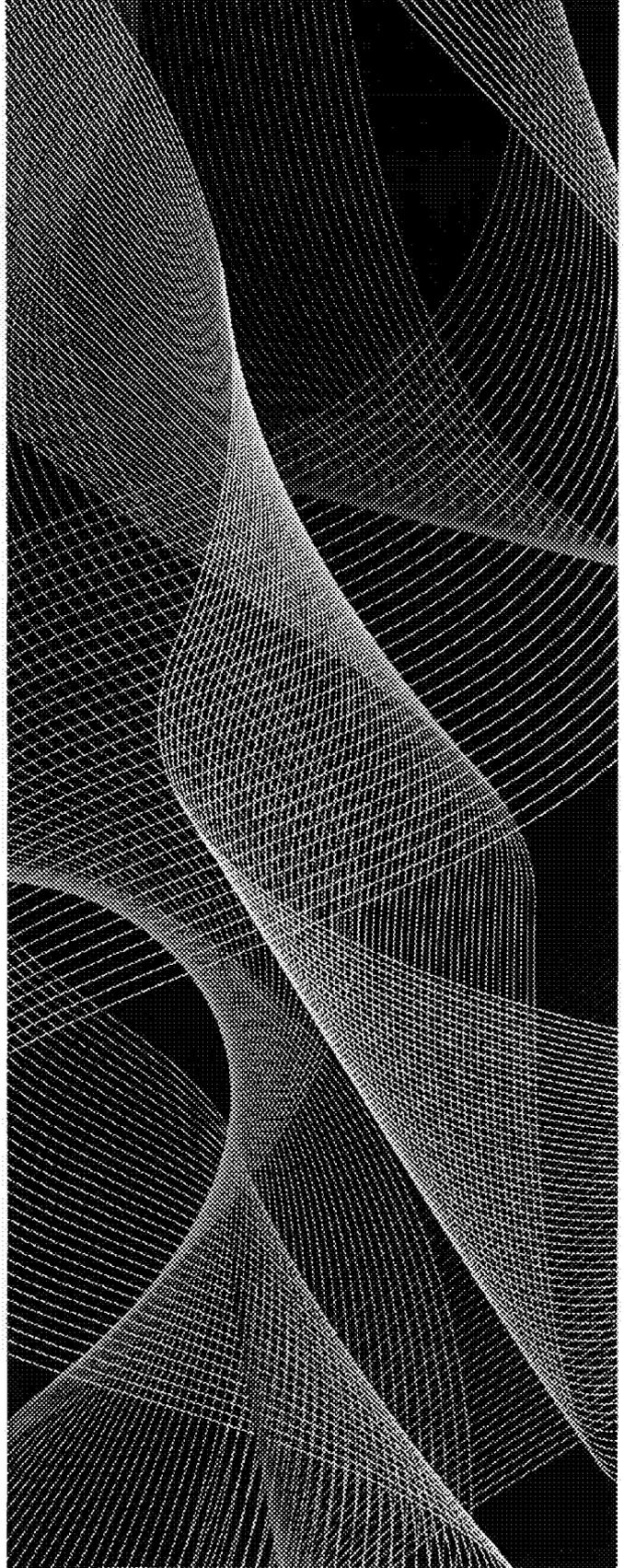


LEHMAN BROTHERS

July 30, 2008

# Business and Financial Review Q2 2008



Confidential Presentation

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## Executive Summary

**Despite a loss of \$2.8 billion, the actions taken by Lehman in Q2 '08 have resulted in the strongest capital and liquidity positions the Firm has ever had**

- ◆ The issuance of \$5.9 billion of preferred equity in H1 2008 and \$6.0 billion of equity capital in June, combined with the active de-leveraging and de-risking of the balance sheet (\$147 billion reduction in gross and \$69 billion reduction in net assets), result in an estimated net leverage ratio of 10.1x (pro forma Q2 '08), down from 15.4x in Q1 '08

*Does this assume discount window?*

- ◆ Liquidity Pool stood at a record \$45 billion at the end of Q2 '08 (up from \$34 billion in Q1 '08)

- Increased coverage of short-term debt of 1.3x, up from 1.0x in Q1 '08
- Cash Capital Surplus of \$15 billion as of Q2 '08

*Holding Co only. Not Fed window*

- ◆ Lehman also made several organizational changes on June 12<sup>th</sup> and June 24<sup>th</sup> designed to strengthen the organization and improve external credibility

- Bart McDade was appointed Lehman's new President and COO. He has a proven track record of success in building and leading businesses in IBD, Fixed Income and Equities
- Ian Lowitt was appointed Lehman's new CFO. He brings significant experience to the position as our former Global Treasurer and Finance already reported to Ian in his capacity as co-CAO
- Mike Gelband rejoined Lehman as Global Head of Capital Markets. During his prior tenure at Lehman, he held several senior roles, most recently as Global Head of Fixed income from 2005 to 2007.
- Alex Kirk rejoined Lehman as Global Head of Principal Investments. He most recently served as co-Chief Operating Officer for the Fixed Income Division and Head of Global Credit Products.

*Very close to the business details.*

*Came back to Bart's new role*

- Shut down RMBS origination business  
 - thinks CMB5 bus will come back

## Executive Summary, continued

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### We believe that Lehman's core underlying franchise remains as strong as ever

- Sales activity within capital markets has remained at levels comparable with 2007, and in many key businesses such as rates, we have seen sizeable increases
- Investment banking has taken market share and been awarded a number of marquee mandates, including in June and July (p. 24 & 25)
- Investment management has continued to grow in the highest margin products and has won key mandates in the past few weeks (p. 26)
- Prime broker activity has increased profitability. Balances have been reduced as we have changed the financing terms to clients that were not generating sufficient profitability. This has reduced financing needs and increased the returns of the business
- Financing activity has remained consistent. The same clients that were funding us before March are still funding us  
*State St, Bond/Mellan, Darden, money mgmt firms,*
- 7 - NPE continues to be aggressively managed

*Discuss negatives re current business/rev.*

---

# Q2 '08 Performance Driven by Several Factors

Excluding the impact of writedowns and select idiosyncratic items, the quarterly run rate was \$4.2 billion.

*GLA - hurt by this hedge fund inv't.*

## Q2 '08 Net Revenues (In Billions)

	Q2 2008
Revenue Run-Rate	\$ 4.2
Losses:	
Net Mark to Market Adjustments	\$ 3.7
Credit & Rate Positions	\$ 0.7
Principal investments	\$ 0.5
<b>Net Revenues</b>	<b>\$ (0.7)</b>

*Hurt by bon hedges):*  
*- short end of curve up*  
*- spreads tightened*

## Mark to Market Adjustments (In Billions)

	Feb 29, 2008		May 31, 2008	
	Gross	Net	Gross	Net <sup>1</sup>
Residential mortgage-related positions	\$(3.0)	\$(0.8)	\$(2.4)	\$(2.0)
Other asset-backed related positions	(0.2)	(0.1)	(0.4)	(0.4)
Commercial mortgage and RE-related investments <sup>2</sup>	(1.4)	(1.0)	(0.9)	(1.3)
Acquisition finance facilities (unfunded and funded)	(0.7)	(0.5)	(0.3)	(0.4)
<b>Subtotal</b>	<b>\$(5.3)</b>	<b>\$(2.4)</b>	<b>\$(4.0)</b>	<b>\$(4.1)</b>
Valuation of debt liabilities <sup>3</sup>	0.6	0.6	0.4	0.4
	<b>\$(4.7)</b>	<b>\$(1.8)</b>	<b>\$(3.6)</b>	<b>\$(3.7)</b>

<sup>1</sup> The net impact represents the remaining impact from the components after deducting the impact of certain minimum risk mitigation strategies. Certain balances in our do not reflect the impact of contingent hedges.

<sup>2</sup> Included within this category are valuation adjustments attributable to commercial mortgage-related positions, equity investments in real estate companies and debt and equity securities in records of fund and related physical property.

<sup>3</sup> Represents the amount of gains on debt liabilities for which the fair value is less than \$0.15 per \$100. These gains represent the effect of changes in the firm's credit spread and include any income income or support as well as any gains or loss from the credit-risk derivatives components of these investments. Changes in valuation are allocated to the businesses in relation to the cash generated by, or funding requirements of, the underlying positions.

**Capital Adequacy**

# \$11.9 Billion of Capital Raised in 2008...

## \$1.9 B Preferred Stock

- ◆ Issued in February 2008
- ◆ Non-Cumulative Dividends at 7.95%, Perpetual
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital

## \$4.0 B Convertible Preferred Stock

- ◆ Issued in April 2008
- ◆ Non-Cumulative Dividends at 7.25%, Perpetual
- ◆ Initial Conversion Rate 20.0509 per share, equivalent to \$49.87 strike per share
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital
- ◆ More than three times over subscribed

*If 50% change of control, they can convert at the deal price*  
*Capped at ~ 200mm shares*

## \$4.0 B Common Equity

- ◆ Issued in June 2008
- ◆ 143 million shares of common stock
- ◆ Public Offering price \$28 per share
- ◆ Included as CSE Equivalent Tier 1 Capital

## \$2.0 B Convertible Preferred Stock

- ◆ Issued in June 2008
- ◆ Non-Cumulative Mandatory Convertible Dividends at 8.75%
- ◆ Initial Conversion Rate between 30.2663 and 35.7142 per share at \$33.04 - \$28.00
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital

*mostly part shes, not stock options recently*

*700mm shs  
 80mm \$ mandatory convert  
 employees own ~ 25% of 700mm shs*

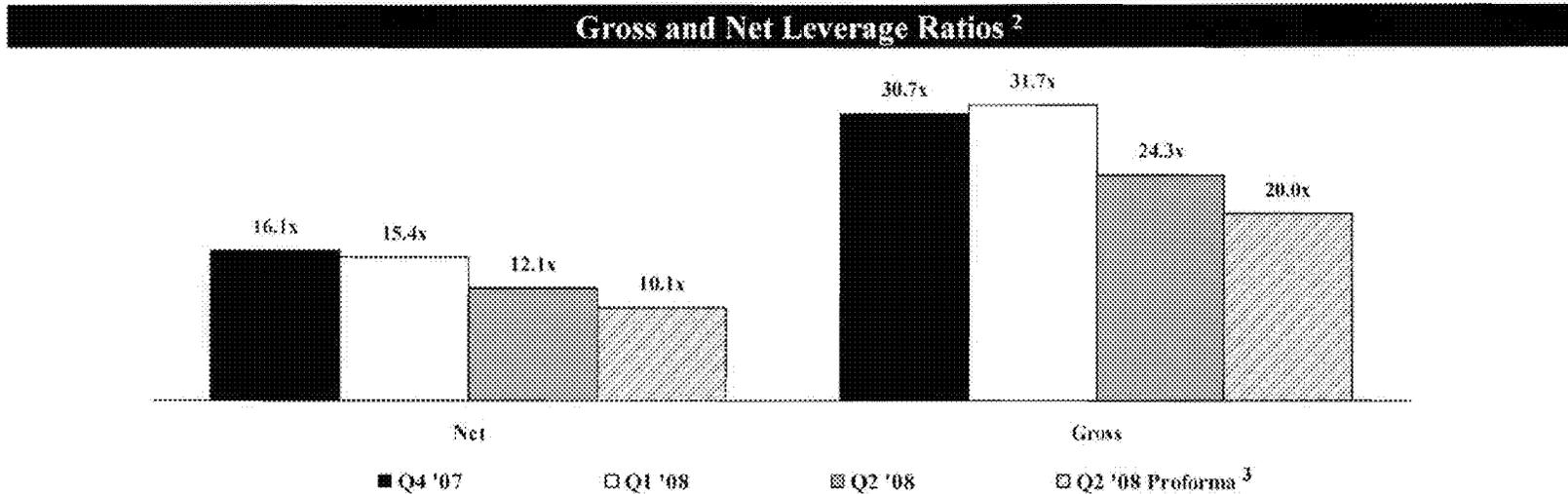
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# ...As Well As Shrinkage of the Balance Sheet...

Net balance sheet was \$69 billion lower than Q1 '08, and gross balance sheet was \$147 billion lower

Gross and Net Balance Sheet				
\$ billions	Actual Q4 '07	Actual Q1 '08	Actual Q2 '08	Reduction Q2 '08 vs. Q1 '08
Net Assets <sup>1</sup>	373	397	328	(69)
Gross Assets	691	786	639	(147)
Leveragable Equity	23	26	27	

*why up?*  
*firm kept growing thru Q1 '08.*



1. Net assets exclude from total assets: (i) cash and securities segregated and on deposit for regulatory and other purposes; (ii) collateralized lending agreements; and (iii) identifiable intangible assets and goodwill. Net assets as presented are not necessarily comparable to similarly-titled measures provided by other companies in the securities industry because of different methods of presentation.

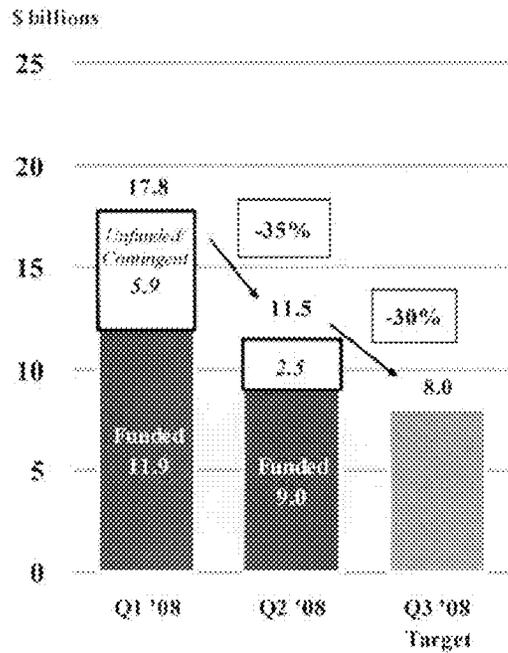
2. Net leverage ratio is defined as net assets divided by tangible equity capital. We believe net leverage based on net assets to be a more useful measure of leverage, because it excludes certain low-risk, non-inventoried assets and utilizes tangible equity capital as a measure of our equity base. Net leverage as presented is not necessarily comparable to similarly-titled measures provided by other companies in the securities industry because of different methods of presentation.

3. Proforma Q2 '08 includes \$6.0 billion capital raise in 6/9/08 and \$6.0 billion increase in assets.

# ...Including Positions in High-Risk Assets...

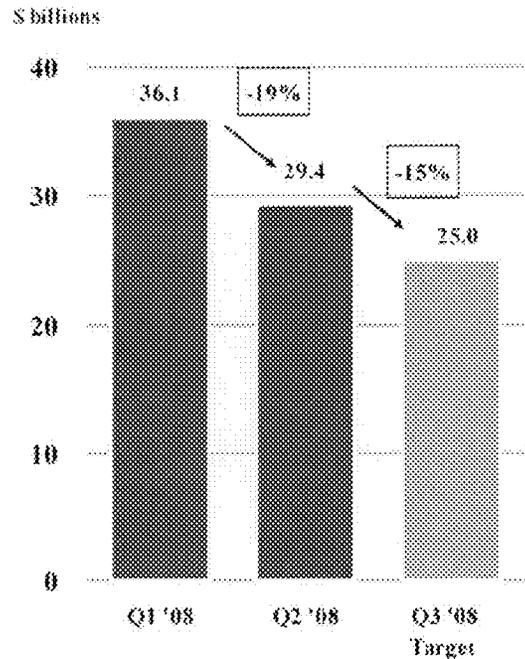
Lehman Brothers continues to reduce the Firm's key Risk positions in the Fixed Income arena

## High Yield Acq Financing



- ◆ Steady progress in selling/syndicating
- ◆ Non-traditional buyers account for 73% of sales in 2008

