

*Confidential Presentation to:*

# Executive Committee

## The Firm's Equity Adequacy

*October, 2007*

LEHMAN BROTHERS

# Executive Summary

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- ◆ Supporting capital adequacy is one of the key objectives of our capital management. Our strategy is to achieve the level of capital adequacy consistent with regulatory requirements, rating agencies targets, internal risk-based requirements, and peer benchmarking. To evaluate our capital position, we use a set of measures reflecting different aspects of capital adequacy
  
- ◆ In the last 5-6 quarters, our capital adequacy has materially deteriorated
  - Net Leverage increased by 3 turns, although remains within the peer group range
  - CSE measures (Tier 1 Capital Ratio and Total Capital Ratio) are below internal targets and there is a credible intelligence that we are at the bottom of the peer range. This is particularly relevant since the ratios will be publicly disclosed beginning Q1'08
  - Our internal Equity Adequacy Framework indicates that between 1Q'06 and 3Q'07, our equity sufficiency declined from \$7.2B surplus to deficit
  
- ◆ The primary driver behind this deterioration is a shift in our asset mix, specifically rapid growth of our HY positions (including commitments), Real Estate, and Principal investments
  - These less-liquid positions disproportionately increase capital requirements through Reg Y (CSE model) and Less-Liquid charges (EAF model)
  
- ◆ Projections indicate 10.5% Total Capital Ratio in Q4'07, increasing to 11.3% in Q1'08. This includes identified opportunities in Synthetic CDO

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## Projections and Action Plan

# Initial Projections

Projections and Action Plan

Initial projections indicate 10.5% Total Capital ratio at the end of 2007 and 11.5% by Q1'08

In millions	August 31, 2007	September 30, 2007	October 31, 2007	November 30, 2007	February 28, 2008
<b>Allowable Capital</b>	<b>Allowable Capital</b>	<b>Allowable Capital</b>	<b>Allowable Capital</b>	<b>Allowable Capital</b>	<b>Allowable Capital</b>
Common Stockholders' Equity	\$ 20,638	\$ 20,979	\$ 21,441	\$ 21,690	\$ 22,955
Non-cumulative Perpetual Preferred	1,855	1,906	1,906	1,906	1,906
Goodwill and Intangible Assets	(4,108)	(4,135)	(4,133)	(4,128)	(4,240)
Deferred Tax Assets, excluding reversals	(2,180)	(2,216)	(2,216)	(2,216)	(2,216)
Mandatory Convertible Preferred Securities	1,500	1,500	1,500	1,500	1,500
Cumulative Perpetual Preferred	1,095	1,095	1,095	1,095	1,095
Trust Preferred	1,508	1,508	1,508	1,508	1,508
Capital Requirement for Insurance Entities	(138)	(138)	(138)	(138)	(138)
Subtotal: T1 capital	20,170	20,499	20,963	21,217	22,370
Subordinated Debt (Ex Junior Subordinated Debt)	8,291	8,400	8,400	8,400	8,400
Long-Term Debt	1,794	1,850	2,082	2,082	2,082
<b>Total Allowable Capital</b>	<b>\$ 30,255</b>	<b>\$ 30,749</b>	<b>\$ 31,445</b>	<b>\$ 31,826</b>	<b>\$ 33,555</b>
<b>Market Risk Allowance</b>	<b>Risk Allowance</b>	<b>Risk Allowance</b>	<b>Risk Allowance</b>	<b>Risk Allowance</b>	<b>Risk Allowance</b>
<b>VaR Calculation</b>					
1 day VaR	\$ 81.0	\$ 88.1	\$ 116.0	\$ 120.0	\$ 120.0
VaR based charge	1,779	1,903	2,506	2,592	2,592
Scenario/Stress	425	367	367	367	367
Reg Y					
High Yield Cash + CDS Positions	50,007	57,921	56,835	54,775	54,525
HV-CDS charge (8% )	8%	4,001	4,634	4,547	4,382
Synthetic CDOs (absolute value)	15,944	15,944	15,944	14,350	11,958
Synthetic CDO charge (8% )	8%	1,276	1,276	1,276	1,276
NIG Contingent Commitments (trading book only)	21,588	9,155	7,025	6,025	6,025
NIG CC charge (effective 3.7% )	3.7%	806	339	260	223
Other					
Convertible Business NIG assets	10.3%	2,181	2,181	2,181	2,181
Mortgage trading residential	8.0%	571	525	525	525
Structured Finance	8.0%	679	679	679	679
Cash CDO	8.0%	667	667	667	667
Muni bonds	8.0%	291	291	291	291
Real estate commercial	8.0%	78	78	78	78
Liquid market prop	8.0%	960	960	960	960
Other	8.0%	351	351	351	351
Total Other	5,778	5,732	5,732	5,732	5,732
Charge (8% )	512	509	509	509	509
Total Reg Y charge	6,595	6,418	6,670	6,427	6,370
<b>Total Market Risk</b>	<b>8,799</b>	<b>8,688</b>	<b>9,543</b>	<b>9,386</b>	<b>9,329</b>
<b>Operational Risk Allowance</b>					
Three year trailing average revenue	14,593	14,593	14,593	17,404	17,404
<b>Operational Risk charge</b>	<b>15%</b>	<b>2,189</b>	<b>2,189</b>	<b>2,611</b>	<b>2,611</b>
<b>Credit Risk Allowance</b>					
Counterparty Credit Risk	2,102	2,144	2,144	2,144	2,144
Real Estate Investments and Loans	2,261	2,505	2,505	2,505	2,405
Municipal Real Estate & Loans	36	36	36	36	36
Mortgage Warehouse & Principal Finance	259	285	285	285	285
Corporate Loans & Securities	818	791	791	791	791
Private Equity	2,564	2,471	2,381	2,331	2,281
Insurance Entities	22	22	22	22	22
Retained Interests	2,082	2,138	1,924	1,924	1,924
<b>Total Credit Risk</b>	<b>10,144</b>	<b>10,392</b>	<b>10,088</b>	<b>10,038</b>	<b>9,888</b>
<b>Other Assets Risk Allowance</b>					
Cash and Cash Equivalents	109	105	105	105	105
Segregated Cash and Securities	108	126	126	126	126
Receivables from Brokers, Dealers and Clearing Orgs					
Fail to Deliver	43	41	41	41	41
Clearing Organizations	47	22	22	22	22
Other	165	105	105	105	105
Total Receivables from Brokers, Dealers and Clearing Orgs	255	168	168	168	168
Receivables from Customers					
Fail to Deliver	207	214	214	214	214
Other	172	138	138	138	138
Receivables from Customers	379	352	352	352	352
Receivables from Others	211	291	291	291	291
Property, Equipment and L/H	294	298	300	300	300
Other Assets					
Investments in Partnerships and JVs	461	439	439	439	503
Other Assets	111	121	121	121	121
<b>Total Other Assets Risk</b>	<b>1,928</b>	<b>1,900</b>	<b>1,902</b>	<b>1,902</b>	<b>1,966</b>
<b>TOTAL RISK ALLOWANCE</b>	<b>\$ 23,060</b>	<b>\$ 23,169</b>	<b>\$ 23,722</b>	<b>\$ 23,936</b>	<b>\$ 23,793</b>
<b>TOTAL RISK WEIGHTED ASSETS</b>	<b>\$ 288,250</b>	<b>\$ 289,617</b>	<b>\$ 296,525</b>	<b>\$ 299,206</b>	<b>\$ 297,418</b>
Total Risk Based Capital Ratio [ \$30,749 / \$289,617 ]	10.5%	10.6%	10.60%	10.64%	11.28%

