fully e-volumes in the US advanced. Portfolio trading is gaining ground vs RFQ and all-to-all trading.
- In commodities, foodstuffs and other softs, energy and base metals surged in 2Q and 3Q driven, mostly, by the war in Ukraine. The war, China's zero-Covid drive, OPEC and the US Government's decisions regarding the Strategic Petroleum Reserves will likely keep oil volatile well into 2023.

Revenue & productivity (9m21)

(9m22)



% change share of peer group operating revenue and pre-tax profit: (9m22 / 9m21)



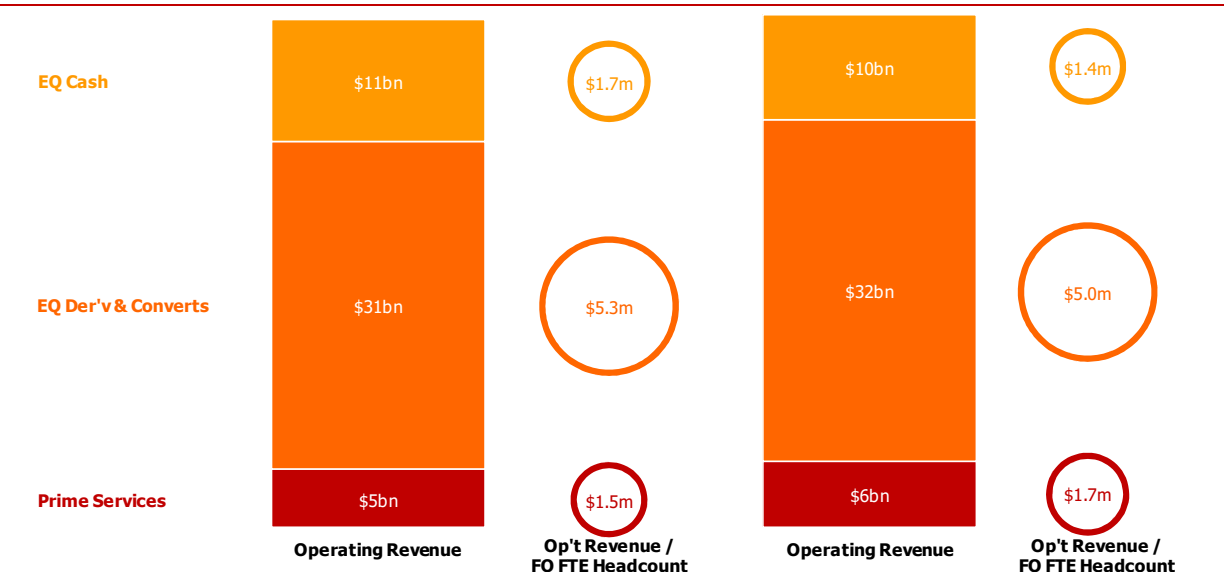
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

Capital Markets (cont.): Equities

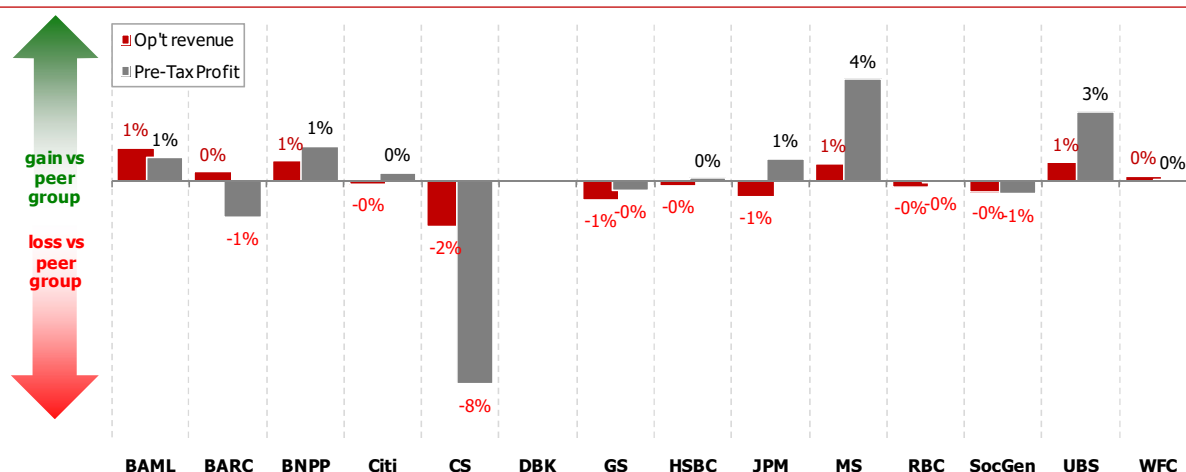
- A decline was due to weak(er) institutional cash volumes and margin compression; a drop in primary markets further depressed revenue. APAC outperformed.
- In the US, equity derivatives volumes boomed as investors looked for protection from the slump in S&P and volatility spikes (VIX reached 32 in September, close to a 2-year high). In early October, largest options participants bought more than \$10bn in single-name puts in a single week, a record for the peer group.
- Prime services revenue normalised compared to the strong 3Q21, when some banks benefited from idiosyncratic trades. Still, activity in 3Q22 was lively: in September, weekly notional trade volume set a new record, mostly thanks to aggressive equity bets, both long and short. Institutional investors, however, withdrew nearly \$30bn in 3Q22 as a result of extreme volatility.

