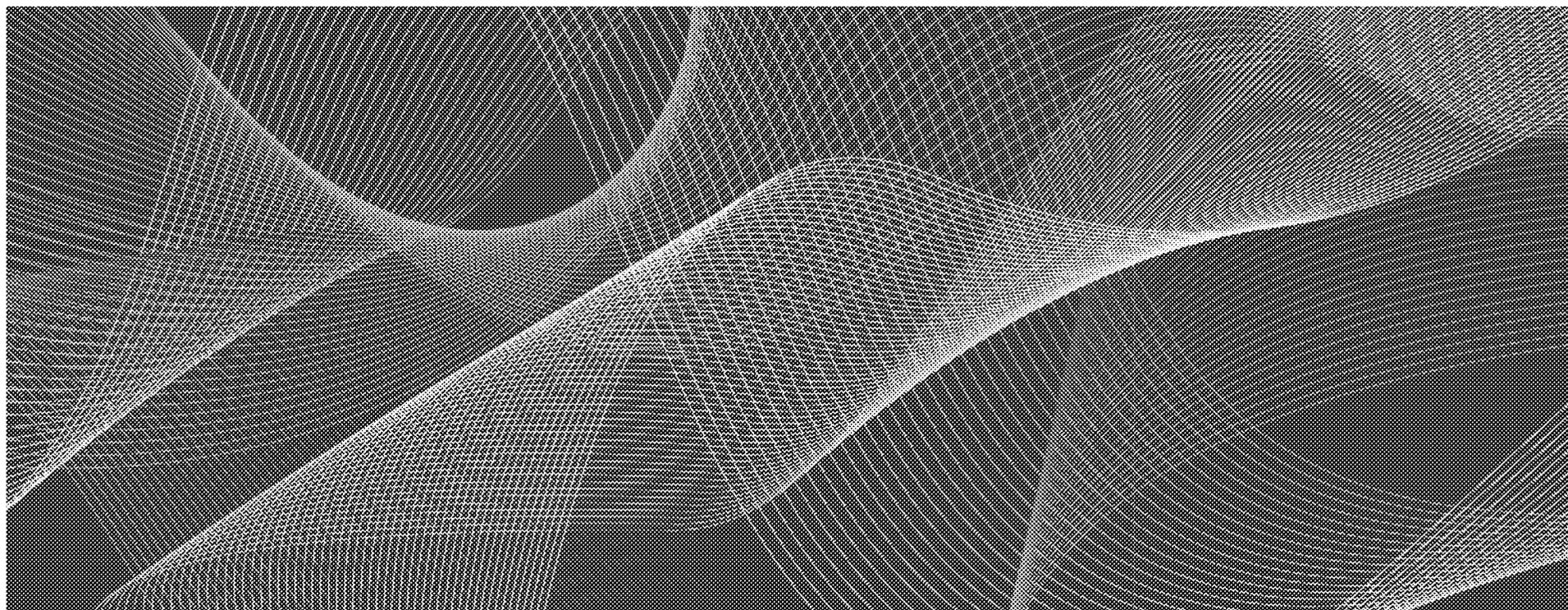


# Liquidity Management At Lehman Brothers



Confidential Presentation

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## Introduction To The Funding Framework

# Introduction To The Funding Framework

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- ◆ Established in the aftermath of the liquidity event of 1998, the Lehman Brothers Funding Framework is based on a set of conservative principles guiding the funding of assets and mitigating our liquidity risk. It has been refined and augmented over the years as Lehman enters new businesses and as the liquidity risk of existing businesses changes.
  
- ◆ At its core are the following principles
  - Remain in a state of constant liquidity readiness
  - Do not rely on asset sales, increase in operational effectiveness or access to the unsecured debt market in a time of crisis
  - Be proactive with your key stakeholders before and during a liquidity event: regulators, creditors, trading counterparts and rating agencies
  
- ◆ It is structured around three dimensions
  - Liquidity pool to cover cash outflows over a 12 month horizon at the Holdings Company
  - Cash capital to cover funding of illiquid assets as well as contingent liquidity risk
  - Secured funding plan to mitigate the liquidity risk associated with short-term secured funding, including the prime broker business
  
- ◆ Although this structure is relatively common across the industry, we believe that the conservativeness embedded in our Funding Framework (e.g., we fund boxed positions with cash capital, irrespective of the liquidity characteristics of the positions) is what distinguishes our Framework from that of our peers

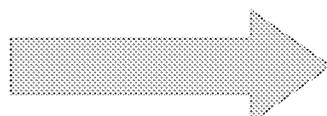
# Core Principles of Capital & Liquidity Management

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**Our capital & liquidity management is based on four principles.**

## Liquidity Strategy Principle

- ◆ We must remain in a constant state of liquidity readiness
- ◆ We should not rely on asset sales or increases in unsecured borrowings or funding efficiencies in a liquidity crisis
- ◆ We should not overestimate the availability of secured financing in a liquidity crisis
- ◆ Legal entity structure constrains liquidity flows which should be explicitly accounted for in liquidity planning



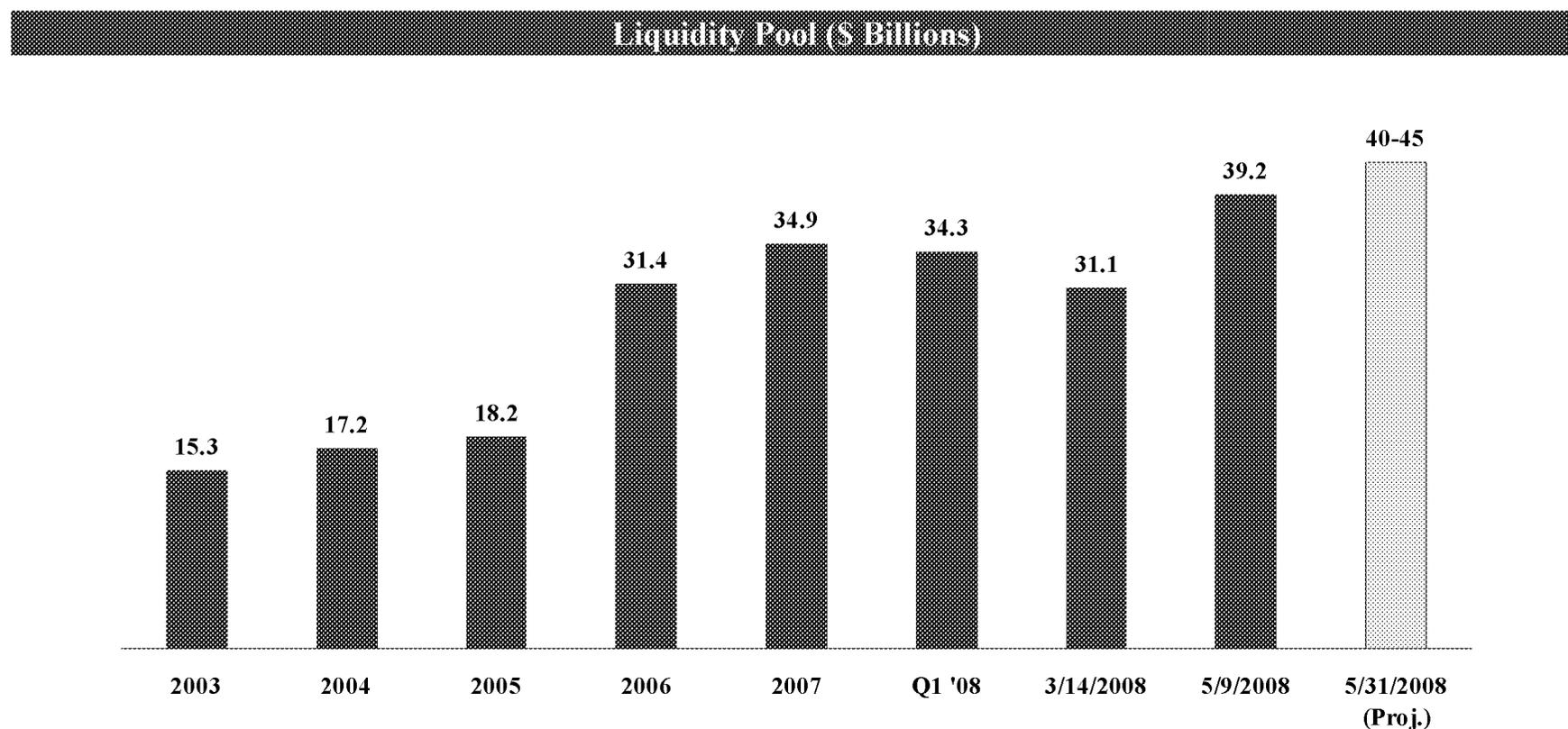
## Implication To Funding Framework

- ◆ Maintain a **large cash position** in the Holding Chain, sufficient to absorb the impact of a very severe liquidity event
- ◆ **Do not plan on reducing balance sheet for liquidity reasons** in a liquidity event (although may do so for risk reasons)
- ◆ Establish '**Reliable Secured Funding**' levels
- ◆ Separate Cash Capital Model for each **regulated entity** and the Holding Chain; treat all excess cash in restricted entities as 'trapped'

# Liquidity Pool

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- ◆ Starting in 2006, we increased the size of Holdings' liquidity to \$30-35 billion. We project ending the quarter with a record \$40-45 billion liquidity pool.



# Management Of Liquidity Pool

- ◆ Liquidity pool is managed by Treasury for the Holding Company. It is invested in cash and cash equivalents (e.g., money market funds) and good quality collateral for which we have ample unused funding capacity with external counterparts
  - Investment grade securities (Treasuries, Agencies, Corporates and Asset-Backed Securities)
  - Major index equities
- ◆ Not included in the liquidity pool are unencumbered assets (\$70 billion in unregulated subsidiaries and \$87 billion in regulated subsidiaries as of April 30) and the liquidity pools held at the bank entities and broker dealers.

