# JOHNSON ASSOCIATES
# FINANCIAL SERVICES COMPENSATION
## First Quarter Trends and Year-End Projections 5/12/14

*After the first quarter, Johnson Associates projects mixed incentive compensation across financial services. For major investment & commercial banking firms, incentive compensation is projected to be flat. Incentive compensation for asset management is again projected to increase. Business mix and cost management, speed of economic recovery, and ongoing uncertainty in world markets continue to be key 2014 incentive drivers.*

- Full year outlook moderately positive across financial services
  - Economic recovery in the United States continues to be slow but positive
  - Ongoing global issues add uncertainty to world markets, and with larger impact for European firms
  - Significant cost cutting initiatives have resulted in improved earnings
- Asset management to have another strong year
  - Lag effect of AUM boosts incentives in 2014
  - Year-over-year increases in AUM on market appreciation and flows
  - Sales compensation plans in focus due to recent dissatisfaction with, or desire to review/recalibrate
  - Independent firms have a competitive advantage over major bank subsidiaries, with smaller deferrals and less regulations
  - Hedge funds results expected to vary, on increasing assets but mixed performance across strategies
  - Private equity results up on positive realization activity and fundraising
- Investment and commercial banking projected to be flat, recognizing disappointing fixed income and equities trading offset by positive results in other businesses
  - Variation in performance by firm and business area (firms with more retail and asset based businesses better)
  - M&A activity improving
  - Trading results mixed across products but expected to be flat to down
  - Retail and commercial banking flat to up slightly, on modest deposits and loan growth offset by lower mortgage banking activity
- Hiring improves moderately
  - Non-competes/non-solicits in focus; becoming more prevalent across financial services businesses
  - Emphasis on experienced compliance and risk professionals
  - Big banks no longer top payers; asset management and alternatives provide similar/higher compensation opportunities

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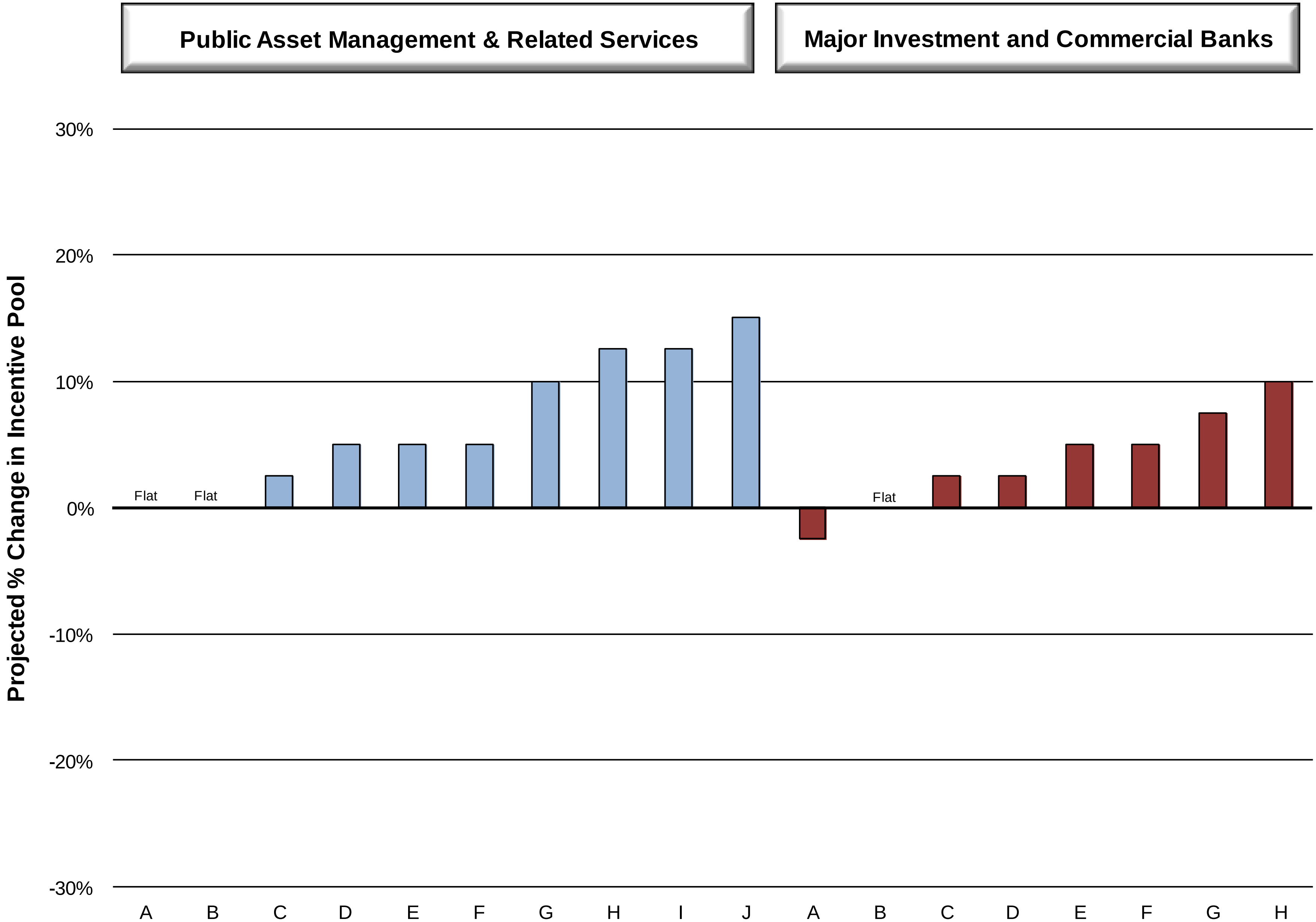
# Projected 2014 Wall Street Incentive Funding

