Letter from our Managing Partners

November 2007

To our clients and friends,

This document is the culmination of six months of work done by over 80 of our consultants and research professionals to help clients make 2007 compensation decisions and develop their human resource plans for 2008. Our Options Group Intelligence Unit (OGIU) has captured information about business performance, people moves, recruitment trends and compensation practices using our global database of 300,000 industry professionals, interviews with senior executives, and media sources.

With these data points, Options Group was able to make thorough assessments of expected compensation by product category, by region and by bank. Of course, since many firms haven't finalized their bonus pool plans and 2008 budgets, these estimates may be used by hiring managers and unit heads as a guide post to set bonuses up and down their company's organizational charts.

Options Group is committed to delivering value-added market intelligence and strategic consulting as well as executive search services. We believe our clients value firms who have rapid cycle times and can complete searches and market intelligence projects in weeks rather than months. This year's report, with over 150 pages, also includes new sections on fast-growing emerging markets around the world.

If any client or friend would like Options Group to expound on any particular subject in this report, please contact any of our managing partners listed in this report or visit www.optionsgroup.com. Please also feel free to provide us with any feedback – both positive and constructive – so we can make future compensation analysis reports even better.

Sincerely,

Managing Partners

Options Group

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Data Contributors: ABS Alert, Asiamoney, Bloomberg, Bond Week, The Boston Consulting Group, Business Week, Credit, Credit Suisse/Tremont Index, Dealogic, Derivatives Week, Euromoney, Financial News, Financial Times, Investment Dealers Digest, New York Times, PE Week, Risk, Securities and Exchange Commission filings, Securities Industry Association, The Wall Street Journal

About Options Group

Options Group is a leading global executive search and strategic consulting firm for the financial services industry. Over the past 15 years, the company has successfully carried out placements of mid- to senior-level personnel in all areas of the financial services industry for a range of global institutions. With over 100 consultants and market intelligence professionals worldwide, Options Group has a handle on key competencies in the financial field and is at the cutting edge of global hiring and compensation trends in capital markets, derivatives, equities, hedge funds, investment banking and technology. Options Group has placed thousands of professionals across five continents since 2000 and has ten offices globally. For additional information, please contact Eric Moskowitz, Head of our Compensation Consulting practice, at (212) 982-8405 or visit www.optionsgroup.com.

WE BELIEVE IN PARTNERING WITH OUR CLIENTS IN A HIGHLY PROACTIVE AND CONSULTATIVE MANNER TO PROVIDE CREATIVE SOLUTIONS TO HUMAN CAPITAL AND STRATEGIC INITIATIVES. OUR GOAL IS TO FACILITATE OUR CLIENT'S GROWTH, ENHANCE THEIR VALUE, AND FUEL OPPORTUNITIES FOR CONTINUED SUCCESS.

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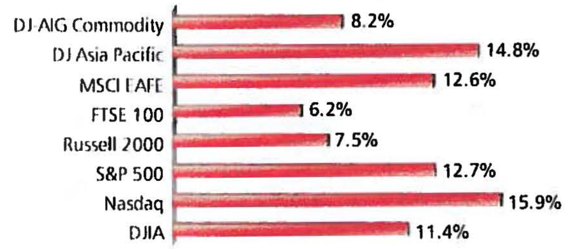
Global Markets Overview

Global Markets

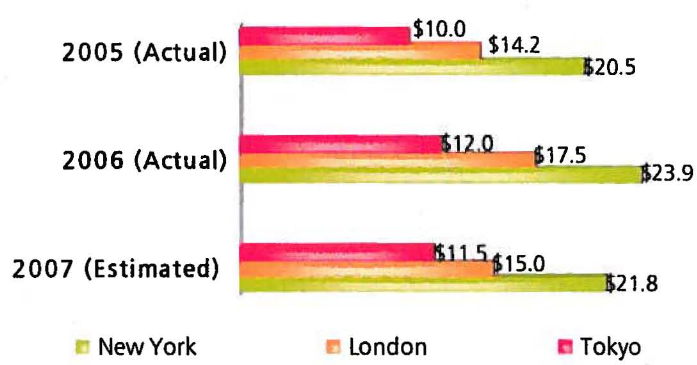
If it were up to structured credit and quantitative hedge fund professionals, their fiscal year would have ended in June. Bonuses would have been even better than in 2006 based on their first-half performance if that were the case. Net income at Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch and Morgan Stanley hit $18 billion in the first half of 2007, on pace to eclipse full-year profits of $30 billion for 2006. Instead, a steep second-half revenue drop-off will lead to not only significantly lower bonuses for these professionals, but a possible pink slip as well. Ironically, sell-side banking analysts may end up receiving the best bonuses on a percentage basis versus last year. After all, their July payouts did not reflect what has become a very uncertain time for the global investment banks.

MAJOR STOCK INDEXES*



* Data through 10/18/07

BONUS EXPECTATIONS IN THE TOP 3 MONEY CENTERS ($BN)



Source: NY State Comptroller's Office, Centre for Economics and Business Research. OGIU estimated Tokyo data

The closing credit window at banks is a very real threat to this robust bull market. The trickle-down effect continues to be vast and far-reaching, with no end in sight. "The fixed income markets have been as bad as I've seen in them in the last 22 years," said Sam Molinaro, CFO of Bear Stearns, shortly before the firm asked for the resignation of longtime No. 2 COO and President Warren Spector. Spreads have widened in all credit sectors. Market concerns about hedge fund exposure, MBS losses, residual mark-to-model risk, CDO exposure, LBO loan commitments and performance declines in sponsored alternative funds caused the credit default spreads on the major brokerage firms to gap out ominously.

Some of the street's biggest profit engines - leveraged finance, M&A and structured credit – are grinding to a halt, which will crimp bonuses in every product category. Bonuses will be hit by all this turbulence and quantitative hedge fund managers will see large drops in bonuses across the board. The wildcard may end up being proprietary trading. If a particular firm succeeds with its proprietary bets in the year's second half, it could mitigate profit declines from other business segments – just look at Goldman Sachs' third quarter. Hedge funds will also post wildly divergent returns this year.

"Moving (or bid-ask) premiums" for top financial services professionals that were 30 to 40% in early 2007 will likely be shaved to 15 to 20% in the second half of 2007 and into 2008, say clients polled by OGIU. Lower bonuses, especially at banks hardest hit by the credit crunch, will "put a lot of top salespeople and traders in play" in early 2008, says one client. Since 2007 is turning into a year much like 1998, senior management may be inclined to siphon bonuses away from top performers to under-performing desks as a retention measure. Managing expectations will also be important due to tremendous variance in bonuses from bank to bank and from desk to desk.

The mortgage, CDO and ABS markets, which generated over $30 billion for brokerage firms from 2000 to 2006, will significantly be down this year and bonuses will decrease. Global commercial banks' fixed income desks will reportedly receive 30% declines in bonus payouts this year. And even though the losses were at isolated desks, the incredible size of them ($30 billion at Merrill Lynch and Citigroup alone) will impact bonus pools in fixed income, equities and investment banking. Re-set expectations may not temper turnover rates in early 2008 however. Payouts will ultimately depend on the particular hedge fund, bank, group, prop desk, division, etc. one works for and the status of that particular platform to determine how someone will get paid.

As of mid-November, two global investment banks are without a CEO and board's have taken control of day-to-day operations. This will impact growth and most firms are at risk of losing talent to their competitors.

Compensation Trends to Watch

- Options Group believes that it is important to put these projections in a long-term context. A small drop in bonuses is still a lot of money for most mid- to senior-level global financial markets professionals and very near all-time record levels. "Trust me, everyone from bankers to traders to hedge fund portfolio managers will be ecstatic to take home bonuses anywhere near those from last year," says one senior prop desk head.
- U.S. banks, already reeling from billion-dollar-plus write-downs, also have a currency exchange issue. The weakening dollar means bonus payouts in EMEA and Asia-Pacific (as well as Canada) are significantly more expensive than last year. This compensation issue also impacts bank's Compensation and Benefits as a percentage of net revenue. (See Page 7 Chart)
- Merrill Lynch's Compensation and Benefits as a percentage of net revenue through three quarters this year was an industry-high 58% - flat versus 2006 - followed by Lehman Brothers (49.3%) and Bear Stearns, which pushed its compensation up slightly year-over-year to 49% for 2007. Goldman Sachs, Morgan Stanley and Credit Suisse managed to lower their Compensation and Benefits, both on a revenue and pre-comp net income percentage basis, through three quarters. Firms will be forced to lower payouts further to keep these closely-watched percentages consistent.

Bonus Increase/(Decrease) by Category

Category	2007 (%)	2006 (%)	2005 (%)
Regions			
Americas	(10-15)	10-15	15-20
Europe	(5-10)	15-20	20
Asia	0-5	20	20-25
Fixed Income	(15-20)	10	10
Commodities	15-20	15	30
Credit Derivatives	(15-20)	10-15	0-5
Emerging Market Debt	10-15	5-10	20
Fixed Income Proprietary Trading	5	0-5	0-5
FX	(0-5)	0-5	15
High Yield Credit	0-5	5-10	(10)
Interest Rates	5-10	0-5	5-10
Investment Grade Credit	10-15	0-5	5-10
MBS	(30-35)	0-5	0-5
Municipal Derivatives	(0-5)	5-10	5-10
Structured Credit	(20-25)	15-20	15-20
Structured Finance	(15-25)	15	10-20
Equities	10	20	20
Alternative Investments/Hedge Funds	(5-10)	10-15	10-15
Asset Management	10-15	10-15	10-15
Convertible Bonds	10-15	5-10	(10-15)
Equity Cash	15	15-20	10
Equity Derivatives	10-15	20-25	0-5
Equity Proprietary Trading	5	15-20	20
Prime Brokerage	10-15	20-25	20-25
Structured Tax	(20-25)	15-20	5-10
Quantitative Research	(10)	15	5-10
Information Technology	(5)	15	0-5
Investment Banking	10	20-25	20-25
Private Equity/VC	10	15-20	10-15
TOTAL	(5-10)	15-20	20

Compensation Outlook

Hiring managers will have to raise the stock component significantly on 2007 bonuses as a way to retain staff and motivate top performers not to migrate to other firms. UBS is reportedly capping cash compensation at $750,000 this year so even if a professional earns $5 million, he/she only gets 15% of it in cash. Other under-performing banks are expected to follow suit.

This could lead to more, and not less, turnover at banks if out-performers believe they were not paid accordingly. "This could very well be the first time in a decade where there is seismic changes at fixed income desks on Wall Street," says one European-based credit trader. "They have lost a good bit of their invulnerability."

As of September, investment banks were postponing decisions about next year's budgets, as they struggle to value this summer's losses and face uncertainty about the markets. Normally, budgets for the next year's headcount and the size of the current year's bonus pool are determined in the September/October timeframe at most U.S. and European banks. Some banks have already reported losses this summer but the full extent will not be known for several weeks. OGIU real-time surveys will continue after the publication of this report and will be available for clients on a customized basis.

	Period	Comp. & Benefits ($BN)	1st 3 Qtrs 2007 Vs. 1st 3 Qtrs 2006
Bear Stearns	Full-Year 2006	4.34	down 6%
	2007 (thru 3Q)	3.10	
Goldman Sachs	Full-Year 2006	16.50	up 21%
	2007 (thru 3Q)	16.90	
Lehman Brothers	Full-Year 2006	8.70	up 14%
	2007 (thru 3Q)	7.33	
Merrill Lynch	Full-Year 2006	17.00	down 22%
	2007 (thru 3Q)	10.60	
Morgan Stanley	Full-Year 2006	14.40	up 25%
	2007 (thru 3Q)	13.37	
citigroup	Full-Year 2006	30.10	up 13%
	2007 (thru 3Q)	25.30	
JPMorganChase	Full-Year 2006	8.19	up 2%
	2007 (thru 3Q)	6.40	

For the first nine months of this fiscal year, Lehman's compensation and benefits expenses rose 14% to $7.33 billion versus the same time period last year. Morgan Stanley's compensation expense is up 25% to $13.37 billion, and Goldman Sachs' is up 21% to $16.91 billion. However, Bear Stearns' compensation and benefits expenses are down 6%, at about $3.1 billion. The expense line also can include base salaries, benefits including health care and severance pay. In fiscal 2006, Lehman set aside about $8.7 billion for compensation and benefits, while Morgan Stanley set aside about $14.4 billion, Goldman had about $16.5 billion and Bear Stearns had about $4.34 billion. Note that increased headcount at all these banks means there is less bonus pay to go around.

Options Group also broke down bonus expectations for the top 3 money centers, New York, London and Tokyo (in no particular order). In London, bonuses rose 18% in 2006 over 2005 to £8.8 billion ($17.5 billion). In Tokyo, bonuses rose 20% to around $12 billion in 2006 (See Page 4 Chart). In New York, bonuses last year rose around 17% to $23.9 billion, up from $20.5 billion in 2005.

The average Wall Street bonus in 2006 was $137,580, according to the New York state comptroller's office, up 15.2% from $119,390 in 2005. (Options Group predicted in Nov. 2006 bonuses in the Americas would rise 10 to 15%, with New York bonuses topping out at 15% on average; EMEA, 15 to 20%; and Asia Pacific, 20%.)

For the 2007/8 bonus season, expectations are in the red: New York estimates are down 10 to 15% versus last year; London's Centre for Economics and Business Research predicts a 15% drop in bonuses in the City to £7.5 billion. Asia-Pacific is the only region that will be flat to up 5%, according to OGIU surveys.

The professionals who are best situated this year are those with guaranteed contracts. "The people in fixed income at ABN AMRO are enjoying those guarantees the most right now," says David Korn, a London-based Managing Partner at Options Group. Banks that paid guarantees for placements earlier in the year are now unsure of how to pay people out at year's end. The unforeseen events in the fixed income and debt capital markets were not taken into consideration when bonuses and guarantees were paid out in early 2007, thus it is going to be quite difficult to establish what bonuses will be this year.

Top Ten Trends for 2008

1. "Moving (or bid-ask) premiums" for top financial services talent that were 30 to 40% in early 2007 will likely be shaved to 15 to 20% in the second half of 2007 and into 2008, say clients polled by the Options Group Intelligence Unit. Lower bonuses, especially at banks hardest hit by the credit crunch, will "put a lot of top salespeople and traders in play" in early 2008, says one client.

2. Globalization of financial markets will accelerate away from the U.S. and towards the rest of world. Foreign currency appreciation against the dollar will allow European and Asian banks to lower percentage increases on bonuses, while U.S. firms will need to pay more internationally to their staff. Emerging market countries and funds will buy companies versus U.S. treasuries.

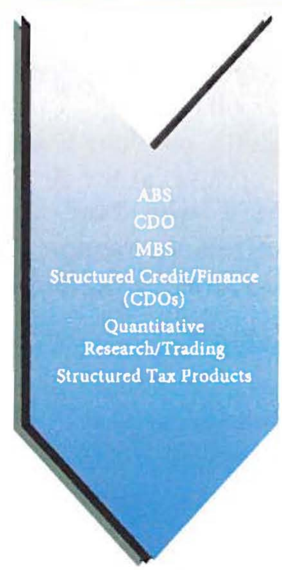
3. Asia-Pacific (ex-Japan) will continue to be the region to watch as Hong Kong, Shanghai, Beijing, Singapore and Sydney all are experiencing rapid growth in trading, private equity, asset management and hedge fund activity. Guaranteed pay at many banks will become more prevalent. (See page 13 for more details)

4. Mortgage, ABS and CDO salespeople and originators could see bonuses down as much as 20 to 40% this year as business completely dried up in July and August. As many as 1/3 of salespeople and originators may be laid off if business does not pick up by the end of 2007. Credit desk traders will still be valuable to banks for they will be the ones needed to re-position the firm's risk in these areas. (See page 73 for more details)

5. Risk managers are in particular demand at hedge funds and bank prop desks and are receiving 30% pay bumps and equity participation (for CROs) to change firms. (See page 87 for more details)

WHAT'S HOT

WHAT'S NOT



6. Commodities will be key profit driver for fixed income desks globally: Banks in the second half of 2007 increased their hiring of commodity traders due to the rapid rise in the price of oil, copper and other raw materials that has been spurred by economic expansion in Emerging Markets and Asian countries. (See page 46 for more details)

7. Distressed investing and trading will finally emerge as a major investment vehicle for the global investment banks and hedge funds in 2008. Billions continue to pour into hedge funds worldwide, even though returns (See page 86 for performance data) continue to disappoint.

8. Investment banking outlook weakens as first half 2008 M&A will not match record performance in first half of this year. Distressed debt, restructuring and technology M&A will become larger revenue streams for global investment banks in 2008. (See page 120 for more details)

9. In Equities, banks may have to re-state their convertible bond earnings related to net share settlements and that could put a drain on the market in 2008 (See page 97 for more details. Equity desk performance (cash, derivatives, prop) will determine to a large extent how profitable banks will be in 2008.

10. Top performers verbally promised (notably prime brokerage salespeople) robust bonuses in mid-year may likely seek employment elsewhere in 2008 as lower banking profits make it very difficult to pay these professionals what they were initially promised.

Americas

The final impact of the U.S.-led credit crunch will be hard to quantify, but there is no question it will have a very real impact on the financial markets in the Americas. Spreads have widened in all credit sectors and market concerns about hedge fund exposure, MBS and CDO losses and LBO loan commitments all weigh heavily on the New York-based brokerage firms.

The good news is that these banks — with the notable exception of Bear Stearns — have global exposure, receiving around half of their earnings from outside the U.S. Latin American divisions of global banks and domestic firms in Brazil are growing profits and personnel in debt, equities and investment banking. Canadian firms like Toronto Dominion and Royal Bank of Canada are performing exceptionally well through the third quarter and are building teams in New York and Toronto in equities and proprietary trading.

Even U.S. banks should post fair to robust 2007 full-year earnings after a record first-half, which should boost their depressed stock prices. The average price-to-book ratio for the five largest Wall Street firms – Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman Brothers and Bear Stearns — dropped to about 1.6 from 2.1 in one month between July and August. Long-term municipal issuance and corporate credit issuance posted first half records, according to a recent report by The Securities Industry and Financial Markets Association (SIFMA). Municipal bond issuance is on pace to break the $408.2 billion record set in 2005, with total long-term municipal securities issuance totaling $229.4 billion in the first half of 2007. This represents a record for a first half and is 28.8% higher than the $178.1 billion issued in the first half of 2006. Issuance of new securities in the U.S. capital markets rose to $3.57 trillion in the first half of 2007, a 10.4% increase over the first half of 2006.

PRE-TAX PROFITS FOR NYSE AND NASD LISTED COMPANIES

Source: SIFMA.

Last year, the association said Wall Street earnings would tumble 23% in 2007 after reaching $33.1 billion in 2006. This year, earnings were on pace to equal 2006 through the first half (see chart), but a poor third quarter will lower full-year profits for NYSE-listed companies tracked by the SIFMA as they predicted. The profit downturn was led by a decline in structured credit and structured finance activity. ABS issuance declined on weakness in the lower quality credit mortgage sectors, and global CDO issuance in the first half of the year increased on a year-over-year basis but declined in the second quarter due to the downturn in the sub-prime mortgage market and the onset of reduced credit market liquidity, according to SIFMA. Big private equity deals are being shelved (Harman Intl., Sallie Mae), further back-loading smaller transactions, hurting both banks and investment firms. Leveraged finance ranks may very well be cut by year's end.

The close-knit quantitative hedge fund in the New York and Connecticut community further exacerbated matters. The managers of these funds are the products of the trading desks of the big investment banks, which also were hit because many quantitative funds were using the same statistical arbitrage strategies.

The close of the second quarter marked the first time in the history of equity underwriting that there has been three straight quarters with over $60 billion raised. The second quarter total reached $69.4 billion on 250 deals, and the dollar volume was higher by 8.5% on a linked-quarter basis. Equity markets benefited from changing credit market conditions, and volatility indexes came to life and seem to be maintaining increased interest from investors.

Compensation Outlook

Although Options Group often talks about an emerging markets-led capital markets boom, just four areas account for more than 80% of the world's financial stock assets: the U.S., the Euro Zone, Japan, and the United Kingdom, according to McKinsey & Co. The U.S. market, with $44 trillion in financial assets, accounts for 37% of the world's financial stock and is dominated by private debt and equity.

In New York, bonuses last year rose around 17% to $23.9 billion, up from $20.5 billion in 2005. The average Wall Street bonus in 2006 was $137,580, according to the New York state comptroller's office, up 15.2% from $119,390 in 2005. (Options Group predicted last year 2006 bonuses in the Americas would rise 10 to 15%, with New York bonuses topping out at 15% on average; EMEA, 15 to 20%; and Asia Pacific, 20%.)

For the 2007/8 bonus season, expectations are in the red. Overall, bonuses should be 10 to 15% lower than last year on average among global investment banks as Canada and Latin America should boost flagging New York compensation. Equity-related professionals will fare better than their credit counterparts. It is important to put these projections in a long-term context. Even a small drop in bonuses is still a big payday for most mid- to senior-level global financial markets professionals and very near all-time record levels.

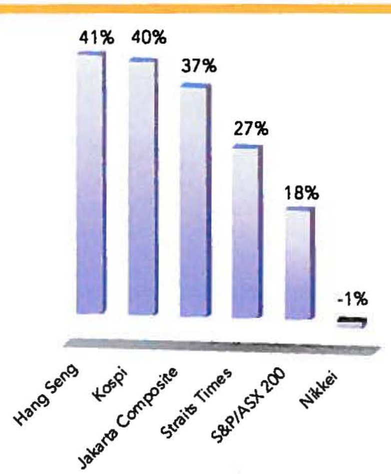
Asia Pacific

"The best bid in the executive search business is Asia."

Translation: If a financial services professional wants to receive the biggest pay increase on a percentage basis, he/she should head to Asia (ex-Japan). The markets there were relatively unscathed by the credit meltdown in the U.S. and Europe and are experiencing strong growth in multiple markets and products. (The biggest culprit was the Bank of China, which said it had $9.7 billion of securities backed by American sub-prime loans.)

Hong Kong, Shanghai, Beijing, Singapore, Tokyo and Sydney all are experiencing rapid growth in trading, private equity, asset management, capital markets and hedge fund activity. Guaranteed pay at many banks has become prevalent. For example, ABN Amro began guaranteeing 2007 bonuses to Asian staffers to prevent significant departures in the midst of a bidding war for the Dutch bank giant.

ASIAN STOCK MARKET OUT-PERFORMANCE



* Source: Reuters.

Banks are short of good staff all over the world but Asia is the hottest place by far. "28-year-olds are coming into my office telling me that they are resigning because they have been offered a $1 million job," one Asian capital markets executive told the Financial Times back in May. "All this wage inflation means that there are too many potential employers chasing too few people."

The struggle to hire qualified staff is most severe in financial services, a sector whose fortunes are closely correlated with the level of growth. Demand for consumer banking in India and China is soaring and investment banks are adding personnel to service the region's emerging acquisitive corporations. In addition, private equity firms and hedge funds have mushroomed over the past year, pinching numerous top investment bankers along the way. Wage inflation is running up so fast that a locally-born general manager for a multinational can earn 20% more than a counterpart in the U.S. with only 75% of the skill-set, according to OGIU surveys.

With the institutional business becoming more highly commoditized and competitive, firms are looking to tap into the pool of emerging wealth in Asia. Demographics, healthy savings rates, a supportive regulatory environment and a reasonably benign macro economic context are offering huge potential.

There is plenty of money around and investors, whether retail, high net worth or institutional, are proving highly receptive to new products and strategies. A China fund launched in the morning by Sywg BNP Asset Management had raised $870 million by lunchtime. "The excitement is real, and the pace is very rapid," Andrew Tong, president of Sywg BNP Asset Management in Shanghai, told Globalinvestor.com.

While the demand for fixed income professionals remains strong there is a feeling among many in the region that it is going to be harder to generate the same level of returns in the local rates markets. As the market has matured, the profit margin has started to shrink as competitiveness has increased.

Banks are seeking profits in principal investments across multiple asset classes. With less debt on their books than in past years, Japanese and Chinese banks are showing much more willingness to use their firm's own balance sheet to finance transactions and make opportunistic investments. OGIU surveys also are seeing a spike in demand for distressed asset experts, people that can identify distressed and undervalued assets, repackage and/or sell them off.

Structured equity and credit businesses in particular remain very active, although there was a fall-off from June thru August as can be expected. Investment banking professionals, private banking/relationship managers, and hedge fund and private equity experts also are in high demand. China banks, especially in Hong Kong, are particularly seeking 3-5 year associates in the alternative investments field with investment analysis or portfolio management experience. MBA's are preferred, but other keys include a general knowledge of hedge fund products and strategies in the Asian markets.

Asian hedge funds generally did not perform well during the summer-long credit crunch however. Many managers who had made bullish market bets suffered substantial losses, their woes compounded by the fact that so many followed the same investment strategy. In many cases, according to Options Group surveys, managers implemented long-only stock strategies. One local expert, Peter Douglas at GFIA Pte Ltd., a Singapore-based hedge fund consultancy, said there might be a number of redemption calls in the next 6 to 12 months. Keep in mind that many Japanese-based hedge funds under-performed last year as well. The trend of hedge funds setting up shop in Singapore rather than Hong Kong to manage growing business interests in the Asia-Pacific region gained further momentum with an announcement by Gems Advisors Ltd. that it had opened its own Singapore office.

Compensation Outlook

Although Options Group often talks about an emerging markets-led capital markets boom, just four areas account for more than 80% of the world's financial stock assets: the U.S., the Euro zone, Japan, and the United Kingdom, according to McKinsey & Co. In Tokyo, bonuses rose 20% to around $12 billion in 2006 last year and OGIU surveys indicate compensation will be flat to up 5% on average in the 2007/8 bonus season in the Asia-Pacific region this year.

(Options Group predicted 2006 bonuses in the Americas would rise 10 to 15%, with New York bonuses topping out at 15% on average; EMEA, 15 to 20%; and Asia Pacific, 20%.) Options Group notes it is important to put these projections in a long-term context. Even a small drop in bonuses is still a big payday for most mid- to senior-level global financial markets professionals and equivalent to record levels.

Australia

The Australian market has experienced a huge increase in hiring activity from 2006 across the board due to the following reasons:

- New and growing participants in the local market: Firms like Lehman Brothers, West LB, Mizuho, RBS, Morgan Stanley, Merrill Lynch, Colonial First State and Alliance Bernstein are making Australia one of Asia-Pacific's most active recruiting markets. Global investment banks are hiring mid-market professionals who in turn are laterally hiring lawyers or accountants.

- Australian talent continues to migrate to Asia (Tokyo, Hong Kong, Singapore and other emerging markets), further draining local talent levels. This trend has led to a 25% increase in attrition rates from 2006, according to OGIU surveys. The ratio between expatriation and repatriation (due to the more lucrative nature of the off-shore market) would be 80:20, in favor of expatriation.

- In just one example, Mark Warburton, the former head of equity syndication for Macquarie Sydney, relocated to Asia to lead the ECM business, reporting to Andrew Low, Macquarie's head of corporate finance. "Our business continues to grow at a very strong pace with more than 100 new hires in the last six months," said Low in August. UBS' head of equity finance, David Grey, was moved to Hong Kong from Sydney to cover the Asia-Pacific markets in March.

Financial Markets

PUBLIC DOMESTIC NON-GOVERNMENT BONDS (2007)

BOOKRUNNER	VOLUME (A$MM)	DEALS
Commonwealth Bank of Australia	4,754	20
Westpac Institutional Bank	4,179	15
ANZ	3,192	15
nabCapital	2,976	12
Deutsche Bank	2,899	4
ABN Amro	2,720	8
Citigroup	2,655	7
RBC Capital Markets	2,550	10
TD Securities	1,042	7
JPMorgan	716	2

Source: Insto magazine, Year-to-Date, thru 9/15/07).

The Fixed Income markets continue to be led by institutional investors, driven by an increase in hedge fund and alternatives coverage. FX salespeople to local and off-shore hedge funds can expect compensation 15% higher than last year on average. Corporate coverage in FX and Flow sales, however, are relatively dormant, meaning 2007 comp levels will be on par with 2006.

Structured Credit sales professionals, hurt by the global credit crunch, will see a 15 to 20% cut in bonuses versus last year. Interest rates pros, however, should receive 15 to 20% increases in a busy market due to strong structured rates and liability management activity. Commodity salespeople, especially those in soft commodities (e.g. Agriculture) will benefit with 15 to 20% jumps in bonus pay thanks to a very lean job market for experienced professionals.

On the trading side, credit traders should receive a correction on what would otherwise have been a lucrative year as a consequence of the credit crunch. P/L's for most trading books are flat to down and this will impact bonus payouts.

In commodities, softs trading will lead the way in percentage increases this year, led by local bank build-outs in this area. Prop traders also will get paid well for 2007 due to the number of new entrants in the market and the demand for experienced talent. Successful prop traders are highly valued and can receive percentage payouts of P&L as high as 17 to 20%.

Investment Banking

Investment banking, as well as ECM/DCM, has been extremely competitive over the last 24 months as local and global banks compete for market share. Banks in expansion mode are taking advantage of high turnover rates to cherry pick talent from less-aggressive firms that are losing talent. The relative lack of ECM and DCM teams means that these professionals should receive 25% increases in bonus pay this year. Analysts and associates are receiving offers anywhere from 50% to 100% higher to join competing banks. Vice president and managing directors are often receiving robust guarantees to leave, and banks are then forced to counter-offer with large package increases just to keep them. James Houstone, a Director in the Debt Capital Markets, left Nomura for RBS Sydney in February. Team movement was especially prevalent in 2007, especially as newer entrants greatly increase headcounts in investment banking. Middle-market advisory firms are forced to offer 50%-plus compensation increases to woe associates and vice presidents otherwise they will lose experienced talent. CIBC's Alan Murray, for example, left CIBC Sydney for Merrill Lynch in

AUSTRALIA M&A OFFERINGS

2007 (THRU 9/30)			2006 (THRU 9/30)		
Bookrunner	Total ($MM)	Fees ($MM)	Bookrunner	Total ($MM)	Fees ($MM)
UBS	33357.7	20	UBS	17796.0	21
Deutsche Bank	28514.1	8	Deutsche Bank	15755.0	10
Lazard	27313.2	6	Goldman Sachs	15373.4	20
Macquarie Bank	22172.1	18	Carnegie Wylie	14999.4	3
Gresham Partners	17604.1	12	Macquarie Bank	10888.6	26

Source: Bloomberg.

July to cover emerging company M&A in the region.

Leveraged finance professionals, led by an increase in private equity investments, also are in great demand and banks are often forced to hire from bankruptcy and credit desks to build teams. Leveraged finance packages have therefore been pushed up by as much as 25% and guaranteed bonuses and sign-ons are increasingly common. Similar to the global markets, project finance activity remains high led by resource and infrastructure deals, as well as continued Public/Private Partnership (PPP) deals. Demand for project finance professionals is growing at a slightly slower rate, with packages expected to increase 10 to 15%.

Syndicated transactions are increasingly integral to Australian banks, and originators are in great demand as the volume and size of deals continues to rise. Banks have been forced to distribute deals regionally to properly cover and sell to clients. Demand for syndicators on both the sales and origination side has increased due to the steady flow of talent to Asia and Europe. Ex-pats are especially bid up in this area. Bonus packages are on pace to rise 10 to 15% this year.

Equities

The Australian stock market's strong performance (up 15 to 25% thru September) has prodded banks to hire aggressively in equity cash (especially algorithmic/DMA portfolio trading) and derivatives trading. Equity traders should receive 15 to 20% pay increases this year due to this out-performance. Sales traders and research sales professionals should expect compensation to rise 15 to 25% on average. Strong sell-side analysts are porting across to asset management sector positions as growth within funds management and asset management increases.

One new growth area for institutional salespeople is **superannuation**, a compulsory pension payment made by employers to pay a proportion of an employee's salaries and wages (currently 9%) into a superannuation fund, which can be accessed when the employee retires. Public and corporate pension funds also are generating business for the banks. Structured equity sales are also experiencing huge growth as technical skills are especially hard to come by, boosting comp levels up 30% on average over 2006.

Another trend within equities is for L/S products and hybrid Australian international funds. Salaries for analysts/portfolio managers with international equities experience have increased by approximately 15% this year. In yet another example of global banks moving talent to Asia from Australia, **Anthony Brittain** was hired by Credit Suisse Singapore to become Director of its Global Solutions Unit from Macquarie Sydney.

Asset/Funds Management

Portfolio managers are in a strong position due to the increasing complexity of products and rising demand for pension and superannuation funds. Sell-side fund managers are moving to the buyside for better pay packages and record profits for asset managers. Overall bonuses in this category are expected to rise on average by 15 to 20% across the board. Small-cap equities are particularly en vogue, led by a migration of assets to alternative investments. Pan-Asian funds and market-neutral strategies also are popular vehicles for Australian investors. Quantitative portfolio managers were in demand earlier in 2007, but poor returns at top quantitative funds may curb banks' appetite for them. OGIU surveys indicate that, a handful of structured credit funds experienced significant losses in their portfolios due to the credit crunch.

Quantitative Analysis

Quantitative analysis remains a big driver of trading profits and researchers should receive 20 to 30% increases in pay this year. Of course, if bank profits are hit by the summer-long credit crunch, these numbers may fall by the end of 2007. New trading systems (DMA, Algorithmic) and big jumps in trading volume, however, should keep these professionals in great demand. Comp across the board in the quantitative analysis space has increased by 20-30%. All this equity and algorithmic trading activity has spurred compliance and risk management hiring as well. Don Ellett, for example, was hired by Merrill Lynch to be its AVP, Margin & Risk for the Pacific Rim Region from St. George Bank back in February.

2008 Outlook

Will this pace of growth persist through 2008? At this juncture "we think the outlook is still upbeat, and expect GDP growth of about 3.8% in both 2007 and 2008," according to a report from **Guy Bruten**, who heads up Fixed Income Research at AllianceBernstein Sydney. If the global commodities boom continues, Australian capital markets will benefit. But commodity prices are providing diminishing support for the Australian economy.

The backlog of capital spending projects in resources and infrastructure remains significant, however, and interest rates remain accommodative. The combination of strong profits and tight capacity utilization provides a strong incentive for expansion. Unsurprisingly, business credit growth continues to run at the fastest pace since the late 1980s.

Japan

Japan continues to prepare for an anticipated increase in M&A/buyout activity through significant foreign investment and due to relatively clean corporate balance sheets, say Options Group consultants. One reason for the optimism is the enactment of new laws that allow foreign firms' Japanese subsidiaries to use their parent companies' shares to buy Japanese firms. This kind of deal is called a "triangular merger," and until now, the prohibition on such mergers has been one of the factors dampening cross-border M&A.

The new rules are expected to encourage foreign companies to step up acquisitions in Japan. At the same time, Japanese companies, which have been under pressure to streamline operations, are expected to divest subsidiaries overseas, including in the U.S. In the first half of 2007, Japanese companies buying in the U.S. have announced 20 deals worth $1.8 billion. The largest in 2007 has been Ricoh's January acquisition of IBM's printing systems division for $725 million.

Investment Banking

The acquisition of Japanese companies by U.S. counterparts has not been as robust, but activity is clearly picking up. So far this year, 29 deals totaling $9 billion have been announced, according to Thomson Financial, nearly six times the $1.4 billion in deal volume announced last year. In 2005, the total was even lower: 43 deals valued at $1 billion combined. Acquisitions of Japanese companies announced by private equity investors rose to $7.2 billion last year, from $2 billion in 2005, according to Bloomberg.

