

# FINANCIAL SERVICES COMPENSATION

## Third Quarter Trends and Year-End Projections

11/06/08

*After three quarters, Johnson Associates is projecting significant year-over-year decreases in incentive compensation. Fundamental changes in the industry landscape and business drivers continue to weigh on firm results and market confidence. Deteriorating credit conditions, a weakening global economy, and industry consolidation will be key bonus drivers for 2008.*

### **NOTABLE TRENDS**

- Unfortunately, our predicted meltdown scenario has occurred
  - Acquisitions and capital infusions will prop compensation somewhat for 2008
  - Expectation firms in dire circumstances will utilize unconventional practices (i.e. outlier deferral amounts)
- Realization credit crisis has spread to global economy and negative outlook continues into 2009
  - Impairment of credit markets leading to fundamental realignment of sector
- Industry consolidation
  - Crescendo of layoffs
  - Cost cutting demands lead to smaller severance
  - Shift in market share as some firms act opportunistically
- Hedge Fund bubble has burst
  - Expect decline in number of funds as increased redemptions and losses lead to downward spiral
- Incentive compensation declines for foreseeable future
  - Increased 2007 deferral rates increase even further in 2008 and beyond
  - Larger spread between incentives of top performers and rest of employees
- Public and regulatory scrutiny has greatest impact on proxy reported executive pay
  - A number of firms addressing compensation paradigm for 2009 and beyond in reaction to real and perceived issues
- “Emergency Economic Stabilization Act of 2008”
  - Lowers threshold for non-deductible compensation of covered executives to \$500k from \$1m
  - Limits use of golden parachutes and denies deductibility

*\*\*\* Applicability and time period enforced varies among provisions and only applies to institutions that sell troubled assets under relief program*

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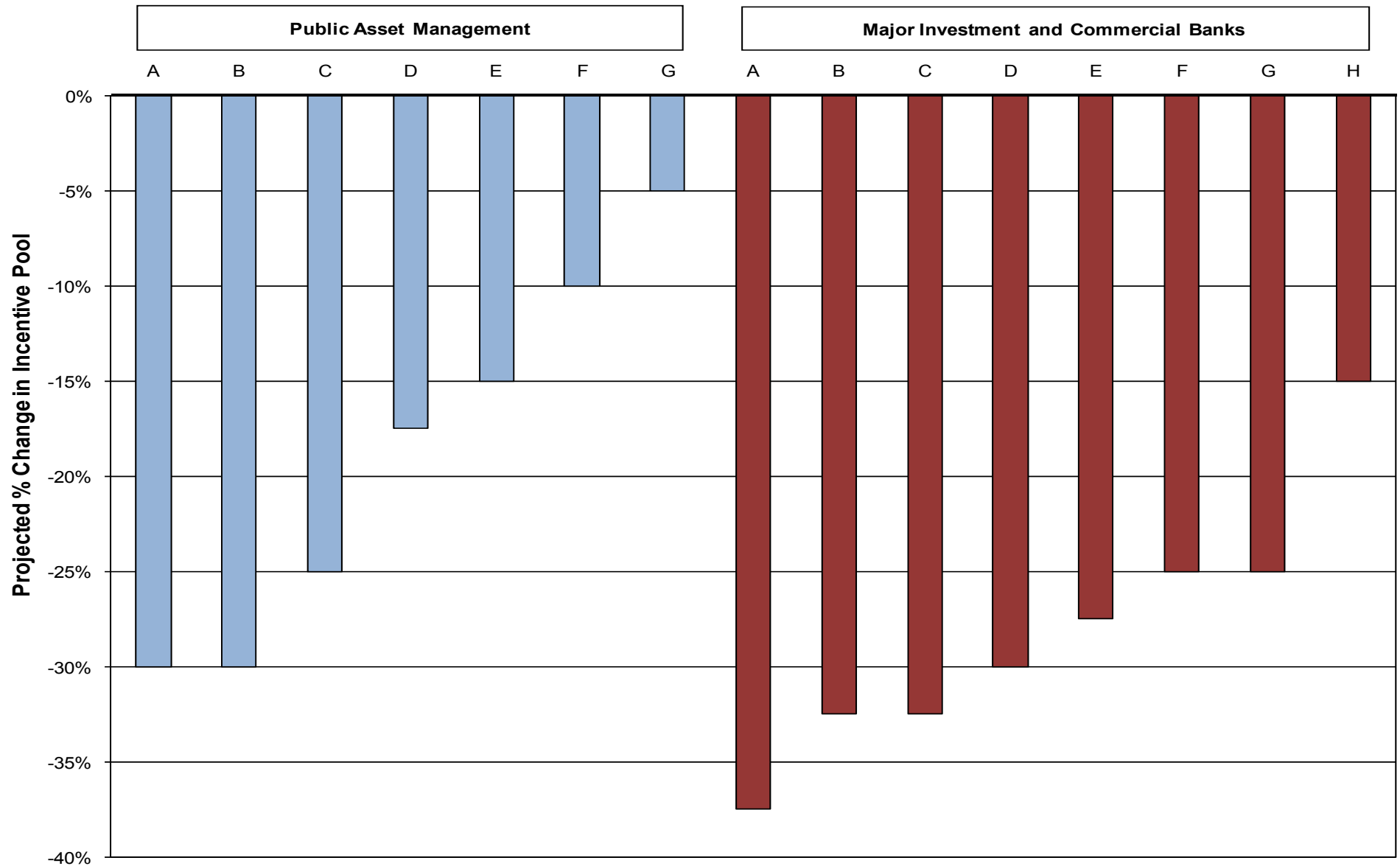
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# Projected 2008 Wall Street Incentive Funding

