TRICUMEN

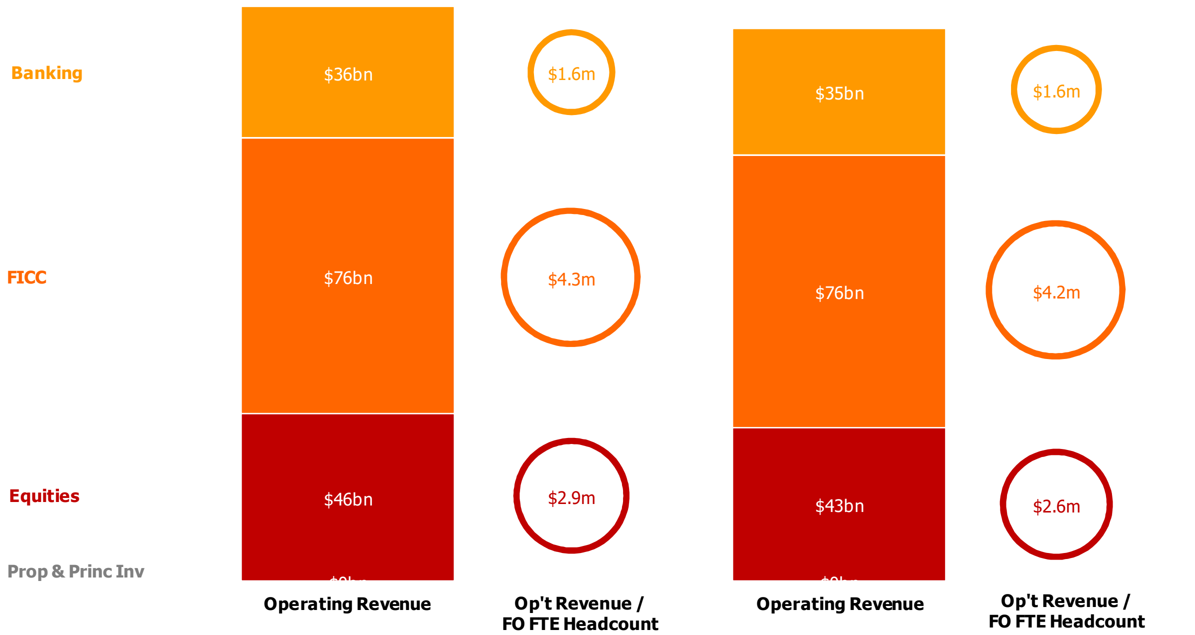
CIB Results Review 3Q23 / 9m23

Capital Markets: Overview

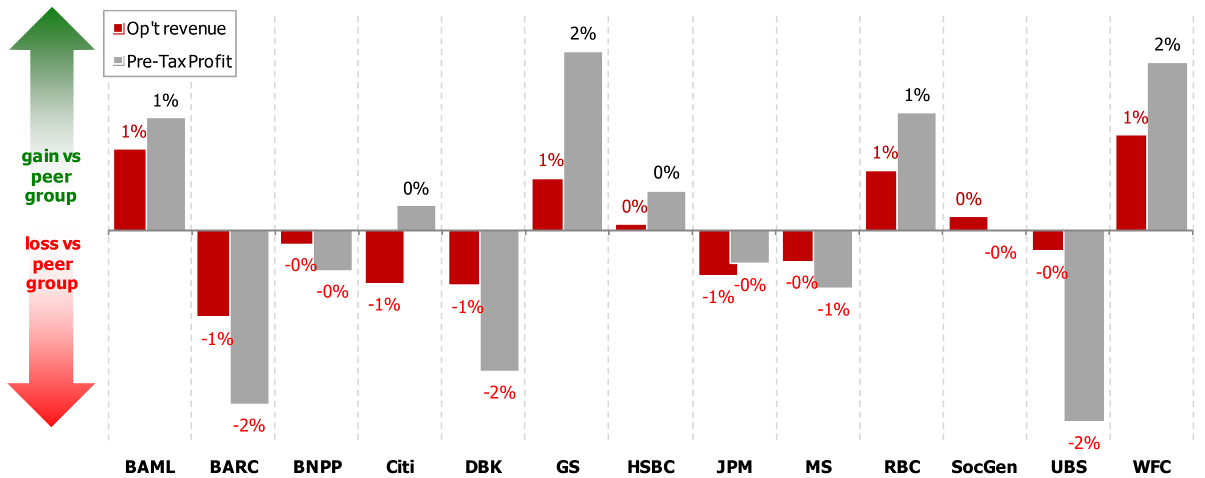
- The banks' 9m23 operating revenue totalled $154bn; the 4% y/y decline was largely due to EMEA banks' underperformance. In Banking, weak M&A/Advisory offset strong underwriting fees; and in Markets, Credit and Prime Services revenue grew, while Macro, Commodities and Equity Derivatives declined.