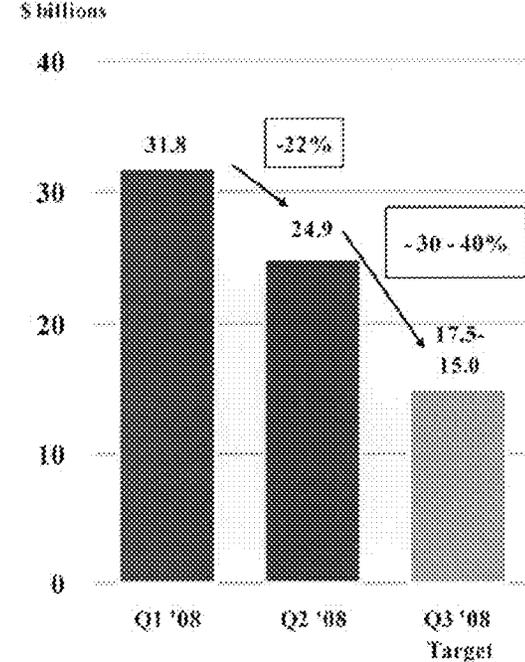
## Commercial Mortgages



- ◆ Sales have been focused on largest exposures

*Mark & Sales*

## Residential Mortgages

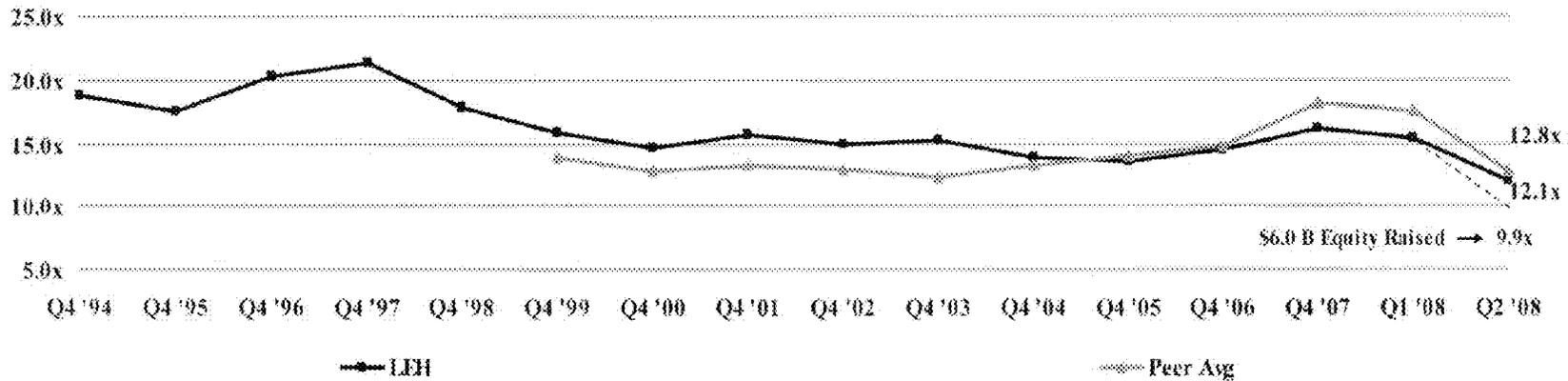


- ◆ Includes whole loans & securities in ~ 40: 60 proportion

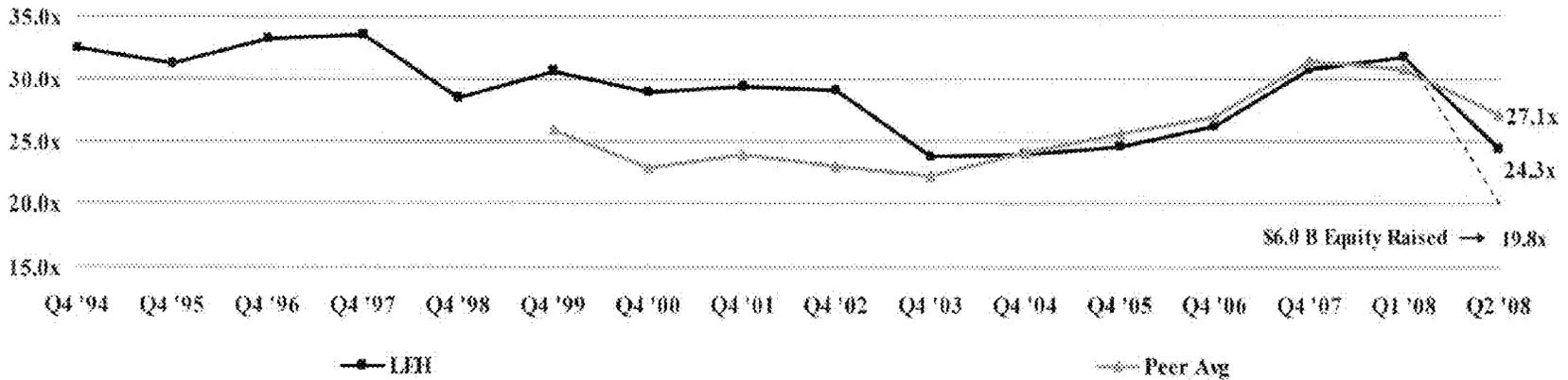
# ...Result in Historically Low Leverage Levels

Lehman ended Q2 '08 with the lowest leverage ratios in its history as a public company

**Lehman versus Peers Net Leverage <sup>1,2</sup>**



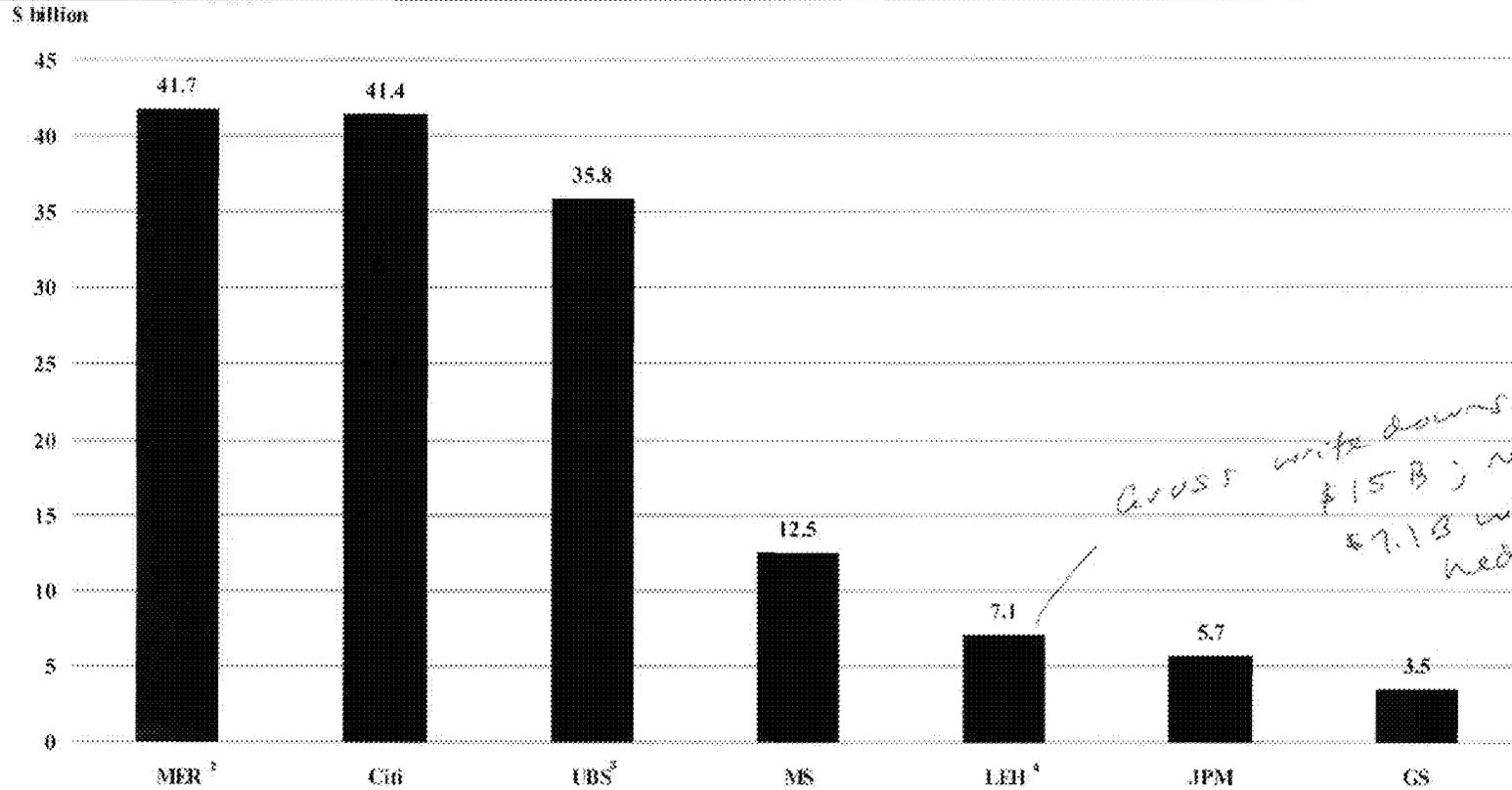
**Lehman versus Peers Gross Leverage <sup>1,2</sup>**



<sup>1</sup> Peers include GS, MS, MIB & BNY through Q1 '08. In Q2 '08, peers include GS, MS & MIB.  
<sup>2</sup> Gross & Net Peer Average for Q2 '08 includes actual GS and MS.

# Lehman's Net Writedowns Have Been Lower Than Some Competitors

**Net Writedowns<sup>1</sup> Q3 '07 – Q2 '08**



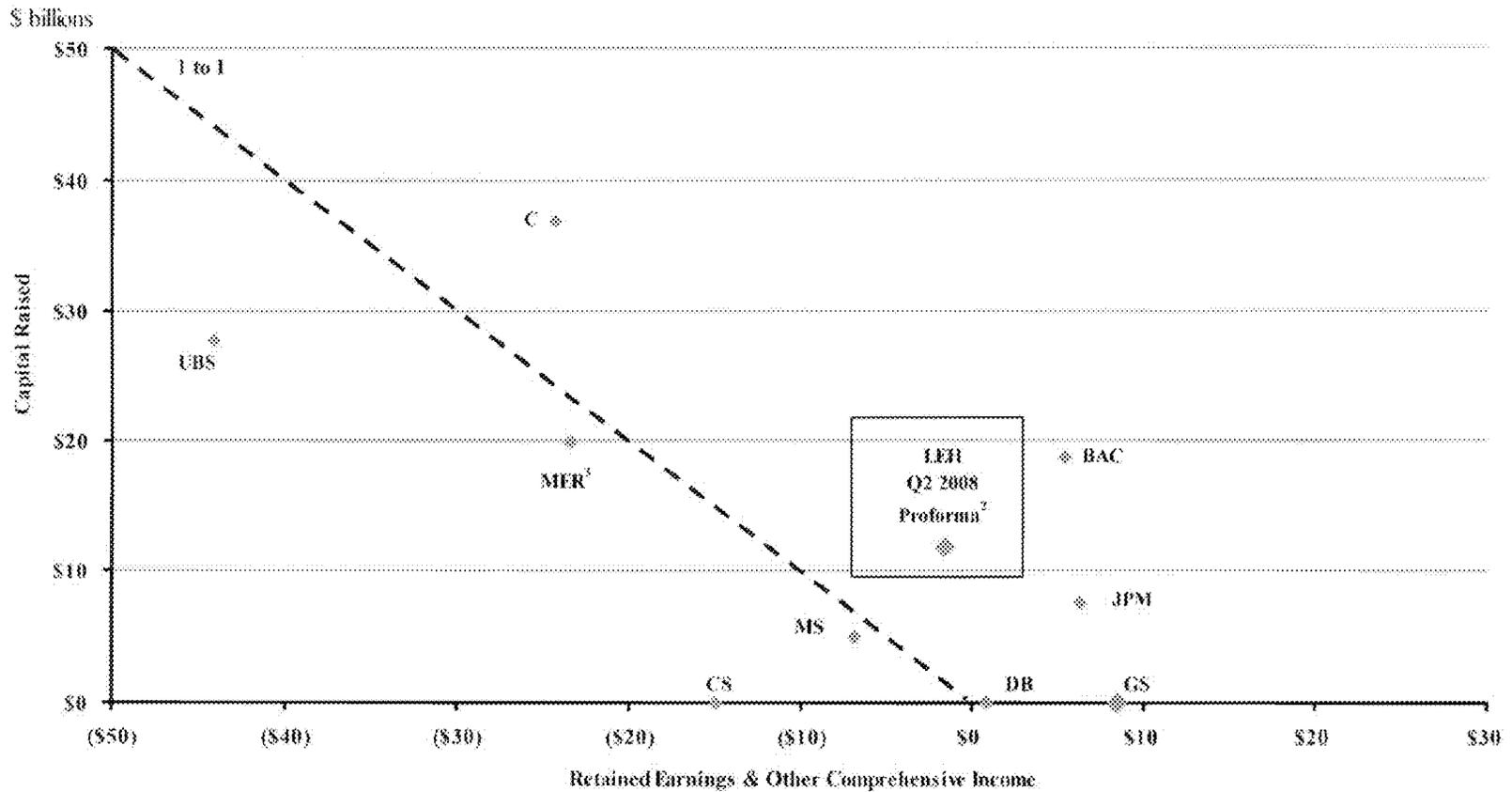
% of Shareholder's Equity	MER <sup>2</sup>	Cit	UBS <sup>3</sup>	MS	LEH <sup>4</sup>	JPM	GS
	106%	30%	157%	36%	22%	4%	8%

1. Includes all asset classes, including leverage loans, residential and commercial real estate / mortgages, CDOs and monolines plus gains on structured debt facilities.  
 2. MER equity as of Q3 '08 - After tax gain on sale of Bloomberg (\$2.7B) and FDS (\$1.8B).  
 3. UBS as of Q1 '08.  
 4. LEH equity as of Q2 '08 = \$6.0B Equity Base.

# ...And Capital Raised More than Offsets Impact of Writedowns

The Firm has proactively raised capital to offset the impact of writedowns

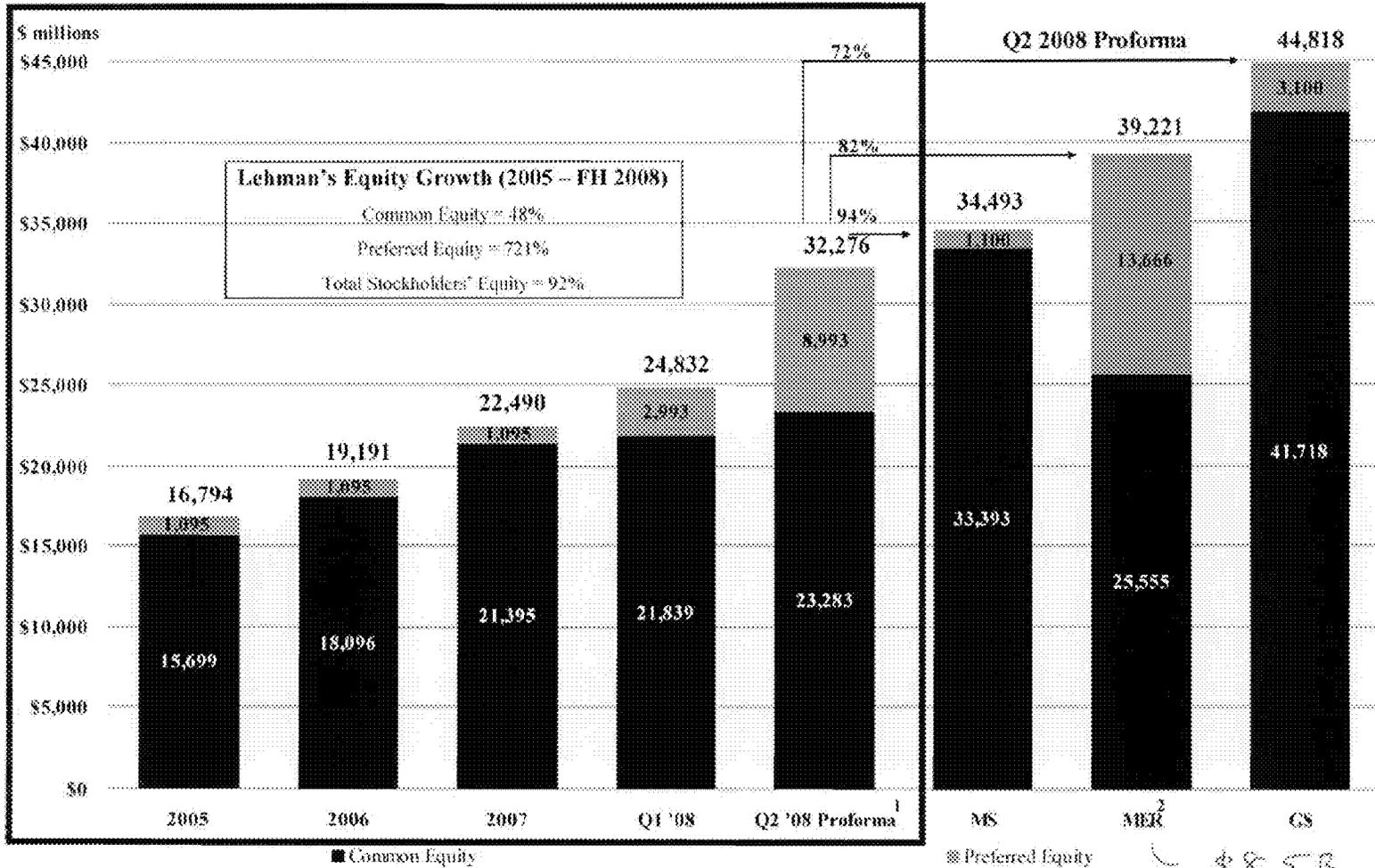
**Capital Raised versus Retained Earnings and Other Comprehensive Income Q3 '07 to Q2 '08<sup>1</sup>**



