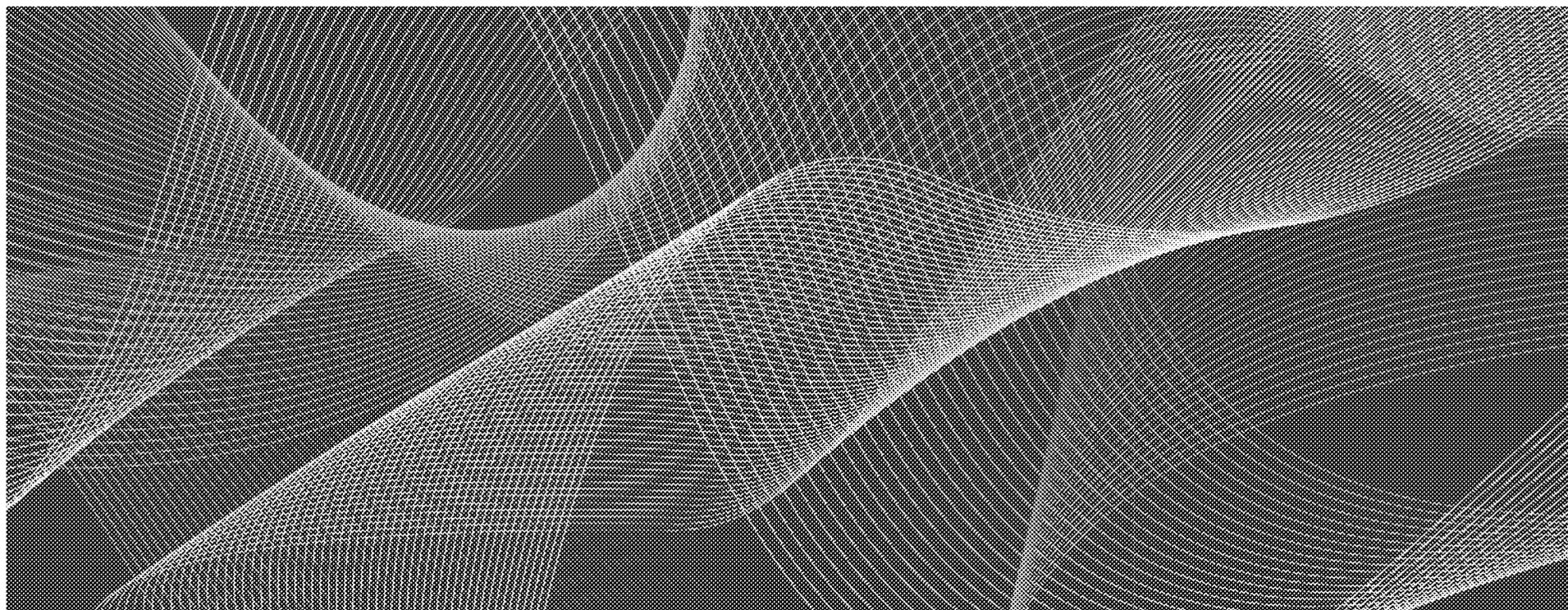


# Liquidity Stress Scenario Analysis



Confidential Presentation

# Overview

---

- ◆ Presentation has three purposes
  - Create a liquidity stress scenario analysis
  - Measure its impact on Lehman Brothers
  - Discuss assumptions behind scenario
  
- ◆ Liquidity stress scenario is based upon Lehman Brothers losing access to all sources of funding instantaneously
  - Both secured and unsecured
  - Ability to pledge assets to the Federal Reserve’s PDCF and, through the Bankhaus, to the ECB’s window on a same day basis is maintained however
  - Sale of assets or termination of Prime Broker agreements should be avoided if possible
  
- ◆ Despite severity of stress scenario, Lehman Brothers is able to maintain a positive cash position throughout the period (April 11-November 30, 2008)
  