ANNOUNCED JAPAN M&A

2007 (THRU 9/30)			2006 (THRU 9/30)		
Advisor	Total ($MM)	Deals	Advisor	Total ($MM)	Deals
Nomura Holdings	20,154	98	Nomura Holdings	9,169	25
GCA	14,904	9	UBS	7,149	9
Mitsubishi UFJ	12,903	38	Merrill Lynch	5,199	8
Citigroup	11,200	28	Mitsubishi UFJ	5,055	39
Daiwa Securities	10,866	77	Goldman Sachs	3,819	4
Merrill Lynch	10,286	10	KPMG Corp	3,712	6
KPMG Corp	9,663	17	Rothschild	3,669	2
Morgan Stanley	8,981	15	Mizuho	2,636	35
Goldman Sachs	6,854	19	Morgan Stanley	1,837	5
Mizuho	5,824	37	Citigroup	1,729	5
Industry	122,535		Industry	46,881	

Source: Bloomberg.

The largest acquisition so far this year of a Japanese company by a U.S. firm has been the Nikko Cordial sale to Citigroup Japan Investments for $8 billion. Overall M&A volume in Japan has spiked this year to $123 billion through the first nine months of 2007, up more than 100% from last year (see chart). Nomura continues to be the leading financial underwriter of deals, followed by GCA and Mitsubishi UFJ.

Another key development is the expansion of Japanese-based principal investing teams in 2007. Lehman Bros. and Morgan Stanley are joining other global investment banks and private equity firms in looking for investments in Tokyo. Real estate funds are especially popular vehicles for Japanese and foreign investors this year, especially after hedge funds (e.g. L/S) generally under-performed the Tokyo stock market in 2006. Fortress, Vestar and Wachovia are just three firms that have set up real estate funds that are committed to building out a presence in Japan.

Morgan Stanley formed tie-ups with Japanese regional banks to securitize home loans provided to people who previously could not take out mortgages. The U.S. bank also enjoyed strong demand for M&A services from medium-sized companies. Securitization also was behind the higher revenues at Deutsche Securities, which saw revenues from raising financing for clients surge 165% in the past two years.

Equities

GLOBAL EQUITY – JAPAN

2007 (THRU 9/30)				2006 (THRU 9/30)			
Bookrunner	Share (%)	Total ($MM)	Fees ($MM)	Bookrunner	Share (%)	Total (MM)	Fees (MM)
Nomura	43.5	8,522	252.8	Nomura	28.0	13,153	414.2
Daiwa Securities	11.8	2,301	76.4	Daiwa Securities	17.9	8,409	314.5
Citigroup	10.4	2,033	70.1	Citigroup	16.2	7,596	160.6
Mitsubishi UFJ	9.6	1,877	58.7	Goldman Sachs	12.9	6,072	136.1
Mizuho Financial	7.2	1,404	43.6	Mizuho Financial	8.1	3,784	143.2
Industry		**19,594**	**581.5**	**Industry**		**47,025**	**1,425.0**

Source: Bloomberg.

It is surprising that Japanese firms are only now realizing that they have to pay well to hire and retain good foreign staff in equities. For example, Mizuho paid one senior sales trader $2 million to come on board as head of international sales. Some domestic firms are also approaching search firms and paying retainers, not necessarily for search but for hands-off agreements. Equity underwriting itself has slowed considerably in Japan this year, however, dropping to $20 billion in the first nine months of 2007 from $47 billion last year (see chart).

Foreign banks in Japan are performing well thus far in 2007 thanks in large part due to their expanded brokerage operations. Morgan Stanley posted a 21% rise in Japanese revenues to a record Y238.6bn ($2 billion) for the year to March. Merrill Lynch, Deutsche Securities and UBS also posted record revenues in Japan in a year. UBS said in the press it would increase its Tokyo headcount by 20% this year, while Morgan Stanley and Deutsche Bank planned to increase their staffs by 14% and Goldman Sachs by 10%.

Fixed Income

In Fixed Income, many of the foreign firms are or in the process of moving FX trading to either Hong Kong or Singapore because of lower corporate taxes and more relaxed regulations. OGIU surveys also found several firms move their domestic sales desks from the banking side to securities side and also saw Credit Suisse set up a sales desk in Tokyo where it had not had a presence before (sales was based in Singapore). There is now more focus being put on sales of long-term products as many firms are shifting to e-commerce trading platforms for spot trading. In 2007, many of the domestic and foreign firms in Japan had a large appetite to hire fixed income and fixed income derivative salespeople covering all products and clients. OGIU trends indicate this will continue into 2008.

Hedge Funds

After posting a 23.7% return in 2005, the Eurekahedge Japan Hedge Fund Index produced a negative 3.71% return in 2006. Lower expectations have presented an opportunity for senior portfolio managers however this year. Michael Hughes, chief investment officer at Barings Asset Management, which set up a Dublin-registered US$270 million Japan Absolute Return Fund with a team in Tokyo, says that "most foreign investors put money into Japan because the alpha pool is bigger, especially the small-cap sector."

2008 Outlook

Foreign banks will continue to build headcounts in Private Equity, Public Sector Finance, Acquisition Finance, Equities and M&A as the country's economy continues to show signs of enduring stability. OGIU surveys indicate there will be a lot of hiring in the DMA, Algorithmic Trading, Derivative and Exotics/Hybrids areas this year and in fiscal 2008 by U.S. and European firms. Real estate maintains its allure for both buy- and sell-side firms and shows no signs of abating.

Investment product distribution should receive a big boost as the Japan Post recently added active-management types of fund products to its product line. (It began to sell mutual funds in Oct. 2005.) Its top sellers are fund-of-fund platforms offered by Nikko Asset Management and Nomura Asset Management that sell diverse, global income funds.

Goldman Sachs in early October warned that the Japanese economy was teetering a bit and there was a 66% chance of the country going back into a recession. If the U.S.-led credit crisis reaches Asia and even Japan, all bets are off.

EMEA

Hans Jorg Rudloff, chairman of Barclays Capital, may have described this summer's credit meltdown best: Global capital markets had suffered a "heart attack" and faced a critical period of convalescence. "The next four to six weeks are crucial," he told Russian executives in Moscow in early September when the cost of borrowing money in the London interbank market climbed to an 8-year-plus high. The location of the speech was particularly appropriate as the last time borrowing costs had reached these levels was when the ruble was devalued in 1998.

European bonus expectations are mixed: On the one hand, the bonus bonanza days are over. On the other, overall 2007 bonuses will be higher than in the U.S. for the most part thanks to a confluence of positive trends in emerging markets. Compensation this year is thus far on track to be up again in Equities and Investment Banking in the EMEA region and banking equity groups (equity finance, equity cash, program trading, equity derivatives, etc.) all are experiencing strong years, as firms continue to automate their trading platforms. Prime brokerage and ECM/DCM remain sweet spots from a human capital and profit perspective.

Even with all this positive momentum, professionals in London are no longer giddy about their long-term prospects. A "bubble mentality" has begun to permeate the financial markets. "Expectations on the fixed income side are set in the belief that bonuses could be down as much as 25 to 30%," says David Korn, a London-based Managing Partner for Options Group. "On the equities side, where you have had out-performing businesses, professionals will still need to have their expectations managed, although top producers will need to get paid." That being said, adds Korn, bonuses were at

ANNOUNCED EUROPEAN M&A

2007 (THRU 9/30)			2006 (THRU 9/30)		
Advisor	Total ($MM)	Deals	Advisor	Total ($MM)	Deals
Nomura Holdings	20,154	98	Nomura Holdings	9,169	25
GCA	14,904	9	UBS	7,149	9
Mitsubishi UFJ	12,903	38	Merrill Lynch	5,199	8
Citigroup	11,200	28	Mitsubishi UFJ	5,055	39
Daiwa Securities	10,866	77	Goldman Sachs	3,819	4
Merrill Lynch	10,286	10	KPMG Corp	3,712	6
KPMG Corp	9,663	17	Rothschild	3,669	2
Morgan Stanley	8,981	15	Mizuho	2,636	35
Goldman Sachs	6,854	19	Morgan Stanley	1,837	5
Mizuho	5,824	37	Citigroup	1,729	5
Industry	122,535		Industry	46,881	

Source: Bloomberg.

record high levels last year, so maybe for this year flat is the new up."

Banks that paid guarantees for placements earlier in the year are now unsure of how to pay people out at year's end. The unforeseen events in the fixed income and debt capital markets were not taken into consideration when bonuses and guarantees were paid out in early 2007, thus it is going to be quite difficult to establish what bonuses will be this year. Payouts will ultimately depend on the particular hedge fund, bank, group, prop desk, division, etc. one works for and the status of that particular platform (e.g. what losses have been suffered) to determine how someone will get paid. The takeaway from all this is that payout amounts for finance professionals will be much less directly correlated to their own performance. This could lead to more, and not less, turnover at banks if out-performers believe they were not paid accordingly.

Sub-prime's reach probably will not spare City bonuses, which could shrink this year after climbing 18% last year to a record £8.8 billion pounds ($17.5 billion). Jonathan Said, from the Centre for Economics and Business Research, told the BBC this summer that up to 5,000 jobs may go. Economist Brian Morgan of Cardiff Business School agreed that job cuts and reduced bonuses across the City were inevitable. But he added that the more savvy firms and individuals would be thoroughly enjoying the current market turbulence. "Volatility in markets gives the better financial institutions the opportunity to make even more money."

Trading volumes on the Eurex derivatives exchange reached record levels in August, with a total of more than 175 million contracts traded, up 64% from the 107 million contracts traded in August 2006. Open interest also stood at a record level of 130 million contracts at the end of the month. The main factor in the increase was the 126% growth in the trading of equity index derivative contracts. The Dow Jones Euro Stoxx index future was the most heavily traded product, with trades in 36.7 million contracts, a 145% increase on the year-earlier period. Next in line was the Dow Jones Euro Stoxx 50 index option, up 124%.

As U.S. lawmakers examine ways to keep their financial markets competitive, banks such as Goldman Sachs are sending top lieutenants to London. Goldman's CAO Edward Forst, for example, was moved there earlier this year as a weakening U.S. dollar continues to bolster this trend at other banks. Many commodity global heads now reside in London. Other factors include the emergence of a number of financial growth centers, including Russia, Dubai (Middle East) and Eastern Europe.

Compensation Outlook

Last year, Options Group broke down bonus expectations for the top 3 money centers, New York, London and Tokyo (in no particular order). Options Group predicted last year 2006 bonuses in the Americas would rise 10 to 15%, with New York bonuses topping out at 15% on average; EMEA, 15 to 20%; and Asia Pacific, 20%. The total value of payouts may drop to 7.5 billion pounds ($15 billion) from a record 8.8 billion pounds last year and decline even further if activity continues to wane, according to the Centre for Economics and Business Research in London. OGIU estimates bonuses in Dubai and other emerging EMEA markets (Russia, Dubai, Eastern Europe, etc.) will offset a predicted 15% drop in London payouts.

Overall EMEA bonus payouts will be down 5 to 10% versus 2006 bonuses. Options Group notes it is important to put these projections in a long-term context. Even a small drop in bonuses is still a big payday for most mid- to senior-level global financial markets professionals and very near all-time record levels.

Compliance

Global investment banks are now approaching compliance professionals to fill COO roles in an industry that has previously been dominated by general counsel hires. Operational risk and compliance professionals also are vying for CRO jobs as firms ramp up risk management roles.

Head count freezes in compliance are not officially in place for 4Q2007 and 1Q2008 but very little recruitment will occur with the exception of Asia and the Middle East. By the second quarter, headcount expansion and replacement recruitment will pick-up with an emphasis on quality hires, according to OGIU surveys. Asia and Middle East hiring managers will especially seek Islamic specialists in compliance and audit.

Real Estate

The real estate picture still looks promising, and nowhere is that more noticeable than in the Middle East. Despite fears of a Dubai bubble burst for Dubai, the real estate market remains strong and the prospects for hiring remain excellent. Many large-scale projects are almost complete and a majority of these high-end properties already are sold. The litmus test is whether these properties will have actual residents or be simply "flipped" by new owners.

In 2008, real estate developers such as Nakhell, Emaar and Dubai Properties will woo the middle market as well as emerging markets in Africa and the rest of the GCC. In Abu Dhabi, $500 billion in projects are under development thanks to the Abu Dhabi government. One of the largest projects being undertaken is the Cultural Quarter (TDIC), where a city effectively is being built from scratch. 2007 salaries are expected to rise by 15% from 2006 in the sector, with senior professionals receiving base increases of 25 to 35%. The spike in salaries in all of EMEA real estate will make it difficult for banks to retain top talent in 2008.

2008 Outlook

Middle Eastern firms will continue to aggressively shift out of U.S. treasuries and into active investments. Qatar's investment arm, for example, is close to acquiring a nearly 30% stake in the London Stock Exchange from the NASDAQ Stock Market.

Foreign buyers have already been quite successful in a United Kingdom that is typically open to foreign buyers. Last year, government-owned Dubai Ports World of the United Arab Emirates bought Peninsular & Oriental Steam Navigation Co., of London, creating a national furor in the U.S., where P&O had only a fraction of its business, but no objections in the U.K. A Dubai state-owned fund bought Madame Tussauds Group, the London museum. An investment firm from Bahrain last year bought a Northern Ireland electricity utility for $4.2 billion. A Qatari-backed investment firm is in talks to acquire J Sainsbury PLC for about $20 billion.

Dubai and the Middle East

The state of financial markets in the Middle East has changed dramatically over the past three years. With the advent of the Dubai International Financial Centre (DIFC) in 2004, multinational banks, asset managers and hedge funds now have a regulatory environment that satisfies their shareholder requirements. New York-based firms are so intent on winning Middle East business that airlines significantly expanded their direct flights to the region this year. Qatar Airlines now flies from Newark to Doha International and Emirates Airlines flies from JFK to Dubai are just two examples.

Major areas of regional focus are Corporate Finance, Private Equity, Asset Management (especially technically-focused) ECM and to a lesser extent DCM. Other areas that are becoming more prevalent are Equity/Acquisition Finance, ABS and international-standard Research. The government investment arms in Kuwait, Saudi Arabia, Dubai, Abu Dhabi and Qatar combined hold an estimated $1.5 trillion and these entities are not as dependent on debt financing as are private-equity firms and corporate buyers.

In July, August and September, these buyers have shown their strength as credit concerns hamstrung private equity and corporate buyers dependent on debt to fund deals. Dubai-based concerns are pursuing the leading Swedish stock exchange and have agreed to purchase New York department store Barneys, nearly 10% of the MGM casino empire, and a $2 billion U.S. aviation-services company. Dubai's ruling Sheikh said in mid-September he would open an investment bank within the next year as another sign that the Gulf emirate is eyeing business opportunities in the West.

Compensation

Compensation, which three years ago was running at about a 30 to 40% discount to the U.S. and European markets, is now on par or better. Guarantees are becoming increasingly common at global, regional and even startup companies, with some offering two-year guaranteed contracts. With the exception perhaps of Saudi Arabia and Kuwait, it is not at all difficult to attract entrepreneurial candidates to the region, especially now that their financial risk is minimized.

In 2004, recruitment in financial markets was about 80% regional and 20% international. It is now the opposite, as the qualified talent pool in the region has dried up and both global and regional firms source professionals from the Americas, EMEA and Asia Pacific. The most common complaint OGIU hears from clients is the inability to retain key employees. Experienced professionals are in such short supply that more and more regional and global investment banks are offering equity plans to tie senior employees into longer-term packages.

Islamic Investment Banking

Suitcase bankers are still common, but are at a significant disadvantage to those based in the Gulf Cooperation Council (GCC) countries (Oman, Saudi Arabia, Bahrain, Kuwait and Qatar). This has allowed several regional players to develop a strong investment banking franchise and get a head start on the competition, which are opening new offices almost every week.

Looking at the multinationals operating in the region, most have come (or come back) within the last two years and most as a result of the regulatory environment offered by the DIFC (Dubai International Financial Centre).

ISLAMIC BOND UNDERWRITING ($BN)

2007 (THRU 10/10)		2006 (THRU 10/10)	
Underwriter	Share (%)	Underwriter	Share (%)
HSBC	15.9	CIMB	22.5
CIMB	14.6	Dubai Islamic Bank	16.4
Barclays Capital	7.7	Barclays Capital	16.1
Deutsche Bank	6.6	HSBC	11.3
JPMorgan Chase	5.3	Ammerchant Bank	10.8
Riyad Bank	4.9	Aseambankers Malaysia	7.8
Standard Chartered Plc	4.4	RHB Sakura Merchant Bankers	3.1
Citigroup	4.1	WestLB	1.8
Industry Total	$21.7	Industry Total	$10.6

Although all have full investment banking licenses, the vast majority of global investment banks are really just private banking platforms at the moment. Most of the global banks are taking a wait and see approach as far as moving investment banking personnel to the region, and are continuing the "suitcase banker" approach until they feel convinced there is a market here. Further, long-entrenched private bankers are very reluctant to open their client base to newly arriving investment bankers. Banks such as UBS recently moved 40 investment bankers from Europe to be based in Dubai however. Credit Suisse also has made significant investment-banking hires and Goldman Sachs built a strong capital markets and asset management platform. Merrill Lynch, Barclays Capital and Morgan Stanley also are actively growing their platforms. HSBC continues to dominate across the region, but is starting to lose market share (and professionals) to encroaching competitors. Corporate bond underwriting in the Islamic countries continues to double year-over-year (see chart).

Saudi Arabia, which accounts for approximately 60% of all investment banking business in the GCC, is rapidly opening its doors to the multinationals, some of which are finding getting a license easier than others. Compliance, Risk and Legal functions, long ignored as unnecessary costs, are now some of the most competitive areas in the recruitment spectrum, with almost all candidates coming in from international markets.

Local and regional players are looking for more innovative products and structures, away from plain vanilla solutions, to maintain their market-leading positions. Ultimately, OGIU predicts more of a partnership between specialized Islamic banks and global investment banks, where they are able to amalgamate the best of breed products with a rapidly expanding investor base.

Hedge Funds/Private Equity

In terms of hedge funds operating in the Middle East, the market is still in its infancy. Most hedge fund operations are either rep offices for funds based elsewhere, focusing on attracting investment, or fund of funds outfits. This situation is likely to change dramatically over the next year or so, as clients in the region continue to upgrade their sophistication and therefore their diversity requirements. Islamic funds are maturing, not only in terms of track records and fund manager expertise, but also in terms of data transparency, industry consolidation, investor familiarity and overall market penetration. Private equity firms are more entrenched in the region and a recent study by OGIU researchers found that 4 of the top 50 global private equity heads reside in Dubai.

Commodities

The 18-month old Dubai Gold and Commodity is the jewel in the crown of the Dubai Multi Commodities Centre (DMCC) – a generously funded government initiative to place an integrated Dubai commodity market at the heart of regional gold, diamond, steel and energy industries. The world's newest online commodities derivatives exchange and the first in the Middle East (spanning Europe and Far East time zones) has turned over $15 billion so far. For lenders, the Dubai Commodity Receipt (DCR) provides the first route to secured trade finance via an electronic warehouse receipt operating on a web-based platform, with steel and tea about to added to existing receipts for gold and silver. A second Dubai exchange is launching an alternative price benchmark for Middle East crude.

2008 Outlook

In summary, financial markets in the Middle East are robust and developing rapidly. Aided by consistently high oil and gas prices, Dubai and the rest of the Middle East is particularly well positioned to be relatively unaffected by any global downturn over the next few years. The rise in hedge funds, to complement increasing private equity investment, will accelerate as more complex derivative products are given the green light by regulators. In April, for example, Schroders Plc, the UK-listed asset management giant, announced that it would open an office in Dubai. Expect just about every other asset manager to follow them there.

Middle Eastern firms will continue to aggressively shift out of U.S. treasuries and into active investments. Qatar's investment arm, for example, is close to acquiring a nearly 30% stake in the London Stock Exchange from the NASDAQ Stock Market. Foreign buyers have already been quite successful in a United Kingdom that is typically open to foreign buyers.

Emerging Markets

Emerging markets, at least from a recruiting point of view, are still a top story for the global financial markets. Hiring managers are tilting their budgets towards Asian emerging markets in particular, according to OGIU surveys. Take a quick peek at the top performing stock markets and observers will see why: The top international stock indices are China (up 100%-plus year-to-date), South Korea (Kospi up 40%), Singapore (27%) and Taiwan (11%). The MSCI Emerging Market (EEM) index was up 50% thru October.

The rapid rise in BRIC country banking activity continues to be the headline in the emerging markets story. BRIC countries' total debt volume has jumped 43% to $80.1 billion in the year thru July 2007, backed by strong contributions from Russia and China, according to Dealogic. Russia led the pack with over $36 billion, followed by China. India and Brazil together contributed around 33% of the total amount, or $26.4 billion.

Financial companies, which raised $40 billion, topped the industry rankings year-to-date with 191 deals, an increase of 118% from $18.4 billion raised through 168 deals in the corresponding period from 2006. Citigroup topped the chart of book runners with a volume share of 7%, followed by Deutsche Bank with a 5.5% share. Corporate investment grade bond issuance in the BRIC countries more than doubled in the first seven months this year to $42.6 billion from $16.1 billion in the same period in 2006.

Corporate high yield issuance, however, recorded a decline of 14% to $26.7 billion in the period from $31.2 billion thru July 2006 as corporations in the BRIC countries stayed conservative.

2008 Outlook

In 2008, emerging markets will be a more expensive proposition for both investors and hiring managers. Russia's stock market, for example, which had such a great run in 2006, was flat thru much of 2007. Banks dependent on emerging markets growth continue to spare no expense. Banco Santander said it would open 1,000 new offices and branches in Latin America over the next three years, creating 6,000 jobs. The bank said it would also invest $2 billion in its Latin American businesses over that time frame.

The key factors that helped emerging markets equities outpace developed markets stocks in 2007 — globalization, generous liquidity and cheap financing — remain in place in 2008. Markets that should do well in 2008 are likely to be the ones where interest rates can fall the most, where high raw material prices fuel domestic liquidity and credit growth, and where workers' pay lead to a bump in consumer demand for high-end consumer goods. Equity derivatives are increasingly popular at such Asia-Pacific countries as Korea.

Brazil

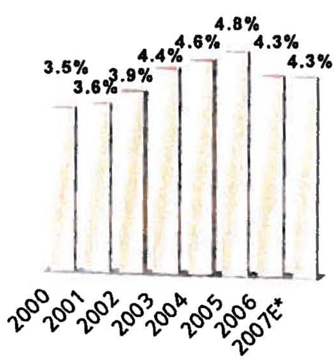
Brazil's war for talent, plus the entrance of new competitors, has led to substantial payouts to professionals from senior managing directors to even associates, according to Options Group consultants in São Paulo. No other product area will do as well as Equity Capital Markets (ECM). Estimates for ECM bonuses are 25 to 35% higher than last year, according to OGIU surveys. DCM and M&A also will be higher, but it is the rapid increase in IPO's in real estate and agriculture that is leading activity levels significantly higher.

In Latin America, Morgan Stanley, Merrill Lynch, Goldman Sachs and Lehman Brothers aggressively built out their fixed income and equities sales and trading desks in Chile, Mexico and Brazil to compete with more established competitors. Adriano Piccinin, a senior EM derivatives trader, for example, left Morgan Stanley to go to Goldman Sachs São Paulo in June.

Economy

Brazil remains the leader of the economic and capital markets movement in Latin America.

BRAZIL GDP (%)



* 2007 Estimates.

Brazilian economists recently raised their 2007 and 2008 economic growth forecasts– to 4.6% and 4.4%, respectively – as the U.S. led credit crunch did not significantly impact Latin America's biggest economy. After the Brazilian government used record exports to pay down foreign debt and build up international reserves, Moody's raised Brazil's credit rating to one level below investment grade - a significant achievement for the country.

Brazil has almost doubled its foreign-exchange reserves thru August to a record of almost $160 billion, from $85.8 billion for all of 2006. The purchases aim to slow a 49% rally in the Brazilian real over the past three years, the biggest gain against the dollar of the 17 major currencies tracked by Bloomberg. Brazilian policy makers successfully limited gains in the currency to protect exporters, boost growth and stabilize the real. In early 2007, traders estimated that the real would fluctuate 6.2% against the U.S. dollar while the British pound was expected to swing by 6.8%. Brazil, which still is the largest debtor among developing nations, needs to concentrate its reserves buildup on dollar-denominated bonds because most of the country's government and corporate foreign liabilities are in the U.S. currency.

2007 BRAZIL COMPENSATION DATA

		M&A		DCM		ECM	
		Base	Bonus	Base	Bonus	Base	Bonus
Analyst	1st Year	$40,000-50,000	$50,000-60,000	$30,000-35,000	$40,000-50,000	$30000-35,000	$40,000-50,000
	2nd Year	$45,000-55,000	$60,000-70,000	$35,000-40,000	$50,000-60,000	$35,000-40,000	$50,000-60,000
	3rd Year	$55,000-65,000	$65,000-80,000	$40,000-50,000	$65,000-75,000	$40,000-50,000	$65,000-75,000
Associate	1st Year	$70,000	$60,000-80,000	$50,000-60,000	$70,000-90,000	$50,000-60,000	$70,000-$90,000
	2nd Year	$75,000-85,000	$80,000-100,000	$60,000-80,000	$90,000-110,000	$60,000-80,000	$90,000-110,000
	3rd Year	$90,000-100,000	$110,000-130,000	$80,000-100,000	$100,000-140,000	$80,000-100,000	$100,000-140,000
VP		$125,000	$200,000-275,000	$100,000-125,000	$250,000-350,000	$100,000-125,000	$250,000-350,000
Director		$150,000	$400,000-500,000	$125,000-150,000	$600,000-800,000	$125,000-150,000	$600,000-800,000
MD		$200,000	$600,000-800,000	$150,000-200,000	1.2 MM-1.7 MM	$150,000-200,000	1.2 MM-1.7 MM

Investment Banking

European retail heavyweights HSBC and Santander are expanding their domestic investment banking operations, and locals like Banco Bradesco are trying to establish more regional coverage. Niche players such as Lazard, Calyon and Raymond James also are opening desks in M&A, debt, equity and project finance arenas.

"The competition is so fierce for good people to raise P&L that we are going to see record salaries in Brazil and across Latin America," says Paul DeLucia, managing partner at Options Group and co-head of the firm's Latin American practice. Demand for individuals with local markets expertise and access to local resources/network will increase further in 2007 and 2008 as banks continue to build up their local capabilities. ECM/DCM and M&A rose 20% to 30% this year. In addition, banks continue aggressively committing capital to principal investment across the region. OGIU continues to see M&A and corporate analyst MBAs receiving offers from private equity firms and principal finance desks.

The M&A industry in 2007 continues to grow. Between January and August, there were 471 announced transactions, which represents 34% more compared with the same period in 2006. Almost half of these deals were in the industries of real estate, retail, public services, chemical and oil. Companies are increasingly using stock as a currency for transactions. One good example is Banco Bradesco, which recently reached R$100 billion in market cap, one of only three Brazilian companies to reach that level. Bradesco's record profits are allowing the bank to build out its international operations.

Capital Markets

As dollar-denominated sovereign debt continues to disappear from the books, local markets – currency and rates – traders are being actively pursued. Even junior traders with two years of experience under their belt trading local markets remain a very attractive commodity for banks.

Latin American ex-pats are packing their bags with 50% pay hikes to head back to São Paulo, Mexico City and other financial centers, especially in ECM, DCM and equity research. Local shops are desperate to bring in experienced professionals who can quickly add to the company's bottom-line. They are competing fiercely with domestic competitors who are now owned by foreign-based banks, like UBS Pactual, that are pumping capital into these new subsidiaries. Private equity and hedge funds are also buying up talent, forcing locals to shell out for retention.

Local banks like Banco Itau, which pay out in suddenly more valuable reals, also are making capital markets hires to keep pace with larger foreign banks. Banco Itau hired Marcelo Naigeborin, an MD in Merrill Lynch's ECM business, in June in just one example. Itau is third in the IPO sweepstakes behind UBS and Credit Suisse respectively. Itau is now Brazil's second largest private bank, behind Banco Bradesco, accounting for about 11% of the Brazilian market for retail banking services.

The U.S. led credit crunch, however, could stop these build-outs in their tracks, especially at Lehman, which had a pretty large sub-prime exposure. Mexico, of all the Latin American countries, has the most exposure to the credit crunch due to its reliance and proximity to the U.S. Mexico is a far less buoyant banking zone, but Deutsche Bank, Merrill Lynch, UBS and JPMorgan are all hiring there extensively. Deutsche, for example, recently appointed five senior executives to its global markets division in Mexico City in equity sales, equity trading, capital markets and institutional sales. And UBS recently transferred Jose DeAguinaga to Mexico from New York to launch UBS Pactual there. UBS got a banking license in Mexico in November 2006 and officially started trading May 2.

The broadening out of the Brazilian capital markets may be the single most important boost however as companies no longer have to rely on pricey bank loans to raise capital. Capital markets volume reached R$104 billion through August 2007, 83% of full-year 2006 levels. Companies now have the option to use different kinds of financing, such as IPO's, and direct credit investment funds with the goal of improving their working capital. Stocks still generate around 70% of all activity (39% for IPOs) and fixed income takes the other 30% of money invested. The prolific rise in capital markets is reflected in the enormous pay packages received by ECM and, to a lesser extent, DCM salespeople this year.

Equities – Sales & Trading

São Paulo's Bovespa index has climbed 50% this year -- and gained 350% since 2003. Brazil's Bovespa has clearly supplanted offshore alternatives as the primary source of equity capital in Latin America. Around 80% of the $28 billion raised through 84 offerings between January and mid-August took place on the Bovespa, according to Dealogic. Argentina's Banco Patagonia became the first non-Brazilian entity to choose the exchange for a primary listing. And there is a pipeline of issues from countries with capital controls such as Argentina and Colombia mulling primary listings on the Bovespa in coming months, says Sebastien Chatel, head of LatAm ECM at Credit Suisse. Chatel recently moved from UBS to Credit Suisse.

Local salespeople and traders can expect bonus packages 20 to 30% higher than 2006 on average. New York-based salespeople and traders of LatAm product are being left in the dust, partly because of currency moves. Overall pay will increase 10%-15% for this group in 2007 versus 2006. This compares to a 20% gain in the prior two years. "For the first time, opportunities in New York are less than what experienced professionals can receive locally," says DeLucia. Leading New York-based Latin American traders were paid $1.2 to $1.5 million last year, up from around $1.1 million in 2005 as more volatility in LatAm markets led to strong P&L sheets at many of the major banks (see Brazil Compensation page).

OGIU data shows that a top-ranked equity research analyst covering a key Latin American industry saw remuneration rise to nearly $1 million in 2007, up 20% to 40% over the previous year. In Brazil, the biggest local market, research indicates a 30% to 35% hike in equity research compensation in 2007 versus 2006.

2007 BRAZIL COMPENSATION DATA

	Sales & Trading			Equity Research	
	Base	Bonus		Base	Bonus
Associate	*$60,000-80,000*	*$100,000-$125,000*	Junior	$30,000-$40,000	$50,000-60,000
VP	*$100,000-$120,000*	*$200,000-$250,000*	Pleno	$60,000-$80,000	$80,000-$100,000
Director	*$125,000*	*$500,000-$650,000*	Senior	$100,000-$125,000	$250,000-$350,000
MD	*$150,000*	*$900,000-1.1 MM*	Head of Research	$150,000	$700,000-$900,000

Private Equity/Hedge Funds

Based on the above, Brazil has become one of the main focuses of the largest private equities funds, such as The Carlyle Group, which arrived in the Brazilian market in the beginning of 2007. Others, like Cartesian and Actis, are already building up their teams locally. London-based asset manager, Marathon Asset Management, is setting up operations locally as are hedge funds Millennium and MaxCap. According to the Emerging Markets Private Equity Association's (EMPEA) 2007 survey, published in May, of 81 LPs with $311 billion in PE assets, the percentage that expects to invest in LatAm in five years' time more than doubled to 64% from 31%. According to EMPEA, 150 PE-related funds raised $15 billion for LatAm investments between 1993 and 2000 but many fell short of expectations. The ten- and five-year internal rates of return as of June 30 2006 for LatAm funds in private equity and venture capital research firm Cambridge Associates' (CA) proprietary database were minus 3.3% and minus 6.1%, respectively. But the survivors have been turning in more impressive gains in recent years and this return rate is picking up as funds are exiting.

Armínio Fraga, founding partner of Gávea Investimentos, a Rio-based hedge fund and PE shop with $4.5 billion under management, says his firm is also thinking about going public. In the past 18 months, Gávea has taken active PE stakes in companies like McDonald's' LatAm business, a Brazilian credit card company called Policard and Mexican entertainment company CIE. The private equity arm of Brazilian bank Pátria is also heard to be in the closing stages of raising a $400 million fund. It tapped U.S. PE giant Blackstone as a co-investor on bigger deals.

2008 Outlook

Increased private equity, hedge fund and institutional investor interest should boost the Bovespa and capital markets activity. The successful expansion of Brazil's growing markets will be the key to Latin America's long-term growth prospects. A significant dip in the stock market, however, could spook the large foreign investor contingent as it has in past bullish cycles in Brazil.

OGIU surveys highlight Colombia, Central America and the Caribbean as the next hot markets. Professionals with a current network of clients and a familiarity with local regulations, particularly in Brazil, Central America, the Caribbean, and increasingly, Colombia, will benefit in terms of higher compensation. Merrill Lynch, for example, recently hired Colombian Ricardo Debedout from JPMorgan Chase in New York, and is transferring him to Colombia to head the local office. JPMorgan is strengthening its presence there, recently transferring a New York-based banker to lead its institutional sales efforts.

China (incl. Hong Kong)

Greater China is now much more than just Hong Kong. Shanghai, Beijing and even Tianjin are becoming financial centers in their own right in what is now the fastest-growing economy on the planet. Hong Kong professionals are migrating to other Chinese cities for greater career opportunities and pay. One real estate professional, for example, moved from Hong Kong to Shanghai recently and received a pay increase from $65,000 U.S. to $235,000 U.S. Top country managers, which have the requisite government and financial senior connections are seeing pay packages approaching $10 million U.S. – an unheard of amount for this market even three years ago.

Bidding wars for mid- to senior-level talent are common and bid-aways can reach as high 4 or 5 times the professionals current pay, especially if they are coming from established money centers like London, New York or Hong Kong, according to Options Group consultants in Greater China. (Options Group operates offices in Shanghai and Hong Kong). Foreign institutions are experiencing difficulty hiring local bank professionals, however, because even though they are offering competitive packages, local banks are able to retain talent through counter-offers and by playing the loyalty card. Loyalty is still something that global banks need to consider when negotiating with potential candidates in China.

The robust stock and capital-raising markets are changing the face of Greater China: China's main stock index has quadrupled in value since the start of 2006 and a record $16.3 billion was raised in stock sales during the first half of 2007. Over 150,000 Chinese now have a net worth of over $5 million U.S., according to a recent study in the International Herald Tribune. This trend has

HONG KONG & CHINA EQUITY OFFERINGS

2007 (THRU 9/30)				2006 (THRU 9/30)			
Bookrunner	Share (%)	Total ($MM)	Fees ($MM)	Bookrunner	Share (%)	Total ($MM)	Fees ($MM)
Morgan Stanley	21.0	63,276	26	UBS	18.8	44,378	11
UBS	13.5	40,592	17	Goldman Sachs	16.7	39,320	5
Goldman Sachs	11.6	34,798	8	Bank of China	14.0	33,001	6
Citigroup	7.2	21,599	13	JP Morgan	11.0	26,068	13
HSBC	5.5	16,553	7	Citigroup	7.3	17,223	7
Credit Suisse	5.1	15,412	8	Morgan Stanley	6.3	14,892	13
CIC	4.4	13,394	3	Credit Suisse	5.1	11,999	6
JPMorgan	3.7	11,040	9	CIC	3.6	8,454	2
Bank of China	3.5	10,607	7	Deutsche Bank	2.7	6,284	7
Deutsche Bank	3.4	10,223	8	HSBC	2.4	5,723	5
Industry		301,084	200	Industry		236,051	121

Source: Bloomberg.

pushed sales of yachts, cars and golf memberships up significantly in the country, according to Rupert Hoogewerf, who runs something called the China Luxury Index that tracks 32 goods and their sales rates.

