

*Confidential Presentation to:*

Finance and Risk Committee of the Board of Directors

# 2008 Financial Plan

*January 29, 2008*

LEHMAN BROTHERS

# Agenda

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- I. Introduction
  
- II. 2008 Budget
  
- III. 2008 Funding and Capital Plan
  
- IV. Risk Update

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# Introduction

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- ◆ In October 2007, the Firm went through a detailed, bottom-up process to create a budget for 2008
  - Revenue of \$23.0 billion, up 19% relative to 2007
  - Non-personnel expense of \$4.2 billion, up 12% relative to 2007, primarily due to occupancy (e.g., additional office space both in the U.S. and overseas), technology (e.g., upgrade and expansion of data centers), and increase in transaction volumes
  - Compensation-to-revenue ratio of 49.3%, consistent with prior years, enabling the Firm to pay its existing franchise up 5% and invest \$300 million in growth initiatives, primarily outside the U.S.
  
- ◆ With current market conditions, which have worsened since last October, we have revised the budget
  - Revenue of \$21.0 billion, down \$2.0 billion from the original but up \$1.7 billion (9%) relative to 2007
  - Non-personnel expense essentially unchanged (NPE expenses primarily driven by prior years' decisions and have very limited scope for reduction)
  - The Executive Committee of the Firm and the Compensation & Benefits Committee of the Board are discussing the appropriate budget for compensation expenses in 2008. Scenarios under consideration range from:
    - Continuing to maintain the current compensation ratio: this implies no investments and paying the existing franchise down despite 9% revenue increase
    - To taking advantage of countercyclical growth opportunities by keeping compensation to the existing franchise flat and investing \$300 million in new initiatives. This would result in increasing the compensation-to-revenue ratio to 52.8%
  - Additionally, we consider modifying the Firm's equity award plan to make it less costly in the long run. The change may give rise to one-off transition costs.

# Agenda For Today's Meeting

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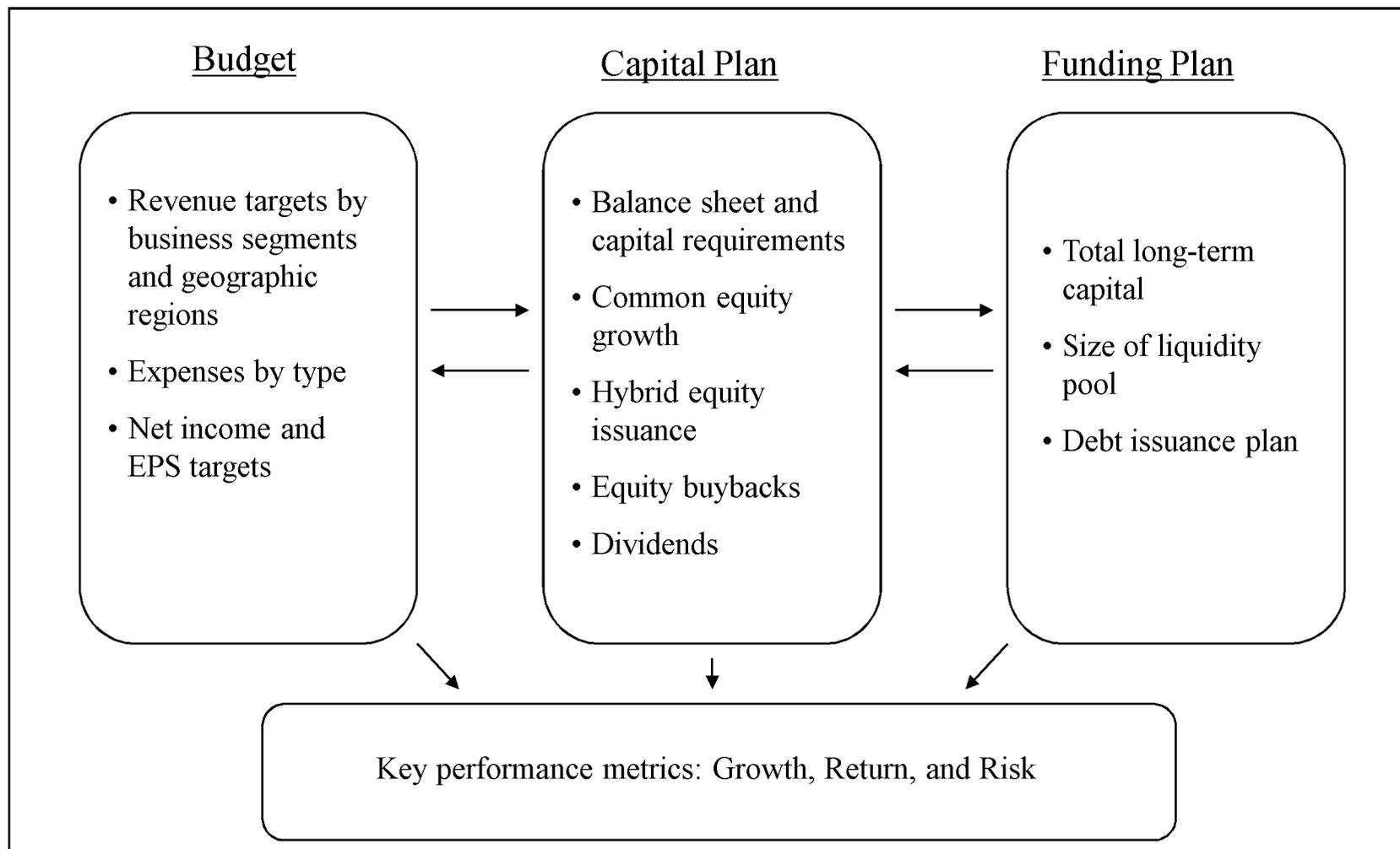
## Three key objectives for today's meeting:

- ◆ Discuss the Firm's 2008 Budget
  - Growth opportunities
  - Financials under the two scenarios
  
- ◆ Review the Firm's 2008 Funding and Capital Plan and obtain the Board's authorization for share repurchases and an increase in common dividends
  - Repurchases of up to 100 million common shares for the management of the Firm's equity capital, including offsetting dilution from employee awards
  - Annual common stock dividend of \$0.68 per share, an increase of \$0.08 or 13% versus 2007
  