- ◆ Scenario seems too simplistic and unrealistic
  - Treats all counterparties the same way
  - Makes little differentiation across asset classes
    - Two categories: ECB or Fed-eligible (investment grade fixed income securities); non-ECB and non-Fed eligible (equities and high yield fixed income securities)
  - Assumes no other changes in market environment or Lehman Brothers’ strategy (“business as usual” approach)

# Liquidity Stress Scenario

---

## ◆ Key assumptions

- Inability to roll any unsecured or secured financing
- Ability to pledge assets to the Federal Reserve’s PDCF and, through the Bankhaus, to the ECB’s window on a same day basis
  - As a result, loss of secured financing will be felt in equities and high yield fixed income securities repos
- Sale of assets or termination of Prime Broker agreements should be avoided if possible
  - Stress scenario only terminates non-committed customer financing agreements (\$2 billion overall on a net basis)
  - Sale of assets of only \$21 billion envisaged between start of liquidity event on April 11 and November 30
    - First sale of assets not envisaged for at least two weeks after start of liquidity event
    - Lehman Brothers’ net balance sheet as of April 10 stood at \$482 billion – compared with \$397 billion at February quarter end. Increase in balance sheet intra quarter is in liquid products, which can be easily bought and sold
- Other stress event assumptions included in the scenario
  - Liquidity outflow due to a one notch rating downgrade and removal of collateralization of excess payables (\$3 billion)
  - Draw on loan commitments outside of Lehman Brothers bank entities or the prefunded Aegis conduit (\$11 billion)
  - Funding on acquisition facilities (\$6 billion)
  - Additional losses on asset sales due to “fire sale” effect (\$2 billion)

# Mitigation Strategy (I)

---

- ◆ Term repo overfunding
  - We have about \$2 billion of term repo overfunding in LBI for high yield corporates (tickets > allocated collateral), which we can use on a temporary basis to mitigate the loss of overnight repos
  
- ◆ Use of PDCF and ECB window
  - We assume that we can pledge investment grade collateral to the Federal Reserve and to the ECB (via the Bankhaus) on a same day basis. We also assume that the PDCF will be extended beyond its initial six month life
    - PDCF: \$22 billion utilization on day 1 (excluding Treasuries and Agency); \$37 billion utilization on November 30
    - ECB: \$7 billion utilization on day 1 (excluding Govies); \$9 billion utilization on November 30
  
- ◆ Committed facilities
  - We would draw on our two committed facilities on a same day basis for \$4.5 billion
  
- ◆ Funding in Lehman Brothers bank entities
  - Lehman Brothers Bankhaus
    - Besides acting as a “conduit” for pledging assets to the ECB, we would also use the Bankhaus to fund non-ECB eligible assets out of LBIE such as high yield corporates (\$1 billion on day 1; \$6 billion on May 31; \$16 billion on November 30 – slow start up period required by the necessity to raise additional GDPF-protected funds)
  - Lehman Brothers Commercial Bank
    - We would move some of the customer margin lending business to LBCB to fund \$8 billion of customer collateral starting with an initial \$2 billion three weeks after the start of the liquidity event
  - We do not assume a temporary exemption of Regulation W, preventing U.S. bank entities from funding affiliate entities (although we would most likely apply for one to use our excess cash in Lehman Brothers Bank and Lehman Brothers Commercial Bank and to access the Federal Reserve discount window)

# Mitigation Strategy (II)

---

## ◆ Asset securitization

- We would actively pursue an asset securitization program, as evidenced by our recent Freedom CLO transaction. We assume that we could generate \$16.5 billion of additional PDCF- or ECB-eligible securities by August 31, which is in line with our current plan
  - We did not assume any acceleration of the plan or additional asset securitization, which would reduce the need to reduce customer financing or Firm's inventory.

