

# FINANCIAL SERVICES COMPENSATION

## First Quarter Trends and Year-End Projections

5/2/08

*At this point in the year, Johnson Associates is broadly projecting year-over-year decreases in incentive compensation off of a mixed, but high, 2007. Incentive variation driven by declining business results across sectors and products. The divergence in incentive pool magnitudes and compensation levels between major firms and broader comparators narrowed as major firm compensation experiencing larger decrease. For 2008 key bonus drivers include international growth, trading strategies, business mix, and exposure to credit problems*

### **NOTABLE TRENDS**

- Overlay of cyclical downturn on the credit crisis changing initial outlook for 2008 firm performance. With expectation that production across areas will continue to decrease, firms accruing lower incentive dollars compared to historical levels
  - Unlike 2007, subsidies will be limited
- Uncertainty about the magnitude of future credit write downs and the decrease of business in multiple areas has firms preparing for a difficult year-end compensation process
  - Increasing public scrutiny causing firms to discuss potential new executive and senior management pay paradigm. Incentives funded on risk adjusted capital and clawbacks are two concepts being explored
- Year-over-year compensation ratios should be viewed with caution as use of deferred compensation, severance, and weakening of the dollar impact results. Harder to maintain historical norms due to mix of business and write-downs
  - Increased use of deferred compensation in 2007 resulted in compensation expenses being pushed into 2008 and future. Expect extra deferrals to continue in 2008 given cash constraints
- Less pressure to compensate well in 2008 given all firms impacted to some degree. Because 2008 started off poorly versus 2007, where conditions changed mid-year, expectations are different
  - In 2007, business and firm performance varied noticeably resulting in wider spectrum of incentives. In 2008, narrower range
- Layoffs across financial services but see strategic hiring for product and geographical expansion. As a result, domestic impact larger than international as firms continue to build teams abroad for future business
  - Pressure for domestic professionals to relocate abroad to keep employment
  - Need to decrease headcount highlighted by unique buyout packages and deferred start requests for new hires

### **JOHNSON ASSOCIATES, INC.**

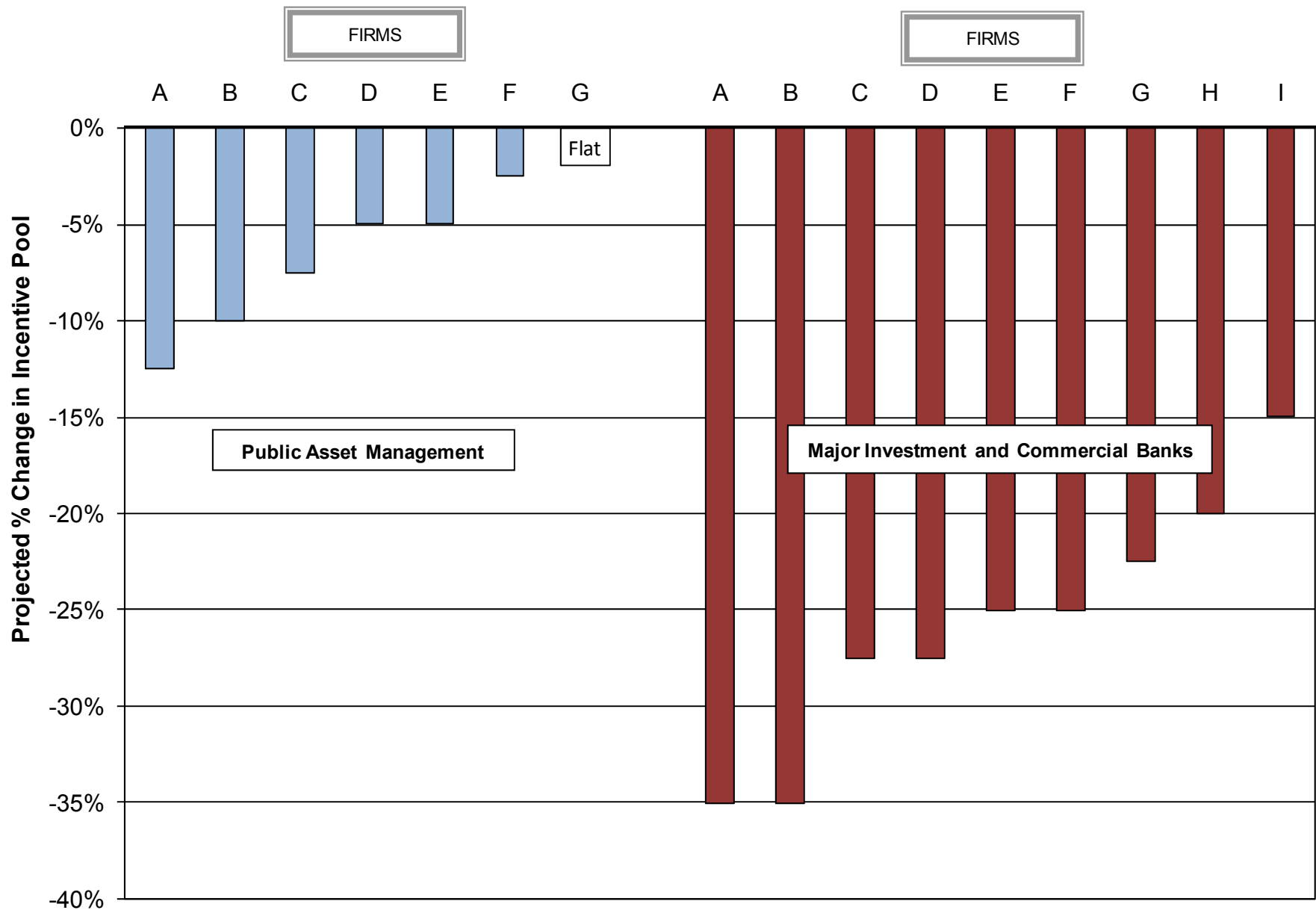
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## Projected 2008 Wall Street Incentive Funding

