

FINANCIAL SERVICES COMPENSATION

Second Quarter Trends and Year-End Projections

8/1/08

Half way through the year, Johnson Associates is projecting year-over-year decreases in incentive compensation. While these results are disappointing, they are unfortunately not surprising. Additional write downs and a fundamental change in the business continue to weigh on firm results. Continued exposure to credit problems, international growth, and ability to act opportunistically in distressed markets will be key bonus drivers for 2008.

NOTABLE TRENDS

- Realization credit crisis is not over is leading to a fundamental realignment of the sector
 - Negative outlook for second half 2008 apparent
 - Less leverage and decline in core business activity results in fewer employees in commercial and investment banks
 - Asset Management not effected by business changes but impacted by downward market pressures
- Crescendo of layoffs is expected as firms acknowledge select business reductions may be permanent
 - Cost cutting demands lead to smaller severance packages and less concern about employee retention
 - Shifting of professionals to growth areas as international revenues become larger proportion
 - Expectation firms in dire circumstances will utilize unconventional practices (i.e. outlier deferral amounts)
- Compensation ratios skewed by 2007 deferrals, severance expenses, and negative results
 - Increased 2007 deferral rates may increase even further in 2008 and beyond
- Increased public scrutiny is leading to discussions on how to improve pay paradigm
 - Credit crisis highlights organizational complexity and real product risk (i.e. mortgages were considered to be low risk)
 - Best practice includes realistic goals, increased deferrals and longer term vesting
- Two compensation scenarios exist depending on future write downs
 - Current estimates assume projected write downs; unanticipated write downs could cause a compensation meltdown
 - Requires unusual flexibility for year-end accruals and deferrals

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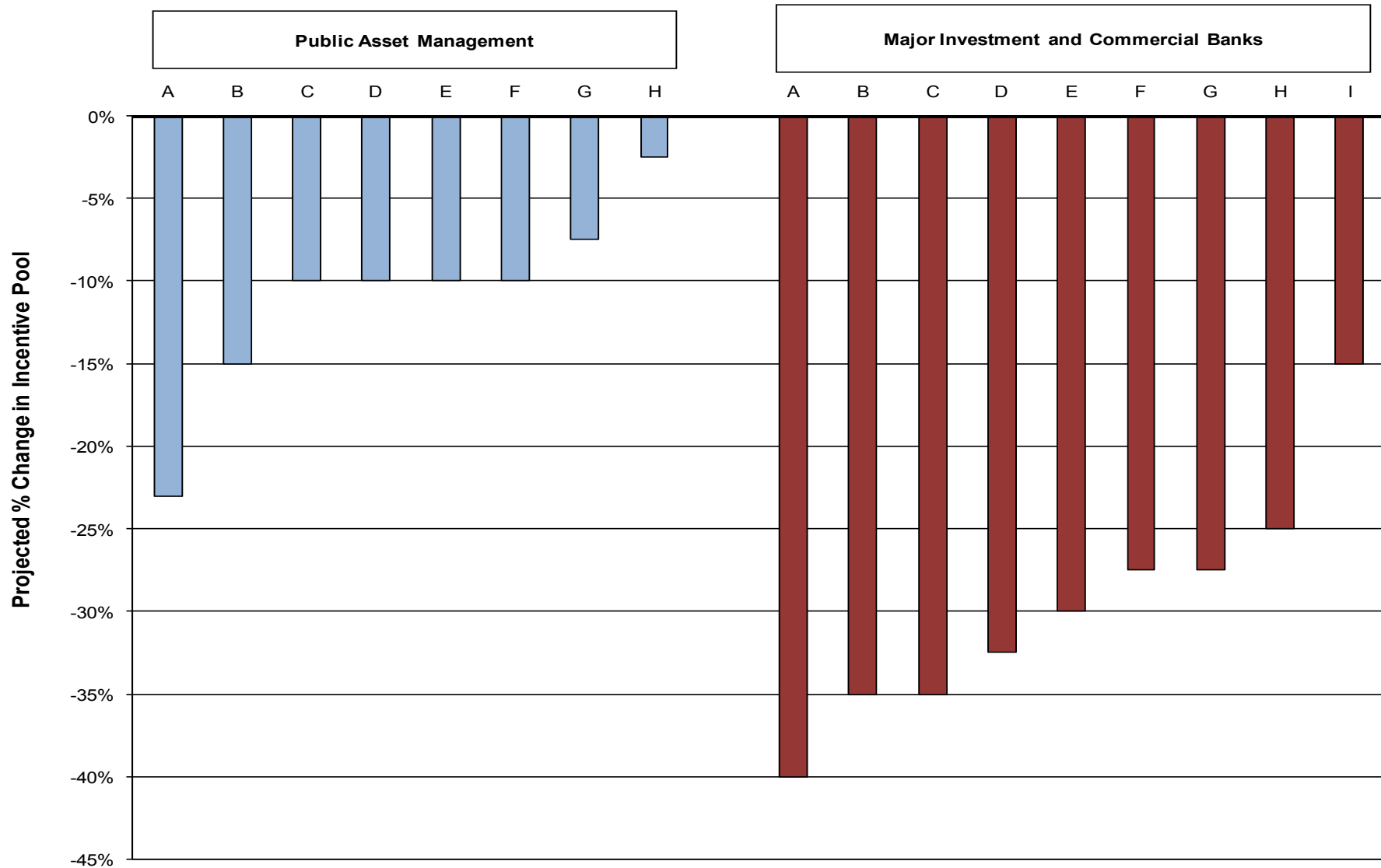
Projected 2008 Wall Street Incentive Funding

