

Coalition IB Index – FY15

February 2016

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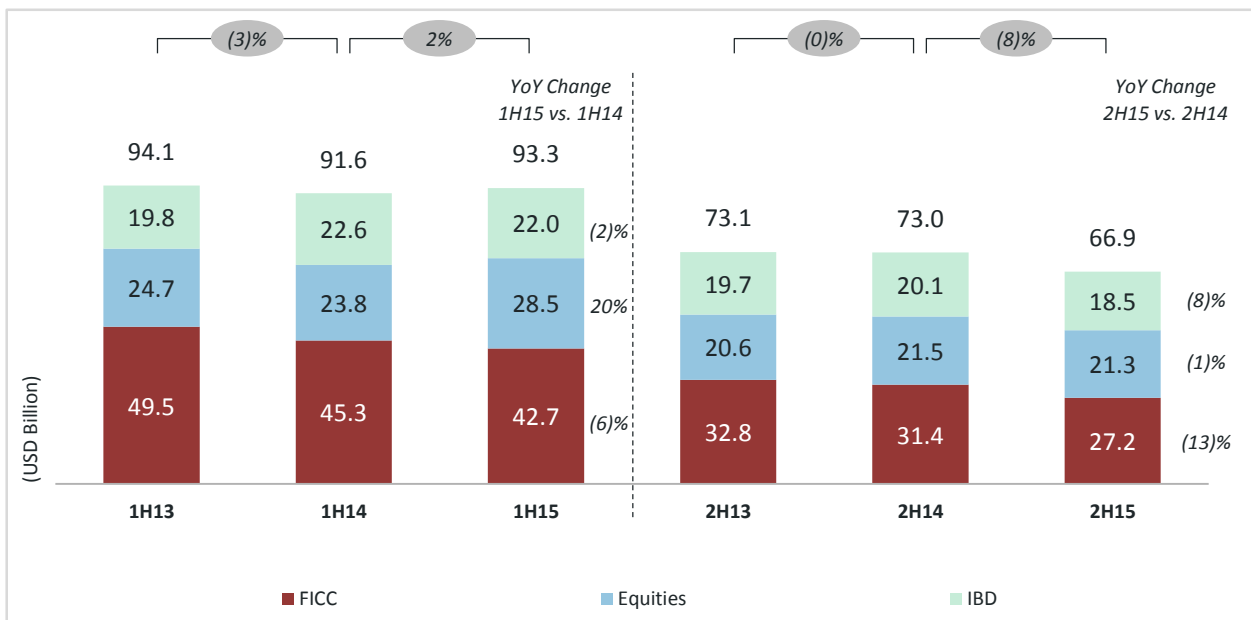
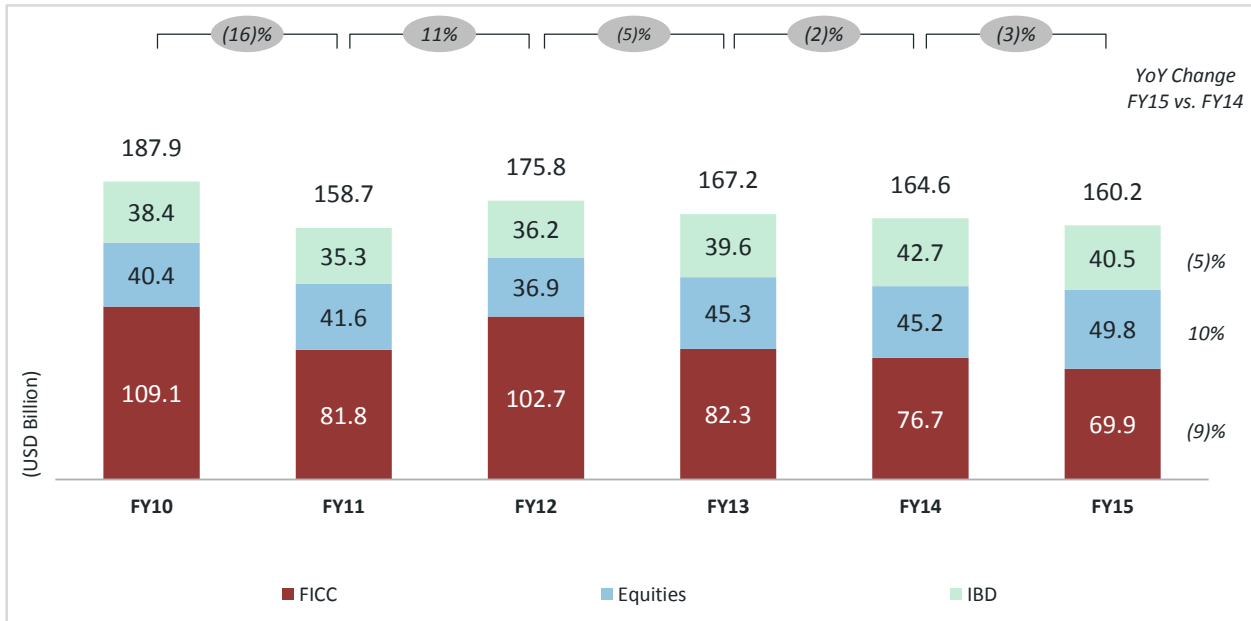
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Executive Summary