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	-60% to -70% -55% to -65%	<ul style="list-style-type: none"> <li>Variation driven by business mix and performance. Increased regulatory/public scrutiny of executive compensation is an additional, non-quantifiable factor</li> <li>Senior Executives likely to decrease more than firm pool</li> </ul>
Staff Positions Investment Banks Commercial Banks	-20% to -30% -20% to -30%	<ul style="list-style-type: none"> <li>Moves in line with entire firm. Differences by function (i.e., risk smaller declines than tech/operations)</li> </ul>
Investment Banking Advisory and Underwriting Only (Investment and Commercial Banks)	-35% to -45%	<ul style="list-style-type: none"> <li>Cautious outlook on pipeline as industry wide activity remains slow</li> <li>Credit issues continue but impacting firms at varying degrees</li> </ul>
Equities excl Prime Brokerage (Investment and Commercial Banks) Plain-Vanilla Derivatives	-25% -20%	<ul style="list-style-type: none"> <li>Weakness in proprietary trading continues to weigh on results</li> <li>Market volatility and strong customer flows benefitting revenues</li> </ul>
Fixed Income (Investment and Commercial Banks) Plain-Vanilla Derivatives	-45%+ -35% to -45%	<ul style="list-style-type: none"> <li>Deterioration of credit market driving plain vanilla results</li> <li>Variation due to breadth of products. Strong performance in interest rate and currencies offset by write downs</li> </ul>
Prime Brokerage	-15% to -20%	<ul style="list-style-type: none"> <li>Strong results outweighed by capital costs, reduced risk tolerance, and fewer funds</li> <li>Fundamental shift towards multi-broker model impacts market share</li> </ul>
Asset Management (Independent and Captive) Equities Fixed Inc	-25% -20%	<ul style="list-style-type: none"> <li>Market depreciation and asset outflows</li> <li>Flight to safety</li> </ul>
High Net Worth	-15%	<ul style="list-style-type: none"> <li>Assets generally more stable but lower performance fees due to investment depreciation</li> </ul>
Hedge Funds (Independent and Captive)	-25% to -35%*	<ul style="list-style-type: none"> <li>Returns challenging and leading to increased redemptions. Large variation among funds</li> <li>High water mark will limit incentive fees</li> </ul>
Private Equity (Independent and Captive)	-20% to -25%*	<ul style="list-style-type: none"> <li>Challenging private equity environment as financing limited and expensive</li> <li>Larger funds continue to fundraise but few deals in pipeline</li> </ul>
Commercial Banking	-25%	<ul style="list-style-type: none"> <li>Spread compression, credit losses, and shift to narrow spread products impacting results</li> </ul>
Retail Banking	-20%	<ul style="list-style-type: none"> <li>Increasing loan losses and higher credit costs outweigh retail revenue growth</li> </ul>