1. LEH, GS, MS, MCH as of Q2 '08  
 2. LEH equity as of Q2 '08 + \$6.0B Equity Raise  
 3. MER equity as of Q2 '08 - After its gain on sale of Bloomberg (\$2.7B) and FDS (\$1.8B)

# ...And Drives Significant Growth in Shareholder's Equity

## Total Shareholders' Equity



Shareholders' Equity includes Common + Preferred Equity  
 1. LHM equity as of Q2 '08 = \$4.0B common and \$2.0B preferred equity  
 2. MER equity as of Q2 '08 = After tax gain on sale of Bloomberg (\$2.7B) and FDS (\$1.8B)

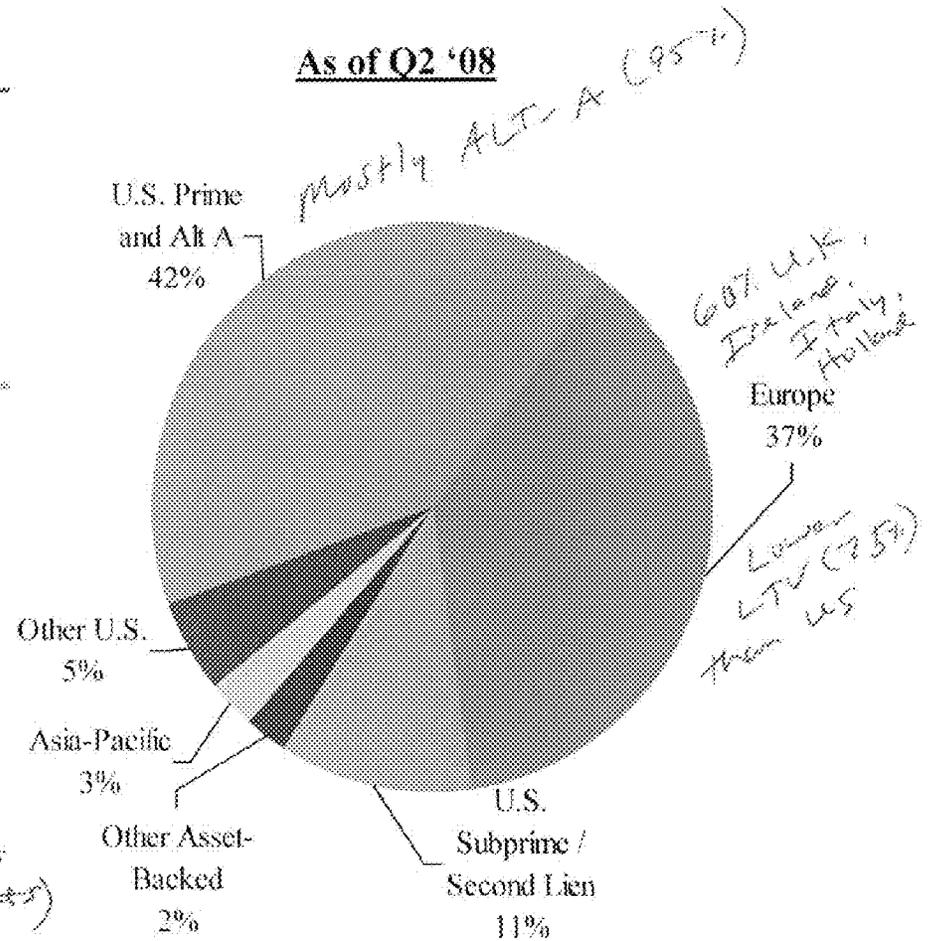
\$8.5B  
 available in  
 Common;  
 \$2.4B Taxnet  
 etc make whole

# Substantial Reduction in Residential Real Estate Inventory

## Aggregate Residential Mortgage-Related Inventory

In \$ Billions	Q4 '07	Q1 '08	Q2 '08
U.S. Prime and Alt A	12.7	14.6	10.2
Europe	10.2	9.5	9.3
Asia-Pacific	0.5	0.7	0.7
U.S. Subprime/Second Lien	5.3	4.0	2.8
Other Asset-Backed - CDO's	1.1	0.9	0.6
Other U.S.	2.3	2.1	1.3
Current Mark to Market	32.1	31.8	24.9

As of Q2 '08



- ◆ Reduction in overall residential mortgage related exposure by 22% versus Q1 '08
- ◆ Reduction of 31% for both US Prime/Alt A and Subprime/Second Lien versus Q1 '08

*Handwritten notes:*  
 Helps get good marks } \$11B sales  
 - 6 purchases (making mkt's for clients)  
 \$5B net sales

was part of the CMBS machine that they got ~~stuck~~ stuck with.

## ...As Well As Commercial Real Estate Inventory...

### Aggregate Commercial Mortgage Related-Inventory

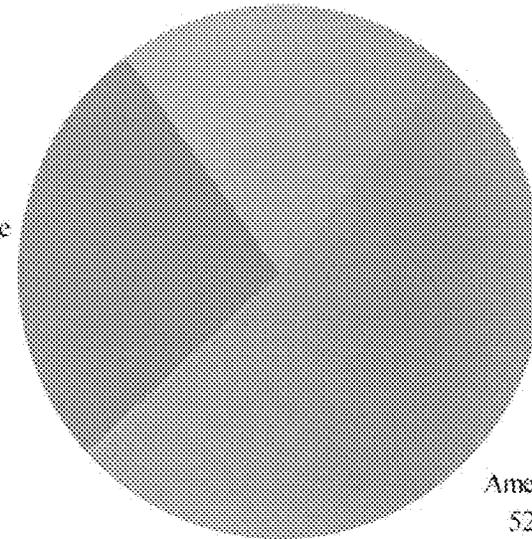
In \$ Billions	Q4 '07	Q1 '08	Q2 '08
Whole loans	26.2	24.9	19.9
Securities & Other	12.7	11.2	9.5
Real Estate held for sale <sup>1</sup>	12.8	12.9	10.4
Current Mark to Market	51.7	49.0	39.8

As of Q2 '08

Asia-Pacific  
21%

Europe  
27%

Americas  
52%



- ◆ Commercial real estate inventory is well diversified
  - \$20.9 billion in Americas
  - \$10.7 billion in Europe
  - \$8.2 billion in Asia
- ◆ Reduction in overall commercial real estate related exposure by 19% versus Q1 '08 (includes Real Estate Held for sale).
- ◆ Weighted average LTV of senior whole loans is 76% and mezzanine whole loans is 78%
- ◆ 94% of securities are investment grade

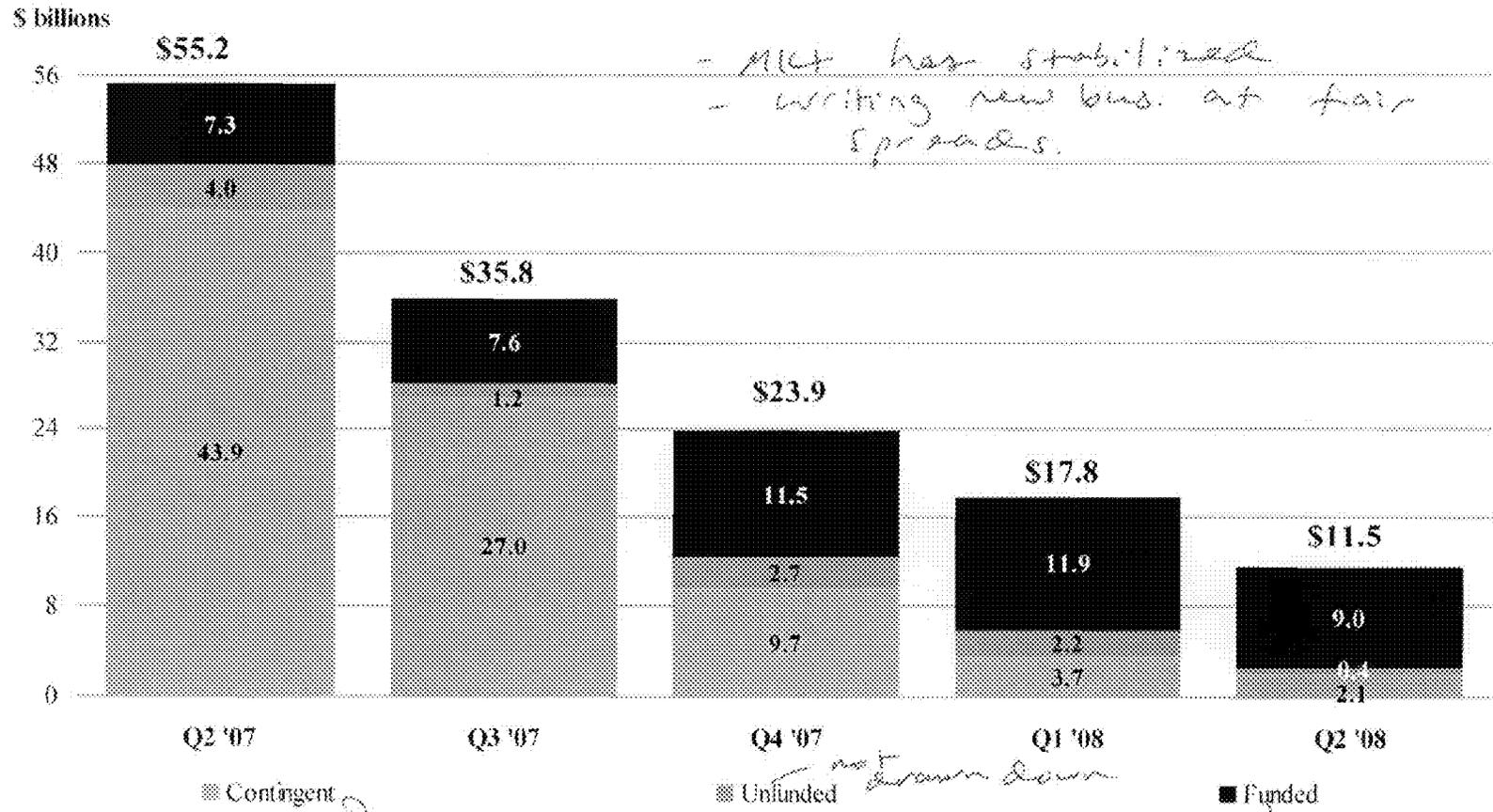
Goal: \$5B/Qtr in sales

<sup>1</sup> These positions are reflected within Real Estate held for sale and are accounted for at the lower of its carrying amount or fair value less cost to sell. The Company makes equity and debt investments in entities whose underlying assets are real estate held for sale. The Company consolidates those entities in which we are the primary beneficiary in accordance with FAS No. 46 (R) Consolidation of Variable Interest Entities (revised December 2003) - an interpretation of 3239 (b) (1). The company does not consider itself to have economic exposure to the real underlying assets in those entities. The amounts presented are the Company's net investment and therefore exclude the amounts that have been consolidated but for which the Company does not consider itself to have economic exposure.

# ...And Leveraged Loan Exposure

Overall high yield exposures are down from \$55.2B (Q2 '07) to \$11.5B (Q2 '08), and are down 37% versus Q1 '08. Exposures continue to be reduced in Q3 '08

**Lehman Brothers High Yield Loan Exposure**



*- Mkt has stabilized  
- writing new bus. at fair spreads.*

*not drawn down*

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*backing on LBO kind*

*went up when they couldn't do high yield*



## Liquidity

# 2008 Q2 Liquidity Position

We ended 2008 Q2 in our strongest liquidity position ever

## Q2 Liquidity Metrics

**Holdings**



- ◆ Record liquidity pool of \$45 billion and cash capital surplus of \$15 billion

**Secured Funding**



- ◆ Increased overfunding in the repo book
- ◆ Average tenor of repo book funding non-Central Bank eligible collateral of 38 days, up from 25 days in Q1'08

**Lehman Bank Entities**



- ◆ Record \$46 billion of assets funded in our three banks at the end of May

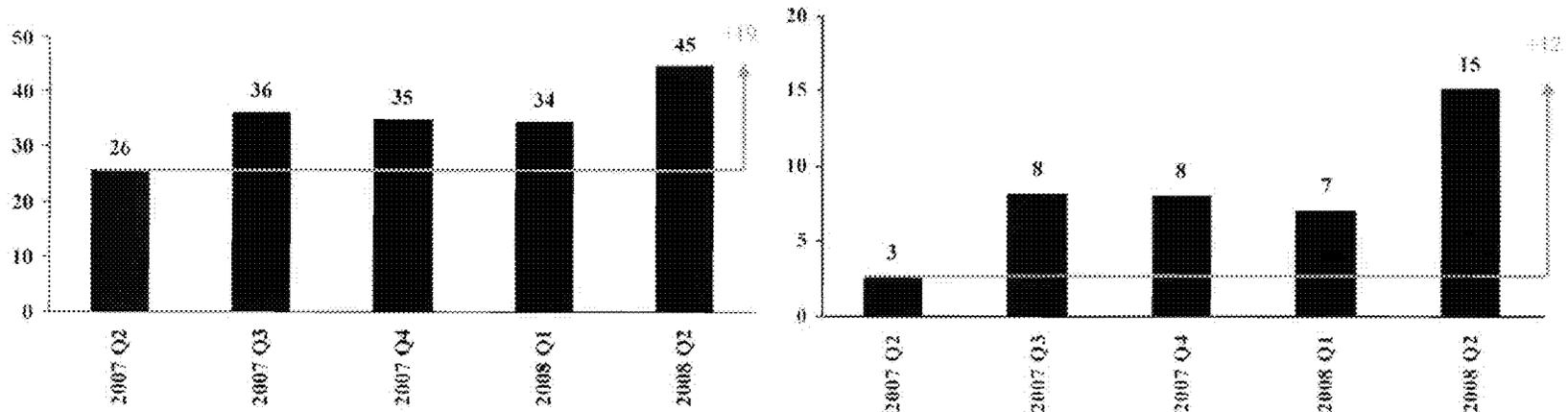
# Holdings' Liquidity

## Record liquidity pool and cash capital surplus

◆ Since the third quarter of 2007 when the funding environment became more challenging, we have grown our liquidity pool by \$19 billion and our cash capital surplus by \$12 billion

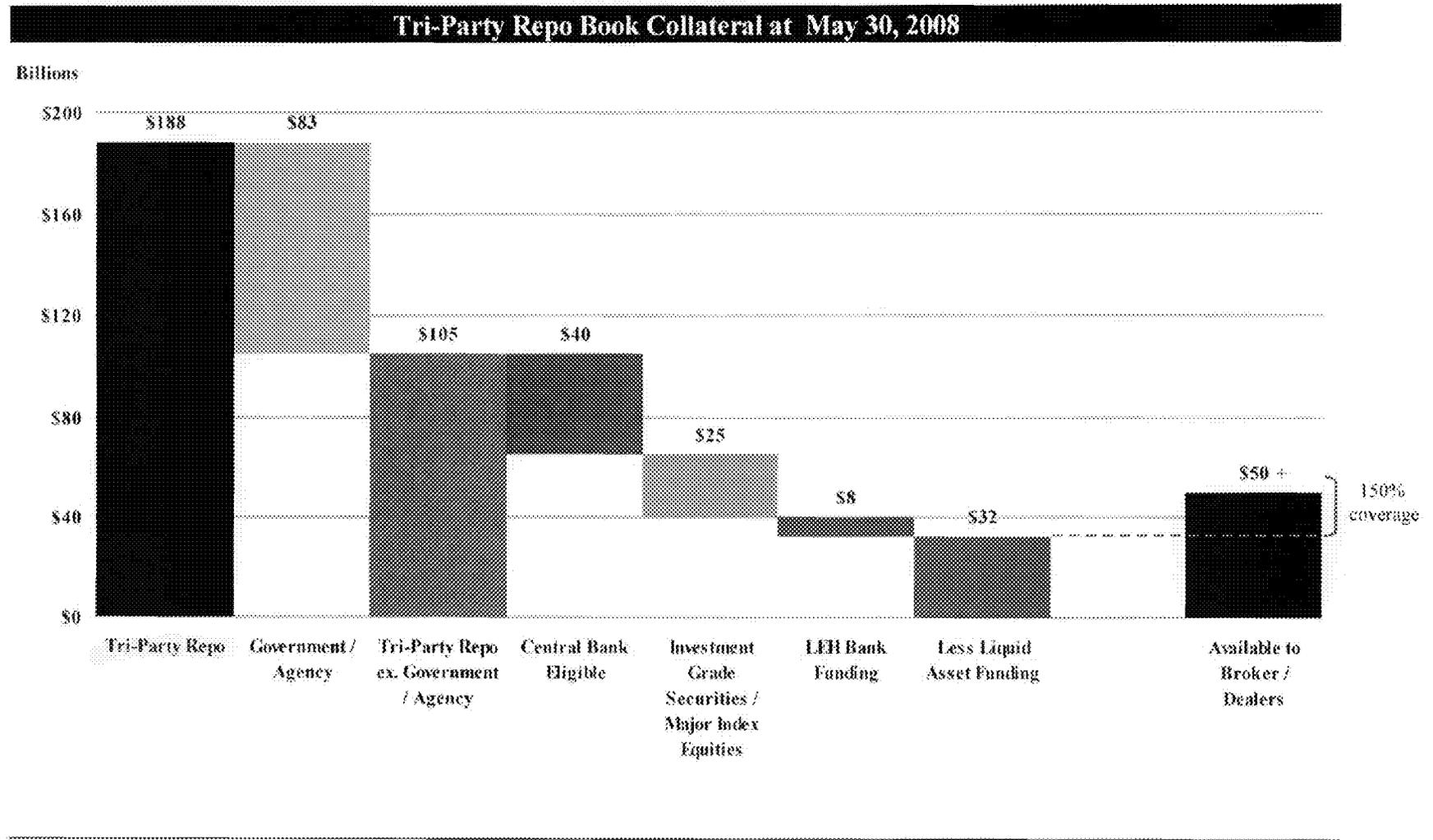
- Used Fed window on 4/16/08.
- did a test w/ Fed window, as did others.