  AMER banks matched their costs to revenues; EMEA banks, however, did not, and that led to a sharp drop in their pre-tax profit.
- In October, the UK removed the bonus cap, originally introduced by the EU in 2014. Explaining their decision, the UK regulators rightly emphasised that a high(er) proportion of fixed costs reduces banks' flexibility in difficult times, not least because bonuses are often subject to deferrals and/or clawbacks, while salaries are not. The European Parliament, for its part, voted in favour of Listing Act, a package of reforms aimed at easing the listing requirements and reversing the rule which 'unbundled' research costs from trading costs.
- The Basel 3 'end game' proposal continues to draw sharp criticism from leaders of large US banks (and at least two Fed governors). Indeed, it is not clear that new rules, if fully implemented in the proposed form, would significantly improve banks' soundness; but they would, more likely than not, impact the bank's appetite for lending – and increase the cost to banks' clients.

Revenue & productivity (9m22) (9m23)



% change share of peer group operating revenue and pre-tax profit (9m23 / 9m22)



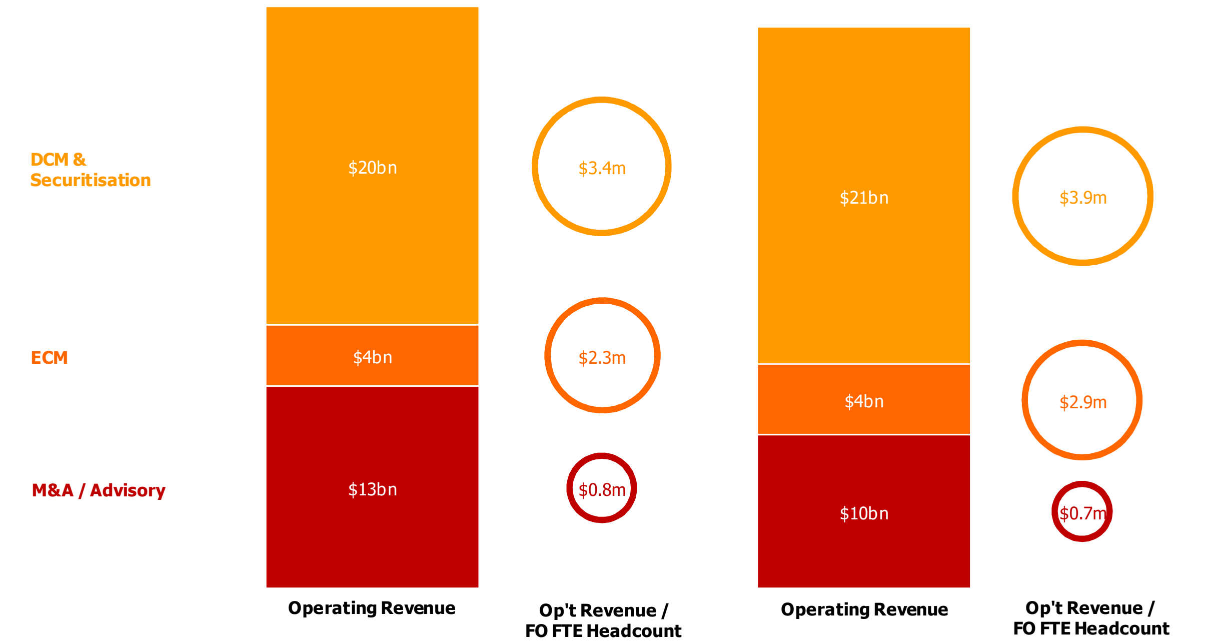
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

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

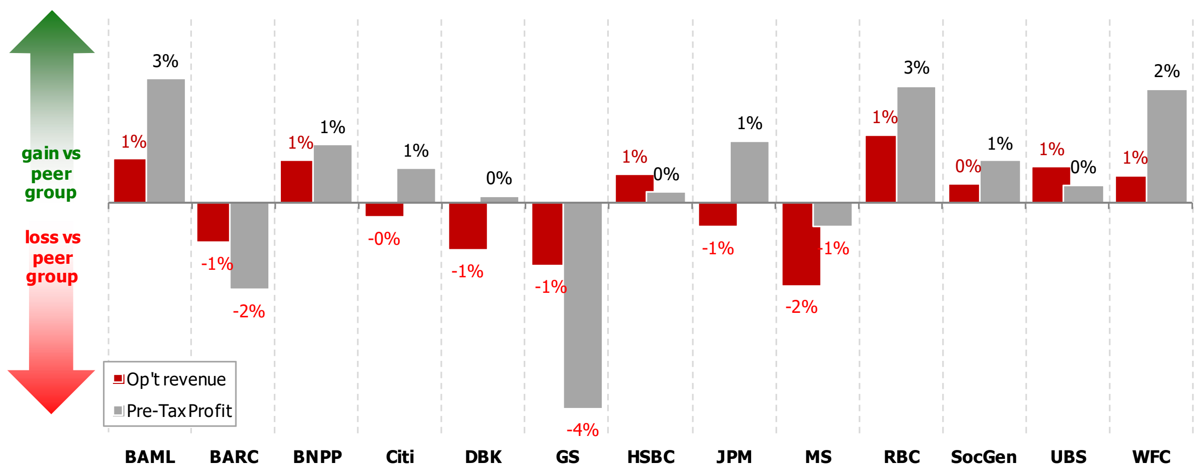
- In words of one the in-scope banks: 'corporates have stopped waiting for rates to come down and are beginning to access debt capital markets around the globe.' High grade bonds fees benefitted from corporates' rush to lock in the borrowing costs ahead of expected increase in central banks' rates, and high yield, in 9m23, jumped 50% y/y (with more than half of the total structured as secured debt) and seems likely to maintain the strong momentum into 1Q24. Geographically, North America recorded the strongest growth. In the UK, corporates are turning to CLOs – in Euros.
- ECM fees jumped 18% y/y in 3Q23, mostly due to the strong US (especially in IPOs) and, to a lesser extent, European markets. Converts surged on higher rates and weak stock valuations.

