Emerging Regions Update

December 15, 2011

BOSTON
33 Railroad Avenue
Duxbury, MA 02332
Tel: +1 781 934 8400

CHICAGO
Aon Center
200 East Randolph Street, 10th Floor
Chicago, IL 60601-6421
Tel: +1 312 381 9700

DUBAI
Dubai International Financial Centre
Currency House | Tower 2, Level 5
P.O. Box 506706
Dubai, United Arab Emirates
Tel: +971 (4) 389 6444

HONG KONG
2601-05 Shell Tower, Times Square
1 Matheson Street
Causeway Bay, Hong Kong
Tel: +852 2840 0911

LONDON
Lloyds Chambers, 5th Floor
1 Portsoken Street
London E1 8BT, England
Tel: +44 207 680 7400

MINNEAPOLIS
3600 American Boulevard West
Suite 110
Minneapolis, MN 55431
Tel: +1 866 280 3720

NEW YORK
199 Water Street, 12th Floor
New York, NY 10038
Tel: +1 212 441 2000

SHANGHAI
36/F, Shanghai Central Plaza
381 Huai Hai Road Middle
200020 Shanghai, China
Tel: +86 21 2306 6688

STAMFORD (Headquarters)
1600 Summer Street, Suite 601
Stamford, CT 06905
Tel: +1 203 359 2878

TOKYO
Akasaka Twin Tower, 16th Floor
17-22, Akasaka 2-chome
Minato-ku, Tokyo 107-0052
Japan
Tel: +813 3237 4300

www.mclagan.com

Brazil

By Warren Rosenstein

In spite of a modest cooling off of the economy, Brazil continues to be a location of strategic importance for financial services. For the first time last June, investors viewed Brazilian debt as less risky than highly-rated U.S. debt, which, according to Brazil's Finance Minister Guido Mantega, is a reflection of the country's economic resilience and soundness. In the not too distant future, it is likely that Brazil will be positioned as the 4th or 5th largest economy in the world, surpassing Spain, Italy and the United Kingdom. Brazil also continues to be an area of great interest for foreign investment. With all this positive momentum, it is worth noting that the Brazilian government has been attempting to fine-tune the speed at which the economy grows, and the increase in the state's involvement has raised some concerns.

While Brazil has been somewhat insulated from the broader global economic downturns of the last few years, the country has not been immune to regulatory pressure regarding pay. The Central Bank has issued new guidelines that are similar to those of other countries; however, the new rules are focused on a relatively small set of employees - statutory directors. Unlike in other countries, there will not be a complicated process by which to identify these individuals – this group is already identified. The number of directors can vary from a handful at a small organization to a significant number at a larger entity.

Pay levels in Brazil have become highly competitive with those in the U.S. and the U.K. for a variety of reasons. Brazil did not experience the 2008 credit crisis as acutely as the broader markets did, and is resultantly less affected by the current slowdown. While the global banks are adjusting to life post deleveraging, many of the local players in Brazil are already generating significant profits using capital in a more measured fashion. The local banks (Banco Itaú, BTG Pactual, Banco Bradesco, Banco Vorotantim, etc.) and the quasi-local firms (Banco Santander, Credit Suisse, HSBC) in general have performed well in 2011, even if some are not quite back to 2010 levels. If you couple this profitability with the aggressive growth plans of some of the international firms, you'll find tremendous pressure on a very thin talent pool. While we may see some pay decreases from a few firms, it is reasonable to expect a more favorable pay trend for Brazil at year-end than that of the overall market.

