Banks

Investment Banks - FICC is Dead; Long Live FICC

Key Takeaway

The structural challenges facing FICC have been well explored yet little attention has been given to medium term cyclical trends. Our analysis shows these to be far more positive than the double digit revenue declines implied by consensus. Rates and Credit should benefit from a steeper yield curve and recovering macro. At the same time, the new IB cost model should finally allow for true operating 'jaws'. We initiate at Buy on DBK and CS and Hold on UBS.

A cyclical sweet spot - The market focus on the Investment Banks has revolved around the twin 'known unknowns' of regulation and litigation risk. This, along with client uncertainty around taper and EM, has dragged on both current trading and the consensus' outlook for FICC revenues. However our analysis of the industry's two key components shows that 1. Rates revenues are positively correlated to a steeper yield curve and should recover as the path of central bank action clears. 2. Credit revenues are highly procyclical and should follow equities revenues in performing strongly in the medium term. We forecast 6-7% clean FICC revenue growth over 2014-15 for the peer group.

Structural factors must not be overstated - We estimate businesses representing no more than 10% of FICC revenues being impacted by market structure reforms, while the worst of deleveraging pressures should be behind the banks at end 2014. This is more than reflected in consensus estimates in our view. As an offset, disintermediation in Europe is an accelerating €3trn opportunity for the IBs as highlighted by areas of strength such as high yield debt. In addition, history has shown the supposed 'great rotation' into equities funds at the expense of bond funds is of limited relevance to FICC revenues given the smaller revenue base represented by the 'buyside' in FICC.

Operating leverage works both ways - In a more robust revenue environment, the new IB cost model should allow for up to 2x the 'jaws' seen in the industry previously. We estimate variable compensation makes up some 41% of industry compensation against over 70% in the early stage of the last cycle. Comprehensive cost savings programmes, European regulatory pressure on compensation and high staff revenue efficiency should put paid to the usual IB cost inflation in revenue recoveries.

We are buyers of pure plays on the theme - With both consensus earnings estimates and valuations depressed by FICC exposure, we see significant upside to Deutsche Bank (Buy, €45) and Credit Suisse (Buy, CHF34) in a more constructive environment for FICC. We are 12% and 16% ahead of consensus 2015 estimates for CS and DBK entirely driven by our FICC revenue forecasts. We are at Hold on UBS as despite a successful restructuring story, we see little value in the shares when they are priced for such sizeable capital return and the impact of a recovering IB is less impactful.

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Company Name	Ticker	Mkt. Cap (MM)	Rating	Price	Price Target	Cons. Next FY	Current EPS Estimates 2013	2014	2015	Valuation (P/E) 2014	2015
Credit Suisse	CSGN VX	CHF44,927.4	BUY	CHF28.15	CHF34.10	--	CHF1.98	CHF2.78	CHF3.45	10.1x	8.2x
Deutsche Bank	DBK GY	€36,363.0	BUY	€35.69	€45.10	--	€1.04	€3.67	€5.84	9.7x	6.1x
UBS	UBSN VX	CHF71,614.9	HOLD	CHF18.64	CHF19.70	--	CHF0.82	CHF0.93	CHF1.39	20.0x	13.4x

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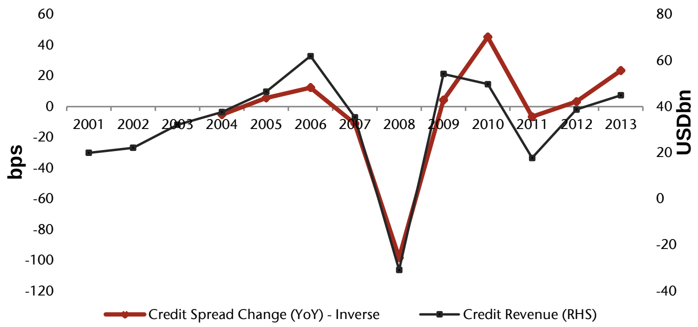
Executive Summary

The myriad regulatory and litigation risks impacting the Investment Banking business have been analysed extensively by the market. The purpose of this report is to look at the outlook for the key IB revenue driver, namely FICC[1]. We conclude that beyond short term uncertainties, cyclical factors are supportive of at least mid-single digit underlying revenue growth. Added to greater expense related operating leverage, and we believe the prospect for positive earnings revisions should offset the structural challenges. Deutsche Bank and Credit Suisse are the clear plays on the theme and we initiate coverage of both with a Buy recommendation and a target of €45 and CHF34 respectively.

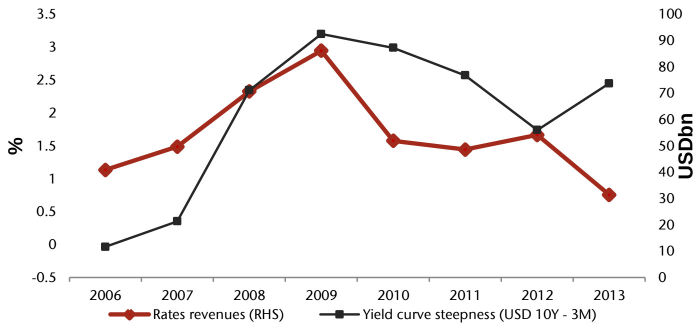
1. Cyclical sweet spot - Our analysis of the FICC business' two key components highlights that 1. Rates revenues are correlated to the shape of the yield curve (page 10). The exception has been 2013 due to customer uncertainty around the quantum and pace of the withdrawal of QE. As the fed's path becomes clearer, a steeper curve should drive an upswing in revenues. 2. Credit revenues are highly procyclical so the consensual view of a positive outlook for equities should also apply here. Taper will also help, as QE has removed over $0.5trn of 'tradeable' MBS from the system in the last year alone. We forecast 6-7% clean FICC revenue growth over 2014-15 for the peer group in-line with a return towards long term capital market growth rates (page 15).

Chart 1: Credit revenues vs credit spreads



Source: Jefferies estimates

Chart 2: Rates Revenue vs yield curve



Source: Jefferies estimates

2. Structural factors must not be overstated – Our analysis of market structure reform suggests businesses representing no more than 10% of FICC revenues are implicated (page 17). At the same time, the worst of the revenue drag from deleveraging should be behind the European IBs by end 2014. This is more than reflected in consensus estimates in our view. As an offset, disintermediation in Europe is an accelerating €3trn opportunity for the IBs (page 24) as highlighted by areas of strength such as high yield debt (up 57% in 2013). In addition, history has shown the supposed 'great rotation' into equities funds at the expense of bond funds is of limited relevance to FICC revenues. After all, the 'buyside' represents just 42% of the total IB client base and sizeably less within FICC (page 31).

[1] Fixed Income, Currencies & Commodities

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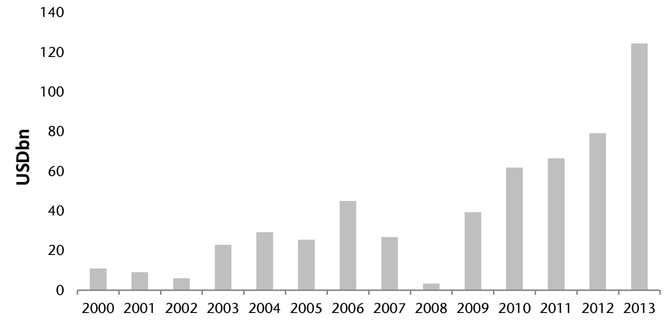
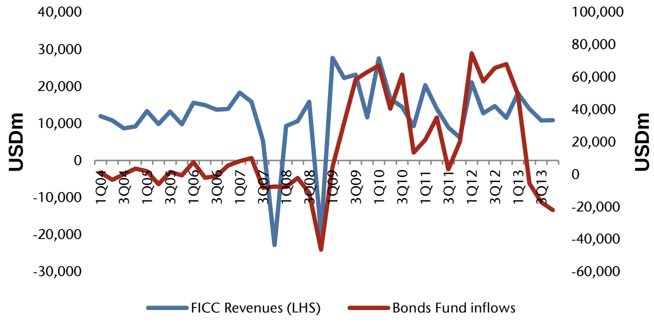
Chart 3: European high yield debt proceeds



Source: Dealogic

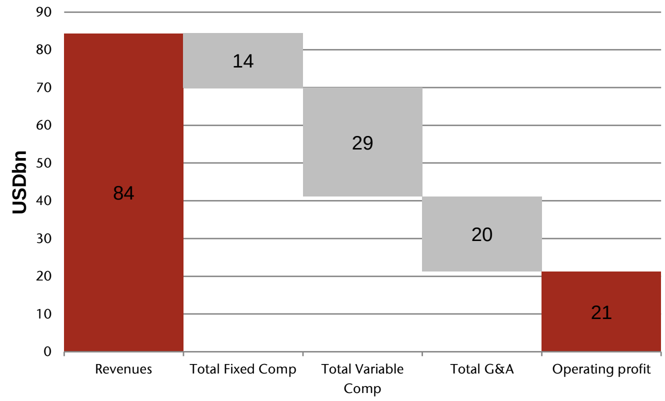
Chart 4: FICC revenue vs Bond fund inflows



Source: Jefferies estimates, company data, EPFR

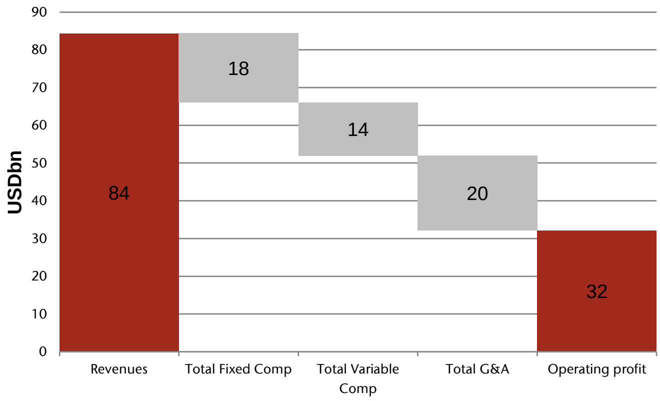
3. Operating leverage works both ways - In a more robust revenue environment, the new IB cost model should allow significantly greater 'jaws' than seen in the industry previously. We estimate variable compensation makes up some 41% of industry compensation against over 70% in the early stage of the last cycle (page 35). Comprehensive cost savings programmes of 9-24% of the starting cost base, new regulation and high staff revenue efficiency mean the typical IB cost inflation through revenue recoveries should be muted. To highlight, applying today's cost model to the cyclical recovery in 2005 would have seen 2x the 'actual' growth in operating profit (page 38).

Chart 5: IB Operating profit 2005 'actual'



Source: Jefferies estimates, company data, Mclagan

Chart 6: IB Operating profit 2005 'new cost model'



Source: Jefferies estimates, company data, Mclagan

Valuation and stock picks

With both consensus earnings estimates and valuation depressed by FICC exposure, Deutsche Bank (Buy, €45), Barclays (Buy, £3.60) and Credit Suisse (Buy, CHF 34) are all clear winners in a more constructive environment for FICC. We are 11% and 16% ahead of consensus 2015 estimates for CS and DBK entirely driven by our FICC revenue forecasts. For Deutsche Bank, the 0.8x TNAV valuation more than captures the risks from its greater leverage as highlighted by our sensitivity analysis (page 40). For Credit Suisse, we are attracted by the group's 'procyclical' mix with its strong credit franchise in high yield and leveraged finance, equities sales and trading sensitivity and wealth management franchise (page 44). We are at Hold on UBS as despite a successful restructuring story, we see little value in the shares when they are priced for such sizeable capital return, while the impact of a recovering IB is less impactful (page 48).

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Table 1: Sensitivity analysis to 10% flex in FICC revenue

Company	Pretax impact (lcy m)	Group net income impact (lcy m)	As a % of group net income	Valuation impact (%)
Credit Suisse	757	530	**9.6**	**11.2**
Deutsche Bank	1146	802	**13.4**	**15.9**
UBS	241	169	**3.1**	**3.8**
Barclays	907	635	**10.1**	**12.0**

Source: Jefferies estimates

Table 2: Single stage GGM

	Deutsche Bank	Credit Suisse	UBS
TNAV per share (2014, lcy)	42.9	23.6	11.5
Sustainable RoTE	12%	15%	15%
Growth	2%	2%	3%
COE	12%	11%	10%
Target P/Tnav (x)	1.05	1.44	1.71
Fair value per share (lcy)	**45.1**	**34.1**	**19.7**
Upside/Downside	**26%**	**21%**	**6%**

Source: Jefferies estimates

Risks

Risks to our investment case include a resurgence of the European sovereign debt crisis, which would impact the revenue environment, funding and asset quality of the banks. Continued uncertainty with regards to the Federal Reserve's tapering programme would impact client confidence and thus FICC revenues, offsetting any positive cyclical benefits from a rising rate environment. Further, there is still a high degree of uncertainty regarding the regulatory landscape for banks with substantial capital markets activities.

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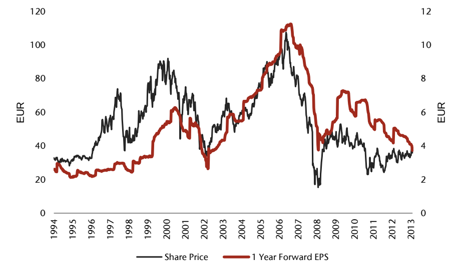
Investment Banks: FICC is dead; long live FICC

Earnings revisions remain the key IB share price driver.

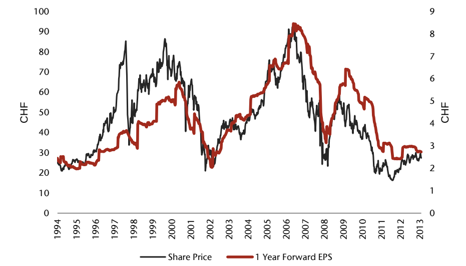
The market focus on the Investment Banks has revolved around the twin 'known unknowns' of regulation and litigation risk. This along with client uncertainty around the pace and quantum of withdrawal of quantitative easing in the US has negatively impacted IB exposed names. Deutsche Bank, Barclays and Credit Suisse have underperformed the broader banks index by 16%, 20% and 7% respectively in the last 12 months. For all the nuances in these banks' investment cases, ultimately medium term earnings revisions remain by far the most meaningful share price driver (see charts 7-9 below) and a challenging environment for FICC has weighed.

Chart 7: Deutsche Bank - 1 Year Forward EPS vs. Share Price



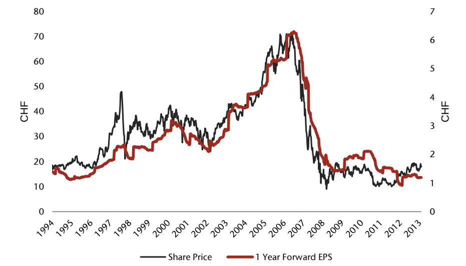
Source: Factset

Chart 8: Credit Suisse - 1 Year Forward EPS vs. Share Price



Source: Factset

Chart 9: UBS - 1 Year Forward EPS vs. Share Price



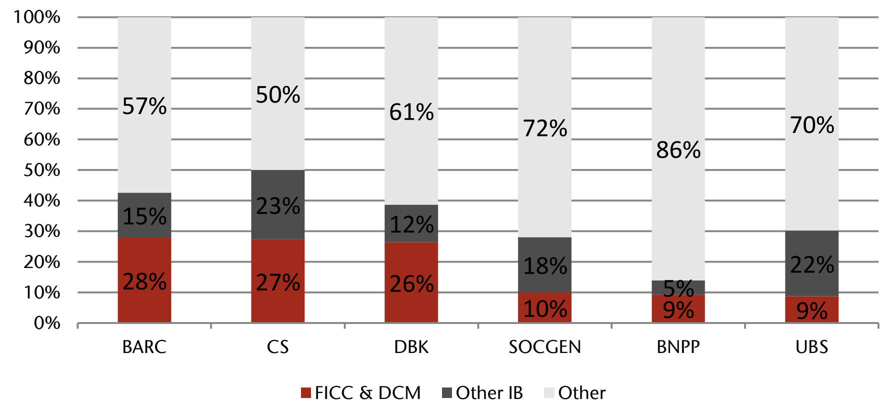
Source: Factset

Sizing the opportunity

Credit Suisse, Deutsche Bank and Barclays are the purest plays on FICC.

Fixed income and related debt capital market origination revenues remain the most material drivers of IB revenues. UBS has de-emphasized its investment bank and FICC in particular to the point where FICC revenue performance is incremental rather than a core part of the equity story. This is also the case for the more diversified French banks. Of the European wholesale banks, Credit Suisse, Deutsche Bank and Barclays are the pure plays on the theme, with 26-28% of group core revenues from these units in 2013.

Chart 10: FICC and debt capital market revenues as % of total core revenue - 2013



Source: Jefferies estimates, company data
Note: 'Other core' excludes legacy and non-strategic business units and corporate centres

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Our sensitivity analysis below highlights this. A 10% deviation in FICC revenues has between 11-16% impact on valuation for Deutsche Bank, Barclays and Credit Suisse (See appendix for workings).

Table 3: Key valuation sensitivities

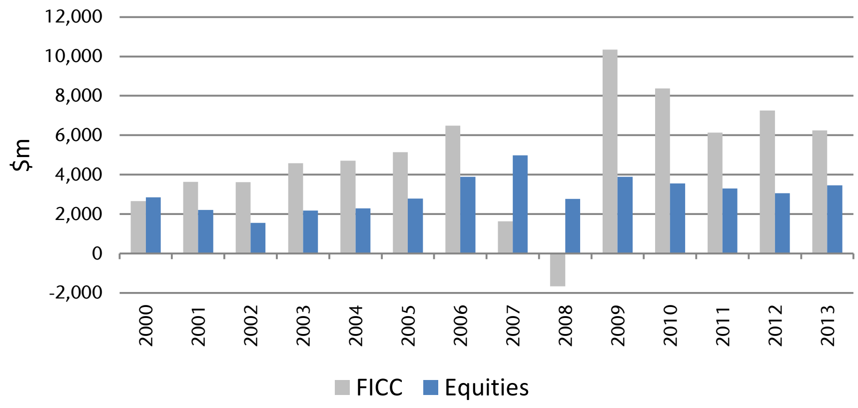
Driver	Flex	Company	Pretax impact (CHF/€/£m)	Group net income impact (CHF/€/£m)	As a % of group net income	Valuation impact (%)
Fixed income revenue sensitivity	10%	Credit Suisse	757	530	**9.6**	**11.2**
		Deutsche Bank	1146	802	**13.4**	**15.9**
		UBS	241	169	**3.1**	**3.8**
		Barclays	907	635	**10.1**	**12.0**
Equity revenue sensitivity	10%	Credit Suisse	681	477	**8.6**	**10.1**
		Deutsche Bank	416	291	**4.9**	**5.8**
		UBS	555	388	**7.2**	**8.7**
		Barclays	400	280	**4.4**	**5.3**
AM & WM: equity AuM sensitivity	10%	Credit Suisse	465	325	**5.9**	**6.9**
		Deutsche Bank	118	83	**1.4**	**1.6**
		UBS	731	512	**9.5**	**11.5**
		Barclays	93	65	**1.0**	**1.2**
AM & WM: revenue margin sensitivity	5%	Credit Suisse	980	686	**12.4**	**14.5**
		Deutsche Bank	230	161	**2.7**	**3.2**
		UBS	1497	1048	**19.5**	**23.5**
		Barclays	181	127	**2.0**	**2.4**

Source: Jefferies, company data Note: AM&WM – Asset Management and Wealth Management

FICC revenues are depressed, down 14% YoY in 2013 and at 60% of their 2009 peak.

This importance of FICC remains despite revenues being depressed, down 14% YoY in 2013 and at 60% of their 2009 peak (see chart 11 below). This is in contrast to equities which saw an upswing in 2013, with revenues up 13% within our peer group.

Chart 11: IB Peer group FICC average revenue progression



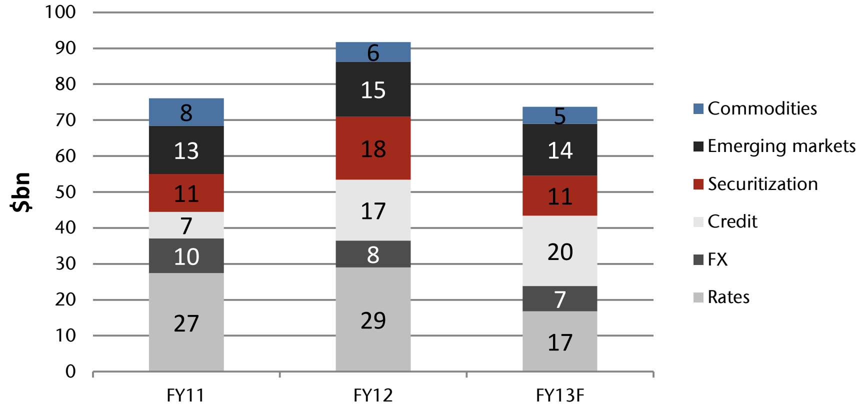
Source: Jefferies estimates, company data
Note: Peer group includes (where applicable) Bank of America, Bear Stearns, Citigroup, Goldman Sachs, JP Morgan, Lehman Brothers, Merrill Lynch, Morgan Stanley, RBC, Deutsche Bank, Barclays, UBS, Credit Suisse, BNP Paribas, Societe Generale, Credit Agricole, HSBC, RBS

Recent FICC underperformance has been heavily impacted by central bank action.

The drivers of global FICC underperformance in the last 12 months have largely been uncertainty over the path of Fed tapering impacting secondary revenues in the Rates business[2] as well as difficult YoY comps from supportive central bank action in 2012. Rates revenues are estimated to be down some 42% industry-wide for 2013 (see chart 12 below). On a normalised basis, Rates represents the single most meaningful component of FICC revenues so the underperformance has weighed.

In addition, securitization[3] revenues (booked as credit revenues at the banks) have also been impacted by Fed purchases reducing the stock of 'tradeable' MBS and leading to reduced inventories. After all, the Fed has added over $0.5trn to its stock of MBS in the last year to reach $1.5trn (out of the total $9trn outstanding). This was only partly offset by tightening spreads supporting the rest of the credit business[4], with revenues at the latter up some 16%.

Chart 12: Top 10 Players - Global FICC revenues by product



Source: Coalition

In Europe, one must then add potential headwinds from inventory reductions to meet leverage targets as well as regulatory pressure from various sources (see appendix for details). This has led various market participants to assume this is just the beginning of a multi-year period of disappointing FICC revenues. We disagree and highlight that from a macro perspective, the outlook for volumes is a positive one.

Our base case consists of 3 key points:

We believe FICC could be entering a cyclical sweet spot.

- We believe the two key components of the FICC business could be entering a cyclical sweet spot over the next 2 years as a steepening yield curve boosts the Rates business while stronger macroeconomics act as an ongoing shot in the arm for the procyclical Credit business

Structural headwinds must not be overstated.

- Structural headwinds including deleveraging and regulation are well anchored in consensus expectations and must not be overstated. Tailwinds such as disintermediation in Europe act as an offset while we believe the 'great rotation' into equities is not an impediment to FICC performance

The new IB cost model offers far greater operating leverage.

- The new IB cost model biased to fixed compensation and against headcount build offers far greater operating leverage for shareholders to a better revenue environment.

[2] Trading in government bonds and over-the-counter and exchange related interest rate derivatives

[3] Asset backed securities, commercial mortgage backed securities, residential mortgage backed securities

[4] Trading in credit-sensitive (corporate) bonds including Investment grade, high yield, loan trading and trading in credit default swaps (CDS)

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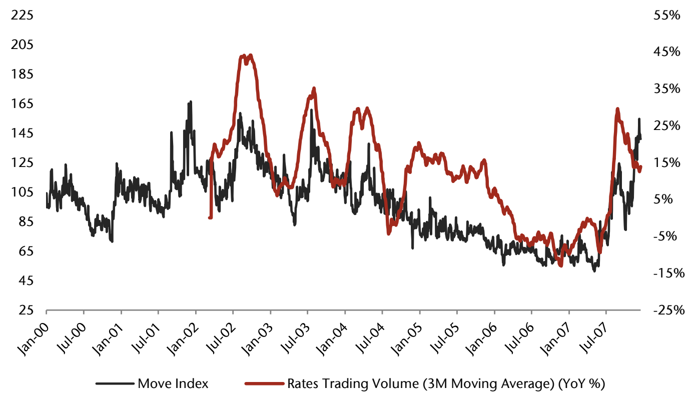
A cyclical sweet spot

Rates – The (new) trend is your friend

Rates trading volumes are highly correlated to interest rate volatility.

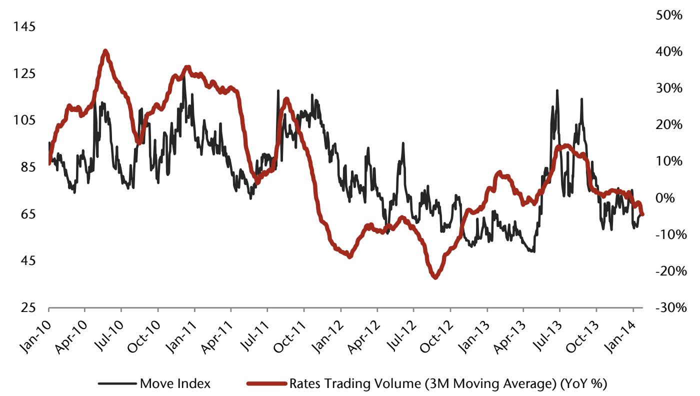
Rates or the trading of government bonds and interest rate derivatives has relatively nuanced drivers in our view. Outside of tail risk events such as 2008, there is a high positive correlation between trading volumes and interest rate volatility. This is intuitive given the need for customers, be they non-bank financial institutions or corporates, to rebalance portfolios and adapt their hedging requirements. Note the focus of our analysis is on US rates given the global nature of the IB industry means this is the more relevant driver.

Chart 13: Rates trading volumes vs. Interest rate volatility (pre-crisis)



Source: Bloomberg, Federal Reserve

Chart 14: Rates trading volumes vs. Interest rate volatility (post-crisis)

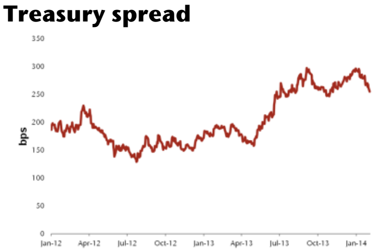


Source: Bloomberg, Federal Reserve

Interest rate volatility rises with a steep yield curve.

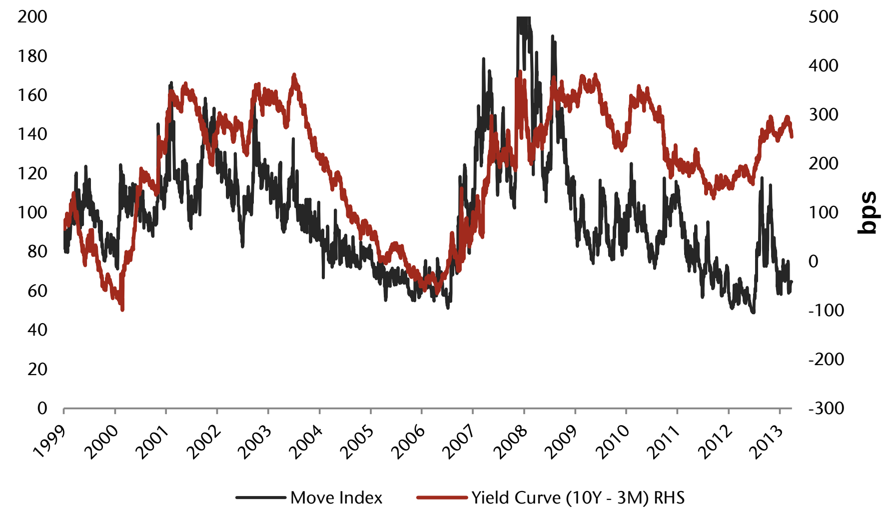
There is a broad consensus expectation of a steepening US yield curve over the next two years as the Fed tapers its bond buying programme while fixing short term rates. To wit, it is worth highlighting the relationship between a steeper yield curve and interest rate volatility (see chart 16 below). Of course, part of this relates to periods when the curve steepens from market dislocations and short-end rates falling (eg 2007-08, 2012) however the relationship tends to hold outside of those periods as well.

Chart 15: USD 10Y / 3M Treasury spread



Source: Bloomberg

Chart 16: Yield curve steepness vs interest rate volatility



Source: Bloomberg

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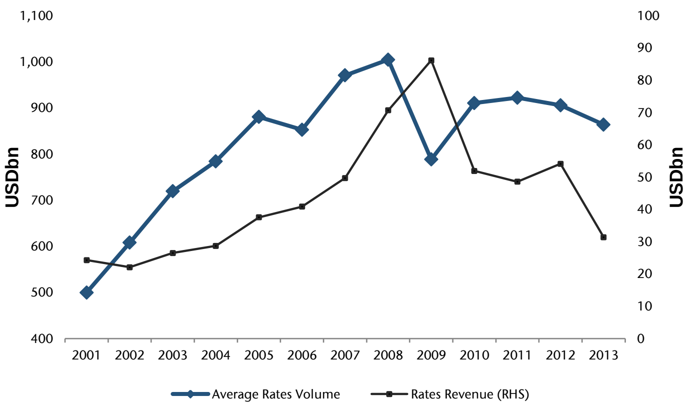
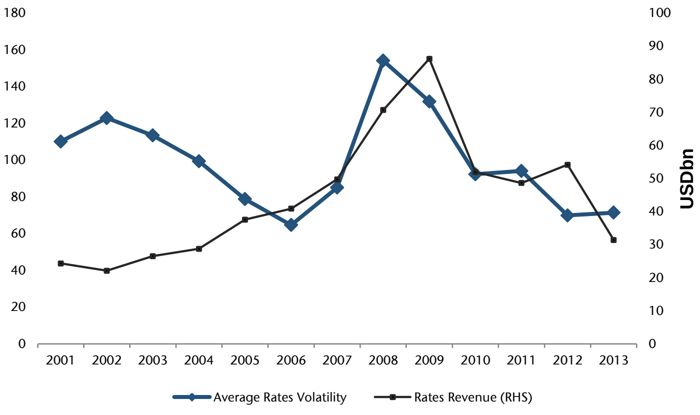
In terms of reported investment banking Rates revenue, there is a clear relationship to industry volumes. As such volatility and rates revenues are also correlated.

Chart 17: Rates volumes vs Rates revenues



Source: Federal Reserve, Oliver Wyman, Jefferies

Chart 18: Rates volatility vs Rates revenues

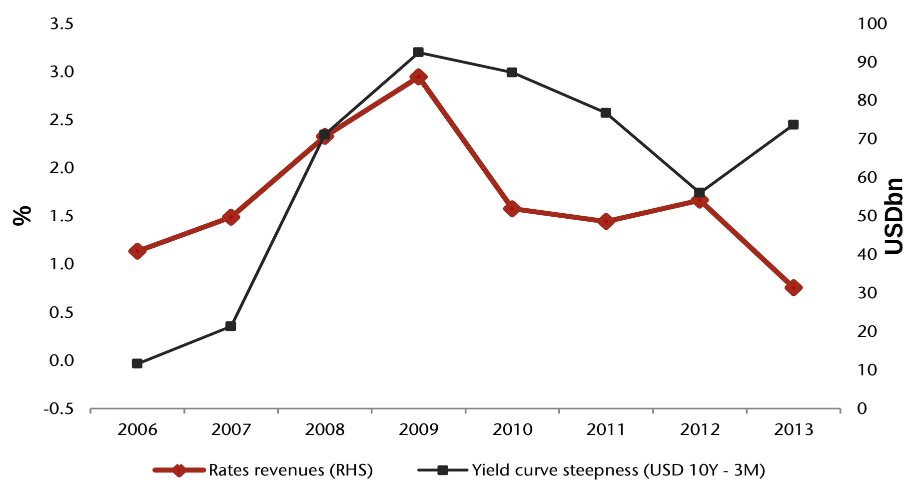


Source: Bloomberg, Oliver Wyman, Jefferies

Rates revenues have trended with trading volumes and volatility, and consequently there is also a relationship with the steepness of the yield curve.

A relationship can therefore also be extrapolated between Rates revenue and the steepness of the yield curve (See chart 19 below). The glaring exception here is 2013 which begs the question as to why the Rates business has not performed more strongly despite higher interest rate volatility and a yield curve that has begun its steepening, with more expected to come. The clear answer has been client inactivity due to the uncertainty around the timing and scope of the Fed's reining in of Quantitative Easing. This has been highlighted by almost all Investment Banking management commentary.

Chart 19: Rates revenues vs yield curve steepness



Source: Bloomberg, Oliver Wyman, Jefferies

Exception to the relationship occurred in mid-2000s, given the rapid structural growth of derivative products.

We would also highlight the period in the early 2000's where this relationship did not prevail and a flattening yield curve was not accompanied by a reversal of Rates revenue. This period can be explained by the rapid 'structural' growth of interest rate derivatives, (mainly Swaps) which somewhat overrode the macro factors.

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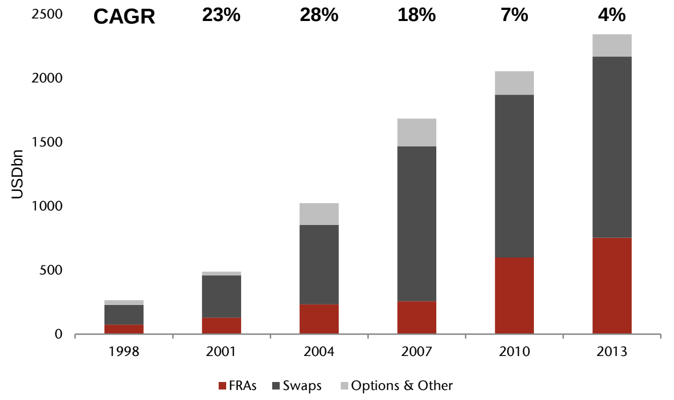
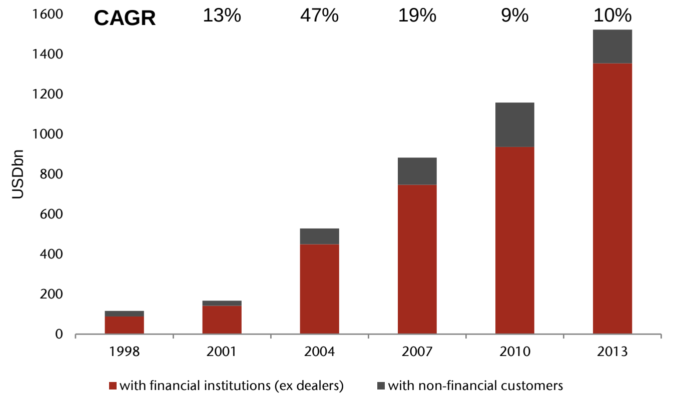
Chart 20: Global OTC interest rate derivatives market turnover



Source: BIS

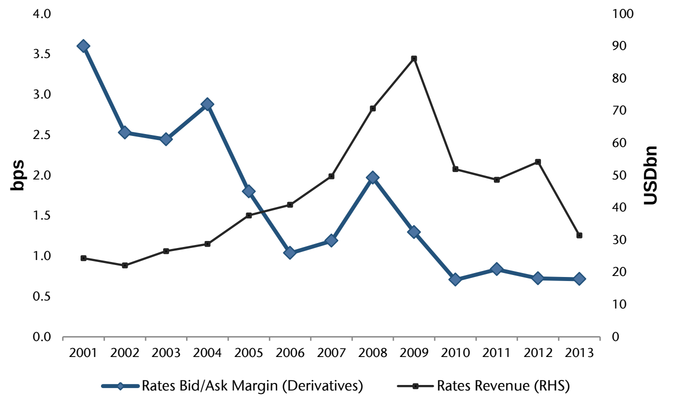
Chart 21: Global OTC interest rate derivatives market turnover (ex inter-dealer trades)



Source: BIS

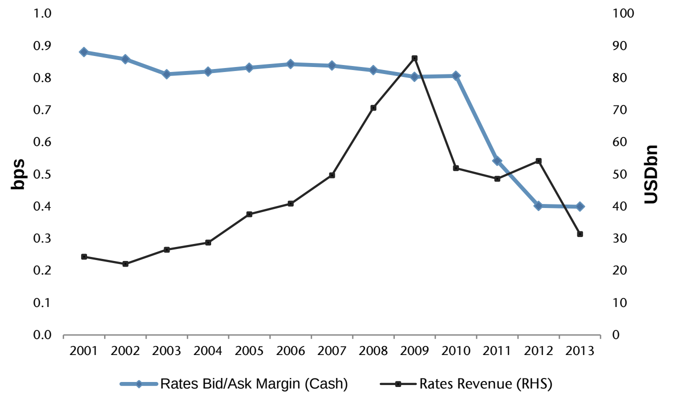
Interestingly, although dramatically wider bid-offer[5] spreads can have a positive short term impact on rates revenues (such as the post-Lehman period of extremely low liquidity), over time the relationship is not particularly robust (see charts 22-23 below). This illustrates the fact volumes are the clearer driver.

Chart 22: Rates - Derivatives bid-offer spreads



Source: Bloomberg, Oliver Wyman, Jefferies

Chart 23: Rates - Cash bid-offer spreads



Source: Bloomberg, Oliver Wyman, Jefferies

Bid-offer spreads and levels of public debt have only a limited impact on rates revenues.

Similarly, levels of public debt have had limited impact on rates revenues (in terms of secondary trading). This is a component to bear in mind in an environment of public sector deleveraging.

[5] The difference between the highest price a buyer is willing to pay and the lowest price for which a seller is willing to sell. Driven by liquidity.

