

3rd QUARTER 2005 UPDATE

(actual 9 months and year-end forecasts)

Financial Services Compensation & Benefits Estimates

RECENT TRENDS

BUSINESS ENVIRONMENT	COMPENSATION SPECIFIC
<ul style="list-style-type: none">3rd quarter demonstrated impressive and sometimes unexpected growth across major business lines. Reversal of typical seasonal slowdown	<ul style="list-style-type: none">Compensation as % of net revenues and pre-tax, pre-comp income remains mixed vs. prior year but historically low <i>See following graphs for more details</i>
<ul style="list-style-type: none">Announced investment banking, in the U.S. and abroad, continues strong year over year growth, especially in M&A. Lag to completion pushes positive financial results into 2006	<ul style="list-style-type: none">Stock option accounting resulting in greater restricted stock and lower share utilization. Option terms shortened, current volatility lower; changing ratio of options to restricted stock from 3:1 “rule of thumb” to 4:1. Stock appreciation rights attractive
<ul style="list-style-type: none">Broad growth helped by international opportunities, hedge funds, and resilient capital markets. Prime brokerage, commodities, M&A, and flow / proprietary trading exhibited largest gains	<ul style="list-style-type: none">Robust trading offers bonus subsidy for other business lines. Competitive recruiting environment pushes incentives higher in key growth areas; beyond current year results alone
<ul style="list-style-type: none">Economic indicators somewhat mixed with energy prices trending down but offset by concerns over inflation, interest rates, and consumer/investor confidence. Key question: short-term or longer trend	<ul style="list-style-type: none">Rise in one-time settlement charges and increases to credit loss provisions adds pressure to earnings and may negatively impact incentives, particularly at the top
<ul style="list-style-type: none">Many firms now in investment mode, including acquisitions; a shift from recent cost-cutting. Headcount on rise (full yr \cong +3-5%)	<ul style="list-style-type: none">Employment agreements, incentive guarantees, termination / non-compete provisions, severance, and perquisites under more extensive consideration. Lessons from past downturn; governance concerns

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

- **NEAR TERM OUTLOOK**

- Expected sequential decline in financial results. Growth opportunities versus prior year in investment banking and asset management
 - Fourth quarter may show signs of weakness consistent with overall market sentiment. However, far enough into fiscal year and business cycle to avoid widespread negative impact on 2005 results
- Proprietary trading continues to be a defining factor for overall results. Recent losses have been minimal but due to magnitude in relation to overall revenues, potential for meaningful effect if “caught” in wrong positions
- Important to note greater differentiation in firm results. Business strategies increasingly varied as global opportunities develop. Ability to capitalize on and predict opportunities/trends and build relationships is key factor. Moving up risk curve and using more leverage is double-edged sword
- Hedge funds and private equity provide alternative career path for select professionals; hedge funds on a larger scale because of their numbers. Potential for investment gains an attractive incentive impacting pay and business strategies of broader financial service firms
- Continued strategic hiring. Firms generally cautious, reflecting past downturn. More creative pay packages in “hot” growth areas with re-birth of guarantees
 - Due to past slowdown, competitive need to increase ranks at associate and VP levels
- Resurgence in investment banking. While generally a smaller part of total business, strong deal activity across regions (i.e., Europe) and sectors (i.e., energy) moderately impacting bonus allocations, recruiting, and firm dynamics
- Outlook remains guardedly optimistic on concerns over inflation, rising interest rates, high oil prices, and geopolitical events

