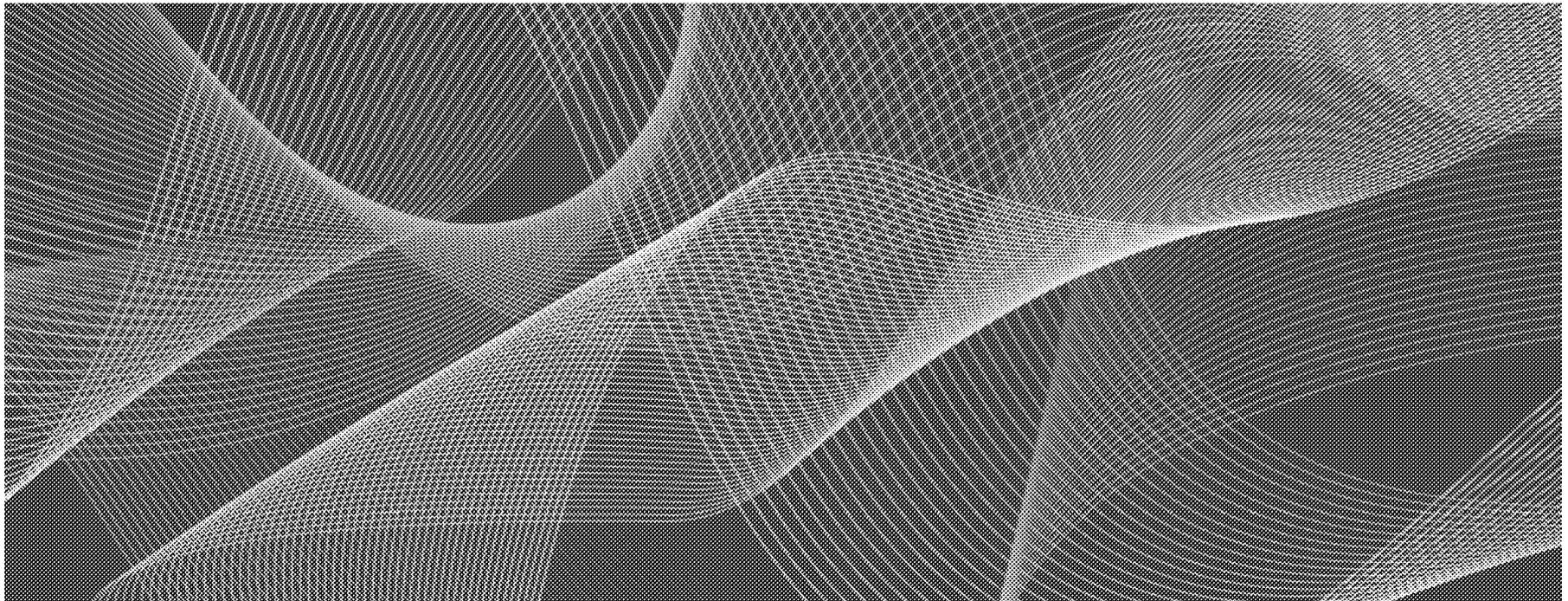


ECB Strategy



Confidential Presentation

Executive Summary

- ◆ Bankhaus is expected to have €8.8bn (\$13.75bn) repoed with the ECB at the end of June. This makes the ECB a very significant repo counterparty