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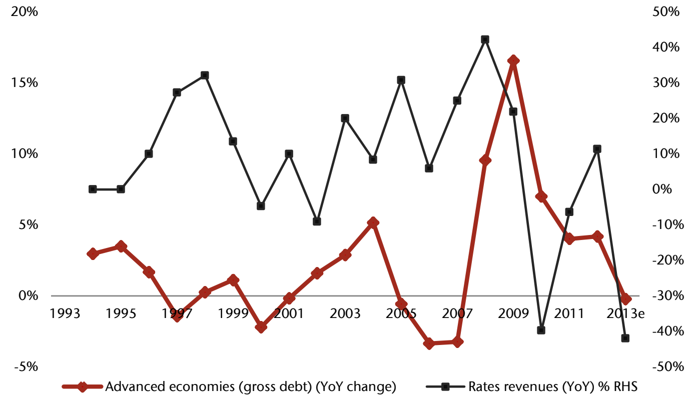
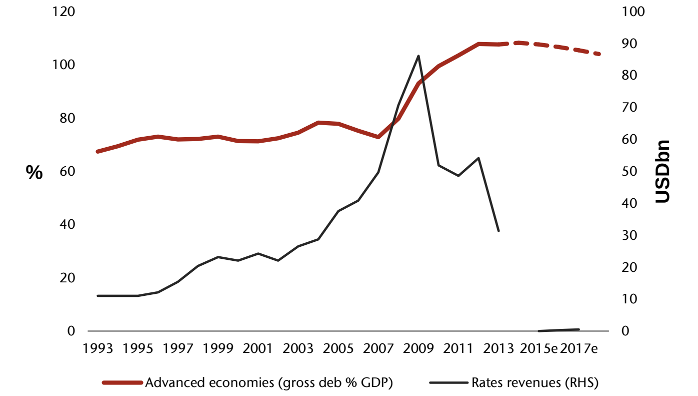
Chart 24: Advanced economies YoY chg in gross debt



Source: IMF, Oliver Wyman, Jefferies

Chart 25: Advanced economies (Gross debt-to-GDP)



Source: IMF, Oliver Wyman, Jefferies

Uncertainty surrounding Fed tapering has impacted client activity levels recently, offsetting the positive impacts of the steepening yield curve.

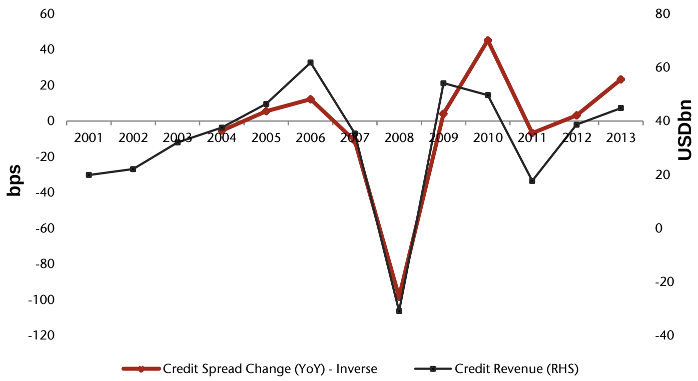
Net, net, it is intuitive given the unprecedented nature of QE that investors and corporates would wait for clarity before acting. As such we feel confident of a material pick-up in volumes and revenues as the path of the Fed becomes clearer. After all, the rates business is not geared to any particular direction of the cycle. Clients and corporates must rebalance investment portfolios and re-adjust their hedging to fit a significantly different rate environment than we have seen for the past 6 years.

Credit revenues are primarily determined by movements in credit spreads.

Credit – Riding the cycle

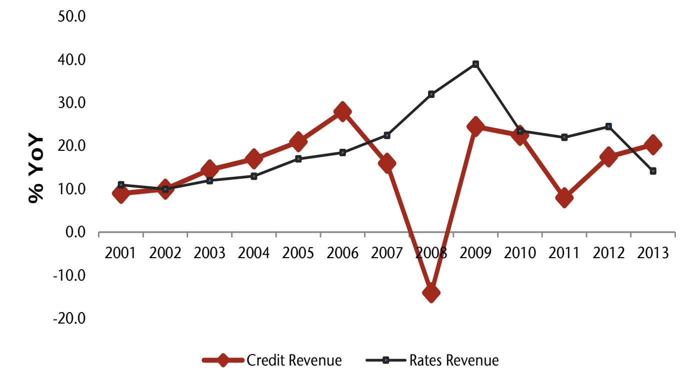
Credit Revenue drivers are more straightforward. The main determinant is credit spreads (see chart 26 below) which explains 82% of the variance (R^2) in revenue. The Credit business is therefore procyclical and shows little correlation to Rates revenue. This has traditionally led to the difficulty in forecasting FICC revenues given the two main business lines have very different drivers.

Chart 26: Chg. in credit spreads (Inverse) vs Credit Revenue



Source: Bloomberg, Oliver Wyman, Jefferies

Chart 27: Credit Revenue vs Rates Revenue



Source: Oliver Wyman, Jefferies

Trading volumes and bid-offer spreads are less relevant for credit revenues....

Industry trading volumes and bid-offer spreads (both Investment grade and high yield) only have a partial impact on IB credit revenue. This highlights the greater part played by inventory revaluations, i.e. revenue gains and losses as spreads change on assets held by banks in the course of business.

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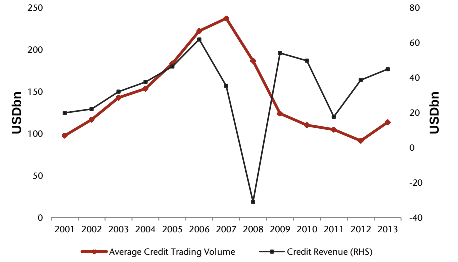
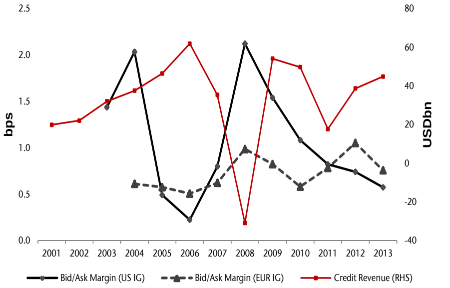
Chart 28: US Credit trading volumes vs Revenue



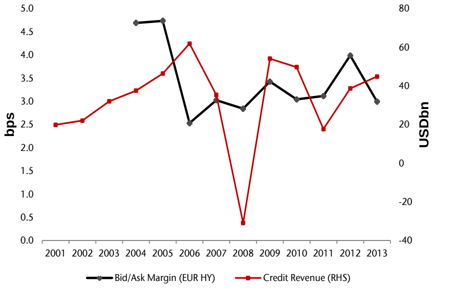
Source: Federal Reserve, Oliver Wyman

Chart 29: Investment Grade bid/offer spreads vs Revenue



Source: Bloomberg, Oliver Wyman

Chart 30: High yield bid/offer spreads vs Revenue

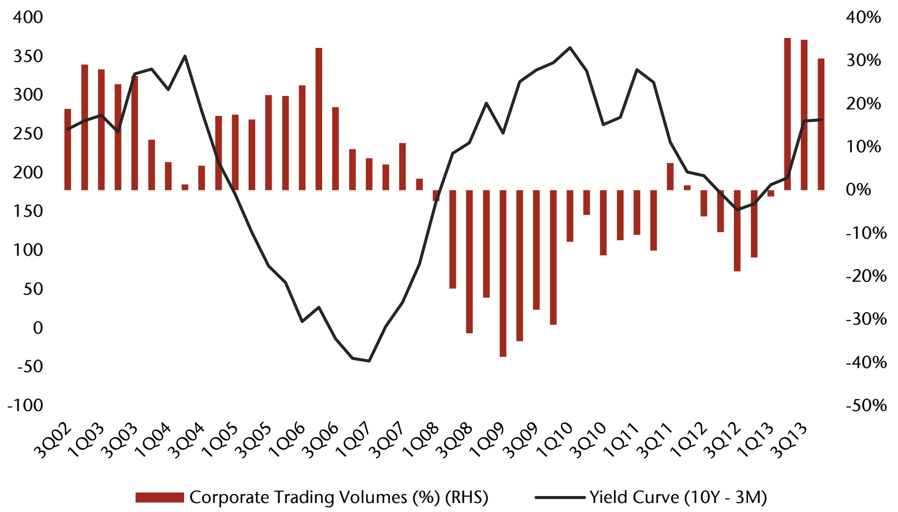


Source: Bloomberg, Oliver Wyman

....as is the shape of the yield curve.

Unlike the Rates business, the shape of the yield curve or its volatility suggests little direct correlation with Credit revenue. This is logical in the context of Credit revenues being procyclical, since a steeper yield curve can denote either a down-cycle (eg. 2008) or a cyclical upswing (eg 2013).

Chart 31: Credit trading volumes vs Yield curve



Source: Federal Reserve, Bloomberg

Credit is a pro-cyclical business and has tracked equities revenues closely.

Of course, one can always argue that is hard to see credit spreads tighten from here and therefore the 'shot in the arm' to revenues is behind us. However if we exclude the secular headwinds that we discuss later in this note, this procyclicality of revenues makes it striking to us that the consensual view of a strong outlook for equities volumes thanks to a strengthening business cycle should not in fact also apply to credit volumes. We touch on the impact on the FICC business of the so-called 'great rotation into equities' later, but this still seems incongruous to us.

Indeed with the notable exception of the dot com bubble in the late 90's, Credit revenues have tracked Equities revenues, certainly far closer than the Rates business.

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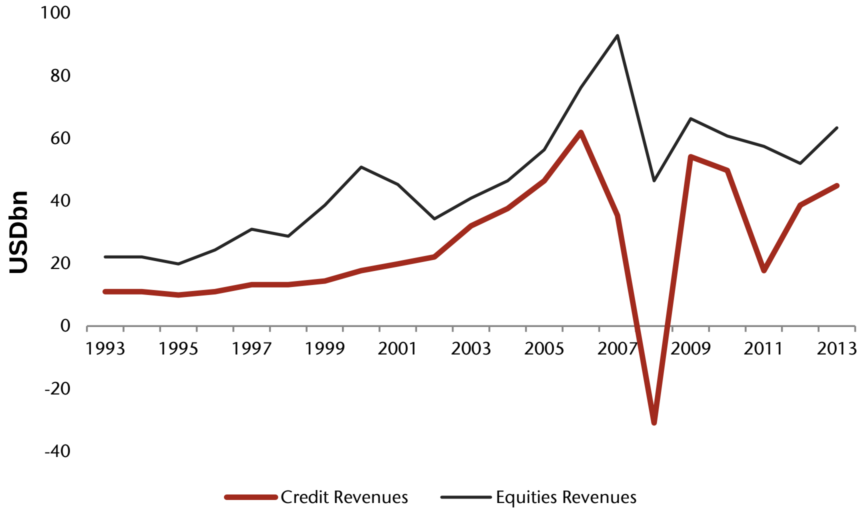
Chart 32: Credit Revenues vs Equities revenues

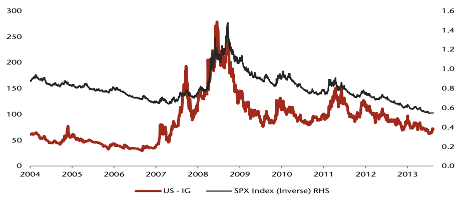


Source: Oliver Wyman

Credit spreads show correlation to equity prices and long bond yields.

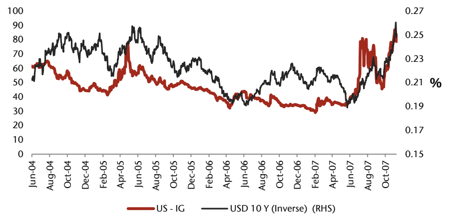
This is of course supported by the close correlation between credit spreads and equity prices (70% relationship outside of the 2008 dislocation; see chart 33 below) and to a lesser extent long bond yields. The structural challenges facing the Credit business have been analysed ad nauseam by the market, however we believe the outlook from a cyclical perspective is attractive if one assumes equity prices and long bond yields trend higher.

Chart 33: Credit Spreads vs S&P500



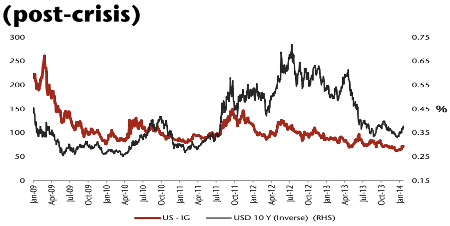
Source: Bloomberg

Chart 34: Credit Spreads vs 10 yr rate (pre-crisis)



Source: Bloomberg

Chart 35: Credit Spreads vs 10 yr rate (post-crisis)



Source: Bloomberg

The year following meaningful changes in the fed funds rate has tended to see a strong performance for debt trading revenue.

We have so far focused on the impact of higher market interest rates at the long end of the curve with no meaningful change expected in the fed funds rate until 2015 according to our economists and the majority of market commentators. However in the event of higher short term rates, it is worth looking at the historical impact on debt trading revenues from changes in the headline US rate.

We use long term debt trading data from the now defunct Securities Institute of America (See table 4 below). The conclusion is that there is no particularly clear relationship. Assuming we are likely to see a steady rather than sharp rise in the fed funds rate, we can look at the examples of the stockmarket crash of '86-87 (fed funds rate +3%, +22bp) and following the Asian currency crisis (+5%, +25bp) which saw totally opposite effects on debt trading despite similar fed action. Of greater import in our view is the shape of the yield curve and path of credit spreads.

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Table 4: US FICC Revenue performance through crisis years

		Fed funds rate change (bp)	Fed funds rate change (%)	YoY (%) Debt trading	YoY (%) Debt trading (Y + 1)
Fed easing (>-20%)					
1982-83	LDC debt	-234	-20%	-1%	25%
1990-91	Banking & Brokerage liquidity crunch	-263	-33%	10%	2%
1991-92	Banking & Brokerage liquidity crunch	-181	-35%	2%	-4%
2001-2002	TMT bubble burst	-175	-52%	-16%	23%
2002-2003	TMT bubble burst	-56	-35%	23%	-10%
Average		**-182**	**-35%**	**4%**	**7%**
Fed tightening (<-20%)					
1993-94	Tequila crisis	150	50%	-31%	34%
Average		**150**	**50%**	**-31%**	**34%**
Fed neutral (<+20%, <-20%))					
1986-87	Stockmarket crash	22	3%	-27%	21%
1997-98	Asian currency crisis	25	5%	23%	-13%
1998-99	Russian default & LTCM crisis	-25	-5%	-13%	30%
Average		**7**	**1%**	**-6%**	**13%**

Source: SIA, Bloomberg, Jefferies

FICC revenue forecasts drive our above consensus estimates

Excluding the impact from deleveraging as discussed later, we forecast 6% YoY revenue growth in clean FICC revenues in 2014, and 7-8% in 2015, in-line with a progressive return to long term global capital market growth rates of 8%. Given the factors we highlight and the sharpness of historical IB recoveries, we do not see this as particularly aggressive. Yet this still drives our earnings estimates that are some 16% ahead of consensus for Deutsche Bank and 11% ahead for Credit Suisse.

Chart 36: FICC revenue growth rate forecasts and Group EPS vs. consensus

	JEFe Underlying FICC growth rates		Group EPS - JEFe vs cons.
	2014	**2015**	**2015**
Deutsche Bank	6%	7%	16%
Credit Suisse	6%	8%	11%
UBS	5%	6%	-5%

Source: Jefferies estimates, Factset

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Structural headwinds should not be overstated

The challenges to FICC business models have been well explored even if their ultimate impact remains some way from being determined. While these structural headwinds are significant, we believe consensus expectations of FICC revenue declines of c.5% out to 2015 capture this downside risk, while capturing little of a more positive macro picture.

FICC business models need to adapt to market structure reform and leverage constraints.

The aim of this note it not to retread the well-worn path of listing the myriad regulatory items impacting the FICC business so we have detailed these in the appendix. What is relevant for our thesis is sizing the potential structural revenue loss from the two key constraints of market structure reform and deleveraging and highlighting potential offsets.

Market structure

The first element to touch on is market structure regulation which should be the greatest of the industry-wide headwinds. This is the broad set of rules governing the shift of OTC[6] derivatives to on-exchange, post trade transparency, mandatory clearing and new rules on margining. While there are differences across jurisdictions and final regulatory definitions are yet to be confirmed, the reform's fundamentals are outlined as follows:

- Mandatory Clearing – CCP[7] clearing of standardised OTC contracts.
- Shift to "on-exchange" – OTC derivative transactions subject to clearing to be executed on Swap Execution Facilities (SEFs) or eligible platforms.
- Margin Requirements – Initial margin requirements on non-CCP cleared OTC derivatives.
- Post trade transparency – reporting of OTC derivative contracts to trade repositories.

[6] Over-the-counter
[7] Central counter-party

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Headwinds for banks are expected to come from higher regulatory costs from greater margin requirements and lower revenues as impacted businesses become more commoditized and pricing becomes more transparent.

It is a challenge to estimate the exact impact from an external perspective without greater disclosure. We can however run an analysis for the most radical of the reforms, namely the requirement that derivative transactions subject to clearing must be executed on swap execution facilities (SEF) i.e. "exchange-like" venues.

Our analysis suggests 21% of rates revenues, and 8% of credit revenues are "at risk" from SEF trading requirements for derivatives.

Our goal is to estimate the proportion of revenues which are currently traded bi-laterally, but which will be forced to move to an exchange-like SEF platform. We summarise our analysis below and conclude that this equates to 21% of rates revenues, and 8% of credit revenues. This equates to a combined 10% of the FICC revenue pool that would be targeted by the reforms (See appendix for full explanation of our methodology). To be clear, this is the revenue base of targeted businesses, and as such not the revenues 'at risk'.

Table 5: SEF trading requirement – Impact Analysis Summary

	Rates	Credit
% FICC Revenue (a)	**38%**	**28%**
% of Revenue o/w Derivatives (b)	**53%**	**40%**
% of Derivatives Revenue o/w OTC (c)	**91%**	**100%**
% OTC Turnover currently traded SEF	31%	37%
% OTC Turnover currently traded bilaterally	69%	63%
% OTC Turnover currently traded with a customer	65%	65%
o/w revenue generating	100%	100%
o/w traded SEF	5%	5%
% OTC Turnover currently traded with dealers	35%	35%
o/w with banks	50%	50%
o/w revenue generating	100%	100%
o/w traded SEF	60%	96%
o/w with inter-dealer brokers	50%	50%
o/w revenue generating	0%	0%
o/w traded SEF	100%	100%
% OTC Turnover o/w revenue generating	83%	83%
o/w traded SEF	17%	24%
o/w traded bilaterally	83%	76%
% OTC Revenue o/w traded on SEF (d)	**17%**	**24%**
% OTC Revenue o/w traded bilaterally	**83%**	**76%**
% of OTC Turnover centrally cleared (Current)	35%	12%
% of OTC Turnover centrally cleared (Post Regulation) (e)	61%	45%
% of OTC Turnover SEF traded (Post Regulation)	61%	45%
Incremental % OTC revenue moving to SEF trading (e – d)= (f)	**44%**	**21%**
% OTC revenues "at risk" = (f)	**44%**	**21%**
% Derivatives revenues "at risk" = (f x c) = g	**40%**	**21%**
% Revenues "at risk" = (g x b) = h	**21%**	**8%**
Revenues at risk % Total FICC = (h x a)	**8%**	**2%**

Source: Jefferies estimates, IOSCO, Basel Committee, Goldman Sachs, IMF

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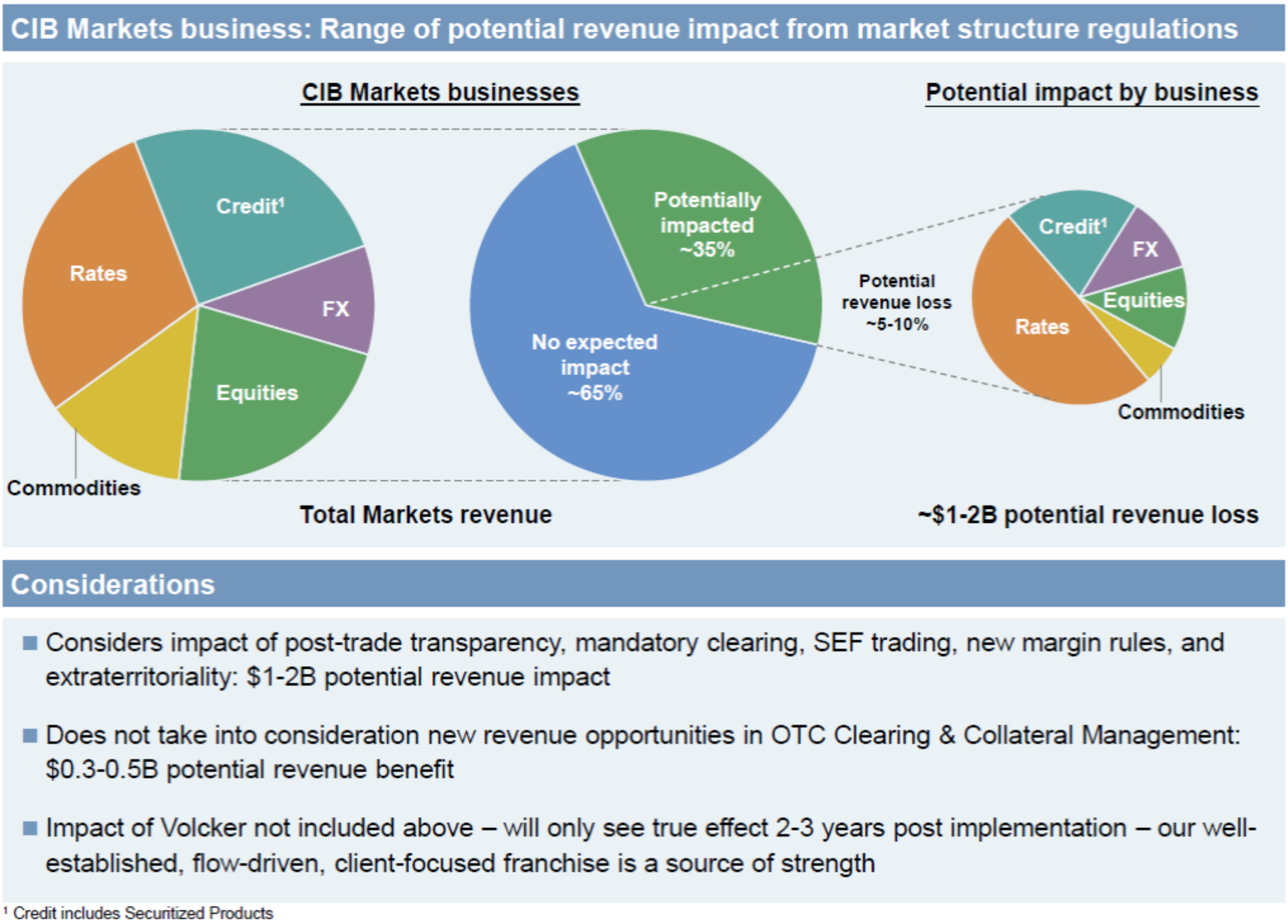
JPMorgan management has estimated that the reforms represent a potential 5-10% revenue loss over time.

Chart 37: JPMorgan estimated impact from market structure regulations



Source: JPMorgan

A c.10% total FICC revenue impact would not be a "game-changer".

Our own analysis thus ties into JPMorgan's guidance somewhat. As such, up to 10% of the revenue base targeted by reforms would not be a 'game-changer' to us in the face of a cyclical upswing in revenues. This is particularly the case as these reforms will be implemented over time and the infrastructure ramp-up period is a matter of years rather than a near term factor (see Appendix for details).

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Deleveraging

Leverage and capital plans are credible and we do not see material equity dilution to meet regulatory hurdles.

The 3 European Investment banks are all undergoing deleveraging programmes to meet regulatory hurdles in the case of Credit Suisse and Deutsche Bank, and in addition to more fundamental business model restructuring in the case of UBS. Our focus here is not on the leverage ratios themselves or their mechanics as this has been done extensively elsewhere. Suffice to say that barring any exceptional regulatory changes, particularly related to US holding company status, we believe all 3 banks' leverage and capital plans are credible and we do not see material equity dilution to meet regulatory hurdles (See company sections for details).

Our interest is how to calibrate this deleveraging in terms of its impact on our thesis of cyclically higher FICC revenues. The four investment banks under our coverage are targeting further cuts in their regulatory balance sheets from here of between 5% and 10% (see table 6 below).

Table 6: Investment bank deleveraging plans

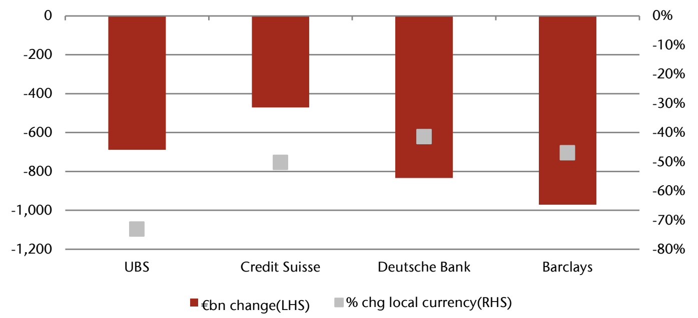
CRD IV Assets (lcy, bn)	4Q12	3Q13	4Q13	Implied Tgt	Timeframe	Reduction remaining	%	Notes
Deutsche Bank	1,683	1,519	1,451	1,305	FY2015	146	10%	Predominantly PFEs and repos
Credit Suisse	1,276	1,184	1,130	1,070	"Long-term"	60	5%	Not specified
UBS	1,216	1,063	1,028	940	"Long-term"	88	9%	Non-core and legacy
Barclays	1,498	1,481	1,363	1,300	FY2015	63	5%	Predominantly PFEs and repos

Source: Jefferies, company data

Significant deleveraging has been ongoing since 2008.

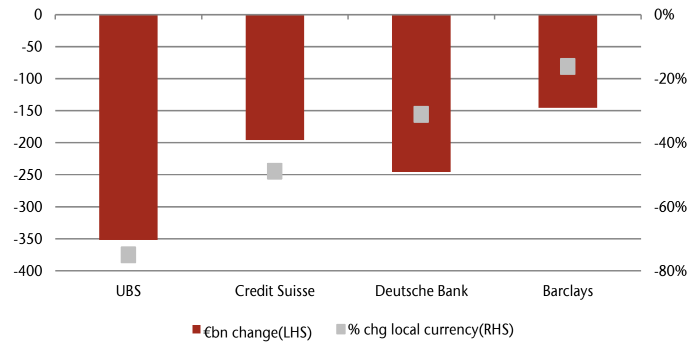
It is important to note the banks have already made sizeable progress on this front. Asset bases since the crisis in 2008 are down between 41% and 73% on a gross basis (See chart 38 below). On a net basis (i.e. excluding derivative replacement values), Deutsche and Barclays appear to have done somewhat less but with the path of regulation as it is[8], a gross basis is now a more appropriate benchmark in any case.

Chart 38: Change in gross IB assets 2008-13 (inc. derivatives)



Source: Jefferies estimates/company data
Note: Under IFRS

Chart 39: Change in net IB assets 2008-13 (ex derivatives)



Source: Jefferies estimates/company data
Note: Under IFRS

As such, one must not overstate the future impact of deleveraging. To wit, if we take the last 'normal' year for FICC revenues pre-crisis, namely 2006, and compare the revenue base to today's, FICC revenues are down only some 14-19% (Excluding UBS from the analysis given their business repositioning). Bearing in mind this includes material sections of structured credit revenues (CDOs etc…) that are absent today compared to their peak in 06-07, we are far from assuming a 100% correlation between asset bases and FICC revenues.

[8] Derivative potential future exposure (PFEs) are added to the leverage ratio calculation

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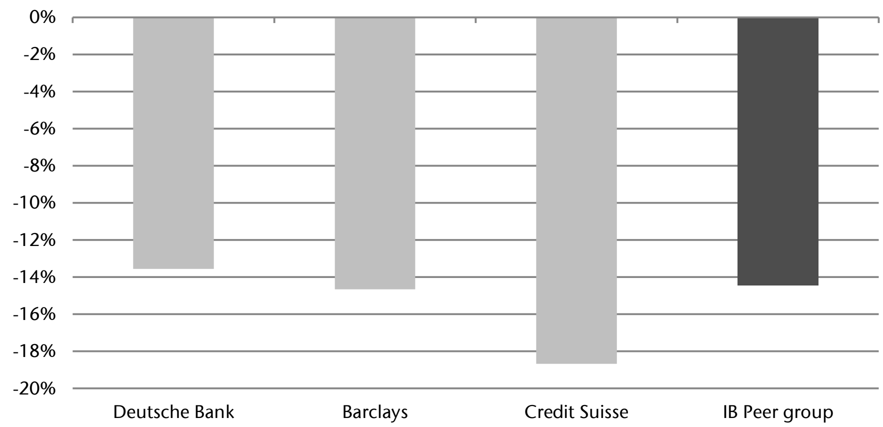
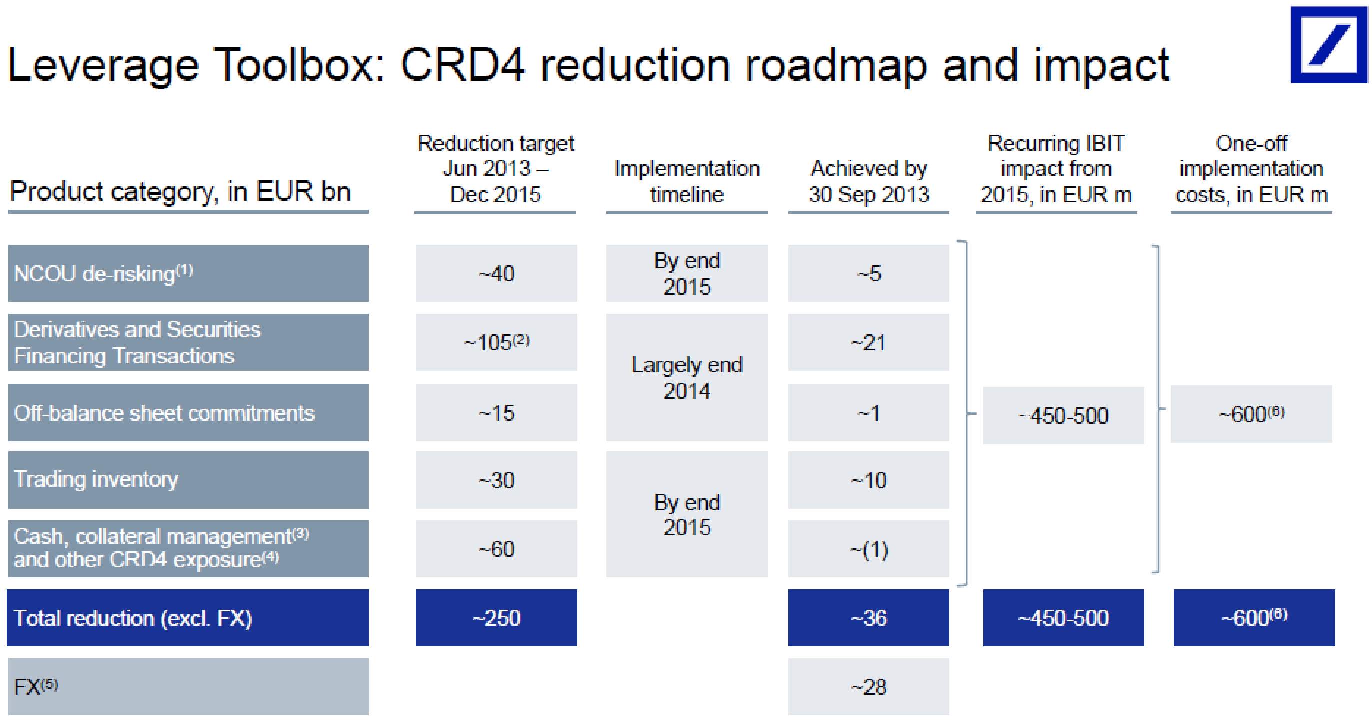
Chart 40: Difference in FICC revenues between 2006-13



Source: Jefferies estimates, company data

To highlight this we can take the example of Deutsche Bank, who has provided an element granularity as to the P&L impact of its deleveraging programme. Out of the €250bn in assets to be rundown, Deutsche expects to lose some €450-500m in pre-tax profit (see chart 41 below).

Chart 41:Deutsche Bank deleveraging roadmap



Leverage Toolbox: CRD4 reduction roadmap and impact

Product category, in EUR bn	Reduction target Jun 2013 – Dec 2015	Implementation timeline	Achieved by 30 Sep 2013	Recurring IBIT impact from 2015, in EUR m	One-off implementation costs, in EUR m
NCOU de-risking(1)	~40	By end 2015	~5		
Derivatives and Securities Financing Transactions	~105(2)	Largely end 2014	~21		
Off-balance sheet commitments	~15		~1	-450-500	~600(6)
Trading inventory	~30	By end 2015	~10		
Cash, collateral management(3) and other CRD4 exposure(4)	~60		~(1)		
Total reduction (excl. FX)	~250		~36	~450-500	~600(6)
FX(5)			~28		

Source: Company data

We can therefore estimate the implied RoA for these assets (See chart 42 below). At some 14bp these are materially lower than that of the investment bank as a whole both today and most certainly compared to the previous cycle (27bp over 2004-2007 and 19bp since 2009). Indeed, the group has not disclosed the revenue impact of this deleveraging but the cost income ratios on these assets are likely materially lower than the IB given the low

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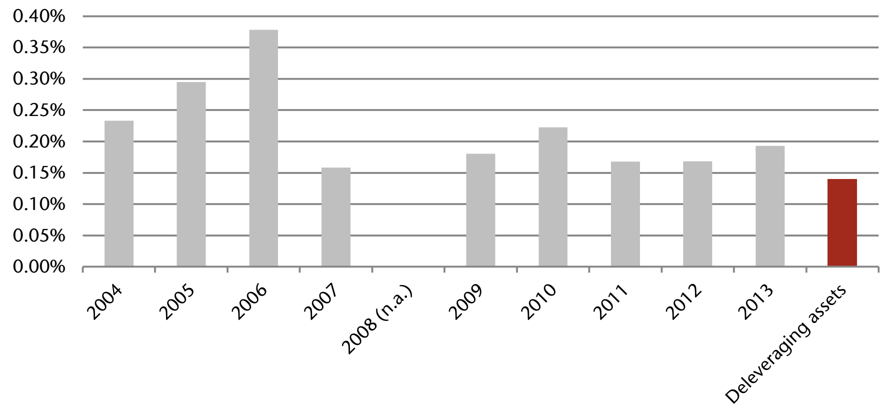
personnel intensity of businesses such as repos. As such the difference from a revenue/assets perspective would be even more pronounced.

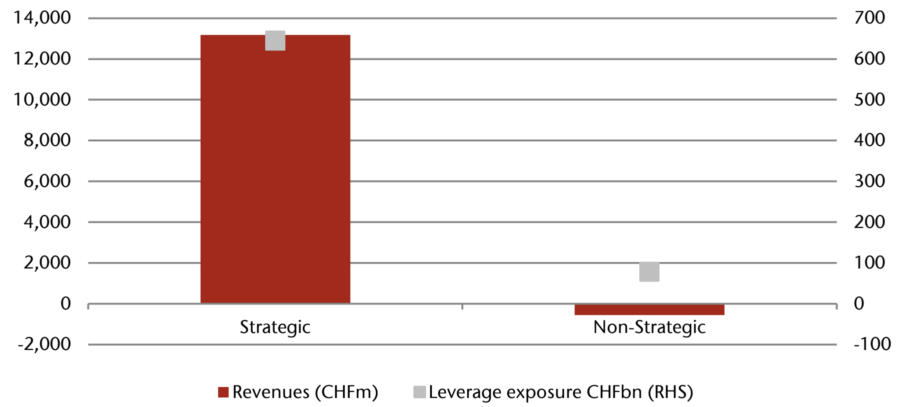
Chart 42: RoA (Net income/Assets): Deutsche Bank IBank vs Deleveraging assets



Source: Jefferies estimates, company data

This is also clearly illustrated at Credit Suisse who recently broke the Investment Bank down between the strategic core business and the non-strategic unit to be 'de-levered'. The latter is mainly comprised of capital intensive long-dated interest rate derivatives and other legacy fixed income instruments. These made up some CHF78bn in assets at end 2013 yet generated some CHF559m in negative revenues over 2013 so in this case there is upside to revenues as assets are rundown.

Chart 43: Credit Suisse strategic IB vs Non-Strategic



Source: Jefferies estimates, company data

Consensus implied RoA targets show little credit is being given for the improving asset productivity trends.

Our point is that the focus of deleveraging from here is likely to be on less productive assets and therefore the revenue impact should not be overestimated. This is not being reflected in consensus estimates in our view. A proxy for this is to look at FICC revenue forecasts for the peer group and dividing them by forecast IB assets adjusted for deleveraging programmes (see chart 44 below). This shows that little credit is being given for this trend of more productive IB assets.

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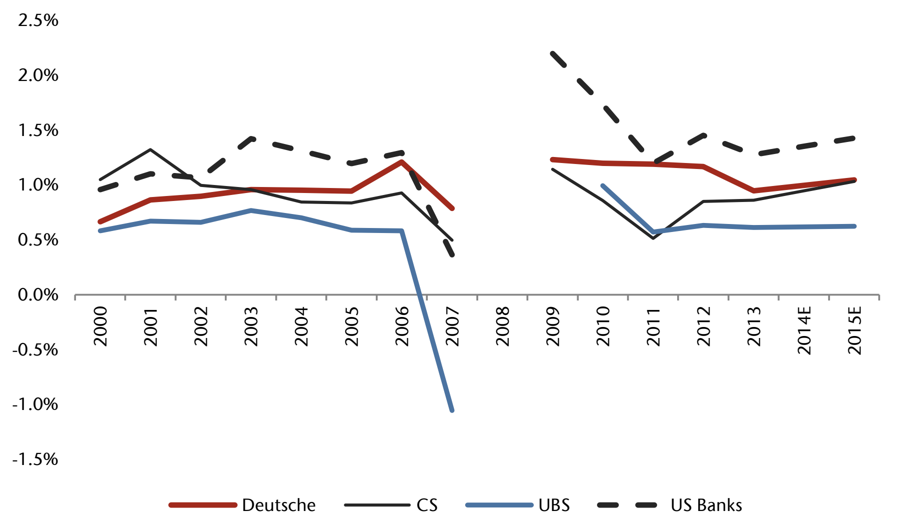
Jefferies

Chart 44: Consensus FICC Revenues/IB assets



Source: Jefferies estimates, company data

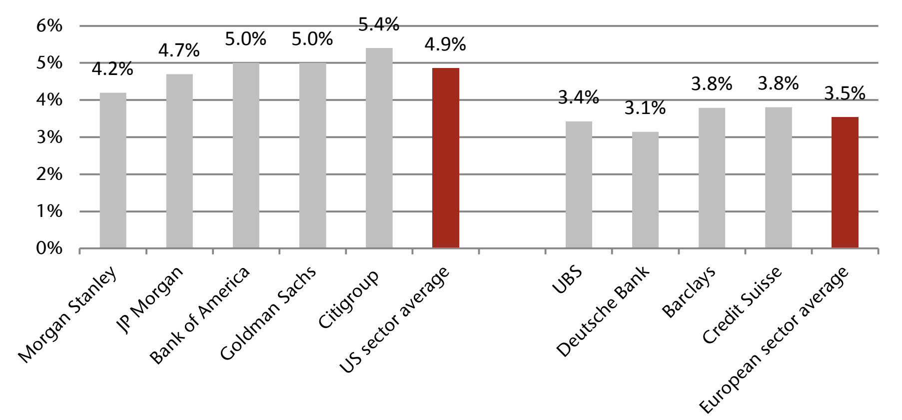
Europe vs US– A rising tide lifts all boats

European banks (unlike US peers) have not historically been managed on leverage constraints.