- Daily VaR increases to \$120 mm by YE, then remains constant
- High Yield Positions reduced by \$1,472 (Corp) + \$1,713 (EMG) offset by \$1,000 funded pipeline deals by YE, further effective reduction by \$1,000 less \$750 funded in Q1
- Synthetic CDX's managed down by 10% by YE and 25% by Q1'08.
- NIG Contingent Commitments reduced by \$630 (PHH dead) + \$1,500 funded in Q4, further \$1,000 reduction (funded net of new) in Q1
- Operational increase with rolling revenue
- Real Estate Investments and Loans unchanged in Q4, \$100 reduction in Q1
- CDO funds reduction by \$50 in Q4, further \$50 reduction in Q1
- 10% reduction expected in October, no further reductions after that
- Total risk allowance remains effectively unchanged. Identified reductions offset \$422 operational risk increase + \$86 VaR charge increase + \$64 increase in Minority stakes

# Targets and Levers

Based on the available competitive intelligence, we believe a Total Capital Ratio of 12.5% would be appropriate. Achieving this target by YE 2007 requires increasing T1 Capital by \$5B, reducing Risk Allowance by \$4B, or a combination of the two measures. Achieving the same target by Q1'08 is more manageable and can be reached by issuing \$1.0B Hybrids and identifying additional \$1.0B reduction in Risk Allowances.

## Impact of T1 Capital Issuance, \$B

<u>T1 Capital Issuance</u>	<u>Total capital increase</u>	<u>Total Ratio</u>	<u>Impact</u>
0	-	10.5%	-
0.5	0.8	10.8%	0.3%
1.0	1.5	11.1%	0.5%
1.5	2.3	11.3%	0.8%
2.0	3.0	11.6%	1.0%
2.5	3.5	11.7%	1.2%
3.0	4.0	11.9%	1.4%
3.5	4.5	12.1%	1.5%
4.0	5.0	12.3%	1.7%
4.5	5.5	12.4%	1.9%
<b>5.0</b>	<b>6.0</b>	<b>12.6%</b>	<b>2.1%</b>

## Impact of Risk Allowance Reduction, \$B

<u>Risk Allowance reduction</u>	<u>Total Ratio</u>	<u>Impact</u>
0	10.5%	-
0.5	10.8%	0.2%
1.0	11.0%	0.5%
1.5	11.3%	0.7%
2.0	11.5%	1.0%
2.5	11.8%	1.3%
3.0	12.1%	1.6%
3.5	12.4%	1.9%
<b>4.0</b>	<b>12.7%</b>	<b>2.2%</b>
4.5	13.1%	2.5%
5.0	13.4%	2.9%