- ◆ Review proposed changes in Risk Appetite limits
  - Risk Appetite limits to increase from \$3.5 billion to \$4.0 billion

# Components of the Financial Plan

Introduction

The Firm's Financial Plan consists of three interlinked components: Budget, Capital Plan, and Funding Plan. The revised forecast has been used to create the capital and funding plans



# 2008 Budget Scenarios

Budget

The Firm's revised 2008 Budget is based on \$21.0 billion revenue forecast. The two scenarios below reflect different growth strategies

## Financial Performance

<i>\$ billions</i>	2007	2008		2008		2008	
	Actuals	Initial Budget	vs. 2007	Revised Budget (A)	vs. 2007	Revised Budget (B)	vs. 2007
<b>Net Revenues</b>	19.3	23.0	19%	21.0	9%	21.0	9%
Personnel Expenses	9.5	11.3	19%	10.4	9%	11.1	17%
Non-Personnel Expenses	3.8	4.2	12%	4.2	11%	4.2	12%
<b>Total Expenses</b>	13.2	15.5	17%	14.5	10%	15.3	15%
<b>Pretax Income</b>	6.0	7.5	24%	6.5	8%	5.7	-5%
Income Tax	1.8	2.3	27%	2.0	8%	1.7	-6%
Impact of Accounting Change	0.0	0.0		0.0		0.0	
<b>Net Income</b>	4.2	5.1	23%	4.5	7%	4.0	-5%
<b>Performance Indicators</b>							
First Call Revenue Estimate, \$B <sup>(1)</sup>		19.3		19.3		19.3	
EPS, \$/share	\$7.26	\$8.99	24%	\$7.89	9%	\$7.01	-3%
First Call EPS Estimate, \$/share <sup>(1)</sup>		\$6.80		\$6.80		\$6.80	
ROE	20.8%	21.5%	+0.7pp	19.7%	(1.1)pp	17.6%	(3.2)pp
ROTE	25.7%	26.3%	+0.6pp	24.3%	(1.3)pp	21.9%	(3.8)pp
Average Common Equity, \$B	19.8	23.7	20%	22.6	14%	22.4	13%
Diluted Share Count, million	568.3	568.5	-	563.7	-	563.7	-
Compensation / Net Revenue	49.3%	49.3%	-	49.3%	-	52.8%	-
NPE / Net Revenue	19.5%	18.3%	(1.2)pp	19.9%	+0.4pp	20.0%	+0.5pp
Pretax Margin	31.2%	32.4%	+1.2pp	30.8%	(0.4)pp	27.2%	(4.0)pp
Book Value Per Share, \$/share	\$39.45	\$47.43	20%	\$44.64	13%	\$43.72	11%

1. First Call estimate as of January 17, 2008

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# Growth Opportunities By Business

Budget

## Fixed Income

- ◆ Focus on Commodities and Fx and expansion into newer product areas (e.g., Infrastructure, Insurance)
- ◆ Continued geographical expansion into China, India, Singapore, Australia, Eastern Europe, Scandinavia, Spain, Middle East and Latin America
- ◆ Development of eCommerce platform (e.g., FXLive)

## Investment Banking

- ◆ Global expansion with particular focus on Australia, Brazil, Canada, India, Middle East and Russia
- ◆ Focus on Financial Institutions, Natural Resources and Industrials
- ◆ Global fee share expected to increase to 4.8% from 4.4% at the end of 2007

## Principal Investing

- ◆ Build out of a scalable origination and investing platform – particularly in Europe and Asia
- ◆ Asset class expansion (e.g., Insurance, Emerging Markets)

## Equities

- ◆ Expansion into Asia, Emerging Markets (Brazil, Mexico, Russia, Turkey and South Africa)
- ◆ Further diversification of the business franchise by growing Prime Services
- ◆ Investment in technology to create a market leading trading platform providing additional capacity and speed to the Firm's clients

## Investment Management

- ◆ 27% growth of Assets Under Management to \$358 billion by the end of 2008
- ◆ 45% increase in Asset Management net flows to \$45bn in 2008
- ◆ Rolling out of new Private Equity funds
- ◆ Build out of the European asset management platform

## Infrastructure & Technology

- ◆ Reengineer front-to-back trade processing for Equity Derivatives and Fixed Income growth
- ◆ Continue to migrate functionality to modularized components to reduce reliance on mainframe processes
- ◆ Improve scalability and control of middle office processes

# Market Developments And Competitive Dynamics

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## Current environment presents a unique long-term growth opportunity for the Firm

Budget 

- ◆ The market environment has become more challenging in the past three months
  - Economic growth slowing down in all major markets
  - U.S. housing crisis more severe than previously anticipated
  - Lack of activity seen in a several fixed income markets, e.g., real estate, leveraged loans, sub-prime-related products
  - Outlook uncertainty is much higher than usual
  
- ◆ The Firm's competitors, with the notable exceptions of Goldman Sachs and JPMorgan Chase, have sustained large losses, weakening their competitive position
  - Despite recent capital raising efforts, most competitors are still capital-constrained; more likely to retrench to the core of their franchises than to invest in growth
  - Senior management changes (e.g., BofA, Bear Stearns, Citigroup, Merrill Lynch, Morgan Stanley and UBS), causing organizational turmoil
  - Significant pool of talent will become available, as many of our competitors' top performers become disillusioned with their firms' strategies and risk management
  
- ◆ This presents an opportunity for the Firm to pursue a counter-cyclical growth strategy, similar to what it did during the 2001-2002 downturn, to improve its competitive position and, over time, generate superior returns for our shareholders

# The Firm's Performance During Last Downturn

**During the last downturn, the Firm outperformed its competitors and established a platform for further growth**

Budget

- ◆ In 2001-02, the Firm pursued a counter-cyclical growth strategy, investing in talent while its competitors were in retrenchment mode. By 2005, the Firm's headcount had grown by 75% relative to the beginning of 2002, while most competitors' headcount remained flat or decreased
- ◆ As a result, the Firm was able to substantially strengthen and expand its business franchise
  - Ranked as the #1 firm in Equity Research by Institutional Investor starting in 2003
  - Increased share in Investment Banking from 3.7% in 2000 to 5.0% in 2005
  - Named Best Investment Bank by Euromoney in 2005
- ◆ Ultimately, the strategy translated into superior financial performance. The Firm outperformed its peers both in revenue and market capitalization growth