Private Equity/Hedge Funds

Private equity and hedge fund firms remain most active in hiring local talent as well as ex-pat Chinese professionals who want to return to their homeland. Real estate investment advisory professionals are in great demand as more capital flows into Greater China. Private equity firms raised $5.26 billion to invest in China in the first half of 2007, a 239% increase from the first half last year, according to data from the Asian Venture Capital Association.

Fundraising for Asia as a whole fell 5.7% to $15.8 billion. In contrast to the surge in fundraising, PE investments in China fell 25% to $4.4 billion, with investors facing tougher regulations, greater political sensitivities and rising price tags as a flow of successful IPOs continues to hike valuations. Takeover transactions in China also are down 35% year-over-year by foreign buyers as the Chinese government continues its reluctance to give up control of certain ventures. Carlyle, for example, has spent nearly two years trying to secure regulatory backing to invest in Xugong, the mainland's largest construction machinery maker in the face of political opposition.

Investment Banking

Joint Ventures (JVs) are the emerging story in China as over 30 have been established since 2002. By the end of last year, the JVs accounted for 39% of the market in an industry already worth $111 billion.

RMB sales and trading professionals are increasingly needed as global banks grow their strategic alliances with local firms. Two early entrants, Goldman Sachs and Morgan Stanley, have significant minority stakes in Gao Hua Securities and China International Capital Corporation (CICC) respectively. Citigroup, Morgan Stanley and JPMorgan Chase are seeking joint-venture partners as well. U.S. banks especially want to participate in increasing M&A flows: Cross-border outbound banking transactions reached $16.3 billion in the first half of 2007, up from the $15.3 billion for all of 2006.

Regulatory issues preclude a more rapid advancement in more sophisticated and highly structured (derivative) products. This is changing, however, as returning Chinese nationals well-versed in the way the global financial markets operate are working with the government party leadership or the "Guanxi" (which literally means relationships) to push for deregulation.

Language Matters

Another important consideration: Professionals still need to speak and write Chinese. It may sound rudimentary, but Goldman Sachs could not name the co-head of investment banking in Asia as CEO of its Beijing JV because his knowledge of Chinese was too weak, according to a mid-July Bloomberg story. Richard Ong, an ethnic Chinese born in Malaysia, did not write Chinese well enough to take a mandatory test for senior managers. New York-based Goldman instead promoted Zha Xiangyang, deputy CEO of its China joint venture, Goldman Sachs Gao Hua in May.

The language requirement only applies to CEOs, deputy CEOs and the heads of supervisory boards at locally incorporated securities firms, according to the China Securities Regulatory Commission, which has stepped up enforcement of these written and verbal requirements in 2007. (See Investment Banking section for more on China's banking landscape.) English also is important as the global banks work in that language and employees must be proficient enough to compose emails and express themselves in basic English. One of the issues facing local and global banks is how they are going to take advantage of deregulation if and when it happens. Local professionals do not have the product knowledge and Chinese ex-pats sometimes do not make a smooth transition into China.

2008 Outlook

In August, the Chinese government said local investors could invest in the Hang Seng Index through the state-owned Bank of China, which will be boon to all the banks with large stakes in the bank like UBS and RBS. Private equity, real estate-related investments and equity offerings will continue to boost this sprawling money center, especially in newer markets like Shanghai and Beijing (home to the 2008 Summer Olympics). The Chinese government plans to step up its efforts to crack down on professionals taking large Hong Kong salaries when they spend most of their time on the Mainland. Banks seek professionals looking to be paid in RMB for the long-term benefit of the firm and its relationship with the Chinese government.

India

The future of India's economy has been characterized by world-best wage increases and strong macro-economic fundamentals (9% GDP growth). Broadening capital markets are a positive, but infrastructure issues and the reluctance of family-owned businesses to sell out are currently limiting investment bank and private equity activity. Hedge fund activity is picking up momentum as top hedge funds increase their investment exposure. U.S. hedge fund New Vernon already has a $750 million India-specific fund and Old Lane Partners (now a part of Citigroup) has $500 million dedicated to Indian investments.

Companies in India are becoming increasingly focused on recruiting and retaining well educated, highly skilled employees in order to maintain the rapid economic growth the region is currently experiencing. This often leads banks to relocate Non-Resident Indians (NRIs) back to trade "Wall Street" or "The City" for Dalal Street, Mumbai's financial center. The foreign banks will need to pay bonuses of Rs.20 Lakhs (approximately $50,000), reportedly, at the middle level- and going up to Rs.40 Lakhs for more senior-level professionals to retain and attract talent. "Bull or no bull, our performing employees will get rewarded because retaining key employees is a constant priority for us," says one managing director at a local bank. Senior professionals often have a base of around Rs.40 Lakhs on average, according to OGIU surveys.

TOP TEN ACQUISITIONS INDIA 2007

ACQUIRER	TARGET COMPANY	COUNTRY TARGETED	DEAL VALUE ($MM)	INDUSTRY
Tata Steel	Corus Group plc	UK	12,000	Steel
Hindalco	Novelis	Canada	5,982	Steel
Videocon	Daewoo Electronics Corp.	Korea	729	Electronics
Dr. Reddy's Labs	Betapharm	Germany	597	Pharma
Suzlon Energy	Hansen Group	Belgium	565	Energy
HPCL	Kenya Petroleum Refinery Ltd.	Kenya	500	Oil and Gas
Ranbaxy Labs	Terapia SA	Romania	324	Pharma
Tata Steel	Natsteel	Singapore	293	Steel
Videocon	Thomson SA	France	290	Electronics
VSNL	Teleglobe	Canada	239	Telecom

Fixed Income

The commodity exchanges are witnessing much larger volumes although Gold and Crude Oil remain the two key products traded. Other commodities, particularly agricultural, are gaining momentum. Revenue in the Forex market rose to $6.5 trillion in the fiscal trading year 2006-2007 as the central bank is letting the Rupee rise against the U.S. dollar in order to check strengthening consumer prices. A lower price rise, however, exposes new concerns that the Reserve Bank of India could step up its efforts to shield home exports. That isn't stopping global banks from jumping into the action: Merrill Lynch and Citigroup in October bought a 5% stake in Multi Commodity Exchange of India, the country's largest commodities exchange, valuing the bourse, one of the world's fastest-growing, at up to $1.1 billion.

Credit Default Swaps (CDS) are now a viable product now that the Reserve Bank on India issued draft guidelines on CDS transactions. The risk management architecture of banks also has strengthened to the point where they are becoming Basel II compliant. This provides adequate comfort level for the introduction of such vanilla CDS products for starters, said the Reserve Bank. Local and global banks and financial institutions are positioning themselves to take advantage of this market from a buyer and seller perspective. Mutual funds and insurance companies, as typical buyers of this transaction, will also need professionals who can help structure CDS transactions going forward.

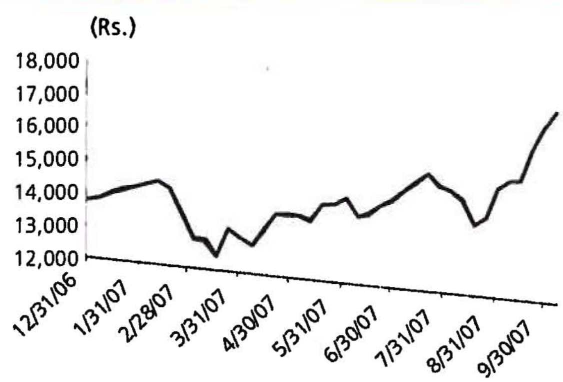
Indian firms are expanding their infrastructure to take advantage of tremendous business opportunities. This process often leads to a higher debt load and this may weaken operating margins as interest rates rise. Consumer credit is the prime driver of credit expansion, growing in excess of 40% each year and now constitutes more than a quarter of the entire system's credit portfolio.

Investment Banking/Capital Markets

India's M&A frenzy continues in Mumbai. In the first six months of 2007, India had 550 M&A deals, adding up to $55 billion-higher than the total for all of 2006. Indian buyers are increasingly looking abroad, completing 21 deals worth $2.3 billion in August alone. Deutsche Bank recently embarked on an ambitious banking hire plan, recruiting over 50 junior- to mid-level professionals. The German banks also hired two financial consultants from McKinsey to join its banking practice in India and increased the fixed component of its offered compensation by 15 to 25% to attract and retain talent. Investment banking vice presidents, on average, can expect to receive a base of Rs.30 Lakhs and a 100 to 150% bonus, according to OGIU surveys.

Capital markets in India are experiencing strong inflows after years of inactivity despite much promise. A new-found confidence in the Indian economy and its growth prospects have led to inflows of $10 billion thru August. Equity Capital Markets is developing faster than debt as a banking vehicle for corporations.

SENSEX 30 INDEX (YEAR-TO-DATE RETURN)



India's surging Sensex market is a great advertisement for banks to use to woo a fast-growing army of individual and institutional investors. The BSE Sensex hit 17,000 and went from 15,000 to 16,000 in just over 50 days earlier this year (see stock chart). Equities hiring, particularly in research, has been growing. IL&FS' Nandan Chakrabarty moved to Enam Securities as head of research, followed by IL&FS' hiring Jamshed Desai of Taib Securities in response. Sanjay Agarwal, co-head at Kotak Mahindra Capital, moved to Deutsche Bank. The sudden increase in stock valuation allows Indian companies to use stock for acquisitions and capital improvements. A sharp correction is a constant concern for local and international investors.

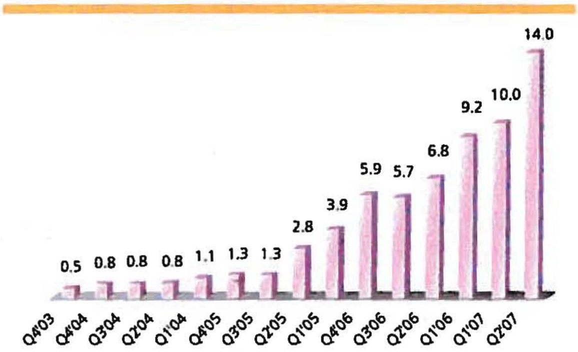
Infrastructure remains a key issue, and senior professionals with infrastructure and real estate are highly regarded by banks. RREEF, Deutsche Bank's property fund management company, hired Kishore Gotety to grow its business in India. RREEF is one of the largest real estate investment managers in the world.

Asset Management/Alternative Investments

Mutual Funds: Indian mutual funds' assets under management (AUM) grew Rs. 860 billion in July to a total of Rs. 4.89 trillion driven due to new fund offerings, a sharp rally in the equity markets and liquid fund inflows.

Hedge funds are net positive in India as assets are accelerating at a rapid pace. In the second quarter of 2007, total hedge fund inflows reached $14 billion, up from $5.7 billion in the same quarter in 2006. Hedge funds investing primarily in India should see net inflows over $45 billion, up from $27 billion in 2006.

TOTAL ASSETS OF
INDIA FOCUSED HEDGE FUNDS ($BN)



Some of the deals clinched by hedge funds in India include the $28 million investment by the US-based hedge fund Galleon Group in the recently listed First Source Solutions; DE Shaw's $8 million and $40 million investments in Armtek India and Crest Animation; and Farallon Capital's $50 million-plus investment in Indiabulls' subsidiaries - Indiabulls Credit Services and Indiabulls Housing Finance. The hedge fund promoted by billionaire investor George Soros, Quantum Fund, has bought minor stakes in real estate developers Ansal Properties and Anant Raj Industries. Quantum and another hedge fund Blue Ridge invested $33.33 million in the Delhi-based Fortis. Ex-Warburg Pincus India Co-Head Puluk Prasad, who recently quit, is floating an India-specific hedge fund in Singapore.

Private Equity/Venture Capital

Private equity deals in India are hitting record levels this year. In the first eight months of 2007 $10.8 billion worth of PE deals were completed in India, exceeding the $7.8 billion invested in all of 2006, according to Grant Thornton. While some local PE firms are in the game, foreigners are the ones accounting for 70% of the total deals. The Blackstone Group, The Carlyle Group, General Atlantic, and Warburg Pincus are among the biggest players. At Kotak Investment Bank, a local Mumbai subsidiary of Kotak Mahindra Bank, deal flows are up 50% compared to a year ago. The deal level is still relatively benign however. The two main reasons are that family-run Indian companies are unwilling to sell and the strength of the Indian economy has kept corporations in the black. "There just aren't that many ailing companies in need of rescue," says one Indian senior private equity professional.

Risk Management/IT/Quantitative Research

The importance of credit, market and operational risks in banks and financial institutions has been soaring at an alarming speed recently as products become more complex. Risk management professionals are a priority as regulators in India are placing operational risk on the top of their agendas. First-year quantitative researchers with PhD's can expect Rs.10 to 15 Lakhs as a base and mid-level IT professionals earn bases of Rs.14 to 16 Lakhs, according to OGIU surveys.

2008 Outlook

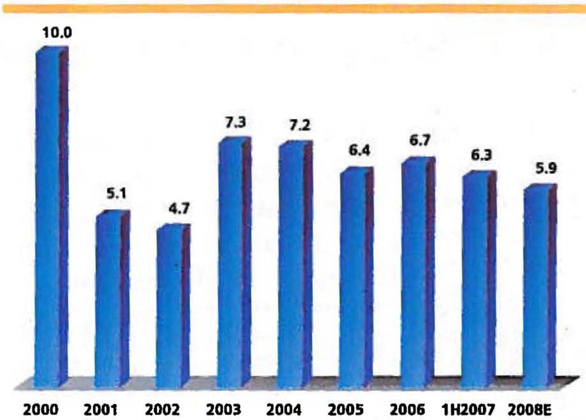
Real estate and infrastructure investments will only grow in prominence due to the increased flood of funds into private equity firms and banks in 2007. The clutch of private equity firms entering/expanding in the country bodes well for future investment, although The Wall Street Journal recently reported that family-owned business so far have been reluctant to sell out. Global investment banks are expanding their teams in India, battling for the same talent and importing experienced professionals from London and Asia-Pacific. The IT sector will continue to be a big area of expansion due to foreign out-sourcing of customer services and software. For example, IBM plans to increase its payroll in India this year by 14,000 workers, even as it cuts 13,000 jobs in Europe and the U.S.

Russia

Global investment banks are seeking to expand in Russia as a ninth year of economic growth spurs a surge in initial public offerings and takeovers. Russian companies are on pace to raise over $30 billion in IPOs in 2007. Credit Suisse, Deutsche Bank and UBS already have major presences in Moscow and ABN Amro and Citigroup also have big commercial and retail shares on the ground. Nomura and Lehman are following these banks' lead as well: Lehman hired five professionals in September alone, including a three-person Russian equities research team and has plans for 60 under the helm of ex-Deutsche Nicholas Jordan.

Goldman Sachs is adding about 25 bankers to its Moscow office, and expects to have 100 bankers working there by year-end. Goldman's Russia operations have already generated almost as much revenue as it had budgeted for the full year, Alexander Dibelius, a senior partner who oversees the bank's business in central and Eastern Europe, told Bloomberg. The unit is focusing on sales and trading in the commodities and equity markets, along with equity underwriting, merger advice and asset management. Morgan Stanley also is planning on hiring 80 staffers in Russia, up from a total of 20 at the start of 2007. Local bank Troika Dialog, Russia's oldest independent securities firm, boosted staff to over 800 from 500 last year.

RUSSIA GDP 2000-2008 (%)



Investment Banking – Compensation

The big news story has been rapidly escalating investment-banking salaries. A Bloomberg story this summer caused waves when it noted that senior Russian bankers were receiving upwards of $10 million in total compensation, double the payouts of their Wall Street colleagues. While Options Group surveys found that the article over-stated the average Russian banker's pay, the fact that local banks like RBS Renaissance Capital are able to pay as much as global investment banks for talent raised eyebrows throughout the global banking community.

"This market is hot, hot, hot, and if you want to keep top talent, you have to pay big," Peter Necarsulmer, CEO of PBN Co., which advises foreign companies investing in Russia, told Bloomberg. Options Group surveys highlight a number of instances where multiple bidders have paid "silly money" for VP-level or higher market professionals with Russian and Western markets experience.

Banking salaries rose around 50% on average last year and revenue expectations are much higher for rainmakers and staffs alike as headcounts increase at many investment banks this year. IPOs remain a major source of the investment banks' earnings in Russia and should hit over $30 billion by year's end. In 2006, the number of IPOs went up to 23, with a total volume of $17.7 billion, according to Mergers.ru. The Russian stock market has been a relative disappointment in 2007, however, rising just 7% through mid-September after the RTS index rose 71% last year.

OGIU surveys indicate a large disparity in pay. It is currently in a professional's best interest to move to another firm, if for no other reason than to get a big compensation bump. The top Russian banks are paying research heads as much as $1.5 million. MD's are receiving $2 million guarantees to move and even back-office managers can receive $300,000 to $400,000 guarantees to provide working networks for fledgling offices. According to Renaissance Capital's IFRS reporting, last year its 686 employees earned $197.9 million, with $30.5 million going to its 15 board members, according to the Russian publication Vedomosti. The other employees averaged a robust $249,600. Troika Dialog employee earnings were somewhat lower, averaging $196,800 – a 30% bump from 2005. Last year, Options Group noted global banks were having trouble offering top bankers enough money to leave local banks. That is still the case and banks are moving professionals from London to Moscow. Certain global banks, however, are being more persuasive than others. In June, a team of analysts and traders from MDM-Bank went to work for the Russian office of JPMorgan. The bottom line is that the growth of investment bankers' incomes will continue, especially due to the fact that there still remain some investment banks which haven't formed their teams in Russia.

Equities/Fixed Income

Due to the flat-lining stock market in 2007, equity-related professionals will see much smaller percentage bonus increases than their investment banking counterparts. After gaining 20% in value against the dollar in the last few years, the ruble is even starting to displace the greenback as Russians' currency of choice for both saving and spending. Now ruble notes, once handed over by the fistful for a loaf of bread, are being used to purchase Mercedeses, flat-screen televisions and European beach vacations.

Of course, the party could be short-lived. Russia takes in roughly $530 million a day from oil, its most lucrative export. If the price of oil declines, so will the ruble. An over-reliance on petrodollars has led to underinvestment in businesses outside oil and gas, and a subsequent withering of other domestic industries. But Russia does not want to have a repeat of 1997 and is salting away oil money in a rainy day fund, called the Stabilization Fund, which holds more than $120 billion. In January 2008, Moscow will split it into two funds: the Reserve Fund and the Fund of National Prosperity, the latter intended for state investments. As banks push into more complex product areas–currently, equity cash is the strongest asset class–executive search firms are attempting to repatriate PhD quantitative analysts and traders. Fixed income, specifically the corporate bond market, is still a small but growing part of Moscow's financial markets.

2008 Outlook

Look for a Russian-run VC or PE firm to acquire companies, following in the footsteps of the Qatar and Abu Dhabi government investments in 2007. Prior to Options Group's printing deadline, Russia in October set up its first venture capital fund, having raised the required 3 billion rubles ($120 million), to begin making investments. The state-owned Russian Venture Company holds a 49% stake in the new VTB Venture Fund—a closed-end mutual fund set up by VTB Asset Management, a subsidiary of state-controlled foreign trade bank Vneshtorgbank (VTB), which will invest in companies developing innovative technologies, according to RIA Novosti.

Fixed Income Overview

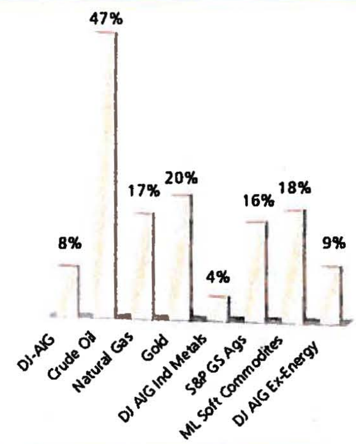
Commodities

The Commodity markets continue their six-year bull run as investors look to capitalize on returns that exceed stocks and bonds. Global commodity hiring rates are on pace to rise 33% over last year and top pay packages are five times larger than they were in 2002. Investment banks also are hiring commodity traders due to the rapid rise in the price of oil, copper and other raw materials by economic expansion in Emerging Markets and Asian countries. The funds dedicated to China, for example, are very much a play on commodities. New or developing markets include: Agricultural, including Softs, Alternative Fuels, Dry Freight and Carbon (and other traded emission products). The top six banks are all making efforts to build their profile in these markets, which can be more recession proof than others. Lehman just hired Laurent Segalen as global head of carbon emissions in London from Natixis in Paris in just one example.

These markets are experiencing massive growth and are aided by huge improvements in communication and technology. The banks are showing ever more interest in the physical market and the oil majors are facing price moves influenced, in some cases, by investor interest. There is increasing interest from hedge funds as most of the active commodity players seek an agricultural capability to complete the coverage of this sector, notes Options Group Intelligence Unit (OGIU).

The top commodity banks are Goldman Sachs, with its strong customer and prop trading franchise, and Morgan Stanley, with its large physical commodity trading capability. Barclays Capital, Merrill Lynch (best known for its strong energy and power trading arm) and Deutsche Bank also are strong franchises. Lehman Brothers doubled its commodities staff. JPMorgan Chase lost a step this year with the departure of its top energy traders to Credit Suisse and other firms (see below), but is still building out its global team. Numerous hedge funds are now involved with commodities, most notably Tudor, Brevan Howard, Osparie, Citadel and D.E. Shaw. UBS jumped a notch by completing its purchase of ABN Amro's futures and commodities business while HSBC and Calyon lost momentum by exiting key businesses.

COMMODITY INDICES*



* Year-to-Date (thru 10/18/07)

Carbon is of huge interest but carries obvious political risk. The traded market also still has to develop deeper liquidity, but with the Kyoto agreement now in place there is a wealth of origination opportunities in Asia. The U.S. still has to develop its policy but more banks are looking for policy expertise in an attempt to anticipate and plan for what may be implemented. Emissions sales and trading have never been a big market in Asia within the banking community, but Options Group is seeing several firms now hiring people to not only source the deals which produce the emissions credits, but also sell them in Tokyo. Firms generally are hiring emissions originators in Asia, specifically in Singapore and Beijing. There have been a large number of senior personnel changes this year. Early in 2007, Adam Knight moved from Goldman Sachs to Credit Suisse followed by a number of other high profile hires from UBS. In early September, John Redpath left Citigroup for Deutsche Bank to be Global Head of Oil Products and Agricultural Trading. Redpath is based in New York and reports to David Silbert, Global Head of Commodities. "Conditions in emerging markets and shifts in dietary habits and weather patterns make this an opportune time to trade agriculture commodities," said Silbert in a press release. Deutsche Bank also built out its Asia group by hiring Simon Grenfell as Head of Commodities, Asia.

JPMorgan Chase was hit by a number of high profile departures in its commodities business, including George "Beau" Taylor, who ran global energy trading, and Trevor Woods, who was in charge of natural gas and power trading. Both went to Credit Suisse with Bob Flicker, JPMorgan's COO of commodities, to set up a new commodity prop trading group. JPMorgan also lost Jose Cogolludo to BNP Paribas where he is now global head of commodity sales. In response, JPMorgan hired Foster Smith from Deutsche Bank in New York to run U.S. gas and power trading and Andy Harrison, Simon Towns and Kiru Rajasingam to form the backbone of its global oil trading business led by Brian Cumming.

In Europe, banks continue to poach talent and increase headcounts. A team of gas and power bankers left Calyon reportedly in June for Bear Stearns, led by Etienne Amic, to run Bear's European energy trading business. Peter Smith, global head of oil distillates trading at Morgan Stanley, left after 17 years to join European-based commodity traders The Vitol Group. Merrill Lynch hired former Morgan Stanley banker Jonathan Grundy as head of energy, power and infrastructure origination. European demand is strongest in oil, base metals and structured finance.

Compensation

- Bonuses up 15 to 20% on average over 2006
- OGIU estimates were recently raised from 10 to 15% due to exponential growth in 2nd-half compensation levels. Commodities prop desks in London are offering up to 17% of P/L this year due to the incredible demand for experienced traders.
- Due to Asia's scarcity of talent, senior traders in commodity hubs Singapore and Tokyo may receive pay packages 25 to 30% higher than last year. One senior Asian trader that made 5 million euros in 2006, for example, is expected to receive around 7 million euros this year.
- Global commodity hiring rates are on pace to rise 33% over last year and investors are piling into the market. Thru September, there were 450 commodity hires at banks and corporations, from around 340 in 2006, over the same time period according to OGIU.
- In some cases, commodity traders have been pulled out of gardening leave and had their previous offers doubled and guaranteed for two years.

AVERAGE GLOBAL INVESTMENT BANK PAY
SALES* (US$)

		BASE	BONUS
Associate	*1-2 Years*	80-100K	100-120K
	3rd Year	90-110K	140-160K
VP		125K	400-450K
Director		150K	650-850K
MD		200-250K	3-4MM

	TOTAL COMPENSATION
Global Head, Sales	8-10MM
Head of Americas, Sales	5MM
Head of Europe, Sales	5MM
Head of Asia, Sales	3MM

AVERAGE GLOBAL INVESTMENT BANK PAY
TRADING/STRUCTURING (US$)

		BASE	BONUS
Associate	*1-2 Years*	80-100K	120-140K
	3rd Year	90-110K	160-200K
VP		125K	550-700K
Director		150K	800-1MM
MD		200-250K	5-7MM

	TOTAL COMPENSATION
Global Head, Trading	10-12MM
Head of Americas, Trading	7-9MM
Head of Europe, Trading	7-9MM
Head of Asia, Trading	5-6MM

2008 Outlook

Amine Bel Hadj Soulami, BNP Paribas's global head of commodity derivatives, told Bloomberg he plans to increase commodities headcount by a third over the next two years and may make an acquisition or establish a joint venture in the U.S. gas and power industry. The bank plans to start trading power contracts in the U.S. within the next 12 months, he said. Securities firms and brokerages have expanded into commodities over the past three years, spurred by demand from clients such as airlines and utilities to manage their price risk. Global demand for talent is greatest in Africa, Dubai and Shanghai.

Another area of intense demand is for Structured Finance professionals to move into commodities, particularly those with mezzanine debt financing and derivative instruments skills. OGIU surveys also found human capital shortages globally in: Oil and oil products trading (specifically: Distillates), Naphtha trading, Agriculture, Principal Investments, Structuring and Carbon. Agricultural commodities trading activity will continue to rise in 2008. Thru mid-October, trading increased 26% as wheat rose 65% to $8.33 a bushel and soybeans advanced 46% to $9.97 a bushel.

People Moves & Promotions

NAME	TITLE	COMPANY FROM	COMPANY TO	CURRENT LOCATION
David Houten	*Senior Oil Trader*	BP Energy	Citadel	Chicago
Bart Pycke	*Head of Trading*	Electrabel	Mercuria Energy	Geneva
Alex Molyneux	*Head of Metals and Mining group*	Internal Promotion	Citigroup	Hong Kong
Chuck Watson	*Co Head of Global Commodities Group*	Eagle Energy	Lehman Bros.	Houston
Stephen Dove	*Crude Oil Trader*	BP Energy	Saracen Energy	Houston
David Sobotka	*Global Head of FICC*	Internal Promotion	Merrill Lynch	Houston
Jim Allred	*Head of U.S. Oil & Gas Client Coverage, Americas*	Bank of America	Societe Generale	Houston
Adam Knight	*Head of Metals Trading alliance*	Goldman Sachs	Credit Suisse	London
Jose Cogolludo	*Head of Commodity Derivatives Sales & Marketing*	JPMorgan Chase	Bear Stearns	London
Kurt Ebert	*Co-Head of FICC, Germany & Austria*	Commerzbank	Citigroup	London
Jose Cogolludo	*Global Head of Sales & Marketing, Commodity Derivatives*	JPMorgan Chase	BNP Paribas	London
Will Rathvon	*Chief Executive, Global Project & Export Finance*	Standard Chartered	HSBC	London
Chris Leeds	*Head of European Emissions Trading*	Merrill Lynch	Barclays	London
Abyd Karmali	*Global Head of Carbon Emissions*	ICF International	Merrill Lynch	London
Kiru Rajasingham	*Global Head of Oil Distillates Trading*	Goldman Sachs	JPMorgan Chase	London
Jonathan Grundy	*Head of Energy, Power & Infrastructure Origination EMEA*	Morgan Stanley	Merrill Lynch	London
Ian Thomas	*Energy Trading Business team*	Calyon	Bear Stearns	London
Raymond Key	*Head of Precious Metals Options*	Morgan Stanley	Deutsche Bank	London
Peter Ghavami	*Global Head of Commodities*	UBS	Lehman Brothers	Moscow
Monish Mahurkar	*Head of FICC-India*	Citigroup	Merrill Lynch	Mumbai
Kenneth Blackman	*MD - Energy Group*	GE Capital	Fortress	New York
Dale Surbey	*Head of Commodity Structuring*	Citigroup	Deutsche Bank	New York
Chris Calger	*MD & Head of Structured Origination, North America*	UBS	JPMorgan Chase	New York
Nathaniel Richer	*Head of Crude Oil Products Option Trading*	Bank of Montreal	JPMorgan Chase	New York
Roy Salameh	*Head of Energy Sales for North America*	Goldman Sachs	Lehman	New York
John Redpath	*Global Head of Oil Products & Agriculture Trading*	Citigroup	Deutsche Bank	New York
Laurent Segalen	*Global Head of Carbon Emissions*	Natixis	Lehman Brothers	Paris
Colin Toh	*Senior Commodity Derivatives Structurer*	Barclays London	Lehman Brothers	Singapore
Masanori Maruo	*MD, Utilities Analyst*	Lehman Brothers	Deutsche Bank	Tokyo

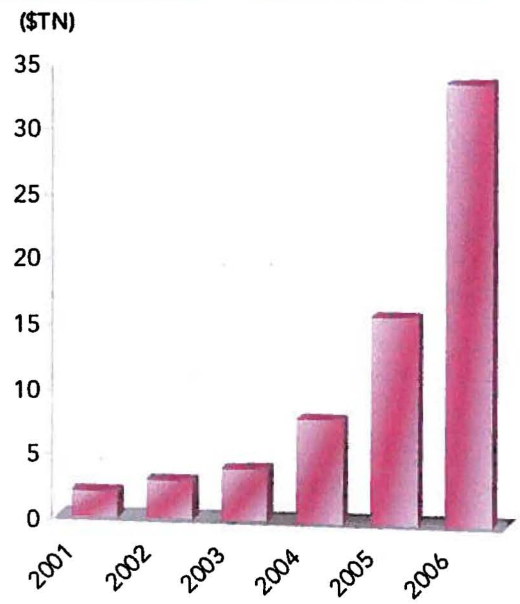
Credit Derivatives

While the CDO and MBS markets take their lumps in the press, credit derivatives products are maintaining some sense of status quo. Liquidity and confidence in these markets has held up relative to the CDO and MBS markets. Overall bonuses, however, should still drop significantly in this product category. Much of the same sort of liquidity crisis is occurring now as with the 1998 Long-Term Capital Management, but the market has yet to see a fund of that size collapse.

This raises the question of whether the measures introduced to the over-the-counter derivatives, repo and securities lending markets in the wake of the 1998 crisis have served their purpose. It might be easily concluded that it has been a disregard for risk that has led to these excessive extensions of leverage. Recent market moves suggest that lenders believe so. Suddenly everyone wants term financing and no one is willing to provide it. Spreads between secured and unsecured markets have widened to as much as 300 basis points in the U.S. Treasury markets and, within the secured markets, financing for illiquid non-government assets has all but evaporated. Banks have not properly understood that in using collateral they are dealing with multiple risks - legal, fiscal, credit, market and liquidity. Instead they continue to look at these issues in boxes, rather than on a comprehensive firm-wide basis.

Investors continue to shift assets from CDO's into more collateralized products (pricing and classification), according to OGIU surveys, even though banks like Morgan Stanley and Deutsche Bank (as well as hedge funds) are experiencing significant losses there. Credit Default Swaps (CDS) markets also had its share of significant losses, but there is strong

NOTIONAL AMOUNTS OF CREDIT DERIVATIVES OUTSTANDING



Source: International Swaps and Derivatives Association.

enough liquidity in this product to help sustain momentum. A CDS trader, for example, reportedly caused Calyon's $350 million loss in September. Calyon, the investment banking arm of French bank Credit Agricole, issued a third-quarter profit warning after its New York proprietary trading desk took an unauthorized and "unusually large market position."

JPMorgan and Credit Suisse held onto the top spots for best par and distressed desks, respectively, in Credit Investment News' 2007 Best Trading Desk Awards announced in mid-October. For the sixth year in a row, JPMorgan also took the title of Best Overall Trading Group.

Compensation

- Bonuses down 15 to 20% on average versus 2006, although derivatives professionals will receive slightly higher increases than their MBS and Structured Credit/Finance counterparts.

- Commodity and FX structuring desks - which had been trying since last year to hire credit derivative structurers - now will be able to select top credit derivatives traders and structurers to move to their desks. Hiring experienced credit professionals from other banks will pick-up in late 2007 and 2008.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	70-80K	90-100K
	3rd Year	80-90K	150-175K
VP		100-125K	400-500K
Director		150K	800-1MM
MD		200-250K	1.5MM

	TOTAL COMPENSATION
Global Head, Sales	3MM
Head of Americas, Sales	2.5MM
Head of Europe, Sales	2.5MM
Head of Asia, Sales	1.5-2MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING/STRUCTURING *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	70-80K	80-100K
	3rd Year	80-90K	175-200K
VP		100-125K	500-600K
Director		150K	1-1.2MM
MD		200-250K	1.7-2MM

	TOTAL COMPENSATION
Global Head, Trading	6MM
Head of Americas, Trading	3-4MM
Head of Europe, Trading	3MM
Head of Asia, Trading	2-2.5MM

2008 Outlook

European credit derivative structurers are eyeing moves into other asset classes as the fallout from this summer's credit crunch makes job security and bonuses increasingly uncertain. Movement into commodities, which increasingly is centered in London, will become an active trend.

The market is on pace to increase again in 2007, boding well for the product category in 2008.