RUSSIA

By Sean Carney

Despite continuing uncertain political outcomes leading up to the March 2012 Presidential elections, Russia's economic outlook remains broadly positive. Fitch has confirmed that their current BBB rating and positive outlook for Russia will not change

BOSTON
33 Railroad Avenue
Duxbury, MA 02332
Tel: +1 781 934 8400

CHICAGO
Aon Center
200 East Randolph Street, 10th Floor
Chicago, IL 60601-6421
Tel: +1 312 381 9700

DUBAI
Dubai International Financial Centre
Currency House | Tower 2, Level 5
P.O. Box 506706
Dubai, United Arab Emirates
Tel: +971 (4) 389 6444

HONG KONG
2601-05 Shell Tower, Times Square
1 Matheson Street
Causeway Bay, Hong Kong
Tel: +852 2840 0911

LONDON
Lloyds Chambers, 5th Floor
1 Portsoken Street
London E1 8BT, England
Tel: +44 207 680 7400

MINNEAPOLIS
3600 American Boulevard West
Suite 110
Minneapolis, MN 55431
Tel: +1 866 280 3720

NEW YORK
199 Water Street, 12th Floor
New York, NY 10038
Tel: +1 212 441 2000

SHANGHAI
36/F, Shanghai Central Plaza
381 Huai Hai Road Middle
200020 Shanghai, China
Tel: +86 21 2306 6688

STAMFORD (Headquarters)
1600 Summer Street, Suite 601
Stamford, CT 06905
Tel: +1 203 359 2878

TOKYO
Akasaka Twin Tower, 16th Floor
17-22, Akasaka 2-chome
Minato-ku, Tokyo 107-0052
Japan
Tel: +813 3237 4300

www.mclagan.com

on the basis of political outcomes. Further good news for Russia lies in their accession to the WTO in mid-December.

However, following on the back of a disappointing 2011, the outlook for financial services in the Russian Federation is not entirely positive. High oil prices have ensured that the government has not run a spending deficit, but there are continuing concerns that volatility in the commodities market saddles the economy with undue risk. Further, the economic turmoil in Europe continues to impact Russian markets.

Moreover, recent protests sparked a market sell-off and currency decline and have caused investors and organizations to be more cautious in their dealings with Russia. This has resulted in concerns that if the protests continue before the presidential elections, there will be an increase in the outflow of capital. Given the already dramatic outflow of capital experienced during the financial crisis and the third quarter decline of 18% in Russia's main index, further loss could result in problems for the domestic economy. While capital outflows were $38 billion in 2010, according to Economic Development Minister Andrei Klepach, capital outflows will be higher this year, potentially reaching $80 billion in 2011 before falling to $20 billion in 2012.

With respect to the financial system, Russia continues to lag behind other BRIC countries with more nonperforming assets and loans; lower government, accounting and regulation standards; and higher levels of corruption. Additionally, the system lacks the financial oversights of other locations. However, there are positive outlooks with indications that banks will begin to provide more credit and generally positive equity growth, which position financial institutions for growth in the coming years. Further, with Russia's participation in the Financial Stability Board (FSB), they have taken positive steps towards financial reform. In 2012, Russia is expected to release their draft amendments to the Central Bank Law regarding sound compensation principles in accordance with the FSB's principles. Preparation has begun, with some local firms already introducing deferral schemes.

Several international firms remain focused on building or maintaining their presence in Russian Banking and Capital Markets businesses. However, 2011 saw a retreat from Russian Retail Banking by UK giants Barclays and HSBC following much publicized investments in recent years. The dominance of state-controlled Sberbank and VTB has been cited as a barrier to competition. Through the acquisition of Troika Dialog, Russia's banking behemoth Sberbank has finally made their long-mooted move into Investment Banking, for which they are said to harbor ambitious plans for growth

McLagan's Russian compensation surveys cover 50 local and international firms. A peer group featuring the Global Banks and leading local Investment Banks, showed 2010 to 2011 same-store salary increases in the range of 15-40% for front office staff, with the higher increases at the more junior levels. Though total compensation in Investment Banking and Equities remained relatively flat year on year, we saw substantial increases in total compensation in Fixed Income areas.

Salary budgets for 2012 are being revised downwards in light of overall firm performance and will be below the initially budgeted amounts which were largely in line with inflation. Budgets will vary by firm and there have even been isolated rumors of salary reductions for the most senior staff. While total compensation projections for Russia are complicated by the divergence in performance and growth strategies across firms, our expectation is that compensation will fall in-line with McLagan's global trends and that Russia will experience a more negative outcome than the other BRIC locations. Overall, while Russia may fare the worst of the BRIC countries, there is certainly room for growth.

