

3rd Quarter 2004 Update

Predicted financial services bonus funding from actual 9 month results and estimated year-end

- Recent Trends
 - Analyst full-year EPS estimates mixed over past 30 days but revisions generally moderate. Some firms performed better than expected, taking advantage of opportunities abroad and in energy markets while some reported weaker results in trading and other core businesses
 - Positive earnings impact from expense reductions beginning to disappear as earnings grew less than revenues and shift from previous quarters where earnings grew at faster pace. Near term earnings growth to be driven by top line results. Year to date compensation as a percentage of net revenues lower than prior year and moderately trending down
 - *Revenues*: Mixed performance on year-over-year basis varying by firm and business line. Third quarter sequential decline more pronounced than expected from seasonal impact. Depressed volumes and volatility negatively impacted Private Client, Equity Underwriting and Equity Trading. Completed Advisory significantly stronger year over year and Asset Management up due to higher levels of assets. Fixed Income Trading mixed, recognizing fixed income instruments/activity and the existence of new opportunities (i.e. Energy)
 - Substantial increases in litigation reserves as firms continue to manage costly scandals
 - Key employees increasingly lost to lucrative positions at hedge funds across product areas. Increased interest in Private Equity as recovers from cyclical downturn
- Near term outlook
 - Fourth quarter revenues expected flat to moderately higher than third quarter. Backlogs of investment banking deals have declined somewhat but early indication of rebound in retail market activity. Trading within a markedly more difficult environment will be defining factor for overall results

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Financial Services Compensation & Benefits Estimates

Broad Compensation Issues:

- Deferred Compensation Legislation: Impact on SARs, discounted options, and other long-term vehicles
- Impact of option accounting on award grants and participants
 - Binomial vs. Black Scholes valuation models
 - Growth in restricted stock
- Employee Guarantees
 - Regrets on minimum guarantees offered to Associates
 - Increased importance on retaining certain professionals as result of past slowdown in hiring
- Recruiting
 - Increased activity at MBA programs as firms ramp up hiring at associate level
- Geographical Considerations
 - Cost of living gap growing wider, resulting in more focus on differences in pay
- Board of Directors: Impact from more in-depth roles and changing responsibilities
 - Increased focus on Committee Chair pay
 - Pay trending up, specifically cash retainers
 - More variation depending on role
 - Increased ownership requirements
- Employee Benefits
 - Firms scrutinizing retiree health care and pension programs
 - Perquisites under microscope of corporate governance
- Contracts
 - Legacy designs remain with poorly designed change-in-control and severance provisions
- Use of Surveys, Peer Groups, and Performance Measures
 - Increased scrutiny in light of corporate scandals and accounting
- Compensation Process
 - More internal controls and active and well-informed compensation committees
 - Improvements in Board minutes, reporting, and financial disclosures