A poor trading environment and low client activity in 2H led to a marginal decline in IB Revenues for FY15. Equities outperformed at the start of the year, but Fixed Income struggled throughout, especially in Credit, Securitisation and Commodity related activities. IBD declined as improvements in M&A were more than offset by declines in ECM and DCM volumes.

Figure 1. Coalition Index Revenues by Business

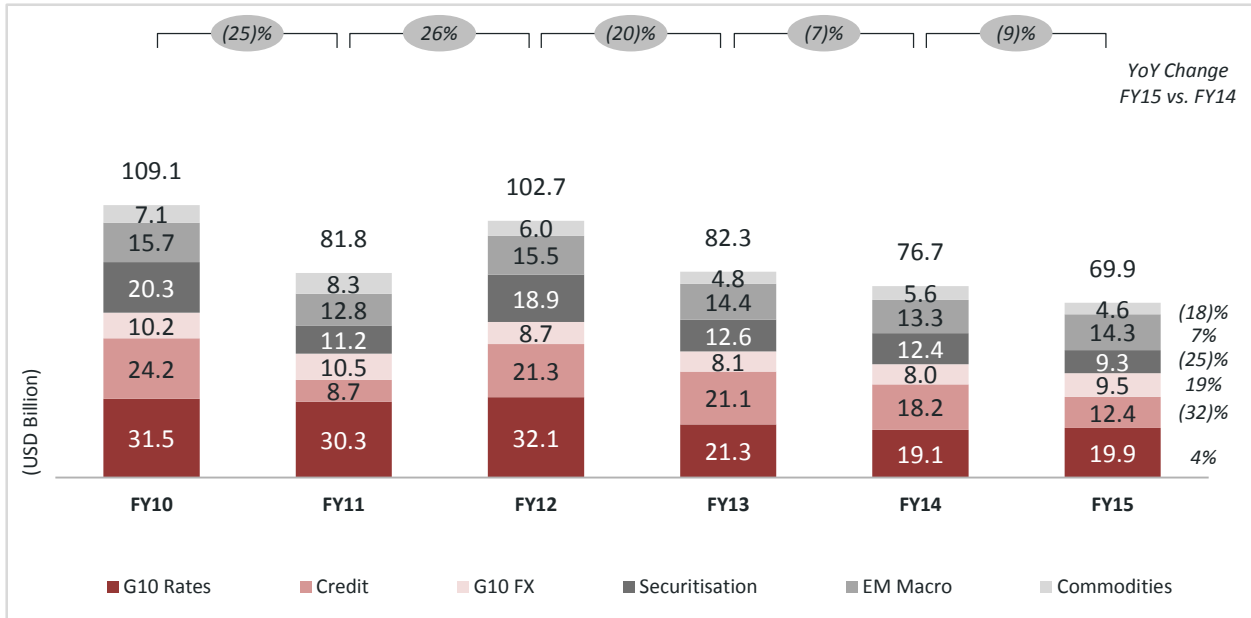


Note: Numbers may not add up due to rounding. Percentages are based on unrounded numbers.

FICC

Continued weakness in Credit related products led to overall underperformance, partially mitigated by opportunities from FX volatility.