# Opportunities to Improve CSE Ratios

Opportunities to achieving the target CSE ratio fall into three categories: (i) Implementing advanced calculation methodologies, (ii) Reducing Risk-Weighted Assets (reducing Risk Allowance), and (iii) Issuing more capital. Of the three venues,

## Risk Allowance Growth Components

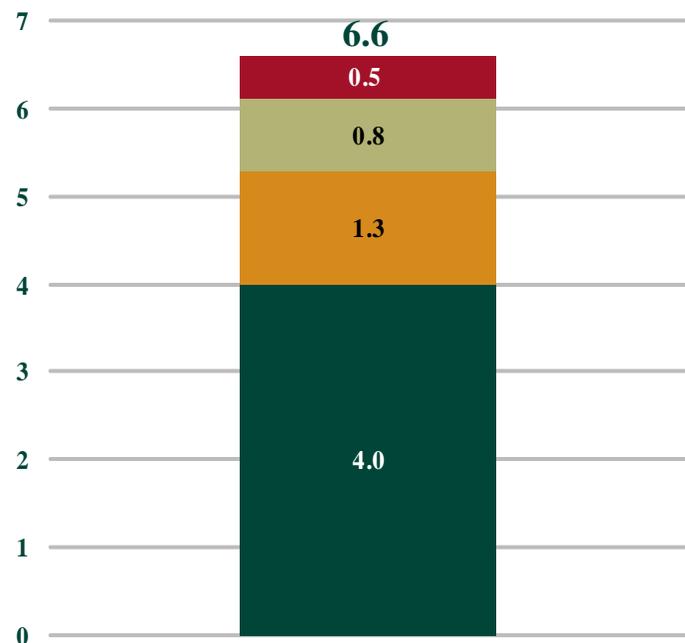
Action	Specifics	Impact on Capital Ratios	Comments
Implement advanced RAA calculation methodologies	<ul style="list-style-type: none"> <li>Replace Reg Y with Jump-to-Default</li> <li>Replace Private Equity methodology with Principal Investments methodology</li> </ul>	<p>1.3%</p> <p>0.2-0.6%</p>	<ul style="list-style-type: none"> <li>New methodology still under development. May or may not be approved by Q1'08</li> <li>Will be implemented by all peers, no impact on relative position</li> </ul>
Manage down Risk-Weighted Assets	<ul style="list-style-type: none"> <li>Syndicate largest funded HY positions</li> <li>Reduce EMG exposure and/or improve netting</li> <li>Actively manage CDO/CDX exposure to meet quarter-end / year-end targets</li> <li>Reduce positions in RE PTG by concerted syndication effort and limiting origination</li> <li>Limit growth of PE</li> <li>Sell-off 25-50% of retained interest</li> </ul>	1.0-2.5%	<ul style="list-style-type: none"> <li>Different actions steps for different components of Risk Allowances</li> </ul>
Issue Hybrids Equity	<ul style="list-style-type: none"> <li>Issue \$1.5B hybrids (CSE Capacity of \$2.1 B)</li> </ul>	0.8%	<ul style="list-style-type: none"> <li>Uncertain market appetite</li> <li>Incremental issuance not counted in Rating Agency's' methodology</li> </ul>
Slow down Buybacks	<ul style="list-style-type: none"> <li>Reduce Q1' 08 buybacks by 5 mm shares (projected dilution 26.6mm)</li> </ul>	0.2%	<ul style="list-style-type: none"> <li>Missing opportunity to acquire shares at low cost</li> <li>Negative Signaling Effect</li> </ul>

# Major Components of Reg Y Charges

Reg Y charge accounts for the greatest portion of the total Risk Allowance with a 28% contribution. Within Reg Y, High Yield Cash + CDS, Synthetic CDOs, Contingent Commitments make up the bulk of the charge

## Reg Y Charge 9/30/2007<sup>1</sup>

\$ Billions



■ Cash + CDS ■ Synthetic CDO's ■ Commitments ■ Others

### Commitments<sup>2</sup>

	<u>Reg Y Charge</u>	<u>Average</u>
Top 10	309	31

### Synthetics CDOs

	<u>Reg Y Charge</u>	<u>Average</u>
Top 10	390	39
Top 20	556	28

### High Yield Cash + CDS Positions<sup>2</sup>

	<u>Reg Y Charge</u>	<u>Average</u>
Top 10	1,067	107
Top 20	1,422	71
Top 50	1,990	40

1. Reg Y charge is only calculated once a quarter. 9/30's charge is based on 8/31 positions

2. Based on 9/30 positions

# Backup: Top 20 Exposures High Yield Cash + CDS 9/30

Projections indicate reduction of \$1.472 Corporate + likely syndication of up to 75% of Argentina and Venezuela (not included in this table)