The question that follows is if this process is so simple, why have the banks not started these programs earlier? The answer in our view is simply that European banks, unlike their US counterparts, were not run on leverage constraints in the last cycle. As such, these unproductive assets used to be 'easy money' under the previous RwA-focused regulatory environment. Repos and parts of the rates business in particular attracted favourably low risk weights.

This regulatory differentiation is evident in the respective leverage ratios of US brokers and moneycenter banks compared to their European investment banking competitors. The Europeans average 3.5% in terms of leverage ratios compared to their US peers on closer to 5%. There are other factors as well of course such as the absence of an agency mortgage market in Europe and lesser disintermediation but the difference is clear.

Chart 45: US vs Europe leverage ratios (Tier 1 Capital / Leverage Exposure)*



Source: Jefferies estimates, company data
***UBS & CS: Swiss Capital/Swiss Leverage Exposure; US Banks: Supplementary leverage ratios; BARC & Deutsche: Tier 1 CRD IV Capital (incl. grandfathered T1) / CRD IV leverage. NB: excl. Jan 2014 BCBS update.**

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US Banks may thus be better positioned initially to gain a greater share of any cyclical revenue upswing.

The US banks are therefore better positioned initially to gain a greater share of any cyclical revenue upswing and this was seen in IB revenue trends at the end of 4Q13.

Table 7: Major Investment Banks – FICC revenue performance

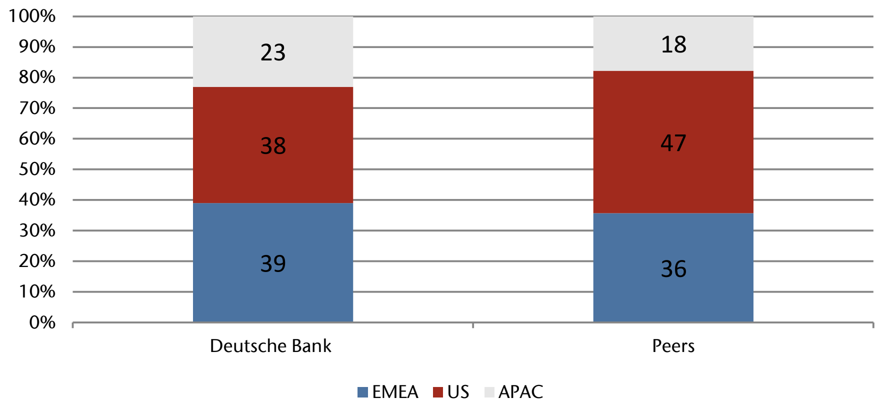
USDm	4Q12	3Q13	4Q13	QoQ	YoY
Bank of America	1,788	2,033	2,080	2%	16%
Citigroup	2,741	2,783	2,329	-16%	-15%
Goldman Sachs	2,117	1,294	1,887	46%	-11%
JP Morgan	3,177	3,439	3,199	-7%	1%
Morgan Stanley	811	835	694	-17%	-14%
US IBs	**10,634**	**10,384**	**10,189**	**-2%**	**-4%**
Average				2%	-5%
Deutsche Bank	2,089	1,706	1,336	-22%	-36%
Barclays	2,421	1,474	1,689	15%	-30%
UBS	414	337	331	-2%	-20%
Credit Suisse	956	901	832	-8%	-13%
European IBs	**5,880**	**4,418**	**4,187**	**-5%**	**-29%**
Average				-4%	-25%
Total IBs	**16,514**	**14,802**	**14,376**	**-3%**	**-13%**
Average				-1%	-14%

Source: Jefferies, company data

However we view this as temporary. The bulk of the European banks' deleveraging plans at their current pace are likely to be behind us in 2014, while as highlighted these will be biased to less profitable operations. At the same time, consensus revenue expectations already factor in a sizeable difference in revenue expectations between US and European banks.

Of greater import is the global nature of the business. Although Deutsche Bank management bemoaned their bias to Europe relative to the US at their 4Q13 conference call as a reason for their FICC underperformance, the numbers themselves do not suggest that the group will not participate in a US–driven FICC revenue upswing (see chart 46 below).

Chart 46: Deutsche Bank vs IB peers sales and trading revenue split



Source: Company Data

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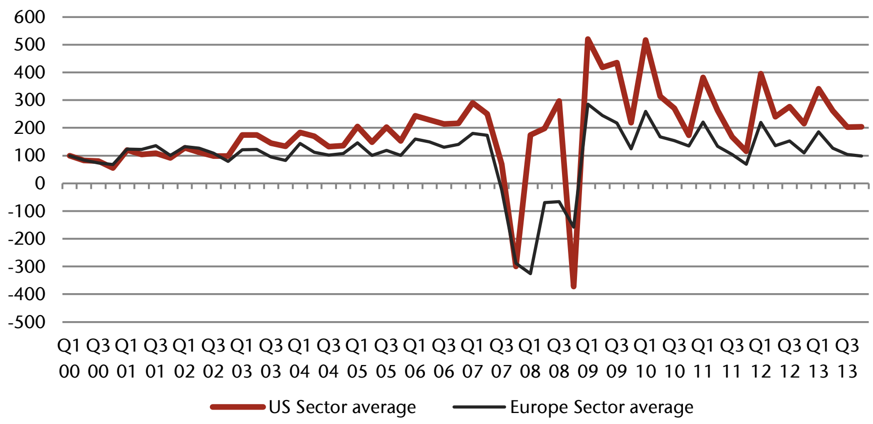
Business model changes and macroeconomic backdrops between the US and Europe should not be overstated.

Indeed one can look at historical trends to underline that different business model changes and macroeconomic backdrops between the two regions should not be overstated. Since 1Q00, the correlation between US banks and European banks' FICC revenues has been 70%.

Chart 47: US vs Europe average FICC revenues (rebased to 1Q00)



Source: Jefferies estimates, company data

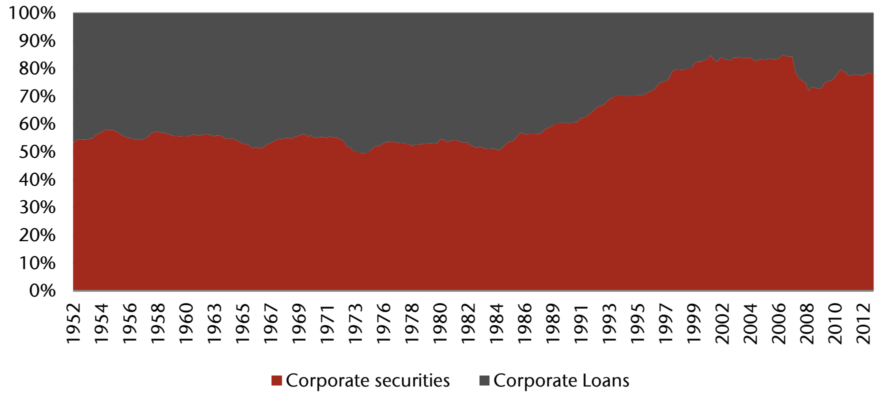
European disintermediation - A slow (but sure) burn

Amongst all this there is a tailwind to European fixed income that could serve as an offset to the structural headwinds: Disintermediation; put simply, the shift from on-bank balance sheet borrowing by corporates to borrowing via bond issuance on capital markets. This would shift the value chain towards the investment banks from commercial banks' balance sheets. This is a process that has long been forecast to occur over a period of time but we feel that the deleveraging process across European banks combined with the new regulatory framework should accelerate it. This has been evidenced by recent trends.

US corporates derive 78% of their debt funding via bond issuance vs. 19% in Europe.

The principle is that US corporates derive some 78% of their debt funding via bond issuance versus some 51% 30 years ago. This accelerated use of capital markets drove the bond market boom of the 80's and 90's (see chart 48 below)

Chart 48: US Corporates' dependence on capital markets vs loans



Source: Federal Reserve, Bloomberg

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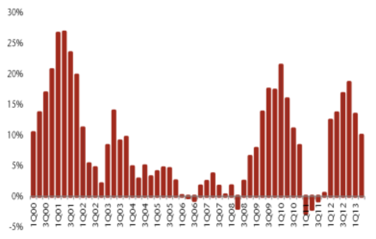
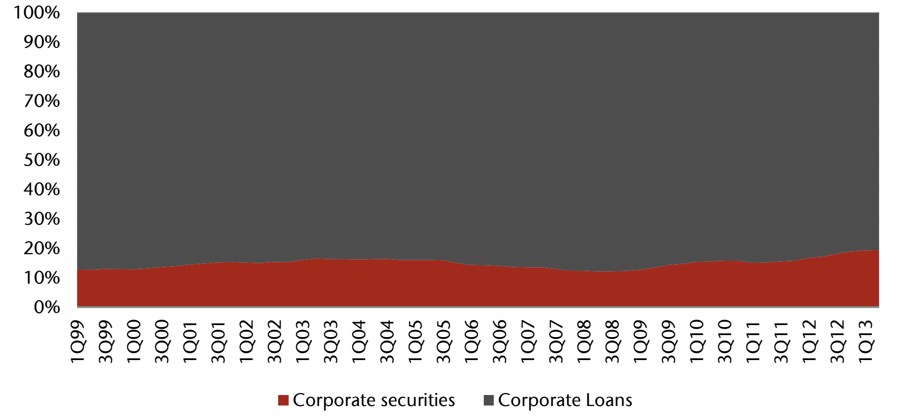
In Europe on the other hand the picture is reversed, with just 19% of debt funding from capital markets. The trend has been a steadily rising one but after a short reversal through the Lehman crisis, the proportion has accelerated from 12% in 2008 to current levels.

Chart 49: Europe - Corporate Debt Securities (YoY, %)



Source: ECB

Chart 50: European Corporates' dependence on capital markets vs. loans



Source: ECB

Deleveraging and the new regulatory framework should accelerate European disintermediation, and shift the value chain towards IBs.

Whether the proportion ever reaches the same level in Europe as in the US is up for debate. If so, this would represent a €3trn uplift in European capital market issuance. What is clear though is the direction of travel. There are 2 cyclical elements driving this process:

- The broad deleveraging by continental European retail and corporate banks due to challenged business models. Corporate and SME loan demand has been weak given weak macroeconomics but this factor should become more apparent as the recovery takes shape.
- Higher bank funding costs. This has squeezed lending margins and made capital market funding a cheaper option for many corporates.

Chart 51: European CDS spreads (Corporates Less Financial Institutions)

Source: Bloomberg

Beyond that, the key structural driver is the changed regulatory framework. The step change in bank capital and leverage requirements has permanently raised the profitability hurdle rate for much corporate lending. In addition, funding longer dated loans on bank

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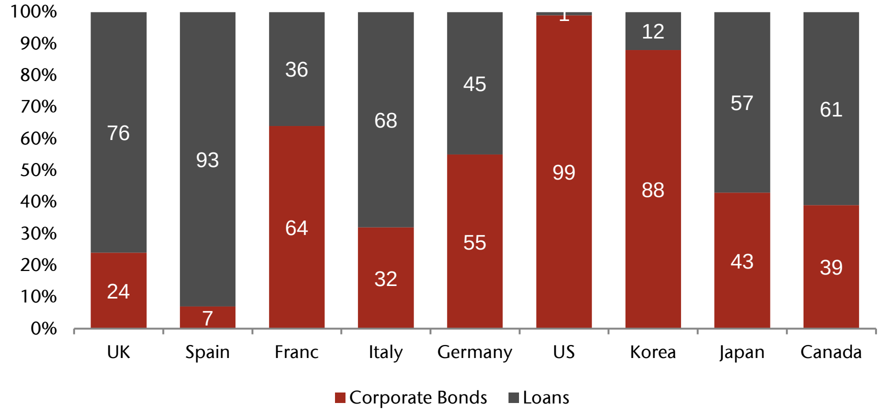
balance sheets such as project and infrastructure finance is now more onerous due to regulators' implementation of the net stable funding ratio[9] and liquidity coverage ratio[10]. The natural alternative is for non-bank financial companies, including pension funds and insurers to pick up the slack, particularly given Solvency 2 regulation favouring corporate bond investing at the latter.

An indicator of this trend for disintermediation can be seen in the market for high yield debt issuance. The bias to on-bank balance sheet borrowing by corporates in Europe that we have discussed is actually not as pronounced amongst European corporates of a larger size (as measured by those with revenues above $500m, see chart 52 below).

Chart 52: Breakdown of total debt of corporates with >$500m in revenue (2011)



Source: McKinsey

The reason for this is that larger corporates already have deep and mature capital market banking relationships given their more complex financing requirements. As such one must look at European high yield debt issuance to isolate the potential for growth.

High yield includes corporate issuers rated below investment grade. Up until the 1980's this consisted largely of 'fallen angels', namely corporates that were rated investment grade before being downgraded. This sub-sector has now evolved to encompass general corporate debt issuance by sub-investment grade (i.e. generally smaller) corporates.

[9] A weighted calculation of the proportion of long-term assets which are funded by long term, stable funding

[10] The requirement for a bank to hold sufficient high-quality liquid assets to cover its total net cash outflows over 30 days

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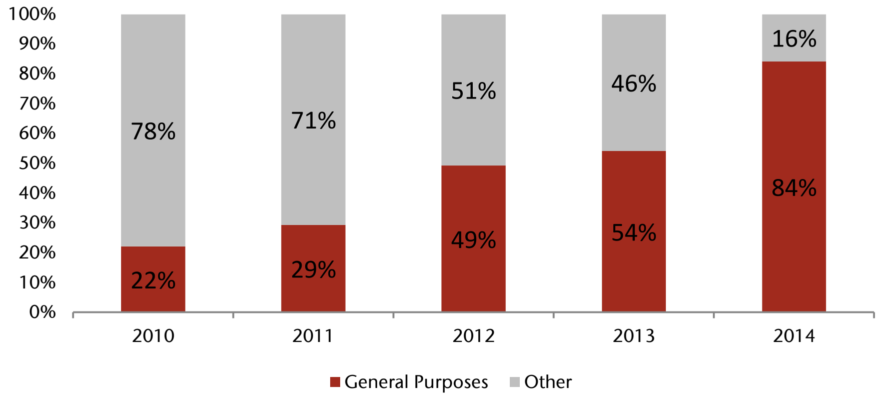
Chart 53: European high yield debt purpose

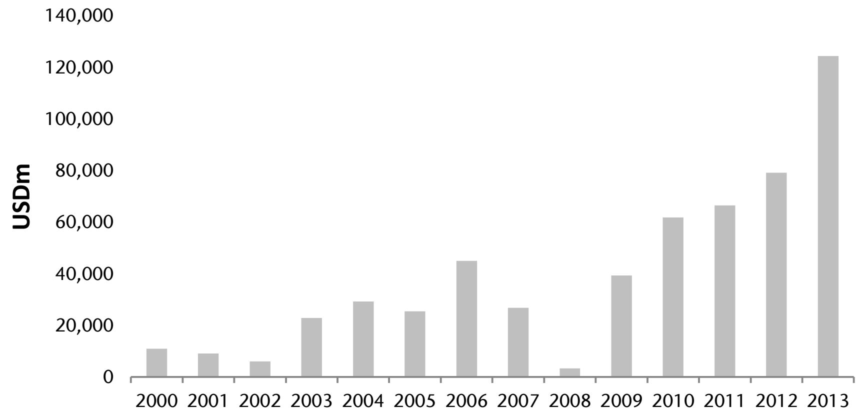


Source: Dealogic

The growth of the European High Yield debt market shows accelerated disintermediation is already well underway.

Here we can see very rapid growth in the European market (see chart 54 below) with issuance in Europe of some $125bn in 2013 rising by 57% YoY and over 5x the level of issuance seen 10 years ago.

Chart 54: European high yield debt issuance proceeds 2000-2013



Source: Dealogic

HY issuance still however only makes up 6% of total European DCM.

The market has been buoyed by relatively strong corporate balance sheets with low defaults, high interest cover as issuers lock in lower borrowing costs. However the rate of growth suggests more structural factors at work and we believe this is a function of disintermediation slowly taking shape. Clearly there is some way to go with high yield issuance still making up just 6% of total European DCM[11] issuance, even if it is growing at a much faster rate.

[11] Debt Capital Markets: Bond origination

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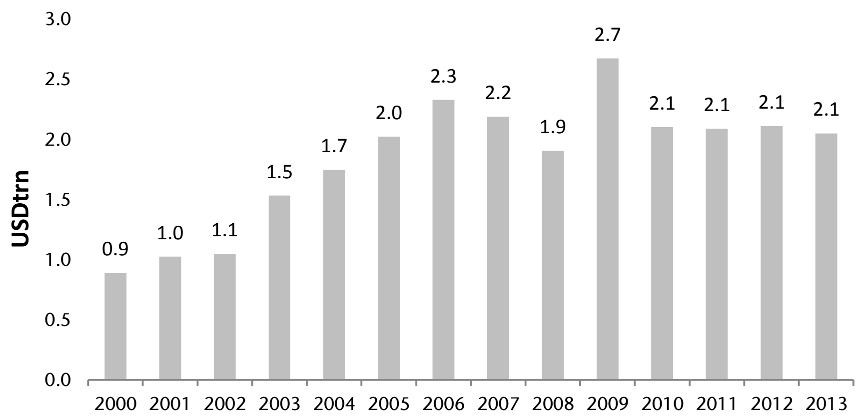
Chart 55: European total DCM deal proceeds

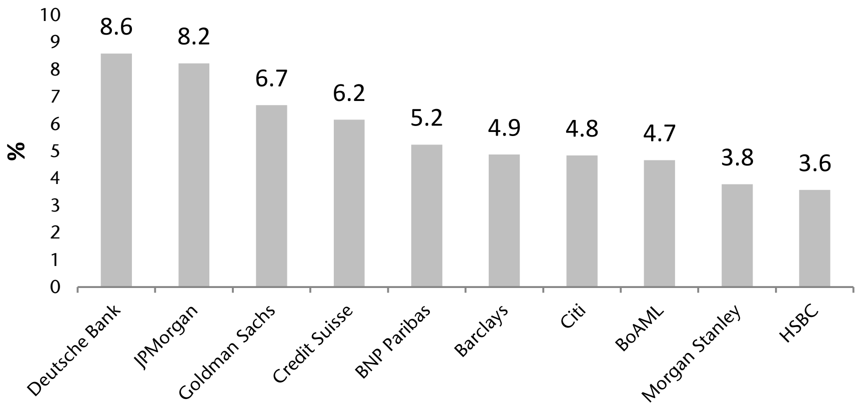


Source: Dealogic

Deutsche Bank is the no. 1 player in European HY debt issuance.

In terms of competitive positioning, Deutsche Bank is the leader in Europe with some 9% share of the market for high yield origination in the last year. Credit Suisse with its leading US high yield franchise (stemming from the 2000 DLJ acquisition) is 4th and Barclays 6th.

Chart 56: European high yield debt issuance market share (2013-TD)



Source: Dealogic

Leveraged loan issuance is also recovering.

To a lesser extent this trend can be seen in the leveraged loan market. As a reminder, leveraged loans are corporate debt issues arranged by one or more IBs and syndicated to a group of commercial banks and non-bank investors. Like high yield debt, leveraged loan issuers are typically sub-investment grade and reflect the underlying corporate's higher than normal gearing. They differ from high yield in having tighter covenants and being largely floating rate. Leveraged lending is commonly used to achieve a specific, often temporary objective, e.g. M&A, buy-outs or share repurchases.

The market saw record issuance in the US in 2013 at some $1.3trn, recovering fully from the crisis. Although Europe in 2013 remained at some 44% of its cyclical peak (in 2007), issuance grew by a sharp 57% YoY.

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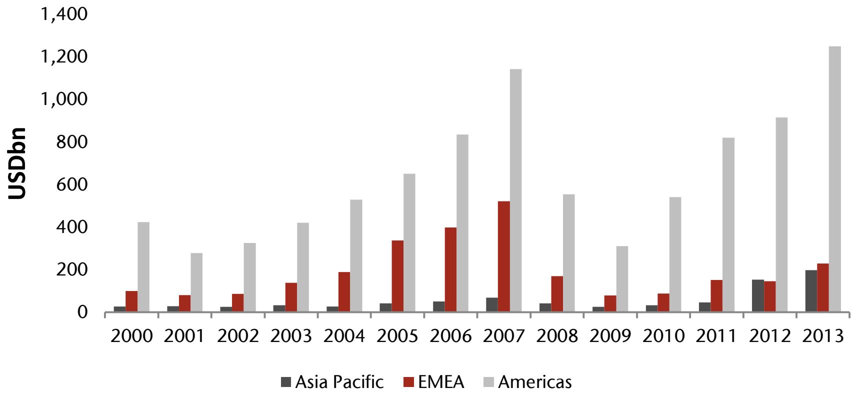
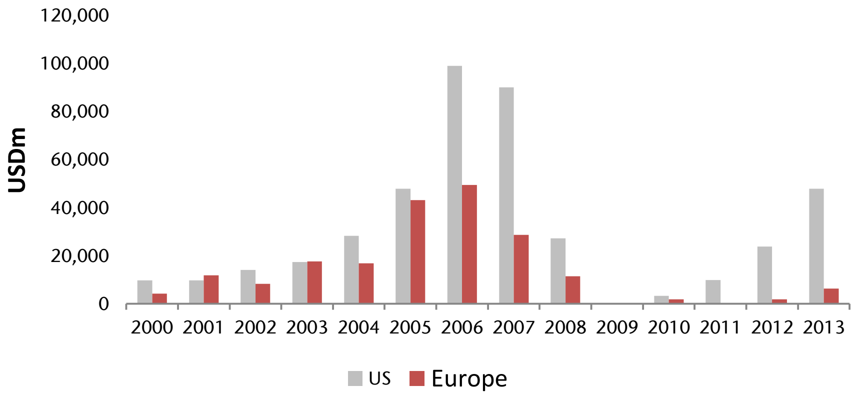
Chart 57: Leveraged loan issuance by geography



Source: Dealogic

This is despite regulatory headwinds for a key 'buyer' of leveraged loans, namely collateralized loan obligations[12] (CLOs). These include higher capital charges on the instruments as well as uncertainty over their treatment under the Volcker rule.

Chart 58: CLO issuance



Source: Dealogic

A driver of the strength in leveraged financing is corporates taking advantage of current low funding costs, however leveraged loans remain the primary source of financing for private equity transactions and LBOs[13]. Given a more positive outlook for the sector and M&A more broadly, one would thus expect leveraged loans to benefit.

[12] A securitization whereby payments backed by multiple corporate loans are pooled and distributed to owners of various tranches of the vehicle
[13] Leveraged buyout

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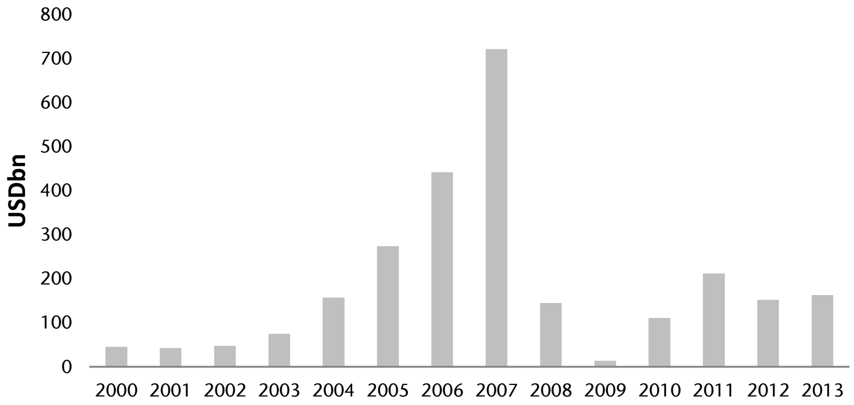
Chart 59: Global financial sponsor-backed loan financing volume

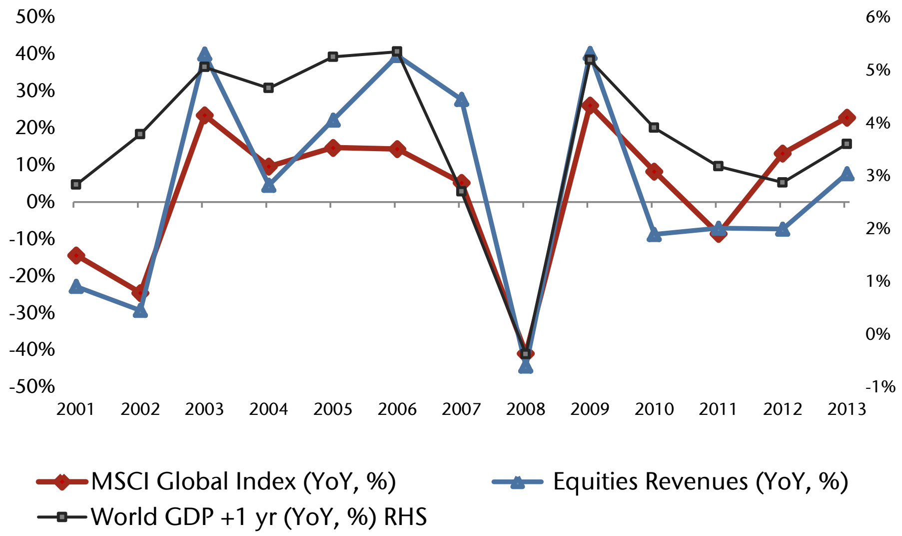


Source: Dealogic

What about the 'great rotation'?

We have not focused on equities within this piece of as our view is broadly in-line with consensus: We expect a strong performance in the near to medium term given the procyclical nature of the business. Beyond longer term pricing pressure (in cash equities and flow derivatives rather than structured products), the product class is far less susceptible to regulatory pressure than fixed income. Being balance sheet un-intensive, it is also not targeted by deleveraging programmes. Global equities revenues have trended with both equity price indices and global GDP growth (1 yr forward), with correlations to both variables of c.70% (see chart 60 below).

Chart 60: Equities Revenues vs MSCI World Index vs Global GDP (+1y)



Source: Company data, IMF, Factset

What is relevant to our broader view on FICC revenues however is the potential impact of the so-called 'great rotation'. Specifically, the prevalent view that the attraction of equities as an investable asset class will come at the expense of bonds as long yields rise consistently for the first time in a cycle while the end of quantitative easing removes a key support for fixed income asset prices. Indeed this has clearly already started (See chart 61 below), with some US$251bn of inflows into equity funds in 2013 against just US$4bn into bond funds.

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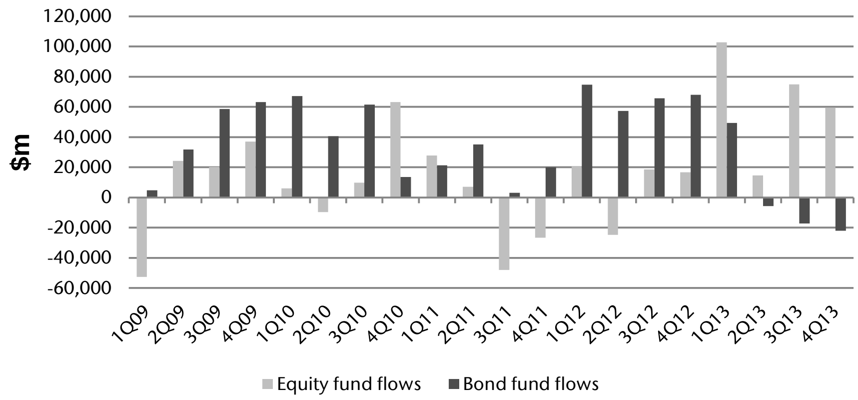
Chart 61: Equity fund flows vs Bond fund flows

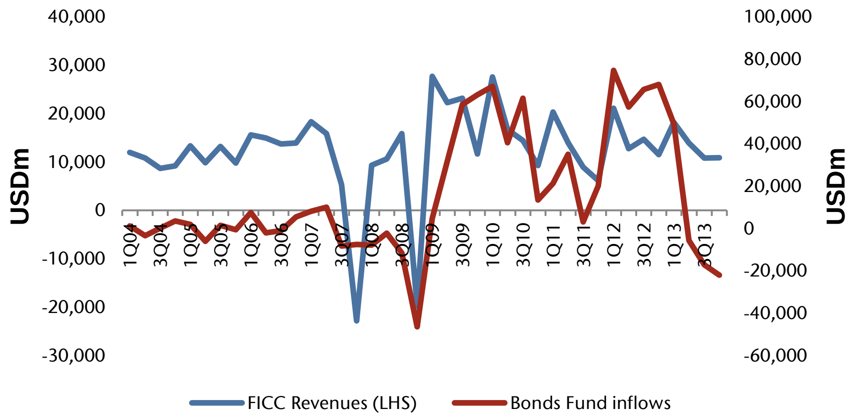


Source: EPFR

The "great rotation" should have only a limited relevance for the FICC revenue outlook.

This is of only limited relevance to a benign outlook for FICC revenue in our view. History suggests little correlation between the two variables (See chart 62 below). The debt bull market over the course of the 2000s for instance saw consistently negative bond fund flows.

Chart 62: FICC revenue vs bond fund inflows



Source: Jefferies estimates, company data, EPFR

FICC revenues are less reliant on an AuM driven client base.

The reason for this lack of correlation lies simply in the nature of the client base in equities and FICC. Disclosure is scarce but data from consultants Coalition showing industry revenues split by client have the buyside (i.e. asset managers, wealth managers and hedge funds) making up just 42% of total revenues. Given this proportion is likely to be fairly close to 100% for equities sales and trading, and taking into account the relatively small size of primary[14], FICC revenues are less reliant on an AuM driven client base. Corporates and other financial institutions' financing and structuring needs are independent of the 'great rotation'.

[14] Primary: Debt capital markets (bond origination), Equity capital markets (Equity origination eg IPOs), M&A. See appendix for revenue split.

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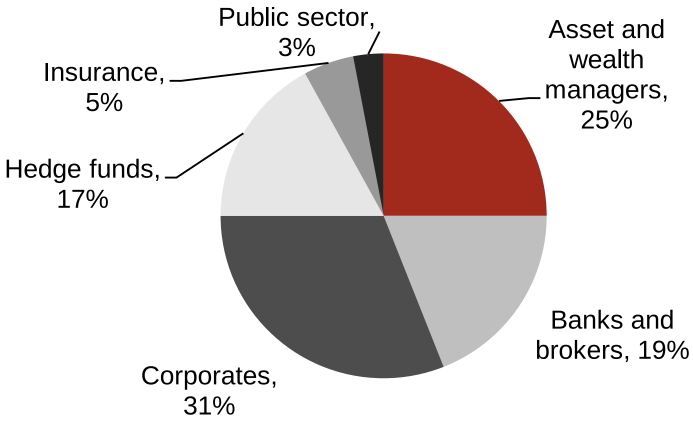
Chart 63: 2011 Investment banking industry revenues by client type



Source: Coalition

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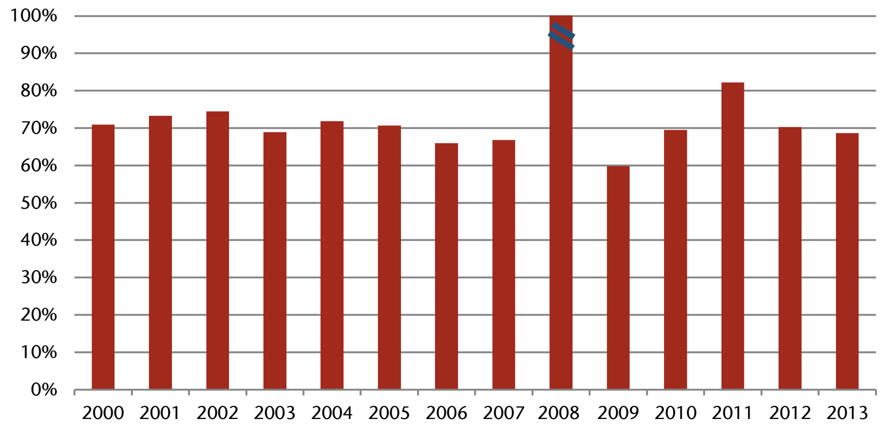
Operating leverage works both ways

The shift in IB compensation structures should enable greater operating leverage than previous recoveries.

In addition to a potential cyclical upswing in revenues, we think it worth highlighting the greater operating leverage in the 'new' IB business model. The generational shift in banks' compensation structures and limited appetite for cost build means that there is greater potential for shareholders to see more of I-Banks' revenues flow through the P&L.

For an industry with such revenue volatility and varied cost structures by product (FICC cost-income ratios average c.65% vs equities at c.80%), cost income ratios have historically been relatively stable. The obvious exceptions are periods of extreme dislocation such as the '08 crisis and the sovereign debt crisis in 2011. Excluding these however and cost income ratios have hovered around 70% in the last decade on an underlying basis.

Chart 64: I-Bank cost income ratios

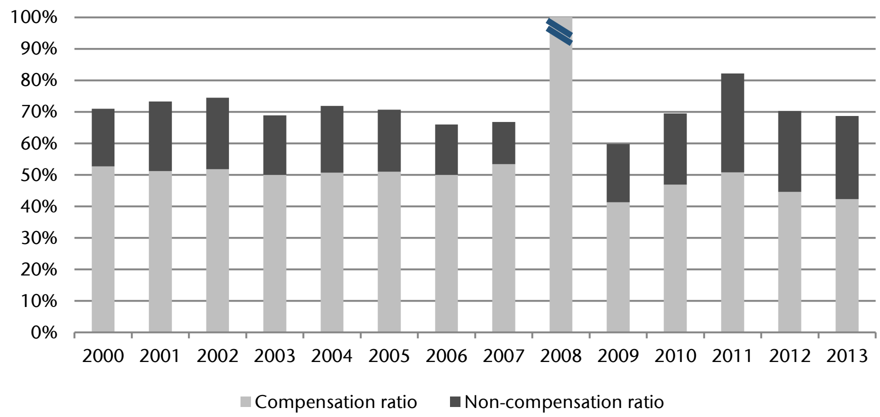


Source: Jefferies, company data

Of course, the drivers here are the flexibility inherent in a model where personnel costs are such a significant proportion of total expenses, as is variable compensation within that. This is highlighted by breaking down the cost income ratio between compensation and non-compensation related expenses (See chart 65 below).

For the I-Banks where we have data, comp expenses made up some 71% of total costs since 2000. Since the '08 crisis however, note that compensation expenses as a proportion of the total have yet to return to their previous cyclical average and are now down to some 63% of total expenses.

Chart 65: I-Bank cost income ratio breakdown



Source: Jefferies, company data

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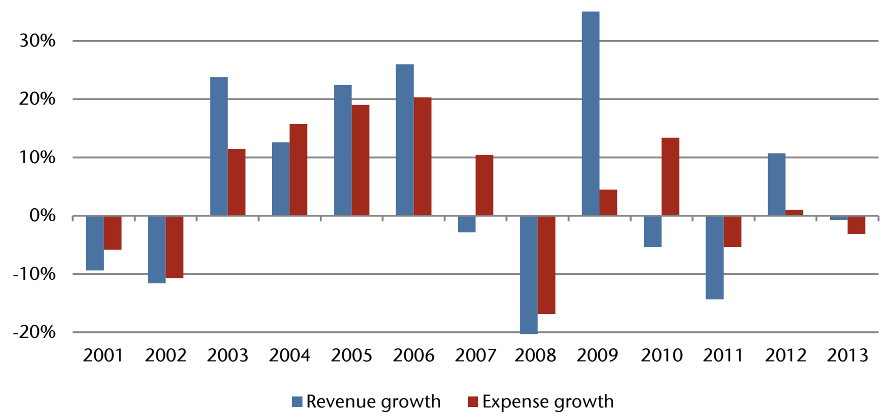
Operating jaws was lacking from the pre-crisis growth period of 2002-05.

Looking at the historical evolution of revenue growth vs cost growth, we can focus on the periods following a recovery in industry revenue (see chart 66 below). What is clear is the lack of positive operating 'jaws' during those periods. This was the case in the leverage led bubble from 2004, but also in 2010.

Chart 66: I-Bank revenue vs cost growth

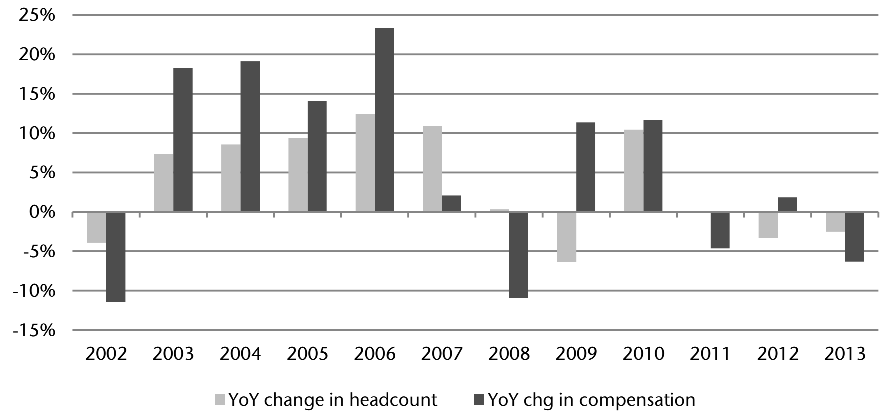


Source: Jefferies estimates, company data

I-Bank management has typically been aggressive in re-hiring following recovery periods.

This is reflected in the change in headcount and compensation expense. I-Bank management in the past were typically aggressive in re-hiring following recovery periods. The last time this occurred was the 'head fake' in 2010. After the strong performance of the rates business in particular in 2009, the banks rebuilt personnel numbers the following year by some 10% only to see a reversal in revenue due to sovereign debt concerns.

Chart 67: I-Bank change in headcount vs change in compensation



Source: Jefferies estimates, company data

However this dynamic has now changed. The revenue upswing in 2012 driven by central bank action boosting risk assets was not followed by meaningful hiring or compensation build. Current comp per head (FY2013) is rooted at 85% of the 2006 peak and is actually 3% below the level in 2008 (see chart 68 below).