  In APAC, several banks in this report announced redundancies in the region; barring a sudden recovery in volumes in the region, more redundancies are likely.
- There has been no recovery in M&A/Advisory: down 14% and 24% y/y in 3Q23 and 9m23, respectively. Private equity and jumbo deals dropped the most, but there has also been a sharp decline in cross-border deal volumes.

Revenue & productivity (9m22) (9m23)



% change share of peer group operating revenue and pre-tax profit (9m23 / 9m22)



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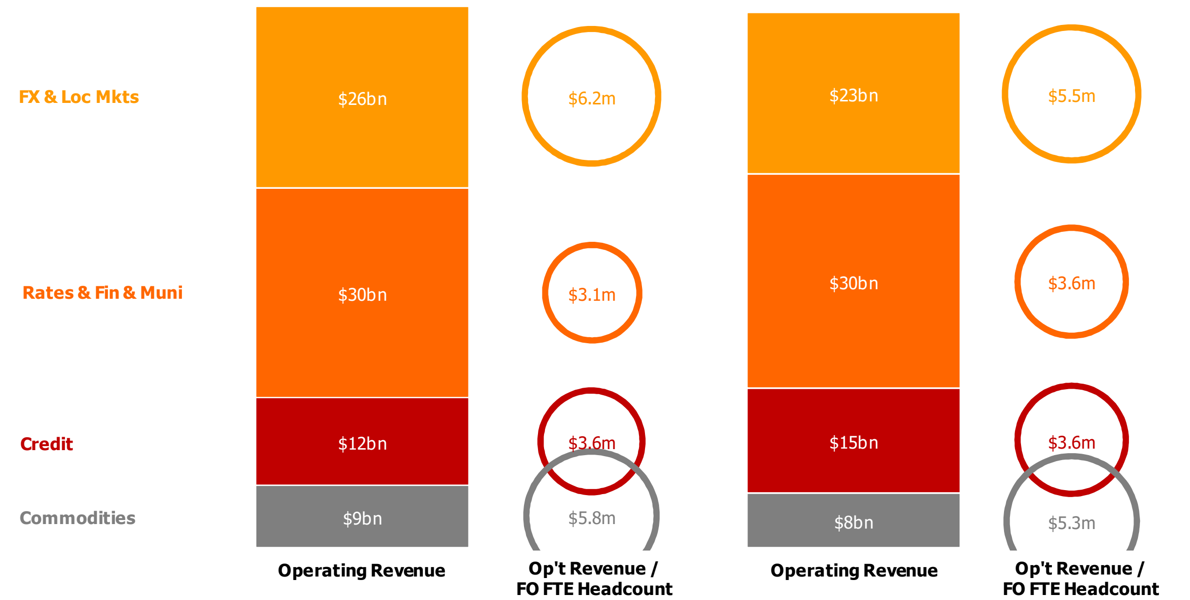
Capital Markets (cont.): FICC

