

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:

	Year Ended			Nine Months Ended	Six Months Ended	Three Months Ended		
	November 2008	November 2007	November 2006	August 2008	May 2008	August 2008	May 2008	February 2008
Annualized return on average common shareholders' equity ⁽¹⁾	4.9%	32.7%	32.8%	14.2%	17.6%	7.7%	20.4%	14.8%
Annualized return on average tangible common shareholders' equity ⁽²⁾	5.5%	38.2%	39.8%	16.3%	20.2%	8.8%	23.5%	17.0%

⁽¹⁾ Return on average common shareholders' equity (ROE) is computed by dividing net earnings (or annualized net earnings for annualized ROE) applicable to common shareholders by average monthly common shareholders' equity.

⁽²⁾ Return on average tangible common shareholders' equity (ROTE) is computed by dividing net earnings (or annualized net earnings for annualized ROTE) applicable to common shareholders by average monthly tangible common shareholders' equity.

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Tangible common shareholders' equity equals total shareholders' equity less preferred stock, goodwill and identifiable intangible assets, excluding power contracts. Identifiable intangible assets associated with power contracts are not deducted from total shareholders' equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders' equity.

Management believes that ROTE is meaningful because it measures the performance of businesses consistently, whether they were acquired or developed internally.

The following table sets forth the reconciliation of average total shareholders' equity to average tangible common shareholders' equity:

	Year Ended			Average for the		Three Months Ended		
	November 2008	November 2007	November 2006	Nine Months Ended August 2008	Six Months Ended May 2008	August 2008	May 2008	February 2008
Total shareholders' equity	\$ 47,167	\$ 37,959	\$ 31,048	\$ 43,739	\$ 43,076	\$ 45,170	\$ 43,261	\$ 42,779
Preferred stock	(5,157)	(3,100)	(2,400)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)
Common shareholders' equity	42,010	34,859	28,648	40,639	39,976	42,070	40,161	39,679
Goodwill and identifiable intangible assets, excluding power contracts	(5,220)	(4,971)	(5,013)	(5,219)	(5,212)	(5,244)	(5,218)	(5,204)
Tangible common shareholders' equity	\$ 36,790	\$ 29,888	\$ 23,635	\$ 35,420	\$ 34,764	\$ 36,826	\$ 34,943	\$ 34,475

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					
	November 2008	November 2007	November 2006	August 2008	May 2008	February 2008
Total assets	\$ 884,547	\$ 1,119,796	\$ 838,201	\$ 1,081,773	\$ 1,088,145	\$ 1,189,006
Adjusted assets ⁽¹⁾	528,161	745,700	540,683	621,574	651,039	786,646
Total shareholders' equity	64,369	42,800	35,786	45,599	44,818	42,629
Tangible equity capital ⁽²⁾	64,186	42,728	33,517	45,384	44,541	42,428
Leverage ratio ⁽³⁾	13.7 x	26.2 x	23.4 x	23.7 x	24.3 x	27.9 x
Adjusted leverage ratio ⁽⁴⁾	8.2 x	17.5 x	16.1 x	13.7 x	14.6 x	18.5 x
Common shareholders' equity	\$ 47,898	\$ 39,700	\$ 32,686	\$ 42,499	\$ 41,718	\$ 39,529
Tangible common shareholders' equity ⁽⁵⁾	42,715	34,628	27,667	37,284	36,441	34,328
Book value per common share ⁽⁶⁾	\$ 98.68	\$ 90.43	\$ 72.62	\$ 99.30	\$ 97.49	\$ 92.44
Tangible book value per common share ⁽⁷⁾	88.00	78.88	61.47	87.11	85.16	80.28

⁽¹⁾ Adjusted assets excludes (i) low-risk collateralized assets generally associated with the matched book and securities lending businesses and federal funds sold, (ii) cash and securities segregated for regulatory and other purposes and (iii) goodwill and identifiable intangible assets, excluding power contracts. Identifiable intangible assets associated with power contracts are not deducted from total assets in order to be consistent with the calculation of tangible equity capital and the adjusted leverage ratio (see footnote 2 below). The following table sets forth the reconciliation of total assets to adjusted assets:

	As of					
	November 2008	November 2007	November 2006	August 2008	May 2008	February 2008
Total assets	\$ 884,547	\$ 1,119,796	\$ 838,201	\$ 1,081,773	\$ 1,088,145	\$ 1,189,006
Deduct: Securities borrowed	(180,795)	(277,413)	(219,342)	(302,676)	(298,424)	(294,047)
Securities purchased under agreements to resell, at fair value and federal funds sold	(122,021)	(87,317)	(82,476)	(135,415)	(133,372)	(109,900)
Add: Trading liabilities, at fair value	175,972	215,023	155,805	186,441	182,869	230,060
Less derivative liabilities	(117,695)	(99,378)	(65,496)	(103,904)	(98,022)	(118,776)
Subtotal	58,277	115,645	90,309	82,537	84,847	111,284
Deduct: Cash and securities segregated for regulatory and other purposes	(106,664)	(119,939)	(80,990)	(99,430)	(84,880)	(104,496)
Goodwill and identifiable intangible assets, excluding power contracts	(5,183)	(5,072)	(5,019)	(5,215)	(5,277)	(5,201)
Adjusted assets	\$ 528,161	\$ 745,700	\$ 540,683	\$ 621,574	\$ 651,039	\$ 786,646

⁽²⁾ Tangible equity capital equals total shareholders' equity and junior subordinated debt issued to trusts less goodwill and identifiable intangible assets, excluding power contracts. The firm does not deduct identifiable intangible assets associated with power contracts from total shareholders' equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders' equity. The firm considers junior subordinated debt issued to trusts to be a component of its tangible equity capital base due to certain characteristics of the debt, including its long-term nature, the firm's ability to defer payments due on the debt and the subordinated nature of the debt in the firm's capital structure. The following table sets forth the reconciliation of total shareholders' equity to tangible equity capital:

	As of					
	November 2008	November 2007	November 2006	August 2008	May 2008	February 2008
Total shareholders' equity	\$ 64,369	\$ 42,800	\$ 35,786	\$ 45,599	\$ 44,818	\$ 42,629
Add: Junior subordinated debt issued to trusts	5,000	5,000	2,750	5,000	5,000	5,000
Deduct: Goodwill and identifiable intangible assets, excluding power contracts	(5,183)	(5,072)	(5,019)	(5,215)	(5,277)	(5,201)
Tangible equity capital	<u>\$ 64,186</u>	<u>\$ 42,728</u>	<u>\$ 33,517</u>	<u>\$ 45,384</u>	<u>\$ 44,541</u>	<u>\$ 42,428</u>

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

⁽⁴⁾ The 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 identifiable intangible assets, excluding power contracts. The firm does not deduct identifiable intangible assets associated with power contracts from total shareholders' equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders' equity. The following table sets forth the reconciliation of total shareholders' equity to tangible common shareholders' equity:

	As of					
	November 2008	November 2007	November 2006	August 2008	May 2008	February 2008
Total shareholders' equity	\$ 64,369	\$ 42,800	\$ 35,786	\$ 45,599	\$ 44,818	\$ 42,629
Deduct: Preferred stock	(16,471)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)
Common shareholders' equity	47,898	39,700	32,686	42,499	41,718	39,529
Deduct: Goodwill and identifiable intangible assets, excluding power contracts	(5,183)	(5,072)	(5,019)	(5,215)	(5,277)	(5,201)
Tangible common shareholders' equity	<u>\$ 42,715</u>	<u>\$ 34,628</u>	<u>\$ 27,667</u>	<u>\$ 37,284</u>	<u>\$ 36,441</u>	<u>\$ 34,328</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					
	November 2008	November 2007	November 2006	August 2008	May 2008	February 2008
Common shares outstanding, including RSUs granted to employees with no future service requirements	485.4	439.0	450.1	428.0	427.9	427.6

(in millions)

Pro Forma Return on Average Tangible Common Shareholders' Equity

(\$ in millions)

Pro forma ROTE is computed by dividing pro forma net earnings applicable to common shareholders by pro forma average tangible common shareholders' equity.