Product Type	referenceEntity	debtClass	netlong	netShort	9/30 Balance	Reg Y Charge	Reg Y Contribution	10/31 Balance	Balance Change from Sept.	Reg Y Contribution	11/30 Forecast Balance	Balance Change from Oct.
Default Sw aps + Cash	TXU Corp.*				0			2,231	2,231	178	1,500	(731)
Default Sw aps + Cash	HD SUPPLY INC		1,987	0	1,987	\$ 159	3%	1,987	0	159	1,987	0
Default Sw aps + Cash	FEDERATIVE REPUBLIC OF BRAZIL	Senior Unsec	1,557	0	1,557	\$ 125	3%	1,557	0	125	1,557	0
Default Sw aps + Cash	CDW Corporation				0			1,444	1,444	116	1,000	(444)
Default Sw aps + Cash	ARGENTINE REPUBLIC	Senior Unsec	1,177	0	1,177	\$ 94	2%	1,177	0	94	1,177	0
Default Sw aps + Cash	FIRST DATA CORP		3,167	0	3,167	\$ 253	5%	1,147	(2,020)	92	850	(297)
Default Sw aps + Cash	BOLIVARIAN REPUBLIC OF VENEZUELA	Senior Unsec	1,110	0	1,110	\$ 89	2%	1,110	0	89	1,110	0
Default Sw aps + Cash	REPUBLIC OF THE PHILIPPINES	Senior Unsec	1,045	0	1,045	\$ 84	2%	1,045	0	84	1,045	0
Default Sw aps + Cash	FORD MOTOR CO	Loan	958	0	958	\$ 77	2%	958	0	77	958	0
Default Sw aps + Cash	US INVESTIGATIONS SERVICES INC		815	0	815	\$ 65	1%	123	(692)	10	123	0
Default Sw aps + Cash	ALLISON TRANSMISSION		765	0	765	\$ 61	1%	162	(603)	13	162	0
Default Sw aps + Cash	GENERAL MOTORS CORP	Loan	598	0	598	\$ 48	1%	598	0	48	598	0
Default Sw aps + Cash	UKRAINE FIDUCIARY ISSUE	Senior Unsec	588	0	588	\$ 47	1%	588	0	47	588	0
Default Sw aps + Cash	PQ CORP		477	0	477	\$ 38	1%	145	(332)	12	145	0
Default Sw aps + Cash	FORD MOTOR CREDIT CO	Senior Unsec	446	0	446	\$ 36	1%	446	0	36	446	0
Default Sw aps + Cash	REPUBLIC OF PERU	Senior Unsec	437	0	437	\$ 35	1%	437	0	35	437	0
Default Sw aps + Cash	GENERAL MOTORS CORP	Senior Unsec	399	0	399	\$ 32	1%	399	0	32	399	0
Default Sw aps + Cash	REPUBLIC OF COLOMBIA	Senior Unsec	387	0	387	\$ 31	1%	387	0	31	387	0
Default Sw aps + Cash	ARINC Incorporated				0			385	385	31	385	0
Default Sw aps + Cash	GENERAL MOTORS ACCEPTANCE CORP	Loan	360	0	360	\$ 29	1%	360	0	29	360	0
Default Sw aps + Cash	REPUBLIC OF TURKEY	Senior Unsec	0	(753)	(753)	\$ 60	1%	(753)	0	60	(753)	0
Default Sw aps + Cash	PETROLEOS DE VENEZUELA SA	Senior Unsec	0	(375)	(375)	\$ 30	1%	(375)	0	30	(375)	0
Default Sw aps + Cash	LIBERTY MEDIA CORP	Senior Unsec	0	(372)	(372)	\$ 30	1%	(372)	0	30	(372)	0
			16,270	<b>Total top 23</b>	14,770	\$ 1,422	31%	15,184	414	1,455	13,712	(1,472)
				<b>Other</b>		\$ 3,212	69%					
				<b>Total</b>		\$ 4,634						

# Backup: The Largest Synthetic CDOs 8/31

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## Possibility exist of managing down CDX tranches, particularly the most liquid IG CDXs

