FINANCIAL SERVICES COMPENSATION

Second Quarter Trends and Year-End Projections 08/10/09

Halfway through the year, Johnson Associates broadly projects a growing divergence in incentive compensation across the financial services industry. Incentive compensation for major investment & commercial banking firms is projected to significantly increase year-over-year. While the asset management industry is stabilizing, incentive compensation will decrease further off of 2008 lows. The pace of economic recovery, industry activity, repayment of government funds, and evolving legislation will be key bonus drivers for 2009.

NOTABLE TRENDS

- Growing divergence in incentives across industry
  - Varying performance across business units and firms
  - Firms unencumbered by government funds have greater ability to compensate
  - Continuing retention challenge for firms with higher level of government funds and resulting public/political scrutiny
- Asset management and hedge funds stabilizing
  - Even with continued rebound, market averages for 2009 will significantly trail 2008 levels
  - Reduced AUM levels and high water mark prolong downward pressure on incentives
- Signs of improvement emerging across financial services
  - Outpacing recovery of broader economy
  - Improvement in performance and resulting compensation complicated by continued public/governmental scrutiny
  - % increase off of low 2008 misleading; overall levels remain significantly below 2007
- Compensation decisions must be cognizant of regulatory environment
  - Public and political scrutiny continues even as performance recovers
  - Ability to repay government funds key factor in year-end compensation
  - Proactive management and transparent disclosure of compensation decisions crucial both internally and externally
- Overhaul of pay paradigm
  - Artificially low base salaries are increasing with offsetting reduction to cash incentives
  - Continued pressure on Boards and management to comply with regulatory guidelines (written & unwritten)
  - Say on Pay legislation creating another set of challenges
  - Risk (not formally defined) continues to factor significantly into compensation thinking; will impact directions on base salary, bonuses, equity/deferral planning

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Regulatory Influence

- Continuum of compensation restrictions varies by level of government funds and public/political scrutiny
  - Significant uncertainty surrounding degree of regulatory guidance
  - For groups with formulaic incentive agreements, issues already surfacing
    - Clear bonus payment based on actual results and contract
  - Ideally, firms have workable program communicated to employees by September/October

- Chart illustrates varying ability of firms to compensate employees based on degree of regulation/scrutiny
  - No firm completely escapes public/political scrutiny

Level of Regulation	Senior Executives (Top 5 to 25)	Senior Professionals (Broader Group)
Full Regulatory Influence	X	X
Heavy Regulatory Influence (Broad group of firms with government funds or heightened scrutiny)	X	↔
Moderate Regulatory Influence (Private firms & select int'l firms)	↔	√