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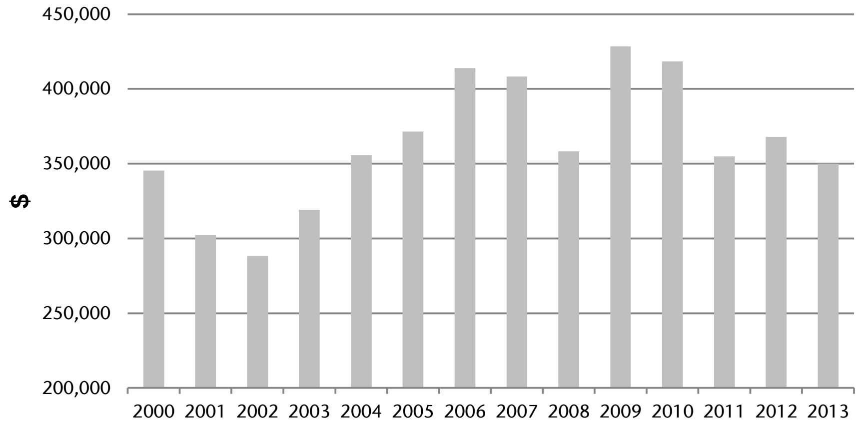
Chart 68: Compensation per head



Source: Jefferies estimates, company data

Recent hiring constraint is more than just a temporary phase.

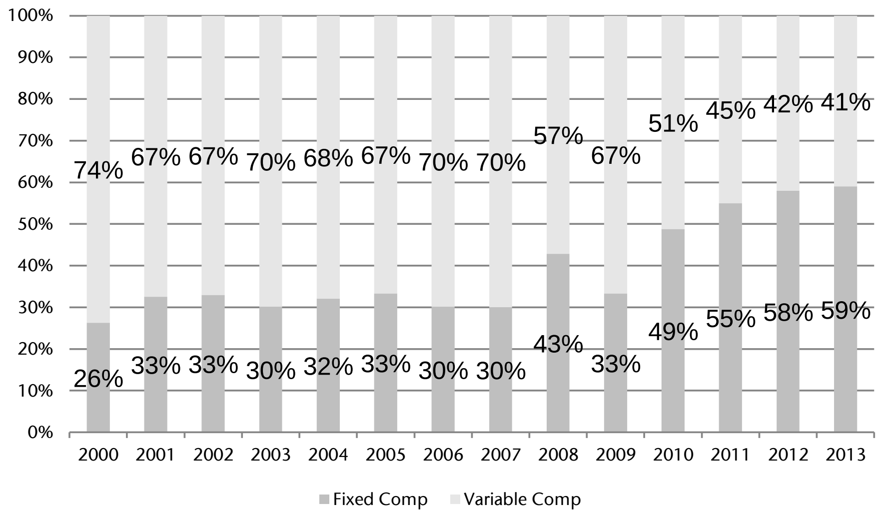
There are 3 drivers to this change in dynamic that suggest it is more than just a temporary phase:

- Firstly, the proportion of variable compensation within the cost structure has been significantly reduced for the foreseeable future. Disclosure by the banks is scarce on this point but we can build a model of the trend by using data from industry pay and reward consultants Mclagan and overlaying it with those banks (Barclays/Deutsche Bank) who offer some information.

The proportion of variable compensation within the cost structure has been significantly reduced.

We have made some assumptions but the trend is relatively clear. Variable compensation currently makes up just 41% of industry compensation against more than 70% at the beginning of the 2000's.

Chart 69: Fixed compensation vs variable compensation



Source: Jefferies, company data, Mclagan

The stepchange started in 2008 as the public backlash over variable compensation led to increased salaries in order to retain key producers. In addition, the regulatory change which drove a higher deferred component to compensation meant I-Bank management 'offset' this with higher fixed pay. Although part of this is an implicit admission that parts of variable compensation were only variable in name, there is little to suggest a reversal of this trend in the near term given the legal difficulty in reducing a salary.

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Banks have committed to robust cost reduction plans

- Secondly, the majority of the banks have committed to robust cost reduction plans. For Deutsche Bank, Credit Suisse, UBS and Barclays, these represent between 9% and 24% of their 2012 cost base. The expense reductions are spread between both non-comp infrastructure costs as well as headcount reductions, with 2015 the target for the bulk of the cost savings to be realised.

Table 8: European I-Bank cost programmes (lcy, bn)

Deutsche	Expense Savings			Revenues		Expenses		Savings % Revenues (2012)		Savings % Expenses (2012)	
2015	**Target (vs 1H12)**	**Achieved**	**To-go**	**2012**	**2013**	**2012**	**2013**	**Target**	**To-go**	**Target**	**To-go**
IB	1.9	0.9	1.0	15.3	13.9	11.2	10.2	12%	7%	17%	9%
Group	4.5	2.1	2.4	34.6	33.4	28.1	27.8	13%	7%	16%	9%
UBS	**Expense Savings**			**Revenues**		**Expenses**		**Savings % Revenues (2012)**		**Savings % Expenses (2012)**	
2015	**Target (vs 1H11)**	**Achieved**	**To-go**	**2012**	**2013**	**2012**	**2013**	**Target**	**To-go**	**Target**	**To-go**
IB	na	na	na	5.2	10.6	9.2	7.8	na	na	na	na
Group	5.4	2.2	3.2	27.9	28.0	23.0	22.1	19%	11%	23%	14%
CS	**Expense Savings**			**Revenues**		**Expenses**		**Savings % Revenues (2012)**		**Savings % Expenses (2012)**	
2016	**Target (vs 1H11)**	**Achieved**	**To-go**	**2012**	**2013**	**2012**	**2013**	**Target**	**To-go**	**Target**	**To-go**
IB	3.0	2.4	0.6	13.1	12.7	10.0	9.7	23%	5%	30%	7%
Group	4.5	3.1	1.4	25.8	26.3	18.6	18.3	17%	5%	24%	8%
Barclays	**Expense Savings**			**Revenues**		**Expenses**		**Savings % Revenues (2012)**		**Savings % Expenses (2012)**	
2015	**Target (vs 2012)**	**Achieved**	**To-go**	**2012**	**2013**	**2012**	**2013**	**Target**	**To-go**	**Target**	**To-go**
IB	0.6	0	0.6	11.8	10.7	7.6	7.7	5%	5%	8%	8%
Group	1.7	0	1.7	29.4	28.2	18.6	18.7	6%	6%	9%	9%

Source: Jefferies estimates, company data

Regulatory and political pressure on compensation will restrict variable compensation.

- Finally, regulatory and political pressure on compensation will clearly weigh, in particular in Europe, independent of the revenue environment. CRD IV[15] will restrict variable compensation for a sizeable proportion of employees to no more than 100% of fixed compensation, with this rising to 200% if approved by shareholders. Note that the standard for shareholder approval is high, requiring a 66% majority from shareholders representing at least 50% of the voting shares. If that quorum is not achieved, then a 75% majority is required. All variable compensation must also be subject to clawback or malus. This will apply to EU banks operating in the EU (including their staff operating outside the EU) and non EU banks operating in the EU.

[15] CRD IV is the package of regulations implementing the Basel 3 agreement on bank capital, leverage, liquidity and governance among others.

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Bank disclosure is such that an external analysis of the scope of the impact is not currently feasible. Nevertheless the impact is likely to be significant given that the EBA[16] broadened those employees caught by the proposal beyond solely 'risk –takers and decision makers' to include those where any of the following apply:

- Their variable remuneration exceeds €75,000 and 75% of fixed compensation. In other words, an employee with a fixed salary of €100,000 and a bonus of €80,000 would be captured
- Total remuneration exceeds €500,000
- They fall within the highest earning 0.3% of staff within the bank
- Their remuneration is equal or greater than the lowest total remuneration of senior management or other risk takers

Banks will likely respond by raising fixed compensation, as well as more 'innovative' forms of performance based compensation such as periodic cash or stock awards. With the former however, as we have seen, it is unlikely there is much more that can be achieved for an industry with such a high volatility of revenue.

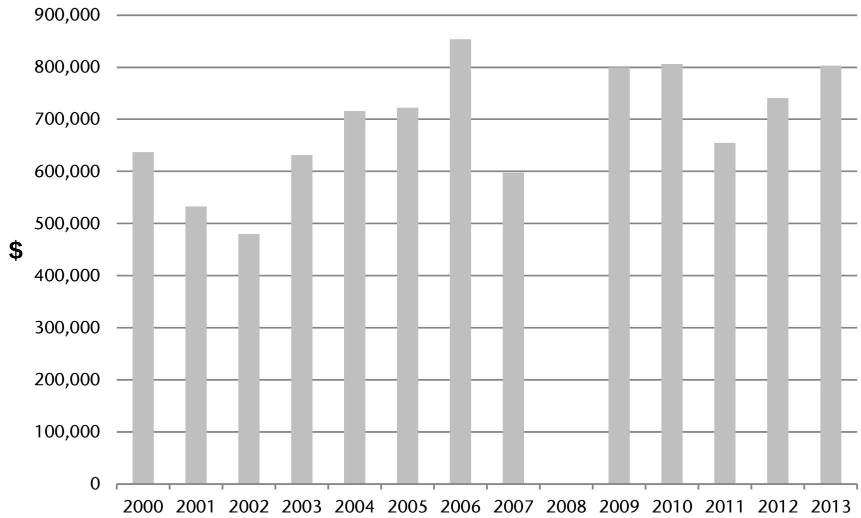
The 'rights and wrongs' of all this do not interest us in the context of this report. However it is clear that from an equity investor's perspective the variability of the cost base in the event of an upswing in revenues is further reduced.

Of course as the title of this section suggests, operating leverage works both ways and in the event of a weaker revenue environment, the greater proportion of fixed compensation implies less cost flexibility beyond headcount cuts. Having said that, the lack of headcount increases since 2010 suggest management are cognizant of this going forward.

Staff productivity levels are at their second highest level since 2000.

To wit, this is reflected in staff productivity levels (Revenue/Headcount) in 2013 rising 8% and returning to 2009/10 levels. They are behind only the peak of the leverage-led bull market in 2006 by just 6%.

Chart 70: Staff productivity (Revenue/Headcount)



Source: Jefferies estimates, company data

[16] European Banking Authority

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We can pull all this together using a scenario analysis to highlight the increased operating leverage in the business model. We first build a notional P&L of the IB peer group over the sector's recovery and bull market period between 2002 and 2005. We can see that the CAGR of operating profit for that period was some 21% (See table 9 below).

Table 9: I-Bank industry P&L 2002-2005 'Actual'

US$m	**2002**	**2005**	**CAGR %**
Total Fixed Comp	8,987	14,436	17%
Total Variable Comp	18,261	28,830	16%
Total G&A[17]	14,229	19,776	12%
Total Costs	**41,477**	**63,042**	**15%**
Total Revenue	**53,435**	**84,361**	**16%**
Operating Profit	**11,958**	**21,318**	**21%**
Variable Comp % Rev	34%	34%	
Notional Headcount	100	130	9%
Notional average salary	90	111	7%

Source: Jefferies estimates, company data, Mclagan

We can then overlay the new IB cost model onto that period. We assume the current variable compensation-to-revenue ratio of 17% (vs the actual 34% over that period), and thus the higher fixed salary base. We also assume no net change in headcount.

Table 10: I-Bank industry P&L 2002-2005 under the 'new model'

US$m	**2002**	**2005**	**CAGR %**
Total Fixed Comp	18,287	18,287	0%
Total Variable Comp	8,961	14,147	16%
Total G&A	14,229	19,776	12%
Total Costs	**41,477**	**52,211**	**8%**
Total Revenue	**53,435**	**84,361**	**16%**
Operating Profit	**11,958**	**32,150**	**39%**
Variable Comp % Rev	17%	17%	
Notional Headcount	100	100	
Notional average salary	183	183	

Source: Jefferies estimates, company data, Mclagan

"New-model" compensation structure would have almost doubled the actual operating profit growth seen in the 2002-05 recovery period.

On that basis, the growth in operating profit over that period would have been almost double the 'actual', at some 39% CAGR. Perhaps it is aggressive to assume no change in headcount but at the same time we have kept the same growth rate for non-comp costs (G&A), i.e. we have given no credit for the banks' cost savings programmes. If one were to keep G&A costs flat, CAGR in operating profit would have been some 47%.

To conclude, we by no means assume a similar revenue environment to that in 2002-05 but this exercise serves to illustrate the much greater operating leverage embedded in current IB business models.

[17] General & Administrative costs: Non-comp infrastructure and other costs

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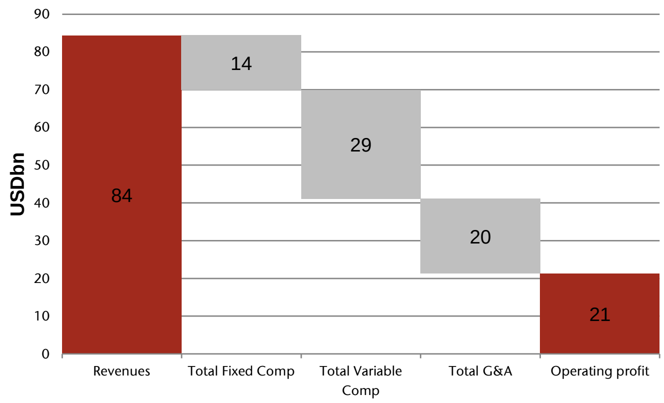
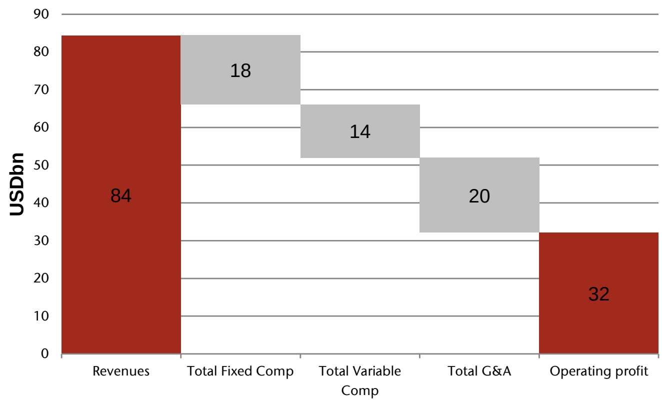
Chart 71: IB Operating profit 2005 'actual'



Source: Jefferies estimates, company data, Mclagan

Chart 72: IB Operating profit 2005 'new cost model'



Source: Jefferies estimates, company data, Mclagan

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Deutsche Bank – Cheapest gearing to a FICC recovery – Initiate at Buy with a €45.1 target

Investment case

At just 0.8x TNAV, the group's valuation discounts a perfect storm of leverage concerns and the market's negative outlook on the FICC business. We believe this offers an entry point into the greatest gearing to a fixed income recovery within our coverage.

With FICC sales and trading making up some 56% of IB revenues (vs 37% at Credit Suisse and 18% at UBS), Deutsche Bank is the purest play on our thesis. With top 5 market shares across essentially all the major FICC product lines in both Rates and Credit, the group is well positioned to capture revenue opportunities as a cyclical upswing takes hold.

The challenge for the group has been the group's greater leverage relative to peers. This has been evidenced by a 26% YoY decline in FICC revenue in 2013 (vs US peers down 11%) as the group implements its €250bn leverage reduction programme.

We estimate the group's leverage ratio currently at some 2.8% fully loaded when including the impact of the January 2014 Basel 3 revisions on repo netting and written CDS, i.e. a shade under the 3% minimum. In its leverage ratio calculations, Deutsche Bank includes additional tier 1 hybrid instruments that are currently not Basel 3 compliant, but that the group intends to replace with compliant instruments over time. Excluding these would see the leverage ratio drop to some 2.1%. This is harsh in our view however given that Deutsche Bank is simply waiting for German regulator Bafin to clarify the tax treatments of the instruments before it issues them. At the same time, since the issuance would largely be replacing existing instruments, the P&L impact would be minimal.

We believe the bulk of the group's deleveraging programme will be completed over 2014, and see the group ending 2015 at some 3.7% leverage ratio including the replacing AT1 instruments. This would be wholly appropriate in our view.

To calibrate the risk around the leverage ratio, if we assumed in the extremely unlikely event that Deutsche Bank raised enough equity to be at some 4% leverage ratio today, the group would still be on less than 1.1x TNAV for an underlying 2015 RoTE of 11% (vs our current estimate of 14%). This highlights the limited downside risk in the shares in our view.

Valuation

Our €45.1 price target is based on a single stage GGM model (RoTE of 12%, CoE of 12%). Our higher than average cost of equity reflects the regulatory headwinds and greater earnings risk from the group's gearing to investment banking. Our supplementary valuation using our less preferred sum-of-parts methodology drives a valuation of €46.7.

Table 11: Deutsche Bank – Single stage GGM

Tangible book value per share (€)	**42.9**
Sustainable RoTE	12%
Growth	2%
COE	12%
Target P/Tnav (x)	1.05
Fair value per share (€)	**45.1**
Upside/Downside	**26%**

Source: Jefferies estimates

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Chart 73: Deutsche Bank: Sum-of-the-parts Valuation

(€m)	CIB	CBS	GTB	PCAM	A&WM	P&BC	C&A	Non-Core	Surplus (+) / Deficit (-) Capital	Deutsche Bank Group
PBT, 2015E	6,908	5,186	1,723	4,170	1,428	2,743	-497	-1,899		8,683
Net profit contribution, 2015E	4,836	3,630	1,206	2,919	999	1,920	-348	-1,329		6,078
RWA (B2.5)	151,105	111,957	39,148	89,826	13,591	76,235	10,302	36,493		287,726
RWA (B3)	196,105	156,957	39,148	89,826	13,591	76,235	10,302	42,933		339,166
Allocated capital (12%)	23,533	18,835	4,698	10,779	1,631	9,148	1,236	5,152	414	41,114
RoB3 Capital , 2015E (%)	21	19	26	27	61	21	-28	-26		15
Sustainable RoB3 Capital (%)		*19*	*26*			*21*	*-28*	*-26*		
Cost of Capital (%)		12.0	11.0		10.0	11.0	10.0	12.0	11.5	11.5
Computed price to B3 Capital (x), 2%	1.9	1.7	2.6	2.6		2.1	-3.8	-2.8	1.0	
Implied PER (x), 2015E	9.3	9.0	10.2	9.7	9.0	10.1	13.4	10.8		
Utilised PER Multiple, 2015E (x)					9.0					
Implicit Price-to-B3 Capital Value (x)					5.5					
Fair Value	**44,887**	**32,533**	**12,354**	**28,292**	**8,993**	**19,299**	**-4,656**	**-14,322**	**414**	**54,616**
Fair Value/Share (€) 2015E	43.6	31.6	12.0	27.5	8.7	18.7	-4.5	-13.9	0.4	53.0
Fair Value/Share (€) 2014E										46.7
Current share price (€)										35.7
Upside/(Downside) (%)										31%
No of shares										*1,030*

Source: Jefferies, company data

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Deutsche Bank – Financials

Table 12: Deutsche Bank – Divisional Income Statement, 2012

EURm	CBS	GTB	DAWM	PBC	C&A	NCO	NI adj	Total
Total net revenues	15,625	4,025	4,471	9,535	(974)	1,054		33,736
Provision for credit losses	123	167	17	781	-	634		1,722
Total noninterest expenses	12,625	3,176	4,290	7,221	583	3,305		31,200
Operating profit	2,877	682	164	1,533	(1,557)	(2,885)		814
Noncontrolling interests (NI)	17	-	-	15	(65)	30	3	-
Pre-tax profit	**2,860**	**682**	**164**	**1,518**	**(1,492)**	**(2,915)**	**(3)**	**814**
Underlying pre-tax profit	**3,949**	**795**	**470**	**2,265**	**(430)**	**(2,234)**	**-**	**4,815**
Income tax								500
Net profit								314
Minority interests								52
Net income attributable								**262**
Adjusted net income								**3,371**

Source: Jefferies estimates, company data

Table 13: Deutsche Bank – Divisional Income Statement, 2013

EURm	CBS	GTB	DAWM	PBC	C&A	NCO	NI adj	Total
Total net revenues	13,627	4,069	4,734	9,547	(930)	886		31,933
Provision for credit losses	185	315	23	719	-	787		2,029
Total noninterest expenses	10,357	2,638	3,930	7,272	331	3,307		27,835
Operating profit	3,085	1,116	781	1,556	(1,261)	(3,208)		2,069
Noncontrolling interests (NI)	17	-	-	-	(14)	(3)	-	-
Pre-tax profit	**3,068**	**1,116**	**781**	**1,556**	**(1,247)**	**(3,205)**	**-**	**2,069**
Underlying pre-tax profit	**3,480**	**1,227**	**965**	**2,464**	**(590)**	**(2,830)**	**-**	**4,716**
Income tax								988
Net profit								1,081
Minority interests								15
Net income attributable								**1,066**
Adjusted net income								**3,301**

Source: Jefferies estimates, company data

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Table 14: Deutsche Bank – Divisional Income Statement, 2014E

EURm	CBS	GTB	DAWM	PBC	C&A	NCO	NI adj	Total
Total net revenues	14,094	4,150	4,856	9,579	(300)	815		33,195
Provision for credit losses	171	211	-	665	-	602		1,650
Total noninterest expenses	10,081	2,525	3,957	6,997	228	2,300		26,088
Operating profit	3,842	1,414	899	1,917	(528)	(2,087)		5,457
Noncontrolling interests (NI)	21	-	-	-	(20)	-	(1)	-
Pre-tax profit	**3,821**	**1,414**	**899**	**1,917**	**(508)**	**(2,087)**	**1**	**5,457**
Underlying pre-tax profit	**4,202**	**1,539**	**1,263**	**2,758**	**(380)**	**(2,087)**	**-**	**7,294**
Income tax								1,637
Net profit								3,820
Minority interests								38
Net income attributable								**3,782**
Adjusted net income								**5,106**

Source: Jefferies estimates, company data

Table 15: Deutsche Bank – Divisional Income Statement, 2015E

EURm	CBS	GTB	DAWM	PBC	C&A	NCO	NI adj	Total
Total net revenues	15,186	4,316	5,074	9,751	(300)	652		34,679
Provision for credit losses	168	215	-	678	-	511		1,572
Total noninterest expenses	9,804	2,378	3,646	6,330	225	2,040		24,424
Operating profit	5,214	1,723	1,428	2,743	(525)	(1,899)		8,683
Noncontrolling interests (NI)	29	-	-	-	(20)	-	(9)	-
Pre-tax profit	**5,186**	**1,723**	**1,428**	**2,743**	**(505)**	**(1,899)**	**9**	**8,683**
Underlying pre-tax profit	**5,338**	**1,772**	**1,573**	**3,046**	**(380)**	**(1,899)**	**-**	**9,451**
Income tax								2,605
Net profit								6,078
Minority interests								61
Net income attributable								**6,017**
Adjusted net income								**6,616**

Source: Jefferies estimates, company data

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Credit Suisse – The right mix – Initiate at Buy with a target of CHF34.1

Investment case

We are attracted to Credit Suisse's balanced business mix at a valuation that has been hampered relative to peer UBS due to the group's greater IB exposure. We view the group's level of regulatory capital and leverage as solid. A fully loaded Basel 3 core tier 1 of 10.3% and a Swiss leverage ratio of 4% mean the group is well set to face any further unexpected regulatory tightening.

In addition, it has meant the group's leverage reduction and balance sheet repositioning should be lower than many peers with 'only' CHF56bn of investment banking leverage exposure to be reduced between now and 2015. This will be driven by natural roll-off and opportunistic disposals, with a particular focus on the long dated Rates business. As such, Credit Suisse is well positioned to benefit from a cyclical FICC upswing, with relatively less disruption compared to other Eurobank peers.

Credit Suisse' mix means it is also the most 'pro-cyclical' of the peer group. In fixed income, this is driven by the group's strong Credit franchise in high yield and leverage finance. Outside of that, our sensitivity analysis shows CS' valuation is the most sensitive to equities sales and trading revenues given its top 3 franchise (see table 3 on page 5).

In wealth management, outflows in Western Europe will offset emerging market growth in the near term but higher rates over time could provide a shot in the arm to depressed gross revenue margins. We have the latter trending just 2bp to 109bp in 2015, with clear upside to this from rising rates.

Valuation

Our CHF34.1 price target is based on a single stage GGM model (RoTE of 15%, CoE of 11%). Our supplementary valuation using our less preferred sum-of-parts methodology drives a valuation of CHF31.5.

Table 16: Credit Suisse – Single stage GGM

Tangible book value per share (CHF)	**23.6**
Sustainable RoTE	15%
Growth	2%
COE	11%
Target P/Tnav (x)	1.44
Fair value per share (CHF)	**34.1**
Upside/Downside	**21%**

Source: Jefferies estimates

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Chart 74: Credit Suisse: Sum-of-the-parts Valuation

(CHFm)	PB&WM	WM	CIC	AM	NS	IB S	IB NS	CC	Surplus (+) / Deficit (-) Capital	CS Group
PBT contribution, 2015E	4,205	2,552	1,044	597	12	5,349	-848	-1,232		7,473
Net profit contribution, 2015E	3,106	1,885	771	441	9	3,951	-627	-910		5,520
RWA (B3)	98,883					131,966	6,800	14,323		251,972
Allocated capital (12%)	10,877					15,836	816	1,575	2,421	31,526
RoB3 Capital, 2015E (%)	28.6					24.9	-76.8	-57.7		17.5
Sustainable RoB3 Capital(%)	*28.6*					*20.0*	*-76.8*	*-57.7*		
Cost of Capital (%)	10.0					12.0	12.0	12.0		11.3
Computed price to B3 Capital (x), 2%						1.8	-7.9	-6.0	1.0	
Implied PER (x), 2015E	13.3	15.0	10.0			7.2	10.3	10.3		
Utilised PER Multiple, 2015E (x)		15.0	10.0	12	10.5					
Implicit Price-to-B3 Capital Value (x)	3.8									
Fair Value	**41,371**	**28,277**	**7,712**	**5,290**	**93**	**28,505**	**-6,430**	**-9,412**	**2,421**	**56,455**
Fair Value/Share 2015E (CHF)	26.0	17.7	4.8	3.3	0.1	17.9	-4.0	-5.9	1.5	35.4
Fair Value/Share 2014E (CHF)										31.5
Current share price (CHF)										28.2
Upside/(Downside) (%)										12%
No of shares										*1,594*

Source: Jefferies, company data

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Credit Suisse – Financials

Table 17: Credit Suisse – Divisional Income Statement, 2012

CHF m	WMC	CIC	AM	PBWM-NS*	IB -S	IB -NS	Corp Center	*Core-S*	*Core-NS*	NCI	Total
Net revenues	8,460	2,068	1,799	1,147	13,385	(827)	(2,722)	*25,477*	*(2,167)*	360	23,670
Total operating expenses	(6,386)	(1,095)	(1,340)	(696)	(9,970)	(598)	(1,229)	*(19,090)*	*(2,224)*	(58)	(21,372)
Provision for credit losses	(110)	(29)	-	(43)	12	-	-	*(127)*	*(43)*	-	(170)
Pre-tax profit	**1,964**	**944**	**459**	**408**	**3,427**	**(1,425)**	**(3,951)**	***6,260***	***(4,434)***	**302**	**2,128**
Adjusted pre-tax profit (Jef def)	**1,986**	**954**	**461**	**140**	**3,894**	**(699)**	**(3,951)**	***6,761***	***(3,976)***	**302**	**3,087**
Tax											(464)
Profit from discontinued											21
Minority interest											(336)
Net profit											**1,349**

Source: Jefferies estimates, company data
*NS = Non-Strategic Unit; S = Strategic Unit

Table 18: Credit Suisse – Divisional Income Statement, 2013

CHF m	WMC	CIC	AM	PBWM-NS*	IB -S	IB -NS	Corp Center	*Core-S*	*Core-NS*	NCI	Total
Net revenues	8,453	1,995	1,994	1,008	13,181	(559)	(790)	*25,568*	*(286)*	639	25,921
Total operating expenses	(6,316)	(1,027)	(1,383)	(900)	(9,300)	(1,066)	(676)	*(18,330)*	*(2,338)*	(47)	(20,715)
Provision for credit losses	(78)	(4)	-	(58)	(11)	(2)	(1)	*(94)*	*(60)*	-	(154)
Pre-tax profit	**2,059**	**964**	**611**	**50**	**3,870**	**(1,627)**	**(1,467)**	***7,144***	***(2,684)***	**592**	**5,052**
Adjusted pre-tax profit (Jef def)	**2,107**	**975**	**707**	**20**	**3,870**	**(914)**	**(1,467)**	***7,299***	***(2,001)***	**592**	**5,890**
Tax											(1,490)
Profit from discontinued											145
Minority interest											(640)
Net profit											**3,067**

Source: Jefferies estimates, company data
*NS = Non-Strategic Unit; S = Strategic Unit

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Table 19: Credit Suisse – Divisional Income Statement, 2014E

CHF m	WMC	CIC	AM	PBWM-NS*	IB -S	IB -NS	Corp Center	*Core-S*	*Core-NS*	NCI	Total
Net revenues	8,754	2,085	1,960	649	13,990	(524)	(254)	*26,735*	*(75)*	645	27,305
Total operating expenses	(6,405)	(1,037)	(1,373)	(500)	(9,393)	(693)	(1,047)	*(18,506)*	*(1,943)*	(47)	(20,496)
Provision for credit losses	(61)	(44)	-	(44)	(30)	-	-	*(136)*	*(44)*	-	(179)
Pre-tax profit	**2,287**	**1,003**	**587**	**105**	**4,567**	**(1,217)**	**(1,301)**	***8,093***	***(2,061)***	**598**	**6,630**
Adjusted pre-tax profit (Jef def)	**2,287**	**1,003**	**587**	**15**	**4,567**	**(554)**	**(1,301)**	***8,093***	***(1,488)***	**598**	**7,203**
Tax											(1,508)
Profit from discontinued											-
Minority interest											(666)
Net profit											**4,456**

Source: Jefferies estimates, company data
*NS = Non-Strategic Unit; S = Strategic Unit

Table 20: Credit Suisse – Divisional Income Statement, 2015E

CHF m	WMC	CIC	AM	PBWM-NS*	IB -S	IB -NS	Corp Center	*Core-S*	*Core-NS*	NCI	Total
Net revenues	9,343	2,148	1,997	447	14,959	(314)	(203)	*28,395*	*(17)*	652	29,030
Total operating expenses	(6,743)	(1,058)	(1,400)	(400)	(9,581)	(535)	(1,029)	*(19,074)*	*(1,672)*	(48)	(20,794)
Provision for credit losses	(48)	(46)	-	(35)	(30)	-	-	*(124)*	*(35)*	-	(159)
Pre-tax profit	**2,552**	**1,044**	**597**	**12**	**5,349**	**(848)**	**(1,232)**	***9,197***	***(1,723)***	**604**	**8,077**
Adjusted pre-tax profit (Jef def)	**2,552**	**1,044**	**597**	**12**	**5,349**	**(430)**	**(1,232)**	***9,197***	***(1,305)***	**604**	**8,496**
Tax											(1,868)
Profit from discontinued											-
Minority interest											(688)
Net profit											**5,520**

Source: Jefferies estimates, company data
*NS = Non-Strategic Unit; S = Strategic Unit

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UBS –Rock solid but fully valued – Initiate at Hold with a CHF19.7 target

Investment case

With the share price having outperformed Credit Suisse by 10% and Deutsche Bank by 21% in the last 12 months, UBS has been rewarded by the market for its restructuring, de-emphasis of its investment bank and best in-class levels of capital. At 1.6x TNAV for an RoTE of 14% in 2015 (from 11% in 2013), we see limited value from here however.

UBS derives just 18% of investment banking revenue from FICC sales and trading (FY2013), which translates into FICC and debt capital market revenue making up just 9% of total group revenue. Our sensitivity analysis shows that every 10% change in FICC revenue would impact valuation by just 3%. As such our thesis on a recovering FICC has little application.

Furthermore, the bull case on UBS relies heavily on significant capital return to shareholders. However, even with our forecasted 50% payout ratio for 2014, the dividend yield stands at just under 3%, well below the sector average of 4%. With our estimated Common equity tier 1 ratio of 13.9% at end 2014 and swiss leverage ratio of 3.7%, there is some scope for additional capital return over and above this. However with the still fluid nature of Swiss regulation we believe management is likely to be cautious in going beyond the 50% payout ratio until the regulatory dust has been fully formed. A key upside risk here is the pace and quantum of recognition of the group's CHF23bn in unrecognized deferred tax assets on operating losses, but our ability to calibrate this is limited.

Valuation

Our CHF19.7 price target is based on a single stage GGM model (RoTE of 15%, CoE of 10%). Our supplementary valuation using our less preferred sum-of-parts methodology drives a valuation of CHF18.5.

Title UBS –Single stage GGM

Tangible book value per share (CHF)	**11.5**
Sustainable RoTE	15%
Growth	3%
COE	10%
Target P/Tnav (x)	1.71
Fair value per share (CHF)	**19.7**
Upside/Downside	**6%**

Source: Jefferies estimates

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Chart 75: UBS: Sum-of-the-parts Valuation

(CHFm)	WM	WMA	R&C	GAM	IB	CC	Surplus (+) / Deficit (-) Capital	UBS Group
PBT, 2015E	2,940	1,190	1,536	620	2,848	-2,007		7,128
Net profit contribution, 2015E	2,224	901	1,162	469	2,155	-1,518		5,393
RWA (B3)	22,957	26,136	31,143	3,786	60,874	67,732		212,627
Allocated capital (13%)	2,525	2,875	3,426	416	7,305	8,128	7,779	32,454
RoB3 Capital, 2015E (%)	88.1	31.3	33.9	112.6	29.5	-18.7		16.6
Sustainable RoB3 Capital (%)			*30.0*		*24.0*	*-10.0*		
Cost of Capital (%)	9.0	9.0	9.0	9.0	12.0	12.0		10.9
Computed price to book value (x), 2%			4.5		2.3	-1.4	1.0	
Implied PER (x), 2015E	15.0	14.0	13.3	10.0	7.9	7.7		
Utilised PER Multiple, 2015E (x)	15.0	14.0		10.0				
Implicit Price-to-Book Value (x)	13.2	4.4		11.3				
Fair Value	**33,365**	**12,608**	**15,416**	**4,690**	**17,045**	**-11,740**	**7,779**	**79,163**
Fair Value/Share 2015E (CHF)	8.7	3.3	4.0	1.2	4.4	-3.0	2.0	20.6
Fair Value/Share 2014E (CHF)								18.5
Current share price (CHF)								18.6
Upside/(Downside) (%)								-0.6%
No of shares								*3,852*

Source: Jefferies, company data

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UBS – Financials

Table 21: UBS – Divisional Income Statement, 2012

CHF m	**WM**	**WMA**	**IB**	**GAM**	**R&C**	**CC Core**	**CC Non-Core/legacy**	**Total**
Revenues	7,041	5,890	7,140	1,883	3,756	513	1,516	27,739
Credit expense	1	(14)	-		(27)	-	(78)	(118)
Own credit						(2,202)		(2,202)
Total operating income	7,042	5,876	7,140	1,883	3,729	(1,689)	1,438	25,419
Total operating expenses	4,632	5,282	6,875	1,313	1,903	2,009	5,202	27,216
Pre-tax profit	**2,410**	**594**	**265**	**570**	**1,826**	**(3,698)**	**(3,764)**	**(1,797)**
Underlying pre-tax profit	**2,100**	**634**	**891**	**554**	**1,552**	**(175)**	**(734)**	**4,822**
Tax								460
Net profit								(2,257)
Discontinued operations								-
Minorities/pref holders								225
Net income								**(2,482)**
Underlying net profit								**3,488**

Source: Jefferies estimates, company data

Table 22: UBS – Divisional Income Statement, 2013E

CHF m	**WM**	**WMA**	**IB**	**GAM**	**R&C**	**CC Core**	**CC Non-Core/legacy**	**Total**
Revenues	7,573	6,567	8,596	1,935	3,774	(725)	344	28,064
Credit expense	(11)	(27)	2		(18)	-	3	(51)
Own credit						(284)		(284)
Total operating income	7,562	6,540	8,598	1,935	3,756	(1,009)	347	27,729
Total operating expenses	5,316	5,681	6,300	1,359	2,299	847	2,661	24,463
Pre-tax profit	**2,246**	**859**	**2,298**	**576**	**1,457**	**(1,856)**	**(2,314)**	**3,266**
Underlying pre-tax profit	**2,510**	**931**	**2,505**	**585**	**1,485**	**(1,477)**	**(607)**	**5,932**
Tax								(109)
Net profit								3,375
Discontinued operations								-
Minorities/pref holders								209
Net income								**3,166**
Underlying net profit								**4,359**

Source: Jefferies estimates, company data

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Table 23: UBS – Divisional Income Statement, 2014E

CHF m	WM	WMA	IB	GAM	R&C	CC Core	CC Non-Core/legacy	Total
Revenues	8,208	7,131	8,810	1,950	3,843	(500)	(200)	29,242
Credit expense	-	-	-		(67)	-	(26)	(93)
Own credit						-		-
Total operating income	8,208	7,131	8,810	1,950	3,776	(500)	(226)	29,150
Total operating expenses	5,605	6,091	6,345	1,373	2,311	718	1,884	24,327
Pre-tax profit	**2,603**	**1,040**	**2,465**	**577**	**1,465**	**(1,218)**	**(2,109)**	**4,822**
Underlying pre-tax profit	**2,821**	**1,114**	**2,775**	**629**	**1,531**	**(1,224)**	**(816)**	**6,830**
Tax								1,109
Net profit								3,713
Discontinued operations								-
Minorities/pref holders								114
Net income								**3,599**
Underlying net profit								**5,145**

Source: Jefferies estimates, company data

Table 24: UBS – Divisional Income Statement, 2015E

CHF m	WM	WMA	IB	GAM	R&C	CC Core	CC Non-Core/legacy	Total
Revenues	8,861	7,556	9,286	2,004	3,920	(100)	(130)	31,397
Credit expense	-	-	-		(69)	-	(20)	(89)
Own credit						-		-
Total operating income	8,861	7,556	9,286	2,004	3,851	(100)	(150)	31,307
Total operating expenses	5,921	6,365	6,438	1,384	2,315	646	1,110	24,179
Pre-tax profit	**2,940**	**1,190**	**2,848**	**620**	**1,536**	**(746)**	**(1,260)**	**7,128**
Underlying pre-tax profit	**3,134**	**1,256**	**3,130**	**667**	**1,595**	**(752)**	**(505)**	**8,525**
Tax								1,639
Net profit								5,489
Discontinued operations								-
Minorities/pref holders								115
Net income								**5,373**
Underlying net profit								**6,449**

Source: Jefferies estimates, company data

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Appendix

Regulatory issues affecting Investment Banks

Table 25: Investment Banking Regulatory overview

Reform	Timeframe	Comment
Regulatory Capital and Leverage		
Fundamental Review of Trading Book	Consultation open until Feb-14	Enhanced capital requirements for the trading book
Revisions to Securitisation Framework	Consultation open until Mar-14	Revisions to Basel securitisations capital requirements
Basel III - Leverage	Jan-18 implementation, Jan-15 disclosure	Global bank regulatory standard on leverage
CRD IV / CRR (Europe)	Jan-14 phased-in implementation	Directive implementing Basel III in Europe
CP5/13 (UK)	Jan-15 onwards	Consultation paper proposing PRA's implementation of CRD IV
Liquidity		
Basel Committee (Global)		
Liquidity Coverage Ratio	Jan-15 phased-in implementation	Global bank regulatory standard on level of liquid assets to short-term funding
Net Stable Funding Ratio	Consultation open until Apr-14. 2018 Introduction	Consultation paper on stable funding requirements
Systemic Risk		
Capital Surcharges (FSB)	Jan-16 implementation	Classification of Globally Systemically Important Banks (G-SIBs) with varying capital surcharge requirements
Loss absorbency for D-SIBs	Jan-16 implementation	Loss absorbency requirements for Domestically Systemically Important Banks (D-SIBs)
Liikanen Report	Ongoing Consultation	Recommendations on restructuring of European banking sector - separation of trading activities
UK Banking Reform	Jan-19	UK banking reform requiring ring-fencing of retail operations and higher loss absorbency requirements
French/German Banking reform	Jan-15	Government measures regarding separation of banking activities
Volcker Rule	2013	US ban on banks' proprietary trading
Federal Reserve Bank Proposals	2015	Proposals to strengthen oversight of US operations of foreign banks (capital and funding requirements)
Derivatives		
EMIR		European Market Infrastructure Regulation
Clearing	Phased in Mid-2014	Mandatory CCP clearing rules for certain OTC derivatives
Reporting	Feb-14	Trade reporting of derivative contracts - starting with IRS & CDS
MiFID2/MiFIR	Mid-2015	Trading of standardised derivatives on exchanges or electronic trading platforms
Dodd-Frank		SEC & CFTC derivatives reform in US
Clearing	2013	Eligible products transferred to clearing
SEF	Dec-13	Eligible derivative transactions executed on swap execution facilities (SEFs)
Margin Requirements on non-CCP derivatives	Dec-15 phased-in implementation	Enhanced margin requirements for non-centrally cleared derivatives
Financial Transaction Tax	2014 at earliest	Tax on Financial Transactions by 11 EU states
Resolution		
SSM	2015	ECB supervision of European Banks
AQR	end-2014	ECB Asset Quality Review and National Supervisor Balance sheet review
Stress Tests	end-2014	ECB Stress Test
DGS	2015?	EU-wide Depositor Guarantee Scheme
Resolution Mechanism	2015?	EU Single Resolution Mechanism

Source: Jefferies

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Dodd-Frank/MiFIR

Methodology for move to SEF impact analysis

Rates

In terms of our methodology, for rates we first calculate the % of rates revenues which result from derivatives (53%). We then assume that the split of OTC vs. exchange-traded revenue is the same as OTC/exchange split for notional amounts outstanding (91:9). i.e. the vast majority of derivatives rates revenue is derived from OTC trading.