Tranche	Desc	Attach	Detach	Term	netLong	netShort	NET	Capital Charge
CDX_HY8_15_25_5Y	CDX HY8	15	25	5Y	135,000,000	(1,505,000,000)	(1,370,000,000)	109,600,000
CDX_HY8_00_25_5Y	CDX HY8	0	25	5Y	0	(750,000,000)	(750,000,000)	60,000,000
CDX_IG7_03_07_10Y	CDX IG7	3	7	10Y	154,000,000	(725,000,000)	(571,000,000)	45,680,000
CDX_HY8_00_05_7Y_PO	CDX HY8	0	5	7Y	0	(350,000,000)	(350,000,000)	28,000,000
CDX_IG6_00_03_10Y_PO	CDX IG6	0	3	10Y	20,000,000	(345,000,000)	(325,000,000)	26,000,000
ITRX_S7_00_03_5Y	ITRX S7	0	3	5Y	333,837,000	(654,048,008)	(320,211,008)	25,616,881
CDX_HY7_15_25_7Y	CDX HY7	15	25	7Y	35,000,000	(345,000,000)	(310,000,000)	24,800,000
CDX_IG4_00_03_7Y	CDX IG4	0	3	7Y	97,000,000	(395,000,000)	(298,000,000)	23,840,000
CDX_IG7_00_03_7Y	CDX IG7	0	3	7Y	281,100,000	(574,100,000)	(293,000,000)	23,440,000
CDX_IG7_00_03_10Y	CDX IG7	0	3	10Y	180,000,000	(460,000,000)	(280,000,000)	22,400,000
CDX_HY8_05_10_7Y_PO	CDX HY8	5	10	7Y	0	(270,000,000)	(270,000,000)	21,600,000
CDX_HY7_15_25_5Y	CDX HY7	15	25	5Y	194,400,000	(441,900,000)	(247,500,000)	19,800,000
CDX_HY8_10_15_3Y	CDX HY8	10	15	3Y	65,000,000	(305,000,000)	(240,000,000)	19,200,000
CDX_IG8_00_03_7Y	CDX IG8	0	3	7Y	233,500,000	(467,000,000)	(233,500,000)	18,680,000
CDX_HY8_00_10_3Y	CDX HY8	0	10	3Y	257,000,000	(490,000,000)	(233,000,000)	18,640,000
CDX_HY8_10_15_5Y	CDX HY8	10	15	5Y	140,000,000	(360,000,000)	(220,000,000)	17,600,000
ITRX_S4_00_03_7Y	ITRX S4	0	3	7Y	190,764,000	(404,692,200)	(213,928,200)	17,114,256
ITRX_S4_00_03_5Y	ITRX S4	0	3	5Y	442,845,000	(314,760,592)	128,084,408	10,246,753
ITRX_S6_00_03_10Y	ITRX S6	0	3	10Y	361,089,000	(222,158,072)	138,930,928	11,114,474
CDX_IG7_05_07_10Y	CDX IG7	5	7	10Y	200,000,000	(40,000,000)	160,000,000	12,800,000
CDX_IG8_00_03_10Y	CDX IG8	0	3	10Y	439,000,000	(278,000,000)	161,000,000	12,880,000
CDX_IG8_00_03_7Y_PO	CDX IG8	0	3	7Y	235,000,000	(70,000,000)	165,000,000	13,200,000
ITRX_S6_00_03_5Y	ITRX S6	0	3	5Y	473,503,492	(286,146,000)	187,357,492	14,988,599
CDX_IG5_00_03_UPF	CDX IG5	0	3	5Y	210,000,000	0	210,000,000	16,800,000
ITRXXOMAIN_S6_02_05	ITRXXOMAIN	2	5	7Y	231,642,000	0	231,642,000	18,531,360
CDX_IG6_03_07_10Y	CDX IG6	3	7	10Y	590,000,000	(335,000,000)	255,000,000	20,400,000
CDX_HY6_00_10	CDX HY6	0	10	5Y	492,000,000	(234,000,000)	258,000,000	20,640,000
ITRXXOMAIN_S5_00_03	ITRXXOMAIN	0	3	5Y	258,894,000	0	258,894,000	20,711,520
ITRX_S3_00_03_5Y	ITRX S3	0	3	5Y	366,549,640	(102,195,002)	264,354,638	21,148,371
CDX_HY7_15_25_3Y	CDX HY7	15	25	3Y	270,000,000	0	270,000,000	21,600,000
CDX_HY7_10_15_7Y	CDX HY7	10	15	7Y	309,000,000	0	309,000,000	24,720,000
CDX_HY7_00_10_7Y	CDX HY7	0	10	7Y	470,000,000	(160,000,000)	310,000,000	24,800,000
ITRX_S5_00_03_7Y	ITRX S5	0	3	7Y	495,986,392	(163,512,000)	332,474,392	26,597,951
CDX_IG4_00_03	CDX IG4	0	3	5Y	520,000,000	(155,250,000)	364,750,000	29,180,000
ITRXXOMAIN_S6_00_03	ITRXXOMAIN	0	3	5Y	599,544,000	(54,504,000)	545,040,000	43,603,200
CDX_HY8_00_10_7Y	CDX HY8	0	10	7Y	830,000,000	(65,000,000)	765,000,000	61,200,000
								<b>947,173,365</b>

# Backup: Total NIG Grade Contingent Commitments 10/31

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	Deal Name	Amount	Probability(1)	Reg Y Charge(2)	Reg Y Contribution
	Houghton Mifflin	2,137	90%	77	24%
	Alliance Data	1,227	90%	44	14%
Q4 addition	→ Arysta	468	90%	17	5%
	United Rentals	975	90%	35	11%
	→ Firth Rixson	674	90%	24	7%
	Sequa	820	90%	30	9%
	FairPoint	624	90%	22	7%
	TRW / Mango	550	75%	17	5%
	Applebee's	535	90%	19	6%
	Hawaiian Tel YP	455	90%	16	5%
	Metavante	151	90%	5	2%
	McJunkin	350	90%	13	4%
	A&P	130	90%	5	1%
	Windstream	59	90%	2	1%
	<b>Total Ex PHH</b>	<b>8,525</b>		<b>304</b>	
	PHH (2)	630	90%	23	7%
	<b>Total 10/31/07</b>	<b>9,155</b>		<b>326</b>	
	<b>Total 9/30/2007</b>			<b>805</b>	