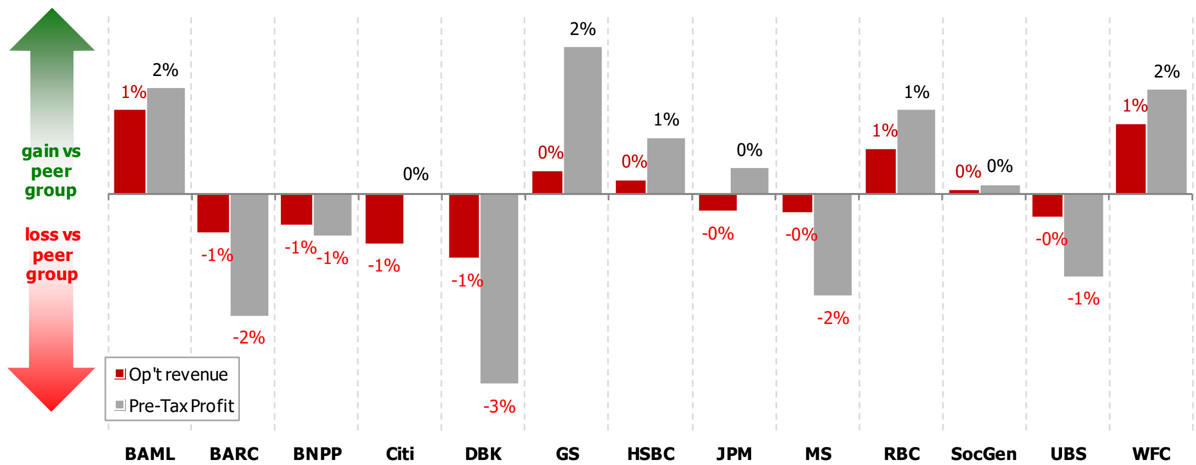
- Extending the trends seen in 2Q23, macro revenue declined in 3Q23 – primarily due to weak FX and Emerging Markets - while spread products posted strong growth, especially in distressed credit. On 9m basis, however, Credit remains the key driver of FICC revenue; several banks reported strong gains in securitised products in 3Q23, while others are hiring for high yield and leveraged teams, especially in Europe. Financing revenue held up much better than intermediation.
- SEC's anti-crypto drive suffered a setback in August: an appeals court overturned the agency's decision to block Grayscale Investments LLC's proposed Bitcoin ETF (Grayscale's AuM promptly jumped 7%, to $17.4bn). SEC may appeal, but the ruling suggests heightened chances of success for the launch of similar ETFs – e.g. from Blackrock, Fidelity and Invesco, among others.
- The aggregate commodities revenue declined vs 9m22, but with clear difference in performance between the four leaders, especially in gas (partly due to a spike in European futures in August) and oil trading (Volatility surged in 4Q23, after the outbreak of war in Gaza in October).

  A jump in real yields, strong US dollar and the prospect of rates staying 'higher for longer' depressed the bullion in July; however, expectation that the Fed will end the tightening cycle prompted institutional investors to maintain or even increase their allocations.

Revenue & productivity (9m22) (9m23)



% change share of peer group operating revenue and pre-tax profit: (9m23 / 9m22)



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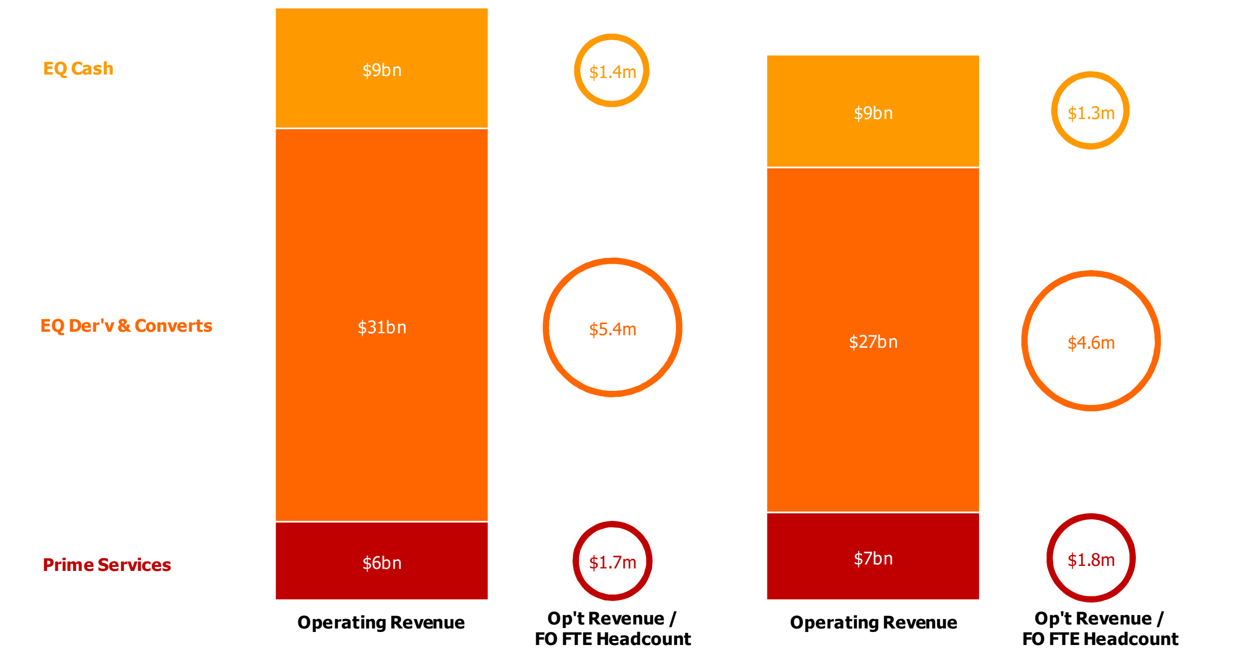
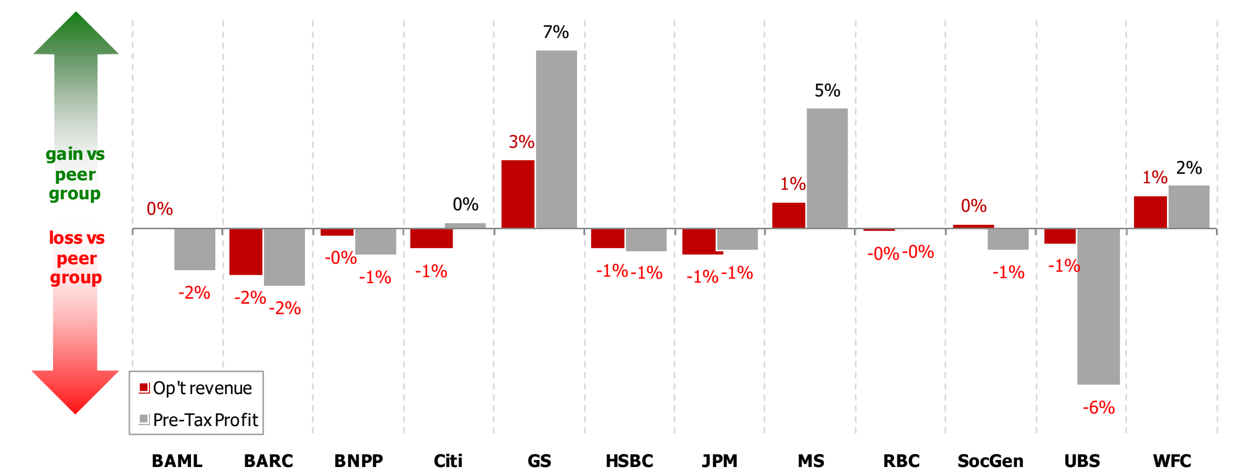
Capital Markets (cont.): Equities

