

3rd QUARTER 2006 UPDATE

(actual 9 months and year-end forecasts)

FINANCIAL SERVICES COMPENSATION & BENEFITS ESTIMATES

11/03/06

- Overall incentive outlook almost universally positive (on average, \cong +10-15%+) with significant variations between businesses and regions
- Many firms continue to exceed expectations by successfully managing risk and capitalizing on growth opportunities
 - Revenue per employee higher as top line outpaces headcount
 - Margin improvement from sustained expense control
- International expansion creates added compensation dynamic
 - Financial growth higher than in U.S. across major business lines
 - Plan design and funding a balance between regional differences and “one-team” approach
- Firms continue investment cycle, utilizing excess capital and pressured by growth expectations. However, remain selective about strategic opportunities and cautious with compensation packages (i.e., guarantees)
 - Exploring creative incentive alternatives as means of attracting/retaining top talent
- Compensation ratios remain difficult comparison due to accounting changes, impact of award vehicles/vesting, and variations in business mix (among other reasons)
 - Expect fourth quarter compensation funding decline at some firms, consistent with past accrual practice
 - SFAS 123R treatment of retirement-eligible employee equity lower impact at investment banks due to average employee age

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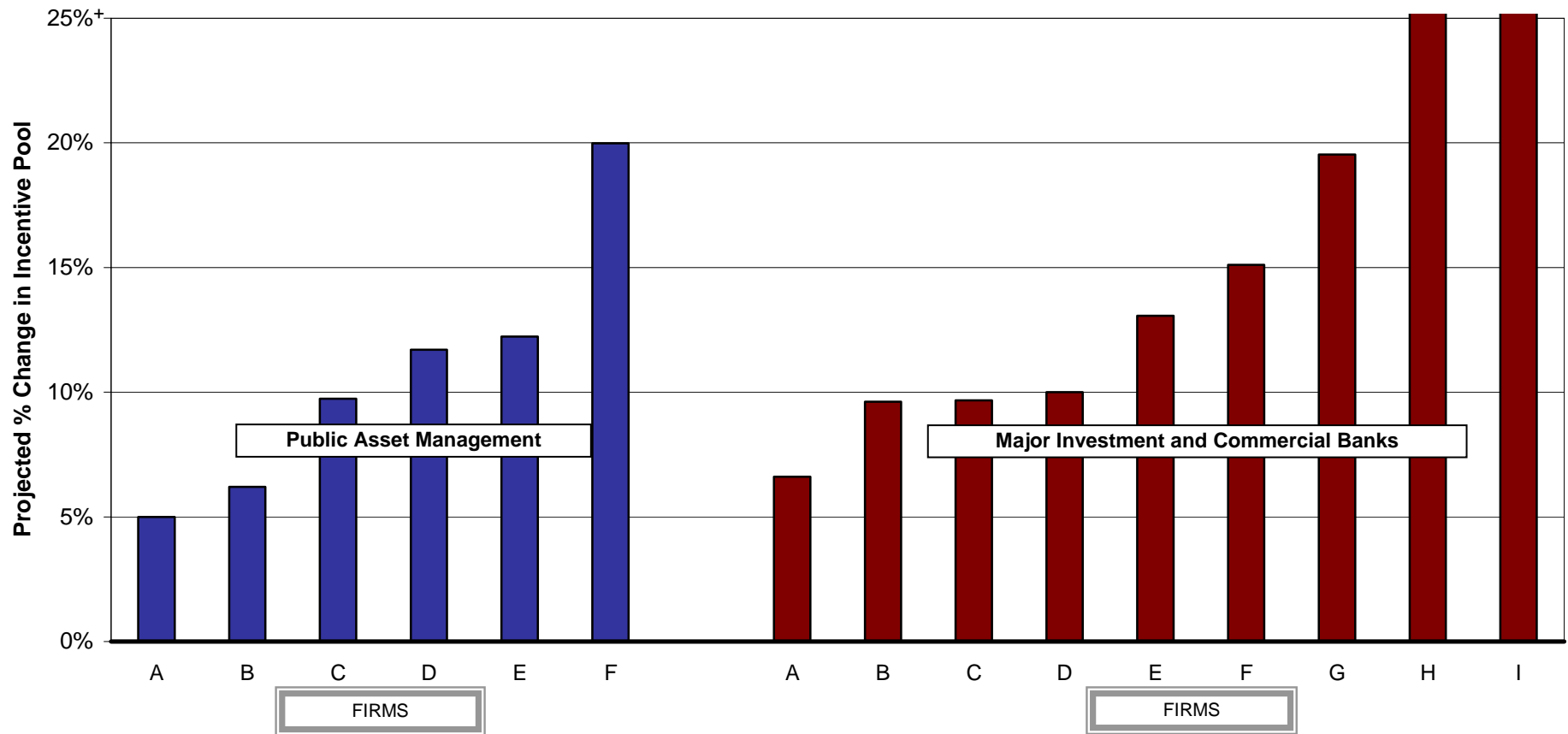
Financial Services Compensation & Benefits Estimates

