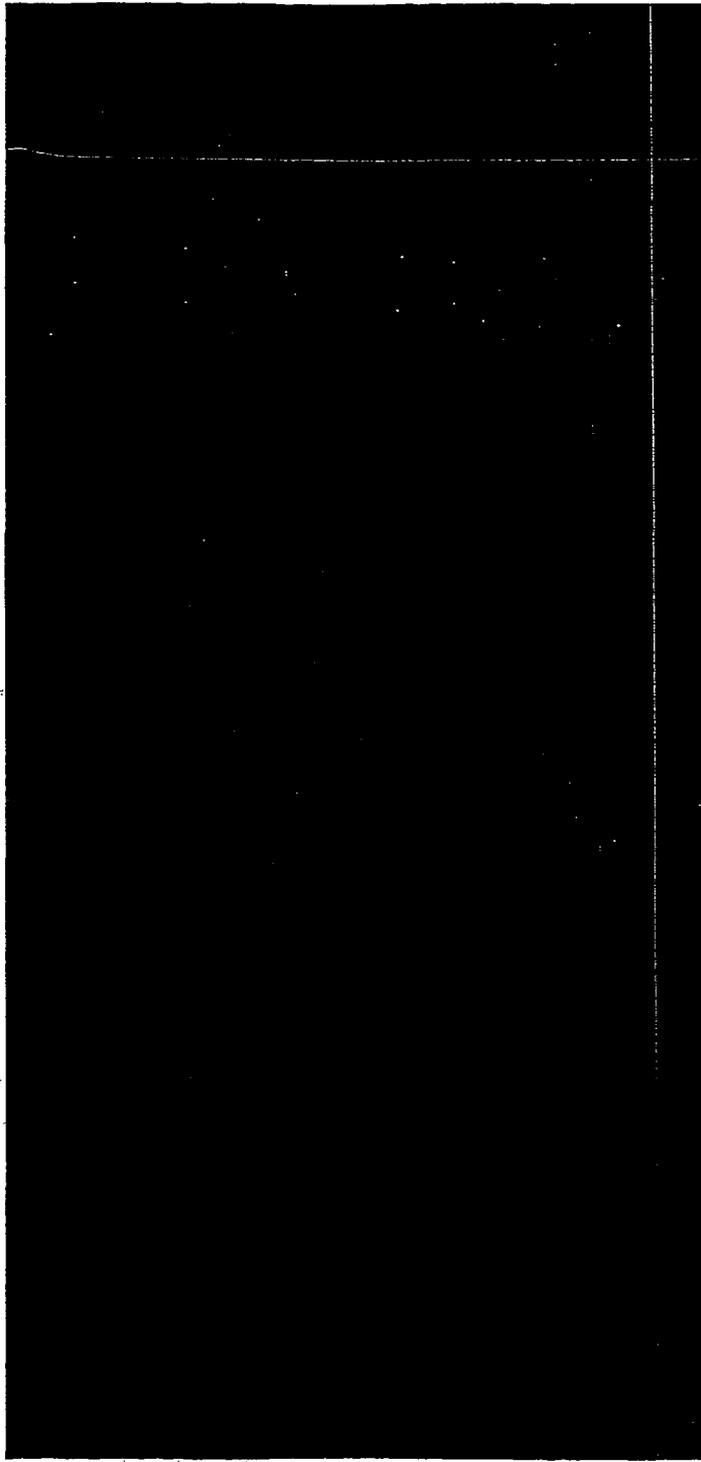


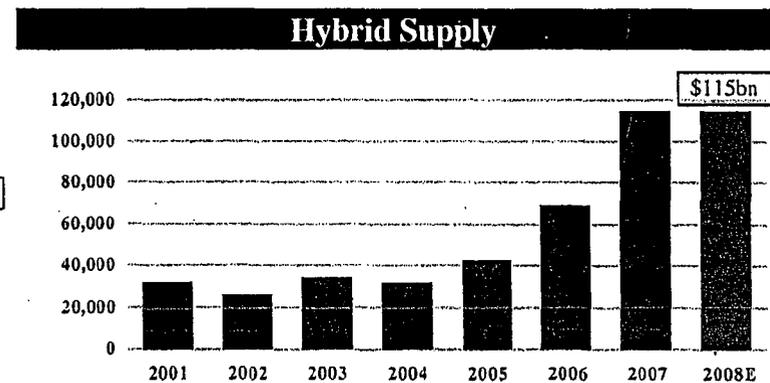
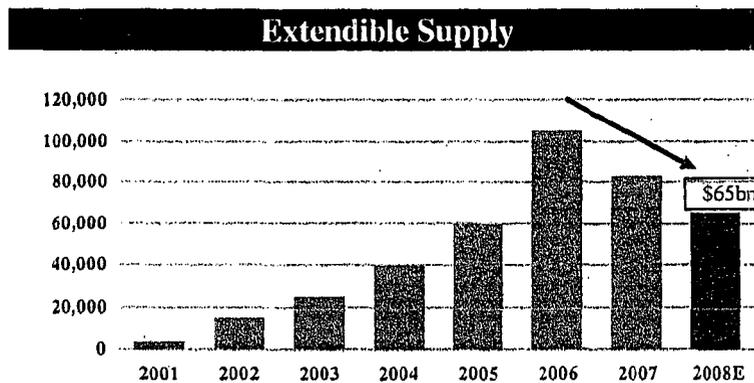
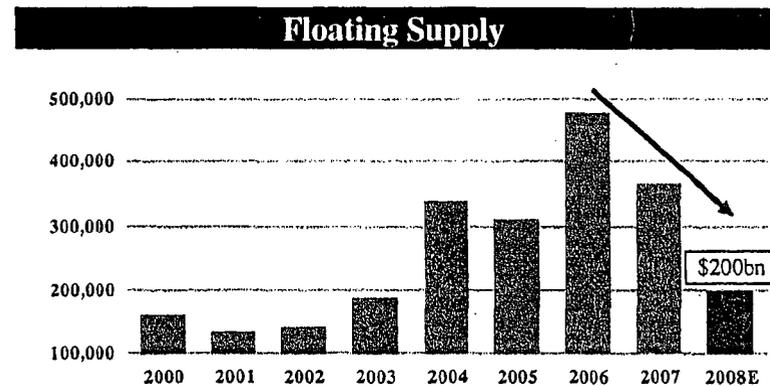
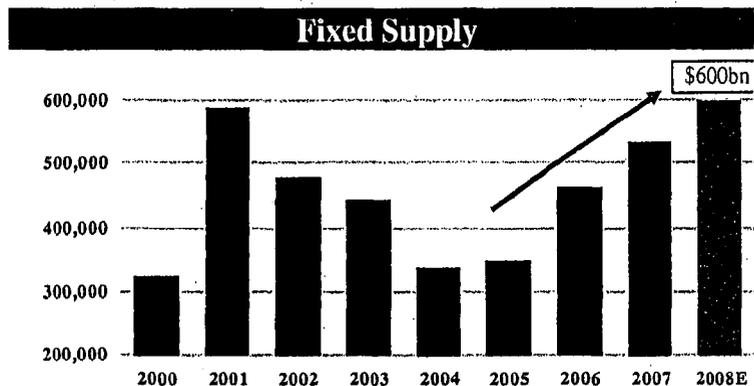
2008 Financial Supply/Demand
Dynamics



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With demand for the front end virtually nonexistent, supply is likely to be concentrated in longer duration instruments going forward . . .

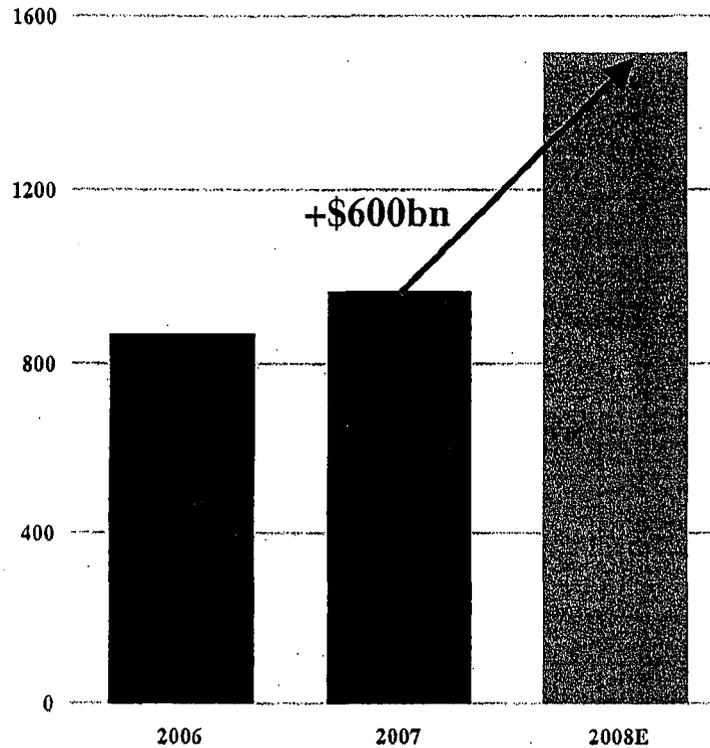
Although aggregate investment grade supply in 2007 was in line with 2006-- totaling over \$1 trillion for the second year in a row-- the composition differed significantly. We expect the trends which developed in late 2007 to carry over into 2008, resulting in approximately \$950mm total issuance.



