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Options Group 2005 Global Financial Market Overview & Compensation Report

Options Group

LETTER FROM OUR MANAGING PARTNERS

October 2005

To our clients and friends,

This document is the culmination of six months of work done by over 75 of our consultants and research professionals to help clients make 2005 compensation decisions and develop their human resource plans for 2006. Our Options Group Intelligence Unit has captured information about business performance, people moves, recruitment trends and compensation practices using our global database of 250,000 industry professionals, interviews with senior executives, and media sources.

With these data points, Options Group was able to make thorough assessments of expected compensation by product category, by region and by bank. Of course, since many firms haven't finalized their bonus pool plans and 2006 budgets, these estimates may be used by hiring managers and unit heads as a guide post to set bonuses up and down their company's organizational charts.

Options Group is committed to delivering value-added market intelligence and strategic consulting as well as executive search services. We believe our clients value firms who have rapid cycle times and can complete searches and market intelligence projects in weeks rather than months. This year's report, with over 125 pages from our Options Group Intelligence Unit, may seem daunting, but after receiving feedback from last year's survey we decided that drilling down to even further depths was warranted as we head into this year's bonus compensation season. We hope you agree.

If any client or friend would like Options Group to expound on any particular subject in this report, please contact any of our managing partners listed in this report or visit www.optionsgroup.com. Please also feel free to provide us with any feedback – both positive and constructive – so we can make future compensation analysis reports even better.

Sincerely,

The Managing Partners

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ABOUT OPTIONS GROUP

Options Group is a leading global executive search and strategic consulting firm for the financial services industry. Over the past thirteen years, the company has successfully carried out placements of mid- to senior-level personnel in all areas of the financial services industry for a range of international financial institutions. With over 70 consultants worldwide, Options Group has a handle on key competencies in the financial field and is at the cutting edge of global hiring and compensation trends in capital markets, derivatives, equities, investment banking and technology. Options Group has placed 2,500 professionals across five continents since 2000.

Our Options Group Intelligence Unit completed the 2005 Global Financial Market Overview and Compensation Report. Eric Moskowitz, Options Group's Director of Content and Development, wrote, edited and compiled it. Our intelligence unit, headed by Darshan Maralanda, mined the company's integrated global database, which is consistently updated with breaking news by a dedicated research team. All compensation tables include estimated total pay levels for 2005. **For further information on compensation and hiring trends, market-mapping and succession-planning, please contact the following consultants:**

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Global Markets Overview

Global Markets Overview

GLOBAL MARKETS OVERVIEW

In around 90% of the product areas dissected in this report, junior to mid-level employees will be receiving relatively similar total pay to last year. It's the discrepancy in total compensation among sales, trading, banking and technology personnel on the senior level that hiring managers and unit heads are concerned about the most come bonus season.

One thing is for sure: Star commodities producers at Goldman Sachs and Morgan Stanley will sit on the top of the bonus pool pyramid alongside partners, senior bankers and prop traders. Total comp for these select few could hit $25 million, or even $40 million, based on the estimated size of that desk's P&L.

In this age of lightning-fast technology and trading, relationships do and will still matter. **"Ultimately, it will come down to who has the best client relationships globally and who can learn to cross-sell products the fastest," Options Group Intelligence Unit was told by one global fixed income head at a major U.S. investment bank.** The increasing similarity between fixed income and equity desks to give clients one-stop shopping will also likely result in further consolidation next year. In terms of hiring trends, the five biggest US securities firms added more than 8,100 jobs, or 5%, in the past year as trading revenue increased and corporate takeovers and stock sales surged to the highest levels since 2000. Most of the new hires are recent college or business school graduates.

Another important element that will impact bonus pools is litigation costs. Over $7 billion has been spent to cover Enron-related bills alone and Citigroup and JPMorgan Chase each paid over $2 billion to settle claims. CIBC's investment banking unit said it would cut bonuses because it took a $1.7 billion loss to pay legal costs related to the failed energy trader.

Firms also are still wrestling with the diversity issue after having been slapped with costly lawsuits over the last couple of years. Banks have made great strides this decade in terms of hiring and promoting minorities, but the fact remains that 79% of all executives were still white males as of the end of 2003, according to the Securities Industry Association.

Several director-level employees have found that senior managing director slots are already taken, making it hard for directors to move up to coveted positions within many firms. With the disparity between star producers and "everyone else" growing, directors are hopping to other firms to land that jump in pay. The trend worldwide in 2004 was to keep a lid on compensation, but this year those in key areas like equity derivatives, prime brokerage (especially in Europe), investment banking and commodities and mortgage trading will likely see handsome checks come bonus season at their respective firms. **While financial institutions are concentrating almost solely on more junior-level hires in the fourth quarter, buyside firms – especially hedge funds – are now actively seeking senior-level talent so they can come on board at the start of the trading year in 2006.**

COMPENSATION

Options Group Intelligence Unit estimates average top-tier total compensation will be 20% higher in 2005 than last year. Due to the lack of experienced personnel in the Asia-Pacific region, total pay increases will be in the 20% to 25% range there. In Europe, total comp will rise 20% and in the US, pay will jump 15 to 20% on average. Obviously, there will be a wide range of total pay, with compensation levels significantly higher (and lower) than these averages. That's why this year Options Group broke down compensation levels by market product at all levels – from associates to global heads – in the pages that follow.

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2005-6 KEY TRENDS TO WATCH

- As bid-ask spreads tighten, equity-trading desks are diversifying their product offerings to include more fixed income, foreign exchange and credit professionals in order to generate greater two-way flows. Turmoil in the correlation market in May – due to the General Motors ratings downgrade and Kerkorian tender offer – highlighted the dangers of over-concentration in a single part of the capital structure.

- The mergers and acquisitions backlog is at its highest level in five years, insuring robust investment banking revenue through at least the first half of 2006. Private equity activity also should continue to trend higher.

- The derivatives market is now so large and liquid that even outgoing Fed Chairman Alan Greenspan made a note of its increasing influence earlier this year. Overall amounts outstanding of the global OTC derivatives market rose to $248 trillion by the end of December 2004. Equity derivatives in particular are seeing tremendous growth in Europe and Asia.

- The traditional post-bonus hiring season lasted longer than in previous years, as banks continued to try and lure top producers through at least the end of July, according to the Options Group Intelligence Unit.

WHAT'S HOT! **WHAT'S NOT!**

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EUROPE

The stock market is often a good leading indicator of which region is having the best year. While high oil prices put the U.S. and Asian markets in a state of uncertainty, European stocks shot up 10% in the second quarter, almost another 10% in the third quarter, and trounced their regional rivals through September.

Compensation, in this year more than others, will reflect this stock performance gap and The City should see larger payouts than Wall Street or Otemachi in many areas. The big market opportunities in the U.S. last year – namely prime brokerage and commodities trading – took the Continent by storm in 2005. U.S. banks spent much of the year staffing up in Europe just to try and keep up with their poaching competitors across the pond.

The pace of hiring this fall has been so great that professionals are concerned about what will be left for them in the bonus pool by the end of 2005, according to the Options Group Intelligence Unit.

Expectations are high for European professionals one year after banks "talked down" bonus sizes with traders and sales staff in 2004. The first two quarters of 2005 were very busy for mid- to senior-level people and talk began earnestly about bonuses in September.

In the months of July and August, however, the continent went through the same kind of weak trading performance experienced by many U.S. banks in the second quarter. European unit heads therefore were concentrating during the month of September on keeping their top-line numbers, or "profit books," high and worrying less about longer-term projects.

COMPENSATION

Overall, bonuses on average should rise 20% higher than last year, according to the Options Group Intelligence Unit.

While oil traders and bankers are in great demand in the U.S., it's the power and gas players that are attractive to banks in Europe. In the U.K., M&A activity volume reached $164 billion through mid-September, compared with $169 billion for all of 2001, according to Dealogic. **Bankers of all seniority levels are attractive and will receive the kind of 20 to 30% bonuses their fixed income counterparts made in 2004. In the third quarter, Europe accounted for a larger proportion of announced deals than the U.S. for the first time since the end of 2003.** The biggest was Gas Natural SDG SA's 22 billion-euro ($26.5 billion) hostile bid for Endesa SA in Spain.

Bankers with mid-market company relationships are especially in demand because there has been a tremendous amount of liquidity events among firms outside the FTSE 350. In Germany, where the middle-market is called the "Mittel-Standt," banking activity can lead to other business. A bank that advises a mid-market company on its sale to a larger entity, for example, is much more likely to handle the private client business of the individuals who sold the business.

High net worth individuals traditionally use mid-market brokerage firms in Europe and bigger banks are looking to consolidate this area to gain these clients, according to the Options Group Intelligence Unit. The same theory holds for why prime brokerage business is so valuable to obtain. As hedge funds increasingly add private equity investments to their long/short positions, the prime brokers of choice in Europe (UBS, Goldman Sachs, Morgan Stanley and CSFB) are ideally placed to win advisory business at companies with hedge fund stakeholders, literally in the back office.

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The hedge fund activism observers saw Stateside in 2004 may also become an increasing factor in Europe in late 2005 and into 2006. With so many state-run entities and regulatory ordinances in Europe, it's only a matter of time before hedge funds play a more active role in corporate decision-making. Twenty-five percent of all trading volume on Germany's DAX, for example, comes from hedge funds. Banks will continue to set up and expand their internal prop desks and increase products across the board to increase bottom-line performance. Due to Germany's constantly evolving banking culture, hedge funds also have stepped up the pace of buying portfolios of non-performing loans in the country.

2006 OUTLOOK

Hiring trends will be focused primarily on the equity side of derivatives, prime brokerage, private equity and advanced trading technologies. Options Group Intelligence Unit forecasts that Goldman, Merrill Lynch and UBS are slated to be significant hirers in the region. Experienced foreign exchange personnel will also be in strong demand from top-tier banks.

European banks like Barclays and UBS should see significant salary jumps because they have taken leadership positions in the lucrative structured products market. A big trend to watch is banks snapping up mid-market brokerage boutiques in Europe to assist in their wealth management expansion plans in the region.

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U.S.

Third-quarter fiscal numbers from the Big Four U.S. securities firms – Lehman Brothers, Bear Stearns, Morgan Stanley and Goldman Sachs – dramatically changed the bonus compensation outlook for all firms. **"It's a whole new ballgame," a bank's compensation head told the Options Group Intelligence Unit in late September after the four banks reported their results.**

While U.S. employees will likely see relatively lower bonus payouts than their European and Asian counterparts, compensation estimates rose after Lehman Brothers and Goldman Sachs reported fiscal third-quarter earnings that were approximately 80% higher than a year ago.

COMPENSATION

Overall, bonuses should be 15 to 20% higher on average than last year among the top-tier banks, according to the Options Group Intelligence Unit. That's lower than Europe, but there will be a significant number of exceptions to this trend in key product areas like equity derivatives, equity proprietary trading, investment banking, prime brokerage and private equity.

U.S. headcounts are up significantly over the last two years. After increasing payrolls 48% in the late 1990s, the biggest New York securities firms eliminated 89,000 jobs following the technology stock bust in 2000 that caused a three-year slump in revenue from equity sales and merger advice. The U.S. securities industry had 796,000 employees at the end of August, up from the low of 751,000 in October 2003, according to the U.S. Bureau of Labor Statistics. New York-based Lehman Brothers, which reported a 74% earnings increase in its fiscal third quarter ending in August, said it hired 1,330 people worldwide in its fiscal third quarter. Lehman's compensation and benefits expense totaled $5.4 billion in the nine months through August, up 25% from a year ago.

The hottest product market continues to be equity derivatives. **Anyone on the derivatives supply chain - from origination to the structured product salesperson to the Ph.D. behind the trade - will see substantial pay hikes.** Commodities traders as well as media and energy bankers should also do quite well in the U.S. Prime brokerage, mortgage and commodities trading, asset-backed securities all continued to show strong growth. Government and convertible bonds failed to extend their bullish runs.

The biggest dilemma facing U.S. and European banks is striking the right risk/reward balance. U.S. banks led this equity derivatives charge when they realized they worked in a time of low volatility. The Market Volatility Index (VIX) is at record low levels and has been in a state of decline for over three years. The rest of the world spent much of 2005 – and will spend much of 2006 – catching up by hiring away talent and building up their own derivatives practices.

It will be interesting to see how all this plays out because product cycles are getting shorter and shorter. **Aggregated market-risk levels of the 10 largest US-centric banks stood at $326 million after the second quarter – the highest level ever, according to the Boston Consulting Group.** With record profits for high-risk portfolio firms like Lehman and Goldman in the third fiscal quarter, one would assume risk levels are only headed higher across the industry.

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2006 OUTLOOK

Hiring trends will focus primarily on the equity side of derivatives as well as algorithmic trading and front-office technology that will build these advanced execution systems. US-based hedge fund and leveraged buyout firms should continue to extend their wings globally as well. LBO specialists, who borrow about two-thirds of the purchase price to finance acquisitions, announced $50 billion of takeovers in the third quarter of 2005, bringing the full-year amount to a record $173 billion, *Bloomberg* data show. The second-biggest LBO in history was disclosed last month - Carlyle Group, Clayton Dubilier & Rice and Merrill Lynch's $15 billion acquisition of Hertz Corp. from Ford Motor Co.

US EQUITY OFFERINGS

2005 (THRU 10/01/2005)				2004			
Underwriter	**Share** *(%)*	**Total** *($MM)*	**Fees** (%)	**Underwriter**	**Share** *(%)*	**Total** *($MM)*	**Fees** (%)
Morgan Stanley	13	11,746	3.61	**Morgan Stanley**	15.2	19,898	3.617
Citigroup	11.5	10,410	4.142	**Goldman Sachs**	14.6	19,132	4.197
Goldman Sachs	10.8	9,816	3.666	**Citigroup**	10.7	13,929	3.678
Merrill Lynch	10.1	9,147	4.263	**Merrill Lynch**	9.6	12,527	4.729
Lehman Brothers	9.9	8,984	4.002	**JPMorgan**	8.6	11,260	4.015
JPMorgan	7.9	7,183	3.942	**Lehman Brothers**	7.3	9,500	4.306
CSFB	6.6	6,022	3.795	**CSFB**	7	9,119	4.568
UBS	5.8	5,234	4.8	**UBS**	5.3	6,872	4.891
Bank of America	3.7	3,384	4.412	**Friedman Billings Ramsey**	3.4	4,393	6.14
Bear Stearns	3	2,756	4.638	**Bank of America**	3	3,906	4.295
Industry		90,653	4.257	**Industry**		130,768	4.31

Source: Bloomberg.

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ASIA-PACIFIC *(JAPAN, CHINA, AUSTRALIA)*

Much expansion in Asia this year has echoed international trends, with fixed income derivatives, credit derivatives, structured credit, transition management, foreign exchange sales and proprietary trading leading the way. The big multi-year trend is obviously to get as big a foothold in China as possible. The entry point for most foreign firms is still Hong Kong, but increasingly Beijing is gaining traction as the locale du jour.

In 2004, the bulge-bracket firms increased their hirings in the region. This year, non bulge-bracket firms like Calyon, BNP Paribas and ABN Amro made many significant hires. The dearth of experienced personnel in Asia is becoming more and more of a factor for hiring managers, according to the Options Group Intelligence Unit.

Hedge funds increasingly became a hiring presence in 2005 as larger funds from the U.S. and Europe looked to expand their investment opportunities. Blackrock, Highbridge and Citadel, which have traded a lot of Asia Pacific volume from the U.S., are now looking to trade locally in the region. In Hong Kong, for example, Citadel said in early October it is looking to add 50 to 100 equity specialists in an initiative led by Tim Throsby, who recently joined the Chicago-based hedge fund from Lehman, where he was global head of equity derivatives.

Other regional trends include: **Singapore has become the epicenter for the region's commodities business.** JPMorgan Chase, for example, moved its distribution staff from Australia to Singapore even though the bank never had housed traders in the country. Australia is still predominately an M&A outpost and guarantees are back on the table for senior players.

South Korea will become a very interesting story next year in the global financial marketplace. Bulge-bracket firms like Merrill Lynch are getting their securities licenses there and Goldman Sachs may look to bulk up its market share there through acquisition.

Overall, bonuses should be 20 to 25% higher than last year on average among the top-tier banks, according to the Options Group Intelligence Unit.

JAPAN

In recent years the market has matured and Japanese firms have become wiser on profitability, which is shifting foreign firms into more specialized transactions. While the Japanese firms transact asset-backed commercial paper and asset-backed securities (ABS), foreign firms are specializing more on ABS and commercial mortgage-backed securities. **The re-emergence of second and third-tier banks in Japan following several years of a downturn led to more turnover in 2005.** Conversations with senior personnel indicate that local banks are going for market share as this is what they use to justify their existence to the Japanese government. **Shinsei Bank** and **Aozora Capital** are the most diversified and profitable locally. Shinsei is strong in ABS, Commercial Mortgage-Backed Securities (CMBS), Residential Mortgage-Backed Securities (RMBS) and investment banking, while Aozora is profitable in ABS, Asset-Backed Commercial Paper (ABCP) and CMBS.

Much of the hiring demand was to replace departing employees, although many banks did not replace one-for-one and in some cases hired candidates of lower seniority than those they lost as they attempted to contain hiring costs.

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Among the more high profile departures were **Hiroshi Wakutsu**, head of equity derivatives sales at Nikko Citigroup, who moved to Calyon, and took several people with him. A team of Japanese bond salespersons also left JPMorgan this year to start up the business at ABN Amro.

Japanese-speaking quants and credit and interest-rate structurers are among the most in demand. Leveraged finance, principal finance and securitization are also businesses banks are continuing to grow.

Barclays Capital is among the more aggressive banks building its fixed income and debt capital markets teams in the country, while **Royal Bank of Scotland** has been hiring in fixed income and **Merrill Lynch** has been hiring in equity and fixed income. Of the Japanese banks, **Mizuho** has been among the most active in hiring and raising its profile in the country, particularly in equities.

CHINA

Whether it's in fixed income, equities or investment banking, Mandarin speakers are in high demand. Chinese speakers with banking or trading experience who happen to be People's Republic of China (PRC) nationals are the most coveted of all. Initial public offering (IPO's) activity over the last year has made big headlines – especially the hotly-contested battles to lead the Bank of China and China Construction Bank IPO's – and approximately 75% of all Asia-Pacific IPO's this year (ex-Japan) will end up being Chinese companies.

This year, however, banks also have been busily expanding their fixed income and investment banking units as well. **"The sheer magnitude of potential business in China can't be ignored by the big banks," said one Options Group consultant in the region.** On the asset-side, banks are hiring people to sell products to investors, while in liability management, firms are seeking Mandarin speakers who have or can build senior relationships at corporations. **Morgan Stanley** and **Goldman Sachs** have each recently hired executive director-level fixed income relationship managers for liability management and new issuance.

The lack of qualified candidates has driven up compensation costs by as much 50% to 75% for those jumping firms, with employees also securing two-year guarantees.

Among investment banking divisions, bankers with corporate finance experience in the country, especially People's Republic of China nationals who have trained in Western MBA programs, are at the top of any bank's list of priorities. These professionals are in such short-supply that banks are paying high premiums for this type of talent. Some banks are hiring people that have worked as management consultants, lawyers, or accounting to train if they are unable to find appropriate candidates from competitors. Private equity firms, including the **Carlyle Group** and Singapore's own investment arm, **Temasek**, are hiring everyone from junior management consultants to senior relationship managers.

The fact of the matter is that Chinese companies want to hire, and work with, PRC nationals and the number of experienced personnel that meet this criteria and can develop solutions to improve flow can often be counted on one hand in some newer categories, according to the Options Group Intelligence Unit. Demand is also strong for credit structurers that can market to Chinese corporations.

Goldman Sachs and **Morgan Stanley** have the largest foreign-bank footprint in China. Merrill Lynch, UBS and CSFB also have built up big presences in the country. U.S. and European banks are busily buying minority stakes in China's commercial banks.

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The "Big Four" Chinese banks are **Bank of China, China Construction Bank, Industrial and Commercial Bank of China,** and **Agricultural Bank of China.** The Big Four make 57% of all corporate loans in the country, mostly to state-run ventures. They hold $1.8 trillion in deposits and bad loans are estimated to be at $122 billion, or 10.1% of total loans, according to *Business Week* data. Around 82% of all financing comes from bank loans, 11% treasury bonds, 5% equity (albeit with some very high-profile IPO's), 1% convertible bonds and 1% corporate bonds, according to the People's Bank of China.

There are around 32,000 "credit cooperatives" that are poorly capitalized and should be largely consolidated over the next decade. Mandarin-speaking bankers will be extremely attractive to firms in this endeavor.

AUSTRALIA

The Australian market has been dominated by merger and acquisition activity, and experienced execution people, particularly with between three and six years experience, are in hot demand. International banks dominate as domestic banks, with the exception of **Macquarie Bank**, lack big-league investment banking operations. **UBS** tops the league tables in the country, while Citigroup, JPMorgan, ABN Amro and Deutsche Bank are also strong.

Hiring has been related to building M&A teams, in addition to replacement hiring as people jump between firms. In addition to rising bonuses, some candidates have been awarded guarantees, which had not been offered in the country.

The credit markets are also picking up steam in Australia, with particular demand focusing on sales and distribution personnel with expertise and strong knowledge of structured products. Sales people in the country have thus far largely had broad fixed income knowledge, with a more recent move to more specialized expertise. Institutional investors have been so far slow to invest in structured credit.

One example of a rising salary is a vice president in structured finance who changed firms for a salary of AUD500,000, up from AUD400,000 at his previous job.

JPMorgan and Nomura have a strong distribution network for credit in the country. Domestic banks, dominated by ANZ, Westpac and the Commonwealth bank, have a strong presence in domestic bond vanilla issuance, making it difficult for some international firms to compete. CSFB this year pulled out of sales and trading of the bonds in the country, although it only had a small team.

Movement is also starting to pick up amongst interest-rate sales and traders, after several years of little change. Some of this has been due to new entrants in the market by banks including HBOS.

The equity market has continued to be strong amid rising stock prices. Transition management has been particularly hot as brokers view the business as a means of gaining flow, and bringing in equity business in volume, as most Australian mutual funds invest in stocks. In this field sales workers are in strong demand. It is likely that once banks have made the hires they need by next year, however, most demand will be sated.

LEAGUE TABLES

Through early October, **Nomura Holdings** still held the top spot in the global bond underwriting league tables, but was tied with **Citigroup** in terms of market share at 10.2%. Citigroup, which has done nearly twice as many bond issuances as Nomura, had moved up from third in 2004. Nomura further remained strong in international yen bond issues, topping second-quarter league tables as it had in 2004, after slipping to second place in the first quarter.

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Citigroup continued to lead Asia-Pacific equity and equity-linked issuance, buoyed by its strength in secondary offerings through the end of September. **UBS** and **Goldman Sachs** both jumped a notch to take second and third place, respectively, while Nomura slipped to fourth place, from second in 2004. **Merrill Lynch** hopped to fifth through the end of September, up from seventh for all of 2004. **JPMorgan** jumped from 10th to seventh during this time period. **Daiwa Securities** dropped from fifth in all of 2004 in equity and equity-linked issuance to 10th in the first three quarters of 2005.

In terms of **fees**, bond underwriting remained flat year-over-year (see chart), while equity and equity-linked underwriting fell to 3.3% in the first nine months of 2005 from 3.7% in 2004.

ASIA-PACIFIC BOND UNDERWRITING

2005 (THRU 10/6/2005)				2004			
Underwriter	Share (%)	Total ($MM)	Fees (%)	Underwriter	Share (%)	Total ($MM)	Fees (%)
Nomura Holdings	10.2	28,016	0.275	**Nomura Holdings**	11.9	37,882	0.263
Citigroup	10.2	27,820	0.302	**Daiwa Securities**	9.4	29,918	0.28
Daiwa Securities	10	27,262	0.268	**Citigroup**	8.7	27,820	0.352
Mizuho	6.2	16,856	0.317	**Mizuho**	6.6	21,036	0.282
Mitsubishi	5.3	14,386	0.287	**HSBC**	4.1	13,185	0.173
JPMorgan	4.6	12,723	0.651	**Deutsche Bank**	4.1	13,164	0.378
Deutsche Bank	4.6	12,588	0.348	**UBS**	3.9	12,277	0.498
HSBC	3.5	9,647	0.295	**Mitsubishi**	3.8	12,221	0.342
UBS	3.2	8,754	0.491	**JPMorgan**	3.5	11,234	0.51
Barclays Capital	3	8,201	0.217	**Goldman Sachs**	3.4	10,813	0.363
Industry		273,895	0.327	**Industry**		318,622	0.329

Source: Bloomberg.

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Fixed Income Overview

FIXED INCOME OVERVIEW

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FIXED INCOME OVERVIEW

Fixed-income units around the world were expecting 2005 to be another strong year with robust earnings results. The first quarter didn't disappoint: Banks posted bumper first-quarter profits driven by fixed income, topping a two-year run of growth following the trough of equity markets in March 2003. The fixed-income departments of the top ten global banks accounted for 40% of the firms' combined revenue in the fiscal first quarter and spurred a 16% jump in income.

But the flatter US yield curve hurt the popular carry-trade business, hampering second-quarter growth across the industry. Bank of America reported a 77% decline in fixed-income trading in its second quarter and Credit Suisse said in May it expected to see market activity slow considerably. By the summer, banks faced a challenging market environment as the spread between short-term and long-term interest rates in the United States further declined to 25 basis points. Firms that fared well despite industry-wide difficulties included Lehman Brothers and Merrill Lynch.

Banks including Royal Bank of Scotland and Barclays Capital continued to aggressively build their fixed-income presence, poaching employees from the bulge-bracket firms and creating further demand (and increased comp levels) for experienced employees. Barclays successfully zeroed in on filling structured finance and derivatives positions.

Analysts noted BNP Paribas also has made inroads into the fixed-income derivatives business and could be able to consolidate its position. The second-quarter downturn negatively impacted JPMorgan Chase, HSBC Holdings, Deutsche Bank, UBS and CSFB in their debt, currency and commodity markets.

Quotable: *"Absent any improvements in June, we expect our trading results to be worse this quarter than they were in the third quarter of the last year, which was a terrible quarter," JPMorgan Chase President Jamie Dimon said June 1, 2005.*

The trend of sell-side personnel moving to the buy-side continued this year with many employees in securitization and ABS moving to asset managers, including real money accounts. Andy Clapham, who left Bear Stearns in February as head of securitization, joined Investec in July where he was responsible for building a team based in Europe to invest in assets including collateralized debt obligations (CDOs), RMBS, CMBS and leveraged loans.

2006 OUTLOOK

Portions of the credit market – namely capital structure arbitrage and credit default swaps - still haven't fully recovered from the one-two punch of the Kirk Kerkorian tender offer for General Motors followed by the rating agency downgrades of huge debt issuers Ford and GM just hours later. Banks are certainly better placed to weather a sustained slowdown in fixed income than in 1994, when bond income fell 40% year-over-year. **By the end of September 2005, it appeared that the second-quarter trading revenue drop was more of a blip than a worrying trend.**

The latest downturn may very well have presented a large opportunity for banks such as Merrill Lynch, which like RBS and Barclays, is intent on building market share. The relatively equal number of banks looking to hire versus the handful of firms with reduced profits means overall compensation will be hard-pressed to significantly surpass the record pay of 2004. Of course, numerous exceptions will be made to keep talented personnel in commodities, emerging markets and ABS trading.

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COMPENSATION

- **Up 10% over 2004 on average**
- **Up 10-15% in Europe, 10% in US and 5-10% in Asia-Pacific**

Credit derivatives traders as well as mortgage and asset-backed securities salespeople should especially enjoy bonus season. Commodities and foreign exchange traders, especially in Latin America, Eastern Europe and Asia Pacific, also made banks money. Tight credit spreads and lower volatility in some industries – with the obvious exceptions of autos and energy – dried up opportunities in other credit products.

LEAGUE TABLE

GLOBAL BOND UNDERWRITING

2005 (THRU 10/01/05)				2004			
Adviser	**Share** *(%)*	**Total** *($MM)*	**Fees** *(%)*	**Adviser**	**Share** *(%)*	**Total** *($MM)*	**Fees** *(%)*
Citigroup	11.9	44,447	0.17	**Merrill Lynch**	15.1	82,146	0.10
JPMorgan	9.6	35,984	0.16	**Citigroup**	10.4	56,594	0.27
Deutsche Bank	8.9	33,125	0.13	**Morgan Stanley**	10.2	55,423	0.23
Goldman Sachs	8.8	32,830	0.21	**JPMorgan**	8.2	44,519	0.35
Morgan Stanley	8.6	32,052	0.24	**Deutsche Bank**	8.1	44,019	0.23
Merrill Lynch	7.9	29,436	0.12	**Lehman Brothers**	6.4	35,013	0.24
Lehman Brothers	7.7	28,883	0.18	**Goldman Sachs**	6.4	34,771	0.21
UBS	6	22,516	0.22	**HSBC**	5.7	31,069	0.19
CSFB	5.5	20,550	0.24	**Barclays Capital**	5.5	29,768	0.26
HSBC	5.3	19,705	0.19	**CSFB**	4.6	24,883	0.21
Industry		373,593	0.19	**Industry**		544,196	0.21

Source: Bloomberg.

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COMMODITIES

Goldman Sachs and Morgan Stanley continue to dominate the commodities market even as surging oil prices and increasing volatility hastened the efforts of competing banks to recruit top traders in a bid to close the gap. Both Goldman Sachs and Morgan Stanley are estimated to generate more than $1 billion a year in revenue in the category.

Returns at both firms fell in the second quarter. Trading revenue at Morgan Stanley fell 44% in the second quarter from a near-record a year earlier after "strength in oil products was more than offset by a decline in North American electricity trading." Goldman said in the same month that revenue for trading "just stagnated" in the same quarter.

Investment banks including JPMorgan continued to make a number of senior hires to strengthen further their commodity teams and capabilities. JPMorgan hired George "Beau" Taylor as global head of gas and power trading and sales from Morgan Stanley. Lehman made a number of key hires in August, including their head of commodity trading & sales, Brian Manson, from TD Securities and Kevin Paley as head of power from Cinergy.

UBS also is seeking to build out its commodities business. Clive Standish, chief financial officer of UBS, said during a conference call in May that his bank is looking to build up its energy and commodities trading business after its first-quarter trading revenue lagged behind that of rival firms. Soon afterwards, UBS lost two senior managers, Mark Ritter and Louise Kitchen, to Deutsche Bank.

GLOBAL HIRING TRENDS

In Europe, Merrill Lynch, Deutsche Bank and Barclays Capital have been the most aggressive hirers while in the US it has been more evenly spread between JPMorgan, Merrill Lynch, Deutsche Bank and Barclays Capital. Demand in Europe is now concentrating on natural gas traders, crude and distillate traders. In the U.S., the demand is even higher for the same product classes. More recently there has been renewed interest in finding good commodity-linked financiers. This business has been stagnant for sometime with only 10 deals completed in 2004 compared with 300+ in 2000.

Bank hiring has been stymied by the lack of strong candidates with less than five years experience, as banks have abstained from mass hiring in this area for the last decade, as other asset classes gained more attention. Thus, as those in the market rose to managerial positions, there was little need to supplement the medium ranks, leaving a dearth of talented up and comers. It is not enough to be a good marketer or trader in this market. Banks are looking for edges, motivation and energy in candidates and have become more exacting in whom they hire.

The commodities business has been brought in from the cold and become more integrated into the bank's overall business. Nearly all offer commodities as part of the product cluster available to clients.

Compensation for commodity candidates is rising on demand with an ever larger gap between 1st and 2nd tier prospects. Two-year guarantees are feasible with most changes gaining a 40% premium.

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OIL AND GAS

Oil and gas traders remained the most in demand. Continuing rises in the price of crude oil, however, has led to some speculation that banks may be building the business just as it is peaking.

Hedge funds have increasingly added oil and gas traders as an attempt to diversify from low volatility asset classes, such as credit and interest-rate products, to commodities, which resulted in increasing competition for experienced traders. This led to more traders being awarded extended guarantees of two years or longer. Some banks may have difficulty in attracting top talent, however, as the result of yo-yo records of entering and exiting the businesses.

COMPENSATION

- **Up 30% on average versus 2004, with higher payouts in Europe and potentially higher in Asia because the best people have already made a big move in the last 3 years and are unwilling to move again**
- VP-level executives and higher can expect to receive between 8 to 14% "pay out on book." At Goldman Sachs or Morgan Stanley, a star trader could receive $25 million-plus while a tier 2 bank star could take home $3 to 6 million, on average, according to the Options Group Intelligence Unit.
- Sales, marketing and structuring professionals at the same level can expect a bonus of 10% of book.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)*

		Base	Bonus
Associate	1-3 Years	**70-90K**	**80-100K**
	3rd Year +	**80-100K**	**75-100K**
VP	1-3 Years	**100-125K**	**150-200K**
	3rd Year +	**125K**	**300-350K**
Director	1-3 Years	**125-150K**	**400-450K**

	Total Compensation
Global Head	**5-7 MM**
Head of Americas	**1-1.25 MM**
Head of Europe	**800K-1MM**
Head of Asia	**700-900K**

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*

		Base	Bonus
Associate	1-3 Years	**70-90K**	**80-100K**
	3rd Year +	**80-100K**	**80-120K**
VP	1-3 Years	**125K**	**150-250K**
	3rd Year +	**125-150K**	**400-500K**
Director	1-3 Years	**150K**	**550-650K**

	Total Compensation
Global Head	**6-8 MM**
Head of Americas	**2-3 MM**
Head of Europe	**1.5-2.5 MM**
Head of Asia	**1.5-2 MM**

* Most managing directors and unit heads earn bases of around $250K.