Figure 2. FICC Revenues by Product



Note: Numbers may not add up due to rounding.

G10 Rates

Revenues increased marginally, driven by EMEA Flow Products in 1H. Meanwhile, results from Financing declined and volumes in Structured Products were subdued.

Credit

The weakest performing product in Fixed Income attributed to low client volumes and widening spreads. Distressed and CLOs declined the most while Investment Grade and High Yield performed better due to the lack of credit events which impacted revenues in 2014. EM Credit suffered on account of the slowdown in Asia.

G10 FX

Higher revenues were driven by significant outperformance in Options thanks to elevated levels of currency volatility in 1H.

Securitisation

Performance was weak due to muted client activity in RMBS and spreads widening in CMBS markets. ABS underperformed due to lower demand for primary issuance and poor liquidity in the secondary markets.

EM Macro

Foreign Exchange outperformed thanks to market volatility and resulting increases in client activity, especially in Asia.

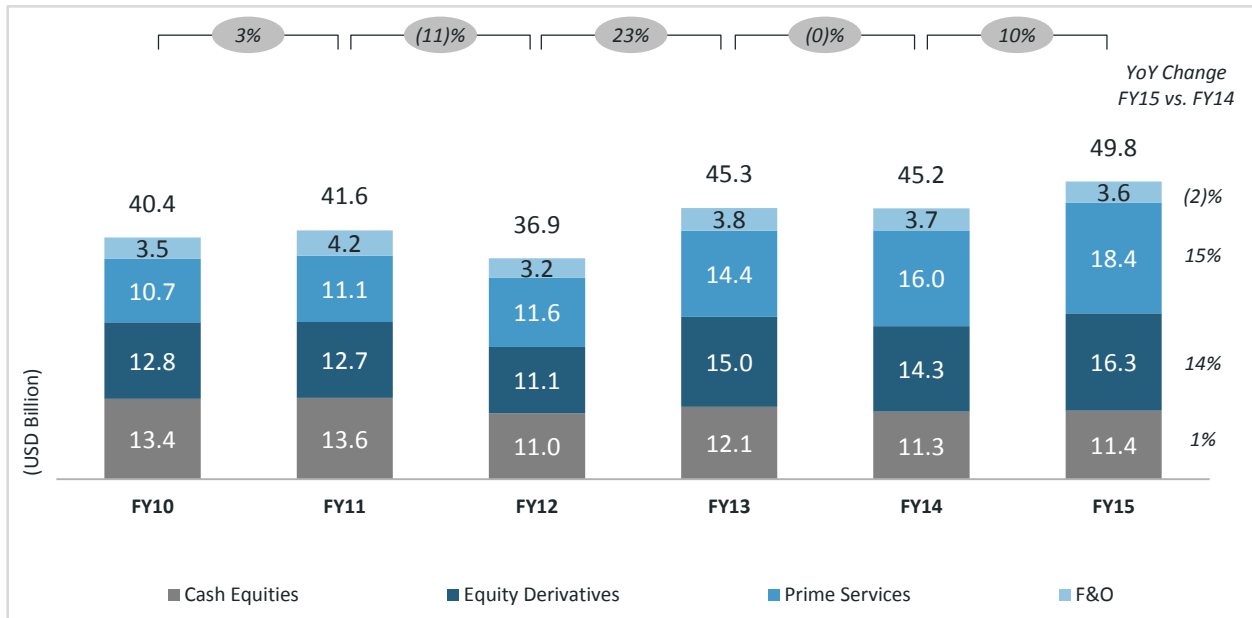
Commodities

A normalisation of the US Power and Gas markets and weakness in Metals and Investor Products drove the overall decline. In contrast, Oil revenues improved as corporate client activity increased.

Equities

Revenue increases were driven by Derivatives and Prime. Asia outperformed regionally, especially in 1H.

Figure 3. Equities Revenues by Product



Note: Numbers may not add up due to rounding.

Cash Equities

Volumes continued to increase through most of the year, but growth stalled in 4Q. Regionally, Asia ex-Japan led the increase while Europe and Japan slightly declined mainly due to the FX impact. Americas was flat, as a strong increase in 1H was offset by a weaker performance in 2H.