People Moves & Promotions

Name	Title	Company From	Company To	Current Location
Terry Koh	*Director, Local Currency Credit Trading*	JPMorgan Chase	Barclays	Hong Kong
Brett Golledge	*Head of Flow Credit Trading*	Deutsche Bank	RBS	London
Marc Freydefont	*Senior Credit Derivatives Structurer*	Credit Suisse	RBS	London
Roberto Silvotti	*Head of Exotic Credit Derivatives*	Dresdner Kleinwort	RBS	London
Alex Preston	*European Loan Credit-Default Swaps Trader*	Gordian Knot	ABN Amro	London
Martin Lawrence	*Director, Trading High Grade Corporate Cash & CDS*	Citigroup	WestLB	London
Stephen Hunnisett	*Senior Credit Analyst*	Moody's	Blackrock Investment Management	London
Paul Griffiths	*Head of UK Fixed Income*	AXA Investment	Credit Suisse	London
Andre Esteves	*Head of Global Fixed-Income Sales & Trading*	UBS Pactual	UBS	London
Lorenzo Isla	*Head of Credit Derivatives Structuring*	Barclays	BBVA	Madrid
Andrew Denatale	*Credit Derivatives Trader*	JPMorgan Chase	Citigroup	New York
Rahul Murlidharan	*Director, U.S. Credit Derivatives Structuring*	JPMorgan Chase	Citigroup	New York
Jennifer Doyna	*CDS Trader*	ICAP	BGC Partners	New York
Chris Hentemann	*Global Head of Structured Products (Left 10/18/07)*	Internal Promotion	Bank of America	New York
Vincent Breitenbach	*Head of Credit Research, Americas*	Countrywide Financial	Barclays	New York
Mark Davies	*Head of Fixed Income*	Bear Stearns	SAC Capital	New York
Marie Chandoha	*Head of U.S. Fixed Income*	Wells Capital Management	Barclays	San Francisco
Luke Fay	*Credit Derivatives Trader*	ANZIB	UBS	Sydney
Steve Cario	*Credit Derivatives Trader*	ANZIB	UBS	Sydney
Clare-Louise Nightingale	*Director for Corporate Derivatives, Australia & NZ*	Goldman Sachs JBWere	Credit Suisse	Sydney
Adam Robert-Thomson	*VP, Corporate Credit Derivatives Clients*	JPMorgan Chase	Credit Suisse	Sydney
Sean Carmody	*Head of Fixed Income, Australia*	Westpac Institutional Bank	Barclays Global Investors	Sydney

Emerging Market Debt

Emerging markets desks at banks are now almost entirely combined with FX. The make-up of the desks has been most beneficial to Asia-based groups, which thrived on successful EM and FX trades throughout 2007. According to OGIU surveys, Asian professionals on this desk should receive industry-high payouts of 15 to 20% this year, followed by EMEA (led by Dubai) and then Latin America. London-based EM salespeople and traders will still make the most on aggregate, but the largest percentage increases in pay are being found elsewhere. Thru mid-October, emerging market debt volumes reached $321 billion, 24% higher than this time last year, according to *Dealogic*.

Senior personnel moves in emerging market debt continue to shake up the region. Debashish Dutta Gupta, a senior figure in Citigroup's emerging markets trading team in Hong Kong, has left the firm for Lehman in London.

The big question for senior managers will be who should get paid on their desk and who should not. Since profits will be relatively lower at most global investment banks and hedge funds, senior managers will have their work cut out for them in EM/FX as well as other product categories. "There are some traders who won't get anything this year," says one Latin American desk head at a global investment bank. "This year's bonus season is going to be a real meritocracy compared to the past couple of years – traders are going to really have to earn their 2007 bonuses."

Emerging markets, which often suffer the worst during the latest credit crunch, performed as well if not better than more mature financial centers in debt and equities. The spread between emerging market corporate bonds over U.S. treasuries, for example, rose less than the comparable spread of U.S. corporate high-yield bonds thru early September. Institutional investors are taking more of a global "flight to quality" perspective this time around, say Options Group clients.

Brazilian, Chilean and Canadian companies, for example, are seemingly preferred investments over lower-rated, highly leveraged U.S. corporations. Eastern European companies may be more susceptible to get hurt by the global credit crunch due to their dependence on capital inflows to finance current account deficits, according to S&P. Mexican companies may have the most exposure to the U.S. led credit crisis, say executives surveyed by OGIU.

In Latin America, Morgan Stanley, Goldman Sachs and Lehman Brothers aggressively built out their fixed income and equities sales and trading desks in Chile, Mexico and Brazil to compete with more established competitors. The U.S. led credit crunch, however, could stop these build-outs in their tracks, especially at Lehman, which had a pretty large sub-prime exposure. Local banks like Banco Itau also are hiring to keep pace with larger foreign banks. For example, UBS and Credit Suisse are number 1 and 2, respectively, in IPO's, and Banco Itau is 3rd. The ruble has become a popular currency play by European traders and the emergence of Eastern and Central Europe markets like Turkey and Poland are only increasing the EM story going forward.

Compensation

- Bonuses up 10 to 15% versus 2006 on average
- Record EM debt volumes bode well for fixed income professionals this year, especially in Asia-Pacific.
- The war for talent, plus the entrance of new competitors, in Brazil has led to substantial payouts to professionals from senior managing directors to even associates.

Average Global Investment Bank Pay – Sales *(US$)*

		Base	Bonus
Associate	*1st Year*	70K	60-70K
	2nd Year	80K	70-80K
	3rd Year	90-110K	95-115K
VP	*1st Year*	100-120K	140-160K
	2nd Year	125K	175-225K
	3rd Year	125-150K	275-325K
Director	*1-2 Years*	150K	550-650K
	3+ Years	175-200K	1-1.2MM
MD	*1-2 Years*	200K	1.4-1.8MM
	3+ Years	250K	2.5MM

	Total Compensation
Global Head, Sales	5MM
Head of Americas, Sales	4MM
Head of Europe, Sales	3-3.5MM
Head of Asia, Sales	3.5MM
Head of Latin America, Sales	3.5MM
Head of EMEA *(Europe, Middle East and Africa)*	3MM

Average Global Investment Bank Pay – Trading *(US$)*

		Base	Bonus
Associate	*1st Year*	70K	65-75K
	2nd Year	70-80K	75-85K
	3rd Year	90-110K	110-130K
VP	*1st Year*	100-120K	150-175K
	2nd Year	125K	200-250K
	3rd Year	125-150K	350-400K
Director	*1-2 Years*	150K	700-800K
	3+ Years	175-200K	1-1.4MM
MD	*1-2 Years*	200K	1.5-2MM
	3+ Years	250K	2.5MM

	Total Compensation
Global Head, Trading	4.5MM
Head of Americas, Trading	4MM
Head of Europe, Trading	3.5-4MM
Head of Asia, Trading	3.5-4MM
Head of Latin America, Trading	4MM

2008 Outlook

The upside in Asia-Pacific also leads Options Group to the conclusion that next year will be a strong one again for the region in EM and FX. Central and Eastern European (CEE) banking does not receive a lot of media attention, but firms are planning to ramp up their coverage of these countries in late 2007 and 2008. Euromoney rated UBS in July as the best debt house in this region.

The Latin American EM/FX markets are still strong, but they no longer have the same upside as emerging markets in Europe (Dubai) and Asia. Banks, already with large desks in Brazil and Mexico, are actively building their EM/FX desks in Chile and Argentina.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Ricardo Debedout	*Head of Columbia office*	JPMorgan Chase	Merrill Lynch	Columbia
Costas Katsileros	*Emerging Markets, Rates & FX Prop Trader*	ABN Amro	EFG Eurobank	Greece
Lourenco Bastos-Tigre	*EM Portfolio Manager*	Maua Investments	Tudor Investments	Greenwich
Debashish Dutta Gupta	*MD, Fixed Income Emerging Markets group*	Citigroup (Hong Kong)	Lehman	London
Inga Johal	*Head of Emerging Markets Trading*	Standard Bank	Commerzbank	London
Michel Danechi	*Head of Emerging Markets, Europe*	UniCredit	Lehman	London
Andrea Vella	*MD, Corporate Credit Derivatives Clients*	JPMorgan Chase	Goldman Sachs	London
Vlad Galea	*Head of Emerging Market Structuring*	JPMorgan Chase	BNP Paribas	London
David Walker	*European Loan Credit-Default Swaps Trader*	Deutsche Bank	Citigroup	London
David Lasky	*Senior Emerging Markets Bond Originator*	Deutsche Bank	Renaissance Capital	London
Mina Pacheco Nazemi	*VP, Emerging Markets Manager*	GE Asset Management	Credit Suisse	Los Angeles
Kishore Gotety	*Director, Trading High Grade Corporate Cash & CDS*	ICICI Ventures	Deutsche (RREEF)	Mumbai
Alexander Shepard	*MD, Trading & Sales*	ABN Amro	HSBC	New York
Moctar Fall	*Vice Chairman of Emerging Markets, Capital Markets*	Internal Promotion	JPMorgan Chase	New York
Alexandre Maia	*EM Debt*	Morgan Stanley	Lehman Brothers	New York
Adriano Piccinin	*Senior EM derivatives trader*	Morgan Stanley	Goldman Sachs	Sao Paulo
Fernando Monteiro	*EM Portfolio Manager*	Quest Investimentos	Maua Investimentos	Sao Paulo
Andrew Hunter	*VP, Emerging Markets*	CIBC	Merrill Lynch	Sydney

Fixed Income Proprietary Trading

One of the new wrinkles in fixed income proprietary hiring trends is for managers to look at multi-year candidate performance versus just a one-year track record. "Hiring managers no longer will dismiss a candidate just because he or she has had a mediocre or even down year," says Options Group Consultant Vick Tandon. Hedge fund managers in particular now seek more long-term consistency in candidate's performance returns after a turbulent summer.

The summer-long credit crunch also means that hedge funds and bank prop trading groups will have a tremendous amount of variance in bonus pay this year. Although Goldman Sachs' FICC unit performed well in its fiscal third quarter, OGIU surveys indicate that credit product desks are down across the board for the year. A strong P/L at one bank could subsidize other product groups. Deutsche Bank had fixed income prop issues this year and will pay out bonuses well below last year's levels, according to OGIU surveys. Deutsche also shut down its proprietary credit-trading desk in London after the desk was running a number of credit strategies that failed amid the recent liquidity crisis, forcing it to close out positions at a loss. Calyon said in September it lost $350 million by taking an "unusually large market position" on its prop desk. (Prop desks often trade everything from Interest Rates, Credit, Macro, RV, FX and Commodities) OGIU surveys indicate that the Stat Arb prop strategy had a down year, while Cross-Asset Volatility trading gained prominence after this summer.

Regardless of an individual fund's or bank desk's 2007 performance, more professionals are turning to prop opportunities on the sell-side due to the declining P/L of many hedge fund credit products this year. A group of proprietary traders from troubled Madrid-based U.S. hedge fund Vega Asset Management have joined Bank of America's newly assembled team for EMEA. Linus Wright will be working with Jason Tigg, a former colleague at Goldman Sachs, also a managing director. Tigg joins from data company Smartspread, whose clients include Vega. The new team will report to Gerhard Seebacher, head of global rates in the U.S.

Commodities prop trading also is gaining momentum at hedge funds, which are seeking commodity index traders in particular. Experienced commodities-related traders can expect sizable increases in compensation this year due to their strong performance relative to their fixed income trading peers.

Compensation

- Up 5% on average versus 2006, although bonuses will vary from up 10 to 15% to down at least 15 to 20% due to what OGIU surveys indicate is a huge variance on P/L performance this year.
- Total pay consists of 8 to 15% of P&L of the portfolio in cash and stock. Commodities prop desks in London are offering up to 17% of P/L this year due to the incredible demand for experienced traders.
- Increasingly, banks are investing in their internal prop initiatives and desks are being run like internal hedge funds. Cost per prop desk seat can cost as little as $250,000 and exceed $1 million depending on the existing infrastructure.

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING
(US$)

		BASE	BONUS
Analyst	*1-3 Years*	70-90K	60-80K
Associate	*1-3 Years*	100K	125-175K
VP	*1st Year*	125-150K	250-350K*
Director		150K	700-900K*
MD		150-200K	1-1.5MM*

* Most compensation is related to a percentage formula payout. (See Compensation section above for more details). A top prop trader can earn a bonus of $10 million-plus in a good year.

2008 Outlook

Job cuts will continue into 2008 as second- and third-tier banks measure their exposure. In early October, for example, **WestLB**, the German bank that lost €604 million from its proprietary trading business during the credit crisis, is preparing to cut up to 600 jobs.

Fundamental credit analysts are now in great demand by hedge funds and that should only continue as the buy-side moves away from quantitative modeling over the next 12 months. SAC Capital, for example, has built out a team of over 50 fixed income prop traders and analysts to take advantage of the increased volatility in the global markets.

People Moves and Promotions

NAME	TITLE	COMPANY FROM	COMPANY TO	CURRENT LOCATION
Aaron Brown	*Fixed Income Prop Risk Manager*	Morgan Stanley	AQR Capital	Connecticut
Patrick Tuohy	*Global Head of Sales and Marketing, Alternative Investments Group*	Internal Promotion	HSBC	Hong Kong
Nick Munns	*Head of Macro Proprietary Trading desk*	JPMorgan Chase	RBS	London
David Thompson	*Head of Macro Fixed Income & Absolute Return Products*	Allied Irish Capital Management	Bank of Ireland	London
Stephen Hunnisett	*Senior Credit Analyst*	Moody's	Blackrock Investment Management	London
Dhaval Jhoshi	*Global Macro Strategy - Credit*	Societe Generale	RAB Capital	London
Drew Casino	*Senior Prop Trader, ABS and EM team*	Morgan Stanley	Peloton Partners	London
Tomasz Pialucha	*Senior Prop Trader, ABS and EM team*	Goldman Sachs	Peloton Partners	London

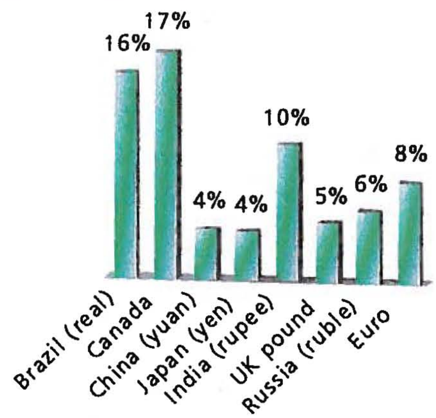
Foreign Exchange

Summer-long unpredictability in major currencies (as well as the overall capital markets) led to a more uncertain future for the asset class going into the fall. Most of the key hires occurred in early 2007: Alain Delelis, for example, moved to Credit Suisse from Bank of America to head up foreign exchange in the Americas in March.

The carry trade - a trading strategy in which investors borrow money in countries with low interest rates to invest in countries with much higher rates - has been one of the most lucrative foreign-exchange tactics of recent years. Fears of a U.S. credit crisis caused this trade to unwind quickly in August. Globally, one of the biggest stories is the big swing in the Yen, which has helped fuel the rapid expansion of FX desks there. In Japan, where the country's near-zero interest rates made the local currency the most popular borrowing vehicle for the carry trade, the yen has chalked up its biggest rally in years.

While gyrations in U.S. stocks have left many wondering about the market's direction this summer, currency traders are attempting to move away from the trade. Thru mid-October, however, FX traders executed it again as the U.S. dollar continued its descent against other currencies. A significant move away from the carry trade would boost the lagging U.S. dollar, but this would be bad news for currencies such as the New Zealand dollar and those from many emerging markets that are performing well vs. the dollar. (See chart)

LOCAL CURRENCIES VS. U.S. DOLLAR*



* Year-to-Date (thru 10/19/07).

The EM local currency trade by Latin American bank desks is now defunct due to the U.S. led credit crisis, according to several desk heads in the region. "For 2 to 3 years the local rates trade was the key one to make," says one.

Compensation

- Flat to down 5% on average over 2006 bonuses, with Europe and Asian professionals once again taking the bulk of the 5%-plus higher pay packages.
- FX traders with proprietary trading experience should expect to receive significant pay increases in Asia and EMEA.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES (*US$*)

		BASE	BONUS
Associate	*1-2 Years*	65-80K	20-30K
	3rd Year+	85-100K	35-55K
VP	*1-2 Years*	95-110K	150-250K
	3rd Year+	125K	250-450K
Director		125-150K	500-900K
MD		150-200K	1-1.25M

	TOTAL COMPENSATION
Global Head	3MM
Head of Americas	2.5MM
Head of Europe	1.5MM
Head of Asia	1.5MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING (*US$*)

		BASE	BONUS
Associate	*1-2 Years*	65-80K	40-60K
	3rd Year+	85-100K	70-90K
VP	*1-2 Years*	95-110K	300-400K*
	3rd Year+	125K	400-500K*
Director		125K	1-1.2 MM*
MD		150-200K	1.5-2MM*

	TOTAL COMPENSATION
Global Head	4MM
Head of Americas	2.5MM
Head of Europe	2MM
Head of Asia	2MM

* Bonuses are based on sales credits or P/L of a seat. Nominative ranges have skewed from 8 to 12% in 2005 to more like 5-10% this year.

2008 Outlook

Many institutions have invested in developing electronic FX platforms to make higher frequency trades more profitable. The merger of Bank of New York and Mellon Bank should make this combined entity one of the leaders in the U.S. FX arena. Morgan Stanley and Credit Suisse also will continue to make inroads in FX in 2008. Many of the Asian banks are or in the process of moving FX trading to either Hong Kong or Singapore because of lower corporate taxes and more relaxed regulations. OGIU surveys indicate that several firms are moving the domestic sales desks from the banking side to the securities side. Credit Suisse also set up a sales desk in Tokyo to handle increased demand for products.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Lis Christiansen	*Corporate FX, Local Markets*	Commerzbank	Dresdner Kleinwort	Frankfurt
Jasmin Fellner	*E commerce Sales team*	BNP Paribas	Dresdner Kleinwort	Frankfurt
Terry Koh	*Director of Local Currency Credit Trading*	JPMorgan Chase	Barclays	Hong Kong
Vincent De Lorenzo	*Head of Global FX for Europe*	Internal Promotion	Bank of America	London
Michael Walsh	*Head of Hedge Fund FX Sales*	ABN Amro	Dresdner Kleinwort	London
David Zanette	*Director, Hedge Fund FX Sales*	Calyon	Dresdner Kleinwort	London
Anton Pasechnikov	*Head of Ruble Trading*	Renaissance Capital	RBS	London
Vincent Gesser	*Head of FX, Interest Rate & Hybrid Derivatives Trading*	HSBC	Lloyds TSB	London
Enrico Ferrante	*Trader - European Loan Credit-Default Swaps*	Bank of America	Commerzbank	London
Ira Koyner	*Head of FX Options*	RBS	Dresdner Kleinwort	New York
Timothy Sharp	*Head of FX Options Correlation Trading*	Lehman	Dresdner Kleinwort	New York
George Nunn	*MD & Head of Interest Rates & FX Structuring*	HSBC	BNP Paribas	New York
Tom Fitzpatrick	*VP, Corporate Credit Derivatives Clients*	Internal Promotion	Citigroup	New York
Ade Odunsi	*Head of Corporate FX Sales for the Americas*	Merrill Lynch	Barclays	New York
Ray Franzi	*Director, Trading High Grade Corporate Cash & CDS*	Internal Promotion	Deutsche Bank	Singapore

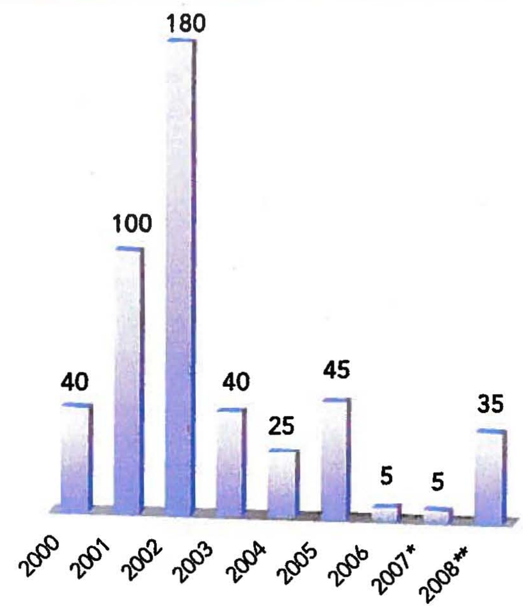
High Yield Credit (Distressed)

High-yield credit is perhaps the most closely watched product at fixed income and corporate finance desks after the U.S.-led credit crunch this past summer. Although corporate defaults remain at record lows so far in 2007 after an equally dormant 2006, experts both inside and outside the industry are calling for a big up-tick in corporate defaults due to the high proportion of high-yield bonds (nearly 50%) rated B-minus or below. There was a pick-up in default levels in 2006, when Delphi went bankrupt, but the default rate in 2006 was just 0.5%, the lowest since 1981. This year the rate has been just 0.2% - compared with a weighted average between 1971 and 2005 of 4.2%

Standard & Poor's is now predicting that corporate defaults will rise to $35 billion in 2008, up from just $4.5 billion through the first 9-1/2 months of 2007 (see chart and compare 2008 to 2000 to extrapolate out a possible 3-year scenario). A record $300 billion remains in the deal flow pipeline as of mid-October. Bankers are scrambling to position themselves as restructuring experts through acquisitions or hiring teams of experienced professionals from competitors. Goldman Sachs bought Goldsmith Agio Helms, while Credit Suisse bought a one-third stake in a firm that appraises and liquidates assets. Blackstone Group recently opened a European office to focus on restructuring efforts.

Distressed debt yielded as much as 10 percentage points more than Treasuries. Since June, the amount of distressed bonds has risen more than fivefold to $24.8 billion, according to an index Merrill Lynch began compiling in 1997. Special situations are now often lumped together with distressed at many banks.

US CORPORATE DEFAULTS ($BN)



Source: Standard & Poors.
* Year-to-Date (thru 10/19/07)
** Projected

Perella Weinberg Partners acquired Xerion Capital Partners, a U.S. hedge fund group that specializes in distressed securities, in October. Private equity giant TPG said it was launching a distressed credit fund in mid-October to buy up cheap debt. In Europe, Blue Bay Asset Management snapped up Deutsche Bank's London-based head of distressed-debt trading, Simon Mullaly, as the hedge fund expands its expertise in troubled deals.

Overall high yield underwriting volumes continue to rise this year, and bonuses should be higher than last year due to the increase in activity. Total deal volume rose around 32% to $157 billion in the first nine months of 2007 versus the same time frame in 2006 (See High-Yield League Table). 2005 deal volumes were just $100 billion thru the first 9 months of the year. Perhaps more significantly in terms of bonuses, reported fees are up from 1.3 in 2005 to 1.5 in 2007.

U.S. leveraged loans also were a big story this year with volumes rising by 63% to $774 billion through the first nine months of 2007 versus the same period in 2006. Market leaders in the U.S.-led leveraged loans market include JPMorgan Chase, Bank of America, Citigroup and Wachovia. The increase is due to the continued rise of LBO firms internationally. LBO financings include both high-yield bonds and leveraged loans to finance deals.

Compensation

- Bonuses up 0 to 5% on average versus 2006, although distressed sales, trading and research professionals should receive significantly higher compensation globally for switching firms.
- High-yield salespeople are once again in demand as volumes rise, although pay increases are minimal due to the poor outlook for fixed income desks overall and the overhang of hundreds of billions in un-syndicated leveraged loans.
- Compensation will drop to negative territory if deal flow does not stabilize in the fourth quarter. In the third quarter, new issuance fell 70% versus the third quarter total from 2006, according to Dealogic.

GLOBAL HIGH YIELD

2007 (THRU 9/30)				2006 (THRU 9/30)			
Advisor	Share (%)	Total ($MM)	Fees	Advisor	Share (%)	Total ($MM)	Fees
JPMorgan Chase	12.2	19,154	1.54	Citigroup	14.4	17,028	1.95
Citigroup	10.5	16,522	1.31	JPMorgan Chase	13.8	16,419	1.13
Credit Suisse	10.2	16,010	1.49	Credit Suisse	10.4	12,375	1.82
Deutsche Bank	9.2	14,435	1.05	Deutsche Bank	9.2	10,903	1.21
Merrill Lynch	7.8	12,167	1.95	Merrill Lynch	6.8	8,070	0.80
Goldman Sachs	5.6	8,802	1.74	Bank of America	6.7	7,979	1.29
Lehman Brothers	5.6	8,767	1.46	Goldman Sachs	5.7	6,711	1.21
Bank of America	5.5	8,609	1.6	Morgan Stanley	5.5	6,461	1.60
UBS	3.9	6,187	1.9	Lehman Brothers	4.9	5,806	1.94
Morgan Stanley	3.7	5,749	0.9	UBS	4.5	5,296	0.89
Industry		156,783	1.47	Industry		118,551	1.42

Source: Bloomberg.

Average Global Investment Bank Pay Sales (US$)	Base	Bonus	Average Global Investment Bank Pay Trading (US$)	Base	Bonus
Associate	90K	80-100K	Associate	90K	80-100K
VP	125K	200-250K	VP	125K	250-300K
Director	150K	400-500K	Director	150K	500K
MD	200K	1.25-1.75 MM	MD	200K	1.5-2 MM
		Total Compensation			Total Compensation
Head of Americas, Sales		4-4.5MM	Head of Americas, Trading		4.5MM
Head of Europe, Sales		3-3.5MM	Head of Europe, Trading		3.5MM
Head of Asia, Sales		3MM	Head of Asia, Trading		3MM

2008 Outlook

The combination of increased leveraged loan and high-yield activity highlight just how strong the debt capital raising was in the first half of 2007. These record-levels will probably not be repeated for some time, however, as dormant DCM markets will require corporations to use more stock or cash to complete deals. Banks will need to unload massive amounts of unsyndicated loans instead of issuing new debt. This slowdown should open up the distressed market as corporations with high debt loads struggle. Look for restructuring firms like Alvarez & Marsal, Miller Buckfire and Houlihan Lokey to ramp up for this increase that has been promised for some time. Specialty lending at banks and hedge funds also is an emerging trend that will need more personnel in the months to come.

Emerging markets, which often suffer the worst during the latest credit crunch, performed as well if not better than more mature financial centers during the crunch, boding well for 2008. For example, the spread between emerging market corporate bonds over U.S. treasuries has risen by less than the comparable spread of U.S. corporate high-yield bonds.

People Moves and Promotions

NAME	TITLE	COMPANY FROM	COMPANY TO	CURRENT LOCATION
Grant Chan	*Analyst, Special Situations Greater China*	Cazenove	Thaddeus Capital	Hong Kong
Eric Capp	*MD & Head of Leveraged Capital Markets*	JPMorgan Chase	RBS	London
Kristian Orssten	*Head of European High Yield Capital Markets*	Internal Promotion	JPMorgan Chase	London
Stephen Elliott	*Senior High Yield Sales Professional*	Lehman	Calyon	London
Robert Campbell	*Executive Director, Leveraged Loan & High Yield Bonds*	Deutsche Bank	Morgan Stanley	London
Morton Llewellyn	*MD & Head of High Yield Capital Markets*	West LB	ING	London
Brian Archer	*Head of High Grade Flow Trading*	Internal Promotion	Citigroup	London
Conor Davis	*Trader, European Loan Credit-Default Swaps*	Deutsche Bank	Citigroup	London
Gary O'Connor	*Managing Director & Head of Secondary Loan Trading*	CIT	WestLB	London
Matt Barrett	*Director, Trading High Grade Corporate Cash & CDS*	Oaktree Capital Management	Barclays	Los Angeles
David Kranich	*High Yield Trader*	Citigroup	Calyon	New York
David Weinstein	*Head of High Yield and Leveraged Capital Markets*	BNP Paribas	Calyon	New York
Mark Lichtman	*VP, Corporate Credit Derivatives Clients*	BB&T Capital Markets	Cantor Fitzgerald	New York
Robert Wade	*Director of High Yield Sales & Trading*	BB&T Capital Markets	Cantor Fitzgerald	New York
Mark Hudoff	*Global Head of High-Yield*	Internal Promotion	Pimco	Newport Beach

Interest Rates (Derivative Brokerage, Government Bonds, Options, Swaps & Agencies)

Straight interest rates trading continues to become more of a "flow" business and firms are offering more cross-asset products to investors. As more competitors have entered the interest rate derivatives business, margins are shrinking and banks are trying to compensate by doing more trades cheaply. Derivatives linked to interest rate products had a nominal value of $285.7 trillion in 2006, a 34% rise from 2005.

Rates salespeople that can effectively market these products remain the most in demand across the global recruiting landscape. Senior interest rate derivatives traders and researchers also are in demand. One of the biggest people moves in this category was Bear Stearns' Michael Fedak, global head of interest rate derivatives and municipal derivatives, who left the firm in July for personal reasons.

Other big moves include: Peter Antico, who left Deutsche Bank where he was U.S. head of interest rate options trading, to take a position as head of interest rates sales and trading at Merrill Lynch, according to IDD. Deutsche also lost Munir Dauhajre, head of cross-rates sales, to Lehman Brothers in September.

The best interest rate houses are Goldman Sachs, Lehman Brothers and Deutsche Bank. Bank of America and JPMorgan make the top list because of the sheer size of their books. All three large money-center banks (JPMorgan, Citigroup and Bank of America) had books of at least $250 million last year–more than double the size of the top U.S. securities firms. According to OGIU surveys, Morgan Stanley, Goldman Sachs rates desks were up on the year, while Bank of America was flat to down.

Volatility trading has been a real make-or-break business for the banks as some desks built up large P/L's while others were hit on the front-end of the sharply increasing volatility curve. Less volatility in treasuries and rates has been good news to the options world. In Swaps trading, JPMorgan and Deutsche Bank dominated most categories, according to an interest rates survey done by Risk magazine in September 2007. In exotic interest rates, Goldman Sachs led the way followed by RBS, and in repurchases, Credit Suisse again finished first followed by Barclays Capital, according to Risk. Hiring in the government bond industry picked up in 2007 and even one of the traders involved in the "Dr. Evil" trades at Citigroup, Simon Wivell, was hired by Morgan Stanley in September.

Commodity futures, especially energy futures, have supplanted interest rates for global investment banks. Derivative brokerage businesses, which include interest rates like financial instruments and commodities, are now very popular among the top investment banks. The top futures/options firms include: Goldman Sachs, Societe Generale's FIMAT and Calyon, Deutsche and UBS, after its purchase of ABN Amro's futures business in 2006.

Compensation

- Bonuses up 5 to 10% on average over last year as interest rate trading took a back seat to sub-sectors like Commodity trading and Derivative Brokerage (Futures)
- Big personnel moves at top banks boosted overall averages for the product category
- Goldman Sachs professionals should receive higher pay packages than at other global investment banks

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES (US$) INTEREST RATES (SWAPS, OPTIONS, EXOTICS & AGENCIES, GOVIES)

		Base	Bonus
Associate	*1-2 Years*	65-75K	50-60K
	3rd Year	75-85K	70-80K
VP		100K	400-500K
Director		125K	1-1.3MM
MD		150-200K	2-2.5MM

	Total Compensation
Global Head, Sales	6-8MM
Head of Americas	4-5MM
Head of Europe	4-5MM
Head of Asia	4-4.5MM
Head of Swaps/Options	2.5MM
*	
Head of Agency Bond, Sales	2.3-2.7MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING/STRUCTURING (US$) INTEREST RATES (SWAPS, OPTIONS, EXOTICS & AGENCIES, GOVIES)

		Base	Bonus
Associate	*1-2 Years*	65-75K	70-80K
	3rd Year	80-90K	80-100K
VP		100K	500-600K
Director		125K	1.25-1.75 MM
MD		150-200K	2.5-3MM

	Total Compensation
Global Head, Trading	10-15MM
Head of Americas	8-10MM
Head of Europe	8-10MM
Head of Asia	6-8MM
Head of Swaps/Options	3.5MM
Head of Exotics, Trading	2.5-3MM
Head of Agency Bond, Trading	2.5-3MM

* Firms do not have a Head of Exotics, Sales.

2008 Outlook

This year, firms either re-committed to the futures business or decided to get out altogether. Nomura Securities shut down its futures trading operation in Chicago, two months after exiting the residential mortgage-backed securities business. Banks with a strong futures/options desk are profitable and Goldman Sachs and Morgan Stanley took advantage of the jump in equity-implied volatility in August. Deutsche Bank has a deep bench and should maintain its leadership position despite the loss of Antico and Dauhajre. Asia will continue to see a boom in futures/options volume in 2008 due to the launch of index futures in China, which makes it easier for dealers to structure OTC products offshore and hedge them locally.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Roberto Hoornweg	*Global Head of Interest Rates & Commodities*	Internal Promotion	Morgan Stanley	London
Domenico Crapanzano	*Head of Interest Rates Flow Trading*	Bank of America	Dresdner Kleinwort	London
Claudio Pinto	*Head of Euro & Sterling Liquid Rates Trading.*	Barclays	Dresdner Kleinwort	London
Mallory Brooks	*Chief of the American Core Rates Sales team*	Morgan Stanley	BNP Paribas	New York
Peter Antico	*Head of Interest Rates Sales & Trading*	Deutsche Bank	Merrill Lynch	New York
Mark Ficke	*SMD-Fixed Income Brokerage*	BNP Paribas	Espeed	New York
Michael Graf	*Head of U.S. Dollar Agency, Supra Sovereign & Covered Bond Trading*	Merrill Lynch	Barclays	New York
Sheila Swanson	*Head of U.S. Equity Swaps Sales & Marketing*	Wachovia	Dresdner Kleinwort	New York
Ryan Fennelly	*Senior Agency Trader*	Credit Suisse	RBC Capital Markets	New York
Richard Klingman	*MD - Government Bond Trading*	ABN Amro	BNP Paribas	New York
Penny Chin	*Credit Analyst, Fixed Interest*	Tyndall Investment Management	Blackrock	Sydney
Takashi Hatta	*Director (Non-Yen) FI Trader/Head MBS Product Asia*	Credit Suisse	Bear Stearns	Tokyo
Kotaro Fukudome	*MD, Head of Yen Bond Sales*	JPMorgan Chase	Bear Stearns	Tokyo

Investment Grade Credit

Corporate bond issuance set a new record in the first half of the year. Issuance volume rose in the first half to a $647.3 billion quarterly record, a 22.7% increase over the first half of 2006. Through the first three quarters of 2007, volumes role 18% in the U.S. year-over-year, according to Bloomberg (see chart). In fact, the U.S. market is set to hit its first $1 trillion year after September issuance levels hit a record $94 billion. Issuance for all of 2006 was $938 billion.

Emerging market corporate debt also is becoming a big story as global investors snap up corporate bonds backed by everything from Mongolian bank loans and Mexican mortgages. These bonds-despite their exotic and riskier origins-continue to appeal to foreign investors because they typically pay higher interest than bonds of the same quality sold by companies in developed economies. For example, a 10-year, investment-grade bond backed by Cia Vale do Rio Doce pays interest of around 6.2%, higher than the 5.6% yield on a bond backed by its Australian peer, BHP Billiton Ltd. to issue a foreign-currency bond. Earlier this month, the Brazilian mining company issued $200 million of junk bonds with an interest rate of 9%.

The surge in corporate bonds like these is part of a sea change in the capital markets of developing countries. Traditionally, global investors tended to focus on bonds issued by governments in these countries in major currencies like dollars and euros. But emerging market countries are running fiscal surpluses and are less prone to need capital (see 2008 Outlook).

Banks are moving professionals to Asia to take advantage of emerging market activity in the region. Morgan Stanley relocated Patrick Lynch, previously London-based executive director and head trader of the corporate credit group, to Hong Kong where he is head of Asian corporate credit.