After adjusting for this duration increase, we expect risk-adjusted supply to increase by over 50% in 2008 . . . With many of the key drivers of demand in recent years absent, the Supply/Demand imbalance should continue . . .

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5yr Equivalent Notional Supply**



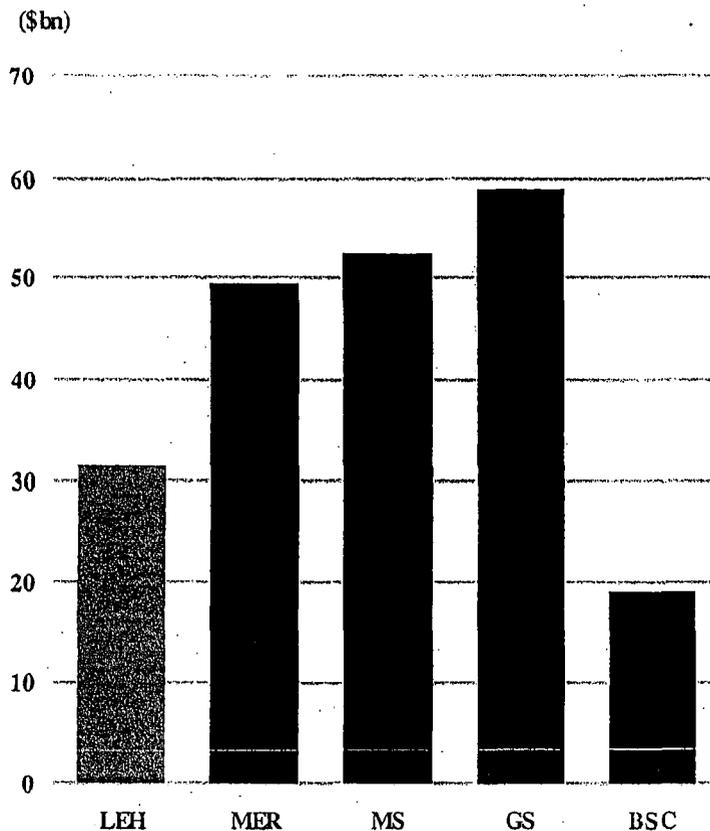
Demand : 2007 vs 2008

- ◆ International Demand: Down \$50bn
- ◆ Synthetic Demand: Down \$175bn
- ◆ Front End Demand: Down \$275bn
- ◆ Redemptions: Down \$80bn
- ◆ **TOTAL : DOWN \$500bn**

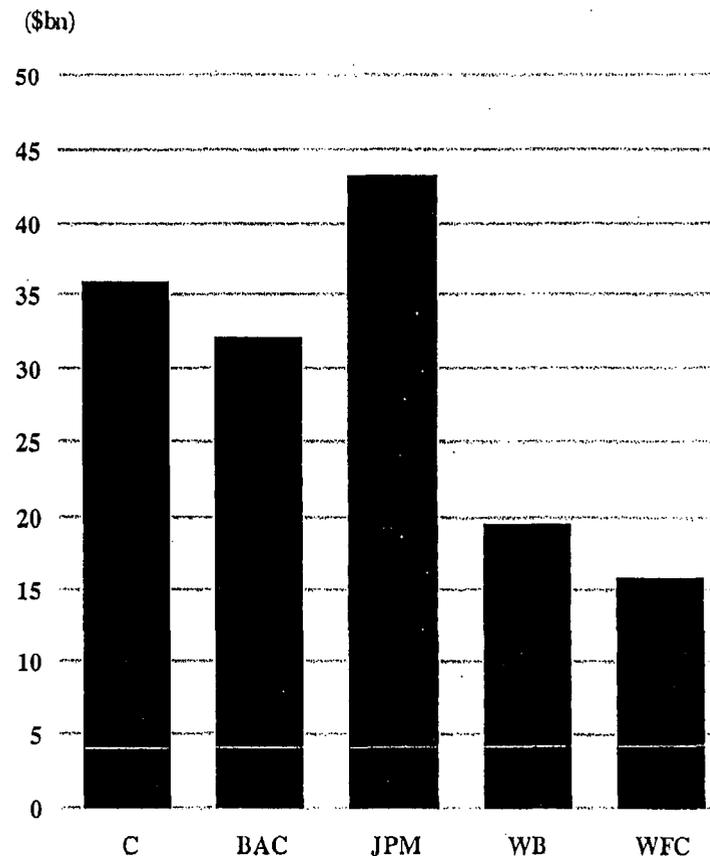
Source: Bloomberg.
 • Using Similar Mix to 4Q07
 ** Approximation Using Spread Duration

Across financials, substantial debt maturities need to be refinanced . . .

Broker Debt Maturing in 2008



Bank Debt Maturing in 2008



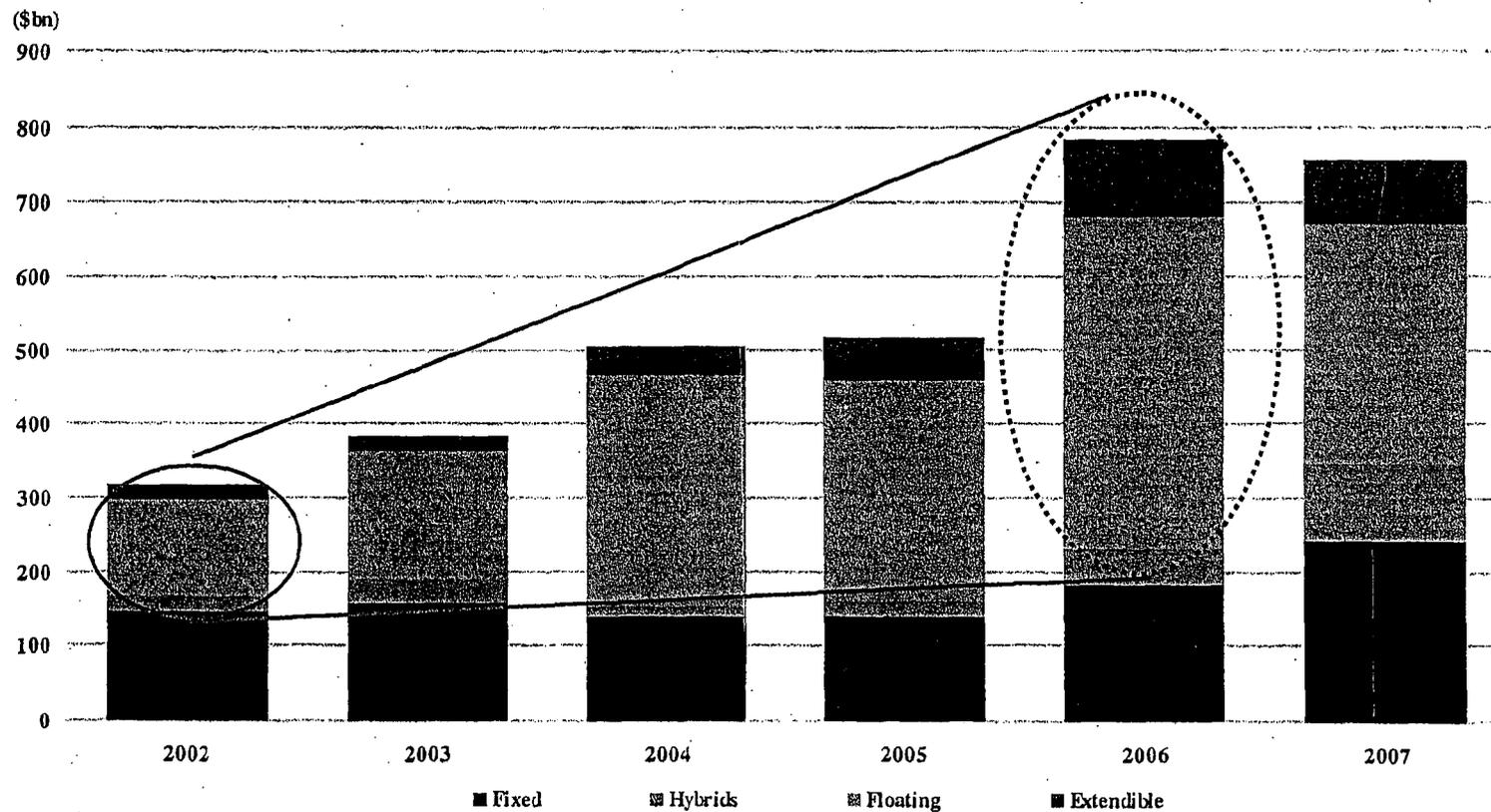
1. Source: Bloomberg, Lehman Brothers Treasury

2. Note: Broker Maturing debt consists of unsecured debt, commercial paper, promissory notes and subordinated debentures. Bank debt maturing consists of unsecured debt and commercial paper

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In recent years, a large portion of financial debt has been raised in segments of the market which are no longer available . . .