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PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Randy Balhorn	MD, Global Head of Oil	DTE Energy	Merrill Lynch	Houston
Tim Proffitt	Head, Regional Capital Structuring	Societe Generale	BP Houston	Houston
David Beaton	Energy and Coal Trader	MSDW	Tudor	London
William Buchanan	Senior Oil Trader	Standard Bank	BNP Paribas	London
Ted Capuano	VP, Energy Banking	Citigroup	Merrill Lynch	London
Jamie Clark	Continental Power Trader	RWE Trading	Accord Energy	London
Christian Coles	Head, Natural Gas Trading	Own fund	Marquarie Bank	London
David Fitzsimmons	CEO	BP Energy	Novera Energy	London
Hector Freitas	Exec Dir, Energy Der. Mktg.	Deutsche Bank	MSDW	London
Michel Kikano	Oil Prop Traders	Bank of America	BrevanHoward	London
Kieren McKeever	Oil Options Trading	Titanium Capital	Citadel	London
Richard Noble	MD, European Power I - Banking	RBC	Lehman	London
Diego Parilla	MD, Commodity Investor Sales	Goldman Sachs	Merrill Lynch	London
Kurt Rohner	Gas Oil Trader	Neste	BofA	London
Axle Schubert	MD, Global Head of Options	MSDW	Merrill Lynch	London
Thomas Simpson	Physical Distillates Trader	RWE Trading	Morgan Stanley	London
Alex Thisthlewaite	Head, Coal and Oil	Deutsche Bank	RWE Trading	London
Jonathan Yarrow	UK Power Trader	BHP Billiton	Goldman Sachs	London
Rick Boland	Head, Oil Trading	Deutsche Bank	Lehman	New York
Parker Drew	MD, Global Head of Gas	Own fund	JPMorgan	New York
Todd Edgar	MD, RV Fund	Tudor	JPMorgan	New York
Catherine Flax	MD, Global Head of Origination	UBS	JPMorgan	New York
William Hartz	Director and Senior Oil Trader	Bank of America	BNP Paribas	New York
Brian Manson	Head, Trading	TD Securities	Lehman	New York
Rita Nagle	MD and head of gas trading	Goldman Sachs	CSFB	New York
Chris Neidow	VP, Energy Marketer US	Deutsche Bank	JPMorgan	New York
Kevin Paley	Head, Power Trading	Cinergy	Lehman	New York
Beau Taylor	MD, Global Head of Power	MSDW	JPMorgan	New York
Brian Cummings	Head, Asian Marketing	Sempra Energy	ABN	Singapore
John D'Angelo	Senior Energy Trader	Mitsui & Co.	JPMorgan	Singapore
Christophe Gros	Energy Trading Manager	Total Singapore	BNP Paribas	Singapore
Mark Long	Head, Comms Sing	Citigroup	Merrill Lynch	Singapore
Jonathan O'Connor	Energy Trader	Deutsche Bank	Hetco	Singapore
Tadasu Miyazawa	Energy Trader	Mitsui	Goldman Sachs	Tokyo
Taro Tsksno	Energy Trader	Mitsui	Goldman Sachs	Tokyo
Jamie Manson	Power Market Professional	Morgan Stanley	GE's EFS	Toronto
Mark Dennes	VP, Integrated Energy Group	Fotris Capital	Bank of Tokyo	US
Peter Marquis	Power Market Professional	Lazard	GE's EFS	US

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CREDIT DERIVATIVES

Credit Derivatives – instruments that issue protection in the event a corporation defaults on its interest payments – became a much more commoditized "cash-like" product in 2005. Credit default swaps (CDS) were increasingly traded within the same book as the investment-grade credits they reference. There were some selective marquee trading hires in the credit derivatives space as firms have been looking to fill gaps by transitioning corporate bond traders to trade both. In addition, firms have seen a number of talented traders migrate to hedge funds.

The global credit derivatives market more than doubled in 2004 to a notional value of $8.42 trillion, mostly on demand for credit-default swaps, according to the *International Swaps and Derivatives Association.*

A major event in the market was Standard & Poor's General Motors/Ford ratings downgrade on May 5, just hours after Kirk Kerkorian's Tracinda Corp.'s tender offer for GM was announced. The credit derivatives market suffered as did those who had open correlation trades. The ratings downgrade disrupted trading in certain baskets of credit derivatives that traded in ways that contradicted elaborate models upon which trades had relied.

The larger banks, specifically JPMorgan in the US and Deutsche Bank in Europe, both took big hits from the downgrade related to their credit derivatives trades. Government regulators, namely the Securities and Exchange Commission, also have asked derivatives experts to testify to learn more about this increasingly transparent marketplace this past summer.

2006 OUTLOOK

Capital markets divisions at the major firms no longer delineate between equities and fixed income as Chinese Walls that can't be breached. The proliferation of the U.S. structured products market will further blur the lines to make them asset-class neutral in most cases. Top producers will continue to ensnare the lion's share of bonus pools next year as increased government scrutiny and tight spreads will put a cap on what was a very active market in the spring of 2005.

COMPENSATION

- **Flat to 5% up globally on average**
- **Unlike in past years, compensation in credit derivatives will be very volatile with large gaps between outliers and average payouts.**
- **Those in sales and trading who did well can expect to be paid 10-15% higher than last year, while those who saw decreases in production and P&L can expect to be flat to down in 2005.**

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)*		Base	Bonus
Associate	1-3 Years	**65-75K**	**60-75K**
	3rd Year +	**75-90K**	**75-125K**
VP	1-3 Years	**90-110K**	**250-400K**
	3rd Year +	**100-125K**	**500-800K**
Director	1-3 Years	**125-155K**	**800-1MM**
MD		**250K**	**1.2-1.8M**

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*		Base	Bonus
Associate	1-3 Years	**65-75K**	**60-75K**
	3rd Year +	**75-90K**	**75-125K**
VP	1-3 Years	**90-110K**	**300-500K**
	3rd Year +	**100-125K**	**600-900K**
Director	1-3 Years	**150K**	**900K-1.3MM**
MD		**250K**	**1.5-2MM**

Sales	Total Compensation	Trading	Total Compensation
Global Head	**3MM**	**Global Head**	**4MM**
Head of Americas	**3MM**	**Head of Americas**	**3MM**
Head of Europe	**2MM**	**Head of Europe**	**2MM**

* Most unit heads earn bases of around $250K.

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Jaakob Gore	Credit Derivatives Trader	Morgan Stanley	Wachovia	Charlotte
Jeremy Barnum	Head: London Office	JPMorgan	BlueMountain Capital Management	London
Robert Boeheim	Credit Trader	Morgan Stanley	Royal Bank of Scotland	London
Malik Chaabouni	Co-Head, Synthetic Credit Structuring	JPMorgan	Merrill Lynch	London
Alan Dutch	Credit Trader	Lehman	RBS	London
Paul Horvath	Structured Credit Marketing	JPMorgan	Merrill Lynch	London
Malcolm Perry	Head of credit products	JPMorgan	Dresdner	London
Jane Privett	Credit Derivatives Sales	Deutsche Bank	Barclays	London
Derrick Smith	Head of NA Credit Derivatives Trading	UBS	Polygon Investment Partners	London
Declan Teirnan	Structured Products Marketer	HSBC	Deutsche Bank	London
Andre Vollman	Structured Finance	Standards & Poor's	Cairn Capital	London
Shiv Wallia	Senior managing director	JPMorgan	Bear Stearns	London
Marc Badner	Credit Sales	Morgan Stanley	RBS Greenwich	New York
Brian Baskin	Credit Derivative Sales	CSFB	Bank of America	New York

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PEOPLE MOVES (CONT'D)

NAME	TITLE	FROM	TO	LOCATION
Brian Bucchicio	Credit Derivative Sales	CSFB	RBS Greenwich	New York
Andy Brindle	Senior Advisor, Credit Derivatives	JPMorgan	MarketAxess	New York
Srini Dhulipala	Co-Head Credit Trading	Morgan Stanley	Bank of America	New York
Benjamin Ho	Credit Derivatives Trader	Lehman Brothers	JPMorgan	New York
Amar Kuchinad	MD, Head of Equity Derivatives Exotic Trading	Bear Stearns	JPMorgan	New York
Brian Langille	RV Prop	Commerzbank	Dresdner	New York
Jerry Levy	Director in high-grade credit sales	BNP Paribas	Sigma	New York
Pak Lui	Investment Grade Flow CDS	JPMorgan	Deutsche Bank	New York
Kevin Lydon	MD, Co-Head of European distressed debt	Merrill Lynch	CSFB	New York
Marius Maldutis	Head of Investment-Grade CDS Trading	Citigroup	Bank of America	New York
Dermot Murphy	MD, Distressed debt	Merrill Lynch	CSFB	New York
Sanjeev Puri	Credit Derivatives Sales	Unemployed	Lehman	New York
Brad Roberts	Credit Derivatives Trader	Morgan Stanley	Goldman Sachs	New York
Armin Rothauser	Credit Derivatives Trader	Morgan Stanley	RBS Greenwich	New York
Kai Seeger	Credit Derivatives trading	ABN Amro	Barclays	New York
Brian Stoker	CDO Structurer	Merrill Lynch	Citigroup	New York
Sevag Varatanium	Credit Derivatives Trader	Citigroup	Goldman Sachs	New York
Adam Durran	Credit Derivatives Trader	Calyon	Nomura	Tokyo
Hidetaka Nishida	Senior Trader, Single-Name Japanese CDS	Mizuho Securities	Barclays Capital	Tokyo

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EMERGING MARKET DEBT

"Putting people on the ground" has become a mantra among emerging market human resource heads in 2005. Demand for generalist sales people with experience across a range of asset-classes and products, including in equity, credit, foreign exchange and structured products has accelerated. Most banks are looking to build up their emerging markets origination efforts locally in Eastern Europe and Asia (ex-Japan). Hedge funds and private equity firms also are making deep inroads into Asia, especially China.

Traders with 3 to 5 years of specialized knowledge, especially in local currencies, are especially in great demand. **Placements have been easier in certain parts of the world than others. "Mexico City and Moscow aren't as attractive as Beijing or Buenos Aires to experienced EM traders and salespeople," says one Options Group consultant.**

In July, CSFB was named the best emerging markets debt house overall by *Euromoney* magazine, which said the bank's "breadth and depth" was "second to none". The global unit head is Paul Tregidgo.

Barclays, Britain's third-largest bank by assets, continued to prove itself to be an aggressive player in 2005, and is intent on growing in emerging markets like China and India. Barclays Capital, which makes about a quarter of the bank's overall profit and is led by Robert Diamond, made a large number of hires in emerging markets in 2005. One example was the hiring of Marat Djafarov in August from Dresdner to run its European emerging markets corporate research group.

European and US banks, including U.K. rivals HSBC and RBS, have spent more than $6 billion buying stakes in China's lenders since the start of last year, seeking to profit in a market where household savings total $1.65 trillion. RBS, for example, teamed up with Merrill Lynch and the Li Ka-Shing Foundation last week to buy 10% of Bank of China, the nation's second-largest bank, for $3.1 billion.

2006 OUTLOOK

The emerging markets business should see significant upside in 2006 as new money kick-starts product areas other than foreign exchange. The Asia-Pacific region, especially, received a lot of attention in the third quarter of 2005. The Options Group Intelligence Unit now predicts that the region will see a tremendous influx of money and personnel in 2006.

COMPENSATION

- **Overall pay will be up 20% on average compared to 2004**

The exception to the "putting people on the ground" trend is in foreign exchange (FX): Top New York-based FX traders of local Latin American currencies, for example, should expect total pay of over $1 million and as high as $1.3 million, up from around $700,000 last year.

Pay also is up in countries with fast growth rates. In Europe, Poland, Russia and Hungary continue to be popular, while in Asia, China, India, Singapore, Thailand and Korea are seeing increased pay packages as supply has not been able to keep up with demand.

In Europe, banks have increasingly expressed interest in building fixed income and equity derivatives marketing teams in emerging markets, although until recently this had not translated into much hiring. Activity in this area has accelerated of late and should pick up further in 2006 as the asset class becomes increasingly important in generating revenue for institutions.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)*				AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*			
		BASE	BONUS			BASE	BONUS
Associate	1st Year	60-70K	50K	Associate	1st Year	60-70K	50-60K
	2nd Year	70-80K	60-70K		2nd Year	70-80K	70K
	3rd Year	80-100K	90-110K		3rd Year	80-100K	100-110K
VP	1st Year	100-120K	120-130K	VP	1st Year	100-120K	130K
	2nd Year	120-140K	150-200K		2nd Year	120-140K	175-225K
	3rd Year	130-150K	225-275K		3rd Year	130-150K	250-300K
Director	1-3 Years	150-175K	450-500K	Director	1-3 Years	150-175K	500K
	3+ Year	175-200K	900-1 MM		3+ Year	175-200K	1-1.1 MM
MD	1-3 Years	250K	1.2-1.5 MM	MD	1-3 Years	250K	1.4-1.5 MM
	3+ Year	250K	2-3 MM		3+ Year	250K	2.5-3 MM

	TOTAL COMPENSATION		TOTAL COMPENSATION
Global Head	3-4 MM	Global Head	2 MM
Head of Americas	3 MM	Head of Americas	3-3.5 MM
Head of Europe	3 MM	Head of Europe	3-3.5 MM
Head of Asia	3 MM	Head of Asia	3-3.5 MM
Head of Latin America	3 MM	Head of Latin America	3-3.5 MM
Head of EMEA *(Europe, Middle East and Africa)*	2 MM	Global Head Client Transactions	2.5 MM

* Local market EM professionals will be receiving higher bonuses.

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LEAGUE TABLES

Citigroup lost its hammerlock on the global emerging corporate debt markets in the third quarter, as **CSFB** leapfrogged its main competitor in this category (along with global high-yield issuance, see page 31). Total volumes rose 21% in the first three quarters of 2005 versus last year, according to *Investment Dealers Digest*. (See the *IDD* chart below for more details)

GLOBAL EMERGING MARKETS CORPORATE DEBT

2005 (THRU 9/30/05)				2004 (THRU 9/30/04)			
Adviser	**Share (%)**	**Issues**	**Total ($MM)**	**Adviser**	**Share (%)**	**Issues**	**Total $MM)**
CSFB	10.2	21	6,258	**Citigroup**	14.6	48	7,390
Citigroup	9.6	39	5,911	**Deutsche Bank**	6.3	20	3,201
Deutsche Bank	7.7	16	4,736	**JPMorgan Chase**	5.8	19	2,930
ABN Amro	5.3	19	3,223	**HSBC Holdings**	5.5	30	2,778
JPMorgan Chase	5.2	17	3,200	**Merrill Lynch**	4.7	19	2,374
Banco Itau Holding Fin	4.6	6	2,805	**ABN Amro**	4.4	14	2,202
Barclays Capital	4.2	14	2,590	**CSFB**	4.3	13	2,181
UBS	4.0	14	2,422	**UBS**	4.2	18	2,142
HSBC Holdings	3.9	24	2,378	**ING**	3.4	19	1,721
Merrill Lynch	3.2	16	1,967	**Dresdner KW**	2.7	7	1,363
Industry Total: $61.3 BN				**Industry Total: $50.5 BN**			

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Marat Djafarov	Director, Head of European EM corporate research group	Dresdner	Barclays Capital	Hong Kong
Florian Schmidt	Principal, Head of Emerging Markets DCM/ HG Debt Originating	Bank of America	Bank of America	Hong Kong
Daniele Bartoccioni	Managing Director	JPMorgan	Merrill Lynch	London
Theo Constantidinis	Head, European Debt Structuring	Deutsche Bank	Merrill Lynch	London
Kerim Derhalli	Head of EM Equities	Internal Promotion	Deutsche	London
Alex Garrard	EM Strategist	UBS	Peloton Partners	London
Sajid Javid	Global Head of Emerging Markets Structured Products	Internal Promotion	Deutsche Bank	London
Nick Petronko	Head of Emerging Markets	UBS	Peloton Partners	London
Antonio Polverino	Co-Head Derivatives Marketing	JPMorgan	Merrill Lynch	London
Gustavo Dominguez	Partner in Financial Services	JPMorgan	Gottex Funds	New York
Tim Joyce	VP, Derv in EM & FX Trading	Dresdner	JPMorgan	New York
Richard Misiano	Head of fixed-income repo for the Americas	Commerzbank	ING Financial Markets	New York
Diego Rivera	Director, EM Marketing	Citigroup	Merrill Lynch	New York
Philip Suttle	Head of EM Research	JPMorgan	Barclays Capital	New York

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FIXED INCOME PROPRIETARY TRADING

One would think banks would have an easy time finding qualified candidates. The truth of the matter is that good fixed income prop traders are harder to find than Bobby Fischer. Banks are especially finding it difficult because the more seasoned risk traders are going to hedge funds where upside payout potential and risk parameters are more liberal. Even in The City, intra-bank people movement is down significantly from a year ago.

In April, Galia Velimoukhametova – one of JPMorgan Chase's more successful credit/equity proprietary traders – was hired by the US-based hedge fund Knight Street Capital to do capital structure arbitrage. Larger hedge funds, especially, were very busy in the first four months of the year building up European prop teams, according to the Options Group Intelligence Unit.

In order to keep top producers, many bank's fixed income prop desks (and equity prop desks) are structured like internal hedge funds. **The desire to keep these players in-house has a lot to do with the fact that as much as 60% of fixed-income trading profits may end up coming from this team. This desk also provides banks with what is its highest EBITDA business, according to the Options Group Intelligence Unit.**

The existing fixed income prop market therefore has been relatively quiet since May – after the one-two punch of the GM downgrade preceded by the Kirk Kerkorian buyout offer spooked the prop trading market. Vega Asset Management, one of the largest hedge funds in the world, told investors that its funds' assets decreased more than $600 million in the month of June because of investor redemptions and portfolio losses. The firm noted that its assets have fallen to $6.7 billion, from a peak of $10.4 billion last year. Jonathan Berg, Vega's CEO, said his firm's poor performance had to do with sharp moves in the global markets due to weaker-than-expected U.S. employment data during the month. The volatility forced the firm to systematically unwind positions during the rest of June, explained Vega. **Many of these balance sheet losses were synthetic; most desks and funds recovered fully in Q2 and were up in Q3.**

2006 OUTLOOK

While risk capabilities have increased at banks, traditional spreads have tightened, lowering overall volume and volatility levels as well as the ability to make the sizable profits of earlier markets. After strong years in 2003 and 2004, fixed income traders should continue to take a back seat to commodity traders, equity prop desks, and bankers in the months to come. Additionally, we are seeing an emergence of the next stage of fixed income strategies.

COMPENSATION

- **Flat to up slightly as tightening spreads have dampened liquidity**

Total pay consists of 8 to 15% of P&L of the portfolio in cash and stock. Increasingly, banks are investing in their internal prop initiatives and desks are being run like internal hedge funds. Guaranteed contracts have already been on the rise and this trend should continue in 2006. Cost per prop desk seat can cost as little as $500,000 and exceed $1 million depending on the existing infrastructure. **Total compensation ranges vary by firm, and top producers in this category can make as much as $50 million. Each firm's payouts are based on the balance sheets deployed by the desk.**

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AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING (US$)

		BASE	BONUS
Associate	1-3 Years	65K	60-80K
Analyst	3rd Year +	85K	100-150K
VP	1-3 Years	100K	250K
	3rd Year +	125K	500-700K
Director	1-3 Years	150K	1MM

	TOTAL COMPENSATION**
Global Head	15MM+
Head of Americas	15MM
Head of Europe	10MM
Head of Asia	5MM

* Most managing directors and heads earn bases of around $250K.

** Most compensation is related to a percentage formula payout.

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Carl Dou	Trader	Dresdner	JPMorgan	London
Antonio Montes	Senior proprietary trader focusing on interest rates and currencies	Banesto	JPMorgan	London
Usman Naeem	Associate	Dresdner	JPMorgan	London
Antoine Ortiz	Vice President and Senior Proprietary trader	Hartford Investment	JPMorgan	London
Perry Parker	FX Macro Trading (Prop)	Deutsche Bank	Peloton Partners	London
Peter Bainlardi	Head of proprietary rate trading	Barclays	BNP Paribas	New York
Michael Gora	PM – Cap Markets & Equities	Primus	DB Zwirn	New York
Brian Langille	RV Prop Trader	Commerzbank	Dresdner	New York
Bartholomew Pan-Kita	Senior Proprietary Trader	RHG Capital	Bank of America	New York
David Randle	Director – Prop Trading	Morgan Keegan	BNP Paribas	New York
Kenny Song	MD, Cap Structure Arb Strategy	Amaranth	DB Zwirn	New York
Bulent Toros	MD, Cap Structure Arb Strategy	Amaranth	DB Zwirn	New York
Yuan Zhou	Developing proprietary default and prepayment curves	C-Bass	Deutsche Bank	New York
Sunita Ganapati	Head, Proprietary structured credit investment book	Lehman Brothers	Wells Fargo	San Francisco

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FOREIGN EXCHANGE

Hiring in foreign exchange continued apace in the U.S. and Europe, with strong demand for sales personnel with relationships with real money accounts. Experience in structured foreign exchange products is also highly sought. The big volume trading revolved around the dollar/yen and dollar/euro and Europe has the best desks globally.

Even though the market is global, FX remains a parochial place where everyone seems to know everybody else and traders can spot which banks are making big bets and in what currency.

In Asia foreign exchange is typically integrated into a bank's fixed income division, although in Japan it is considered a separate business, as in the US and Europe. Specialists in dollar derivatives and exotics are particularly in demand in non-Japan Asia.

FX Week reported on July 4 that US banks began extending their notice periods, or gardening leaves, to 45 days from a month in an attempt to stem people from being poached. European banks, which have been doing most of the hiring, are often forbidden from joining a new firm for three months. That should stem the flow of senior FX hires until next year – and the end of bonus season.

Foreign banks stepped up their recruiting of senior-level salesmen. In Europe, RBS in August hired Craig Donaldson, head of North American Institutional FX sales, away from Merrill Lynch. In Australia, National Australia Bank snapped up Andrew Clarke from JPMorgan Chase in April to run its European FX options business in London. In July, China's Standard Chartered Bank signed up Fidelis Oruche from Lehman in Tokyo to be a senior FX derivatives trader.

US-based Bank of America also went on a foreign exchange hiring binge, snapping up Patrick Baune from Merrill Lynch in April to head European sales for global foreign exchange. He reports to Alain Delelis, head of global spot and emerging market trading and overall head of Europe, the Middle East and Asian foreign exchange and Robert Gotelli, global head of foreign exchange sales. In July, the bank also hired Simon Manwaring, head of foreign exchange correlation trading at JPMorgan, as global head of foreign exchange options correlation trading.

COMPENSATION

- **Up 15% overall, with Europe probably up 20-25%, Asia 20% and the Americas up 10-15% on average**

Director-level New York-based FX traders of local Latin American currencies, for example, should expect total pay of over $1 million and as high as $1.3 million, up from around $700,000 last year.

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AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES (US$)		BASE	BONUS
Associate	1-3 Years	70-80K	40-60K
	3rd Year +	85-100K	70-90K
VP	1-3 Years	95-110K	250-350K
	3rd Year +	125K	350-450K
Director	1-3 Years	125-150K	700-900K
MD		250K	1-1.25M

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING (US$)		BASE	BONUS
Associate	1-3 Years	70-80K	40-60K
	3rd Year +	85-100K	70-90K
VP	1-3 Years	95-110K	300-400K
	3rd Year +	125K	400-500K
Director	1-3 Years	125K	1-1.2 MM
MD		250K	1.5-2MM

Sales	TOTAL COMPENSATION
Global Head	3-3.5MM
Head of Americas	2MM
Head of Europe	1.5-2MM
Head of Asia	1.5-2MM

Trading	TOTAL COMPENSATION
Global Head	4MM
Head of Americas	2.5MM
Head of Europe	2-2.5MM
Head of Asia	2-2.5MM

* Most managing directors and heads earn bases of around $250K

OPTIONS GROUP

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Colin George	Commonwealth currencies	BNP Paribas Singapore	Calyon	Hong Kong
Rodolphe Alexis	Head of European non-reciprocal bank global foreign exchange	Goldman Sachs	Bank of America	London
Filippo Cipriani	Trader	Morgan Stanley	Brevan Howard Asset Management	London
Chris Eagle	FX Salesperson covering frequent issuers	Morgan Stanley	Goldman Sachs	London
Gavin O'Loughnane	Trading of the US dollar, euro and Swiss franc	Deutsche Bank	JPMorgan	London
Perry Parker	FX Macro Trading (Prop)	Deutsche Bank	Peloton Partners	London
Patrick Schartnar	FX Salesperson covering Hedge Funds	Morgan Stanley	HSBC	London
Nick Wootten	Spot trader	Bank of America	JPMorgan	London
Kate Wright	FX Salesperson	Morgan Stanley	HSBC	London
Jeremy Bleackley	Analyst	Simmons & Simmons	Bear Stearns	New York
Chester Boles	Director and head of e-commerce trading in Foreign Exchange.	FXall	BNP	New York
James Cooper	Global currency options team	Bank of America	JPMorgan	New York
Tim Joyce	VP, EM/FX Derivatives trading	Dresdner	JPMorgan	New York
Mark Kibblewhite	Head of corporate risk management	Barclays	Gerrard, Barclays owned	New York
Don Lee	Head FX deriv for the Americas & Global head of FX exotics	AIG Financial Products	HSBC	New York
Mathieu Chabran	Director, Investment fund	JPMorgan	Creating alternative investment fund	Paris
Phillip Chiu	Financial Markets director, head of financial markets	Deutsche Bank	Wholesale Banking	Taiwan
Yoichi Oyamada	Managing Director	HypoVereinsbank	Bear Stearns	Tokyo
Mina Namba	Associate Director	Calyon	Bear Stearns	Tokyo
Hajime Sawai	Associate Director	Commerzbank Securities	Bear Stearns	Tokyo
Takeshi Tsubota	Associate Director	Financial Technology Research Institute	Bear Stearns	Tokyo

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HIGH YIELD CREDIT

High yield bonds continued its multi-year growth phase in early 2005, but increased risk factors by the summer led some to question the market's sustainability. **In fact, by June it was clear that high yield activity would not reach the record levels of 2004. In the first half of 2005, deal volumes hit $69 billion, compared to $89 billion in the first six months of last year.**

Perhaps the biggest factor is the risk assumed by banks and others in lending to less-established and highly indebted companies. Some 7% of all high yield bonds issued last year were rated triple-C by Standard & Poor's, the highest percentage ever, according to CSFB. This year, it is trending higher. Corporate defaults dropped to just 0.44% of all outstanding junk bonds in the year ended in June, according to CSFB. That is down from a peak of 15.4% in 2002. The markets were further rocked by the downgrade of General Motors and Ford to below investment grade over speculation about the effect the massive debt loads of the automakers could have on the market.

The European high yield market has been growing at a faster pace, and as demand for experienced employees outstrips supply, many in the market are negotiating higher pay than a comparable position in the U.S. Subdued issuance is posing some challenges to the sector. HSBC said in August it is suspending building its European high yield debt origination team further until the markets normalize.

Fortunately for bond market teams, much of the bond business lost this year has translated to the **leveraged loan market**. Market leaders in the US are JPMorgan, Bank of America, Citigroup and CSFB, while in Europe RBS has a hammerlock on the leveraged loan market. The reason for the increase is simple, as LBO firms need more and more funds to buy companies. LBO financings include both high-yield bonds and leveraged loans to finance deals. This type of fundraising, known as staple financing, along with increased M&A activity, has led to an increased amount of bond and loan relationships. Overall leveraged loan activity was up 50% year-over-year in Europe and 25% in the US, according to *Bloomberg* data.

2006 OUTLOOK

Distressed debt and specialty lending has lost its momentum in the U.S. market but volume is now heading to Europe and Asia (ex-Japan) in the second half of this year and into 2006. The syndicated leveraged loan market will continue to compensate for the drop in high yield activity. **The Options Group Intelligence Unit recorded enough data to predict that Europe and Asia will see strong high-yield deal flow next year.**

COMPENSATION

- **Global high-yield compensation will likely fall 10% on average versus 2004 with the only real area of growth being illiquid structured credit.**
- **Options Group Intelligence Unit predicts that the U.S. drop in volume was more of a lull than a peak in the high-yield bond market.**

Fundamental high-yield analysts are in strong demand by proprietary trading desks, in addition to client operations, which is resulting in strong pay increases. Sales desks could receive higher pay than traders in some instances because top-tier personnel are selling multiple products in securitized paper. **Regional unit heads also have ownership of the origination piece of the business that shares revenue with investment banking in many cases.**

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AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES* *(US$)*		BASE	BONUS	AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*		BASE	BONUS
Associate	1-3 Years	**80-90K**	**75-100K**	**Associate**	1-3 Years	**80-90K**	**75-100K**
VP	1-3 Years	**100-125K**	**175-250K**	**VP**	1-3 Years	**100-125K**	**175-250K**
Director	1-3 Years	**125-150K**	**450-500K**	**Director**	1-3 Years	**125-150K**	**500K**
MD	1-3 Years	**150-200K**	**1.3-2 MM**	**MD**		**150-200K**	**1.3-2 MM**

	TOTAL COMPENSATION		TOTAL COMPENSATION
Head of Americas	**3-4 MM**	**Head of Americas**	**3-4 MM**
Head of Europe	**3 MM**	**Head of Europe**	**3 MM**
Head of Asia	**2.5-3 MM**	**Head of Asia**	**2.5-3 MM**

* Sales could be a little higher than trading because they are selling a number of securitized products.

LEAGUE TABLES

Citigroup maintained its leadership position in global high-yield activity through October 1, 2005, according to *Bloomberg*. Citigroup's high-yield bond team accounted for 12.5% of the market by keeping fees low and transacting on the most issues (79) in the first three quarters of 2005. Its average fee level of 1.1% was well below the fee industry average of 1.3%. **Citigroup may be concerned by the departure of top high yield trader John "Eck" Eckerson, who left with two other traders to start their own hedge fund.**

In the first three quarters of 2005 CSFB fell to fourth, but was first in a more important category: profitability. The fact that CSFB led 67 issues with an average fee of 1.75% meant its high-yield unit may have been the most profitable of the major banks thru September. JPMorgan jumped to second and Bank of America charged up the league table to third from fifth for all of 2004 (see chart). Deutsche Bank slipped to fifth.

The only other notable league table change was with Morgan Stanley, which also decided to give up market share for higher fees. The bank slipped to tenth from sixth, but its average fee charged was 2.6%, up significantly from the 1.8% it posted last year.

Total activity thru nine months ($93.4 billion) will probably not reach the record levels the global high-yield industry hit in 2004 ($163.4 billion).

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GLOBAL HIGH YIELD

2005 (THRU 10/01/05)				2004			
Adviser	Share (%)	Total ($MM)	Fees (%)	Adviser	Share (%)	Total ($MM)	Fees (%)
Citigroup	12.5	11,635	1.11	Citigroup	14.8	24,255	1.21
JPMorgan	11.7	10,917	1.31	CSFB	13.5	22,142	1.48
Bank of America	10.4	9,688	1.38	JPMorgan	11.1	18,235	1.42
CSFB	10.2	9,569	1.75	Deutsche Bank	10.9	17,831	1.44
Deutsche Bank	10.1	9,445	1.78	Bank of America	9.5	15,616	1.78
Merrill Lynch	6	5,584	1.10	Morgan Stanley	7.2	11,775	1.84
Goldman Sachs	5.7	5,355	2.57	Goldman Sachs	5.9	9,671	1.35
Lehman Brothers	5.6	5,229	1.38	Lehman Brothers	5.4	8,886	1.88
UBS	5.2	4,852	1.02	UBS	4.9	7,980	1.23
Morgan Stanley	5.1	4,722	2.61	Merrill Lynch	3.8	6,231	1.46
Industry		93,405	1.27	Industry		163,498	1.43

Source: Bloomberg.

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Glenn Clarke	Leveraged Investments Group	AIB Capital Markets	CSFB	London
Andrei Korolev	Head of High-Yield Trading	BNP Paribas	Calyon	London
Mark Colm	MD in High Yield Sales	Merrill Lynch	Deutsche Bank	New York
Robert Leone	MD in High Yield Trading	Merrill Lynch	Deutsche Bank	New York
Jerry Levy	Director in High-Grade Credit Sales	BNP Paribas	Sigma	New York
Steven Rosen	MD in High Yield Sales	Morgan Stanley	Deutsche Bank	New York
Paul Stokes	MD in High Yield Trading	UBS	Wachovia	New York
Sheldon Trainor	Head of Asian Investment Banking	Morgan Stanley	Merrill Lynch	New York
Brian Zucker	MD in High Yield Trading	Goldman Sachs	Deutsche Bank	New York
Robert Heffes	Head of High Yield and Distressed Trading	UBS	Wachovia	North Carolina
Allen McCristal	Head of High Yield	Grange Securities	Barclays	Sydney

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INTEREST RATES *(GOVERNMENT BONDS, SWAPS & AGENCIES)*

Interest rates have been an active area for recruitment in the trading of options, swaps, exotics and structured interest rates. Lehman Brothers, Barclays Capital and RBS Greenwich Capital all operate strong rates businesses. In a climate of much interest rate speculation, especially in the U.S., the markets should continue to generate liquidity next year.

