

FINANCIAL SERVICES COMPENSATION

First Quarter Trends and Year-End Projections

05/04/09

After the first quarter, Johnson Associates broadly projects year-over-year increases in incentive compensation for Investment Banking firms. On top of significant declines in 2008, incentive compensation for Asset Management firms is projected to decrease further. Market confidence continues to be under pressure as uncertainty prevails; however, signs of improvement are beginning to emerge. The pace of economic recovery, industry activity, repayment of TARP funds, and evolving legislation will be key bonus drivers for 2009.

NOTABLE TRENDS

- Regulatory environment impacting pay decisions
 - Public and political scrutiny changing bonus culture
 - Constantly evolving legislation clearly destabilizing, creating uncertain compensation environment
 - Ability to repay TARP funds key factor in year-end compensation
 - Considerable pressure on proxy executive pay for foreseeable future
- Overhaul of pay paradigm
 - Transparency of compensation & benefits disclosure necessary to justify levels to external audiences
 - Compliance with regulatory compensation guidelines (i.e. FSF principles)
 - Boards and HR/management must proactively communicate and assess program structure
- Shift in mix of pay
 - Artificially low base salaries are increasing (salary makeup through bonus more costly given uncertainty)
 - Annual cash incentives will continue to make up smaller portion of total
 - Continued increase in use of long term equity vehicles and deferrals
- Asset management and hedge funds face even more challenging 2009
 - Beginning year at low AUM levels will impact pay considerably
 - Hedge funds constrained by “high-water mark”
 - Difficult fund raising environment slows recovery
 - Reduced recruiting and headcount levels likely to continue for foreseeable future
- Financial Services typically recovers faster than broader economy
 - Beginning to see improvement in results; adds complexity to public scrutiny over compensation
 - Compensation in some areas will increase off of 2008 lows as performance recovers
 - % increase off of low 2008 misleading; overall levels have declined significantly from 2007

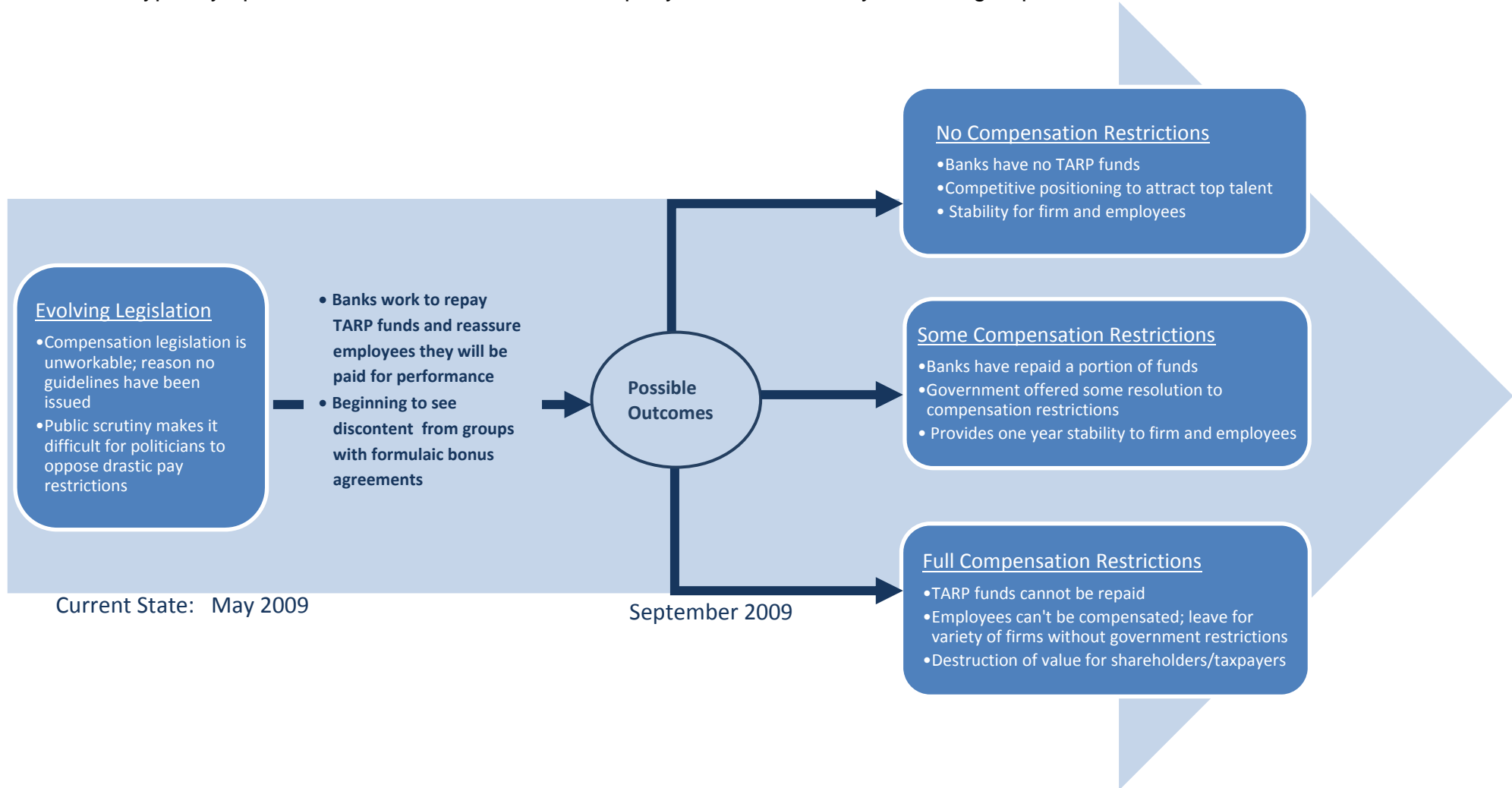
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Compensation Legislation Timeline