Equity Derivatives

There were mixed performance dynamics during 2015. 1H revenues increased significantly due to strength in Flow Products, Corporate Derivatives and Asia Structured Products. In contrast, 2H performance weakened as volumes fell in Asia Structured Products and trading conditions were weak in Americas and Asia.

Prime Services

Increase was underpinned by robust growth in Delta 1 and Synthetics. Asia outperformed regionally, predominantly in 1H.

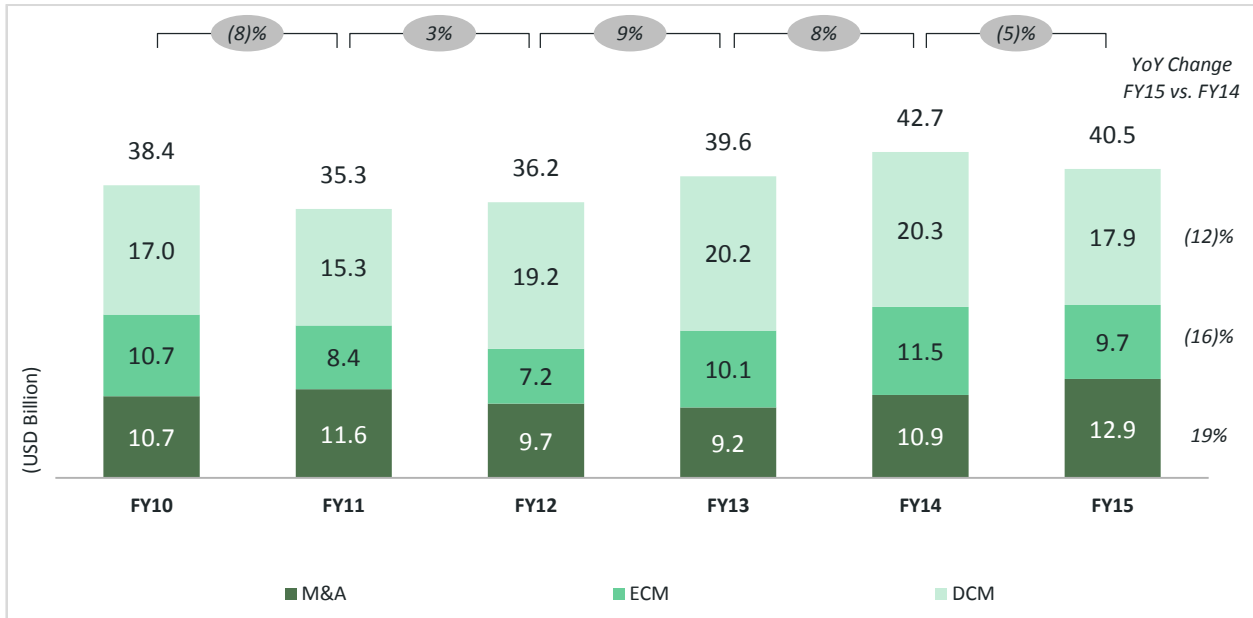
Futures & Options

Revenues declined marginally in FY15 with underperformance across both Equity and FICC Futures.

IBD

Weak performance in ECM and DCM negated the growth in M&A. Regionally, the revenue decline was reflected in EMEA and Asia ex-Japan.

Figure 4. IBD Revenues by Product



Note: Numbers may not add up due to rounding.

Mergers & Acquisitions Surge in outbound activity drove the superlative Index performance. Americas and EMEA were major contributors to the outperformance while Healthcare, TMT and Energy were the leading sectors.