These banks, as well as CSFB and Merrill Lynch, are moving rapidly into emerging markets like Latin America and Asia-Pacific (South Korea) because these countries offer a deep and liquid market in interest-bearing securities issued by the government. These securities have four advantages: 1) They pay interest on a periodic basis; 2) They are issued with a wide range of maturities; 3) Their principal is repaid only at maturity; 4) At any given point in time the market values these securities to yield whatever rate of interest is necessary to make the securities trade at their par value.

U.S. **government bonds** – with their fixed interest rates – have become less popular with institutional investors due to stagnant low interest rates. Big bond buyers are traditionally mutual funds, but they have been seeking better returns elsewhere. **This trend may turn if and when the 10-year treasury rises, but so far the Federal Reserve has been unable to boost interest rates – even though the Federal Open Market Committee has raised the overnight rate 11 times in 11 sessions by a quarter point.**

Overall, government bond desks should expect total payouts similar to 2004. It has become a more difficult environment to make money due to lighter volumes and tighter bid-offer spreads. HSBC, Barclays and Bank of America also have jumped into the government bond market recently, further diluting volumes. **New entrants into the space are paying up for "toll collector" traders who aren't making any real money, said sources interviewed by the Options Group Intelligence Unit.** These participants may not stay in the market for more than another year or two if bid-offer spreads remain at these levels through 2007. Overall, hiring in the U.S. has been relatively muted. There were more hirings in London and Tokyo, including Katsuya Miyoshi, head of Japanese government bonds, who left Nikko Citigroup for Lehman in Tokyo.

In **swaps**, JPMorgan, **Deutsche Bank**, Bank of America, Citigroup all have leading market positions among the commercial banks and Goldman Sachs and Morgan Stanley are top among investment banks. Deutsche Bank, in particular, topped the 2- to 10-year and 10-year-plus interest rate swaps category in a September 2005 survey done by *Risk* magazine. Deutsche Bank's global markets unit, led by Anshu Jain in London, is moving towards more complex products to grab the most yield, said *Risk*. **Merrill Lynch** also is hiring, snapping up William Cikin, an interest rate swaps trader from JPMorgan Chase in July.

Lehman remains the leading bank in **Agencies** trading, with JPMorgan and Goldman also having strong desks. Tom Mullen and Chris McLean were two key hires for **Bank of America** and its agencies trading business. Mullen, head of government trading, was hired from Morgan Stanley and McLean, who trades callable agencies, left Deutsche Bank to join Bank of America. **Options** and **volatility** traders, which execute trades for customers, did not have the kind of year that they did in 2003 and 2004 because of tight talent pools at the top-tier firms, according to the Options Group Intelligence Unit.

Bank of America has been aggressively building its interest rate business in an attempt to build the asset class into a bigger revenue earner for the bank. To this end, Bank of America made a number of senior hires, including government bond traders J.P. Marra and Darren Lowe, from Lehman Brothers and JPMorgan respectively, to head treasury and agency trading and sales. Lowe followed in the footsteps of Mark Werner, head of global markets at JPMorgan, who joined Bank of America in 2004.

RBS Greenwich Capital's business, led by James Mather, overall head of interest rate derivatives, is among the market leaders due to its leading-edge technology and its senior personnel. The firm hired Michael Lyublinsky as a managing director and head of interest rate trading from CSFB earlier this year to further solidify its lineup.

Morgan Stanley has developed a superior "bid offer" business in North American rates. The bank moved Jim Sandling to New York from Tokyo to run their North American rates business. **UBS** has a very deep and well-developed interest rate derivative business in North America, headed by Simeon Schwartz for the past 10 years. Mr. Schwartz is said to be very derivatives-orientated and has developed a strong hold on the USD swap and options businesses; additionally, he runs a very customer-friendly business but traders take some proprietary risk as well.

Citigroup has consistently been in the top five on the dealer side of the rates business since the merger between Salomon Brothers and Citibank. They are essentially a regionally managed global rates business. Ken Tremain runs their North American rates business worth over $800 million and has Chris Fitzmaurice running the US Government and Agency desks. According to the Options Group Intelligence Unit, Citigroup's rates business is customer-focused. They do have books that take proprietary risk, but compared to other banks, this is minimal.

2006 OUTLOOK

The demand from second- and third-tier players will only increase next year as hirings ramp up further in interest rate sales, marketing and trading. Top-tier banks should pay up to keep volatility traders happy.

Two possible catalysts for government bonds may be the departure of Fed Chairman Alan Greenspan in January and the re-issuance of 30-year treasuries in February. With a flat yield curve expected for next year, fixed income departments will continue to focus on asset-backed securities and agency bond activity and away from government bonds and collaterized mortgage obligations. Higher interest rates combined with an economic downturn could lead to more government bond issuance. This confluence of events would limit stock returns and push institutional investors back into the safety of government bonds.

COMPENSATION

- **Up 5-10% on average over 2004**
- **Europe and U.S. employees will see higher payouts than their Asia-Pacific counterparts**

Marketers continue to be in demand, with Merrill Lynch most actively making a push with the hire of a team of 23 marketers from JPMorgan, headed by Antonio Polverino, as co-head of derivatives marketing for financial institutions and corporates, alongside Stefan Guetter.

Much of the movement, however, was shuffling chairs versus banks aggressively building out their businesses or new market entries. Demand for short-term interest rates sales and trading picked up as banks focused on this area as a means to extend trading flows from what has thus far been a predominately interbank market to second-tier institutions.

Government bond traders will continue to see slightly larger bonuses with trading VP's, for example, seeing almost double the total comp of sales VP's. The government bond trading head for the Americas should take home all-in pay in the neighborhood of $4 million, down from the $5 million the position paid, on average, in 2004.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)*
INTEREST RATES (SWAPS, OPTIONS, EXOTICS & AGENCIES)

		BASE	BONUS
Associate	1-3 Years	65-75K	50-60K
	3rd Year +	75-90K	50-60K
VP	1-3 Years	100K	100-200K
	3rd Year +	125-150K	200-500K
Director	1-3 Years	150K	800-900K

	TOTAL COMPENSATION
Global Head – Sales	6-8MM
Head of Americas	4-4.5MM
Head of Europe	5 MM
Head of Asia	4 MM
Head of Swaps	2-2.5 MM
Head of Options Sales	2-2.5 MM
**	
Head of Agency Bond Sales	2.2-2.5MM

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*
INTEREST RATES (SWAPS, OPTIONS, EXOTICS & AGENCIES)

		BASE	BONUS
Associate	1-3 Years	65-75K	65-75K
	3rd Year +	75-90K	75-90K
VP	1-3 Years	100K	100-200K
	3rd Year +	125-150K	200-700K
Director	1-3 Years	150K	1-1.5MM

	TOTAL COMPENSATION
Global Head – Trading	10-15MM
Head of Americas	10MM
Head of Europe	10MM
Head of Asia	8-10MM
Head of Swaps	3.25-4MM
Head of Options Trading	3.25-4MM
Head of Exotics Trading	2.2-2.5MM
Head of Agency Bond Trading	2-2.5MM

* Most managing directors and heads earn bases of around $250K.

** Firms don't have a head of exotics sales.

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AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)*
GOVERNMENT BOND ESTIMATES

		BASE	BONUS
Associate	1-3 Years	**65-75K**	**50-60K**
	3rd Year +	**75-90K**	**60-100K**
VP	1-3 Years	**100K**	**200-300K**
	3rd Year +	**125-150K**	**400-500K**
Director	1-3 Years	**150K**	**1-1.1MM**

	TOTAL COMPENSATION
Head of Americas	**3-4 MM**
Head of Europe	**3-4 MM**
Head of Asia	**3-4 MM**

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*
GOVERNMENT BOND ESTIMATES

		BASE	BONUS
Associate	1-3 Years	**65-75K**	**50-60K**
	3rd Year +	**75-90K**	**60-100K**
VP	1-3 Years	**100K**	**500-550K**
	3rd Year +	**125-150K**	**600-700K**
Director	1-3 Years	**150K**	**1.25-1.5MM**

	TOTAL COMPENSATION
Head of Americas	**3.5-4 MM**
Head of Europe	**3.5-4 MM**
Head of Asia	**3.5-4 MM**

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PEOPLE MOVES & PROMOTIONS – INTEREST RATES (SWAPS, OPTIONS, EXOTICS & AGENCIES)

NAME	TITLE	FROM	TO	LOCATION
Chi-Sun Chui	Associate Director for non-Japan Asia volatility trading	Deutsche Bank	Bear Stearns	Hong Kong
Wayne Edelist	Vice President	Goldman Sachs	Deutsche Bank	Hong Kong
William Hau	Interest Rate Trader	Deutsche Bank	Goldman Sachs	Hong Kong
Lee Knight	Asia-Pacific Head of Fixed Income	UBS	RBS	Hong Kong
George Cooper	Running the European fixed-income strategy and interest rate derivatives	JPMorgan	Deutsche Bank	London
Christophe Coutte	Head, Long Term Euro Swaps	Deutsche Bank	SG	London
John Maskell	Head of Interest Rate Strategies	Barclays Capital	BGI	London
Antonio Montes	Senior proprietary trader	Banesto	JPMorgan	London
Lloyd Alty	Head of Research in the domestic cash and fixed interest and currency division	Commonwealth Bank of Australia	Macquarie	New York
Marc Banker	Co-Head of interest rate derivatives sales	FIMAT	Bear Stearns	New York
Laurent Dulout	Head of Interest Rate Trading in Latin America and Canada	Internal Promotion	BNP Paribas	New York
Ryan Fennelly	Vice President	Merrill Lynch	CSFB	New York
Michael Furman	Interest-Rate Product Sales	CSFB	HSBC	New York
Filippo Ghia	Cover U.S. and Canadian dollar-denominated interest-rate rate swaps	Citigroup	BNP Paribas	New York
Pat Haskell	Co-Head, Dollar IR trading	CSFB	HSBC	New York
Chris McLean	Callable Agencies Trader	Deutsche Bank	Bank of America	New York
Kevin Sinclair	Exotics Trader, hybrid products	West LB	CSFB	New York
Noel Vaillant	Exotics Trader	West LB	Standard Chartered Bank	Singapore
Katerina Businoska	Credit Research Team	Curtain Business School (CBA)	CBA	Sydney
Dan Krenske	Focusing on securitization with Winnie Chee	Internal Promotion	CBA	Sydney
Pitchayada Ruanglek	Credit Research Team	Katonah Capital	CBA	Sydney
Phillip Chiu	Head of Financial Markets	Deutsche Bank	ING	Taiwan
Pascal Avedissian	Head of IR Trading & Structuring	Internal Promotion	Calyon	Tokyo
Hiroshi Kobayashi	Director, Interest Rate Trading Group	Goldman Sachs	CSFB	Tokyo
Hidehiro Imatsu	Head Trading Yen Interest Rate Swaps	Morgan Stanley	Goldman Sachs	Tokyo
Floris Florquin	Associate Director, Japanese volatility trading	West LB Securities	Bear Stearns	Tokyo

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PEOPLE MOVES & PROMOTIONS – GOVERNMENT BONDS

NAME	TITLE	FROM	TO	LOCATION
Darren Batholomew	Broker	MIS Interdealer Brokers	Tradition	London
Guy Blomme	Broker	MIS Interdealer Brokers	Tradition	London
Stephen Foulds	Broker	MIS Interdealer Brokers	Tradition	London
Pascal Giraud	Broker	MIS Interdealer Brokers	Tradition	London
David Hewer	Broker	MIS Interdealer Brokers	Tradition	London
Lain Jackson	Head of Government Bonds	MIS Interdealer Brokers	Tradition	London
Gabriele Mascherin	Broker	MIS Interdealer Brokers	Tradition	London
Brett O'Donaqhue	Broker	MIS Interdealer Brokers	Tradition	London
Lee Sands	Broker	Icap	Tradition	London
Takuya Soeda	Trader, JGB & IG Bonds	Nikko Citigroup	Citigroup	London
Graziano Usai	Broker	MIS Interdealer Brokers	Tradition	London
Scott Beck	MD, 5-Year Treasury Trader	Lehman Brothers	Bank of America	New York
Tom Juterbock	Global Head Macro Prop Trading	Morgan Stanley	Ritchie Capital Management	New York
JP Marra	MD, Runs Government Bond Trading and Mortgage Pass Thrus	Lehman Brothers	Bank of America	New York
Tom Mullen	Head of Government Trading	Morgan Stanley	Bank of America	New York
Josep Santacana	Head of Market-Making for Euro liquid bonds with responsibility for government bonds	JPMorgan	Calyon	Paris
David Bradberry	Trader, JGB	Citigroup	Nikko Citigroup	Tokyo
Jin Hayashida	FI Dollar Product Government Trader	Lehman Brothers	Bank of America	Tokyo
Tadashi Kikugawa	HD, Bond Swaps Trading	Morgan Stanley	ABN Amro	Tokyo
Katsuya Miyoshi	HD, JGB Trading	Nikko Citigroup	Lehman Brothers	Tokyo

OPTIONS GROUP

INVESTMENT GRADE CREDIT

Tightening credit spreads and a continuing low default rate will drive the corporate investment grade debt market to another banner year in 2005. Although low volatility impeded trading revenue for hedge funds and proprietary traders, client demand for flow bond and credit derivatives products contributed to strong flow revenue.

US-based banks remained divided on whether to integrate their credit operations along sector lines, as Goldman Sachs, Morgan Stanley and JPMorgan have already done, or operate their corporate bond, loan and credit derivatives trading separately. CSFB and UBS are among the banks that continue to separate their businesses.

Proprietary trading desks that had last year focused on debt/equity strategies such as capital structure arbitrage, have instead turned their attention to single-name credit trading. This was one factor driving demand for fundamental credit traders and analysts. Many employees jumping firms in 2005 have secured compensation increases of between 40% and 50%. Debt/equity hiring continued, albeit at a reduced degree of activity within this trading strategy.

COMPENSATION

- **Up 5-10% on average over last year**

A trader director that produces $10 million to $15 million in revenue for a firm will typically receive a bonus of 8 to 12% of the P&L – depending on the overall profits of the firm. A managing or executive director with over $15 million in revenue can take home a maximum of around 15% of that total. As in many other categories, regional trading heads will make almost double their sales counterparts. On the associate level, sales and trading personnel compensation will be comparable.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)*

		BASE	BONUS
Associate	1-3 Years	**65-75K**	**50-60K**
	3rd Year +	**75-90K**	**75K**
VP	1-3 Years	**100K**	**100-150K**
	3rd Year +	**150K**	**150-300K**
Director	1-3 Years	**150K**	**600-700K**

	TOTAL COMPENSATION
Global Head	**5 MM**
Head of Americas	**2.5 MM**
Head of Europe	**2.5 MM**
Head of Asia	**2 MM**

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*

		BASE	BONUS
Associate	1-3 Years	**65-75K**	**50-60K**
	3rd Year +	**75-90K**	**75K**
VP	1-3 Years	**100K**	**300K**
	3rd Year +	**125-150K**	**500K**
Director	1-3 Years	**150K**	**700-800K**

	TOTAL COMPENSATION
Global Head	**10 MM**
Head of Americas	**4-5 MM**
Head of Europe	**4-5 MM**
Head of Asia	**4-5MM**

* Most managing directors and heads earn bases of around $250K.

OPTIONS GROUP

MORTGAGES AND MBS

Trading of mortgage portfolios remains a top priority for financial institutions on the East Coast in the U.S., while the big market players in mortgage backed securities are on the West Coast. California is the largest buyer of MBS portfolios, with pension fund **CalPERS** and buyside firms **Trust Company of the West** and **Capital Group** leading the way. Portfolios bought are in the $50 million range, but can range as high as $500 million. **The most lucrative areas for banks generally were ARM's and home equity loans, while pass-thrus were down across the board.**

MORTGAGE-BACKED SECURITIES

Volatile and somewhat higher mortgage rates, along with changes in the agencies' capital and portfolio management strategies, led to a sharp decline in agency issuance.

In the first three quarters of 2005, global MBS volume was up 18% as compared to the first nine months of last year, according to *Investment Dealers Digest* data. While the number of issues fell, proceeds rose as banks preferred to float larger deals. **Lehman Brothers** supplanted **UBS** as the leading bookrunner, and **CSFB** and **RBS** gained market share.

Mortgage volumes in the U.S. continued to grow as well. **Barclays Capital** and **HSBC** are among the banks that have been actively growing their mortgage teams. HSBC made significant hires with Russ Middleton and Brian Song joining from Bear Stearns and Nick Letica from **Deutsche Bank** as MBS traders in New York.

In **Interest Only/Principal Only (IO/PO)**, activity was brisk while the collateralized mortgage obligation (CMO) market was thinner. A notable hire in IO/PO was Sam Choi, whom JPMorgan hired from Bear Stearns in the spring.

HOME EQUITY LOANS

Demand by banks to develop principal finance operations that securitize sub-prime home equity loans led hiring demand, with home equity associates garnering wages as high as $300,000.

Although the desks are small, typically employing fewer then six people, demand for experienced employees able to securitize the assets outstripped supply, **causing average pay to rise by as much as 60%.** Banks building their home equity loan operations have also been raiding accounting firms, who are unlikely to compete with investment banking salaries.

Banks such as **BNP Paribas, Societe Generale,** Barclays Capital and HSBC have been among those building their principal finance capabilities. Revenue generated form this sector typically outstrip those of other asset-backed securities such as auto loans and credit card receivables. Revenue from principal finance, which utilizes the balance sheet of the bank, was also higher than from the bank's underwriting business, which is fairly commoditized.

COMPENSATION

- **Flat to up 5% versus last year on average**

Senior personnel are clearly still in great demand. Notable hirings include: Bank of America may have snapped up the most high profile candidate in Patrick Higgins to be head of sales from Citigroup. RBS Greenwich Capital hired two senior-level executives, including MBS salesman Billy Marino from Lehman.

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AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES (US$)		Base	Bonus
Associate	1-3 Years	65-75K	35-50K
	3rd Year +	75-90K	70-110K
VP	1-3 Years	100K	100-125K
	3rd Year +	125-150K	500K-1 MM
Director	1-3 Years	150-200K	800K-1.2 MM

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING (US$)		Base	Bonus
Associate	1-3 Years	65-75K	60-70K
	3rd Year +	75-90K	75-125K
VP	1-3 Years	100-125K	250-500K
	3rd Year +	125-150K	500K-1 MM
Director	1-3 Years	150-200K	800K-1.2 MM

Sales	Total Compensation
Head of Americas	6-8 MM
Head of Europe	2.5-3.5 MM
Head of Asia	2-2.5 MM
Head ARM's	2.5-3 MM
Head of Mortgage Research	1.5-2 MM

Trading	Total Compensation
Head of Americas	8-10 MM
Head of Europe	3.5-4.5 MM
Head of Asia	2.5-3 MM
Head CMO Trader	5 MM, TOP 10 MM
Head Derivatives Trader	2.5 MM, TOP 4 MM
Head Pass Thru Trader	TOP 5 MM
Head of Non-Agency Trading	2 MM

COMPETITION

The largest participants in the global MBS market are Lehman Brothers and the Royal Bank of Scotland, which were tied for first place in the league tables after the first nine months of 2005, according to *Investment Dealers Digest*. Bear Stearns, UBS and CSFB round out the top five. RBS' global MBS business increased the most from $45.6 billion in the first nine months of 2004 to $79.5 billion in the same time period this year. CSFB's issuance has also increased and the bank rose to fifth in the table from eighth last year.

LEAGUE TABLE

GLOBAL MBS MARKET

2005 (THRU 9/30/05)				2004 (THRU 9/30/04)			
Bookrunner	**Share (%)**	**No. of Issues**	**Total ($BN)**	**Bookrunner**	**Share (%)**	**No. of Issues**	**Total ($BN)**
Lehman Brothers	9.5	92	79.9	**Bear Stearns**	10.5	137	74.4
RBS	9.5	89	79.5	**UBS**	10.2	104	72.2
Bear Stearns	9.3	101	78.4	**Lehman**	9.9	104	70.5
UBS	8.3	82	69.4	**Citigroup**	7.7	84	54.9
CSFB	6.3	78	52.5	**BofA Securities**	7.6	73	53.8
BofA Securities	6.0	85	50.3	**Morgan Stanley**	7.0	72	49.9
Morgan Stanley	5.7	69	47.4	**RBS**	6.4	81	45.6
Citigroup	5.2	80	44	**CSFB**	6.4	78	45.2
Deutsche Bank	5.2	60	43.6	**Deutsche Bank**	5.5	67	39.1
Goldman Sachs	5.0	53	42.3	**Goldman Sachs**	5.3	78	37.9
Industry Total: $840.2 BN				**Industry Total: $710.8 BN**			

Source: IDD

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
John Baccich	Mortgaged-backed securities	Goldman Sachs	HSBC	Chicago
Thorsten Arsan	Commercial MBS	KPMG	Moody's	Frankfurt
Billy Marino	MBS salesperson	Lehman Brothers	RBS	Greenwich
John Bigley	Mortgage-backed securitization	Fitch Ratings	Merrill Lynch	London
Maurice Dostal	Commercial MBS	Lehman Brothers	HSBC	London
Nigel Milner	Head of European MBS	JPMorgan	Bank of America	London
Alex Rothlyn	Residential MBS	Bear Stearns	HSBC	London
Chris Babu	MBS IO/PO	Bank Of America	Deutsche Bank	New York
Glenn Boyd	Head of mortgage research.	UBS	Barclays	New York
Sam Choi	Mortgage IO/PO trader	Bear Stearns	JPMorgan	New York
Tim Coyne	Director of MBS	Freddie Mac	BNP Paribas	New York
Sean Duffy	Director in mortgages, trading whole loan and non-agency securities	Credit Suisse First Boston	Citigroup	New York
David Duzyk	Head Term ABS, MBS orig	RBS Greenwich	JPMorgan	New York
Abner Figueroa	Director, managing Issuer Relationships	Eurohypo AG	Deutsche Bank	New York
Pat Higgins	MBS Sales	Citigroup	Bank Of America	New York
Shujaat Islam	Senior MBS Trader (IO/PO)	Morgan Stanley	Citigroup	New York
Chris Kelly	Fixed rate collateralized mortgage	Merrill Lynch	UBS	New York
Dan Lonski	Mortgage trading	Merrill Lynch	JPMorgan	New York
Russ Middleton	Pass-Thru Trader	Bear Stearns	HSBC	New York
Carole Mortensen	Director, diligence and marketing	UBS	Deutsche Bank	New York
Hyung Myung Peak	Managing Director - ARMs Trader	Royal Bank of Scotland	Deutsche Bank	New York
Bill Poulos	Mortgage Bonds	Freddie Mac	BNP Paribas	New York
Adi Rabinowitz	MD, Agency CMO	Bear Stearns	JPMorgan	New York
Brad Scott	Pass-Thru Trader	Lehman Brothers	Bear Stearns	New York
Brian Song	Pass-Thru Trader	Bear Stearns	HSBC	New York
John Vibert	Hybrid Adjustable-rate mortgage trading	Morgan Stanley	CS First Boston	New York
Adam Yarnold	Head of adjustable rate mortgage trading	UBS	Deutsche Bank	New York
Yuan Zhou	Developing proprietary default and prepayment curves	C-Bass	Deutsche Bank	New York
Satish Chand	Assoc Dir, Securitization, Auto Receivables & RMBS	Westpac Institutional Bank	National Australian Bank	Sydney

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MUNICIPAL DERIVATIVES

The traditional way to document the latest trends in municipal finance is to add up municipal bond activity. But this year the profitability of municipal derivatives is becoming too large to ignore. Derivatives activity is becoming a significant product for major banks like **UBS, Lehman, Citigroup and Bank of America** because the only quantifiable way to make money is to do a derivative on the bond.

The Options Group Intelligence Unit indicates that 75% of municipalities who are allowed to make derivative trades such as interest rate swaps know about them and are interested in doing trades. That's up from 40% to 50% three years ago. Due to the margin compression in the industry, other banks like **Merrill Lynch** have shifted their attentions more toward interest rates and mortgages, especially the lucrative secondary sub-prime market. **Goldman Sachs** hired three senior municipal bond traders in June, including David Winkelried, Hector Negroni from Societe Generale, and Robert Jacobson from Merrill Lynch. **Morgan Stanley** had a number of departures from its municipal bond desk following the retirement of department head of William O'Keefe.

- **One thing remains constant in this industry: The quality of the relationships still determines derivatives activity just as it does bond issuance. There remains a strong correlation between municipal bond underwriting and derivative activity at the top-tier banks.**

The $2 billion municipal bond market benefited for much of 2005 from a favorable spread over Treasuries and became one of the top performing debt products. The market also didn't suffer from over demand due to the lack of international buyers owning the assets. Munis tend to do better in rising rate environments than taxable alternatives because of their stable base of "buy and hold" investors. Total municipal issuance totaled $208 billion in the first half of 2005, a 10.4% increase from the $188 billion issued in the same period last year.

Negotiated financing has become the preferred method of selling muni bonds as opposed to an auction sale, which has dwindled to less than 20% of the market. Of the $360 billion in debt sold to U.S. municipalities in 2004, 81% was arranged without competitive bidding.

The industry could return to its auction roots, however, after the New York State Court of Appeals ruled in June that securities firms have a fiduciary duty to disclose any conflicting relationships in connection with pricing securities to their clients. The case, EBC I Inc. v. Goldman Sachs, was similar to the Orange Country v. Goldman case in 1998, and could lead firms to go back in time and offer auction-style sales of muni bonds, according to at least one market observer. The Jefferson County, Alabama scandal – where JPMorgan led a series of negotiated derivative transactions that were $45 million higher than the interest rate swaps should have been – could also lead to a return to more auctions.

2006 OUTLOOK

Municipal derivatives will remain a North American story for the most part as spreads continue to tighten amid more competition. Some banks are seeking to establish beachheads in Europe and especially Asia in 2006-7, but no concrete plans have been established. **Many regional firms will look to penetrate markets as category leaders reduce their emphasis on municipal finance.** Merrill Lynch and Citigroup are the best-positioned firms because they offer clients a full-range of services from arb trading to the institutional side. Lehman's renowned sales and trading desk may be negatively impacted by the departure of Drew Levinson. **UBS and Wachovia seem as if they are the most intent on growing their respective municipal finance businesses in derivatives and secondary sales. Municipal bond activity is expected to rise due to the catastrophic events in the Gulf Coast.**

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COMPENSATION

- **Up 5 to 10% on average, with derivatives professionals making significantly more than municipal bond sales and traders.**

A director with three years of experience trading muni derivatives can expect to make as much as $900,000 in total compensation this year, up 15 to 20% over 2004 on average. The biggest breadwinner in the category is the global head of muni securities, who can earn on average $4.5 million on the trading side. The global head of muni derivatives and the global head of muni banking report to the head of securities at most banks.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)*

		BASE	BONUS
Associate	1-3 Years	**60-80K**	**75-100K**
	3rd Year +	**70-90K**	**100-125K**
VP	1-3 Years	**90-100K**	**150-200K**
	3rd Year +	**100-125K**	**250-300K**
Director	1-3 Years	**150K**	**500-700K**

	TOTAL COMPENSATION
Global Head-Sales	**1.5-2 MM**
Global Head Muni Securities	**3.5-4 MM**
Global Head Banking	**1.5-2 MM**

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*

		BASE	BONUS
Associate	1-3 Years	**60-80K**	**75-100K**
	3rd Year +	**70-90K**	**100-125K**
VP	1-3 Years	**90-100K**	**175-250K**
	3rd Year +	**100-125K**	**400-500K**
Director	1-3 Years	**150K**	**600-800K**

	TOTAL COMPENSATION
Global Head-Trading	**2-2.5 MM**
Global Head Muni Securities	**4-4.5 MM**
Global Head Banking	**2 MM**

* Most managing directors and heads earn Bases of around $250K.

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LEAGUE TABLE

US MUNICIPAL BONDS

9 Months Thru 9/30/05				9 Months Thru 9/30/04			
Bookrunner	Share (%)	No. of Issues	Total ($BN)	Bookrunner	Share (%)	No. of Issues	Total ($BN)
Citigroup	15.4	536	47.3	UBS	13.6	630	25.4
UBS	11.8	653	36.4	Citigroup	11.5	481	21.3
Merrill Lynch	8.0	270	24.7	Lehman	8.3	171	18.0
Lehman Brothers	7.0	204	21.4	Merrill Lynch	7.1	210	14.9
Bear Stearns	6.0	125	18.5	Goldman Sachs	6.9	135	12.8
Morgan Stanley	5.0	187	15.5	JPMorgan Securities	6.6	326	12.6
JPMorgan Securities	4.9	278	15.2	Morgan Stanley	5.6	180	10.5
RBC Dain Rauscher	4.8	548	14.7	Bear Stearns	5.4	134	9.7
Goldman Sachs	4.4	120	13.4	RBC Dain Rauscher	4.2	537	7.6
BofA Securities	3.7	294	11.5	BofA Securities	3.9	243	7.0
Industry Total: $308.0 BN				Industry Total: $266.6 BN			

Source: IDD.

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Evan Boulukos	Muni Cash Trader	Lehman Brothers	Citigroup	New York
Robert Jacobson	Managing Director	Merrill Lynch	Goldman Sachs	New York
Drew Levinson	Municipal Sales Manager	Lehman Brothers	TBD*	New York
Anthony Mancini	Muni Cash Trader	JPMorgan	Morgan Stanley	New York
Hector Negroni	Municipal Bond Trader	Societe Generale	Goldman Sachs	New York
Ronald Windisch	MD, Head of new municipal finance group	Morgan Stanley	BNP Paribas	New York
David Winkelried	VP, Intermediate Securities Trader	Internal Promotion	Goldman Sachs	New York
David Bradberry	Trader for agency, municipal and zaito agency bonds.	Citigroup Europe	Nikko Citigroup	Tokyo

* TBD: Levinson hadn't joined another firm as of Oct. 15.

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STRUCTURED CREDIT

Structured Credit, predominately in the form of correlation trading and synthetic collateralized debt obligations (CDOs), continues to expand through 2005 as demand to generate returns with more exotic, or structured products, accelerated throughout the year. With limited staffing pools with experience and more banks expanding in this category, many professionals jumping firms saw compensation increases of as much as 50%. Most hiring has been by banks looking to expand their presence in structured credit, as opposed to replacing departees.

Volumes in synthetic CDOs, including correlation trades, have been driven up this year and until mid-year most major dealers had been continuing to staff up this area. CDOs aren't riskless and when S&P cut General Motors's credit rating to junk in May, some CDO investors may have lost about 15% on certain trades, according to one *Bloomberg* story. While no one says CDOs are accidents waiting to happen, the lack of transparency has driven away some of the bond market's more traditional investors.

Bank consolidation in the U.S. has opened the door for smaller banks to enter the market, as well as for international players including **Barclays Capital** and **RBS Greenwich Capital** to build their U.S. presence. One example is **RBS'** hiring of Farzin Pourmokhtar as head of product management, structured credit, in July from Bank of America, where he reports to product head Vincent Dahinden.

At the beginning of the year, many banks were looking to build up their proprietary desks with correlation traders, although this demand dissipated when correlation products sold off in May. Demand for structurers and traders to do illiquid asset structuring is building, and this is likely to pick up in the coming year due to the high margins generated from the deals. As a growing area banks are hiring employees with backgrounds in asset-backed securities, derivatives and interest-rate structuring backgrounds.

COMPENSATION

- **Up 15 to 20% on average over 2004**
- **This increase is due less to superior performance and more to the fact that there is a real lack of experienced professionals and banks are accelerating major structured credit build-outs.**

Many credit traders are likely to see remuneration suffer this year as many auto and correlations traders suffered losses in volatile markets.

Traders with good performances will likely see up bonus levels, although they are unlikely to see significant increases this year. Senior credit traders – with 5 to 10 years experience – are the most in demand as banks seek out traders with experiences in different credit cycles. Demand for traders on proprietary desks is also strong. This in turn is driving up competition for employees, and leading to higher compensation costs. Two-year guarantees for personnel, however, continue to be rare.

Professionals with experience executing so-called tax arbitrage deals, in which structured products are designed to meet tax and regulatory needs of clients, are also in strong demand. There is a shortfall of people with this knowledge and experience in executing deals (see the Structured Tax Products section for more details).