Ability to Compensate at Market

X Limited Discretion

↔ Some Discretion

√ Almost Full Discretion

Projected 2009 Wall Street Incentive Funding

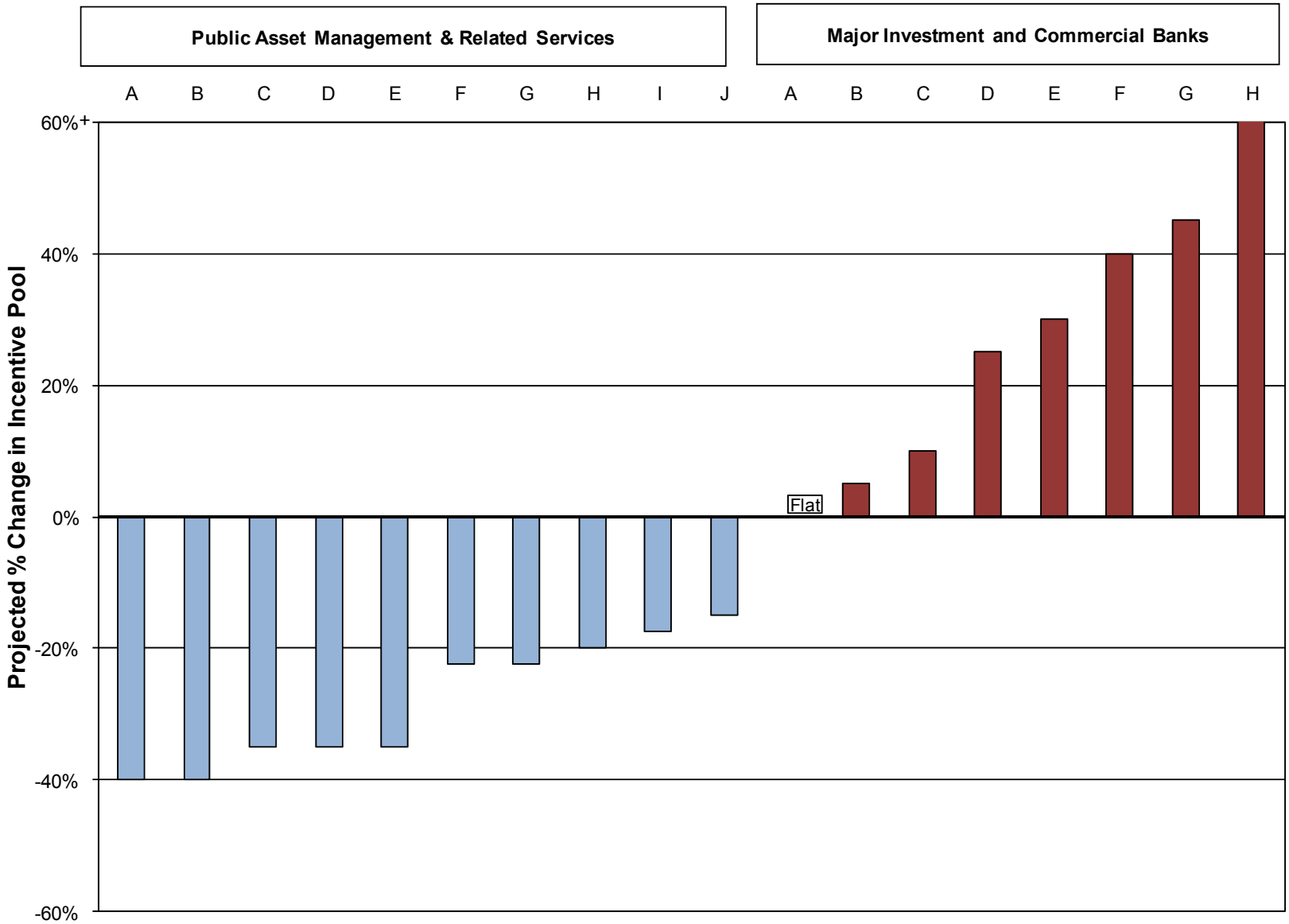
- ***Projections driven by firms expected to be less impacted by TARP restrictions***

Projected 2009 Wall Street Incentive Funding (Individual levels on a headcount adjusted basis)		
Business/Area	**% Change from 2008**	**Explanation**
Senior Firm Management (Excluding Proxy Executives)	Significant % Increase	• Legislative action and ability of firms to repay TARP funds causing significant variation by specific company circumstances • Meaningful increase off of zero or significantly reduced 2008 bonus; Proxy Executives pay likely to remain depressed for TARP recipients
Staff Positions	+25% to +35%	• Moves in line with entire firm • Differences by function (i.e., continued focus on importance of risk function)
Investment Banking (Investment and Commercial Banks) — Advisory Underwriting	-10% to -15% +15% to +20%	• Industry wide activity remains slow; reduced deal volumes and pipeline • M&A remains significantly depressed but YoY improvements in underwriting
Equities excl Prime Brokerage (Investment and Commercial Banks) — Plain-Vanilla Derivatives	+20% +30%	• Market volatility and strong customer flows benefiting revenues • Derivatives results solid
Fixed Income (Investment and Commercial Banks) — Plain-Vanilla Derivatives	+40% +50%	• Variation due to breadth of products. Strong performance in interest rate, currencies, and commodities • Write downs significantly reduced
Prime Brokerage	-25% to -30%	• Reduced risk tolerance, fewer funds, and lower client balances impacting results
Asset Management (Independent and Captive) — Equities Fixed Inc	-35% -25%	• Markets showing signs of stabilization but remain significantly below 2008 averages • Fixed income (lower fee) assets greater proportion of total than historical but beginning to see some movement back into equities
High Net Worth	-20% to -25%	• Assets generally more stable • Fees impacted by market depreciation
Hedge Funds (Independent and Captive)	-20% to -30%*	• Significant drop in performance fees due to high water mark • Considerable decline in assets reducing management fees
Private Equity (Independent and Captive)	-20% to -30%*	• Investing activity expected to be slow due to reduced leverage • Financing limited and expensive
Commercial Banking	-5% to -10%	• Increasing provisions for credit losses, increasing delinquencies, and reduced demand for loans
Retail Banking	0% to -5%	• Increasing delinquency rates and loan losses overshadow increasing revenues from deposit growth

