

# FINANCIAL SERVICES COMPENSATION

## First Quarter Trends and Year-End Projections

5/11/10

*After the first quarter, Johnson Associates broadly projects an increase in incentive compensation across the financial services industry. Incentive compensation for major investment & commercial banking firms is projected to increase year-over-year, with variation expected by business mix. For the asset management industry, incentive compensation is projected to increase significantly. The pace of economic recovery, industry activity, business mix, and evolving legislation are key bonus drivers for 2010.*

### NOTABLE TRENDS

- Incentive levels projected to increase for 2010
  - Continued variations by firm, business mix, and results
  - Uncertainty in regulatory environment adds complexity
  - Heavy deferral rates market norm driven by regulatory pressure
  - **Current estimates assume Greek debt crisis contained; small/moderate contagion assumed**
- Hiring improves thru 2010
  - Change in pay mix (shift from cash incentives to higher base salary) can create misleading year-over-year comparisons
  - 2008/2009 retention trends not good predictor of 2010 as more opportunities arise (i.e., degree of pent-up turnover)
- Asset management and alternatives businesses improve significantly
  - Market stabilization leading to improved investor confidence and early signs of movement back into riskier assets
  - Growth in AUM levels place upward pressure on incentives
  - Many hedge funds beginning to surpass high-water mark
- Strong results continue in investment and commercial banks
  - Reduced write-downs, accounting charges linked to firm debt, and provisions for credit losses improve financial results
  - Q1 fixed-income results may not be sustainable, moderating full year results
  - Financial sector continues to outpace recovery of broader economy
- Proxy executive compensation begins to return to market-competitive levels, but not historic highs
  - 2008/2009 dramatically reduced compensation levels for many proxy executives unsustainable
  - Difficult transition in context of projected year-over-year change in financial results
  - Clear communication helpful to manage internal and external expectations

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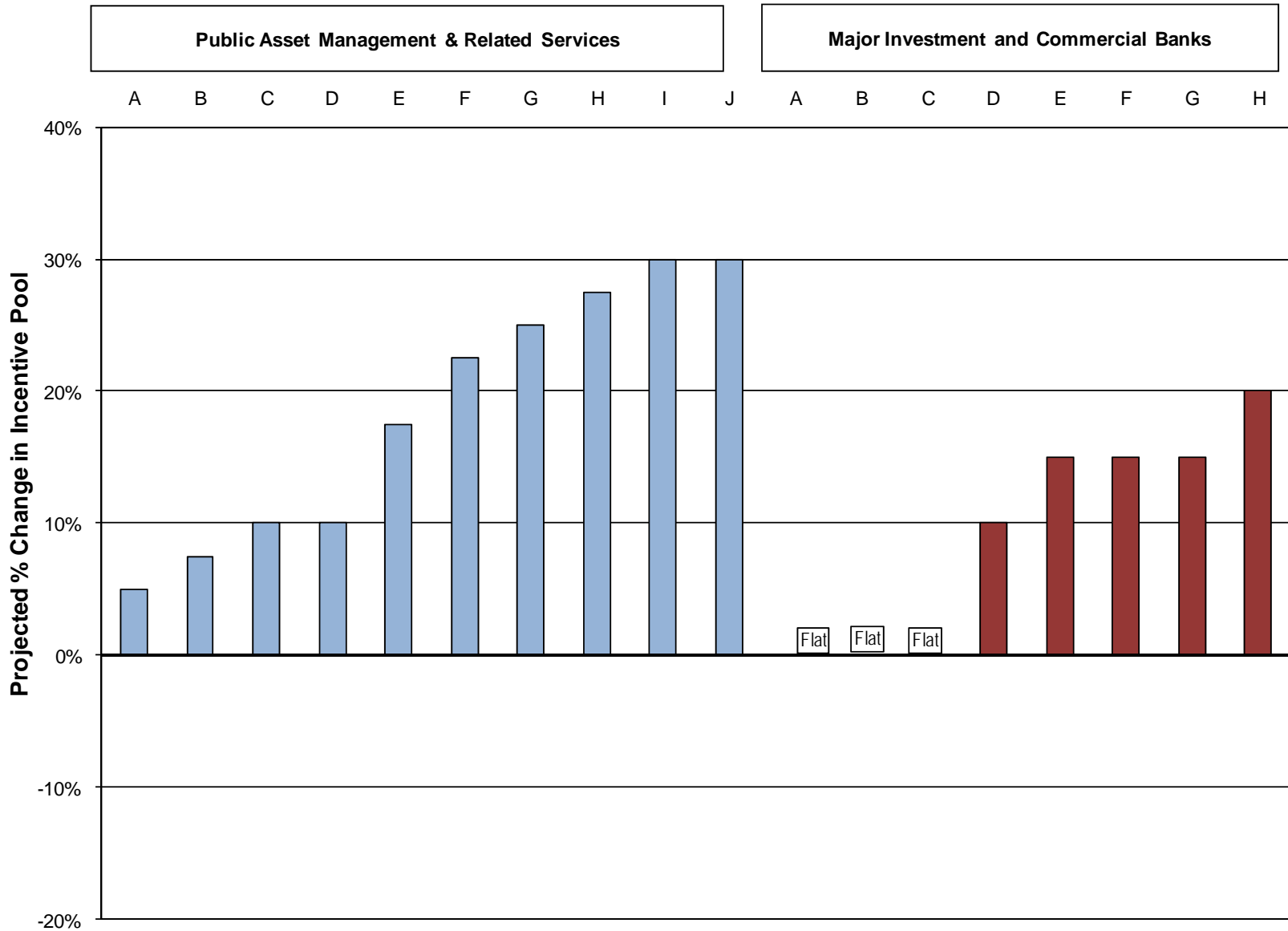
## Projected 2010 Wall Street Incentive Funding