- *Headcount-adjusted basis*

| Business/Area | | % Change from 2013 | Explanation |
|---|---|---|---|
| Senior Firm Management (Excluding Proxy Executives) (Investment & Commercial Banks) | | -10% to +5% | • Generally moves in line with entire firm, with variation by business |
| Staff Positions (Investment & Commercial Banks) | | 0% | • Moves in line with entire firm, with an increasingly conservative bias due to focus on controlling costs |
| Investment Banking (Investment & Commercial Banks) | Advisory<br>Underwriting | +5% to +15%<br>0% to +10% | • Industry-wide M&A activity improving<br>• Underwriting results mixed but generally projected to be positive |
| Equities (excl Prime Brokerage) (Investment and Commercial Banks) | | -10% to 0% | • Mixed results across products |
| Fixed-Income (Investment and Commercial Banks) | | -15% to 0% | • Variation due to breadth of products<br>• Challenging market environment and lower volumes continue |
| Prime Brokerage | | +5% to +10% | • Solid results with growth in client balances |
| Asset Management (Independent and Captive) | | +5% to +10% | • Increased AUM on flows and market appreciation<br>• Lag effect of AUM boosts incentives |
| High Net Worth | | +5% to +10% | • Assets generally more stable<br>• Increasing fee based assets and positive flows |
| Hedge Funds (Independent and Captive) | | -5% to +10%* | • Increasing assets under management but mixed performance across strategies |
| Private Equity (Independent and Captive) | | +5% to +15%* | • Solid realization activity<br>• Improved fundraising but fee pressure continues |
| Commercial Banking | | 0% to +5% | • Credit trends continue to be favorable; strong commercial loan growth |
| Retail Banking | | 0% to +5% | • Credit trends continue to be favorable<br>• Modest deposit and loan growth, impacted by declining mortgage banking activity |