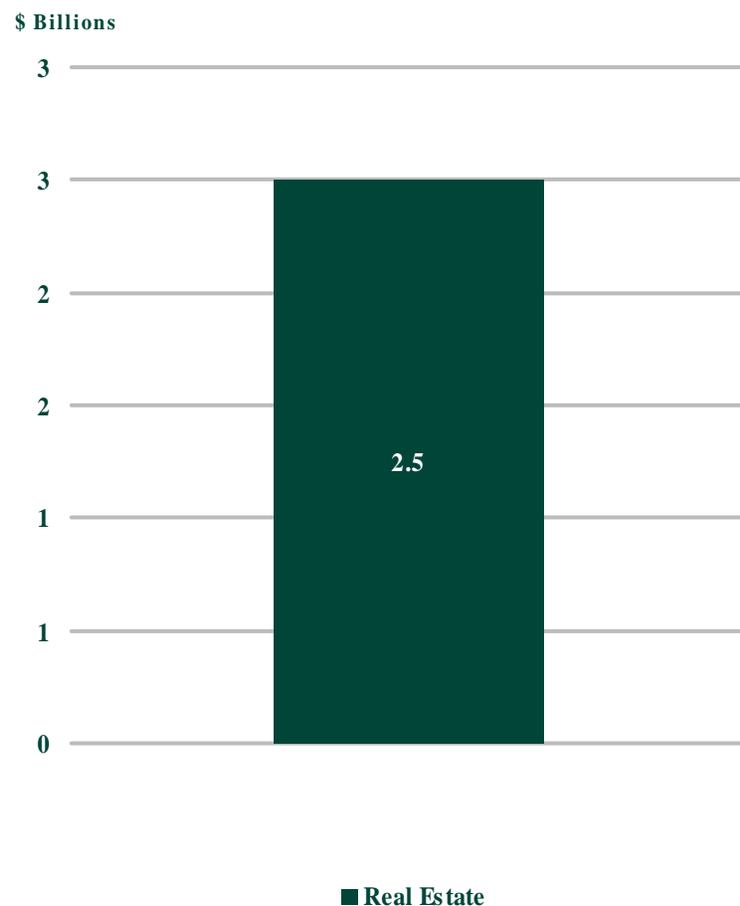
1. Probabilities are generated by Risk Management

2. Reg Y Charge is the product of the commitment value, the probability, and 4%

# Real Estate Investments and Loans

Real Estate Investments and Loans are comprised primarily of PTG positions. It makes up 11% of the total Risk Allowance

## Real Estate Investment and Loans 9/30/2007



## Top 20 Positions

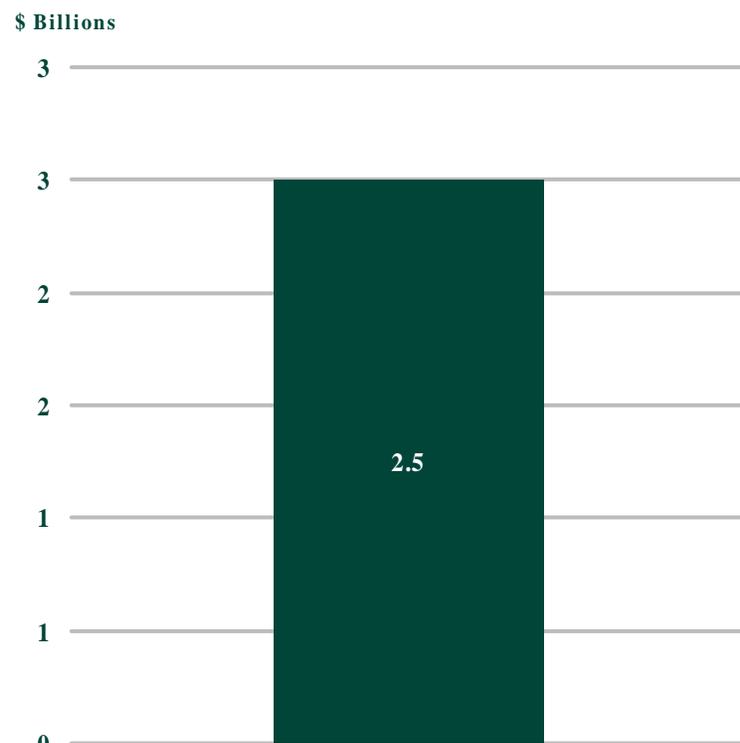
Rank	Asset/Deal Name	Lien Position	Funded Amount	Unfunded Amount	Capital Charge	% Contribution	
1	HERITAGE FIELDS	First	468	296	59	2.4%	
2	Kokusai Akasaka Building	Senior/Junior	703		51	2.0%	
3	Reva	Senior	215		43	1.7%	
4	Coeur Defense	Bridge Equity	567		41	1.6%	
5	PLF LB Syndication Partner LLC	Bridge Equity	546		39	1.6%	
6	237 Park Avenue LB Syndication Partner LLC	Bridge Equity	387		36	1.4%	
7	Project Trois - Bridge Mezz I & II	Mezzanine	452		33	1.3%	
8	Archstone - Tishman Speyer1	Commitment		668	31	1.2%	
9	Archstone - Tishman Speyer2	Commitment		668	31	1.2%	
10	Archstone - Tishman Speyer3	Commitment		668	31	1.2%	
11	KNICKERBOCKER HOTEL SENIOR WHO	First	265	22	26	1.1%	
12	Project Clover	Senior	358		26	1.0%	
13	Suncal Bridge 258mil	REIT LOC	274		25	1.0%	
14	Daito Kentaku - Non-recourse loans	Senior	345		25	1.0%	
15	Drapers Gardens	Senior	130	224	23	0.9%	
16	CARILLON SOUTH TOWER WHOLE LOA	First	171	50	22	0.9%	
17	Nagaoka NPL Senior	Senior	302		22	0.9%	
18	Rosslyn LB Syndication Partner LLC	Bridge Equity	298		21	0.9%	
19	RITZ CARLTON KAPALUA SR. WHOLE	First	195	42	21	0.8%	
20	Marblehead Heartland Term Loan	REIT LOC	211		19	0.8%	
					Total Top 20	624	24.9%
					Other	1,881	75.1%
					Total	2,505	

