

Reconciliation of Net Earnings, Diluted Earnings Per Common Share, Common Shareholders' Equity and the Ratio of Compensation and Benefits to Net Revenues as reported, to these items excluding incremental non-cash expenses related to the accounting for certain share-based awards under SFAS No. 123-R

(\$ in millions, except per share amounts)

Statement of Financial Accounting Standards (SFAS) No. 123-R, "Share-Based Payment," focuses primarily on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. Effective for the first quarter of 2006, the firm adopted SFAS No. 123-R, which requires that share-based awards granted to retirement-eligible employees, including those subject to non-compete agreements, be expensed in the year of grant. In addition to expensing current year awards, prior year awards must continue to be amortized over the relevant service period. Therefore, the firm's compensation and benefits expenses in fiscal 2006 (and, to a lesser extent, in fiscal 2007 and fiscal 2008) will include both amortization of prior year awards and new awards granted to retirement-eligible employees for services rendered in fiscal 2006. Management believes that presenting the firm's results excluding the impact of the continued amortization of prior year share-based awards granted to retirement-eligible employees increases the comparability of period-to-period operating results and allows for a more meaningful representation of the relationship of current period compensation and benefits to net revenues.

The following tables set forth a reconciliation of net earnings, diluted earnings per common share, common shareholders' equity and the ratio of compensation and benefits to net revenues as reported, to these items excluding the impact of the continued amortization of prior year share-based awards granted to retirement-eligible employees:

	Three Months Ended February 2006
Net earnings	\$ 2,479
Impact of the continued amortization of prior year share-based awards, net of tax	159
Net earnings, excluding the impact of the continued amortization of prior year share-based awards	2,638
Preferred stock dividends	(26)
Net earnings applicable to common shareholders, excluding the impact of the continued amortization of prior year share-based awards	<u>\$ 2,612</u>
	Three Months Ended February 2006
Diluted earnings per common share	\$ 5.08
Impact of the continued amortization of prior year share-based awards, net of tax	0.33
Diluted earnings per common share, excluding the impact of the continued amortization of prior year share-based awards	<u>\$ 5.41</u>
	Average for the Three Months Ended February 2006
Total shareholders' equity	\$ 28,724
Preferred stock	(1,750)
Common shareholders' equity	26,974
Impact of the continued amortization of prior year share-based awards, net of tax	(48)
Common shareholders' equity, excluding the impact of the continued amortization of prior year share-based awards	26,926
Goodwill and certain identifiable intangible assets	(4,687)
Tangible common shareholders' equity (see Return on Average Tangible Common Shareholders' Equity below), excluding the impact of the continued amortization of prior year share-based awards	<u>\$ 22,239</u>

The following table sets forth the firm's return on average common shareholders' equity and return on average tangible common shareholders' equity, excluding the impact of the continued amortization of prior year share-based awards:

	Three Months Ended February 2006
Annualized return on average common shareholders' equity (See Return on Average Tangible Common Shareholders' Equity below)	38.8%
Annualized return on average tangible common shareholders' equity (See Return on Average Tangible Common Shareholders' Equity below)	47.0%

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The firm's ratio of compensation and benefits to net revenues, excluding the impact of the continued amortization of prior year share-based awards, is computed by dividing compensation and benefits, excluding the impact of the continued amortization of prior year share-based awards, by net revenues. Management believes that presenting the ratio of compensation and benefits to net revenues excluding the impact of the continued amortization of prior year share-based awards granted to retirement-eligible employees increases the comparability of period-to-period operating results and allows for a more meaningful representation of the relationship of current period compensation and benefits to net revenues. The following table sets forth the reconciliation of the ratio of compensation and benefits to net revenues as reported, to the ratio of compensation and benefits to net revenues excluding the impact of the continued amortization of prior year share-based awards:

	Three Months Ended February 2006
Compensation and benefits	\$ 5,301
Impact of the continued amortization of prior year share-based awards	(237)
Compensation and benefits, excluding the impact of the continued amortization of prior year share-based awards	<u>\$ 5,064</u>
Net revenues	\$ 10,335
Ratio of compensation and benefits to net revenues, excluding the impact of the continued amortization of prior year share-based awards	49.0%

Return on Average Tangible Common Shareholders' Equity

(\$ in millions, except per share amounts)

The following table sets forth the firm's return on average common shareholders' equity and return on average tangible common shareholders' equity:

	Three Months Ended					Nine Months Ended	Six Months Ended	Year Ended		
	February 2006	November 2005	August 2005	May 2005	February 2005	August 2005	May 2005	November 2005	November 2004	November 2003
Annualized return on average common shareholders' equity ⁽¹⁾	36.4%	25.2%	25.1%	13.4%	23.5%	20.7%	18.5%	21.8%	19.8%	15.0%
Annualized return on average tangible common shareholders' equity ⁽²⁾	44.0%	30.9%	30.7%	16.4%	28.9%	25.3%	22.6%	26.7%	25.2%	19.9%

⁽¹⁾ Annualized return on average common shareholders' equity is computed by dividing annualized net earnings applicable to common shareholders by average monthly common shareholders' equity.

⁽²⁾ Annualized return on average tangible common shareholders' equity is computed by dividing annualized net earnings applicable to common shareholders by average monthly tangible common shareholders' equity.

Tangible common shareholders' equity equals total shareholders' equity less preferred stock, goodwill and certain identifiable intangible assets (primarily customer lists and specialist rights). In the first quarter of 2006, the firm amended its calculation of tangible common shareholders' equity to deduct only certain identifiable intangible assets from total shareholders' equity. The firm no longer deducts identifiable intangible assets associated with power contracts and does not deduct VOBA, which is related to the firm's insurance business acquired in the first quarter of 2006. Prior periods have been restated to conform to the current period presentation.

Management believes that annualized return on average tangible common shareholders' equity is a meaningful measure of performance because it excludes the portion of common shareholders' equity attributable to goodwill and certain identifiable intangible assets. As a result, this calculation measures corporate performance in a manner that treats underlying businesses consistently, whether they were acquired or developed internally. Annualized return on average tangible common shareholders' equity is computed by dividing annualized net earnings applicable to common shareholders by average monthly tangible common shareholders' equity. The following table sets forth a reconciliation of average total shareholders' equity to average tangible common shareholders' equity:

	Average for the					Nine Months Ended	Six Months Ended	Year Ended		
	February 2006	November 2005	August 2005	May 2005	February 2005	August 2005	May 2005	November 2005	November 2004	November 2003
Total shareholders' equity	\$ 28,724	\$ 26,762	\$ 26,405	\$ 26,226	\$ 25,735	\$ 26,100	\$ 25,967	\$ 26,264	\$ 22,975	\$ 20,031
Preferred stock	(1,750)	(1,000)	(750)	(375)	-	(375)	(214)	(538)	-	-
Common shareholders' equity	26,974	25,762	25,655	25,851	25,735	25,725	25,753	25,726	22,975	20,031
Goodwill and certain identifiable intangible assets	(4,687)	(4,710)	(4,709)	(4,719)	(4,799)	(4,746)	(4,764)	(4,737)	(4,918)	(4,932)
Tangible common shareholders' equity	\$ 22,287	\$ 21,052	\$ 20,946	\$ 21,132	\$ 20,936	\$ 20,979	\$ 20,989	\$ 20,989	\$ 18,057	\$ 15,099

Adjusted Assets, Tangible Equity Capital, Adjusted Leverage Ratio and Tangible Book Value Per Common Share

(\$ in millions, except per share amounts)

The following table sets forth information on the firm's assets, shareholders' equity, leverage ratios and book value per common share:

	As of				As of		
	February 2006	August 2005	May 2005	February 2005	November 2005	November 2004	November 2003
Total assets	\$ 758,821	\$ 669,518	\$ 624,472	\$ 596,149	\$ 706,804	\$ 531,379	\$ 403,799
Adjusted assets ⁽¹⁾	495,365	424,297	407,117	373,745	466,500	347,082	273,941
Total shareholders' equity	28,915	26,607	26,395	26,075	28,002	25,079	21,632
Tangible equity capital ⁽²⁾	26,996	24,645	24,421	24,098	26,030	22,958	16,650
Leverage ratio ⁽³⁾	26.2 x	25.2 x	23.7 x	22.9 x	25.2 x	21.2 x	18.7 x
Adjusted leverage ratio ⁽⁴⁾	18.3 x	17.2 x	16.7 x	15.5 x	17.9 x	15.1 x	16.5 x
Common shareholders' equity	\$ 27,165	\$ 25,857	\$ 25,645	\$ 26,075	\$ 26,252	\$ 25,079	\$ 21,632
Tangible common shareholders' equity ⁽⁵⁾	22,496	21,145	20,921	21,348	21,530	20,208	16,650
Book value per common share ⁽⁶⁾	\$ 60.42	\$ 55.39	\$ 53.46	\$ 53.15	\$ 57.02	\$ 50.77	\$ 43.60
Tangible book value per common share ⁽⁷⁾	50.04	45.30	43.61	43.51	46.76	40.91	33.56

⁽¹⁾ Adjusted assets excludes (i) low-risk collateralized assets generally associated with the matched book and securities lending businesses (which is calculated by adding securities purchased under agreements to resell and securities borrowed, and then subtracting nonderivative short positions), (ii) cash and securities segregated for regulatory and other purposes and (iii) goodwill and certain identifiable intangible assets (primarily customer lists and specialist rights). In the first quarter of 2006, the firm amended its calculation of adjusted assets to deduct only certain identifiable intangible assets from total assets. The firm no longer deducts identifiable intangible assets associated with power contracts and does not deduct VOBA, which is related to the firm's insurance business acquired in the first quarter of 2006. Prior periods have been restated to conform to the current period presentation. The following table sets forth a reconciliation of total assets to adjusted assets:

	As of				As of		
	February 2006	August 2005	May 2005	February 2005	November 2005	November 2004	November 2003
Total assets	\$ 758,821	\$ 669,518	\$ 624,472	\$ 596,149	\$ 706,804	\$ 531,379	\$ 403,799
Deduct: Securities borrowed	(200,017)	(190,822)	(176,315)	(180,362)	(191,800)	(155,086)	(129,118)
Securities purchased under agreements to resell	(96,442)	(91,536)	(77,097)	(66,007)	(83,619)	(44,257)	(26,856)
Add: Financial instruments sold, but not yet purchased, at fair value	153,887	149,338	142,386	125,556	149,071	132,097	102,699
Less derivative liabilities	(55,259)	(60,997)	(54,373)	(51,662)	(57,829)	(64,001)	(41,886)
Subtotal	98,628	88,341	88,013	73,894	91,242	68,096	60,813
Deduct: Cash and securities segregated for regulatory and other purposes	(60,956)	(46,492)	(47,232)	(45,202)	(51,405)	(48,179)	(29,715)
Goodwill and certain identifiable intangible assets	(4,669)	(4,712)	(4,724)	(4,727)	(4,722)	(4,871)	(4,982)
Adjusted assets	<u>\$ 495,365</u>	<u>\$ 424,297</u>	<u>\$ 407,117</u>	<u>\$ 373,745</u>	<u>\$ 466,500</u>	<u>\$ 347,082</u>	<u>\$ 273,941</u>