- Despite a dip in volatility and client flows, cash equity held up well as top players extended their lead, especially with institutional algo clients. The aggregate 9m23 revenue of in-scope banks was slightly below 9m22.
- Prime Services posted another solid quarter although a positive impact of higher balances was partly offset by narrower spreads. Financing revenues – Prime in particular - were the key driver.

Revenue & productivity (9m22) (9m23)



% change share of peer group operating revenue and pre-tax profit (9m23 / 9m22)



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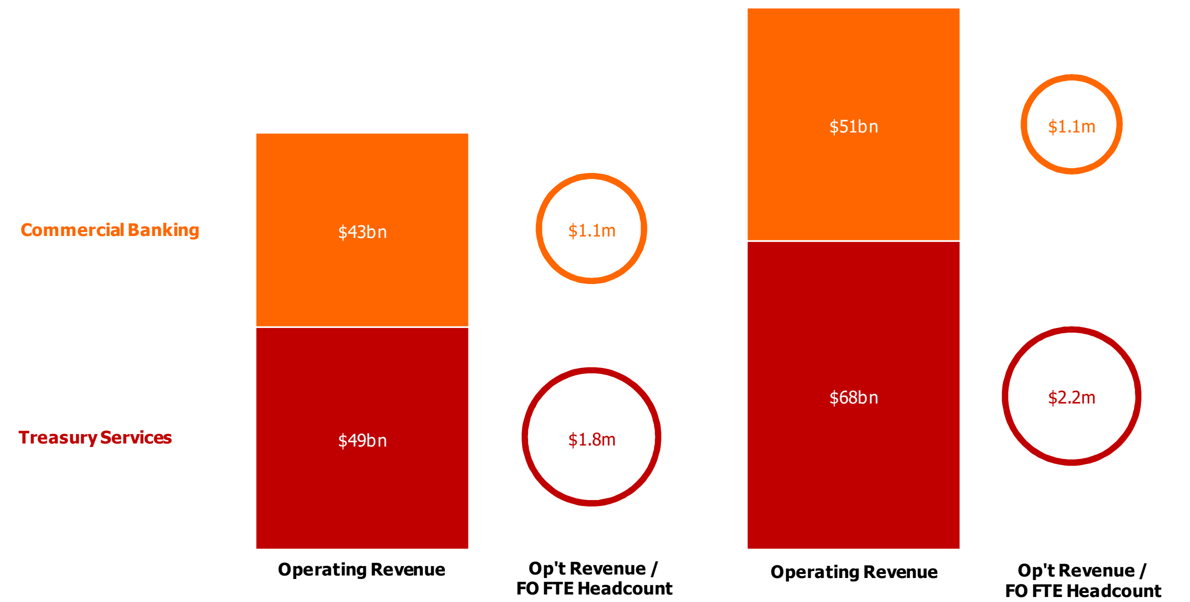
Commercial Banking & Treasury Services