## Composition Of Liquidity Pool As Of May 9, 2008

\$ Millions

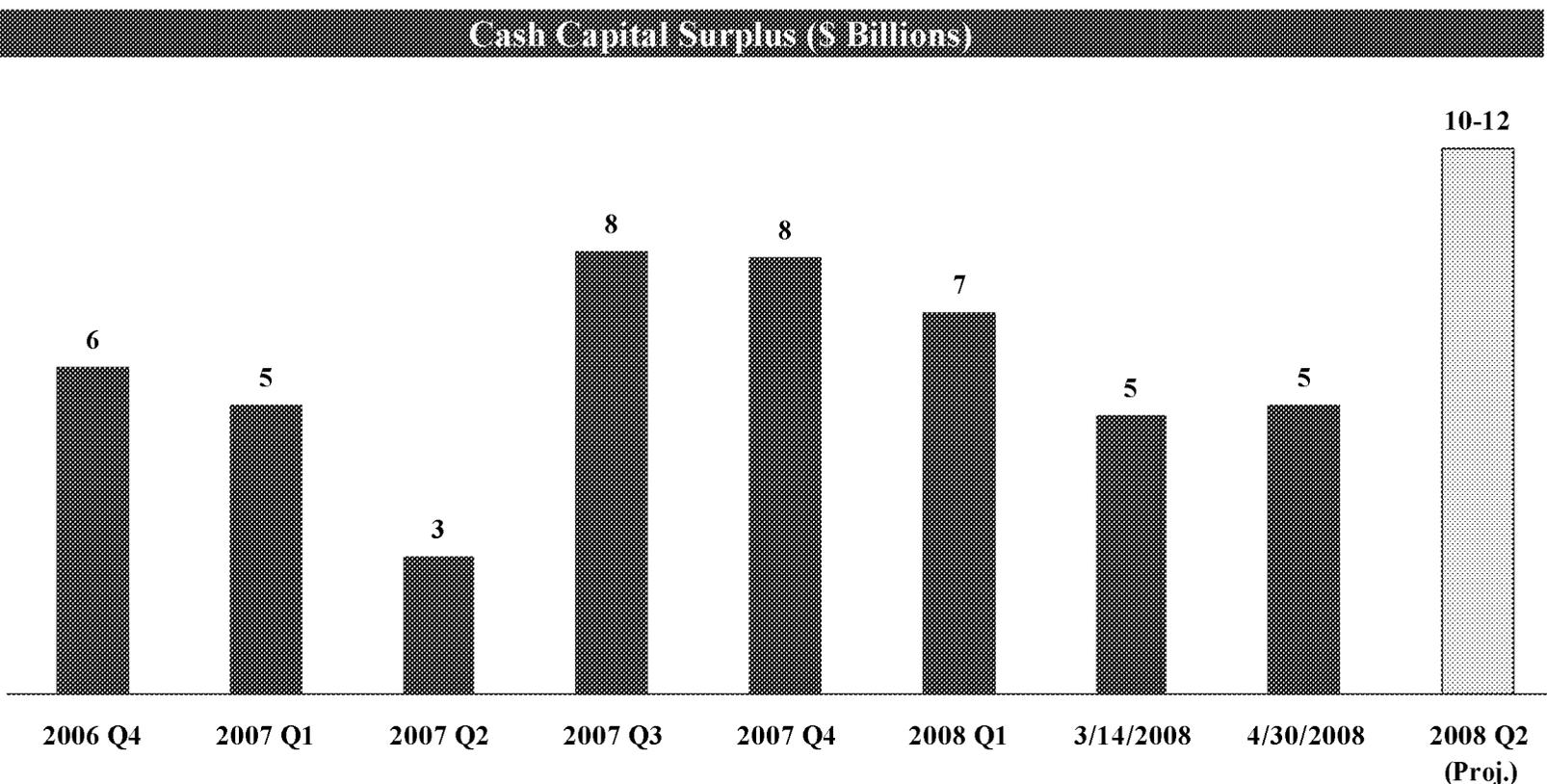
Investment Type	Pledge Value*			
	LBHI Pledge Value	LBI Pledge Value	LBIE Pledge Value	Total Pledge Value
	New York Inv	New York Inv	Europe Inv	Global Inv
<b>1. Cash</b>				
Bank Deposits	1,748	-	1,445	3,193
Other Cash Inv	2,559	1,333	-	3,892
Money Funds	17,666	1,300	-	18,966
<b>Total Cash</b>	<b>21,972</b>	<b>2,633</b>	<b>1,445</b>	<b>26,051</b>
<b>2. Boxed Inventory</b>				
Private Label CMO's	1,126	-	265	1,391
Corporates	-	-	657	657
Governments / Treasuries	-	-	2,611	2,611
Asset Backed	2,854	-	22	2,876
Equities	37	-	4,644	4,681
Money Markets	920	-	-	920
Agencies	-	-	1	1
Canadian	-	-	9	9
Convertibles	-	-	16	16
<b>Total Boxed</b>	<b>4,937</b>	<b>-</b>	<b>8,226</b>	<b>13,163</b>
<b>C&amp;C Equivs Available to Holding Company</b>	<b>26,909</b>	<b>2,633</b>	<b>9,671</b>	<b>39,213</b>
<b>Undrawn Committed Facilities</b>				
Chase Facility				2,000
European Facility				2,500
<b>C&amp;C Equivs Available to Holding Company</b>				<b>43,713</b>

**Notes:**

\*Pledge value = Market Value of the collateral \* normal mkt haircut for each asset class

# Cash Capital Surplus

- ◆ Holdings' cash capital surplus had historically fluctuated in a range of \$2-6 billion. During the summer of 2007, we conservatively increased the target to \$4-8 billion. We project ending the quarter with a \$10-12 billion cash capital surplus.



# Management of Cash Capital

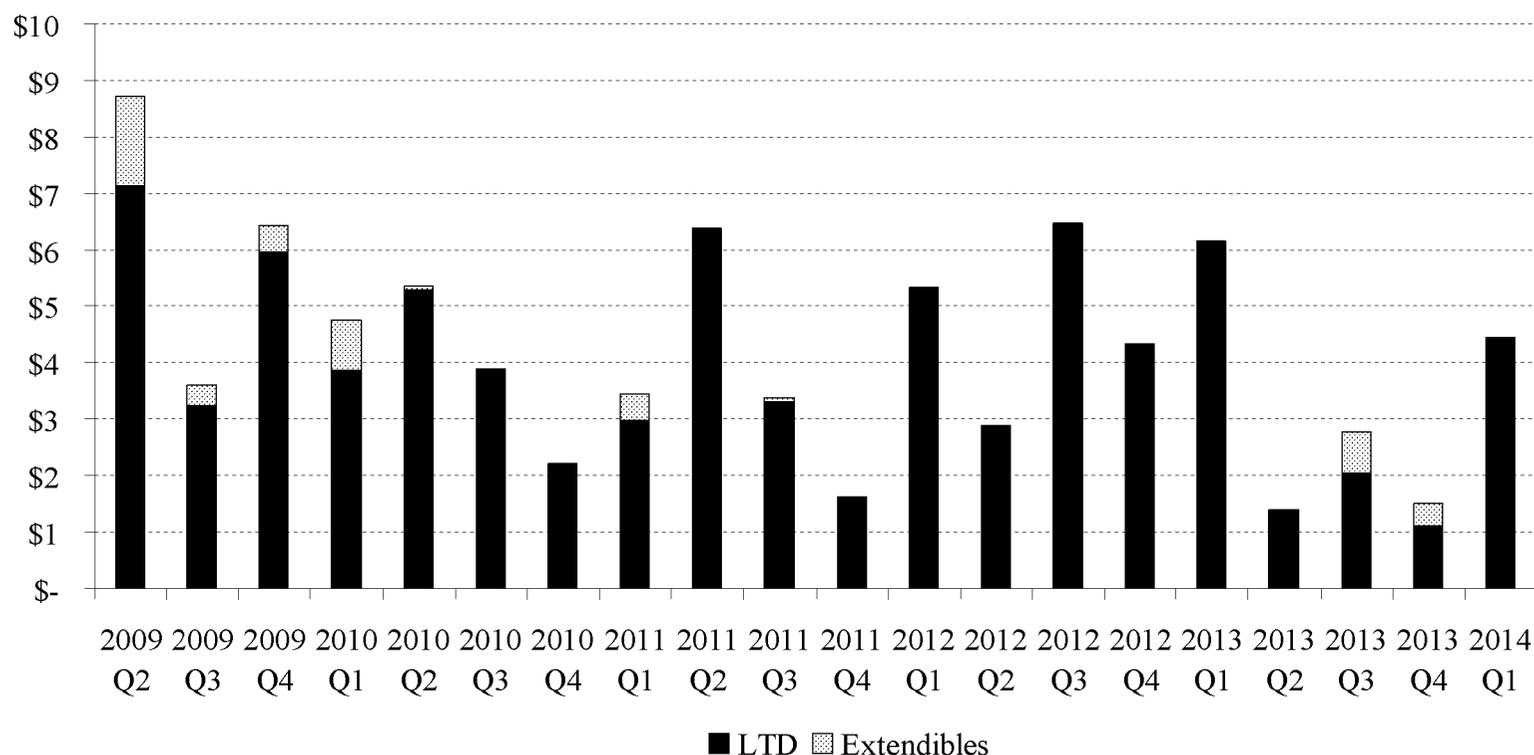
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- ◆ Cash capital sources at the Holding Company include:
  - Long-term capital (equity and long-term debt with at least one year of expected life)
  - Secured bank lines, typically extendibles, with at least one year till maturity
  - No reliance on hot money such as customer free credits, short term debt
  - Additionally, we also have two syndicated committed unsecured facilities with an overall capacity of \$4.5 billion, which are drawn from time to time and provide additional funding flexibility to Lehman Brothers
  
- ◆ We conservatively assess cash capital uses
  - Illiquid positions, which are completely funded with cash capital. We determine whether a position is illiquid by looking at its fundability in a stress liquidity event. This includes corporate loans and commercial whole loans.
  - Haircuts on funding liquid positions on a secured basis. We see the haircut (i.e., the difference between market and pledge values) as a cash capital use. Haircuts are conservatively estimated and regularly reviewed based on actual Lehman funding experience.
  - Boxed assets, irrespective of their liquidity characteristics (e.g., equities and corporate loans are treated the same way)
  - Derivatives receivables
  - Cash at banks, which is not managed as part of a liquidity pool, is also presumed to be “illiquid” in the sense that it cannot be used to meet a payment due to some operational friction (e.g., it is used in an escrow account).
  - Prefunding on unfunded loans used to mitigate contingent liquidity risk