Revenue & productivity (9m21)

(9m22)



% change share of peer group operating revenue and pre-tax profit (9m22 / 9m21)



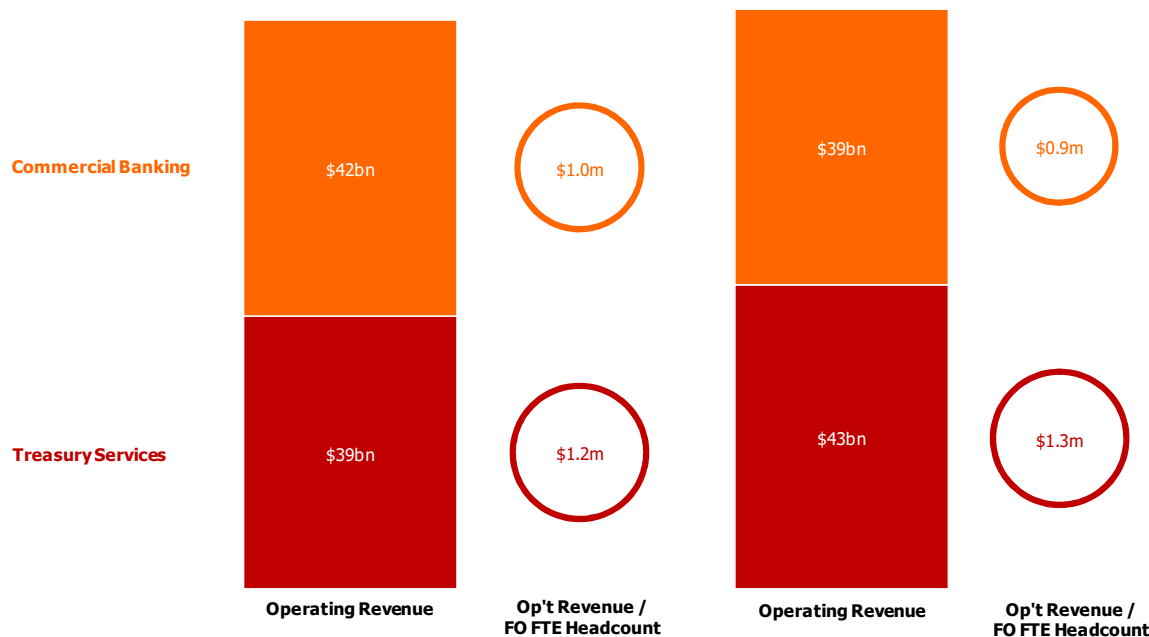
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Commercial Banking & Treasury Services