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

Projected 2010 Wall Street Incentive Funding (Individual levels on a headcount-adjusted basis)		
Business/Area	% Change from 2009	Explanation
Senior Firm Management (Excluding Proxy Executives)	+10% to +15%	<ul style="list-style-type: none"> <li>• Proxy executives meaningful increase off of zero or significantly reduced 2008/2009 bonus</li> </ul>
Staff Positions	+10% to +15%	<ul style="list-style-type: none"> <li>• Moves in line with entire firm</li> <li>• Differences by function (i.e., continued focus on importance of risk function)</li> </ul>
Investment Banking (Investment and Commercial Banks)	Advisory 0% to +5% Underwriting +5% to +10%	<ul style="list-style-type: none"> <li>• Industry-wide M&amp;A activity remains slow; pipeline showing early signs of improvement</li> <li>• YoY improvements in underwriting partly offset by continued weakness in advisory</li> </ul>
Equities excl Prime Brokerage (Investment and Commercial Banks)	+5% to +10%	<ul style="list-style-type: none"> <li>• Decline in volatility and customer activity beginning to moderate but overall strong results</li> <li>• Derivatives results solid</li> </ul>
Fixed-Income (Investment and Commercial Banks)	-10% to 0%	<ul style="list-style-type: none"> <li>• Variation due to breadth of products. Strong performance in interest rate, credit, and currencies</li> <li>• Write-downs significantly reduced</li> </ul>
Prime Brokerage	+10% to +15%	<ul style="list-style-type: none"> <li>• Higher client balances improving results</li> </ul>
Asset Management (Independent and Captive)	Equities +20% Fixed-Inc +15%	<ul style="list-style-type: none"> <li>• Market appreciation led growth in AUM</li> <li>• Some movement back into equities with outflows in money market funds</li> </ul>
High Net Worth	+15% to +20%	<ul style="list-style-type: none"> <li>• Assets generally more stable</li> <li>• Fees impacted by market appreciation</li> </ul>
Hedge Funds (Independent and Captive)	+15% to +20%*	<ul style="list-style-type: none"> <li>• Asset inflows increasing management fees</li> <li>• Performance fees improve on solid returns and firms begin to surpass high-water mark</li> </ul>
Private Equity (Independent and Captive)	+15% to +20%*	<ul style="list-style-type: none"> <li>• Increased investing interest and activity</li> <li>• Financing availability beginning to improve</li> </ul>
Commercial Banking	0% to +5%	<ul style="list-style-type: none"> <li>• Decreasing provisions for credit losses and stabilizing net charge-offs; loan growth/credit demand remains weak</li> </ul>
Retail Banking	0% to +5%	<ul style="list-style-type: none"> <li>• Early stage credit indicators improving with growth in client deposits</li> </ul>