# Managing Long-Term Debt Rollover Risk

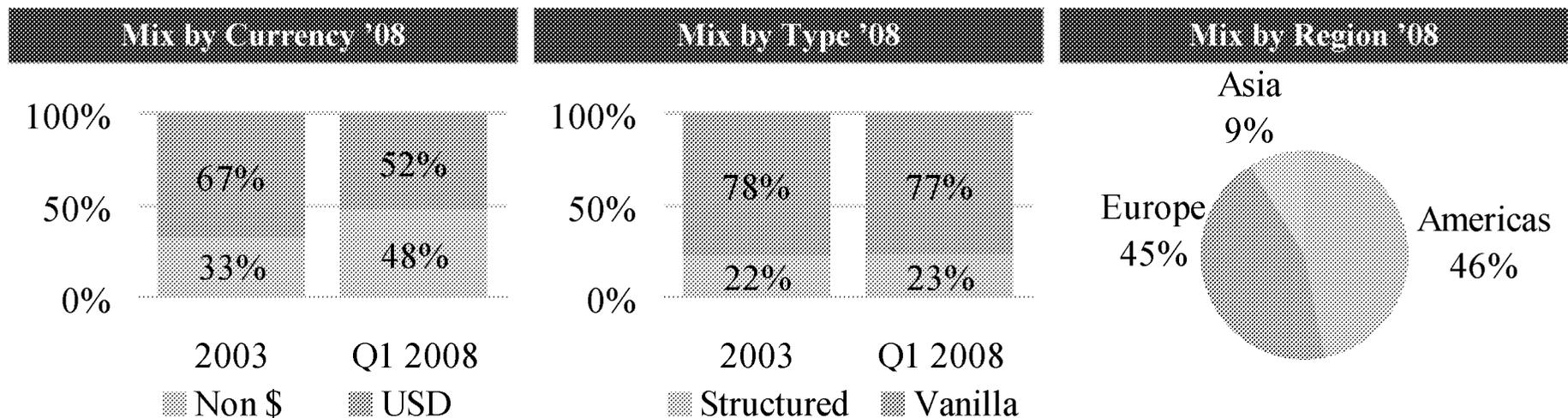
- ◆ In order to minimize refinancing risk, we have established threshold amounts (stated as percentages of outstanding long-term borrowings) on long-term borrowings anticipated to mature within any quarterly (12.5%), half-year (17.5%) and full-year (30.0%) interval. At February 29, 2008, those limits were \$16.0 billion, \$22.5 billion and \$38.5 billion, respectively. If we were to operate with debt above these levels, we would not include the additional amount as a source of cash capital.

2008 Q1 Long-Term Maturity Schedule (\$ Billions)



# Funding Diversification

- ◆ We diversify our issuances by currency, type and region to broaden our debt investor base
  - Currency sources: Our currency base is diversified, approximately 48% of Lehman Brothers' long-term debt was issued in currencies other than USD
  - Funding instruments: In addition to plain vanilla debt, we diversified our funding base by issuing structured notes
  - Investor base: Lehman Brothers diversified its issuances geographically to broaden the debt holder base. Approximately 53% of Lehman Brothers' long-term debt portfolio was issued in Europe and Asia



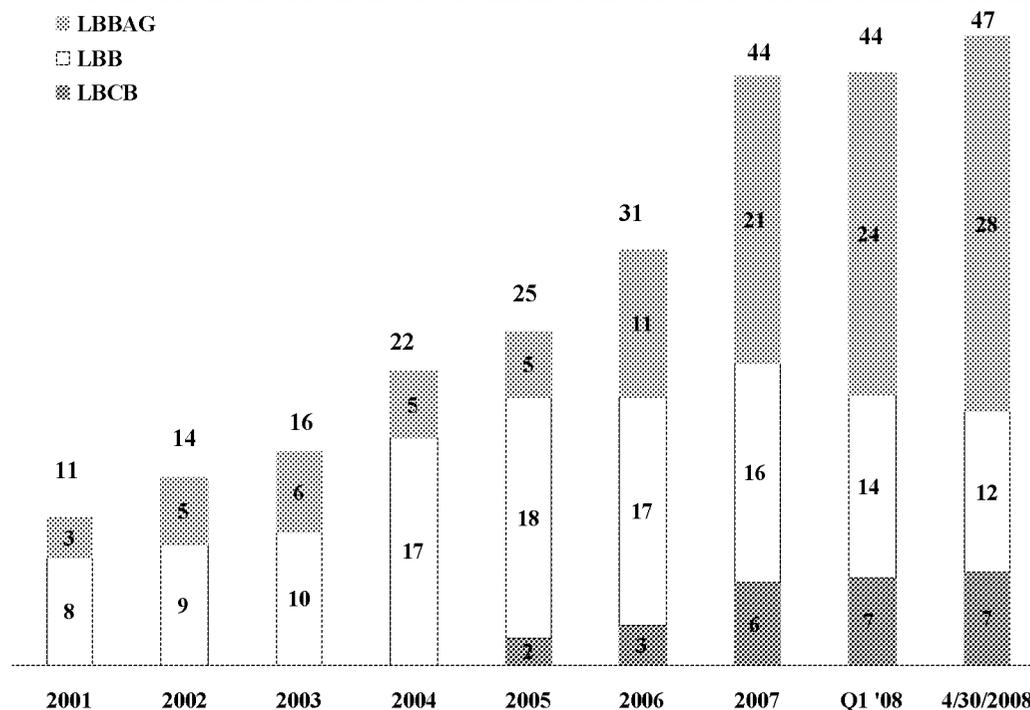
# Rapid Asset Growth At Lehman Brothers-Owned Banks

- ◆ Lehman's 3 banking entities are all benefit to raise cost-effective financing in a depositor-protected environment (proved extremely reliable).
- ◆ Additionally, the Bankhaus has access to the lending facilities of the European Central Bank (ECB) and the Bundesbank. The ECB has a \$700 billion lending facility accepting a wide range of good quality fixed income collateral, which commercial banks in the Euro zone use regularly for large amounts. The Bankhaus borrows approximately \$8 billion under this program.

## Lehman Banking Entities

- ◆ **Lehman Brothers Bank (LBB)** : Funds all US residential mortgage origination. Additionally funds commercial mortgages and investment grade US loans. Can access the Fed discount window.
- ◆ **Lehman Brothers Commercial Bank (LBCB)** : Funds commercial mortgages, derivative receivables and corporate & industrial loans. Can access the Fed discount window.
- ◆ **Lehman Brothers Bankhaus (LBBAG)**: Funds securities on repo and loans (commercial, residential and corporate). Can access the ECB discount window

## Lehman Banking Entities – Total Assets (\$Billions)



# Contingent Liquidity Risk

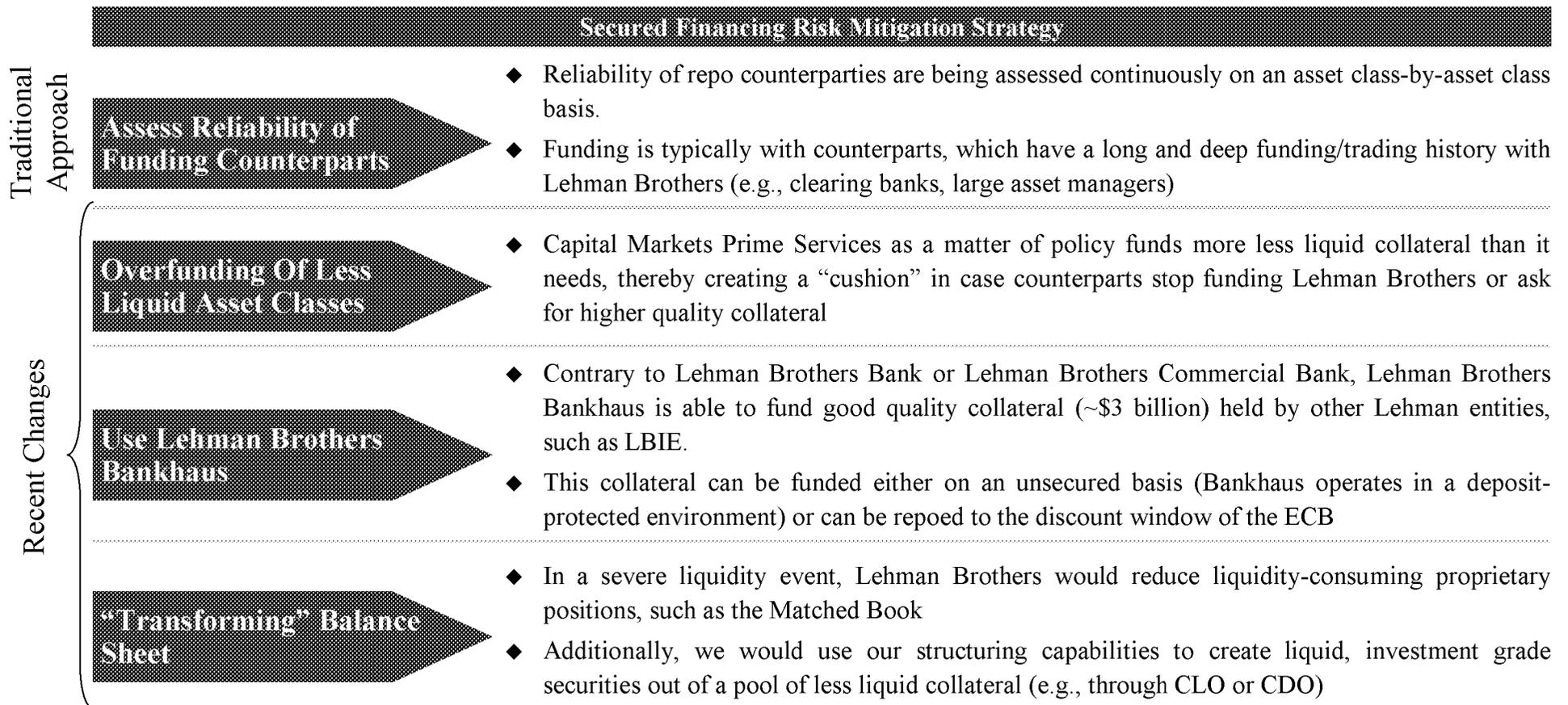
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- ◆ The Funding Framework is designed to set rules in order to protect Lehman in a stress liquidity environment. In a stress environment, whether Lehman-specific or market-wide, we plan for an increase in cash capital requirements due to
  - Unfunded loan commitments that get drawn due to a contraction in the market liquidity or due to a series of credit events impacting Lehman's banking clients.
  - Downgrade of Lehman's ratings
  
- ◆ Lehman has a large unfunded loan commitment portfolio – primarily as a result of long-term relationships with its clients.
  - As of February 2008, this portfolio amounted to \$26.3 billion for its high grade loan portfolio and \$12.5 billion for its high yield loan portfolio.
  - This portfolio is very diversified across clients and industries, which is an effective liquidity risk mitigant.
  - To further mitigate the risk, we book the majority of our loan commitments in our bank entities, which are best suited to handle this risk because they have access to the insurance-protected deposit markets and the Central Bank and, in the case of the U.S. bank entities, FHLB borrowing windows.
  - Additionally, we prefund the liquidity risk with cash capital based on a quantitative assessment of the draw, which is takes into account client ratings and industries.
  
