

**LEHMAN BROTHERS HOLDINGS INC.**  
**Minutes of the Finance and Risk Committee**  
**January 30, 2007**

A meeting of the Finance and Risk Committee of Lehman Brothers Holdings Inc. (the "Corporation" and collectively with its subsidiaries, the "Firm") was held on January 30, 2007 at 2:30 p.m. in the Executive Conference Room, 31<sup>st</sup> Floor, 745 Seventh Avenue, pursuant to written notice.

**PRESENT - COMMITTEE MEMBERS**

Messrs. Henry Kaufman (Chairman)  
John F. Akers  
Roger S. Berlind  
Ms. Marsha Johnson Evans  
Mr. Roland A. Hernandez

**ALSO PRESENT BY INVITATION**

Ms. Madelyn Antoncic  
Ms. Heidemarie U. Echtermann  
Messrs. David Goldfarb  
Ian T. Lowitt  
Christopher M. O'Meara  
Paolo R. Tonucci  
Jeffrey A. Welikson

**APPROVAL OF MINUTES**

The first order of business was the approval of the Minutes of the meeting held on September 12, 2006. Upon motion, duly made and seconded, it was unanimously:

**RESOLVED**, that the Minutes of the meeting of the Finance Committee held on September 12, 2006, are hereby approved in the form submitted at this meeting, and that a copy of such minutes be placed in the appropriate Minute Book of the Corporation.

**2007 FINANCIAL PLAN**

Mr. O'Meara presented an overview of the Firm's 2007 financial plan, including the 2007 budget and targets for net revenues, net income, EPS and ROE; the 2007 funding and capital plan, including common stock repurchases of up to 100 million shares and an annual common stock dividend of \$0.60 per share; and an increase in the risk appetite limit to \$3.3 billion.

Mr. O'Meara then presented the 2007 budget, including the Firm's targets for, among other things, net revenues, total expenses, personnel and non-personnel expense to net revenue ratios, pretax margin, net income, return on equity and tangible equity, book value per share, earnings per share, equity, total capital and net leverage. He discussed the revenue targets and key strategic initiatives by business segment and by region. The Committee directed questions to management regarding the budget assumptions and process, budget targets, operating leverage, proprietary trading and principal strategies, and other matters.

Ms. Echtermann reviewed the 2007 capital plan, stating that approximately \$58.7 billion of net balance sheet growth would be required to support the business plans, supported by increases in senior debt, hybrid equity and common equity. She noted that most of the balance sheet growth in absolute dollar terms is expected to come from Fixed Income, but significant growth is expected in the equities, proprietary and asset management businesses. Ms. Echtermann also noted expected increases in funding from Lehman Brothers Commercial Bank and Lehman Brothers Bankhaus and from bank sourced and secured financings and an increasingly international debt investor base.

Mr. Tonucci then discussed the conservative methods used to manage the Firm's equity capitalization. He noted that the Firm's primary tool to manage and allocate equity is the Firm's internal risk equity model which is supplemented with requirements of the CSE regulatory equity model and the rating agency capital charge model. Mr. Tonucci then stated that the Firm expects to increase its net leverage ratio to a range of 14.5 - 16.0x, which would require a 19% increase in leverageable equity. He also provided an overview of hybrid equity structures (such as non-tax deductible securities and tax deductible trust preferred securities) and noted that the Firm intends to issue up to \$0.8 billion of tax-deductible securities and may issue up to an additional \$1.0 billion of other preferred securities. Mr. Tonucci then discussed the Corporation's common stock repurchase plan. He stated that the Corporation was requesting authorization to repurchase, subject to market conditions, up to 100 million shares for management of the Corporation's equity capital, including to offset dilution due to employee stock plans. Mr. Tonucci noted that the requested share purchase authorization would supersede previous share repurchase authorizations. Mr. Tonucci then discussed the projected impact in 2007 of share repurchases and equity awards on equity and the Firm's equity award overhang. The Committee directed questions to management regarding hybrid equity, the Corporation's share repurchase plan and other matters.

Mr. Tonucci reviewed the history of the Firm's dividend policy, noting the Corporation's history of strong dividend growth while keeping the dividend yield and the dividend pay-out ratio low. He compared the dividend levels, dividend growth rates, dividend pay-out ratios and dividend yields of the Firm and its competitors. He recommended a 25% increase in the Corporation's annual common stock dividend from \$0.48 per share to \$0.60 per share. After discussion, upon motion duly made and seconded, it was unanimously

**RESOLVED**, that the Finance and Risk Committee hereby recommends that the Board of Directors adopt the following Common Stock dividend policy, effective for dividends payable on or after December 1, 2006: that it be the policy of the Corporation to declare and pay an annual Common Stock dividend of \$0.60 per share (which equates to \$0.15 per share per quarter).

**FURTHER RESOLVED**, that the Finance and Risk Committee hereby recommends that the Board of Directors approve a Common Stock repurchase plan under which the Corporation may repurchase, subject to market conditions, up to 100 million shares of its Common Stock for the management of the Corporation's equity capital, including offsetting dilution due to employee stock awards, as proper officers of the Corporation deem necessary or advisable. This resolution shall supersede and replace the Committee's previous share repurchase resolution adopted on January 17, 2006.

Mr. Tonucci then discussed the Firm's 2007 equity budget.

Ms. Antoncic then reviewed the Firm's proposed risk appetite limit for 2007, including the calculation of the risk appetite limit and the underlying assumptions. She stated that the Firm's proposed risk appetite limit for 2007 was \$3.3 billion, an increase of \$1 billion from the 2006 risk appetite limit. Ms. Antoncic also presented the risk appetite limit allocation by division during each of the past three fiscal years and proposed for 2007. She then reviewed the average monthly risk use by the Firm and each business area. She reviewed certain stress tests and scenario analyses regularly conducted to evaluate the potential impact upon each segment of the Firm's trading portfolio and upon the Firm's total revenue.

The Committee directed questions to management regarding the increase in risk appetite usage, the proposed increase in the risk appetite limit and other matters.

#### **EXECUTIVE SESSION**

Management was excused, and the Committee met in executive session.

There being no further business to come before the meeting, the meeting was, upon motion duly made and seconded, adjourned.

Respectfully submitted,

*Jeffrey A. Welikson*  
Jeffrey A. Welikson  
Secretary of the Meeting