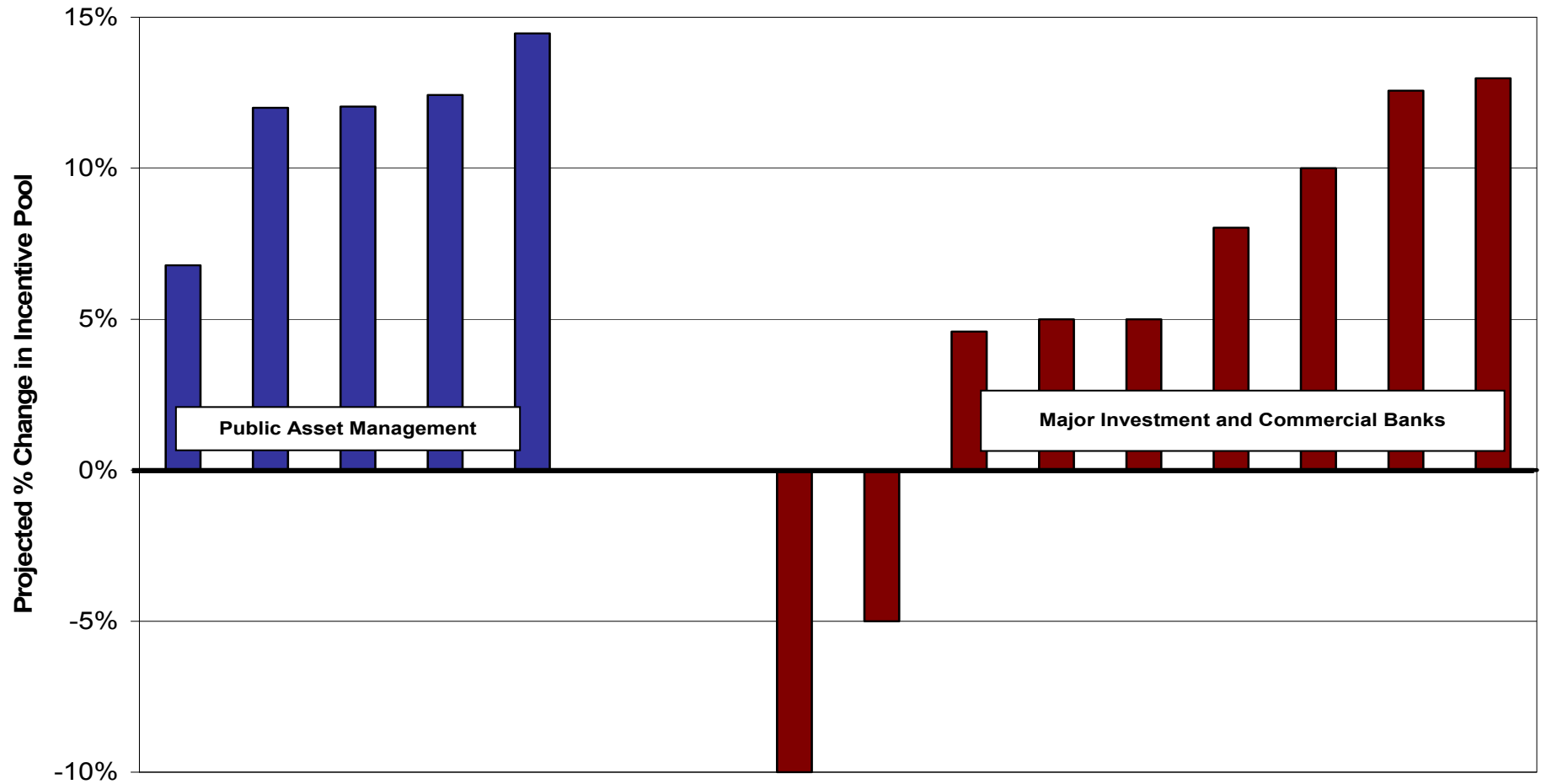
Financial Services Compensation & Benefits Estimates

- Overall incentive outlook mixed \cong +5% to +10% with significant variations between businesses/firms
 - Morale stronger with improved results. Risk of losing key employees to competitors also higher
 - Compensation trends of peers impact bonus payouts. Increasing competition for talent in growth areas may elevate incentives at underperforming firms for strategic purposes

U.S. Projected 2005 Wall Street Incentive Funding		
Business/Area	% Increase/Decrease from 2004*	Explanation
Senior Firm Management	5%-10% Up	Wide variations depending on business mix. High absolute 2004 compensation
Investment Banking	10%-20% Up	M&A biggest gains. Backlog and pipeline positive. Bonus increases may be higher than improvement in results, partially reflecting current business outlook and recruiting environment
Staff Positions	5%-10% Up	Staff incentives move in line with entire firm. Continued outsourcing of technology. Risk professionally highly recruited (pay may move higher)
Equities (excl Prime Brokerage)	5% Up	Reflects average. May be higher on hedge fund clientele, proprietary trading, and participation in energy markets. Offset by volatility and pressure on spreads
Prime Brokerage	20% Up	“Hot” area a result of hedge fund proliferation and transaction/lending activities
Asset Management	10% Up	Driven largely by average assets under management (market appreciation and net inflows)
Private Client Management	5%-10% Up	Depending on mix. Fee based currently stronger than transaction. Net interest increases in margin lending
Commercial Banking	Flat to +5%	Flattening yield curve hurts margins. However, offset by increases in corporate lending. Key factor is direct vs. indirect financing. Direct hurt more by yield curve. Charges to loan loss provision remain low for now but beginning to creep up
Retail Banking	Flat to +5%	Flattening yield curve negative effect. Continued strength in housing markets and customer deposits. However, new bankruptcy law may fuel higher losses
Fixed Income	Flat to +5%	Higher funding costs and coming off exceptional 2004. Commodities and mortgage/asset backed help offset declines. Proprietary trading results significant factor