- Cascading set of compensation issues for firms with U.S. TARP or international equivalent government funds
 - Ability to compensate employees at year-end is highly dependent on ability to repay TARP funds
 - Firms have until September at the latest to have workable program communicated to employees
 - For groups with formulaic incentive agreements issues already beginning to arise
 - Clear bonus payment expected based on actual results and contract
 - Typically operate like an affiliate with less company association; Easy to move group elsewhere



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	<ul style="list-style-type: none"> 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	+20% to +25%	<ul style="list-style-type: none"> Moves in line with entire firm Differences by function (i.e., focus on risk putting less pressure on pay than areas often targeted for cost cutting such as tech/operations)
Investment Banking Advisory and Underwriting Only (Investment and Commercial Banks)	-15% to -20%	<ul style="list-style-type: none"> Industry wide activity remains slow; reduced deal volumes and pipeline
Equities excl Prime Brokerage (Investment and Commercial Banks)	<ul style="list-style-type: none"> Plain-Vanilla +20% Derivatives +30% 	<ul style="list-style-type: none"> Market volatility and strong customer flows benefiting revenues Derivatives results solid
Fixed Income (Investment and Commercial Banks)	<ul style="list-style-type: none"> Plain-Vanilla +20% Derivatives +30% 	<ul style="list-style-type: none"> Variation due to breadth of products. Strong performance in interest rate, currencies, and commodities Write downs significantly reduced
Prime Brokerage	-25% to -30%	<ul style="list-style-type: none"> Reduced risk tolerance, fewer funds, and lower client balances impacting results
Asset Management (Independent and Captive)	<ul style="list-style-type: none"> Equities -35% Fixed Inc -25% 	<ul style="list-style-type: none"> Market depreciation and asset outflows continue to impact fee generation Fixed income (lower fee) assets greater proportion of total as equity assets decline
High Net Worth	-25%	<ul style="list-style-type: none"> Assets generally more stable Fees impacted by market depreciation
Hedge Funds (Independent and Captive)	-20% to -30%*	<ul style="list-style-type: none"> Significant drop in performance fees due to high water mark Fund losses and redemptions reducing management fees
Private Equity (Independent and Captive)	-20% to -30%*	<ul style="list-style-type: none"> Investing activity expected to be slow due to reduced leverage Financing limited and expensive
Commercial Banking	-5% to +5%	<ul style="list-style-type: none"> Increasing provisions for credit losses outpacing solid short term results
Retail Banking	-5% to +5%	<ul style="list-style-type: none"> Increasing delinquency rates, loan losses and higher credit costs overshadow increasing revenues from deposit growth