* Applies to bonus and equity excluding carry

Projected % Change in Year-End Incentive Pool*

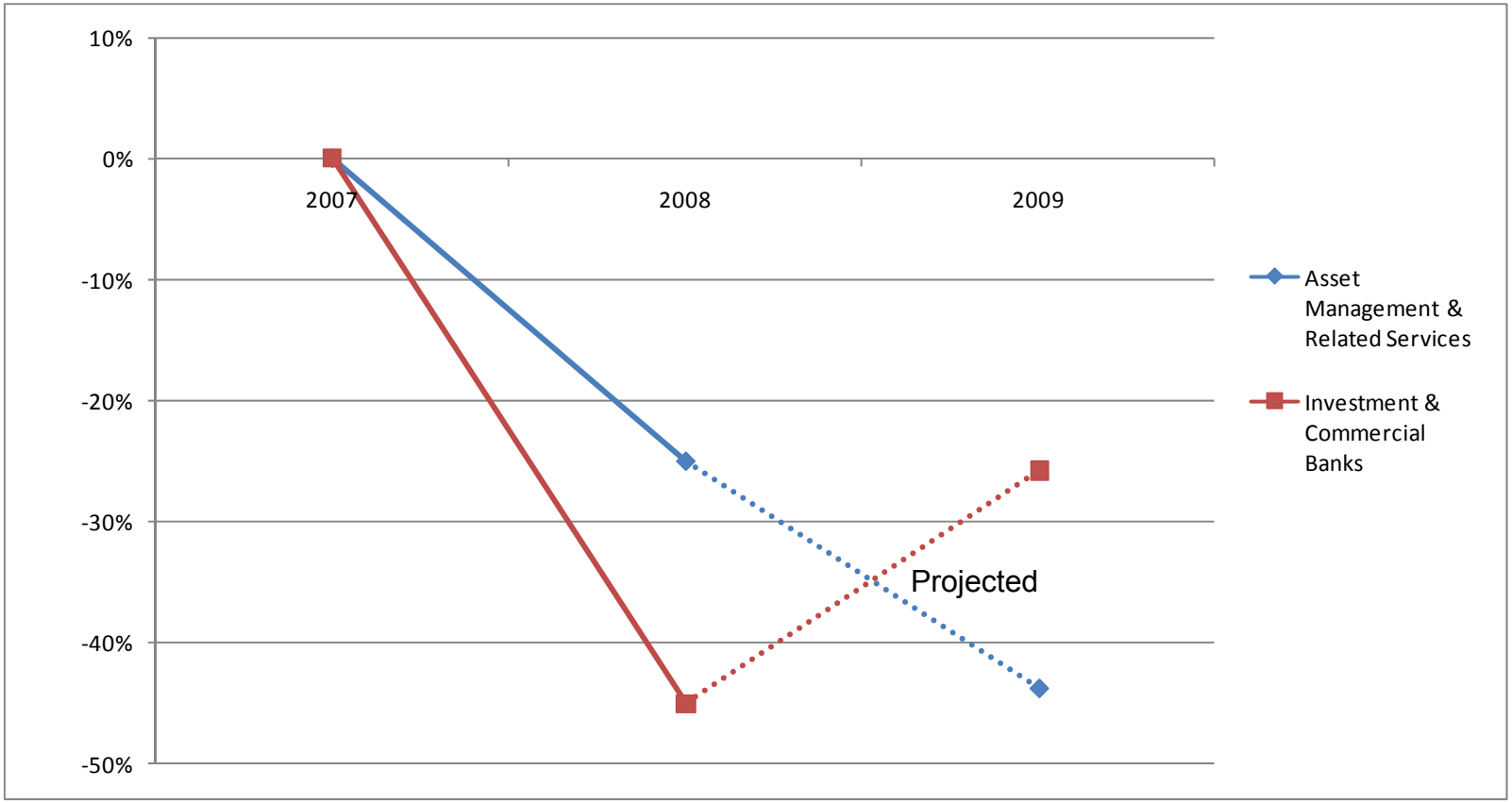
- Projections assume varying ability of firms to repay TARP capital; significant TARP recipients may be impacted more broadly due to uncertainty surrounding pending legislation