- ◆ A downgrade of Lehman's ratings would mechanically result in an increase in cash capital requirements – primarily due to additional cash collateralization of our derivatives receivables.
  - The increase in funding requirements due to a one-notch downgrade is also funded with cash capital.

# Managing Secured Liquidity Risk

Short term secured financing represents the largest source of secured funding for the firm. Consequently, one of our key objectives is to insure that we maintain these funding sources in adverse market environments. We do not want to put Lehman Brothers in a position where a lack of liquidity results in an impairment of the franchise.

Lehman Brothers manages its secured liquidity using a four-pronged risk mitigation strategy, which conservatively assumes: (a) no reliance on Holdings' liquidity; (b) no reliance on customer collateral or free credits.



# Reliable Funding Counterparts

- ◆ Top 20 counterparties account for about 80% of the repo book, outside of Governments and Agencies.
  - Reliable counterparties with which Lehman has strong relationships
    - Clearing banks (JPMorgan Chase, Citibank, BONY/Mellon)
    - Large trading clients (State Street, Fidelity)

**Repo Book Principal Amount By Counterparty And Asset Class Allocated (\$ Billions) – May 8, 2008**

Counterparty	IG ABS	HY ABS	IG Conv.	HY Conv.	IG Corp.	HY Corp.	EMG	Equities	Money Markets	Muni	IG CMO	HY CMO	Total	% Total
A	1.0	0.2	0.0	0.2	4.1	1.7	0.6	2.9	1.0	1.3	2.0	1.1	<b>16.3</b>	15%
B	5.4	0.4	0.2	0.1	0.1	0.2	0.5	2.3				0.0	<b>9.1</b>	8%
C	8.0				0.1								<b>8.1</b>	7%
D	0.4		0.4	0.1	1.3	0.7	0.9	1.6	0.8	0.6	0.2	0.0	<b>7.0</b>	6%
E	1.3	0.2	0.6	0.0	0.4	1.8		0.5		1.9	0.0	0.0	<b>6.7</b>	6%
F	1.3	0.0			0.0				3.0		0.9	0.2	<b>5.5</b>	5%
G			0.2	0.1	1.3	0.1	0.2	2.8					<b>4.7</b>	4%
H	0.0										4.6	0.1	<b>4.7</b>	4%
I	0.3	0.0				0.2		0.9	0.5		2.2	0.0	<b>4.0</b>	4%
J	1.3	0.0		0.0	0.9	0.1	0.5						<b>2.9</b>	3%
K	0.2		0.0	0.4	0.0	0.2	1.1	0.8					<b>2.7</b>	2%
L	1.0	0.0		0.1	0.2	0.5		0.5	0.2		0.0	0.0	<b>2.5</b>	2%
M	0.0		0.1	0.2	0.5	0.2	0.1	1.1					<b>2.2</b>	2%
N	0.3	0.0	0.0	0.2	0.0	0.1	0.9	0.5	0.0		0.0	0.0	<b>2.0</b>	2%
O	0.4				0.6	0.0		0.8		0.0	0.0	0.1	<b>2.0</b>	2%
P							0.0	1.9					<b>1.9</b>	2%
Q	0.0	0.6			0.8	0.0					0.1	0.4	<b>1.9</b>	2%
R			0.0	0.5	0.0	0.0	0.1	1.1					<b>1.8</b>	2%
S	0.7	0.1			0.3	0.0		0.0	0.6		0.0		<b>1.7</b>	1%
T									1.5				<b>1.5</b>	1%
U	0.0		0.0	0.2	0.3	0.1	0.2	0.3					<b>1.2</b>	1%
Other (58 counterparties)	0.5	0.8	0.1	0.6	5.2	1.8	2.5	7.2	2.4	-	1.4	0.5	<b>22.9</b>	20%
<b>Total</b>	<b>22.1</b>	<b>2.3</b>	<b>1.6</b>	<b>2.6</b>	<b>16.0</b>	<b>7.6</b>	<b>7.5</b>	<b>24.9</b>	<b>9.9</b>	<b>3.9</b>	<b>11.3</b>	<b>2.4</b>	<b>112.0</b>	<b>100%</b>

# Secured Funding

- ◆ We mitigate secured funding risk by overfunding or term-funding at-risk asset classes (high yield corporates, asset backed securities). The overfunding used to be around \$10-15 billion but has lately increased to \$15-20 billion – more than half in non-Central Bank eligible collateral – primarily high yield corporates
- ◆ We also increase the average tenor of the repo book from 20-25 days to 25-30 days (35-40 days for collateral that cannot be pledged to the Federal Reserve or the ECB)

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

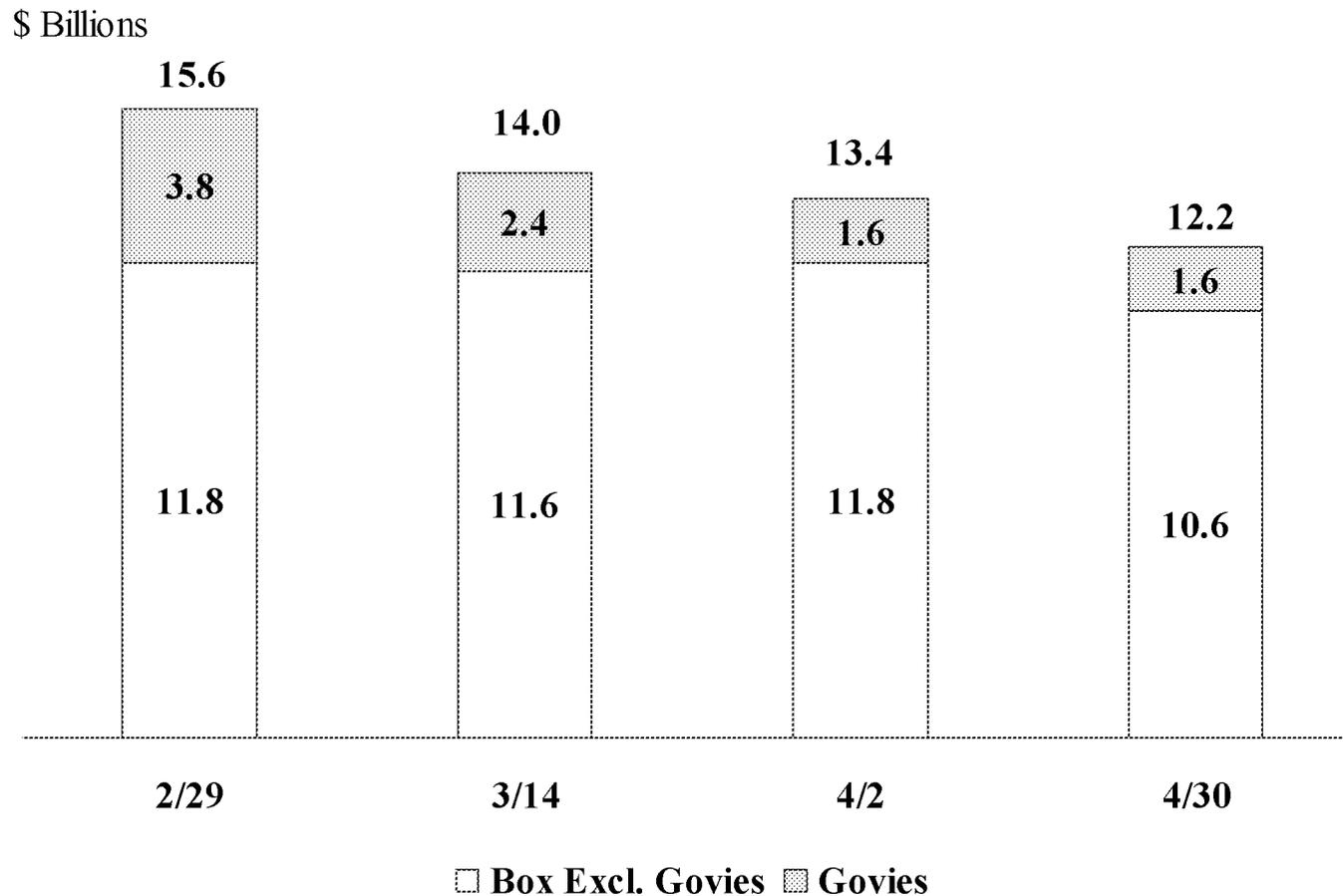
	29-Feb	4-Mar	14-Mar	2-Apr	2-May	3/14 - 5/2 Change
<u>Repo Book (\$ Billions)</u>						
Allocated Collateral	116.4	114.0	115.3	108.3	111.7	-3%
Overfunding	9.2	14.6	12.7	18.0	17.5	38%
<b>Repo Capacity</b>	<b>125.6</b>	<b>128.6</b>	<b>128.0</b>	<b>126.3</b>	<b>129.2</b>	1%
<u>Average tenor (days)</u>						
Grand Total	25	22	24	25	29	21%
<i>Central Bank Eligible Collateral</i>					23	
<i>Non Central Bank Eligible Collateral</i>					37	
% Repo Book With Maturities <= 1 Week	58%	58%	57%	52%	54%	-3%

1. Repo book excludes Governments, Treasuries, Government/MBS Agencies, Sovereigns

# Box Analysis

- ◆ Repoable boxes at the broker dealers have declined by \$3.4 billion since the start of the quarter – primarily driven by Government securities during March and harder-to-fund assets during April. This is a combination of improvements in operational efficiency and lower customer and inventory levels for these asset classes.