* Applies to bonus and equity excluding carry

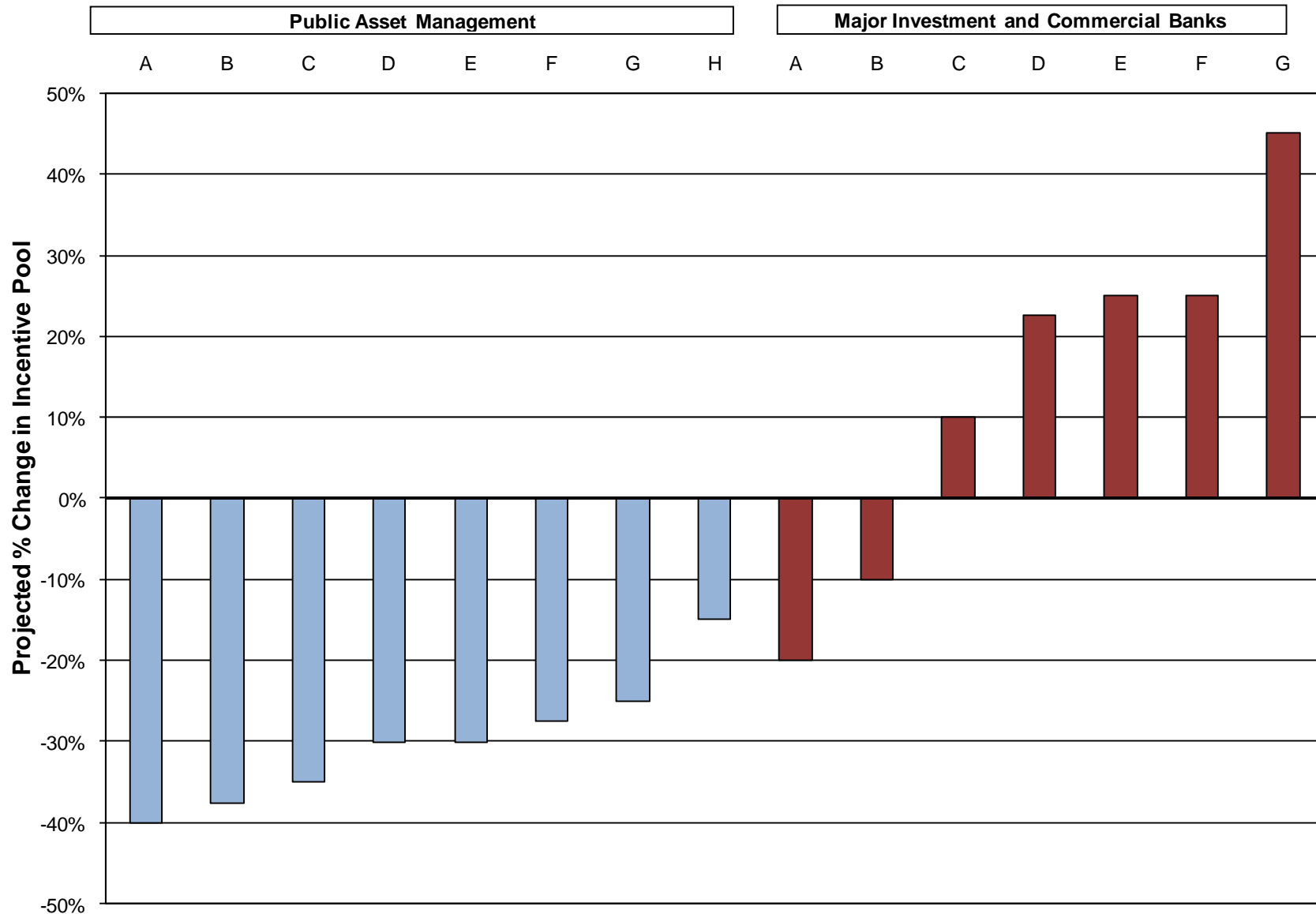
Financial Stability Forum Principles

- Important to recognize in compensation practices and disclosures recent guidelines issued by regulators around the world