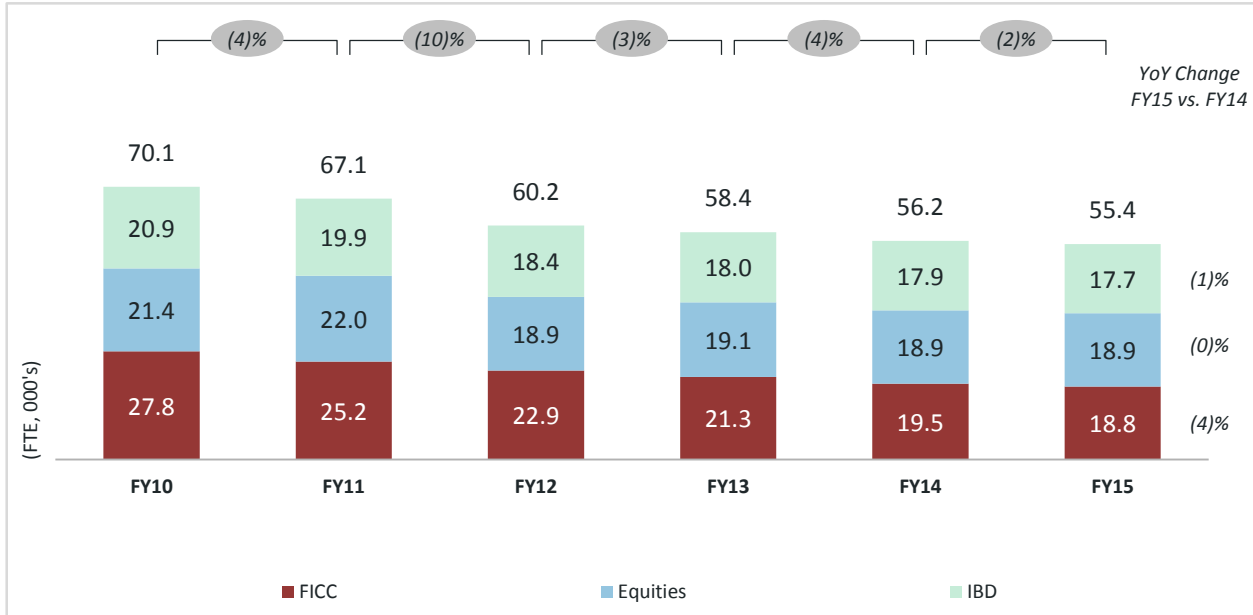
Equity Capital Markets Continued declines in IPO activity, especially in 2H, resulted in steep revenue reductions. Americas and NJNAA underperformed significantly. By sector, Healthcare and Energy outperformed in line with M&A.

Debt Capital Markets Revenues declined due to underperformance in High Yield Bonds and Leveraged Finance. Regionally, EMEA and Asia were weakest.

Headcount

FICC Headcount declined in line with restructuring cost-cutting efforts.

Figure 5. Coalition Index – Front Office Producer Headcount FTE

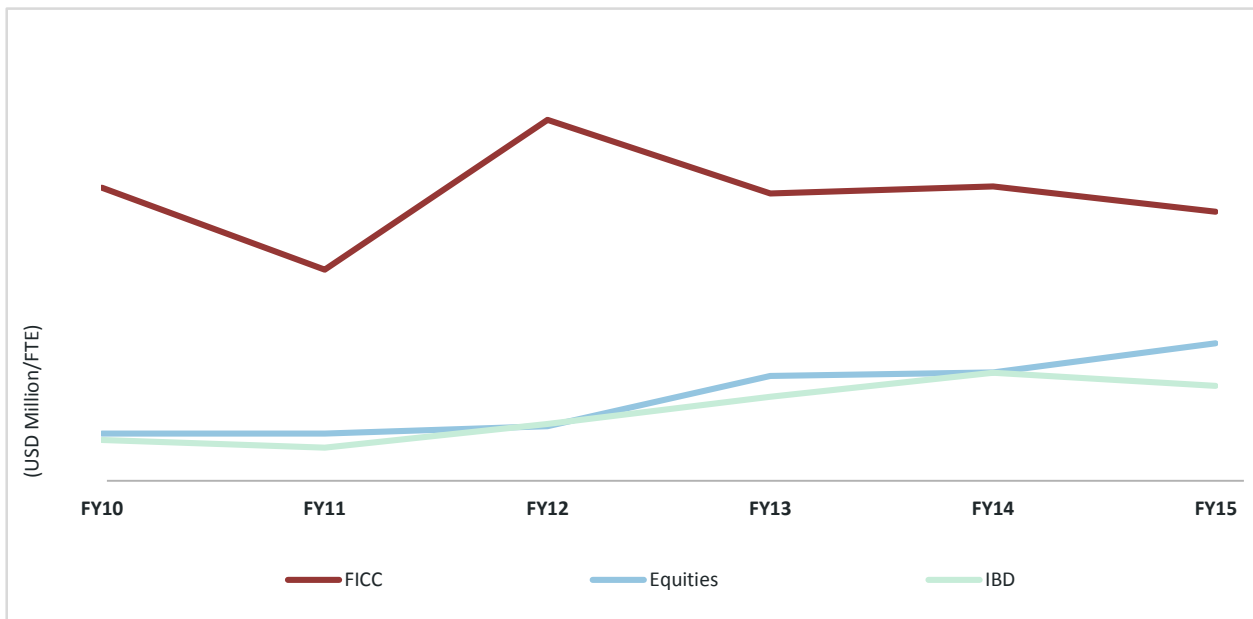


Note: Numbers may not add up due to rounding.