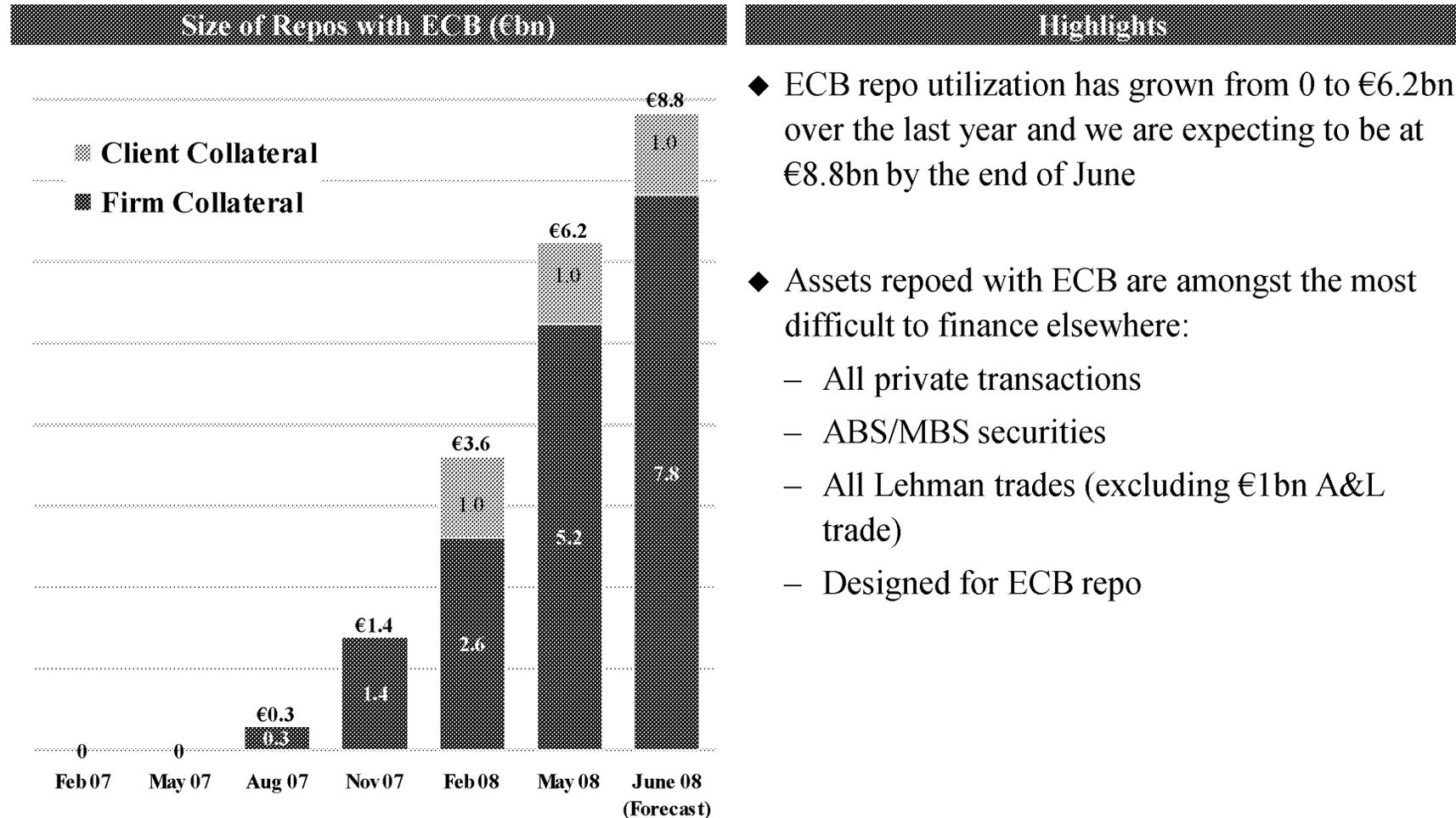
- ◆ Whilst Lehman is doing everything correctly, there are a few areas of concern:
 - All the collateral we are posting is ABS/MBS for which currently there is no external pricing
 - All transactions are private deals designed to be repoed with the ECB
 - We are getting from the ECB 98% cash value from this collateral, a level difficult to accept by market counterparties

- ◆ The size of repos with the ECB needs to be carefully assessed to:
 - Balance Lehman financing needs vs. raising too much attention at the ECB. Whilst there is no technical limit to our participation with the ECB a large size will force the ECB to look carefully at us as counterparty and at the collateral we are using in repo. This might risk rejection of certain asset classes and increase of haircuts (in addition to any reputational issue)
 - Ensure the overall leverage Bankhaus has is acceptable to GDPF and Bafin/ Bundesbank

- ◆ We recommend:
 - **The size of ECB repos not to exceed €14bn.** This is likely to place us just below the top 10 participants.
 - Create **liquidity pool** with cash generated from ECB in excess of collateral valuation.
 - **Increase Bankhaus Equity base by \$0.5bn** to maintain Bankhaus' Gross Leverage ratio at 25x Tier 1 Capital

We have grown ECB repos to €8.8bn

The ECB has become one of our most important repo counterparties

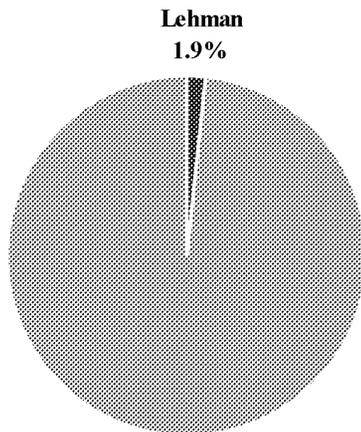


- ◆ ECB repo utilization has grown from 0 to €6.2bn over the last year and we are expecting to be at €8.8bn by the end of June
- ◆ Assets repoed with ECB are amongst the most difficult to finance elsewhere:
 - All private transactions
 - ABS/MBS securities
 - All Lehman trades (excluding €1bn A&L trade)
 - Designed for ECB repo