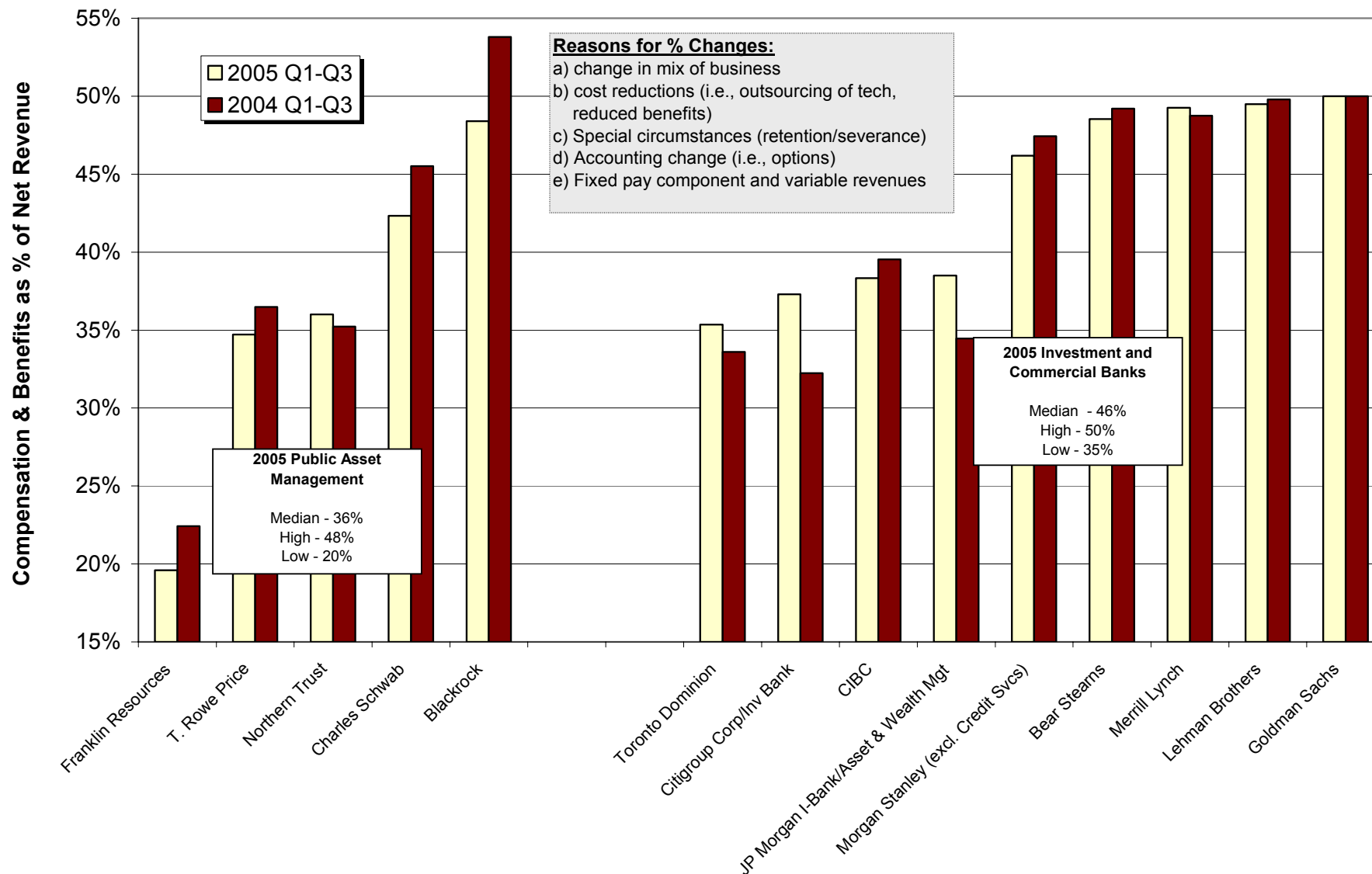
*Individual levels after adjustments for headcount changes