**Liquidity Pool (\$ billions)**      **Cash Capital Surplus (\$ billions)**



# Liquidity Risk Of Secured Funding

The liquidity risk of our secured funding is well contained



## Secured Funding

- ◆ We increased the average tenor of the repo book from 22 days to 35 days (38 days for collateral that cannot be pledged to the Federal Reserve or the ECB)
- ◆ We grew term repo by 30% quarter-over-quarter to 58% of the non-traditional repo book. For the less liquid assets the term of repo is significantly greater than the average

### Non-Traditional <sup>1</sup> Repo Book Metrics

TriParty Repo Book	Q407	Q108	Q208	QoQ Change	Q2 /Q4 Change
Average tenor (days)	27	22	35	13	8
Central bank eligible	-	-	30	-	-
Non Central bank eligible	-	-	38	-	-
% Overnight	52%	56%	42%	-14%	-10%
% ≤ 1 week	13%	18%	12%	-6%	-1%
% > 1 week	35%	25%	46%	21%	11%
% > 1 month	24%	20%	29%	9%	5%

<sup>1</sup> Non-traditional repo book excludes Governments, Treasuries, Government-MBS Agencies

# Lehman Brothers Bank Entities

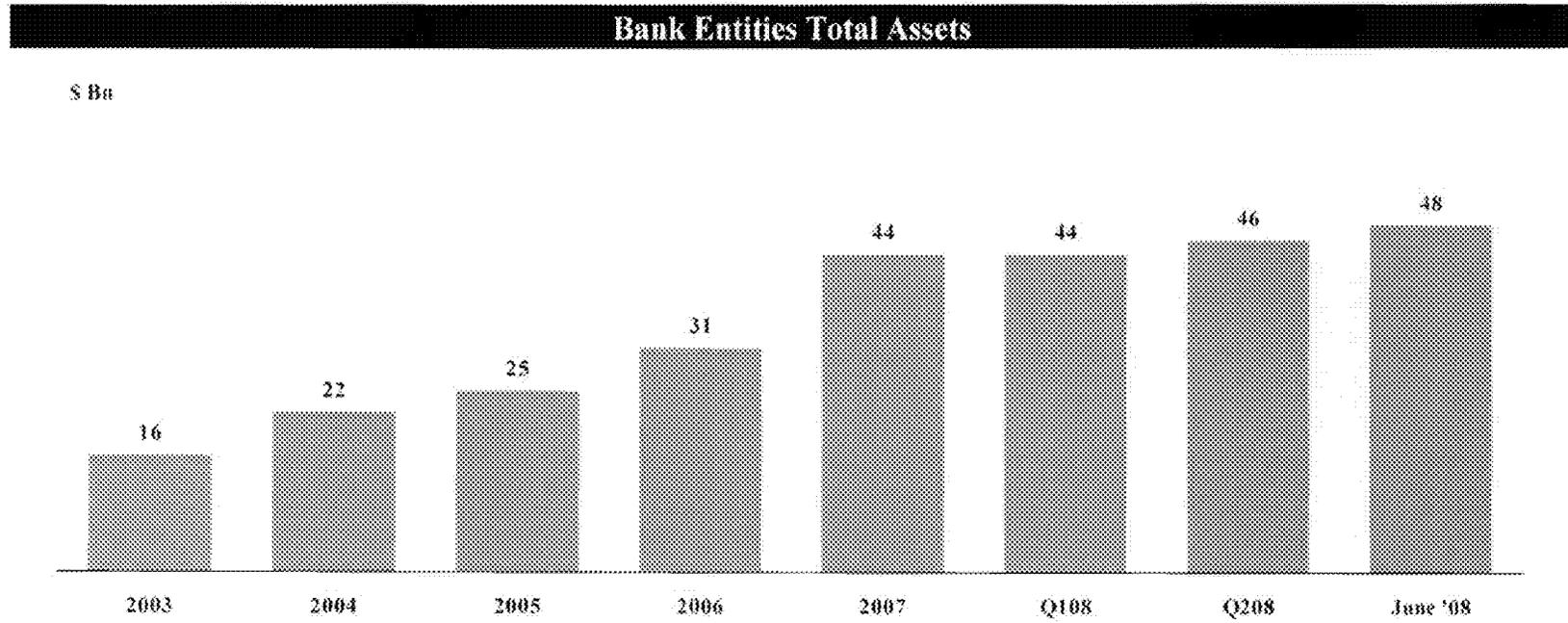
## Asset growth at bank entities strengthens our liquidity position

### Lehman Brothers Bank/Lehman Brothers Commercial Bank

- ◆ Raises FDIC-insured deposits
- ◆ Can pledge mortgage whole loans to the Federal Home Loan Bank
- ◆ Can access the Fed discount window

### Lehman Brothers Bankhaus

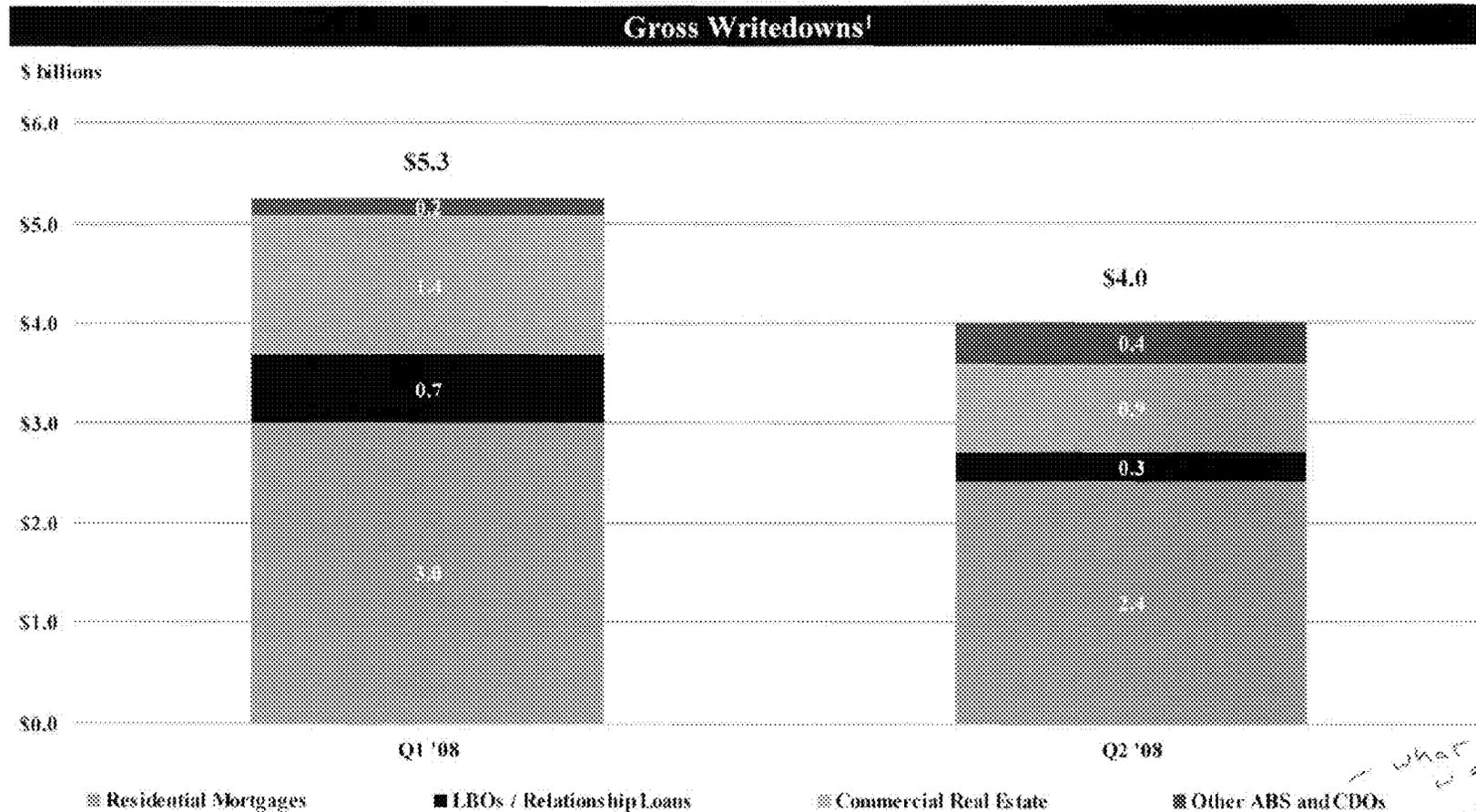
- ◆ Raises GDPF-insured deposits
- ◆ Can participate in ECB tender facilities



**Overview of Q2 '08 Results and Lehman's Franchise**

# Gross Writedowns are Lower Than Q1 '08

Gross writedowns reduced from \$5.3 billion in Q1'08 to \$4.0 billion in Q2'08



*What were they?*

1. Excludes the impact of credit spreads on the valuation of Lehman's structured debt.

- was ABX (now too low)  
 - now credit indices

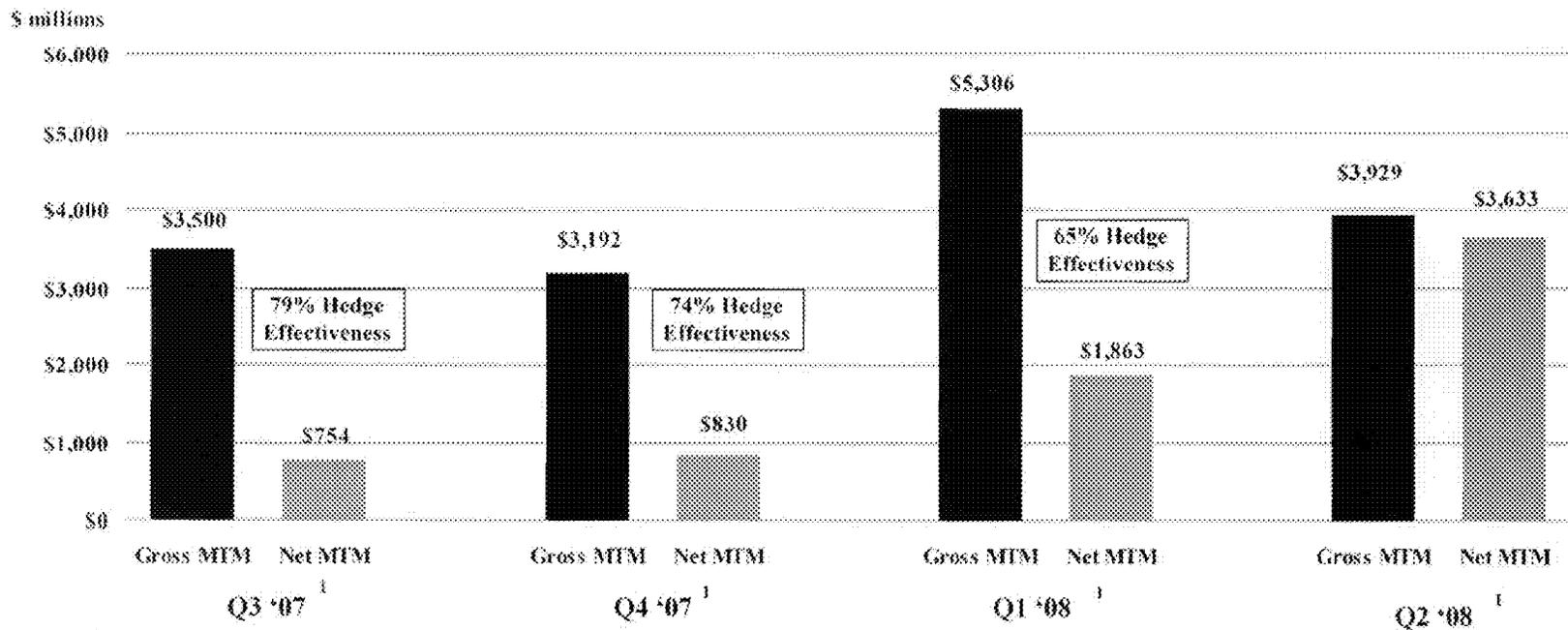
- very hard to hedge remaining assets going forward

# Hedges were ineffective in Q2'08

Whereas Lehman's combined effective hedge ratio was 73% during the first nine months of the downturn, in Q2 '08 we reported a minimal benefit from hedging.

- ◆ Assuming a hedge ratio consistent with the average of the last three quarters, the Firm's Net MTM (i.e., after hedges) would have been \$(1.1) billion versus the \$(3.6) billion *\$2.5 B neg. impact*

**Hedge Effectiveness Q3 '07 - Q2 '08**

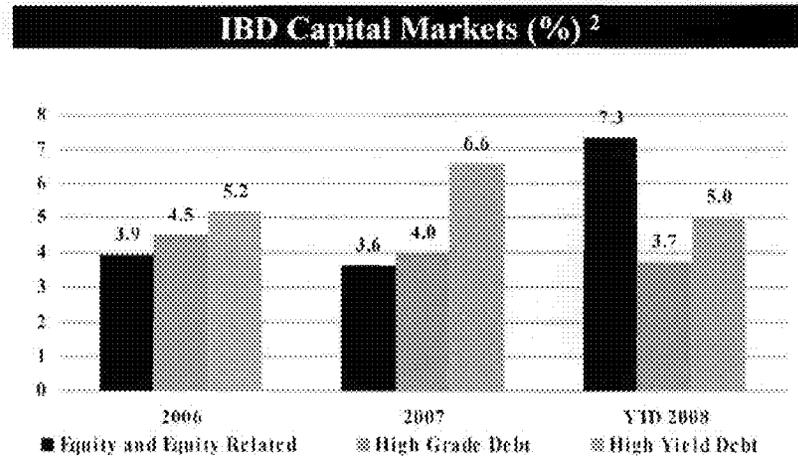
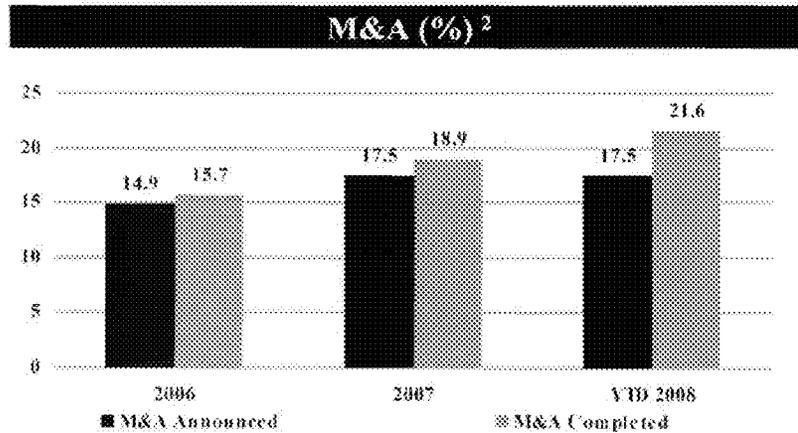
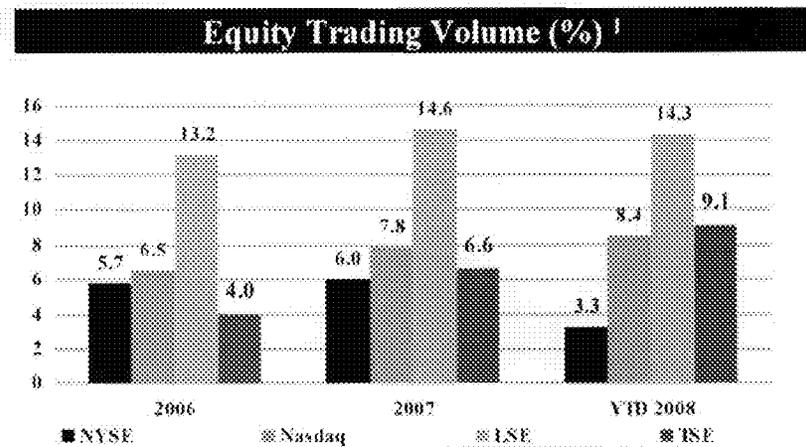
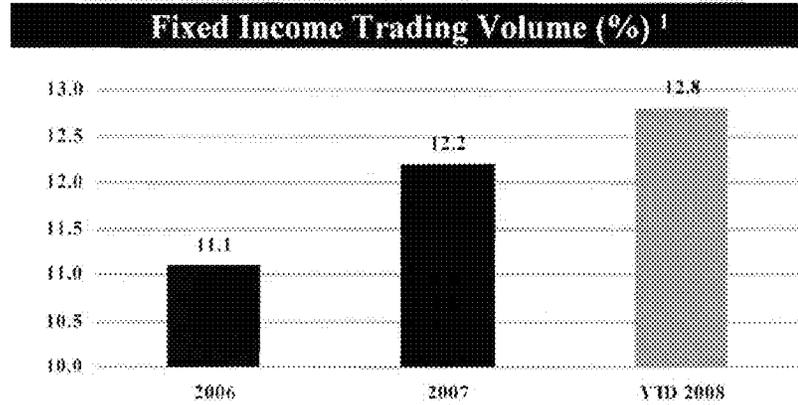


*They like top tranches of ALT-A & subprime, based on today's prices*

1. Includes the impact of credit spreads on the valuation of Lehman's structured debt in net writedown figures, but not in gross writedown figures.