Repoable Boxes At The Broker Dealers



# Liquidity Risk Of Prime Broker Business

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- ◆ Prime brokers provide clients with a range of centralized record keeping, clearing and custodial services. Other core services include financing of securities positions and access to a supply of both liquid and illiquid securities for borrowing / short covering.
- ◆ Prime broker business is typically a cash generating business because the equity (customer free credit balances) and margin requirements are typically in excess of the actual cash requirements of the business (financing and short covering haircuts as well as the customer collateral left in the box)
  - The key funding principle for our prime broker business is that it should be self-sufficient. As a result, we typically generate enough cash to cover the withdrawal of the customer free credit balances, mitigate the risk of reduction in secured funding (either through haircut widening or loss of counterparties) and in operational effectiveness (e.g., increase in the amount of collateral in transit across depots).
- ◆ Regulatory requirements and client protection provisions can result in excess cash generation not being available to the broker dealers, LBI in the US or LBIE in the UK
  - In the U.S., SEC regulation 15c3 requires broker dealers to segregate any excess liquidity generated by the prime broker business
    - 15c3 lock ups are measured on a weekly basis, although they can be done more frequently in terms of extreme market volatility
  - In the UK, prime broker clients have the option of requiring a similar treatment, although, in practice, few do so

# Net Cash Generation Of Prime Broker Business in LBIE

- ◆ We manage the prime broker business in LBIE to be cash generative to make sure that the business is self sufficient from a funding perspective at all times. Cash generation covers
  - Customer free credit balances
  - Operational friction (change in lock ups, transfer of positions across depots, change in secured funding, etc.)
- ◆ Major sources of cash generation are the customer free credit balances, margins deposited by customers, proceeds from short sales and proceeds from repo financing of long positions. Major sources of cash usage are the short covering, financing haircuts, futures margins and other exchange requirements.
- ◆ In practice, the financing and short covering of the prime brokerage positions are comingled with the financing and short covering of our own inventory positions. As a result, it is possible for the prime broker short positions to be covered by Lehman’s long inventory positions (and vice versa).

## Prime Broker Business: Net Cash Generation As of May 8, 2008 (\$ Billions)

	Cash Generation	Cash Usage	Balance
Long Financing	71	(64)	7
Short Covering	56	(58)	(2)
Customer Free Credits	4		4
Total	131	(122)	9
LBIE Liquidity Pool			9

# Prime Broker Committed Facilities

- ◆ Term prime broker funding facilities are match funded with committed repo facilities of similar or longer term for all assets except investment grade corporates, which are typically Fed and ECB-eligible, and major index equities (E1).
- ◆ While we offer committed margin facilities, our commitment only extends to the funded portion. We have the right to refuse any increase in margin. We have the right to veto new collateral. We have limitations on increases in leverage.

## Committed Facilities As of May 9, 2008 (\$ Millions, Days)

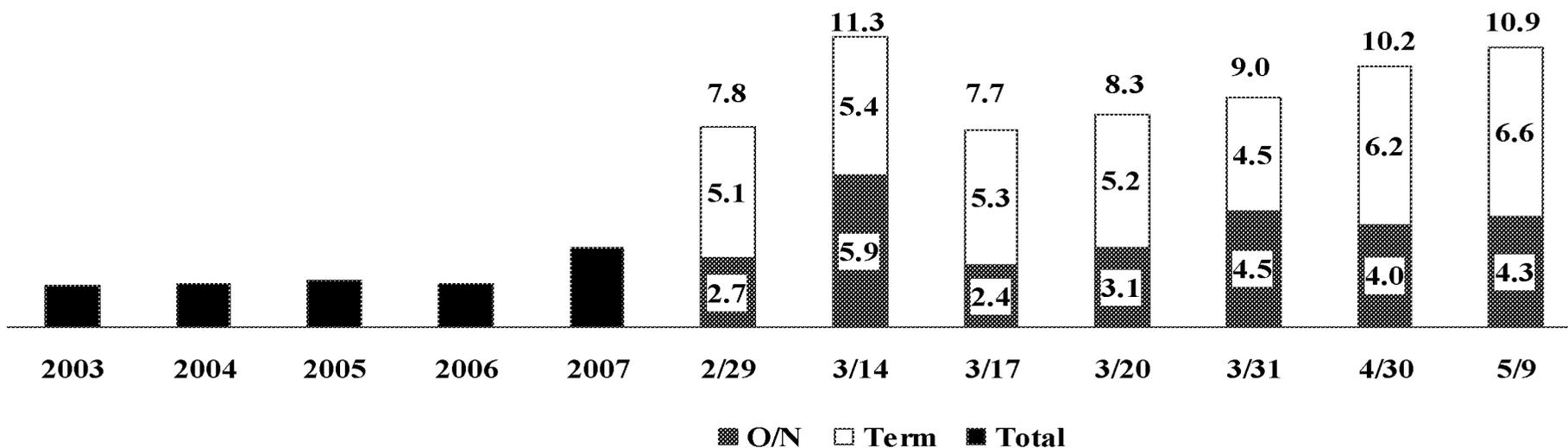
<u>Current Position</u>	<u>E1</u>	<u>E2</u>	<u>E3</u>	<u>G1</u>	<u>C1</u>	<u>K1</u>	<u>C2/K2</u>	<u>HY</u>	<u>Total</u>
	<u>Major Index</u> <u>Equities</u>	<u>Tier II</u> <u>Equities</u>	<u>Other</u> <u>Equities</u>	<u>Gov't's</u>	<u>Investment</u> <u>Grade Conv't</u>	<u>Investment</u> <u>Grade</u> <u>Corps</u>	<u>Non</u> <u>Investment</u> <u>Grade Debt</u>	<u>High Yield</u>	<u>Total</u>
<b>Committed Margin Facilities</b>									
Committed Margin Facility Funding Requirements	5,518	8,126	1,362	132	720	1,366	4,177	279	21,680
Term Funding %	<u>25%</u>	<u>100%</u>	<u>100%</u>	<u>0%</u>	<u>100%</u>	<u>25%</u>	<u>100%</u>	<u>100%</u>	<u>76%</u>
<b>Term Funding Requirement</b>	<b>1,379</b>	<b>8,126</b>	<b>1,362</b>	<b>-</b>	<b>720</b>	<b>341</b>	<b>4,177</b>	<b>279</b>	<b>16,385</b>
<b>Term Funding Outstanding</b>									
Repo Trades	616	3,432	2,618	-	381	500	6,422	279	14,248
Upgrades / Exclusives	<u>2,310</u>	<u>800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,446</u>	<u>-</u>	<u>4,556</u>
<b>Total Term Funding Trades Outstanding</b>	<b>2,926</b>	<b>4,232</b>	<b>2,618</b>	<b>-</b>	<b>381</b>	<b>500</b>	<b>7,868</b>	<b>279</b>	<b>18,804</b>
<b>Current Liquidity Position</b>	<b>1,547</b>	<b>(3,895)</b>	<b>1,256</b>	<b>-</b>	<b>(339)</b>	<b>159</b>	<b>3,691</b>	<b>-</b>	<b>2,419</b>
<b>Cusip Netting Benefit</b>	<b>423</b>	<b>1,702</b>	<b>163</b>	<b>-</b>	<b>72</b>	<b>21</b>	<b>440</b>	<b>-</b>	<b>2,821</b>
<b>Current Liquidity Position Inc. Cusip Netting</b>	<b>1,970</b>	<b>(2,193)</b>	<b>1,420</b>	<b>-</b>	<b>(267)</b>	<b>179</b>	<b>4,131</b>	<b>-</b>	<b>5,240</b>
Wgt Avg Life of Commitments									96
Wgt Avg Life of Term Funding Facilities									138

LEHMAN BROTHERS

# Commercial Paper

- ◆ We use term commercial paper to mitigate short-term liquidity outflows such as unforeseen operational friction (fails), a sudden drop in prime broker lock ups or sudden changes in secured funding. We do not use commercial paper to fund core requirements or illiquid assets because they are not a good source of cash capital.
- ◆ We issue overnight commercial paper for two reasons
  - As a way to introduce new investors to our commercial paper in the hope that they will buy term CP over time – as evidenced by the growth in our term CP program in April and May
  - To measure sentiment toward Lehman Brothers: CP investors tend to be lead indicators of improving markets.
  - We conservatively do not attribute any liquidity value to our overnight CP program even though there is still a market, albeit a small one, in most market environment (\$2.4 billion issued on March 17)

Commercial Paper Outstanding (\$ Billions)



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## **Lessons From The Bear Stearns Liquidity Crisis & Recent Changes In Funding Strategy**

# What Happened At Bear Stearns

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- ◆ “The Bear Stearns experience has challenged the measurement of liquidity in every regulatory approach, not only here in the United States but around the world.”
  - SEC Chairman Cox, Letter to Senator Grassley; April 16, 2008

- “Short-term secured financing was unavailable even when Bear offered high-quality collateral such as agency securities. (...) The course of events that week was a cascade of panic against which even a larger and less leveraged firm might have been defenseless. At first, some counterparties began pulling back from providing unsecured lending. Then the same reluctance to deal with Bear was extended to secured lending on less liquid and lower-quality securities. Some skittish prime brokerage clients began moving their cash balances elsewhere. As rumors swirled about Bear's financial position, these actions in turn influenced other counterparties. Clients and lenders began also to reduce their exposure to Bear Stearns. This, in turn, created large volumes of novations of derivative contracts.
- In the face of what was essentially the wholesale transfer by counterparties of their open contracts with Bear Stearns to other dealers, the industry faced a number of significant logistical challenges. Not surprisingly, there was a sharp increase in the number of collateral disputes involving Bear Stearns. These disputes reinforced the market's impression that Bear Stearns was distressed. And that, in turn, induced more novations by other counterparties.
- By week's end, Bear Stearns could no longer fund certain high-quality debt instruments on a secured basis. They faced a choice between filing for bankruptcy on Monday morning, or concluding an acquisition agreement with a larger partner.”
  - SEC Chairman Cox, Address to the Security Traders 12th Annual Washington Conference, May 7, 2008

# Key Liquidity Metrics At Lehman Brothers & Bear Stearns

- ◆ Lehman Brothers had stronger liquidity metrics at the end of Q1 than Bear Stearns
  - Liquidity pool and cash capital surplus 2x BSC size
  - Far more encumbered assets
  - Roughly the same size of short-term debt excluding current portion
    - Significant proportion of Bear Stearns STD was secured, which might have exacerbated the liquidity crisis in view of the exceptionally low amounts of unencumbered assets
  - Far less reliance on customer free credit balances
- ◆ Bear Stearns had almost no margins for errors in terms of liquidity management. A reduction in short-term debt or in customer free credit balances would leave it in a precarious liquidity position.