Productivity (N.B. Coalition Index productivity is measured by revenues per front office FTE)

Productivity rose in Equities with revenue growth. In contrast, productivity for FICC and IBD weakened as the revenue declines were higher than staff reductions.

Figure 6. Coalition Index Productivity by Business FY10 – FY15

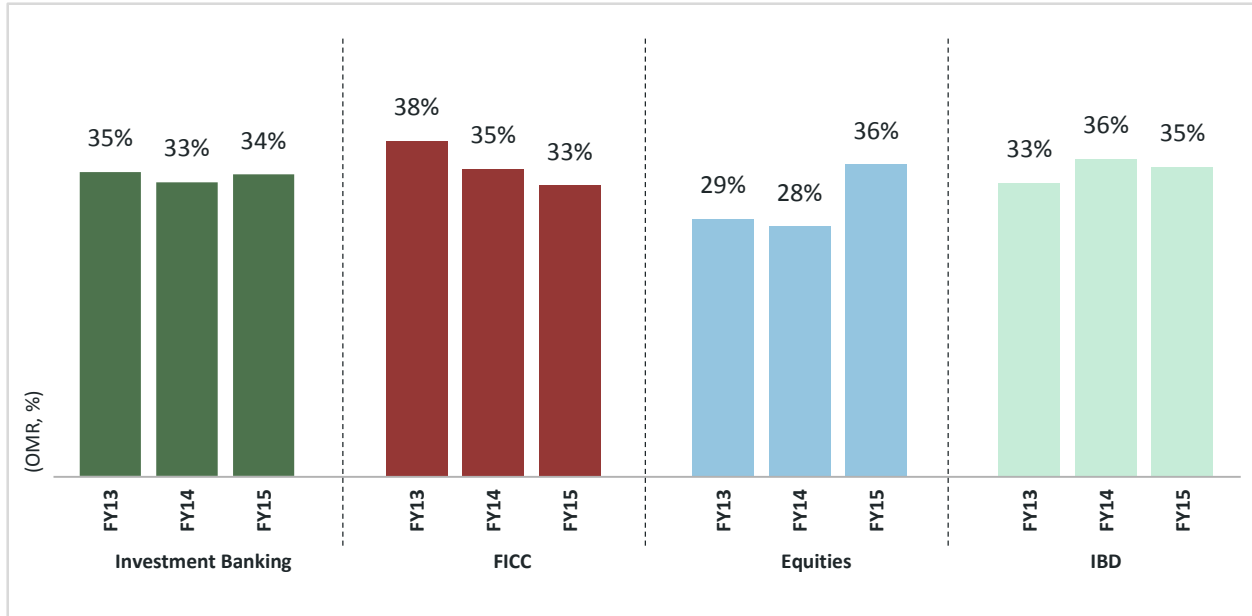


Note: FY15 Productivity is based on Coalition's FY15 Revenue Forecast and actual FY15 Headcount levels.

Operating Margin (OM)

Margins for FY15 improved marginally as declining Compensation Costs from headcount reductions and the tapering of prior technology investments more than offset revenue underperformance.

Figure 7. Coalition Index Operating Margin by Business FY13 – FY15



Note: One-off regulatory and litigation fines, eg LIBOR, re-structuring expenses are excluded.

