

FINANCIAL SERVICES COMPENSATION

Second Quarter Trends and Year-End Projections

8/9/07

At this point in the year, Johnson Associates is projecting year-over-year increases in incentive compensation off of a very healthy 2006. Increases are expected across the board, varying in magnitude with mixed business results across sectors and products. The growing divergence in incentive pool increases and compensation levels between major firms and broader comparators continues. For 2007 key bonus drivers include international growth, trading strategies, and business mix

NOTABLE TRENDS

- Expect 2007 incentives to be only modestly impacted by market events because of strong 7 – 8 months evidenced by to-date compensation accruals higher than in first half of 2006. Credit market and pipeline depletion effects will have a more noticeable impact on 2008 compensation and hiring
 - Financial losses from loan related fees and write offs, while largely isolated to select businesses, will impact firm wide compensation
- Headcount growth slows as firms evaluate near term situation. Aggressive domestic hiring difficult to maintain with margin pressures
 - Given international activity expect firms to continue building out operations
 - Compensation guarantee trend will not disappear but become more selective
- Business mix contributing to wider spectrum of firm results. As a result, firm-wide compensation ratios continue to become somewhat less helpful and relevant
 - Scope of international operations and alternative investment participation varies among firms making it difficult to isolate effect on ratios
- Use of options may increase with falling stock prices. Over the past few years restricted stock use increased due to option criticism and market upswing. While restricted stock remains in favor, market movements may result in more option awards
- With market changes expect compensation critique to increase in the media and Congress with particular sensitivity around executive compensation and incentive metrics, particularly in mortgages. Reminiscent of post-2000 discussions

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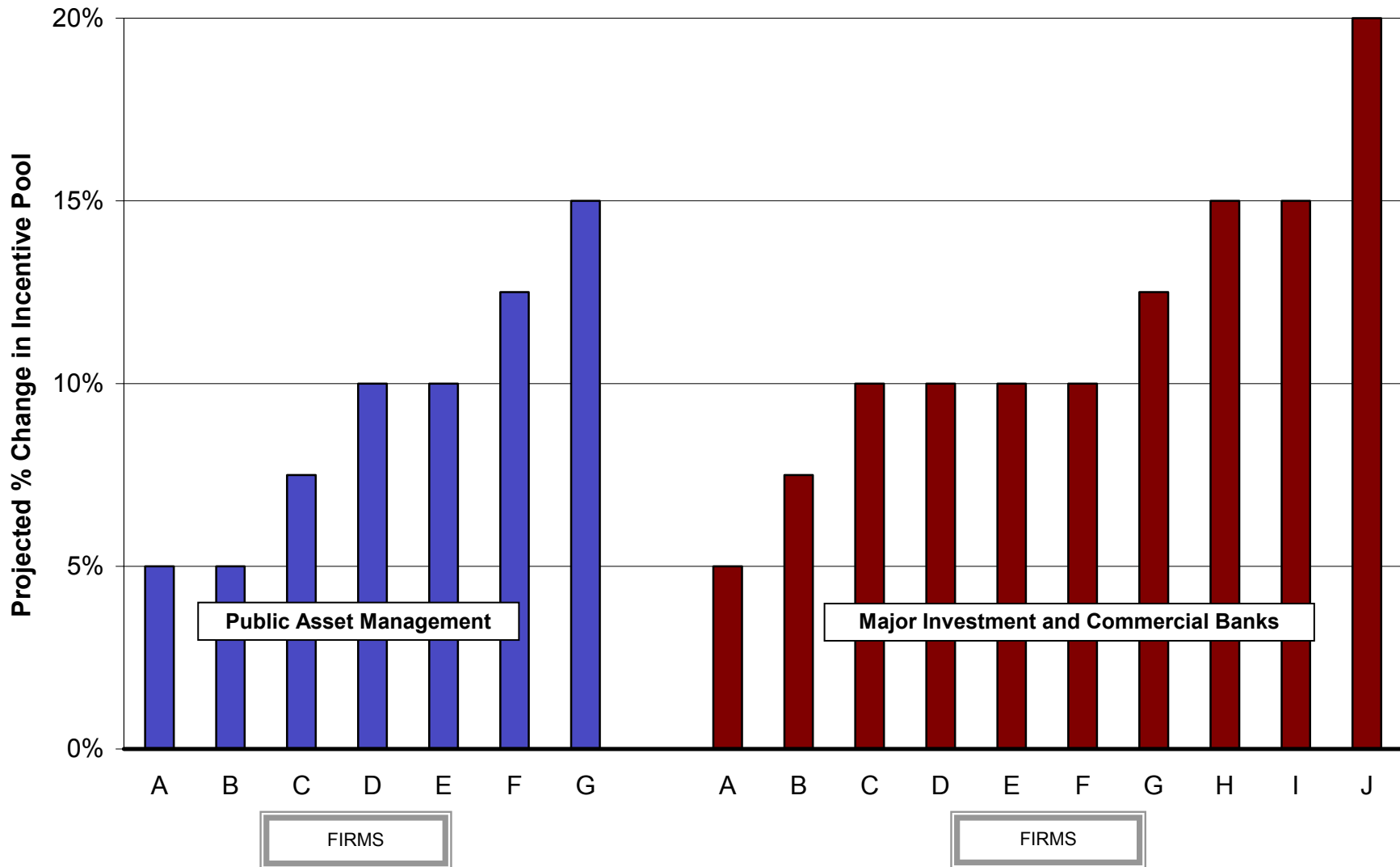
Projected 2007 Wall Street Incentive Funding