INDIA

By Roopank Chaudhary

Despite improvement in the level of optimism about the Indian economy, concerns regarding sustainability of the high growth phase have surfaced. The financial markets continue to witness high volatility primarily driven by the direction and magnitude of foreign capital flows, movement in industrial production, and inflation. Inflation remained very high throughout the year, and coupled with the rising consumer price index, is putting pressure on the government and the economy. Economic growth is expected to slow down in the first two quarters of 2012, after a sluggish second half of 2011. GDP growth estimates for 2011-12 have been revised from 8% to 7.6% by the Reserve Bank of India (RBI) and all macro indicators are pointing to GDP growth falling below 7.5% in 2012.

The Indian banking sector has been largely successful in maintaining its growth trajectory due to low default ratios, less complicated financial products, regular intervention by the Central Bank, proactive adjustment of monetary policy and the conservative banking culture, which helped the industry survive the global financial turmoil. However, analysts anticipate that asset quality will deteriorate over the next 12-18 months given the challenging business environment. Moody's Investors Service changed its outlook for India's banking system to negative from stable due to concerns that the increasingly challenging operating environment will adversely affect asset quality, capitalization, and profitability. Although the impact on the Indian banking system may be less pronounced, the banks in India will adopt a more defensive approach in credit disbursement in the coming period and follow more stringent norms.

There is currently a sizeable gap between pay levels of government banks, private sector banks and the foreign multinational company (MNC) banks in India. The government sector is expected to add more than 100,000 jobs in 2012, as they project stable growth. Indian private sector banks have also been raising pay levels by 12-15% and competing aggressively on the LTI, a trend which is expected to continue in 2012, as they steadily catch up with the MNC banks. MNC banks are likely to face pressure from their global / regional offices and are projecting much flatter salary increases of 8%-10% overall. However, inflationary pressure is forcing banks to maintain the average increase above the average inflation rate which is expected to stabilize around 7-7.5% in 2012. We also expect to see sectors like insurance, non-banking financial companies, asset management and retail lending competing with full-fledged

banks for talent. As compared to the global outlook, India pay levels are still expected to increase around 10% due in part to the large untapped market, underserved rural areas and the demand/supply mismatch of skilled talent. It's a paradox that continues to drive salaries upwards.

CHINA

By Sean Xu

China's economics remain steady and broadly favorable in 2011. In the second half of this year, the Chinese economy has shown a gradual slowdown in response to attempts by the central government to tackle inflation through credit tightening and to cool overheated growth. However, the country's senior leadership is concerned that tightening credit standards will severely hurt the private sector and that a slowdown in the economy could trigger social unrest. Therefore, on November 30th, People's Bank of China (PBOC) announced a 0.5% reduction in their reserve ratio after almost three years of progressively tightening policies, thereby kicking off a new round of capital availability.

The financial market declined slightly in the first ten months of 2011. By the end of October, the total underwriting fees in China had decreased by 10% as compared with same period last year. Net brokerage income also decreased in the first half of the year with annual projections estimating a 25% to 35% reduction. Although mutual funds set a record with 165 newly issued funds, they saw declines in AUM sizes and net asset values. The total investment in the first three quarters of 2011 has already been 19% higher than all of 2010, however, private equity has experienced a decline in both new funds raised and total committed capital compared with 2010. Thus far in 2011, Commercial banks have maintained steady growth of 11% and 12% on average in terms of total assets and net assets respectively.

Base salaries are projected to increase 8-10% while expectations are a bit higher due to steady GDP growth, higher inflation rate, and an increase in the minimum wage. Banking and capital markets and asset management bonus pools are projected to be flat to down while corporate banking, private equity and private banking expect to see an increase. Based on the relatively stronger performance of Asian/Chinese local firms as well as the global firms in China, we anticipate that compensation will fare better in China than what we are expecting globally.