## 2008 Q1 Key Liquidity Metrics (\$ Billions)

	<u>Bear Stearns</u>	<u>Lehman Brothers</u>	<u>LEH / BSC</u>
Liquidity pool	17	34	2.0x
Unencumbered assets - Unregulated entities	4	64	16.0x
Unencumbered assets - Regulated entities	10	97	9.7x
Cash capital surplus	4	7	1.9x
Unsecured STD (excl. current portion)	8	15	1.9x
Secured STD	8	1	0.1x
STD excluding current portion	16	16	1.0x
Current portion of LTD	10	(E) 19	1.9x
Total short-term debt	26	35	1.3x
Free credit balances	43	13	0.3x
Net Leverage	22.6x	15.4x	0.7x

# Lehman Brothers Would Have Reacted Differently

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## Bear Stearns Liquidity Crisis

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- ◆ “At first, some counterparties began pulling back from providing unsecured lending.
- ◆ Then the same reluctance to deal with Bear was extended to secured lending on less liquid and lower-quality securities.
- ◆ Some skittish prime brokerage clients began moving their cash balances elsewhere.
- ◆ As rumors swirled about Bear's financial position, these actions in turn influenced other counterparties.
- ◆ Clients and lenders began also to reduce their exposure to Bear Stearns. This, in turn, created large volumes of novations of derivative contracts.” (SEC Chairman Cox)

## How Lehman Brothers would have reacted

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- ◆ No reliance on short-term unsecured funding. Liquidity framework assumes that unsecured debt cannot be rolled in a liquidity event
- ◆ More conservative secured funding approach
  - Less liquid assets (e.g., mortgages) funded with cash capital
  - Overfunding in lower quality collateral (e.g., high yield corporates) to avoid having to rely on new funding
  - Proactive program of communicating with our creditors during the liquidity event. Senior management, including Dick Fuld, involved in calling key contacts at trading counterparts
- ◆ Prime broker business overfunded by reposing long positions to avoid relying on customer free credit balances
- ◆ Lock ups adjusted on a daily basis during a liquidity event
- ◆ Treasury, Investor Relations and Corporate Communications in constant communication with key stakeholders. Significant amount of senior management time spent to address rumors and reassure key stakeholders
- ◆ No change in “business as usual” philosophy. Disputed calls in derivatives businesses are normal considering lack of transparent marks in the OTC derivatives markets

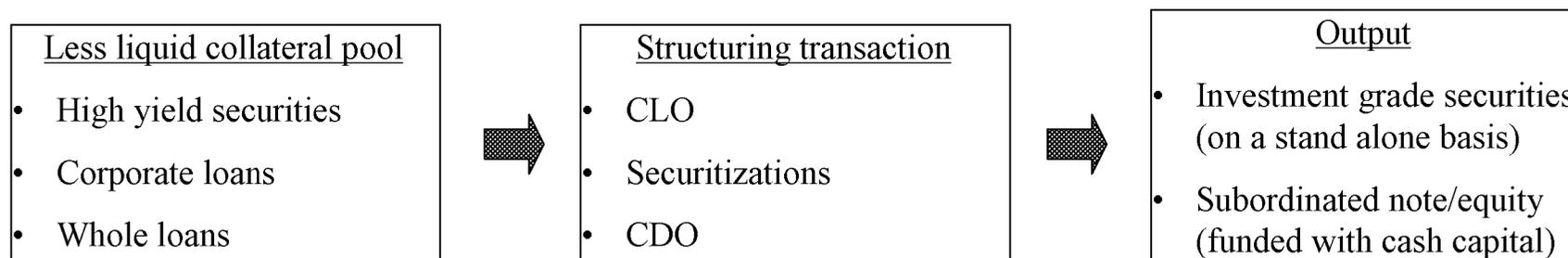
# Recent Modifications In Funding Strategy

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- ◆ Since last summer, when the funding and trading environment became more challenging, we have made a series of modifications in our funding strategy in order to strengthen our liquidity fortress:
  - Increase our cash surplus targets from \$2-5 billion to \$4-7 billion
  - Front load our issuance program – we completed our benchmark issuance plan by early May
  - Increase funding of illiquid assets in our bank entities – particularly Lehman Brother Bankhaus
  - “Overfund” repos for harder to fund asset classes, such as high yield corporates, to mitigate risk of loss of secured funding capacity
  - Increase our CP program to mitigate risk of operational friction in a very volatile environment
  - Started a program to securitize illiquid assets such as corporate loans and commercial whole loans. The resulting securities, which are rated, can then be pledged to counterparties or Central Banks.
  - Discuss our liquidity management and position more proactively with creditors, trading counterparts, rating agencies and other stakeholders
  
- ◆ As a result, we were well prepared to face the extraordinarily difficult funding environment of the week of March 17
  - Started the week with a strong liquidity position
  - Entire Firm was fully engaged defending the “Liquidity Fortress”
    - Active communication with clients with quick escalation to senior management if necessary
      - Lehman senior management proactively involved in calling their counterparts at key relationships to put pressure on traders who refused to trade with Lehman
    - Great coordination between Front Office, Finance and Operations to minimize any operational friction

# Less Liquid Assets

- ◆ At a fairly short notice (1-2 weeks), Lehman Brothers can “transform” less liquid assets such as high yield securities or loans into investment grade securities, which can be treated as any other investment grade securities from a secured funding perspective and a subordinated note/equity, which would be funded with cash capital.
- ◆ We created \$11 billion of additional liquidity through these securitizations YTD



## Selected CLO Transactions (Millions)

	Corporate Loan Value	Senior Investment Grade Notes	Mezz Non-Investment Grade Note	Sub Unrated Note
<b>Freedom Initial *</b>	\$2,825	\$2,260	\$0	\$565
<b>Freedom Revised **</b>	\$1,926	\$1,541	\$250	\$135
<b>Spruce ***</b>	\$1,874	\$1,462	\$244	\$169
<b>Talia ****</b>	€ 1,110	€ 796	€ 0	€ 314

\* Senior note rated A

\*\* Senior Note rated A, new Mezz Note rated B and created from decreasing Sub Note in original Freedom. Decrease in overall loan value due to sales/paydowns.

\*\*\* Senior Note rated A, Mezz Note rated B.

\*\*\*\* Senior Notes consist of 700mm AAA notes (ECB eligible), 50mm AA notes, and 46mm A notes.

# Liquidity Event Of Week Of March 17

- ◆ During the week of March 17, Lehman Brothers was under significant funding pressure triggered by unfounded rumors on its liquidity position in the aftermath of the near bankruptcy of Bear Stearns the previous week.
- ◆ We came under considerable pressure, which we were able to mitigate through a series of actions
  - Secured Funding
    - We had previously built \$13 billion of repo overfunding in harder to fund asset classes, which absorbed about \$6 billion in funding capacity loss – particularly because most of the increase in secured funding were in more liquid, Central Bank-eligible asset classes.
    - We also funded an additional \$4.5 billion of collateral through Bankhaus
  - Prime Broker
    - We absorbed the loss in prime broker cash balances by relying on the LBIE liquidity pool (which, because it was “trapped,” was not included in the LBHI liquidity pool) and by recalculating the lock up on a daily basis
  - Commercial paper and derivatives
    - We increased operational effectiveness by reducing the amount of trapped cash in LBI and increasing funding in Bankhaus. These actions generated approximately ~\$3 billion

## Key Liquidity Inflows/Outflows During Week Of March 17 (\$ Billions)

	Secured Funding			Prime Broker			Commercial Paper				Derivatives	LBHI Liquidity Pool		
	Decreases	Increases/ Upgrades	Balance	Decreases	Increases	Balance	Maturities	Issued	Balance	O/S (EOD)	in/(out)flows Balance	SOD	EOD	Change
17-Mar	(8.7)	3.2	(5.5)	(5.0)	0.8	(4.2)	(6.2)	2.2	(4.0)	7.9	(0.0)	31.1	30.1	(1.0)
18-Mar	(3.8)	-	(3.8)	(2.7)	2.8	0.1	(3.2)	3.7	0.5	8.4	(1.2)	30.1	28.9	(1.2)
19-Mar	(3.0)	5.1	2.1	(1.2)	1.5	0.3	(3.5)	3.3	(0.2)	8.2	0.9	28.9	30.3	1.4
20-Mar	-	-	-	(1.2)	1.1	(0.1)	(3.1)	3.4	0.3	8.5	(1.0)	30.3	32.7	2.4
21-Mar							Market Closed (Good Friday)							
<b>Total</b>	<b>(15.5)</b>	<b>8.3</b>	<b>(7.2)</b>	<b>(10.1)</b>	<b>6.2</b>	<b>(3.8)</b>	<b>(16.0)</b>	<b>12.6</b>	<b>(3.4)</b>		<b>(1.3)</b>	<b>31.1</b>	<b>32.7</b>	<b>1.6</b>

# Lessons From Bear Stearns Liquidity Event

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- ◆ The Bear Stearns liquidity event highlighted the liquidity risk in the broker dealers, specifically secured funding risk and prime broker liquidity risk.
  - Secured funding capacity disappeared for harder-to-fund assets such as mortgages or high yield securities, which we fund with cash capital (mortgages) or which we overfund (high yield securities)
  - As prime broker clients withdrew their free credit balances, the business started consuming cash and Bear Stearns was unable to find new secured funding capacity to replace the lost cash. This is the reason why we structured the business to be cash generative.
  