# Lehman Is Gaining Market Share in A Weak Market...

We continue to increase our market share, highlighting the strength of our client franchise in difficult markets



<sup>1</sup> Fixed Income - Federal Reserve Bank of New York, all data is fiscal year, YTD is through June 4, 2008; Equity - Applicable exchanges and Lehman Brothers, all data is calendar year, YTD is through May 21, 2008

<sup>2</sup> Thomson Financial, all data is calendar year, YTD is through June 12, 2008

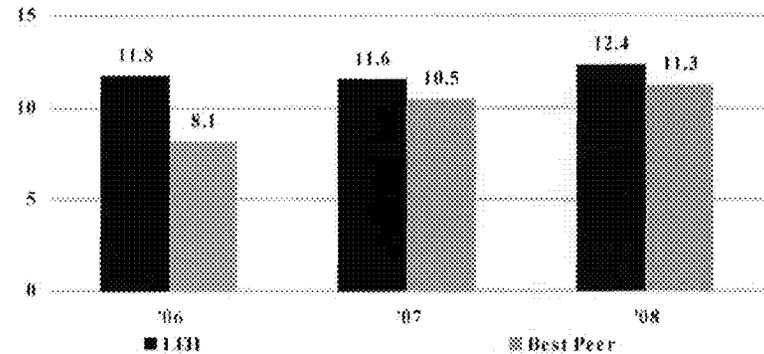
# ...Maintaining Our Overall FID Leadership...

Lehman has maintained overall market leadership among most active US Fixed Income investors, increasing the depth of our relationships and ranking ahead of all of our US Broker Dealer peers<sup>1</sup>

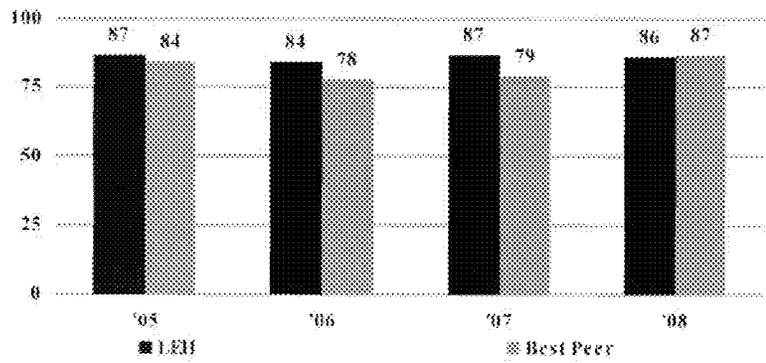
## # 1 Rank

- ◆ Overall Market Share (again), increasing from 11.6% to 12.4%
- ◆ Overall Service Quality (again)
- ◆ Consistent Coverage Quality (again), by a very wide margin
- ◆ Overall Footprint
- ◆ Top 3 Relationships, increasing rank from previously 2<sup>nd</sup>
- ◆ Lead Relationships, increasing rank from previously 2<sup>nd</sup>
- ◆ Relationship Capital, a new category
- ◆ E-Trading penetration

## Overall Market Share<sup>2</sup> (%)



## Overall Market Penetration<sup>2</sup> (%)



## Greenwich Quality Index<sup>2</sup>

- ◆ #1 overall each year '04 – '08
  - Highest score of Best Peer (any period) < LEH's lowest score (current period)
- ◆ No negative score in any period
  - All US B/D peers have had negative scores
    - 2 of those peers were negative in each year '06 - '08
- ◆ #1 in sales past two years
  - Highest score of Best Peer in '08 < LEH's '07 score

1. Greenwich Associates, July '08; conducted March - April '08

2. Best Peer is a non-US Broker Dealer and the same in each depiction, under a confidentiality agreement with Greenwich. LEH is not allowed to disclose the names of any peers

## ...With Strong Franchise Gains in Investment Banking

Lehman is achieving significant market share gains in a challenging environment

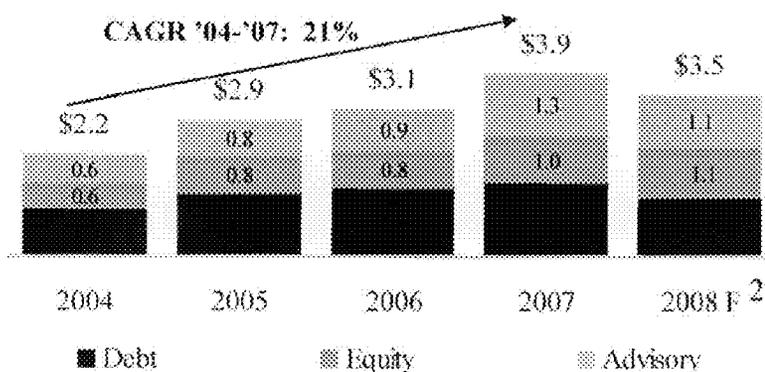
### Investment Banking Market Share <sup>1</sup>

	2006	2007	YTD 08
Global			
M&A Announced	15.4%	17.5%	18.7%
M&A Completed	15.7%	19.4%	25.2%
Equity & Equity Related	3.9%	3.6%	7.6%
High Grade Debt	4.5%	4.0%	4.0%
High Yield Debt	5.2%	6.6%	6.1%

### Franchise Momentum <sup>1</sup>

- ◆ Leadership in strategic M&A and financial sector restructuring
  - \$5.2 billion equity and convertible preferred issuance for FNMA
  - \$7.0 billion equity and convertible issuance for Washington Mutual
  - As well as issuances for CIT, MBIA and regional banks
- ◆ #4 Globally and # 1 in Asia (ex-Japan) announced M&A
- ◆ Advised on 2 of the top 10 announced M&A as well as 3 of the top 5 completed M&A
  - \$113.0 billion Phillip Morris Int'l spin-off <sup>3,4</sup>
  - \$28.1 billion acquisition of Alltel by Verizon Wireless <sup>3</sup>
  - \$21.5 billion acquisition of Imperial by Altadis <sup>4</sup>
  - \$18.6 billion acquisition of Scottish & Newcastle by Heineken NV and Carlsberg A/S <sup>4</sup>

### Investment Banking Revenues



<sup>1</sup> Market share based on year-to-date Thomson data as of June 12, 2008

<sup>2</sup> 2008 data actual through May and annualized thereafter

<sup>3</sup> Announced M&A deals

<sup>4</sup> Completed M&A deals

## ...Which Has Continued In June

---

**Lehman's quality of execution has resulted in clients trusting us with their most important and sensitive banking transactions in difficult markets**

◆ **June M&A Announcements**

- Vodafone Group PLC (thru Verizon Wireless, Inc), \$28.1bn Acquisition of Alltel Corp
- Telemex Spin of Telmex International for \$16.2bln
- China Unicom, \$9.6bn Sale of the CDMA Business and Network to China Telecom
- BBVA and CITIC (advised both sides) - BBVA \$1.2bn Increases stake in CITIC International Financial Holdings and China CITIC Bank
- Eni's \$410mm to Acquire Stake in Hewett Unit From Tullow Oil Plc
- Tereica, Inc., \$338mm Sale to Ipsen, SA

◆ **Equities**

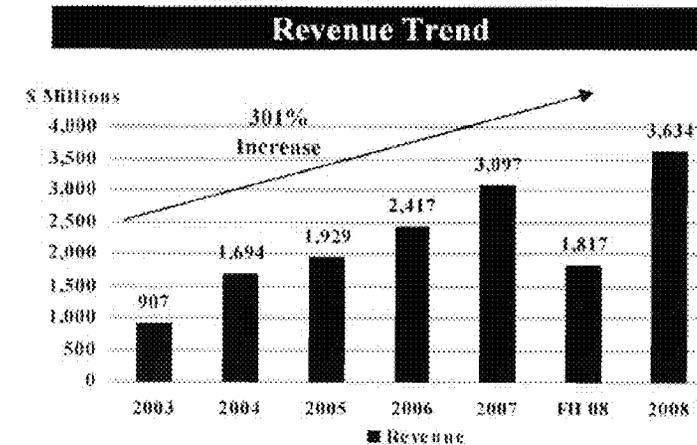
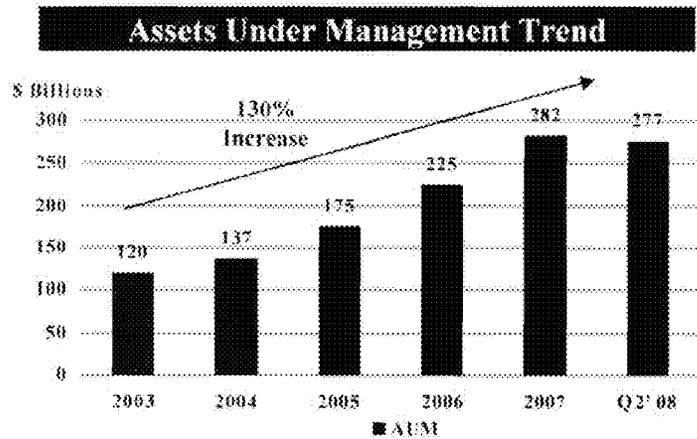
- Completed Rights offering for Carlsberg
- Completed Rights offering for Imperial Tobacco
- Priced Follow On for Boardwalk Pipeline (Loews)
- Priced Follow On for Teekay Offshore Partners
- Priced Power One convertible

◆ **HG & HY**

- Strong Client flows in early June
- Deal Pricing for Cenveo, Iron Mountain and Sequa, FPL, Duke, Republic of Portugal, Hartford Financial, and Northeast Utilities

# Investment Management Also A Key Component of Success

IMD has exhibited steady growth and is a key component of Lehman's strategy to increase revenues while mitigating revenue volatility



◆ **Ford's Asset Management Mandate - Lehman Brothers was elected as sole strategic advisor of Ford's pension**

- Ford selected Lehman Brothers to implement its strategic objective as sole strategic partner responsible for tactical asset allocation within the alternatives portfolio. In addition to providing tactical advice, Lehman Brothers will directly manage a portion of the alternatives portfolio, holding responsibility for manager selection for hedge funds, private equity and real estate

◆ **Teacher Retirement System (TRS) of Texas Strategic Partnership**

- TRS is one of the ten largest plan sponsors in the U.S. with \$110 billion assets under management
- Lehman Brothers was selected as one of four strategic partners to transact a share of TRS' capital markets business

◆ **Central European Media Enterprises (CME) Invested \$45 Million Into the Lehman Brothers Asset Management USD Off-Shore Liquidity Fund**

- CME operates the leading pan-Central and Eastern European national private television stations and networks

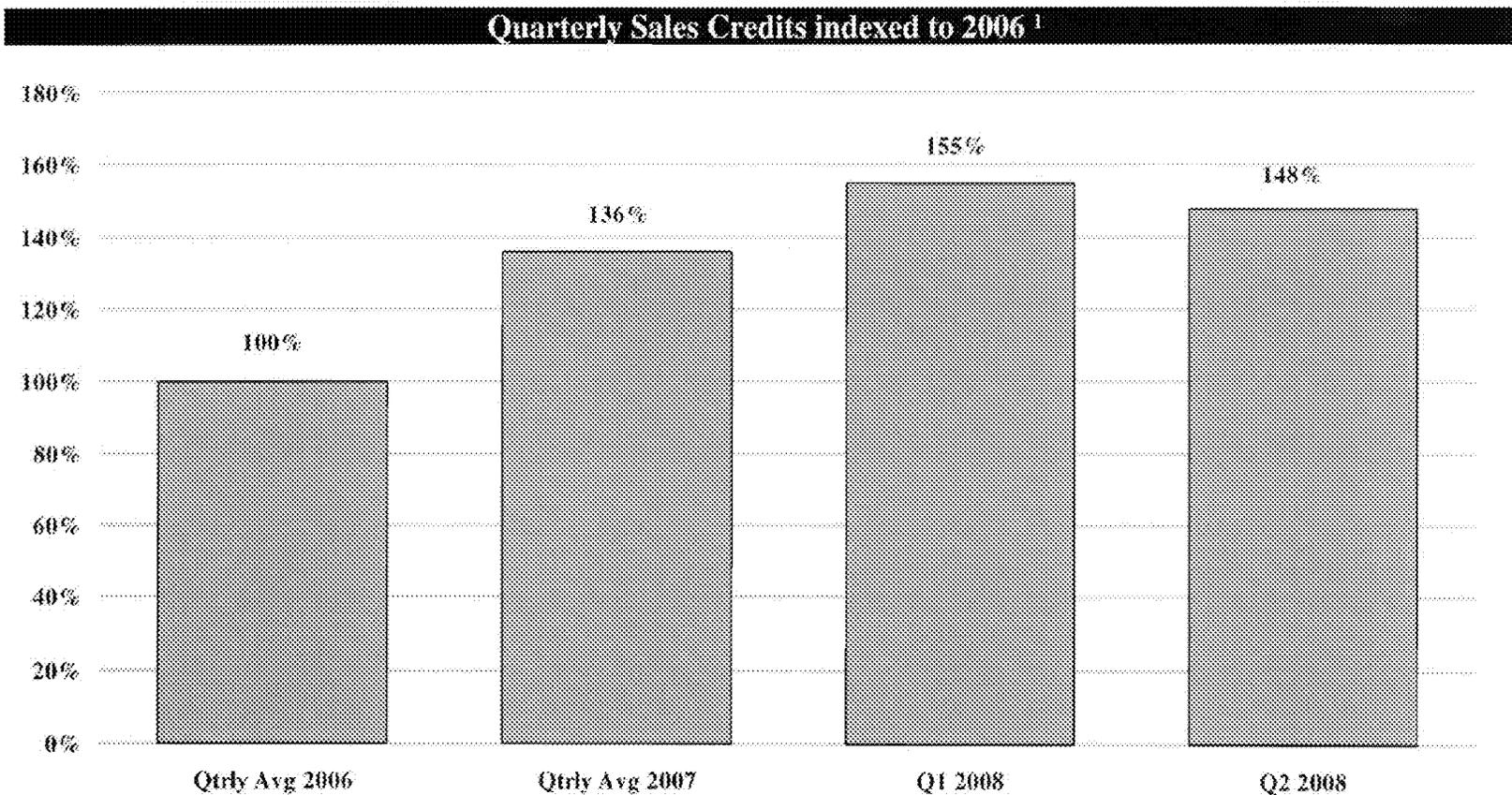
<sup>1</sup> Annualized First Half

2003 - \$2.3 B for Newkirk - Barman

## Lehman's Core Franchise Remains Strong in Q3 '08...

Lehman's sales credits, which reflects the volume of client activity, have done well during the recent period of turbulence and are continuing to hold up in Q3 '08

- ◆ This is also confirmed by trade volumes, with 2008 volumes above 2007 averages



<sup>1</sup> Represents Fixed Income and Equities Sales Credits as well as Investment Banking and Investment Management client revenues represent fee