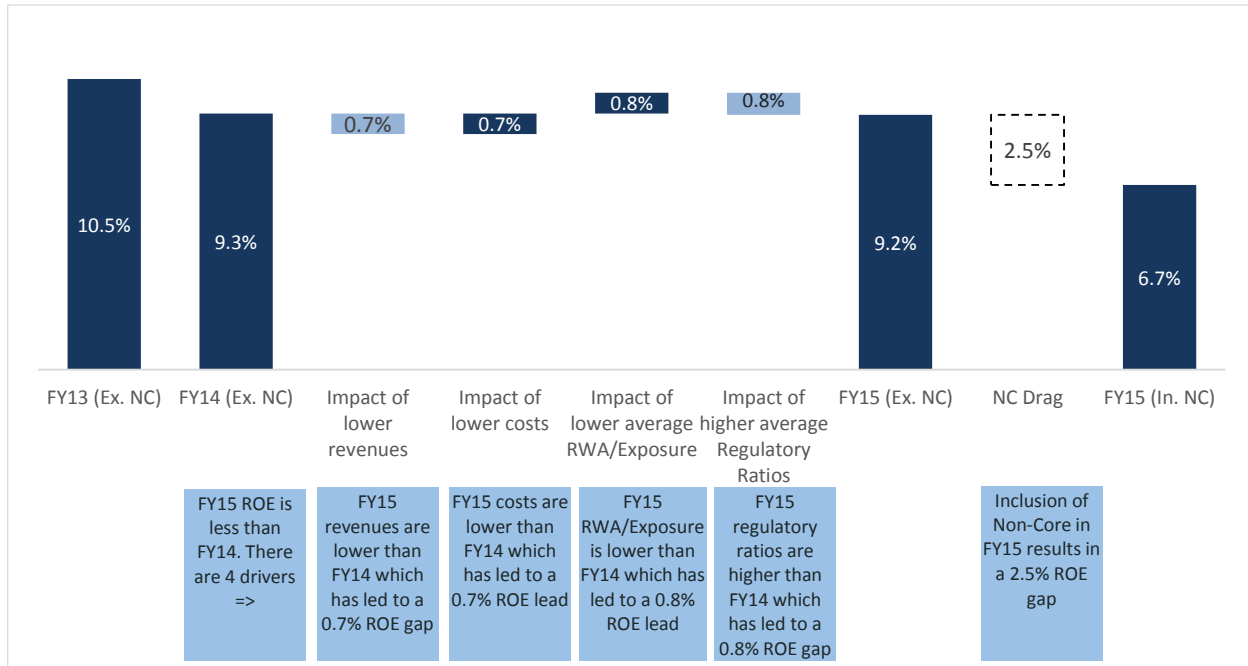
FICC	Margins fell as the significant decline in revenues more than offset cost savings resulting from business simplification and lower compensation. Technology costs declined with fewer investments being made compared to previous periods.
Equities	Margin improvement was driven by both increased revenues and cost efficiencies.
IBD	Subdued performance in IBD coupled with stable headcount resulted in slightly lower margins.

Return On Equity (ROE)

Return on Equity marginally declined due to both increased capital requirements and weak performance.

Despite significant reductions in Exposure, notably through technical optimisation and rationalisation of repo exposures, banks have steadily focused on surpassing increasingly stringent regulatory requirements which has weighed on returns.

Figure 8. Coalition Index IB Return On Equity FY13 – FY15



Note: NC is Non-Core.

Appendix: Sources, Methodology and Taxonomy

Coalition Index tracks the performance of the 12 largest Investment Banks globally. The Index comprises:

- 2010 and 2012: BAML, BARC, BNPP, CITI, CS, DB, GS, HSBC, JPM, MS, RBS, UBS
- 2011: BAML, BARC, BNPP, CITI, CS, DB, GS, JPM, MS, RBS, SG, UBS
- 2013 to 2015: BAML, BARC, BNPP, CITI, CS, DB, GS, HSBC, JPM, MS, SG, UBS
- The Index is refreshed for 1H and FY

Sources:

- Public domain information including financial disclosures, investor presentations, media articles
- Independent research
- Ongoing validation by an extensive network of market participants

Methodology:

- Performance is benchmarked against Coalition's Standard Product Taxonomy
- Adjustments are made to publicly reported performance. Examples:
 - Exclusions: write-downs, ring-fenced Proprietary Trading, Principal Investments/Private Equities and products that are reported in non-Investment Bank divisions (even if they appear in the Standard Product Taxonomy)
 - Accounting adjustments: brokerage costs and gains/losses on own debt
 - Business structure adjustments: removal of non-Investment Bank businesses (e.g. Retail Foreign Exchange, Corporate Lending)
 - Legacy business adjustment: where reported within the Investment Bank, revenues from legacy portfolios and the relevant portion of internal joint ventures, are included in the respective products (e.g. Securitisation, FX)
- Coalition Headcount is defined as revenue generating front office headcount. Headcount is provided on a full-time-equivalent (FTE) basis.
 - Inclusions: Equities and FICC include headcounts in Sales, Trading and Research functions; IBD includes headcounts in Advisory, Coverage, ECM and DCM functions.
 - Exclusions: Front Office Administrative Staff, Temporary staff; Contractors and Supporting Functions (e.g. Middle Office and Back Office); Rotating Graduate/Trainees.
- Adjustments are made to publicly reported costs. Examples:
 - Exclusions: one off regulatory fines/legal settlement costs, amortisation of intangible assets and impairment of goodwill.
- Adjustments are made to publicly reported RWA/Exposure/Capital. Examples:
 - RWA is as per Basel 3 Advanced Approach. Adjustments to publicly reported RWAs are done for differentials in product taxonomies. Allocation by product is done based on an in-house proprietary allocation key which is most reflective of the way the majority of the banks allocate RWA/Balance sheet to businesses. For example, VaR RWA is allocated based on Undiversified VaR, Operational RWA is allocated based on business revenues etc.
 - Exposure or leverage ratio denominator (LRD) for EU banks is as per the BCBS 270 document published by the Basel Committee in January 2014 and for US banks as per the US Supplementary Leverage Ratio (SLR) framework (US adaptation of BCBS January 2014 document) published in September 2014. The total leverage exposure takes into account both on-balance sheet assets and off-balance sheet exposures such as OTC derivatives (PFE and CDS add-ons), repo-style transactions and other off-balance sheet exposures (guarantees and commitments).
 - Capital is calculated as an average of RWA based capital and exposure based capital. RWA based capital is calculated as actual tier 1 ratio times RWA and exposure based capital is calculated as leverage ratio times exposure.

Coalition Standard Taxonomy:

Investment Bank	
Fixed Income, Currencies & Commodities (FICC)	
Credit	Investment Grade; Loan Trading; High Yield and Distressed; Exotic & Structured; Emerging Market Credit
G10 Rates	Government Bonds; Swaps; Vanilla Options; Short Term Interest Rates/Money Markets; Repurchase Agreements; Exotic & Structured, Municipal Finance (Primary & Secondary)
G10 FX	Spot; Forwards; Options
Commodities	Power & Gas; Oil; Metals; Coal; Agriculture
EM Macro	Rates; Foreign Exchange
Securitisation (Primary & Secondary)	Asset Backed Securities; Commercial Mortgage Securities; Residential Mortgage Backed Securities, ABS CDO
Equities	
Cash Equities	Direct Market Access; Program Trading; Shares & Block Trades
Equity Derivatives	Convertibles (Secondary); Flow Derivatives; Corporate Derivatives; Fund Linked Products; Retail Structured Products; Exotic & Other
Prime Services	Synthetic Financing/Delta 1; Equities Prime Brokerage; Fixed Income & Foreign Exchange Prime Brokerage
Futures & Options	Equities; Fixed Income
IBD	
Mergers & Acquisitions	
Equity Capital Markets	Initial Public Offerings; Convertibles (Primary)
Debt Capital Markets	Bonds; Loans
Operating Costs	
Front Office Compensation Costs	Fixed Compensation Costs; Variable Compensation Costs/Performance awards
Front Office Direct Expenses	Technology and Systems Expenses; Telecommunications & Data Expenses; Occupancy, Equipment and Depreciation Expenses; Travel, Entertainment & Marketing Expenses; Professional Services, Legal Expenses & Regulatory Charges
Allocated & Overhead Expenses	Risk and Control Function Expenses; Divisional Operating Expenses; Corporate Overheads

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- **Competitor Analytics** Benchmarking performance to assess competitive advantage
- **Risk Analytics** Analysing RWA, Balance Sheet and Returns to assess efficiency and performance.
- **Client Analytics** Sizing individual client wallets to assess potential opportunities
- **Country Analytics** Quantifying revenue pools and characteristics to assess positioning by country

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