U.S. INVESTMENT GRADE

2007 (THRU 9/30)				2006 (THRU 9/30)			
Advisor	Share (%)	Total ($MM)	Fees	Advisor	Share (%)	Total ($MM)	Fees
Citigroup	13.3	115,096	0.9	Citigroup	14.5	100,763	0.7
JPMorgan Chase	11.2	91,653	0.5	JPMorgan Chase	10.5	72,691	0.4
Bank of America	10.2	79,972	0.5	Bank of America	9.9	69,033	0.5
Goldman Sachs	9.6	76,658	0.4	Morgan Stanley	9.6	60,535	0.6
Morgan Stanley	9.4	70,633	0.7	Goldman Sachs	8.7	60,298	0.5
Merrill Lynch	8.7	69,482	0.7	Lehman Brothers	6.9	47,920	0.4
Lehman Brothers	6.8	59,458	0.4	Merrill Lynch	6.6	46,075	0.7
Wachovia	6.4	50,508	0.8	Wachovia	6.0	41,418	0.8
Deutsche Bank	5.8	48,469	0.5	Credit Suisse	5.7	39,433	0.4
Barclays Capital	4.6	38,095	0.5	Barclays Capital	4.1	28,457	0.4
Industry		823,716	0.6	**Industry**		695,133	0.5

Compensation

- Bonuses up 10 to 15% on average as the boom in emerging markets corporate debt more than offset declining fixed income fortunes in the U.S. and Europe.
- A surge in September deal-flow should bode well for investment grade professionals come bonus season.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	65-75K	60-70K
Associate	*3rd Year*	75-90K	80-100K
VP		125K	450-550K
Director		150K	650-850K
MD		200K	950K-1.2MM

	TOTAL COMPENSATION
Head of Americas, Sales	3MM
Head of Europe, Sales	3MM
Head of Asia, Sales	2.5MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	65-75K	60-70K
Associate	*3rd Year*	80-90K	80-100K
VP		125K	450-550K
Director		150K	750-950K
MD		200K	1.25-1.75MM

	TOTAL COMPENSATION
Head of Americas, Trading	4MM
Head of Europe, Trading	3-4MM
Head of Asia, Trading	3-4MM

2008 Outlook

The booming market for capital in emerging markets will become an even bigger story in 2008. Last year, companies from emerging markets sold about $110 billion in fresh foreign-currency bonds, mainly denominated in dollars or euros. That is a 20% jump from the previous year and more than double the amount of foreign-currency debt issued by governments in those countries. JPMorgan Chase estimates that by the end of 2007, the size of the market for corporate bonds from developing countries will be double the size of the market for government debt issued abroad by those same countries.

Expect investment-grade debt salespeople and traders to work more often with other fixed income desks to complete more structured transactions. Morgan Stanley, for example, recently formed a trading joint venture between its corporate credit group and its interest-rate currency group.

People Moves and Promotions

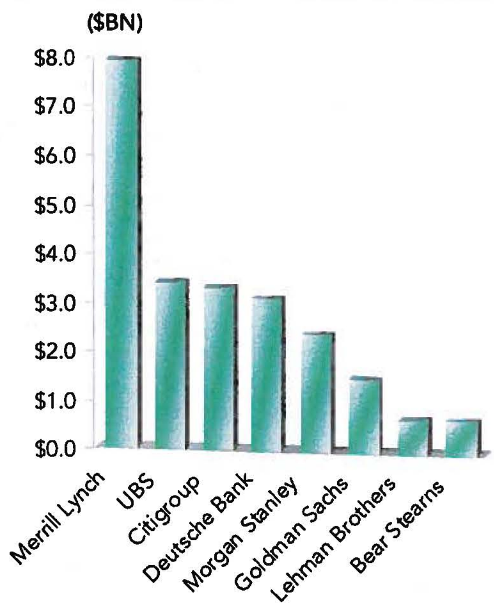
Name	Title	Company From	Company To	Current Location
Rupert Lewis	*Head of Investment Grade Corporate Syndicate*	Internal Promotion	BNP Paribas	London
Oliver Sedgwick	*Co-Head of the European Financial Institutions Syndicate Business*	UBS	Goldman Sachs	London
Martin Fisch	*Head of Complex Risk Syndication within the Global Markets division*	Internal Promotion	Deutsche Bank	London
Nicholas Street	*Portfolio Manager/Trader, Global Debt Syndicate group*	RBS	BNP Paribas	London
Craig Veysey	*Head of Global Bond Product*	West LB	Scottish Widows Investment	London
Martin Lawrence	*Director - Trading High Grade Corporate Cash & Credit Default Swaps.*	Citigroup	WestLB	London
Marco Baldini	*Director - Debt Syndicate*	Barclays	Merrill Lynch	New York
Ashish Shah	*MD - Head of Investment-Grade Strategy*	Internal Promotion	Lehman	New York
Arnaud Achour	*Head of Capital Markets & Syndicate for the Americas.*	IXIS	Société Générale	New York
Mariano Goldfischer	*Management - Bank's Loan Trading Business for Cash Derivatives & also Loan TRS Trading Book*	Strategic Value Partners	Calyon	New York
Samantha Ridler	*Head of Bond Syndcate*	Internal Promotion	Westpac Institutional Bank	Sydney

Mortgage-Backed Securities

Even though the largest and best-known mortgage-related banks are struggling to stay in the black, institutional investors may want to keep these recent losses in perspective. The top ten global investment banks alone generated more than $60 billion in revenue during this 5-year run-up in a number of credit businesses, most notably in different variations of ABS, MBS, CMBS, etc. Much like the stock market itself, its important to follow the long-term track record of these credit products rather than just on the adage "what have they done for me lately".

Of course, banks are taking that adage quite literally after a very uncomfortable summer in mortgages. One reason may very well be that banks snapped up mortgage originators just as the market was peaking last year. Credit Suisse said at the end of September it would lay off about 150 workers from its mortgage-backed securities unit. While the job cuts were the latest response to the subprime mortgage implosion that rocked the markets this summer, Credit Suisse's numbers were relatively mild to some of its peers. Lehman Bros., for example, laid off over 2,000 professionals in July and August. Lehman is the biggest underwriter of U.S. mortgage bonds and it, along with Bear Stearns, were particularly dependent on mortgage trading. In August it laid off 850 professionals from Aurora Loan Services, which made Alt-A loans to borrowers. In July, Lehman Brothers closed its own U.S. sub-prime mortgage unit, resulting in 1,200 job cuts. The mood at other desks is grim: One UBS MBS professional described his desk as a "morgue" in early October, shortly before UBS cut nearly 100 mortgage positions. Nomura reportedly has hundreds of millions of losses on its books in North America, according to OGIU surveys.

SUBPRIME IMPACT*



* Announced losses, thru Oct. 31.

Hedge funds also had large sub-prime exposures and they scaled back their operations as well. A sub-prime mortgage unit of Fortress Investment Group, the $43 billion hedge fund and private equity group, said it would stop buying loans originated by brokers. Carlyle Group has been forced to invest $100 million twice into its leveraged fund, Carlyle Capital, which invests in MBS and CLOs. The fund ran through the first $100 million from the private equity behemoth in a week, the company said.

Stand-alone mortgage originators were hit the hardest. Countrywide Financial, the biggest U.S. mortgage lender, was falling towards bankruptcy until Bank of America made a $2 billion equity investment in the embattled lender. Bank of America purchased preferred Countrywide stock yielding 7.25%, with a conversion rate of $18 a share.

Compensation

- Bonuses down 30 to 35% versus last year on average
- Mortgage originators could see bonuses down as much as 40 to 50% this year as business opportunities are dormant, especially in sub-prime. 2007 bonuses could swing higher if the last quarter shows a rebound in any of these businesses.
- As many as 1/3 of salespeople and originators may be laid off if business does not pick up by the end of 2007.
- Mortgage desk traders will still be valuable to banks for they will be the ones needed to re-position the firm's risk in these areas, especially in Securitization.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	65-75K	40K
	3rd Year	75-85K	50-60K
VP		100K	200-250K
Director		125K	500-700K
MD		150-200K	1MM

	TOTAL COMPENSATION
Head of Americas, Sales	2MM
Head of Mortgage Research	1-1.5MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING/STRUCTURING *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	65-75K	50-70K
	3rd Year	80-90K	70-90K
VP		100K	300-400K
Director		125K	700-900K
MD		150-200K	1.5 MM

	TOTAL COMPENSATION
Head of Americas, Trading	5-6MM
Head of CMBS, Trading	4MM
Head of CMO, Trading	3-4MM
Head of Whole Loan Trading	4MM
Head of Derivatives, Trading	2MM, Top 3.5MM
Head Pass-Throughs, Trading	2-2.5MM
Head of Non-Agency, Trading	1.5-2MM

GLOBAL MBS MARKET

2007 (THRU 9/30)				2006 (THRU 9/30)			
Advisor	Share (%)	# of Issues	Total ($BN)	Advisor	Share (%)	# of Issues	Total ($BN)
Lehman Brothers	8.5	105	94.9	Lehman Brothers	9.1	119	95.4
Morgan Stanley	7.3	81	81.1	RBS	8.7	109	91.1
Bear Stearns	6.7	84	74.6	Bear Stearns	8.1	109	85.5
JPMorgan Chase	6.5	85	72.9	Deutsche Bank	7.4	126	77.6
Credit Suisse	6.1	95	68.2	Credit Suisse	7.2	102	75.4
RBS	6.0	77	67.6	JPMorgan Chase	5.8	101	60.8
Deutsche Bank	5.8	85	65.4	Goldman Sachs	5.6	91	58.9
Citigroup	5.1	85	57.1	Morgan Stanley	5.4	97	57.1
Merrill Lynch	4.9	76	55.1	Banc of America Sec	5.2	102	54.4
Banc of America Sec	4.4	73	48.9	UBS	4.9	76	52.0
Industry Total: $1,119.5BN				Industry Total: $1,051BN			

2008 Outlook

One reason why banks are scaling back their mortgage desks is because there will be a large legal overhang in 2008 and beyond. New Century was an early legal target of European mutual funds and more significantly, the $91.5 billion New York State Teachers' Retirement System pension fund. Increased CMBS activity in emerging markets could help the more globally centered banks like Merrill Lynch, Deutsche Bank and RBS.

People Moves and Promotions

NAME	TITLE	COMPANY FROM	COMPANY TO	CURRENT LOCATION
Neil Warman	*Deputy Head of Mortgage Principal Finance*	Bear Stearns	Bank of America	London
Mark Rosen	*MBS Agency/Hybrid Trader*	Lehman Brothers	Merrill Lynch	New York
Rishi Bansal	*MBS Sub Prime Trader*	Lehman Brothers	Merrill Lynch	New York
Arthur Frank	*Director & Head of Agency MBS Research*	Barclays	Deutsche Bank	New York
Ying Shen	*Director & Head of Non-Agency MBS Research*	JPMorgan Chase	Deutsche Bank	New York
Peter Stein	*Director, CMO Trading Residential Mortgage Backed Securities*	Bear Stearns	Deutsche Bank	New York
Mark Rosen	*MBS, Agency/Hybrid Trader*	Lehman Brothers	Merrill Lynch	New York
Takashi Hatta	*Director, (Non-Yen) FI Trader, Head MBS Product, Asia*	Credit Suisse	Bear Stearns	Tokyo

Municipal Derivatives

In the first half of the year, municipal bond issuance was on pace to break the $408.2 billion record set in 2005 through the first half of 2007, with total long-term municipal securities issuance totaling $229.4 billion — 29% higher than 2006's first half. Merrill Lynch and Bear Stearns moved up in the league table and JPMorgan Chase dropped out of the top five (See chart below).

August, of course, shifted bonus expectations dramatically across public finance desks and current estimates are for lower bonuses this year. "Secondary market activity all but came to a halt in late August," according to one municipal finance desk head surveyed by OGIU. The credit crunch flight-to-quality even impacted the selling of AAA-rated munis. Municipal-based hedge funds were on average down 15 to 25% for the month, according to senior municipal finance professionals surveyed.

"It was the worst three-week period in the history of the market," said another senior municipal desk professional, who has been in the business for 20-plus years. One top-tier bank was about to launch a large municipal arbitrage fund, but it pulled the plug after the credit crunch. The peaking of the market in the spring did lead to a number of global bank shake-ups. After hiring David Shulman to overhaul its muni group last year, UBS lost a number of senior professionals in the first half, including: Mark Maroney, who left UBS for RBC to run its municipal products group; Anand Kesavan, who went to Sievert Brandford, Shank; and Jason Michaels to JPMorgan Chase (See People Moves & Promotions section).

Municipal bond activity continues to migrate to a derivatives platform and one bright spot after the credit crunch is the Muni CDS market. Muni CDS has not seen wide adoption among traditional muni investors but after Delaware Investments received board permission to trade muni CDS for the first time a handful of other investors have entered the market. One trader in New York told the Bond Buyer real-money investors such as Delaware are starting to view muni CDS as a better hedge for their long positions than the Treasuries market because the historical relationship between munis, LIBOR and Treasuries was thrown out of kilter in August. In June, UBS issued a Muni CDO (the second one ever), but it is unlikely the market will see another one until early 2008 at the earliest.

MUNICIPAL BONDS

2007 (THRU 6/30)			2006 (THRU 6/30)		
Advisor	# of Issues	Total ($BN)	Advisor	# of Issues	Total ($BN)
Citigroup	344	$36.2	Citigroup	254	23.0
Merrill Lynch	234	$27.5	UBS	351	19.7
UBS	347	$18.1	Merrill Lynch	219	17.8
Bear Stearns	69	$15.1	Bear Stearns	74	12.0
Morgan Stanley	135	$14.7	JPMorgan Chase	166	11.9
Industry Total: $229.5 BN			Industry Total: $178.1 BN		

Source: Bond Buyer.

Compensation

- Bonuses flat to down 5% on average versus 2006 as record bond activity in 2007 will be overshadowed by sub par fixed income desk performance this year.
- Muni CDS professionals will be in demand and they will need to be paid relatively well to stay put in 2008.

Average Global Investment Bank Pay – Sales *(US$)*		Base	Bonus	Average Global Investment Bank Pay – Trading *(US$)*		Base	Bonus
Associate	*1-2 Years*	60-70K	70-80K	Associate	*1-2 Years*	60-70K	70-80K
	3rd Year	70-90K	90-110K		*3rd Year*	70-90K	100-120K
VP		100-125K	200-225K	VP		100-125K	225-375K
Director		150K	450-650K	Director		150K	550-750K
MD		200K	800K-1.2MM	MD		200K	850K-1.15MM

	Total Compensation		Total Compensation
Regional Head Muni Securities, Sales	3-3.5MM	Regional Head Muni Securities, Sales	3.5-4.5MM
Regional Head, Sales	1.25-1.75MM	Regional Head, Trading	1.75-2.25MM
Regional Head of Banking, Sales	1.25-1.75M	Regional Head of Banking, Trading	1.5-2MM

2008 Outlook

There are two major wild cards for the municipal derivatives market in 2008: One involves the Kentucky Supreme Court case (Commonwealth of Kentucky v. Davis). Last year, a lower court ruled it is unconstitutional for the state to not tax interest on its own municipal bonds but tax interest on out-of-state munis. If a ruling goes against the Commonwealth of Kentucky, single state municipal bond funds will likely become obsolete. The impact on the price of municipal bonds will depend on how each state decides to treat taxation of in state and out of state municipal bonds, but higher tax state holders could be especially hard hit and dampen issuance enthusiasm. Another wild card to watch is increased talk of tax increases in what will be a presidential election year in the U.S. Any tax increase will positively impact the municipal bond market.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
David Shulman	*Head of Municipal Securities Group*	Internal Promotion	UBS	New York
Seema Mohanty	*Marketer, Municipal Derivatives*	Morgan Stanley	UBS	New York
Paul Sitarz	*Co Head, Municipal Investor Derivatives*	Morgan Stanley	UBS	New York
Matthew Roggenburg	*MD, Municipal Derivatives*	Morgan Stanley	UBS	New York
Kisti Shah	*Executive Director, Municipal Derivatives*	JPMorgan Chase	UBS	New York
Michelle Gesser	*Municipal Derivatives*	Merrill Lynch	UBS	New York
Mark Maroney	*Head of Municipal Products Group*	UBS	RBC Capital Markets	New York
Jason Michaels	*Marketer, Muni Derivatives*	UBS	JPMorgan Chase	New York
Larry Fox	*Head of Municipal Prop Trading*	Morgan Stanley	UBS	New York
Zoya Garguilo	*Co-Head, Municipal Investor Derivatives*	Bank of America	UBS	New York
Ed Droesch	*Head of Municipal Underwriting*	Citigroup	Goldman Sachs	New York
Russel Mannis	*Municipal Head Trader*	JPMorgan Chase	Bank Of America	New York
Jim McGinley	*Head of Municipal Prop Desk*	Bear Stearns	Lehman Brothers	New York

Structured Credit

It truly was the best of times and the worst of times for the collateralized debt obligation (CDO) market this year. In the first quarter, CDO sales reached a record $251 billion globally. CDO synthetics, or bonds backed by credit derivatives, rose to a record $121 billion. But in the third quarter, the wheels really came off this market: By the end of August, the CDO business at most global investment banks had shut down and the market lost its stability due to the sudden unreliability of the rating agencies.

"Guys who made money in the first half are going to be giving back in the second half and then some," said one structured credit MD surveyed by OGIU in September. "Bonuses were looking to up again this year, but now people just want to keep their jobs." UBS, RBS, Deutsche Bank and Credit Suisse all have laid off CDO salespeople in September and October, and more job cuts are expected elsewhere. Barclays Capital head of CDOs, Edward Cahill, also quit amid growing fears about the bank's exposure to troubled debt vehicles it set up for clients. Citigroup in addition rearranged its credit trading operations, prompting the departure of Jim Higgins and Dave Pichler, co-heads of global credit trading. Loic Fery, global head of credit markets and CDO at Calyon in London, was laid off after the firm said it had £250 million in proprietary trading losses. In mid-October, Morgan Stanley's head of structured credit trading, David Warren, left the firm along with 300 other fixed income professionals.

One of the biggest users of CDOs during this multi-year run-up was hedge funds, which received easy credit terms from banks of 95 to 98 cents on the dollar for CDO's they originated. As of September, at least, banks were only willing to loan a maximum of 85 cents to hedge funds and other investors. The lack of collateral slowed profits at hedge funds and should continue to do so going forward (See Alternative Investments/Hedge Funds section for more details.) CDO issuance originated by hedge funds dropped to $449 million for the first nine months of 2007 versus $2 billion over the same time period in 2006.

Many structured credit desks now combine Correlation, CDS and structured cash flow based businesses, although many firms say the convergence between fixed income and equities is overblown in many respects. For example, structured credit and equity derivatives trading are combined at many global investment banks but they are run quite differently.

Compensation

- Bonuses down 20 to 25% on average versus 2006
- Job losses will continue to mount as banks weed out originators and non-revenue producers before year's end.
- Citigroup, Barclays and ABN Amro professionals should fare relatively well due to a large increase in CDO issuance at these banks this year versus last, according to Asset-Backed Alert.

For Sales and Trading Professions Worldwide *(US$)*

		Base	Bonus
	1st Year	80-90K	70-80K
Associate	*2nd Year*	85-95K	110-130K
	3rd Year	100K	150-200K
	1st Year	100-120K	250-300K
VP	*2nd Year*	120-140K	300-350K
	3rd Year	130-150K	400-500K
Director		150K	900K-1.1MM
MD		200K	1.5-2MM

	Total Compensation
Global Head	8-9MM
Head of Europe	4-5MM
Head of Asia	4MM
Head of U.S.	5MM
Regional Head of CDOs	3-4MM

2008 OUTLOOK

Although there was some stabilization in fixed income products in late September and October, the future of CDOs is not good. Standard & Poor's default index should jump when it adds CDOs printed in 2006 to the multi-year mix. That year's class included an especially high number of offerings backed by subprime mortgage bonds, which are likely to run into trouble due to soaring defaults and delinquencies among their underlying loans. The bad news is the 2007 prints will probably be even worse, at least those from the first half of the year.

People Moves and Promotions

Name	Title	Division	Product	Location
Hwa-Ping Chang	*MD, Structured Credit*	Industrial Bank of Taiwan	Wachovia	Hong Kong
Edouard Huntziger	*Credit Hybrids and Exotics group*	SGCIB	JPMorgan Chase	Hong Kong
Craig Lipsay	*Head of Structured Credit Sales*	Morgan Stanley	Merrill Lynch	London
Soren Willemann	*Head of European Structured Credit & Quantitative Strategy*	Internal Promotion	Barclays	London
Viola Scholzen	*Director, Structured Credit Sales*	Pinnacle Capital	Citigroup	London
Alan Yeoh	*MD, Co-Head of European Structured Credit Trading Business*	Credit Suisse	Bear Stearns	London
Wojciech Herchel	*Asset Liability Management Modeling, Structured Credit*	West LB	BNP Paribas	London
Kassem Shafi	*European Head of CDOs*	Internal Promotion	Bear Stearns	London
Dorothee Fuhrmann	*Head of European CDO & Structured Credit Syndication*	Morgan Stanley	Lehman Brothers	London
Teimuraz Barbakadze	*Head of Structured Credit*	Societe Generale	F&C Asset Management	London
Sridhar Bearelly	*Head of CDOs group*	Lehman Brothers	ZAIS Group	New Jersey
Fernando Guerrero	*CEO, Head of Structured Credit*	Merrill Lynch	NIBC Credit Management	New York
Chris Shin	*Vice President, Structured Credit Sales*	Sailfish Capital	Goldman Sachs	New York
Jean de Lavalette	*Head of Structured Asset Sales & Trading*	Internal Promotion	Société Générale	New York
Robert Jacques	*Head of CDO Structuring*	Credit Suisse	Rabobank	New York
Sean Rice	*Head of Structured Credit Product Management*	Bank of America	UBS	Stamford

Structured Finance

One big misperception regarding the credit markets is that the downward business spiral began this summer. Structured finance products (and MBS) began weighing down total debt volumes in the second quarter. Combining corporate debt (straight bonds and securitizations) and equity underwriting, the securities industry raised $898 billion in the second quarter of 2007, down 2.3% from the previous quarter based on declines of 13.7% in Asset-Backed Securities (ABS) and 13.5% in non-agency MBS.

In fact, the credit markets were showing signs of "wear and tear" as far back as February, says one senior bank professional. "Deals that were completed in the spring were done so banks could move out of existing positions." As a result, banks chose to do deals and lock in the capital structure rather than blowing out raw assets – which is what banks are doing now.

Now the question is which bank has the most over-staffed structured finance desk. ABS sales and originators could see bonuses down as much as 25% this year as business has completed dried up in July and August. After a strong first half in ABS activity, structured finance products stopped selling in July and August, for example. Investors are tilting their trading towards LCDS and CDX transactions to hedge their risk in the credit market. 2007 bonuses could swing higher if the last quarter shows a rebound in any of these businesses.

The biggest wildcard going forward may be in the Asset-Backed Commercial Paper (ABCP) market. Banks worldwide have $891 billion at risk because of credit agreements on ABCP programs, said Fitch. "The commercial paper market, in terms of the asset-backed commercial paper market, is basically history," William Gross, CIO of PIMCO, told Bloomberg in Sept. The sharp decline of the commercial-paper market hits banks because they will have to use some of their dwindling capital to support assets that were formerly financed outside the banking system, in "conduits" financed by commercial paper. The second-leg of the credit crunch is centered within these conduits, also called Structured Investment Vehicles (SIVs). This product is the primary reason why Citigroup and other banks formed the $80 billion SIV bailout fund in October to unwind these investments.

In Europe, there is equal concern about liquidity and the timing of a recovery. Bonus expectations also are minimal there, says one structured finance MD at a European-based bank. The European structured finance market is on course to record its first decline in full-year new issuance volumes since its inception in the early 1990s after deal flow plunged in the third quarter.

Compensation

- Bonuses down 15 to 25% on average versus 2006 as U.S. and Europe try to stem losses in ABS and Collateralized Loan Obligations (CLOs).
- "Professionals made money in the first half, but they are going to be giving back in the second half and then some," says one global ABS desk head surveyed by OGIU.
- Credit desk traders will still be valuable to banks for they will be the ones needed to re-position the firm's risk in these areas.

Average Global Investment Bank Pay Worldwide – Sales *(US$)*

	Base	Bonus
Associate	80-100K	60-80K
VP	125K	150-250K
Director	150K	350-400K
MD	200K	700-900K

	Total Compensation
Global Head of Structured Finance, Sales	5-6MM
Head of Americas, Sales	3MM
Head of Europe, Sales	3MM
Head of Asia, Sales	2MM
Global Head of Research	1.5MM
Regional Head of Research	1.2-1.5MM
Regional Head of Structuring	2-2.5MM

Average Global Investment Bank Pay Worldwide – Trading/Structuring *(US$)*

	Base	Bonus
Associate	80-100K	80-100K
VP	125K	300-400K
Director	150K	500-600K
MD	200K	1.1-1.3 MM

	Total Compensation
Global Head of Structured Finance, Trading	7-9MM
Global Head of ABS Trading	6-8MM
Head of CMBS, Trading	4MM
Head of Americas, Trading/Structuring	4MM
Head of Europe, Trading/Structuring	4MM
Head of Asia, Trading/Structuring	3MM
Regional Head of Structured Finance	2.5MM
Regional Head of ABS Trading	2.5-3 MM

STRUCTURED FINANCE* (INCLUDES ABS, MBS, CMBS, CDOS)

2007 (THRU 9/30)				2006 (THRU 9/30)			
Advisor	Share (%)	# of Issues	Total ($BN)	Advisor	Share (%)	# of Issues	Total ($BN)
Citigroup	7.4	212	135.1	Lehman Brothers	8.0	220	146.5
Deutsche Bank	7.3	241	134.4	Deutsche Bank	7.3	237	133.4
JPMorgan Chase	7.3	174	134.0	RBS	7.1	194	129.2
Lehman Brothers	7.1	212	129.7	Citigroup	6.8	189	123.4
Merrill Lynch	6.4	177	117.1	Credit Suisse	6.6	192	120.2
Morgan Stanley	6.0	168	110.7	JPMorgan Chase	6.2	168	112.2
RBS	5.8	204	106.9	Goldman Sachs	5.8	157	105.9
Credit Suisse	5.3	158	97.2	Merrill Lynch	5.7	149	104.2
Bank of America	5.1	174	92.7	Bear Stearns	5.6	165	102.2
Barclays	5.0	125	91.0	Morgan Stanley	5.4	160	97.9
Industry		2,380	1,832.0	Industry		2,827	1,883.0

Source: ABS Alert

2008 Outlook

Asia could be a bright spot in the structured finance market due to its relatively small exposure to the sub-prime mess. The Japanese and Australian markets in particular could be potential bright spots, according to OGIU surveys. CLO and CMBS products are more likely to recover than ABS, CDO or MBS markets. In fact by mid-October, CLOs returned to almost pre-crisis levels in September, with $7.8 billion in completed deals, and now the product looks set to exceed last year's volumes. Non-mortgage products (autos, old business and esoteric securitization, non-mortgage warehousing [aircrafts, student loans, insurance contracts]) are an area banks will look to build out in 2008.

People Moves and Promotions

NAME	TITLE	COMPANY FROM	COMPANY TO	CURRENT LOCATION
Jaime Sanz	*Head of European Structured Finance Emerging Markets*	Merrill Lynch	Fitch Ratings	London
Maitland Bruce	*Head of European Structured Finance*	UBS	Wachovia	London
Rupal Patel	*Vice President, Structured Finance Group*	UBS	DBRS	London
Neil Warman	*Deputy Head of Mortgage Principal Finance*	Bear Stearns	Bank of America	London
Lee Rochford	*Head of European Financial Institutions ABS*	Wachovia	RBS	London
Phil Adams	*Senior ABS Strategist*	Barclays	RBS	London
Steven Hulett	*European Head of Debt Market Sales - ABS & CDO*	Lehman	RBS	London
Robert Walsh	*Head of Structuring & Origination*	Deutsche Bank	HypoVereinsbank	London
Peter Nowell	*Head of Correlation Trading Desk for ABS*	RBS	BNP Paribas	London
Daniel Stadnik	*Head of Commercial Securitization*	ABN Amro	VTB Bank	London
Elvira Skamara	*Director of ABS Origination*	HSBC	Renaissance Capital	Moscow
Stuart Lippman	*MD, Asset-Backed Securities*	UBS	RBC Capital Markets	New York
Melvin Zhou	*Director, Student Loan ABS team*	Citigroup	Fitch Ratings	New York
Benjamin Jacquard	*Global Head of Credit Markets & Structuring*	Bank of America	Calyon	New York
Don Quintin	*Head of Structured Credit Products Trading*	Citigroup	Merrill Lynch	New York

Equities Overview

Alternative Investments/Hedge Funds

Hedge fund returns both inside and outside global investment banks were not good in August. It was the first time in 2007 that all sub-strategies of the Credit Suisse/Tremont Hedge Fund Index finished in negative territory. In September, the Eurekahedge index was up 3.6%, but still lagged the Dow, which rose over 4% for the month. Year-to-date, the index is up just 9%, compared with 11.5% for the Dow.

International funds continue to out-perform U.S. equity funds. Despite emerging markets funds' average loss in August of 2.54% — funds focused on Latin America and Russia/Eastern Europe lost 2.93% and 3.89%, respectively — they still gained 20.44% year-to-date.

In terms of strategies: Event-driven funds are up 7% this year through September; Convertible arbitrage, up 2.53% YTD; Merger arbitrage, up 15% YTD; Distressed, 2.5% YTD. Among the industry strategies receiving fresh money were event driven ($9.8 billion), relative value arbitrage ($9.2 billion) and equity hedge ($8.5 billion), although short sellers had the best performance.

The answer is that bonuses will be hit by all this turbulence and quantitative hedge fund managers will see large drops in bonuses across the board. The credit crunch hit hedge funds using statistical arbitrage strategies the hardest. Large hedge funds like Renaissance Capital, D.E. Shaw, AQR, Barclays Global Investors, Bridgewater and Numeric probably have or had more than ½ trillion dollars in gross exposures, according to OGIU surveys. The August meltdown was mostly limited to statistical arbitrage funds, and goes a long way towards explaining why write-downs were so acute and correlated, say managers surveyed. "This isn't about models, this is about a strategy getting too crowded and then suffering when too many try to get out the same door," wrote AQR managing principal Cliff Asness to clients. It should be noted that many hedge funds, including Renaissance Capital, made up most of their July-August losses by the end of September.

Hedge Fund	Returns (YTD thru 9/30)	Asset Size ($BN)
32 Capital Fund	3.88%	2.53
Atticus European – Class A	31.41%	8.70
Brevan Howard Fund – Class A	19.25%	11.76
Cerberus International	15.70%	5.54
Drawbridge Global Macro Fund	8.10%	5.98
GLG European L/S Fund - Class D	14.65%	3.10
Kinetics Fund, Inc. - A/A	33.23%	4.21
Millennium International Ltd. C/01 A	7.99%	11.40
Peloton Multi- Strategy Fund	22.49%	1.55
Perry Partners International Inc. - Class A	12.05%	9.21
Raptor Global Fund (A)	-7.04%	5.60
Tudor B.V.I Global Fund Ltd. -A-	2.38%	5.59

Source: HSBC Private Bank

The leveraged buyout boom in the first half of the year also exacerbated matters. Super-high premiums inflated the price of certain stocks seen as buyout candidates. When that premium dried up, the quant models said buy more of these stocks because they were suddenly cheaper. On the short side, says one

European-based hedge fund manager surveyed, you have fund managers covering, creating a "perfect storm."

Risk Management

Hedge fund problems often lead firms to upgrade their risk management arms. Chief Risk Officers (CROs) are now required at more and more funds, pushing pay levels up significantly. CROs are now commanding salaries of $1.1 to $1.3 million (including equity participation) this year, compared to $900,000 in 2006 on average. CROs commonly receive 0.5 to 1% of the firm's management fees and can make over $2 million at the largest hedge funds. For those senior risk managers who have worked on the sell-side, "it is reassuring to know that part of your compensation is formulaic," says one CRO at a multi-billion hedge fund.

Even second-in-command risk managers are receiving 30 to 50% bid-aways to go to other firms. The big commercial banks, which often have more sophisticated risk management systems due to OCC and Federal Reserve oversight, do not pay their policy and methodology professionals well enough – making them very poachable. "Citigroup, Bank of America and JPMorgan Chase have to run 'best practice' risk platforms, making them more secure than the brokerage firms and therefore making professionals very attractive," says the hedge fund CRO. Number two risk professionals, who may only have 3 to 5 years experience, can expect to receive up to $500,000 bid-aways this year, up from $300,000 last year, according to OGIU surveys.

Survival of the Fittest

Mega hedge funds like **Citadel** also are taking advantage by buying distressed funds. Citadel took over the credit portfolio of Sowood Capital, the hedge fund started by former Harvard Management's Jeffrey Larson. Sowood said after the transaction its two fund's NAV declined over 50% YTD. The largest hedge fund collapse may very have been UBS' internal hedge fund **Dillon Read Capital Management**. In May, UBS announced it was shuttering the two-year-old unit in the wake of huge losses resulting from sub-prime mortgages, the first fund to publicly collapse due to the on-going credit crunch. The Swiss bank shut the $1.3 billion fund after it reported 150 million francs in losses after running up high expenses prior to its late 2006 launch. One macro fund that has avoided the credit crisis is Brevan Howard, which is up 19% thru September.

Hedge funds are increasingly listing their shares in closed-end vehicles in London (Daniel Loeb's Third Point) after entire investment management companies (**RAB Capital, Man Group, ACM**, etc.) had success listing their shares earlier this year and in 2006. These closed-end funds are trading at a discount to their NAVs so the jury is still out on whether other large global hedge funds resort to these closed-end devices.

Fundamental analysis is now a priority for both sell-side and buyside firms. **Henry H. McVey**, former managing director and chief U.S. investment strategist at Morgan Stanley, joined hedge fund and private equity firm Fortress Investment Group in June in just one example. He will be focusing on deep-value public equity investing as Fortress looks to build out its equity investment products. The former co-head of investment banking at Goldman Sachs, Scott Kapnick, also joined $35 billion hedge fund firm Highbridge Capital Management, to head up a new principal strategies business.

Compensation

- Bonuses down 5 to 10% on average over 2006, although bonuses will vary from up 15 to 20% to down at least 15 to 20% due to what OGIU surveys indicate is a huge variance on P/L performance this year.
- U.S. hedge fund managers, associates and vice presidents affiliated with quant-driven funds should see bonuses fall the most.
- Pay continues to escalate in Asia. In just one example: A vice president and senior analyst received a total package of $1.1 million, up from $700,000 in 2006 to move from a Wall Street firm to a fast-growing boutique.
- Asian hedge fund bonuses should be on the higher-end compared to the U.S. and Europe, at least on a percentage basis. Last summer, Asia-Pacific hedge funds under-performed, but this year they remain relatively unscathed by U.S.-led credit crunch.

AVERAGE GLOBAL INVESTMENT BANK & HEDGE FUND PAY**
(US$)

		BASE	BONUS
Analyst/ Associate	*1-2 Years*	60-70K	30K
	3rd Year	90-100K	80-90K
VP/Client Service/ Investor Relations		100-125K	150-200K
VP/Business Development/Sales		125K	350-450K
Head of Product Development**		150K	300-350K
MD/PM**		200K*	600-800K*
CRO**		200K	900K-1.1 MM
CIO**		200K	2.5-3MM

* AVERAGE PAYOUT ON RETURN TO PORTFOLIO (RTP) RANGES BETWEEN 10-20% BASED ON SIZE OF FUND

** ALL REMAINING REVENUE-PRODUCING PERSONNEL RECEIVE BONUSES ON A DISCRETIONARY BASIS AND BY PORTFOLIO PERFORMANCE.

2008 Outlook

Despite their sub par performance, distressed hedge funds continue to hire personnel and raise assets. In 2005, we pointed to this emerging trend, as billions poured into hedge funds worldwide. The rise in distressed debt/specialty lending investments has pushed mega hedge funds into major private equity investments as well. *(See High Yield Credit for more distressed debt intelligence on page 62.)*

The longer hedge fund returns remain choppy, the longer mega funds will be reaping most of the new assets floating into the market. In the latest Absolute Return magazine survey, there were nine firms managing more than $20 billion each for a total of $291 billion; six months ago, there were only seven such firms controlling $194 billion, and a year ago, just four funds representing $110 billion.

JPMorgan Asset Management, which includes the acquired Highbridge Capital Management, remains on top, with assets skyrocketing 65.29% to $56.2 billion. Assets at Highbridge alone more than doubled with an infusion of $20 billion, bringing its total to $37 billion. Holding steady at No. 2 is Goldman Sachs with $39.98 billion, representing a 22.9% increase from the previous half-year figure. D.E. Shaw, with $34 billion AUM, is now in third, higher than No. 4 Bridgewater Associates ($32.1 billion).

