

Return on Average Tangible Common Shareholders' Equity

(\$ in millions)

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

	Year Ended			Average for the		Annualized for the			
	November 2005	November 2004	November 2003	Nine Months Ended	Six Months Ended	Quarter Ended			
				August 2005	May 2005	November 2005	August 2005	May 2005	February 2005
Return on average common shareholders' equity ⁽¹⁾	21.8%	19.8%	15.0%	20.7%	18.5%	25.2%	25.1%	13.4%	23.5%
Return on average tangible common shareholders' equity ⁽²⁾	27.6%	25.2%	19.9%	26.2%	23.5%	31.7%	32.0%	17.2%	29.6%

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

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

Tangible common shareholders' equity equals total shareholders' equity less preferred stock and goodwill and identifiable intangible assets. Management believes that return on average tangible common shareholders' equity is a meaningful measure of performance because it excludes the portion of the firm's common shareholders' equity attributable to goodwill and identifiable intangible assets. As a result, this calculation measures corporate performance in a manner that treats underlying businesses consistently, whether they were acquired or developed internally. The following table sets forth the reconciliation of average total shareholders' equity to average tangible common shareholders' equity:

	Year Ended			Average for the		Annualized for the			
	November 2005	November 2004	November 2003	Nine Months Ended	Six Months Ended	Quarter Ended			
				August 2005	May 2005	November 2005	August 2005	May 2005	February 2005
Total shareholders' equity	\$ 26,264	\$ 22,975	\$ 20,031	\$ 26,100	\$ 25,967	\$ 26,762	\$ 26,405	\$ 26,226	\$ 25,735
Deduct: Preferred stock	(538)	-	-	(375)	(214)	(1,000)	(750)	(375)	-
Common shareholders' equity	\$ 25,726	\$ 22,975	\$ 20,031	\$ 25,725	\$ 25,753	\$ 25,762	\$ 25,655	\$ 25,851	\$ 25,735
Deduct: Goodwill and identifiable intangible assets	(5,418)	(4,918)	(4,932)	(5,483)	(5,482)	(5,271)	(5,552)	(5,685)	(5,329)
Tangible common shareholders' equity	\$ 20,308	\$ 18,057	\$ 15,099	\$ 20,242	\$ 20,271	\$ 20,491	\$ 20,103	\$ 20,166	\$ 20,406

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

(\$ in millions, except per share amounts)

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

	As of					
	November 2005	November 2004	November 2003	August 2005	May 2005	February 2005
Total assets	\$ 706,804	\$ 531,379	\$ 403,799	\$ 669,518	\$ 624,472	\$ 596,149
Adjusted assets ⁽¹⁾	466,019	347,082	273,941	423,537	406,085	372,792
Total shareholders' equity	28,002	25,079	21,632	26,607	26,395	26,075
Tangible equity capital ⁽²⁾	25,549	22,958	16,650	23,885	23,389	23,145
Leverage ratio ⁽³⁾	25.2x	21.2x	18.7x	25.2x	23.7x	22.9x
Adjusted leverage ratio ⁽⁴⁾	18.2x	15.1x	16.5x	17.7x	17.4x	16.1x
Common shareholders' equity	\$ 26,252	\$ 25,079	\$ 21,632	\$ 25,857	\$ 25,645	\$ 26,075
Tangible common shareholders' equity ⁽⁵⁾	21,049	20,208	16,650	20,385	19,889	20,395
Book value per common share ⁽⁶⁾	\$ 57.02	\$ 50.77	\$ 43.60	\$ 55.39	\$ 53.46	\$ 53.15
Tangible book value per common share ⁽⁷⁾	45.72	40.91	33.56	43.67	41.46	41.57

⁽¹⁾ Adjusted assets excludes (i) low-risk collateralized assets generally associated with the firm's matched book and securities lending businesses (which is calculated by adding securities purchased under agreements to resell and securities borrowed, and then subtracting nonderivative short positions), (ii) cash and securities segregated for regulatory and other purposes and (iii) goodwill and identifiable intangible assets. The following table sets forth a reconciliation of total assets to adjusted assets:

	As of					
	November 2005	November 2004	November 2003	August 2005	May 2005	February 2005
Total assets	\$ 706,804	\$ 531,379	\$ 403,799	\$ 669,518	\$ 624,472	\$ 596,149
Deduct: Securities purchased under agreements to resell	(83,619)	(44,257)	(26,856)	(91,536)	(77,097)	(66,007)
Securities borrowed	(191,800)	(155,086)	(129,118)	(190,822)	(176,315)	(180,362)
Add: Financial instruments sold, but not yet purchased, at fair value	149,071	132,097	102,699	149,338	142,386	125,556
Less derivative liabilities	(57,829)	(64,001)	(41,886)	(60,997)	(54,373)	(51,662)
Subtotal	91,242	68,096	60,813	88,341	88,013	73,894
Deduct: Cash and securities segregated for regulatory and other purposes	(51,405)	(48,179)	(29,715)	(46,492)	(47,232)	(45,202)
Goodwill and identifiable intangible assets	(5,203)	(4,871)	(4,982)	(5,472)	(5,756)	(5,680)
Adjusted assets	\$ 466,019	\$ 347,082	\$ 273,941	\$ 423,537	\$ 406,085	\$ 372,792

- (2) Tangible equity capital equals total shareholders' equity and junior subordinated debt issued to a trust less goodwill and identifiable intangible assets. Management considers junior subordinated debt issued to a trust to be a component of the firm's tangible equity capital base due to the inherent characteristics of these securities, including the long-term nature of these securities, the ability to defer coupon interest for up to ten consecutive semiannual periods and the subordinated nature of the obligations in the firm's capital structure. The following table sets forth a reconciliation of total shareholders' equity to tangible equity capital:

	As of					
	November 2005	November 2004	November 2003	August 2005	May 2005	February 2005
Total shareholders' equity	\$ 28,002	\$ 25,079	\$ 21,632	\$ 26,607	\$ 26,395	\$ 26,075
Add: Junior subordinated debt issued to a trust	2,750	2,750	-	2,750	2,750	2,750
Deduct: Goodwill and identifiable intangible assets	(5,203)	(4,871)	(4,982)	(5,472)	(5,756)	(5,680)
Tangible equity capital	<u>\$ 25,549</u>	<u>\$ 22,958</u>	<u>\$ 16,650</u>	<u>\$ 23,885</u>	<u>\$ 23,389</u>	<u>\$ 23,145</u>

- (3) Leverage ratio equals total assets divided by total shareholders' equity.
- (4) Adjusted leverage ratio equals adjusted assets divided by tangible equity capital. Management believes that the adjusted leverage ratio is a more meaningful measure of capital adequacy than the leverage ratio because it excludes certain low-risk collateralized assets that are generally supported with little or no capital and reflects the tangible equity capital deployed in the firm's businesses.
- (5) Tangible common shareholders' equity equals total shareholders' equity less preferred stock and goodwill and identifiable intangible assets. The following table sets forth a reconciliation of total shareholders' equity to tangible common shareholders' equity:

	As of					
	November 2005	November 2004	November 2003	August 2005	May 2005	February 2005
Total shareholders' equity	\$ 28,002	\$ 25,079	\$ 21,632	\$ 26,607	\$ 26,395	\$ 26,075
Deduct: Preferred stock	(1,750)	-	-	(750)	(750)	-
Common shareholders' equity	\$ 26,252	\$ 25,079	\$ 21,632	\$ 25,857	\$ 25,645	\$ 26,075
Deduct: Goodwill and identifiable intangible assets	(5,203)	(4,871)	(4,982)	(5,472)	(5,756)	(5,680)
Tangible common shareholders' equity	<u>\$ 21,049</u>	<u>\$ 20,208</u>	<u>\$ 16,650</u>	<u>\$ 20,385</u>	<u>\$ 19,889</u>	<u>\$ 20,395</u>

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

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

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

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The effective income tax rate for 2005 was 32.0% compared with 31.8% for 2004. Excluding the impact of audit settlements in 2005, the effective income tax rate for 2005 would have been 33.3%. The effective income tax rate excluding the impact of audit settlements is calculated by dividing the provision for taxes, adjusted to exclude the impact of audit settlements, by pre-tax earnings. The impact of audit settlements decreased the effective income tax rate by 1.3% for 2005. Management believes that the effective income tax rate excluding the impact of audit settlements provides a meaningful basis for period-to-period comparisons of our effective income tax rates.