Projected 2008 Wall Street Incentive Funding (Individual levels on a headcount adjusted basis)			
Business/Area		% Change from 2007	Explanation
Senior Firm Management	Investment Banks Commercial Banks	-35% to -45% -25% to -35%	<ul style="list-style-type: none"> Variation driven by business mix and performance. Increased public scrutiny of executive compensation is an additional, non-quantifiable factor Senior Executives likely to decrease more than firm pool
Staff Positions	Investment Banks Commercial Banks	-20% to -25% -20% to -25%	<ul style="list-style-type: none"> Moves in line with entire firm. Differences by function (i.e., risk higher increase than tech/operations)
Investment Banking Advisory and Underwriting Only (Investment and Commercial Banks)		-25% to -30%	<ul style="list-style-type: none"> Cautious outlook on pipeline as industry wide activity remains slow Credit issues continue but impacting firms at varying degrees
Equities excl Prime Brokerage (Investment and Commercial Banks)	Plain-Vanilla Derivatives	-20% -15%	<ul style="list-style-type: none"> Weakness in proprietary trading continues to weigh on results Market volatility and strong customer flows benefitting revenues (e.g. derivatives business)
Fixed Income (Investment and Commercial Banks)	Plain-Vanilla Derivatives	-25%+ -10% to -20%	<ul style="list-style-type: none"> Deterioration of credit market driving plain vanilla results Variation due to breadth of products. Strong performance in interest rate, currencies, and commodities offset by write downs
Prime Brokerage		-10%	<ul style="list-style-type: none"> Strong results due to higher customer balances and continuing activity outweighed by capital costs and fewer new funds
Asset Management (Independent and Captive)	Equities Fixed Inc	-15% -5%	<ul style="list-style-type: none"> Market depreciation partially offsetting increased AUM Flow to less risky, lower fee products (i.e. money markets)
High Net Worth		-10%	<ul style="list-style-type: none"> AUM growth but lower performance fees due to investment depreciation
Hedge Funds (Independent and Captive)		-15%*	<ul style="list-style-type: none"> AUM growth slowing and returns have been challenging. High water mark will limit incentive fees
Private Equity (Independent and Captive)		-15%*	<ul style="list-style-type: none"> Challenging private equity environment as financing limited and expensive Larger funds continue to fundraise but fewer deals in pipeline
Commercial Banking		-15%	<ul style="list-style-type: none"> Spread compression, credit losses, and shift to narrow spread products impacting results
Retail Banking		-15%	<ul style="list-style-type: none"> Increasing loan losses and higher credit costs outweigh retail revenue growth