* 6 *months* actual data with projection for remainder of year

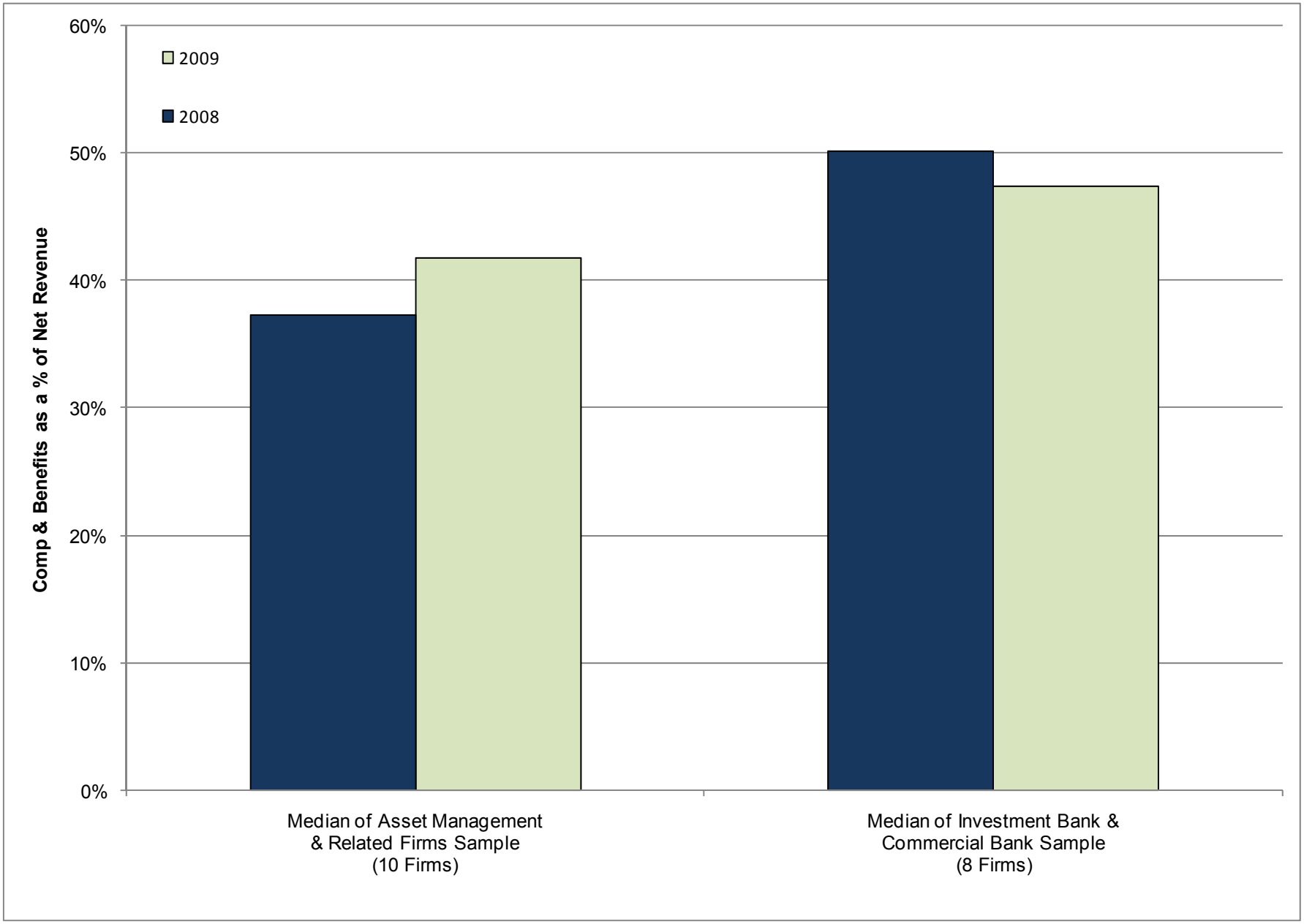
Incentive Trend

- Growing divergence in incentives across financial services creating confusing environment
- Percentage increase off of 2008 lows misleading; 2009 incentives remain meaningfully below 2007 levels