Projected % Change in Year-End Incentive Pool*

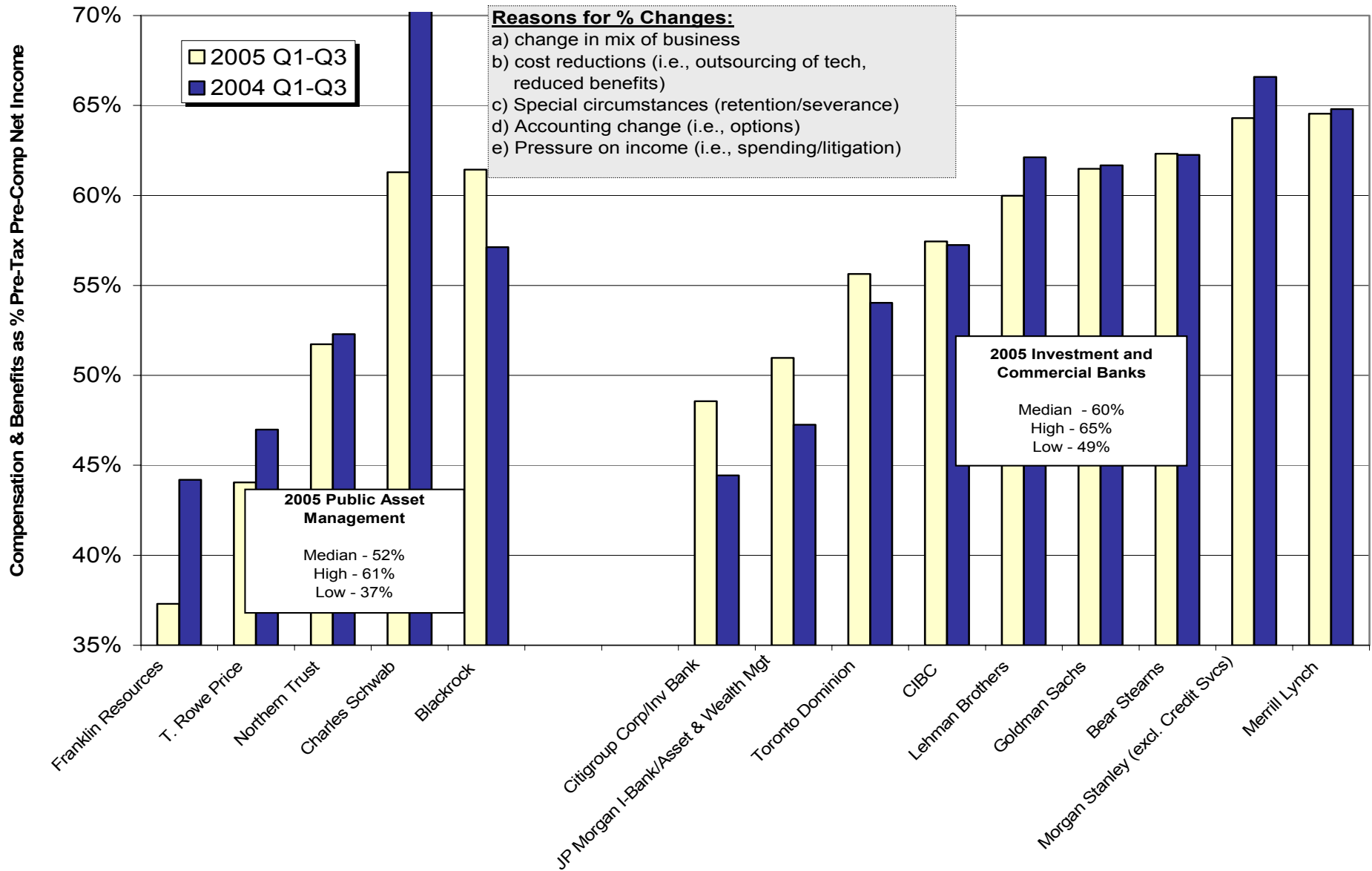


*9 Months actual data with projection for remainder of year. Reflects levels after adjustments for headcount changes