	FSF Principle	Commentary
Effective Governance of Compensation	1) Board of directors must actively oversee the compensation system's design and operation	<ul style="list-style-type: none"> • Sensible principle and practice • Many boards currently perform such function
	2) Board of directors must monitor and review the compensation system to ensure operation as intended (controls should be reviewed for compliance)	<ul style="list-style-type: none"> • Sensible principle currently performed broadly • However, board members not intended to be full time supervisors of pay plans
	3) Staff engaged in financial and risk control must be independent, have appropriate authority, and be compensated independently of the business area they oversee and commensurate with their key role	<ul style="list-style-type: none"> • Clear best practice to have independent, authoritative risk and compliance units • Need to balance these responsibilities with ability to operate the actual day-to-day front office functions
Effective Alignment of Compensation with Prudent Risk Taking	4) Compensation must be adjusted for all types of risk (using quantitative measures and human judgment)	<ul style="list-style-type: none"> • Sensible if firm has realistic expectations of performance (i.e. more risk adverse, cannot have expectations for sustained top tier results) • Risk often difficult to quantify and assumes risks are evident (historical examples prove otherwise) • Cost of capital charges have ability to increase steepness of incentive curves, and thus levels of risk
	5) Compensation outcomes must be symmetric with risk outcomes (size of bonus pool should be linked to firm performance)	
	6) Compensation payout schedules must be sensitive to time horizons of risks	<ul style="list-style-type: none"> • Stretching out time horizons to understand long-term implications a sensible practice • However difficult to objectively tie payouts to time horizons especially for select products with significantly long time frames
	7) Mix of cash, equity, and other forms of compensation must be consistent with risk alignment	<ul style="list-style-type: none"> • Performance based pay, aligned with shareholders, and based on long-term results clearly best practice • Useful vehicles include: significant stock ownership, meaningful deferrals, & clawbacks
Effective Supervisory Oversight and Engagement by Stakeholders	8) Supervisory review of compensation practices must be rigorous and sustained, and deficiencies addressed promptly with supervisory action	<ul style="list-style-type: none"> • Assumes compensation design and assessment is straightforward issue • Oversight also needs to come internally from various groups
	9) Firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders	<ul style="list-style-type: none"> • Difficult to administer • Impossible to please all stakeholders • Philosophy, approach, and key metrics should be clearly disclosed with understanding that some subjectivity in design is necessary

Projected % Change in Year-End Incentive Pool*

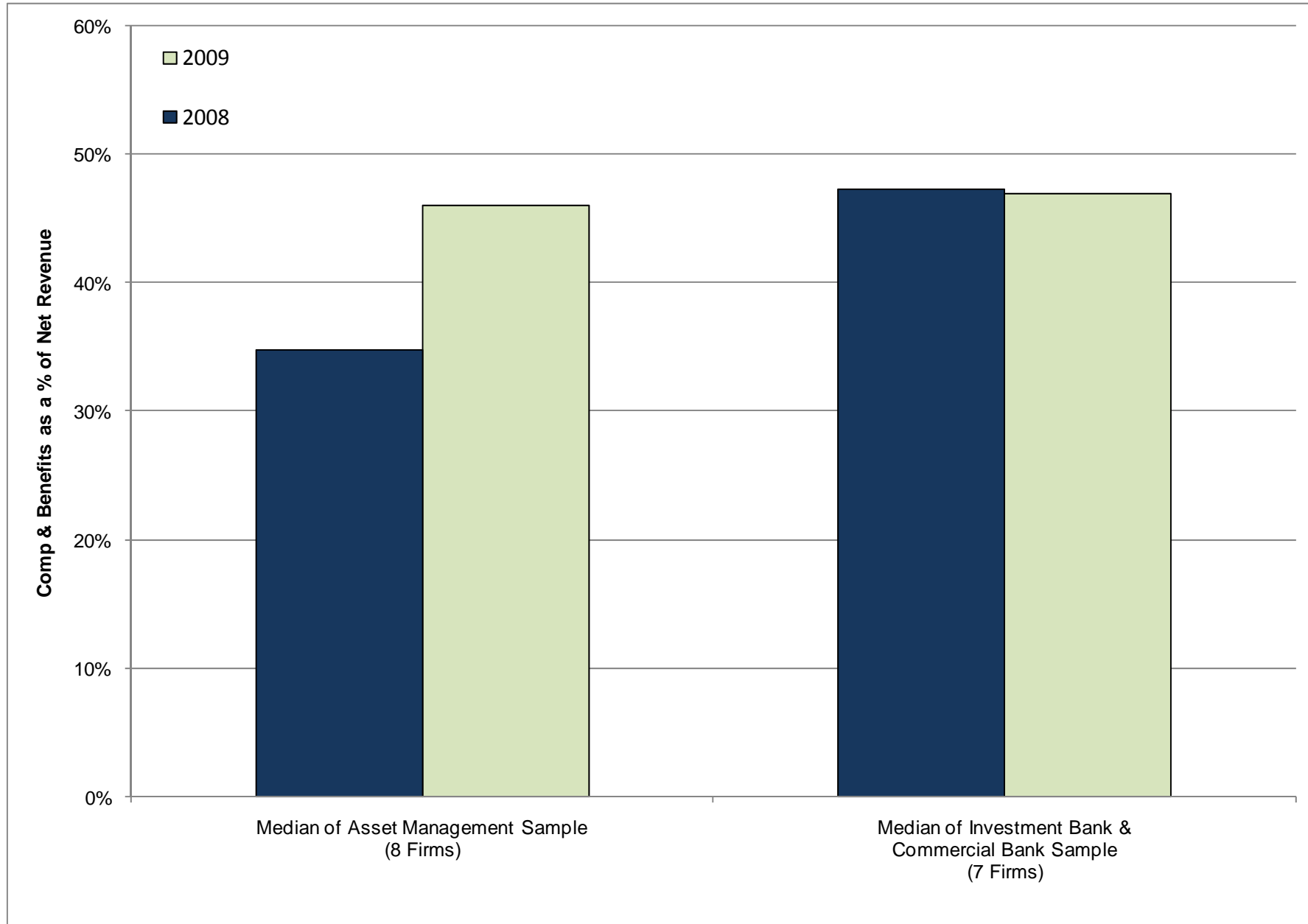
- Projections assume varying ability of firms to repay TARP capital; significant TARP recipients may be impacted more broadly due to uncertainty surrounding pending legislation