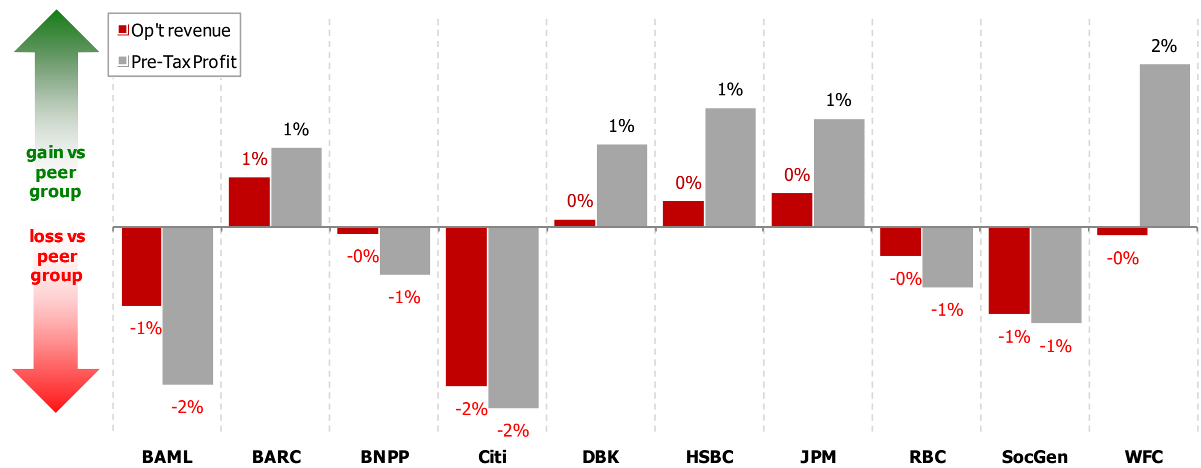
- Despite weaker demand for loans - most significantly in the US and Eurozone - CTB benefited from high interest rates, banks' repricing and an increase in fee revenue.

  However, the outlook is negative: the boost from high interest rates is wearing off and net interest margins are likely to weaken, depressed by the combination of a lower demand for loans, a rise in the cost of reserves, and rates on corporate deposits remaining unchanged. Several banks are reviewing their business portfolios – and not only in commercial real estate.
- In Eurozone, the private lending market slower down dramatically vs 2022 as a result of higher interest rates and expectations of a surge in corporate defaults. There has also been a sharp slowdown in the wider corporate lending sector in Eurozone: clearly concerned about the economic outlook, regional banks tightened the loan criteria even as the demand fell.

Revenue & productivity (9m22) (9m23)



% change share of peer group operating revenue and pre-tax profit (9m23 / 9m22)



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

9m23/9m22 (Operating revenue, % change, US$)

	BAML	BARC	BNPP	Citi	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 & Muni	↘	↓	↓	↘	↘	↗	↗	↓	↘	↗	↘	↓	↑
Credit	↑	↘	↘	↓	↗	↓	↑	↘	↓	↗	↘	↗	↗
Commodities	↓		↘	↓		↗	↓	↘	↗	↗	↘	↓	↑
Equities	↘	↓	↘	↓	↘	↘	↓	↘	↘	↘	↘	↘	↑
EQ Cash	↘	↘	↘	↘		↘	↓	↘	↘	↘	↗	↘	↑
EQ Der'v & Conv't	↗	↓	↗	↘	↗	↑	↓	↗	↑	↗	↑	↗	
Prime Services	↗	↘	↓	↘		↑	↗	↘	↘	↓	↓	↓	↗
Prop & PI			↗				↓	↑					
Comm Bank / Treasury Services	↘	↑	↘	↓	↘		↘	↘		↘	↓		↘
Comm Bank	↑		↑	↓	↑		↓	↑		↘	↘		↗
Treasury Services	↘	↘	↘	↓	↘		↑	↗		↗	↓		↗

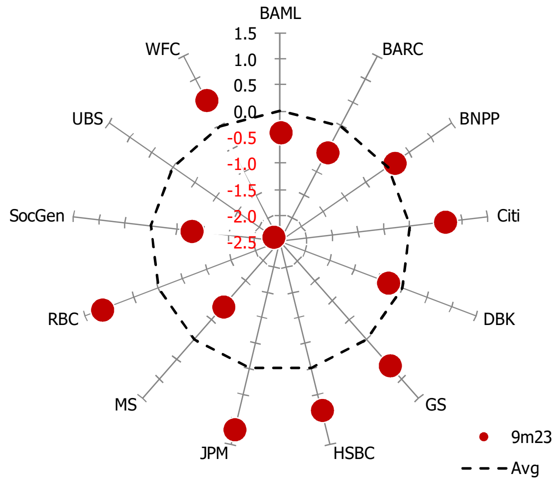
3Q23/3Q22 (Operating revenue, % change, US$)

