

2nd QUARTER 2006 UPDATE

(actual 6 months and year-end forecasts)

FINANCIAL SERVICES COMPENSATION & BENEFITS ESTIMATES

8/7/06

- Select compensation ratios continue to trend higher due to impact of new stock-based accounting standards (SFAS 123R). Impact will decrease through year for firms that recorded entire expense at beginning of year
 - Year over year comparisons also reflect changing business mix (different funding rates), outsourcing of technology/operations, special circumstances (i.e., severance), and timing issues (accruals linked to vesting)
- Uncertainty about global economy, oil prices, and US inflation will have limited impact on anticipated year-over-year incentive pool changes
 - Barring any large scale events
- International expansion continues to provide revenue growth
 - Inflow of international assets and international investment banking activity remain strong
- Whereas in the past, poorly performing areas were subsidized, paradigm has changed to businesses compensating from their incentive accruals only
 - View that talent pool is not limited so do not have to subsidize for retention
- Moderate (\cong 3% - 5%) year-over-year average headcount increase
 - As atmospheric (i.e. oil prices, Middle East conflict) get settled hiring may increase toward year end

JOHNSON ASSOCIATES, INC.

19 West 44th Street, Suite 511, New York, New York 10036

(212) 221-7400 • Fax (212) 221-3191

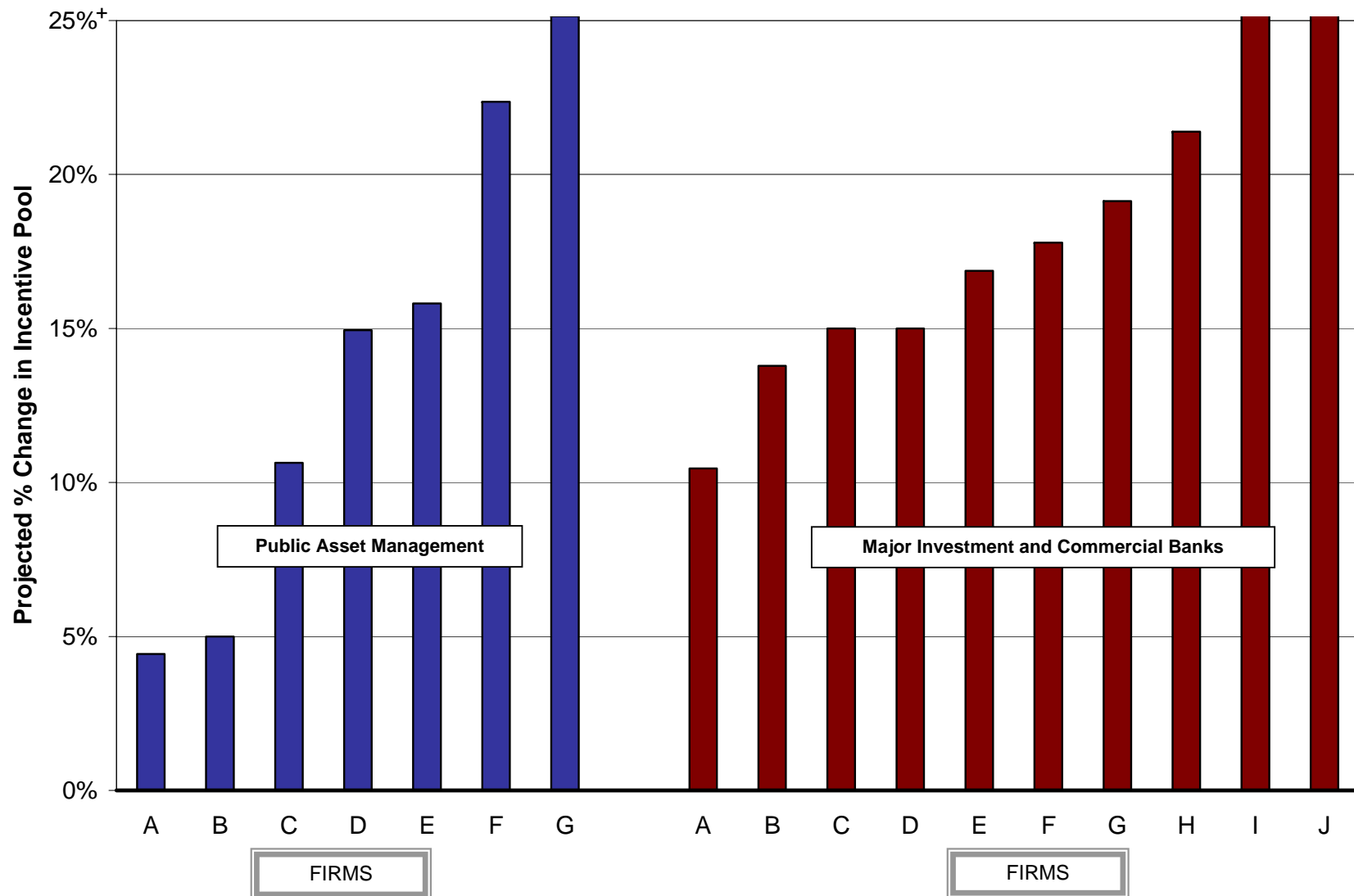
Financial Services Compensation & Benefits Estimates