Overall, evaluated incentive funding in the context of a very healthy 2006 base point

Projected 2007 Wall Street Incentive Funding (Individual levels on a headcount adjusted basis)			
Business/Area		% Increase from 2006	Explanation
Senior Firm Management	Investment Banks Commercial Banks	5% 10%	<ul style="list-style-type: none"> Variations depending on business mix and performance
Staff Positions	Investment Banks Commercial Banks	10% 10%	<ul style="list-style-type: none"> Move in line with entire firm. Differences by function (i.e., risk higher increase than tech/operations)
Investment Banking <small>Advisory only (Investment and Commercial Banks)</small>		20%	<ul style="list-style-type: none"> Expect loan and mortgage losses to begin modestly impacting profits during second half; balanced by continuing international and private equity activity Larger near-term deals may offset potentially fewer deals at year-end
Equities <small>excl Prime Brokerage (Investment and Commercial Banks)</small>	Plain-Vanilla Derivatives	5% 15%	<ul style="list-style-type: none"> Derivatives and proprietary trading leading profitability Global market conditions becoming less favorable
Fixed Income <small>(Investment and Commercial Banks)</small>	Plain-Vanilla Derivatives	Flat 15%	<ul style="list-style-type: none"> Significant variation due to breadth of products. Derivatives do not capture currency, interest rate, credit, or commodities products. Product results generally between plain-vanilla and derivatives Overall, derivatives highlight strength with commodities and mortgage products a challenge Mortgage effect driving plain-vanilla results
Prime Brokerage <small>(Investment Banks)</small>		15%	<ul style="list-style-type: none"> Higher customer balances with activity continuing to grow especially as firms anticipate favorable lending environment coming to an end
Asset Management <small>(Independent and Captive)</small>	Equities Fixed Inc	10% 5%	<ul style="list-style-type: none"> Equity funds impacted largely from appreciation Fixed income funds experiencing modest returns and AUM growth over 2006 results
High Net Worth		10%	<ul style="list-style-type: none"> Market appreciation and AUM growth. Growth helped from hesitation to invest larger amount of net worth in hedge funds
Hedge Funds <small>(Independent and Captive)</small>		15%*	<ul style="list-style-type: none"> Hedge fund AUMs increasing while above market returns have been challenging Captive and independent fund compensation gap growing
Private Equity <small>(Independent and Captive)</small>		20%+*	<ul style="list-style-type: none"> Private equity deals increasing in frequency and size. Larger funds continue to be raised
Commercial Banking		10%	<ul style="list-style-type: none"> Loan activity continues with favorable lending environment Anticipated rate increases also trigger firm investments
Retail Banking		Flat - 5%	<ul style="list-style-type: none"> While online deposits continue to grow, downward pressure on mortgages will outweigh growth Expect loan losses with foreclosures