Look for funds that bet correctly this past summer on the credit markets to receive large amounts of assets in 2008. Paulson & Co.'s biggest credit hedge fund, for example, rose fivefold in 2007 after the New York-based investment firm with $20 billion in assets under management bet U.S. subprime-mortgage defaults would soar. The $4.5 billion Credit Opportunities fund, started last year, gained 26.7 percent in August, according to a Paulson investor.

People Moves and Promotions

NAME	TITLE	COMPANY FROM	COMPANY TO	CURRENT LOCATION
Gideon Nieuwoudt	*Head of Alternative Investment Research*	Watson Wyatt	Union Bancaire Privée	London
Edward Hands	*Senior Portfolio Manager*	Dresdner Kleinwort	Commerzbank	London
Ravi Bulchandani	*MD, Head of Alternative Investments*	Morgan Stanley	Barclays	London
Martin McGuire	*Head of European Added Value Fund*	Standard Life	Axa Investment	London
Arne Hassel	*Head of Fund of Hedge Funds Business*	Goldman Sachs	Millennium Global Investment	London
Kamal Naqvi	*Head of Hedge Fund Coverage*	Barclays	Credit Suisse	London
Roberto Morelli	*Head of Hedge Fund Sales for Equities in Europe*	Citigroup	Dresdner Kleinwort	London
Peter Snasdell	*FX Sales to Hedge Funds*	ABN Amro	Bear Stearns	London
Raj Dutta	*Head of Hedge Fund Advisory Business*	Key Asset Management	Union Bancaire Privee	London
Vikram Pandit	*Chief Executive & Head of Alternative Investments*	Old Lane Partners	Citigroup	New York
David Bailin	*Head of Alternative Investment division*	U.S. Trust Corp	Bank of America	New York
Spencer Boggess	*Director, Hedge Fund Investments*	US Trust	Bank of America	New York
Kristina McDonough	*Channel Director - Alternatives Investment*	US Trust	Bank of America	New York
Frederick Horton	*MD, Alternative Investments*	GSC Group	Cohen & Company	New York
Andrew Scherr	*Director, Fund-of-Fund Origination*	Fortis	Nomura	New York
Andrew Dougherty	*COO, North American Fund Administration Services Business*	CooperNeff Advisors	BNP Paribas	New York
Todd Johnson	*Head of Hedge Fund Client Services*	Deutsche Bank	Citigroup	New York
Jeffrey Gould	*Head of Alternative Investment Sales*	Renaissance Technologies	Citigroup	New York
Nicki Ashton	*Director, Hedge Funds Sales*	Citigroup	Austock	Sydney
Michale Cori	*Director, Hedge Funds Sales*	Citigroup	Austock	Sydney
Paul Davenport	*MD & Head of Equities Hedge Fund Sales*	Deutsche Bank	Grange Securities	Sydney
John Wingarth	*VP, Hedge Fund Sales Trader*	Deutsche Bank	Grange Securities	Sydney

Asset Management

Asset managers were receiving large premiums to jump from one firm to another in the first six months of 2007. One managing director in sales jumped from a $700,000 guarantee in 2006 to $1 million guarantee plus deferred stock. Another senior professional received a 50% guaranteed pay package to jump. That "moving premium" has dropped significantly in the second half of the year, however, and Options Group surveys point to it dropping by half on average from 30-40% to 15-20% for top performing professionals in the future.

Goldman Sachs, Lehman Brothers and Morgan Stanley continue to transform their businesses into alternative-investment product shops. High-net worth investors seek higher returns and large firms are eager to supply higher-margin hedge fund, fund of hedge fund, and private equity products. This trend continues to be the great growth opportunity for the category, and wealth management groups are getting more active in structured products and marketing alternative investment products, especially to public and corporate pensions. Salespeople now need to know about products across the capital structure. Due to this trend, marketers should receive more compensation this year relative to their sales brethren because the retention of assets is becoming more important to the largest firms. Salespeople still earn significantly more overall.

The proliferation of investment products has sponged up talent in everything from portfolio management to back-office service to compliance. With no signs of a slackening in the demand for new products, investment managers will have to pursue talent wherever they can find it and potentially expand outsourcing to carry out back office operating functions.

There were a number of significant hires this year, including Peter Scaturro joining Goldman Sachs as global private wealth management chief. Scaturro was previously CEO of U.S. Trust and prior to that Citigroup's private bank head. Duncan McInnes moved earlier this year from Morgan Stanley to Merrill Lynch as head of U.K. structured sales, focusing on Asset & Liability Management. Margo Cook joined Bear Stearns from Bank of New York as head of its institutional sales business and Cesar Perez became the head of Credit Suisse Asset Management London in June, coming from M&G Investment Management.

Asset Management Company	Total AUM ($TN)
UBS AG	$2.45
Barclays Global Investors	$1.81
State Street Global Advisors	$1.75
AXA Group	$1.74
Allianz Group	$1.71
Fidelity Investments	$1.64
Capital Group	$1.40
Deutsche Bank	$1.28
Vanguard Group	$1.17
BlackRock	$1.10

Source: PIOnline.

JPMorgan Asset Management, which includes the acquired Highbridge Capital Management, remains the top manager, with assets skyrocketing 65% to $56.2 billion thru June 30, according to Absolute Return's first-half survey. Assets at Highbridge alone more than doubled with an infusion of $20 billion, bringing its total to $37 billion. Goldman Sachs is second with $39.98 billion, representing a 23% increase from the previous half-year figure. D.E. Shaw, with $34 billion in assets, is now in third, followed by No. 4 Bridgewater Associates ($32.1 billion).

Compensation

- Bonuses up 10 to 15% on average over 2006, with global heads and alternative investment-focused senior managers receiving 2007 pay package increases of 15%.

- An increasing focus by asset managers on retaining assets, rather than just collecting new ones, has shifted the balance of pay to some degree from sales staffers to portfolio management, marketing and customer relationship. Global heads of investment services should expect to receive pay 15% higher than in 2006.

AVERAGE GLOBAL INVESTMENT BANK PAY
MIDDLE OFFICE (US$)*

		BASE	BONUS
Associate	*1-2 Years*	80K	40-60K
	3rd Year	100K	70-90K
VP/Dir.		125-150K	150-250K
MD		200K	700-900K

AVERAGE GLOBAL INVESTMENT BANK PAY
*FRONT OFFICE** (US$)*

		BASE	BONUS
Associate	*1-2 Years*	80K	50-70K
	3rd Year	100K	80-100K
VP		125-150K	200-300K
MD		200K	1-1.4MM

	TOTAL COMPENSATION
Global Head of Investment Services, Middle Office	1.25-1.75MM
Global Head of Sales/Distribution***	2.5-3MM
Chief Investment Officer	2.5-3MM

* Includes accountants, legal, compliance and operational risk managers.

** Includes portfolio management, sales and trading.

*** Not including alternative investments

2008 Outlook

After the U.S.-led credit crunch, Options Group expects more assets to flow to Asia-Pacific and banks like Merrill Lynch are moving quickly to take advantage of this trend. The New York bank promoted Rahul Malhotra, for example, to run its Asia-Pacific (ex-Japan) private client group in August, after he ran India private banking. Merrill also hired Wayne Yang as head of its private investment business group in Asia Pacific from Citigroup in mid-October. Wealth held by millionaires in the Asia Pacific is expected to reach $10.6 trillion by 2010, growing at an annual rate of 6.7%, according to a September survey by Capgemini SA. The New York-based bank has been expanding private banking in Asia and set up a private investment banking team in May, seeking to boost sales generated from wealthy individuals.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Adrian Au	*Co-Manager of the China Absolute Return Fund*	Hamon Asset Group	Baring Asset Mgmt	Hong Kong
Mark Brown	*MD of Portfolio Management*	ABN Amro	National Australia Bank	Hong Kong
Chris Phillips	*CEO*	Scottish Widows Partnership	Morley Fund Management	London
Andrew Wright	*CFO, MD, Financial Management in Europe*	Deutsche Bank	Lehman	London
Aidan Kearney	*Co-Head of UK multi-manager platform*	Premier Asset Management	Credit Suisse	London
Ian Gleeson	*Head of Multi-Manager Funds Business*	Irish National Pensions Reserve Fund	Morley Fund Management	London
Serge Chiaramonte	*Head of Fund-of-Funds Sales, Europe*	Lehman	Credit Suisse	London
Cesar Perez	*Head of Asset Management*	M&G Investment Management	Credit Suisse	London
Morten Spenner	*CEO - Asset Management*	Intl. Asset Management	ABN Amro	London
Rob Lay	*Head of European Sales*	JPMorgan Chase	Baring Asset Management	London
Francois Andriot	*Chief Executive, Asset Management*	Goldman Sachs	Morgan Stanley	London
Anthony Hanna	*VP, Wealth Management*	Goldman Sachs	Morgan Stanley	London
Ausaf Abbas	*Head of Sales & Marketing in EMEA*	Merrill Lynch	Morgan Stanley	London

Name	Title	Company From	Company To	Current Location
Sergio Mariscal	*Executive Director - Wealth Management*	Lehman	Morgan Stanley	Miami
Richard Pustorino	*Director & Senior Consultant Relationship Manager*	DuPont Capital Management	Credit Suisse	New York
Rinku Gyani	*Vice President in Sales & Relationship Management*	Lazard	Credit Suisse	New York
James Barrett	*Global Head of Sales*	Bank of New York	Bear Stearns	New York
Eric Kirsch	*Head of Global Insurance Asset Management*	Deutsche Bank	Goldman Sachs	New York
Craig Walling	*Chief Executive of Private Bank*	U.S. Trust	UBS	New York
Peter Scaturro	*Head of Private Wealth Management*	Citigroup	Goldman Sachs	New York
John Ricketts	*Director US Sales of Cash & Short Duration capabilities*	CDR Financial Products	Credit Suisse	San Francisco
Nicholas Allen	*Director, Pension Services Desk*	Colonial First State	Merrill Lynch	Sydney
Andrew Hokin	*Senior Fund Manager*	Macquarie	Smallco	Sydney
Michael Cooke	*Director, Wealth Management Structured Product Sales*	National Bank	HSBC	Toronto
Markus Hübscher	*Head of Sales to Swiss Institutions*	Credit Suisse	Barclays	Zurich
Werner Raschle	*Head of Regional Private Banking*	UBS	Credit Suisse	Zurich

Convertible Bonds

By the end of March, new convertible-bond issuance of multiple billion-dollar deals was commonplace. Freeport-McMoran Copper & Gold sold a $2.5 billion mandatory convertible offering, more than double the company's originally planned $1 billion deal. This followed a $1 billion new issue from Nortel Networks, sold just hours before. Despite this sudden glut of issuance, the new Freeport-McMoRan shares and the Nortel notes traded one to two points higher compared to where they priced, indicating strong investor demand.

Market conditions this summer only further helped the convertibles market say market watchers. "Wider credit spreads and high volatility are ideal for the convertible bond market," says Stephen Lacey, assistant editor with International Financing Review. This is because the more volatile a prospective issuer's stock price, the more value can be derived from the bond's embedded call option, which, in turn, can be used to achieve a lower coupon and/or higher premium.

In the first nine months of 2007, U.S. convertible proceeds rose 48% to $68.5 billion, up from just $46.3 billion in the same time period last year. JPMorgan Chase leap-frogged over Citigroup to grab a hammerlock on the product category with a 14.8% share of the fast-growing market. Deutsche Bank, which jumped from 9th to 3rd this year, should also pay their professionals well in 2007. Much of this activity is due to share repurchases using net share settled bonds. Since the beginning of 2005, when the provision gained popularity, 220 of the 390 convertibles issued have been structured with net-share settlement provisions. That represents about $120 billion of the $171 billion raised over that period.

A FASB proposal, which was approved in principal by the accounting body's board on July 25, would require companies with net-share settled bonds to bifurcate the security into its two components: straight debt and a call option. In sum, this could make convertible bonds a less attractive financing option, particularly for investment-grade issuers, relative to straight debt. The FASB proposal puts the U.S. market on the same level as the rest of the world, "eroding some of the accounting benefits to do share repurchases," notes Lacey, who writes about the industry.

Convertible arbitrage trading strategies, which were successful in 2006, are not performing well this year. Convertible arbitrage hedge funds were up just 2% through August, compared to a gain of 10% for the same time period one year earlier, according to hedge fund trackers Hennessee Group. The leading firms continue to be KBC Financial Products, which has one of the largest converts desks in the secondary market, Goldman Sachs, Morgan Stanley, Deutsche Bank and Lehman Brothers.

Compensation

- Bonuses up 10 to 15% on average versus 2006.
- Hiring in convertible trading has been increasing, especially among VP-level

salespeople and traders. A VP-level salesman received a 33% hike in pay after moving to another firm. Another vice-president received a guaranteed comp package of $400,000, up from $325,000 in 2006, according to OGIU data.

- Some of the best performing banks have been upgrading staffers although there has not been significant strategic movement. Banks are expected to pay well to keep their strongest traders, especially since they have valuable capital structure experience.

Average Global Investment Bank Pay *Sales (US$)*

	Base	Bonus
Associate	60-80K	70-90K
VP/Dir.	100-125K	300-400K
MD	200K	750-850K

	Total Compensation
Global Head, Sales	2.5-3.5 MM
Head of Americas, Sales	1.8-2 MM
Head of Europe, Sales	1.3-1.5 MM
Head of Asia, Sales	1.2-1.4 MM

Average Global Investment Bank Pay *Trading (US$)*

	Base	Bonus
Associate	60-80K	70-90K
VP/Dir.	100-125K	450-550K
MD	*200K*	*850K-1.1MM*

	Total Compensation
Global Head, Trading	3-4 MM
Head of Americas, Trading	2-3 MM
Head of Europe, Trading	1.8-2 MM
Head of Asia, Trading	1.5-1.7 MM

U.S. Convertible Offerings

2007 (thru 9/30)

Advisor	Share (%)	Total ($MM)	# of Issues
JPMorgan Chase	14.8	10,158	35
Citigroup	14.8	10,112	27
Deutsche Bank	11.7	8,011	20
Morgan Stanley	10.9	7,488	13
Banc of America	8.6	5,924	27
Merrill Lynch	8.2	5,645	22
Lehman Brothers	7.8	5,323	19
Goldman Sachs	5.9	4,066	19
Credit Suisse	5.5	3,795	12
UBS	4.4	2,989	18
Industry		68,532	144

2006 (thru 9/30)

Advisor	Share (%)	Total ($MM)	# of Issues
Citigroup	18.8	8,687	20
Merrill Lynch	15.6	7,208	25
Morgan Stanley	12.5	5,761	14
Goldman Sachs	9.1	4,224	13
Banc of America	8.9	4,122	24
JPMorgan Chase	8.4	3,896	18
UBS	7.6	3,504	12
Lehman Brothers	7.4	3,412	8
Deutsche Bank	3.4	1,564	6
Credit Suisse	3.2	1,498	12
Industry		46,253	92

Source: Thomson Financial

2008 Outlook

Despite ideal market conditions, the overall market outlook is clouded by the pending FASB proposal. Issuers with net-share settle convertibles will need to restate historical earnings to reflect the impact of bifurcation. While the new accounting standard will have no impact on cash flow, it will depress reported EPS. Experienced convertible bond professionals will need to pitch corporate clients on the merits of a lower-cost convertible solution relative to straight debt.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Alex McKnight	*Portfolio Manager, Convertible Bonds*	AIB Global Treasury	Augustus Asset Managers	London
Gareth Quantrill	*Head, High Performance (Convertible) Bond Product*	Henderson Global Investors	Scottish Widows Investment	London
Mike Reed	*Head of Convertible Bond desk*	Pendragon	BlueBay Asset Mgmt	London
Kimberlee Brody	*VP, Covering Convertible Origination Transactions group.*	Merrill Lynch	BNP Paribas	New York
Florence Brieu	*MD, Convertible, Derivative & Bond Trading*	Internal Promotion	Natixis	Paris
Hideo Misawa	*Senior Salesman, Convertible Bonds*	Goldman Sachs	Morgan Stanley	Tokyo

Equity Cash

Equity cash and program trading volumes are in high gear as institutional investors worldwide divert funds from credit investments. Liquidity reached all-time highs on the more traditional markets. In Europe, trading volumes on the Eurex derivatives exchange reached record levels in August, with a total of more than 175 million contracts traded, up 64% from the 107 million contracts traded in August 2006. Open interest also stood at a record level of 130 million contracts at the end of the month. The main factor in the increase was the 126% growth in the trading of equity index derivative contracts. The Dow Jones Euro Stoxx index future was the most heavily traded product, with trades in 36.7 million contracts, a 145% increase on the year-earlier period. Next in line was the Dow Jones Euro Stoxx 50 index option, up 124%.

EQUITY RESEARCH
AVERAGE GLOBAL INVESTMENT BANK PAY *(US$)*

		BASE	BONUS
	1st Year	60-70K	30-40K
Analyst	*2nd Year*	70-80K	50-70K
	3rd Year	80-90K	80-90K
Associate		100-125K	150-250K
VP		125K	350-450K
Director		150K	500-700K
MD		200K	1-1.5 MM

The return of the equities market and the diminishing stature of quantitative trading systems has been good news for fundamental analysts. Strong research is in demand at both sell-side and buyside firms. When Prudential disbanded its 420-person research arm in May, for example, banks and hedge funds rapidly hired its analysts. (See Equity Research chart)

With the advent of such successful new products as SPDRS in the U.S. and the global ETF market, it is not surprising that banks will push into more products to entice increasingly recalcitrant institutional investors. While investors take cash from the public markets, some major firms gear up for the launch of their private markets. NASDAQ's Port Market launched in mid-August. Citigroup, Morgan Stanley, Merrill Lynch and Lehman Brothers started their mutually maintained market called OPUS-5 (it's an acronym: Open Platform for Unregistered Securities). The Bank of New York Mellon will play admin to it. Earlier this year, Goldman Sachs opened GSTrUE, which now lists shares in Oaktree Capital Management and Apollo Management, among others. Bear Stearns also announced that it has founded Best Markets.

Multiple bidders, especially Middle Eastern investors, also are vying for more established exchanges. Qatar's investment arm, for example, is close to acquiring a nearly 31% stake in the London Stock Exchange (LSE) from the NASDAQ, which failed in its bid to acquire the LSE, which itself merged with Milan's Borsa Italiana earlier in the year.

Equity cash and options firms increasingly need a global footprint to better compete against the global investment banks. They also now need to be able to trade variance and need substantial customer order flow. "Equity trading firms need to be a market-taker, not just a market-maker," says Ryan Elbilia, a London-based Options Group search consultant. Banks are hiring from these smaller firms to build out teams. **Graham**

Ashby, for example, was recently hired by Credit Suisse to co-head its UK equities desk from Sarasin Chiswell.

Global banks also are deploying more and more equity cash resources to cover Asia-Pacific (ex-Japan), albeit from London. Credit Suisse expanded its equity cash in the region with the appointment of 20 country- and product-specific specialists back in June. Mark Sandeford moved from Hong Kong to London to cover the sales and trading effort led by Gerry Keneally. Credit Suisse is a leading equities broker in the region and has dominant market share in Korea, Hong Kong/China, Malaysia and Thailand. Bear Stearns hired Federico Bazzoni in September from BNP Paribas to sell stock in Asia-Pacific (ex-Japan). He will also be working out of London so he can sell equities to European portfolio managers.

GLOBAL EQUITY & EQUITY LINKED

2007 (THRU 9/30)				2006 (THRU 9/30)			
Advisor	Share (%)	Total ($MM)	# of Issues	Advisor	Share (%)	Total ($MM)	# of Issues
JPMorgan Chase	9.4	52,969	240	Goldman Sachs	10.7	47,746	144
Citigroup	8.8	49,657	227	Citigroup	9.4	41,957	192
UBS	8.5	47,754	248	Morgan Stanley	8.3	37,166	141
Morgan Stanley	8.3	46,820	198	UBS	8.2	36,726	187
Merrill Lynch	7.7	43,411	193	JPMorgan Chase	7.5	33,564	177
Goldman Sachs	7.6	42,526	165	Merrill Lynch	6.5	29,255	167
Deutsche Bank	6.9	39,009	150	Credit Suisse	4.9	22,088	121
Credit Suisse	6.8	38,017	175	Deutsche Bank	4.5	20,086	134
Lehman Brothers	3.7	20,810	113	Nomura Holdings	3.6	15,913	89
Bank of America	1.9	10,414	69	Lehman Brothers	3.5	15,476	92
Industry		**562,294**	**2,999**	Industry		**447,597**	**2,682**

Source: Bloomberg.

Compensation

- Bonuses up 15% on average over 2006
- Asia-Pacific cash equities hiring has picked up considerably in 2007, and sales traders there will receive relatively higher pay packages to ensure they remain in 2008
- Fundamental researchers, thanks to buoyant trading volumes and quantitative hedge fund blow-ups, will receive significant pay increases.

Average Global Investment Bank Pay Sales (US$)	Base	Bonus	Average Global Investment Bank Pay Trading (US$)	Base	Bonus
Associate	65-85K	80-100K	Associate	70-90K	90-110K
VP	100-125K	450-550K	VP	100K	650-750K
Director	125-150K	650-750K	Director	150K	800-900K
MD	200K	1.1-1.3MM	MD	200K	1.5-2MM

	Total Compensation		Total Compensation
Global Head of Equities	12-15MM +	Global Head of Equity Trading *(Includes Cash & Derivatives)*	7-9MM
Head of Americas, Sales & Trading	3.5-4MM	Global Head of Sales &Trading	6MM
Head of Europe, Sales & Trading	3.5-4MM	Regional Head – Trading Programs	2.5-3MM
Head of Asia, Sales & Trading	2.5-3MM		
Regional Head – Sales Program	2.5-3MM		

2008 Outlook

Now that most banks have finished folding their equity cash and program trading desks together, the push to focus more on algorithmic trading, ETF's and Direct Market Access (DMA) has been increased to boost profits. Global firms are deploying more advanced trading systems, especially in derivatives trading, to move the product category into a more profitable, less flow-oriented platform. In ETF's, which have been inefficient at replicating more complex indices like the MSCI Developed World index, banks are now selling swap-based ETF's and are designed to overcome the disadvantages of the traditional structure like dividend payment timing and tax treatments as well as index turnover.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
David Grey	Head of Equity Finance Asia	UBS	UBS Hong Kong	Hong Kong
Richard Price	Head of European Equity Sales	UBS	Dresdner Kleinwort	London
Clive Emery	Head of Equity Sales - Hedge Funds	Dresdner Kleinwort	Société Générale	London
Ian King	Head of European Equities	American Express	Legal & General Mgmt	London
Federico Bazzoni	European Equity Sales	BNP Paribas SA	Bear Stearns	London & Milan
Francois J. Luengas	Director & Head of Equity Sales in Mexico	Merrill Lynch	Deutsche Bank	Mexico City
Kevin Dougherty	Senior Analyst, Consumer & TMT	Deutsche Bank	Pharos Financial Group	Moscow
Matt Pecot	Head of Equity Finance	Internal Promotion	UBS	New York
Richard Kennedy	Global Head of Synthetic Equity Finance Trading	Deutsche Bank	Citigroup	New York
William Cumming	MD, Equity Finance team	Bank of America	RBS	New York
Thomas Labenz	Head of Equities Trading, Technology	First Albany Capital	Jefferies	New York
Michael Mayo	Head of Financial Services Research	Prudential	Deutsche Bank	New York
Marc El Asmar	Head of Structured Equity Sales, N. Europe	Internal Promotion	Societe Generale	Paris
Sylvain Favre-Gilly	Senior Equity Sales Manager, France	Citigroup	Barclays	Paris
Christophe Choquart	MD, Head of European Equity Sales	Lehman Brothers	Bear Stearns	Paris
John Ricketts	Director, U.S. Sales of Cash	CDR Financial Products	Credit Suisse	San Francisco
Carl Fairbairn	Cash Flow Trader	Citigroup	Merrill Lynch	Sydney
Malcolm Price	Head of Cash Equity Sales	UBS	Deutsche Bank	Sydney
Simon Shields	Head of Australian Equities	Colonial First State	UBS	Sydney
David Walsh	Small Caps Analyst	Colonial First State	Macquarie	Sydney
Ajay Gupta	Head of Equity-Linked Trading for Asia-Pacific	Internal Promotion	Merrill Lynch	Tokyo

Equity Derivatives

For the second year in a row, equity derivatives desks (salespeople, structurers and traders) will receive pay increases, although they will be lower than the 20 to 25% compensation jumps last year. Hedge funds, though, are still by far and away the biggest users of derivatives for both hedging and arbitrage purposes. Activity is especially strong in Europe as portfolio managers seek alpha. The fund of fund business now contains 40% of all alternative investment assets. Increasingly, those funds are heading to equity derivatives under tight value-at-risk provisions.

On the customer side, options volatility (thru the VIX) and cross-country correlation were popular desk trades. The rise in third-party structured products and convertible trading also has benefited customer-side desks. On the prop side (See Equity Proprietary Trading section), the four major strategies were: L/S volatility, correlation dispersion trading, relative value, and cross-asset volatility. One major hire in this category was **Karen Fang**, who went from AIG to Goldman Sachs to officially be in charge of cross-asset class structured investments.

On the recruiting front, equity derivative desks, which had short benches in 2005, were better equipped to handle a continued increase in activity. While the top firms (Societe Generale, BNP Paribas, Goldman Sachs, Deutsche Bank) posted strong revenue in the first half of 2007, other firms made big hires to boost revenue.

BNP Paribas, which has traditionally based its equity derivatives trading group in Paris, established a new desk in London this summer. **Stephane Petermann**, previously head of index options trading in New York, moved to the City in the same role, where he will head up the new trading group supporting London-based sales staffers. BNP Paribas transferred a handful of sales professionals to London last year, including **Denis Frances**, global head of equity flow derivative sales. Proprietary trading will remain in Paris.

In Asia, equity derivatives recruitment remained strong throughout the year in sales, trading and structuring. Lehman hired **Rusty Schreiber** and his team from HSBC and **Bill Hillegass**, a top single-stock trader, from UBS. UBS lost a significant portion of its equity derivatives desk in 2007, including **Dhruv Piplani**, who went to Goldman Sachs Hong Kong with **David Kim**. UBS' **Namuk Cho**, head of equity derivatives trading, went to former Merrill Lynch Global Markets and Investment Banking Co-President Dow Kim's new fund, Diamond Lake.

Compensation

- **Bonuses up 10-15% over 2006 on average, led by professionals focused on flow sales, structured products and equity finance.** Total compensation this year should rise significantly from 2006 because of an increased demand for professionals across the product area, including equity (single-stock) options salespeople.
- Latin America (especially Brazil) is making a comeback in equity derivatives and local salespeople and traders are highly prized by

pro-active firms such as Societe Generale, BNP Paribas and Bear Stearns.

- Societe Generale and BNP Paribas professionals should do well as they finished first and second, respectively, in this year's Risk magazine's exotic equity products survey.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		Base	Bonus
Associate	*1-3 Years*	100K	1st Yr: 90-110K 2nd Yr: 125-150K 3rd Yr: 150-200K
VP		100-125K	300-350K
Director		150K	750-950K
MD		200K	1.2-1.4MM

	Total Compensation
Global Head – Sales	6MM
Head of Americas– Sales	5MM
Head of Europe– Sales	4-4.5MM
Head of Asia– Sales	4MM
Global Head Volatility Sales	3-3.5MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING/STRUCTURING *(US$)*

		Base	Bonus
Associate	*1-3 Years*	100K	1st Yr: 110-130K 2nd Yr: 140-160K 3rd Yr: 175-225K
VP		125K	400-500K
Director		150K	1.1-1.3MM
MD		200K	1.5 -1.8MM

	Total Compensation
Global Head – Trading/Structuring	9-11MM
Global Head Volatility Trading	8MM
Head of Americas– Trading/Structuring	6MM
Head of Europe– Trading/Structuring	5-6MM
Head of Asia– Trading/Structuring	4MM

2008 Outlook

Equity derivatives desks will remain a bright spot for sell-side banks, but overall other under-performing units could compromise bonuses. Key equity derivatives professionals who do not receive acceptable bonuses will likely seek employment elsewhere. Look for firms to boost their insurance equity derivatives desks. OGIU surveys indicate firms see "mortality risk" insurance products as something to trade in the future. HSBC is building out a desk to handle insurance derivatives products as is Societe Generale.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Shawn Riley	*Senior Equity Derivatives Trader*	Nomura	BBVA	Hong Kong
Karen Fang	*Head of Cross Asset Class Structured Investments*	AIG Financial Products	Goldman Sachs	London
Franck Morotti	*Head of Equity & Fund Derivatives Trading*	Commerzbank	RBC Capital Markets	London
Simon Yates	*Head of Global Equity Derivatives & Co-Head of European Equities*	Credit Suisse	Credit Suisse	London
Adrian Valenzuela	*Head of Equity Derivatives Flow Marketing*	Merrill Lynch	JPMorgan Chase	London
Matt Johnson	*ED, Long/Short Hedge Fund & Institutional Investors*	Deutsche Bank	Merrill Lynch	London
Jerome Drean	*Head of Equity Derivatives Exotics Trading*	Bank of America	Credit Suisse	London
Jason Brus	*Global Equity Derivatives Chief of Staff*	BNP Paribas	Credit Suisse	London
Nicolas Walon	*Equity Derivatives LatAm Trader*	Calyon	Deutsche Bank	London
Angus Dobbie	*Head of Sales and Structuring*	Commonwealth Bank	Macquarie	New York
Alan Skandan	*Head of Equity Derivative Sales to Hedge Funds*	Morgan Stanley	Calyon	New York
Daniel Hassett	*Head of Equity Derivatives Flow trading*	UBS	JPMorgan Chase	New York
Peter Selman	*Head of Equity Derivatives Trading*	Internal Promotion	Goldman Sachs	New York
Michael Collins	*MD & Head of Corporate Equity Derivatives Origination team*	Societe Generale	Wachovia	New York
Dan Fields	*Head of Flow & Listed Products Global Equities & Derivatives*	Internal Promotion	Societe Generale	Paris
Anthony Brittain	*Director, Global Solutions Unit*	Macquarie	Credit Suisse	Singapore
Marko Njavro	*Head of Equity Derivatives Trading*	Deutsche Bank	Morgan Stanley	Sydney
Robin Price	*MD, Head of Equity Derivatives*	UBS	Goldman Sachs	Sydney
Pat Chiefalo	*Structured Derivative Sales to institutions*	Waterfall Investments	Merrill Lynch	Toronto

Equity Proprietary Trading
(Fundamental & Quantitative)

The movement of resources away from fixed income and towards equities only accelerated this summer after the sub-prime crisis affected all credit product trading. Although Goldman Sachs' FICC unit performed well in its fiscal third quarter, OGIU surveys indicate that credit product desks are down across the board for the year. Fundamental "deep-value" analyst professionals are now in more demand at hedge funds and banks than quantitative professionals.

Mid-level fundamental analysts can expect to receive 20 to 40% pay package increases to move to another firm. One good example: Analysts from Prudential, which shuttered its research desk this spring, were in demand for prop roles by hedge funds and banks throughout the summer, according to OGIU surveys. Hiring of special situations analysts has been very active for both investment banking and prop trading. In just one example, David Lewis was hired as a special situations researcher at Bear Stearns London from Power Capital Management.

Banks continue to place a tremendous emphasis on building up cross-asset volatility desks as investors demand more structured products. BNP Paribas, for example, recently hired Edmund Shing as a senior equity proprietary trader from French bank Kepler Equities, reporting to Fabrice Evangelista, global head of electronic quantitative strategies trading.

The growth of algorithmic trading, as a component of overall equity prop, is gaining momentum at even formerly risk-averse banks like Citigroup. Algorithmic trading build-outs remain a focal point for chief information officers over the past year, and quantitative and IT people with this background are particularly attractive. Systematic trading, technical analysis that eliminates human emotion using stop/loss and other methods to maximize trades, also has become more of a factor as well.

Compensation

- Bonuses up 5% on average over 2006, although bonuses will vary from up 15 to 20% to down at least 15 to 20% due to what OGIU surveys indicate a huge variance on P/L performance this year.
- Total pay consists of 8 to 15% of P&L of the portfolio in cash and stock.

AVERAGE GLOBAL INVESTMENT BANK PAY
TRADING* *(US$)*

		BASE	BONUS
Associate/ Analyst (Quant)	*1-2 Years*	80K	80-100K
	3rd Year	100K	100-150K
VP (Execution Trader)		125K	300-400K
Director		150K	1-1.1MM
MD/PM		200K	1.2-2 MM

	TOTAL COMPENSATION*
Global Head	9MM
Head of Americas	6MM
Head of Europe	6MM
Head of Asia	3-3.5MM

* MOST COMPENSATION IS BASED ON % FORMULA PAYOUT (SEE DETAILS IN ABOVE COMPENSATION SECTION). A TOP PROP TRADER CAN EARN WELL OVER $10 MILLION IN A GOOD YEAR.

2008 Outlook

- Increasingly, banks are investing in their internal prop initiatives and desks are being run like internal hedge funds. Guaranteed contracts have already been on the rise and this trend continues in 2007. Cost per prop desk seat can cost as little as $250,000 and exceed $1 million depending on the existing infrastructure. Each firm's payouts are based on the balance sheets deployed by the desk.
- Banks continue to invest in internal prop initiatives and desks are run like internal hedge funds. (e.g. Citigroup acquired Old Lane Investments this year and turned it into its alternative investments unit, replacing Tribeca)

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Aaron Brown	*CRO*	Morgan Stanley	AQR Capital	Connecticut
Rachid Bouzouba	*Head of Exotic, Index & Prop Trading*	Internal Promotion	Lehman	London
Francois-Xavier Chevallier	*Structuring & Marketing Operations in Derivative/Prop Strategies*	Internal Promotion	BNP Paribas	London
Andrew Jeyarajah	*Head of Property Derivatives Structuring*	Tullett Prebon	BNP Paribas	London
David Beever	*Head of Proprietary Equity Trading Across Derivatives & Cash*	TD Securities	JPMorgan Chase	London
Gilles Schlutig	*Senior VP, Hybrid/Cross Asset/Prop desk*	Bank of America	Deutsche Bank	New York
Robert Painter	*VP, Structured Investment Products & Hedging Instruments, Insurance*	Conning Asset Management	Deutsche Bank	New York
Stephen Yashar	*Equity Prop/Stat Arb Trading*	Nomura	Capstone	New York
Bernhard Scherer	*Global Head of Quantitative Structured Products*	Deutsche Bank	Morgan Stanley	New York
Luis Saenz	*VP, Equity Derivatives & Structured Products*	Dresdner Kleinwort	Renaissance Capital	New York
Kevin Klenke	*MD, Equity Derivatives, Structured Products Group*	Merrill Lynch	Wachovia	New York
Barry Gil	*Head of Equity Prop*	Internal Promotion	UBS	New York

Prime Brokerage

The war for talent continues in the prime brokerage space, as senior experienced salespersons were bid-back on multiple occasions this past year. Over a dozen banks now have significant capital introduction and prime brokerage businesses, and that should augment compensation across the board despite a rockier future for hedge funds. Prime brokerage bonuses this year will be more dependent on the revenue growth of the overall firm however, and banks will have to really choose whom to pay up and whom not to.

Senior professionals who left global investment banks for the buy-side in many cases decided to return. Jonathan Bloom left Bank of America for a hedge fund start-up, for example, only to return to Citigroup. Stu Hendel, who made a much-publicized move from Morgan Stanley to Eton Park Capital Management to become COO, returned to Morgan Stanley as global head of prime brokerage. Another key departure was Jeff Dorman, who went to Deutsche Bank as head of North American global prime finance from Bear Stearns after just under one year.