- Overall incentive outlook almost universally positive (on average, \cong +15%) with significant variations between businesses/firms and geographical regions
- Key differences include (a) international penetration, (b) trading strategies, and (c) business mix (i.e., commodities, alternative investments, prime brokerage)
 - International growth outpacing U.S. across major business lines

Projected 2006 Wall Street Incentive Funding		
Business/Area	% Increase from 2005*	Explanation
Senior Firm Management	15%	Variations depending on business mix and performance
Staff Positions	15%	Staff incentives move in line with entire firm. Impacted by growth in alternative investments.
Investment Banking	25%	Reflects increased global business activity, higher market valuations, and rise in announced deals (expected to close later in year)
Equities (excl Prime Brokerage)	20%-25%	Increase in volumes, higher valuations, and international activity offset spreads and pricing competition. Proprietary trading adds significant leverage and widens market results
Prime Brokerage	15%	Growth tied to hedge fund transaction/lending activities
Asset Management	Equities 10%-15% Fixed Inc 10% Hedge Funds/ Alternatives 15%	Net inflows into Equity and Hedge Fund products with ETF's experiencing high asset growth. Despite rising interest rates Fixed Income net inflows due to equity uncertainty
Private Client	Fee-Based 10% Trans-Based 5%	Fee-Based: market uncertainty impacts net inflows Transaction-Based: weaker volumes as market volatility contributes to investor hesitation
Fixed Income	10%-15%	Continued strong performance. Commodities highlight number of growing areas. Proprietary trading key factor
Commercial Banking	5%-10%	Increased loan activity a result of continuing investment cycle and lower credit spreads. Offset by margin compression (flat yield curve) and expected moderate increase in credit provisions
Retail Banking	5%-10%	Higher deposits/lending offset tighter loan margins. Growth in online savings accounts. Weakening mortgage banking. However, limited credit losses