31% of OTC trading currently occurs on multi-lateral platforms (such as request-for-quote (RFQ) platforms), which are already similar to the expected SEF platform rules. This trading should therefore be unaffected by the new regulation. That leaves 69% of OTC turnover which currently trades bilaterally. This data however includes trades "between dealers" (35% of total turnover) which we believe already largely occurs on SEF (and thus makes up the majority of the 31% of SEF trading). This relates to transactions with other banks and with inter-dealer brokers – the latter of which are far less profitable.

We make the assumption that half of trades "between dealers" relates to inter-dealer broking and is thus not revenue generating for the banks. Thus the revenue generating OTC trades consist of i.) Client trades (65% of total turnover, of which we assume only 5% is traded SEF) and ii.) Inter-bank trades (17.5% of total turnover, of which we calculate 60% is traded SEF). The remaining 17.5% of OTC turnover is with inter-dealer brokers (exclusively traded on SEF) and is not revenue generating.

Consequently we can calculate that of the revenue generating OTC trades, 17% are currently executed on SEF, with the remaining 83% traded bilaterally.

Dodd-Frank requires derivative transactions to be executed on SEF when the transactions are "subject-to-clearing". The Basel Committee expects 61% of OTC rates trades to be centrally cleared post-reform, vs. 35% currently. Consequently we expect 61% of rates trades will eventually need to be traded SEF, vs. the 17% at present (as calculated above). Consequently 44% (the difference) of OTC rates revenues will, by our estimates, be "at risk" or impacted by reform.

However OTC revenues only make-up 91% of total rates derivatives revenues, and derivative revenues only make up 53% of total rates revenues. As such, we calculate that 21% of rates revenues are "at risk", which would equate to 8% of FICC revenues.

Credit

The methodology used to calculate the impact on credit revenues is identical to that used above. The reasons for why we calculate that only 8% of credit revenues are at risk vs. 21% of rates are as follows.

- Lower % of revenues from derivatives
- Higher % of OTC trading (and thus revenue) currently on SEF venues
- Lower expected % of OTC trading which will be centrally cleared (and thus SEF traded) post regulation

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Table 26: SEF trading requirement – Impact Analysis Summary

	Rates	Credit
% FICC Revenue (a)	**38%**	**28%**
% of Revenue o/w Derivatives (b)	**53%**	**40%**
% of Derivatives Revenue o/w OTC (c)	**91%**	**100%**
% OTC Turnover currently traded SEF	31%	37%
% OTC Turnover currently traded bilaterally	69%	63%
% OTC Turnover currently traded with a customer	65%	65%
o/w revenue generating	100%	100%
o/w traded SEF	5%	5%
% OTC Turnover currently traded with dealers	35%	35%
o/w with banks	50%	50%
o/w revenue generating	100%	100%
o/w traded SEF	60%	96%
o/w with inter-dealer brokers	50%	50%
o/w revenue generating	0%	0%
o/w traded SEF	100%	100%
% OTC Turnover o/w revenue generating	83%	83%
o/w traded SEF	17%	24%
o/w traded bilaterally	83%	76%
% OTC Revenue o/w traded on SEF (d)	**17%**	**24%**
% OTC Revenue o/w traded bilaterally	**83%**	**76%**
% of OTC Turnover centrally cleared (Current)	35%	12%
% of OTC Turnover centrally cleared (Post Regulation) (e)	61%	45%
% of OTC Turnover SEF traded (Post Regulation)	61%	45%
Incremental % OTC revenue moving to SEF trading (e – d)= (f)	**44%**	**21%**
% OTC revenues "at risk" = (f)	**44%**	**21%**
% Derivatives revenues "at risk" = (f x c) = g	**40%**	**21%**
% Revenues "at risk" = (g x b) = h	**21%**	**8%**
Revenues at risk % Total FICC = (h x a)	**8%**	**2%**

Source: Jefferies estimates, IOSCO, Basel Committee, Goldman Sachs, IMF

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Litigation

Table 27: Investment Banks – Litigation Risks

Deutsche Bank	Credit Suisse	UBS
Action	**Action**	**Action**
Credit Default Swap Antitrust Matters	Research-related matters	Cross-border wealth management business
FX investigation	Enron-related matters	Matters related to financial crisis
Hydro dispute	NCFE-related litigation	Lehman principal protection notes
Interbank Offered Rates Matters	Refco-related litigation	Residential mortgage-backed securities claims
Kirch Litigation	Mortgage-related matters	Claims relating to UBS disclosure
Monte dei Paschi	Bank loan matters	Madoff
Mortgage-related and Asset-backed securities matters	Auction rate securities	Transactions with Italian public sector entities
US embargoes-related matters	Tax matters	Kommunale Wasserwerke Leipzig
Mortgage repurchase demands	Libor-related matters	Puerto Rico
	UK Regulatory matters	Libor, FX and benchmark rates
		Swiss retrocessions
		Banco UBS Pactual tax indemnity
		Matters related to the CDS market

Source: Jefferies, company data

Table 28: Investment Banks – Provisions for Litigation Risk

	4Q12	3Q13	4Q13
Deutsche Bank (EURbn)			
Litigation provisions	2.4	4.1	2.3
Contingent liabilities[18]	1.5	1.3	1.3
Mortgage repurchase			
Demands	4.6	6.3	5.0
Provision Reserves	0.5	0.6	0.5
UBS (CHFbn)			
Litigation provisions	1.4	1.7	1.6
Mortgage repurchase			
Demands	3.2	3.7	3.8
Provision Reserves	0.7	0.8	0.8
CS (CHFbn)			
Litigation provisions*	1.2	1.5	1.8
Contingent liabilities	1.7	2.2	2.2
Mortgage repurchase			
Demands	1.9	0.6	0.6
Provision Reserves	0.1	0.1	0.1

Source: Jefferies estimates, company data
***Estimated for 3Q13 & 4Q13 for CS**

[18] Contingent liabilities are aggregate obligations where an estimate can be made and the outflow is more than remote but less than probable.

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Capital Markets Sensitivity

Table 29: Key valuation sensitivities

Driver	Flex	Company	Pretax impact (SFr/€m)	Group net income impact (SFr/€m)	As a % of group net income	Valuation impact (%)
Fixed income revenue sensitivity	10%	Credit Suisse	757	530	**9.6**	**11.2**
		Deutsche Bank	1146	802	**13.4**	**15.9**
		UBS	241	169	**3.1**	**3.8**
		Barclays	907	635	**10.1**	**12.0**
Equity revenue sensitivity	10%	Credit Suisse	681	477	**8.6**	**10.1**
		Deutsche Bank	416	291	**4.9**	**5.8**
		UBS	555	388	**7.2**	**8.7**
		Barclays	**400**	**280**	**4.4**	**5.3**
AM & WM: equity AuM sensitivity	10%	Credit Suisse	465	325	**5.9**	**6.9**
		Deutsche Bank	118	83	**1.4**	**1.6**
		UBS	731	512	**9.5**	**11.5**
		Barclays	*93*	*65*	**1.0**	**1.2**
AM & WM: revenue margin sensitivity	5%	Credit Suisse	980	686	**12.4**	**14.5**
		Deutsche Bank	230	161	**2.7**	**3.2**
		UBS	1497	1048	**19.5**	**23.5**
		Barclays	181	127	**2.0**	**2.4**

Source: Jefferies estimates, company data

Chart 76: Fixed income revenue sensitivity

I. Fixed income revenue sensitivity

	Flex	CS	DB	UBS	BARC
Fixed income revenues (2013)		4,823	6,899	1,590	5,539
Revenue impact (SFr/€/£ m)	10	**1,013**	**1,449**	**334**	**1,163**
IB comp-to-revenue ratio (%)		42.9	36.4	46.7	38.0
FICC comp-to-revenue ratio (%)		37.9	31.4	41.7	33.0
FICC bonus-to-revenue ratio (%)		25.3	20.9	27.8	22.0
Cost impact		**256**	**303**	**93**	**256**
GOP impact		**757**	**1146**	**241**	**907**
Tax charge		227	344	72	272
Tax rate (%)		*30*	*30*	*30*	*30*
Net profit impact		**530**	**802**	**169**	**635**
Net profit impact (%)		**9.6**	**13.4**	**3.1**	**10.1**
Group net profit		5,520	5,993	5,373	6,300
Valuation impact		**11.2**	**15.9**	**3.8**	**12.0**
Group flexed fair value		35	60	13	400
Group fair value		32	52	12	357
Group flexed RoTE (2015E)		15.4	14.4	12.0	13.6
Group RoTE (2015E)		14.1	12.7	11.6	12.4
Group tangible shareholders equity (2015E)		39,286	47,224	46,152	50,823
Group TNAV (2014)		24	44	12	309
Growth rate		2.0	2.0	2.0	2.0
Cost of capital		11	11	11	11

Source: Jefferies estimates, company data

Chart 77: Equity revenue sensitivity

II. Equity revenue sensitivity

	Flex	CS	DB	UBS	BARC
Equity revenues (a)		4,767	2,737	4,029	2,672
Revenue impact (SFr/€/£ m)	10	**1,001**	**575**	**846**	**561**
IB comp-to-revenue ratio (%)		42.9	36.4	46.7	38.0
Equity & advisory comp-to-revenue ratio (%)		47.9	41.4	51.7	43.0
Equity & advisory bonus ratio (%)		32.0	27.6	34.4	28.7
Cost impact (a)		**320**	**159**	**291**	**161**
GOP impact (a)		**681**	**416**	**555**	**400**
Tax charge		204	125	166	120
Tax rate (%)		*30*	*30*	*30*	*30*
Net profit impact (a)		**477**	**291**	**388**	**280**
Net profit impact (%)		**8.6**	**4.9**	**7.2**	**4.4**
Valuation impact		**10.1**	**5.8**	**8.7**	**5.3**
Group flexed fair value		35	55	13	376
Group fair value		32	52	12	357
Group flexed RoTE (2015E)		15.3	13.3	12.5	12.9
Group RoTE (2015E)		14.1	12.7	11.6	12.4

Source: Jefferies estimates, company data

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Chart 78: AM & WM equity AuM sensitivity

III. AM & WM equity AuM sensitivity

	Flex	CS	DB	UBS	BARC
WM equity managed asset impact (a)		42	49	47	11
Revenue impact (SFr/€/£ m)	10	**445**	**128**	**413**	**101**
WM equity managed assets		198	233	222	51
WM managed assets		791	931	886	205
o/w Equity (%)		*25*	*25*	*25*	*25*
WM revenue margin		107	26	89	94
WM comp-to-revenue ratio (%)		40.1	39.1	44.6	41.2
WM bonus-to-revenue ratio (%)		8.0	7.8	8.9	8.2
Cost impact (a)		**36**	**10**	**37**	**8**
GOP impact (a)		**410**	**118**	**376**	**93**
Tax charge		123	35	113	28
Tax rate (%)		*30*	*30*	*30*	*30*
Net profit impact (b)		**287**	**83**	**263**	**65**
AM Instl equity managed asset impact (c)		11		18	
Revenue impact (SFr/€/£ m)	10	**62**		**61**	
AM Instl equity managed assets		53		87	
AM Instl managed assets		352		583	
o/w Equity (%)		*15*		*15*	
AM Instl revenue margin		55		33	
AM Instl comp-to-revenue ratio (%)		40.1		45.9	
AM Instl bonus-to-revenue ratio (%)		10.0		11.5	
Cost impact (c)		**6**		**7**	
GOP impact (c)		**55**		**54**	
GOP impact (c+d)		**55**	**0**	**54**	**0**
GOP impact (a+b+c+d)		**465**	**118**	**731**	**93**
Tax charge		17	0	16	0
Tax rate (%)		*30*	*30*	*30*	*30*
Net profit impact (c+d)		**39**	**0**	**38**	**0**
Net profit impact (a+b+c+d)		**325**	**83**	**512**	**65**
Net profit impact (%)		**5.9**	**1.4**	**9.5**	**1.0**
Group net profit		5,520	5,993	5,373	6,300
Valuation impact		**6.9**	**1.6**	**11.5**	**1.2**
Group flexed fair value		34	53	14	362
Group fair value		32	52	12	357
Group flexed RoTE (2015E)		14.9	12.9	12.8	12.5
Group RoTE (2015E)		14.1	12.7	11.6	12.4

Source: Jefferies estimates, company data

Chart 79: AM & WM revenue margin sensitivity

IV. AM & WM revenue margin sensitivity

	Flex	CS	DB	UBS	BARC
WM managed assets (a)		791	931	886	205
Revenue margin impact (%)	5	**869**	**250**	**806**	**198**
WM revenue margin		107	26	89	94
WM comp-to-revenue ratio (%)		40.1	39.1	44.6	41.2
WM bonus-to-revenue ratio (%)		8.0	7.8	8.9	8.2
Cost impact (a)		**70**	**20**	**72**	**16**
GOP impact (a)		**800**	**230**	**734**	**181**
Tax charge		240	69	220	54
Tax rate (%)		*30*	*30*	*30*	*30*
Net profit impact (a)		**560**	**161**	**514**	**127**
AM Instl managed assets (c)		352		583	
Revenue impact (SFr/€/£ m)	5	**200**		**199**	
AM Instl revenue margin		55		33	
AM Instl comp-to-revenue ratio (%)		40.1		45.9	
AM Instl bonus-to-revenue ratio (%)		10.0		11.5	
Cost impact (c)		**20**		**23**	
GOP impact (c)		**180**		**176**	
GOP impact (c+d)		**180**	**0**	**176**	**0**
GOP impact (a+b+c+d)		**980**	**230**	**1497**	**181**
Tax charge		54	0	53	0
Tax rate (%)		*30*	*30*	*30*	*30*
Net profit impact (c+d)		**126**	**0**	**123**	**0**
Net profit impact (a+b+c+d)		**686**	**161**	**1048**	**127**
Net profit impact (%)		**12.4**	**2.7**	**19.5**	**2.0**
Group net profit		5,520	5,993	5,373	6,300
Valuation impact		**14.5**	**3.2**	**23.5**	**2.4**
Group flexed fair value		36	53	15	366
Group fair value		32	52	12	357
Group flexed RoTE (2015E)		15.8	13.0	13.9	12.6
Group RoTE (2015E)		14.1	12.7	11.6	12.4

Source: Jefferies estimates, company data

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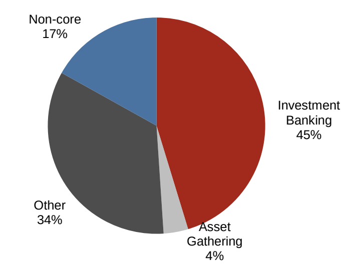
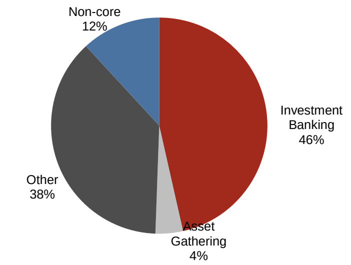
Company Profiles

Chart 80: Deutsche Bank - Capital Allocation - 2013



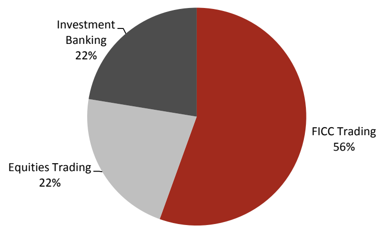
Source: Jefferies, Company data

Chart 81: Deutsche Bank - Capital Allocation - 2015E



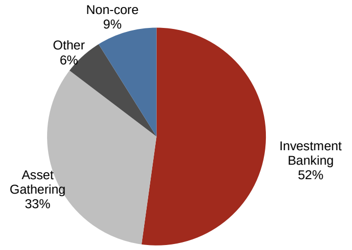
Source: Jefferies, Company data

Chart 82: Deutsche Bank – IB revenue split -2013



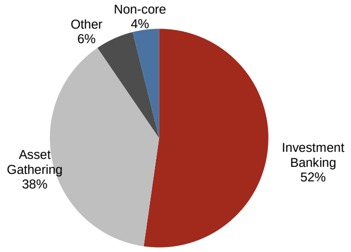
Source: Jefferies, Company data

Chart 83: Credit Suisse - Capital Allocation - 2013



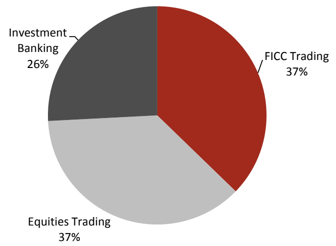
Source: Jefferies, Company data

Chart 84: Credit Suisse - Capital Allocation - 2015E



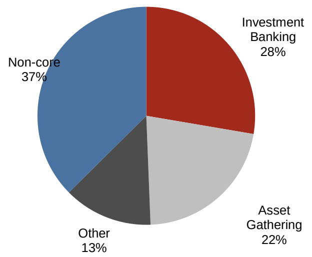
Source: Jefferies, Company data

Chart 85: Credit Suisse – IB revenue split – 2013



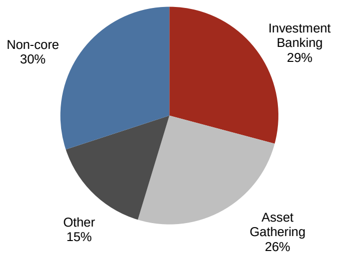
Source: Jefferies, Company data

Chart 86: UBS - Capital Allocation - 2013



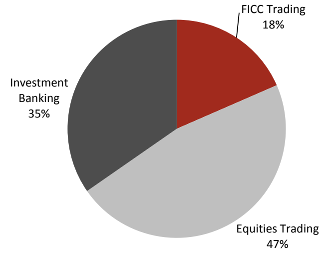
Source: Jefferies, Company data

Chart 87: UBS - Capital Allocation - 2015E



Source: Jefferies, Company data

Chart 88: UBS – IB revenue split – 2013



Source: Jefferies, Company data

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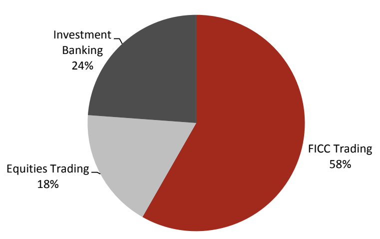
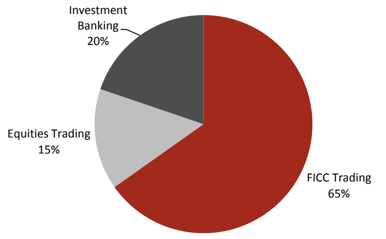
Chart 89: JP Morgan – IB revenue split



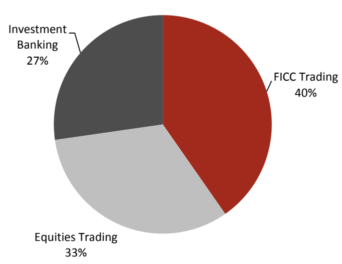
Source: Company data

Chart 90: Citigroup – IB revenue split



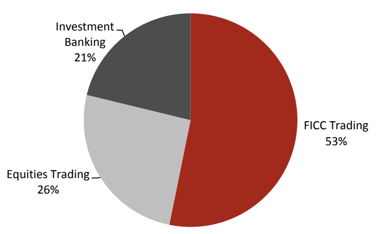
Source: Company data

Chart 91: GS – IB revenue split



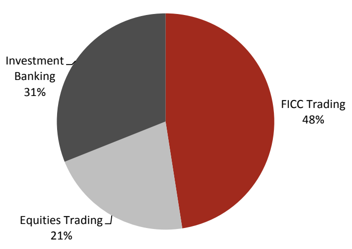
Source: Company data

Chart 92: Barclays – IB revenue split



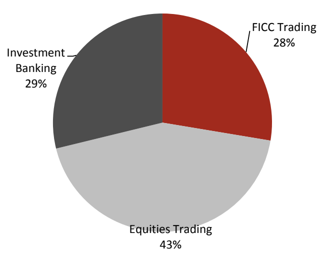
Source: Company data

Chart 93: BoAML – IB revenue split



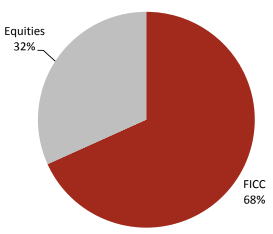
Source: Company data

Chart 94: MS – IB revenue split



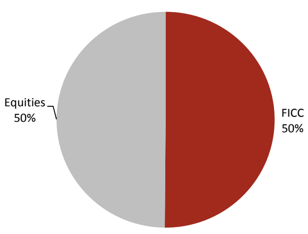
Source: Company data

Chart 95: BNP – IB revenue split



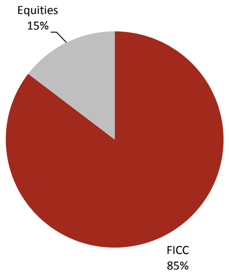
Source: Company data

Chart 96: SocGen – IB revenue split



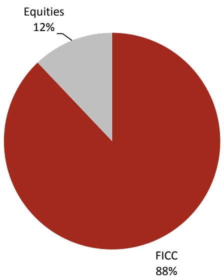
Source: Company data

Chart 97: CASA– IB revenue split



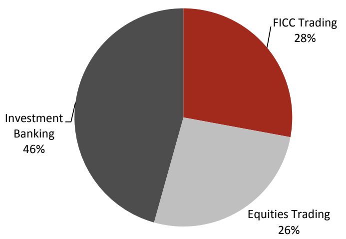
Source: Company data

Chart 98: HSBC– IB revenue split



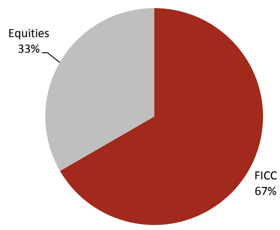
Source: Company data

Chart 99: Jefferies – IB revenue split



Source: Company data

Chart 100: RBC – IB revenue split



Source: Company data

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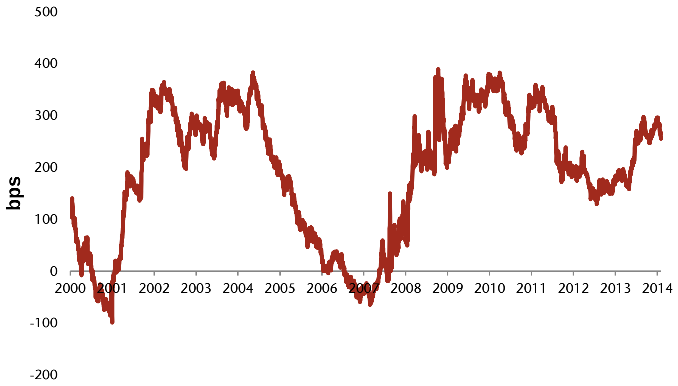
Industry Data

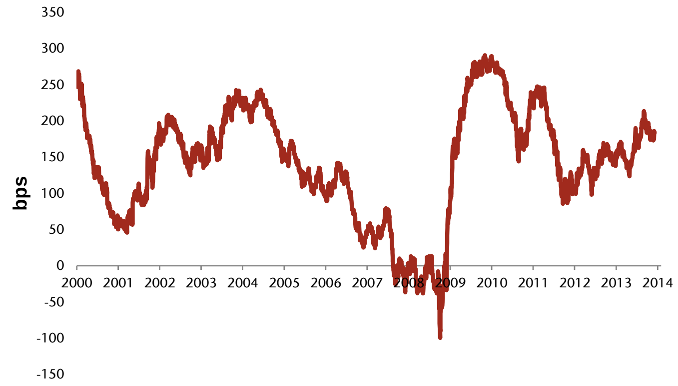
Interest Rate Data

Chart 101: USD 10Y / 3M Treasury spread



Source: Bloomberg

Chart 102: EUR 10Y* / 3M Market Rate spread**



Source: Bloomberg
***10Y Is the 10Y Euroswaps rate; **3M Is the 3M Euribor rate**

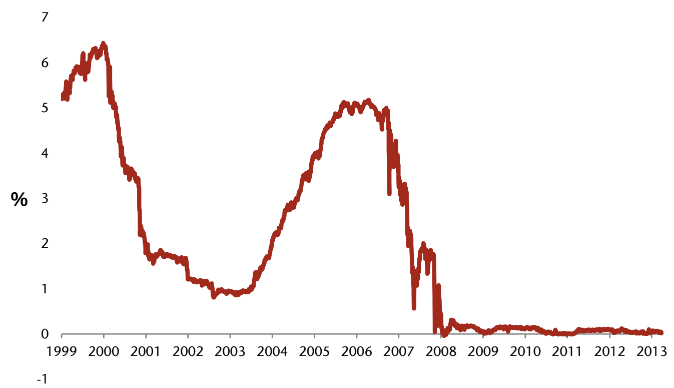
Chart 103: USD 2Y Treasury rate

Source: Bloomberg

Chart 104: EUR 2Y Euroswaps rate

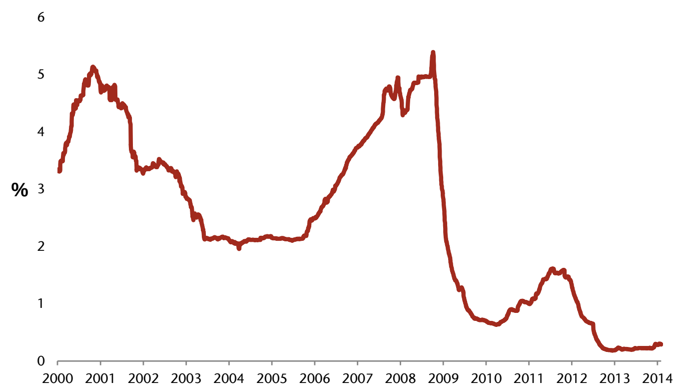
Source: Bloomberg

Chart 105: USD 3M Treasury rate



Source: Bloomberg

Chart 106: 3M Euribor rate



Source: Bloomberg

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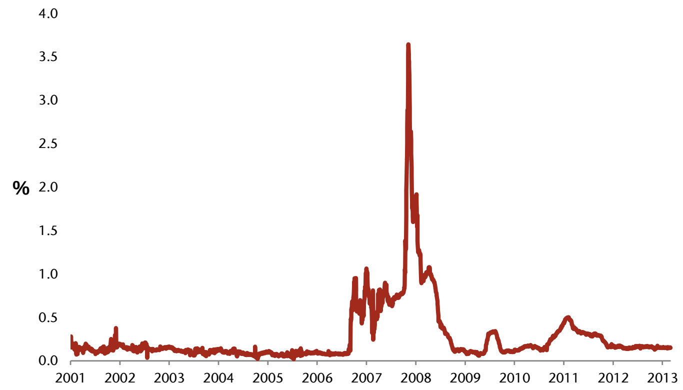
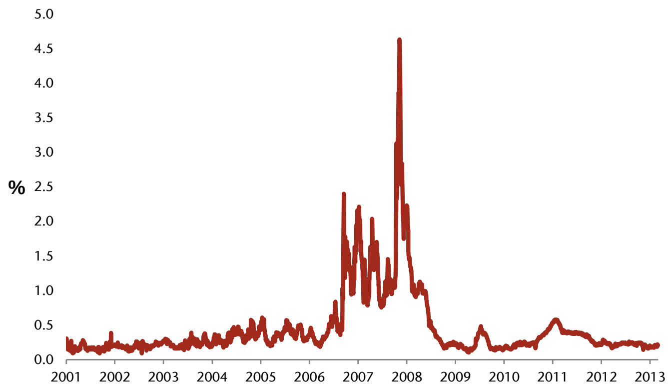
Jefferies

Chart 107: USD 3M Libor - OIS



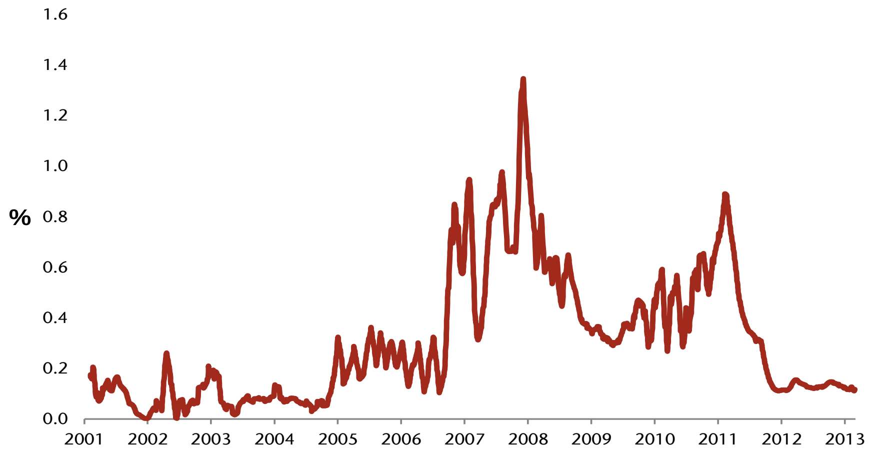
Source: Bloomberg

Chart 108: TED Spread USD 3M Libor - 3M T-Bill



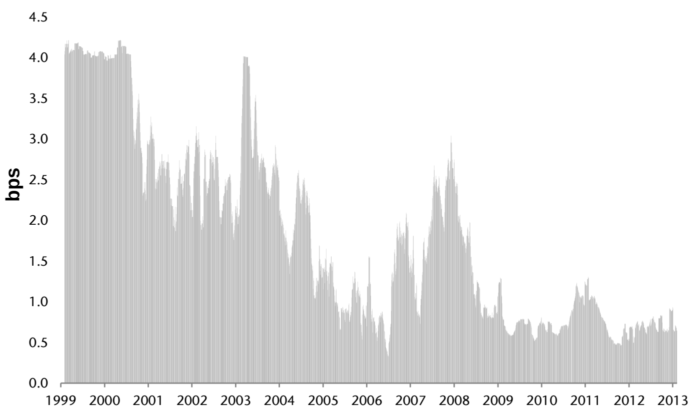
Source: Bloomberg

Chart 109: 3M Euribor - Eonia



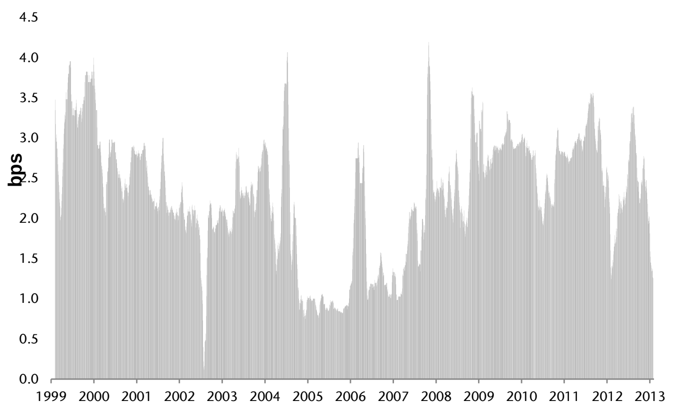
Source: Bloomberg

Chart 110: USD 5Y Swaps Rate (average bid-ask spread)



Source: Bloomberg

Chart 111: EUR 5Y Swaps Rate (average bid-ask spread)



Source: Bloomberg

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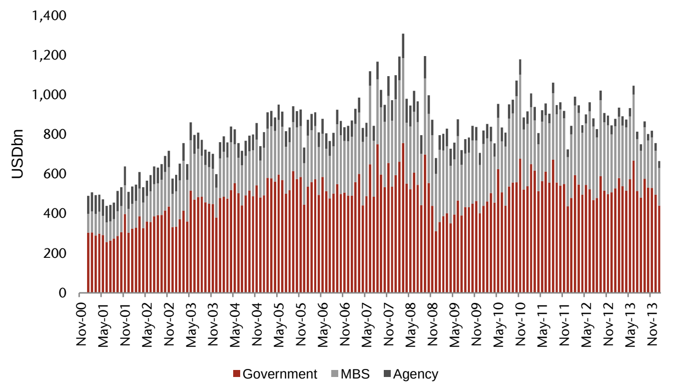
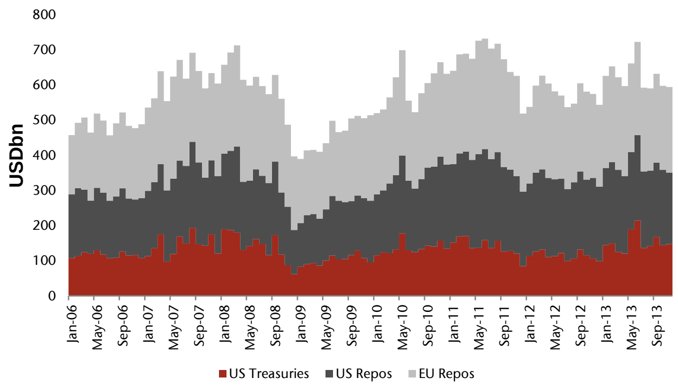
Rates Trading

Chart 112: US Rates Trading Volumes (ADV)



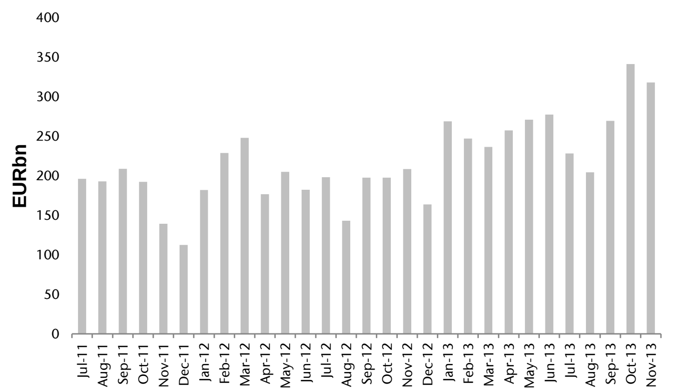
Source: Federal Reserve

Chart 113: Rates/Money markets trading volumes (ADV)



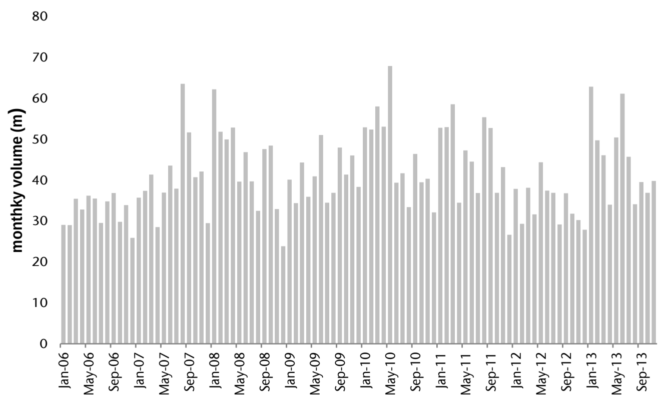
Source: ICAP

Chart 114: European Rates trading volumes (monthly volumes)



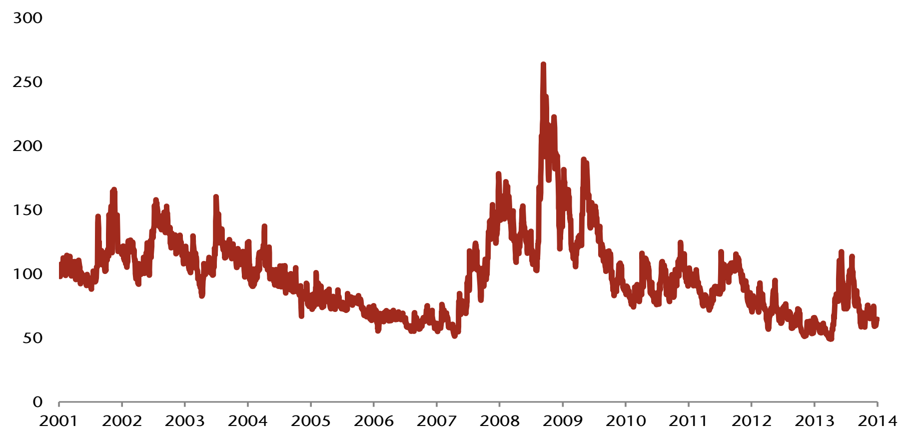
Source: LSE

Chart 115: European Short Term Rate Derivatives Trading Volume



Source: Euronext

Chart 116: Interest Rate Volatility - (MOVE Index)