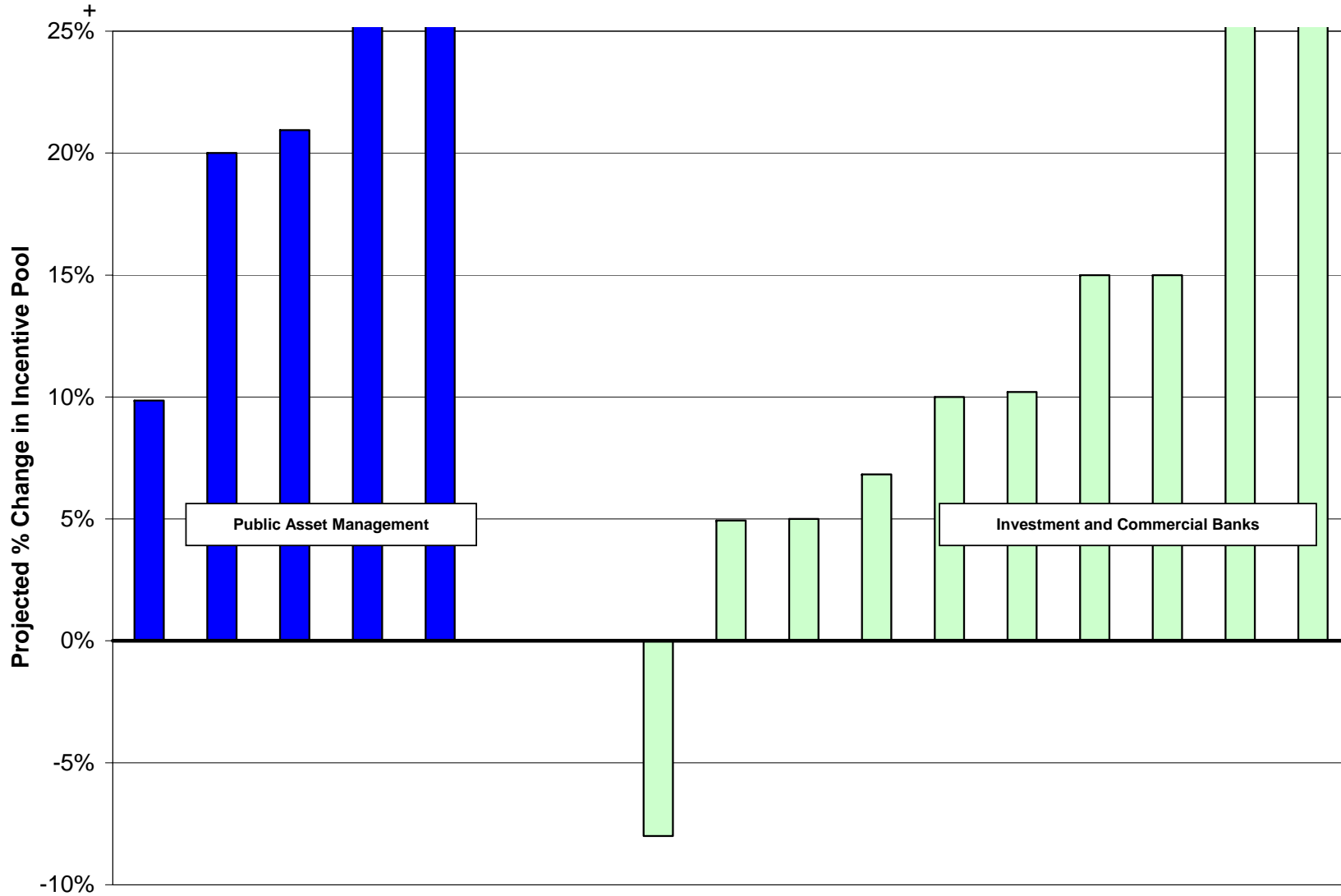
Financial Services Compensation & Benefits Estimates

- Companies now hiring selectively with year-end headcount up \cong 5%
 - Outsourcing of services and technology to reduce high platform costs
 - Available talent quality much higher than in recent years. Firms have opportunity to upgrade talent but cautious about overhiring. Recruiting tempered by weak growth forecasts
- Overall incentive outlook up \cong 10-15% with significant variations between businesses/firms
 - Due to the timing of events (i.e., rise in interest rates), fiscal year end may impact year-over-year changes (i.e., 10% up vs. 5% up)
 - Morale stronger with improved results
 - Equity mix changing as firms begin to account for stock options. Returning to historical model with restricted stock for many/most professionals making up at least 50% of total grant value

U.S. Projected 2004 Wall Street Incentive Funding		
Business/Area	% Increase/Decrease from 2003*	Explanation
Senior Firm Management	10% Up	Wide variations depending on business mix. Some firms may temper increases off large increases in 2003
Investment Banking	25+% Up	Outlook positive off low base in 2003. Subsidies built in 2003 bonuses reduce increases somewhat
Staff Positions	10% Up	Staff incentives move in line with entire firm
Equities	5%-10% Up	Strong first half carries year. Headcount reductions have positive impact
Asset Management	10% Up	Driven largely by average assets under management (market appreciation and net inflows)
Private Client Management	10% Up	Positive results driven by asset levels but perception is sector underperforming
Commercial Banking	10%-15% Up	Continued improvement in loan performance and volumes
Retail Banking	15% Up	Sustained strong performance
Fixed Income	5% Up	Large boost from record first quarter but year-over-year comparisons difficult. Some product lines (i.e., mortgages, energy) showing muscle