## Financial Performance

	Headcount			Revenue (\$'s in billions)			Market Cap (\$'s in billions)		
	2002 <sup>(1)</sup>	2005	% Δ	2002	2005	% Δ	2002	2005	% Δ
Lehman Brothers	13,090	22,919	75%	\$ 6.2	\$ 14.6	138%	\$ 14.6	\$ 33.8	132%
Goldman Sachs	22,677	22,425	-1%	14.0	25.2	80%	38.8	59.8	54%
Bear Stearns	10,452	11,843	13%	5.1	7.4	45%	9.3	16.3	75%
Morgan Stanley	61,319	53,218	-13%	19.1	26.8	40%	49.1	60.4	23%
Merrill Lynch	57,100	54,600	-4%	18.4	26.0	42%	37.8	61.0	62%

1. Headcount as of beginning of 2002

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# Balance Sheet

Capital Plan

We plan to deploy the capital created to reduce leverage and support \$60 billion of net asset growth. Growth will be driven by Equities, Prime Services and Principal Investing

## Year-End Balance Sheet Summary

(\$ Billions)	2006	2007 Growth		2008 Growth			
		2007	\$	%	2008B	\$	%
Fixed Income	171.0	231.1	60.1	35%	235.5	4.4	2%
Equities	38.2	50.7	12.5	33%	65.3	14.6	29%
Prime Services <sup>1</sup>	32.8	44.9	12.1	37%	69.2	24.3	54%
Principal Investing	7.4	11.8	4.4	59%	22.1	10.3	88%
IMD	5.7	11.9	6.2	110%	14.0	2.1	18%
Other	13.7	22.5	8.8	64%	26.5	4.0	18%
Total Net Assets	268.9	373.0	104.0	39%	432.7	59.7	16%
Financing and Other	234.6	318.1	83.5	36%	369.2	51.1	16%
<b>Total Assets</b>	<b>503.5</b>	<b>691.1</b>	<b>187.5</b>	<b>37%</b>	<b>801.9</b>	<b>110.8</b>	<b>16%</b>
Other Liabilities	403.2	545.4	142.2	35%	628.4	83.0	15%
Long-term Borrowings <sup>2</sup>	81.2	123.2	42.0	52%	147.6	24.5	20%
Total Liabilities	484.4	668.6	184.2	38%	776.0	107.5	16%
Common Equity	18.1	21.4	3.3	18%	24.0	2.6	12%
Traditional Preferred	1.1	1.1	-	0%	1.8	0.8	68%
Stockholders' Equity	19.2	22.5	3.3	17%	25.9	3.4	15%
<b>Total Liabilities and Stockholders' Equity</b>	<b>503.5</b>	<b>691.1</b>	<b>187.5</b>	<b>37%</b>	<b>801.9</b>	<b>110.8</b>	<b>16%</b>
<b>Total Long-Term Capital</b>	<b>100.4</b>	<b>145.6</b>	<b>45.3</b>	<b>45%</b>	<b>173.5</b>	<b>27.8</b>	<b>19%</b>
Net Leverage	14.5x	16.1x	1.6x	NA	15.9x	-0.2x	NA
Peer Average	14.5x	16.9x	2.4x	NA			

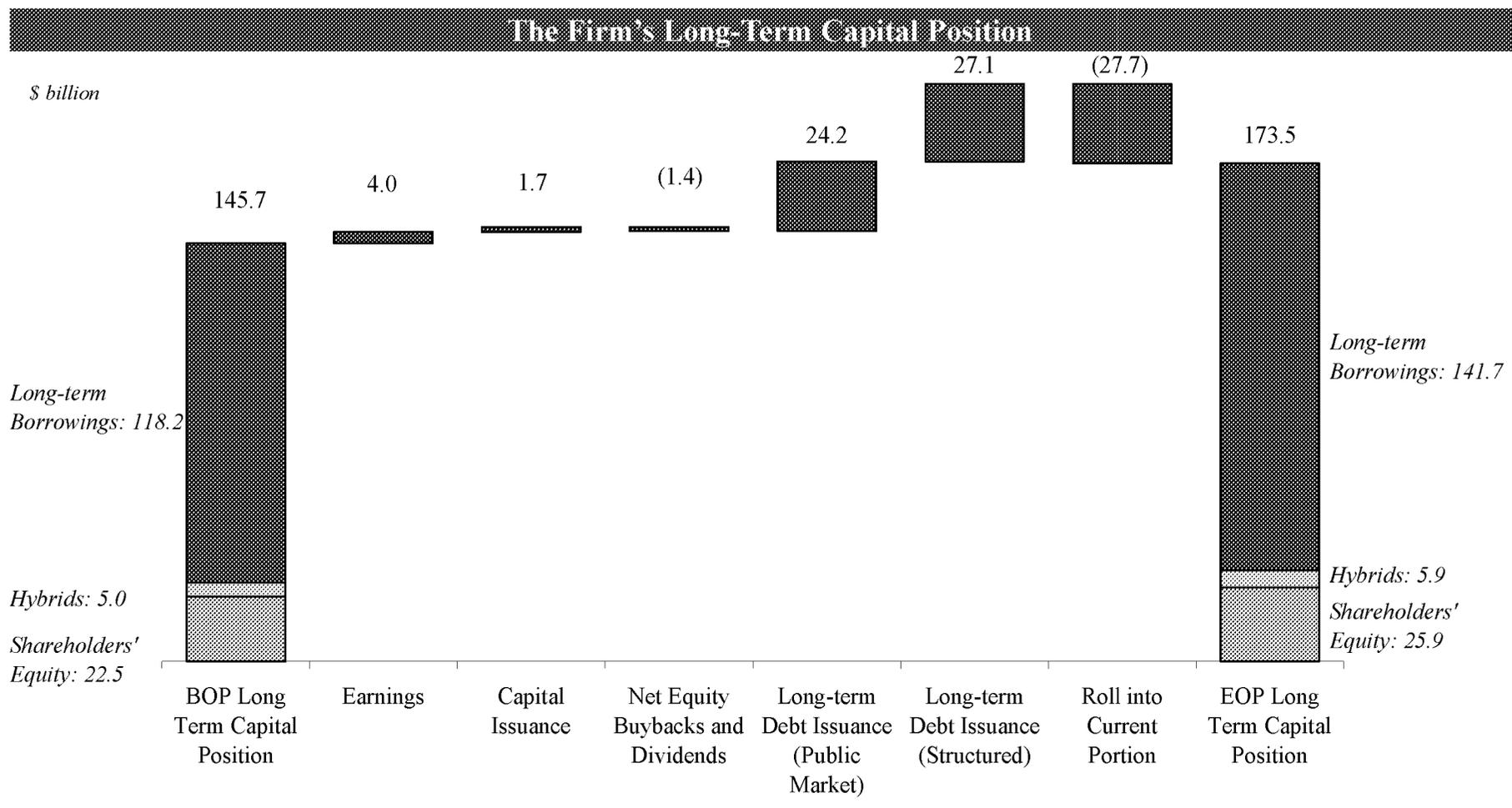
1. In prior years, Prime Services was incorporated within FID and Equities divisions