	<u>Risk Allowance</u>	<u>Average</u>
Top 10	393	39
Top 20	624	31

# Private Equity

Private Equity includes investments made in the firm's funds, third party funds, and other principal investments. It makes up 11% of the total Risk Allowance

## Private Equity 9/30/2007



■ Private Equity

## Top 20 Positions

Deal Name	Value	Capital Charge	% Contribution
CDO Funds	798	255	10.3%
Real Estate Funds including Accounting Gross up	638	204	8.3%
Master Limited Partnership (MLP) - PIPE's and Priva	580	186	7.5%
Crossroads - various, including Accounting Gross Up	470	150	6.1%
Co-Investments	394	126	5.1%
Merchant Banking Funds, Bivideon investment and C	250	80	3.2%
TXU Corp Equity Commitment	225	72	2.9%
Direct Fund of Funds	169	54	2.2%
Merchant Banking Funds, Bivideon investment and C	167	53	2.2%
Global Mezzanine Fund	160	51	2.1%
Credit Default Swaps (CDSs) - BB	48	48	1.9%
TCP Asia Fund LP	146	47	1.9%
KSK ELECTRICITY	132	42	1.7%
Real Estate Funds	512	41	1.7%
Credit Default Swaps (CDSs) - BB NOT Securitized I	142	40	1.6%
Archstone (Project Easy Living)	123	39	1.6%
European Mezzanine Fund II	109	35	1.4%
Lehman Brothers Private Equity Partners Limited (LE	140	34	1.4%
Global Infrastructure Fund I (F2i)	102	33	1.3%
Crossroads XVII Fund including Accounting Gross Up	382	31	1.2%
Total Top 20		1,621	
Other		850	
Total		2,471	

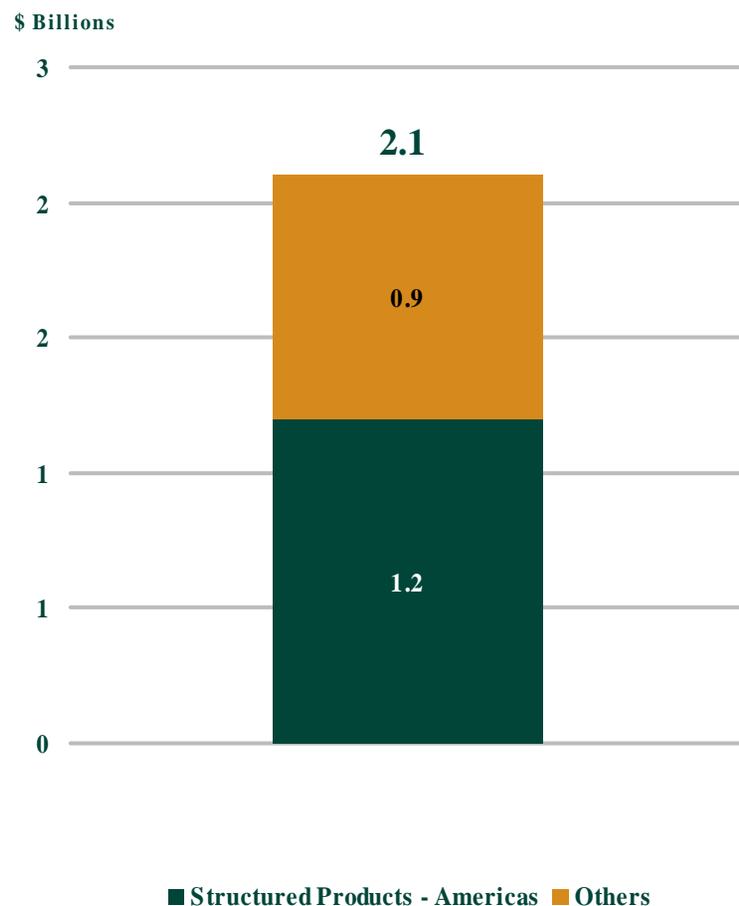
### Risk Allowance    Average

Top 10	1,232	123
Top 20	1,621	81

# Retained Interests

**Banking Book Retained Interests are a dollar for dollar reduction in capital. Residential Mortgages – Americas account for 57% of the total Retained interest charges. Allowance**