Financial Issuance

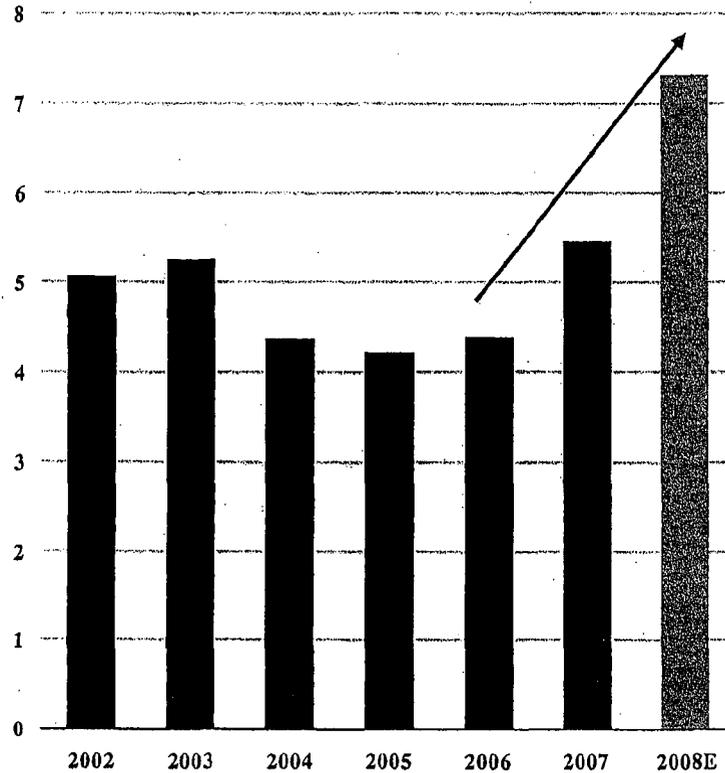


1. Source: Lehman Brothers

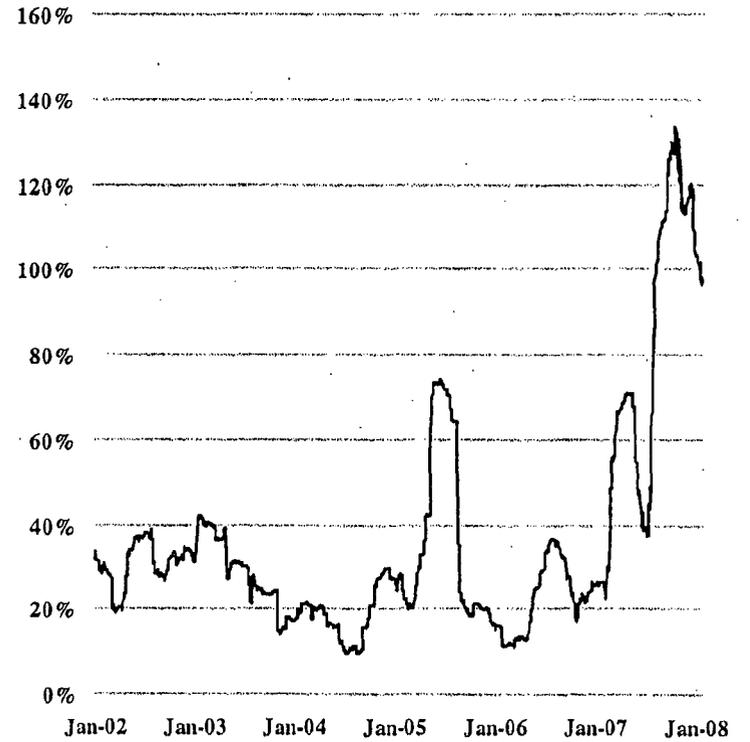
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With limited demand for the front end, financials will have to issue longer duration paper . . . At the same time, the volatility of the sector has increased

Financials – Weighted Avg. Maturity of Issuance



Broker CDS: 3m Realized Volatility

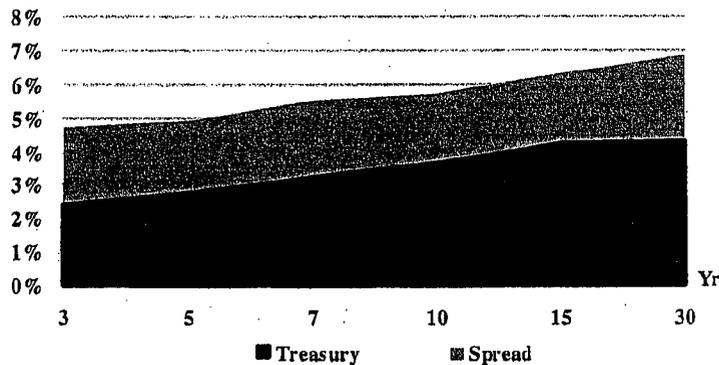


1. Source: Lehman Brothers
 2. Note: Weighted average maturity of issuance is computed using average maturity of hybrids as 10 years and extendible bonds as 1 year

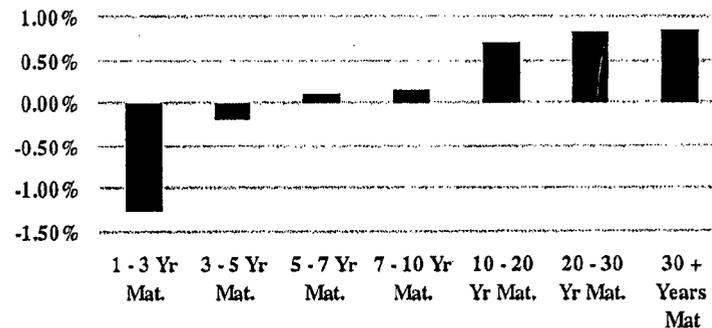
Despite the recent widening in spreads, yields have not risen substantially and remain relatively low . . .

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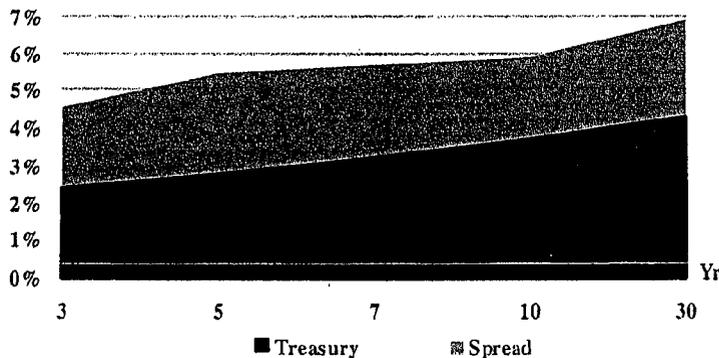
Banks Yield Curve