FOR SALES AND TRADING PROFESSIONALS WORLDWIDE *(US$)*

		BASE	BONUS
Associate	1st Year	**80-90K**	**50-75K**
	2nd Year	**85-95K**	**100-150K**
	3rd Year	**90-100K**	**150-200K**
VP	1st Year	**100-120K**	**250-300K**
	2nd Year	**120-140K**	**300-350K**
	3rd Year	**130-150K**	**350-500K**
Director	-3 Yr Exp	**150K**	**600-800K**
	+3 Yr Exp	**150K**	**800-1.2MM**
MD	-3 Yr Exp	**200K**	**1.4-2.2MM**
	+3 Yr Exp	**200K**	**2.5-3 MM**

	TOTAL COMPENSATION
Global Head	**7-8 MM**
Head of Europe	**6-7 MM**
Head of Asia	**5 MM**
Head of U.S.	**6 MM**

* Most unit heads earn bases of around $250K.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Petra Schwab	Director Flow Securitization	HypoVereinsbank	Dresdner	Frankfurt
Christian Spieler	Structured credit distribution	JPMorgan	Lehman Brothers	Frankfurt
Marcus Badner	MD, Structured credit sales	Morgan Stanley	RBS	Greenwich
Eric Lim	Asia Head of Structured Credit Marketing	Morgan Stanley	HSBC	Hong Kong
Jamie Spence	Director of Structured Credit	TD Securities	HSBC	Hong Kong
Jeffrey Tolk	Asian head of credit structuring	Internal Promotion	HSBC	Hong Kong
Carl Dou	Trader	DRKW	JPMorgan	London
Paul Horvath	Structured Credit Marketing	JPMorgan	Merrill Lynch	London
Usman Naeem	Associate	DRKW	JPMorgan	London
Frazin Pourmokhtar	Head of product management in U.K. structured credit and equity products	Bank of America	Royal Bank of Scotland	London
David Madon	Managing Director	Commerzbank	DrKW	New York
Greg Mount	Structured Credit Business.	Goldman Sachs	Grey Wolf Capital	New York
Neil Servis	Co-heads of European CDO's	Internal Promotion	Citigroup	New York
Sunita Ganapati	Head of the bank's proprietary structured credit investment book	Lehman Brothers	Wells Fargo	San Francisco
Aditya Bhugtiar	VP, Structured Credit Sales	ABN Amro	Deutsche Bank	Singapore
David Crammond	EX Asia-Pacific head of structured credit sales	ABN Amro	Markit	Singapore
Hideyuki Kudo	MD, Marketer, Structured Credit Origination	Dresdner	HSBC	Tokyo

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STRUCTURED FINANCE (ABS AND CDO'S)

Thanks to a robust mortgage lending deal market, issuers globally completed more than $1.4 trillion of structured-finance transactions during the first nine months of 2005. That represents a 30% jump from the year ago sum of $1.1 trillion, and is already about the same as the full-year 2004 total, according to *Asset-Backed Alert's* ABS Database.

ABS volume increased year-over-year due to the continued strength of the home equity loan sector. Higher municipal issuance was driven by increased refunding activity. **Options Group Intelligence Unit indicates that ABS and cash CDO volume is beginning to pick up considerably and we expect that trend will ramp higher in 2006.** Experienced sales and trading personnel (VP or greater) are in demand with ABS structurers in short supply. Global asset-backed issuance increased 25.3% to $625 billion in the first half of 2005, up from $456 billion issued during the same period a year ago, according to *Investment Dealers Digest.*

Mortgages, headed by home equity loans, continued to drive demand as the securities continued to flourish amid low interest-rates. Mortgage originators and specified traders are among the most in demand. Experienced proprietary traders are also hotly chased, with demand for experienced traders outstripping supply.

Mortgage-backed traders are continuing to negotiate guarantees for as long as three years for banks aggressively aiming to ramp their presence in the market, and two-years for more established operations.

The global CDO market is thriving thanks to synthetics and correlation deal activity this year. Overall, banks bookran over $125 billion in the first nine months of 2005, up from $83.5 billion during the same period last year, according to *IDD*. Demand for structurers with experience in so-called correlation, or single tranche deals, was strong in 2005 as investments in the products continued their explosive growth in spite of mid-year volatility. **Growing trading of cash CDOs in the secondary market has led to increased demand for traders with experience trading the assets.**

HOME EQUITY LOANS

Demand by banks to develop principal finance operations that securitize sub-prime home equity loans led hiring demand, with home equity associates earning wages as high as $400K.

Although the desks are small, typically employing fewer then six people, demand for experienced employees able to securitize the assets outstripped supply, **causing average pay to rise by as much as 60%.** Banks building their home equity loan operations have also been raiding accounting firms, which have been unable to compete with investment banking salaries.

Non U.S.-based banks such as BNP Paribas, Societe Generale, Barclays Capital and HSBC have been among those building their principal finance capabilities. Revenue generated from this sector typically outstrips those of other asset-backed securities such as auto loans and credit card receivables. Revenue from principal finance – which utilizes the balance sheet of the bank – was also higher than the bank's underwriting business, which is fairly commoditized.

2006 OUTLOOK

Demand for structurers and traders to do illiquid asset structuring is building, and this is likely to pick up in the coming year due to the high margins generated from the deals. While Lehman, Bear Stearns and RBS lead the structured finance marketplace, JPMorgan and Bank of America were seen building up their ABS businesses in the late summer and fall and should be larger players in 2006, according to the Options Group Intelligence Unit. **Synthetic ABS also is expected to be a big market story next year.**

COMPENSATION

- **Up 10 to 20% over 2004 on average**
- **The best-compensated people in structured finance are those in ABS, with global heads expected to take home average total pay of $5.5 million. European and U.S. heads should see total comp of anywhere from $3 to $5 million, while regional heads of research should see 2005 pay of $1.1 to $1.25 million on average.**

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)*

		Base	Bonus
Associate		**80-125K**	**80-100K**
VP	1-3 Years	**100-125K**	**100-200K**
	3rd Year +	**125K-150K**	**300-600K**
MD	1-3 Years	**150K**	**500K-1 MM**

	Total Compensation
Global Head	**4-5 MM**
Head of Americas	**3-3.5 MM**
Head of Europe	**3-4 MM**
Head of Asia	**2.5-3 MM**
Global Head of Research	**2 MM**
Regional Head of Research	**1.1-1.25 MM**
Regional Head of Structuring	**2 MM**
Head of Structured Products	**3.5 MM**
Head of Product Development	**1.5 MM**

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*

		Base	Bonus
Associate		**80-125K**	**80-100K**
VP	1-3 Years	**100-125K**	**100-300K**
	3rd Year +	**125-150K**	
MD	1-3 Years	**150K**	**100-300K**

	Total Compensation
Global Head	**6-7 MM**
Head of America	**4-5 MM**
Head of Europe	**4-5.5 MM**
Head of Asia	**3-4 MM**

* Most unit heads earn bases of around $250K.

LEAGUE TABLES

Lehman Brothers continues to be the leading bookrunner of worldwide structured finance issuance through the first nine months of the year, according to *Asset-Backed Alert*. RBS jumped to second place after strong second and third quarters, up from sixth place after the first nine months of 2004.

JPMorgan and **Banc of America** are building up their ABS businesses and should be larger players in 2006. BofA hired Andrew Allan from UBS to head its European ABS syndicate and trading desk. ABN Amro lost two key executives in 2005 when Apea Koranteng, global head of structured capital markets, and John McCarthy, global head of structured capital, left the Dutch firm.

Merrill Lynch maintained its lead in the global CDO tables, largely due to its strength in cash flow transactions. **Citigroup** rose to second place in the first nine months of the year, from fourth place last year.

In European ABS, **Deutsche Bank** maintained its hammerlock on the industry through the first nine months of 2005, according to *Asset-Backed Alert*. **Morgan Stanley** jumped from fourth in 2004 to second and Merrill Lynch's market share increased from 4.2% in the first nine months of 2004 to 6.8% this year.

STRUCTURED FINANCE*

9 MONTHS THRU 9/30/05				9 MONTHS THRU 9/30/04			
Bookrunner	Issuance ($MM)	# of Deals	Market Share (%)	Bookrunner	Issuance ($MM)	# of Deals	Market Share (%)
Lehman Brothers	120.1	173	8.4	Lehman Brothers	98.4	180	9.0
RBS (Greenwich)	109.3	172	7.7	Citigroup	88.5	179	8.1
Bear Stearns	108.3	192	7.6	Credit Suisse	84.6	172	7.7
Morgan Stanley	99.6	123	7.0	Bear Stearns	81.2	167	7.4
Citigroup	99.5	164	7.0	Banc of America	78.7	140	7.2
Credit Suisse	96.2	169	6.7	RBS (Greenwich)	78.6	152	7.2
Deutsche Bank	94.1	176	6.6	Deutsche Bank	72.8	175	6.7
Merrill Lynch	93	142	6.5	Countrywide Sec	72.3	98	6.6
Banc of America	90.5	154	6.3	Morgan Stanley	70.8	152	6.5
JPMorgan Chase	78.7	121	5.5	JPMorgan Chase	57.6	122	5.3
Goldman Sachs	74.4	120	5.2	Merrill Lynch	55.5	102	5.1
Industry	1,425.6	1,975		Industry	1,093.6	1,944	

Source: Asset-Backed Alert.

* Includes ABS, CDO, MBS and CMBS.

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Abhinav Gorawara	Head, Retail Structured Products, Strategic Solutions Group	JPMorgan	Merrill Lynch	Hong Kong
Eric Lim	Asia Head of Structured Credit Marketing	Morgan Stanley	HSBC	Hong Kong
William Ross	Director, ABS Asia-Pacific	ABN Amro London	HSBC	Hong Kong
Monique Sin	Structured products desk	JPMorgan	Merrill Lynch	Hong Kong
Steve Wong	Head of Credit Structuring for Asia	UBS	RBS	Hong Kong
Tetsuo Majima	Structuring	Deutsche Bank	Barclays	Japan
Roy Cantu	Director, Senior ABS trader	Deutsche Bank	Barclays Capital	London
Miray Muminoglu	Director, ABS global syndicate	JPMorgan	Barclays Capital	London
Nick Nassuphis	Managing Director, Head of equity exotic and structured product derivatives	CSFB	Barclays	London
Birju Shah	VP, European real estate structured finance group	JPMorgan	Deutsche Bank	London
Kory Sorenson	Director, Financial Institutions, Insurance	CSFB	Barclays Capital	London
Birgit Specht	Head, Securitization Research	Dresdner	Citigroup	London
Andre Vollman	Structured Finance Analyst	Standards & Poor's	Cairn Capital	London
Brian Bernard	MD, ABS (Home Equity)	RBS Greenwich	JPMorgan	New York
Scott Davidson	MD, ABS principal	JPMorgan	Amaranth Advisors	New York
Paul Deards	Sales manager, International Capital Solutions group	Citigroup	Nomura	New York
Dave Duzyk	MD, Head of Term ABS and MBS Origination	RBS Greenwich	JPMorgan	New York
Alla Gil	MD, Financial Strategy	Citigroup	Nomura	New York
Kris Kraus	MD, CDOs	CSFB	Barclays Capital	New York
Ketan Parekh	Director, ABS	Ameriquest	UBS	New York
Anasuya Dhoraisingam	Head of Debt Finance	Deutsche Bank	HSBC	Singapore

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Equities Overview

EQUITIES OVERVIEW

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EQUITIES OVERVIEW

$20 billion: That figure, which is predicted to be the size of the global equity derivatives market by 2007 according to the Boston Consulting Group, is increasing the demand for all sorts of products from institutional investors. As fixed income revenue flattens, structured products, exchange-traded products and equity-linked capital structures have become all the rage at the big banks. In 2004, estimated pre-tax margins were 40% for Over-The-Counter (OTC) and structured products like exotic options. Last year, global profits in OTC and structured products reached $4.4 billion, an astounding 68% of revenue, according to BCG.

The word is clearly out and top-tier U.S. and European banks will have to pay up significantly to retain talented derivatives employees. European firms such as **Societe Generale, Calyon** and **BNP Paribas** hired dozens of people from competitors in their bids to build out their structured products and overall equity derivatives business.

While convertible bonds, one of three areas of equity derivatives, have lost a bit of their luster, overall equity derivative activity is estimated to grow by 10% to as much as 30% per year for the next 24-48 months, depending on the region. Global exchange-traded market contracts are run primarily from U.S. desks, while Europe handles the majority of the OTC equity-linked structured contracts. The trick will be how fast new execution systems can lower trading costs as more and more investors jump into the game, decreasing profit margins worldwide, according to the Options Group Intelligence Unit.

Program trading, once a new product itself, is now being combined with bank's equity cash businesses to lower costs. More dollars are being shifted to prime brokerage departments to win more and more hedge fund trading business. This trend began in the U.S. in 2003 and 2004 and really became a major growth story in Europe in 2005. **Options Group Intelligence Unit expects the race for brokerage accounts to accelerate in Europe and Asia in 2006.**

Options Group Intelligence Unit estimates that payouts are expected to be up 20% worldwide at top-tier banks on average.

GLOBAL EQUITY OFFERINGS

2005 (THRU 9/20/05)				2004			
Adviser	Share (%)	Total ($MM)	Fees (%)	Adviser	Share (%)	Total ($MM)	Fees (%)
Goldman Sachs	9.3	26,169	3.42	Morgan Stanley	10.8	43,814	3.17
UBS	9.2	25,855	3.09	Goldman Sachs	10.7	43,049	3.73
Citigroup	8.9	25,001	4.08	Citigroup	9.6	38,772	3.68
Morgan Stanley	8.6	24,124	3.32	Merrill Lynch	8.8	35,446	3.72
Merrill Lynch	8.3	23,344	3.51	UBS	7.1	28,850	3.54
JPMorgan	6.1	17,196	3.37	JPMorgan	5.2	21,116	3.61
Deutsche Bank	4.8	13,595	3.51	Deutsche Bank	4.8	19,219	3.09
CSFB	4.7	13,182	3.40	CSFB	4.1	16,590	4.14
Lehman Brothers	4.3	12,065	3.88	Lehman Brothers	3.6	14,409	3.67
Nomura Holdings	2.7	7,558	3.17	Nomura Holdings	3	12,227	4.35
Industry		280,366	3.56	Industry		403,878	3.70

Source: Bloomberg.

ASSET MANAGEMENT

Quantitative investment management continued to grow in popularity amongst asset managers this year as institutional investors continue to tilt their allocations to computer driven strategies, index funds, and alternative investments. Such institutional investors are increasingly loath to pay higher management fees typically associated with actively managed equity portfolios. **Asset managers, especially at leading firms such as Goldman Sachs, UBS and JPMorgan, have had great success in tilting their overall asset management products to include higher-margin hedge fund, fund of hedge fund, and private equity products.**

This trend continues to be the great growth opportunity for the category, and significant banks/money managers such as Merrill Lynch, Bank of America and Morgan Stanley are seeking to provide more alternative investment vehicles to clients. **Citigroup**, as if to stamp its own note of authenticity to this seminal shift, sold its traditional asset management business to **Legg Mason** in return for the Baltimore-based company's retail brokerage business earlier this year. The world's largest financial services company officially shuttered its asset management unit - with $460 billion in assets - shortly after. It re-branded the unit alternative investments and is now intent on concentrating more of its resources to the category to catch up to rivals Goldman Sachs and JPMorgan, among others.

Many asset managers have poached teams as part of a strategy to "buy" a franchise. For example, this year HSBC hired Richard Lindquist, as head of U.S. high yield, and six members of his team from Credit Suisse Asset Management. CEO Michael Kenneally also was replaced at the end of July and replaced by David Blumer.

2006 OUTLOOK

This hedge fund flow isn't likely to dry up anytime soon either. The California Public Employees' Retirement System (CalPERS), which offers retirement services to some 1.4 million California workers, this year doubled its pension investments in hedge funds to $2 billion. It also has additional allotments in fund of hedge funds. This portfolio shift has led to a trickle-down effect among other U.S. pension funds across the U.S. - a trend that should only continue into 2006 and 2007.

COMPENSATION

- **Up 10-15% on average over 2004, with higher payouts for managers of alternative investments**

An increasing focus by asset managers on retaining assets, rather than just collecting new ones, has shifted the balance of pay to some degree from sales personnel to portfolio management, marketing and customer relationship. **The fact that Morgan Stanley, Bank of America, Citigroup and Merrill Lynch are all seeking to bulk up their alternative investments units is great news for experienced middle- and front-office personnel at Goldman Sachs, JPMorgan and UBS.** Those firms quickly moved into this space and were the most profitable. (Thus, they are also the best compensated, at least for now.)

AVERAGE TOP – TIER BANK PAY WORLDWIDE – MIDDLE OFFICE* (US$)		BASE	BONUS	AVERAGE TOP – TIER BANK PAY WORLDWIDE – FRONT OFFICE** (US$)		BASE	BONUS
Associate	1-3 Years	80K	30-50K	Associate	1-3 Years	80K	40-60K
	3rd Year +	100K	40-60K		3rd Year +	100K	60-80K
VP/Dir.		125-150K	100-150K	VP/Dir.		125-150K	150-200K
MD		300K	600-700K	MD		300K	800K-1.2MM

	TOTAL COMPENSATION (OVER $10 BN IN ASSETS)		TOTAL COMPENSATION (UNDER $10 BN IN ASSETS)
Global Head of Investment Services	800K-1.2MM	Global Head of Investment Services	600-700K
Global Head of Sales/Distribution***	1.5-2MM	Global Head of Sales/Distribution***	1-1.5MM
Chief Investment Officer	1.75-2.25MM	Chief Investment Officer	1.25-1.75MM

* Includes accountants, legal, compliance and operational risk managers

** Includes portfolio management, trading and sales

*** Not including alternative investments.

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Mohamed El-Erian	President	PIMCO	Harvard Management	Boston
Peter Nadosy	Interim Chief Investment Officer	Morgan Stanley	Harvard Management	Boston
Alec Litowitz	Partner	Citadel	Magnetar	Chicago
Carolyn Patton	Director, Global consultant relations	Morgan Stanley	Janus Capital Group Inc	Denver
Alastair Haddow	CIO	Aegon Asset Management	Epic Investment Consulting	Glasgow
Anthony Muh	Head of Hong Kong Office	Citigroup Asset Management	Alliance Capital	Hong Kong
Bill Wicker	Head, Asian Investment Banking	Goldman Sachs	Goldman Sachs	Hong Kong
Knut Dahl	MD, European Asset Management	Putnam Lovell NBF	Bear Stearns	London
Heather DeGarmo	Portfolio Manager for European long-short credit fund	Goldman Sachs	BGI	London
Paul Haines	Asset Manager	Lane Clark & Peacock	DMGT Pensions	London

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PEOPLE MOVES (CONT'D)

NAME	TITLE	FROM	TO	LOCATION
Deborah Harris	European Head of Consultant Relationships	Dermot Keegan	ABN Amro Asset Management	London
Adam Hughes	Intermediary Business Manager	Britannic Asset Management	Neptune Investment Management	London
Thomas Kalaris	Chief Executive of Wealth Management	Internal Promotion	Barclays	London
Marc Russell-Jones	Sales to Investment Managers	Bank of New York	Northern Trust	London
Andrzej Skiba	Credit Analyst	Goldman Sacks	BlueBay Asset Management	London
Michael Slater	Custody & Asset Administration Sales	HSBC	Northern Trust	London
Scott Stevens	Head of institutional & retail marketing	Deutsche Asset Management	F&C Asset Management	London
Andre Van den Heuvel	Head of Institutional Sales & Client Servicing	Achmea Global Advisors	Merrill Lynch	London
Ben Williams-Thomas	Custody Sales to European Pension Funds	JPMorgan	Northern Trust	London
Steve Audi	Partner	Resurgence Private Equity	Balance Asset Management	New York
Pascal Biville	COO	Calyon	BNP Paribas	New York
Alastair Borhtwick	MD, Head of Investment Grade Debt	Goldman Sachs	Banc of America	New York
Katherine Davisson	MD, East Coast Prime Brokerage Sales	Goldman Sachs	Banc of America	New York
Craig Elkind	Portfolio Manager	Satellite Asset Management	SAC Capital	New York
Vineet Kapur	MD - Asset Management	Morgan Stanley	Blackstone	New York
Saker Nusseibeh	Portfolio Manager	SG Asset Management	Fortis Investments	New York
Bruce Pflug	MD, Head of Institutional Business Development	Pimco	HSBC	New York
Kevin Robik	Founding Partner	Bear Stearns	Balance Asset Management	New York
Richard Schmidt	Former Lead Portfolio Manager	JPMorgan Asset Management	Resigned	New York
Loren Starr	EVP, Chief Financial Officer	Janus Capital Group	Arnvescap	New York
Avtar Vasu	Chief Investment officer	Putnam Lovell NBF	Wood Creek Capital Management	New York
Emeric Challier	Head of Fixed income	Fortis Investments	Axa Investment Managers	Paris
Daniel Charles	VP, Institutional Sales	Bank of America	Janus Institutional Management	St. Louis

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CONVERTIBLE BONDS

Convertible arbitrage trading strategies are suffering their worst year on record as overcrowding by funds and proprietary desks, tight credit spreads and low volatility squeeze returns. Trading losses increased demand by investors to redeem investments. High profile hedge funds, due to widening credit spreads in the automotive sector in early May, were dealt severe blows related to credit and credit derivative positions. **The subsequent sell off of bonds to meet redemption demand has pushed down prices, and low volatility is also eroding the value of the bond. This is leading to investor demand for higher yields on new issues, which is further subduing new convertible sales.**

The failure of quantitative-based trading systems to generate profits has led to a move away from traditional convertible arbitrage, which involve purchasing convertible securities and shorting the corresponding stock in an attempt to exploit pricing errors. Long and short and cross-asset volatility strategies are increasingly being added to convertible trading, which is leading to demand for traders with experience analyzing debt and equity securities based on fundamentals, and with specific sector expertise. Last year, convertibles and capital structure arbitrage were split into two separate businesses as well.

Banks and hedge funds are similarly reshaping their convertible arbitrage operations from a lateral desk, which may house traders specialized in credit derivatives, bonds or stocks, for example, to a more silo-based approach, which perform fundamental analysis on company securities. Convertible trading has also been merged with fundamental credit trading teams in such banks as Goldman Sachs, JPMorgan Chase and Deutsche Bank, although its business is a fraction of the size of the other two banks. **Deutsche Bank's convertibles business "blew up" earlier this year and its key people were moved to London to work on credit derivatives and other products, according to the Options Group Intelligence Unit.**

This year, convertible arbitrage hedge funds lost 4.6% through July on average, according to the Hennessee Group. This compares with average returns of 1% last year, and 10% in 2003. Funds reported to have thrown in the towel on convertible strategies include Marin Capital Partners, which returned its $1.7 billion in management to investors.

Investors withdrew around $1.8 billion from convertible bond strategies in the first quarter of this year, the biggest outflow in more than a decade, according to Tremont Capital's hedge fund database. The Merrill Lynch All U.S. Convertible Index, which tracks convertible bonds, fell 3.3% in April, almost twice the decline in the benchmark Standard & Poor's 500 Index, amid reports that funds had to sell the securities to meet redemptions requests from investors. Hedge funds are estimated to own around 75% of all convertible bonds.

2006 OUTLOOK

In Europe, Options Group Intelligence Unit noticed a slight upturn in market conditions towards the end of the summer. That could bode well for the European convertibles market next year. Asia – which had a 40% increase in convertible issues in 2004, according to the Boston Consulting Group – could also see some upside.

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COMPENSATION

- **Down 10-15% on average**
- **Converts has become a cyclical business and pay will likely be lower by 10% to 15% after a generally subpar 2005.**
- **A head of convertible bond sales in the Americas should expect to see a 15-20% drop in pay, from $1.6 million, on average, to around $1.3 million. Europe and Asia sales and traders should expect less of a drop in 2005.**

Hiring in convertible trading has been decreasing as the market reduced returns. Some of the best performing banks in the areas, however, have been upgrading personnel and there has been some strategic movement. Banks are expected to pay well to keep their strongest traders, although compensation overall if not likely to rise much from last year. An uptick in convertible issuance is needed in order to kick start secondary trading of the securities.

Traders with quantitative backgrounds, who use programs to make trading decisions, had been in vogue since 2001. Tight credit spreads and low volatility in 2003 and 2004, however, dried up many of the opportunities to exploit mispricings. Senior convertible traders, with more than five years experience, can expect to earn between $800,000 and $1 million, while juniors with between 3 to 5 years may be paid between $400K and $500K.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)*		BASE	BONUS	AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*		BASE	BONUS
Associate	1-3 Years	**60-80K**	**50-75K**	**Associate**	1-3 Years	**60-80K**	**50-75K**
VP	1-3 Years	**100-125K**	**200-300K**	**VP**	1-3 Years	**100-125K**	**300-400K**
MD	1-3 Years	**200K**	**400-500K**	**MD**	1-3 Years	**200K**	**500-700K**

	TOTAL COMPENSATION		TOTAL COMPENSATION
Global Head	**2-3MM**	**Global Head**	**2-3MM**
Head of Americas	**1.2-1.4MM**	**Head of Americas**	**1.5MM**
Head of Europe	**1-1.2MM**	**Head of Europe**	**1.2-1.4MM**
Head of Asia	**1-1.2MM**	**Head of Asia**	**1.2-1.4MM**

* Most managing directors and heads earn bases of around $250K.

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LEAGUE TABLES

JPMorgan continued to top global issuance of convertible bonds, largely due to its strength in Europe, the Middle East and Africa, and in Asia, while **Deutsche Bank** and **UBS** took second and third placing respectively. **Morgan Stanley** continued to top U.S. domestic issuance, followed by **Deutsche Bank**, which rose from sixth place in 2004, and **Goldman Sachs**, up from fourth place. **Citigroup** fell to fifth place, from second last year, and **Lehman Brothers** slipped to ninth, from third place.

JPMorgan rose a notch to take first place for international convertibles from Europe, the Middle East and Africa, taking over from Deutsche Bank which fell to seventh place. Nomura jumped into the top 10 in second place, while UBS rose to third place, from sixth place in 2004. Deutsche Bank fell to seventh position in the region, while Merrill Lynch slipped from third place in 2004, out of the top ten.

GLOBAL CONVERTIBLE BONDS

FIRST HALF – 2005				FIRST HALF – 2004			
Bookrunner	Share (%)	No. of Issues	Total (*$MM*)	Bookrunner	Share (%)	No. of Issues	Total (*$MM*)
JPMorgan Chase	14.4	21	4,490	Morgan Stanley	14.7	37	8,976
Deutsche Bank	9.6	19	2,981	Deutsche Bank	8.6	27	5,258
UBS	8.8	13	2,734	Citigroup	8.1	31	4,942
Morgan Stanley	8.5	14	2,657	CSFB	7.5	20	4,580
Merrill Lynch	6.4	16	1,990	JPMorgan Chase	7.1	28	4,359
Nomura	6.3	6	1,952	UBS	7	21	4,244
Citigroup	6.3	12	1,948	Goldman Sachs	6.9	23	4,240
Goldman Sachs	6.1	7	1,897	Lehman Brothers	6.3	15	3,817
B of A Securities	4.5	7	1,409	B of A Securities	5.2	17	3,167
CSFB	4.5	10	1,390	Nomura	4.8	13	2,953
Industry Total: $31.1 BN				Industry Total: $61.1 BN			

Source: IDD

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Dave Ballard	MD, Convertible Bond Origination	CSFB	Merrill Lynch	New York
Kenneth Stiller	CB Trader	CSFB	Citigroup	New York
Boaz Weinstein	MD, Head of NA Credit Derivatives Trading	Internal Promotion	Deutsche Bank	New York
JP Churchouse	VP, Non-Japan Asia Sales	Nomura	Goldman Sachs	Tokyo
Jeremy Kloiser-Jones	Head of equity derivatives marketing	JPMorgan	Banque AIG Securities	Tokyo

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EQUITY CASH/PROGRAM TRADING

While the majority of overall bank headcounts still reside within the equity cash business, most top-tier firms are increasingly focusing their efforts on derivatives, execution speed and advanced trading systems. Goldman Sachs, Morgan Stanley, CSFB, Merrill Lynch and UBS dominate this category, while Royal Bank of Scotland and Barclays Bank in Europe only offer clients structured and derivatives-related products.

Due to the recurring activity inherent in cash sales and trading, 10 to 15% of all bank profits are still generated in equity cash. Like with equity research, however, it was a lot bigger business before the equities market imploded in 2000-2001. **Now, equity derivatives teams at CSFB and others are seeking ways to incorporate equity cash products into their advanced execution systems. Goldman, for example, is moving products into its Delta 1 System. Goldman's RediPlus and Morgan Stanley's Passport handle a large amount of equity cash trading as well. Merging equities into more advanced trading products makes sense for top-tier firms because they need the enormous flow from equity cash to make winning trades.**

"Equity cash sales traders will continue to be instrumental over the next 2 years," says one Options Group consultant who specializes in the product category. "We are however seeing the emergence of derivatives products being consolidated into fewer salespersons." On the client side, institutions want to see less salespeople and this shift towards consolidation is a welcome trend for the buyside.

The key trend worldwide is that program trading is getting folded into equity cash teams. In Europe, the merging of program trading into equity cash is well under way as Rob Ebert, Deutsche Bank's head of program trading sales, was made co-head of equity cash sales. CSFB also made its program trading head, Naseer Al-Khudairi, co-head of equity cash trading. This trend of combining the two product categories is being done so banks can focus more on algorithmic trading to boost profits further – especially in the derivatives space and on the fixed income and equity prop desks. The latter categories also are coordinating their efforts for capital structure trades.

2006 OUTLOOK

Banks will continue to consolidate program trading into cash equities units because it makes sense in a more advanced execution marketplace. Goldman, Morgan and CSFB will continue to do well, while Merrill Lynch and UBS will accelerate their trend of hiring, especially in Europe. Algorithms, which include increasing speed to market, will remain crucial in the first half of the year. While banks will continue to hire mid- to senior-level program trading employees, equity cash personnel will remain less attractive.

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COMPENSATION

- **Up 10% from 2004 on average**

Options Group Intelligence Unit estimates that the equity cash business will be flat versus last year and program trading payouts should be up around 15% as banks assemble their advanced execution capabilities.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)**				AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*			
		BASE	BONUS			BASE	BONUS
VP	1-3 Years	**90K**	**30-50K**	**VP**	1-3 Years	**100K**	**100K**
Director	1-3 Years	**125-150K**	**350K**	**Director**	1-3 Years	**150-200K**	**400K**
MD	1-3 Years	**200K**	**400-500K**	**MD**	1-3 Years	**200K**	**600-700K**

	TOTAL COMPENSATION		TOTAL COMPENSATION
Global Head - Sales	**4MM**	**Global Head - Trading**	**5MM**
Head of Americas	**1.3-1.5MM**	**Head of Americas**	**1.5-1.75MM**
Head of Europe	**1.1-1.3 MM**	**Head of Europe**	**1.3-1.5 MM**
Head Asia	**1.1-1.3 MM**	**Head Asia**	**1.3-1.5 MM**
Global Head – Sales Programs**	**2-2.5 MM**	**Global Head – Trading Programs****	**2.5-2.75MM**

* Most managing directors and heads earn bases of around $250K.

** Options Group Intelligence Unit estimates that equity cash payouts will be flat this year versus 2004 and program trading will be up around 15% on average.

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PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Sam Kellie-Smith	Asian Head of Equity, formerly head of equity derivatives trading in London	Relocation	Morgan Stanley	Hong Kong
Joe Butler	Algorithm sales	Lehman	Dresdner	London
Kerim Derhalli	Head, Emerging Market Equities	Internal Promotion	Deutsche Bank	London
Giles Fitzpatrick	Global Head of Equities	ABN Amro	Fox-Pitt	London
Stephen James	VP, Technical Writer for Equities	Lehman	CSFB	London
Ashok Krishnan	Head of algorithm sales	Lehman	Merrill Lynch	London
Jacques Lolieux	Head of Internalization & Cross Networks	Lehman	CSFB	London
Karen Russell	Head of Portfolio sales	Bank of New York	CSFB	London
Peter Sheridan	Head of Algorithm sales	Morgan Stanley	Goldman Sachs	London
Wolfgang Stolz	European Regional Head of Equity Cash & Derivatives	Internal Promotion	UBS	London
Robert Karofsky	MD, Global Head of Program Trading & DMA & Americas Co-Head of Cash Equities	Morgan Stanley	Deutsche Bank	New York
David Manlowe	Americas Co-Head of Cash Equities	Internal Promotion	Deutsche Bank	New York
Tim Gee	Managing Director and Head of Program Trading Sales	Morgan Stanley	UBS	Stamford
Richard Hurst	Head of Equities and Cash Trading	Merrill Lynch	Deutsche Bank	Tokyo

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EQUITY DERIVATIVES

Equity derivatives continues to be among the strongest revenue generators with officials at banks including **Societe Generale, Calyon, Citigroup** and **Barclays Capital** publicly stating plans to grow their franchise with additional hires. **Structured products, which generate higher margins, have been instrumental in pumping up revenues and banks are increasingly setting up cross-asset class groups, which variously sit within bank's equity or fixed income divisions, to structure notes linked to assets as various as commodities, fixed income and funds, in addition to equity.**

SG's equity derivatives head Christophe Mianne said in January the French bank would add an additional eighty equity derivatives professionals to its staff of 1,850 this year in origination, trading and structuring roles. One key hire was Michael Collins from **UBS** to head its U.S. corporate derivatives marketing department. Marc Litzler, former co-head of investment banking at SG, who was instrumental in building the firm's equity derivatives business, joined Calyon in late 2004 and said the bank wants to triple revenue from equity derivatives to 600 million euros by 2007. In July, the bank also hired Fabien Hajjar from Societe Generale to head equity derivatives as part of this project. HSBC also built its presence in equity structured products in July with the hire of Christophe Chazot, head of proprietary trading at Dresdner, as global head of structured equity. Other hires: In September, **BNP Paribas** hired a half-dozen equity derivatives professionals, including five from Nomura Securities, to fill slots in its newly-created Quantitative Electronic Strategic Trading (QUEST) unit. The French bank also hired Todd Steinberg from Wachovia.