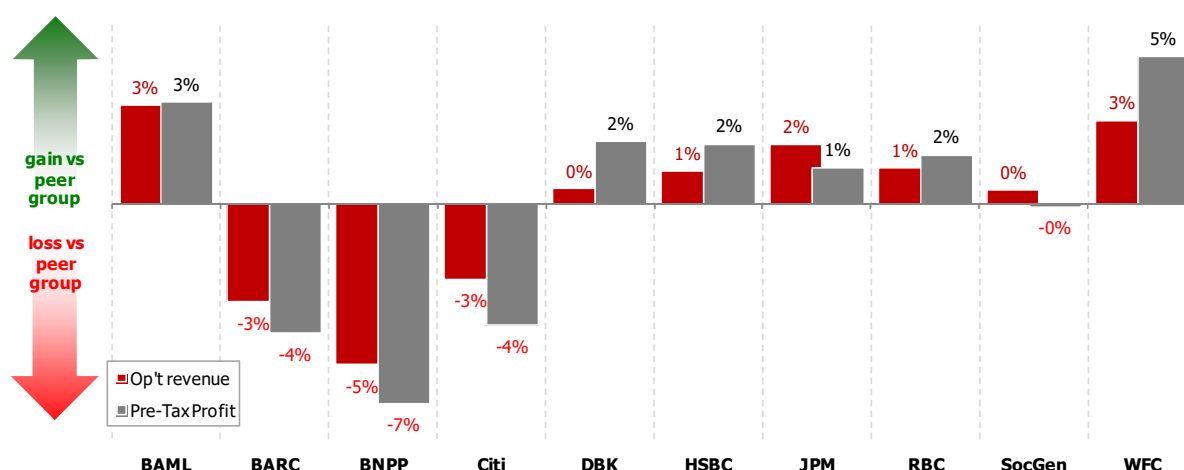
- Banking revenue grew vs 3Q21 and was marginally ahead of 2Q22. Gains were driven by higher margins coupled with continued momentum in volumes and balance sheet growth. Net interest income also advanced, on strong loan and deposit growth. Coupons for senior middle-market loans increased 50–100bps in 3Q22. Rising interest rates and slowing economic growth encouraged direct lenders to demand higher yields for financing to troubled sectors. However, the outlook is uncertain: rising interest rates and higher borrowing costs are reducing demand for loans.
- In Transaction Banking, cash management reported strong growth in 3Q22. Rapid increases in interest rates boosted liquidity management. Payment volumes continue to grow, and difficulties in crypto markets boosted traditional cross-border payments. Key drivers of growth in trade finance were supply chain and commodity trade finance.

Revenue & productivity (9m21)

(9m22)



% change share of peer group operating revenue and pre-tax profit (9m22 / 9m21)



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.

Revenue dynamics

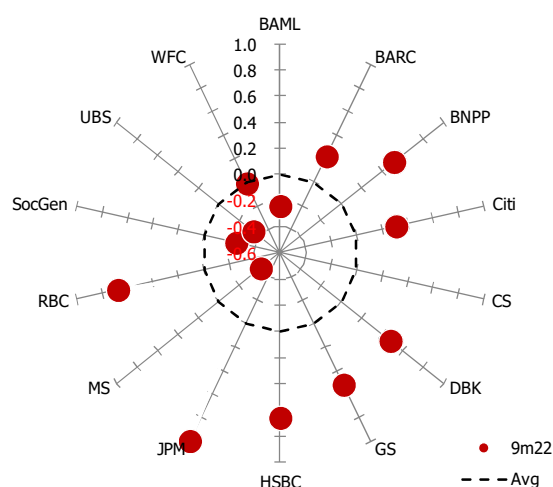
9m22/9m21 (Operating revenue, % change, US\$, Global Level 1)

	BAML	BARC	BNPP	Citi	CS	DBK	GS	HSBC	JPM	MS	RBC	SocGen	UBS	WFC
Capital Markets	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
Banking	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
DCM Bonds	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
DCM Loans	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
Securitisation	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
ECM	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘
M&A / Advis	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘
Markets	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
FICC	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
FX & Loc Mkts	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
Rates & Fin & Mur	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
Credit	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
Commodities	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘
Equities	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
EQ Cash	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
EQ Der'v & Conv't	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
Prime Services	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘
Prop & PI	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
Comm Bank / Treas Serv	↗	↘	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
Comm Bank	↗	↘	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
Treas Serv	↗	↘	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗

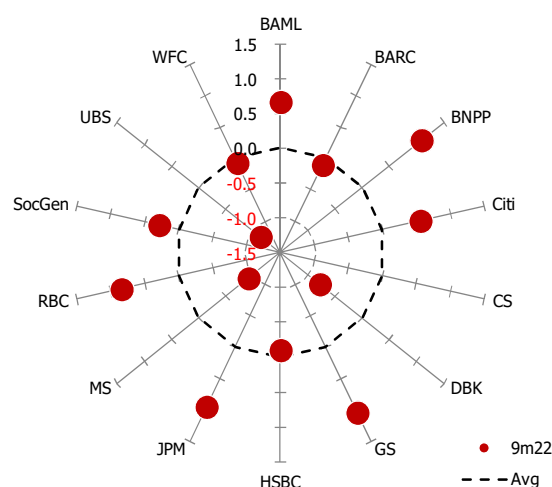
Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. (3) Operating revenue is post-writedowns, excludes DVA/equivalent and one-offs. (4) Commercial/Transaction Banking includes Large Cap/MNC and Mid-Cap/SMEs.