Source: Bloomberg

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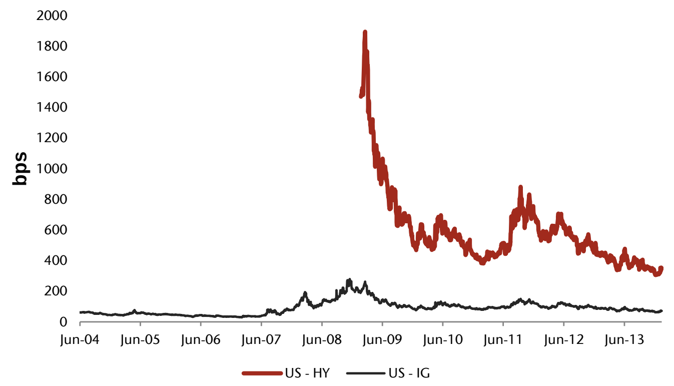
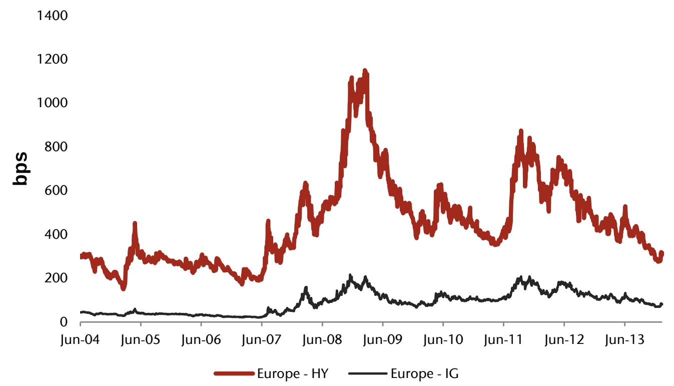
Credit & FX Trading

Chart 117: US - Itraxx Credit Spreads



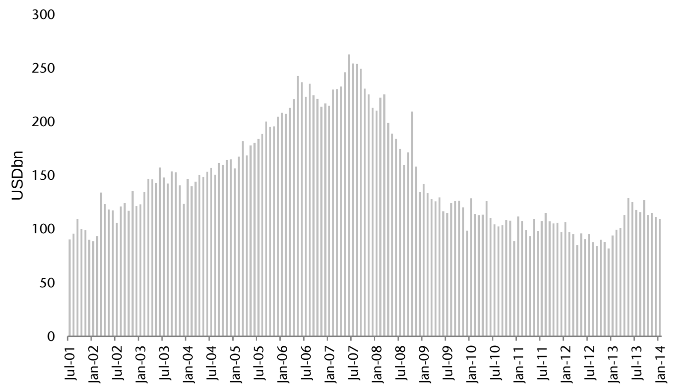
Source: Bloomberg

Chart 118: European - Itraxx Credit Spreads



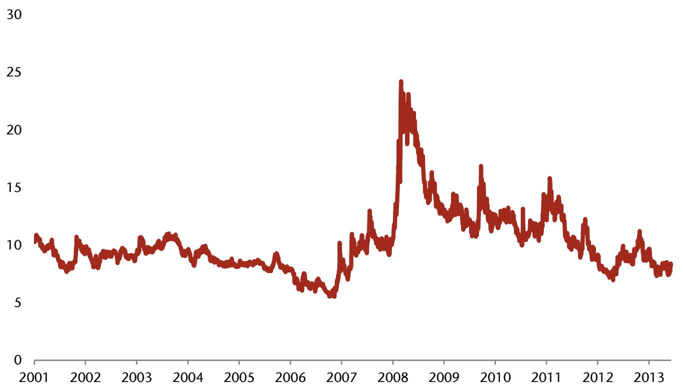
Source: Bloomberg

Chart 119: US Credit Trading Volumes (ADV)



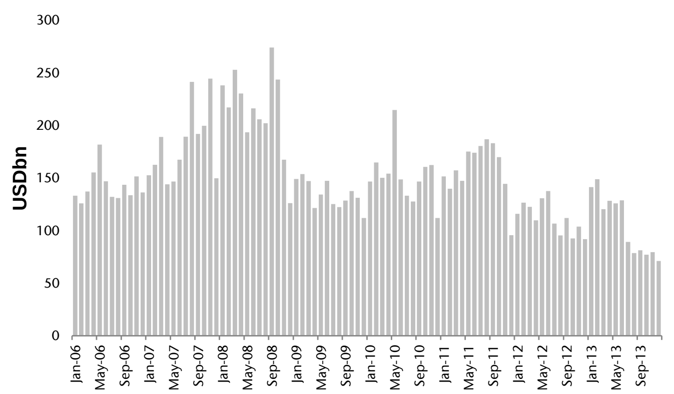
Source: Federal Reserve

Chart 120: Currency Volatility (C-VIX)



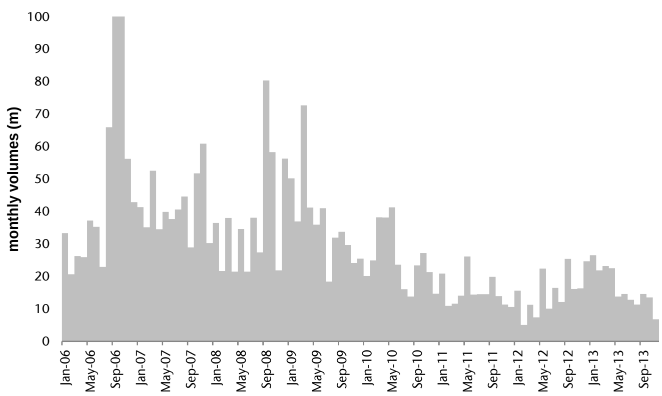
Source: Bloomberg

Chart 121: Cash FX Trading Volume (ADV)



Source: ICAP

Chart 122: European Currency Derivatives Trading Volume



Source: Euronext

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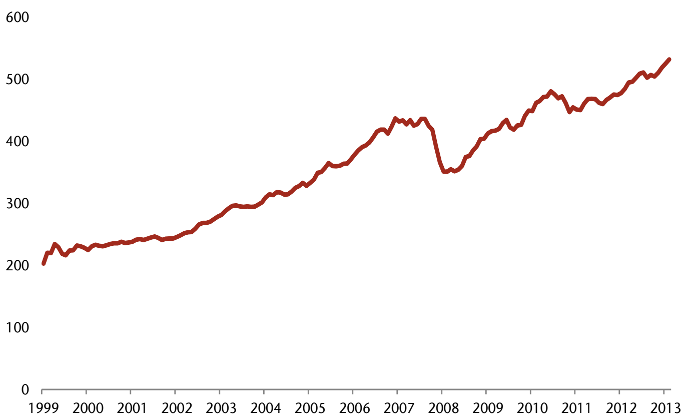
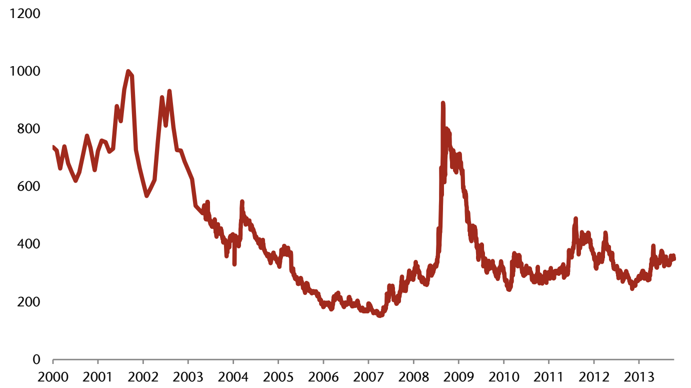
Other Fixed Income Trading

Chart 123: CS Tremont hedge fund index



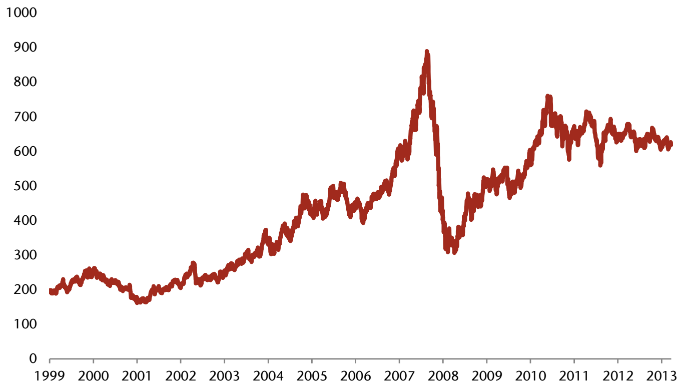
Source: Bloomberg, Credit Suisse

Chart 124: JPMorgan Emerging Market Bond Index - Global Spread



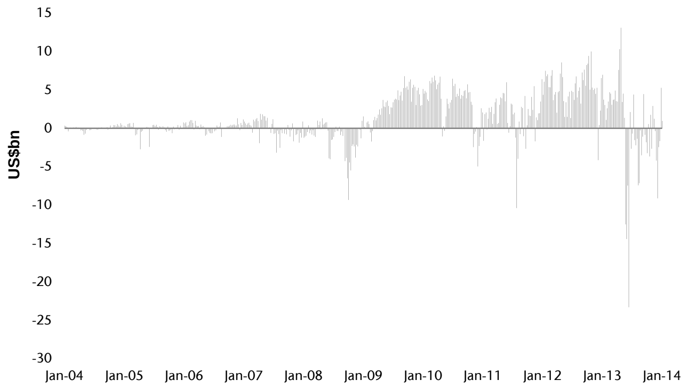
Source: Bloomberg, JP Morgan

Chart 125: Goldman Sachs Global Commodity Index



Source: Bloomberg, Goldman Sachs

Chart 126: Global Bond funds weekly inflows



Source: EPFR

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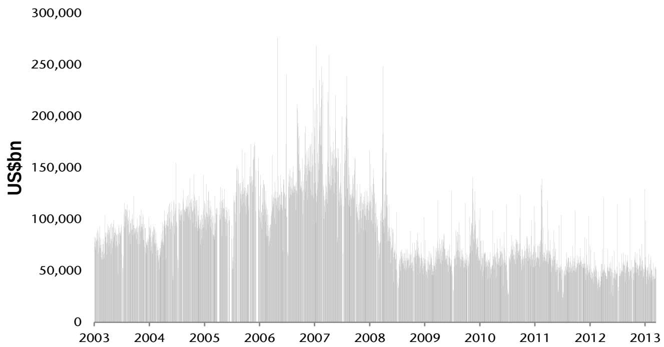
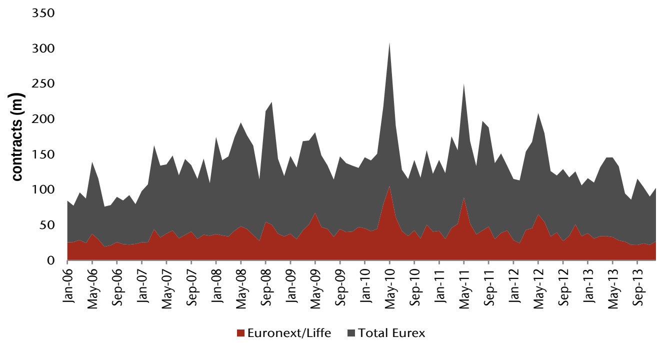
Equities Trading

Chart 127: Cash Equity Trading (Daily Turnover)



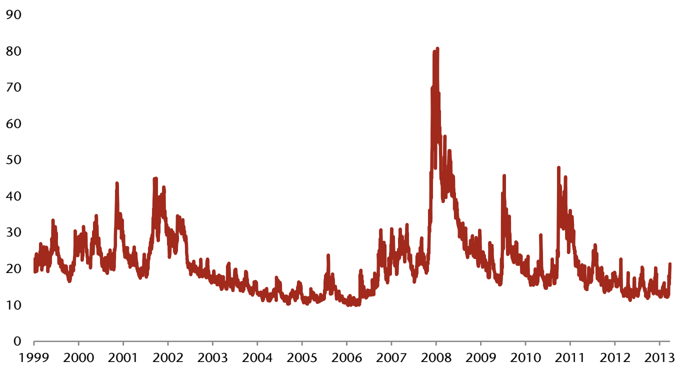
Source: Bloomberg

Chart 128: Equity Derivatives Contracts Traded



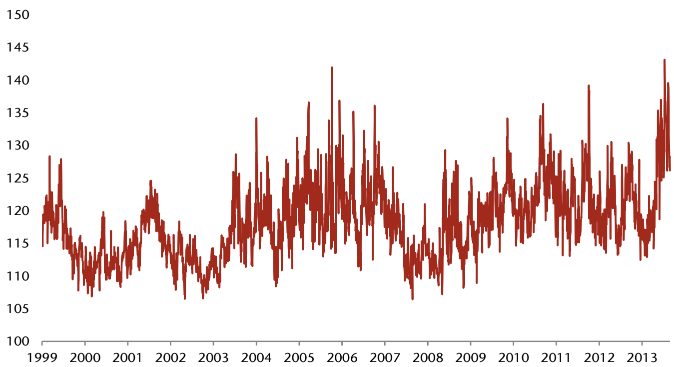
Source: Euronext Liffe /Eurex

Chart 129: Equity Price Volatilty - VIX Index



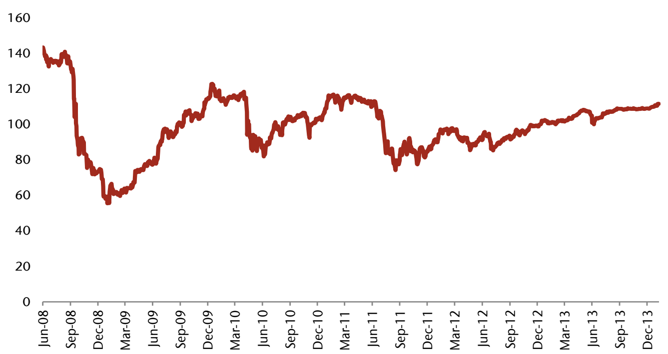
Source: Bloomberg

Chart 130: Equity SKEW



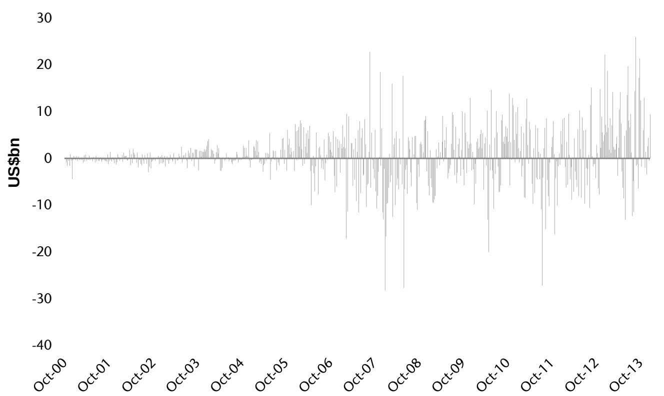
Source: Bloomberg

hart 131: EUROSTOXX - Dividend expectation index



Source: Bloomberg

Chart 132: Global Equity funds weekly inflows



Source: EPFR

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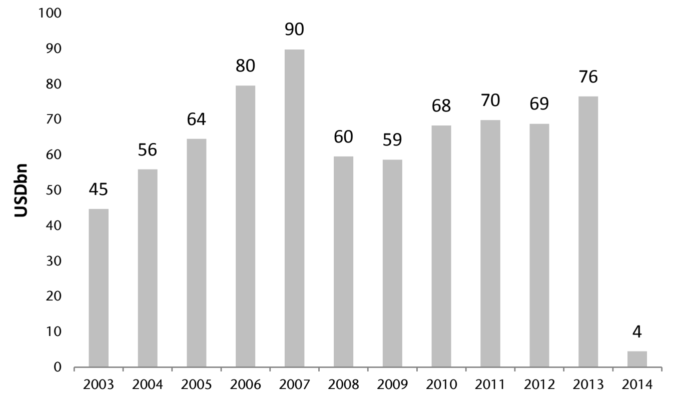
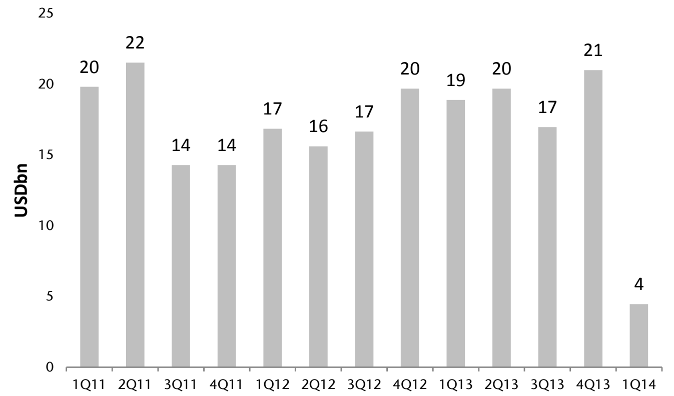
Primary Investment Banking

Chart 133: Global Investment Banking fee pool



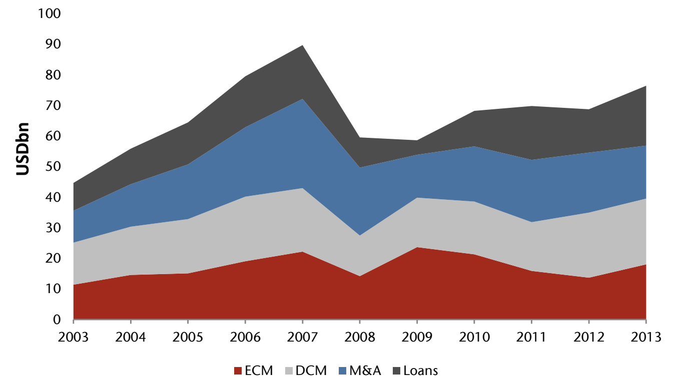
Source: Dealogic

Chart 134: Global Investment Banking fee pool - Quarterly



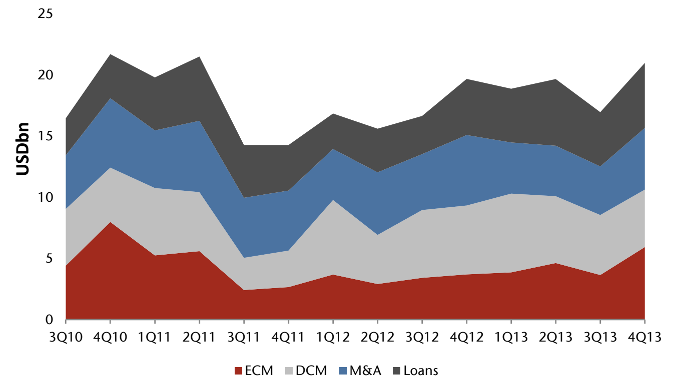
Source: Dealogic

Chart 135: Investment Banking fees by product



Source: Dealogic

Chart 136: Investment Banking fees by product - Quarterly



Source: Dealogic

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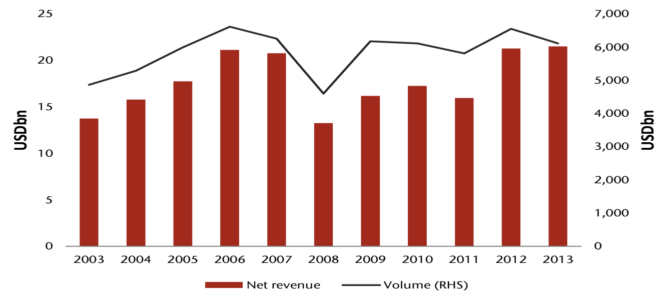
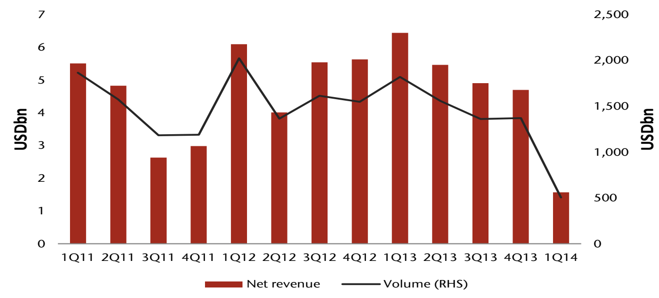
Chart 137: Debt underwriting volumes and fees



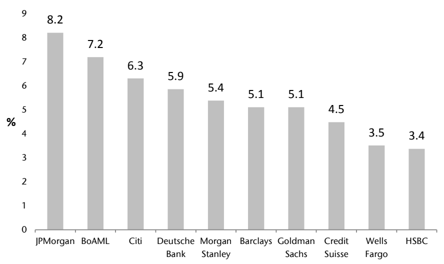
Source: Dealogic

Chart 138: Debt underwriting volumes and fees - Quarterly



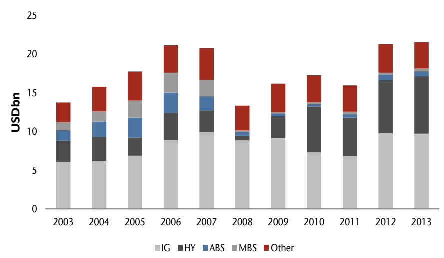
Source: Dealogic

Chart 139: Total DCM (2012-2013) Market Share League Table



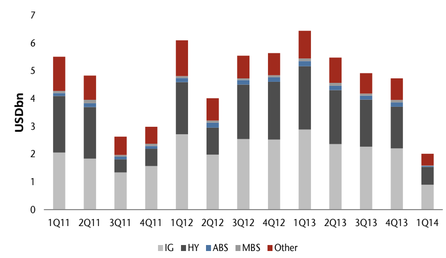
Source: Dealogic

Chart 140: Debt underwriting fees - by product Annual



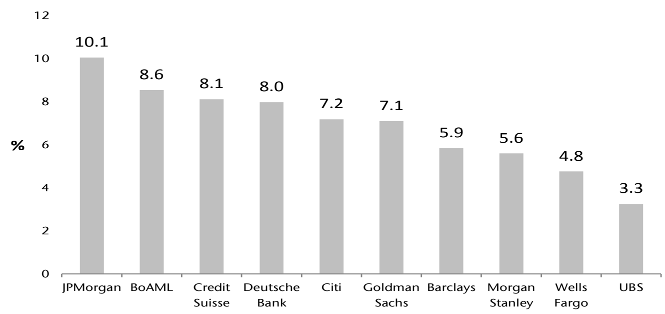
Source: Dealogic

Chart 141: Debt underwriting fees - by product Quarterly



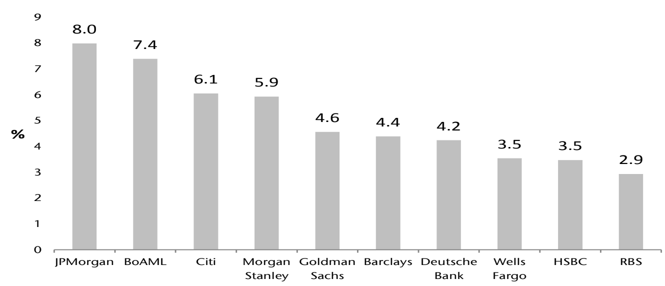
Source: Dealogic

Chart 142: High Yield DCM (2012-2013) Market Shares



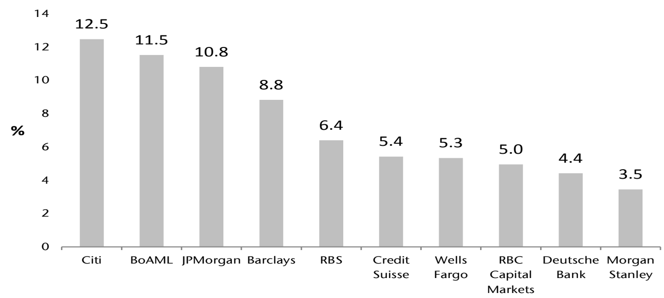
Source: Dealogic

Chart 143: Investment Grade DCM (2012-2013) Market Shares



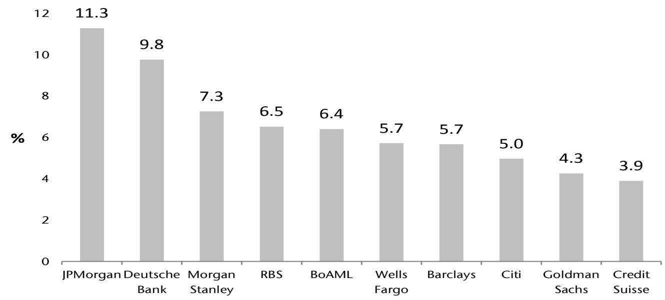
Source: Dealogic

Chart 144: ABS DCM (2012-2013) Market Shares



Source: Dealogic

Chart 145: MBS DCM (2012-2013) Market Shares



Source: Dealogic

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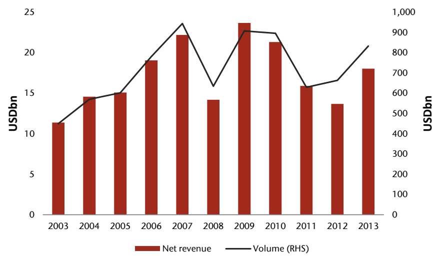
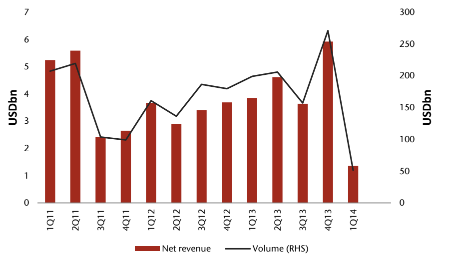
Chart 146: Equity underwriting volumes and fees



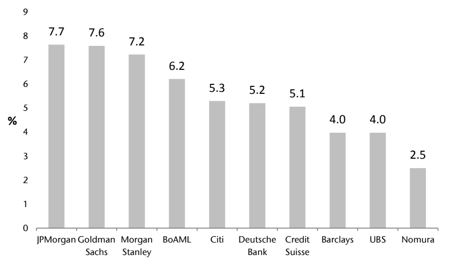
Source: Dealogic

Chart 147: Equity underwriting volumes and fees



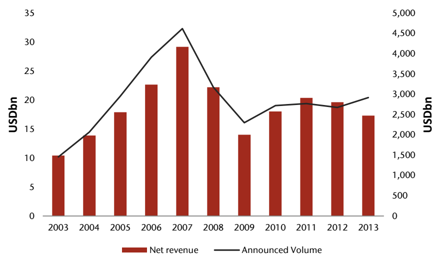
Source: Dealogic

Chart 148: Total ECM (2012-2013) Market Shares



Source: Dealogic

Chart 149: M&A volumes and fees

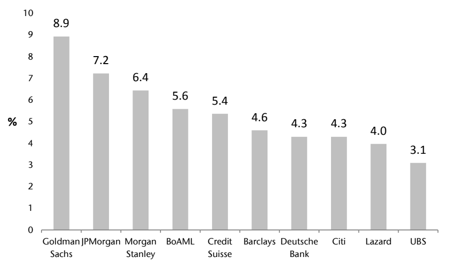


Source: Dealogic

Chart 150: M&A volumes and fees

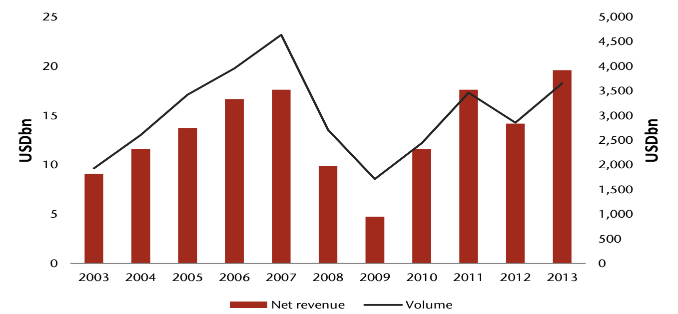
Source: Dealogic

Chart 151: Total M&A (2012-2013) Market Shares



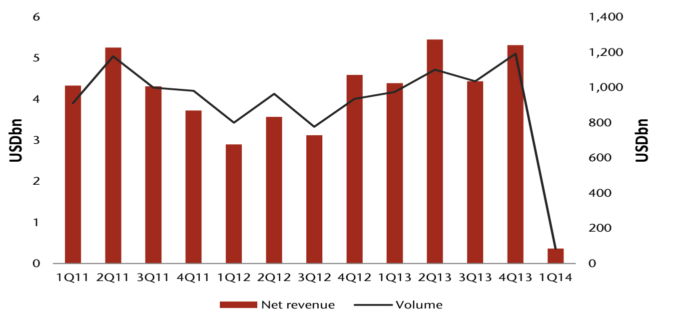
Source: Dealogic

Chart 152: Syndicated Loans volumes and fees



Source: Dealogic

Chart 153: Syndicated Loans volumes and fees - Quarterly



Source: Dealogic

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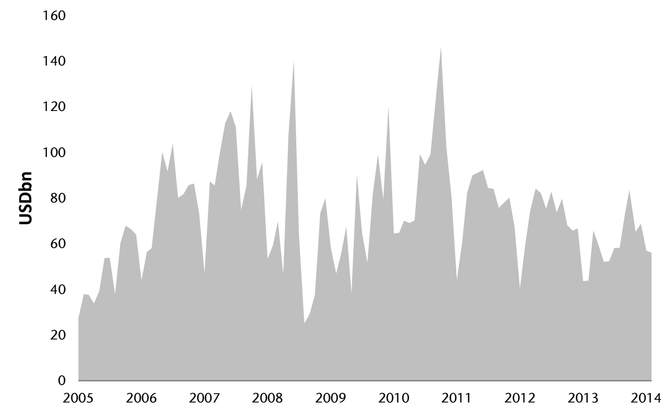
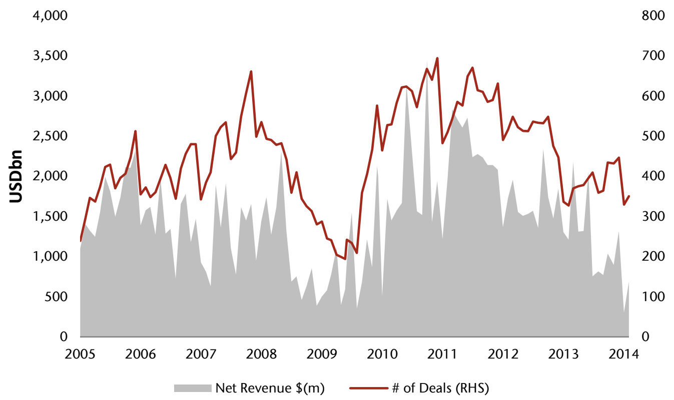
Primary Pipeline (Volumes & Revenues)

Chart 154: ECM deal volume backlog



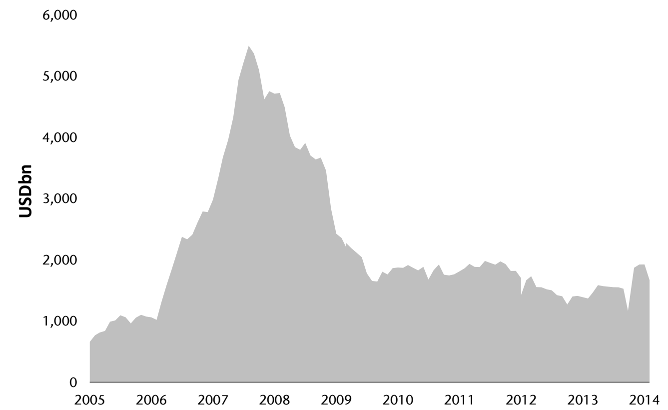
Source: Dealogic

Chart 155: ECM revenue backlog



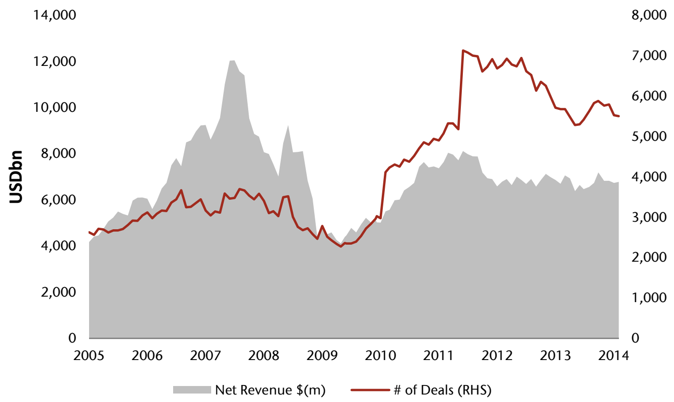
Source: Dealogic

Chart 156: M&A Deal volume backlog



Source: Dealogic

Chart 157: M&A revenue backlog



Source: Dealogic

Chart 158: ECM Revenue Backlog - February 2014

Pos.	Bank	Gross fees ($m)	No.	%share
1	Citi	36.2	23	5.3
2	JPMorgan	24.9	34	3.6
3	Morgan Stanley	24.3	27	3.5
4	Daiwa Securities	22.5	4	3.3
5	Sumitomo Mitsui Financial Group	22.5	4	3.3
6	SBI Holdings	22.1	2	3.2
7	Barclays	21.4	21	3.1
8	Deutsche Bank	20.0	24	2.9
9	Nomura	17.1	8	2.5
10	Credit Suisse	16.5	25	2.4
	Total	**686.6**	**350**	**100.0**

Source: Dealogic

Chart 159: M&A Revenue Backlog - February 2014

Pos.	All Advisor Parent	Net Revenue $ (m)	No.	%share
1	Goldman Sachs	746.1	119	11.0
2	JPMorgan	519.7	90	7.7
3	Morgan Stanley	498.0	113	7.3
4	Bank of America Merrill Lynch	456.1	96	6.7
5	Citi	424.6	85	6.3
6	Credit Suisse	316.3	66	4.7
7	Barclays	286.8	70	4.2
8	Deutsche Bank	284.7	60	4.2
9	Lazard	248.8	60	3.7
10	UBS	209.7	54	3.1
	Total	**6782.2**	**5,504**	**100.0**

Source: Dealogic

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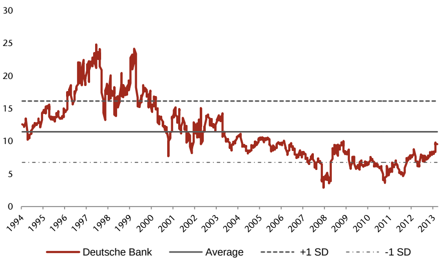
Valuation

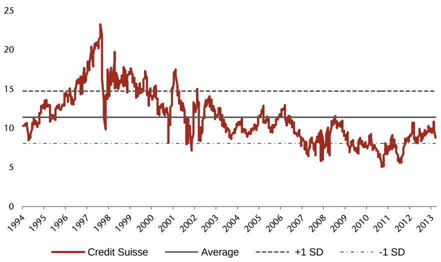
Individual Banks

Chart 160: Deutsche Bank - 1 year forward consensus P/E ratio



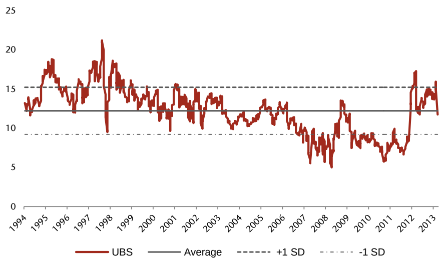
Source: Factset

Chart 161: Credit Suisse - 1 year forward consensus P/E ratio



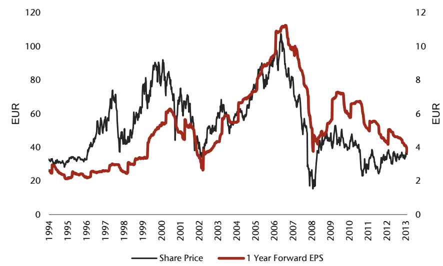
Source: Factset

Chart 162: UBS - 1 year forward consensus P/E ratio



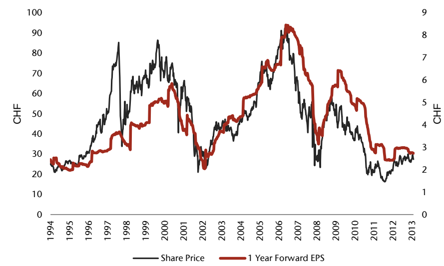
Source: Factset

Chart 163: Deutsche Bank - 1 Year Forward EPS vs. Share Price



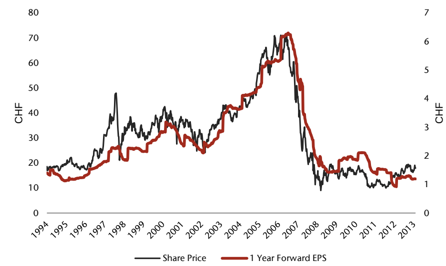
Source: Factset

Chart 164: Credit Suisse - 1 Year Forward EPS vs. Share Price



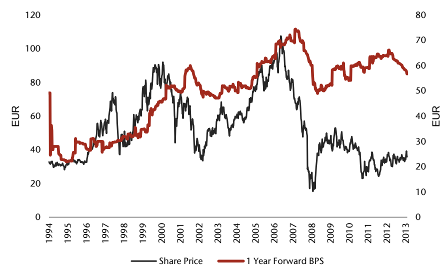
Source: Factset

Chart 165: UBS - 1 Year Forward EPS vs. Share Price



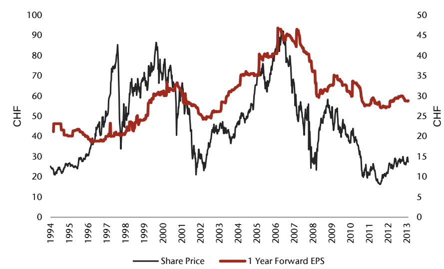
Source: Factset

Chart 166: Deutsche Bank - 1 Year Forward BPS vs. Share Price



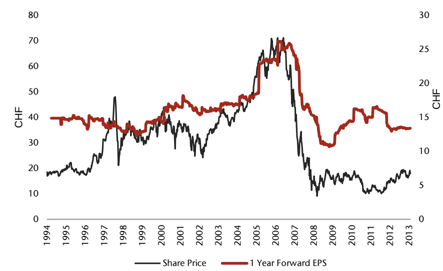
Source: Factset

Chart 167: Credit Suisse - 1 Year Forward BPS vs. Share Price



Source: Factset

Chart 168: UBS - 1 Year Forward BPS vs. Share Price



Source: Factset

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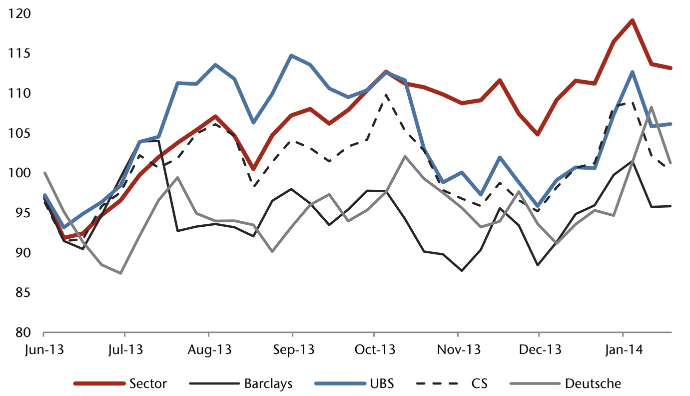
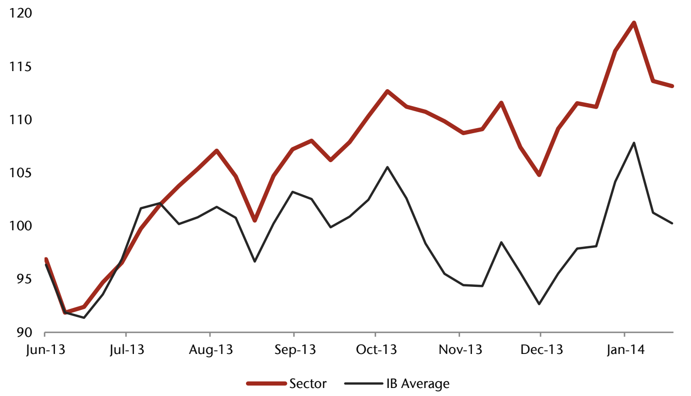
Valuation vs. Sector