With still lukewarm initial public offerings and merger and acquisition activity, several banks have been shifting resources away from the monetization of single stock positions towards growing the equity structured products business. A recent return Equity and fixed income structured products are also becoming increasingly integrated and several banks also merged their equity and fixed income structured products businesses to develop more hybrid structures. **Barclays Capital, Wachovia** and **JPMorgan Chase** have all continued to build out their structured product teams this year.

It should come as no surprise really since desks can generate as much as $500 million in revenue with only two dozen people. The typical bonuses in this field are likely to be extremely competitive or banks will lose people in 2006. Structurers with strong quantitative and risk management skills and compliance officials are increasingly in demand as demand in structured product group to generate fund and hedge fund-linked products take off.

2006 OUTLOOK

The integration between fixed income and equity structured product groups may lead to some redundancies. Demand in second and third-tier banks that have not yet developed structured product franchises, however, may absorb much of this excess. With their higher margins, Structured products should continue to dominate the category as options sales and trading becomes increasingly commoditized part of a full-service bank's client services.

COMPENSATION

- **Overall: flat to 5% increase on average vs. 2004, with more possibility of upside in Europe.**
- **Options sales and trading: flat to 5% increase**
- **Structured Products: 5-10% increase**

Structured products sales and traders typically make 10 to 20% more than options employees because they provide higher profits to the bank. Options traders often make 5 to 10% more than sales personnel on average, although a piece of a sales P&L goes to the trading desk.

On average, a trader that produces $5 million to $10 million in revenue for a firm will typically receive a bonus of 7 to 9% of the P&L – depending on the overall profits of the firm of course. A star salesman with over $10 million in revenue can take home a maximum of around 12% of that total.

Long/short fundamental-based trading has been the most profitable arena within equity-linked proprietary trading and this has also been the area in which banks have expanded the most, and seen the most movement. Although the greatest revenue producer, long/short traders may see bonuses pulled down by underperformance of other strategies in macro portfolios, with which they share bonus pools.

A dearth of equity derivatives professionals with two to four years experience means that even less experienced candidates, due to global demand, will see significant pay increases.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES *(US$)*

		Base	Bonus
Associate	1-3 Years	**70-90K**	**80-120K**
VP	1-3 Years	**100-125K**	**125-250K**
Director	1-2 Years	**150K**	**450-650K**
	3-4 Years	**200K**	**700-900K**

	Total Compensation
Global Head	**4-5MM**
Head of Americas	**3.5-4 MM**
Head of Europe	**2.5MM**
Head Asia	**2-2.7MM**
Global Head Options	**450-650K**
Global Head Structured Products	**550-800K**

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*

		Base	Bonus
Associate	1-3 Years	**80-100K**	**75-150K**
VP	1-3 Years	**125K**	**150-300K**
Director	1-2 Years	**150K**	**500-750K**
	3-4 Years	**200K**	**1-1.2MM**

	Total Compensation
Global Head	**4-6MM**
Head of Americas	**4.5MM**
Head of Europe	**4MM**
Head Asia	**3MM**
Global Head Options	**500-750K**
Global Head Structured Products	**600-900K**

* Most managing directors and unit heads earn bases of around $250K.

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PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Hermann Bader	Director, Strategic Equity Derivatives	JPMorgan	Barclays	Frankfurt
Federico Ursino	Flow Sales	Dresder Kleinwort Wasserstein	CSFB	Frankfurt
Marcus Wedl	Flow Sales	Dresdner	CSFB	Frankfurt
Larry Chan	Nascent equity derivatives trading desk	Standard Bank	Rabobank	Hong Kong
Jessie Fung	Equity Derivatives Sales	Calyon	IXIS	Hong Kong
Shirley Lau	Equity Derivatives Sales	Calyon	IXIS	Hong Kong
Anita Li	Director, Equity Derivative Marketer	Societe Generale	Calyon	Hong Kong
Rahul Mookerjee	Regional Co-Head of DCM	Internal Promotion	Deutsche Bank	Hong Kong
David Ng	Director, Equity Derivative Marketer	Societe Generale	Calyon	Hong Kong
Luca Agostini	Director, Strategic Equity Derivatives	Nexgen	Barclays	Italy
Martin Bertsch	Head of product development	JPMorgan	Lehman	London
Stefanos Bitzakidis	Head of Equity Derivatives	Morgan Stanley	Morgan Stanley	London
Juergen Bossler	Head of sales for Germany and Austria	JPMorgan	Lehman	London
Francesco Cantone	Structured Solutions, Sales – Italy	Merrill Lynch	RBS	London
Craig Coben	Senior Managing Director	Deutsche Bank	Merrill Lynch	London
Salvatore di Stasi	MD, Head of European Equity Derivatives	JPMorgan	Goldman Sachs	London
Gianluca Gera	Executive Director	JPMorgan	Goldman Sachs	London
Andrew Harmstone	Developing quantitative and derivatives equity research	Lehman Brothers	Bear Stearns	London
Hans Hinden	Director of Equity Derivative Sales	Morgan Stanley	Barclays	London
Steve Houghton	Marketer and Adviser to subsidiaries	IXIS Corporate & Investment Bank in London	HBOS Treasury Services	London
Areski Iberrkane	Sr Head of Equity Derivatives Exotics business group	Internal Promotion	Dresdner	London
Axel Kilian	Head of Europe an derivative sales	JPMorgan	Lehman	London
Min-Hee Kim	Managing Director	JPMorgan	Goldman Sachs	London
Nino Kjellman	Head of European equity derivatives trading	Internal Promotion	Deutsche Bank	London
Stephan Kunze	Head of Private Investor Products Marketing	ABN Amro	Deutsche Bank	London
Francesca Lanza	Executive Director	JPMorgan	Goldman Sachs	London
Wilson Lee	Head European real estate finance markets	Lehman Brothers	UBS	London

OPTIONS GROUP

PEOPLE MOVES (CONT'D)

NAME	TITLE	FROM	TO	LOCATION
Javier Martin	Equity Salesman	Citigroup	SG Corporate & Investment Bank	London
Daniel McNeill	VP for Equity Derivatives	ABN AMRO	JPMorgan	London
Henry McWatters	ED, Equity Flow	Goldman Sachs	SG Corporate & Investment Bank	London
Michael Nelskyla	Structured Solutions, Sales – Northern Europe	SG Cowen	RBS	London
Stephen Pearce-Higgins	Executive Director	JPMorgan	Goldman Sachs	London
Steven Phan	MD and Co-head of global structured fund products	Merrill Lynch	HSBC	London
Roberto Protei	Director of Equity Derivative Sales for Italy	Deutsche Bank	Barclays	London
Craig Smith	Head of Fund Linked Trading	Rabo Securities	Commerzbank	London
Arnaud Apffel	Head of European Equity Corporate Derivatives/ Investment Banking Division	Lehman Brothers	Goldman Sachs	New York
Richard Burns	Global head of hybrid products & equity derivative structured products	Internal Promotion	Citigroup	New York
Matthew Carrara	Formerly Head of the Americas, Global Equity Derivatives	Deutsche Bank	Had Not Joined Another Firm	New York
Peter Corrigan	Director of Equity Derivative Trading	Societe Generale	Barclays	New York
Keith Cunningham	Market equity derivatives	Deutsche Bank	Lehman	New York
Timothy Egan	MD, Quant Trading (QUEST), reports to Kyle Rusconi	Nomura	BNP Paribas	New York
David Eliezer	Credit Quant	Goldman Sachs	IFL	New York
David Grimes	Equity Derivatives Trader	JPMorgan	Morgan Stanley	New York
Mike Heraty	Director	Deutsche Bank	BNP Paribas	New York
John Kolb	Head of equity finance	Commerzbank	IXIS North America	New York
Keith Lillis	VP, Quantitative Trading (QUEST), reporting to Kyle Rusconi	Nomura	BNP Paribas	New York
Steven Lu	Manager, Equity Derivatives Trading	BNP Paribas	Barclays	New York
Don Martocchio	Global head of structured equity products and sales	New Position	Bear Stearns	New York
Robert McHugh	VP, Quantitative Trading (QUEST), reporting to Kyle Rusconi	Nomura	BNP Paribas	New York
Scott Milner	Vice President in the Investment Products Group	ABN Amro	Deutsche Bank	New York
Alidad Mireskandari	MD, Quantitative Trading (QUEST), reporting to Kyle Rusconi	Nomura	BNP Paribas	New York

OPTIONS GROUP

PEOPLE MOVES (CONT'D)

NAME	TITLE	FROM	TO	LOCATION
Steve Roti	North American corporate equity derivative marketing	CSFB	Lehman Brothers	New York
Todd Steinberg	Deputy Head of Equities and Derivatives for the Americas	Wachovia Securities	BNP Paribas	New York
Hiroshi Wakutsu	Head of Equity Derivatives	Nikko Citigroup	Calyon	New York
Glenn Wardorf	Director, Quantitative Trading (QUEST), reporting to Kyle Rusconi	Nomura	BNP Paribas	New York
Philippe Avril	Senior Manager	Commerzbank	RBS	Tokyo
Joseph Chan	MD, Asian structured equity products	Merrill Lynch	Bear Stearns	Tokyo
Yoshinori Funato	Executive Director - Equity Risk Management Products	Nomura	UBS	Tokyo
Takayuki Hamada	Analyst - Equity Risk Management Products	Nomura	UBS	Tokyo
Richard Hurst	Head of Equities & Cash Trading	Merrill Lynch	Deutsche Bank	Tokyo
Hiroshi Matsutani	Head of Equity Derivatives Structuring	Internal Promotion	Nomura	Tokyo
Shohei Sakai	Director - Equity Risk Management Products	Nomura	UBS	Tokyo
Michio Yasuda	Head of Equity Solutions	Nomura	UBS	Tokyo
Javier Martin	Director in Equity Derivative Sales	Societe Generale	Barclays	Spain

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EQUITY PROPRIETARY TRADING
(FUNDAMENTAL & QUANTITATIVE)

If there were an epicenter of activity in the financial markets, equity proprietary trading would be it. Prop trading overall has shifted in the last three years from interest rate-driven products to commodities-driven products. Prop trading is just about the only real source of revenue banks can now count on and those firms without a significant presence are bulking up as quickly as possible. **The bottom line: Fundamental and quantitative prop trading has been, is, and will continue to be a high margin business for top-tier banking firms**. A bull market has been good for fundamental (long/short, relative value event-driven, etc.) strategies, while statistical and index arbitrage have been popular on the quantitative side.

The growth of algorithmic trading, as a component of overall equity prop, is just beginning as banks also expand their operations. Six banks took stakes of up to 90% of the Philadelphia Stock Exchange this summer to help fast-track an electronic marketplace that would provide enough liquidity and volatility. Morgan Stanley invested $7.5 million for a 10% stake as did Merrill Lynch and Citadel Derivatives Group. Citigroup, CSFB and UBS spent $3.5 million to buy a 5% stake in the shares outstanding and have the option to take their positions up to 9.9%.

Algorithmic trading has been the build-out project of choice for chief information officers over the past year, and quantitative and IT people with this background are particularly attractive. Systematic trading, technical analysis that eliminates human emotion using stop/loss and other methods to maximize trades, also has become more of a factor as well.

Options Group Intelligence Unit estimates that equity prop could have accounted for as much as 40% of Goldman Sachs' and Morgan Stanley's principal transactions profits this year. The equity prop desks at CSFB, Bear and Lehman may account for up to 20% of principal transactions profits.

In Europe, hirings and compensation in equity-based prop trading will be extremely robust for the second year in a row. Merrill Lynch started building its equity prop unit in Europe last year and is still bulking it up to compete with the prop desks at Goldman, Morgan and CSFB. Morgan's desk made a significant chunk of their profits in long/short equity trading in 2005, as did Goldman and its principal strategies co-heads Pierre Henri Flamand and Raanan Agus.

2006 OUTLOOK

Fundamental and quantitative trading strategies will proliferate as Asia-Pacific banks rapidly assemble their own prop desks. Firms with the best advanced execution systems will be able to outperform those without systematic platforms in place. **Established prop desks will need to pay up in early 2006 to retain talent as second-tier firms offer big comp plus guarantees to woo experienced prop desk personnel.**

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COMPENSATION

- **Up 20% on average versus 2004**

Total pay consists of 8 to 15% of P&L of the portfolio in cash and stock. Increasingly, banks are investing in their internal prop initiatives and desks are being run like internal hedge funds. Guaranteed contracts have already been on the rise and this trend should continue in 2006. Cost per prop desk seat can cost as little as $500,000 and exceed $1 million depending on the existing infrastructure. Total compensation ranges vary by firm, and top producers in this category can make as much as $25 million. Each firm's payouts are based on the balance sheets deployed by the desk.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING *(US$)*

		BASE	BONUS
Associate	1-3 Years	**65K**	**60-80K**
	3rd Year +	**85K**	**100-150K**
VP	1-3 Years	**100K**	**250K**
	3rd Year +	**125K**	**500-700K**
Director	1-3 Years	**150K**	**1MM**

	TOTAL COMPENSATION**
Global Head	**5-7MM**
Head of Americas	**3-5MM**
Head of Europe	**3-5MM**
Head of Asia	**3MM**

* Most managing directors and heads earn bases of around $250K.

** Most compensation is related to a percentage formula payout.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
David Baker	Senior Manager in the Equities Proprietary Trading Group	Internal Promotion	Deutsche Bank	New York
Rahul Bhattacharjee	Director, Equities	Cohen & Steers	Merrill Lynch	New York
Neil Bloomgarden	Senior Energy, Utilities, Metals & Mining Trader	First New York Securities	HSBC	New York
John Devir	Proprietary trader	CSFB	Lehman	New York
Adam Savin	MD, Equity Fundamental Analyst	Merrill Lynch	Morgan Stanley	New York
Jim Stanley	Equity Prop Analyst	SAC Capital	Merrill Lynch	New York
Yuan Zhou	Prop default & prepayment curves	C-Bass	Deutsche Bank	New York
Tim Reed	Senior proprietary trader	Commerzbank	Merrill Lynch	Tokyo

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HEDGE FUNDS

Contrary to numerous media reports, industry experts believe institutional allocations to alternative investments like hedge funds will continue. Most of the biggest hedge funds, such as Citadel, D.E. Shaw and Och-Ziff, continue to attract assets at a rapid pace and are broadening their product offerings.

Distressed investing took off in one of the more unlikely areas in 2005: hedge funds. Billions flowed into hedge funds worldwide, creating more opportunities for well-equipped firms to morph into private equity-like companies and invest directly into beleaguered firms. Hedge funds are increasingly converging with private equity funds, by taking stakes in private companies.

Hedge funds entered the distressed debt/specialty lending market in 2005 and made a lot of investments as larger firms expand their services. GSO Capital Partners, the hedge fund run by Bennett Goodman, agreed to buy RBC Capital Markets to buy its collateralized debt obligation business. The entire team, including its head of debt investments, Daniel Smith, moved to GSO.

In terms of pay, hedge funds – which traditionally don't like giving out large comp guarantees – are now offering up longer-range packages based on formulaic benchmarks to attract talented sell-side pros. **The problem with this trend is that some hedge fund traders find these benchmark formulas difficult-to-impossible to attain based on the amount of risk/leverage they can employ.**

Hedge fund inflows in the second quarter fell to $10.9 billon, a 60% fall on the $27.3 billion raised in the first quarter. Third-quarter inflow information wasn't available by this report's publication deadline, but traditionally inflows rise in this time period. **Through August, emerging markets hedge funds had the best returns in the industry with an average gain of 14% year-to-date, according to the *CSFB/Tremont Index*.** Dedicated short bias funds rose 8% through August and event-driven funds were up 3.4%, according to CSFB/Tremont. Convertible and fixed-income arbitrage, as well as managed futures hedge funds were underwater, down 2% year-to-date through August. **Overall, the average hedge fund was up 7.4% through September versus a return of 2.8% for the S&P 500, according to *Hedge Fund Research*.**

2006 OUTLOOK

Mega hedge funds in the $1 billion-plus range will soon look like the bulge-bracket banks by broadening their profit offerings. The biggest and best known hedge funds continue to raise assets at an astounding pace. This continuing trend to offer more bank-like products to clients is going to make it much tougher for smaller hedge funds in the $50 to $100 million range to compete on a capitalized basis. The big issue is whether upcoming legislation related to hedge funds will effectively weed out unqualified hedge fund managers. The SEC seems serious about shoring up the hedge fund business, but the departure of strong-willed commissioner William Donaldson may leave a cloud over the industry for some time.

COMPENSATION

- **Up 10-15% year-over-year over 2004 on average**
- **Europe and Asia will see more upside as newly-formed hedge funds awash in funds try and attract top-tier talent.**

In spite of a reluctance by investment banks to pay up to increase their teams, bonuses are likely to increase over last year across the board. Analysts that can evaluate companies, assemble due diligence and who have a background in restructuring are in strong demand. Private equity firms and hedge funds are paying more than investment banks to hire junior-junior employees, with those that may be able to earn $75,000 at a bank now joining private equity firms for as much as $100,000 to $150,000.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – TRADING
(US$)

		BASE	BONUS
Associate/ Analyst	1-3 Years	**45-65K**	**10-25K**
	3rd Year +	**70-85K**	**50-80K**
VP/Trader/ Analyst	1-3 Years	**85-100K**	**125-175K**
	3rd Year +	**100-125K**	**250-350K**
Director/ Portfolio Manager		**125-200K**	**10-20% RTP***
Director/Analyst		**125-200K**	**500-800K**

* Portfolio Managers are paid based on % Return To Portfolio (RTP).

Average payout on RTP ranges between 10%-20%, based on size of book.

All remaining revenue-producing personnel are bonused on a discretionary basis and by portfolio performance.

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
David Zezza	Global Head of Rates, EM, Commodities	Deutsche Bank	Citadel	Chicago
Jon Nash	Director of Global Accounts	Western Asset Management	Forsyth Partners	Dubai
Sumit Roy	Head of Credit Derivatives Trading	Citigroup	JWM Partners	Greenwich
Wayne Edelist	Volatility products for hedge fund and institutional clients	Goldman Sachs	Deutsche Bank	Hong Kong
Stanley Ku	FX Trader	Goldman Sachs	Fortress Investment Group	Hong Kong
Steven Rinoie	Head of Leverage Sales/Head of FX Spot	Goldman Sachs	Fortress Investment Group	Hong Kong
George Gay	Assistant fund manager in property team	Morgan Pepper	Thames River Capital	London
Jeff Herlyn	Investment Fund Manager	UBS	Polygon Investment Partners	London
Gly Jones	Chief Executive	Gartmore Partners	Thames River Capital	London
Ben Joseph	Analyst, global emerging markets team	Ernst & Young	Thames River Capital	London
Mehrdad Noorani	Manager of the global credit team	UFJ International	Thames River Capital	London
Kate O'Neill	Head of Henderson's Distribution in Europe	CSFB	Henderson Global Investors	London
Steve Roth	Co-manager of Flagship Fund	Deutsche Bank	GLG Partners	London
Patrick Schartnar	FX Salesperson covering Hedge Funds	Morgan Stanley	HSBC	London
Marc Banker	Co-head of interest rate derivatives sales covering hedge funds	FIMAT	Bear Stearns	New York
Alastair Borthwick	MD, hedge fund sales and head of IG debt unit, reports to Bill White	Goldman Sachs	Banc of America Securities	New York
Andre du Plessis	Senior Investment Consultant	Coronation Fund Managers	Watson Wyatt	New York
Andrew Kelly	UK Equities	Scottish Value Management	Britannic Asset Management	New York
Nicola Meaden	MD, Institutional Marketing	Blackstone	Alpha Strategic	New York
Joseph Russell	Head of Fundamental Credit	CSFB	Citadel	New York
David Stevenson	UK Equities	Scottish Value Management	Britannic Asset Management	New York
Byron Wien	Investment Strategist	Morgan Stanley	Pequot Capital	New York
James Yanello	MD, Senior Utilities Strategist	UBS	Pali Capital	New York
Danny Young	CDS Trader	Lehman Brothers	Citadel	Tokyo

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PRIME BROKERAGE

The increased number of hedge funds and the growth of assets has led to a greater demand for services and ideas from prime brokers. This has resulted in a growing demand across all areas within prime brokerage for experienced individuals, from client service, transition management, structurers, market and credit risk, equity finance and relationship and sales managers. **We are also seeing people enter into the prime brokerage arena from other areas that deal with hedge funds including equity derivatives or convertible bond sales individuals.** A number of individuals at the banks have left to join the buy-side to become chief operating officers, bank or investor relationship managers, or fund raising managers.

The demand for people from other firms and funds will continue, especially in Europe and Asia. This is evidenced by the significant increase in compensation and responsibilities in several moves in 2005. Options Group Intelligence Unit anticipates that compensation levels for the top performers and other areas of demand will be quite strong.

Fixed income, futures and FX prime brokerage are also seeing continuing demand and should see similar increases in compensation. **While equities-related prime brokerage managers are more likely to hire outside the industry, hires within fixed-income brokerage are very specific to the role, according to the Options Group Intelligence Unit.**

With revenues increasing and profits on the rise due to greater efficiencies and the sale of structured products, firms are loath to lose top performers. **Banks want to avoid the perception that they aren't committed to investing in prime brokerage.**

Replenishing the departing ranks resulted in banks having to increase total compensation and aggressively bid back employees, with many employees securing compensation increases of as much as 30 to 35%. **Some prime brokerage employees also benefited from management upheavals in which they took on the added accounts of the departed employees, subsequently increasing their bonus and P&L.**

On the **sales** side, there is a scarcity of technical sales personnel with a "hunter" attitude and specific prime brokerage experience. This type of profile will yield even mid-level personnel compensation upwards of $1 million.

Relationship managers and client transition managers are also seeing strong compensation increases due to demand outstripping the availability of individuals with the skills to develop from a client service rep to a relationship management/client transition rep.

Risk managers - both market and credit risk - are also in very strong demand. The reasoning for this is threefold: the regulatory environment, growing bank concerns regarding hedge fund volatility, and the success of hedge funds in luring away some of the most highly regarded risk managers from the banks.

Banks are also investing heavily in improving their platforms/systems. Accordingly, there is strong demand for technology project managers who can build and enhance the technology infrastructure.

In order to capitalize on the growth of global multi-strategy funds, banks have been compelled to better integrate (either directly or indirectly) their prime brokerage offerings across the asset classes (fixed income, foreign exchange and equities). Some banks, which have been unable to compete in the equity prime brokerage arena due to the barriers to entry, have elected to build specific fixed and/or foreign exchange prime brokerage offerings. These entrants, who include AIG, RBS, and JPMorgan, only have increased demand across the industry.

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COMPENSATION

- **Up 20 to 25% on average globally, with Europe and Asia receiving slightly higher total pay because the talent pool is thinner in those two regions.**

A key bellwether compensation story involves Nick Roe's move from Deutsche Bank in London to Citigroup. His compensation to run Citigroup's European prime brokerage business was reported to be around $3 million annually for 2 years. That has set the bar high for senior prime brokerage personnel, especially since hedge funds also are poaching from the big banks. Examples include Jim Rowen going from Deutsche Bank to SAC Capital and Emmanuel Roman leaving Goldman Sachs for GLG Partners in London.

The typical sales team leader of a major global bank can expect total comp of $1.8 to $2.5 million this bonus season, up 18-25% on the higher-end and 12-15% on the lower-end, according to the Options Group Intelligence Unit.

Risk managers that last year earned $250K to $300K this year will earn $350K to $450K (with 2 to 3 years experience.) Relationship managers last year that earned $100K this year may earn $150K (with 2-3 years of experience.) Top client transition employees may be paid as much as $600K, with the majority being paid between $250K to $350K, including base and bonus.

AVERAGE TOP-TIER BANK PAY WORLDWIDE – SALES				AVERAGE TOP-TIER BANK PAY WORLDWIDE – CAPITAL INTRODUCTIONS *(US$)*		
		BASE	BONUS		BASE	BONUS
Associate	US	**85-95K**	**130-170K**	**Associate**	**70-80K**	**40-65K**
	GBP	***65-75K***	***40-65K***			
VP	US	**110-125**	**200-350K**	**VP**	**100-125K**	**175K**
	GBP	***70-80K***	***100-200K***			
Director	US	**150K**	**300-350K**	**Director**	**150K**	**350-650K**
	GBP	***90K***	***400-600K***			

	TOTAL COMPENSATION		TOTAL COMPENSATION
Global Head-Prime Services	**4-6MM**	**Global Head-Cap Intro**	**2.0-2.3MM**
Head of Europe	**1.8-3.0MM**	**Head of Cap Intro Americas**	**700-950K**
Head of Asia	**1.4-2MM**	**Head of Cap Intro Europe**	**900-1.2MM**
Global Head PB Sales	**1.8-2.5MM**		

* Most managing directors and heads earn bases of around $250K.

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AVERAGE TOP-TIER BANK PAY – CLIENT SERVICE

		BASE	BONUS
Associate	*GBP*	*40-60K*	*20-30K*
VP	*GBP*	*65-75K*	*25-40K*
Director	*GBP*	*70-100K*	*40-60K*

	TOTAL COMPENSATION *(US$)*
Global Head US – Client Service	**1.2-1.5MM**
Head of Client Service Americas	**800-1.2MM**
Head of Client Service PB Europe	***350-500K (GBP)***
Global Head - Client Transition	**350-600K**

COMPETITION

Morgan Stanley, Goldman Sachs and **Bear Stearns (in the U.S.)** have respectively the largest prime brokerage businesses. Although Goldman Sachs has lost personnel to banks like **UBS, Bank of America** and the buy-side, its excellent top level management has remained largely intact and the depth of the firm has enabled it to continue to attract the most desirable funds. Further, their compensation packages will be at the top range of percentage increases and we suspect senior personnel currently in place are inclined to stay put. Although Morgan Stanley has a larger business than Goldman Sachs, Options Group Intelligence Unit believes that the bank will have "to pay up" in order to retain top producers due to the well-documented problems at the firm this year.

Also of note, UBS said in July that it was establishing an advisory group for hedge fund clients, designed to advise on direct investment opportunities and finance mergers and acquisitions. The Alternative Capital Group is a joint venture between investment banking and equities. There were rumors that **Bank of America** was looking to get out of the prime brokerage business, but they proved to be totally unfounded. In fact, BofA is said to have hired over 50 people this year for its U.S. prime brokerage business. 2006 is expected to be the year banks make major hiring inroads into Europe and Asia.

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PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Hannah Goodwin	Head of Asian PB	Deutsche Bank	Citigroup	Hong Kong
Robert Perks	Head of Asian PB	Internal Promotion	Deutsche Bank	Hong Kong
Rod Barker	Head of European and Asian prime brokerage	CSFB	RAB Capital	London
Paul Brannan	Head of International PB business development	Lehman Brothers	CSFB	London
Emma Bryan	Head of Cient Service	Lehman Brothers	Merrill Lynch	London
Paul Dackombe	Head Fixed Income Prime Brokerage Sales	Dresdner	Merrill Lynch	London
Gary Francis	COO-fixed income prime brokerage	Dresdner	Merrill Lynch	London
Joe Novarro	COO	UBS	GSA Capital	London
James Paradise	Head of European and Asian prime brokerage	Goldman Sachs	Goldman Sachs	London
Nick Roe	Head of European Prime Brokerage	Deutsche Bank	Citigroup	London
Emmanuel Roman	COO	Goldman Sachs	GLG Partners	London
Tom D'Amico	Product development head	Lehman Brothers	CSFB	New York
Katherine Davisson	MD, East Coast PB sales	Goldman Sachs	Banc of America Securities	New York
Sujai Kapadia	Prime Broker	JPMorgan	Lehman	New York
Mark McDonnell	Head of FX Prime Brokerage	Merrill Lynch	AIG	New York
Paddy Ryan	Senior PB salesperson	Lehman Brothers	CSFB	New York
Sal Ventura	Global Head of PB development	Lehman Brothers	CSFB	New York
Jim Rowen	COO	Deutsche Bank	SAC Capital	Stamford, CT
Paul Thomas	VP, Head of PB Sales	UBS	Merrill Lynch	Sydney

STRUCTURED TAX PRODUCTS (*FIXED INCOME AND EQUITIES*)

This business category goes by many names, but that doesn't mean it's lost its importance to financial institutions. Components of the business include tax arbitrage and principal transactions. The biggest player by far is **Barclays Capital**, with other major players being **Bank of America, Deutsche Bank** and **Goldman Sachs. Roger Jenkins, head of Barclays Capital's structured capital markets group, reportedly made $38 million last year, the same as Barclays Capital CEO Bob Diamond, according to the *Sunday Telegraph*.** Jenkins' pay last year not only set a high benchmark for the rest of the industry, but highlighted the continued importance of the category. **AIG** also was a top-tier participant but litigation and regulatory problems have limited the financial and insurance giant in structured products in 2005.

How the Business Works: Structured products are increasingly driven by accounting, regulatory and tax concerns because the business revolves around lending and cross-border transactions. The principal tax business typically "sits" in fixed income because there is a lot of tax sensitivity and in credit deals there is a lot of rating agency sensitivity. Employees typically report to structuring heads. On the solutions side, the tax component applies to larger transactions in such areas as CDO's and securitizations and usually sits in both fixed income and equities.

In the U.K., the structured products business went through the biggest changes. For example, legislation has gotten tougher as the Inland Revenue (as well as the Internal Revenue Service in the U.S.) has cracked down on the larger European banks. Increased regulatory oversight has prodded personnel to switch to neighboring product areas such as structured credit, equity derivatives and debt capital markets.

Banks seeking to enter structured products include **RBS**, which has been in the process of creating a structured solutions unit and creating a U.S. principal tax business that expands into Europe as well. In solutions, a firm often wants to know if there is a mandate for the business and that it has wide distribution.

The most significant U.K. hire in the product category was Goldman's hire of Tom Gasson, former head of Dresdner's structured product business. Deutsche Bank, BNP Paribas and Dresdner all made key hires in the spring and summer to better compete with Barclays Capital and Goldman globally. Among them, Deutsche Bank hired Michael Henriques from Goldman to head the firm's special situations group where he reports to Erik Falk. In Paris, BNP hired Jean-Eric Pacini as head of structured products sales from A.T. Kearney in April. In the U.S., RBS hired Aaron Abdelhak from UBS to manage its structured solutions between tax accounting regulatory and structured credit in March.

2006 OUTLOOK

Several of the first-tier banks are seeking to expand in Australia to better compete with Australian-based banks like Macquarie and NAB. Europe – and to a lesser extent the U.S. – will probably pick up in activity next year because they will be a year removed from the regulatory body's increased scrutiny. Asia will continue to be a very limited player in structured tax products next year.

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COMPENSATION

- **Up 5-10% globally on average versus 2004, with relatively higher paydays in Europe.**

The people with execution experience are most in demand, particularly those with 3 to 7 years of experience who happen to be hard to find. Talent is generally pulled from lower-tier banks, and not law firms, because employees need bank-trained execution skills.

While some London executives may see higher paydays over last year, others may be impacted by the fact that much of the business was effectively shut down for three months by regulators in 2005.

AVERAGE TOP-TIER BANK PAY WORLDWIDE *(US$)*

		BASE	BONUS
Associate	1-3 Years	**75-85K**	**75-85K**
VP	1-3 Years	**110-150K**	**200-300K**
Director	1-3 Years	**150K**	**800K-1 MM**
MD	1-3 Years	**200K**	**1.5-2.5 MM**

	TOTAL COMPENSATION
Global Head	**3-4 MM**
Head of Americas	**2-3 MM**
Head of Europe	**1.5-2 MM**

* Most managing directors and heads earn bases of around $250K.

OPTIONS GROUP

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Aaron Abdelhak	Managing Director	UBS	RBS Greenwich	Greenwich, CT
David Springer	Managing Director	Bank of America	RBS Greenwich	Greenwich, CT
Ian Drewe	Vice President	West LB	CSFB	London
Tom Gasson	Managing Director	Dresdner	Goldman Sachs	London
Daniel Joe	Vice President	Shearman	Barclays	London
Matthew Kellett	Director	AIG FP	RBS	London
Salim Muhammad	Vice President	Goldman Sachs	Merrill Lynch	London
He Shen	Director	Merrill Lynch	Lloyds	London
David Simpson	Managing Director	Goldman	Barclays	London
Barry Brennan	Vice President	Citigroup	Rabobank	London/Dublin
Ned Cataldo	Director	Deutsche Bank	Bank of America	New York
Eric Chun	Vice President	Goldman Sachs	Morgan Stanley	New York
Jim Fields	Managing Director	CSFB	Blackstone Group	New York
Robert Hudak	Managing Director	Ernst & Young	RBS	New York
Janet Hurley	Managing Director	Goldman Sachs	Lehman	New York
Arthur Kwok	Vice President	Calyon	ABN Amro	New York
Jonathan Lebow	Managing Director	Barclays	Merrill Lynch	New York
Jane Miller	Managing Director	Gen Re	HSBC	New York
Lawrence Nath	Managing Director	CSFB	Blackstone Group	New York
Robert Principe	Managing Director	UBS	JPMorgan	New York
Louis Steinberg	Managing Director	Cravath	UBS	New York
Phil Turbin	Managing Director	CSFB	Merrill Lynch	New York
John Vlahoplus	Managing Director	ZCM	BNP	New York
Qi Zhou	Vice President	Deutsche Bank	Societe Generale	New York
David Fisher	Managing Director	Wells Fargo	HSBC	NY/Des Moines
Hidehiro Utsumi	M&A Tax Structuring	Nishimura	Linklaters	Tokyo

OPTIONS GROUP

QUANTITATIVE RESEARCH *(FIXED INCOME AND EQUITIES)*

Banks are investing in quantitative systems with the view that codes, which can automate and speed up trading, will give them a real time advantage over the competition. Costs of developing the systems, however, overwhelm any short-term profit goals. Algorithmic trading has been the build-out project of choice for chief information officers over the past year, and quant and IT people with this background are particularly attractive.