* Applies to incentive and equity, excluding carry

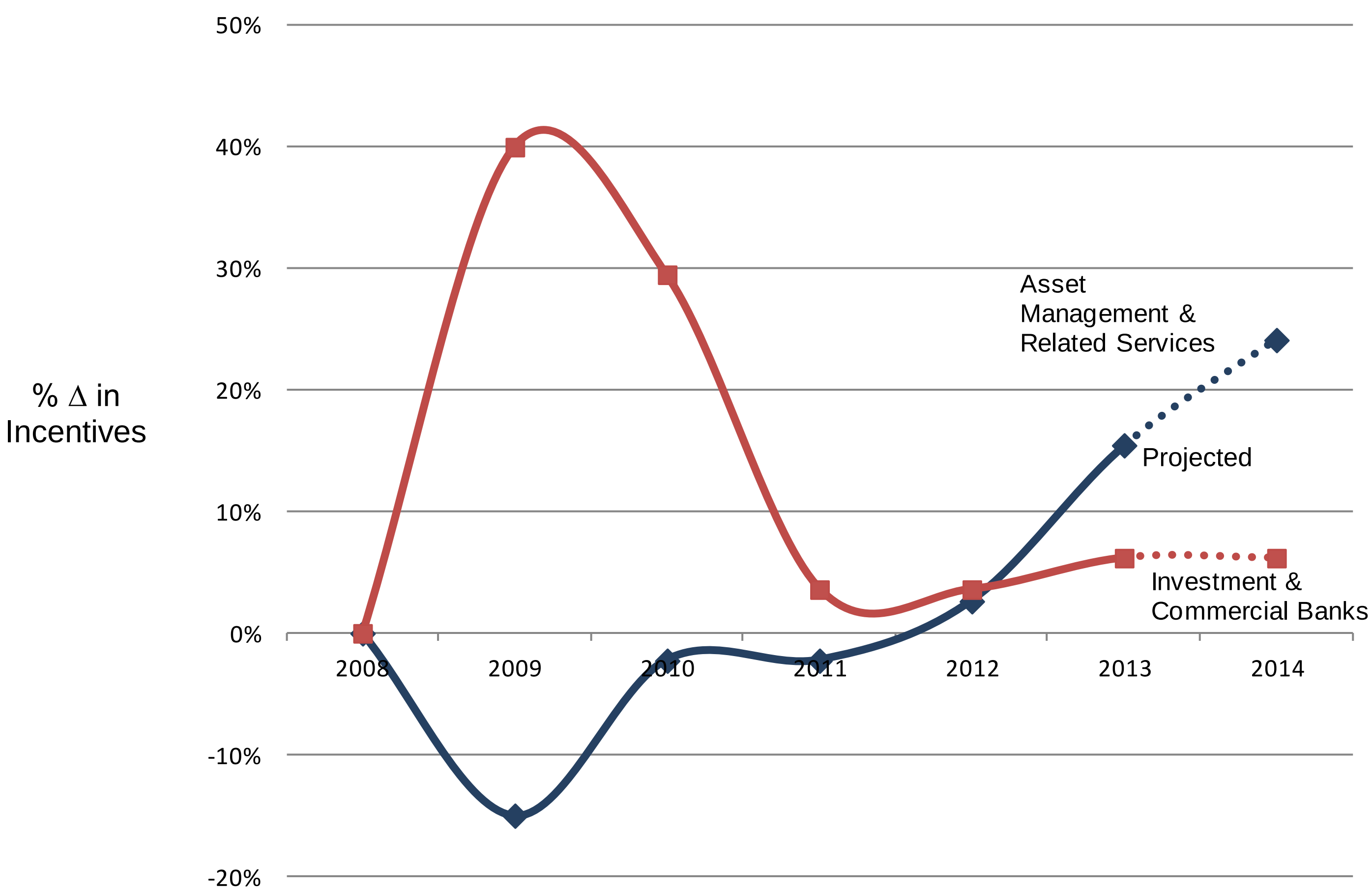
# Projected % Change in Year-End Incentive Pool*