MIDDLE EAST

By Ray Everett

For the time being, the Gulf countries appear to be unlinked from Western economies. With oil staying above $90 per barrel, the Gulf countries have the ability to invest significantly in themselves. Both Qatar and Saudi Arabia have made significant infrastructure investments in 2011, with even more investments planned over the next few years. The other countries in the Gulf, especially Kuwait and the United Arab Emirates, have announced similar plans. In 2011, Saudi Arabia was the fourth fastest growing economy in the world, surpassing two of the BRIC countries.

BOSTON
33 Railroad Avenue
Duxbury, MA 02332
Tel: +1 781 934 8400

CHICAGO
Aon Center
200 East Randolph Street, 10th Floor
Chicago, IL 60601-6421
Tel: +1 312 381 9700

DUBAI
Dubai International Financial Centre
Currency House | Tower 2, Level 5
P.O. Box 506706
Dubai, United Arab Emirates
Tel: +971 (4) 389 6444

HONG KONG
2601-05 Shell Tower, Times Square
1 Matheson Street
Causeway Bay, Hong Kong
Tel: +852 2840 0911

LONDON
Lloyds Chambers, 5th Floor
1 Portsoken Street
London E1 8BT, England
Tel: +44 207 680 7400

MINNEAPOLIS
3600 American Boulevard West
Suite 110
Minneapolis, MN 55431
Tel: +1 866 280 3720

NEW YORK
199 Water Street, 12th Floor
New York, NY 10038
Tel: +1 212 441 2000

SHANGHAI
36/F, Shanghai Central Plaza
381 Huai Hai Road Middle
200020 Shanghai, China
Tel: +86 21 2306 6688

STAMFORD (Headquarters)
1600 Summer Street, Suite 601
Stamford, CT 06905
Tel: +1 203 359 2878

TOKYO
Akasaka Twin Tower, 16th Floor
17-22, Akasaka 2-chome
Minato-ku, Tokyo 107-0052
Japan
Tel: +813 3237 4300

www.mclagan.com

BOSTON
33 Railroad Avenue
Duxbury, MA 02332
Tel: +1 781 934 8400

CHICAGO
Aon Center
200 East Randolph Street, 10th Floor
Chicago, IL 60601-6421
Tel: +1 312 381 9700

DUBAI
Dubai International Financial Centre
Currency House | Tower 2, Level 5
P.O. Box 506706
Dubai, United Arab Emirates
Tel: +971 (4) 389 6444

HONG KONG
2601-05 Shell Tower, Times Square
1 Matheson Street
Causeway Bay, Hong Kong
Tel: +852 2840 0911

LONDON
Lloyds Chambers, 5th Floor
1 Portsoken Street
London E1 8BT, England
Tel: +44 207 680 7400

MINNEAPOLIS
3600 American Boulevard West
Suite 110
Minneapolis, MN 55431
Tel: +1 866 280 3720

NEW YORK
199 Water Street, 12th Floor
New York, NY 10038
Tel: +1 212 441 2000

SHANGHAI
36/F, Shanghai Central Plaza
381 Huai Hai Road Middle
200020 Shanghai, China
Tel: +86 21 2306 6688

STAMFORD (Headquarters)
1600 Summer Street, Suite 601
Stamford, CT 06905
Tel: +1 203 359 2878

TOKYO
Akasaka Twin Tower, 16th Floor
17-22, Akasaka 2-chome
Minato-ku, Tokyo 107-0052
Japan
Tel: +813 3237 4300

www.mclagan.com

Gulf banks have had very little exposure to Western sovereign debt and since the last global financial crisis; most have significantly improved their provisioning and restructured their proprietary books. However, equity trading volumes and M&A activity in the region remain stubbornly low.

Over the last three years, the local banks have paid flat to down but in 2011, overall profitability has risen slightly. Among local firms, we expect fixed pay and total compensation levels to be up modestly across most business areas. Many of the international banks in the region are downsizing slightly, closing some trading and research desks and relocating senior talent back to regional or head offices. We expect that salaries and total compensation for international firms will track with global trends to the plus side.

Since the beginning of the Arab Spring most countries in the Gulf have increased public sector salaries. In September, Qatar increased public sector salaries by 60%. More recently, the United Arab Emirates announced increases in public sector salaries by up to 100%. The public sector is a large employer of nationals in most Gulf countries and many banks struggle to attract and retain national talent. The recent increases by the public sector have already caused some firms to increase pay for national staff, and it is expected that these increases will spill over to the expatriate work force.