Deutsche Bank, Citigroup and Credit Suisse made strong moves in 2007 to take share from other firms, including Bear Stearns, which is suffering from a firm-wide perception issue, according to OGIU surveys. (See Alpha magazine chart on next page)

Deutsche Bank, especially, is now adept at branching out into multiple strategies and asset classes, and increasing asset concentration among the largest funds. Earlier this year, Deutsche Bank expanded its international reach by launching the Fixed Income Emerging Markets Prime Brokerage group, headed by Luciana Miranda, formerly of Goldman Sachs. The top two banks remain Morgan Stanley and Goldman Sachs, which continue to grow in actual dollars more than the competition and are maintaining their leading market shares and first-class reputations.

Investment bank-styled relationship managers are increasingly in demand at prime services desks because of their ability to tap into their high-end corporate and institutional clients, says one senior prime brokerage desk head. Merrill Lynch, Credit Suisse and Bank of America all have taken strides to upgrade their relationship management teams. Merrill Lynch hired Chris DeMarco to be a senior relationship manager from Bear Stearns to work under Kevin Dunleavy. The value of multi-billion hedge fund clients is even higher than in year's past due to the closure of smaller funds due to the impact of the credit crisis, say senior prime brokers surveyed by OGIU. Research showed the top 350 hedge funds in the world control 75% to 80% of the capital deployed in the hedge fund industry, and traditional managers are increasingly dipping their toes in the alternative waters through 130/30 funds and similar vehicles.

As hedge funds continue to grow in their complexities, prime brokers are trying to match their product offerings with the needs of hedge funds. Some firms continue to consolidate their fixed income, futures and FX prime brokerage desks closer with equity prime brokerage while others remain separate. Prime brokerages are able to charge higher fees than typical brokerages because of the array of services they provide and because hedge funds, in turn, are able to charge higher fees to investors than other funds can. Senior professionals with high-end relationships, derivatives knowledge and the ability to generate ideas will continue to receive substantial pay increases in the market. The demand for talented individuals therefore with not only hedge fund relations but with a strong derivatives background is far outstripping supply. Asia-Pacific is particularly active recruiting experienced talent. In just one example, Credit Suisse hired Yoji Koga as the head of prime services coverage in Japan. The ex-Morgan Stanley professional will work in Tokyo and report to Kevin Meehan, who heads up prime services coverage for all of Asia.

PRIME BROKERAGE 2008 ALPHA MAGAZINE SURVEY

HEDGE FUND'S TOP OVERALL PRIME BROKERS			TOP 100 HEDGE FUND FAVORITE PRIME BROKERS		
Bank	2007-Rank	2006-Rank	Bank	2007-Rank	2006-Rank
Morgan Stanley	1	1	Citigroup	1	9
Goldman Sachs	2	2	Morgan Stanley	2	2
BoA Securities	3	3	Deutsche Bank	3	8
Citigroup	4	8	Bear Stearns	4	6
Credit Suisse	5	5	Goldman Sachs	5	1
Bear Stearns	6	9	Lehman Brothers	6	4
Deutsche Bank	7	6	Credit Suisse	7	3
UBS	8	4	UBS	8	5
Lehman Brothers	9	7	Merrill Lynch	9	7

Compensation

- Bonuses up 10-15% on average globally, with Europe and Asia receiving slightly higher bonus packages because of later pay dates and a thinner talent pool.
- Currency appreciation against the dollar may allow European and Asian banks to lower percentage increases on bonuses.
- Senior professionals with high-end relationships, derivatives knowledge that can generate ideas will continue to receive substantial pay increases in the market.
- A prime brokerage salesperson making $650,000 in 2007 turned down an offer for $850,000 before finally accepting a second offer for $900,000. The typical sales managing director of a major global bank can expect total comp of $1.2 to 1.6 million this bonus season, up 15 to 20% on the higher-end and 10 to 12% on the lower-end, according to OGIU surveys.
- Risk managers that last year earned $450,000 to $550,000 this year will earn $650,000 to $750,000 (with 3 to 5 years experience.) Top client transition employees may be paid as much as $750,000, with the majority being paid between $400,000 and $500,000.

AVERAGE GLOBAL INVESTMENT BANK PAY *SALES (US$)*			AVERAGE GLOBAL INVESTMENT BANK PAY *CAPITAL INTRODUCTIONS (US$)*		
	BASE	BONUS		BASE	BONUS
Associate	110K	150-200K	Associate	90K	100-125K
VP	115-150K	300-550K	VP	125K	200-300K
Director	150-175K	500-900K	Director	150-175K	450-650K
MD	200K	900K-1.1 MM	MD	200K	700-900K
	TOTAL COMPENSATION			TOTAL COMPENSATION	
Global Head-Prime Services	6-8 MM		Global Head-Cap Intro	1.75-2.25 MM	
Head of Americas, Prime Services	3-3.5MM		Head of Cap Intro Americas	1-1.3 MM	
Head of Europe, Prime Services	3-3.5 MM		Head of Cap Intro Europe	1.3-1.6 MM	
Head of Asia, Prime Services	2.5-3 MM		Head of Cap Intro Asia	1-1.25 MM	

2008 Outlook

Prime brokerage and capital introductions salespeople verbally promised bonus percentage increases in June or July may not see those type of numbers in their bonus checks later this year. Decreased overall bank profits will likely impact bonuses even though prime brokerage remains one of the best performing products at global financial firms.

Banks with lower overall revenue will either be unable to pay top performers or hamstrung by existing guaranteed pay packages. Relationship management heads, who can expect to receive overall payouts of around $1.5 to $2 million this year, will be increasingly valued by banks for their ability to manage key accounts.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Mark Shuper	*MD, Prime Brokerage*	Internal Promotion	Morgan Stanley	Hong Kong
Andrew Jamieson	*Head of Equity Finance*	Barclays	Bear Stearns	London
James Shekerdemian	*Head of Sales for Prime Brokerage in Europe*	Lehman Brothers	Bear Stearns	London
Sean Capstick	*Co-Head of Global Prime Finance Sales in Europe*	Morgan Stanley	Deutsche Bank	London
Joel Press	*MD, Prime Brokerage Business*	Ernst & Young	Morgan Stanley	New York
Barry Bausano	*Co-Head of Equity Prime Brokerage*	Internal Promotion	Deutsche Bank	New York
Jeff Dorman	*MD, Head of Global Prime Finance in North America*	Bear Stearns	Deutsche Bank	New York
Matthew Wilson	*Head of Sales & Marketing*	Bank of America	Citadel	New York
Paul Brannan	*Head of European Prime Brokerage*	Barclays	Bear Stearns	New York
Robert Enslein Jr.	*SVP, Capital Introduction*	Aremet Capital Management	Jefferies	New York
Jeffrey Mccarthy	*SVP, Capital Introduction*	Alder Capital Management	Jefferies	New York
Robin Fink	*SVP, Prime Brokerage Sales*	Reflow Management	Jefferies	New York
Tom Filipovits	*Director, Client Management*	Morgan Stanley	Deutsche Bank	New York
Chris DeMarco	*Senior Relationship Manager*	Bear Stearns	Merrill Lynch	New York
Jonathan Rose	*Head of West Coast Global Prime Finance Sales*	Morgan Stanley	Deutsche Bank	San Francisco
Trevor Harrison	*Vice President of Sales*	State Street	Citigroup	Sydney
Yoji Koga	*MD, Head of Prime Brokerage*	Morgan Stanley	Credit Suisse	Tokyo

Structured Tax Products

While compensation is expected to be down across the board from last year, there are a number of promising trends that bode well for the asset class. In Asia, OGIU surveys are noticing increased cross-border opportunities in Hong Kong and the greater China market. Institutions are increasing their application of rule-based enhancements for all types of principal finance transactions. Merrill Lynch, for example, hired Patrick Pang to head its structured tax business in Hong Kong earlier this year.

One key trend in 2007 continues to be the continued integration of principal tax technology with both equity and fixed income sales and trading desks. This mixing of personnel goes in both directions, as trading desks look to increase their margins in trades. Merrill Lynch is a leader in this transformation, having already established a presence in integrating this technology for several years.

The biggest player in structured tax remains Barclays Capital, with other major players being Bank of America, Deutsche Bank and Goldman Sachs. Newer U.S. entrants include: Fortis Bank, which hired Robert Wolmer to head its operations, Royal Bank of Scotland, Washington Mutual and BB&T. Other established European players include: BNP Paribas and Credit Suisse (London).

How the Business Works: Structured products are increasingly driven by accounting, regulatory and tax concerns because the business revolves around lending and cross-border transactions. The principal tax business typically "sits" in fixed income because there is a lot of tax and rating agency sensitivity. Employees typically report to structuring heads. On the solutions side, the tax component applies to larger transactions in such areas as CDO's and securitizations and usually sits in both fixed income and equities. In banking, a firm often wants to know if there is a mandate for business solutions and that it has wide distribution channel.

Infrastructure finance has entered the radar screen because these deals have significant tax issues to them. Infrastructure finance will continue to be a significant driver of structured tax strategies through at least the end of 2008. Also, the treatment of stock swaps for hedge funds will be a highly debated topic by the IRS and possibly U.S. Congress in 2008.

Compensation

- Bonuses down 20 to 25% globally, with relatively lower paydays in the U.S. This is a reverse of 2006 bonus expectations, which were for 15 to 20% increases in the business.
- While some London professionals should expect similar bonuses to last year (e.g. Barclays Capital), certain firms face significant regulatory hurdles from Inland Revenue, U.K.'s governing tax body. In the U.S., the IRS in April eliminated the foreign tax credit trade, one of the top vehicles used by the banks.
- The people with execution experience are most in demand, particularly VP- and Associate-level professionals. Talent is generally pulled from lower-tier banks, and not law firms, because staffers need bank-trained execution skills.

Average Global Top-Tier Investment Bank Pay *(US$)*

	Base	Bonus
Associate	80-90K	75-85K
VP	125K	200-250K
Director	150K	720K-820k
MD	200K	1.1-2 MM

	Total Compensation
Global Head	3 MM
Head of Americas	2.3 MM
Head of Europe	1.25-1.75 MM

2008 Outlook

Another trend to watch is whether or not U.S. Congress will apply a corporate tax rate to hedge funds and private equity firms. This legislation would open up the principal tax business for hedge fund and private equity firms. The prevailing view is that Congress will not pass legislation in 2007. The U.S. government is expected to renew tax incentives for infrastructure finance projects, which should boost this business for structured tax professionals.

Two years ago, OGIU predicted a rise in Australian infrastructure finance activity and it has come to pass. Goldman Sachs, Morgan Stanley and Bank of America jumped into the Sydney market to better compete with Australian-based banks like Macquarie and NAB.

Much of this business has jumped to New Zealand as well and to the rest of the Asia Pacific Rim.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Patrick Pang	*Director, Head of Global Market Equity Structuring*	Deutsche Bank	Merrill Lynch	Hong Kong
Richard Andrade	*MD, Strategic Equity Transactions*	Goldman Sachs	Deutsche Bank	London
Jean Louis Chicha	*MD, Tax Products*	BNP Paribas	Calyon	New York
Richard Hoge	*MD, Structured Tax Products*	Dresdner Kleinwort	Natixis	New York
Rob Wolmer	*MD, Structured Finance*	BNP Paribas	Fortis	New York
Ned Cataldo	*Director, Structured Products*	Bank of America	BNP Paribas	New York

Quantitative Research

The decade-long reign of quantitative investment managers, which led one U.S. consultant to proclaim "they shall inherit the earth" in late 2005, is looking shaky. Quantitative funds took what may have been the largest hits - both on the balance sheet and the press. The weight of money flowing into quantitative funds, which often trade on the same signals and employ similar risk models, has eroded the perceived wisdom that the strategy will retain its superiority. The July meltdown in quantitative hedge fund strategies, which are based on computer simulations, was limited to statistical arbitrage funds, which mine data to identify mis-priced stocks. This goes a long way towards explaining why the write-downs were so acute and correlated, say quant managers surveyed by OGIU.

The first cracks are emerging in quantitatively managed U.S. equities and have now spread to other regions and strategies. Important signals such as earnings revisions are arbitraged away too quickly for managers to trade on the information and managers are eliminating dividend yield and normalized earnings factors to simplify quant strategies. Unsurprisingly, risk managers continue to be major winners in this quantitative research backlash. Senior risk managers were in great demand for much of 2007 and often received sizable increases in pay to move to mostly buy-side positions. Quantitative risk managers also remain attractive to banks in the hybrid asset classes (structured products, proprietary trading).

In the first quarter of the year, however, recruiting was very, very active at the top banks thanks to the automation wave in program trading at the global investment banks. "It was the quarter of the counter offer," says one Options Group technology consultant. In just one example, a senior MBS quant who was making $350,000 received an offer 75% higher to move to a competitor. His bank made a counter-offer that was nearly three times his current compensation.

In the second and third quarters of 2007, however, Quant and IT hiring managers began freezing budgets. Budgets in respect to compensating new hires were suddenly under review and the continued centralization of human resources involvement with recruiting caused some soft freezes for positions reporting directly to IT. Candidates with PhD's from top schools were still in demand at investment banks and hedge funds, especially those with degrees in Physics, Mathematics or Engineering.

Firms are moving towards the Goldman Sachs platform, which is essentially executing models that hit trading desks quickly. Firms that push their quantitative research onto trading desks effectively will succeed, says one head of fixed income at a global investment bank. Morgan Stanley, in an attempt to try and catch up to this trend, hired Jay Dweck as Global Head of the Strategic Analytics, Modeling and Systems Group, overseeing its team build-out with an August start date after a six-month sit-out.

Compensation

- Down 10% from 2006 on average
- Competition is still intense among senior managers but they should only expect a small percentage compensation increase this year. The days of the counter-offer may be over for some time, but strong financial engineering managers and senior algorithmic quant will still be in demand.

AVERAGE GLOBAL INVESTMENT BANK PAY *(US$)*

	BASE	BONUS
Associate	80-100K	50-60K
VP	100-125K	150-200K
Director	150K	300-400K
MD	175-200K	700K-900K

	TOTAL COMPENSATION
Global Head of Research	5-6 MM
Head of Americas	2 MM
Head of Europe	1.5 MM
Head of Asia	1.5 MM

2008 Outlook

The demand for risk managers will remain strong and become even greater in Europe and Asia as regulatory reform hits key money centers in these regions. Quantitative credit researchers will no longer get the big pay increases they received in early 2007. In fact, with lower second-half profits expected at many global investment banks, expect senior bank managers to keep IT budgets down and expectations low for 2008.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Jay Dweck	*Global Head of Strategic Analytics, Modeling & Systems*	Goldman Sachs	Morgan Stanley	New York
Andrew Gunstensen	*U.S. Head of Interest Rate Derivatives, Quantitative Research*	Morgan Stanley	Merrill Lynch	New York
John Yin	*U.S. Head of Interest Rate Derivatives, Quantitative Research*	Wachovia	Bear Stearns	New York
Dierk Reuter	*Head of Equities Volatility, Quantitative Research*	Goldman Sachs	Deutsche Bank	New York
Rick Shypit	*Head of Equity Derivatives, Quantitative Research*	Morgan Stanley	Wachovia	New York
Ezra Nahum	*U.S. Head of Interest Rate Derivatives, Quantitative Research*	Bear Stearns	Goldman Sachs	New York
Eduardo Canabarro	*MD, Quantitative Risk Management*	Lehman	Morgan Stanley	New York
Robert Shapiro	*Executive Director, Quantitative Trading & Execution Analysis*	Abel Noser	Morgan Stanley	New York

Information Technology

The first two quarters were very good ones for Information Technology professionals. Top managers and financial engineering professionals received big pay increases and firms were hiring across the globe. While IT budgets weren't up significantly (exceptions being Fixed Income and Prime Brokerage) in 2007, desks were desperately seeking mortgage and algorithmic trading quant professionals as well as quantitative credit researchers. In just one example, a senior algorithmic trading quant received a 50% pay upgrade in May, but then accepted a counter-offer that was almost double his current compensation.

The second half of the year is looking far different from the first however. Hiring freezes are more common than not at the global investment banks and overall hiring slowed down significantly. Although IT hiring often is more front-loaded than other products, a cloudy profit picture could jeopardize what was shaping up to be a record bonus year.

Overall, OGIU estimates total IT compensation will fall by around 5% this year. Fixed Income IT budgets were flat globally, as opposed to lower budgets in Equities and Investment Banking, according to OGIU data. The reason: Equities and banking departments added too many professionals over the last few years.

Banks this year continued to assemble financial engineering IT teams that could quickly jump into a project and complete it in anywhere from 2 hours to 2 months. Traditionally, IT business heads turnaround projects in a 6-month to 2-year time frame. Heads of financial engineering groups should see total compensation continue to rise in 2007.

The future of modeling and analytics is moving towards the models that Goldman Sachs and Bear Stearns have taken. There will be limited focus on long-term modeling projects, which will be assigned to a dedicated group, and more concentration on quick quantitative analytical projects. These "quick and dirty" projects will be passed off to IT to be rebuilt into a longer-term solution or outsourced to high-end technology centers in India.

The big winners will be the more senior professionals, the managing directors and the heads of derivatives and financial engineering. This crowd will receive similar bonuses in 2006, according to OGIU surveys. While technology software and hardware is in a bit of a lull period as everyone waits for the next killer set of applications, hiring mid- to senior-level staff continues to be a significant priority for firms worried about the security and scalability of their internal systems.

Compensation

- Down 5% on average versus 2006
- Heads of IT businesses and derivatives trading will receive the highest premiums in 2007, but they will be down slightly from 2006 levels.

- Financial engineering team heads also will receive comparably higher bonuses because these senior managers are still in demand.

AVERAGE GLOBAL INVESTMENT BANK PAY (US$)

		Base	Bonus
Associate	*1-2 Years*	80-90K	25-35K
	3rd Year	90-100K	35-45K
VP		125K	60-70K
Director		150K	150-175K
MD, Technology		200K	700-800K

	Total Compensation
Global Head	2.5-3 MM
Head of Americas	1.5-1.75 MM
Head of Europe	1.5-1.75 MM
Head of Asia	1.1-1.3 MM
Head of Business, IT	800-900K
Head of Derivatives	2-2.25 MM
Head of Financial Engineering	1.5-2 MM

2008 Outlook

IT budgets are often the first to get hit in a downturn and this time around will be no exception. Headcounts will drop and the bottom 10% of IT departments may very well see pink slips. That being said, senior financial engineering managers and software technology professionals will need to be paid decent bonuses for retention purposes.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Malcolm Perry	*Senior Structured Finance Fund Manager & Software Specialist*	Dresdner Kleinwort	Prytania Alternative Inv	London
Andrew Cleeland	*Senior Database Analyst*	MISC	Austock Group	Melbourne
Mark Lineberry	*Head of Agency's office on market surveillance technology*	Internal Promotion	SEC	New York
Jay Dweck	*Global Head of Strategic Analytics, Modeling & Systems*	Goldman Sachs	Morgan Stanley	New York
Michael Coomer	*Group Executive of Business Technology Solutions*	Westpac	TBA	Sydney
Peter Clare	*Head of Group Technology Operations, IT*	St George Bank	St George Bank	Sydney
Gordon Leaver	*Director, Corporate & Financial Engineering*	DnB Investor	Societe Generale	Sydney

Investment Banking

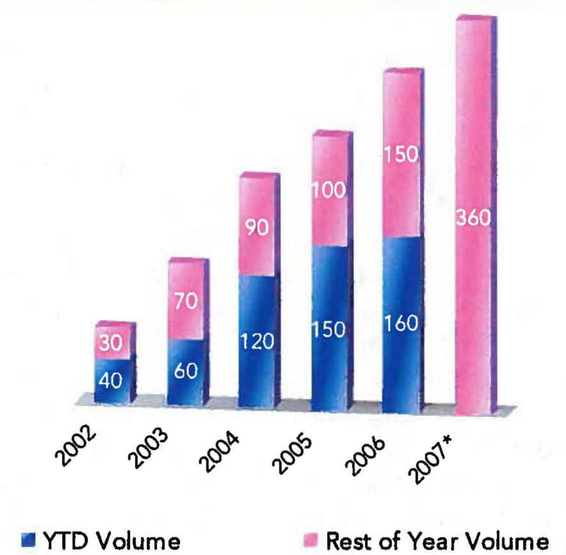
Investment Banking

2007 was all set to be the best investment banking year ever – and it still might be. By early May, global mergers and acquisitions volumes leapt over the $2 trillion mark and overall activity was 63% higher than 2006 as cheap debt prodded corporations to globalize. But easy credit dried up this summer, pushing private equity firms and many corporations to the M&A sidelines. Announced deals were either being scaled back or scrapped altogether. In August, there were about $222 billion worth of deals around the globe, according to Dealogic, the lowest monthly total since July 2005, and a far cry from the $579 billion in July. The first two weeks of September volume ($76.5 billion) indicated that global activity would be even lower than August.

Overall deal volume for 2007 will look good on paper – European M&A levels surpassed those for all of 2006 by mid-September - but top dealmakers concede that the future does not look as bright. "The M&A business has always been cyclical, and a downturn is inevitable," Morgan Stanley Vice Chairman Robert Kindler told The Wall Street Journal. While M&A isn't going away, he said, would not be surprised if deal volume is down 20% to 30% next year."

Although OGIU also estimates moderating growth, associates and vice presidents will still be valuable additions to banks as they shift resources away from Fixed Income. Equity capital markets professionals will also become more integral to a bank's success over the next six months as debt capital markets sputter. TMT M&A should remain robust as long as corporations continue to pay cash for assets. Biotech and storage networking are two standouts in TMT to watch.

FINANCIAL SPONSORS

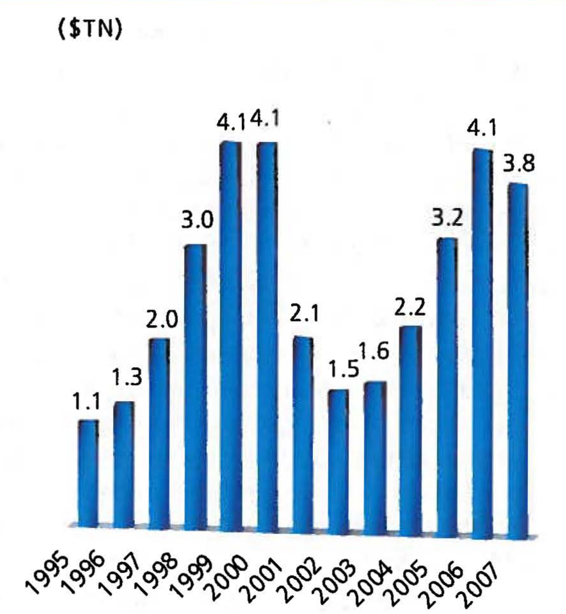


* As of Sept. 21; Source: Dealogic

The latest boom, which stretched from the end of 2003 to the middle of this summer, is looking to Wall Street followers like the richest era since the rise of the modern deal-making industry in the 1980s. From 2004 to date, about $13.32 trillion worth of deals were struck. That exceeds the total during the technology boom years of 1998 to 2001, when, adjusted for inflation, $13.21 trillion of deals were struck. Inflation-adjusted totals for the 1980s deals boom were far lower. In the most recent cycle, cash rather than stock played a bigger part in the average deal. What fueled it were cheaply priced credit-bank loans and high-yield bonds that were readily available. The biggest beneficiaries were private-equity funds, which took advantage of low interest rates and lax terms from lenders to make acquisitions more cheaply and with lower risks than corporations could. In 2000, leveraged buyouts accounted for only $14 of every $100 spent on deals in the U.S. This year, through July, they accounted for $37 of every $100.

Financial sponsor lending, for example, had more than doubled by mid-August, with 537 deals for $366 billion in volume. Last year, year-to-date volume was $180 billion, according to Dealogic. Goldman Sachs, spurred by spots in the financings for the buyouts of Chrysler and Kinder Morgan, was second in volume behind JPMorgan Chase after being fourth last year at this time. Goldman had logged $37.8 billion in volume, roughly $24 billion more in deals to date over last year. Citigroup finished in third and Deutsche Bank in fourth. Although announced, there are a number of financings that have not yet registered, including First Data and TXU. (See Financial Sponsors chart on previous page)

GLOBAL M&A DOLLAR VOLUME



* As of Sept. 4, Source: Dealogic

The downturn in the U.S. and Europe put the spotlight even more brightly on Emerging Markets and Asia. Professionals in these markets are switching jobs at a rapid pace due to the incredible demand for experienced talent from global investment banks and private equity firms. Second-tier banks are under particular strain to retain producing bankers, according to OGIU surveys, and the markets are moving faster than these banks can deploy money or attract talent. The larger banks also are looking over their shoulder.

Credit Suisse hired Rob Jesudason from JPMorgan Chase to head its financial institutions group in Asia excluding Japan, the Swiss bank announced in August. The Zurich-based firm has hired bankers in the region to boost its private equity and debt financing business after it appointed Paul Raphael as head of investment banking for the Asia-Pacific (ex-Japan) in May. Jesudason is based in Hong Kong and reports to Raphael and Vikram Gandhi, head of financial institutions in New York. Credit Suisse has trailed UBS and Goldman Sachs in advising on Asian mergers outside Japan in the past two years, ranking 10th last year, from third in 2005, according to Bloomberg. Lehman Brothers hired Colin Banfield from Credit Suisse to run its Asian M&A operations after Raphael took over most of his duties.

Until recently, the "rainmaker" model, typified by Citigroup's Francis Leung, dominated investment banking in China. Leung is credited with getting a large number of Chinese companies to list in Hong Kong. These rainmakers played golf with chief executives, dined with regulators and politicians, coupled with their knowledge of Chinese business, proved crucial to global investment banks. Now star bankers are giving way to full IBD staffs as rapid economic development has modernized the Chinese banking landscape.

Global investment banks are also making ever-greater principal investments, so some bankers have been assigned roles to spot opportunities where the banks' own balance sheet can profitably be put to work. Lastly, Chinese banks are increasingly advising companies based in Hong Kong/China about M&A opportunities in their own region.

Compensation

- Bonuses up 10% higher than last year, which is still a very robust result considering how high bonuses were in 2006. The professionals that receive the largest percentage increases will ironically be analysts, who got their bonuses in July. Bonuses were up around 15 to 20% across the board for 2nd and 3rd year analysts as banking peaked in June, according to OGIU surveys.

- 2007 bonuses should still crest above last year's payouts for top producing bankers because deal volume numbers in a number of categories will end up being higher than last year.

AVERAGE GLOBAL INVESTMENT BANK PAY *(US$)*

		BASE	BONUS
Analyst	*1st Year*	70-80K	60-80K
	2nd Year	80-90K	95-115K
	3rd Year	90-110K	125-175K
Associate	*1st Year*	100-120K	200-250K
	2nd Year	110-130K	275-325K
	3rd Year	120-140K	350-400K
VP		150-200K	650-750K
Director		200K	800K-1 MM
MD		200-250K	2.25-2.75 MM*

	TOTAL COMPENSATION
Global Head	10-12 MM
Head of Americas	7 MM
Head of Europe	7 MM
Head of Asia	5-5.5 MM

* MD compensation can often rise or fall to many multiples of this bonus range.

GLOBAL M&A DEALS

2007 (THRU 9/30)			2006 (THRU 9/30)		
Adviser	Total ($MM)	# of Deals	Adviser	Total ($MM)	# of Deals
Goldman Sachs	1,054,038	362	Goldman Sachs	778,616	296
Morgan Stanley	979,514	308	Morgan Stanley	637,196	278
Citigroup	955,483	385	Citigroup	592,832	346
JPMorgan Chase	879,157	315	JPMorgan Chase	589,799	329
UBS	767,504	355	Merrill Lynch	495,077	242
Credit Suisse	709,487	279	UBS	475,590	291
Merrill Lynch	707,054	271	Lehman Brothers	437,951	176
Deutsche Bank	682,800	202	Credit Suisse	420,382	262
Lehman Brothers	672,666	208	Deutsche Bank	291,010	207
Lazard	433,495	193	Rothschild	307,109	273
Industry	3,465,012	30,918	Industry	2,486,242	27,903

Source: Bloomberg.

2008 Outlook

By definition, the guaranteed minimum bid on transactions is going to be lower on deals and assets. Companies for which there is no corporate buyer will not be put up for sale until credit conditions improve. For companies already under private-equity control, which tend to carry lots of debt, higher interest rates and wider credit could make it harder to turn a profit, which could lead to layoffs and cost-cutting. Distressed debt, restructuring and technology M&A will become larger revenue streams for global investment banks in 2008. Debt capital markets, however, could be a real negative for banks due to difficult year-over-year revenue comparisons in the first half of 2008. LBO activity picked up in October and November and that's good news for capital markets desks going into 2008. U.S. firms will continue to seek acquisition targets in Europe as volumes hit record-highs by the end of the third quarter.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Michael Murray	*MD, Technology Investment Banking*	Deutsche Bank	Lazard	Boston
Winston Fritsch	*Head of Investment Banking in Brazil*	Rio Bravo	Lehman Brothers	Brazil
Arkadi Nachimowski	*Head of European Chemicals team*	UBS	Deutsche Bank	Frankfurt
Colin Banfield	*Head of M&A*	Credit Suisse	Lehman Brothers	Hong Kong
Rahul Gubpta	*VP, Leveraged Finance Asia Pacific*	UBS	Carlyle Group	Hong Kong
George Hutchinson	*MD, Energy Investment Banking group*	Friedman Billings Ramsey	Jefferies	Houston
Florian Lahnstein	*Vice Chairman of European Investment Banking*	UBS	Bear Stearns	London
Simon Wilkinson	*Head of Investment Banking*	West LB	Societe Generale	London
David Weaver	*Head of International Investment Banking division*	Deutsche Bank	Jefferies	London
Katherine Mitchell	*Head of the EMTN desk*	Internal Promotion	BNP Paribas	London
Mike Powell	*Head of Global Project Finance Advisory*	Calyon	Barclays	London
Cindy Ma	*MD, Financial Advisory Services group*	NERA Economic Consulting	Houlihan Lokey	London
Berent Wallendahl	*Head of Client Coverage for Global Banking*	Goldman Sachs	Dresdner Kleinwort	London
David Landman	*COO*	Morgan Stanley	Perella Weinberg	London
Anthony Odger	*COO, European Mergers Unit*	Lehman Brothers	Deutsche Bank	London
Jon Symonds	*PMD, Investment Banking*	Astra Zeneca	Goldman Sachs	London
David Livingstone	*MD & Head of European M&A*	HSBC	Credit Suisse	London
Dan Toscano	*Co-Head of Leveraged and Acquisition Finance*	Deutsche Bank	HSBC	London
Jonathan Grundy	*MD & Head of Energy, Power & Infrastructure*	Morgan Stanley	Merrill Lynch	London
Peter Bacon	*Chairman of European Financial Sponsors group*	GSO Capital Partners	Morgan Stanley	London
Leopoldo Zambeletti	*Head of European Health Care Investment Banking*	Morgan Stanley	Sun Capital	London
David Soanes	*Head of FIG EMEA & Co-Head of European Financial Institutions*	Internal Promotion	UBS	London
Matthew McGrath	*MD, Strategic Advisory Group*	JPMorgan Chase	Wachovia	Los Angeles
Inigo Heredia	*Head of Leveraged Finance*	Societe Generale	ABN Amro	Madrid

Name	Title	Company From	Company To	Current Location
Anthony McCarthy	*Head of Investment Banking & Markets, Latin America*	Banco Bilbao Vizcaya Argentaria SA	HSBC	Mexico City
Rodolfo J. Rastellino	*Head of Sales, Financial Institutions*	ABN Amro	Deutsche Bank	Mexico City
Nicholas Jordan	*Vice Chairman – Head of Investment Banking, Russia*	Deutsche Bank	Lehman Brothers	Moscow
Ed Kaufman	*Chief Executive of Investment Banking Business.*	UBS	Alfa Bank	Moscow
Ashok Mittal	*MD, Investment Banking*	HSBC	Lehman Brothers	Mumbai
Peter Babej	*Head of Investment Banking & Insurance, Americas*	Lazard	Deutsche Bank	New York
Michael Ryan	*Head of Securities for Investment Banking Division*	Goldman Sachs	Credit Suisse	New York
Markus Pressdee	*MD & Head of Infrastructure Group*	UBS	Credit Suisse	New York
Matthew Hickerson	*MD & Global Head of Communications & Marketing*	Credit Suisse	UBS	New York
Steve Raftopoulos	*Head of Middle Market Mergers & Acquisitions*	JPMorgan Chase	Bank of America	New York
Andrew Schaeffer	*Managing Director & Head of Debt Capital Markets*	Bank of New York	Calyon	New York
Doug Baird	*Co-Head of Global Equity Capital Markets*	Deutsche Bank	Bank of America	New York
Eric Coutts	*Co-Head of European Restructuring*	Goldman Sachs	Citigroup	Paris
Laurent Cassin	*Head of Equity Capital Markets division*	Natixis	Société Générale	Paris
Wai Ming Loke	*China, Financial Institutions coverage*	Merrill Lynch	Macquarie	Shanghai
Jason Murray	*Head of DCM*	Citigroup	Merrill Lynch	Sydney
Doug Howland	*MD, Head of ECM Asia Pacific*	Deutsche Bank	JPMorgan Chase	Tokyo
Robert Jesudason	*Head of FIG, Asia (Ex-Japan)*	JPMorgan Chase	Credit Suisse	Tokyo

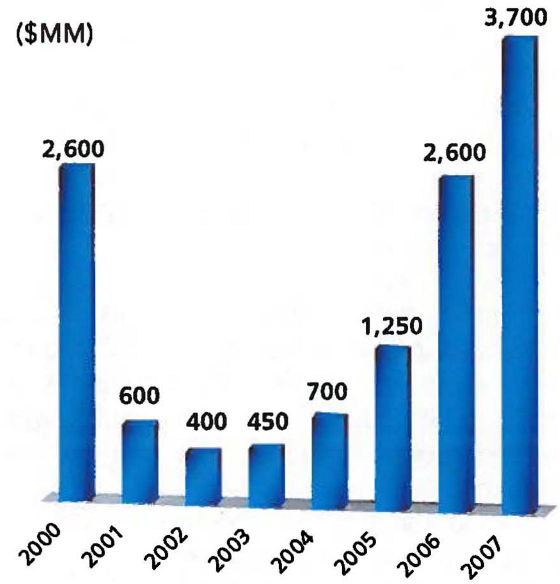
Private Equity

Private equity firms are suddenly as unloved as they were twenty years ago. The Blackstone Group's Stephen Schwarzman seems to have gone a long way to make sure of that. The financial markets are not a popularity contest however, and firms had a phenomenally successfully first half. Blackstone wrapped up the largest private equity fund funding ever at $22 billion in April, followed by Goldman Sachs' $20 billion haul. Over the last three years, banks received $34 billion in revenue associated with private equity, according to Dealogic.

Sponsor-to-sponsor transactions dominated activity for much of the year. Through July, 60% of all private equity exits were secondary buyouts, representing an all-time high. Given the amount of money that private equity firms have to put to work, it was inevitable that sponsors would look to each other for buying and selling opportunities. The stigma that used to surround these transactions is long gone, according to OGIU surveys, and firms have figured out how to make secondary transactions more lucrative.

Since the IPO window for private equity is closing, firms are now selling stakes in themselves to raise capital – even if they decide not to go public. Carlyle Group, the second-biggest buyout firm, is selling a stake to the government of Abu Dhabi for $1.35 billion. Blackstone Group sold a $3 billion stake to China's state-owned investment company in May. A month later the New York-based company sold shares in an IPO valuing it at $33.5 billion, and the stock has since tumbled 24% through mid-September. Carlyle, which will use the money from Abu Dhabi to fund investments and now has 55 funds worth $75 billion, has put its own IPO on hold after rising borrowing costs led to a drop in takeovers by leveraged buyout firms. It is worth noting that the big private equity firms laid the groundwork for these deals by investing in emerging markets last year.