* Applies to bonus and equity excluding carry

Projected % Change in Year-End Incentive Pool*

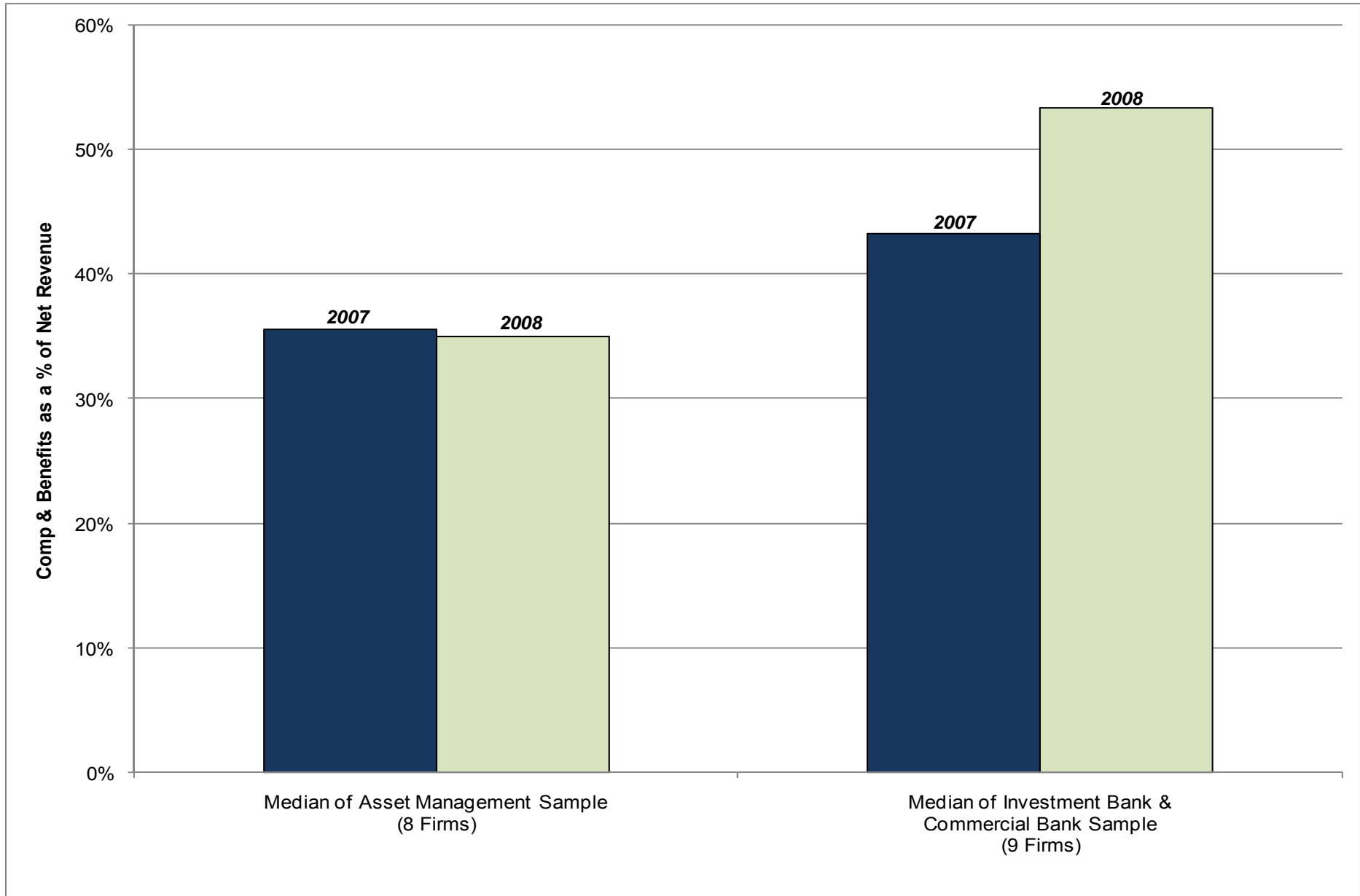
Notes:
 Current estimates assume projected write downs. The impact of unanticipated write downs could place more severe downward pressure on incentives for all firms.