*3 months actual data with projection for remainder of year

## Incentive Trend and Ramifications

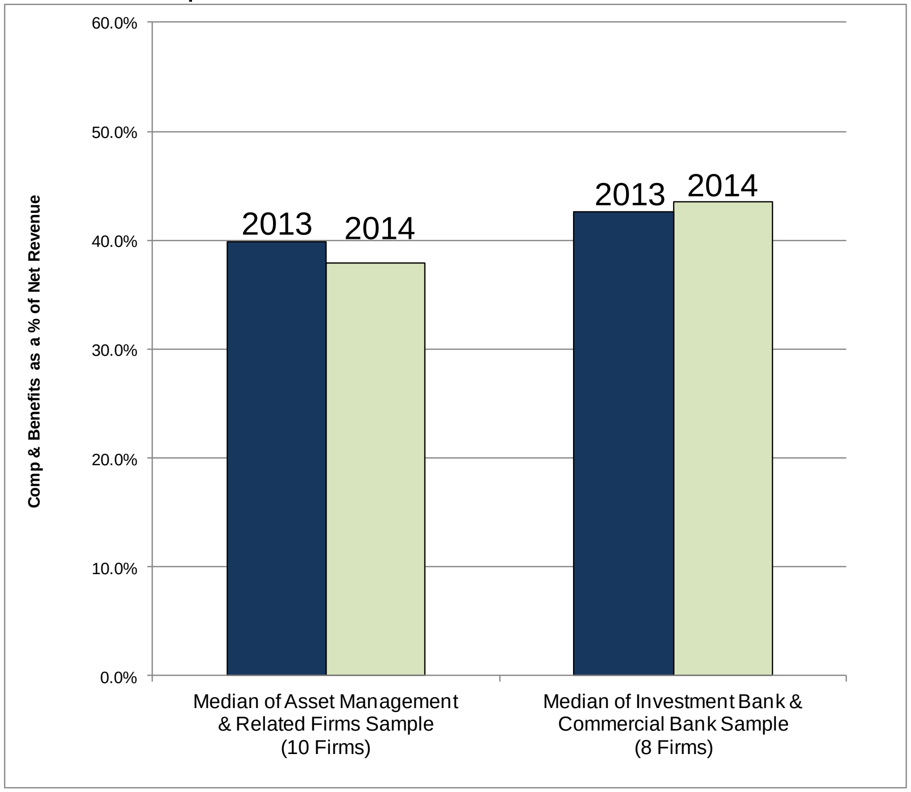
- Incentives generally expected to continue on a moderately positive trajectory across financial services
- Slow growth in pay at investment and commercial banks impacting morale; improving work environment and culture can help somewhat to counteract potentially lower compensation prospects for the future



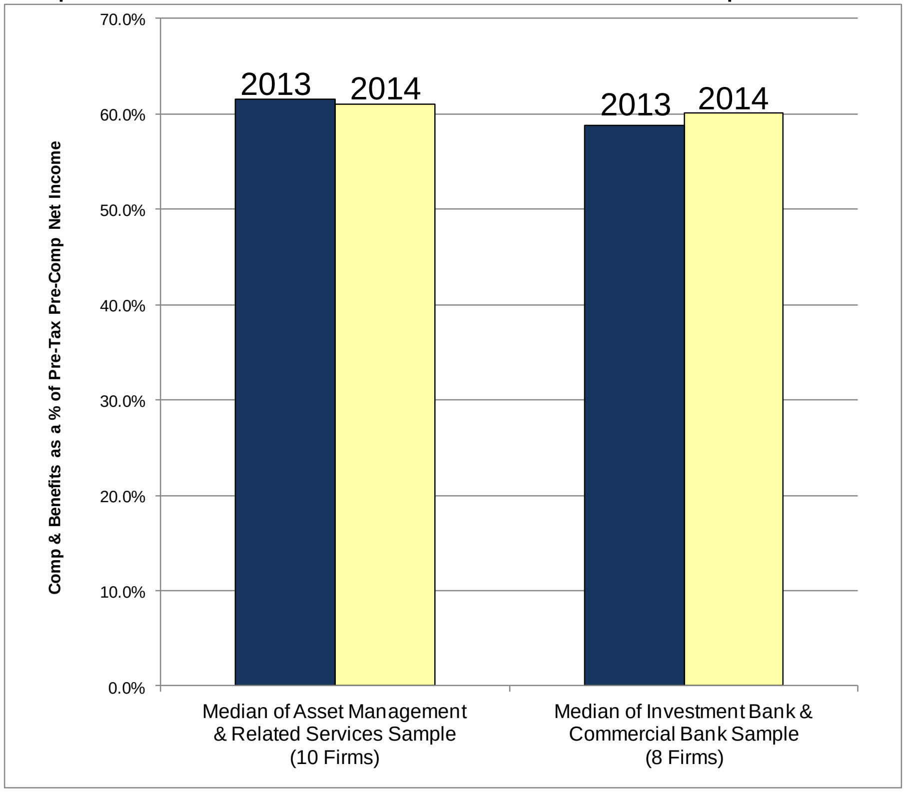
# Year-to-Date Compensation & Benefits Ratios