Lehman has become a significant ECB counterparty

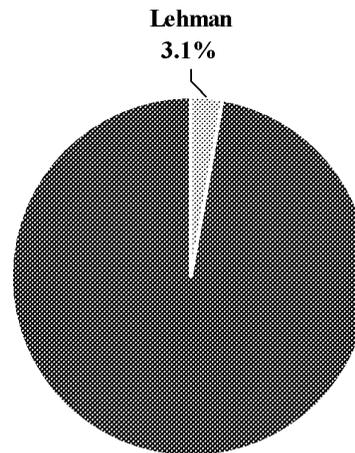
Lehman Share of ECB Repo

- ◆ Lehman at €8.8bn (expected at the end of June) will have a 1.9% share of the total amount of ECB repo of €455bn (excluding € 150bn of o/n tenders)



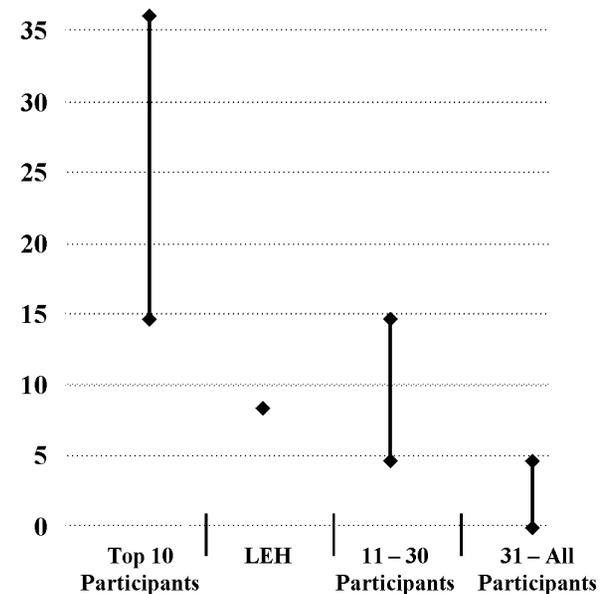
Lehman Share of ABS Repo

- ◆ Given 100% of our repos are ABS, Lehman represents 3.1% of the estimated ABS outstanding at ECB (€280bn)



Lehman Relative Size

- ◆ Based on conversations with ECB the top 10 counterparties at ECB have sizes between €15 –35bn
- ◆ LEH is a “Tier 2” counterparty, qualifying in the Top 30



And German regulators are also focused on repo activities

- ◆ The GDFP and Bafin continue to monitor Bankhaus repo levels:
 - In its final audit report published in September 2007, based on May 2007 data, the GDFP expressed concern about the size of Bankhaus' repo book relative to its capital base, without providing details
- ◆ The recent substantial increase in both outright and ECB back-to-back repo volumes will require careful explanation to GDFP and Bafin/ Bundesbank
 - Bankhaus will have to submit a regulatory update report on the size and composition of its repo activities as of 31st May 2008
- ◆ But this is mitigated by strong capital position:
 - The report acknowledged the consistently strong regulatory capital ratio in the range of 11%-13%
 - Since May 2007, the regulatory capital of Bankhaus has increased to €1,120mm from €835mm
 - Following recent loan sales in the context of CLO/ABS securitizations and the phase out of SPML/PML warehouse financing, the regulatory capital ratio is even higher at 17.1%
- ◆ Our mitigation strategy will revolve around maintaining some key ratios (see appendix for comparison to other German banks):

Ratio	Guideline	Current Level
Outright Repo/ Total Capital	Keep at current levels = 6x	5.4x
(Outright Repo + Outright Loans)/ Tier 1 Capital	Keep at current levels = 15x	12.8x
Gross Leverage Ratio	Consistent to LBHI level = 25x currently	23.8x