## ◆ Balance sheet reduction

- Customer collateral: In the stress scenario, we would terminate \$10 billion of prime broker funding agreements for which we did not provide any committed funding facility. We would replace \$8 billion of this lost funding capacity with a customer margin lending agreement in LBCB (see previous slide)
- Firm's inventory: In the stress scenario, we would sell \$21 billion of assets in inventory – primarily to mitigate cash outflows related to the funding of loans and the repayment of long-term debt in the third and fourth quarters.
  - This sale of assets is relatively modest relative to the size of our inventory (~\$400 billion) on day 1 of the liquidity event and the planned reduction of net assets between now and quarter end (~\$140 billion)

# Liquidity Stress Scenario: Overall Results

	11-Apr	14-Apr	15-Apr	16-Apr	17-Apr	18-Apr	21-Apr	22-Apr	23-Apr	24-Apr	25-Apr	28-Apr	29-Apr	30-Apr	31-May	31-Aug	30-Nov	Total	
<b>Beginning Cash Position</b>																			
LBJ	-	-	-	-	-	-	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)	(0.8)	(0.8)	<b>(0.8)</b>
LBIE	4.2	(14.5)	(16.2)	(17.2)	(17.2)	(18.4)	(17.4)	(18.6)	(15.4)	(15.4)	(14.9)	(14.7)	(14.7)	(14.9)	(16.0)	(20.1)	(22.7)	(22.7)	<b>(22.7)</b>
LBI	0.1	(14.3)	(16.3)	(16.3)	(16.3)	(16.3)	(16.3)	(16.3)	(16.6)	(16.9)	(16.9)	(16.9)	(16.9)	(17.9)	(15.9)	(18.1)	(20.5)	(20.5)	<b>(20.5)</b>
LBHI	32.0	22.5	23.4	24.3	24.0	25.3	24.2	24.2	21.6	21.6	21.1	20.1	19.8	21.5	20.3	24.3	24.0	24.0	<b>24.0</b>
Bankhaus	0.8	9.1	9.2	9.4	9.6	10.0	10.0	11.0	11.0	11.0	11.0	12.1	12.1	12.1	12.1	15.3	20.3	20.3	<b>20.3</b>
Total	37.0	2.8	0.2	0.2	0.1	0.6	0.5	0.1	0.4	0.1	0.1	0.4	0.1	0.6	0.3	0.6	0.3	0.3	<b>0.3</b>
<b>Secured Funding</b>																			
<b>Net Loss</b>																			
LBJ	-	-	-	-	-	-	(0.2)	-	-	-	-	-	-	-	(0.6)	-	-	-	<b>(0.8)</b>
LBIE	(18.7)	(2.2)	(3.5)	(1.5)	(1.2)	-	(1.2)	(0.3)	-	-	(0.3)	-	(0.2)	(1.1)	(4.1)	(2.6)	(0.8)	(0.8)	<b>(37.7)</b>
LBI (includes impact of LBCB)	(14.4)	(2.0)	(0.0)	-	-	-	-	(0.3)	(0.3)	-	-	-	(1.0)	2.0	(2.2)	(2.4)	1.0	1.0	<b>(19.6)</b>
LBHI	(0.5)	(0.1)	-	-	-	-	-	-	-	-	-	-	-	-	-	(0.6)	-	-	<b>(1.2)</b>
Bankhaus (for LBIE)	8.3	0.2	0.1	0.2	0.4	-	1.0	0.0	-	-	1.1	-	0.0	-	3.2	5.0	5.1	5.1	<b>24.7</b>
<b>Total Net Loss Secured Funding</b>	<b>(25.3)</b>	<b>(4.1)</b>	<b>(3.4)</b>	<b>(1.3)</b>	<b>(0.8)</b>	<b>-</b>	<b>(0.4)</b>	<b>(0.6)</b>	<b>(0.3)</b>	<b>-</b>	<b>0.8</b>	<b>-</b>	<b>(1.2)</b>	<b>0.9</b>	<b>(3.7)</b>	<b>(0.7)</b>	<b>5.3</b>	<b>(34.7)</b>	<b>(34.7)</b>
<b>Unsecured Funding</b>																			