| Projected 2008 Wall Street Incentive Funding (Individual levels on a headcount adjusted basis) |                                      |                              |                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------------------------------------------------------------------------------|--------------------------------------|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Business/Area                                                                                  |                                      | % Change from 2007           | Explanation                                                                                                                                                                                                                                                                                                                                                                       |
| Senior Firm Management                                                                         | Investment Banks<br>Commercial Banks | -20% to -30%<br>-25% to -35% | <ul style="list-style-type: none"> <li>Variation driven by business mix and performance. Public perception of compensation is an additional, non-quantifiable factor</li> </ul>                                                                                                                                                                                                   |
| Staff Positions                                                                                | Investment Banks<br>Commercial Banks | -15% to -20%<br>-20% to -25% | <ul style="list-style-type: none"> <li>Moves in line with entire firm. Differences by function (i.e., risk higher increase than tech/operations)</li> </ul>                                                                                                                                                                                                                       |
| Investment Banking<br>Advisory and Underwriting Only<br>(Investment and Commercial Banks)      |                                      | -15% to<br>-25%              | <ul style="list-style-type: none"> <li>Cautious outlook on pipeline as industry wide activity decreased. Mixed to-date results with advisory business stronger than underwriting</li> <li>Credit issues widespread but impacting firms at varying degrees</li> </ul>                                                                                                              |
| Equities<br>excl Prime Brokerage<br>(Investment and Commercial Banks)                          | Plain-Vanilla<br>Derivatives         | -15%<br>-10%                 | <ul style="list-style-type: none"> <li>Proprietary trading showing weakness. In past, strong revenue contributor</li> <li>Market volatility and widening credit spreads on liabilities benefitting revenues</li> </ul>                                                                                                                                                            |
| Fixed Income<br>(Investment and Commercial Banks)                                              | Plain-Vanilla<br>Derivatives         | -25%+<br>-10% to -20%        | <ul style="list-style-type: none"> <li>Deterioration of credit market driving plain vanilla results</li> <li>Variation due to breadth of products. Currency, interest rate, and commodities products results generally between plain-vanilla and derivatives</li> <li>Interest rate and currency products highlight strength; mortgage and credit products a challenge</li> </ul> |
| Prime Brokerage                                                                                |                                      | -5%                          | <ul style="list-style-type: none"> <li>Higher customer balances and continuing activity outweighed by capital costs and fewer new funds</li> </ul>                                                                                                                                                                                                                                |
| Asset Management<br>(Independent and Captive)                                                  | Equities<br>Fixed Inc                | -10%<br>-5%                  | <ul style="list-style-type: none"> <li>Impact of increase in AUMs depressed by security depreciation. Expect organic growth to continue as institutional commitments invested</li> <li>Flow to less risky, lower fee products. Changing investment strategies counteracting positive results in areas (i.e. fixed income)</li> </ul>                                              |
| High Net Worth                                                                                 |                                      | -5%                          | <ul style="list-style-type: none"> <li>AUM growth but lower performance fees due to investment depreciation</li> </ul>                                                                                                                                                                                                                                                            |
| Hedge Funds<br>(Independent and Captive)                                                       |                                      | -10%*                        | <ul style="list-style-type: none"> <li>AUM growth slowing and returns have been challenging. High water mark will limit incentive fees</li> </ul>                                                                                                                                                                                                                                 |
| Private Equity<br>(Independent and Captive)                                                    |                                      | -10%*                        | <ul style="list-style-type: none"> <li>Challenging private equity environment as financing limited and expensive</li> <li>Larger funds continue to fundraise but fewer deals on the horizon</li> </ul>                                                                                                                                                                            |
| Commercial Banking                                                                             |                                      | -10%                         | <ul style="list-style-type: none"> <li>Spread compression, credit losses, and shift to narrow spread products a concern</li> </ul>                                                                                                                                                                                                                                                |
| Retail Banking                                                                                 |                                      | -15%                         | <ul style="list-style-type: none"> <li>Increasing loan losses outweigh retail revenue growth</li> </ul>                                                                                                                                                                                                                                                                           |