\* Applies to bonus and equity excluding carry

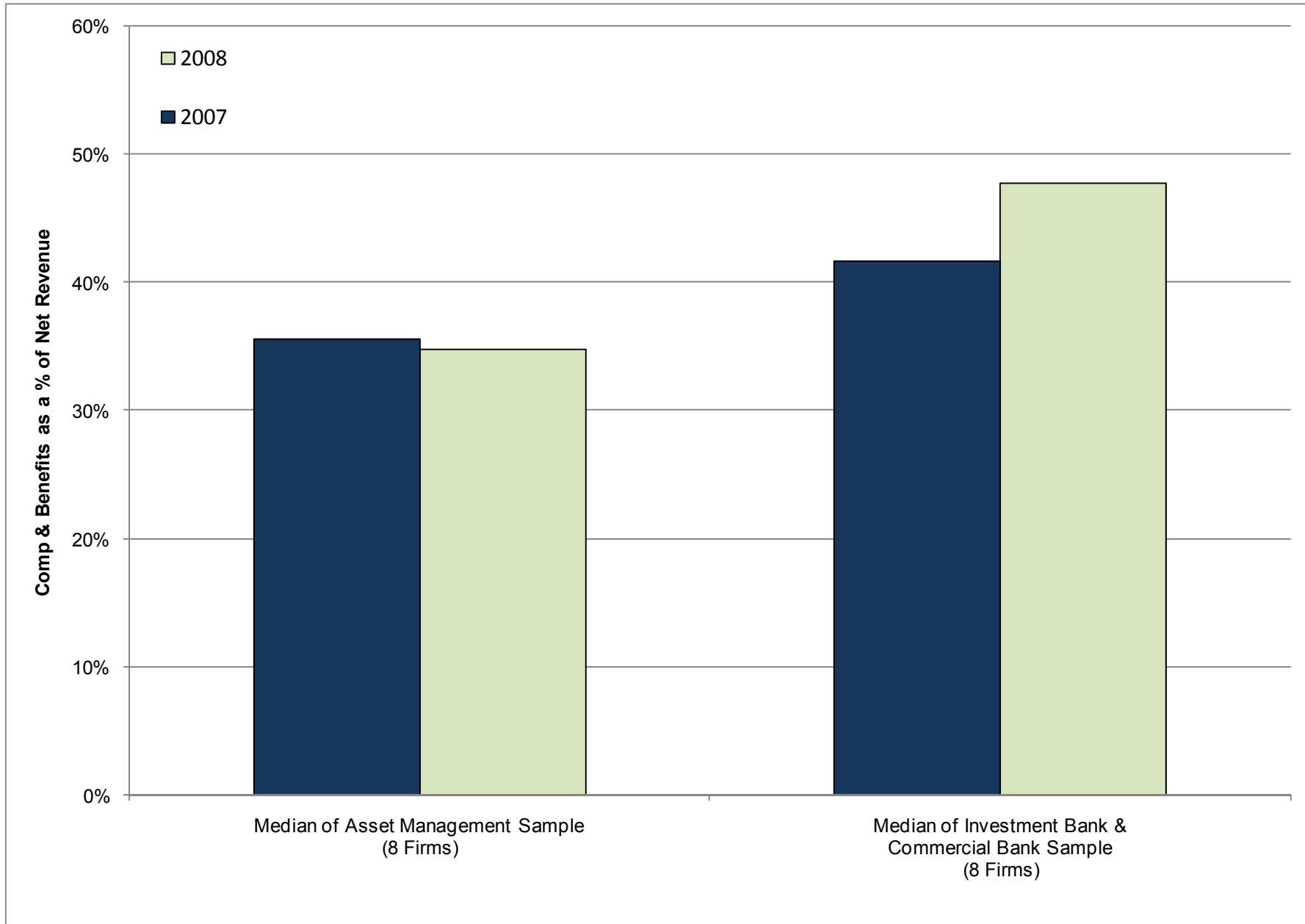
# Projected % Change in Year-End Incentive Pool\*



