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Overview of 3rd Quarter 2003
RISING INTEREST RATES AFFECTED INVESTMENT BANKING RESULTS IN THIRD QUARTER

BCG’s investment banking performance index declined by 3 points to 59.9 percent
  • Fixed income growth of the previous quarters ended
  • Revenues of top investment banks declined 13 percent from previous period

Investment banks improved their profit margins from 31% on average in the previous quarter to 33% in the current period
  • U.S. investment banks in particular created a highly flexible cost base during the downturn and lowered operating expenses quickly to meet the revenue decline

The continuing recovery in global stock markets has yet to generate enough equity and corporate finance revenues to compensate for the decline in fixed income trading
  • Fees in underwriting and advisory often deferred and thus don’t immediately translate into revenues
  • Rising rates depressed the refinancing activity, reducing bond underwriting volumes
END OF THE BOND RALLY DEPRESSED BCG PERFORMANCE INDEX IN THIRD QUARTER 2003

BCG IB Performance Index

Indexed

Note: BCG IB performance index is calculated based on profit weighted volume trends in M&A, ECM, Equity Sales & Trading and Bond Origination
Source: Dealogic; SDC; Autex; BCG analysis

Q3 2003 Market Report-BR-TM-NYC-18Nov03.ppt
BOND TRADING SURGE ENDED IN THIRD QUARTER 2003
Recovery in Equities and Advisory Business

Corporate Bonds Origination

M&A Advisory(1)

US Bond Trading(2)

Equity Trading

(1) Based on effective transactions
(2) Daily average trading volumes for treasuries, agencies, ABS/MBS, corporate bonds
Source: Dealogic; SDC; FIBV; Fed. Reserve Bank of New York; BCG analysis
INVESTMENT BANKING MARGINS IMPROVED DESPITE DECLINING REVENUES
Q3/2003 vs. Q2/2003

Note: Ø calculated on a revenue weighted basis; Operating revenue for investment banking and institutional sales and trading; extraordinary charge-offs excluded
Source: Company reports, BCG analysis
Q3 2003 Market Report-BR-TM-NYC-18Nov03.ppt

THE BOSTON CONSULTING GROUP
RESULTS SIGNIFICANTLY BETTER THAN A YEAR AGO

Note: Ø calculated on a revenue weighted basis; Operating revenue for investment banking and institutional sales and trading; extraordinary charge-offs excluded
Source: Company reports, BCG analysis
TRADING AND CORPORATE FINANCE REVENUES DECLINED
Goldman Sachs Has Highest Share Of Corporate Finance Revenues

Trading Revenues
Q3/03 vs. Q2/03

Corporate Finance Revenues
Q3/03 vs. Q2/03

Note: Trading and corporate finance revenues don't add up to 100% because of 'Other' revenue
Source: Company reports; BCG analysis
Market review:

Corporate finance
CORPORATE FINANCE BUSINESS SLOW DESPITE POSITIVE
DEVELOPMENTS IN THE THIRD QUARTER 2003

Equity origination recorded the strongest quarterly volume since 2001
  • Global equity issuance jumped 60 percent from previous quarter
  • U.S. deal volume more than doubled in last three months

M&A activity in the U.S. improved strongly
  • Volume of announced deals increased by more than 30 percent from second quarter

However, these positive developments have so far failed to improve results in corporate finance
  • Fee payments for equity and m&a transactions are generally deferred
  • Decline in bond underwriting ate up gains from equity and advisory

Goldman Sachs continued to be the dominant investment bank in high margin equity
underwriting and advisory businesses in third quarter of 2003
  • Lazard has improved its position in global m&a under Wasserstein’s leadership

The integrated corporate and investment banks dominated the bond underwriting business
  • Morgan Stanley only bulge bracket firm in the top five underwriters, but still 50% behind the market leader
  • Citigroup leads bond underwriting in the U.S. and Deutsche Bank in Europe
EQUITY UNDERWRITING BOOMED IN ASIA AND THE U.S.
Market Volumes

ECM

Announced M&A deals

Source: Dealogic; SDC; BCG analysis
Q3 2003 Market Report-BR-TM-NYC-18Nov03.ppt
CITIGROUP LOST SHARE IN U.S. BUT GAINED IN EUROPEAN ECM

M&A and Equity Origination

Note: Relative to market leader
Source: Dealogic; SDC; BCG analysis
Q3 2003 Market Report-BR-TM-NYC-18Nov03.ppt
GOLDMAN SACHS REMAINED THE GLOBAL LEADER IN M&A

Note: based on Date effective, relative to market leader
Source: Dealogic; SDC; BCG analysis
Q3 2003 Market Report-BR-TM-NYC-18Nov03.ppt
Fixed Income Origination

BOND ORIGINATION VOLUMES DECLINED

All Bonds

Corporate Bonds

Note: Corporate bonds for industrial issuers only
Source: Dealogic; SDC; BCG analysis

Q3 2003 Market Report-BR-TM-NYC-18Nov03.ppt
INTEGRATED CORPORATE AND INVESTMENT BANKS DOMINATED BOND UNDERWRITING

Corporate bonds US

Corporate bonds Europe

Note: Relative to market leader
Source: Dealogic; SDC; BCG analysis
Q3 2003 Market Report-BR-TM-NYC-18Nov03.ppt
Market review:

Fixed income trading
BOND TRADING VOLUMES STAGNATED AND REVENUES SUFFERED

Bond trading volume growth ended in third quarter 2003

- Overall U.S. bond trading volumes slowed down
- Average daily ABS/MBS and corporate bond trading volumes declined by eight and two percent respectively from previous quarter