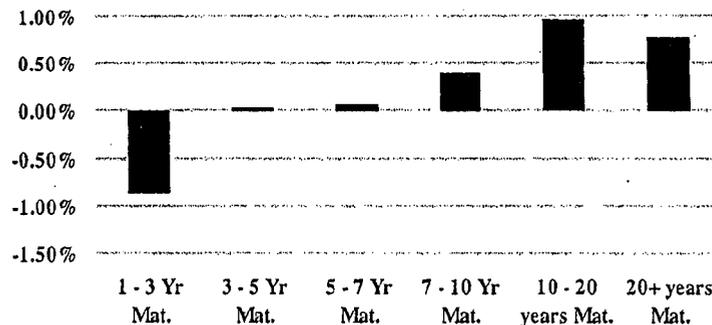
Banks YoY Yield Change



Brokers Yield Curve



Brokers YoY Yield Change



Source: Lehman Brothers. Yield Change - 12/31/06 vs 1/25/08

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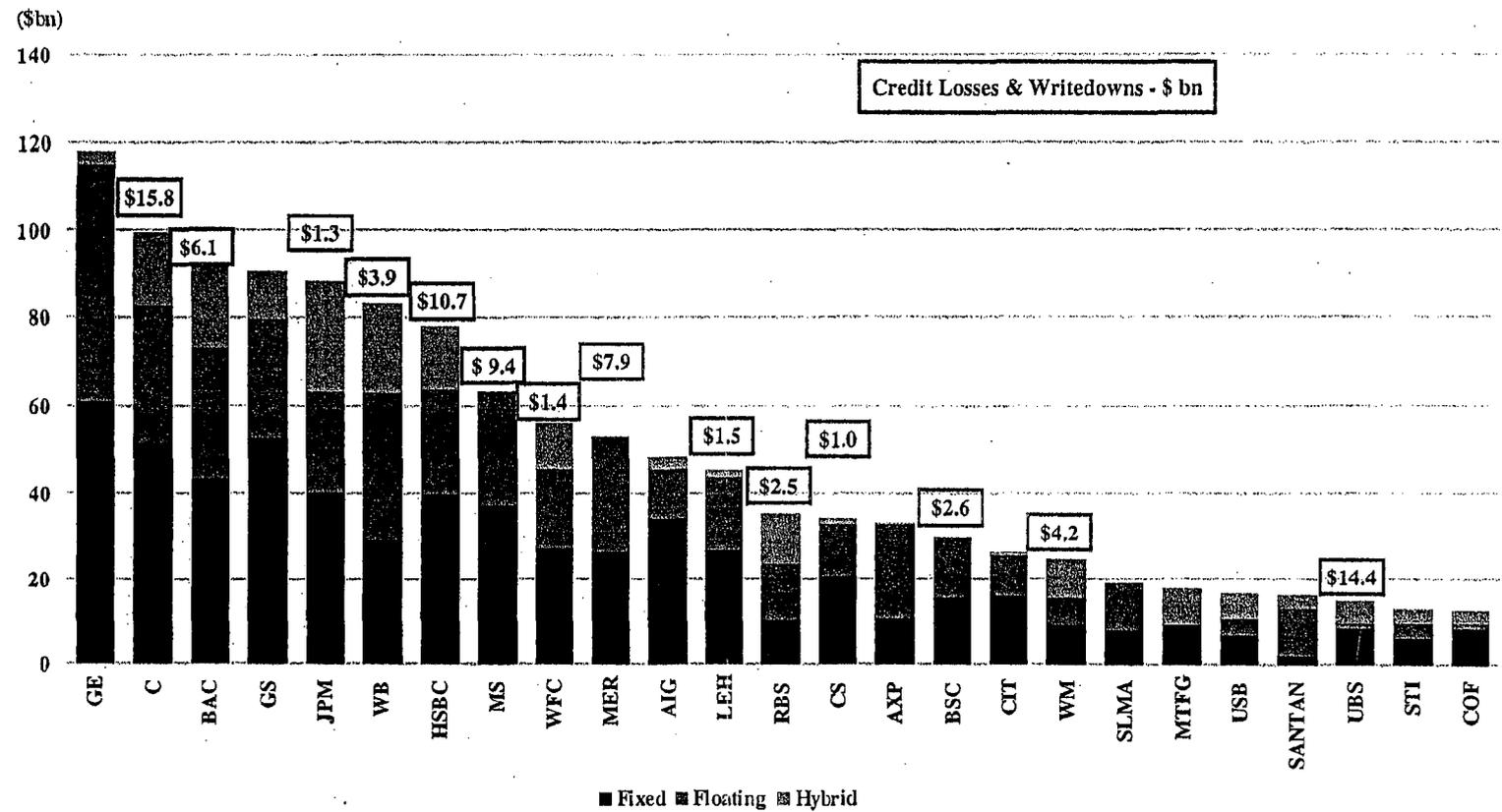
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Very few of the top financial issuers have been able to escape damage from the subprime fallout . . .

Top 25 Financial Issuers (by US\$ Debt Outstanding)



1. Source: Lehman Brothers, Index Eligible Debt from the Credit Index, FRN Index and Capital Securities Index is considered
 2. Note: Credit losses and writedowns as per company releases. Data given for select financials

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Recent losses have lead to negative ratings momentum within the space . . .

Upgrades vs. Downgrades for Financials

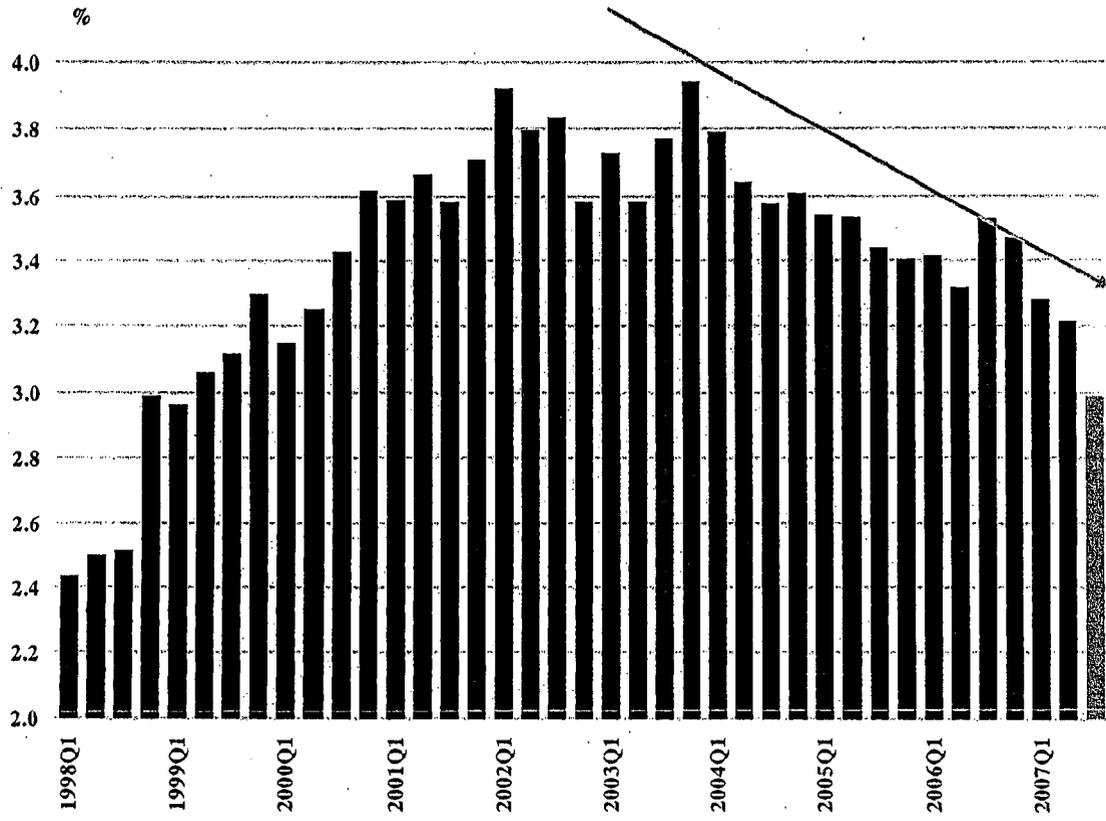
	Rating on 12/31/06	Rating on 12/31/07		Rating on 12/31/06	Rating on 12/31/07
GE	AAA	AAA	AIG	AA3/A1	AA3/A1
C	AA1	AA2/AA3	LEH	A1	A1
BAC	AA2/AA3	AA1/AA2	RBS	AA2	AA2
GS	AA3	AA3	CS	AA3	AA3
JPM	AA3/A1	AA3	AXP	A1	A1
WB	AA3/A1	AA2/AA3	BSC	A1	A2
HSBC	AA2/AA3	AA2/AA3	CIT	A2	A2
MS	AA3	AA3	WM	A2/A3	A3
WFC	AA2	AA1	SLMA	A2	BAA1
MER	AA3	A1/A2	USB	AA2/AA3	AA2/AA3
			UBS	AA1/AA2	AA2
			STI	AA3/A1	AA3/A1
			COF	A3/BAA1	A3

1. Source: Moody's

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Leverage ratios are on the rise . . .