# Roadmap For the Future

## Restructuring and Downsizing Lehman For the New Market

**Lehman has taken steps to adjust its cost base by reducing expenses in those businesses experiencing a secular decline while continuing to deploy resources to those businesses with strong future growth potential**

- ◆ Head Count reduced from 28,556 in Q4'07 to 26,189 in Q2'08
  - Majority of reductions coming from "secular decline" businesses
  
- ◆ Initiatives designed to provide sustainable profitability in the current downturn while positioning Lehman to take advantage of growth opportunities when the cycle turns in 2009, and including:
  - Exiting of Mortgage Capital Business (MCD)
  - Streamlining organization and processes
  - Consolidating groups, roles and functions
  - Scaling back marginal offices/functions
  
- ◆ We want to be careful not to overshoot

*down  
4,000 people from  
the 28,556*

*if \$16-18 B/yr rev. rate,  
then need to shrink  
further.  
if \$20 B/yr rev. rate,  
no need to shrink  
much.*

# Revenues Required to Achieve Lehman's 15% Target ROE...

Based on current cost structure and capitalization, \$19.5 to \$20 billion of annual revenues are required to achieve a target ROE of ~15%

**ROE Scenarios (in \$ billions)**

Revenue	\$15.0	\$17.0	\$19.0
Compensation	\$7.4	\$8.4	\$9.4
NPE	\$3.8	\$3.9	\$4.0
Pre-Tax Income	\$3.8	\$4.7	\$5.6
Taxes	\$1.1	\$1.4	\$1.7
Net Income	\$2.6	\$3.3	\$3.9
Preferred Dividends	\$0.7	\$0.7	\$0.7
Net Income to Common	\$2.0	\$2.6	\$3.3
Common Equity	\$23.3	\$23.3	\$23.3
ROE	8%	11%	14%

*Overall on the sheet, the subprime, ALT-A Mkt shrinks 90% from 2006 peak.*

*Seeking less capital intensive but growth. Wants to grow Int'l money mgt. Same as FX: commodities, rates.*

*DE Shaw etc in  
INVT mgt #5*

# ...History as a Guide...

## Quarterly Revenue Requirements (\$B)

◆ Averaged ~\$900M over past 4 Qs, including \$1.0B record in Q1 '08  
 ◆ Also, strong rev growth (\$125M per Q over last 2.5 yrs), driven by AUM inflows

\$700M - \$900M

\$900M - \$1.1B

\$1.2B - \$1.4B

\$1.7B - \$1.9B

~\$5.0B

Investment Banking

Investment Management

Equities

Fixed Income

Total

◆ Averaged \$900M over past 4 Qs  
 ◆ Headcount investments made, especially outside the U.S., to drive further growth

◆ Earned \$1.4B in Q1 '08  
 ◆ Averaged \$1.2B during H1 '08, excluding Principal gains / losses  
 ◆ Averaged \$1.6B per Q in '07, with no Q below \$1.3B

◆ Averaged ~\$1.8B over past 4 Qs, excluding:  
 - MTM losses  
 - Gains on structured liabilities,  
 - Losses from defensive trading positions

# ...And Are Consistent With Historical Return on Assets

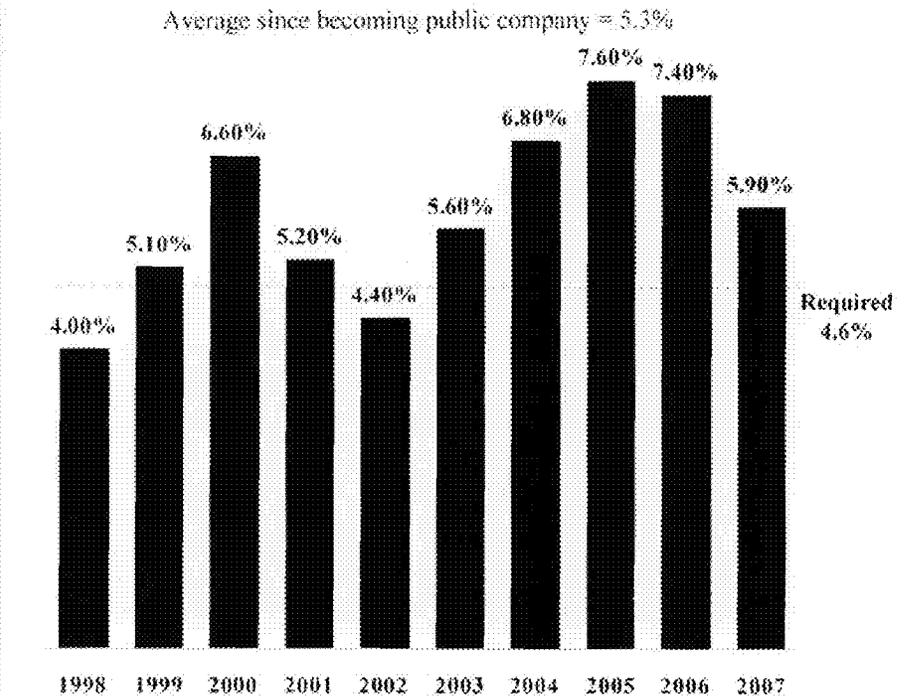
## A mid teens ROE is achievable even with increased capital and decreased leverage

- ◆ Achieving \$19bn in net revenue would require the Firm to earn a 4.6% revenue return on assets (ROA), which is conservative given the ROA earned last year and throughout most of Lehman public company history

*includes pro forma excluded*

Required Revenue Return on Assets (\$B)			
	Avg 2007	Proforma	Δ vs. Avg '07
Tangible Equity Capital	\$21.0	\$33.2	58%
Net Leverage	15.6x	12.5x	-3.1x
Net Assets	\$327	\$415	27%
Net Revenue	19.3	19.0	-1%
Revenue ROA	5.9%	4.6%	-1%

## Historical LEH Revenue Return on Net Assets



## Summary

---

- ◆ Lehman's capital position and liquidity have never been stronger
- ◆ We continue to reduce exposure to higher risk assets and de-risk the Firm
  - Residential Mortgages down 22% from Q1
  - Commercial Mortgages down 19% from Q1
  - HY Acquisition Finance down 35% from Q1
  - Total Assets down 19% from Q1
- ◆ Derisking continues in Q3
- ◆ Client franchise has continued to perform well
  - Sales Credits are trending above 2007 levels
  - New sizeable mandates in Investment Banking and Investment Management
  - Evidenced by strong results in Greenwich Survey
- ◆ Management changes have strengthen the organization
- ◆ Returning a mid teens ROE is consistent with the strength of the client franchise and the current cost base even with increased capital and lower leverage, excluding the effects of legacy writedowns

Maddy  
Nunez/Fms/MetLife/US  
07/22/2008 10:38 AM

To Nancy Stasse/Inv/MetLife/US@MetLife  
cc  
bcc  
Subject Fw: Lehman meeting tomorrow @ 200 Park

Hi Nancy. Got your voice mail. Thanks for the heads-up.  
Eric's response is to leave the Lehman meeting as is.

----- Forwarded by Maddy Nunez/Fms/MetLife/US on 07/22/2008 10:36 AM -----

Eric T  
Steigerwalt/Fms/MetLife/US  
07/22/2008 10:34 AM

To Maddy Nunez/Fms/MetLife/US@MetLife  
cc  
Subject Re: Lehman meeting tomorrow @ 200 Park

Leave as is.

Maddy Nunez

----- Original Message -----

**From:** Maddy Nunez  
**Sent:** 07/22/2008 10:29 AM EDT  
**To:** Eric Steigerwalt  
**Subject:** Lehman meeting tomorrow @ 200 Park

EG meeting now scheduled to end at 2:30pm, but may run over. Lehman meeting scheduled for 2:30.  
You and Kandarian are open all afternoon, but Wheeler has Chris Breslin for an hour @3:30pm to discuss  
earnings. Move meeting to 4:30 pm, reschedule or leave as is?

Lily is out today returning tomorrow.

Calendar Entry

# Appointment

Notify me



Mark Private

Pencil In

<b>Subject</b>	Lehman Meeting
----------------	----------------

<b>Where</b>	Location
--------------	----------

<b>When</b>	<b>Starts</b> Wed 07/23/2008 02:30 PM	1 hour
	<b>Ends</b> Wed 07/23/2008 03:30 PM	
	<input type="checkbox"/> Specify a different time zone	

<b>Categorize</b>	
-------------------	--

<b>Description</b>	
--------------------	--

Topic: Lehman View on Strategic Capital  
Location: 200 Park - 57th Floor Small Conference Room  
From Met: Bill Wheeler  
Eric Steigerwalt  
From Lehman: Gary Antenberg  
Steve Lessing  
Jeffrey Weiss  
Richard Bonaventura  
Contact: Maddy Nunez (212) 578-2714

Calendar Entry

# Appointment

Notify me



Mark Private

Pencil In

**Subject** Steve Lessing and Skip McGee - Lehman

**Where** Location

**When**  
Starts Thu 07/24/2008 03:00 PM  
Ends Thu 07/24/2008 04:00 PM 1 hour  
 Specify a different time zone

**Categorize**

**Description**

Location: Steve's office in Morristown  
Contact: Joanne Larkin (212) 526-8848

Brian Keetch/Inv/MetLife/US  
08/07/2008 12:53 AM

To Steven A Kandarian/Inv/MetLife/US@MetLife  
cc  
bcc  
Subject Re: Lehman Update from Kandarian

History: This message has been replied to and forwarded.

Rob says the following...

"Super letter and great follow up. Please keep me posted and I will see you in a few days."

Steven A Kandarian

----- Original Message -----

**From:** Steven A Kandarian  
**Sent:** 08/06/2008 09:29 PM EDT  
**To:** Brian Keetch  
**Subject:** Re: Lehman Update from Kandarian

Please let Rob know the letter was sent and a team from Investments is going to Lehman on Thursday (tomorrow) to analyze their assets. We have made it very clear that we are in the exploratory stage only, and that Lehman should continue pursuing all other avenues simultaneously with our discussions. They understand our position.

Brian Keetch

----- Original Message -----

**From:** Brian Keetch  
**Sent:** 08/06/2008 06:06 PM EDT  
**To:** Maria Rivera  
**Cc:** Joan Cardone; Nancy Stasse; Steven Kandarian  
**Subject:** Re: Lehman Update from Kandarian

I will deliver to Rob this morning (2 hours from now).

Thanks

Brian Keetch  
Office of the Chairman, President and CEO  
212-578-4499 (phone)  
212-578-7532 (fax)  
Maria T. Rivera/Inv/MetLife/US



Maria T.  
Rivera/Inv/MetLife/US  
08/06/2008 10:52 AM

To Brian Keetch/Inv/MetLife/US@MetLife  
cc Steven A Kandarian/Inv/MetLife/US@MetLife, Joan R.  
Cardone/Corp/MetLife/US@MetLife, Nancy  
Stasse/Inv/MetLife/US@MetLife  
Subject Lehman Update from Kandarian

Brian,

Please share with Rob the following:

- 1) Lehman meeting update note from Steve Kandarian
- 2) Letter that Steve Kandarian drafted to Dick Fuld

Thanks!

Maria

\*\*\*\*\*

Memo to: Rob Henrikson  
From: Steve Kandarian  
Subject: Lehman Meeting Update  
Date: August 6, 2008

Rob,

Bill Wheeler, Steve Goulart and I met yesterday at Lehman Brothers with Dick Fuld and a few members of his senior management team. We had a very good conversation and got a better understanding of their business model going forward. They are looking at a number of options and hope to have something in place prior to announcing their third quarter earnings in mid September.

I plan to send Dick a follow-up letter today outlining how we would propose moving forward. If this is acceptable to Lehman, we would send in people from Investments to scrub their balance sheet. Lehman stock is currently trading around \$20 per share. If their stock stays at these levels, I don't think the kind of deal we are interested in will work for Lehman.

Nevertheless, I think it is worth doing a little work on this potential transaction, in case Lehman's fortunes in the stock market turn south.

Please let me know if you have any questions or thoughts.

Sincerely,

Steve

\*\*\*\*\*

August 6, 2008

Richard S. Fuld, Jr.  
Chairman and Chief Executive Officer  
Lehman Brothers Inc.  
745 Seventh Avenue  
New York NY 10019

Dear Dick,

It was a pleasure to meet with you and your senior management team. We found it a very frank and enlightening conversation. After discussing our reactions to the meeting, we believe there is enough common ground that we should continue our discussions. That said, there are several parameters that would guide our analysis and interest in any potential transaction or transaction structure, which we

outline below:

1. MetLife would invest in the common equity of Lehman such that it would result in a controlling stake;
2. MetLife would appoint a majority of board of directors members;
3. MetLife would use purchase accounting methods to account for its stake in Lehman;
4. Lehman and MetLife would agree on all mark-to-market adjustments of Lehman's balance sheet at the time of a transaction;
5. MetLife would expect, as much as practical, that adjustments would reflect actual trading or liquidation values of most sensitive assets, including residential and commercial mortgages and real estate, leveraged loans and asset-backed securities, and eliminate, or at least minimize, risk of further material markdowns;
6. Equity valuation would reflect adjustments for balance sheet assets and liabilities, change of control or anti-dilution provisions of other equity investors and structures to "reset" employee equity stakes, as well as further discussions pertaining to business model and earnings power going forward;
7. Lehman would continue to operate according to its business plan, subject to board of directors' responsibilities and oversight.

Other matters would require further discussion, including whether or not Lehman should retain public ownership and whether or not MetLife would consider a sizeable acquisition of commercial mortgage and real estate assets from Lehman.

As to next steps, we are prepared to move expeditiously. We would be available later this week to simultaneously engage in more detailed discussions of financial results and projections and begin due diligence, initially of the more sensitive asset classes such as residential and commercial mortgage and real estate investments, leveraged loans and asset-backed securities. We would likely engage financial and other advisors, if we were to proceed.

Again, we appreciate the candor of our conversations and look forward to your response.

Sincerely,

Steven A. Kandarian  
Executive Vice President & Chief Investment Officer

[attachment "Fuldletter.doc" deleted by Brian Keetch/Inv/MetLife/US]

Robert Merck/Inv/MetLife/US  
08/08/2008 08:56 AM

To John Rosenthal/Inv/MetLife/US@MetLife, Steven A  
Kandarian/Inv/MetLife/US

cc

bcc

Subject Re: Fw: {MetLife Secure Message} Update

cavanagh and wilsmann are pulling together additional team members today and are awaiting the information on the portfolio from lehman. looks like it can be done electronically so we can work from motown. john, they have a decent amount of unsecured corporate debt they manage in real estate (hilton, archstone, etc) above the \$30 billion. cavanagh will get with you on needing help to look at that also. will get end of day summaries and forward along.

John Rosenthal/Inv/MetLife/US

John  
Rosenthal/Inv/MetLife/US  
08/07/2008 06:02 PM

To Steven A Kandarian/Inv/MetLife/US

cc Robert Merck/Inv/MetLife/US@MetLife, Brad  
Rhoads/Inv/MetLife/US

Subject Fw: {MetLife Secure Message} Update

A few preliminary comments on the three that were at Lehman today ( in order of degree of difficulty-- lowest to highest..)

1. High yield loans....about \$7b in total, not too many positions...maybe 20-25. Will be fairly straight forward to value, and won't take long.
2. RMBS...about 15-17b (the number is moving) of securities and loans. The securities will be fairly straight forward (even though they are generally lower in quality than we are used to valuing). The whole loans will take a little longer. We should have a decent idea of what the portfolio is worth today and in a more stressed environment within about a week.
3. Commercial real estate (\$30b as of 5/31). About 2000 positions that span many property types, geographies and parts of the capital structure. Mark W and co will need to take a sampling approach as they will not be able to value each position. They were still meeting when I left Lehman, but I'm guessing it might take 2 weeks to come up with aggregate values we'd be fairly comfortable with.

At McDade's suggestion, I will be heading into Lehman again tomorrow with Odonnell and probably Wiviott, and we will be walked through the 10Q. This will serve as a springboard to begin talking about other assets on the balance sheet not covered by today's teams. The majority of these are govt' securities, high grade loans and loan commitments. Other areas we should look at, which I will mention tomorrow, are assets related to their prime brokerage business, their trading book and derivatives, including those used for hedging., as well as any off balance sheet "assets". I am also trying to arrange for Mazzola to meet with them on Monday to begin to discuss the various equity and partnership positions.

y John Rosenthal/Inv/MetLife/US on 08/07/2008 05:40 PM -----

John  
Rosenthal/Inv/MetLife/US  
08/07/2008 10:12 AM

To STEVeN KANDARIAN

cc

Subject {MetLife Secure Message} Update

Talked to McDade. We are not arriving until 1230-1 at their behest. The three teams will be meeting with Lehman counterparts separately. Bart asked if we could delay bringing Mazzola (to look at equities, LP interests, hedge fund invest, etc) until tomorrow or Monday, saying the appropriate person on their side wasn't around. I said ok....but I think they were a little surprised that we wanted to "understand/value" those assets as well.