Not overnight liquidity	(8.3)	-	2.0	-	1.3	0.2	-	-	-	-	-	-	-	-	-	-	-	-	<b>(4.8)</b>
CP	(5.1)	(0.0)	(0.8)	(0.2)	(0.0)	-	(0.0)	(0.0)	(0.0)	(0.4)	(0.4)	(0.3)	(0.1)	(0.1)	(1.2)	(0.4)	(0.6)	(0.6)	<b>(9.7)</b>
STD	-	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.0)	(0.0)	(0.1)	(0.4)	(0.6)	(0.6)	(0.6)	<b>(2.2)</b>
LTD	-	(0.0)	(0.3)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	-	(0.0)	(2.6)	(2.9)	(4.3)	(4.3)	<b>(10.3)</b>
<b>Loan Activity</b>																			
Securitization	-	-	-	-	-	0.2	-	-	-	-	-	-	-	1.3	10.0	5.0	-	-	<b>16.5</b>
Draw on commitments (outside of banks)	-	-	-	-	-	(1.0)	-	-	-	-	(1.0)	-	-	(1.0)	(3.0)	(5.0)	-	-	<b>(11.0)</b>
Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	(1.6)	(1.0)	(3.1)	-	-	<b>(5.7)</b>
Bankhaus Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	0.7	-	-	-	-	<b>0.7</b>
<b>Derivatives Funding (downgrade)</b>																			
Balance Sheet Reduction	-	-	-	-	-	-	-	(2.5)	-	-	1.0	-	2.0	-	(0.2)	4.0	11.0	3.0	<b>21.0</b>
Writedowns on balance sheet reduction	-	-	-	-	-	-	-	-	-	-	(0.1)	-	(0.2)	-	(0.4)	(1.1)	(0.3)	(0.3)	<b>(2.1)</b>
Prime Broker Reduction (Available: \$10.0 bn)	-	0.5	2.5	1.5	-	1.0	-	3.5	-	0.5	0.5	-	-	-	-	-	-	-	<b>10.0</b>
Matched Book Reduction	-	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>1.0</b>
Committed Facility Drawdown	4.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>4.5</b>
Cash outflows to fund operations (PE, NPE, etc.)	-	-	-	-	-	(0.4)	-	-	-	-	(0.4)	-	-	(0.4)	(1.2)	(2.5)	(2.5)	(2.5)	<b>(7.4)</b>
<b>Total Net Loss Unsecured Funding</b>	<b>(8.9)</b>	<b>1.4</b>	<b>3.4</b>	<b>1.2</b>	<b>1.3</b>	<b>(0.1)</b>	<b>(0.0)</b>	<b>1.0</b>	<b>(0.0)</b>	<b>0.0</b>	<b>(0.5)</b>	<b>(0.4)</b>	<b>1.7</b>	<b>(1.1)</b>	<b>4.0</b>	<b>0.3</b>	<b>(5.3)</b>	<b>(2.1)</b>	<b>(2.1)</b>
<b>Net Cash Position (cash is fungible across legal entities)</b>																			
LBJ	-	-	-	-	-	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)	(0.8)	(0.8)	(0.8)	<b>(0.8)</b>
LBIE	(14.5)	(16.2)	(17.2)	(17.2)	(18.4)	(17.4)	(18.6)	(15.4)	(15.4)	(14.9)	(14.7)	(14.7)	(14.9)	(16.0)	(20.1)	(22.7)	(23.5)	(23.5)	<b>(23.5)</b>
LBI	(14.3)	(16.3)	(16.3)	(16.3)	(16.3)	(16.3)	(16.3)	(16.6)	(16.9)	(16.9)	(16.9)	(16.9)	(17.9)	(15.9)	(18.1)	(20.5)	(19.5)	(19.5)	<b>(19.5)</b>
LBHI	22.5	23.4	24.3	24.0	25.3	24.2	24.2	21.6	21.6	21.1	20.1	19.8	21.5	20.3	24.3	24.0	18.7	18.7	<b>18.7</b>
Bankhaus	9.1	9.2	9.4	9.6	10.0	10.0	11.0	11.0	11.0	11.0	12.1	12.1	12.1	12.1	15.3	20.3	25.4	25.4	<b>25.4</b>
Total	2.8	0.2	0.2	0.1	0.6	0.5	0.1	0.4	0.1	0.1	0.4	0.1	0.6	0.3	0.6	0.3	0.2	0.2	<b>0.2</b>