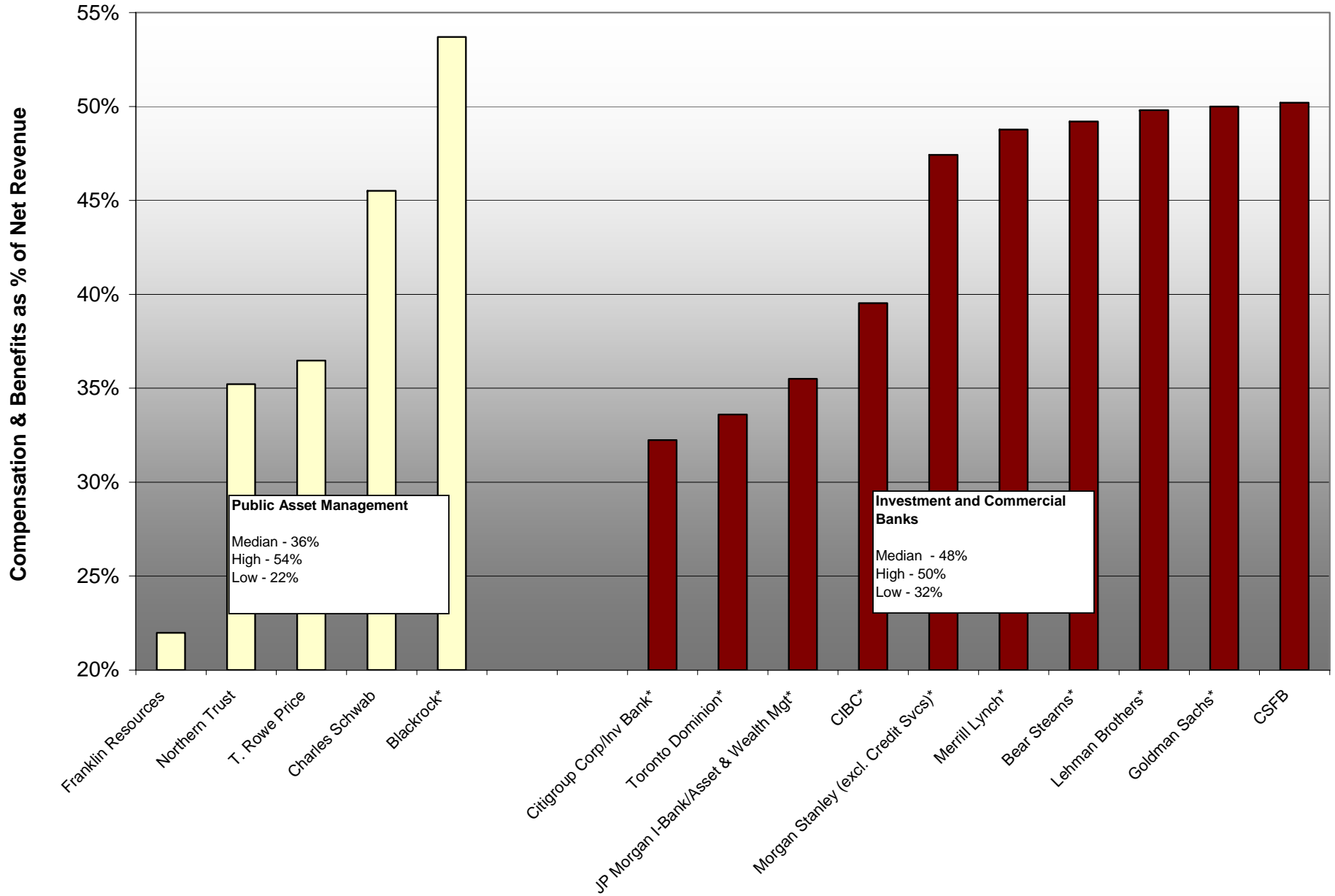
*Individual levels after adjustments for headcount changes