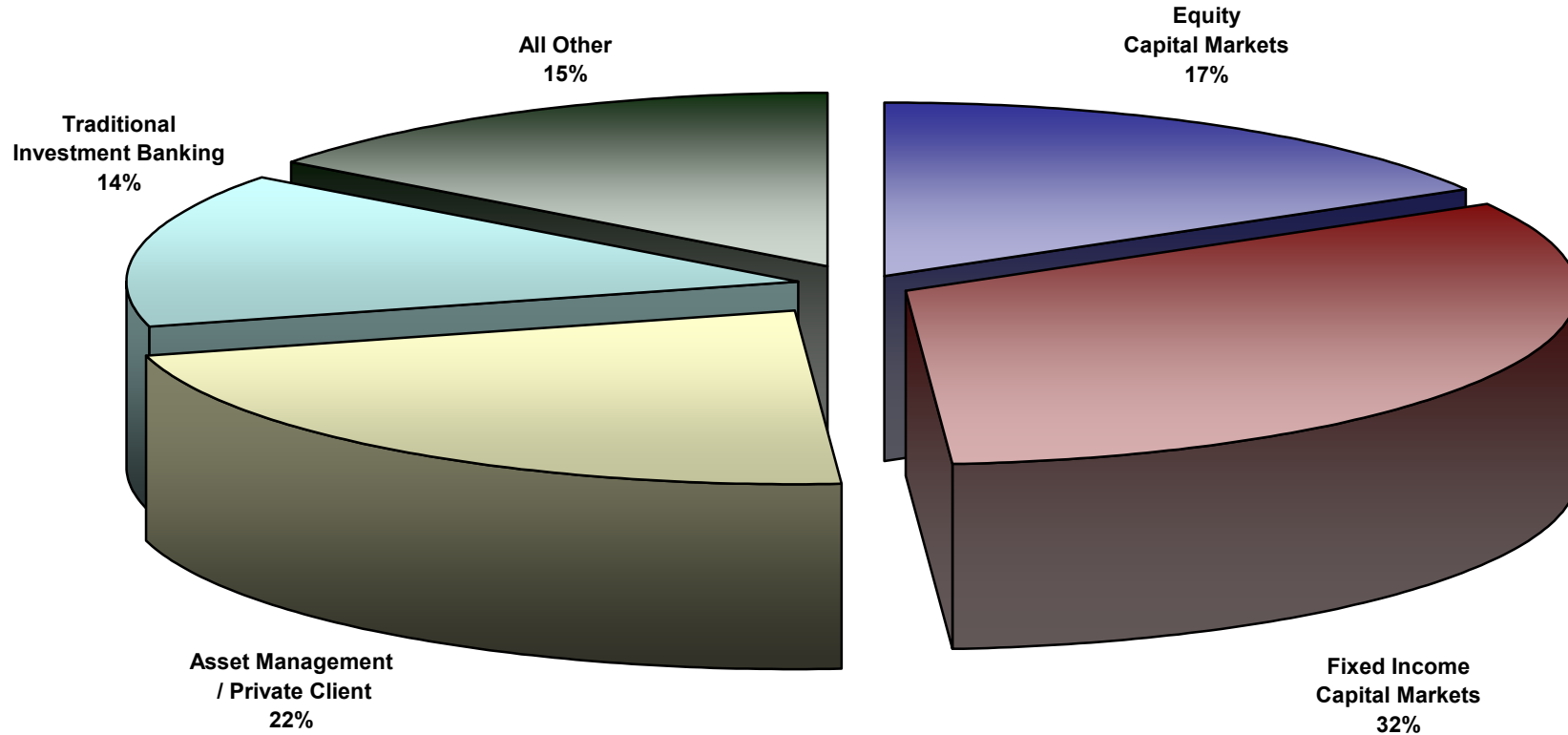
Year-to-Date Compensation & Benefits as % of Net Revenue