* Applies to bonus and equity excluding carry

Projected % Change in Year-End Incentive Pool*



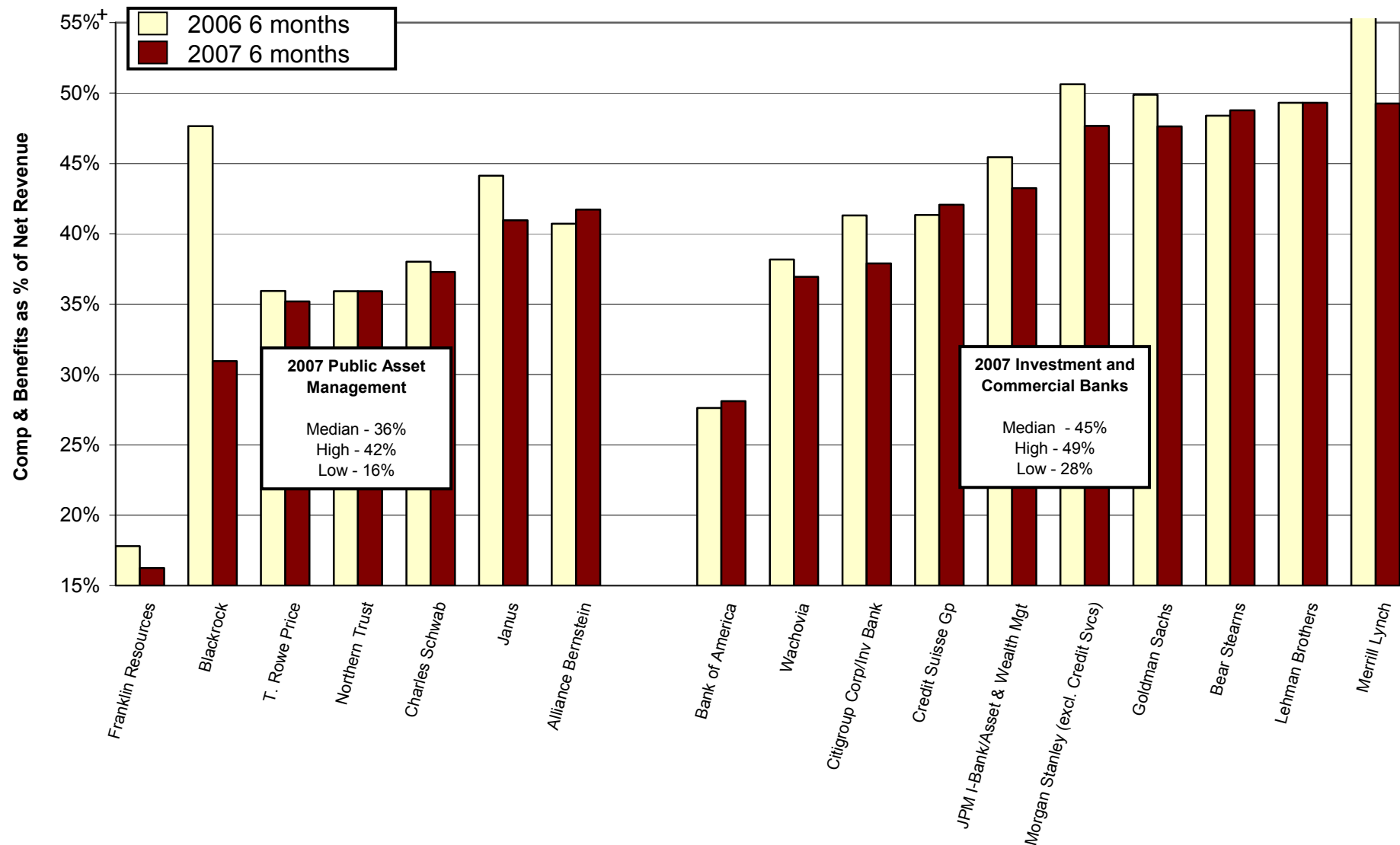
*6 Months actual data with projection for remainder of year

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

Notes:

Select ratios may be skewed high because of the incremental expense for retirement acceleration & SFAS 123R adoption