\*9 months actual data with projection for remainder of year

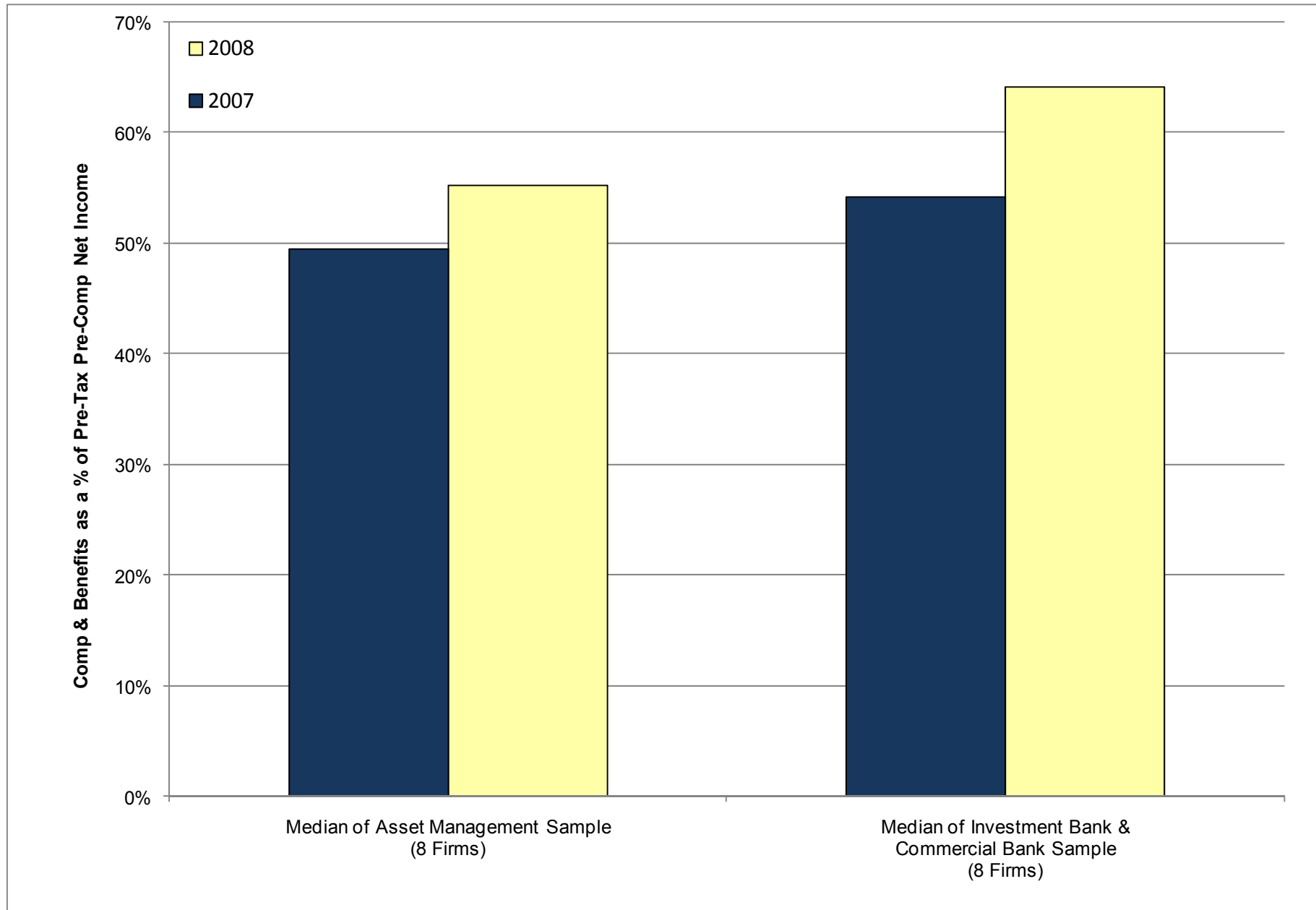
# Year-to-Date Compensation & Benefits as % of Net Revenue