Note: Legal entity is typically a key dimension in liquidity planning. Our broker dealers are typically long cash, which cannot be upstreamed to the Holding Company. In this stress scenario however, the largest liquidity stress would be felt at the broker dealers, which, because they could not roll maturing repos, would experience significant cash outflows. As a result, they would borrow cash from the Holding Company and, from a practical standpoint, cash would flow freely across legal entities (with the exception of our U.S. bank entities)

# Secured Funding: Gross Capacity Lost

	11-Apr	14-Apr	15-Apr	16-Apr	17-Apr	18-Apr	21-Apr	22-Apr	23-Apr	24-Apr	25-Apr	28-Apr	29-Apr	30-Apr	31-May	31-Aug	30-Nov	Total
<b>Secured Funding</b>																		
<b>Lost Capacity (excl. LBBAG, ECB and Fed)</b>																		
<b>LBJ</b>																		
Equities	-	-	-	-	-	-	0.2	-	-	-	-	-	-	-	0.6	-	-	<b>0.8</b>
<b>LBIE</b>																		
HG Asset Backed	0.7	0.1	-	-	-	-	-	0.0	-	-	0.1	-	-	-	0.1	-	-	<b>1.0</b>
Convertibles	0.4	0.2	0.0	0.1	0.1	-	0.3	0.1	-	-	0.1	-	0.1	-	1.4	0.5	0.6	<b>3.9</b>
HG Corporates	6.5	0.1	0.1	0.2	0.4	-	-	-	-	-	-	-	0.0	-	0.1	0.0	0.1	<b>7.6</b>
HY Corporates	0.9	0.0	0.2	0.1	0.1	-	0.3	0.0	-	-	0.0	-	0.0	1.1	0.6	0.5	0.0	<b>3.8</b>
EMG	2.2	0.5	0.1	0.0	0.1	-	0.0	0.2	-	-	0.1	-	0.0	-	1.0	0.8	0.0	<b>5.0</b>
Equities	0.2	1.4	3.1	1.1	0.5	-	0.6	-	-	-	-	-	0.1	-	0.9	0.8	-	<b>8.7</b>
Money Markets	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	-	-	<b>0.1</b>
HY Private Labels	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>0.0</b>
HG Private Labels	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>0.0</b>
<b>Total LBIE</b>	<b>11.0</b>	<b>2.2</b>	<b>3.5</b>	<b>1.5</b>	<b>1.2</b>	<b>-</b>	<b>1.2</b>	<b>0.3</b>	<b>-</b>	<b>-</b>	<b>0.3</b>	<b>-</b>	<b>0.2</b>	<b>1.1</b>	<b>4.1</b>	<b>2.6</b>	<b>0.8</b>	<b>30.0</b>
<b>LBI</b>																		
HG Asset Backed	1.4	-	-	0.5	-	-	-	-	0.5	-	-	-	-	-	3.5	-	-	<b>5.8</b>
Convertibles	0.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.5	-	<b>1.4</b>
HG Corporates	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	0.5	-	<b>4.8</b>
HY Corporates	10.6	1.0	0.0	-	-	-	-	-	0.0	-	-	-	-	-	0.9	0.0	-	<b>12.5</b>
Equities	4.7	-	-	-	-	-	-	-	-	-	-	-	-	-	1.6	2.8	1.0	<b>10.1</b>
Money Markets	8.1	0.5	-	-	-	-	-	-	-	-	-	0.5	-	-	-	-	-	<b>9.1</b>
Muni	2.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>2.2</b>
HY Private Labels	0.0	-	-	-	-	-	-	0.3	0.2	-	-	-	1.0	-	0.8	1.1	-	<b>3.5</b>
HG Private Labels	6.4	1.4	0.8	0.5	0.1	1.2	-	-	-	-	0.8	-	-	-	2.0	1.5	-	<b>14.7</b>
<b>Total LBI</b>	<b>38.5</b>	<b>2.9</b>	<b>0.8</b>	<b>1.0</b>	<b>0.1</b>	<b>1.2</b>	<b>-</b>	<b>0.3</b>	<b>0.8</b>	<b>-</b>	<b>0.8</b>	<b>0.5</b>	<b>1.0</b>	<b>-</b>	<b>8.7</b>	<b>6.5</b>	<b>1.0</b>	<b>64.2</b>
<b>LBHI</b>																		
Wholeloan Residential	0.5	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	0.6	-	<b>1.2</b>
<b>Total Capacity Lost</b>	<b>50.1</b>	<b>5.1</b>	<b>4.3</b>	<b>2.5</b>	<b>1.3</b>	<b>1.2</b>	<b>1.4</b>	<b>0.7</b>	<b>0.8</b>	<b>-</b>	<b>1.1</b>	<b>0.5</b>	<b>1.2</b>	<b>1.1</b>	<b>13.3</b>	<b>9.8</b>	<b>1.8</b>	<b>96.2</b>