- 3M 2013 v. 3M 2014 results; year-over-year comparisons may be skewed by partial year compensation and financial results

Compensation & Benefits as % of Net Revenue




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

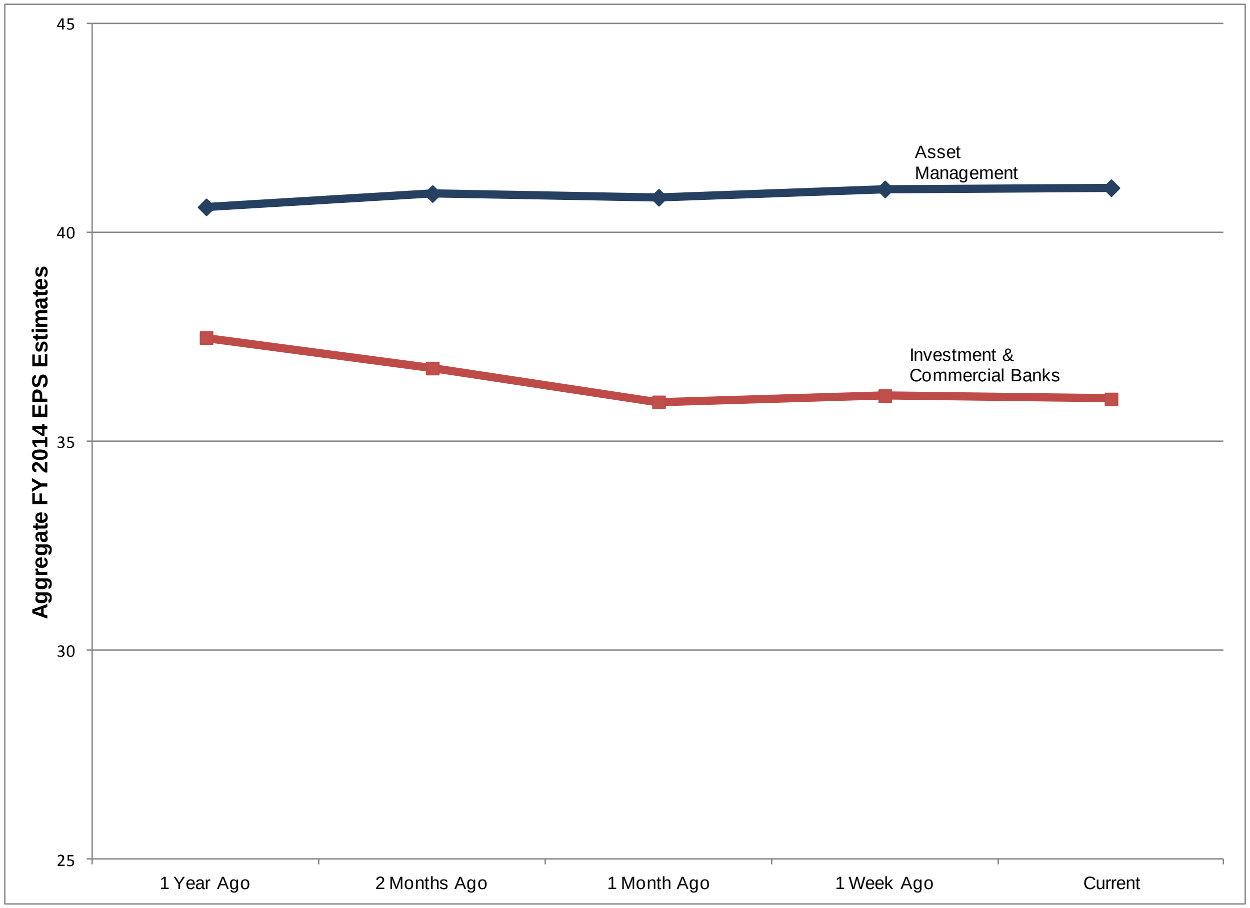



*Compensation ratios at investment and commercial banks are declining marginally, due to better results, continued efficiencies and cost cutting, shifting resources to developing countries, business mix, and pressure to manage ratios. Varying business mix and resulting ratios require a more nuanced, thoughtful approach to by firm comparisons*