* 3 months actual data with projection for remainder of year

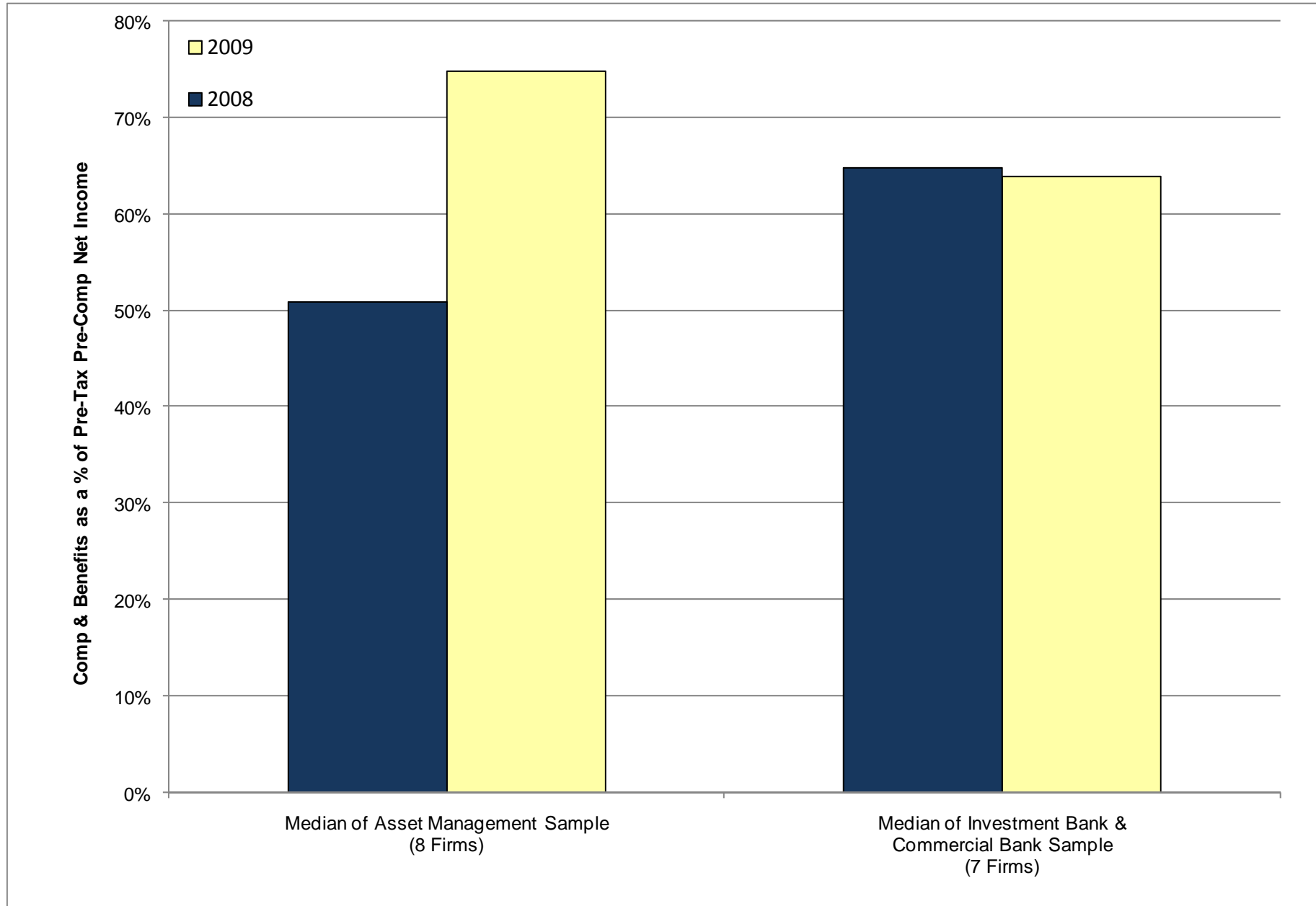
Year-to-Date Compensation & Benefits as % of Net Revenue