Quantitative trading strategies continued to grow in popularity this year as tight spreads in most fixed income assets and declining equity commissions encouraged traders to create alternative means of generating returns. Improving investor education in the benefits of using computers and computer-based programs for trading decisions is also aiding growth in quantitative methods.

The hiring pullback in the years after 9/11 has resulted in a shortage of employees with three to five years experience. **Credit is likely to continue to be among the most in demand in the coming year as banks increasingly look to add credit analysis to other assets including mortgages and other asset-backed securities, while commodities may see demand slow down. Emerging markets in India and China also is an expanding area and will provide new opportunities to trade based on codes.**

Candidates with experience in assets as diverse as credit, commodities, interest rates, asset and mortgage-backed securities and equity programs and algorithmic trading are all in demand.

Barclays said earlier this year that it is hiring in commodities trading in the U.S. D.E. Shaw said in a press release that it hired senior quant Tony Foley from State Street Global Advisors.

RISK MANAGEMENT

Demand for risk managers is strong, due to a dearth of qualified candidates with experience in the sector. The pullback from the market downturn resulted in an absence of professionals with 2 to 3 years of experience. A preference by candidates to move into quantitative research roles, in which they will earn higher salaries and may have the potential to move into a trading role, has exacerbated the lull.

Increasing demand by hedge funds for risk managers may lead demand for hiring in the coming years, as many investors in the funds are comforted by the notion that the portfolios have experienced risk managers.

COMPENSATION

- **Up 5-10% over last year on average**

Compensation is competitive and continues to rise. Hiring managers have been more willing to interview more senior candidates with mathematical finance backgrounds. Ph.D's are particularly attractive right now.

Employers may have to pay a premium for most credit and commodities quant positions because they are among the hottest areas. A risk manager with 2 to 3 years of experience my earn $150K to $250K while a quantitative researcher with the same number of years experience typically earns from $200K to 400K.

Quantitative types should expect larger bonuses, although risk managers typically get less of a bonus than their base. Execution traders, who are told what to buy and are responsible for best executions, are continuing to lose value as trades become more automated.

AVERAGE TOP-TIER BANK PAY WORLDWIDE *(US$)*

		BASE	BONUS
Associate	1-3 Yrs	**95K**	**50K**
VP	1-3 Yrs	**90-120K**	**150-200K**
	3rd Year +	**125-150K**	**300-400K**
Director/MD	1-3 Yrs	**150-200K**	**750K-1 MM**
		TOTAL COMPENSATION	
Global Head		**5-6 MM**	
Head of Americas		**2 MM**	
Head of Europe		**2 MM**	
Head of Asia		**2 MM**	

* Most managing directors and heads earn bases of around $250K.

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PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Chris Merrill	Quantitative Analyst	Spot Trading	Speed Trading Group	Chicago
John Reynolds	Head of Fixed Income Technologies	Morgan Stanley	Citadel	Chicago
John Crosby	Global Head of Quantitative Analytics and Research	Lloyds TSB	Barclays Capital	London
Andrew Harmstone	Developing quantitative and derivatives equity research	Lehman Brothers	Bear Stearns	London
Piotr Karasinski	MD, Global Derivatives Product Development	Citigroup	HSBC	London
Vladimir Piterbarg	Interest Rate Derivatives Quant	Bank of America	Barclays Capital	London
Achim Traut	VP, Commodity Quantitative Strategist	Goldman Sachs	Merrill Lynch	London
Tom Barrett	MBS Quantitative Analyst	Knight Trading	Goldman Sachs	New York
Mark Cliffe	Global Head of Research	ING	ING	New York
David Eliezer	Credit Quant	Goldman Sachs	IFL	New York
Jim Hosker	Quantitative Strategist	Lehman Brothers	Goldman Sachs	New York
Alireza Javaheri	Quant Analyst – Credit	Citigroup	Goldman Sachs	New York
Dean Jens	Credit Quant	Goldenberg, Hehmeyer & Co.	Goldman Sachs	New York
Filippo Nencioni	Quantitative Sovereign Analyst	CSFB	UBS	New York
Glenn Swindle	Quantitative Research	Constellation	CSFB	New York
Jeffrey Talpins	Quantitative Fixed Income Fund	Citigroup	Vega	New York
Mattias Soderberg	Senior Credit Analyst	JPMorgan	Deutsche Bank	Sydney

INFORMATION TECHNOLOGY (FIXED INCOME AND EQUITIES)

Information technology recruiting is as hot as it was in 1999-2000, according to the Options Group Intelligence Unit. While technology software and hardware is in a bit of a lull period as everyone waits for the next killer set of applications, hiring mid- to senior-level employees continues to be a significant priority for firms worried about the security and scalability of their internal systems.

Big banks after 2000 went through a period of outsourcing their internal systems but now have shifted this strategy because of security breaches at **Bank of America**, Mastercard International and Time Warner in 2005. The security breaches, which involved millions of customer accounts in each instance, have led financial institutions to re-evaluate their IT departments this year.

This has led to hiring opportunities and increased demand for vice presidents and unit heads worldwide. IT budgets are up around 20% since 2002 in the U.S. across the industry, according to the Options Group Intelligence Unit.

In terms of key hires, Citigroup lost two senior IT managers this summer, including Tom Sanzone, who was CIO of Citgroup's global banking unit, at the end of August. Barclays also hired Don Trotta in August as its new chief information officer from Citigroup, where he was in charge of global technology for its retail businesses. He reports to Paul Idzik, Barclays' COO. Banks, especially in the Americas, are hiring programmers who can write front-office applications that connect the back office, or the traders, with the front office client-facing side.

In Europe, banks seem to still be more in outsourcing mode: **ABN Amro** said in September it was turning over the bulk of its IT operations to a consortium of outsourcing vendors under contracts worth more than $2 billion. The Amsterdam-based financial company said it will shed about 3,200 full-time positions, according to *Information Week*. ABN Amro says it expects to save about $258 million annually, beginning in 2007, as a result of the shake-up.

The vendors are IBM, which will provide infrastructure support services and some application development under a five-year deal, Accenture, and Indian firms Tata Consultancy Services, Patni Computer Systems and Infosys Technologies. The contracts represent the most money committed by a Western firm to offshore service providers under a single initiative, though a specific breakdown by vendor wasn't available.

COMPENSATION

- **Flat to up 5% versus 2004 on average**
- **Total pay rose significantly in 2003 and 2004, and compensation levels stabilized this year**

OPTIONS GROUP

Average Top-Tier Bank Pay Worldwide (US$)

		Base	Bonus
	1-3 Yrs	**70-85K**	**15-30K**
Associate	3rd Year +	**90K**	**30-40K**
VP	1-3 Yrs	**110-130K**	**55-65K**
Director	1-3 Yrs	**135-150K**	**130-160K**
MD, Technology		**200K**	**600-800K**

	Total Compensation
Global Head	**2-3 MM**
Head of Americas	**1.5 MM**
Head of Europe	**1.5 MM**
Head of Asia	**1.2 MM**

Options Group

People Moves & Promotions

Name	Title	From	To	Location
Daniel Hu	Partner, Assurance Services	Internal Promotion	Pricewaterhouse Coopers	Beijing
Iiya Markovich	IT	Proquest Automotive	Wachovia	Charlotte, N.C.
Terry Burke	IT Operations, Prime Brokerage	JPMorgan	Lehman Brothers	London
Allan Lane	European head of fixed income investment technology and analytics	Royal Bank of Scotland	BGI	London
Henrik Takkenberg	European Head of PIP Marketing	ABN Amro	Deutsche Bank	London
Eugene Aranovich	Developer	UBS	Goldman Sachs	New York
Joseph Erlikhman	Developer	Bank of Nova Scotia	CSFB	New York
Tomislav Jukic	Senior Software Engineer	Pencom	Lehman Brothers	New York
Witold Kuzminski	Stat Arb Developer	Tyco Capital	Bear Stearns	New York
Alexei Ostrov	Developer	Connotate Technologies Inc.	Merrill Lynch	New York
Aanal Patel	Software Quality Analyst	Consultant	Bear Stearns	New York
Arun Ramraj	Asst Vice President in Equities	Cooper Neff (PA)	Merrill Lynch	New York
Anton Schegolev	IT	Bank of America	Bear Stearns	New York
Gautam Shah	Fixed Income Derivatives-IT	West LB New York	Bear Stearns	New York
Michael Smushkovich	Team Leader-Firm Risk IT	Morgan Stanley	CSFB	New York
Hongtao Wen	Analytics Programmer-Mortgages	Countrywide Securities (CA)	Bear Stearns	New York
Alan Xiao	Equities-IT	Susquehanna Philadelphia	Merrill Lynch	New York
Jane Kong	Partner in the technology, info comms, entertainment & media practice	Internal Promotion	Pricewaterhouse Coopers	Shanghai

Investment Banking

INVESTMENT BANKING

OPTIONS GROUP

INVESTMENT BANKING

European senior bankers are the new "Masters of the Universe." They supplanted their U.S. counterparts in terms of deal flow and pay in 2005, and should expect to receive total comp increases of 25 to 30% over last year as European corporations focus on growth via consolidation, according to the Options Group Intelligence Unit. The backlog of mergers and acquisitions activity is at its highest level in five years, insuring robust investment banking revenue through at least the first half of 2006. **In the third quarter, Europe accounted for a larger proportion of announced deals than the U.S. for the first time since 2003.** The biggest was Gas Natural SDG SA's 22 billion-euro ($26.5 billion) hostile bid for Endesa SA in Spain.

Managing Directors aren't the only ones to see pay increases. There is great demand for talented associate and VP-level bankers with between 3 and 6 years of experience because of the downturn in the industry from 2001 thru 2003. The *Financial Times* jobs section, for example, has been absolutely full of listings for analyst and associate openings.

Financial sponsors group personnel are particularly in demand because private equity firms need a large amount of corporate finance services, both in the U.S. and Europe. Whether it's a straight merger or raising debt, the banks with the best "relationship" teams are the ones winning the most business. Goldman Sachs, Morgan Stanley and **CSFB**, of late, have been leading deals because of their strong financial sponsor group teams. ABN Amro and HSBC aren't doing as well this year, however. They are 15th and 28th in the global M&A league tables through August, down from 12th and 16th, respectively, in 2004, according to *Bloomberg*.

For the first time, **Royal Bank of Scotland** and **HSBC** have begun "paying up" to hire people in investment banking as foreign institutions have finally decided that if they "can't beat the U.S.-based banks, they better join 'em." HSBC, for example, snapped up Todd White from Citigroup.

For the most part, however, U.S. investment banks managed to retain senior personnel and haven't had to hire significantly once deal flow picked up in late 2003. That has kept total comp levels down relative to past upswings in M&A, although European healthcare, industrials and chemicals bankers and energy/utilities bankers globally should see better-than-average compensation. Frank Yeary, Citigroup's head of global M&A in New York, told Bloomberg in early October that the energy, financial services, telecommunications and media industries are ripe for consolidation in Europe. **After a three-year dry spell (2001-2003), deal flow is almost back to where it was in 2000. The only difference is that with less stock to spend, deal sizes are smaller than they were – for the most part – five years ago.**

A rise in leveraged buyouts also has helped boost M&A levels. LBO specialists, which borrow about two-thirds of the purchase price to finance acquisitions, announced $50 billion of takeovers in the past three months, bringing the full-year amount to a record $173 billion, Bloomberg data show. The second-biggest LBO in history was disclosed last month - Carlyle Group, Clayton Dubilier & Rice and Merrill Lynch's $15 billion acquisition of Hertz Corp. from Ford Motor Co.

Equity underwriting also has suffered as cash-rich companies focus on buybacks rather than issuing new capital. Equity origination remained slow as companies used cash and low-priced debt financing remained readily available. In the third-quarter, however, there were signs that equity underwriting was increasing. Companies around the world sold 44% more equity in the third quarter than a year ago, according to *Bloomberg*. The biggest was the $4 billion share sale by Mountain View, California-based Google.

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DISTRESSED DEBT/SPECIALTY LENDING

Distressed debt and specialty lending has lost some of its robust momentum in the U.S. but is now heading to Europe in the second half of this year and into 2006. The market is focusing more on managing debt and taking control of companies by converting debt to equity. Hedge funds have taken to this sector and made a lot of investments as they expand their services. The syndicated leveraged loan market will continue to make up for the drop in high yield activity.

2006 OUTLOOK

European bankers with deal experience will continue to be in high demand as companies and private equity firms vie for corporate targets. **Investment banking activity needs to remain buoyant next year now that more bankers are receiving pay guarantees.** Recruiting should be fierce in London and Hong Kong from January through April.

COMPENSATION

- **Up 20-25% on average, with European bankers leading the total pay increase and energy-related employees also seeing higher compensation bumps. U.S. banker payouts will rise around 10-15% over last year.**
- A VP mergers and acquisition banker in oil and gas that may have cost $350K to hire in January was bid up to around $500K in total compensation by mid-year. Demand is coming from bulge bracket firms as well as more niche players like private equity firms. People at the top firms are reluctant to leave, further exacerbating the hiring challenges. **More significantly, pay guarantees are returning at the top five global banks for experienced talent for managing director placements.**

AVERAGE TOP-TIER BANK PAY WORLDWIDE *(US$)*

		BASE	BONUS
	1st Year	**55-65K**	**40-60K**
Associate	2nd Year	**60-80K**	**60-80K**
	3rd Year	**80-100K**	**100-150K**
	1st Year	**100-125K**	**200-250K**
VP	2nd Year	**120-140K**	**300-350K**
	3rd Year	**125-150K**	**400-450K**
Director		**150-200K**	**700K**
MD		**200-250K**	**2-3 MM**

	TOTAL COMPENSATION
Global Head	7-10 MM
Head of Americas	3-5 MM
Head of Europe	3-5 MM
Head of Asia	2-4 MM

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LEAGUE TABLES

For the first nine months of the year, the big M&A winners were just about every firm as global announced deal volume increased 20% to $18.1 trillion versus the same period a year earlier, according to *Bloomberg*. Individual bank winners through September were Morgan Stanley and UBS. Morgan Stanley has narrowed the gap between itself and Goldman Sachs despite a number of senior personnel departures earlier this year. UBS was fourth through the end of September, up from seventh for the first nine months of 2004. UBS, Europe's biggest bank, emerged as the sole financial adviser to Spanish utility's Gas Natural, which made an $28 billion unsolicited cash and share bid for the larger Endesa.

Citigroup dropped from fourth to sixth in the first three quarters of 2005. One region featuring a lot of activity over the last year has been Australia. UBS unseated Deutsche Bank as the top merger adviser in Australia in 2004, a market that produced a record $544 million of fees and more transactions than Japan, an economy that is eight times bigger. UBS holds the top spot again this year, advising on 15 deals valued at $20.8 billion through July 2005.

GLOBAL ANNOUNCED M&A – LEAGUE TABLES

2005 (THRU 10/1/05)				2004 (THRU 10/1/04)			
Adviser	Rank	Volume (\$MM)	Deals	Adviser	Rank	Volume (\$MM)	Deals
Goldman Sachs	1	47[illegible]295	254	Goldman Sachs	1	350870	227
Morgan Stanley	2	468[illegible]792	263	Morgan Stanley	2	301205	244
JPMorgan	3	39[illegible]000	265	JPMorgan	3	291882	264
UBS	4	39[illegible]682	199	Citigroup	4	265232	250
Merrill Lynch	5	344[illegible]246	213	Merrill Lynch	5	264852	147
Citigroup	6	34[illegible]792	242	Lehman Brothers	6	185704	129
Lehman Brothers	7	29[illegible]635	148	UBS	7	165243	179
Deutsche Bank	8	28[illegible]366	157	CSFB	8	138099	188
CSFB	9	231[illegible]978	174	Rothschild	9	131278	162
Lazard LLC	10	19[illegible]415	137	Deutsche Bank	10	128883	145
Industry		**18,112,[illegible]20**	**17,382**	**Industry**		**15,095,590**	**16,108**

Source: Bloomberg.

PEOPLE MOVES

NAME	TITLE	FROM	TO	LOCATION
Andrew Greta	Director, Business Development	General Electric	Chicago Mercantile Exchange	Chicago
Justin Abbott	Special Situations Portfolio	NM Rothschild	Marshall Wace	London
Sue Curtis	Adviser UK Institutional Team	Bank of New York	JPMorgan	London
Jean-Philippe Favre	MD, European Energy & Utilities Team	Morgan Stanley	Lehman Brothers	London
Partha Karofsky	Restructuring Associate	Linklaters	Kirkland & Ellis	London
Tam Nguyen	MD, European Energy & Utilities Team	Morgan Stanley	Lehman Brothers	London
Thomas Schwingeler	MD, European M&A Team	Dresdner	Deutsche Bank	London
Natan Tiefenbrun	Non-Executive Director	Instinet	Clear Capital	London
William Vereker	MD, European Energy & Utilities Team	Morgan Stanley	Lehman Brothers	London
Antonio Jacinto	Director of Corporate Clients, Philippines	Ernst & Young	ING	Manila
Arnaud Apffel	Head of European Equity Corporate Derivatives - Investment Banking Division	Lehman Brothers	Goldman Sachs	New York
Natalie Birrell	Chief Operating Officer	Deutsche Bank	Arden Asset Management	New York
David Braunschvig	Senior MD, TMT group	Lazard	Bear Stearns	New York
Thomas Cassidy	Head of Healthcare Leveraged Finance Banking	JPMorgan	BNP Paribas	New York
Robert Clymer	MD, Head of Specialty Finance	CSFB	Banc of America Securities	New York
Vikram Gandhi	Head, Global Financial Inst.	Morgan Stanley	CSFB	New York
Mark Hagan	Director, Real Estate Team	Merrill Lynch	Deutsche Bank	New York
Richard Madden	Director, Media Sector Team	Bear Stearns	Close Brothers	New York
Raymond McGuire	Co-Head of M&A	Morgan Stanley	Citigroup	New York
Terry Meguid	Former Head of Investment Banking	Morgan Stanley	TBD*	New York
Vikram Pandit	Institutional Securities Head	Morgan Stanley	Old Lane, LLC	New York
Joseph Perella	Former Vice Chairman	Morgan Stanley	TBD*	New York
Bill Repko	Co-Head, Restructuring Practice	JPMorgan Chase	Evercore Partners	New York
Jamie Saxton	MD, Head of Oilfield Services	Lehman	BofA Securities	New York
Renard Strautman	MD, Global Industries Corporate & Investment Banking group	Trumont Advisors Ltd.	Banc of America Securities	New York
Sheldon Trainor	Head, Asian investment banking	Morgan Stanley	Merrill Lynch	New York

* TBD: Had not publicly joined a firm as of Oct. 15.

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PEOPLE MOVES (CONT'D)

NAME	TITLE	FROM	TO	LOCATION
David Ying	Co-Head Restructuring Practice	Miller Buckfire Ying	Evercore Partners	New York
Gilles de Dumast	Global Head of Investment Banking	Deutsche Bank	Calyon	Paris
David Villeneuve	MD, Head of Investment Banking, France	Calyon	CSFB	Paris
Ari Gabinet	Securities Regulation Group	Securities & Exchange Commission	Vanguard	Philadelphia
Sung Ho Kim	MD, Head of Corporate Clients	You & Partners	ING	Seoul
Rajiv Ghatalia	Partner	Goldman Sachs	Warburg Pincus	Singapore
Jeff Athertinb	Japan Manager	Insight Investment	Stratton Street Capital	Tokyo

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PRIVATE EQUITY/VENTURE CAPITAL

A pick up in private equity financings has increased demand in investment banking for associates, who typically have around three years of experience. In spite of this, investment banks have been reluctant to throw large salary increases or guarantees to build their teams, which has contributed to a relatively stable environment, with minimal movements.

Some exceptions may be in "hot" sectors, which this year have included chemicals, oil and gas, and energy and utilities. Real estate, which is still churning along in the U.S., also is becoming a factor in Europe and the larger banks are looking to bulk up in the region. Demand for junior employees to work in corporate finance will follow sector trends and banks may be required to bid up compensation to gain employees when strong deal flow required the hires.

U.S. venture capitalists raised $6.1 billion for future investments in the second quarter, an 88% increase on the previous year. Asian private equity volumes fell off in the first half of the year, with a large drop in deals in South Korea. Hong Kong – and by extension, China – was the exception, raising a lot of money and interest among foreign investors. Hong Kong-based **SAIF Partners** raised $643 million, the largest fund ever raised by a domestic Chinese venture firm, in September, according to *PE Week*. Andrew Tan, SAIF Partners' president said the late-stage investor in IT and media companies was previously known as Softbank Asia Infrastructure Capital. Cisco is the fund's largest investor.

European private equity really took off in 2005, with UK firm **CVC Capital Partners** leading the way. It returned $1.5 billion to investors in September and a total of over $4 billion in the past 12 months – a new record for the region. The amount adds to the group's reputation as one of Europe's top buyout groups, only **Doughty Hanson** comes close. CVC recently floated motor and boat company Halfords on the LSE and lucratively recapitalized Debenhams. That transaction alone was worth over $3 billion for CVC and other private equity titans **Texas Pacific** and **Merrill Lynch Private Equity**. CVC raised around $10 billion for its fourth European buyout fund in July, putting it in the company of the world's largest firms, the **Carlyle Group** and **Kohlberg Kravis Roberts**. European private equity firms are quickly becoming so large that Germany began blaming them for local economic weakness in the country.

2006 OUTLOOK

Private equity firms will continue to out-spend local companies because they can afford to and because they have to spend the enormous amounts of money they have been raising of late. For the first time in years, Europe's mega-firms will be on equal footing – from a liquidity perspective – with their traditionally larger U.S. counterparts.

COMPENSATION

- **Up 10-15% as demand for junior personnel has accelerated over the course of 2005**

The longer-term nature of executing private equity deals, which may last as long as 3-5 years before returning profits, has reduced the frequency with which employees jump between firms, compared with those of hedge funds or banks, who often have a short-term trading horizons.

Private equity funds have preferred to hire junior personnel with around three years experience, as they are easier to be trained in the business. Graduates with strong academic records from elite universities and degrees in finance, maths or science are preferred. Juniors in corporate finance at banks are also attractive for their experience in analyzing and executing deals, as well as the fact that they are more malleable than more experienced workers. Professionals with experience in other private equity firms, management consultants or people from within corporations, are considered more poachable in the senior ranks.

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AVERAGE TOP-TIER BANK PAY WORLDWIDE *(US$)*

		BASE	BONUS
Associate	1-3 Years	**60-70K**	**30-50K**
	3rd Year +	**80-90K**	**50-70K**
VP	1-3 Years	**100-125K**	**100-150K**
	3rd Year +	**125-150K**	**200-300K**
Director	1-3 Years	**150-200K**	**500-1 MM**
Managing Director	1-3 Years	**200K**	**1-5 MM**

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Jason Ng	Partner, Corporate	Internal Promotion	Baker & McKenzie	Hong Kong
Michael Bolton	Head of Specialist lending	HBOS	Oakwood Group	London
Andrew Burgess	MD, London Office	Bridgepoint	Carlyle Group	London
John Burnham	Senior MD, head of infrastructure investment banking team focused on private equity firms	New Position	Citigroup	London
Alan Cleary	Director	Halifax Intermediaries	Oakwood Group	London
Edward Eyerman	Head of European Leveraged Finance	CSFB	Fitch	London
John Nixon	Director	The Mortgage Business and BM Solutions	Oakwood Group	London
Steve Audi	Partner	Resurgence Private Equity	Balance Asset Management	New York
James Karp	Partner – Private Equity	Goldman Sachs	Silver Point Capital	New York
Sir Deryck Maughan	MD, Chairman of Hong Kong and Tokyo businesses	Citigroup	KKR	New York
Mark Qiu	Managing Partner	CNOOC	China Renaissance Capital Investment	New York
Peter Martenson	Division Director	Pacific Corporate Group	Macquarie Funds Management	Southern California
Terutomo Mitsumasu	Head of Buyouts Team	Shinsei Bank Ltd.	Merrill Lynch	Tokyo
Daniel Pryor	MD, industrials team	Danaher Corp	The Carlyle Group	Washington

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Bank Overviews

BANK OVERVIEWS

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BARCLAYS

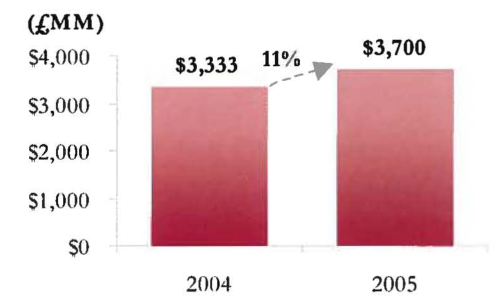
Barclays continued to prove itself to be an aggressive player in 2005, ramping up its operations in several areas – including fixed income, prime brokerage and equities – with many senior hires.

The 315-year-old bank also is intent on growing in fast-growing markets like China, India and Japan. Barclays Capital, which makes about a quarter of the bank's overall profit and is led by Robert Diamond, said in July it plans to quadruple revenue from foreign exchange, debt and derivatives in Japan by 2008, after doubling its sales distribution team in the world's second-biggest economy to 50 in the past 18 months. The securities unit this year joined a group of 10 banks that can buy the most at Ministry of Finance bond sales in Tokyo. Diamond, 54, said his firm expects to profit from an increase in bond sales in Europe as companies switch from taking banking loans, he told *Bloomberg*.

Net income at Barclays Capital rose 25% in the first half of the year, driven by increased income from credit products and commodities. Trading income increased 42%, with strong gains in commodities, foreign exchange, structured capital markets and credit derivatives.

Barclays Capital, the securities unit of Britain's third-largest bank, increased its workforce by 1,500 people, or 22%, in the 18 months ending this past June. The London-based firm, which doesn't provide merger advice or equity underwriting, has recruited for trading and derivatives. Revenue rose 25% in the first half of this year, the biggest increase reported by any of the securities firms.

NET INCOME
For Six Months Ending in June



Barclays hired 409 graduates in 2005, up from 250 in 2004, and is boosting recruitment of people with PhDs in subjects like math, physics and engineering, said Derek Walker, director of campus recruitment. The company picked up about 30 so-called quantitative associates this year and may increase that number by 20% to 30% next year, he said.

KEY MANAGEMENT CHANGES – FIXED INCOME

In May the bank hired a team of seven for CDOs from CSFB, headed by **Kristopher Kraus**, who joined as a managing director and head of North American CDOs. The hire followed the hire of a credit derivatives team, comprising eight, from Citigroup in 2004, headed by **Doug Warren**, head of North American credit derivatives.

The bank continued to build a residential mortgage business in the U.S., which is headed by **Tom Hamilton**, head of U.S. dollar residential mortgage-backed securities. Also hired in February was **Hans Vrensen** from Moody's Investors Service for its securitization research team, responsible for research on European commercial mortgage-backed securities.

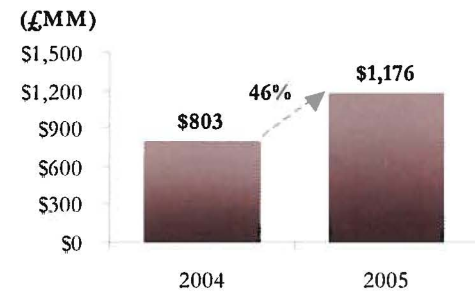
In February, Barclays lost Stephan Michel, co-head of European credit research, to join a hedge fund. In February, the firm lost Peter Bainlardi, head of U.S. strategic trading, to BNP Paribas as head of proprietary rate trading. In January, David Allen, head of European loan trading, left after 28 years at the bank.

In March, the firm temporarily lost **Mark Kibblewhite**, head of European corporate risk management and capital markets, after 20 years with the firm, and was persuaded to stay in a different role.

Kibblewhite was named chief executive of Gerrard Investment Management, Barclays' private client wealth management arm, replacing Philip Monks.

In May, the firm hired **Phil Suttle**, head of emerging market economics at JPMorgan, as head of emerging markets research in New York.

TRADING INCOME
For Six Months Ending in June



In June, Barclays hired **Jeff Meli** from Deutsche Bank as head of U.S. structured credit and quantitative strategy. In July, the firm hired **Mark Bamford** from Goldman Sachs to head the bank's debt syndicate team for the Americas.

KEY MANAGEMENT CHANGES – EQUITIES

In February, Barclays hired **Laurent Ichard**, JPMorgan's head of equity derivatives sales to hedge funds in London. Ichard is expected to take on a similar role at Barclays, reporting to **Andrew Stonely**, head of flow sales. In June, Barclays hired **Anthony Wah**, head of equity derivative sales at ABN Amro in Hong Kong, in a newly created role as head of the sales structuring group for non-Japan Asia, based in Hong Kong.

In late August, **Deanna Oppenheimer** was hired to be the U.K. banking chief operating officer, reporting to **Roger Davis**, chief executive of U.K. banking. Oppenheimer was poached from Washington Mutual, where she was president of its retail banking and financial services group. She took over from **Wai Au**, who was appointed as director, global servicing at the U.K. bank.

BEAR STEARNS

Bear Stearns said that profit in its third quarter (ending in August) rose 34% due to an upswing in underwriting and M&A activity. Good numbers, huh? Not good enough for investors, who sent shares down 2.5% on Sept. 15 because its 18% year-over-year revenue increase in the quarter didn't match up well with Lehman's 47% revenue jump during the same time period.

Revenue in the capital markets unit rose 15% to $1.4 billion. A bright spot for the fixed-income-centric bank was that fees from underwriting stocks and advising M&A increased investment banking revenue by 65%.

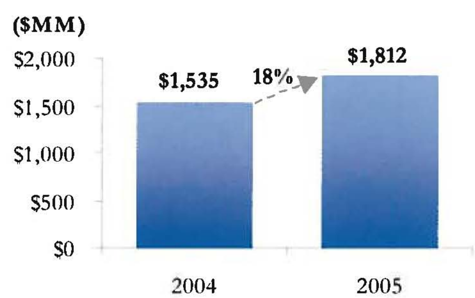
For the first three quarters of its fiscal year, Bear Stearns also made substantial gains in its equity operations, growing revenue in the asset class in the second quarter by 59% for example. This increase was led by a jump in equity derivatives origination and client activity as well as sales and trading of equities.

After fixed income sales and trading revenue fell 6% in the second quarter to $808 million, the fifth-largest U.S. securities firm formed an energy-trading venture with power producer Calpine Corp. in September. Calbear Energy LP will be staffed by Calpine's 200 energy traders, and profits will be split 50-50.

Bear Stearns also reported in September that it added 800 jobs in the 12 months through the end of August, a 7% increase from a year ago. **Bear Stearns now employs more people than it did at the end of August 2001.**

TOTAL REVENUE

For Fiscal Third Quarter Ending in August



For the six months ending in May, Bear Stearns was the top underwriter of residential whole loans, adjustable-rate mortgages and mortgage-backed securities overall. Record volumes in credit derivatives and robust activity in leveraged finance led fixed income gains.

In Asia, Bear Stearns will need to recover from the sudden September death of Eddie Lee, who the bank had hired to co-head fixed income sales in the region. Lee, who died in a car accident in New York, was a top salesman in the Hong Kong derivatives market and had joined Bear Stearns from Calyon over the summer.

KEY MANAGEMENT CHANGES – FIXED INCOME

Bear Stearns built out its European commercial mortgage unit in February with the hire of **Adam Tofy**, head of the European, Middle East and Asia CMBS group at Moody's, as a managing director to develop the business. In the same month the bank also hired **Peter McAnally** and **Marie Fernandez** from Halifax to head origination of euro-denominated real estate loans and **Michael Dimegger** from RZB in charge of originating real estate loans, CDO and residential mortgages in Germany.

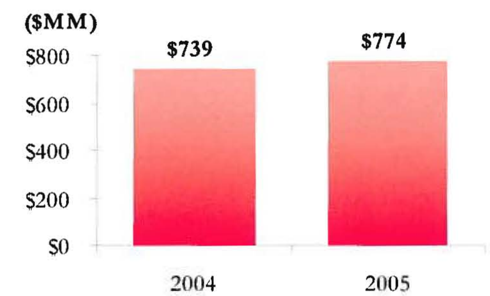
The bank also eliminated one layer of management when Andy Clapham, senior managing director and European head of securitization – who also oversaw collateralized debt obligations – RMBS and CMBS, left in February and was not replaced. Peter Rubinstein, senior managing director and head of commercial mortgage-backed securities research, also left in April.

Bear hired four people to its foreign exchange team in Tokyo in February, including **Yoichi Ovamada** from HypoVereinsbank as a managing director in its strategic finance group. The firm also hired **Mina Namba** from Calyon, **Takeshi Tsubota** from the Financial Technology Research Institute, and **Hajime Sawai** from Commerzbank.

In April Adi Rabinowitz, a senior agency collateralized mortgage obligation structurer, left to JPMorgan where he will run the new issue CMO business. Alex Reyfman, head of credit derivatives research, left in May to quantitative hedge fund AQR Capital Management.

FIXED INCOME REVENUE

For Fiscal Third Quarter Ending in August



Bear Stearns built its commodities business with hedge funds with the hires of **Steve Bingley** and **Robert Rees** from Dresdner. They now sell the firm's sales and trade execution advisory services to hedge funds.