\* Applies to bonus and equity, excluding carry

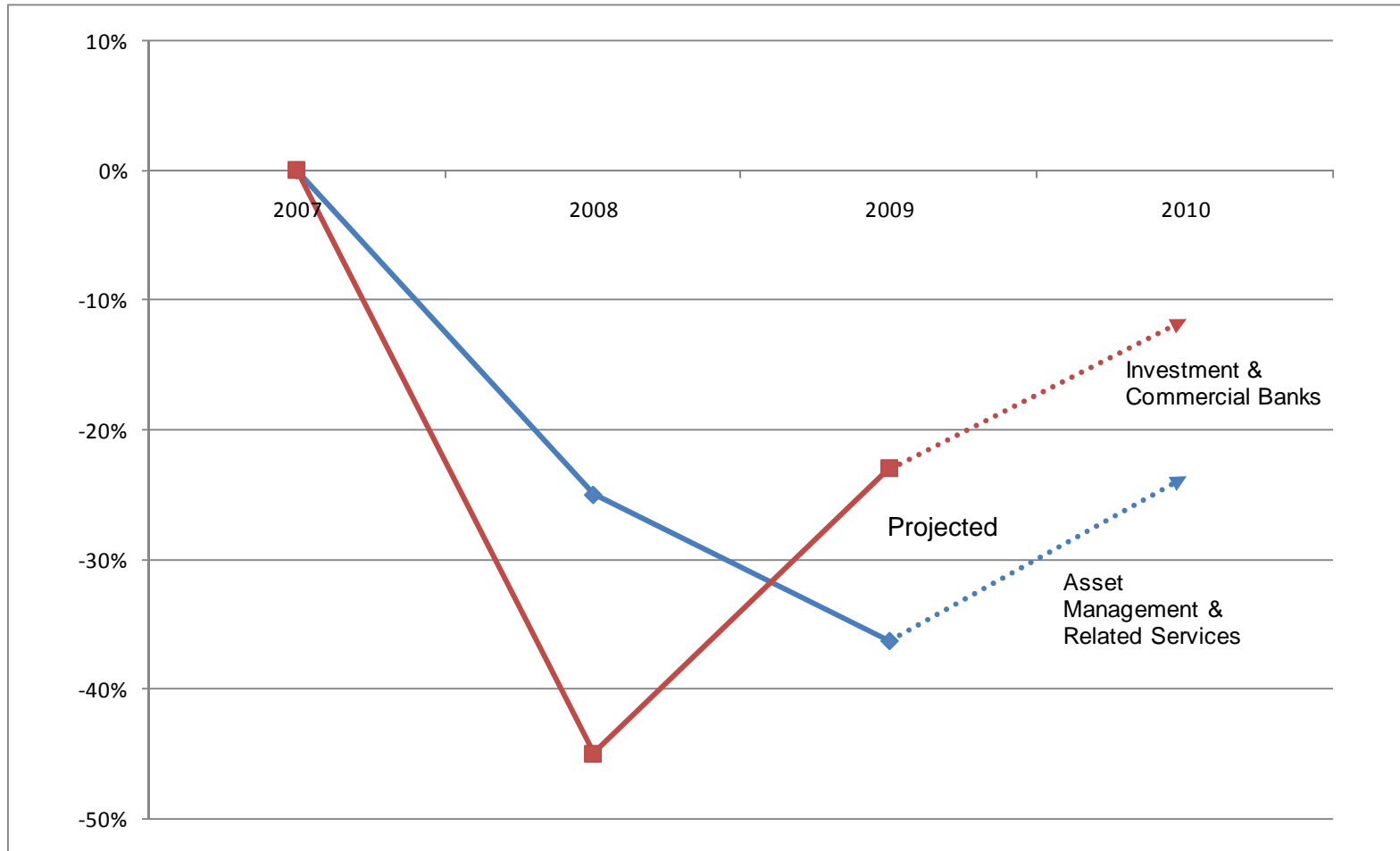
# Projected % Change in Year-End Incentive Pool\*