Notes:
Inclusive of writedowns



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

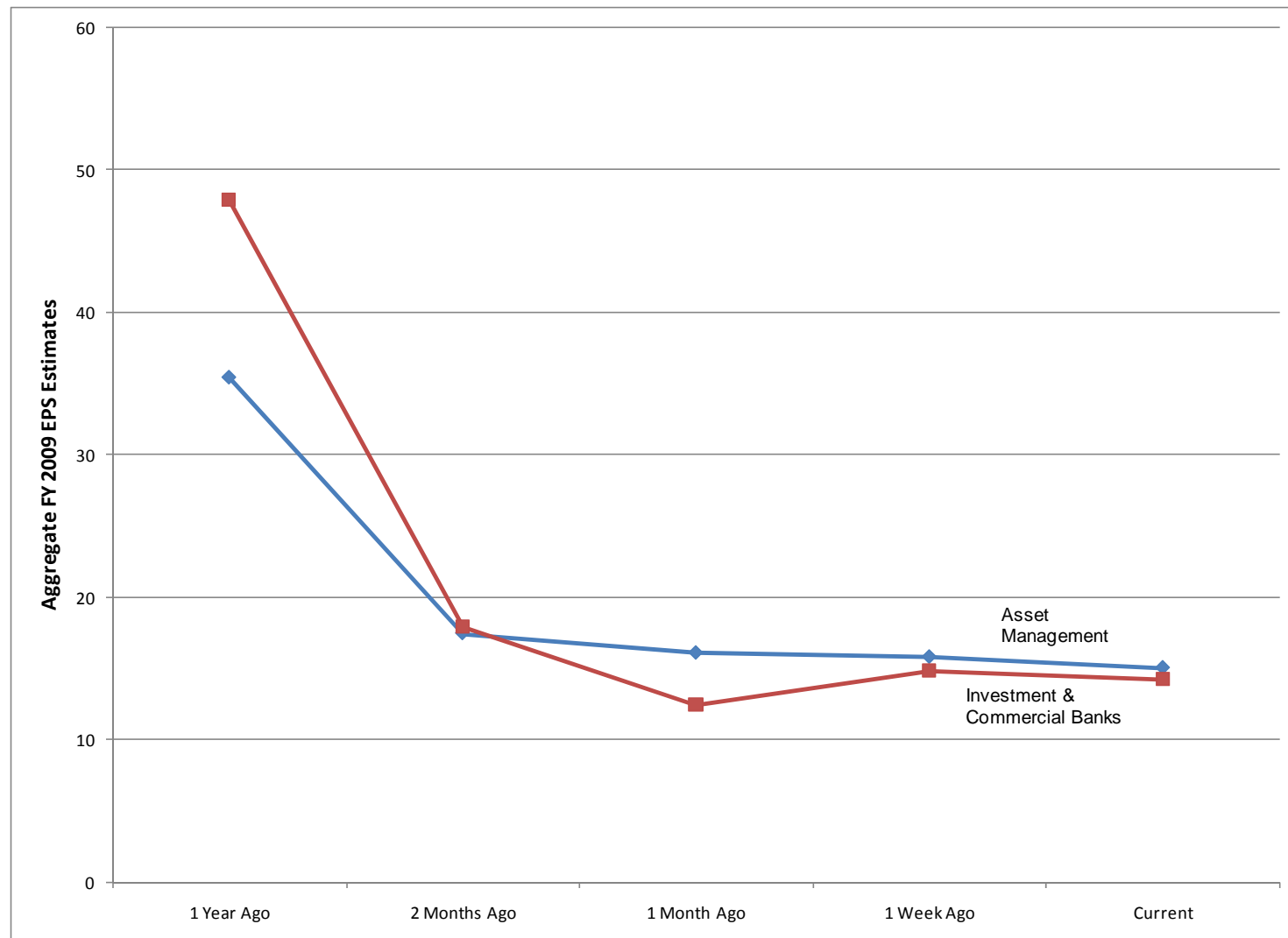
Notes:
Inclusive of writedowns



Analyst Estimated EPS Trend

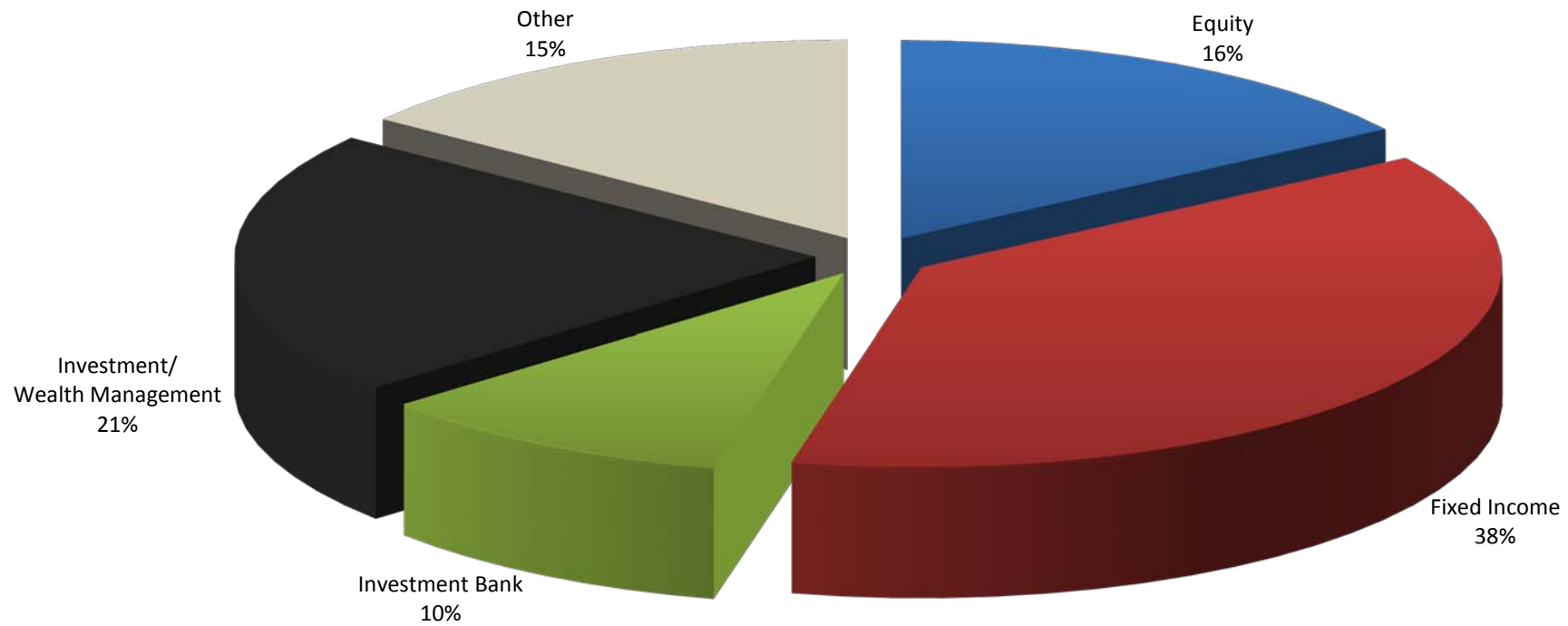
- With four months into fiscal year, the outlook has begun to stabilize. However, cyclical downturn continuing to weigh on firm results as indicated by significant change in estimates from one year ago
- Chart reflects a sample of 7 investment and commercial banks and 8 asset management firms

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*