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

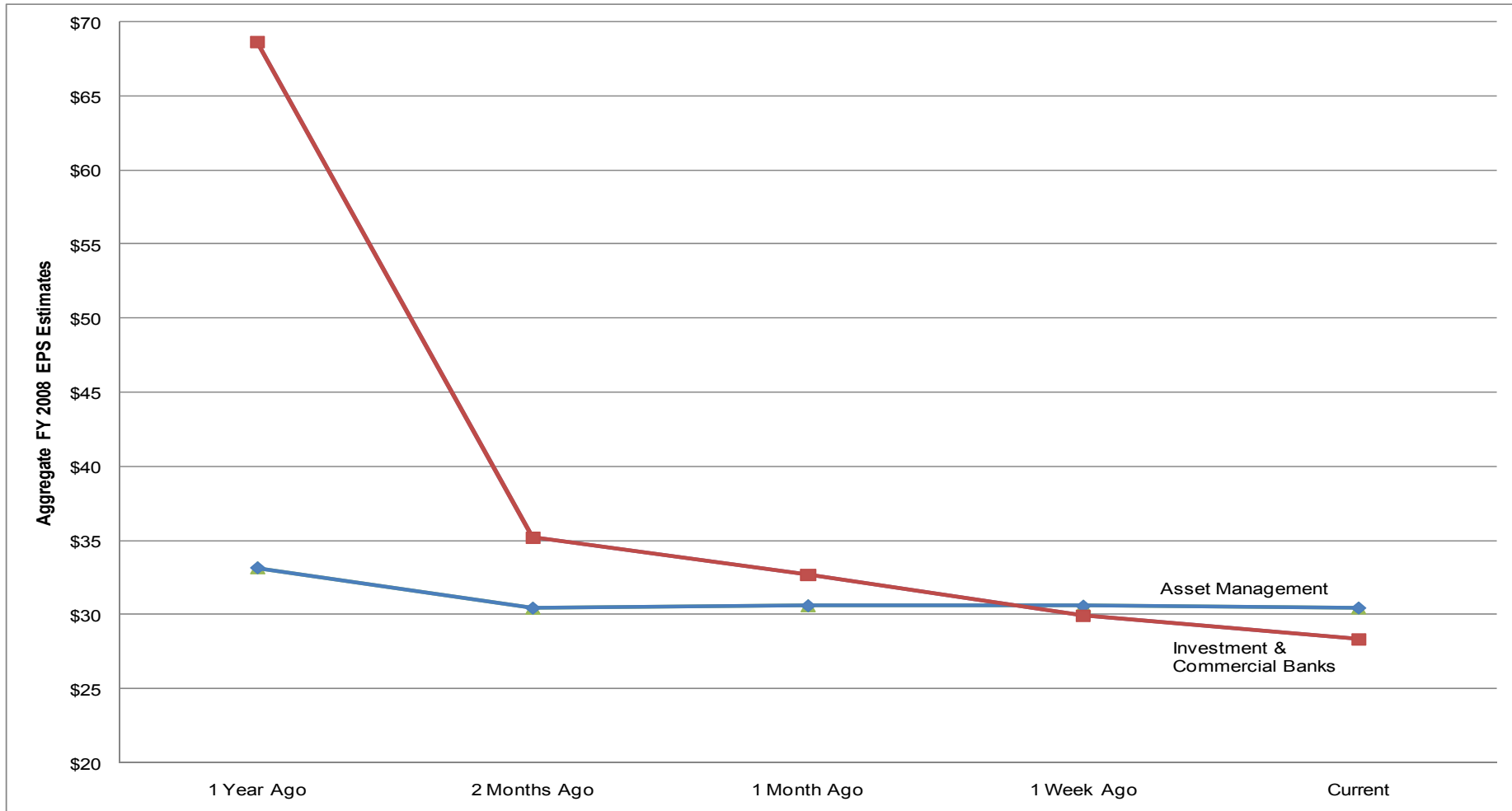
Notes:  
Ratios may be skewed high because of the incremental expense for retirement acceleration & SFAS 123R adoption  
Inclusive of writedowns



## Analyst Estimated EPS Trend

- Overlay of cyclical downturn on credit crisis resulting in lower expected 2008 EPS. With ten or eleven 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 8 investment and commercial banks and 8 asset management firms

**2008 EPS Estimate Trend**



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

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