I did say that we wanted to understand/value the entire balance sheet; so that we would want to get our arms around the assets that didn't fall within the three areas we will be discussing today (probably about \$200b, much of which are short term trading positions). He suggested we save that for tomorrow or Monday as well.

He reiterated that in addition to potentially something "on a larger scale", they had particular interest in a large commercial real estate sale. I told him our folks were aware of that, and it would be a focus of their analysis.

Calendar Entry  
**Reminder**

Notify me   
 Mark Private

**Subject** Travel Summit to Lehman - Dan O'Connor

**Where** Location

**When** Starts: Thu 08/14/2008 06:30 AM  
 Specify a different time zone

**Categorize**

**Description**

Note: Steve Goulart will attend  
Contact Dan: (917) 584-2697 cell  
(732) 735-5704 home  
(917) 838-1193 car

Calendar Entry

# Appointment

Notify me



Mark Private

Pencil In

**Subject** Steve Lessing - Lehman

**Where** Location

**When** Starts Thu 08/14/2008 08:00 AM  
Ends Thu 08/14/2008 09:30 AM 1 hr 30 mins  
 Specify a different time zone

**Categorize**

**Description**

From MET: Steve Goulart  
From LEH: Bart McDade, Skip McGee, Mark Shafir, Jeff Weiss  
Location: 745 7th Avenue - 32nd Floor  
(212) 526-8643 office  
(917) 689-8526 cell

John  
Rosenthal/Inv/MetLife/US  
08/13/2008 04:38 PM

To Steven A Kandarian/Inv/MetLife/US  
cc  
bcc

Subject Fw: Lehman Structured Finance Assessment

Steve, below is a summary of the work done so far on the RMBS portfolio. Bottom line, we have come up with an adjustment of about \$2.1 billion after having analyzed just under 20% of the portfolio. More work is being done to get our arms around the rest of the RMBS assets.

We are not yet in a position to put a value on the rest of the assets that bear consideration---Corporate debt (funded and unfunded), private equity and hedge fund investments, other commitments (generally off balance sheet, including the \$5+b of fund of funds guarantees for eg), their muni portfolio (about \$4b) and certain derivative positions (mostly level 3 category). We had conversations about their collateralized funding business and are okay with those assets. I will keep you posted.

----- Forwarded by John Rosenthal/Inv/MetLife/US on 08/13/2008 04:34 PM -----

William  
Moretti/Inv/MetLife/US  
08/13/2008 04:32 PM

To John Rosenthal/Inv/MetLife/US  
cc

Subject Lehman Structured Finance Assessment

John:

As we discussd, our team reviewed a portion of Lehman's Structured Finance portfolio. Below are some observations:

- In general, the portfolio is highly distressed and is comprised mostly of transactions from 2006 & 2007 that Lehman was not able to fully sell in the primary market, or whole loans that did not make it to securitization. Most of the transactions are from Lehman shelves or other issuers that our team had typically never approved for investment.
- The total portfolio of structured finance that we will analyze is approximately **\$30bn**. Over the past few days, we received information on **\$10.7bn** and we were able to analyze **\$4.8bn**. We were unable to analyze half of the portfolio mostly due to unavailable information on the securities - not available on Bloomberg or Intex. We will attempt to gather additional information from Lehman that may allow us to continue our analysis on these securities.
- Of the approximate **\$20bn** that we still have not yet received information, **\$9bn** are European securities (**\$5bn** of which Lehman has lined up to sell), **\$8bn** are whole loans and **\$600mm** are Asian securities.
- Our initial assessment of these securities shows a downward adjustment of **~\$2bn on the ~\$5bn analyzed**. Most of the adjustments came from \$1.1bn in Alt A securities, \$450mm in ABSCDO, \$350mm in Subprime and \$150mm in Other Residential. Due to the highly distressed and illiquid nature of these securities, our calculated market value is a compilation of our base case default scenario and current market values. Since many of these securities are already marked to a "deep discount" our base case and stress case scenarios overlap in many instances.
- Attached please find our preliminary valuation of the structured finance portfolio.



Residential-Summary V3\_xls.zip

William Moretti  
Managing Director  
MetLife Investments  
Tel. 973-647-3381  
Fax 973-647-3052  
wmoretti@metlife.com

Steven J  
Goulart/Fms/MetLife/US  
08/13/2008 04:58 PM

To Steven A Kandarian/Inv/MetLife/US@MetLife  
cc William J Wheeler/Fms/MetLife/US@MetLife  
bcc  
Subject LEH

Quick updates on two topics: I spoke with both Prochaska regarding accounting and with Bonaventura from LEH about general structure.

1. Prochaska/accounting: big issue is accounting methodology: it would be consolidation accounting in "control" situations, and equity method accounting in "non-control". Consolidation would involve purchase accounting adjustments, marking everything to market. While technically LEH would not have to make the same adjustments **REDACTED** practically speaking it would

be difficult for them not to make the same; however, to the extent there is goodwill created in our acquisition (excess purchase price over market value), it could help them justify value differences. In equity accounting for a non-control situation, we just record a one-line investment number than fluctuates with our prorata share of earnings and losses, less dividends paid, which flow through income statement. 2. Bonaventura: I think he was essentially trying to understand our goals and objectives. They can't understand why we would want a majority/control stake, since we would then consolidate and subject ourselves to possible new rating agency criteria, etc., as well as likely have to fund it with new equity also. My response was severalfold: first, we viewed control as having advantages in convincing the market the situation is in safe hands, and second that we were concerned with overall risk management, including risk of further valuation adjustments, and felt true control was the best way to gain it. Regarding rating agencies and equity, we assumed that given the sizeable stake we were likely to have to fund some/all of it with equity anyway, we couldn't apply much additional double leverage to the situation (maybe we could). Also, we thought that eliminating all public ownership would calm the seas further. We discussed commercial real estate; it is clear what they really want is for us to buy all/some of the portfolio and make a "validating" (i.e., minority) investment in LEH. He asked if we had any input from our due diligence efforts, I told him none yet. We also discussed "background", i.e., your initial call when the stock was at \$12 and our "concerns" that at high teens/20s, might not make us much sense for us (although stock closed down at \$15.57). I got the distinct feeling they don't want us to go away (Q3 will be very bad?). He admitted they have been working on another transaction involving spinning off the real estate to shareholders, but that a validating investment would still be critical.

Steven J. Goulart  
Senior Vice President - Corporate Development  
MetLife, Inc.  
One MetLife Plaza  
2701 Queens Plaza North - 12A  
Long Island City NY 11101  
(212) 578-2003  
(212) 578-3070 (fax)  
sgoulart@metlife.com



Mark  
Wilsmann/Inv/MetLife/US  
08/13/2008 07:00 PM

To Steven A Kandarian/Inv/MetLife/US@MetLife  
cc John Rosenthal/Inv/MetLife/US@METLIFE,  
rmerck@metlife.com, kcavanagh@metlife.com, Kenneth A  
Mcintyre/Inv/MetLife/US@MetLife, James  
Ray/Inv/MetLife/US@MetLife

bcc

Subject Fw: Initial RE Valuation - Draft for your review

History: This message has been replied to.



Our initial valuation analysis of Lehman's approx. \$49B in real estate holdings indicates a base-case current value of \$26B, reflecting a dollar price of .53. Our initial stressed case reflects a value of \$14B, or a dollar price of .30. These dollar prices are based on Lehman's current carrying value, which has been marked to .92 of original balances. This implies a \$23B loss on our base case, and a \$35B loss on our stressed case.

As we previously highlighted, the portfolio is characterized by aggressively underwritten, high LTV investments originated in 2006 and 2007, including many developmental and transitional assets, with roughly half the portfolio structured as subordinate tranches of debt and equity, including bridge equity. We believe these subordinated tranches of debt and equity are significantly impaired.

Our base case valuation reflects a dollar price of .71 on \$19.4B of senior loans, .21 on \$5.9B of mezz loans, .17 on \$7.2B of project equity, .70 on \$1.9B of non-performing loans acquired at a discount, .85 on \$5.3B of senior loans held as securities, .03 on \$1.9B of corporate equity related to real estate transactions, and .50 on corporate debt related to real estate transactions.

Our methodology was based on applying property-level market value adjustments reflecting changing cap rates and market conditions since the loans were originated, to determine likelihood of default. Our base case value adjustments ranged from 15% on apartment and industrial properties to 50% on residential land. Based on the high LTVs at origination and our assumptions on average value changes since origination, our analysis indicates that about 75% of the investments will default. We then applied industry average loss severities ranging from approx. 25% on the core property types to 50% on land, and overlaid these loss severities on Lehman's positions within the capital structure.

We would characterize our value estimate as the fair, ongoing concern value on Lehman's balance sheet. A further discount would be warranted to achieve an appropriate expected return if we were to purchase the assets.

If you have Q's you can reach me by BB or cell, 770-331-4850.

John  
Rosenthal/Inv/MetLife/US  
08/14/2008 09:49 AM

To William Moretti/Inv/MetLife/US@MetLife, Steven A  
Kandarian/Inv/MetLife/US@MetLife  
cc  
bcc  
Subject Re: 

We didn't really have any good info on the other stuff at this point. So it would probably be too much of a leap to extrapolate on the rest. As I said, we got some info last night and have been assured more is imminent. It would be safe to say, however, that the overall haircut will be higher than 2.1b.

William Moretti

----- Original Message -----

**From:** William Moretti  
**Sent:** 08/14/2008 08:05 AM EDT  
**To:** Steven Kandarian; John Rosenthal  
**Subject:** Re:

Only on the \$4.7 analyzed.

Steven A Kandarian

----- Original Message -----

**From:** Steven A Kandarian  
**Sent:** 08/14/2008 07:13 AM EDT  
**To:** John Rosenthal; William Moretti

Re RMBS analysis: is the \$2.3 B haircut on only the \$4.7 B analyzed or is it an extrapolation on the entire \$29.6 B?

Shelby Lockhart  
Pick → 212-526-7200  
Fuird

Morok

Wheeler

Rosenthal

Coulart

Rhoads

Embedded value calculation

Bart McDade

w: 212-526-7067

c: 917-375-9491

- Board issue
- Commercial RE \$5-10B
  - ↳ 1st Loss by LEH
  - ↳ \$30B size
  - Mark Walsh

New equity + tender by MetLife

FAS 140R - Fox Pro

Rosenthal, Moretti, Valentini, Thomas Ho  
Farrell, Mazolla  
Cavanaugh, Wilsman, Macentya



August 6, 2008

Richard S. Fuld, Jr.  
Chairman and Chief Executive Officer  
Lehman Brothers Inc.  
745 Seventh Avenue  
New York NY 10019

Dear Dick,

It was a pleasure to meet with you and your senior management team. We found it a very frank and enlightening conversation. After discussing our reactions to the meeting, we believe there is enough common ground that we should continue our discussions. That said, there are several parameters that would guide our analysis and interest in any potential transaction or transaction structure, which we outline below:

1. MetLife would invest in the common equity of Lehman such that it would result in a controlling stake;
2. MetLife would appoint a majority of board of directors members;
3. MetLife would use purchase accounting methods to account for its stake in Lehman;
4. Lehman and MetLife would agree on all mark-to-market adjustments of Lehman's balance sheet at the time of a transaction;
5. MetLife would expect, as much as practical, that adjustments would reflect actual trading or liquidation values of most sensitive assets, including residential and commercial mortgages and real estate, leveraged loans and asset-backed securities, and eliminate, or at least minimize, risk of further material markdowns;
6. Equity valuation would reflect adjustments for balance sheet assets and liabilities, change of control or anti-dilution provisions of other equity investors and structures to "reset" employee equity stakes, as well as further discussions pertaining to business model and earnings power going forward;
7. Lehman would continue to operate according to its business plan, subject to board of directors' responsibilities and oversight.

Other matters would require further discussion, including whether or not Lehman should retain public ownership and whether or not MetLife would consider a sizeable acquisition of commercial mortgage and real estate assets from Lehman.

As to next steps, we are prepared to move expeditiously. We would be available later this week to simultaneously engage in more detailed discussions of financial results and projections and begin due diligence, initially of the more sensitive asset classes such as residential and commercial mortgage and real estate investments, leveraged loans and asset-backed securities. We would likely engage financial and other advisors, if we were to proceed.

Again, we appreciate the candor of our conversations and look forward to your response.

Sincerely,

Steven A. Kandarian  
Executive Vice President & Chief Investment Officer

cc: S. Lessing  
I. Lowitt

### Initial Observations – Commercial Mortgages & Real estate:

- \$49B in total exposure, consisting of \$40B in commercial mortgages and real estate, plus \$9B classified as corporate debt and equity related to real estate transactions. Approx. 2200 investments in total.
- Predominantly short-term floating rate (90%); weighted average maturity is 36 months, including extensions.
- Dispersed across the Americas (56%), Europe (26%) and Asia (18%).
- Positions include senior loans, credit facilities, B-notes, mezzanine, bridge equity, direct equity, and non-performing loans. Senior loans represent about 50% of the portfolio; mezz and equity (predominantly bridge) about 20% each.
- Among senior loans, high exposure to non-core property types:
  - Land 20%
  - Office 19%
  - Multi-family 14%
  - Mixed-use, Resorts 13%
  - Hotel 12%
  - Retail 12%
  - Condo 6%
  - Ind & Storage, Other 5%
- Significantly higher risk profile than MetLife RE portfolio:
  - Majority (61%) of senior loans greater than 75% LTV at origination
  - 25% of mezz loans greater than 90% LTV at origination
  - 80% of portfolio originated in “frothy” 2006 & 2007 years
  - 70% of portfolio matures within next 3 years
  - Many complex structures, many loans with debt serviced from reserves
  - Large first loss exposure - portfolio sensitive to market valuation changes.
- Approx \$2.5B writedowns taken 1H 2008; \$7B in sales/payoffs in Q2. Many assets are difficult to value; unclear whether underlying collateral value changes have been addressed in marks.
- Top five exposures are Archstone (apts), SunCal (land), Hilton (hotels), Coeur Defense (Paris office), and Prologis (ind).

### Next Steps:

- Identify sample of 20-30 investments for deep-dive valuation analysis, stratified across investment positions, property types, and geography, emphasizing larger holdings.
- Sit down / walk through valuation and portfolio surveillance process with Lehman asset management. Review and discuss specifics of underwriting and valuation assumptions on selected sample investments.
- Overlay MetLife base case and downside scenario assumptions. Extrapolate information from sample analysis and apply global assumptions to estimate valuation ranges for real estate holdings.

Lowitt

(1) Deriv.

(2) Collateralized funding

→ we need to discuss

Commercial RE -

we need 2 weeks

John  
Rosenthal/Inv/MetLife/US  
08/07/2008 06:02 PM

To Steven A Kandarian/Inv/MetLife/US  
cc Robert Merck/Inv/MetLife/US@MetLife, Brad  
Rhoads/Inv/MetLife/US  
bcc  
Subject Fw: {MetLife Secure Message} Update

History: This message has been replied to.

A few preliminary comments on the three that were at Lehman today ( in order of degree of difficulty-- lowest to highest..)

1. High yield loans....about \$7b in total, not too many positions...maybe 20-25. Will be fairly straight forward to value, and won't take long.
2. RMBS...about 15-17b (the number is moving) of securities and loans. The securities will be fairly straight forward (even though they are generally lower in quality than we are used to valuing). The whole loans will take a little longer. We should have a decent idea of what the portfolio is worth today and in a more stressed environment within about a week.
3. Commercial real estate (\$30b as of 5/31). About 2000 positions that span many property types, geographies and parts of the capital structure. Mark W and co will need to take a sampling approach as they will not be able to value each position. They were still meeting when I left Lehman, but I'm guessing it might take 2 weeks to come up with aggregate values we'd be fairly comfortable with.

At McDade's suggestion, I will be heading into Lehman again tomorrow with Odonnell and probably Wiviott, and we will be walked through the 10Q. This will serve as a springboard to begin talking about other assets on the balance sheet not covered by today's teams. The majority of these are gov't securities, high grade loans and loan commitments. Other areas we should look at, which I will mention tomorrow, are assets related to their prime brokerage business, their trading book and derivatives, including those used for hedging, as well as any off balance sheet "assets". I am also trying to arrange for Mazzola to meet with them on Monday to begin to discuss the various equity and partnership positions.

y John Rosenthal/Inv/MetLife/US on 08/07/2008 05:40 PM ----

John  
Rosenthal/Inv/MetLife/US  
08/07/2008 10:12 AM

To STEVeN KANDARIAN  
cc  
Subject {MetLife Secure Message} Update

Talked to McDade. We are not arriving until 1230-1 at their behest. The three teams will be meeting with Lehman counterparts separately. Bart asked if we could delay bringing Mazzola (to look at equities, LP interests, hedge fund invest, etc) until tomorrow or Monday, saying the appropriate person on their side wasn't around. I said ok....but I think they were a little surprised that we wanted to "understand/value" those assets as well.