Chart 169: Banks vs European sector - Share Price (Jun-13 =100)



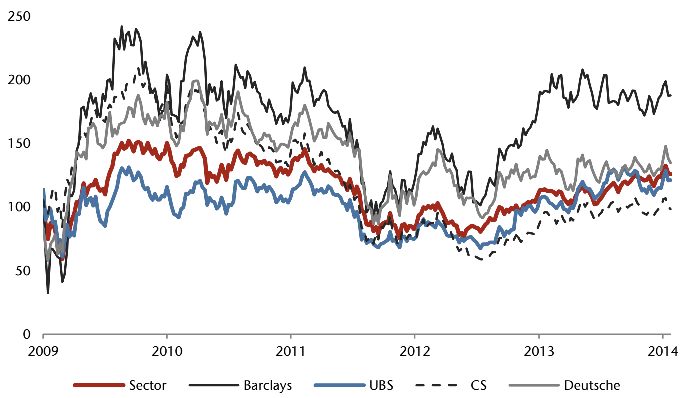
Source: Dealogic

Chart 170: Sub-sector* vs. European sector - Share Price (Jun-13 =100)



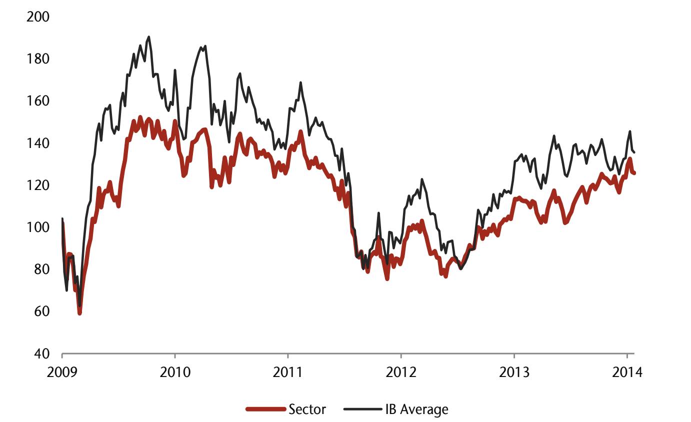
Source: Dealogic
*Sub-sector includes Barclays, UBS, CS and Deutsche

Chart 171: Banks vs European sector - Share Price (Jan-09 =100)



Source: Dealogic

Chart 172: Sub-sector vs. European sector - Share Price (Jan-09 =100)



Source: Dealogic
*Sub-sector includes Barclays, UBS, CS and Deutsche

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Company Universe Datasheet

Capital-market revenues

Table 30: FICC Sales & Trading Revenues

USDm	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	3,698	2,550	553	1,303	4,130	2,555	2,534	1,788	3,001	2,259	2,033	2,080
Citigroup	4,022	2,961	2,310	1,757	4,781	2,861	3,739	2,741	4,623	3,372	2,783	2,329
Goldman Sachs	4,296	1,540	1,423	1,363	3,575	2,194	2,449	2,117	3,259	2,431	1,294	1,887
JP Morgan	5,238	4,280	3,328	2,626	5,016	3,493	3,726	3,177	4,752	4,078	3,439	3,199
Jefferies	318	223	33	141	339	293	266	293	337	213	33	212
Morgan Stanley	1,929	1,901	1,089	-1,096	2,590	771	1,458	811	1,515	1,153	835	694
RBC	819	525	169	62	639	593	526	549	655	413	356	456
US sector Total	**20,320**	**13,980**	**8,905**	**6,156**	**21,071**	**12,760**	**14,698**	**11,476**	**18,142**	**13,919**	**10,773**	**10,858**
Deutsche Bank	4,925	3,109	2,127	1,663	4,162	2,772	3,142	2,089	3,551	2,463	1,706	1,336
Barclays	3,503	2,604	2,055	1,452	3,655	2,788	2,666	2,421	3,443	2,091	1,474	1,689
UBS	533	487	791	614	660	495	442	414	662	382	337	331
Credit Suisse	2,681	624	534	-162	2,096	1,198	1,513	956	2,135	1,328	901	832
BNP Paribas	2,275	1,609	1,145	1,150	2,310	1,090	1,446	1,078	1,675	1,036	1,035	985
Societe Generale	1,042	812	292	-206	1,231	473	746	832	1,066	855	795	535
Credit Agricole			897	176	747	377	534	419	463	505	440	
HSBC					2,563	1,557	1,681	590	2,177	1,774	1,494	
RBS	2,864	1,510	603	912	2,547	1,616	1,663	1,181	1,679	1,114	1,275	
European sector Total	**17,823**	**10,754**	**8,443**	**5,598**	**19,971**	**12,367**	**13,834**	**9,981**	**16,850**	**11,549**	**9,457**	**5,708**
Sector Total	**38,144**	**24,734**	**17,348**	**11,754**	**41,041**	**25,127**	**28,532**	**21,457**	**34,992**	**25,467**	**20,231**	**16,565**
Sector average	**2,543**	**1,649**	**1,157**	**784**	**2,565**	**1,570**	**1,783**	**1,341**	**2,187**	**1,592**	**1,264**	**1,274**

Source: Jefferies, company data

Table 31: Equities Sales & Trading Revenues

USDm	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	1292	1046	753	652	1059	780	715	713	1149	1194	970	904
Citigroup	1116	789	302	244	916	561	522	465	826	942	710	539
Goldman Sachs	2309	1890	2189	1673	2358	1695	2105	1851	1957	1823	1641	1725
JP Morgan	1406	1223	1424	806	1424	1043	1044	895	1340	1296	1249	873
Jefferies	177	165	127	124	136	120	210	177	167	142	151	294
Morgan Stanley	1732	1801	1341	1277	1956	1252	1341	1401	1594	1806	1710	1503
RBC	349	246	174	182	258	277	221	186	223	232	231	256
US sector Total	**8,382**	**7,160**	**6,309**	**4,958**	**8,107**	**5,728**	**6,158**	**5,687**	**7,256**	**7,434**	**6,662**	**6,094**
Deutsche Bank	1,235	724	472	656	898	659	763	651	997	1,017	853	739
Barclays	865	987	547	467	931	974	832	736	1,110	1,252	1,011	812
UBS	1,470	1,248	802	755	1,087	287	769	584	1,255	1,176	962	957
Credit Suisse	1,654	1,356	950	795	1,482	1,163	1,042	981	1,393	1,414	1,152	1,190
BNP Paribas	959	977	410	536	647	480	567	419	514	588	642	635
Societe Generale	1,220	882	659	539	861	611	735	503	891	966	845	881
Credit Agricole			262	219	237	202	189	194	94	92	56	
HSBC					185	211	140	143	266	265	218	
RBS	436	375	180									
European sector Total	**7,839**	**6,549**	**4,283**	**3,967**	**6,328**	**4,586**	**5,037**	**4,212**	**6,520**	**6,769**	**5,740**	**5,214**
Sector Total	**16,221**	**13,709**	**10,592**	**8,925**	**14,435**	**10,314**	**11,195**	**9,899**	**13,776**	**14,204**	**12,402**	**11,308**
Sector average	**1,081**	**914**	**706**	**637**	**962**	**688**	**746**	**660**	**918**	**947**	**827**	**870**

Source: Jefferies, company data

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Investment-banking revenues

Table 32: Equity Underwriting Revenues (ECM)

USDm	**Q1 12**	**Q2 12**	**Q3 12**	**Q4 12**	**Q1 13**	**Q2 13**	**Q3 13**	**Q4 13**	**Q1 14**	**Q2 14**	**Q3 14**	**Q4 14**
Bank of America	448	422	316	268	305	192	279	250	323	356	329	461
Citigroup	205	273	107	91	155	168	143	163	225	266	174	282
Goldman Sachs	426	378	90	191	255	239	189	304	390	371	276	622
JP Morgan	379	455	178	169	276	250	235	265	273	457	333	436
Jefferies	50	52	59	27	46	56	39	53	61	54	56	118
Morgan Stanley	285	419	239	189	172	283	199	238	283	327	236	416
US sector Total	**1,793**	**1,999**	**989**	**935**	**1,209**	**1,188**	**1,084**	**1,273**	**1,555**	**1,831**	**1,404**	**2,335**
Deutsche Bank	250	350	95	88	181	116	179	195	198	264	179	329
Barclays												
UBS	191	181	137	129	218	223	184	210	540	245	177	271
Credit Suisse	218	331	128	119	129	101	183	180	169	219	140	304
European sector Total	**658**	**862**	**360**	**337**	**528**	**439**	**547**	**586**	**907**	**727**	**496**	**905**
Sector Total	**2,451**	**2,861**	**1,349**	**1,272**	**1,738**	**1,627**	**1,631**	**1,859**	**2,462**	**2,558**	**1,900**	**3,240**
Sector average	**272**	**318**	**150**	**141**	**193**	**181**	**181**	**207**	**274**	**284**	**211**	**360**

Source: Jefferies, company data

Table 33: Debt Underwriting Revenues (DCM)

USDm	**Q1 11**	**Q2 11**	**Q3 11**	**Q4 11**	**Q1 12**	**Q2 12**	**Q3 12**	**Q4 12**	**Q1 13**	**Q2 13**	**Q3 13**	**Q4 13**
Bank of America	845	939	515	587	774	645	865	1078	1022	987	810	986
Citigroup	508	619	450	393	606	490	594	634	634	558	498	488
Goldman Sachs	486	433	168	196	410	495	466	593	694	695	467	511
JP Morgan	971	866	496	553	818	639	805	990	905	956	855	801
Jefferies	63	132	128	62	90	132	88	146	141	134	120	162
Morgan Stanley	338	521	212	288	366	338	431	534	411	418	481	495
RBC												
US sector Total	**3,211**	**3,510**	**1,969**	**2,079**	**3,064**	**2,739**	**3,249**	**3,975**	**3,807**	**3,748**	**3,231**	**3,443**
Deutsche Bank	522	456	236	252	498	369	482	492	592	540	483	437
Barclays												
UBS	244	229	169	237	292	213	261	321	267	260	200	232
Credit Suisse	528	441	350	242	442	324	427	548	495	565	459	538
European sector Total	**1,294**	**1,127**	**755**	**731**	**1,232**	**907**	**1,170**	**1,361**	**1,355**	**1,365**	**1,142**	**1,207**
Sector Total	**4,505**	**4,637**	**2,724**	**2,810**	**4,295**	**3,646**	**4,419**	**5,336**	**5,161**	**5,113**	**4,373**	**4,650**
Sector average	**501**	**515**	**303**	**312**	**477**	**405**	**491**	**593**	**573**	**568**	**486**	**517**

Source: Jefferies, company data

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Table 34: Advisory Revenues (M&A)

USDm	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	320	382	273	273	203	341	221	301	257	262	256	356
Citigroup	144	199	185	160	111	202	196	206	204	215	167	266
Goldman Sachs	357	637	523	470	489	469	509	508	484	486	423	585
JP Morgan	429	601	365	397	281	356	389	465	255	304	322	434
Jefferies	126	145	107	172	150	109	133	84	86	90	143	137
Morgan Stanley	385	533	413	406	313	263	339	454	251	333	275	451
US sector Total	**1,761**	**2,497**	**1,866**	**1,878**	**1,547**	**1,740**	**1,787**	**2,018**	**1,537**	**1,690**	**1,586**	**2,229**
Deutsche Bank	219	218	193	227	159	177	203	225	90	150	206	191
Barclays												
UBS	296	269	230	276	184	132	177	194	122	172	122	221
Credit Suisse	247	309	207	191	232	253	305	331	156	176	164	216
European sector Total	**762**	**796**	**630**	**694**	**575**	**562**	**686**	**750**	**368**	**499**	**492**	**628**
Sector Total	**2,523**	**3,293**	**2,496**	**2,572**	**2,122**	**2,302**	**2,473**	**2,769**	**1,905**	**2,188**	**2,078**	**2,857**
Sector average	**280**	**366**	**277**	**286**	**236**	**256**	**275**	**308**	**212**	**243**	**231**	**317**

Source: Jefferies, company data

Table 35: Total Investment Banking (ECM, DCM & M&A) Revenues

USDm	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	1578	1684	942	1013	1217	1146	1336	1600	1535	1556	1297	1738
Citigroup	857	1091	742	644	872	860	933	1003	1063	1039	839	1036
Goldman Sachs	1269	1448	781	857	1154	1203	1164	1405	1568	1552	1166	1718
JP Morgan	1779	1922	1039	1119	1375	1245	1429	1720	1433	1717	1510	1671
Jefferies	239	328	294	261	286	297	260	283	288	277	319	417
Morgan Stanley	1008	1473	864	883	851	884	969	1226	945	1078	992	1362
US sector Total	**6,730**	**7,946**	**4,662**	**4,777**	**5,755**	**5,635**	**6,091**	**7,237**	**6,832**	**7,219**	**6,123**	**7,942**
Deutsche Bank	991	1,024	523	568	839	662	864	913	880	953	868	957
Barclays	1,052	855	636	806	812	806	785	1,004	877	801	823	966
UBS	901	823	498	704	752	742	724	823	1,070	815	545	787
Credit Suisse	993	1,081	685	552	803	678	916	1,059	820	960	762	1,058
European sector Total	**3,937**	**3,784**	**2,342**	**2,630**	**3,205**	**2,888**	**3,289**	**3,799**	**3,646**	**3,530**	**2,998**	**3,769**
Sector Total	**10,667**	**11,730**	**7,004**	**7,407**	**8,960**	**8,523**	**9,380**	**11,036**	**10,479**	**10,749**	**9,122**	**11,711**
Sector average	**1,067**	**1,173**	**700**	**741**	**896**	**852**	**938**	**1,104**	**1,048**	**1,075**	**912**	**1,171**

Source: Jefferies, company data

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Investment banking division profitability

Table 36: Total Investment Banking Division Revenues

USDm	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	5629	4289	1585	2279	5845	3737	3860	3296	4924	4151	3667	3824
Citigroup	6320	5405	4906	3337	6718	5273	5646	4872	7288	6379	5081	4615
Goldman Sachs	10580	5922	1914	4765	8998	5295	7522	7346	8852	7221	5576	7390
JP Morgan	8423	7425	5791	6852	10051	8303	8585	8228	10041	9602	8598	8128
Jefferies	742	723	524	557	745	707	628	761	766	618	506	936
Morgan Stanley	4436	4945	2991	2997	5113	2982	3743	3598	4406	4171	3857	3696
RBC	2,086	1,547	1,045	940	1,450	1,542	1,611	1,572	1,896	1,509	1,371	1,611
US sector Total	**38,216**	**30,256**	**18,756**	**21,726**	**38,920**	**27,838**	**31,594**	**29,673**	**38,173**	**33,651**	**28,656**	**30,199**
Deutsche Bank	7,615	5,156	3,632	3,164	6,329	4,417	5,091	4,039	5,789	4,902	3,996	3,602
Barclays	5,433	4,604	3,378	2,780	5,415	4,787	4,331	4,203	5,444	4,568	3,310	3,520
UBS	2,908	2,559	2,091	2,060	2,498	1,901	1,941	1,816	2,926	2,377	1,845	2,074
Credit Suisse	5,281	3,047	2,133	1,646	4,591	3,125	3,440	3,013	4,234	3,628	2,833	2,972
BNP Paribas	3,234	2,586	1,555	1,686	2,957	1,570	2,014	1,498	2,189	1,624	1,677	1,620
Societe Generale	3,147	2,634	1,810	1,065	2,752	1,797	2,203	1,929	2,561	2,463	2,261	2,071
Credit Agricole	1,013	912	1,004	297	1,011	638	819	640	627	660	512	
HSBC					5799	4536	4319	3619	5816	4846	4220	
RBS	3,340	1,874	707	1,077	2,733	1,688	1,658	1,039	1,635	1,247	1,308	
European sector Total	**31,970**	**23,372**	**16,310**	**13,775**	**34,085**	**24,460**	**25,816**	**21,794**	**31,221**	**26,315**	**21,962**	**15,858**
Sector Total	**70,186**	**53,628**	**35,065**	**35,501**	**73,005**	**52,298**	**57,410**	**51,466**	**69,394**	**59,966**	**50,619**	**46,057**
Sector average	**4,679**	**3,575**	**2,338**	**2,367**	**4,563**	**3,269**	**3,588**	**3,217**	**4,337**	**3,748**	**3,164**	**3,543**

Source: Jefferies, company data

Table 37: Total Investment Banking Division PBT

USDm	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	2548	1034	-1384	-596	2619	883	1254	652	1845	1396	1018	1091
Citigroup	2712	1453	1160	-463	2959	1646	2240	1126	3652	2963	1594	1344
Goldman Sachs	4,086	1,399	-1,185	1,044	3,406	1,234	2,509	4,100	3,336	2,520	2,143	7,390
JP Morgan	3,400	3,086	1,985	2,307	3,826	2,995	3,221	3,218	3,916	3,846	3,585	3,223
Jefferies	163	130	55	71	136	107	19	114	113	73	33	212
Morgan Stanley	1,241	1,343	121	177	1,757	162	614	727	1,278	952	728	455
RBC	971	592	310	156	512	552	656	583	743	549	497	684
US sector Total	**15,121**	**9,038**	**1,062**	**2,696**	**15,214**	**7,579**	**10,513**	**10,520**	**14,882**	**12,299**	**9,598**	**14,399**
Deutsche Bank	3,045	1,297	331	410	2,472	646	1,615	401	2,323	1,233	567	429
Barclays	2,137	1,425	332	-50	1,863	1,678	1,573	1,231	2,249	1,710	735	-33
UBS	582	588	206	436	599	202	96	67	994	852	361	491
Credit Suisse	1,518	202	-748	-1,014	1,718	490	720	522	1,516	931	460	267
BNP Paribas	1,346	955	575	209	1,122	252	668	100	648	293	336	156
Societe Generale	1,150	845	228	-488	947	385	671	430	959	904	505	152
Credit Agricole	195	181	180	-520	252	-17	183	-44	144	172	-70	
HSBC					3079	1968	2247	1226	3588	2135	1852	
RBS	1,630	525	-550	-170	1,299	397	470	225	437	141	329	
European sector Total	**11,603**	**6,017**	**553**	**-1,186**	**13,350**	**6,002**	**8,242**	**4,158**	**12,858**	**8,371**	**5,075**	**1,461**
Sector Total	**26,724**	**15,055**	**1,615**	**1,510**	**28,565**	**13,581**	**18,756**	**14,678**	**27,741**	**20,670**	**14,673**	**15,860**
Sector average	**1,782**	**1,004**	**108**	**101**	**1,785**	**849**	**1,172**	**917**	**1,734**	**1,292**	**917**	**1,220**

Source: Jefferies, company data

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Table 38: Investment Banking Division Return on Assets (RoA)

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	1.8%	0.7%	-0.9%	-0.4%	1.9%	0.6%	0.8%	0.4%	1.1%	0.9%	0.7%	0.7%
Citigroup	0.9%	0.4%	0.4%	-0.2%	0.9%	0.5%	0.7%	0.3%	1.1%	0.9%	0.5%	0.4%
Goldman Sachs	1.2%	0.4%	-0.4%	0.3%	1.0%	0.4%	0.7%	1.2%	1.0%	0.8%	0.7%	2.3%
JP Morgan	1.2%	1.0%	0.7%	0.8%	1.3%	1.0%	1.1%	1.0%	1.3%	1.2%	1.2%	1.1%
Jefferies	0.9%	0.7%	0.4%	0.4%	0.7%	0.6%	0.0%	0.6%	0.6%	0.4%	0.2%	1.2%
Morgan Stanley	0.7%	0.7%	0.1%	0.1%	1.0%	0.1%	0.4%	0.4%	0.8%	0.6%	0.4%	0.3%
RBC	1.1%	0.6%	0.4%	0.2%	0.6%	0.7%	0.8%	0.6%	0.8%	0.6%	0.6%	0.8%
US sector Total	**1.1%**	**0.7%**	**0.1%**	**0.2%**	**1.1%**	**0.5%**	**0.6%**	**0.7%**	**0.9%**	**0.8%**	**0.6%**	**1.0%**
Deutsche Bank	1.2%	0.5%	0.2%	0.2%	0.9%	0.3%	0.6%	0.2%	0.9%	0.4%	0.2%	0.2%
Barclays	0.8%	0.5%	0.1%	0.0%	0.7%	0.6%	0.6%	0.5%	1.0%	0.7%	0.3%	-0.2%
UBS	0.6%	0.8%	0.3%	0.5%	0.8%	0.4%	0.2%	0.1%	2.0%	1.8%	0.8%	1.1%
Credit Suisse	0.9%	0.1%	-0.4%	-0.6%	1.0%	0.3%	0.4%	0.3%	1.0%	0.6%	0.3%	0.2%
BNP Paribas	0.9%	0.7%	0.6%	0.4%	0.8%	0.5%	0.5%	0.2%	0.5%	0.3%	0.3%	
Societe Generale	0.8%	0.5%	0.2%	-0.4%	0.8%	0.3%	0.6%	0.3%	0.8%	0.7%	0.4%	
Credit Agricole	0.3%	0.3%	0.4%	-0.2%	0.3%	0.2%	0.3%	0.1%	0.2%	0.2%	0.1%	
RBS	1.2%	0.4%	-0.4%	-0.1%	1.1%	0.3%	0.4%	0.2%	0.4%	0.1%	0.3%	
European sector Total	**0.8%**	**0.5%**	**0.1%**	**0.0%**	**0.8%**	**0.4%**	**0.4%**	**0.2%**	**0.8%**	**0.6%**	**0.3%**	**0.1%**
Sector average	**0.9%**	**0.6%**	**0.1%**	**0.1%**	**1.0%**	**0.4%**	**0.5%**	**0.4%**	**0.9%**	**0.7%**	**0.5%**	**0.6%**
Sector average	**0.9%**	**0.6%**	**0.1%**	**0.1%**	**0.9%**	**0.4%**	**0.5%**	**0.4%**	**0.9%**	**0.7%**	**0.5%**	**0.6%**

Source: Jefferies, company data

Table 39: Investment Banking Division Revenue / Assets

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	3.9%	2.8%	1.1%	1.7%	4.2%	2.5%	2.6%	2.0%	2.9%	2.5%	2.4%	2.5%
Citigroup	1.7%	1.7%	1.6%	1.7%	1.7%	1.6%	1.5%	1.6%	1.5%	1.5%	1.5%	1.5%
Goldman Sachs	4.6%	2.6%	0.8%	2.1%	3.8%	2.3%	3.2%	3.2%	3.7%	3.1%	2.4%	3.2%
JP Morgan	4.1%	3.5%	2.9%	3.2%	4.7%	3.9%	4.1%	3.8%	4.6%	4.4%	4.1%	3.8%
Jefferies	7.0%	6.1%	4.0%	4.4%	7.1%	6.4%	5.9%	6.9%	6.7%	5.2%	4.4%	8.1%
Morgan Stanley	2.4%	2.7%	1.7%	1.9%	3.0%	1.9%	2.3%	2.2%	2.6%	2.5%	2.3%	2.2%
RBC	2.3%	1.6%	1.2%	1.2%	1.7%	1.8%	1.9%	1.7%	2.1%	1.7%	1.5%	1.8%
US sector Total	**3.7%**	**3.0%**	**1.9%**	**2.3%**	**3.7%**	**2.9%**	**3.1%**	**3.1%**	**3.5%**	**3.0%**	**2.7%**	**3.3%**
Deutsche Bank	3.0%	2.0%	1.7%	1.2%	2.4%	1.8%	1.9%	1.6%	2.3%	1.7%	1.5%	1.4%
Barclays	2.0%	1.7%	1.1%	1.0%	2.2%	1.8%	1.6%	1.6%	2.3%	1.9%	1.4%	1.5%
UBS	2.8%	3.4%	2.7%	2.5%	3.5%	3.4%	3.8%	3.5%	5.7%	4.9%	3.9%	4.5%
Credit Suisse	3.0%	1.7%	1.2%	0.9%	2.7%	1.8%	2.0%	1.9%	2.8%	2.4%	1.9%	2.1%
BNP Paribas	1.9%	1.5%	1.2%	1.5%	2.1%	1.5%	1.7%	1.4%	1.5%	1.3%	1.2%	
Societe Generale	2.2%	1.7%	1.2%	0.8%	2.2%	1.5%	1.8%	1.5%	2.0%	1.8%	1.6%	
Credit Agricole	0.8%	0.7%	0.8%	0.4%	0.8%	0.7%	0.7%	0.7%	0.6%	0.6%	0.5%	
RBS	1.7%	0.9%	0.4%	0.6%	1.6%	1.0%	1.0%	0.6%	1.0%	0.8%	0.9%	
European sector Total	**2.2%**	**1.7%**	**1.3%**	**1.1%**	**2.2%**	**1.7%**	**1.8%**	**1.6%**	**2.3%**	**1.9%**	**1.6%**	**2.4%**
Sector average	**2.9%**	**2.4%**	**1.6%**	**1.7%**	**3.0%**	**2.3%**	**2.4%**	**2.3%**	**2.9%**	**2.5%**	**2.1%**	**3.1%**
Sector average	**2.9%**	**2.3%**	**1.6%**	**1.7%**	**2.9%**	**2.3%**	**2.4%**	**2.3%**	**2.8%**	**2.4%**	**2.1%**	**3.0%**

Source: Jefferies, company data

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Investment banking division cost efficiency

Table 40: Investment Banking Division – Cost/Income Ratio

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	55%	76%	187%	127%	55%	76%	67%	80%	62%	67%	71%	69%
Citigroup	60%	72%	73%	112%	55%	68%	62%	75%	49%	55%	66%	73%
Goldman Sachs	61%	76%	162%	78%	62%	77%	67%	44%	62%	65%	62%	0%
JP Morgan	60%	58%	66%	66%	62%	64%	62%	61%	61%	60%	58%	60%
Jefferies	78%	82%	89%	87%	82%	85%	97%	85%	85%	88%	93%	77%
Morgan Stanley	72%	73%	96%	94%	66%	95%	84%	80%	71%	77%	81%	88%
RBC	55%	62%	69%	83%	64%	62%	58%	59%	55%	61%	62%	57%
US sector Total	**63%**	**71%**	**106%**	**92%**	**64%**	**75%**	**71%**	**69%**	**64%**	**68%**	**70%**	**61%**
Deutsche Bank	60%	74%	90%	85%	60%	85%	67%	88%	59%	74%	84%	86%
Barclays	62%	72%	85%	85%	64%	61%	64%	63%	59%	56%	77%	85%
UBS	80%	77%	90%	78%	76%	89%	95%	96%	66%	64%	80%	76%
Credit Suisse	72%	93%	132%	160%	63%	85%	79%	83%	64%	74%	84%	91%
BNP Paribas	59%	65%	60%	90%	64%	76%	65%	94%	70%	75%	82%	91%
Societe Generale	59%	65%	72%	80%	57%	67%	55%	64%	59%	60%	68%	93%
Credit Agricole	74%	74%	61%	105%	59%	89%	72%	87%	72%	67%	82%	
HSBC					47%	52%	53%	70%	41%	54%	56%	
RBS	51%	73%	179%	108%	52%	75%	72%	75%	72%	83%	75%	
European sector Total	**65%**	**74%**	**96%**	**99%**	**60%**	**76%**	**69%**	**80%**	**62%**	**68%**	**76%**	**89%**
Sector Total	**64%**	**73%**	**101%**	**96%**	**62%**	**75%**	**70%**	**75%**	**63%**	**68%**	**74%**	**74%**
Sector average	**64%**	**73%**	**101%**	**96%**	**62%**	**75%**	**70%**	**75%**	**63%**	**68%**	**74%**	**74%**

Source: Jefferies, company data

Table 41: Investment Banking Division – Compensation/Income Ratio

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America												
Citigroup												
Goldman Sachs												
JP Morgan	39%	35%	32%	27%	36%	33%	32%	27%	34%	31%	27%	26%
Jefferies	60%	60%	57%	55%	60%	60%	70%	61%	62%	60%	58%	58%
Morgan Stanley	44%	45%	51%	52%	41%	50%	46%	43%	40%	42%	42%	42%
RBC			39%	47%	43%	43%	38%	36%	38%	39%	39%	35%
US sector Total	**48%**	**47%**	**47%**	**45%**	**46%**	**47%**	**49%**	**44%**	**45%**	**44%**	**42%**	**42%**
Deutsche Bank												
Barclays												
UBS	62%	58%	64%	47%	57%	53%	60%	71%	46%	44%	51%	46%
Credit Suisse	48%	52%	76%	87%	48%	49%	46%	42%	38%	43%	43%	51%
BNP Paribas												
Societe Generale												
Credit Agricole												
HSBC												
RBS	34%	41%	91%	51%	31%	40%	38%	15%	37%	37%	36%	
European sector Total	**48%**	**50%**	**77%**	**62%**	**45%**	**47%**	**48%**	**42%**	**40%**	**41%**	**43%**	**49%**
Sector Total	**48%**	**48%**	**62%**	**53%**	**46%**	**47%**	**49%**	**43%**	**43%**	**43%**	**43%**	**45%**
Sector average	**48%**	**48%**	**58%**	**52%**	**45%**	**47%**	**47%**	**42%**	**42%**	**42%**	**42%**	**43%**

Source: Jefferies, company data

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Table 42: Investment Banking Division – Non-Compensation/Income Ratio

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America												
Goldman Sachs												
JP Morgan	20%	24%	34%	39%	26%	31%	30%	34%	27%	29%	31%	34%
Jefferies	18%	22%	32%	32%	22%	25%	27%	24%	23%	28%	35%	19%
Morgan Stanley	28%	28%	45%	42%	25%	45%	38%	36%	31%	35%	39%	46%
RBC			31%	36%	21%	20%	20%	23%	17%	22%	23%	21%
US sector Total	**22%**	**25%**	**37%**	**38%**	**24%**	**34%**	**32%**	**32%**	**27%**	**31%**	**35%**	**33%**
Deutsche Bank												
Barclays												
UBS	18%	19%	26%	32%	19%	36%	35%	25%	20%	21%	29%	30%
Credit Suisse	24%	41%	56%	73%	15%	36%	33%	41%	27%	32%	40%	40%
BNP Paribas												
Societe Generale												
Credit Agricole												
HSBC												
RBS	17%	32%	88%	56%	21%	35%	35%	60%	35%	47%	39%	
European sector Total	**20%**	**31%**	**57%**	**54%**	**18%**	**36%**	**34%**	**42%**	**27%**	**33%**	**36%**	**35%**
Sector Total	**21%**	**28%**	**47%**	**46%**	**21%**	**35%**	**33%**	**37%**	**27%**	**32%**	**36%**	**34%**
Sector average	**21%**	**28%**	**45%**	**44%**	**21%**	**33%**	**31%**	**35%**	**26%**	**31%**	**34%**	**32%**

Source: Jefferies, company data

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Group profitability

Table 43: Group – Return on Tangible Equity

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	9.3%	8.1%	-4.8%	9.3%	9.2%	5.6%	6.2%	5.6%	7.4%	9.8%	9.3%	9.8%
Citigroup	8.8%	9.1%	6.9%	4.5%	10.5%	7.4%	9.1%	6.9%	11.3%	11.5%	8.6%	8.0%
Goldman Sachs	7.1%	6.7%	-4.9%	5.5%	15.6%	6.4%	11.8%	17.3%	14.6%	11.1%	9.6%	15.2%
JP Morgan	17.4%	20.3%	12.9%	10.3%	14.7%	14.0%	15.1%	14.0%	14.8%	14.1%	14.2%	12.8%
Jefferies	17.5%	12.1%	7.2%	7.0%	9.9%	9.1%	0.3%	8.8%	8.6%	6.4%	2.5%	17.3%
Morgan Stanley	8.0%	-6.2%	0.9%	1.9%	10.2%	1.2%	6.2%	6.7%	8.8%	7.0%	8.5%	6.9%
RBC	24.0%	19.4%	19.9%	18.2%	20.6%	18.9%	20.5%	19.2%	20.2%	18.7%	20.6%	19.1%
US sector average	**13.2%**	**9.9%**	**5.4%**	**8.1%**	**13.0%**	**8.9%**	**9.9%**	**11.2%**	**12.2%**	**11.2%**	**10.5%**	**12.7%**
Deutsche Bank	23.7%	14.2%	7.6%	-1.1%	18.5%	8.5%	12.7%	-5.0%	18.5%	8.8%	2.3%	2.3%
Barclays	12.0%	10.1%	7.3%	1.3%	13.7%	9.9%	9.1%	7.9%	9.4%	9.4%	6.8%	-5.1%
UBS	21.3%	11.7%	3.8%	4.6%	16.8%	5.6%	10.1%	2.4%	17.8%	12.8%	6.0%	6.5%
Credit Suisse	27.3%	14.2%	0.7%	-3.9%	73.6%	13.1%	13.8%	16.1%	18.9%	16.1%	7.1%	9.9%
BNP Paribas	18.8%	15.6%	13.1%	9.7%	19.1%	11.5%	10.4%	7.3%	9.8%	9.5%	8.7%	
Societe Generale	15.9%	12.7%	8.4%	4.7%	13.9%	9.0%	10.3%	5.4%	9.4%	13.0%	10.2%	
Credit Agricole	17.1%	17.0%	14.4%	4.0%	15.7%	9.2%	9.2%	11.8%	11.0%	11.3%	8.3%	
RBS	-4.4%	-7.2%	7.7%	-13.7%	-11.8%	-4.0%	-10.9%	-21.3%	3.9%	1.4%	-8.1%	
European sector average	**16.4%**	**11.1%**	**7.9%**	**0.7%**	**19.9%**	**7.8%**	**8.1%**	**3.1%**	**12.4%**	**10.3%**	**5.2%**	**3.4%**
Sector average	**14.9%**	**10.5%**	**6.7%**	**4.1%**	**16.7%**	**8.4%**	**8.9%**	**6.9%**	**12.3%**	**10.7%**	**7.6%**	**9.3%**
Sector average	**14.9%**	**10.5%**	**6.7%**	**4.1%**	**16.7%**	**8.4%**	**8.9%**	**6.9%**	**12.3%**	**10.7%**	**7.6%**	**9.3%**

Source: Jefferies, company data

Table 44: Group – Return on Assets

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	0.5%	0.5%	-0.3%	0.6%	0.6%	0.4%	0.4%	0.4%	0.5%	0.6%	0.6%	0.7%
Citigroup	0.6%	0.7%	0.5%	0.4%	0.8%	0.6%	0.7%	0.6%	1.0%	1.0%	0.8%	0.7%
Goldman Sachs	0.5%	0.5%	-0.3%	0.4%	1.0%	0.4%	0.8%	1.2%	1.0%	0.8%	0.7%	1.1%
JP Morgan	0.9%	1.1%	0.7%	0.6%	0.8%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%	0.8%
Jefferies	0.9%	0.7%	0.4%	0.4%	0.7%	0.6%	0.0%	0.6%	0.6%	0.4%	0.2%	1.2%
Morgan Stanley	0.4%	-0.3%	0.1%	0.1%	0.7%	0.1%	0.4%	0.5%	0.6%	0.4%	0.5%	0.4%
RBC	1.0%	0.8%	0.9%	0.8%	0.9%	0.9%	0.9%	0.9%	1.0%	0.9%	1.0%	1.0%
US sector Total	**0.7%**	**0.6%**	**0.3%**	**0.5%**	**0.8%**	**0.5%**	**0.6%**	**0.7%**	**0.8%**	**0.7%**	**0.7%**	**0.9%**
Deutsche Bank	0.6%	0.4%	0.2%	0.0%	0.5%	0.3%	0.4%	-0.2%	0.6%	0.3%	0.1%	0.1%
Barclays	0.5%	0.4%	0.3%	0.1%	0.6%	0.4%	0.4%	0.3%	0.4%	0.4%	0.3%	-0.2%
UBS	0.8%	0.4%	0.1%	0.2%	0.7%	0.2%	0.5%	0.1%	0.8%	0.6%	0.3%	0.4%
Credit Suisse	0.7%	0.3%	0.0%	-0.1%	1.8%	0.3%	0.4%	0.4%	0.6%	0.5%	0.3%	0.4%
BNP Paribas	0.6%	0.5%	0.4%	0.3%	0.7%	0.5%	0.4%	0.3%	0.4%	0.4%	0.4%	
Societe Generale	0.5%	0.4%	0.3%	0.1%	0.5%	0.3%	0.3%	0.2%	0.3%	0.4%	0.3%	
Credit Agricole	0.3%	0.3%	0.3%	0.1%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	
RBS	-0.2%	-0.4%	0.5%	-0.7%	-0.7%	-0.2%	-0.6%	-1.2%	0.2%	0.1%	-0.4%	
European sector Total	**0.5%**	**0.3%**	**0.3%**	**0.0%**	**0.6%**	**0.2%**	**0.2%**	**0.0%**	**0.4%**	**0.4%**	**0.2%**	**0.1%**
Sector average	**0.6%**	**0.4%**	**0.3%**	**0.2%**	**0.7%**	**0.4%**	**0.4%**	**0.3%**	**0.6%**	**0.5%**	**0.4%**	**0.6%**
Sector average	**0.6%**	**0.4%**	**0.3%**	**0.2%**	**0.7%**	**0.4%**	**0.4%**	**0.3%**	**0.6%**	**0.5%**	**0.4%**	**0.6%**