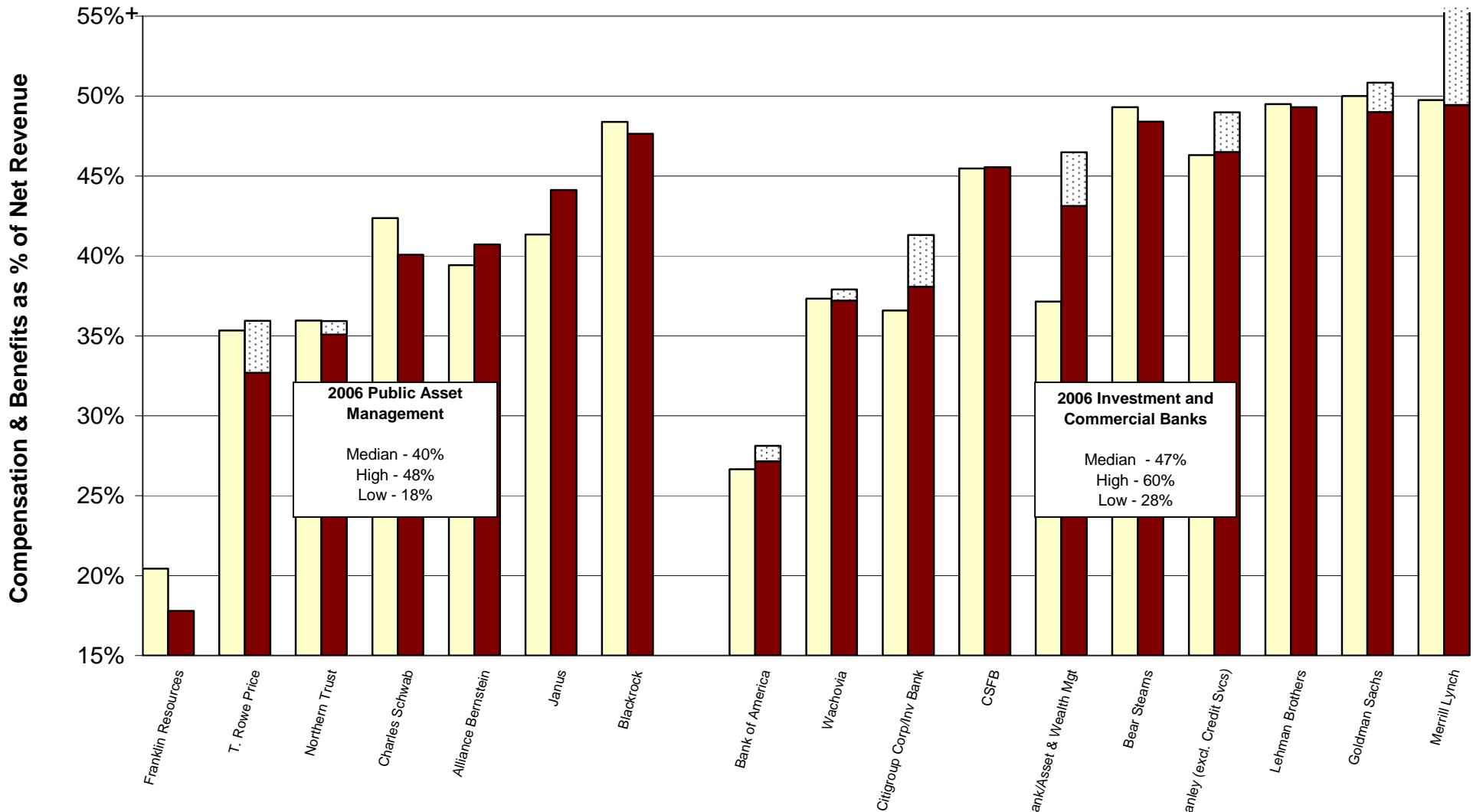
*Individual levels after adjustments for headcount changes