5 Largest Brokers : Average Tangible Equity as a % of Tangible Assets

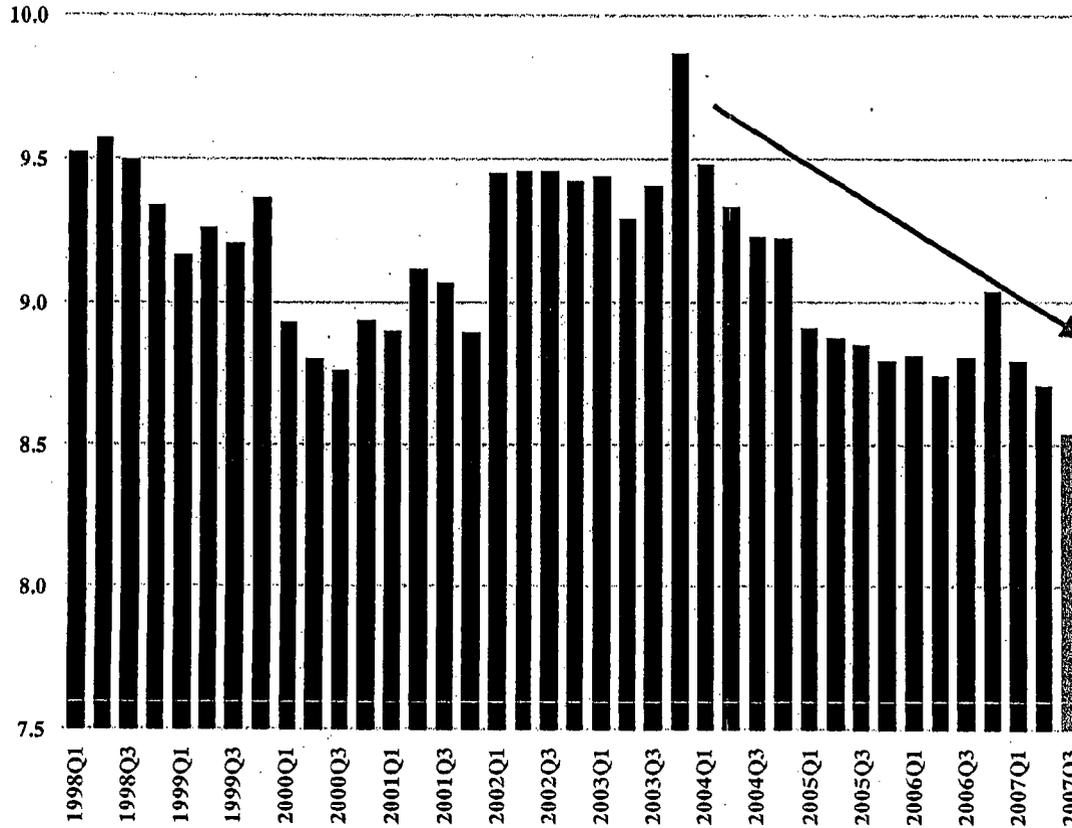


As of 3Q07	Tangible Equity / Tangible Assets (%)
Lehman Brothers	2.69
Merrill Lynch	3.09
Morgan Stanley	2.69
Goldman Sachs	3.23
Bear Stearns	3.25

1. Source: Lehman Brothers

And bank capital ratios have deteriorated substantially . . .

Bank Tier I Ratios

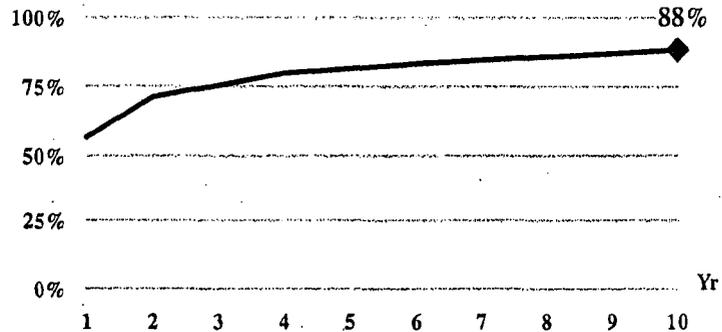


As of 3Q07	Tier I Ratio (%)
Citigroup	7.32
Bank of America	8.22
JP Morgan Chase	8.37
Wachovia	7.10
Wells Fargo	8.21

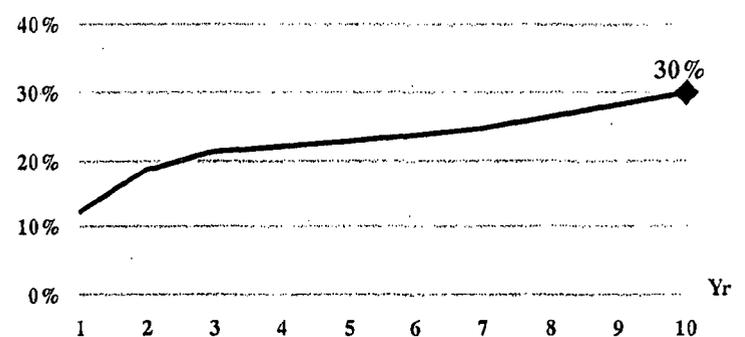
1. Source: Lehman Brothers
 2. Note: Ratio is average for 30 large banks

With technicals and fundamentals deteriorating, sentiment toward the sector is fickle at best . . .

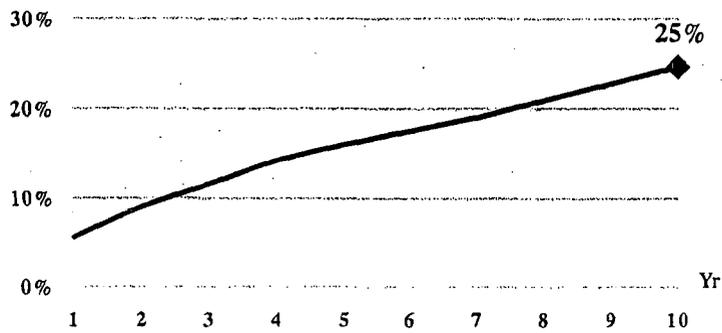
RESCAP Implied Default Probability



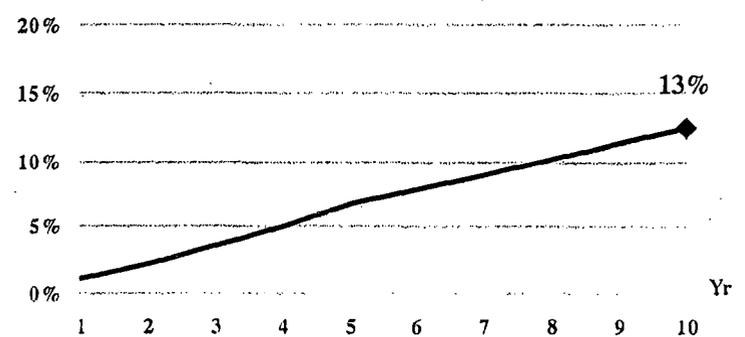
WM Implied Default Probability



BSC Implied Default Probability

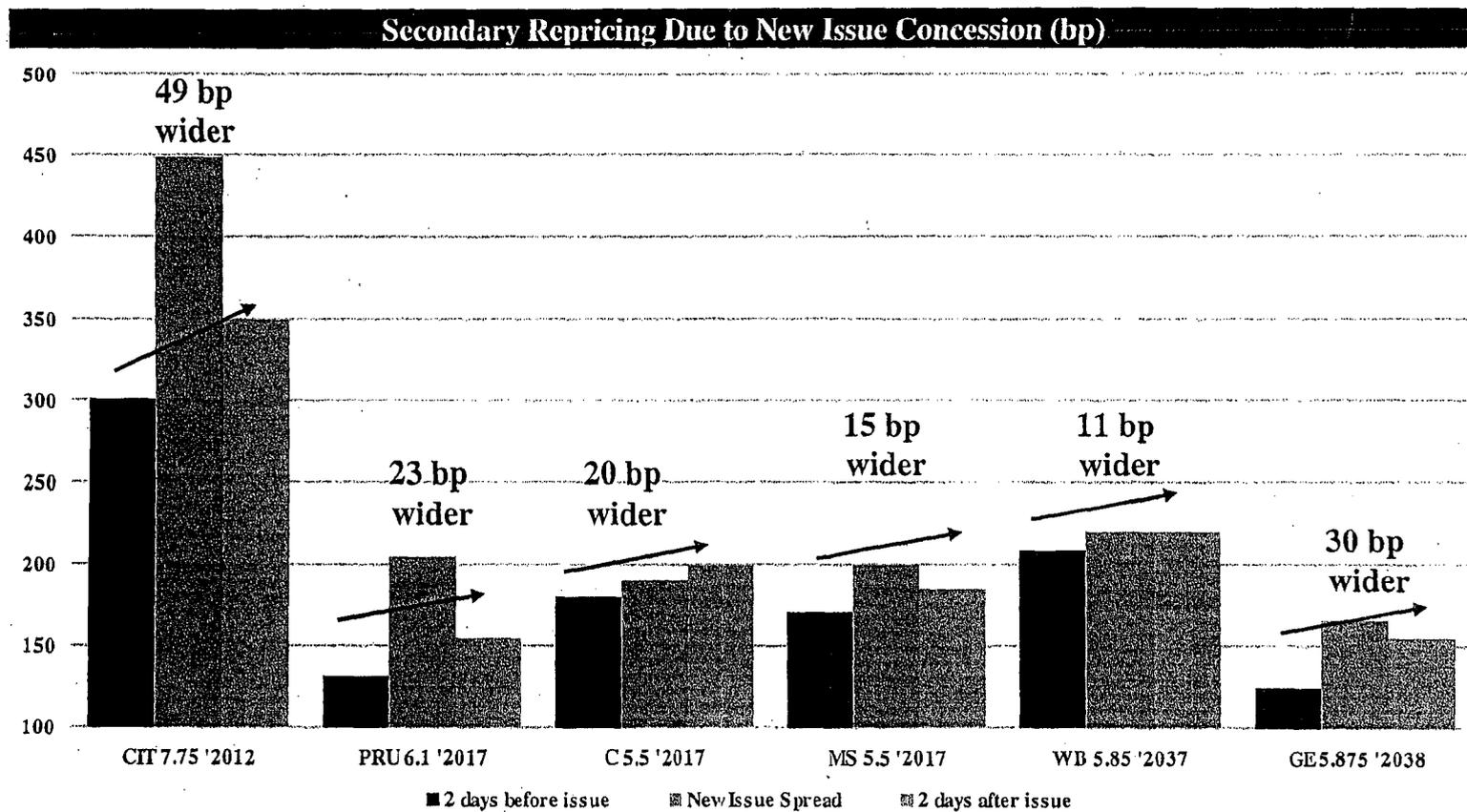


C Implied Default Probability



Source: Lehman Brothers.