In July the bank hired **Eddie Lee** from Calyon to co-head Asian fixed-income sales, along with a team of three others from the bank.

KEY MANAGEMENT CHANGES – EQUITIES

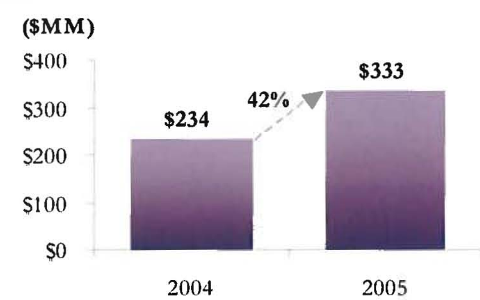
Bear Stearns also put resources into its equity business with a number of key hires. In the U.S. **Michael Gardner** joined from Frank Russell, as senior managing director and head of transition services, in which he is responsible for portfolio transition including changes in portfolio management and asset strategy shifts.

The firm in March also hired **Marc Banker** from FIMAT to co-head its interest rate derivate sales business covering hedge funds.

The bank also grew its structured equity product business in Asia, hiring **Edward Ho** from Merrill Lynch as head of structured equity products sales in Asia ex-Japan. He reports to **Leonard Feder**, head of derivatives for Asia, and **Don Martocchio**, global head of structured equity products and sales. **Joseph Chan**, head of the Taiwan coverage team at Merrill Lynch, also joined as a managing director in Asian structured equity products.

EQUITIES REVENUE

For Fiscal Third Quarter Ending in August



Bear Stearns lost some senior traders to hedge funds and competitors as well. Kevin Robik, senior managing director and head of structured equity products trading, left the bank to start his own firm and Fater Belbachir, an equity derivatives proprietary trader joined CSFB in a similar role.

OPTIONS GROUP

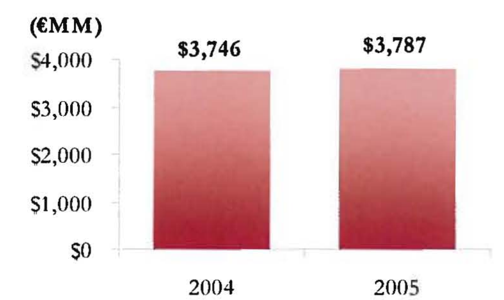
BNP PARIBAS

At least according to its publicly-available financial records, BNP will need to have a very strong second half to hand out significant compensation to its workforce. In the first six months of 2005, total interest income was 3.8 billion euros, just 40 million euros higher than the same period last year. **It was truly the best of times for its fixed-income securities unit, which reported a 43% jump in income in the first half year-over-year. That robust result, however, was negated by a loss of 264 million euros at its repo agreement desk and a 641 million euro loss at its debt securities desk.** Total trading book income fell from 618 million euros in the first half of 2004 to 39 million euros this year.

BNP began the year with an overhaul of its fixed-income division and said it planned to hire 130 people this year to increase the unit's 1,300-person workforce by 10%. Among the businesses the bank hired in were municipal finance, mortgage-backed securities, and the European high-yield market.

NET INCOME

For Six Months Ending in June



One of the reasons for the firm's fast-paced hiring in 2005 is its desire to build out its hedge and interest rate desks in a desire to catch up to not only European counterparts RBS and Credit Suisse, but the U.S. firms as well. The bank has said business development was focused on highly technical segments.

BNP Paribas in New York will add over a dozen senior derivatives salespeople and traders in the next few months on the heels of hiring **Todd Steinberg** as deputy head of equities and derivatives for the Americas. The department's growth will be in the double-digits by the end of the first quarter 2006, he said. "We expect most growth in the derivatives business to be in the U.S.," Amine Belhadj, head of equities and derivatives for the Americas, told *Derivatives Week*.

KEY MANAGEMENT CHANGES – FIXED INCOME

In January, BNP said it would divide fixed-income into a trading unit and a marketing unit that combines interest rates, credit and foreign exchange. **Frederic Janbon**, who oversaw the rates business, was named as head of the trading division and all risk taking activities, while **Paul Hearn** and **David Brunner** took charge of marketing, including sales and origination for client facing activities. Brunner moved from London to New York for the transition.

Bob Hawley, head of fixed income in Japan, moved to New York from Tokyo to run fixed income in the Americas. He was succeeded by **Hiraru Ogata**. **Eric Nicolas** remained head of fixed income in Asia outside Japan. **Michael Donahue**, global head of securitization, moved to New York to focus on boosting the business in the U.S.

BNP hired **Ronald Windisch** from Morgan Stanley to head a newly created municipal finance group, reporting to **Kip Testwuide**, head of distribution and origination for the Americas.

The bank also made a push to build its mortgage-backed business, hiring **David Randle** from Morgan Keegan in January as a director and senior proprietary trader in mortgage-backed securities, reporting to **Angus Duncan**, head of MBS proprietary trading. BNP hired a team of six to its mortgage-backed team from the Federal Home Loan Mortgage Corp. in the same month.

In asset-backed securities, meanwhile, BNP Paribas added **Stacey Mitchell** from JPMorgan as head of the ABS syndicate for North America, in March. **Raphael Gonzalez** also joined from Barclays in May as head of asset-backed securities trading. In March, BNP Paribas hired **Andrew McConnell** from RBS Greenwich as head of pass-thru MBS trading, reporting to **Zbigniew Ryzak**, head of U.S. dollar rates trading. In February, the firm hired **Peter Bainlardi** as managing director and head of proprietary rate trading from Barclays Capital, where he headed U.S. strategic trading. He also reports to Ryzak.

Dan Brereton joined from UBS in June to head U.S. credit flow trading, replacing Mark Alexandridis. **Jonathan Cooper** came aboard in April from Deutsche Bank as a managing director and head of US credit repos. He headed the emerging markets finance desk at Deutsche Bank.

In July, the bank said it would merge the trading of high-yield, high-risk credits with the unit that sells new loans to investors, as part of a strategy to boost its leveraged loan business. **Stephane Bavarez**, currently head of secondary sales and trading in Paris, will take charge of the merged leveraged loan distribution business. Bavarez was also named joint head of sales and trading for all loans, alongside **Sue Mingay**, who has responsibility for investment-grade business in EMEA.

BNP Paribas ranked as the second-most active bank in arranging leveraged loans in the first half, up from 12th place a year ago, according to data compiled by *Bloomberg*. BNP also actively grew its commodities operation in the U.S. during the year, hiring a number of sales and traders for commodity and commodity derivatives.

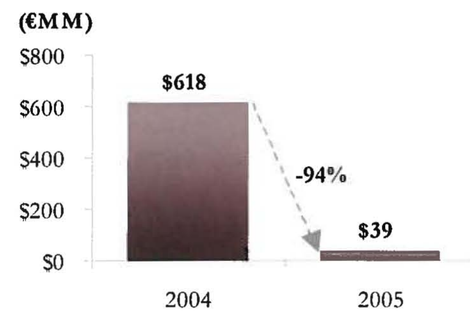
KEY MANAGEMENT CHANGES – EQUITIES

The bank added a number of equity derivatives and structured product salespeople this year, including **Jean-Eric Pacini**, who joined from A.T. Kearney in April to run structured product sales globally. **Aaron Ford** joined in March as a managing director and head of equity and derivatives flow sales for hedge funds and asset managers, reporting to **Nicholas Kello**, head of equity derivative sales for financial institutions. In May, **Jerry Hammerschmidt** came aboard from Morgan Stanley as a managing director and senior equity derivatives marketer, reporting to Ford.

In April, Tom Kennedy, head of the European equity syndicate, left the bank after four months in the role. **Florence Sztuder** was hired from Societe Generale in June to succeed Kennedy, reporting to **Thierry Olive**, head of equity capital markets.

In May, BNP moved **Kyle Rusconi** to New York from Japan, where he had headed quantitative electronic strategies. He reports to **Pascal Leyo**, head of equity derivatives trading. The bank also hired **John Vlahoplus** from Zurich Capital Markets. He reports to Leyo and **Laurent Bouaziz**, head of structuring and new products group.

TRADING BOOK NET INCOME
For Six Months Ending in June



OPTIONS GROUP

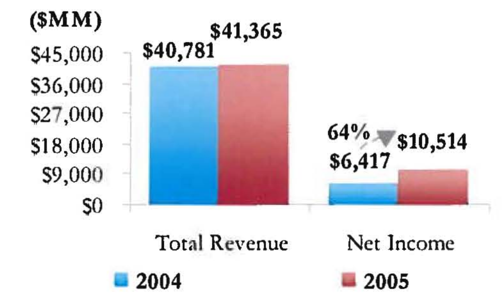
citigroup

Citigroup's earnings and revenue story continues to be clouded by a perfect storm of "headline risk". While the world's largest bank finished paying out billions to settle litigation-related payments for its actions involving WorldCom and Enron, and finished dealing with a bond trading scandal in London and a private banking ban in Japan, Citigroup announced the departures of its No. 2 and No. 3 executives, Robert Willumstad and Marge Magner, respectively, this summer.

This cloud may be lifting, however, and Citigroup may finally re-emerge as a stronger stock performer in 2006. **Raymond McGuire**, co-head of global mergers and acquisitions at Morgan Stanley, joined as global co-head of investment banking in May. Citigroup in June also agreed to sell its funds unit to Legg Mason for $1.5 billion in stock and $550 million cash. As part of the deal, Legg Mason off-loaded its 1,540-person brokerage unit to Citigroup, which now has 13,800 brokers, second to Merrill Lynch's 14,100 worldwide. CEO **Charles Prince** has begun shedding some of Citigroup's lower-performing assets in a quest to kickstart earnings by what he has said should be at least 10% annually.

Citigroup reported a 64% increase in earnings to $10.5 billion in the first half of 2005, although much of the jump was due to the company taking a charge in the second quarter of 2004 to pay a $4.95 billion settlement for WorldCom-related claims against it. Capital markets and banking fell 17% in the first half year-over-year to $2.5 billion and private banking income fell 34% in part due to Japan's one-year ban. On the plus side, earnings at the firm's consumer finance, retail banking and credit card units all rose 8% to 10% in the first half. Another bright spot: Second quarter revenues were up 40% driven by cash trading, derivatives products and equity finance.

TOTAL REVENUE & NET INCOME
For Six Months Ending in June



Citigroup named **Bill Rhodes**, another longtime Citigroup veteran, to replace Willumstad as head of Citibank and Citicorp. The New York-based bank also named **Steve Freiberg** and **Ajay Banga**, co-heads of the consumer bank, replacing Magner. Citigroup's consumer business has been the real breadwinner for the company so far this decade, and its 2004 income of $11.9 billion was more than Wal-Mart and Microsoft earned last year.

KEY MANAGEMENT CHANGES – FIXED INCOME

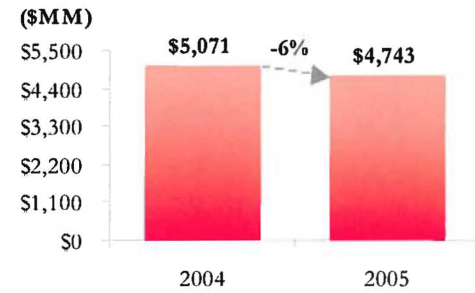
Bill Heinzerling, global head of equity and fixed income finance and short-term products, and head of fixed income retail left the bank in February.

Malcolm Stewart, who had formerly headed the bank's high yield debt business, also left the firm in April to Merrill Lynch, where he heads European leveraged capital markets.

In May, Citigroup reorganized its European CDO team, naming **Neil Servis**, director and head of European structured credit syndicate, as co-head of European CDOs alongside his current role. Servis will co-head the business with managing director **Tim Beaulac**, who has additionally been given a new role as head of new products for global CDOs.

In June, Citigroup hired more than 30 people – including former Enron Corp. executive **Vincent Kaminski** – at its Houston energy-trading unit. The bank, which had put the unit up for sale, has brought the total employee count to 40 employees.

FIXED INCOME MARKETS REVENUE
For Six Months Ending in June



In July the bank promoted **Chad Leat**, co-head of fixed income capital markets, to run an expanded unit that includes credit trading and structured credit securities. As part of the reorganization, several units that traded in emerging markets debt and related securities are being combined. **Carey Lathrop**, head of the investment-grade loan syndication desk, was named head of global emerging markets credit trading, reporting to Leat.

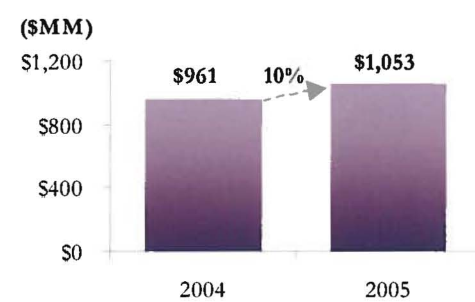
The reorganization followed mass departures from its credit trading teams. Brian Riano, head of global credit trading, John Eckerson, head of high yield trading, and Sean Fahey, an emerging market debt trader, left in May to start their own fund. Riano was replaced by **James Higgins**, head of European credit trading, and **David Pilcher**, head of investment grade bond trading.

KEY MANAGEMENT CHANGES – EQUITIES

In February Citigroup eliminated the jobs of Susan Lewis, head of European equity-linked capital markets and Toby Smith, head of corporate equity derivatives in the region. The move followed the merger in 2004 of the bank's European corporate equity derivatives and equity-linked capital markets units. Both Lewis and Smith reported to **Alan Rifkin**.

In June, the bank also built its U.K. corporate brokerage team with the hire of seven bankers from ABN Amro's Hoare Govett. The bank reportedly approached twenty people, although it did not make offers to them all. Hires included Hoare CEO **Nigel Mills**, as chairman of U.K. corporate broking business. Other managing director-level hires included: **Andrew Chapman, Tom Reid, Andrew Thompson** and **Chris Zeal** as managing directors, reporting to **David James**, head of corporate broking.

EQUITY MARKETS REVENUE
For Six Months Ending in June



Luke Randell, head of Australian equity derivatives in Sydney, transferred to London to head European equity derivatives trading. Randell replaced **Andy Crane** and **Richard Burns**, previously co-heads of equity derivatives in London, who were promoted, Crane to head all equity trading, including cash and convertibles, and Burns as global head of structured products. The changes also followed the merger in February of the bank's European equity cash and derivatives trading.

As noted above, Raymond McGuire, co-head of global mergers and acquisitions at Morgan Stanley, joined as global co-head of investment banking in May. He reports to **Michael Klein**, CEO and head of global banking for Citigroup corporate and investment banking. In June Citigroup hired **Marianne Hay**, head of Morgan Stanley's European brokerage, as head of brokerage for high net-worth clients in Europe.

OPTIONS GROUP

Citigroup bulked up its Asian equity cash team in September by hiring **Cindy Ku** and **Jane Won** from HSBC. Ku joined from HSBC as a senior product manager in charge of managing and growing receivables and commercial card portfolios. Won will be leading cash management and trade services opportunities for financial institutional clients.

Deutsche Bank

Germany's largest bank often gets lost in the shadow of its Swiss neighbors Credit Suisse – which has been in the news a lot over the last couple of years – but there is no mistaking Deutsche Bank's steady earnings growth. In the first six months of 2005, total corporate and investment banking income rose 11% to 8.1 billion euros. Unlike BNP Paribas, Deutsche Bank's debt sales and trading unit had a solid first half, earning 4 billion euros, up from 3.5 billion in the first half of 2004.

Another bright spot was its equity origination business, which was up when most financial services industry desks were down. Deutsche Bank also has benefited from an upsurge in European M&A deals, and finished the first half with a 22% jump in advisory advice as the bank took share in Europe and Japan. The bank ranked first globally in revenues generated from sales and trading for the first and second quarters.

In the company's first quarter in 2005, the big story was the revenue pop in debt sales and trading. While overall revenue rose 6% to 6.6 billion euros, debt sales and trading registered a record quarter with total revenues up 26% to 2.4 billion euros, driven by the structured product group. In the quarter, Deutsche Bank said it would shut its internal hedge-fund unit, DB Advisors, after most of the teams in the unit left to start their own funds. Four of the six trading teams left, with the remaining members absorbed by Deutsche Asset Management. DB Advisors was reported to be suffering losses in 2004, which reduced the bank's overall revenues.

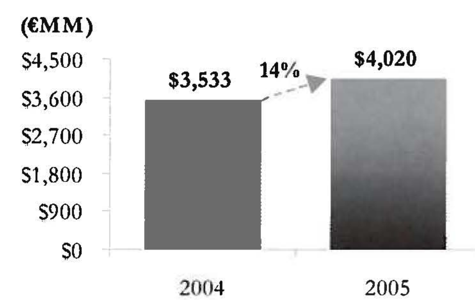
Deutsche Bank, the world's biggest securities firm by trading revenue, hired about 10% more graduates worldwide this year than last and expects to increase hiring of associates by 10% to 15% in 2006, according to *Bloomberg*.

KEY MANAGEMENT CHANGES – FIXED INCOME

Senior fixed income management changes included the promotion of **Stuart Lewis** to global head of the loan exposure management group in May, succeeding Betsy Gile who retired. **Jeanmarie Genirs** joined from Lehman Brothers in March as head of agency debt, reporting to **Nigel Cree**, head of debt syndication for North America.

Hope Pascucci succeeded **Jorge Calderon** as head of debt capital markets, while also continuing to run global debt syndication and head European debt, derivatives, currencies and commodities sales. Calderon is now head of global financial institutions.

DEBT SALES & TRADING REVENUE
For Six Months Ending in June



The bank also grew its credit business and grew its volumes and revenues amidst strong client flows. In credit, the bank promoted **Boaz Weinstein**, head of integrated credit trading for the U.S. to take additional responsibilities for Europe, as the bank cited growing volumes and revenues on the back of strong client flows. **Derek Smith** was also hired from Goldman Sachs to succeed Weinstein as head of U.S. credit trading.

OPTIONS GROUP

Michael Henriques joined from Goldman Sachs in April to head origination, structuring and risk management of principal finance in the structured solutions group, reporting to **Eric Falk**, head of the group.

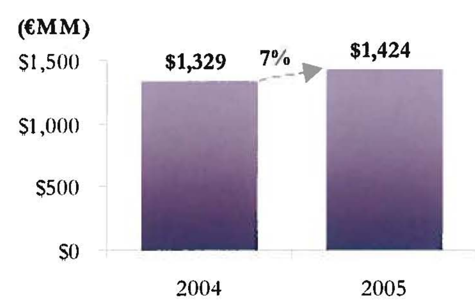
In commodities, meanwhile, **Mark Ritter** was hired from UBS in May as a managing director to run global commodities. He will report to **Jim Turley**, global head of currencies and commodities. Ritter takes over from **Kerim Derhalli**, who was named a month ago to oversee emerging market equities in Latin America, Central and Eastern Europe and the Middle East and Africa. Derhalli will report to **Ralph Reynolds**, global head of cash equities, and **Pablo Calderini**, who runs all sales and trading in Latin America and Central and Eastern Europe, the Middle East and Africa. **Jim Turley**, who runs global commodities and currencies, will assume Derhalli's responsibilities.

In July, **Louise Kitchen**, managing director and head of energy structured products at UBS Warburg Energy joined as global head of commodities structuring and marketing. **Ivor Dunbar** was named head of sales and trading in Europe outside of Germany in March, succeeding **Colin Grassie**, who moved to Asia as chief executive for the region. Dunbar takes responsibility for the global markets business in Europe, in addition to his role as global head of structured capital markets. In August, Theo Constantinidis, global co-head of structured credit trading, left to Merrill Lynch.

KEY MANAGEMENT CHANGES – EQUITIES

Nick Roe, who was named as head of the bank's 300 person prime brokerage unit in April, left the firm in July to join Citigroup to run the bank's European prime brokerage unit, adding to the exodus of senior management from the operation. James Rowen, who previously ran the prime brokerage group, left earlier in the year to SAC Capital Advisors. He was replaced by **Jonathon Hitchon**, head of global prime services and COO for global equity products.

EQUITY SALES & TRADING REVENUE
For Six Months Ending in June



The bank overhauled its equity trading, with the hire of a team of eight from Morgan Stanley, headed by **Robert Karofsky** who joined as global head of program trading and direct markets access and co-head of cash equities for the Americas. He reports to **Ralph Reynolds**, head of global cash equities and program trading, finance and prime services and **Thomas Gahan**, head of corporate and investment banking Americas and CEO of Deutsche Bank Securities. **David Manlowe** was also named Americas co-head of cash equities with Karofsky. He also retains responsibility for head of Americas company research. **David Baker**, former global head of program trading, moved to a role in equity prop trading group. **Joseph Ferrarse** also joined as a managing director and Americas head of cash trading, reporting to Karofsky and Manlowe.

The hires followed a reorganization of its equity derivatives trading desks. In March, **Noreddine Sebti**, head of European equity derivatives trading, moved to New York. **Nino Kjellman**, managing director in equity flow trading, replaced him. Kjellman is co-head of equity derivatives trading with **Richard Carson**, head of exotic equity derivatives trading. **Chiehmi Chan**, previously head of equity structured products trading for Europe in London, moved to Hong Kong to head equity derivatives trading for Asia ex-Japan.

Chris Leone, head of equity derivatives flow trading for the Americas, resigned and was replaced by **Michele Gissi**, former head of European indices in London, who returns from a leave of absence. **Stanley Rowe** continues as head of structured products trading for the Americas in New York. Both Rowe and Gissi will report to Sebti. Matt Carrara, head of global equity derivatives for the Americas, left the firm in March.

Deutsche Bank also lured a monetization team from CSFB in June, headed by **Neil Kearns**, who heads the monetization services desk. They report to **Mike Friezo** and **Doug Baird**, co-heads of equity capital markets in the U.S.

In July, Deutsche hired **John Larkin**, managing director in institutional and third-party sales of hedge fund products at HFR Asset Management in New York as head of its alternative investment solutions group for the Americas.

In early October, Deutsche Bank moved **Colin Fan** from global head of convertibles trading to head Asian equities and be responsible for cash equities, program trading, equity derivatives and prime services. The bank also hired **Charles McLaughlin** from JPMorgan to take on the role of chief operating officer for Asian equities. He reports to Hitchon, Fan and **Chandra Mallika**, COO of global markets, Asia.

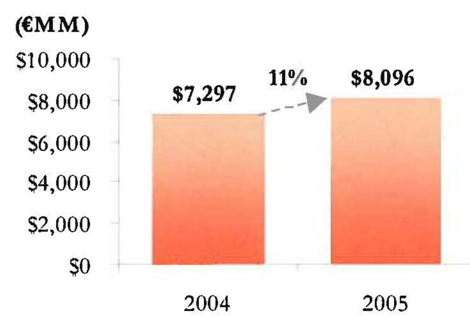
KEY MANAGEMENT CHANGES – INVESTMENT BANKING

In March, **Jorge Calderon** was promoted to head a new global financial institutions group, charged with selling corporate finance and banking products such as derivatives. Calderon will oversee merger advice, equity and debt underwriting and risk management for banks and insurance companies.

In August, Deutsche Bank hired **Douglas Morton** as head of Asian M&A, based in Hong Kong, from JPMorgan where he was a managing director in M&A and industry coverage.

In September, Deutsche Bank hired former Morgan Stanley managing director **Koichi Sakurada** to strengthen its investment banking business with financial institutions in Japan. Sakurada joined Deutsche Bank as a managing director and head of the financial institutions group in Japan, reporting to **Kohei Yuki**, head of global banking in Japan. Sakurada had worked at Morgan Stanley since 1990 and was named co-head of that firm's financial institutions group in 2003.

CORPORATE & INVESTMENT BANKING REVENUE
For Six Months Ending in June



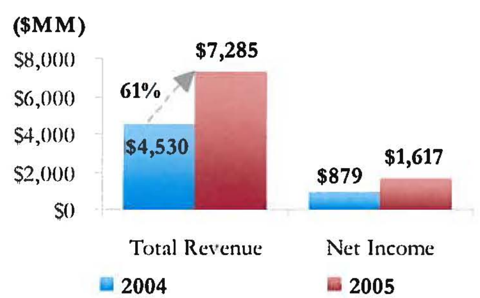
Goldman Sachs

Goldman Sachs made up for its second-quarter shortcomings in fixed income by posting an 84% gain in third-quarter earnings over a year ago. The big increase was due to stock and bond trading gains and its top-tier prime brokerage business.

The firm earned a record $1.6 billion, or $3.25 a share, compared with $879 million, or $1.74 a share in the quarter a year ago. Thomson Financial had estimated third-quarter earnings to be $2.38.

Like Lehman Brothers, Goldman Sachs saw a significant surge in fixed income, equities, currency and commodities. Equity revenue rose 75% to $1.6 billion, with equity trading revenue shooting up 189% to $872 million. "The idea of a fixed-income trading model for equity – taking risk – seems to be working," Sanford Bernstein's Brad Hintz told the *New York Times* Sept. 21. Goldman's return on equity (ROE) was an impressive 25%, besting Lehman's third-quarter ROE of 23%.

TOTAL REVENUE & NET INCOME
For Fiscal Third Quarter ending in August



Goldman Sachs, as well as Lehman Brothers, took more risk trading stocks than in previous quarters and that will likely lead to more choppy quarters in the future. Revenue for trading and principal investments in corporate and real estate at the bank rose 88%, to $5.1 billion, for example, but fell 22% in the second quarter. As if to highlight the higher risk inherent in this strategy, Goldman's third-quarter earnings were a 180-degree sea-change from the previous quarter ending in May. Goldman reported a 27% fall in second-quarter revenue, its first sales drop in three years. The fall came after a record first quarter earnings, however, in which fixed-income trading boosted profits by 17%.

Goldman continued to lose high profile managers to hedge funds this year. Partners **Geoff Grant**, head of global foreign exchange and options, and **Ron Beller**, head of European fixed income, currency and commodity sales, left to set up Peloton Partners, a global macro and relative value strategy fund.

Christian Siva-Jothy, co-head of global foreign exchange prop desk, **Greg Mount**, head of structured credit marketing, also left to start new funds while **Emmanuel Roman**, co-head of European equities and co-head of global prime brokerage services, joined GLG Partners. **Doug Kimmelman**, a managing director in commodities, who helped oversee investments in power plants, also left to start a buyout firm.

The bank also shuffled its management after it merged its investment banking and financing divisions. **Jon Winkelried**, who had overseen fixed-income, currencies and commodities, was named head of the enlarged business with **Scott Kapnick** and **John Weinberg**. **David Solomon**, head of the global financing group, continued to oversee financing, which includes stock and bond underwriting, within investment banking. The firm's global securities department is managed by **Thomas Montag**, **Michael Sherwood**, **Michael Evans** and **Gary Cohn**. Cohn, who was co-head of global equities with Evans, took over Winkelried's responsibilities in fixed income.

In February the bank continued to integrate its equity and credit derivatives team with the merger of equity and credit derivatives strategy. Researchers for both asset classes now report to **Klaus Toft**, head of sales strategy. **Sandy Rattray**, previously responsible for equity derivatives strategy, now heads a research team called fundamentals strategy. Rattray's team is focused on trading and will comb thru markets for mispricing and other opportunities, whereas Toft's group has a more macro modus operandi.

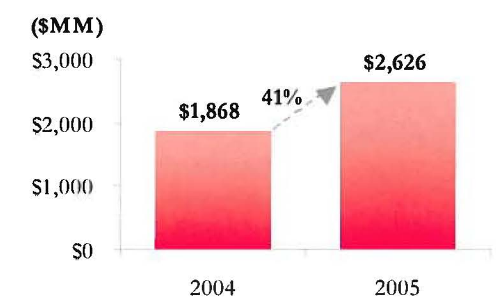
Goldman, whose 22,032 employees are still below the level employed in 2001, plans to increase worldwide hiring of business-school graduates by about 25% next year, the firm said.

KEY MANAGEMENT CHANGES – FIXED INCOME

Ian Gilday was hired from Merrill Lynch & Co. in May to oversee its European loan capital markets and syndicate business within leveraged finance. He reports to **Tim Flynn** and **Doug Henderson**, co-heads of European leveraged finance. His hire followed the loss of a team of three from its syndicated loans team, including **Robert Wagner**, co-head of syndicated loans.

The bank suffered a number of departures from its credit team in both the U.S. and Europe, however. In April, Michael Henriques, co-head of CDO group, moved to Deutsche Bank. Derek Smith, head of investment grade credit trading, also moved to Deutsche Bank in June to head North American investment-grade credit trading. Eric Oberg, head of credit derivatives sales in the Americas, departed in April – the same month Goldman merged its corporate bond and credit derivative sales, trading and research business with its equity counterparts.

FIXED INCOME REVENUE
For Fiscal Third Quarter ending in August



Justin Gmelich, managing director and former head of collateral, was promoted to head credit trading in New York in July, replacing Smith. **Gregg Weinstein**, who formerly headed global credit trading, moved to a new role managing the global convertibles, volatility and equities.

KEY MANAGEMENT CHANGES – EQUITIES

Goldman strengthened its proprietary equity trading with the hire of **Jamil Baz**, chief investment strategist at Deutsche Bank, in a new position in global macro proprietary trading group, reporting to **Driss Ben-Brahim**.

In February Goldman also hired **Peter Sheridan** from Morgan Stanley, where he ran sales trading and marketing for algorithmic trading, to jointly run European algorithmic trading with **Michael Towarek**. Sheridan is responsible for sales and marketing and Towarek oversees trading.

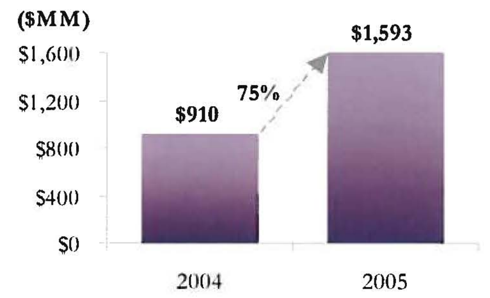
The bank also hired **Salvatore di Stasi**, head of equity corporate derivatives marketing, along with four colleagues from JPMorgan. They will report to **Matthew Westerman** and **Addy Loudiadis**, who jointly run the European financing group.

In June, however, **Peter Mallinson**, head of European equities left to join CDK Group as head of its London office. **Raahil Bengali**, a proprietary trading chief, also left that same month to ABN Amro as head of equity risk and cross-product trading.

Goldman Sachs said in June that it let go 30 employees, the majority of which were traders, as electronic trading cut back on commissions. The bank said sales traders would be given more responsibility to execute trades formerly handled by traders, while fewer traders would focus on capital commitment and price-making for clients.

EQUITIES REVENUE

For Fiscal Third Quarter ending in August



The bank also shifted its proprietary equity trading to its hedge fund group to ease client concerns about front-running.

KEY MANAGEMENT CHANGES – INVESTMENT BANKING

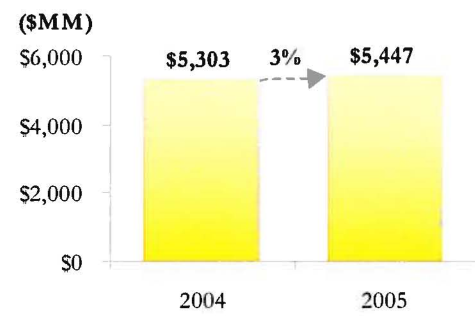
Goldman ranked second in announced M&A deal flow globally through October 1, 2005 behind Morgan Stanley, according to *Bloomberg*. The bank finished 2004 in first.

In August, the bank said Simon Robertson retired as president of the bank's European business to start his own mergers and acquisitions boutique firm. His departure followed that of Peter Weinberg, chief executive officer of the bank's international unit the previous month. **Scott Kapnick** and **Michael Sherwood** replaced Weinberg as co-CEOs.

HSBC

The aggressive expansion of the bank's capital markets and investment banking business increased operating expenses 24% in the first half of the year, wiping out a 26% revenue increase. Overall income rose 3% in the first half of 2005 to $5.5 billion. Global capital markets income fell 4% from the same period a year earlier due to higher short-term rates and the flattening yield curve. Equity revenue, however, spiked 54% in the first half of 2005 versus the second half of 2004.

TOTAL OPERATING INCOME
For Six Months Ending in June



HSBC has been especially interested in hiring structured credit, ABS, debt capital bankers, and equity derivatives senior-level personnel in 2005. HSBC has hired around 2,000 investment-banking employees in the past two years as well.

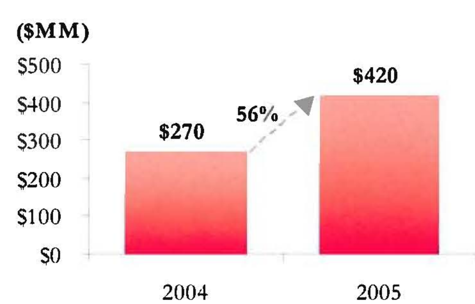
In mid-September, the bank promoted **Barbara Rupf Bee** to CEO of HSBC Republic Investments Ltd. (HRIL), the HSBC Group's dedicated investment adviser to the fund of funds industry. Before stepping into her new position, Rupf Bee served for two years as global head of sales and business development for HSBC's Alternative Investment Group. Rupf Bee succeeds Paul Dunning as chief executive, who will continue to serve HRIL as a consultant. She will report to **Gabriel Perahia**, chairman of HSBC's AIG.