Source: Jefferies, company data

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Asset-gathering

Table 45: Asset Gathering (WM & AM) Revenues

USDm	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	4,496	4,495	4,238	4,167	4,147	4,094	4,083	4,193	4,421	4,499	4,390	4,480
Citigroup												
Goldman Sachs	1,272	1,274	1,223	1,264	1,175	1,332	1,199	1,516	1,315	1,332	1,218	1,598
JP Morgan	2,406	2,537	2,316	2,284	2,370	2,364	2,459	2,753	2,653	2,725	2,763	3,179
Jefferies												
Morgan Stanley	4,030	4,060	3,441	3,643	3,947	3,761	3,967	3,924	4,115	4,204	4,309	4,574
RBC	1,205	1,255	1,154	1,117	1,178	1,208	1,165	1,274	1,332	1,299	1,332	1,354
US sector Total	**13,409**	**13,621**	**12,372**	**12,475**	**12,817**	**12,759**	**12,873**	**13,660**	**13,836**	**14,059**	**14,012**	**15,185**
Deutsche Bank	1,522	1,625	1,212	1,547	1,519	1,274	1,578	1,434	1,619	1,344	1,677	1,620
Barclays	675	688	731	705	712	700	705	783	737	701	704	752
UBS	4,076	4,071	3,897	3,786	3,950	3,913	3,981	4,053	4,271	4,356	4,202	4,445
Credit Suisse	3,072	2,909	2,864	2,625	2,770	2,775	2,574	2,839	2,695	2,873	2,659	3,180
BNP Paribas	1,073	1,063	997	957	928	923	871	961	913	907	890	
Societe Generale	427	393	367	343	375	322	348	378	278	302	312	
Credit Agricole	1,042	1,086	942	933	1,066	936	938	981	955	981	943	
HSBC												
RBS	429	454	427	436	457	480	465	462	429	413	425	
European sector Total	**12,317**	**12,289**	**11,437**	**11,332**	**11,777**	**11,323**	**11,461**	**11,890**	**11,899**	**11,876**	**11,813**	**9,997**
Sector Total	**25,726**	**25,911**	**23,808**	**23,807**	**24,594**	**24,082**	**24,334**	**25,550**	**25,735**	**25,935**	**25,825**	**25,182**
Sector average	**1,979**	**1,993**	**1,831**	**1,831**	**1,892**	**1,852**	**1,872**	**1,965**	**1,980**	**1,995**	**1,987**	**2,798**

Source: Jefferies, company data

Table 46: Asset Gathering (WM & AM) PBT

USDm	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	861	799	569	412	869	868	906	885	1,146	1,242	1,119	1,190
Citigroup												
Goldman Sachs	206	218	234	356	186	251	222	269	225	222	241	241
JP Morgan	741	731	494	508	622	629	714	791	756	810	760	913
Jefferies												
Morgan Stanley	469	555	238	316	540	436	613	783	799	815	968	1,046
RBC	306	312	258	240	261	287	222	306	335	320	330	344
US sector Total	**2,583**	**2,615**	**1,793**	**1,832**	**2,478**	**2,471**	**2,677**	**3,034**	**3,261**	**3,409**	**3,419**	**3,734**
Deutsche Bank	266	417	345	277	275	127	263	-56	294	280	397	305
Barclays	68	55	111	70	79	79	108	177	86	26	77	18
UBS	971	1,043	859	821	996	835	943	889	1,172	1,206	1,084	1,026
Credit Suisse	772	593	425	400	639	640	568	789	561	844	628	1,017
BNP Paribas	366	392	255	153	250	254	227	310	256	243	210	
Societe Generale	135	88	67	49	116	-189	91	103	105	105	98	
Credit Agricole	413	402	301	322	465	315	359	375	354	360	326	
RBS	108	95	68	112	68	97	100	123	88	85	94	
European sector Total	**3,099**	**3,083**	**2,430**	**2,205**	**2,887**	**2,158**	**2,661**	**2,710**	**2,917**	**3,150**	**2,914**	**2,366**
Sector Total	**5,682**	**5,698**	**4,224**	**4,037**	**5,365**	**4,630**	**5,338**	**5,745**	**6,178**	**6,558**	**6,333**	**6,100**
Sector average	**437**	**438**	**325**	**311**	**413**	**356**	**411**	**442**	**475**	**504**	**487**	**678**

Source: Jefferies, company data

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Table 47: Asset Gathering (WM & AM) Revenue Margin

bps	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	82	81	79	81	80	78	78	78	81	81	78	77
Citigroup												
Goldman Sachs	61	61	59	61	57	64	57	71	61	62	56	71
JP Morgan	73	76	71	71	70	69	72	78	73	74	73	81
Jefferies												
Morgan Stanley	82	82	72	78	79	74	77	76	79	79	80	82
RBC	92	91	85	86	91	90	85	90	92	90	92	91
US sector Total	**78**	**79**	**74**	**76**	**76**	**74**	**74**	**78**	**77**	**77**	**76**	**80**
Deutsche Bank	50	51	38	51	51	43	54	48	53	43	55	52
Barclays	101	102	109	109	109	102	100	107	96	90	90	92
UBS	75	73	71	69	71	69	69	70	71	71	69	70
Credit Suisse	104	99	98	93	98	98	90	98	90	95	88	102
BNP Paribas	35	34	32	33	33	32	31	34	31	32	31	
Societe Generale	73	66	62	59	64	54	57	61	61	108	113	
Credit Agricole	37	37	32	34	40	36	36	37	35	35	33	
RBS	327	332	334	365	375	392	390	394	360	345	358	
European sector Total	**67**	**64**	**60**	**62**	**65**	**62**	**62**	**64**	**62**	**62**	**62**	**61**
Sector Total	**73**	**71**	**67**	**69**	**70**	**68**	**68**	**70**	**69**	**70**	**69**	**71**
Sector average	**92**	**91**	**88**	**92**	**94**	**92**	**92**	**96**	**91**	**93**	**94**	**80**

Source: Jefferies, company data

Table 48: Asset Gathering (WM & AM) PBT Margin

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	19%	18%	13%	10%	21%	21%	22%	21%	26%	28%	26%	27%
Citigroup												
Goldman Sachs	16%	17%	19%	28%	16%	19%	19%	18%	17%	17%	20%	15%
JP Morgan	31%	29%	21%	22%	26%	27%	29%	29%	28%	30%	28%	29%
Jefferies												
Morgan Stanley	12%	14%	7%	9%	14%	12%	15%	20%	19%	19%	22%	23%
RBC	25%	25%	22%	21%	22%	24%	19%	24%	25%	25%	25%	25%
US sector Total	**19%**	**19%**	**14%**	**15%**	**19%**	**19%**	**21%**	**22%**	**24%**	**24%**	**24%**	**25%**
Deutsche Bank	17%	26%	28%	18%	18%	10%	17%	-4%	18%	21%	24%	19%
Barclays	10%	8%	15%	10%	11%	11%	15%	23%	12%	4%	11%	**2%**
UBS	24%	26%	22%	22%	25%	21%	24%	22%	27%	28%	26%	23%
Credit Suisse	25%	20%	15%	15%	23%	23%	22%	28%	21%	29%	24%	32%
BNP Paribas	34%	37%	26%	16%	27%	27%	26%	32%	28%	27%	24%	
Societe Generale	32%	22%	18%	14%	31%	-58%	26%	27%	38%	35%	31%	
Credit Agricole	40%	37%	32%	35%	44%	34%	38%	38%	37%	37%	35%	
RBS	25%	21%	16%	26%	15%	20%	22%	27%	21%	21%	22%	
European sector Total	**25%**	**25%**	**21%**	**19%**	**25%**	**19%**	**23%**	**23%**	**25%**	**27%**	**25%**	**24%**
Sector Total	**22%**	**22%**	**18%**	**17%**	**22%**	**19%**	**22%**	**22%**	**24%**	**25%**	**25%**	**24%**
Sector average	**24%**	**23%**	**20%**	**19%**	**23%**	**15%**	**23%**	**23%**	**24%**	**24%**	**24%**	**22%**

Source: Jefferies, company data

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Table 49: Asset Gathering (WM & AM) Assets under Management

USDm	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	2,230	2,206	2,067	2,030	2,124	2,067	2,128	2,152	2,232	2,215	2,283	2,366
Citigroup												
Goldman Sachs	840	844	821	828	824	836	856	854	860	849	878	919
JP Morgan	1,330	1,342	1,254	1,336	1,382	1,347	1,381	1,426	1,483	1,470	1,540	1,598
Jefferies												
Morgan Stanley	1,982	1,993	1,821	1,924	2,048	2,018	2,099	2,034	2,135	2,125	2,185	2,282
RBC	541	558	530	511	526	542	560	576	582	579	586	601
US sector Total	**6,924**	**6,942**	**6,493**	**6,629**	**6,904**	**6,810**	**7,024**	**7,042**	**7,292**	**7,238**	**7,472**	**7,766**
Deutsche Bank	1,255	1,295	1,227	1,204	1,178	1,173	1,178	1,211	1,253	1,218	1,239	1,272
Barclays	269	272	264	255	268	279	283	301	315	308	317	**335**
UBS	2,231	2,205	2,168	2,206	2,240	2,281	2,319	2,343	2,486	2,421	2,468	2,603
Credit Suisse	1,171	1,180	1,147	1,114	1,136	1,131	1,147	1,166	1,226	1,192	1,224	1,275
BNP Paribas	1,248	1,285	1,188	1,113	1,158	1,135	1,132	1,157	1,179	1,124	1,158	
Societe Generale	233	242	234	232	238	243	246	251	114	109	111	
Credit Agricole	1,160	1,208	1,144	1,070	1,056	1,045	1,041	1,075	1,134	1,122	1,162	
RBS	54	55	47	48	49	48	47	47	48	47	48	
European sector Total	**7,621**	**7,743**	**7,420**	**7,243**	**7,324**	**7,335**	**7,393**	**7,551**	**7,756**	**7,542**	**7,728**	**5,484**
Sector Total	**14,545**	**14,686**	**13,914**	**13,872**	**14,228**	**14,145**	**14,418**	**14,593**	**15,048**	**14,780**	**15,200**	**13,250**
Sector average	**1,119**	**1,130**	**1,070**	**1,067**	**1,094**	**1,088**	**1,109**	**1,123**	**1,158**	**1,137**	**1,169**	**1,472**

Source: Jefferies, company data

Table 50: Asset Gathering (WM & AM) Net New Money

USDbn	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	8	1	2	6	8	4	4	12	18	7	13	16
Citigroup												
Goldman Sachs	-12	-3	6	-8	-26	21	13	0	-9	-2	17	31
JP Morgan	18	3	-8	58	-8	-11	4	32	28	3	32	23
Jefferies												
Morgan Stanley	1	16	-6	15	0	13	11	1	-3	10	2	4
RBC												
US sector Total	**15**	**16**	**-6**	**70**	**-26**	**27**	**32**	**45**	**35**	**18**	**64**	**74**
Deutsche Bank	-1	11	-20	0	-17	-4	-11	0	8	1	-15	-11
Barclays												
UBS	22	11	6	6	3	10	15	8	22	11	-1	3
Credit Suisse	22	17	8	-3	-6	6	5	7	15	11	9	1
BNP Paribas	11	-4	-18	-26	17	-5	-10	-9	4	-20	-4	
Societe Generale	4	3	-1	0	1	1	3	0	0	-1	1	
Credit Agricole	6	0	-20	-32	6	10	-5	5	16	-9	10	
RBS												
European sector Total	**64**	**37**	**-45**	**-56**	**4**	**19**	**-3**	**11**	**65**	**-6**	**0**	**-6**
Sector Total	**79**	**54**	**-51**	**15**	**-22**	**46**	**29**	**56**	**100**	**12**	**64**	**68**
Sector average	**8**	**5**	**-5**	**1**	**-2**	**5**	**3**	**6**	**10**	**1**	**6**	**10**

Source: Jefferies, company data

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Capital

Table 51: Group Fully-loaded B3 CET1 Ratio

	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America	9.5%	9.6%	9.9%	10.0%
Citigroup	9.3%	10.0%	10.5%	10.5%
Goldman Sachs		9.3%	9.8%	
JP Morgan	8.9%	9.3%	9.3%	9.5%
Morgan Stanley	9.7%	9.9%	10.8%	
RBC	9.3%	9.1%	9.2%	9.6%
US sector average	**9.3%**	**9.5%**	**9.9%**	**9.9%**
Deutsche Bank	8.7%	9.9%	9.7%	9.7%
Barclays		8.1%	8.4%	9.3%
UBS	10.1%	11.2%	11.9%	12.8%
Credit Suisse	8.5%	9.3%	10.2%	10.3%
BNP Paribas	10.0%	10.4%	10.8%	10.3%
Societe Generale	8.7%	9.4%	9.9%	10.0%
Credit Agricole	7.0%	7.1%	8.0%	
HSBC		10.1%		
RBS	8.2%	8.7%	9.1%	
European sector average	**8.7%**	**9.4%**	**9.7%**	**10.4%**

Source: Jefferies, company data

Table 52: Group – Tier 1 B3 Leverage Ratios

	Q1 13	Q2 13	Q3 13	Q4 13
Bank of America		5.0%	5.0%	5.0%
Citigroup		4.9%	5.1%	5.4%
Goldman Sachs			5.0%	0.0%
JP Morgan		4.7%	4.7%	4.7%
Morgan Stanley		4.2%		
RBC				
US sector average		**4.7%**	**5.0%**	**3.8%**
Deutsche Bank		3.0%	3.1%	2.8%
Barclays		3.0%	3.1%	3.8%
UBS	2.6%	2.9%	3.1%	3.4%
Credit Suisse	2.5%	2.7%	3.2%	3.8%
BNP Paribas			3.8%	3.7%
Societe Generale			3.3%	3.5%
Credit Agricole		1.7%	1.8%	
HSBC		4.1%		
RBS		4.3%	4.5%	
European sector average	**2.6%**	**3.1%**	**3.2%**	**3.6%**

Source: Jefferies, company data

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Table 53: Sector Valuations

BANK	Market cap.	Price - local	Perf. YTD	52-wk High	52-wk Low	P/E (x) 2013	P/E (x) 2014	P/E (x) 2015	P/BV (x) 2013	P/BV (x) 2014	P/BV (x) 2015	P/TBV (x) 2013	P/TBV (x) 2014	P/TBV (x) 2015	RoE 2013	RoE 2014	RoE 2015	RoTE 2013	RoTE 2014	RoTE 2015
BNP Paribas	73,153	58.8	3.7	61.8	37.5	13.9	11.3	9.5	0.91	0.88	0.84	1.08	1.02	0.96	6.2%	7.5%	8.8%	7.3%	8.7%	10.1%
Societe Generale	37,699	47.2	11.8	47.8	23.4	15.1	10.8	9.1	0.79	0.75	0.71	1.00	0.94	0.89	4.5%	7.0%	7.8%	5.7%	8.7%	9.8%
Credit Agricole S.A.	26,805	10.7	15.2	10.8	6.0	10.9	9.4	8.1	0.65	0.63	0.60	1.02	0.96	0.90	6.0%	6.8%	7.6%	9.4%	10.3%	11.5%
Natixis	14,593	4.7	10.1	4.8	2.8	15.0	12.5	10.9	0.90	0.87	0.84	1.10	1.08	1.05	5.7%	7.1%	7.8%	7.0%	8.8%	9.8%
ING Groep	40,709	10.6	5.0	11.0	5.5	11.9	10.4	8.6	0.86	0.83	0.78	0.93	0.87	0.81	6.9%	7.6%	9.3%	7.5%	8.0%	9.6%
KBC	18,965	45.4	10.2	46.6	26.1	17.4	11.5	9.9	1.57	1.47	1.35	1.85	1.64	1.49	8.5%	12.9%	14.0%	9.9%	14.4%	15.5%
Commerzbank	15,085	13.3	13.2	14.0	5.6	35.7	19.3	11.9	0.58	0.57	0.54	0.64	0.62	0.59	0.5%	3.0%	4.5%	0.5%	3.3%	4.9%
Deutsche Bank	36,381	35.7	2.9	40.0	29.4	24.1	9.6	7.1	0.65	0.63	0.59	0.88	0.84	0.77	1.8%	6.1%	8.4%	2.4%	8.1%	10.9%
UBS	58,600	18.6	10.2	19.6	14.1	17.9	15.4	11.8	1.46	1.40	1.34	1.71	1.62	1.51	6.7%	8.0%	10.6%	7.8%	9.2%	11.9%
Credit Suisse	36,761	28.2	3.2	30.5	23.3	14.3	10.7	9.2	1.03	0.98	0.91	1.30	1.24	1.13	7.5%	9.2%	10.3%	9.4%	11.7%	12.8%
BBVA	51,738	8.9	-0.1	10.0	6.2	25.3	15.3	11.4	1.18	1.13	1.07	1.42	1.34	1.26	5.1%	7.5%	9.7%	6.2%	8.9%	11.4%
Santander	75,517	6.5	0.4	6.9	4.8	16.0	12.8	11.0	0.99	0.99	0.96	1.54	1.48	1.40	5.9%	7.8%	9.3%	9.2%	11.7%	13.5%
Lloyds Banking Group	70,191	0.8	2.0	0.9	0.5	13.8	11.1	10.1	1.46	1.36	1.29	1.60	1.46	1.36	-1.3%	8.6%	11.2%	-1.5%	9.2%	11.9%
Royal Bank of Scotland	25,982	3.4	1.3	3.9	2.6		13.8	12.1	0.68	0.66	0.64	0.90	0.89	0.85	-20.4%	5.5%	8.6%	-27.0%	7.3%	11.5%
Barclays	49,842	2.5	-7.0	3.1	2.5	11.2	8.8	7.3	0.74	0.71	0.67	0.86	0.82	0.77	6.2%	8.1%	9.4%	7.3%	9.3%	10.8%
HSBC	146,868	6.4	-3.7	7.7	6.2	11.5	10.6	9.6	1.11	1.07	1.02	1.33	1.26	1.19	9.8%	10.1%	10.9%	11.7%	11.9%	12.7%
Standard Chartered	38,295	12.9	-5.1	18.6	12.2	10.5	9.6	8.8	1.15	1.09	1.01	1.31	1.23	1.14	10.0%	11.3%	11.7%	11.4%	12.8%	13.1%
Unicredit	34,851	6.0	11.9	6.2	3.2	39.5	19.0	11.2	0.57	0.56	0.54	0.76	0.74	0.71	1.2%	2.8%	4.4%	1.6%	3.7%	5.8%
Intesa Sanpaolo	33,498	2.2	20.4	2.2	1.1	32.0	16.5	11.6	0.71	0.70	0.68	1.01	0.98	0.94	1.7%	4.1%	5.7%	2.4%	5.7%	7.9%
Nordea	40,644	88.7	2.3	92.0	70.8	13.0	11.6	10.4	1.39	1.33	1.28	1.54	1.46	1.38	10.7%	11.4%	12.3%	11.8%	12.5%	13.4%
Skandinaviska Enskilda Banken	21,237	86.5	1.9	88.3	60.9	13.0	11.9	11.0	1.56	1.48	1.40	1.75	1.65	1.56	12.2%	12.6%	12.8%	13.7%	14.0%	14.3%
Svenska Handelsbanken	22,608	320.1	1.3	329.3	258.9	14.5	13.8	12.8	1.85	1.78	1.69	2.04	1.96	1.87	13.2%	13.3%	13.5%	14.6%	14.6%	14.9%
DNBNor	21,105	108.0	-0.5	113.0	82.1	9.9	9.3	8.8	1.25	1.13	1.03	1.30	1.18	1.07	12.3%	12.1%	11.7%	12.8%	12.6%	12.2%
Danske	18,707	138.4	11.3	139.0	97.1	18.5	12.1	9.7	0.95	0.90	0.85	1.11	1.05	0.98	4.9%	7.3%	8.9%	5.7%	8.5%	10.2%
Total	**1,009,835**	-	**5.1**	-	-	**17.6**	**12.4**	**10.1**	**1.04**	**1.00**	**0.94**	**1.25**	**1.18**	**1.11**	**5.2%**	**8.2%**	**9.6%**	**6.1%**	**9.7%**	**11.3%**

Source: Factset

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[Deutsche Bank]

Buy: €45.1 Price Target

Scenarios

Target Investment Thesis

- Underlying FICC revenues to grow 6-7% pa 2013-15.
- Underlying Cost/Income ratio of 68% in 2015.
- Deutsche to deliver sustainable 12% RoTE
- GGM based price target of €45.1

Upside Scenario

- Underlying FICC revenues to grow 15% pa 2013-15.
- Underlying Cost/Income ratio of 66% in 2015.
- Deutsche to deliver 14% RoTE in 2015
- GGM based price target of €51.5

Downside Scenario

- Underlying FICC revenues to decline 5% pa 2013-15.
- Underlying Cost/Income ratio of 71% in 2015.
- Deutsche to deliver 10% RoTE in 2015
- GGM based price target of €34.3

Long Term Analysis

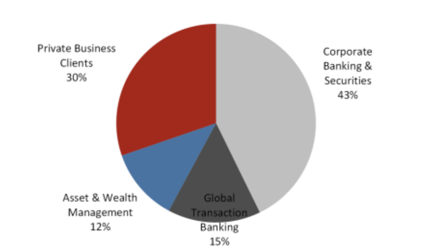
1 Year Forward P/TNAV

Source: Factset, Jefferies estimates

Long Term Financial Model Drivers

Revenue CAGR ('13-'15)	**3%**
Cost/Income Ratio ('15)	**71%**
B3 CET1 ('15)	**12.1%**
Pay-out ratio ('15)	**40%**

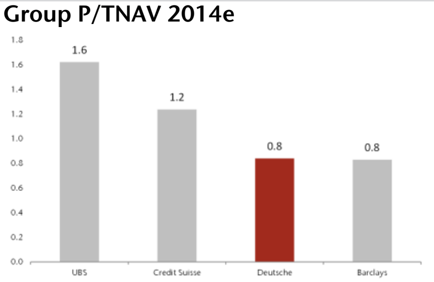
2013 Underlying PTP



Source: Jefferies estimates, company data

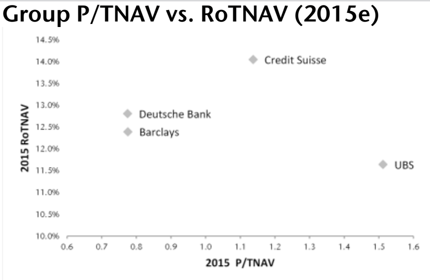
Peer Group

Group P/TNAV 2014e



Source: Factset, Jefferies estimates

Group P/TNAV vs. RoTNAV (2015e)



Source: Factset, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
DBK GY	**Buy**	**€45.1**
CSGN VX	Buy	CHF 34.1
UBSN VX	Hold	CHF 19.7
BARC LN	Buy	360p

Catalysts

- 1Q14 Earnings on 29th April 2014

Company Description

Deutsche Bank provides corporate banking and investment services. It operates through the following divisions: Corporate Banking and Securities (CB&S), Global Transaction Banking (GTB), Asset and Wealth Management (AWM), Private and Business Clients (PBC), and Non-Core Operations Unit (NCOU). CB&S engages in the selling, trading and structuring of financial market products and is responsible for M&A, including advisory debt and equity issuance. GTB provides payments, risk mitigation, trade finance, depositary, custody, and related services. AWM offers investment products, and tailored wealth management services to ultra-high net worth individuals and families. PBC provides banking services and pension products to private individual and SMEs. NCOU bundles assets with a view to accelerating the de-risking process.

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[Credit Suisse]

Buy: CHF 34.1 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Underlying FICC revenues to grow 6-8% pa 2013-15.
- WM Gross margin of 108bps in 2015.
- Underlying Group Cost/Income ratio of 66% in 2015.
- Credit Suisse to deliver sustainable 15% RoTE
- GGM based price target of CHF 34.1

Upside Scenario

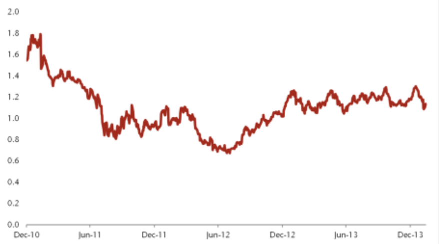
- Underlying FICC revenues to grow 15% pa 2013-15.
- WM Gross margin of 118bps in 2015.
- Underlying Cost/Income ratio of 63% in 2015.
- Credit Suisse to deliver 17% RoTE in 2015
- GGM based price target of CHF 39.4

Downside Scenario

- Underlying FICC revenues to decline 5% pa 2013-15.
- WM Gross margin of 98bps in 2015.
- Underlying Cost/Income ratio of 69% in 2015.
- Credit Suisse to deliver 11% RoTE in 2015
- GGM based price target of CHF 23.6

Long Term Analysis

1 Year Forward P/TNAV

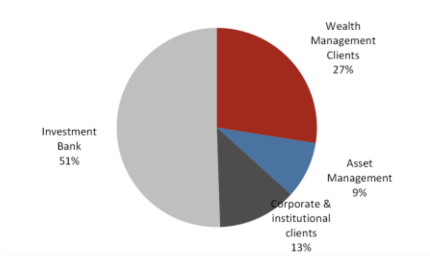


Source: Factset, Jefferies estimates

Long Term Financial Model Drivers

Revenue CAGR ('13-'15)	**6%**
Cost/Income Ratio ('15)	**72%**
B3 CET1 ('15)	**12.6%**
Pay-out ratio ('15)	**40%**

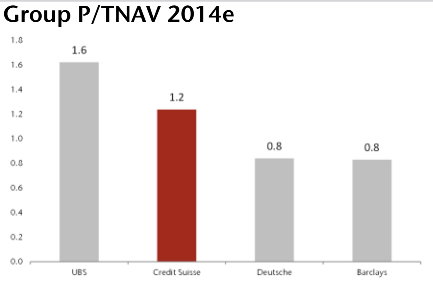
2013 Underlying PTP



Source: Jefferies estimates, company data

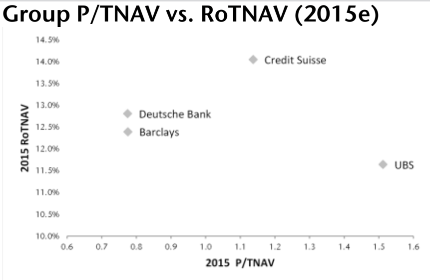
Peer Group

Group P/TNAV 2014e



Source: Factset, Jefferies estimates

Group P/TNAV vs. RoTNAV (2015e)



Source: Factset, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
CSGN VX	**Buy**	**CHF 34.1**
DBK GY	Buy	€45.1
UBSN VX	Hold	CHF 19.7
BARC LN	Buy	360p

Catalysts

- 1Q14 Earnings on 16th April 2014

Company Description

Credit Suisse provides private and investment banking and advisory services. It operates through three divisions: Private Banking & Wealth Management (PB&WM), Investment Banking (IB) and Shared Services (SS). PB&WM offers financial solutions to private, corporate and institutional clients. It also offers investment funds to multi-asset class solutions, including equities, fixed income products or alternative investments. The Investment Bank provides financial products and services including global securities sales, trading and execution, prime brokerage, capital raising, advisory services and comprehensive investment research. Shared Services provides centralized corporate services and business support for the bank's two operating divisions.

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[UBS]

Hold: CHF 19.7 Price Target

Scenarios

Target Investment Thesis

- WM Gross margin of 91bps in 2015.
- Underlying FICC revenues to grow 5-6% pa 2013-15.
- Underlying Group Cost/Income ratio of 73% in 2015.
- UBS to deliver sustainable 15% RoTE
- GGM based price target of CHF 19.7

Upside Scenario

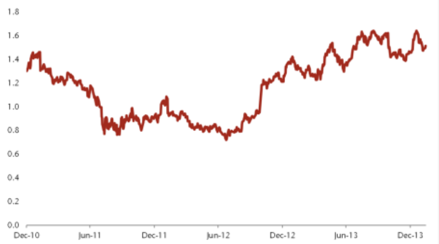
- WM Gross margin of 100bps in 2015.
- Underlying FICC revenues to grow 15% pa 2013-15.
- Underlying Cost/Income ratio of 71% in 2015.
- UBS to deliver sustainable 17% RoTE
- GGM based price target of CHF 23.0

Downside Scenario

- WM Gross margin of 83bps in 2015.
- Underlying FICC revenues to decline 5% pa 2013-15.
- Underlying Cost/Income ratio of 75% in 2015.
- UBS to deliver sustainable 13% RoTE
- GGM based price target of CHF 16.5

Long Term Analysis

1 Year Forward P/TNAV

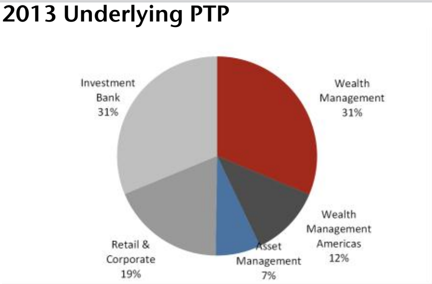


Source: Factset, Jefferies estimates

Long Term Financial Model Drivers

Revenue CAGR ('13-'15)	**6%**
Cost/Income Ratio ('15)	**77%**
B3 CET1 ('15)	**15.5%**
Pay-out ratio ('15)	**50%**

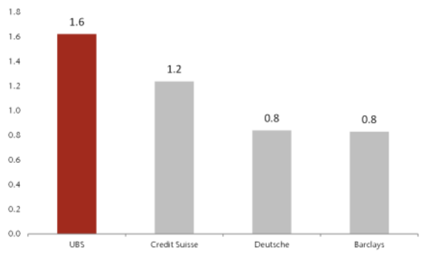
2013 Underlying PTP



Source: Jefferies estimates, company data

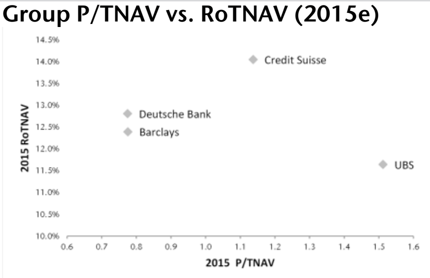
Peer Group

Group P/TNAV 2014e



Source: Factset, Jefferies estimates

Group P/TNAV vs. RoTNAV (2015e)



Source: Factset, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
UBSN VX	**Hold**	**CHF 19.7**
DBK GY	Buy	€45.1
CSGN VX	Buy	CHF 34.1
BARC LN	Buy	360p

Catalysts

- 1Q14 Earnings on 6th May 2014

Company Description

UBS provides financial services to private, corporate and institutional clients operating through the following divisions: Wealth Management and Swiss Bank, Wealth Management Americas (WMA), Global Asset Management (GAM) and Investment Bank (IB). Wealth Management and Swiss Bank deliver financial services to HNW and UHNW individuals around the world, through two business units Wealth Management and Retail & Corporate. WMA provides advice-based solutions delivering products and services specifically designed to address the needs of individuals and families. GAM is a global asset manager offering investment capabilities across all major traditional and alternative asset classes. IB provides products and services in equities, fixed income, FX and commodities to corporate and institutional clients, sovereign and government bodies, financial intermediaries, alternative asset managers and UBS's wealth management clients.

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Company Description

Deutsche Bank AG provides corporate banking and investment services. It operates through the following divisions: Corporate Banking and Securities (CB&S), Global Transaction Banking (GTB), Asset and Wealth Management (AWM), Private and Business Clients (PBC), and Non-Core Operations Unit (NCOU). The CB&S division engages in the selling, trading and structuring of financial market products and is responsible for mergers and acquisitions, including advisory debt and equity issuance. The GTB division provides domestic and cross-border payments, risk mitigation, international trade finance, trust, agency, depositary, custody, and related services. The AWM division offers traditional, alternative investment products, and tailored wealth management products and services to ultra high net worth individuals and families. The PBC division provides banking services, such as current accounts, deposits, loans, investment management, and pension products to private individuals, self-employed clients, and small and medium-sized businesses. The NCOU division bundles assets and liabilities with a view to accelerating the de-risking process.

Credit Suisse Group AG provides private and investment banking and advisory services. It operates through three divisions: Private Banking & Wealth Management, Investment Banking and Shared Services. The Private Banking & Wealth Management division offers financial solutions to private, corporate and institutional clients. It also offers investment funds to multi-asset class solutions, including equities, fixed income products or alternative investments. The Investment Banking division provides financial products and services, including global securities sales, trading and execution, prime brokerage and capital raising and advisory services, as well as investment research.

UBS AG provides financial services to private, corporate and institutional clients. It offers wealth management, asset management and investment banking services on a global and regional basis. The company operates with following divisions: Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management, and Investment Bank. The Wealth Management & Swiss Bank division focuses on delivering financial services to high net worth and ultra-high net worth individuals around the world, which offers services through two business units Wealth Management and Retail & Corporate. The Wealth Management Americas division provides advice-based solutions through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra-high net worth, high net worth and core affluent individuals and families. The Global Asset Management division is an asset manager offering investment capabilities and investment styles across all major traditional and alternative asset classes. The Investment Bank division provides a broad range of products and services in equities, fixed income, foreign exchange and commodities to corporate and institutional clients, sovereign and government bodies, financial intermediaries, alternative asset managers and UBS's wealth management clients.

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Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.
Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.
Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.
The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.
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NC - Not covered. Jefferies does not cover this company.
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Risk which may impede the achievement of our Price Target

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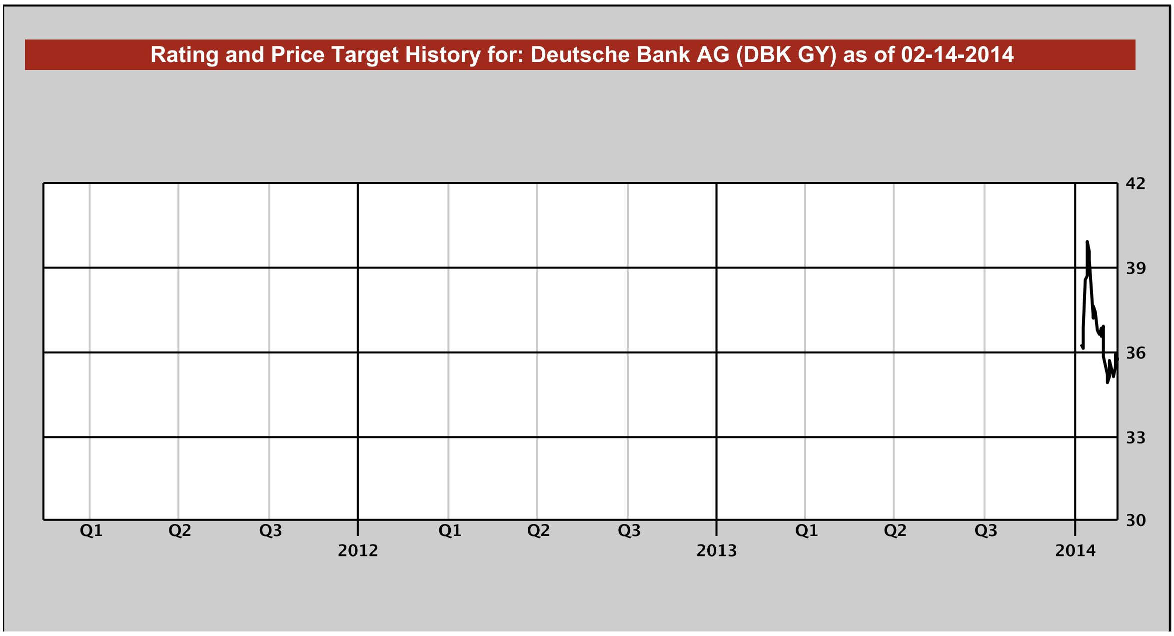

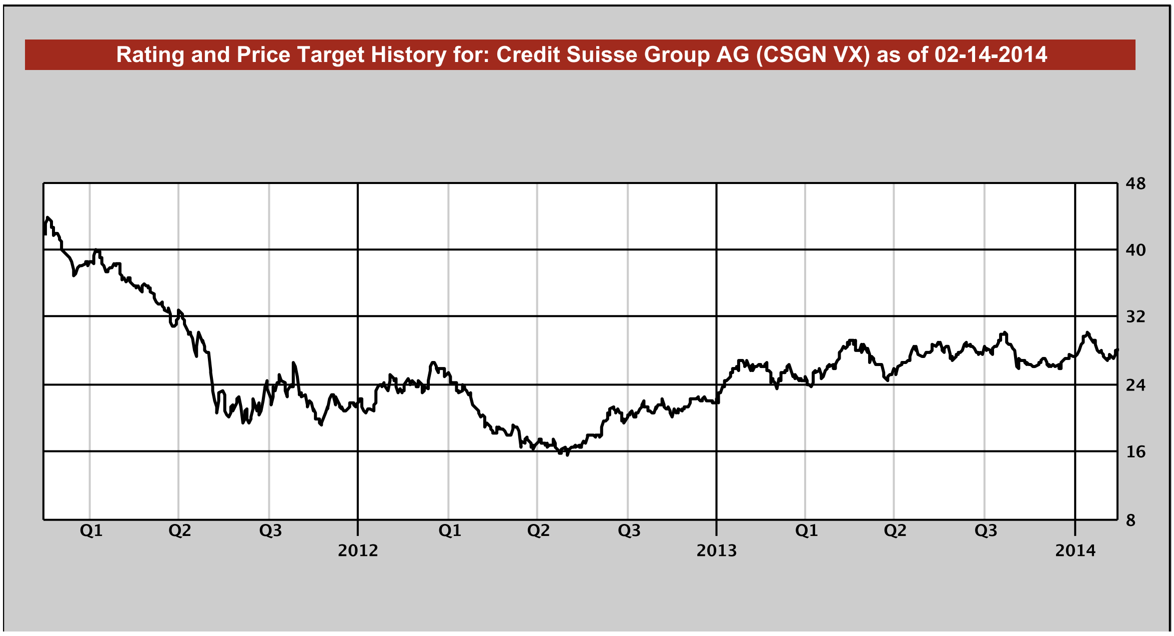

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Please see important disclosure information on pages 88 - 93 of this report.

Rating and Price Target History for: UBS AG (UBSN VX) as of 02-14-2014

Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	884	49.22%	212	23.98%
HOLD	764	42.54%	125	16.36%
UNDERPERFORM	148	8.24%	4	2.70%

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