... New issues repricing the market substantially wider ...

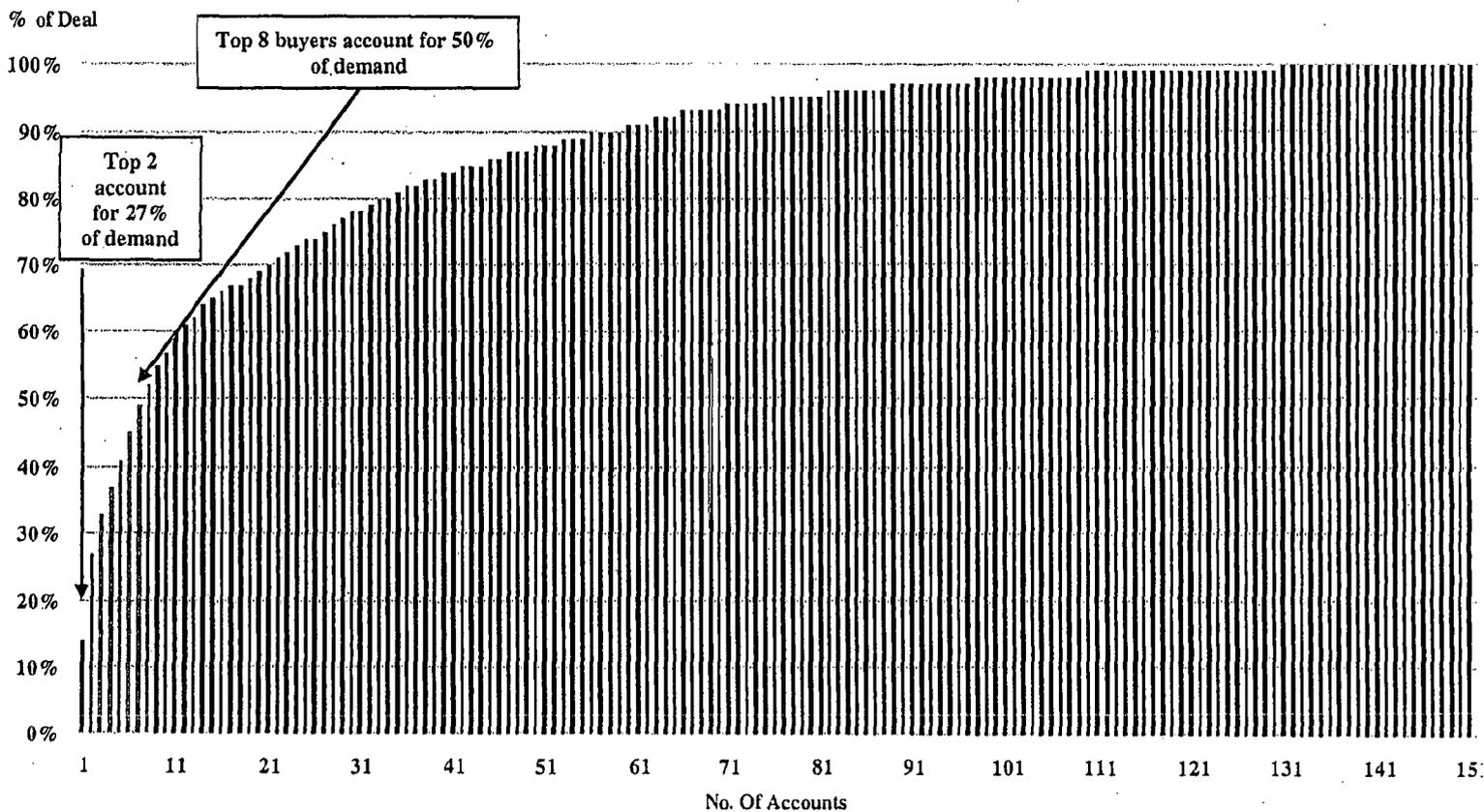


Source: Lehman Brothers.

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And a small number of investors accounting for a large portion of demand, liquidity can disappear quite fast . . .

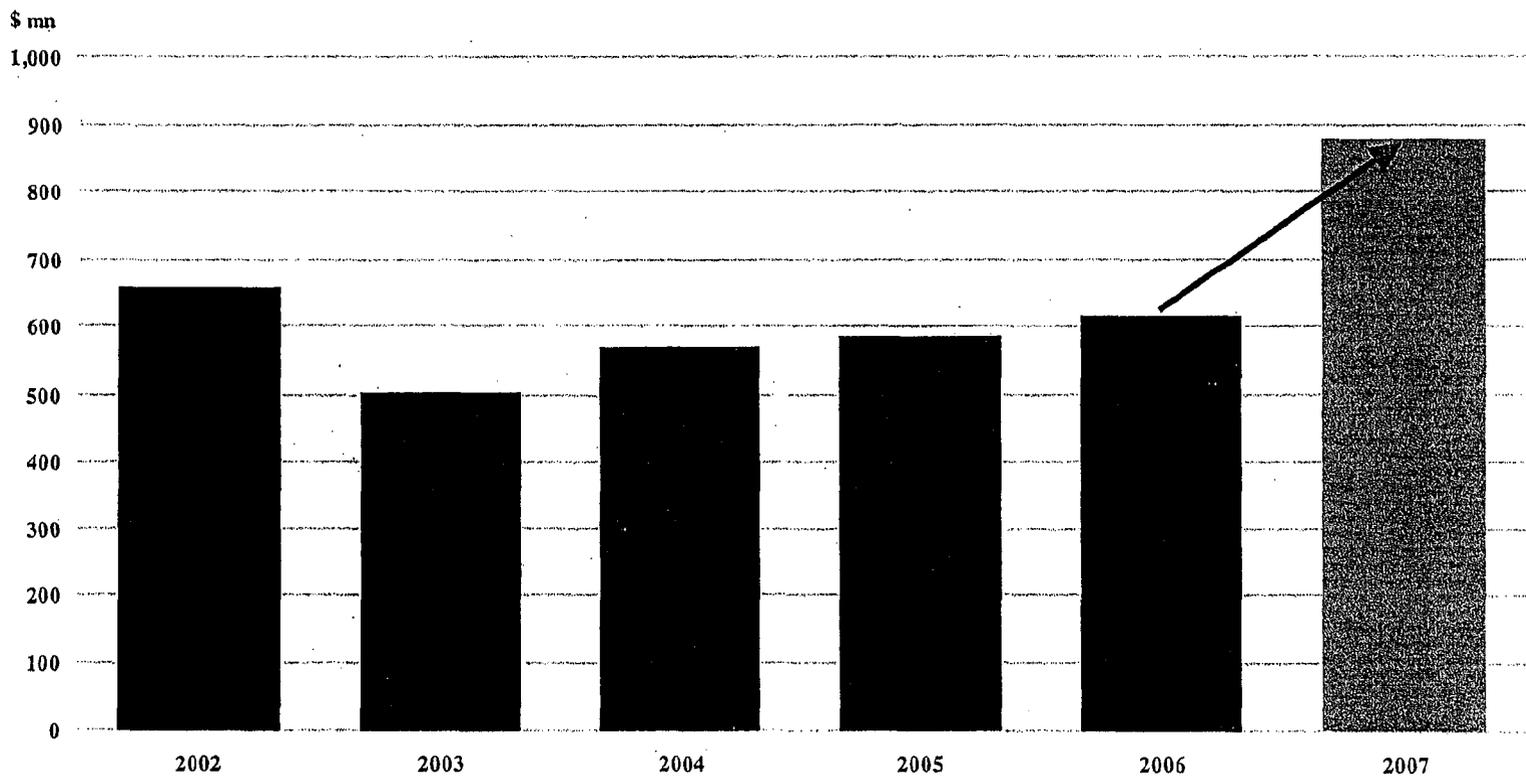
Recent Lehman Issues – Number of Accounts vs. % of Deal Purchased



1. Source: Lehman Brothers Syndicate, 2 Most Recent Deals.

With this in mind, issuers are taking increasingly larger size out of the market whenever volatility subsides . . .

Average Tranche Size of Financial New Issue (Fixed Rate)



1. Source: Lehman Brothers

Given our funding needs, we should front-load issuance and take advantage of liquidity while it is around . . .