I did say that we wanted to understand/value the entire balance sheet; so that we would want to get our arms around the assets that didn't fall within the three areas we will be discussing today (probably about \$200b, much of which are short term trading positions). He suggested we save that for tomorrow or Monday as well.

He reiterated that in addition to potentially something "on a larger scale", they had particular interest in a large commercial real estate sale. I told him our folks were aware of that, and it would be a focus of their analysis.

**LEHMAN BROTHERS HOLDINGS INC.**  
**Consolidated Statement of Financial Condition**  
(Unaudited)

<b>In millions</b>	<b>At</b>	
	<b>May 31, 2008</b>	<b>Nov 30, 2007</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 6,513	\$ 7,286
Cash and securities segregated and on deposit for regulatory and other purposes	13,031	12,743
Financial instruments and other inventory positions owned (includes \$43,031 in 2008 and \$63,499 in 2007 pledged as collateral)	269,409	313,129
Collateralized agreements:		
Securities purchased under agreements to resell	169,684	162,635
Securities borrowed	124,842	138,599
Receivables:		
Brokers, dealers and clearing organizations	16,701	11,005
Customers	20,784	29,622
Others	4,236	2,650
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$2,697 in 2008 and \$2,438 in 2007)	4,278	3,861
Other assets	5,853	5,406
Identifiable intangible assets and goodwill (net of accumulated amortization of \$361 in 2008 and \$340 in 2007)	4,101	4,127
<b>Total assets</b>	<b>\$639,432</b>	<b>\$691,063</b>

See Notes to Consolidated Financial Statements.

**LEHMAN BROTHERS HOLDINGS INC.**  
**Consolidated Statement of Financial Condition—(Continued)**  
**(Unaudited)**

In millions, except share data	At	
	May 31, 2008	Nov 30, 2007
<b>Liabilities and Stockholders' Equity</b>		
Short-term borrowings and current portion of long-term borrowings (including \$9,354 in 2008 and \$9,035 in 2007 at fair value)	\$ 35,302	\$ 28,066
Financial instruments and other inventory positions sold but not yet purchased	141,507	149,617
Collateralized financings:		
Securities sold under agreements to repurchase	127,846	181,732
Securities loaned	55,420	53,307
Other secured borrowings (including \$13,617 in 2008 and \$9,149 in 2007 at fair value)	24,656	22,992
Payables:		
Brokers, dealers and clearing organizations	3,835	3,101
Customers	57,251	61,206
Accrued liabilities and other payables	9,802	16,039
Deposit liabilities at banks (including \$10,252 in 2008 and \$15,986 in 2007 at fair value)	29,355	29,363
Long-term borrowings (including \$27,278 in 2008 and \$27,204 in 2007 at fair value)	128,182	123,150
<b>Total liabilities</b>	<b>613,156</b>	<b>668,573</b>
Commitments and contingencies		
<b>Stockholders' Equity</b>		
Preferred stock	6,993	1,095
Common stock, \$0.10 par value:		
Shares authorized: 1,200,000,000 in 2008 and 2007;		
Shares issued: 612,948,910 in 2008 and 612,882,506 in 2007;		
Shares outstanding: 552,704,921 in 2008 and 531,887,419 in 2007	61	61
Additional paid-in capital	11,268	9,733
Accumulated other comprehensive loss, net of tax	(359)	(310)
Retained earnings	16,901	19,698
Other stockholders' equity, net	(3,666)	(2,263)
Common stock in treasury, at cost (60,243,989 shares in 2008 and 80,995,087 shares in 2007)	(4,922)	(5,524)
<b>Total common stockholders' equity</b>	<b>19,283</b>	<b>21,395</b>
<b>Total stockholders' equity</b>	<b>26,276</b>	<b>22,490</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$639,432</b>	<b>\$691,063</b>

See Notes to Consolidated Financial Statements.

**LEHMAN BROTHERS HOLDINGS INC.**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

instruments. In the calculation of the credit risk adjustment for derivatives, the Company attempts to use observable market credit spreads. The impact of our credit risk is incorporated into the fair valuation, even when credit risk is not readily observable in the pricing of an instrument, such as in OTC derivatives contracts.

Valuation allowances are generally recorded on an aggregate basis. For a portfolio of assets or liabilities, the Company attributes valuation adjustments to individual transactions for financial reporting purposes. Management believes the methodology adopted to allocate valuation adjustments on a portfolio to individual positions is reasonable and consistently applied during the periods presented.

**Fair Value on a Recurring Basis**

Assets and liabilities measured at fair value on a recurring basis and which were categorized as Level 3 at May 31, 2008 and November 30, 2007 were approximately \$37.9 billion, compared to \$38.9 billion at November 30, 2007.

In millions	At	
	May 31, 2008	Nov 30, 2007
Level 3 assets	\$ 41,344	\$ 41,979
Less: Level 3 derivative liabilities	(3,433)	(3,095)
Level 3 assets (net derivatives)	\$ 37,911	\$ 38,884

Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations.

In millions	Assets at Fair Value as of May 31, 2008			
	Level 1	Level 2	Level 3	Total
Mortgage and asset-backed securities <sup>(1)</sup>	\$ 347	\$ 51,517	\$ 20,597	\$ 72,461
Government and agencies	11,002	15,986	—	26,988
Corporate debt and other	77	44,332	5,590	49,999
Corporate equities	26,785	10,606	10,158	47,549
Commercial paper and other money market instruments	4,757	—	—	4,757
Derivative assets <sup>(2)</sup>	2,597	39,395	4,999	46,991
	\$ 45,565	\$161,836	\$41,344	\$248,745

In millions	Liabilities at Fair Value as of May 31, 2008			
	Level 1	Level 2	Level 3	Total
Mortgage and asset-backed securities	\$ —	\$ 351	\$ —	\$ 351
Government and agencies	60,689	3,042	—	63,731
Corporate debt and other	5	8,339	—	8,344
Corporate equities	42,356	828	—	43,184
Commercial paper and other money market instruments	12	—	—	12
Derivative liabilities <sup>(2)</sup>	1,799	20,653	3,433	25,885
	\$104,861	\$33,213	\$3,433	\$141,507

<sup>(1)</sup> Includes loans transferred to securitization vehicles where such transfers were accounted for as secured financings rather than sales of approximately \$11.7 billion at May 31, 2008. The securitization vehicles issued securities that were distributed to investors. The Company does not have economic exposure to the underlying assets in those securitization vehicles beyond the Company's retained interests. The loans are reflected as an asset within Mortgages and asset-backed positions and the proceeds received from the transfer are reflected as a liability within Other secured borrowings. These loans are classified as Level 2 assets.

<sup>(2)</sup> Derivative assets and liabilities are presented on a net basis by level. Inter- and intra-level cash collateral, cross-product and counterparty netting at May 31, 2008 were approximately \$45.6 billion and \$43.4 billion, respectively.



Mark  
Wilsmann/Inv/MetLife/US  
08/08/2008 06:41 PM

To John Rosenthal/Inv/MetLife/US@METLIFE  
cc rmerck@metlife.com, kcavanagh@metlife.com, Kenneth A  
Mcintyre/Inv/MetLife/US@MetLife, James  
Ray/Inv/MetLife/US@MetLife

bcc

Subject Update



Attached below is a one-page summary of our initial observations on the real estate holdings.

Lehman provided us additional stratifications of the portfolio today which will be useful in developing a representative sample of 20-30 investments for a deep-dive valuation analysis, emphasizing their larger holdings. We expect to be able to identify the sample early next week and will work with Lehman to obtain access to necessary information to complete our analysis. We also plan to obtain a more detailed understanding of their marking process for all RE asset types. We will need to tap a few additional REI staff to assist in the analysis.

I'm available to discuss our observations and gameplan for moving forward on Monday.



RE Initial Observ.doc

Summary			
	MV (\$MM)	Comments on Observations from List of Securities	
Alt A	7,804	Overwhelmingly from 2007 vintage Lehman related shelves and other shelves that MetLife typically does not participate in.	
Non-Prime	2,172	Mostly from 06-07 vintage and subordinate positions that are highly distressed	
Other	1,160	Majority of the securities may be HELOCs?	
Total US	11,136		
Europe	8,784	Close to a deal to selling >\$5bn of UK assets and servicer (Capstone)	
Asia	643	No information	
ABS CDO	544	No information	
<b>Grand Total</b>	<b>21,107</b>		

Alt A			
Whole Loans	MV (\$MM)	Mark	Comments
Performing	1,571	75.00	TBD
Non-Performing	135	45.00	TBD
	1,706		
<b>Securities</b>			
AAA	2,799	67.70	TBD - likely < \$60
Subs	1,153	22.00	TBD - likely \$5-\$15
	3,952		
Residuals	493	Mostly 2007	Hard to analyze - close to \$0
Servicing Rights	1,653		Hard to analyze - Based on mtges of \$130bn
<b>Grand Total</b>	<b>7,804</b>		

Non-Prime			
Whole Loans	MV (\$MM)	Mark	Comments
Subprime	134	38.00	TBD
2nd Lien	650	50.00	Alt-A loans - 70% "performing marked at \$60; 30% NP marked at \$10 - likely <\$40
	784		
<b>Securities</b>			
AAA	363	67.00	TBD - >50% are "back-end" AAA securities priced likely <\$50
Subs	991	31.50	TBD - likely \$5-\$15
	1,354		
Residuals	8		Hard to analyze - close to \$0
Servicing Rights	26		Hard to analyze
<b>Grand Total</b>	<b>2,172</b>		

Residential - Other			
Whole Loans	MV (\$MM)	Mark	Comments
Scratch & Dent	251	41.25	TBD - likely <\$25
Reverse Mtg	629	97.26	TBD
	880		
<b>Securities</b>			
AAA	144	59.94	No information
Subs	89		
	233		
Residuals	40		Hard to analyze - close to \$0
Servicing Rights	7		Hard to analyze
<b>Grand Total</b>	<b>1,160</b>		

Europe			
Whole Loans	MV (\$MM)	Mark	Comments
UK	2,106	90.18	Close to Selling combined \$5bn in UK whole loans & securities
Ireland	281	96.04	Not familiar with this sector
Netherlands	417	92.45	Not familiar with this sector
Italy	179	88.8	Not familiar with this sector
NPLs	633	39.96	Not familiar with this sector
	3,616		
<b>Securities</b>			
AAA	4,071	93.56	Selling ~\$3bn UK securities
Subs	768	69.13	No information
	4,839		
Residuals	329		Hard to analyze - close to \$0
<b>Grand Total</b>	<b>8,784</b>		

They are selling \$5-6 B of UK securities.

\$15B should be remaining

Moretti thinks the \$15B should be marked down another ≈ \$2B, before a stress scenario.

US Deals - HY Commitments

Deal	Lehman Commitment					Closing Date	Funding Date	Funding	Mark Price		
	RC/DDTL	1st Lien	2nd Lien	Bond	Total				RC/DDTL	1st Lien	2nd Lien
Achstone-Smith Trust (River Holding LP)	\$455	\$1,893	\$0	\$0	\$2,348	10/5/07	10/5/07	\$1,993	96.95%	99.2%	-
TXU Corp. <i>LCAS</i>	\$372	\$13	\$0	\$0	\$385	10/10/07	10/10/07	\$46	88.8%	91.9%	-
Oncor Electric Delivery Holdings Company LLC	\$172	\$0	\$0	\$0	\$172	10/10/07	10/10/07	\$0	97.5%	0.0%	0.0%
HMH Publishing Company Limited (Education Media) <i>REVENUE</i>	\$150	\$9	\$360	\$0	\$519	12/12/07	12/12/07	\$375	86.0%	90.5%	79.75%
HYP Media Hldgs LLC (Hawaiian Yellow Pages) <i>SELL WITH COMPANY</i>	\$5	\$195	\$0	\$114	\$314	12/3/07	12/3/07	\$314	77.0%	77.0%	-
Welsh Carson (HYP) <i>IS MOUTH (LA LARUS)</i>	\$0	\$100	\$0	\$0	\$100	12/3/07	12/3/07	\$100	-	100.0%	-
Hilton <i>REAL ESTATE GROUP (SIB)</i>	\$0	\$1,144	\$0	\$0	\$1,144	10/1/07	10/1/07	\$1,144	-	92.2%	-
First Data Corporation	\$259	\$0	\$0	\$0	\$259	9/25/07	9/25/07	\$26	88.0%	-	-
HD Supply <i>PIK W/ NO COMMITMENTS</i>	\$173	\$0	\$0	\$82	\$255	8/30/07	8/30/07	\$123	87.9%	-	-
ARINC Incorporated <i>(IN 3100 CAT)</i>	\$50	\$162	\$0	\$0	\$212	10/25/07	10/25/07	\$162	85.0%	89.0%	-
FarPoint Communications	\$106	\$96	\$0	\$0	\$201	3/31/08	3/31/08	\$88	85.0%	88.5%	-
Bonten Media Group, Inc. <i>(SERN)</i>	\$15	\$153	\$0	\$0	\$168	9/1/08	9/1/08	\$57	100.0%	100.0%	-
SunGard Data Systems	\$0	\$30	\$0	\$70	\$100	10/3/08	10/3/08	\$100	-	0.0%	-
Targa Resources Investment Inc. <i>(SIB) (P) (P) (P)</i>	\$0	\$0	\$0	\$96	\$96	8/9/07	8/9/07	\$96	-	-	-
Vertrac Incorporated	\$8	\$0	\$78	\$0	\$86	8/16/07	8/16/07	\$82	75.0%	-	75.0%
Waste Services, Inc. <i>TRUST REPORTS</i>	\$25	\$25	\$0	\$0	\$50	8/15/08	8/15/08	\$38	100.0%	100.0%	-
<b>Total US HY Commitments</b>	<b>\$1,789</b>	<b>\$3,819</b>	<b>\$438</b>	<b>\$362</b>	<b>\$6,407</b>			<b>\$4,743</b>			

Europe/Asia Deals - HY Commitments

Deal	Lehman Commitment					Closing Date	Funding Date	Funding	Mark Price		
	RC/DDTL	1st Lien	2nd Lien	Mezz	Total				RC/DDTL	Bank	2nd Lien
Debid Group <i>CALLING 100</i>	\$39	\$292	\$0	\$0	\$331	7/26/07	7/31/07	\$292	95.0%	95.0%	-
Converteam Group SAS	\$22	\$127	\$0	\$62	\$211	7/18/08	9/15/08	\$158	100.0%	100.0%	-
Ucom IAS <i>FLAT RATE / LOW COMMITMENT</i>	\$35	\$147	\$37	\$84	\$303	7/27/07	7/31/07	\$268	72.0%	75.0%	65.0%
Endemol Holdings (Pdam Acquisition) <i>PROGRAMMING</i>	\$128	\$0	\$58	\$81	\$266	7/3/07	7/3/07	\$113	70.0%	-	63.0%
Sisal SA <i>(SIB) (P) (P) (P)</i>	\$42	\$123	\$22	\$45	\$232	10/16/06	10/17/06	\$211	92.0%	92.0%	92.0%
<b>Total Europe/Asia HY Commitments</b>	<b>\$266</b>	<b>\$689</b>	<b>\$118</b>	<b>\$272</b>	<b>\$1,344</b>			<b>\$1,043</b>			

Total HY Commitments and Oncor

**\$7,752**

Closed & Funded Transactions

Me JUNKIN

**Total CMBS Portfolio** 2,077 mln

**US Portfolio** 737 mln  
% of Total 35%

Initial Potential Losses 146 mln  
% of US Portfolio 20%  
% of US portfolio assessed 66%

Lehman Shelf 380 mln  
% of US Portfolio 52%

IG Portfolio 700 mln  
% of US Portfolio 95%

BIG Portfolio 37 mln  
% of US Portfolio 5%

**US Portfolio by Vintage and Product Type (amounts in \$ mln)**

	Conduit	Large Loan	Single Asset	IO	Total	%
2008	0	0	0	4	4	0.6%
2007	170	171	4	57	403	54.7%
2006	68	36	0	19	123	16.7%
2005	5	9	0	37	51	6.9%
2004 & Prior	28	17	0	111	156	21.2%
Total	272	232	4	228	737	100.0%
%	36.9%	31.5%	0.5%	31.0%	100.0%	

**European Portfolio** 1,341

William Moretti  
Managing Director  
MetLife Investments  
Tel. 973-647-3381  
Fax 973-647-3052  
wmoretti@metlife.com