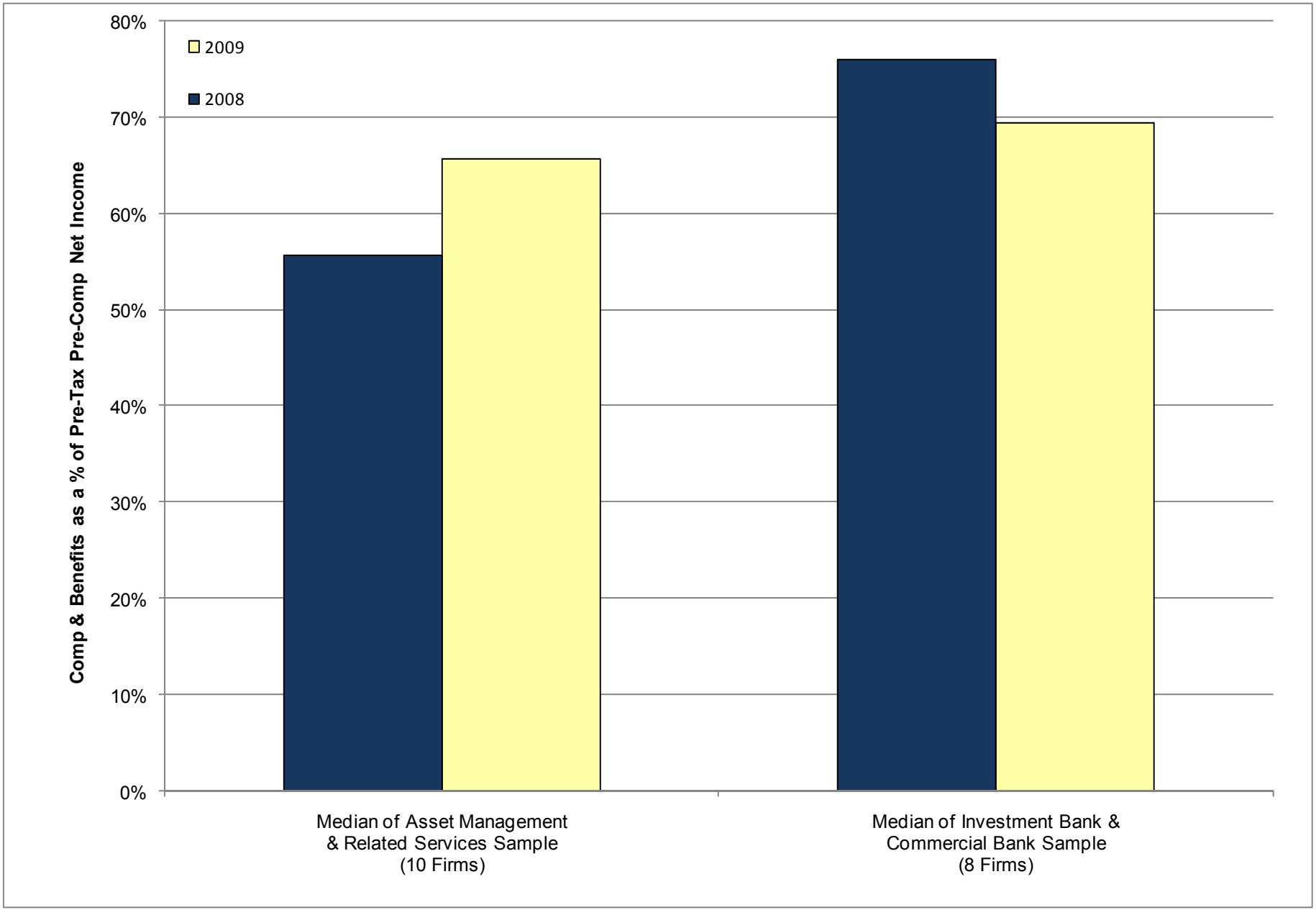
Year-to-Date Compensation & Benefits as % of Net Revenue