2. Long-term Borrowings includes Hybrid Equity

# 2008 Issuance Requirements (I)

Capital Plan

In 2008, long-term debt issuance is expected to be \$24 billion of long-term debt and \$27 billion of structured debt. In the first two month of the year, we have already issued \$7 billion of public debt, 28% of full year requirements



## 2008 Issuance Requirements (II)

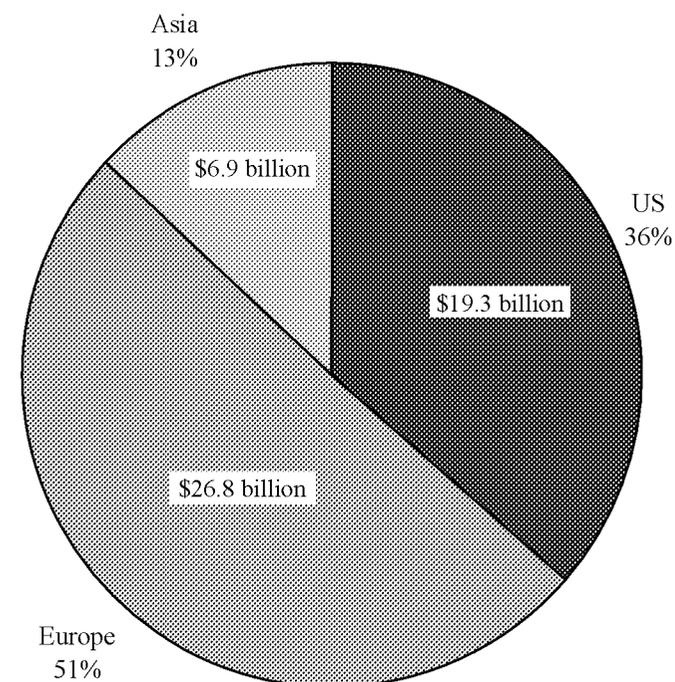
The issuance markets are more challenging than we have seen in a number of years. We plan to be more active in newer markets as well as increasing the overall marketing effort

- ◆ Build upon success of large Samurai (JPY) issuance in 2007
- ◆ Issuance in Australia (AUD), Canada (CAN), Hong Kong (HKD), Switzerland (CHF), Mexico (MEX), UAE (AED) and New Zealand (NZD)

### FY 2008 Long-Term Capital Issuance (Projection) (\$ billions)

Types	Plan Iss Volume	Tenor (yr)	YTD Actual Volume
Vanilla and Subordinated	24.2	8	6.8
Structured	27.1	3	3.2
<b>Total LTD Issuance</b>	<b>51.3</b>	<b>5</b>	<b>10.0</b>
Hybrid	1.0	5	-
Preferred Stock	0.8	N/A	-
<b>Total Issuance:</b>	<b>53.0</b>	<b>5</b>	<b>10.0</b>

### FY 2008 Projected Issuance by Region



# Share Repurchase Plan

Capital Plan

- ◆ The Firm is committed to fully offsetting dilution associated with employee awards and to effective utilization of capital. Between 2004 and 2007, we repurchased shares in excess of dilution requirements, reducing Book Value shares from 551 million to 543 million<sup>(1)</sup>
- ◆ In 2008, we intend to fully offset dilution, but may accelerate or delay repurchases depending on the market conditions
- ◆ We request the Board to approve repurchases of up to 100 million common shares for the management of the Firm's equity capital, including offsetting dilution due to employee awards, subject to market conditions. This authorization supersedes the previous share repurchase authorization

## Share Repurchase Plan

(# of Shares In Millions)	2004	2005	2006	2007	2007-08 Change		
					2008B	# of Shares	%
RSU Amortization	24	25	19	34	42	8	22%
Option Exercises	34	51	22	15	19	4	26%
Equity Award Dilution	58	76	42	50	61	12	23%
Acquisitions & Other			-	2	-	(2)	
<b>Total Dilution</b>	<b>58</b>	<b>76</b>	<b>42</b>	<b>51</b>	<b>61</b>	<b>10</b>	<b>19%</b>
Repurchases to Offset Current Year Dilution	58	76	42	43	61		
Accelerated Repurchases	-	4	11	-	-		
<b>Total Repurchases</b>	<b>58</b>	<b>81</b>	<b>53</b>	<b>43</b>	<b>61</b>	<b>18</b>	<b>42%</b>
<b>Book Value Shares</b>	<b>551</b>	<b>546</b>	<b>534</b>	<b>543</b>	<b>543</b>	<b>0</b>	<b>0%</b>

1. In 2007 we repurchased less than dilution which reflects the acceleration of repurchases in 2004-2006

# Impact of Share Repurchases and Equity Awards on Equity

- ◆ In 2008, we enhanced our share repurchase program by entering into a short-term structured buyback contract. The transaction allows us to repurchase shares at a discounted price or gain equity premium
- ◆ We project the net impact of share repurchases and equity awards on equity to be approximately \$766 million. The actual cost will be affected by the number of options exercised in 2008 and the share price dynamics