2008 Capital Growth & Rate Assumptions

LTD Cost (excluding fees)	Nov-07		2008 Budget Activity				2008 Projection IML Rates			
	Balance	1ML	Issuances	Roll in	Maturities	Ending	Issuances	Roll in	Maturities	Ending
Vanilla/Structured	103,634	35	45,695	(20,622)		128,707	73	14		52
Hybrid	4,919	73	1,000			5,919	109			79
Subdebt	8,247	68	2,000			10,247	95			73
Current Portion	17,235	18	-	20,622	(16,813)	21,044		14	16	16
Total Effective Rate	134,035	37	48,695	-	(16,813)	165,917	75		16	50

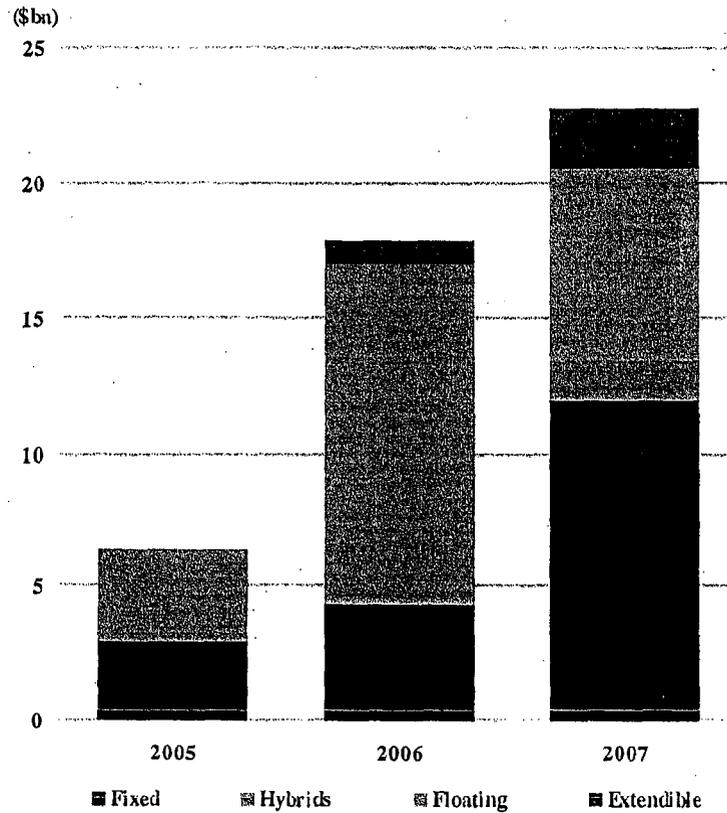
LTD Cost (excluding fees)	2008 Average			
	Balance	1ML	1WL	\$Cost
Vanilla/Structured	115,037	39	41	478
Hybrid	5,233	75	77	41
Subdebt	8,780	71	73	65
Current Portion	20,257	39	41	84
Total Effective Rate	149,307	42	44	670

Other Costs	\$ cost
Investment Burn	28
STD & Non-CC	-21
Issuances fees	134
Secured Facilities	62
Preferred	51
Common equity allocated	142
Total Other	396
Total Including CC	1,066

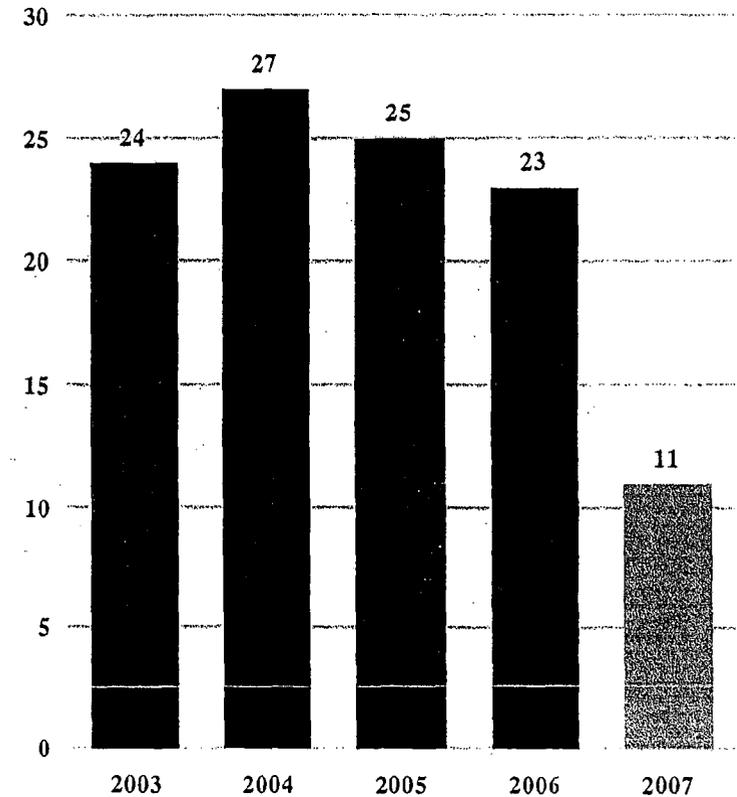
1. Source: Lehman Brothers Treasury

Especially given our recent growth in issuance and the smaller number of outlets available going forward ...

Lehman Issuance



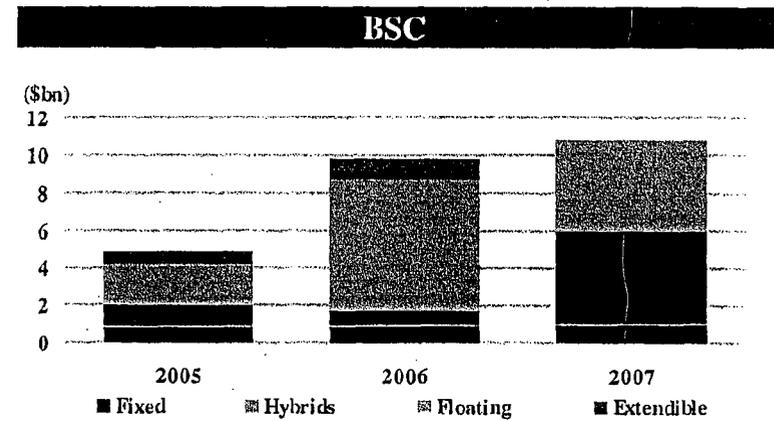
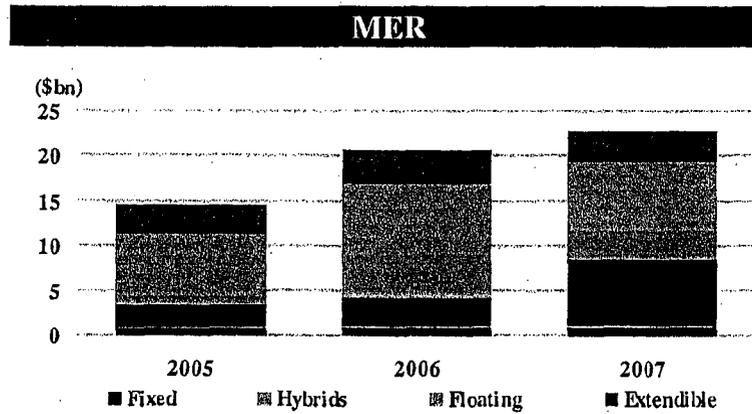
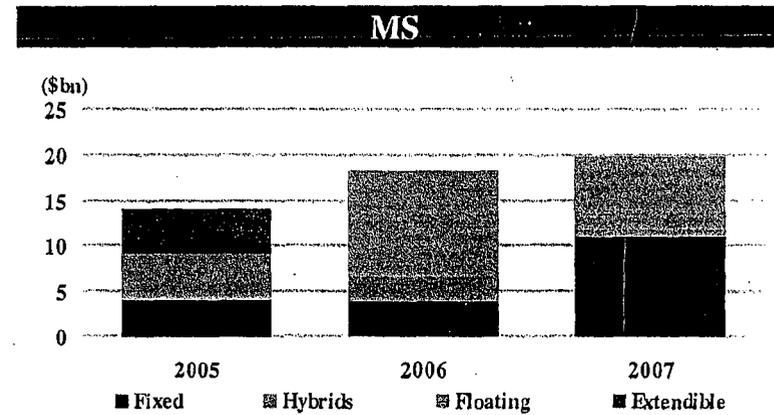
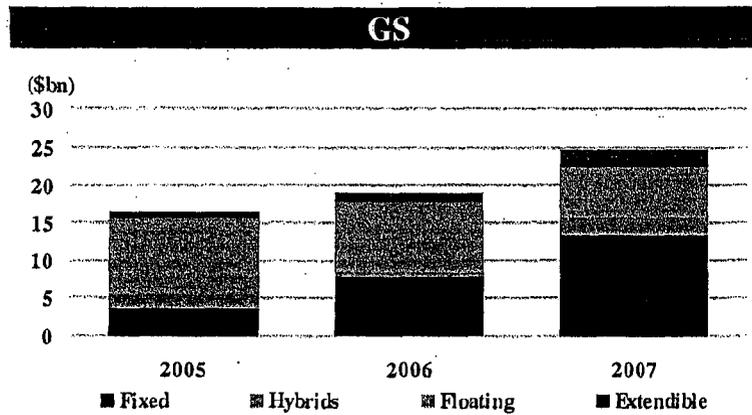
Lehman's Rank in the Credit Index