KEY MANAGEMENT CHANGES – FIXED INCOME

It looks as if HSBC had two big fixed income hiring priorities in 2005: Structured credit and asset-backed securities. **Michael Ice**, who formerly headed the financial institutions derivatives group at Dresdner, joined as a managing director in structured credit product sales. In April, the bank said it was preparing to launch a structured credit derivatives operation in Tokyo, following aggressive expansion efforts in Europe, the U.S. and China.

That same month, HSBC named **Stephen Williams**, a debt capital markets banker, to co-head Asian investment banking with **Danny Palmer**. **Andy Cairns** and **Aaron Tan** were also named joint heads of Asian debt capital markets. **Julien Gurcel** also joined from Barclays Capital in April to head European high-yield debt, reporting to **Mark Nickell**, a managing director in syndicated finance. The bank said in the summer that it was putting further hires in the sector on hold until the European high yield market recovered.

CREDIT & RATES INCOME
For Six Months Ending in June



The bank also made several hires as part of a push to develop its European asset-backed business. **Nicholas Letica**, managing director in mortgage-backed securities trading joined from Deutsche Bank in a senior MBS trading role. **Todd White** also joined form Lehman Brothers to head HSBC's mortgage business and **Rich Lightburn** joined from Goldman Sachs to run trading for all liquid mortgage-backed products.

OPTIONS GROUP

In June, HSBC promoted **Bryan Pascoe**, head of the Asia-Pacific debt syndication team, to head its global debt syndication team. **Mark Bucknall** is co-head of global investment banking. **Caroline Morrill** is head of debt syndicate for North America, **Andrew Porter** is head of European debt syndicate and **Chris Jones** is global head of euro medium-term notes.

In August the bank hired **Rod Sykes**, head of Asia debt capital markets at Merrill Lynch, a co-head of Asian debt finance, replacing Andy Cairns. The hire followed that of **Chris Zilla** from Morgan Stanley in March, as head of Asian high-yield debt trading. In August, HSBC hired **Michael McGovern** from JPMorgan as head of syndicated finance for the Americas.

The Chinese bank also hired away six members of CSFB's interest-rate team, including **Patrick Haskell**, head of U.S. rates. Another substantial hire was **Don Lee** from AIG to head FX exchange derivatives for the Americas and to head FX exotics globally. Lee reports to **Matt Desselberger**, global head of FX derivatives and **Ben Welsh**, head of FX for the Americas.

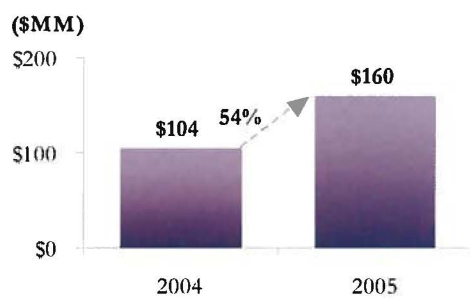
KEY MANAGEMENT CHANGES – EQUITIES

HSBC hired **George Pavey** from CSFB to head equity capital markets and **Patty Burrowes**, formerly deputy head of European equity sales trading at Deutsche Bank, to run the global equity syndicate. **Jim Rossman**, head of equity capital markets at Lazard, also was hired as head of equity capital markets for the Americas.

In April HSBC hired **Steven Phan**, head of the funds and active strategies structuring and trading team at Merrill Lynch, as managing director and co-head of global structured fund products. **Albert Yu**, head of derivatives and structured products marketing for the Americas in New York, is the other co-head. Phan and Yu have a dual reporting line to **Samir Assaf**, head of fixed income and derivatives trading for Europe in London, and **John Paganucci**, head of derivatives trading for the Americas in New York.

EQUITIES INCOME

For Six Months Ending in June



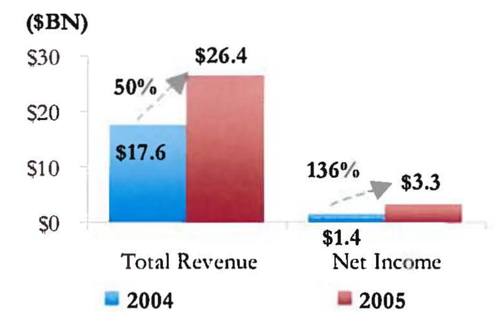
In July, HSBC transferred **Jerome Ferracci**, head of equity derivatives in Paris, to Hong Kong to run its Asian business, where it has its largest client base. The bank was strengthening its Asia presence to additional markets, including hiring new personnel in the region.

JPMorganChase

JPMorgan Chase, the third-largest U.S. bank, has a lot in common with Bank of America. Both firms want to supplant Citigroup in terms of assets and market cap – and they are not afraid to make the big acquisition to do so. President and COO **Jamie Dimon** is so eager to put his own imprint on the venerable shop after coming over as a No. 2 under **William Harrison** from Bank One that he will take over the top spot six months earlier than planned, on Dec. 31, 2005. **Dimon hinted in August the company may make a "major acquisition" in early 2006 after its cost-cutting targets set after buying Bank One in July 2004 were completed later this year.** The *Financial Times* reported JPMorgan Chase was in talks to buy a U.S. retail bank.

The firm, like Citigroup and Bank of America, lost money at its trading desk by making wrong-way bets on interest rates in the second quarter. Revenue from fixed-income trading fell 27% to $940 million. JPMorgan Chase also reported in the second quarter that its value at risk rose to $102 million, from $65 million in the first quarter, indicating the bank is putting more capital behind its trades in an attempt to increase returns. In March, JPMorgan Chase settled litigation claims involving its WorldCom actions for $2 billion.

TOTAL REVENUE & NET INCOME
For Six Months Ending in June



For the first half of the year, revenue rose 50% to $26.4 billion in large part due to the absorption of the Chicago-based Bank One. JPMorgan Chase's compensation expenses rose 44% to $9 billion. Earnings also rose due to the Bank One purchase to $3.3 billion. Fixed-income trading revenue was down 10% to $2.9 billion in the first six months of 2005 at JPMorgan, the firm's commercial banking and non-consumer unit.

David Coulter, a JPMorgan vice chairman and former head of investment banking and asset management, resigned from the firm in July. In August the bank hired **Brit Bartter**, a vice chairman for investment banking at Merrill Lynch, as a vice chairman for investment banking for the Americas in Chicago. **Former Citigroup veteran Robert Lipp joined the firm as a senior M&A advisor in September, joining old cohorts Harrison (from their Chemical Bank days), and CEO-to-be Dimon (from their Commercial Credit to Citigroup days).**

KEY MANAGEMENT CHANGES – FIXED INCOME

In February, JPMorgan promoted London-based **Daniel Pinto** to a global role overseeing emerging markets sales and trading after Gustavo Dominguez left the bank. **Chester Kam** remains responsible for emerging market sales and trading in Asia. Pinto, who had been overseeing emerging markets sales in the European region, will keep his other role running European credit trading and research. He reports to **Fawzi Kyriakos-Saad**, the bank's London-based head of European credit and rates and global emerging markets.

In February, JPMorgan named **Ian Slatter**, who ran U.K. sales, to European head of high-yield debt sales in Europe. Slatter is replacing David Torres, who took a 12-month sabbatical. In June, JPMorgan lost Jonathan Weiss, head of leveraged finance to Wachovia. **John Coyle**, who headed the European financial sponsors business was promoted to replace him as global head in July.

OPTIONS GROUP

Brian Zeitlin in New York and **Oldrich Masek** in London were named as replacements for departees Geoff Sherry, co-head of credit trading in North America, and Andy Brindle, co-head of global structured credit in March. Other departures included Andrew Palmer, global head of credit derivatives marketing. In February Chris French, head of exotic and hybrid securities trading in Europe left and he was succeeded by **Bobby Magee**, head of market risk.

In March, JPMorgan lost Paul Horvath, global co-head of structured credit sales to Merrill Lynch. In the midst of these departures the bank hired traders to a new proprietary correlation trading desk, headed by **Rajeev Joshi**. In March, JPMorgan merged the teams that sell equity and fixed-income derivatives to non-financial companies in Europe under Antonio Polverino, who ran the debt derivatives sales team. Polverino later led an exodus of 22 others from his corporate derivatives team to Merrill Lynch.

FIXED INCOME REVENUE
For Six Months Ending in June

Katherine McCormick, who ran European credit research from London, was named to head European corporate research while **Margaret Cannella,** who previously managed credit research in the Americas from New York, was appointed head of corporate research in the Americas.

In March, JPMorgan hired four senior energy traders from Morgan Stanley as part of an attempt to generate higher commodities revenue. **George "Beau" Taylor** was named global head of gas and power trading and U.S. head of gas and power. JPMorgan also named **Parker Drew** and **Catherine Flax** as managing directors, and **Scott Speaker** as a vice president.

In April, the New York-based bank hired **David Duzyk**, a managing director and head of non-mortgage asset-backed finance with RBS Greenwich and **Stan Labanowski**, an SVP in the mortgage group at Lehman. Duzyk heads term asset-backed security and mortgage-backed security origination in New York, while Labanowski heads prime banking in the asset-backed group in New York. He also is in charge of originating and structuring prime quality mortgages. Duzyk will report to **Bill King** in New York and **Christine Cole** in Chicago, who run the securitized product group. The unit includes ABS, MBS and CMBS. **Rosa Hyun,** who was VP in the consumer asset-backed finance group at RBS, was also brought on as VP in New York, reporting to Labanowski.

In May, the bank also hired four executives to its energy-trading business, including three from Morgan Stanley. **David Samuels, Nedim Soylemez, Trevor Woods** and **Robin Long** joined JPMorgan as vice presidents.

In August, JPMorgan hired **George Cooper,** head of European fixed income strategy at Deutsche Bank, in the same role. He replaces Laurent Fransolet, who left the bank in May. **Robert Beehler,** joined from BofA in New York as head of global short-term fixed income.

KEY MANAGEMENT CHANGES – EQUITIES

In February, Daniel McNeill was hired from ABN Amro as a vice president in equity derivatives. In early May, JPMorgan poached **Amar Kuchinad** from Bear Stearns as head of equity derivatives.

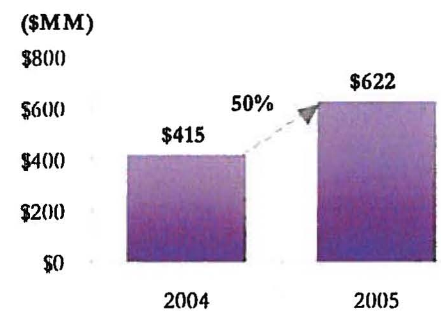
In May, the bank hired **Andrew Beswick** from Deutsche Bank and **Nicklas Johansson** from Credit Agricole SA's Cheuvreux brokerage unit for European cash equity sales and sales trading. In May, the firm lost three on its equity derivatives desk to Lehman. Axel Kilian, head of European derivatives sales, Juergen Bossler, head of sales for Germany and Austria, and Martin Bertsch.

In June, JPMorgan hired **David Topper** from Morgan Stanley as co-head of equity capital markets, alongside Kevin Willsey. Topper replaced Quinten Stevens who left to Wachovia in May to head the company's equities division. In August, the firm hired **Benjamin Ho** as a derivatives trader from Lehman.

In September, **Antoine Ortiz** was hired from Hartford Investments to be a senior prop trader. Also that month, JPMorgan hired **Tim Joyce** from Dresdner to be a VP and trader in emerging market derivatives.

M&A ADVISORY FEES

For Six Months Ending in June



LEHMAN BROTHERS

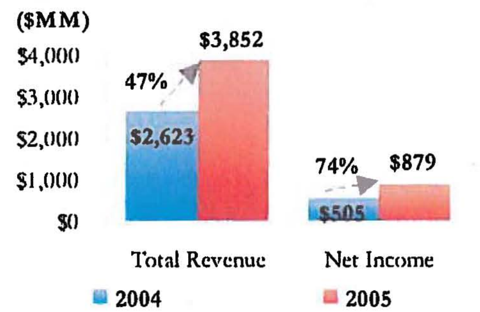
Lehman Brothers may be the strongest positioned of all the Wall Street securities firms.

Fiscal third-quarter earnings rose 74%, beating analyst estimates as revenue from equity underwriting and trading almost doubled. Overall net income jumped to $879 million, or $2.94 a share, from $505 million, as analysts had predicted quarterly income of $2.37 a share. Revenue rose an impressive 47% and justified the 30%-plus rise in Lehman's stock this year – besting its core rivals Bear Stearns, Goldman Sachs and Morgan Stanley. Under Lehman's co-heads of global finance, **Larry Wieseneck**, 39, and **Jeffrey Weiss**, 44, the firm's revenue from equity and debt underwriting jumped 40% to $1.6 billion in the first nine months of the fiscal year, outpacing gains from merger advice and trading.

Lehman also differentiated itself from several competitors in the second quarter (ending May 31) by announcing its second highest quarterly profit in its history. Most other firms had significant trading issues and posted lower earnings than originally expected. The purchase of Neuberger Berman for $2.6 billion in 2003 has helped the company diversify into asset management products and investment management services.

TOTAL REVENUE & NET INCOME

For Fiscal Third Quarter Ending in August



Lehman, the No. 4 securities firm by market cap, said equity trading and underwriting made up 23% of revenue, up from 17% in the third quarter a year earlier. Revenue from fixed-income trading rose 37% to $1.9 billion and investment banking revenue was up 55% to $815 million and equities revenue doubled.

New York-based Lehman said it hired 1,330 people worldwide in its fiscal third quarter. Lehman's compensation and benefits expense totaled $5.4 billion in the nine months through August, up 25% from a year ago. Lehman now employs more people than it did at the end of August 2001.

Lehman allocated $5.4 billion for compensation in the first nine months of its fiscal year ending in August, up 25% over last year. Investment bankers and equity traders should receive the lion's share of total bonus pools, although new hires may take a bite out of the total pie.

KEY MANAGEMENT CHANGES – FIXED INCOME

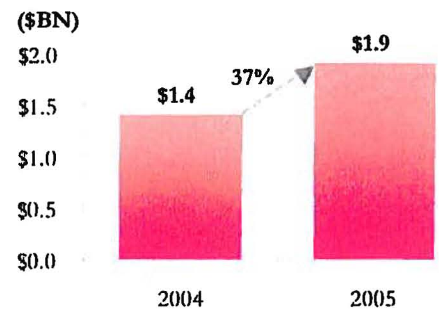
In March, Lehman hired **Christian Spieler** from JPMorgan to run capital markets in Germany. He will oversee debt and equities, in a newly created role. At JPMorgan he ran fixed income distribution to Germany and Austria and was co-head of global credit hybrid and credit derivatives structuring. He reports to **Karl Dannenbaum**, head of German business, and **Benoit d'Angelin**, co-head of European investment banking and **John Phizackerley**, co-head of European equities.

In January, the firm named **Philip Lynch**, head of European equity capital markets, to run stock and bond underwriting in Europe. **Christian Wait**, who ran bond underwriting, became global head of CDO distribution. The firm also named **Eamonn Price** and **Jason Tilroe** as co-heads of an enlarged debt capital markets business in Europe, which will encompass the risk solutions group that advises clients on derivatives.

In May, the firm hired **Scott Gerwitz**, co-head of the U.S. Treasuries group at Deutsche Bank, to head the trading of U.S. Treasury coupon securities. He replaced Scott Beck, who followed former boss JP Marra, former head of global government bond and agency mortgage-backed securities, to Bank of America. At Lehman, Beck was head of global government bond and agency MBS. In February, the bank named **Jerry Rizieri** head of US government, agency and agency MBS, replacing Marra.

FIXED INCOME REVENUE

For Fiscal Third Quarter Ending in August



At the end of September, Lehman said it hired **Raj Dhown**, a senior credit salesman and most recently co-head of Deutsche Bank's CDO origination and distribution in Europe and Asia. Market watchers regarded him as an aggressive salesman and a cash cow for the German bank, reported *Derivatives Week*. He is expected to start in December and report to **Phillipe Dufournier**, a managing director in the structured credit solutions group.

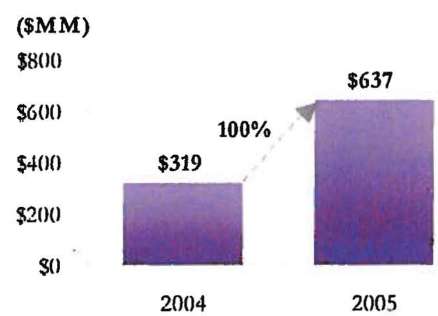
KEY MANAGEMENT CHANGES – EQUITIES

In June the bank brought in **Herbert McDade**, head of fixed income, to take over from Robert Shafir, who headed global equities and left to take a leave of absence. **Michael Gelband**, who headed fixed income liquid markets, took over debt.

Timothy Throsby was promoted to global head of equity derivatives in January. He previously headed equities for Asia-Pacific. He temporarily transferred to New York for the role before quitting the firm in June to head Citadel's Asia-Pacific operation.

EQUITIES REVENUE

For Fiscal Third Quarter Ending in August



In February, Lehman named **Matthew Johnson** global head of the equity syndicate. He had been co-head of US execution services with **David Porcelli.** He will report to **Joseph Amato**, head of global equity sales, and Patrick Whalen, head of global equity trading. **Timothy Gould**, head of the U.S. equity syndicate and **Duncan Smith**, head of the international equity syndicate, will report to Johnson.

In March, Lehman hired **Arnaud Apffel** from Goldman as managing director and co-head of European equity corporate derivatives. He reports to **Philip Lynch**, head of global finance in Europe and **David Bizer**, co-head of European equity sales. Lehman hired **Francis Troise** from ITG to be responsible for US connectivity products. He reports to **Jeffrey Wecker**, head of global connectivity and **David Porcelli**, head of U.S. execution services group.

In May, Lehman hired **Axel Kilian**, co-head of equity derivatives investor marketing at JPMorgan as head of European derivative sales. **Martin Bertschhead**, head of equity derivatives financial engineering, joined as head of equity derivatives product development, and **Juergen Bossler**, equity derivatives sales, joined as head of equity derivative sales for Germany and Austria. Kilian reports to **Siggi Thorkelsson**, head of European equity derivatives, and David Bizer and **Mark Rutherford**, who jointly run European equity sales.

OPTIONS GROUP

In June, Lehman hired **Eric Kazabata** from Nikko Citigroup to head a new team, creating equity derivatives products in Japan. At Citigroup, he was director of equity capital markets, responsible for converts and corporate equity solutions.

In March, Lehman hired **Jolyne Caruso**, the president and co-founder of Andor Capital Management LLC, to run a business that offers hedge fund products to investors. Caruso will be head of the global absolute return strategies business, which offers hedge funds and funds of funds to wealthy clients and institutions. Caruso reports to **Theodore Janulis**, global head of wealth management, and is a member of the management committee.

On May 6, Lehman hired **William Vereker** and two colleagues from Morgan Stanley for its European team that advises energy and utility companies. Vereker joined as a managing director, global co-head of power and European head of natural resources, along with **Jean Philippe Favre**, a 36-year-old director, and **Tam Nguyen**, a 29-year-old associate. Vereker ran Morgan Stanley's No. 1 ranked European utility mergers and acquisitions team. Vereker reports to **Benoit d'Angelin** and **Perry Hoffmeister**, who co-head European investment banking, and to **Grant Porter**, who oversees natural resources investment banking globally.

Matt Hansen, head of structured products sales and Llewellyn Connolly, co-head of equity derivatives, left to join Swiss Re in July to run an equity and equity-linked products group. Lehman hired **Richard Noble**, head of energy and utility resourcing at the Royal Bank of Canada, as a managing director in European power investment banking, amid plans to climb the league tables in corporate finance. In August, the bank named **Douglas Davis**, who had headed French equity capital markets, as head of equity capital markets for Asia ex-Japan, based in Hong Kong.

Morgan Stanley

A management shakeup by CEO Philip Purcell in March began the year badly for Morgan Stanley, sparking an exodus of senior management and a group of former executives led by former president Robert Scott calling for Purcell's ouster. Purcell announced on March 28 the replacement of former president **Stephan Newhouse**, who left in April, with **Stephen Crawford** and **Zoe Cruz**. The move sparked the resignation of two of Morgan Stanley's top investment bankers, **Joseph Perella** and **Terry Mequid**, according to a filing with the Securities and Exchange Commission on May 19. Perella and Meguid were subsequently paid about $6.4 million each to keep them from joining dissidents seeking to oust Purcell.

The Group of Nine's campaign was eventually successful, leading to Purcell's resignation and the appointment of former CSFB CEO John Mack in June. Mack, who was ironically pushed out by Purcell when the two were fighting for Morgan Stanley's top spot in 2001, quickly acted to put his imprint on the firm's organizational structure.

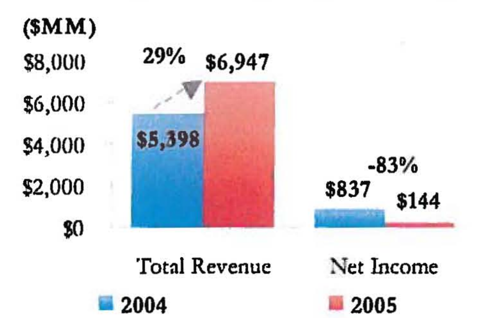
Mack hired **Stuart Breslow**, head of compliance at CSFB, in a similar role. **Eileen Murray**, a member of CSFB's executive board, also joined as global head of operations and technology.

The upheaval affected earnings and the company's stock price for much of 2005.

Third-quarter earnings, which hinted at a number of bright spots at the white-shoe firm, were down 83% due to a $1 billion one-time charge to write off the value of its aircraft leasing business. For the quarter ending in August, Morgan Stanley would have earned $1.74 billion without the charge, beating Thomson Financial estimates by four cents. Revenue climbed to $6.95 billion, the highest level since the second quarter of 2002 and a 29% increase from $5.39 billion in the year-ago quarter.

TOTAL REVENUE & NET INCOME

For Fiscal Third Quarter Ending in August



The good news is that Morgan Stanley will likely realize a one-time gain once the division, which leases 150 aircraft to 75 customers in 45 countries, is sold some time next year. While Mack has yet to institute many other structural changes as of yet, he did convince five board members to step down, including co-president Crawford and **Mitchell Merin**, head of the company's investment management division.

The company's revenue from institutional securities - underwriting stock and bond offerings and advising on merger and acquisition deals - rose 51% in the quarter to a record $4.16 billion. Like with other Wall Street securities firms, bond and credit underwriting fueled the increase.

Revenue from the retail brokerage arm rose 12% in the quarter to $1.26 billion due to strong interest and dividend income, while falling investment income caused Morgan Stanley's asset management revenue to fall 2% to $679 million.

After deciding in August not to spin off its Discover card operations, the division's revenue rose 3% to $911 million. The division owns $20.6 billion in credit card debt, up 11% from a year ago, and is often credited by Morgan Stanley executives for providing steady cash flow.

OPTIONS GROUP

In April, Morgan Stanley moved its convertibles business into fixed income, a decision that was originally made in October 2004.

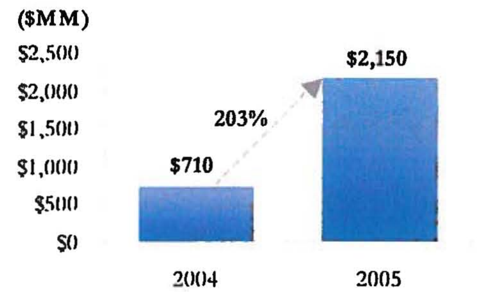
KEY MANAGEMENT CHANGES – FIXED INCOME

In February, David Cohen, head of European IG credit trading, left. He reported to **Armins Rusis**, head of European credit trading. Other departures included: Mike Donoghue, head of US credit sales, Catherine Frey, executive director in high-yield sales, Tom Thees, head of investment grade trading for North America, and Mark Badner, executive director in high-yield sales.

In April, William Kourakos, head of leveraged finance, Thomas Juterbock, head of government trading, left. Jim Vore, head of hedge fund sales, joined Barclays. In May, the firm lost Executive Director Shujaat Islam to Citigroup as a director in mortgage trading with responsibility for trading mortgage derivatives.

TRADING REVENUE

For Fiscal Third Quarter Ending in August



In April, Charles "Chip" Shorin, managing director head of asset-backed bond research, left for Elliot Management Co, a hedge fund. **Ryan Marshall** is head of fixed-income research. In June, Tim Drayson, head of the ABS and CDO syndicate desk at Morgan Stanley in London, left. He reported to **Ellen Brunsberg**, head of the securitized products group in Europe

In April, Armin Rothauser, high-yield trader, Brad Roberts, credit derivatives trader, and Steve Rosen, high-yield salesman, also left to RBS, Goldman Sachs and Deutsche Bank respectively.

In April, Morgan Stanley hired **Mark Walsh** from CSFB in new position advising European companies on high yield bond sales, reporting to **Kevin Adeson**, European head of leveraged finance.

In May, Morgan Stanley lost Irene Rodriguez, executive director in corporate derivatives marketing, to BNP Paribas, where she will be a managing director in debt capital markets. Jonathan Dorfman, global risk manager for corporate credit, resigned after 21 years with the firm in July.

KEY MANAGEMENT CHANGES – EQUITIES

The defection of a team of nine product specialists and traders in Morgan Stanley's equity-derivatives division on June 11 to Wachovia was the straw that broke the camel's back, leading to Purcell's departure the following Monday. The team was led by managing directors Richard Sandulli and Richard Silva and included managing director and trading official Ajay Khanna. The three were significant players in Morgan Stanley's leading franchise, which creates and trades stock-related derivative products, according to *Bloomberg*.

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Other departures included: John Havens, head of equities, Guru Ramakrishnan, global head of trading technology and new products in March, Bradford Hu, and D. Jeffrey Penney. In May lost Jerry Hammerschmidt, head of West Coast equity derivatives and portfolio trading sales team, to BNP Paribas. In February, Peter Sheridan, head of sales trading and marketing for algorithmic trading, went to Goldman Sachs to co-head European algorithmic trading.

In June, the firm lost Warren Dowd to Deutsche Bank in San Francisco as managing director in charge of West Coast institutional equities sales. Dowd had been an executive director selling technology specialty stocks at Morgan Stanley.

In June, Morgan Stanley hired 7 executive directors in North American equity sales and trading. **Matthre Martin, Kevin Dunn, David Grimes, Pavel Golovinskiy, James Crouch, Michael Stern** and **Richard Ziegenbalg** in New York and San Francisco.

In June, the firm promoted **Nick Tranter**, managing director and head of equity derivative sales for the U.K. and Ireland, to head of equity derivative distribution for Europe. Tranter also retains responsibility for sales to U.S. clients investing in European underlyings. **Stephanino Isele**, managing director and previously European head of equity derivative distribution, is moving to a role as business manager for equity derivatives with responsibility for the development of the sales and trading platform.

In June, Morgan Stanley named **Sam Kellie-Smith**, head of equity derivatives trading in London, as Asian head of equity in Hong Kong. Kellie-Smith replaces **Fabrizio Gallo**, Asian head of equity in Hong Kong, who is now global head of customer trading in New York. Kellie-Smith, who was made managing director two years ago, will have responsibility for cash and equity derivatives trading for both Japan and Asia. **Stefanos Bitzakidis**, responsible for structured equity trading, will take on Kellie-Smith's former European role, reporting to **David Russell**, head of equities trading for Europe.

KEY MANAGEMENT CHANGES – INVESTMENT BANKING

Raymond McGuire quit in May as co-head of M&A to join Citigroup, as co-head of global investment banking. **Vikram Gandhi**, a veteran financial services M&A advisor, joined CSFB.

Lehman Brothers said in May it hired **William Vereker**, **Jean Philippe Favre** and **Tam Nguyen** from Morgan Stanley to boost its team of investment bankers covering European power and energy companies.

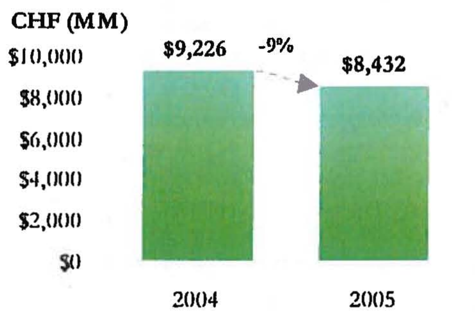
UBS

UBS, like its Euro community neighbors BNP Paribas, had a difficult spring trading debt securities and that pushed earnings at the entire global markets and investment banking unit lower. In the first half of 2005, UBS' fixed income unit earned CHF 3 billion, a 21% decrease from the six-month period a year earlier.

Foreign exchange was another area of concern. The unit reported a 19% drop in earnings to CHF 677 million. Investment banking reported a steady 10% earnings increase as the firm's global banking division, jointly led by **Ken Moelis** and **Robert Gillespie**, continues its strong performance throughout this M&A bull cycle that began two years ago.

TOTAL GLOBAL MARKETS & IB INCOME

For Six Months Ending in June



UBS banking chief executive John Costas moved to a new role as head of Dillon Read Capital Management, an alternative investment operation set up by the bank in June. Costas took with him 120 proprietary fixed income and commercial real estate employees. He was replaced by **Huw Jenkins**, former head of equities and now CEO of the investment bank. **Peter Wuffli** remains CEO of UBS, which is based in Zurich.

In June, as part of the Costas re-organization, UBS said it would integrate its global wealth management and business banking units. **Marcel Rohner** was named chairman and CEO of the new unit.

In Europe, UBS has been selling some of its assets of late. At the end of September, the Swiss bank said it had agreed to sell its majority stake in Motor-Columbus to a consortium of Atel's Swiss minority shareholders EOS Holding and Atel for CHF 1.3 billion. UBS also agreed to sell its private banks and global asset management unit to Julius Baer for an implied value of CHF 5.6 billion, consisting of CHF 3.8 billion in cash as well as a 21.5% stake in Baer. In Asia, UBS entered into an investment banking and securities "relationship" with Bank of China at the end of September. The agreement included UBS' $500 million payment to the Chinese bank.

UBS will attempt to maintain its leadership position in follow-on offerings it established in the first half of 2005 by securing deals in Europe and Asia. The firm has a very strong investment banking team in place with Moelis and now Jenkins and should be able to continue to gain share. The firm ranked fourth in global announced merger and acquisition deals through October 1, 2005, up from tenth at the end of last year.

KEY MANAGEMENT CHANGES – FIXED INCOME

In January the bank renamed its fixed income and credit businesses and promoted Sal Naro as co-head with **Chris Ryan** of global fixed income. In addition, **Stephen Bell** will head the flow credit trading business and report to Naro and Ryan. **Michael Hutchins** is head of fixed income, rates and commodities in New York. Naro left, however, in March to launch a new hedge fund called Sailfish.

In March, UBS lost Lee Knight, Asia-Pacific co-head of fixed income at UBS in Hong Kong, to RBS in a newly created role as Asia-Pacific head of fixed income, which includes interest rates and credit derivatives. UBS also lost a European asset-backed team to Bank of America in May, including Steve Skerrett, head of asset-backed securitization and origination, and Drew Allan, head of asset-backed syndicate and trading.

In April, Christine Morrissey, head of European swaps and options at UBS in London, took a sabbatical leave. **Sascha Prinz** added Morrissey's responsibilities to his role as head of European government bond trading.

In June, UBS lost Kristian Sharp, head of European flow credit derivatives in London and also Mark Ritter, who was global head of commodities, in May.

Robert Heffes, global head of high yield and distressed trading out of Stamford, resigned in September to join Wachovia in Charlotte as a managing director in high-yield trading.

KEY MANAGEMENT CHANGES – EQUITIES

In January, UBS hired a team of structurers from Nomura for its equity desk in Tokyo. **Michio Yasuda** joined as the head of equity solutions, **Yoshinori Funato** joined as executive director in equity risk management products, **Shohei Sakai** came on board as a director in equity risk management products, and **Takayuki Hamada** joined as an analyst in equity risk management products.

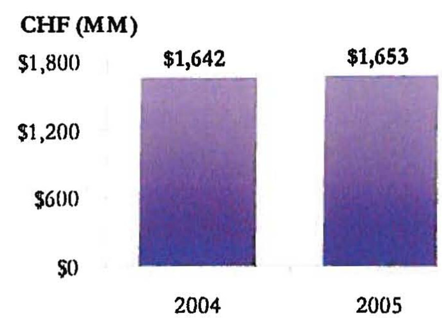
In May, the bank lost Darren Hodges, managing director and head of equity derivatives trading at UBS in London to GLG Partners. In April, Wolfgang Stolz, European head of risk management products, left the equity derivatives group.

In May, UBS lost a team of prime brokers – Fred Scuteri, David Sklar, Paul Mandile and Ron Lasorsa – who started their own prime brokerage firm, Cuttone & Co.

In June, the bank hired **Tim Gee,** U.S. head of program trading and transition management at Morgan Stanley as head of program trading sales in the equities division for the Americas. He reports to **David Panagrossi,** head of institutional sales trading.

EQUITIES INCOME

For Six Months Ending in June



UBS said in July that it was establishing an advisory group for hedge fund clients, designed to advise on direct investment opportunities and finance mergers and acquisitions. The Alternative Capital Group, headed by **Warren Woo**, is a joint venture between investment banking and equities.

In September, UBS said its chief communications officer, **Mark Branson,** would become CEO of UBS Securities Ltd., reporting to Jenkins and **Rory Tapner**, chairman and CEO, Asia-Pacific. **Tom Hill**, global head of equity research, succeeded Branson as chief communications officer and will report to Wuffli.

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