Projected % Change in Year-End Incentive Pool*

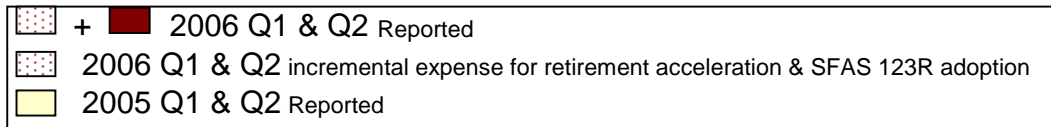


*6 Months actual data with projection for remainder of year

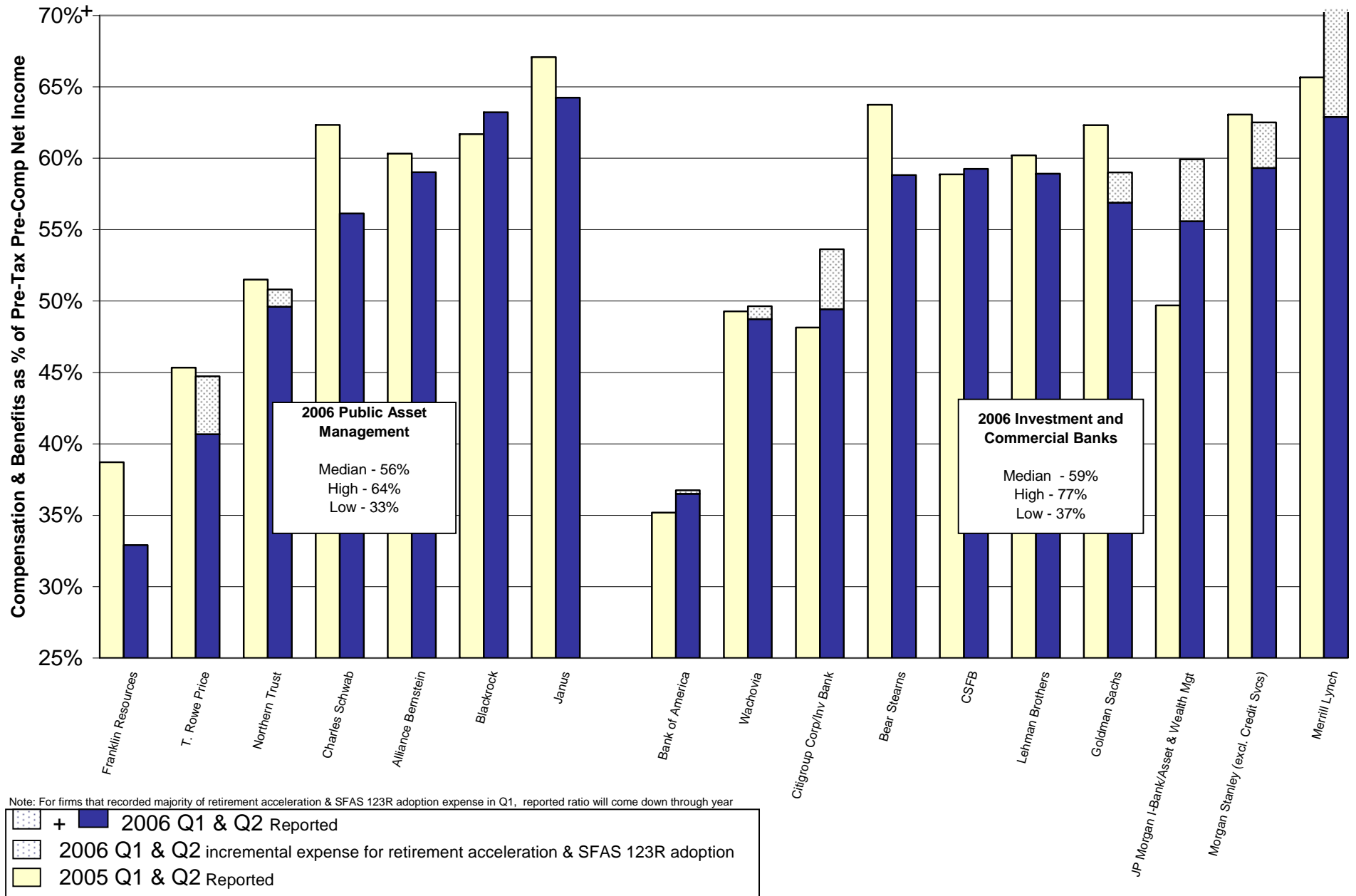
Year-to-Date Compensation & Benefits as % of Net Revenue