\* Applies to bonus and equity excluding carry

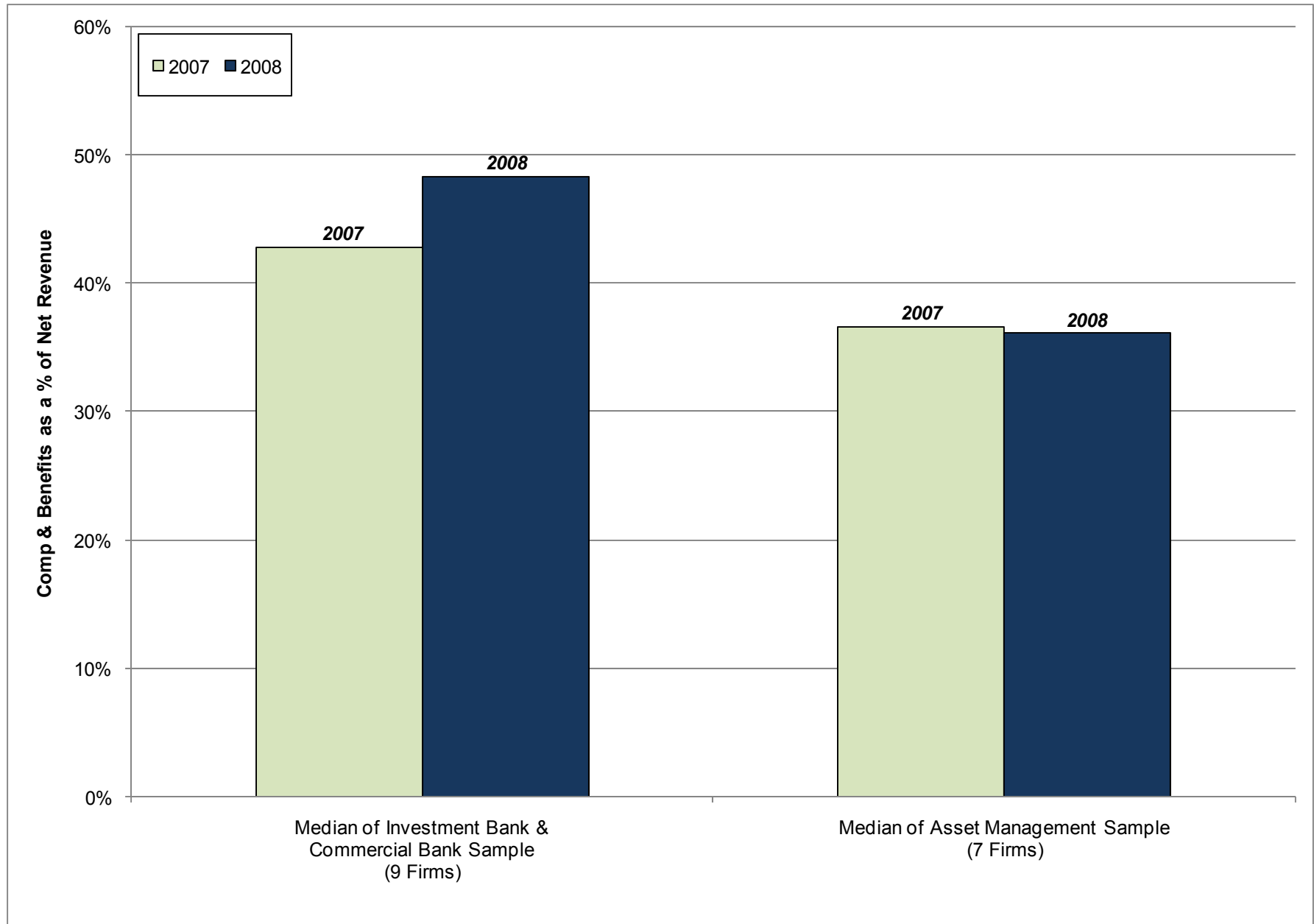
# Projected % Change in Year-End Incentive Pool\*