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

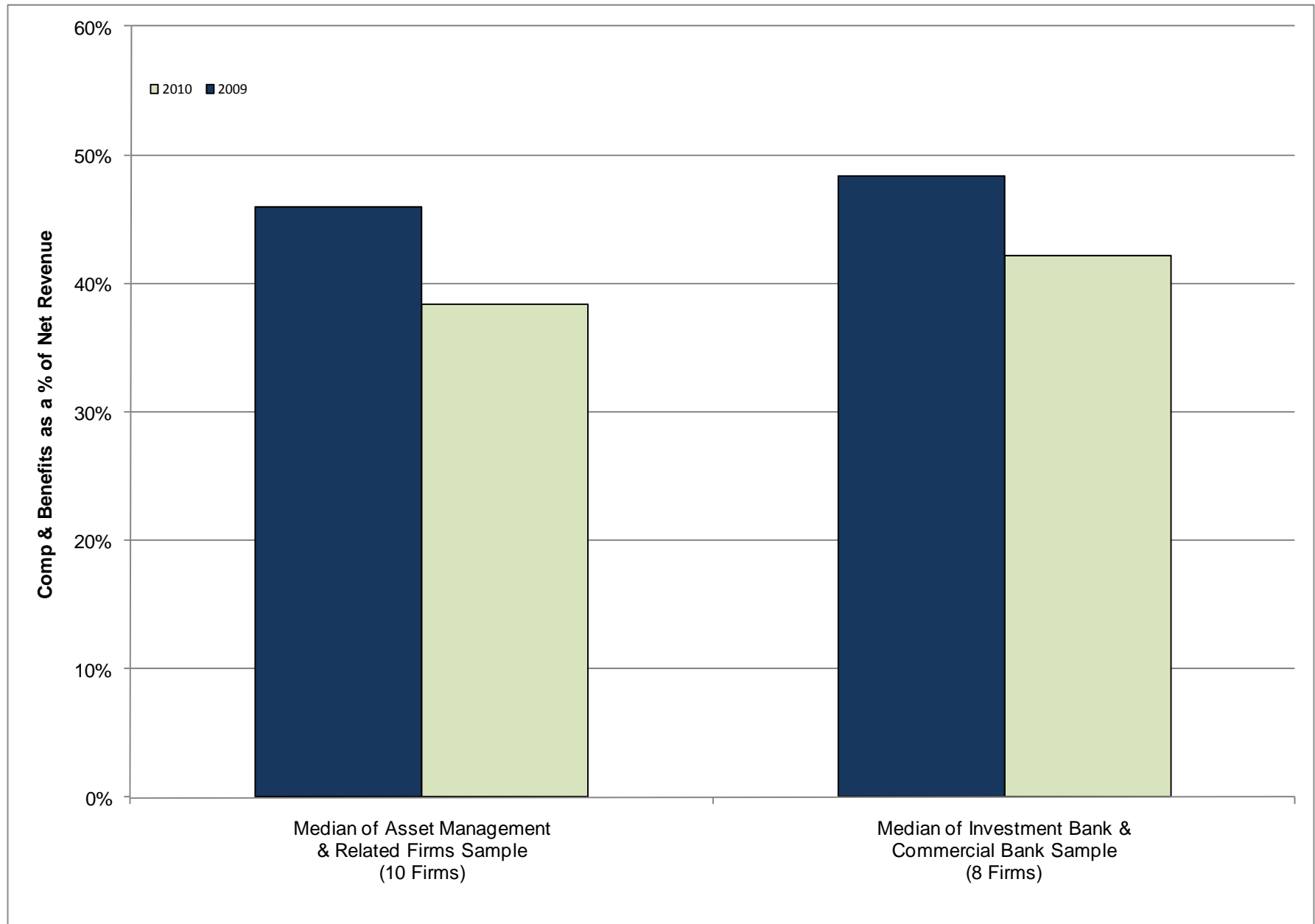
## Incentive Trend

- Across the financial services industry, incentive compensation is expected to increase year-over-year; however, in many cases remains below 2007 highs