## Net Impact of Equity Awards and Share Repurchases On Equity

(\$ millions)	2004	2005	2006	2007	2008		
					2008B	Δ	%
<b>Impact on Stockholders' Equity</b>							
RSU Amortization / Option Expense	800	1,054	923	1,953	1,958	5	0%
Options Exercised (Proceeds)	626	1,245	637	444	610	167	38%
Tax Benefit on Options Exercised	285	537	385	239	284	45	19%
Tax Benefit on RSU Issuances	216	467	451	202	427	225	112%
<b>Increase in Equity from Employee Awards</b>	<b>1,927</b>	<b>3,304</b>	<b>2,396</b>	<b>2,838</b>	<b>3,279</b>	<b>441</b>	<b>16%</b>
<b>Cost of Share Repurchases</b>	<b>(2,267)</b>	<b>(4,157)</b>	<b>(3,681)</b>	<b>(3,178)</b>	<b>(4,045)</b>	<b>(867)</b>	<b>27%</b>
<b>Net Impact on Equity</b>	<b>(341)</b>	<b>(853)</b>	<b>(1,285)</b>	<b>(341)</b>	<b>(766)</b>	<b>(426)</b>	<b>125%</b>
Number of Shares Repurchased, millions	58	81	53	43	61	18	42%
Average Purchase Price Per Share	\$39	\$52	\$70	\$74	\$66	(\$8)	-10%

# Equity Overhang

Capital Plan  

- ◆ Over time, the Firm has been reducing the equity award overhang
- ◆ In 2007, our equity award overhang increased to 10.4% from 8.5%. The 2006 overhang was artificially low because of a one-time accounting change
- ◆ In 2008, we project our equity overhang to be 11.1%; this is driven mainly by an increase in the award granted in 2007 year and a slowdown in option exercises
- ◆ Contemplated changes in the Firm's equity award plan may affect the equity overhang going forward

## Equity Overhang

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Forecast 2008
Gross Overhang	50.2%	39.9%	33.5%	34.0%	34.6%
Net Overhang	36.0%	27.5%	21.6%	20.5%	18.9%
<b>Adjusted Overhang</b>	<b>12.2%</b>	<b>11.3%</b>	<b>8.5%</b>	<b>10.4%</b>	<b>11.1%</b>

## 2008 Dividend Increase Recommendation (\$0.08 increase)

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- ◆ Similar to previous years, we propose to continue our approach of maintaining strong record of dividend increases while keeping a low payout ratio
  - Signal management’s confidence in the financial health of the Firm
  - Position Lehman Brothers as a “growth” stock
  
- ◆ We recommend increasing Lehman Brothers’ annual common stock dividend from \$0.60 in 2007 (\$0.15 per quarter) to \$0.68 in 2008 (\$0.17 per quarter), a 13% increase. The proposed dividend would return approximately \$360 million of retained earnings to shareholders
  - Projected dividend payout ratio<sup>1</sup> remains below 10%, which we believe to be an important threshold for maintaining flexibility, at approximately 9.2%
  - Projected dividend yield of 1.0%, lower than, but consistent with, peer average of 1.2%
  - Dividend growth consistent with revenue and income growth

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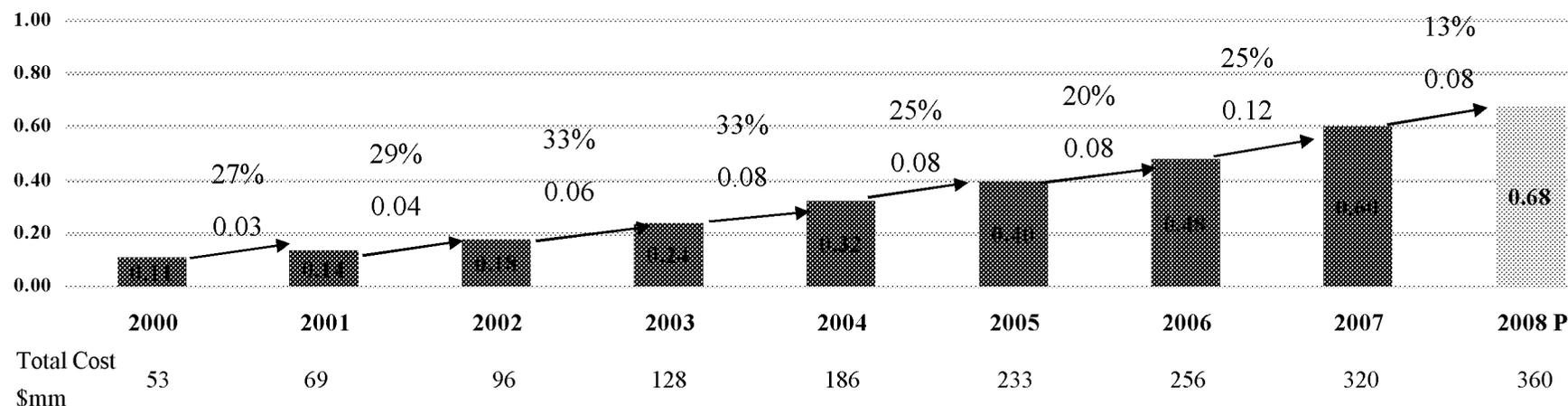
1. Payout ratio calculated as a ratio of common dividends to net income applicable to common.