	BAML	BARC	BNPP	Citi	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 & Muni	↘	↓	↓	↑	↘	↑	↑	↘	↘	↑	↗	↓	↘
Credit	↗	↓	↗	↓	↘	↓	↑	↓	↓	↑	↓	↓	↘
Commodities	↗		↘	↘		↘	↓	↘	↑	↑	↗	↓	↓
Equities	↘		↓	↓	↓	↘	↓	↓	↘	↓	↘	↓	↑
EQ Cash	↓	↓	↘	↘		↘	↓	↘	↓	↑	↗	↗	↑
EQ Der'v & Conv't	↘		↘	↓	↓	↗	↓	↓	↑	↓	↘	↓	
Prime Services	↑	↗	↓	↘		↑	↗	↓	↓	↓	↓	↓	↑
Prop & PI			↑				↓	↑					
Comm Bank / Treasury Services	↓	↑	↓	↓	↘		↓	↓		↓	↓		↓
Comm Bank	↗		↘	↓	↑		↓	↑		↓	↘		↘
Treasury Services	↓	↓	↘	↓	↗		↑	↘		↑	↓		↘

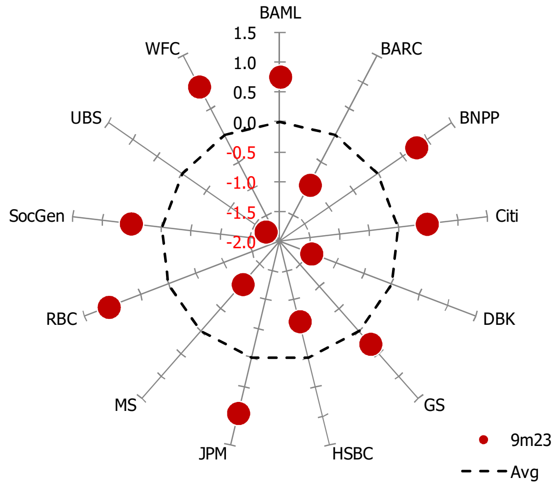
Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. (3) Operating revenue is post-writedowns, excludes DVA/equivalent and one-offs. (4) Commercial/Transaction Banking includes Large Cap/MNC and Mid-Cap/SMEs.

Pre-tax profit margin (US$)