# Secured Funding: Net Capacity Lost

	11-Apr	14-Apr	15-Apr	16-Apr	17-Apr	18-Apr	21-Apr	22-Apr	23-Apr	24-Apr	25-Apr	28-Apr	29-Apr	30-Apr	31-May	31-Aug	30-Nov	Total
<b>Secured Funding</b>																		
<b>Total Capacity Lost</b>	50.1	5.1	4.3	2.5	1.3	1.2	1.4	0.7	0.8	-	1.1	0.5	1.2	1.1	13.3	9.8	1.8	<b>96.2</b>
<b>New Capacity</b>																		
<b>Term Overfunding/ Prime Broker</b>																		
LBJ	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBIE																		-
PB Customer Free Credits	(7.7)																	<b>(7.7)</b>
LBI																		-
HY Corporates	1.9	(1.0)													(0.9)		-	<b>(0.0)</b>
LBHI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>(5.8)</b>	<b>(1.0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0.9)</b>	<b>-</b>	<b>-</b>	<b>(7.7)</b>
<b>Federal Reserve</b>																		
HG Asset Backed	1.4	-	-	0.5	-	-	-	-	0.5	-	-	-	-	-	3.5	0.0	-	<b>5.9</b>
HG Corporates	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	0.5	-	<b>4.8</b>
Money Markets	8.1	0.5	-	-	-	-	-	-	-	-	-	0.5	-	-	-	-	-	<b>9.1</b>
Muni	2.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	-	<b>2.2</b>
HG Private Labels	6.4	1.4	0.8	0.5	0.1	1.2	-	-	-	-	0.8	-	-	-	2.0	1.5	-	<b>14.7</b>
<b>Total</b>	<b>22.3</b>	<b>1.9</b>	<b>0.8</b>	<b>1.0</b>	<b>0.1</b>	<b>1.2</b>	<b>-</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>0.8</b>	<b>0.5</b>	<b>-</b>	<b>-</b>	<b>5.4</b>	<b>2.0</b>	<b>-</b>	<b>36.6</b>
<b>ECB</b>																		
HG Asset Backed	0.7	0.1	-	-	-	-	-	0.0	-	-	0.1	-	-	-	0.1	-	-	<b>1.0</b>
HG Corporates	6.5	0.1	0.1	0.2	0.4	-	-	-	-	-	-	-	0.0	-	0.1	0.0	0.1	<b>7.6</b>
Money Markets	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	-	-	<b>0.1</b>
HG Private Labels	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>0.0</b>
<b>Total</b>	<b>7.3</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.4</b>	<b>-</b>	<b>-</b>	<b>0.0</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>-</b>	<b>0.0</b>	<b>-</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>8.6</b>
<b>Bankhaus</b>																		
HY Fixed Income	1.0						1.0				1.0				3.0	5.0	5.0	<b>16.0</b>
<b>LBCB</b>																		
HY Corporates - Customer														2.0	2.0	2.0	2.0	<b>8.0</b>
<b>Net Loss</b>																		
LBJ	-	-	-	-	-	-	(0.2)	-	-	-	-	-	-	-	(0.6)	-	-	<b>(0.8)</b>
LBIE	(18.7)	(2.2)	(3.5)	(1.5)	(1.2)	-	(1.2)	(0.3)	-	-	(0.3)	-	(0.2)	(1.1)	(4.1)	(2.6)	(0.8)	<b>(37.7)</b>
LBI (includes impact of LBCB)	(14.4)	(2.0)	(0.0)	-	-	-	-	(0.3)	(0.3)	-	-	-	(1.0)	2.0	(2.2)	(2.4)	1.0	<b>(19.6)</b>
LBHI	(0.5)	(0.1)	-	-	-	-	-	-	-	-	-	-	-	-	-	(0.6)	-	<b>(1.2)</b>
Bankhaus (for LBIE)	8.3	0.2	0.1	0.2	0.4	-	1.0	0.0	-	-	1.1	-	0.0	-	3.2	5.0	5.1	<b>24.7</b>
<b>Total Net Loss Secured Funding</b>	<b>(25.3)</b>	<b>(4.1)</b>	<b>(3.4)</b>	<b>(1.3)</b>	<b>(0.8)</b>	<b>-</b>	<b>(0.4)</b>	<b>(0.6)</b>	<b>(0.3)</b>	<b>-</b>	<b>0.8</b>	<b>-</b>	<b>(1.2)</b>	<b>0.9</b>	<b>(3.7)</b>	<b>(0.7)</b>	<b>5.3</b>	<b>(34.7)</b>