- Headcount higher year-over-year, approximately 3%-10%
 - Combination of organic growth and global acquisitions
 - Typical fourth quarter slowdown in hiring as employee attention shifts to year-end bonus
- Key bonus drivers include (a) international penetration, (b) trading strategies, and (c) business mix (i.e., commodities, alternative investments, prime brokerage)

Projected 2006 Wall Street Incentive Funding		
Business/Area	% Increase from 2005*	Explanation
Senior Firm Management	10%-15%	Variations depending on business mix and performance. International growth key factor
Staff Positions	10%-15%	Staff incentives move in line with entire firm. Differences by function (i.e., risk higher increase than tech/operations)
Investment Banking	20%+	Expect strong Q4 off previously announced backlog. Generally positive sentiment/performance but clear distinctions between regions, industries, and transactions
Equities (excl Prime Brokerage)	15%	Significant subsidies in 2005 and increases in headcount temper individual percentage. Derivatives drive business
Prime Brokerage	15%+	Growth tied to hedge fund transaction/lending activities. Moderated by increased competition
Asset Management	Equities 10%-15% Fixed Inc 5%-8% Hedge Funds/ Alternatives 10%-15%	Net inflows into Hedge Fund products with ETF's experiencing high asset growth. Market appreciation across equities. Fixed income benefits from lower risk threshold
Private Client	Fee-Based 10%-15% Trans-Based 10%	Fee-Based: market appreciation and transition from transaction-based Transaction-Based: volumes offset pricing pressures
Fixed Income	10%-15%	Significant variation due to breadth of products. Commodities highlight strength; interest rate products a potential weakness. Proprietary trading remains key influence
Commercial Banking	10%	Increased loan activity a result of continuing investment cycle and lower credit spreads. Partially offset by margin compression (flat yield curve) and 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, credit losses lower due to 2005 bankruptcy legislation

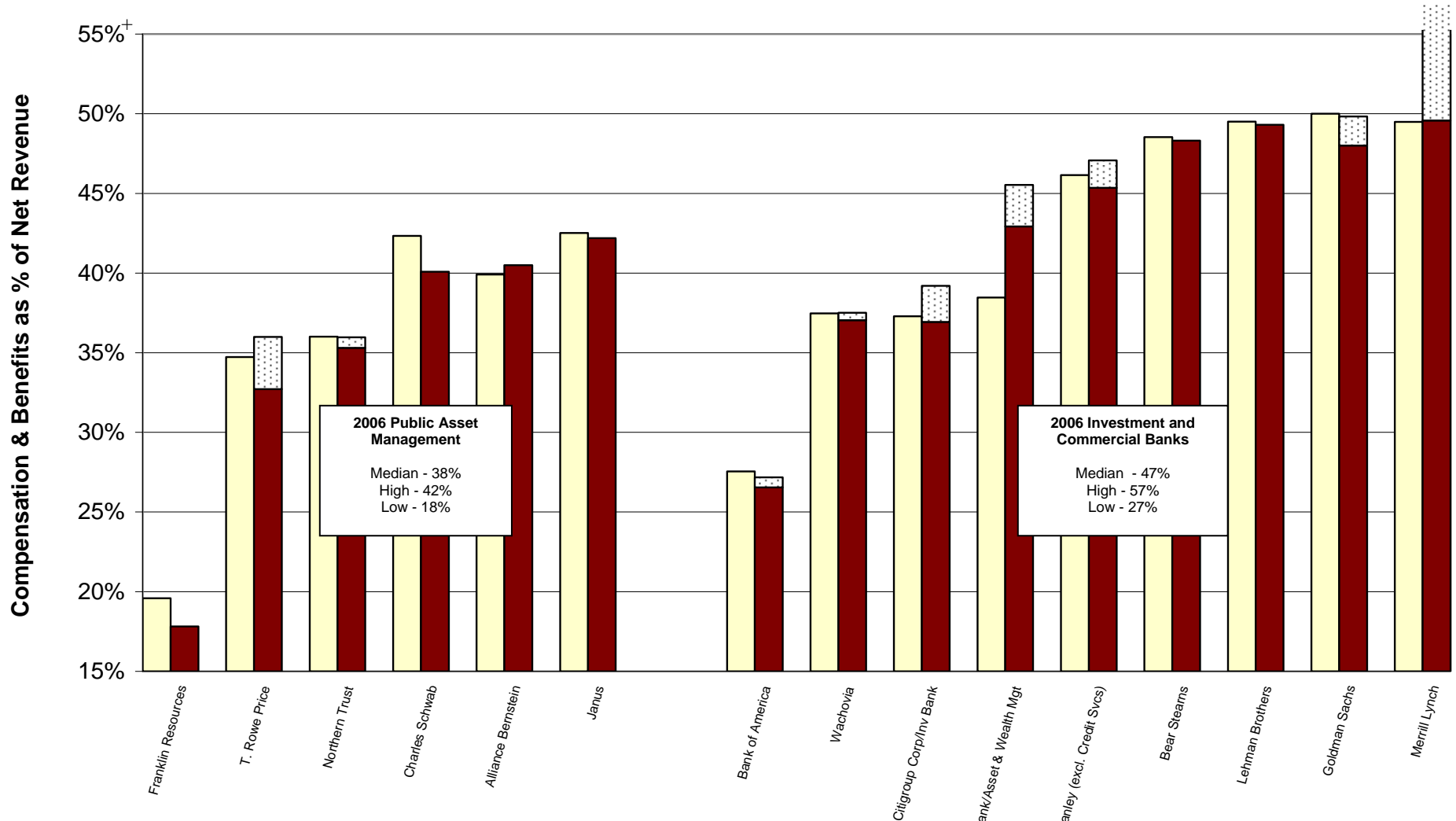
*Individual levels after adjustments for headcount changes