1. Source: Lehman Brothers

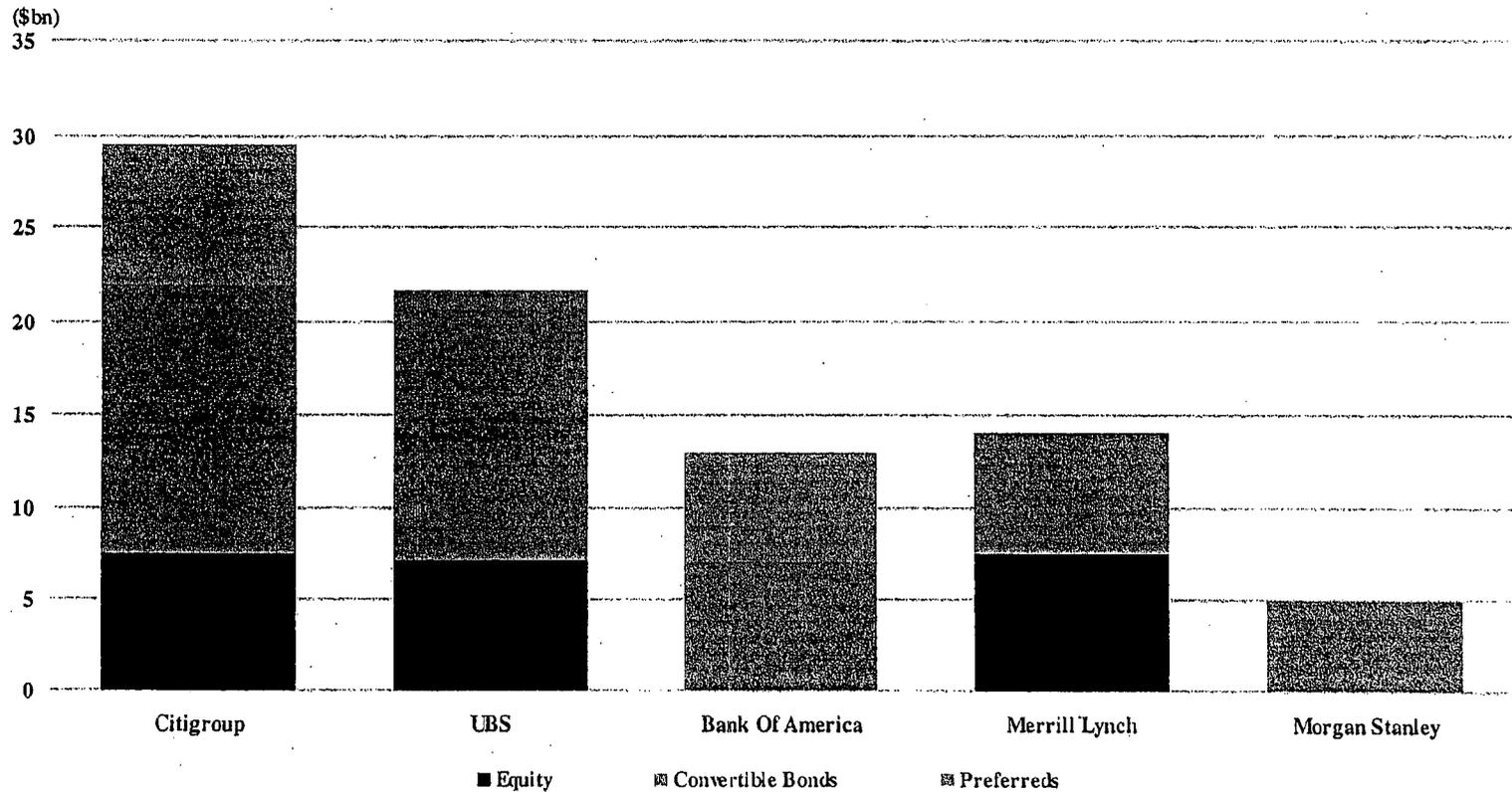
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And the fact that our competitors are in similar situations . . .



A lot of capital has already been raised using a variety of instruments

Equity & Equity-Like Capital Raised by Select Banks/Brokers

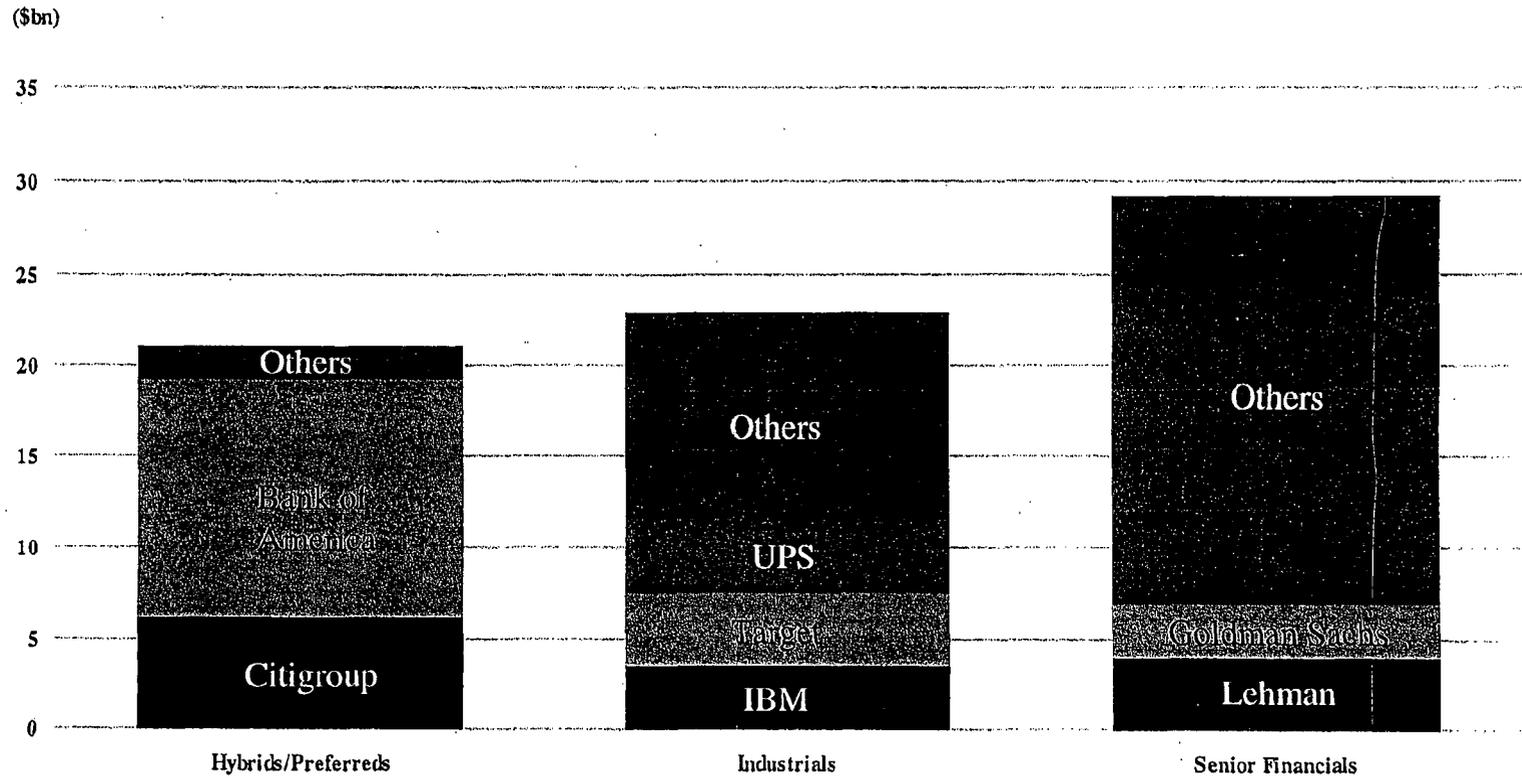


Source: Lehman Brother Equity Research.

Note: Mandatory Convertible Preferred treated as a convertible. MER - \$600mm option to buy stock is considered as exercised. UBS - Treasury stock reissuance and Stock dividend is treated as Equity Issue. Conversion rate of 1CHF = 1.12 USD is used

Senior Financial Paper Issuance is Competing with Hybrid and Industrial Issuance

2008 Year-To-Date New Issuance



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