Pro forma results exclude results from: i) the firm's Principal Investments operating segment, ii) non-investment-grade credit origination activities, iii) residential and commercial mortgage loans and securities and iv) the impact of changes in the firm's own credit spreads on unsecured borrowings for which the fair value option was elected. In addition, compensation and benefits expense has been increased by 48% of these adjustments and the provision for taxes has been increased to reflect an effective income tax rate of 30% for all of the periods below.

Management believes that it is meaningful to review ROTE, with the adjustments noted above, in order to evaluate the performance of the firm's underlying franchise activities for the year ended 2008.

The following table sets forth the reconciliation of reported to pro forma net earnings applicable to common shareholders:

	Year Ended November 2008			Nine Months Ended August 2008			Six Months Ended May 2008			Three Months Ended February 2008		
	As Reported	Pro Forma Adjustments	Pro Forma	As Reported	Pro Forma Adjustments	Pro Forma	As Reported	Pro Forma Adjustments	Pro Forma	As Reported	Pro Forma Adjustments	Pro Forma
Net revenues	\$ 22,222	\$ 8,914	\$31,136	\$ 23,800	\$ 4,245	\$ 28,045	\$ 17,757	\$ 2,876	\$ 20,633	\$ 8,335	\$ 2,532	\$ 10,867
Compensation and benefits	10,934	4,279	15,213	11,424	2,038	13,462	8,523	1,380	9,903	4,001	1,215	5,216
Non-compensation expenses	8,952	-	8,952	6,441	-	6,441	4,259	-	4,259	2,191	-	2,191
Total Operating Expenses	19,886	4,279	24,165	17,865	2,038	19,903	12,782	1,380	14,162	6,192	1,215	7,407
Pre-tax earnings	2,336	4,635	6,971	5,935	2,207	8,142	4,975	1,496	6,471	2,143	1,317	3,460
Provision for taxes	14	2,077	2,091	1,492	951	2,443	1,377	564	1,941	632	406	1,038
Net earnings	2,322	2,558	4,880	4,443	1,256	5,699	3,598	932	4,530	1,511	911	2,422
Preferred stock dividends	281	-	281	115	-	115	80	-	80	44	-	44
Net earnings applicable to common shareholders	\$ 2,041	\$ 2,558	\$ 4,599	\$ 4,328	\$ 1,256	\$ 5,584	\$ 3,518	\$ 932	\$ 4,450	\$ 1,467	\$ 911	\$ 2,378

The following table sets forth the reconciliation of total shareholders' equity to pro forma tangible common shareholders' equity and pro forma ROTE:

	Average for the			
	Year Ended November 2008	Nine Months Ended August 2008	Six Months Ended May 2008	Three Months Ended February 2008
Total shareholders' equity	\$ 47,167	\$ 43,739	\$43,076	\$ 42,779
Preferred stock	(5,157)	(3,100)	(3,100)	(3,100)
Common shareholders' equity	42,010	40,639	39,976	39,679
Goodwill and identifiable intangible assets, excluding power contracts	(5,220)	(5,219)	(5,212)	(5,204)
Tangible common shareholders' equity	36,790	35,420	34,764	34,475
Pro forma adjustments ⁽¹⁾	912	679	524	228
Pro forma tangible common shareholders' equity	\$ 37,702	\$ 36,099	\$35,288	\$ 34,703
Pro forma annualized return on average tangible common shareholders' equity	12%	21%	25%	27%

⁽¹⁾ Reflects the impact on monthly average tangible common shareholders' equity of the adjustments to net earnings to common shareholders. Quarterly adjustments were attributed to the last month of each respective quarter.