Note: For firms that recorded majority of retirement acceleration & SFAS 123R adoption expense in Q1, reported ratio will come down through year

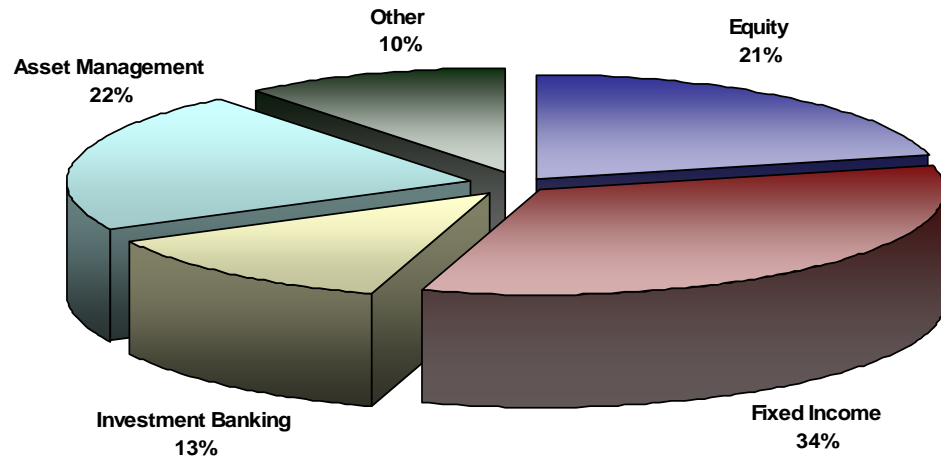


Year-to-Date Compensation & Benefits as % of Pre-Tax Pre-Comp Net Income

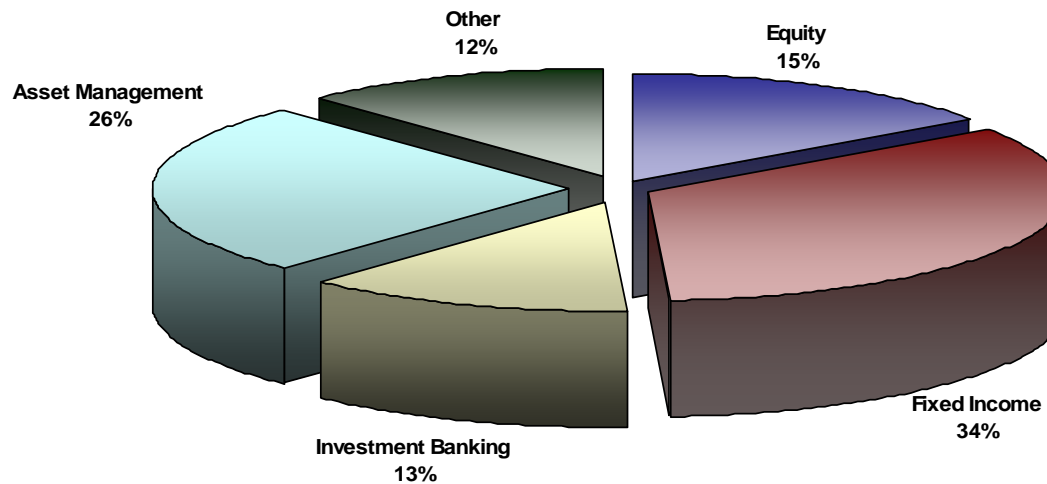


Year-to-Date Investment Banking Net Revenue Breakdown

2
0
0
6



2
0
0
5



*Reflects median data from Goldman Sachs, Merrill Lynch, JP Morgan, Morgan Stanley, Citigroup, Bear Stearns, Lehman Brothers