(2) Tangible equity capital equals total shareholders' equity and junior subordinated debt issued to a trust less goodwill and certain identifiable intangible assets (primarily customer lists and specialist rights). In the first quarter of 2006, the firm amended its calculation of tangible equity capital to deduct only certain identifiable intangible assets from total shareholders' equity. The firm no longer deducts identifiable intangible assets associated with power contracts and does not deduct VOBA, which is related to the firm's insurance business acquired in the first quarter of 2006. Prior periods have been restated to conform to the current period presentation. The firm considers junior subordinated debt issued to a trust to be a component of tangible equity capital base due to the inherent characteristics of these securities, including the long-term nature of the securities, the ability to defer coupon interest for up to ten consecutive semiannual periods and the subordinated nature of the obligations in its capital structure. The following table sets forth the reconciliation of total shareholders' equity to tangible equity capital:

	As of				As of		
	February 2006	August 2005	May 2005	February 2005	November 2005	November 2004	November 2003
Total shareholders' equity	\$ 28,915	\$ 26,607	\$ 26,395	\$ 26,075	\$ 28,002	\$ 25,079	\$ 21,632
Add: Junior subordinated debt issued to a trust	2,750	2,750	2,750	2,750	2,750	2,750	-
Deduct: Goodwill and certain identifiable intangible assets	(4,669)	(4,712)	(4,724)	(4,727)	(4,722)	(4,871)	(4,982)
Tangible equity capital	<u>\$ 26,996</u>	<u>\$ 24,645</u>	<u>\$ 24,421</u>	<u>\$ 24,098</u>	<u>\$ 26,030</u>	<u>\$ 22,958</u>	<u>\$ 16,650</u>

(3) Leverage ratio equals total assets divided by total shareholders' equity.

(4) Adjusted leverage ratio equals adjusted assets divided by tangible equity capital. Management believes that the adjusted leverage ratio is a more meaningful measure of capital adequacy than the leverage ratio because it excludes certain low-risk collateralized assets that are generally supported with little or no capital and reflects the tangible equity capital deployed in the firm's businesses.

(5) Tangible common shareholders' equity equals total shareholders' equity less preferred stock, goodwill and certain identifiable intangible assets (primarily customer lists and specialist rights). In the first quarter of 2006, the firm amended its calculation of tangible common shareholders' equity to deduct only certain identifiable intangible assets from total shareholders' equity. The firm no longer deducts identifiable intangible assets associated with power contracts and does not deduct VOBA, which is related to the firm's insurance business acquired in the first quarter of 2006. Prior periods have been restated to conform to the current period presentation. The following table sets forth a reconciliation of total shareholders' equity to tangible common shareholders' equity:

	As of				As of		
	February 2006	August 2005	May 2005	February 2005	November 2005	November 2004	November 2003
Total shareholders' equity	\$ 28,915	\$ 26,607	\$ 26,395	\$ 26,075	\$ 28,002	\$ 25,079	\$ 21,632
Deduct: Preferred stock	(1,750)	(750)	(750)	-	(1,750)	-	-
Common shareholders' equity	27,165	25,857	25,645	26,075	26,252	25,079	21,632
Deduct: Goodwill and certain identifiable intangible assets	(4,669)	(4,712)	(4,724)	(4,727)	(4,722)	(4,871)	(4,982)
Tangible common shareholders' equity	<u>\$ 22,496</u>	<u>\$ 21,145</u>	<u>\$ 20,921</u>	<u>\$ 21,348</u>	<u>\$ 21,530</u>	<u>\$ 20,208</u>	<u>\$ 16,650</u>

(6) Book value per common share is based on common shares outstanding, including restricted stock units (RSUs) granted to employees with no future service requirements.

(7) Tangible book value per common share is computed by dividing tangible common shareholders' equity by the number of common shares outstanding, including RSUs granted to employees with no future service requirements. The following table sets forth the common shares outstanding, including RSUs granted to employees with no future service requirements:

	As of				As of		
	February 2006	August 2005	May 2005	February 2005	November 2005	November 2004	November 2003
Common shares outstanding, including RSUs granted to employees with no future service requirements	449.6	466.8	479.7	490.6	460.4	494.0	496.1

(in millions)