Private Equity and Venture Capital Fund Raising*



*: Thru Sept. 4

Source: EMPEA, LatinFinance, LAVCA

Despite the slowdown in leveraged loans from banks, Carlyle Group completed two funds -- a $3 billion real-estate fund in the U.S. and a $7 billion fund for buyouts in Europe. Still, the fund-raising comes shortly after Carlyle's listed mortgage-backed securities fund had to borrow $200 million from the founding partners at Carlyle to avoid a fire sale of securities.

Banks are fighting back against private equity firms, lowering the price on agreed-upon deals this fall. Private-equity firms seeking to acquire Home Depot's wholesale supply unit slashed the price to $8.5 billion in late August, 18% below what had been agreed to two months ago, after banks that were to lend money to the buyers balked. JPMorgan Private Equity Fund Services was named best overall firm in a survey of private equity administration services conducted by Global Custodian and sizable gains at this unit helped offset big subprime losses for the bank in the third quarter.

Hiring Trends

Latin America may be the fastest-growing area for private equity. A recent survey by the Emerging Markets Private Equity Association (EMPEA) showed that 31% of limited partners were actively or opportunistically investing in LatAm this year, versus 20% in 2006. Some 64% of those surveyed expect to be investing in LatAm by 2012, against 31% currently. This is equally distributed between Brazil and the rest of the region.

In Europe, hiring remains brisk as assets continue to pile in. According to International Financial Services London (IFSL) estimates, a record $365 billion of private equity was invested globally in 2006 up nearly three times on the previous year. Buyouts have accounted for a growing portion of private equity investments by value in recent years, and increased their share of investments from a fifth to more than four-fifths between 2000 and 2006. By contrast, the share of early stage or venture capital investment has declined during this period.

In recent years, there has been a rise in the importance of Asia-Pacific and emerging markets as investment destinations, particularly China, Singapore, South Korea and India. Asia-Pacific's share of investments increased from 6% to 14% since 2000. Private equity hiring, especially in real estate, is especially heavy in the region.

Overall, hiring was strongest globally in bank's financial sponsors group that caters to private equity firms. In just one hiring example, Blackstone Group hired Vikrant Sawhney from Deutsche Bank to oversee financing and capital markets for in its private-equity group. Sawhney worked on Blackstone transactions as a part of Deutsche Bank's financial sponsors group.

Compensation

- Bonuses up 10% overall on average with private equity professionals earning more than their venture capital counterparts for the second year in a row. Technology venture capital professionals will be paid relatively higher due to the return of the IPO market and high stock prices.
- Private equity remains a destination spot for top grads. At Harvard Business School, 11% of the class of 2006 secured private equity positions, up from 7% in 2004. Median base salaries of $125,000, plus additional bonuses of $77,500 last year were the average, according to Harvard data.
- One concern heard by OGIU is that year-over-year deal activity will be hard to beat from 2007, especially the first half, so bonuses may be more conservative come year's end.

AVERAGE PRIVATE EQUITY PAY *(US$)*
($1 BILLION-PLUS IN AUM)

		BASE	BONUS
	1st Year	80-100K	100-120K
Associate	*2nd Year*	90-110K	120-140K
	3rd Year	100-120K	175-225K
	1st Year	110-130K	275-325K
VP	*2nd Year*	120-140K	350-400K
	3rd Year	130-150K	450-550K
Director/Principal		150-200K	900K-1.3 MM
MD/Partner		200-250K	1-5 MM

2008 Outlook

Increasing pension fund interest in private equity firms combined with the incredible investment opportunities in Asia-Pacific make this a region to watch in 2008. The highest compensation percentage increases are expected in this region as private equity firms desperately seek deep value equity analysts with regional experience. In China, for example, capital raising is in overdrive: Private equity firms raised $5.26 billion to invest in China in the first half of 2007, a 239% increase from the first half last year, according to data from the Asian Venture Capital Association. Regulatory concerns are very real and keeping investments in Asia in check, but OGIU surveys indicate an easing of these issues in 2008.

In the U.S., LBO activity picked up in October and November. That is very good news for capital markets desks going into 2008.

People Moves and Promotions

Name	Title	Company From	Company To	Current Location
Mark Mifsud	*Partner, European Private Equity*	SJ Berwin	Kirkland & Ellis	London
Karen Christofferson	*Private Equity Market Research & Analyst*	JPMorgan Chase	Helix Associates	London
Jonny Maxwell	*Global Head of Allianz's third party funds business*	Standard Life	Allianz Group	London
Peter McGloughlin	*Director, Private Equity & Investment Banking clients, N. Europe*	CIBC	Lloyds TSB	London
Rory Cullinan	*Deputy Chairman*	RBS	Renaissance Capital	London
Michael McKinlay	*Executive Director, Private Equity*	Stormberg Partners WLL	Ithmaar Bank	London
Gustave Geisendorf	*Head of European Private Equity team*	Lehman	Citigroup	London
Fred Watt	*COO, Private Equity*	RBS	CVC Capital Partners	London
James Garvin	*Director - Advisory Services*	UBS	New Philanthropy Capital	London
Ranjit Pandit	*MD, Global Private Equity - India Portfolio*	McKinsey	General Atlantic	Mumbai
Gregory Brown	*MD & Principal*	Paul Capital Partners	Cowen & Co	New York
James Matthews	*Co-Head, Private Equity Group*	Welsh Carson Anderson & Stowe	Evercore Partners	New York
Jana Ernakovich	*Principal, Financial Sponsors group*	Bank of America	Piper Jaffray	New York
Peter Berger	*Head of Private-Equity Investing group*	Ripplewood	SAC Capital	New York
Chris Stadler	*Managing Partner & Head of New York office*	Invesco	CVC Capital Partners	New York
Dave Brown	*SVP, Private Equity Fund Marketing*	New York Life Investment Management	Lehman	New York
Henry McVey	*MD, Private Equity group*	Morgan Stanley	Fortress Investment	New York
Richard Clemmer	*Senior Advisor, Technology Sector*	Agere Systems	Kohlberg Kravis Roberts	New York
Derek Jones	*Partner, Private Equity & Fund of Funds Business*	Oncore Capital	Credit Suisse	New York
Xavier Caron	*Head of its Fund of Funds team*	Credit Agricole	BNP Paribas	New York
Vikrant Sawhney	*MD, Private Equity*	Deutsche Bank	Blackstone Group	New York
Sandi Orleow	*Head of Private Equity in Australia*	Internal Promotion	Watson Wyatt	Sydney

Bank Overviews

BARCLAYS

Barclays, Britain's third-largest bank by market value, continues its strong performance as it battles a European consortium for ABN Amro. The bank's biggest star is Barclays Capital, which saw pre-tax profits surge by a third to £1.7 billion ($2.5 billion) during the first six months of the year, smashing targets set by the unit's chief executive Robert Diamond.

The performance enabled Barclays Capital to eclipse UK banking as the biggest profit generator in the Barclays group for the first time over a six-month period. The profit growth at Barclays Capital beat every other division apart from Barclays' smaller wealth business, where profits before tax climbed 34% to £173 million.

The revenue growth beat a 17% rise in costs, which were just short of £2.5 billion in the first half-year due to the arrival of 2,500 new staff. Of the staff increase, 1,400 joined Barclays when it took over U.S. mortgage business EquiFirst at the end of March in what may end up being a rather ill timed purchase. (In fact, the firm in August laid off 430 EquiFirst professionals)

In its August conference call, Barclays said it would begin a £2.4 billion share buyback as part of its plans to sell stakes in itself to China Development Bank and Temasek Holdings, which will enable to fund the cash component of its takeover offer for Dutch bank ABN Amro. The firm may need to put its buying plans on hold, however, because much of its banking build-out has been in credit products. The change in credit conditions this summer, especially in the U.S. and Europe, could see the bank re-trench in late 2007 and 2008.

BARCLAYS CAPITAL NET INCOME
(FIRST 6 MONTHS THRU JUNE)

Barclays added more than 130 private-equity and leveraged-loan bankers, for example, in less than 16 months to capitalize on a buyout boom spurred by low interest rates, few defaults and investor demand. The bank hired John Lovering, the entrepreneur who led takeovers of retailer Debenhams Plc and supermarket chain Somerfield Plc, in just one example.

OGIU OUTLOOK: Europe remains its key profit center even after a large investment has been made in the U.S., especially in investment banking, private equity and corporate finance. The turn in these markets does not bode well for the London-based bank. The failure to win ABN Amro could also negatively impact perception among outsiders and morale by firm insiders. The fact that Barclays does not have an M&A business has hurt the firm, which has had to rely more on its best-in-class derivatives and trading desks. The size of the firm's exposure to fixed income products, namely structured credit – four vehicles lost £75 million – also is cause for concern.

BEAR STEARNS

Bear Stearns not only had the misfortune to post a 61% drop in fiscal third-quarter net income, but the New York-based bank also reported earnings on the same morning Goldman Sachs reported a 79% spike in quarterly bottom-line growth. For the quarter ended Aug. 31, the brokerage house posted net income of $171.3 million, compared with $437.6 million. Net revenue, or total revenue minus interest costs, fell 37% to $1.33 billion. Investors seem to believe the worst is over, however, and its shares, which have fallen about 25% since early May, rose almost 3% after the earnings conference call.

"We think the worst is largely behind us," CFO Sam Molinaro said on a conference call with analysts and investors. He added: "we don't see any permanent damage in our fixed

FIXED INCOME REVENUE
(FISCAL 3Q, THRU AUG. 31)

income business at all." Return on equity tumbled to 5.3% compared to over 35% for Goldman Sachs. Bear Stearns' biggest operation - fixed-income and equities trading and investment banking - saw revenue decline 36% to $1.05 billion. Fixed-income revenue cratered 88% to $117.6 million as a general re-pricing of risk in the market led to

NET INCOME
(FISCAL 3Q , THRU AUG. 31)

significant reductions in both mortgage and credit-related revenues as volumes decreased while asset values declined. Bear Stearns took about $700 million in write downs to reflect the diminished value of its mortgage, asset-backed securities and leveraged loan portfolios. About $250 million of that represented Bear discounting the value of the loans it agreed to make to finance corporate buyouts. Equities revenue was a bright spot, surging 53% to a record $719 million, while investment-banking revenue dropped 8.8% on fixed-income weakness. Two of its mortgage-related hedge funds also blew up, costing the firm $200 million in the fiscal third quarter.

OGIU OUTLOOK: Institutional investors now seem to want Bear Stearns to bring in an investor to shore up its balance sheet. Chinese banks seem to be first in line, but do not count out a Middle Eastern investor at this point. CEO James Cayne is definitely on the hot seat after disposing of COO Warren

Spector this summer. The lack of global diversification will continue to hurt the brokerage, but its low price-to-book 1.2 vs. 2.3 for Goldman may indicate a bottoming out of its stock. Equities build-outs in cash, prime brokerage and structured products will be a big key for the firm going forward. Bear Stearns' ability to "go more international" with its rates, currencies, and real estate/mortgage financing businesses also need to be watched. Fifteen percent of the firm's revenue comes from outside the U.S., way below its brokerage counterparts.

BNP PARIBAS

NET INCOME
(FIRST 6 MONTHS, THRU JUNE)

BNP Paribas SA, France's largest bank by market value, reported in August a 20% rise in second-quarter net profit that beat forecasts as it benefited from record earnings at its investment bank arm. The euro zone's second-biggest bank by market capitalization said net profit rose to 2.28 billion euros ($3.13 billion), with earnings also boosted by growth in its asset management and French retail banking divisions as well as by last year's takeover of Italian bank BNL. Gross operating profit rose 14% to 3.37 billion euros, while revenues rose 13%.

BNP Paribas said its corporate and investment banking division enjoyed a 28% rise in second quarter pre-tax profit, with growth in areas such as derivatives, fixed income and energy financing. The bank said it was unaffected by current problems concerning U.S. sub-prime mortgages, where defaults by customers have caused losses at several financial institutions and sent shivers through the financial sector. Chief Executive Baudouin Prot said in a statement that BNP Paribas was well placed to continue to perform well in a less favorable market environment.

As the credit crunch worsened after earnings, BNP announced in mid-August it was suspending three of its ABS funds, saying it could not value them accurately because of problems in the U.S. subprime mortgage market. The bank said it was suspending three funds worth a total of €2 billion: Parvest Dynamic ABS, BNP Paribas ABS Euribor and BNP Paribas ABS Eonia.

OGIU OUTLOOK: BNP's primary strengths are in France and in structured products, namely equity derivatives. The firm's build-out into the U.S. has been going relatively well and the French bank continues to seek talent from suddenly struggling firms in the Americas. The bank also was up-front on its mortgage-backed losses and it actually has relatively little subprime exposure. Its strong equity trading franchise should benefit from increased volatility globally. The firm's strong European retail banking and specialized financing franchises, as well as the successful integration of BNL, should allow it to maintain its growth story going forward.

NET REVENUE
(FIRST 6 MONTHS, THRU JUNE)

citigroup

After announcing substantial layoffs in the spring, Citigroup posted a second-quarter profit of 18% on strong overseas operations that led to record revenue for the biggest U.S. bank. International revenue rose 34% to $12.56 billion in the second quarter, while U.S. revenue edged up 6%. International revenues were 49% of the New York-based bank's total revenues, up from only 43% a year ago. Chief Financial Officer Gary Crittenden said he expected to "continue to see deterioration" in consumer credit in the second half of the year.

The firm said in early October it would take a $5.9 billion third-quarter charge, with $3.3 billion credit-related. Third-quarter profits ended up falling 57% to $2.38 billion after $5.9 billion in write-downs, including $1.56 billion for subprime mortgages, $1.35 billion pre-tax write-downs for leveraged loans and $636 million in fixed income trading. Profits over at the corporate and investment bank fell 74% to $446 million.

TOTAL REVENUE
(FIRST 6 MONTHS, THRU JUNE)

In early April, the bank said it would cut 17,000 jobs to help slash $2 billion from this year's operating costs. The cuts were about one-third complete by the end of June, Crittenden said. Citigroup's hedge fund chief,

NET INCOME
(FIRST 6 MONTHS, THRU JUNE)

Dean Barr, resigned that month. The move came less than a week after the largest U.S. bank agreed to buy Old Lane and install Vikram Pandit as chief of its alternative investments unit. Barr resigned as head of liquid alternative investments, responsible for hedge funds, structured finance vehicles, credit derivative trading and other activities. He also stepped down as chief executive of Tribeca Global Management LLC, a hedge fund unit that had overseen about $2.5 billion.

In mid-October, Pandit was named head of a merged alternative investments and investment banking unit by Prince. If he succeeds in a role he previously held at Morgan Stanley, Pandit would be in line for the CEO job. Fixed income head Tom Maheras, formerly a rising star at the bank, left the company as part of the shake-up.

The international story for Citigroup remains a bright spot. In July, Citigroup announced an agreement to acquire up to 50% of the company that controls Banco de Chile, that country's second largest bank. Shanghai Pudong Development Bank Co., the Chinese partner of Citigroup, said first-half profit rose 59% because of more loans and fees from financial services such as distributing mutual funds. And in mid-August, the European Commission cleared Citigroup to buy a controlling stake in ailing Japanese brokerage house Nikko Cordial Corp. Citigroup is paying $10 billion for the stake in the leading Japanese brokerage. Piyush Gupta will become head of Asian markets and banking covering Singapore, Malaysia, Philippines, Indonesia, Thailand, Vietnam and Brunei.

OGIU OUTLOOK: Questions still remain about the stock as it invested like most firms in structured credit and real estate finance this year. Citigroup, thanks to acquisitions and hires, now may be the strongest bank globally in business origination. At the end of the first half, Citigroup was number one or two in European and U.S M&A, Global Debt and Equity and Global Convertibles. The fact that its stock shot up on mid-October rumors of Chairman and CEO Charles Prince's exit does not bode well for his future. Prince's resignation in early November, due in part to an additional $8 to $11 billion write down in structured investment vehicles, will push Citigroup bonuses down for the year and wipe out fourth-quarter profits.

Deutsche Bank

Deutsche Bank AG said in early August its second-quarter net profit rose 31% from the year earlier as its investment banking business remained robust, beating market expectations. Net profit in the second quarter amounted to 1.78 billion euros ($2.4 billion), up from 1.36 billion euros a year earlier, well ahead of analyst forecasts of 1.59 billion euros.

Deutsche Bank impressively posted an 18% increase in debt sales and trading, to a second-quarter best of 2.9 billion euros. Equity sales and trading soared 89%, with equity derivatives, prime services and cash equities all boosted by increased customer flow, especially in Asian countries, excluding Japan. In fact, Deutsche Bank was named in October the top underwriter for European debt and equity capital markets.

EQUITY SALES AND TRADING REVENUE
(FIRST 6 MONTHS, THRU JUNE)

Deutsche said its prop-trading desk would abandon certain types of trades and reassign some staff after losing around 100 million euros in the credit markets from mid-July to mid-August. The losses occurred in its Principal Strategies Group, led by Gerry Jackson in London.

NET REVENUE
(FIRST 6 MONTHS, THRU JUNE)

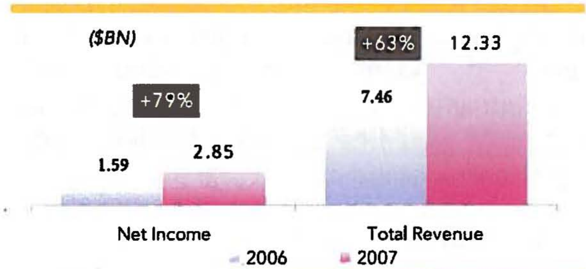
The bank said in October it would take a charge of 2.2 billion euros in the third quarter due to the credit crisis, with 1.5 billion euros coming from complex securities, namely mortgage loans, and 700 million euros from leveraged loans and pending loan commitments. The firm pre-announced that net profit would be around 1.4 billion euros, up from 1.2 billion euros a year ago.

OGIU OUTLOOK: Looking forward, Chief Executive Josef Ackermann said he expects some uncertainties to persist in the financial markets in the short term and that some areas of the credit markets may continue to experience turbulent conditions. The firm's strong global equity trading businesses should give the German bank the ability not to depend as much on its credit sales and trading franchise. The firm also is a top-tier player in emerging markets, credit derivatives, FX and alternative investments. Prop trading losses will need to be contained in future quarters for firm to maintain top- and bottom-line momentum.

Goldman Sachs

Goldman Sachs benefited from the summer-long volatility by posting the strongest quarter on Wall Street...again. Shrugging off major disturbances in the credit and mortgage markets, Goldman Sachs reported a 79% surge in fiscal third-quarter net income amid record revenue. The bank posted net income of $2.85 billion, or $6.13 a share, despite losing $2.4 billion (writing down $1.48 billion) on $52 billion of corporate loans during the quarter.

NET INCOME AND TRADING REVENUE
(FISCAL 3Q, THRU AUG. 31)



Net revenue surged 63% to $12.33 billion, led by $4.9 billion in FICC that houses the credit and mortgage products currently roiling the global economy. Analysts had forecast revenue of $9.57 billion. Goldman said it "more than offset" significant losses on risky mortgage assets and leveraged-buyout loans by betting correctly that mortgage securities would continue losing value in the quarter that ended Aug. 31. Revenue in Goldman's largest business - trading and principal investments - soared 70% to $8.23 billion in the third quarter. FICC even reported a 71% jump in revenue to $4.9 billion. One factor that boosted year-over-year growth rates: In last year's third quarter, the firm reported a 1% drop in net income.

Goldman Sachs raised $2 billion to help resuscitate another fund, Global Equity Opportunities, which lost about 30% of its value in early August. It rebounded after the infusion, gaining about 16% as of the end of August, and is not experiencing meaningful redemptions, CFO David Viniar said. Goldman's incentive fees for managing the funds will "remain modest" for several months, he added, though asset-management revenue overall in the third quarter rose 31% from last year to $1.2 billion. The firm re-gained its number one position in global investment banking from Citigroup thru Sept. 30, 2007. In its fiscal third-quarter, Goldman Sachs booked a 67% increase in banking revenue to $2.15 billion.

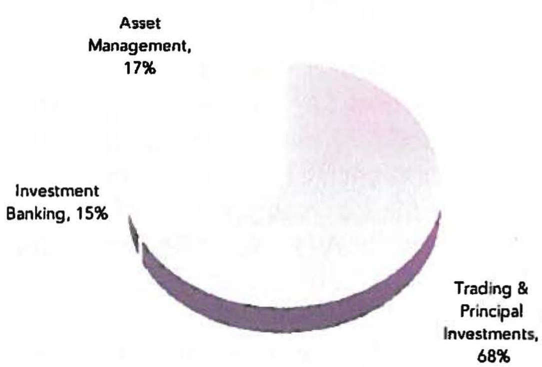
OGIU OUTLOOK: Goldman Sachs is hiring in project finance and structured products this year while it remains dependent on its trading

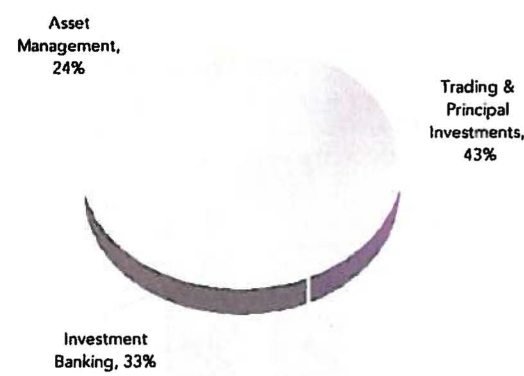
FIXED INCOME REVENUE
(FISCAL 3Q, THRU AUG. 31)

and principal investments to maintain its eye-popping top- and bottom-line growth. While its hedge fund franchise has taken a hit, the firm's cross-asset business model is still the envy of the global banks. More than 50% of its revenue now comes from outside the U.S. and it has a strong competitive advantage in EMEA, Japan and in emerging markets like China.

The bonus picture now looks very encouraging for Goldman's 28,000 employees and will be the highest at the New York-based banks. That being said, the bank does not have as much incentive to pay out large bonus increases. Since main competitors Lehman Brothers, Bear Stearns and Merrill Lynch will probably pay out 2007 bonuses that are lower than last year, Goldman Sachs will only need to pay flat to slightly higher bonuses. "For someone on the fixed income side, where bonuses are expected to be down 20 to 30%, a flat bonus is a big win," says one fixed income sales desk head at a competing bank.

2006	1999
NET REVENUE: $37.7BN EMPLOYEES: 26,647	NET REVENUES: $13.3BN EMPLOYEES: 15,361





HSBC

HSBC Holdings Plc, Europe's largest bank, said first-half profit rose 25%, beating analysts' estimates, as gains from share sales in China overcame rising costs from bad loans in the U.S. The shares advanced the most in three years after London-based HSBC said net income increased to $10.9 billion from $8.73 billion a year earlier. HSBC reported higher pretax earnings in Europe, Latin America and Asia, including $1 billion of gains from China. At the same time, provisions for bad loans, mostly to U.S. borrowers with patchy credit histories, climbed 63% to almost $6.4 billion. CEO Michael Geoghegan said the company is "working through the challenges of subprime lending."

TOTAL OPERATING INCOME
(FIRST 6 MONTHS, THRU JUNE)

An increase in loan defaults by people with patchy credit histories has overshadowed HSBC's accelerating growth in Asia and commercial lending in the first half of 2007. In the second half, about $5 billion of the company's adjustable-rate mortgages will reset with higher interest rates. Geoghegan pushed out U.S. managers, including North American CEO Bobby Mehta, in February and scaled back home-equity loans. Geoghegan, who took over from Chairman **Stephen Green** last year, has spent more than $5 billion to

TOTAL PRE-TAX PROFIT
(FIRST 6 MONTHS, THRU JUNE)

expand in Asia since 2004. HSBC plans to double branches in China this year.

In South America, the company bought **Grupo Banistmo SA**, Panama's largest bank, last year for $1.77 billion and said it will seek more acquisitions in the region. Pretax profit in Latin America rose 16% to $1 billion. Pretax profit in Asia excluding Hong Kong doubled to $3.34 billion. The company generated about 34% of its revenue last year from Europe, 31% from North America, 26% from Asia and most of the rest from Latin America.

OGIU OUTLOOK: HSBC continues to make a big push in EMEA and Asia. HSBC hired Citigroup's **Frank Slevin** in January to oversee lending in Asia, for example, and that should boost volumes for a firm with a tremendous amount of capital at its disposal. Unfortunately, the firm lost its top two bankers in EMEA and Asia: Steve Wallace (to Citigroup) and David Livingstone (to Credit Suisse). The firm is making a push into equity derivatives with its hire of **Amilcare Police**, global head of equities distribution from ABN AMRO.

JPMorganChase

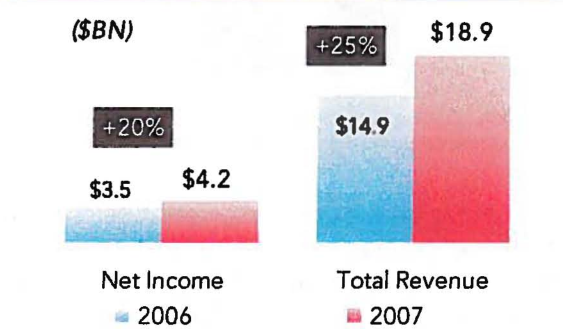
Private equity and investment banking helped JPMorgan Chase, the third-largest U.S. bank, post second-quarter earnings that were 20% higher even after major personnel shake-ups in its banking and commodities business. Net income climbed to $4.23 billion, and revenue rose 25% to $18.9 billion. CEO Jamie Dimon, who has led a push to expand in faster-growing markets in Europe and Asia, said he's preparing "for a less favorable environment" in the U.S. Third-quarter earnings were up 2.3% to $3.37 billion, despite a $2 billion write down from leveraged loans and credit-related losses. Profits at the investment bank fell 70% to just $296 million.

JPMorgan's co-head of mergers and acquisitions for EMEA, Dag Skattum, quit after more than 20 years in July to join TPG Capital as a partner. New York-based Jimmy Elliott, his former counterpart, will become sole head of the bank's M&A business. Skattum's departure comes as JPMorgan tops a league table for fees paid to investment banks by financial sponsors after earning almost $900 million in the first half of the year, according to Dealogic.

In June, the bank was forced to reshuffle the management of its currencies, commodities and rates businesses after the departure of several senior bankers from its energy trading division. Blythe Masters, who headed currencies and commodities globally, now focuses exclusively on commodities, heading a 200-person business focused on trading energy and metals. Patrik Edsparr took over control of the 400-strong currencies business. The bank plans to expand its energy-trading staff from 110 to 150 over the coming 12 months. George Taylor, who ran global energy trading, Trevor Woods, in charge of natural gas and power trading, gas traders Chris Malone and Brendan Connellan, and Robert Flicker, JPMorgan's chief operating officer for US energy, all left the bank. Catherine Flax and Ray Eyles became co-head of global energy sales and trading. The bank also launched an alternative energy investment banking division under Vandana Gupta.

OGIU OUTLOOK: JPMorgan said in March it plans to invest $1 billion to expand its investment-banking unit this year, including a hiring push in Europe and Asia for energy traders. The push into Europe has paid off already: JPMorgan was number four in M&A in the first nine months of 2007, up from fifth. William Winters, co-head of investment banking, said the initiative will generate $100 to $160 million of annual earnings as early as this year. JPMorgan is hunting for "niche" acquisitions for the investment bank in Russia and Brazil. Such purchases would be "fill-ins" and done on a "piecemeal" basis, the bank said. The firm's equity trading build-out could be a key for this bonds-focused global bank, especially since it will need to re-assess its structured credit build-out due to this summer's credit crunch.

REVENUE AND INCOME
(FIRST 6 MONTHS, THRU JUNE)



LEHMAN BROTHERS

Lehman Brothers, the biggest underwriter of U.S. bonds backed by mortgages, may not be out of the woods – it has $10 billion in outstanding loans and deal financing on its balance sheet – but the global financial markets took a gigantic sigh of relief after the bank reported better-than-expected third-quarter earnings in mid-September. Lehman's shares rose 10% after the announcement.

NET INCOME
(FISCAL 3Q, THRU AUG. 31)

As the New York-based bank continues to sell off these leveraged loan and securitized products, the question still remains how much they will lose going forward in write downs. (Lehman took a $700 million haircut or loss on assets in the third quarter.) Lehman posted a profit of $887 million for its fiscal third quarter ending Aug. 31, a decrease of 3.2% from the same period last year. Revenue from fixed-income trading fell 47% to $1.1 billion in the quarter, while investment banking revenue gained 48% to $1.1 billion. Revenue from equities jumped 64% to $1.4 billion. Lehman in May moved its fixed income operations to London under the leadership of **Roger Nagioff**, who was previously European COO. Revenue outside the U.S. accounted for 53% of the total, up from 48% in the second quarter.

Lehman advised on $107 billion of corporate takeovers in the past three months, up 11% from a year earlier, and underwrote $5.5 billion of stock offerings, up 35%. The bank seems to have recovered well from the February departure of its top-producing banker, George H. Young III, who reportedly left due to a conflict on strategic direction with top management. Lehman grants stock based on title, with managing directors in banking receiving 50% equity, senior VPs 35%, VPs 25% and associates 10%.

OGIU OUTLOOK: The firm will remain under the mortgage cloud for a few more quarters, but its expansion plans over the last few years (primarily centered in Europe) will help top-line growth. The bank is behind the curve in terms of emerging market build-outs (especially in Russia and Dubai) and could get hit as banks increase their reliance on these

INVESTMENT BANKING REVENUE
(FISCAL 3Q, THRU AUG. 31)

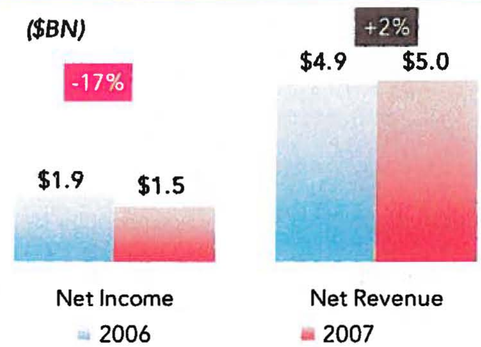
revenues. The firm needs to build out beyond its equity cash business in Asia to be a more profitable bank in that fast-growing region. The firm's 2,000-plus job cuts spooked the firm a bit and insiders are wondering what's next. Structured credit and finance professionals are especially nervous about possible pink slips. The firm's transition away from mortgages may get painful and it will surely test CEO Richard Fuld's management abilities.

Morgan Stanley

Morgan Stanley posted a 17% drop in fiscal third-quarter earnings as a $940 million write-down on loans hurt its bottom line. The second-largest brokerage firm by market value reported net income of $1.54 billion for the quarter ended Aug. 31, compared with $1.85 billion a year earlier. The eagerly-anticipated result sent shares down 2% and made Lehman's $700 million write down look less severe. The firm attributed its fixed income revenue decrease to "significantly lower" credit revenue as spread widening, lower liquidity and higher volatility resulted in lower origination, securitization and trading results across most products. Perhaps more troubling for a close watcher of proprietary desks was Morgan Stanley's $480 million loss using quantitative stock-trading strategies. Three bright spots for Morgan Stanley were: Investment Banking revenue, up 45% to $1.44 billion; Equity Underwriting, up 81% to $429 million; and Asset Management, up 61% to $1.4 billion. Morgan Stanley has been successful at expanding its global asset management operations with key hires. Morgan Stanley hired Ausaf Abbas as its head of sales and marketing in EMEA, reporting to Alexander Classen, overall head of EMEA. Morgan Stanley also hired JPMorgan Chase's Abhijit Chakrabortti to replace its global equities strategist who moved to hedge fund Fortress.

FIXED INCOME REVENUE
(FISCAL 3Q, THRU AUG. 31)

REVENUE AND INCOME
(FISCAL 3Q, THRU AUG. 31)



OGIU OUTLOOK: Morgan Stanley's increased risk profile over the last two years has already become problematic for the bank due to its outsized loan commitments and third-quarter prop-trading loss. The most recent evidence: The bank said in an October SEC filing its quantitative strategy traders lost $390 million during a single day in August. Mack recently said Co-President Zoe Cruz is his successor.

CEO John Mack has done a good job moving key people (like Walid Chammah) into international positions and developing a leadership position in fast-growing China. The firm maintains a best-in-class position in prime brokerage, financial sponsors and electronic equities trading. The firm is almost always a top-three investment banking firm and has a strong asset management business.

UBS

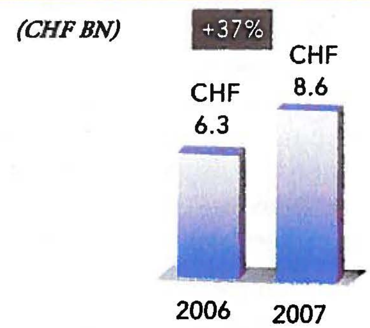
A real sense of unease permeates through UBS AG as the Dillon Read fiasco and a number of high-profile banking departures leave the Swiss bank seeking answers. Net profit increased 78% in the second quarter, helped by gains from a sale of a stake in Julius Baer and strong private bank sales. But the company gave a foreboding forecast for its third quarter sending the stock down significantly after reporting earnings in August. UBS said if turbulent conditions prevailed throughout the third quarter, "UBS will probably see a very weak trading result in the investment bank."

In-house hedge fund Dillon Read dented second-quarter earnings with a 230 million

NET INCOME FROM TRADING AND BANKING ACTIVITIES
(FIRST 6 MONTHS, THRU JUNE)

franc loss. Incoming Chief Executive Marcel Rohner said Dillon Read's trading losses caused revenue at UBS's overall fixed income division to slide 31% from the year-ago period, while overall income rose 30%, fueled by steady commissions and fees from wealthy clients. First-half net income from trading and the investment bank was essentially flat (see chart).

NET INCOME
(FIRST 6 MONTHS, THRU JUNE)



Besides Dillon Read's problems, the UBS fixed income unit was hurt by lower results from trading commodities such as precious metals and natural gas. By contrast, investment banking advice and UBS's equities business were strong. UBS has not been afraid to clean house. In early October, Rohner laid off investment banking head Huw Jenkins after announcing more than $3 billion in write-downs. The firm also named new fixed income head Andre Esteves, a former partner of Sao Paulo's Banco Pactual, which was bought by UBS in 2006. Esteves will move to London from Brazil and report to Jenkins, replacing Simon Bunce, who had held the job since June 2005. UBS' stock has trailed European rivals because of its hedge fund losses and comparably weak fixed income results.

OGIU OUTLOOK: UBS' second quarter illustrates that the bank isn't finished yet with subprime losses or Dillon Read, which is widely believed by analysts and bank insiders to have cost former UBS Chief Executive Peter Wuffli his job in early July, when he was suddenly replaced by Rohner. UBS "pre-announced" third-quarter results, saying it had $3.47 billion in fixed income losses, mostly related to U.S. sub-prime lending assets. The firm said it is likely to post a third-quarter loss of between $511 and $683 million, its first quarterly loss in nine years. Fitch and S&P's change in outlook for the bank from stable to negative also will not help matters. ABN Amro and Banco Pactual purchases look like smart moves as the Swiss bank bought into strong markets. Equities and investment banking remain strong despite key departures like Ken Moelis and the firm's near-term future depends on this type of performance. UBS is reportedly capping cash compensation at $750,000 this year so even if a professional earns $5 million, he/she only gets $750,000 of it in cash.

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