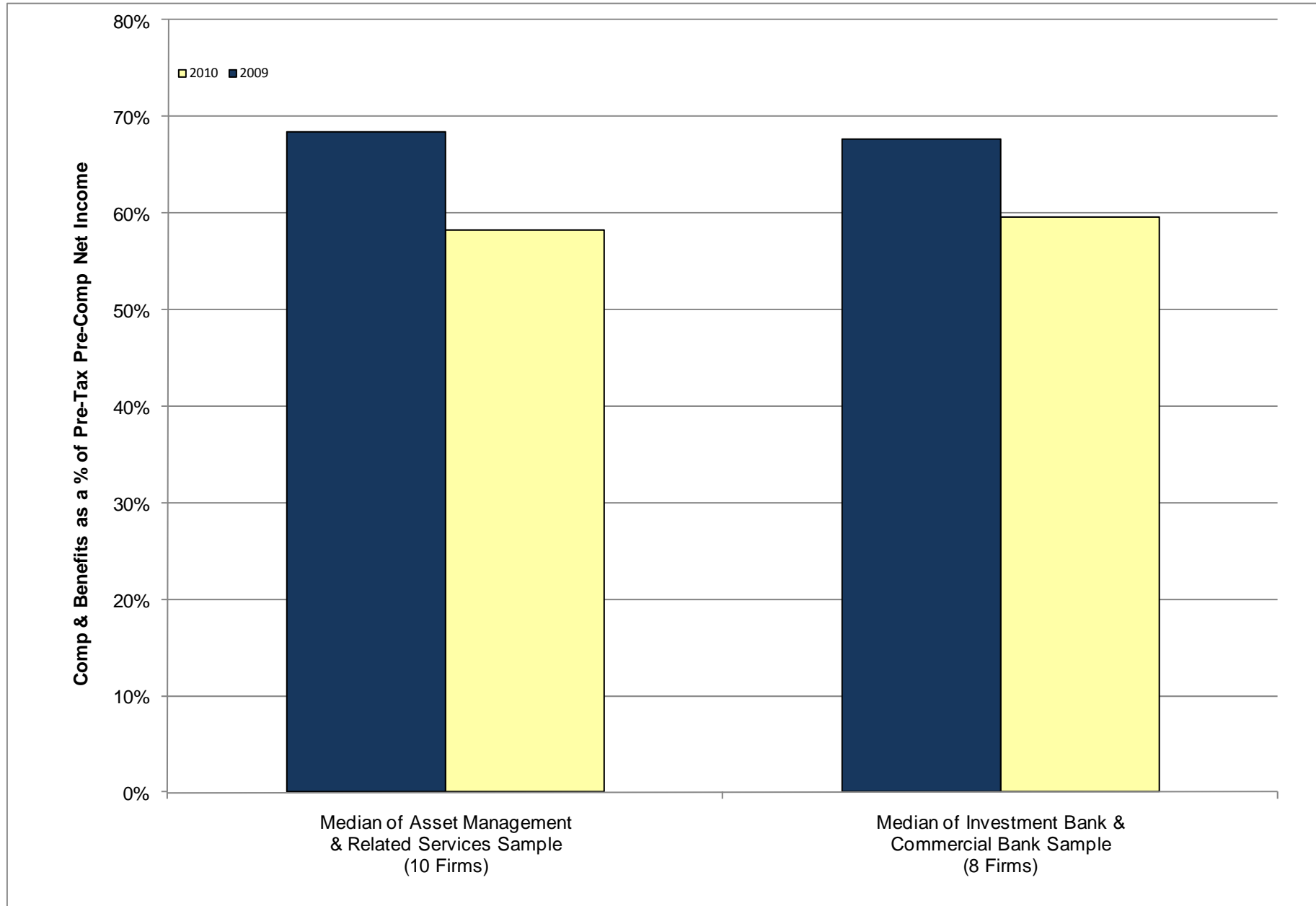
# Year-to-Date Compensation & Benefits as % of Net Revenue