Projected % Change in Year-End Incentive Pool*

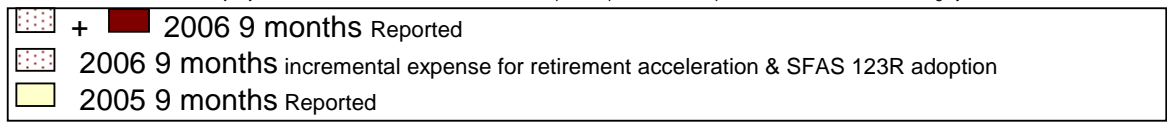


*9 Months actual data with projection for remainder of year

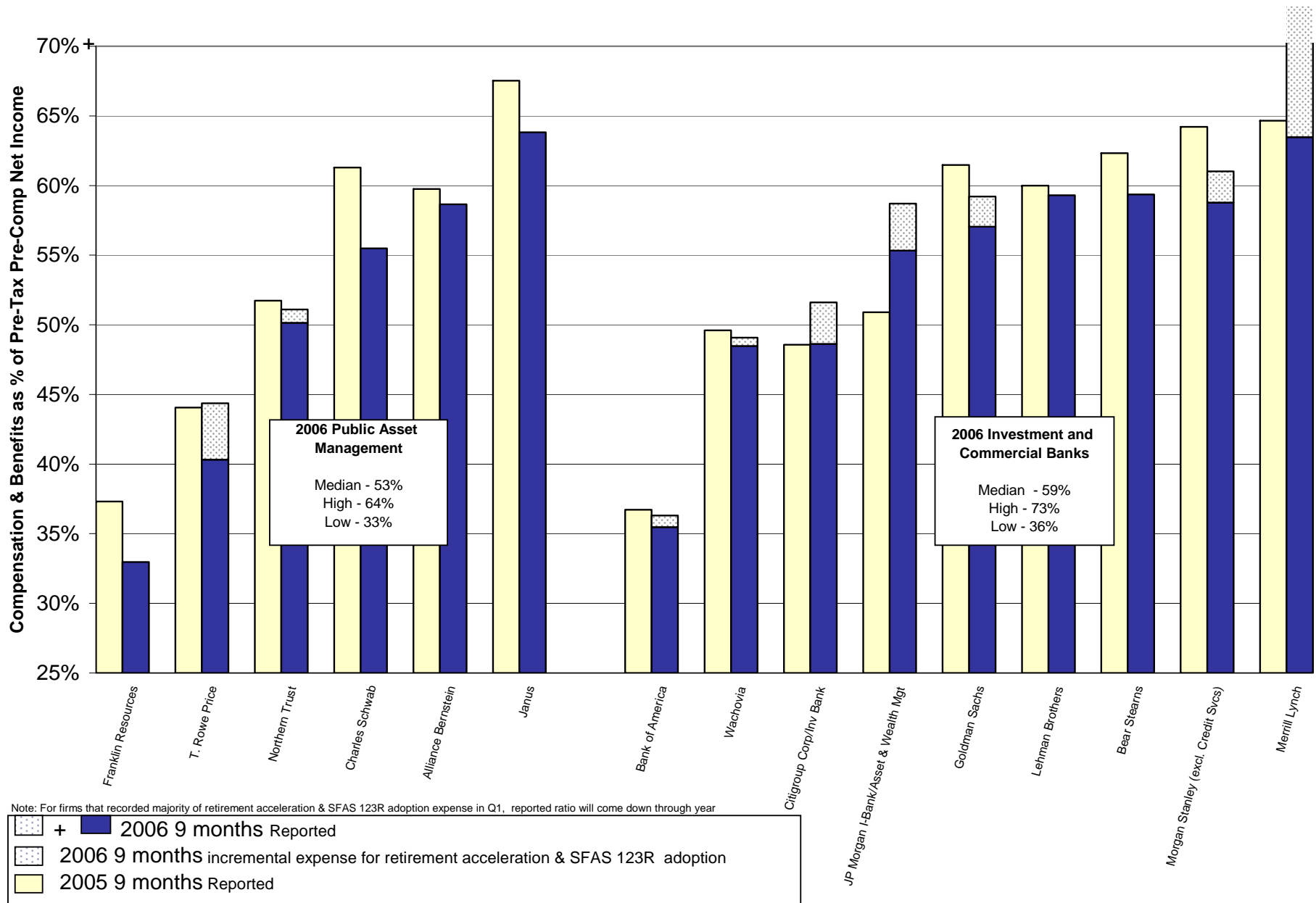
Year-to-Date Compensation & Benefits as % of Net Revenue