\* 3 months actual data with projection for remainder of year

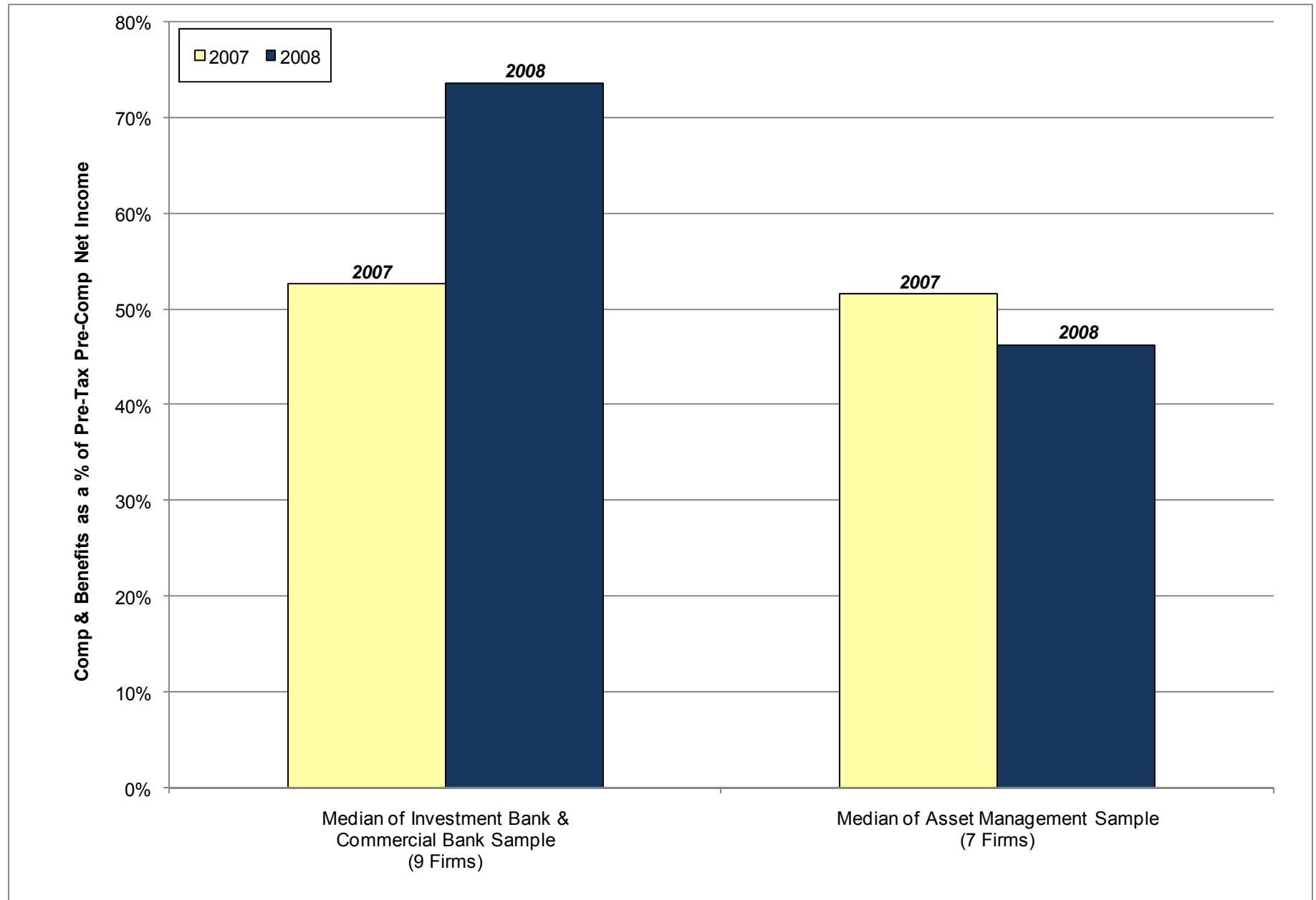
# Year-to-Date Compensation & Benefits as % of Net Revenue