2. Dividend yield calculated as a ratio of dividends per share / projected average stock price.

# 2008 Dividend Increase Recommendation (\$0.08 increase)

Capital Plan

## Lehman's Dividend Trend and 2008 Recommendation, \$ / Share



## Peer Group Dividend Benchmarking

	Lehman Brothers	Goldman Sachs	Morgan Stanley	Merrill Lynch	Bear Stearns	
<b>Dividend per Share</b>	Last Announcement	February 1, 2007	December 18, 2007	December 19, 2007	January 18, 2007	December 20, 2007
	Increase of	13%		No Change		
	Projected 2008	\$0.68	\$1.40	\$1.08	\$1.40	\$1.28
<b>Dividend CAGR</b>	5 Year	27%	24%	3%	17%	16%
	2002 - 2007					
<b>Payout Ratio</b> <sup>1</sup>	2007	9.8%	5.8%	12.8%	49.9%	10.6%
	Lehman 2008 B	9.2%				
<b>Dividend Yield</b> <sup>2,3</sup>	2007	0.9%	0.7%	1.6%	1.8%	0.9%
	Lehman 2008 B	1.0%				

1. Calculated as: Common Dividends Paid / Net Income Applicable to Common. Since 2007 full year data not yet available, 2007 data is Q3 2007 YTD. Dividend Yield calculated based on average stock price during period

2. Dividend yield based on current stock price

3. Lehman 2008 budgeted year-end stock price of \$77.

# Capital Raising Alternatives

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**We are monitoring potential alternative sources of capital, however, we believe that currently capital raising is not in the best interests of our shareholders**

- ◆ Significant capital has been raised by several banks and broker-dealers over the past three months. The actions have been motivated by the need to shore up capital ratios, negatively affected by large losses
  
- ◆ For Lehman, aggressive capital raising is not necessary
  - Capital raising leads to dilution of existing shareholders
  - The Firm remains strongly capitalized
  - Capital generated by earnings and issuance of capital securities is sufficient to support growth
  
- ◆ Nonetheless, we are continuously monitoring opportunities and are prepared to take action if/when appropriate
  - Slowing down buybacks
  - Tapping into alternative capital sources, such as sovereign wealth funds and Asian banks

# 2008 Risk Appetite

We recommend setting a Risk Appetite limit of \$4.0 billion, up \$0.5 billion or 14% relative to 2007. This is consistent with maintaining ROTC at 10%

Risk

## Downturn Scenario – Financial Performance

*\$'s in millions except per share data*

	<u>2008</u>
<b>Total Revenues</b>	<b>13,933</b>
Personnel Expenses	8,113
Non Personnel Expenses	<u>3,532</u>
<b>Pretax Income</b>	<b>2,288</b>
Income Tax	595
<b>Net Income</b>	<b>1,693</b>
Average Quarterly Revenue in Downturn Scenario	3,483

## Risk Appetite Results

	<u>2008</u>
<b>2008 Budgeted Revenues</b>	<b>21,000</b>
Client, Origination, Banking Revenue Loss	<u>(3,066)</u>
<b>Total Revenues Before Risk Losses</b>	<b>17,935</b>
Minimum Risk Level Required	<u>13,933</u>
<b>Proposed Risk Appetite Limit</b>	<b>4,002</b>
Average Quarterly Revenue Before Risk Losses	4,484

### Three Year Quarterly Revenue Trend

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Q1	5,047	4,461	3,810
Q2	5,512	4,411	3,278
Q3	4,308	4,178	3,852
Q4	4,390	4,533	3,690

# Risk Appetite Limit Allocation and Usage

Risk

Risk Appetite is an aggregate risk measure which includes Market Risk, Event Risk, and Counterparty Credit Risk, and assumes a 95% confidence level over a 1-year time horizon

## Risk Appetite and VaR (\$Million)

Business	Risk Appetite Usage		Risk Appetite Limits	
	2007 Average	Jan 14 2008 Usage	2007 Year End	2008 Budget
<b>Risk Appetite</b>				
Fixed Income	1,963	2,678	2,500	2,500
Equities	650	560	800	800
Capital Markets Prime Services	98	117	150	150
Investment Mgt/ Principal Investing	1,202	1,657	2,000	2,000
Investment Banking	80	92	100	100
Central Capacity	75	64		500
<b>Total Risk Appetite</b>	<b>2,975</b>	<b>3,762</b>	<b>3,500</b>	<b>4,000</b>
Risk Appetite Diversification %	27%	27%	37%	28%
<b>Total VaR (95% 1-day)</b>	<b>88</b>	<b>149</b>	<b>135</b>	<b>150</b>

# Stress Testing

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Risk  

- ◆ Stress tests and scenario analyses are performed regularly to evaluate the potential P&L impact of abnormal yet plausible market conditions on the Firm's portfolio
  - Analyses of movements in interest rates, stock prices, FX, volatility, etc., are run over a wide range of possible scenarios to determine the impact on the current portfolio of these extreme instantaneous shocks
  - These analyses are conservative because they do not allow for re-hedging or selling down a position
- ◆ Our stress tests are run regularly on a suite of scenarios, including:
  - Re-runs of historical episodes of extreme market moves, for example:
    - 9/11 terrorist attacks
    - Russia default contagion and LTCM
    - November 2001 volatile bond market
    - October 1987 stock market crash
  - Hypothetical scenarios due to shocks that have some probability of occurrence and are driven by macro fundamental shifts, for example:
    - Liquidity Crunch due to perception of increased risk (vs. return) by investors (e.g. Summer 2007)
    - Oil price jump due, for example, to a major supply disruption, with uncertainty on when production will return to its pre-shock levels. This shock is accompanied by stagflation fears which result in significant rate reductions by major central banks
    - Major shifts in the yield and spread curves such as steepening or flattening, or parallel shifts up or down
  - Other ad-hoc hypothetical scenarios

# Stress Testing

Risk  

- ◆ Of the 13 stress scenarios that we applied to our portfolio of trading positions as of December 31, 2007, the worst result was a trading loss of \$3.2bn
- ◆ Scenario losses do not consider client related revenues that we would expect to earn even in a period of high stress. We would expect client revenues for a quarter to more than offset a \$3.2bn revenue loss