Our ECB strategy must mitigate key risks

	OBJECTIVE	STRATEGY
SIZE OF REPO	<ul style="list-style-type: none"> ◆ Transact repos with ECB at a level which balances: <ul style="list-style-type: none"> – Lehman financing needs vs. – Raising too much attention at the ECB ◆ Size overall Bankhaus repo book to maintain GDPF comfortable 	<ul style="list-style-type: none"> ◆ Maintain Lehman as Tier 2 counterparty (below top 10) ◆ Limit LEH share of ECB ABS population to <5% ◆ Maintain Bankhaus leverage ratios consistent to LBHI ratios ~ 25x
COLLATERAL VALUATION	<ul style="list-style-type: none"> ◆ Minimise risk of ECB getting concerned with collateral valuation 	<ul style="list-style-type: none"> ◆ Attain independent valuations for collateral ◆ Use conservatively cash raised with ECB in excess of independent valuation
ALTERNATIVE FINANCING	<ul style="list-style-type: none"> ◆ Mitigate impact of any collateral being rejected at the ECB 	<ul style="list-style-type: none"> ◆ Establish clear roll-over limits ◆ Find external counterparties for each asset
ECB COMMUNICATION	<ul style="list-style-type: none"> ◆ Create good connectivity at ECB 	<ul style="list-style-type: none"> ◆ Establish consistent dialog at different levels of ECB organisation

Repo size should be below €14bn

- ◆ A sensible set of targets would:
 - Maintain Lehman as Tier 2 counterparty (below top 10)
 - Maintain Bankhaus leverage ratios consistent to LBHI ratios (Gross Leverage ~25x Tier 1 Capital)
 - Limit LEH share of ECB ABS population to <5%

- ◆ Simulating for different sizes of Repo:

Size of ECB Repo (€ Bn)	ECB Repo Ranking	Share of ECB ABS	To maintain 25X Gross Leverage either:	
			a) Displace CMPS Repo	b) Inject Equity
8	> Top 30	2.9%	\$3.9bn	\$0.2bn
10	Top 30	3.4%	\$7.1bn	\$0.3bn
12	Top 30	4.1%	\$10.2bn	\$0.4bn
14	Top 20	4.8%	\$13.2bn	\$0.5bn
20	Top 10	7.7%	\$23bn (\$10.4bn shortfall)	\$0.9bn
25	Top 10	8.9%	\$31bn (\$18.4bn shortfall)	\$1.2bn

- ◆ **Target <€14bn. This will require a \$0.5b capital injection in time**

We have established good connectivity

ECB	LEH	OUTCOME
<ul style="list-style-type: none"> ◆ TRICHET – President 	<ul style="list-style-type: none"> ◆ FULD: Met May 14 ◆ CALVET: Knows him well 	<ul style="list-style-type: none"> ◆ Great first meeting. ◆ Good point of touch if we ever have an issue
<ul style="list-style-type: none"> ◆ GONZÁLEZ-PÁRAMO: – Board member overall responsible for market operations (to whom Papadia reports) 	<ul style="list-style-type: none"> ◆ SAVORET: Met Jun 6 ◆ DE GUINDOS: Long term deep relationship ◆ PELLERANI: Met Jun 6 	<ul style="list-style-type: none"> ◆ Good personal connectivity ◆ Broad debate on regulation and systemic risk
<ul style="list-style-type: none"> ◆ PAPADIA: – Head of Open Market Operations 	<ul style="list-style-type: none"> ◆ PELLERANI: 3 conference calls (May 08 last) plus one meeting in person (Nov 08) ◆ OLIVIER: conference call May 08 	<ul style="list-style-type: none"> ◆ Fluid conversation, good relationship ◆ Helped assess right size of participation
<ul style="list-style-type: none"> ◆ KOTZ – Bundesbank Council Member and Head of Open Market Operations 	<ul style="list-style-type: none"> ◆ OLIVIER ongoing contact, next meeting scheduled mid June 	<ul style="list-style-type: none"> ◆ TBA

Next Steps

- ◆ Get GDPF and Bafin comfortable with Bankhaus leverage ratios and activity (underway) Olivier
- ◆ Use BONY to attain independent pricing for collateral Azerad
- ◆ Create Liquidity pool with cash generated from ECB that is in excess of external valuations. Invest this in reverse repos from LEH entities with collateral where we have excess capacity in Triparty Glaser
- ◆ Find external counterparties and repo small chunks of assets with them Goldband

Appendix: Gross Leverage Ratios

- ◆ Defined as total assets divided by shareholders' equity (Tier 1 Capital)
- ◆ Bankhaus limit in gross leverage ratio to be equivalent to LBHI's ratio

Gross Leverage Ratios	May 08 Month End	May 08 incl. €14bn ECB Repo	May 08 incl. €14bn ECB Repo & \$0.5bn Equity Injection
LB Bankhaus	23.8	31.9	22.5
LBHI	27.3		
Commerzbank*	36.8		
LBBW*	26.2		
HRE*	22.9		

- ◆ * based on year end 2007