LEHMAN BROTHERS

# Funding Framework Of Securities Firms

---

- ◆ Funding framework of securities firms is mostly focused on the loss of unsecured funding
  - Inability to roll maturing commercial paper and issue long-term debt
  - To mitigate this liquidity risk, securities firms fund less liquid assets with cash capital (equity or long-term debt with remaining life greater than one year) and hold large liquidity pools available to the Holding Company to repay maturing unsecured debt
  - This is consistent with the Drexel liquidity event. It is also consistent with what we experienced on March 17, when we only issued \$2.2 billion of CP versus the \$6.2 billion of CP maturing that day (65% loss rate)
  
- ◆ Liquidity risk at the broker dealers is thought to be less of an issue
  - Regulatory capital requirements are typically in excess of the unsecured funding requirements
  - Repo market is thought to be much more reliable than unsecured market
    - Essential monetary policy tool of the central banks
    - Low credit risk because of the collateral received by the lender and the haircut
    - Sophisticated nature of most lenders: banks, money managers, sec lenders, which have structural lending needs
  - This is consistent with our experience: on March 17 and March 18, we lost \$9 billion of “non traditional” repo funding capacity out of \$60 billion maturing repos (15% loss rate). Because we overfunded the less liquid asset classes, use “friends of the Firm” as counterparts and also rely on term repo funding, the impact on our funded collateral was very muted - \$3 billion of repo-related funding loss

# Reasonableness Of Liquidity Stress Scenario

---

- ◆ Liquidity stress scenario described in this presentation seems overly simplistic
  - Crude view of the repo market
    - Treats all counterparts the same way
    - Makes little differentiation across asset classes.
      - Two categories: ECB or Fed-eligible (investment grade fixed income securities); non-ECB and non-Fed eligible (equities and high yield fixed income securities)
      - E1 equity repo market is deep and very liquid
  - Assumes no other changes in market environment or Lehman Brothers' strategy (“business as usual” approach)
    - Prolonged disruption to the financing markets, secured and unsecured, would trigger structural re-adjustments to our strategy
      - Attractiveness of staying in the Prime Broker business
      - Attractiveness of being a market maker and providing liquidity to the markets
    - As the Firm delevers (because of its inability to roll maturing debt), it would need to focus on higher return businesses, such as principal investing or prop trading, and de-emphasize balance sheet intensive, low return businesses such as client facilitation and prime broker.