- ◆ Although the mitigation of both of these risks were already included in our Funding Framework, the speed at which the crisis evolved (\$17 billion liquidity loss in 48 hours) made us rethink our secured funding stress scenario.
  - Our new funding stress scenario assumes no rollover of maturing repos. Mitigating this stress is the availability of secured financing at the Federal Reserve through their PDCF facility and at the ECB through their customary borrowing facility. As a result, loss of secured financing would be primarily felt in equities, including major index equities (E1) and high yield fixed income securities repos.
  - Additional stress events included in the scenario
    - Liquidity outflow due to a one notch rating downgrade and removal of collateralization of excess payables
    - Draw on loan commitments outside of Lehman Brothers bank entities
    - Funding of acquisition facilities
  - Besides relying on our liquidity pools and committed facilities, we would also reduce funding some of our prime broker customers and sell some of the liquid inventory positions (e.g., E1 equities) that cannot be financed

# Stress Liquidity Scenario: Overall Impact

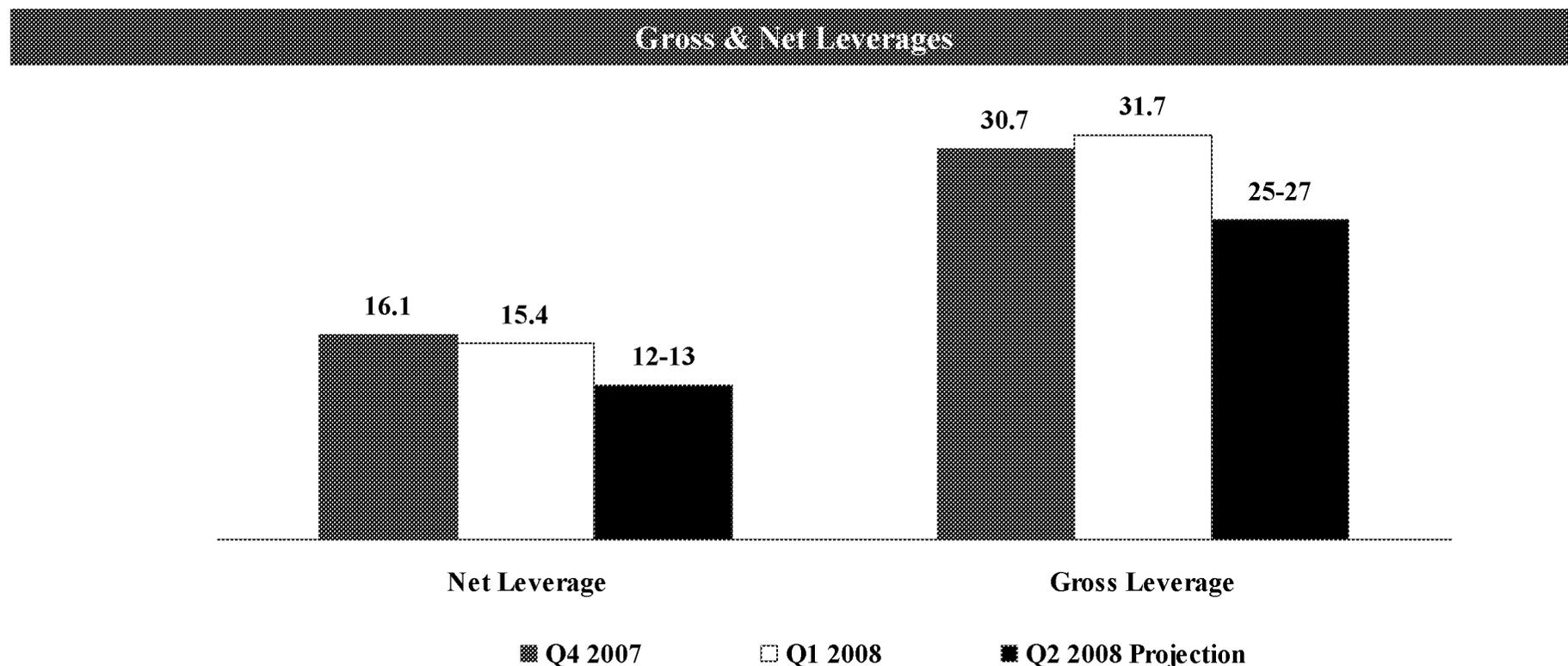
	8-May	9-May	12-May	13-May	14-May	15-May	16-May	19-May	20-May	21-May	22-May	23-May	27-May	28-May	29-May	30-May	Total
<b>Beginning Cash Position (cash is fungible across legal entities)</b>																	
LBJ	-	-	-	-	-	-	-	-	-	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
LBIE	-	(14.7)	(15.3)	(17.3)	(20.0)	(21.9)	(22.8)	(23.7)	(24.0)	(24.0)	(25.1)	(25.1)	(25.1)	(25.7)	(26.2)	(26.2)	(26.2)
LBI	0.6	(12.6)	(17.7)	(19.9)	(20.9)	(21.6)	(21.6)	(21.6)	(21.7)	(21.7)	(21.7)	(22.5)	(22.5)	(23.3)	(23.3)	(23.3)	(23.3)
LBHI	36.7	35.3	33.6	36.4	38.1	39.6	40.7	41.6	45.7	45.3	45.1	45.2	50.9	51.1	48.6	46.0	46.0
Bankhaus	3.0	13.4	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1
<b>Total</b>	<b>40.3</b>	<b>21.6</b>	<b>14.7</b>	<b>13.2</b>	<b>11.4</b>	<b>10.2</b>	<b>10.4</b>	<b>10.5</b>	<b>14.1</b>	<b>13.7</b>	<b>12.2</b>	<b>11.5</b>	<b>17.1</b>	<b>15.9</b>	<b>13.0</b>	<b>10.4</b>	<b>10.4</b>
<b>Secured Funding</b>																	
<b>Total Net Loss Secured Funding</b>	<b>(17.9)</b>	<b>(5.1)</b>	<b>(4.3)</b>	<b>(3.5)</b>	<b>(2.7)</b>	<b>(0.9)</b>	<b>(0.8)</b>	<b>(0.5)</b>	<b>-</b>	<b>(1.3)</b>	<b>(0.8)</b>	<b>-</b>	<b>(1.4)</b>	<b>(0.5)</b>	<b>(0.0)</b>	<b>(1.5)</b>	<b>(41.3)</b>
<b>Unsecured Funding</b>																	
CP	(5.4)	0.4	(0.1)	(0.1)	(0.5)	(0.1)	(0.3)	(0.3)	-	(0.2)	(0.2)	(0.0)	(0.2)	(0.4)	(0.1)	(0.0)	(7.5)
STD	(0.0)	-	(0.0)	-	(0.0)	(0.0)	(0.0)	(0.0)	-	-	(0.0)	(0.0)	(0.1)	(0.0)	(0.1)	(0.0)	(0.2)
Bank Loans	(0.1)	-	-	-	-	(1.2)	-	-	-	-	-	-	-	-	-	-	(1.3)
LTD	1.0	2.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	-	(0.0)	(0.1)	(0.0)	(2.4)	(0.0)	0.3
Loan Activity																	-
Securitization / Syndication	0.2	-	-	2.0	-	-	1.2	-	-	-	-	1.2	-	-	-	7.1	11.6
Draw on commitments	-	-	-	-	(2.0)	-	-	-	-	(2.0)	-	-	-	(2.0)	-	(2.5)	(8.5)
Funding	-	(2.1)	(0.1)	-	-	-	-	-	-	-	-	-	-	-	-	(0.2)	(2.3)
Bankhaus Funding	-	-	-	0.3	-	0.4	-	-	-	-	0.3	-	-	-	-	-	1.0
Derivatives Funding (downgrade)	-	(2.5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2.5)
Operational friction/Nostro	(1.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1.0)
Balance Sheet Reduction	-	-	-	-	-	-	-	5.0	-	-	-	5.0	-	-	-	-	10.0
Writedowns on balance sheet reduction	-	-	-	-	-	-	-	(0.5)	-	-	-	(0.5)	-	-	-	-	(1.0)
Prime Broker Reduction	-	-	2.0	-	4.0	2.0	-	-	-	2.0	-	-	1.0	-	-	-	11.0
Matched Book Reduction	-	-	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0
Bank Facilities	-	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.5
Committed Facility Drawdown	4.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4.5
Cash outflows to fund operations (PE, NPE, etc.)	-	-	-	(0.5)	-	-	-	-	(0.5)	-	-	-	(0.5)	-	-	-	(1.4)
<b>Total Net Loss Unsecured Funding</b>	<b>(0.8)</b>	<b>(1.7)</b>	<b>2.8</b>	<b>1.7</b>	<b>1.5</b>	<b>1.1</b>	<b>0.9</b>	<b>4.2</b>	<b>(0.5)</b>	<b>(0.2)</b>	<b>0.1</b>	<b>5.7</b>	<b>0.2</b>	<b>(2.5)</b>	<b>(2.6)</b>	<b>4.4</b>	<b>14.2</b>
<b>Ending 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)
LBIE	(14.7)	(15.3)	(17.3)	(20.0)	(21.9)	(22.8)	(23.7)	(24.0)	(24.0)	(25.1)	(25.1)	(25.1)	(25.7)	(26.2)	(26.2)	(27.7)	(27.7)
LBI	(12.6)	(17.7)	(19.9)	(20.9)	(21.6)	(21.6)	(21.6)	(21.7)	(21.7)	(21.7)	(22.5)	(22.5)	(23.3)	(23.3)	(23.3)	(23.3)	(23.3)
LBHI	35.3	33.6	36.4	38.1	39.6	40.7	41.6	45.7	45.3	45.1	45.2	50.9	51.1	48.6	46.0	50.4	50.4
Bankhaus	13.4	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1
<b>Total (Target \$10 billion)</b>	<b>21.6</b>	<b>14.7</b>	<b>13.2</b>	<b>11.4</b>	<b>10.2</b>	<b>10.4</b>	<b>10.5</b>	<b>14.1</b>	<b>13.7</b>	<b>12.2</b>	<b>11.5</b>	<b>17.1</b>	<b>15.9</b>	<b>13.0</b>	<b>10.4</b>	<b>13.2</b>	<b>13.2</b>