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

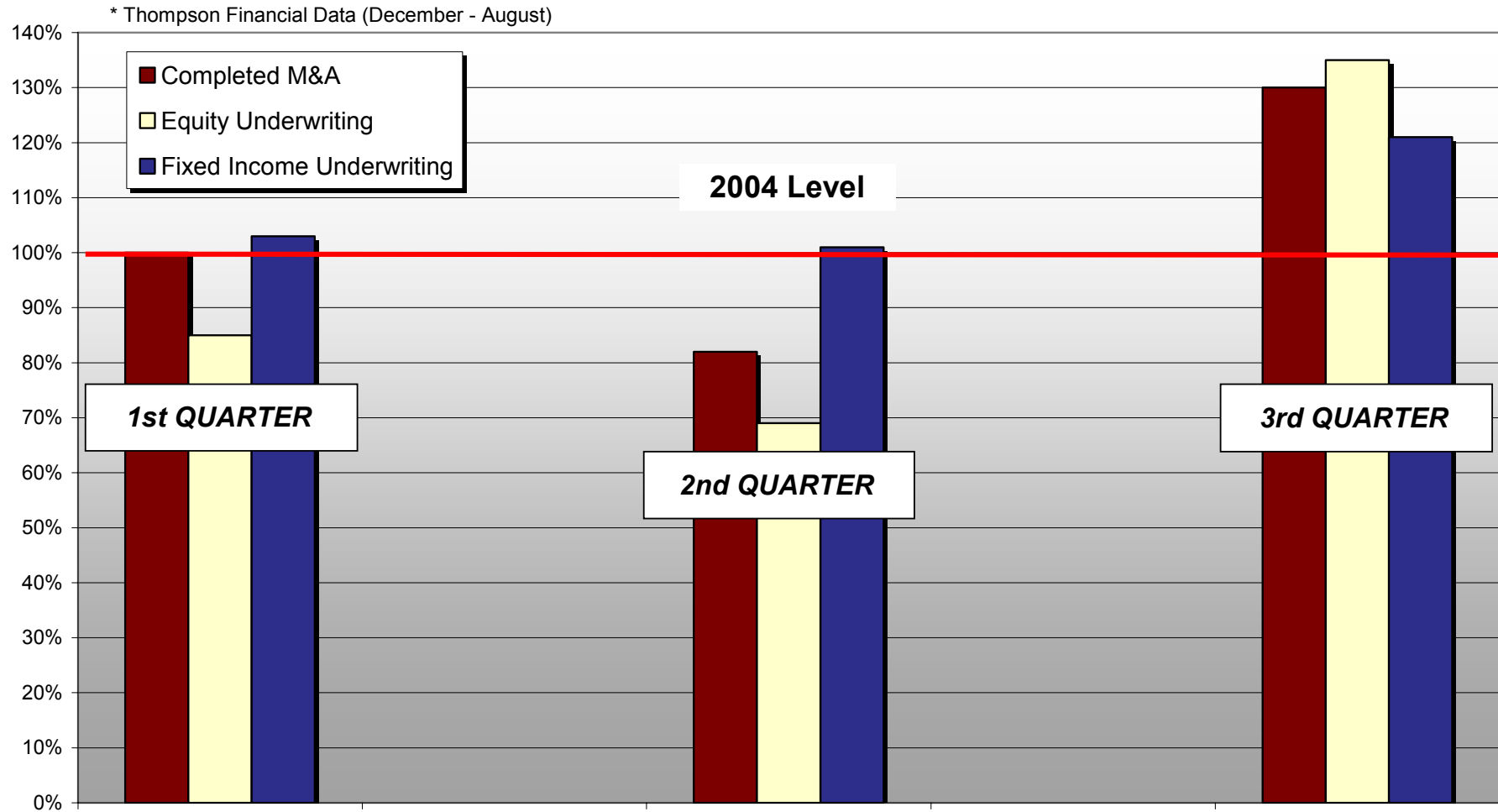


Year-to-Date Investment Banking Net Revenue Breakdown



* Reflects median data from Goldman Sachs, Merrill Lynch, JPMorgan (I-bank, Asset & Wealth Mgt. & Private Bank), Morgan Stanley (excl. Credit), Citigroup (Corp. & I-Bank), Bear Stearns, Lehman Brothers

Global Investment Banking – Quarter over Quarter Change from 2004*



U.S. Capital Market Indicators – Monthly Trends