Projected % Change in Year-End Incentive Pool*



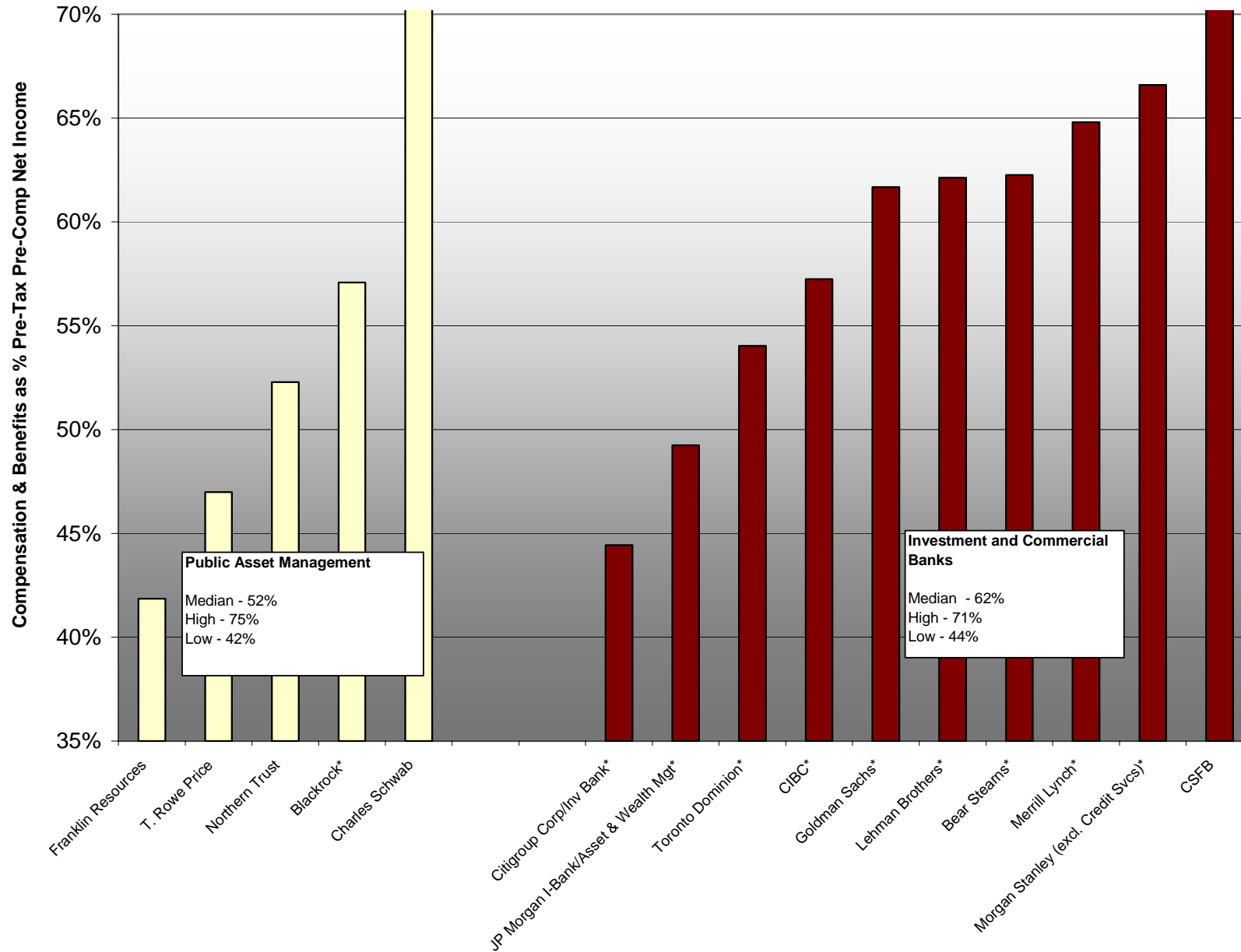
*9 Months actual data with projection for remainder of year