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



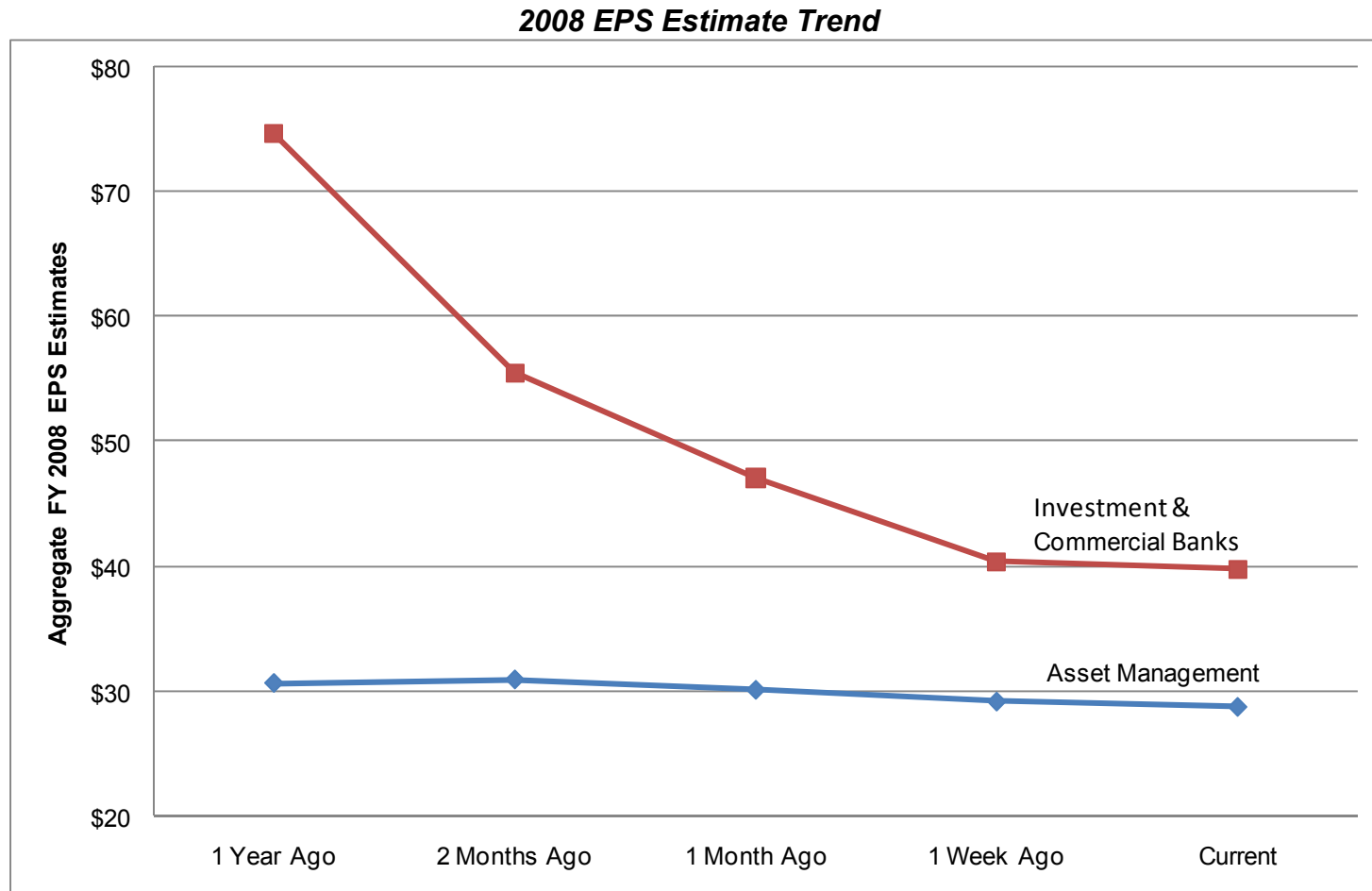
# Year-to-Date Compensation & Benefits as % of Pre-Tax Pre-Comp Net Income

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 four or five 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 7 asset management firms



## Year-to-Date Investment Bank Net Revenue Breakdown

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