SOUTH AFRICA

By George Broniszewski

The downward pressure on global economic growth will have an influence on the growth outlook for the African continent. Lower commodity prices have placed pressure on African exchange rates, although benefiting oil importers. The outlook for Africa’s currencies looks extremely mixed, but with some offering exceptional trading opportunities.

South Africa's direct economic exposure to countries at the center of the Euro zone debt problem is low, but the risk of increased trade protectionism as a result of the crisis has harmed local exports. The Rand has already taken a hit due to the crisis, falling more than 25% against the U.S. dollar since the start of the year. Investors have avoided emerging market assets due to perceived risk.

However, the outlook for the South Africa's banking system remains steady. The key drivers are the continuation of conducive macroeconomic conditions; the stabilization in non-performing loans; firm capital buffers; and sustainable profitability. These encouraging features are balanced against funding and liquidity challenges, owing to a necessity on short-term deposits; the raised, but improving credit risks from the retail segment; and controlled loan growth. Investment bankers say that global investor appetite for M&A deals in sub-Saharan Africa has increased and that the value of deals this year could exceed the record achieved in 2010, which in turn was double the 2009 figure.

The Africa growth story is attracting global investors, especially from the BRIC bloc. Both South African corporates and international firms are looking to make acquisitions in Africa, across all sectors. South African companies are also growing their African footprint. There has been a rise in demand for M&A specialists as well as for other candidates with due diligence experience. So far this year, Investec has topped the rankings of M&A advisers and is the top earner with Deutsche Bank not too far behind. There has also been an increase in corporate finance activity such as capital raising and lending and therefore, there remains a healthy pipeline of transactions.

One of the biggest deals announced this year was the acquisition of the Victoria and Albert Waterfront shopping mall in Cape Town by Growthpoint Properties and the Public Investment Corp, followed by Vale SA, a division of the Brazilian mining group, buying Metorex, a South African copper producer. Mining, Africa's traditional sector, appears likely to continue dominating M&A activity.

CONTACT US

Brazil	Warren Rosenstein	warren.rosenstein@mclagan.com
Russia	Sean Carney	scarney@mclagan.com
India	Roopank Chaudhary	roopank.chaudhary@aonhewitt.com
China	Sean Xu	sean.xu@aonhewitt.com
Middle East	Ray Everett	reverett@mclagan.com
South Africa	George Broniszewski	gbroniszewski@mclagan.com

BOSTON
33 Railroad Avenue
Duxbury, MA 02332
Tel: +1 781 934 8400

CHICAGO
Aon Center
200 East Randolph Street, 10th Floor
Chicago, IL 60601-6421
Tel: +1 312 381 9700

DUBAI
Dubai International Financial Centre
Currency House | Tower 2, Level 5
P.O. Box 506706
Dubai, United Arab Emirates
Tel: +971 (4) 389 6444

HONG KONG
2601-05 Shell Tower, Times Square
1 Matheson Street
Causeway Bay, Hong Kong
Tel: +852 2840 0911

LONDON
Lloyds Chambers, 5th Floor
1 Portsoken Street
London E1 8BT, England
Tel: +44 207 680 7400

MINNEAPOLIS
3600 American Boulevard West
Suite 110
Minneapolis, MN 55431
Tel: +1 866 280 3720

NEW YORK
199 Water Street, 12th Floor
New York, NY 10038
Tel: +1 212 441 2000

SHANGHAI
36/F, Shanghai Central Plaza
381 Huai Hai Road Middle
200020 Shanghai, China
Tel: +86 21 2306 6688

STAMFORD (Headquarters)
1600 Summer Street, Suite 601
Stamford, CT 06905
Tel: +1 203 359 2878

TOKYO
Akasaka Twin Tower, 16th Floor
17-22, Akasaka 2-chome
Minato-ku, Tokyo 107-0052
Japan
Tel: +813 3237 4300

www.mclagan.com