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

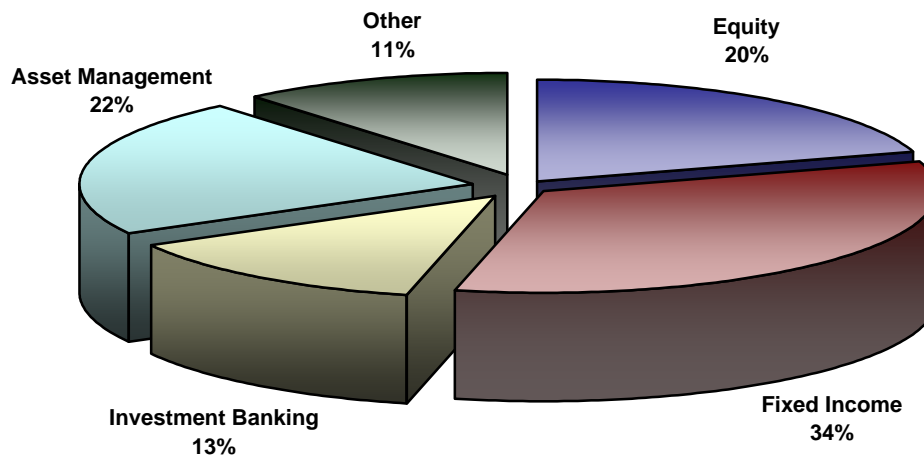


Year-to-Date Compensation & Benefits as % of Pre-Tax Pre-Comp Net Income

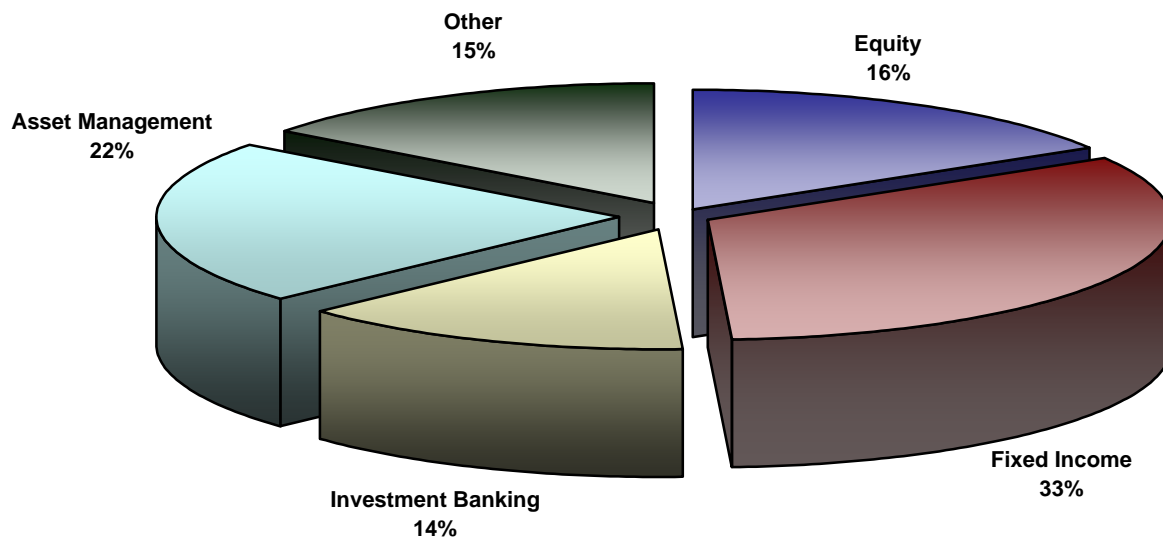


Year-to-Date Investment Banking Net Revenue Breakdown

2
0
0
6



2
0
0
5



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