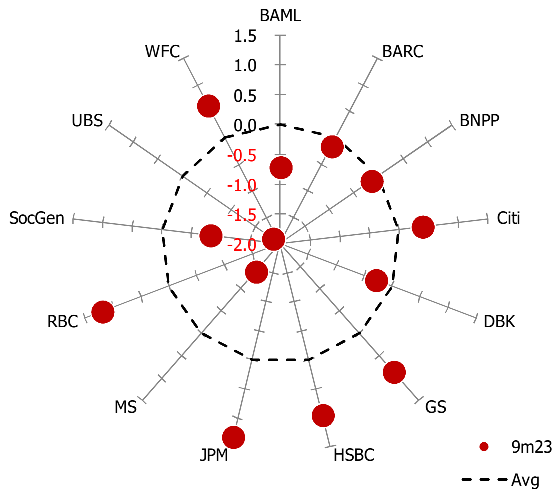
Capital Markets



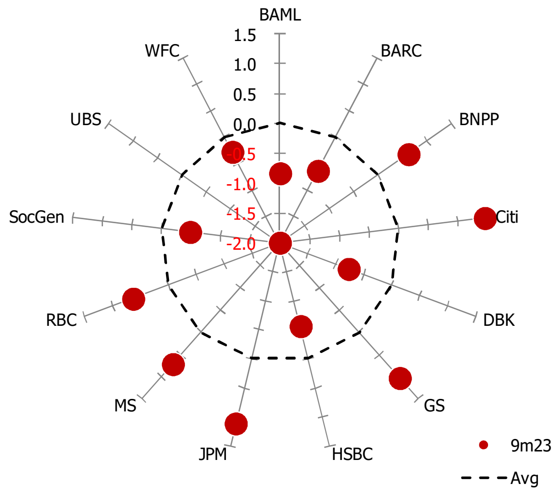
Banking



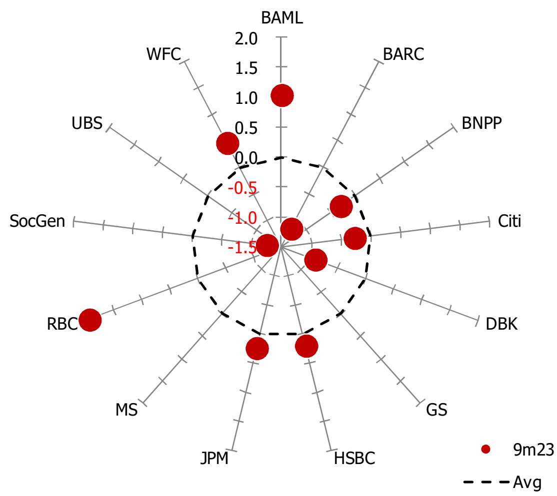
FICC



Equities



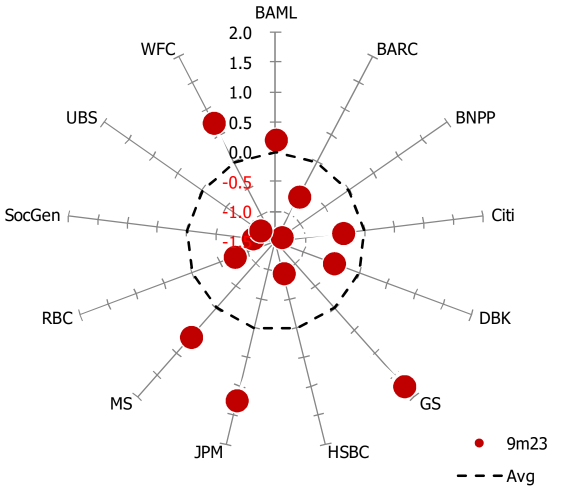
Commercial Banking / Treasury Services



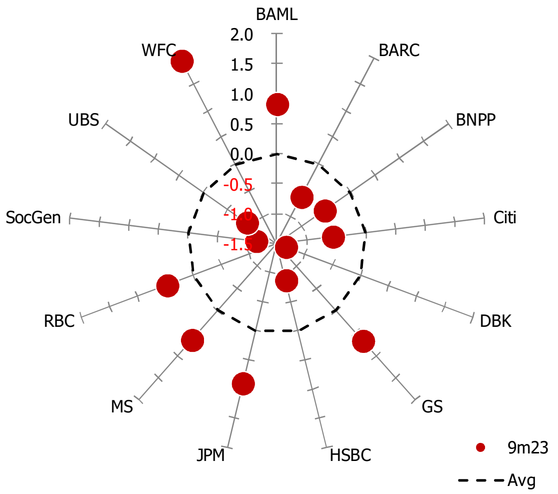
Source: Tricumen. Notes: (1) TRIC product definitions, standard deviation, product Level 1; (2) Operating expenses exclude one-off non-operational items, insurance-related benefits & claims, and credit expense/recovery/NPL provisions. Capital expenditure is included as accrued. Litigation expense is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



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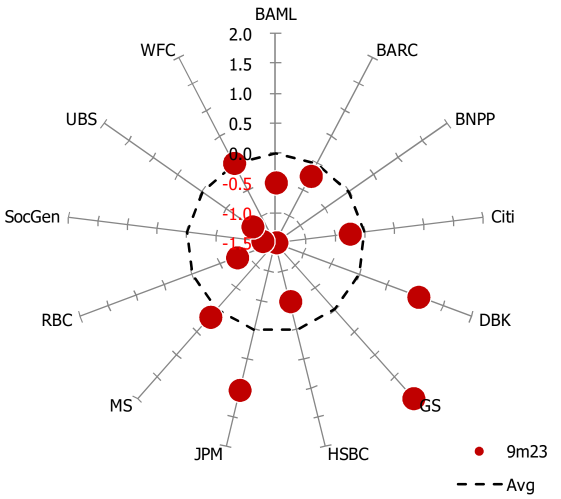

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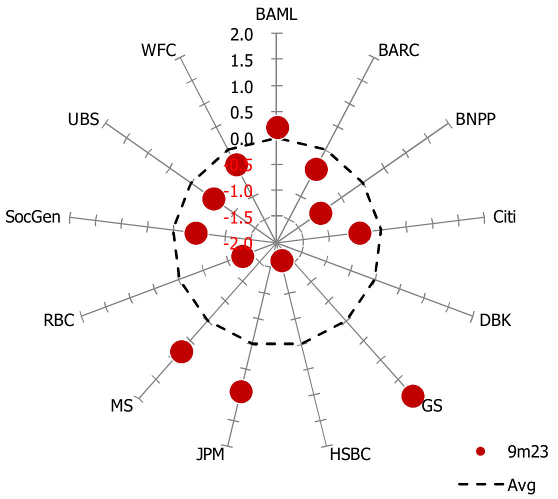
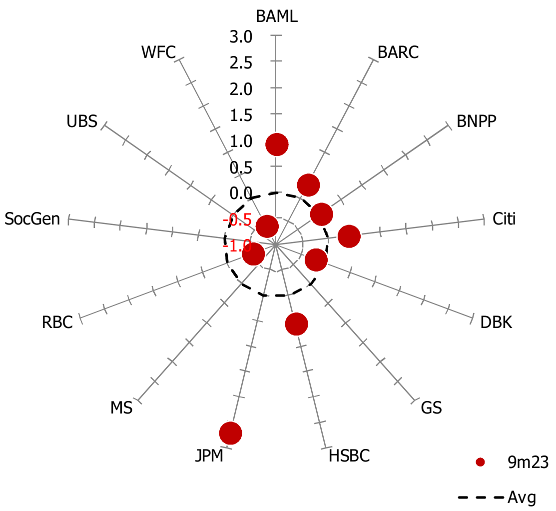


Commercial Banking / Treasury Services



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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, asset servicing, and asset and wealth management. 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 financial markets-focused research network of its peer group.

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