Notes:  
Inclusive of write-downs



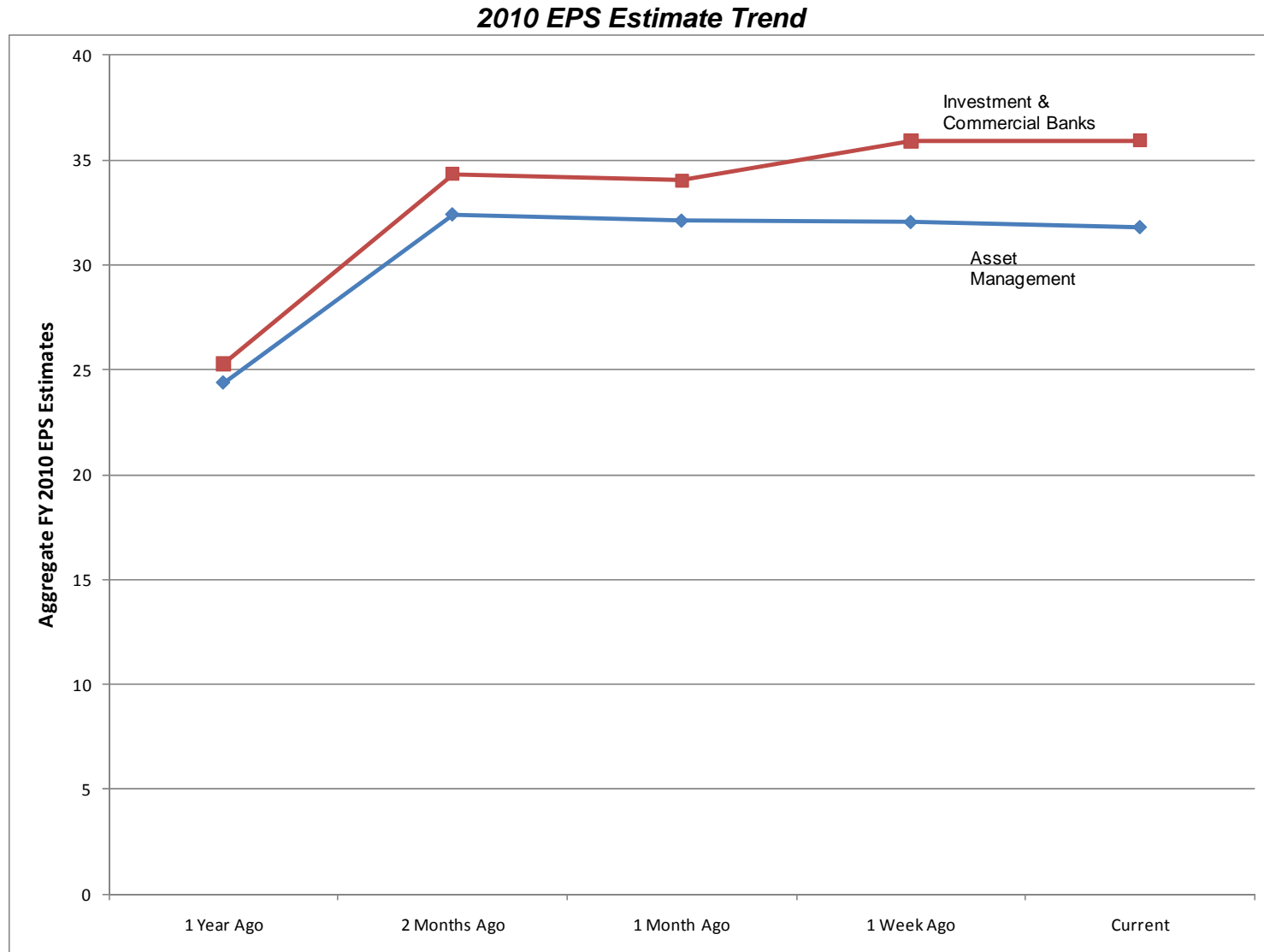
# Year-to-Date Compensation & Benefits as % of Pre-Tax Pre-Comp Net Income