Pre-tax profit margin (US\$)

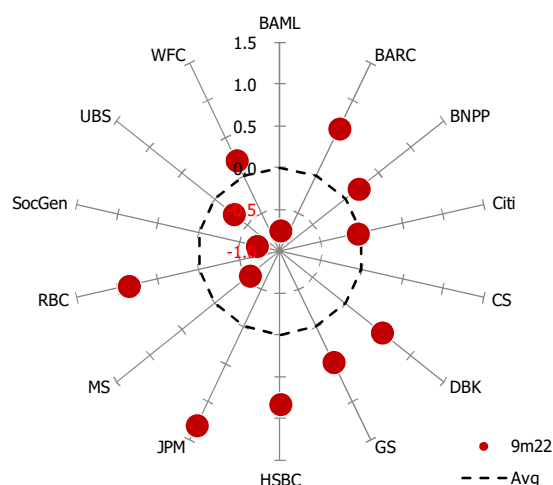
Capital Markets



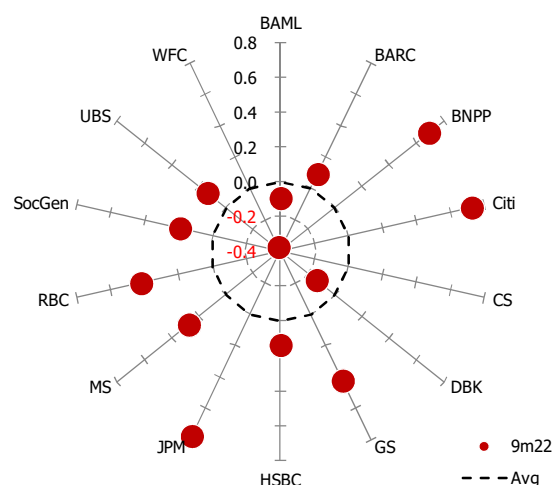
Banking



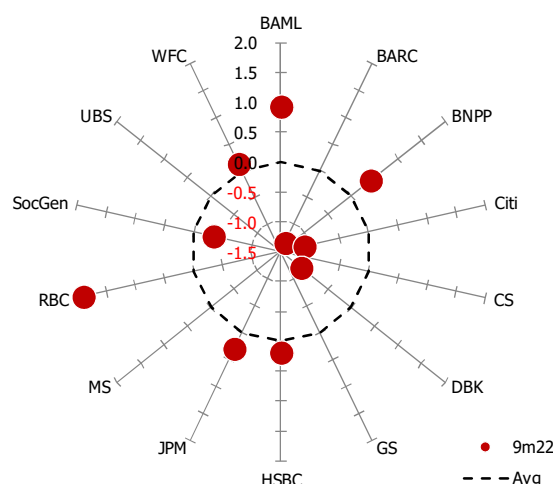
FICC



Equities



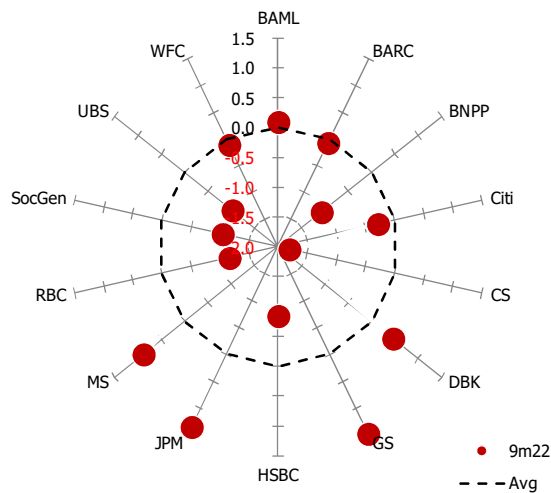
Commercial Banking / Treasury Services



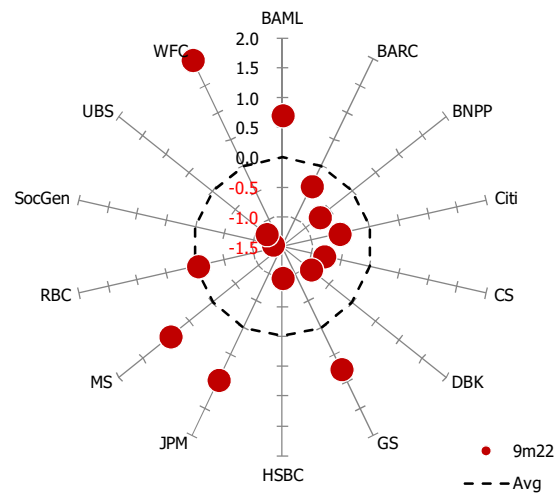
Source: Tricumen. Notes: (1) TRIC product definitions, standard deviation, product Level 1; (2) Operating expenses exclude one-off non-operational items, insurance-related benefits & claims, and credit expense/recovery/NPL provisions. Capital expenditure is included as accrued. Litigation expense is allocated to front-line units. (3) positive values = outperformance; negative values = underperformance, relative