## Revenue Impact on Trading Portfolio (\$Million)

Business	EMG Crisis	Rating / Default & HF Risk	HY / LBO / Default Risk	Equity Crash (1987)	Liquidity Crunch
Fixed Income	(1,747)	(1,387)	(1,653)	(779)	(1,824)
Equities	(330)	(116)	(202)	(172)	(193)
Investment Mgt / Principal Investing	(1,176)	(666)	(1,051)	(1,354)	(865)
12/31/07 Prime Services	49	31	31	44	(49)
Investment Banking	(6)	(2)	(6)	(16)	(4)
NON-CORE	(2)	(1)	(2)	(5)	(1)
<b>Firm Wide TOTAL</b>	<b>(3,212)</b>	<b>(2,142)</b>	<b>(2,884)</b>	<b>(2,282)</b>	<b>(2,936)</b>
<i>Month-on-Month Change</i>	<i>(443)</i>	<i>(208)</i>	<i>(349)</i>	<i>(409)</i>	<i>(403)</i>
11/30/07 Firm Wide TOTAL	<b>(2,769)</b>	<b>(1,934)</b>	<b>(2,535)</b>	<b>(1,873)</b>	<b>(2,534)</b>
08/31/07 Firm Wide TOTAL	<b>(2,551)</b>	<b>(1,756)</b>	<b>(2,671)</b>	<b>(2,941)</b>	<b>(2,087)</b>

- ◆ These represent revenue losses associated with potential market moves occurring over a two to four-week period. Stress tests do not include real estate and private equity positions

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## Appendix

- Fact sheets (Brokers & Banks)
- Details of equity overhang

# Annual Competitor Comparison – Investment Banks

(\$'s in billions, unless stated otherwise)

	Lehman Brothers			Goldman Sachs <sup>(1)</sup>			Bear Stearns			Morgan Stanley			Merrill Lynch		
	2007	2006	% Δ	2007	2006	% Δ	2007	2006	% Δ	2007	2006	% Δ	2007	2006	% Δ
<b>Financial Performance</b>															
Revenue	\$ 19.3	\$ 17.6	10%	\$ 46.0	\$ 37.7	22%	\$ 5.9	\$ 9.2	-36%	\$ 28.0	\$ 29.8	-6%	\$ 11.3	\$ 33.8	-67%
Compensation <sup>(2)</sup>	9.5	8.7	10%	20.2	16.5	23%	3.4	4.3	-21%	16.6	14.0	18%	15.9	16.9	-6%
NPE	3.8	3.0	25%	8.2	6.6	23%	2.3	1.7	34%	8.0	6.8	19%	8.2	7.1	15%
Pre-tax Income	6.0	5.9	2%	17.6	14.6	21%	0.2	3.1	-94%	3.4	9.1	-62%	(12.8)	9.8	-231%
EPS	\$ 7.26	\$ 6.81	7%	\$ 24.73	\$ 19.69	26%	\$ 1.52	\$ 14.27	-89%	\$ 2.37	\$ 5.99	-60%	\$ (10.73)	\$ 7.17	-250%
<b>Performance Metrics</b>															
Common Stockholders Equity	21.4			39.7			11.8			30.2			27.6		
ROE	20.8%	23.4%	(2.6)pp	32.7%	32.8%	(0.1)pp	1.8%	19.1%	(17.3)pp	7.8%	23.8%	(16.0)pp	N/M	20.1%	
ROTE	25.7%	29.1%	(3.4)pp	38.2%	39.8%	(1.6)pp	N/M	N/M		N/M	N/M		N/M	N/M	
BVPS <sup>(3,4)</sup>	\$ 39.45	\$ 33.87	16%	\$ 90.43	\$ 72.62	25%	\$ 84.09	\$ 86.39	-3%	\$ 28.56	\$ 32.67	-13%	\$ 29.37	\$ 41.35	-29%
Headcount	28,556	25,936	10%	30,522	26,467	15%	14,153	13,566	4%	48,256	43,124	12%	64,200	56,200	14%
Compensation/Head (\$K's)	\$ 332	\$ 334	-1%	\$ 661	\$ 622	6%	\$ 242	\$ 320	-24%	\$ 343	\$ 324	6%	\$ 248	\$ 300	-17%
Comp & Benefit Ratio	49.3%	49.3%	(0.0)pp	43.9%	43.7%	+0.2pp	57.6%	47.1%	+10.5pp	59.1%	46.9%	+12.2pp	141.4%	49.9%	+91.4pp
NPE/Revenue	19.5%	17.1%	+2.4pp	17.8%	17.7%	+0.2pp	39.1%	18.8%	+20.3pp	28.7%	22.6%	+6.0pp	72.7%	21.0%	+51.7pp
Fixed NPE/Head <sup>(5)</sup>	106	97	9%	191	186	2%	148	119	24%	140	131	6%	112	108	4%
Variable NPE/Revenue <sup>(6)</sup>	4.5%	3.6%	+0.9pp	6.0%	5.3%	+0.7pp	4.7%	2.5%	+2.2pp	5.9%	4.4%	+1.5pp	12.6%	3.2%	+9.3pp
Pre-tax Margin	31.2%	33.6%	(2.4)pp	38.3%	38.7%	(0.4)pp	3.2%	34.1%	(30.9)pp	12.3%	30.5%	(18.2)pp	-114.1%	29.0%	(143.1)pp
<b>Writedowns</b>															
Writedown <sup>(7)</sup>	(2.5)			(1.5)			(2.6)			(10.6)			(26.4)		
Gain on Structured Notes <sup>(7,8)</sup>	1.3			0.2			0.6			0.8			1.9		
Net Writedown <sup>(7)</sup>	(1.2)			(1.3)			(2.0)			(9.8)			(24.5)		

<sup>(1)</sup> Goldman Sachs' comp figure in the first quarter of 2006 includes incremental non-cash expenses of \$237 million related to the adoption of SFAS 123-R

<sup>(2)</sup> Adjusting Bear Stearns full-year 2006 comp to exclude bonuses paid to the Executive Committee and the full-year 2007 comp to include the 2007 deferred equity stock award of \$720 million, comp becomes flat year-over-year and comp/head decreases by 4%

<sup>(3)</sup> 2006 BVPS for Morgan Stanley includes the impact of Discover

<sup>(4)</sup> BVPS for Bear Stearns, Morgan Stanley and Merrill Lynch are the latest reported figures. On a pro-forma basis including the conversion of the mandatory convertible issuances, the BVPS for these firms would be as follows \$86.16 (BSC), \$30.31 (MS), \$32.80 (MER)

<sup>(5)</sup> Headcount is based on a two point average of year end headcount

<sup>(6)</sup> Variable NPE represents expenses classified as brokerage & clearance fees in the press releases of these firms