# Stress Liquidity Scenario: Loss Of Secured Funding

	8-May	9-May	12-May	13-May	14-May	15-May	16-May	19-May	20-May	21-May	22-May	23-May	27-May	28-May	29-May	30-May	Total
<b>Secured Funding</b>																	
<u>Lost Capacity (excl. LBBAG, ECB and Fed)</u>																	
<b>LBJ</b>																	
Equity	-	-	-	-	-	-	-	-	-	0.2	-	-	-	-	-	-	<b>0.2</b>
<b>LBIE</b>																	
Asset Backed Securities	3.7	-	0.2	-	0.0	0.0	0.1	-	-	-	-	-	-	0.1	-	0.5	<b>4.6</b>
CMO Private Label	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>0.0</b>
Commercial Paper	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>0.0</b>
Corporates	4.0	0.3	0.7	0.6	0.4	0.1	0.7	0.0	-	0.0	-	-	0.4	0.0	0.0	0.6	<b>7.8</b>
Equity	1.3	0.3	0.5	1.7	1.0	0.7	0.0	0.3	-	1.0	-	-	0.1	0.3	0.0	0.1	<b>7.4</b>
International	1.7	0.0	0.6	0.4	0.5	0.1	0.0	0.0	-	0.0	-	-	0.1	0.0	0.0	0.2	<b>3.9</b>
Municipals	0.1	-	-	0.0	0.0	-	-	-	-	0.0	-	-	-	-	-	-	<b>0.2</b>
Total LBIE	10.9	0.6	2.1	2.7	2.0	0.9	0.8	0.4	-	1.1	-	-	0.6	0.5	0.0	1.5	<b>23.9</b>
<b>LBI</b>																	
Asset Backed Securities	5.3	-	-	-	-	-	-	0.2	-	-	-	-	0.3	-	-	-	<b>5.7</b>
CMO Private Label	6.3	-	-	0.0	-	-	-	-	-	-	0.0	-	-	-	-	-	<b>6.3</b>
Commercial Paper	8.8	-	-	-	0.5	-	-	-	-	-	-	-	0.5	-	-	-	<b>9.8</b>
Corporates	10.4	-	1.0	-	-	-	-	-	-	0.0	-	0.0	-	-	-	-	<b>11.4</b>
Equity	4.9	-	-	-	-	-	-	-	-	0.3	-	-	-	-	-	-	<b>5.2</b>
Municipals	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>4.0</b>
Total LBI	39.7	-	1.0	0.0	0.5	-	-	0.2	-	-	0.3	-	0.8	-	-	-	<b>42.4</b>
<b>Total Capacity Lost</b>	<b>50.6</b>	<b>0.6</b>	<b>3.1</b>	<b>2.7</b>	<b>2.5</b>	<b>0.9</b>	<b>0.8</b>	<b>0.5</b>	<b>-</b>	<b>1.3</b>	<b>0.3</b>	<b>-</b>	<b>1.4</b>	<b>0.5</b>	<b>0.0</b>	<b>1.5</b>	<b>66.6</b>
<u>New Capacity</u>																	
<b>Term Overfunding / Prime Broker</b>																	
<b>LBIE</b>																	
Prime Broker Customer Free Credits	(3.8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>(3.8)</b>
Bankhaus	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>-</b>
Funding ECB Eligible	3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>3.3</b>
<b>LBI</b>																	
Corporates - Non-Investment Grade	8.0	(5.1)	(1.2)	(0.9)	(0.2)	-	-	-	-	0.0	(0.5)	-	(0.0)	-	-	-	<b>0.0</b>
Total	7.5	(5.1)	(1.2)	(0.9)	(0.2)	-	-	-	-	0.0	(0.5)	-	(0.0)	-	-	(0.0)	<b>(0.5)</b>
<b>Federal Reserve</b>																	
Asset Backed Securities	2.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>2.8</b>
CMO Private Label	3.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>3.6</b>
Commercial Paper	5.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>5.4</b>
Corporates	5.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>5.4</b>
Municipals	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>0.8</b>
Total	17.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>17.9</b>
<b>ECB</b>																	
Asset Backed Securities	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>3.4</b>
Corporates	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>1.3</b>
International	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>0.1</b>
Total	4.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>4.8</b>
<b>Bankhaus</b>																	
Asset Backed Securities	2.2	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>2.5</b>
Corporates	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>0.1</b>
International	0.1	0.3	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	<b>0.5</b>
<b>LBCB</b>																	
HY Corporates - Customer	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>-</b>
<b>Net Loss</b>																	
LBJ	-	-	-	-	-	-	-	-	-	(0.2)	-	-	-	-	-	-	<b>(0.2)</b>
LBIE	(14.7)	(0.6)	(2.1)	(2.7)	(2.0)	(0.9)	(0.8)	(0.4)	-	(1.1)	-	-	(0.6)	(0.5)	(0.0)	(1.5)	<b>(27.7)</b>
LBI (includes impact of LBCB)	(13.7)	(5.1)	(2.2)	(0.9)	(0.7)	-	-	(0.2)	-	0.0	(0.8)	-	(0.8)	-	-	-	<b>(24.5)</b>
LBHI	(0.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(0.0)	<b>(0.0)</b>
Bankhaus (for LBIE)	10.4	0.6	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	<b>11.1</b>
<b>Total Net Loss Secured Funding</b>	<b>(17.9)</b>	<b>(5.1)</b>	<b>(4.3)</b>	<b>(3.5)</b>	<b>(2.7)</b>	<b>(0.9)</b>	<b>(0.8)</b>	<b>(0.5)</b>	<b>-</b>	<b>(1.3)</b>	<b>(0.8)</b>	<b>-</b>	<b>(1.4)</b>	<b>(0.5)</b>	<b>(0.0)</b>	<b>(1.5)</b>	<b>(41.3)</b>

# Deleveraging The Firm

The Firm has set aggressive targets to reduce balance sheet and cash capital usage below their Q4 2007 levels by the end of this quarter. This should result in bringing net leverage to 12-13x, gross leverage to 25-27x.



# Building A Liquidity Fortress

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- ◆ Thanks to its conservative funding framework, Lehman Brothers entered the week of March 17 in a strong liquidity position
  - Liquidity pool of \$30 billion
  - Cash capital surplus of \$5 billion
  - ~\$15 billion overfunding in the repo book - ~\$7 billion of which in high yield securities
  - Average tenor of repo book of 24 days (excluding Governments and Agencies)
  
- ◆ Since then, we have taken significant measures to strengthen our liquidity position further
  - Started an active program of deleveraging, discussed previously, which is projected to free up ~\$5-10 billion of cash capital
  - Raised \$9.5 billion of cash capital through preferred, subordinated and senior debt issuances, which, coupled with the deleveraging effort, essentially completes our debt issuance requirement for the year <sup>(1)</sup>
  - Increased overfunding in the repo book to \$18 billion - \$8 billion of which in high yield securities
  - Grew the average tenor of repo book of 29 days (excluding Governments and Agencies)
    - 37 days excluding collateral that can be pledged to the Federal Reserve or ECB
  
- ◆ We project finishing this quarter with a \$40 billion liquidity pool and a \$10 billion cash capital surplus

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1. See appendix for details

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## Appendices

# Legal Entity Structure

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- ◆ Legal entity structure constrains liquidity flows which are explicitly accounted for in our funding framework
  
  - ◆ Holdings Company Chain
    - LBHI: Holding company
    - LBF and LBSF: Derivatives subsidiaries
    - LB Treasury Co. BV: Main European debt issuing entity
  
  - ◆ Broker dealers
    - LBI, Neuberger Berman and LOTC: U.S. broker dealers
    - LBIE: European broker dealers
    - LBJ: Japanese broker dealers
  
  - ◆ Bank Entities
    - Lehman Brothers Bank: Delaware-based thrift
    - Lehman Brothers Commercial bank: Utah-based industrial bank
    - Lehman Brothers Bankhaus: German bank
- Issues nearly all unsecured debt
  - Holds mostly illiquid (100% cash capital) assets
  
  - Funded with equity and debt from Holdings (LBI also has some external debt)
  - Primarily securities trading, including prime brokerage
  - Bulk of securities are being funded on a secured basis
  
  - Funded with equity and sub debt from Holdings
  - Raise insured term funding (brokered CDs in the U.S.)
  - Primarily fund whole loans and corporate loans
  - Access FHLB system to fund whole assets
  - Also access ECB discount window

# Contingency Funding Plan

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## **The Contingency Funding Plan (CFP) Is A Detailed Action Plan To Be Activated In A Liquidity Event**

- ◆ The Contingency Funding Plan (CFP) includes the following components:
  - Creates an executable plan for a comprehensive response to extreme liquidity events by geographical region, functional area, and business
  - Defines roles and responsibilities within the management framework to execute the plan
  - Provides key contact points within and outside the firm for decision making and implementation
  - Identifies key resources within the firm, including senior management, information, and operational support that need to be mobilized to implement the plan
  - Incorporates a comprehensive communication strategy to consolidate feedback to senior management and creditor institutions.
  
- ◆ It was last activated in the aftermath of September 11, 2001 as a precautionary measure.
  - We did not have a liquidity event on September 11, 2001. On the other hand, we were very long cash and were able to provide liquidity to European banks that had trouble funding their dollar positions. The plan was activated primarily because of the state of disarray of the secured funding markets.

# Recent Benchmark Issuances

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- ◆ We issued \$9.5 billion in four benchmark issuances since the start of the quarter
  - \$4.0bn of non-cumulative perpetual convertible preferred stock
    - Dividend of 7.25% per annum
    - More than three times oversubscribed
  - \$2.5 billion of 10-year senior debt
    - Treasuries + 320 bps
    - \$6.5 billion of orders within 1 hour
  - £0.5 billion (\$1.0 billion) 10-year senior debt
    - Gilts + 315 bps
    - £0.8 billion of orders within 4 hours
  - \$2 billion 30-year subordinated debt
    - Treasuries + 305 bps
    - \$4.0 billion of orders within 1 hour
  
- ◆ As a result, we have completed our debt issuance program for the rest of the year
  - We may issue further during the latter part of the year to “pre fund” 2009 debt issuance requirements however