Notes:
Inclusive of writedowns



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

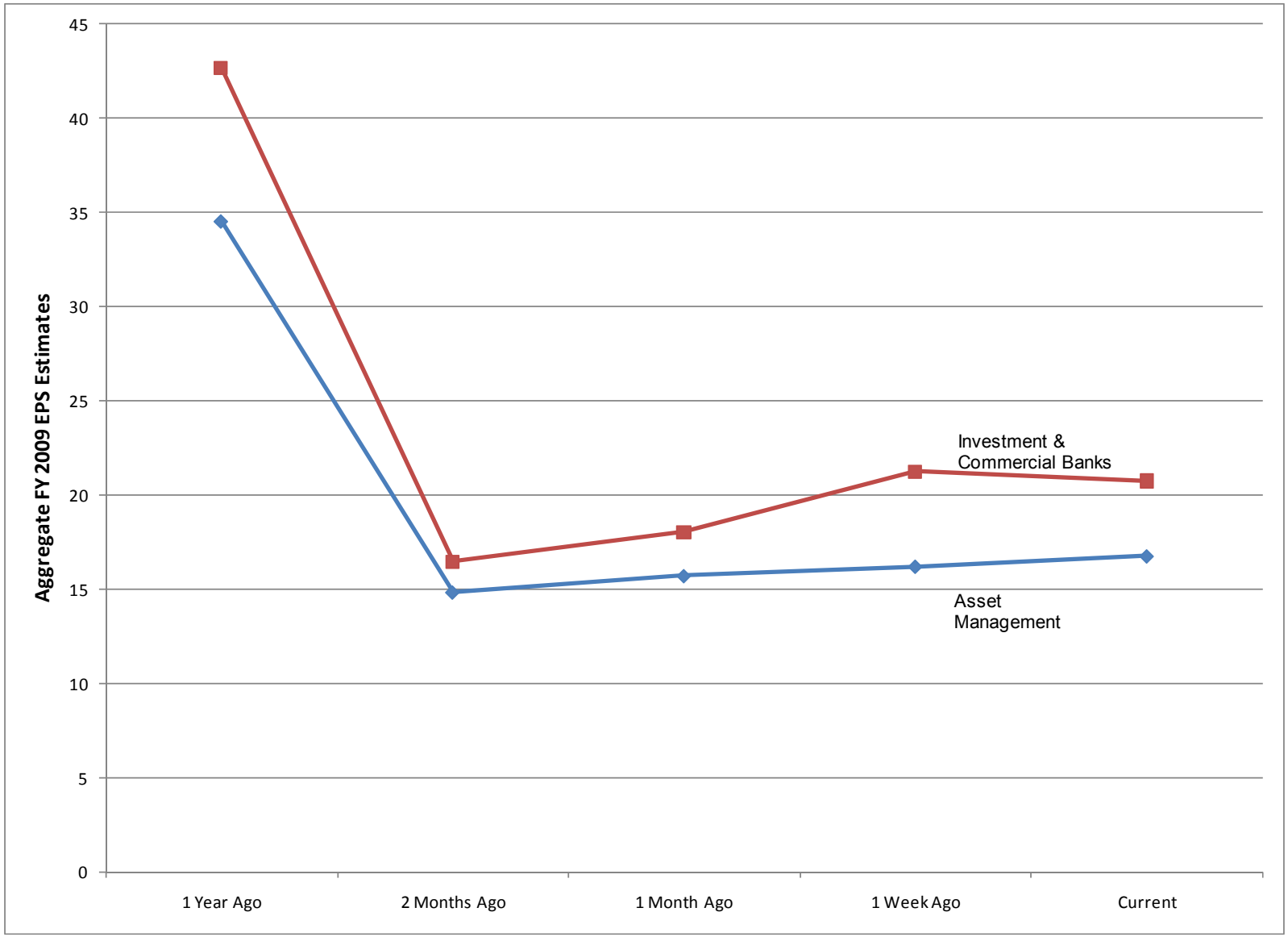
Notes:
Inclusive of writedowns



Analyst Estimated EPS Trend

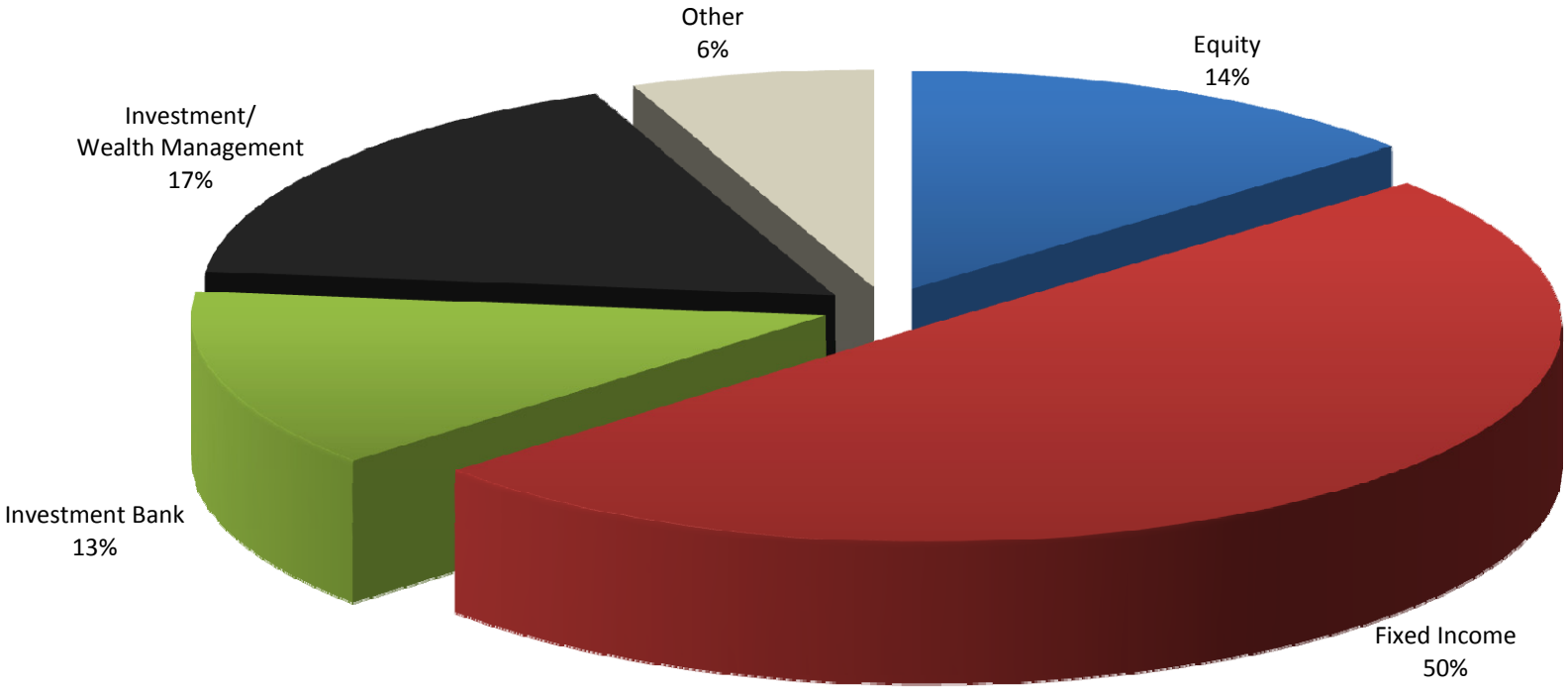
- With seven months into fiscal year, the outlook has begun to stabilize. However, cyclical downturn continuing to weigh on firm results as indicated by significant change in estimates from one year ago
- Chart reflects a sample of 8 investment and commercial banks and 10 asset management and related service firms

2009 EPS Estimate Trend



Year-to-Date Investment Bank Net Revenue Breakdown

2009 YTD Operating Net Revenue Breakdown



**Data represents median of sample set and excludes impact of writedowns*