<sup>(7)</sup> Writedowns and gains on structured notes reflect the impact of charges incurred during Q3 '07 and Q4 '07

<sup>(8)</sup> Gains on Structured Notes represent gains recognized in both Fixed Income and Equities for all firms

# Annual Competitor Comparison – Universal Banks <sup>(1)</sup>

<i>(\$'s in billions, unless stated otherwise)</i>	Lehman Brothers			JP Morgan			Citigroup		
	2007	2006	% Δ	2007	2006	% Δ	2007	2006	% Δ
<b>Financial Performance</b>									
Revenue	\$ 19.3	\$ 17.6	10%	\$ 26.8	\$ 25.6	5%	\$ 25.6	\$ 40.3	-36%
Compensation	9.5	8.7	10%	11.5	11.0	5%	N/A	N/A	
NPE	3.8	3.0	25%	7.1	6.5	10%	N/A	N/A	
Pre-tax Income	6.0	5.9	2%	7.7	8.1	-5%	(6.2)	14.0	-144%
EPS <sup>(2)</sup>	\$ 7.26	\$ 6.81	7%	\$ 4.38	\$ 3.82	15%	\$ 4.25	\$ 0.72	490%
<b>Performance Metrics</b>									
Common Stockholders Equity	21.4			24.9			47.9		
ROE <sup>(2)</sup>	20.8%	23.4%	(2.6)pp	13.0%	12.0%	+1.0pp	2.9%	18.8%	(15.9)pp
ROTE <sup>(2)</sup>	25.7%	29.1%	(3.4)pp	21.0%	20.0%	+1.0pp	N/A	N/A	
BVPS <sup>(2)</sup>	\$ 39.45	\$ 33.87	16%	\$ 36.59	\$ 33.45	9%	22.74	24.18	-6%
Headcount	28,556	25,936	10%	40,342	37,027	9%	N/A	N/A	
Compensation/Head (\$K's)	\$ 332	\$ 334	-1%	\$ 285	\$ 296	-4%	N/A	N/A	
Comp & Benefit Ratio	49.3%	49.3%	(0.0)pp	42.9%	42.8%	+0.0pp	N/A	N/A	
NPE/Revenue	19.5%	17.1%	+2.4pp	26.5%	25.3%	+1.2pp	N/A	N/A	
Fixed NPE/Head <sup>(3)</sup>	106	97	9%	N/A	N/A		N/A	N/A	
Variable NPE/Revenue <sup>(4)</sup>	4.5%	3.6%	+0.9pp	N/A	N/A		N/A	N/A	
Pre-tax Margin	31.2%	33.6%	(2.4)pp	28.7%	31.8%	(3.0)pp	-24.2%	34.8%	(58.9)pp
<b>Writedowns</b>									
Writedown <sup>(5)</sup>	(2.5)			(2.9)			(21.8)		
Gain on Structured Notes <sup>(5,6)</sup>	1.3			0.7			0.5 <sup>(7)</sup>		
Net Writedown <sup>(5)</sup>	(1.2)			(2.2)			(21.3)		

<sup>(1)</sup> Numbers are 'comparable firm' unless noted otherwise

<sup>(2)</sup> Full Firm

<sup>(3)</sup> Headcount is based on a two point average of year end headcount

<sup>(4)</sup> Variable NPE represents expenses classified as brokerage & clearance fees in the press releases of these firms

<sup>(5)</sup> Writedowns and gains on structured notes reflect the impact of charges incurred during Q3 '07 and Q4 '07

<sup>(6)</sup> Gains on Structured Notes represent gains recognized in both Fixed Income and Equities for all firms

<sup>(7)</sup> Citigroup only disclosed gains on structured notes in Q3 '07

# Equity Overhang

Capital Plan

- ◆ Over time, the Firm has been reducing the equity award overhang
- ◆ In 2007, our equity award overhang increased to 10.4% from 8.5%. This reflects the acceleration of share repurchases in 2006 and the subsequent reversal
- ◆ In 2008, we project our equity overhang to be 11.1%; this is driven mainly by an increase in the award granted this year and a slowdown in option exercises
- ◆ Contemplated changes in the Firm's equity award plan may affect equity overhang going forward

## Equity Overhang

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Forecast 2008
RSUs Outstanding	128.5	120.4	100.4	117.9	142.4
Options Outstanding	<u>147.1</u>	<u>101.8</u>	<u>81.4</u>	<u>65.6</u>	<u>45.8</u>
Gross Shares in Overhang	275.6	222.2	181.8	183.5	188.2
Shares in RSU Trust	<u>(77.7)</u>	<u>(69.1)</u>	<u>(64.7)</u>	<u>(72.5)</u>	<u>(85.2)</u>
<b>Net Shares in Overhang</b>	<b>197.8</b>	<b>153.1</b>	<b>117.1</b>	<b>111.0</b>	<b>103.1</b>
Option Proceeds	(97.6)	(50.6)	(36.8)	(36.0)	(21.2)
Tax Benefit from Options	(19.8)	(20.4)	(17.8)	(11.8)	(9.8)
Tax Benefit from RSUs	<u>(13.5)</u>	<u>(18.8)</u>	<u>(16.5)</u>	<u>(7.0)</u>	<u>(11.8)</u>
Total Adjustments	(130.8)	(89.9)	(71.2)	(54.9)	(42.9)
<b>Adjusted Shares in Overhang</b>	<b>67.0</b>	<b>63.1</b>	<b>46.0</b>	<b>56.1</b>	<b>60.2</b>
Basic EPS Shares Outstanding	549.4	556.3	543.0	540.6	544.6
Gross Overhang	50.2%	39.9%	33.5%	34.0%	34.6%
Net Overhang	36.0%	27.5%	21.6%	20.5%	18.9%
<b>Adjusted Overhang</b>	<b>12.2%</b>	<b>11.3%</b>	<b>8.5%</b>	<b>10.4%</b>	<b>11.1%</b>
Exercisable Options	68.7	52.6	54.6	51.7	39.0
Wavg Strike Price	\$24.67	\$27.65	\$30.12	\$30.24	\$30.00