

Confidential

CSE Methodology Impact Summary

April 4, 2008

LEHMAN BROTHERS

Total Capital Ratio Comparisons

Month Ends		Industry Low	Lehman Bros	Industry High	Restated for HTB	Restated for \$4 bn conversion & HTB
Aug 2007:	Total	10.5%	10.5%	18.7%	Not available	Not available
Sep 2007:	Total	10.5%	10.5%	17.5%	Not available	Not available
Oct 2007:	Total	10.6%	10.6%	15.3%	13.8%	
Nov 2007:	Total	Not provided by SEC	10.6%	Not provided by SEC	13.9%	
Dec 2007:	Total	10.0% *	10.7%	17.2% *	13.8%	
Jan 2008:	Total	Not available	10.6%	Not available	14.4%	
Feb 2008: (PROFORMA)	Total	Not available	11.6%	Not available	15.5%	18.2%
Q4, 2008 -> Operational Risk move to AMA approach						18.8%

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* Soft figures as they include ML's draft (not filed) Dec figures. Avg = 12.5%

Tier 1 Capital Ratio Comparisons

Month Ends		Industry Low	Lehman Bros	Industry High	Restated for Approved methods	Restated for \$4 bn conversion & HTB
Aug 2007:	Tier 1	Not provided by SEC	7.0%	Not provided by SEC	Not available	
Sep 2007:	Tier 1	6.6%	7.0%	12.1%	Not available	
Oct 2007:	Tier 1	6.7%	7.0%	10.7%	9.2%	
Nov 2007:	Tier 1	Not provided by SEC	7.1%	Not provided by SEC	9.3%	
Dec 2007:	Tier 1	6.0% *	7.1%	11.4% *	9.2%	
Jan 2008:	Tier 1	Not available	7.1%	Not available	9.6%	
Feb 2008: (PROFORMA)	Tier 1	Not available	7.7%	Not available	10.3%	12.1%
Q4, 2008 -> Operational Risk move to AMA approach						12.5%

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* Soft figures as they include ML's draft (not filed) Dec figures. Avg = 8.5%

Summary of changes to Risk Methodologies

Approved by SEC, to be effective Mar 31, 2008:

Jump-to-Default

- ◆ Replaces Reg Y methodology
 - ◆ The JTD model applies to all our trading book positions that are subject to single name default risks, including corporate, emerging markets, and municipal issuers:
 - Bonds, loans, single name & index default swaps, CDO tranches, and default baskets
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Jump-to-Gap

- ◆ New specific Risk add-on charge applied to Market Risk
 - ◆ The JTG model calculates the capital allowance for all our trading book RMBS, CMBS, and ABS exposures, including:
 - Securities, whole loan pools, index swaps, ABS CDOs, ABS CDS
 - Positions of all credit ratings
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Principal Investments

- ◆ Replaces existing Basel II Equity exposures methodology
 - ◆ The capital charge for the Principal Investment portfolio is calculated using the Merton Model of valuing a firm's equity; it applies to our investments in
 - Private equity funds; individual private equity investments
 - Investments and seed money in hedge funds; minority stakes in hedge funds
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Market Neutral Strategies (M&A deal breaks)

- ◆ In addition to VaR-based capital charge, positions in our M&A market neutral strategies are currently subject to a capital add-on, calculated only using the portfolio distribution deal-break losses, at 99% confidence level.
 - ◆ This confidence level has increased to 99.9%.
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Pending changes to Risk Methodologies

To Propose to SEC &/or Awaiting formal approval:

Retained Interests

- ◆ Currently are applying 1250% risk weight to most banking book retained interests
 - ◆ Updated methodology reclasses the retained interests to Trading book, eventually to be charged with JTG Add-on (besides VaR). For the time being, they will be charged at VaR + flat 250% risk weight to proxy JTG charge.
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Exponential VaR weighting

- ◆ VaR is currently exponentially weighted prior to 3 multiplier
 - ◆ Proposing removing the exponential weighting
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AMA Approach

- ◆ Replaces existing Basel II Basic Indicator Approach methodology with AMA methodology
 - ◆ Initial indications from SEC are that a floor of \$2 bn may be imposed
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