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



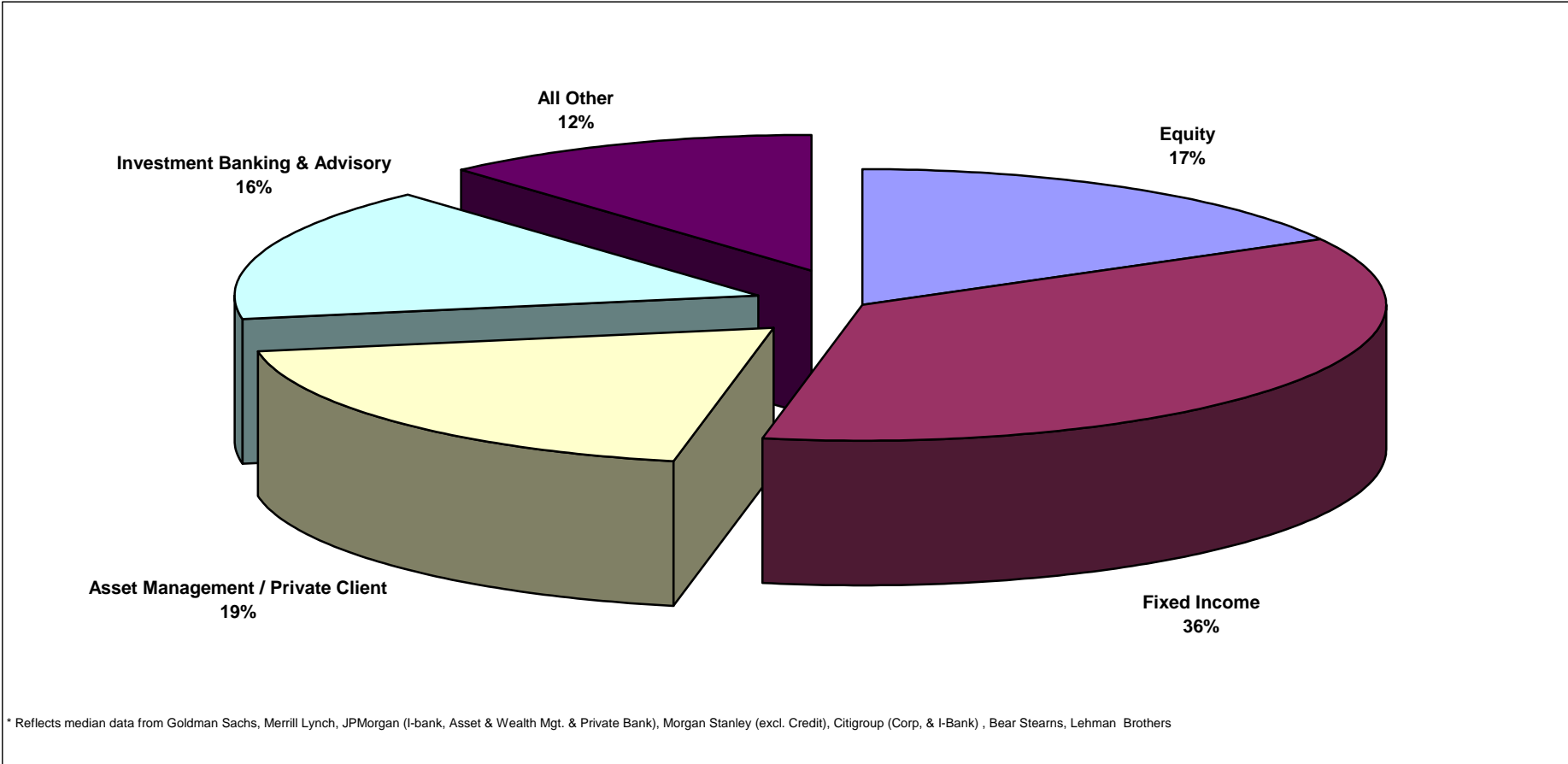
* Currently accounting for stock options using fair value "prospective" method but impact today immaterial