Blackrock ratios reflect impact of MLIM integration

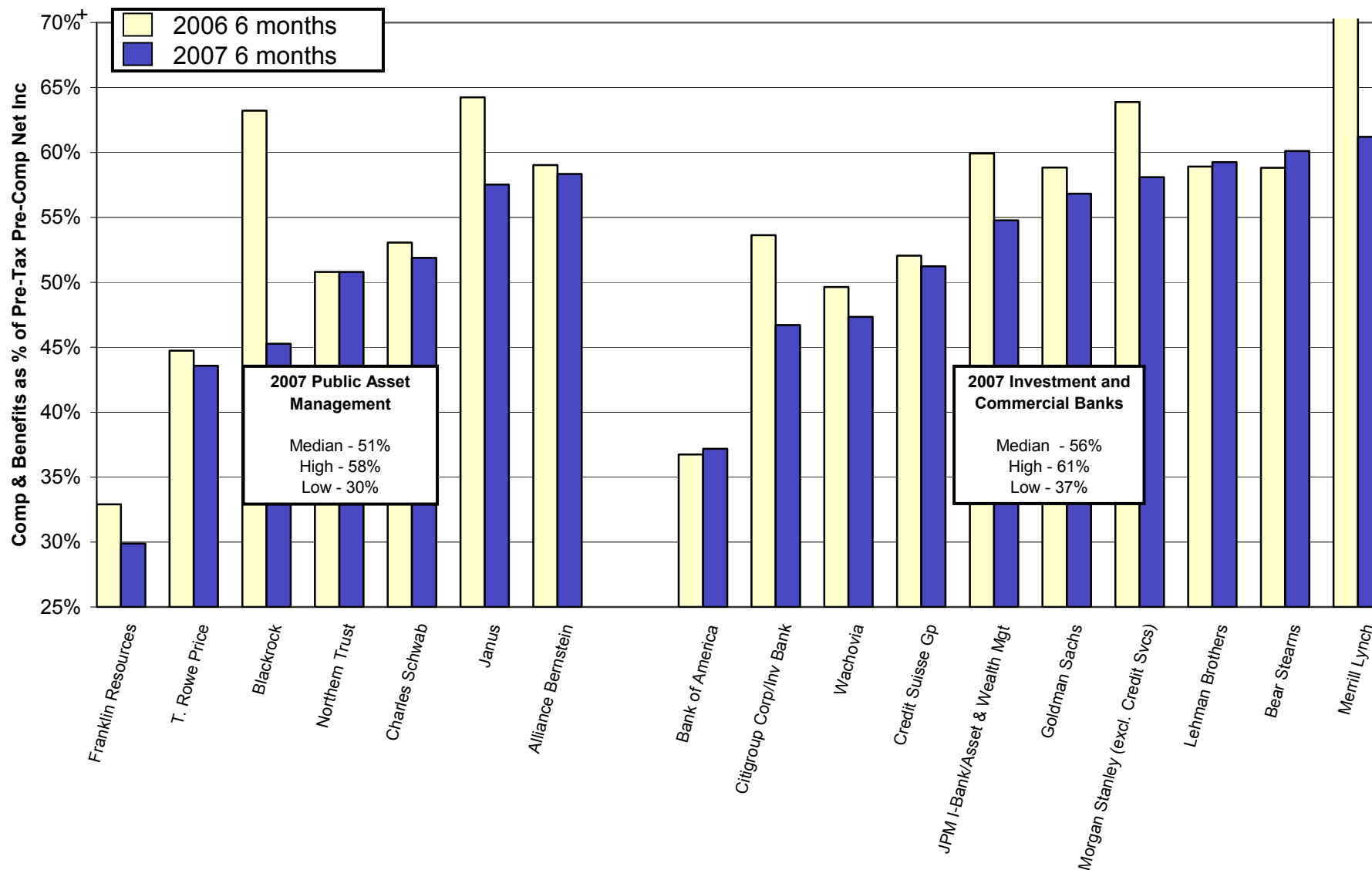


Year-to-Date Compensation & Benefits as % of Pre-Tax Pre-Comp Net Income

Notes:

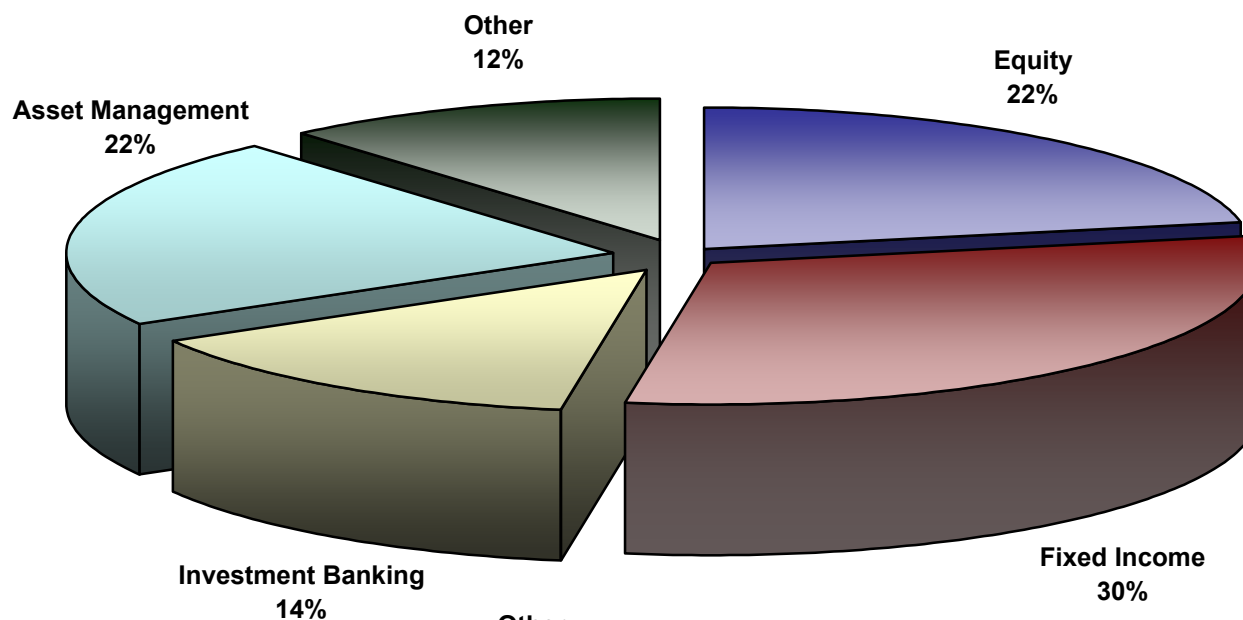
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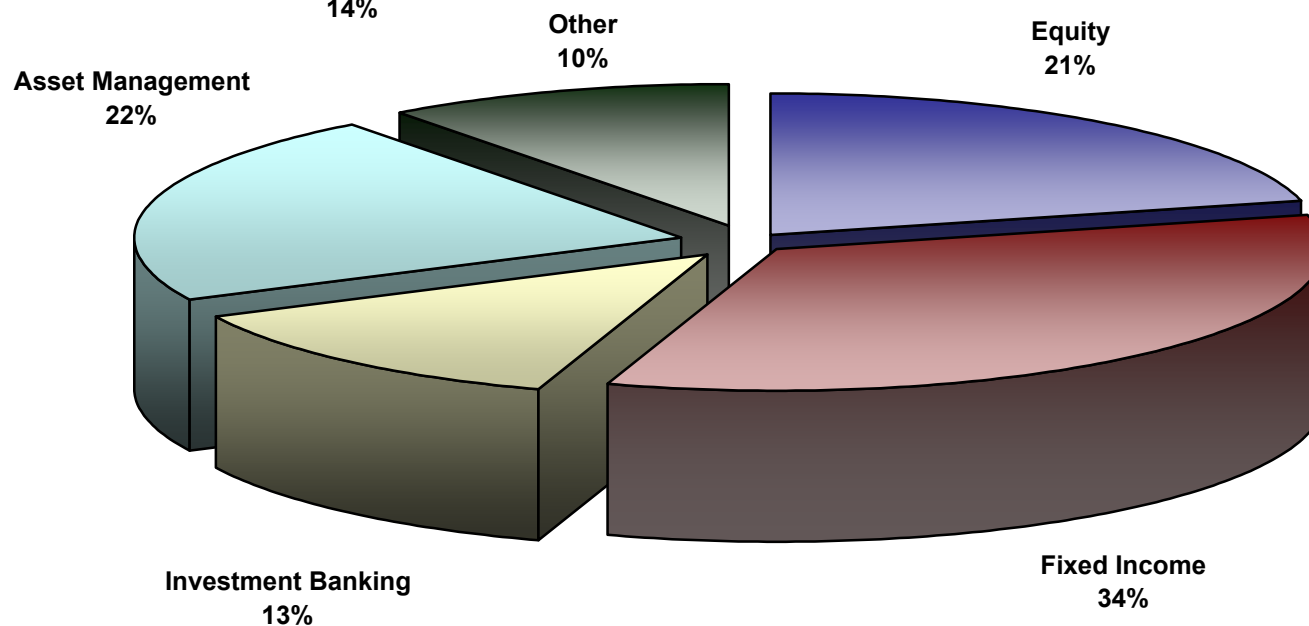


Year-to-Date Investment Banking Net Revenue Breakdown

2
0
0
7



2
0
0
6



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