* 6 months actual data with projection for remainder of year

Year-to-Date Compensation & Benefits as % of Net Revenue

Notes:
Ratios may be skewed high because of the incremental expense for retirement acceleration & SFAS 123R adoption
Inclusive of writedowns

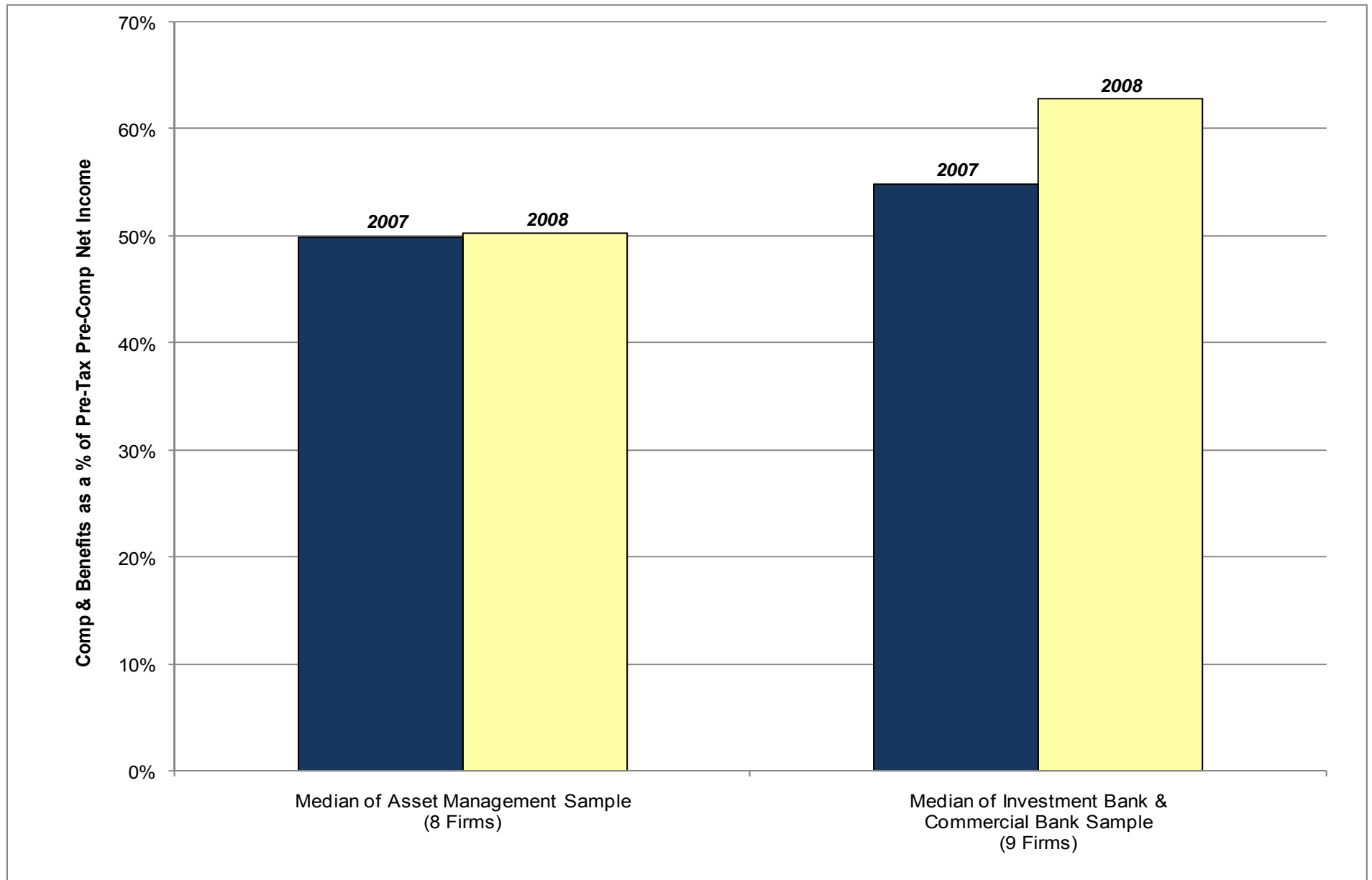


Year-to-Date Compensation & Benefits as % of Pre-Tax Pre-Comp Net Income

Notes:

Ratios may be skewed high because of the incremental expense for retirement acceleration & SFAS 123R adoption