Notes:  
Inclusive of write-downs



## Analyst Estimated EPS Trend

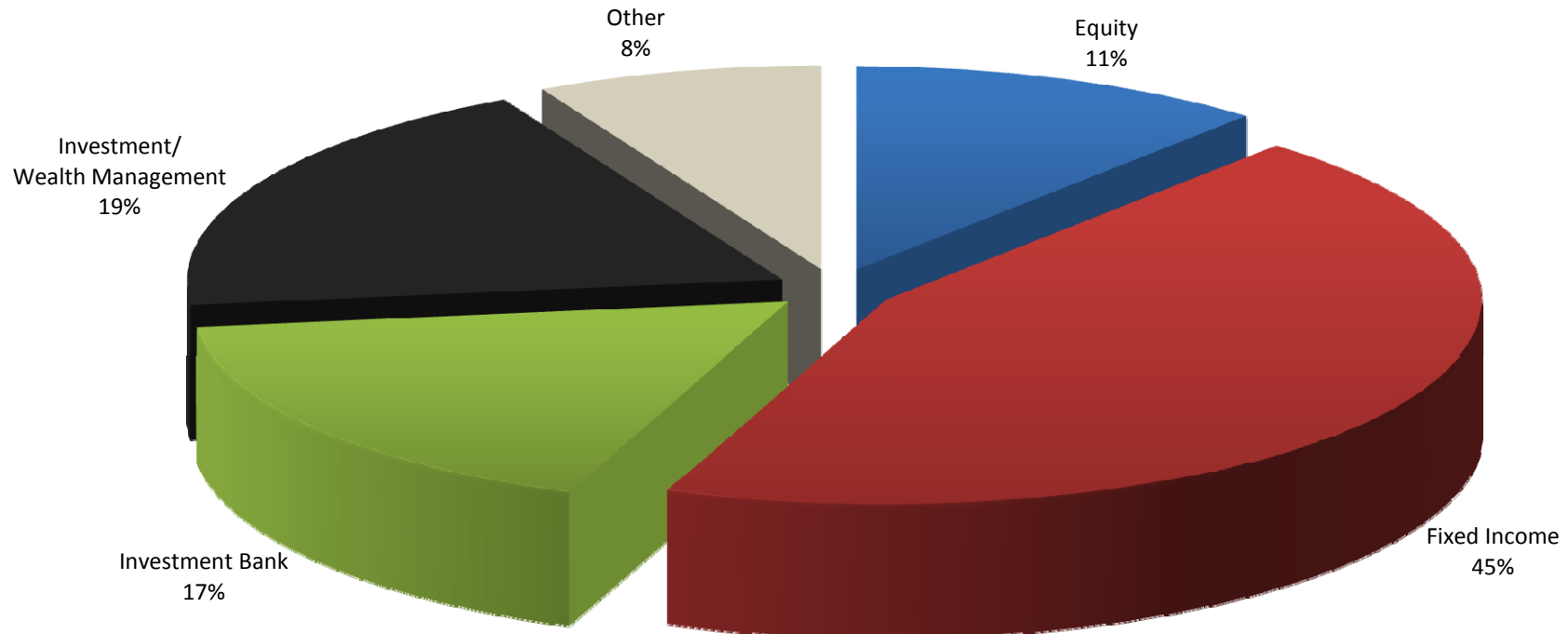
- With four months into fiscal year, the outlook has improved across financial services, as indicated by change in estimates from one year ago
- Chart reflects a sample of 8 investment and commercial banks and 10 asset management and related services firms



# Year-to-Date Investment Bank Net Revenue Breakdown

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## 2010 YTD Operating Net Revenue Breakdown



*\*Data represents median of sample set*