to the peer group featured in this report; (4) missing values = N/M; no Tricumen coverage; or a bank is not a significant competitor.; (5) outliers are excluded.

Operating Revenue / Front Office FTE (US\$)

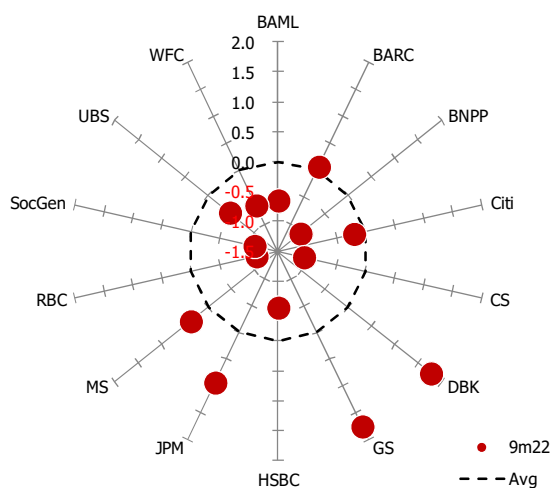
Capital Markets



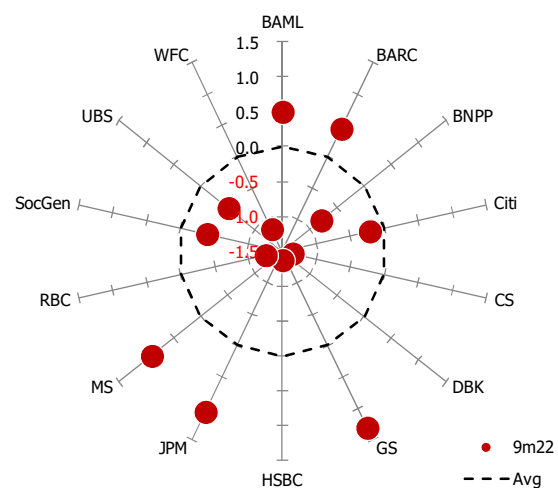
Banking



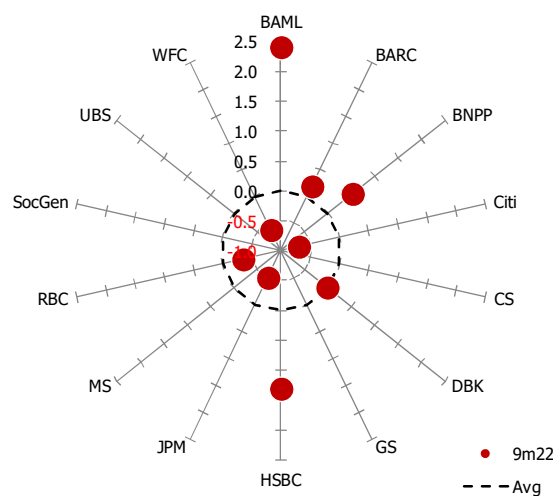
FICC



Equities



Commercial Banking / Treasury Services



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 = N/M; no Tricumen coverage; or a bank is not a significant competitor; (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 financial markets-focused research network of its peer group.

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