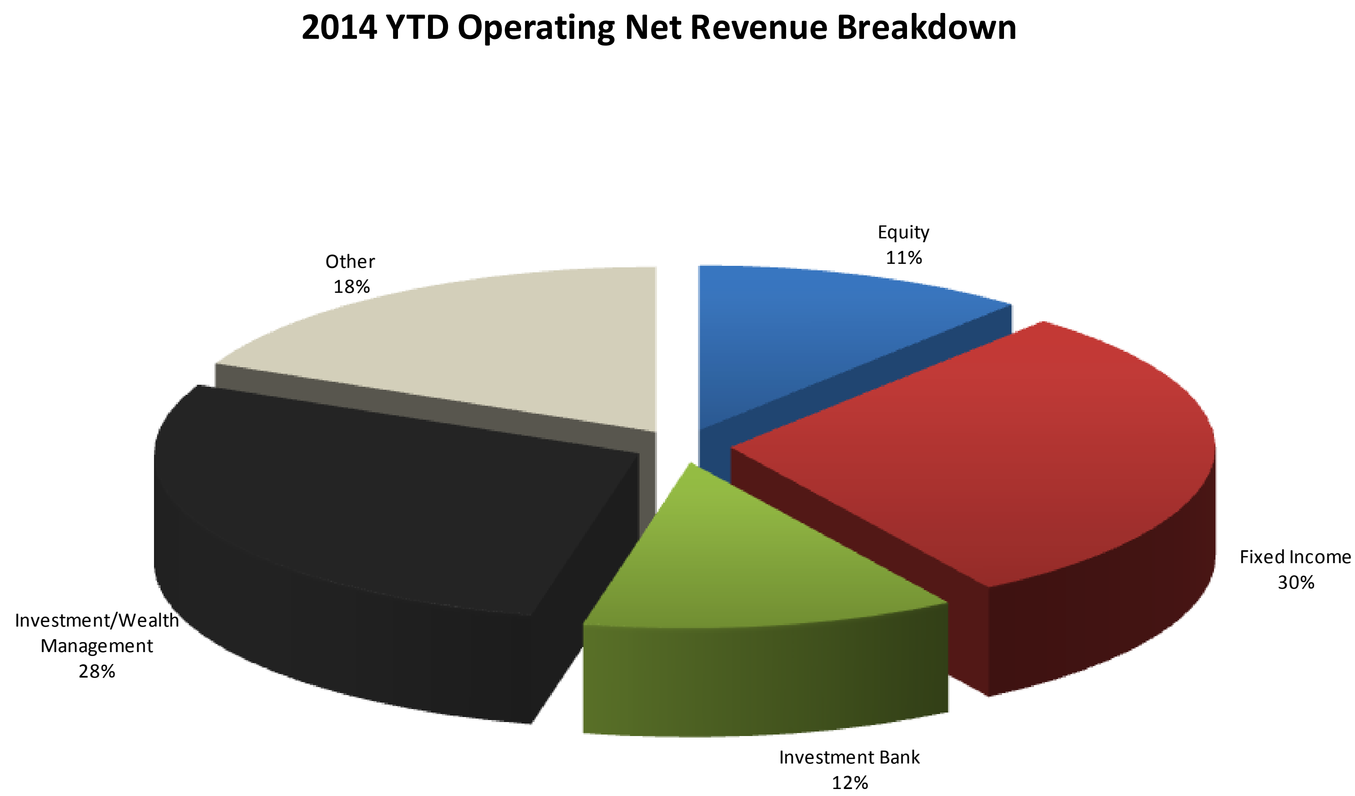
# Analyst Estimated EPS Trend

- With four months into the fiscal year, analyst outlook reflects a positive environment for asset management and a stable but challenging environment for investment and commercial banks
- Chart reflects a sample of 7 investment and commercial banks and 10 asset management and related services firms

***2014 EPS Estimate Trend***



# Year-to-Date Investment Bank Net Revenue Breakdown




**Data represents median of sample set*
*Other may include treasury and security services, lending, credit, etc.*