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



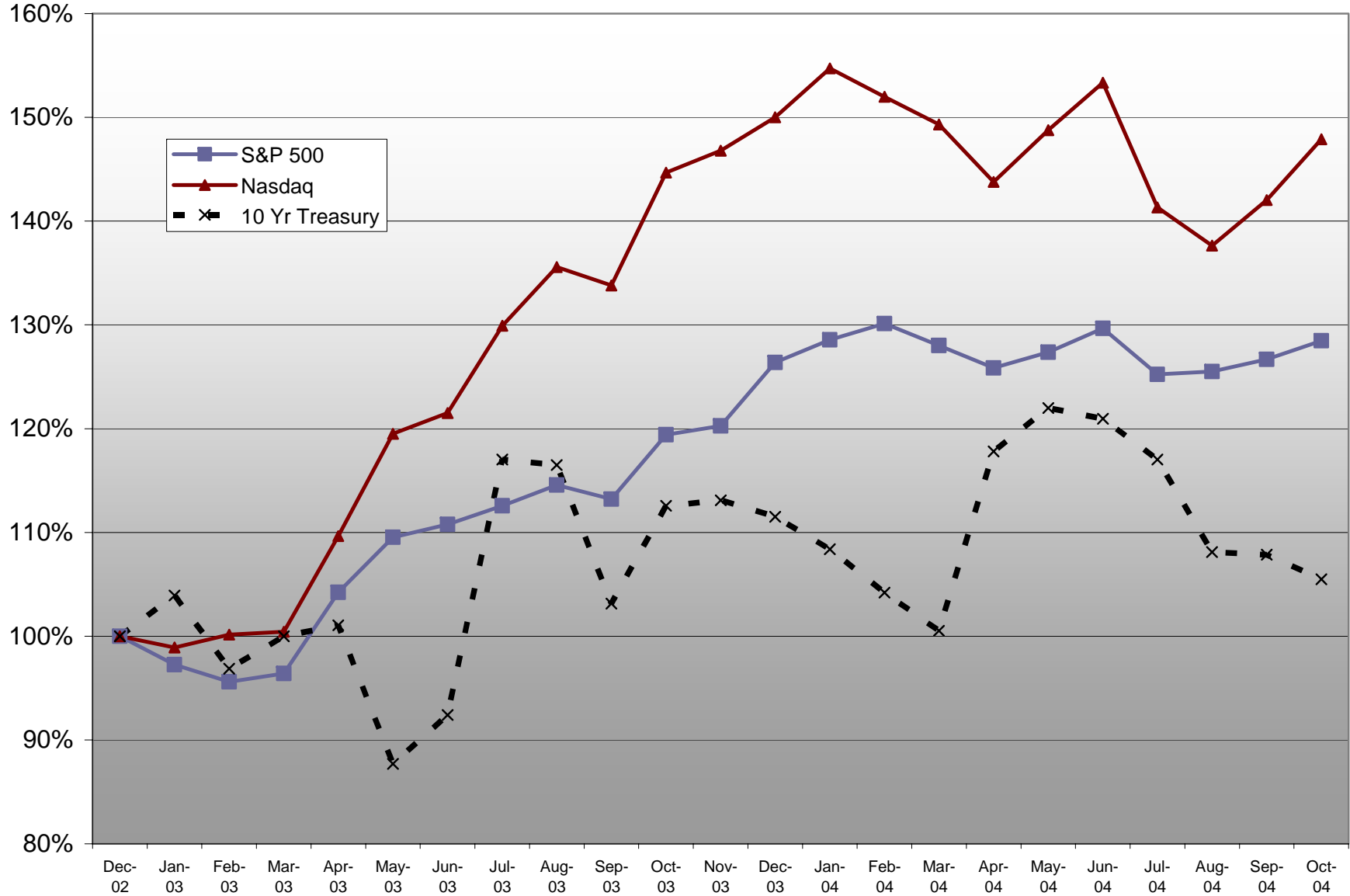
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Year-to-Date Investment Banking Net Revenue Breakdown



U.S. Capital Market Indicators – Monthly Trends

* Data representative of month-end values



Global Investment Banking – Quarter-Over-Quarter Change from 2003*

* Thompson Financial Securities Data (December - August)