As expected, rising interest yields made trading gains difficult

- 10-year U.S. Treasury yield increased by a full percentage point in three months period ending in September
- Aggregated fixed income trading revenues of the top ten investment banks declined by 22 percent from last quarter

Banks managed their fixed income risk exposure successfully in the last quarter

- Combined value-at-risk of leading investment banks in interest rates, foreign exchange and commodities declined by 18 percent from previous quarter
- Goldman Sachs took highest risks in fixed income trading
FIXED INCOME TRADING RALLY SLOWED IN 3RD QUARTER
ABS/MBS Refinancing Activity Declined

Note: Daily average trading volumes, with Interdealer Brokers and others
Source: Fed. Reserve Bank of New York; BCG analysis

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TREASURY YIELDS ROSE OVER 100 BASIS POINTS IN THIRD QUARTER 2003
Directly Affecting Fixed Income Revenues

U.S. Government Bond Yield

Fixed Income Trading Revenues By Quarter (Indexed)

Note: 10-year U.S. Treasury bonds; aggregated revenues for top 10 investment banks
Source: Bloomberg, S&P, company results

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TOP TEN INVESTMENT BANKS MANAGED VALUE AT RISK SUCCESSFULLY IN THIRD QUARTER

Market Risk: Combined Value-at-Risk

Risk Efficiency Q3/03

Note: VAR at 99% confidence/1 day intervals for interest rate, currency, commodities price risk; differently reported VARs converted assuming normal distribution of risk positions

Source: Company reports, BCG analysis
Market review:

Equity trading
SUMMARY EQUITY TRADING

Global stock markets continued their recovery in third quarter 2003

- All major global equity indices rose in the three months ending September
- Nikkei stock market index climbed 19 percent year to date

Increased trading volumes did not translate into revenue gains in third quarter 2003

- While global volumes picked up 9 percent to USD 8.7 trillion,
- Aggregated equity trading revenues of top ten investment banks declined by 9 percent
- Low-margin program trades continued to gain market share at NYSE

Investment banks took increased equity trading risks to generate equity trading income

- UBS, Deutsche Bank and Goldman Sachs took the highest market risk relative to their equity trading revenues
- Merrill Lynch and Lehman Brothers were the most “risk efficient” banks in equity trading

UBS continued to gain market share in European and U.S. equity trading and was the leading equity trading house in the third quarter measured by revenues
GLOBAL EQUITY PRICES CONTINUED TO RISE

Development of Main Equity Indices

Growth

(1) Indexed
Note: YTD 10/15/03
Source: Thomson Financial Datastream

THE BOSTON CONSULTING GROUP
INCREASED EQUITY TRADING ACTIVITY DID NOT PRODUCE REVENUE GAINS IN THIRD QUARTER

Global Exchange Trading Volumes

Note: Single counted, includes investment funds traded at exchanges; aggregated trading revenues for top 10 investment banks

Source: FIBV; BCG analysis

Equity Trading Revenue By Quarter (Indexed)

Note: Single counted, includes investment funds traded at exchanges; aggregated trading revenues for top 10 investment banks

Source: FIBV; BCG analysis
REVENUE OPPORTUNITIES IN EQUITY TRADING
INCREASINGLY RISKY

Equity Price Risk

<table>
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<th>Quarter</th>
<th>Value-at-risk $M</th>
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<td>4Q01</td>
<td>195</td>
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<tr>
<td>1Q02</td>
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<tr>
<td>2Q02</td>
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<td>3Q02</td>
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<td>214</td>
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<td>3Q03</td>
<td>230</td>
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Risk Efficiency Q3/03

Legend:
- Total
- BS
- LB
- JPM
- Citi
- CSFB
- ML
- MS
- GS
- DB
- UBS

Note: VAR at 99% confidence/1 day intervals for equity price risk; differently reported VARs converted assuming normal distribution of risk positions
Source: Company reports, BCG analysis
SHARE OF PROGRAM TRADING AT NYSE CONTINUED GROWTH TREND

Program trading share NYSE 2003

In week of Jun 30, program trades involved more than 50% of NYSE trading volume

Note: 50% means that in 50% of trades there is a program trade involved on one side of the trade
Source: NYSE
MERRILL MAINTAINED TOP POSITION IN THE U.S. BUT COMPETITORS CLOSED GAP

Institutional equity trading

NYSE

Relative market-position 9M03

Gained share

Lost share

Relative market-position 9M02

Institutional equity trading

Europe

Relative market-position 9M03

Gained share

Lost share

Relative market-position 9M02

Note: ML includes HHG; GS includes SLK; DB includes NDB; ABN includes ING US; relative market positions are based on number of traded shares relative to market leader

Source: Autex; BCG analysis

Q3 2003 Market Report-BR-TM-NYC-18Nov03.ppt
Data Definitions
DATA DEFINITION OVERVIEW

Regional deal allocation is based on issuer’s country (parent issuer’s country where available). M&A deals are allocated by target nation.

European data comes from Dealogic; U.S. and Asian data from Thomson Financial Securities Data.

Relative market shares are based on bookrunner league tables.

Equity origination data include common stock IPOs and secondary issues only.

Bond origination data contain all convertible and non-convertible bonds including ABS, MBS, municipals, agency, and corporate bonds.

Corporate bonds are limited to industrials and utilities excluding financial services issuers.

Equity trading data reflects institutional block trades as advertised in Autex Blockdata.