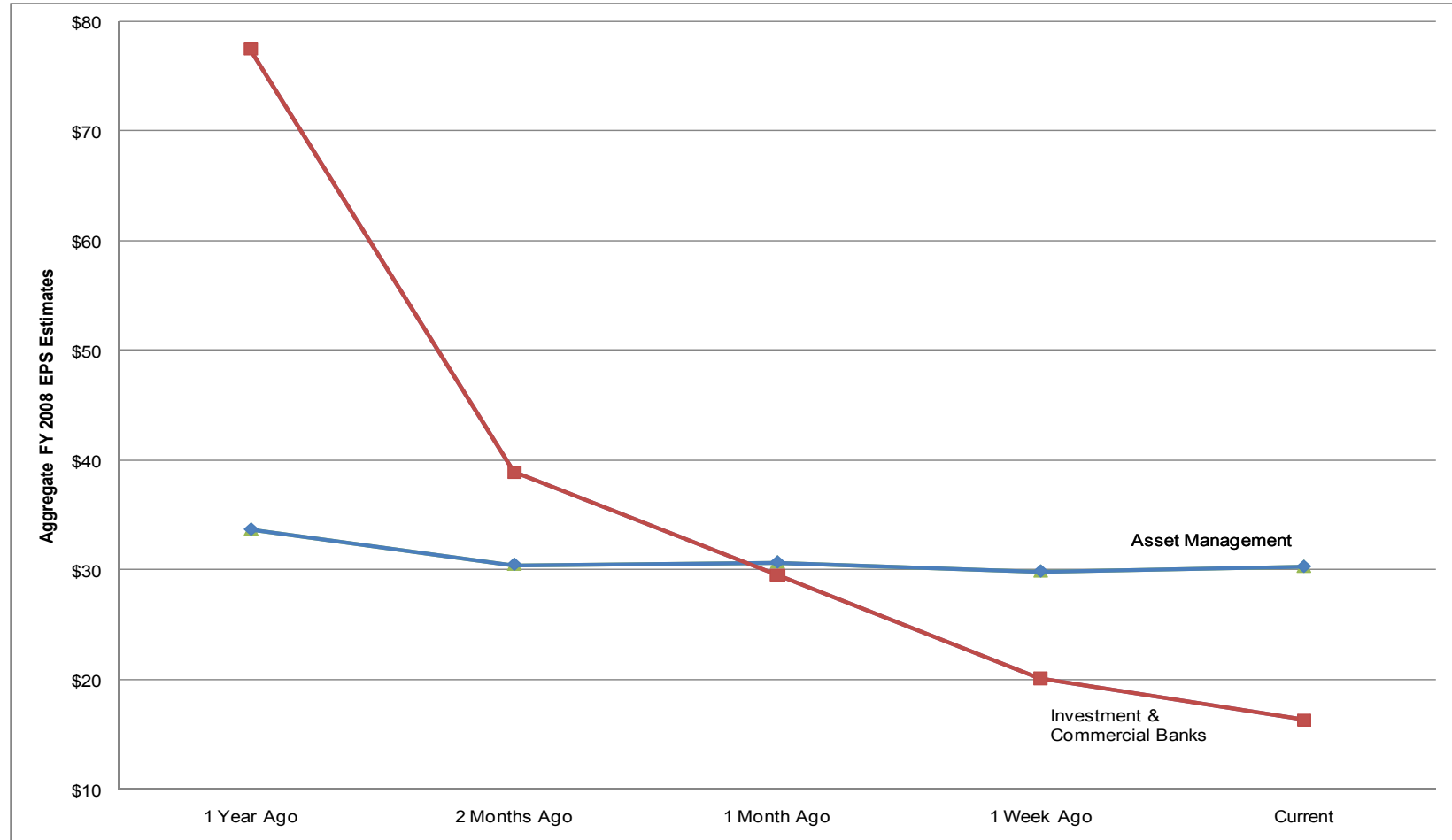
Inclusive of writedowns



Analyst Estimated EPS Trend

- Overlay of cyclical downturn on credit crisis resulting in lower expected 2008 EPS. With seven or eight months into fiscal year, the outlook continues to be negatively adjusted indicating broader business concerns. Importantly, as indicated by EPS estimates, cyclical downturn expected to continue into 2009
- Chart reflects a sample of 9 investment and commercial banks and 8 asset management firms

2008 EPS Estimate Trend



Year-to-Date Investment Bank Net Revenue Breakdown