## Retained Interest 9/30/2007



## Top 20 Positions Structured Product Americas

Deal Name	Lehman Funded Amt	Capital Charge	% Contribution
LXS 06-16N X	71	71	5.7%
LXS 2007-4N X	48	48	3.8%
LXS 2006-12N X	45	45	3.6%
LXS 2006-4N X	36	36	2.9%
LXS 07-15N X-II	34	34	2.7%
INDX 2006-AR14 C	29	29	2.3%
LXS 07-15N X-I	29	29	2.3%
LXS 2007-8H X	28	28	2.3%
LXS 2007-2N X	24	24	1.9%
LXS 06-18N X	23	23	1.8%
LXS 2007-10H I-X	22	22	1.8%
SASC99-RM1 Y	21	21	1.7%
GPMF - 2006 HE 1 B	20	20	1.6%
LEHMAN XS NIM COMPANY 2005-5N	20	20	1.6%
LXS 07-12N 1X	17	17	1.4%
LXS 2007-14H X	17	17	1.4%
LXS 06-14N X	17	17	1.3%
RALI 2006-Q09 SB	16	16	1.2%
SASC 2007-9 AX7N	15	15	1.2%
LEHMAN XS NIM COMPANY 2006-2N	15	15	1.2%
<b>Total Top 20</b>	<b>549</b>		
<b>Other</b>	<b>698</b>		
<b>Total</b>	<b>1,247</b>		

### Risk Allowance    Average

Top 10	368	37
Top 20	549	27

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## Appendix: Overview

# Capital Adequacy Measures

We use four complementary models to evaluate capital adequacy.

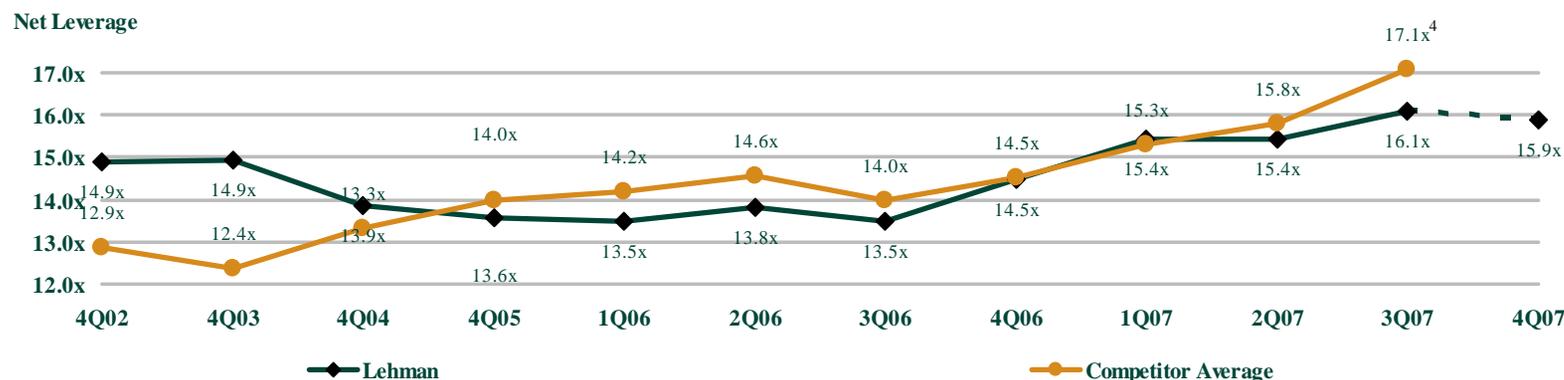
Model	Description	Disclosure	Targets/Limits <sup>1</sup>
Net Leverage	<ul style="list-style-type: none"> <li>◆ Crude, but common accounting-based measure               <ul style="list-style-type: none"> <li>– Reflects the size of the balance sheet</li> <li>– Does not account for off-balance sheet positions or asset mix</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ Disclosed in 10Ks and 10Qs</li> <li>◆ Easy to compare across years although differences in methodologies exist</li> </ul>	<ul style="list-style-type: none"> <li>◆ In line/below peers</li> </ul>
CSE Capital Ratios	<ul style="list-style-type: none"> <li>◆ Regulatory measures               <ul style="list-style-type: none"> <li>– Reflect both the size and mix of assets</li> <li>– Methodology is still changing</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ Currently disclosed to SEC only</li> <li>◆ Will become public in Q1'08</li> </ul>	<ul style="list-style-type: none"> <li>◆ Tier 1 ratio above “well-capitalized” 6% standard</li> </ul>
Risk Equity	<ul style="list-style-type: none"> <li>◆ Internal risk equity model</li> </ul>	<ul style="list-style-type: none"> <li>◆ Disclosed to rating agencies and regulators</li> </ul>	<ul style="list-style-type: none"> <li>◆ Common equity surplus</li> </ul>
Equity Adequacy	<ul style="list-style-type: none"> <li>◆ Internal economic equity model               <ul style="list-style-type: none"> <li>– Combines risk-based and funding approaches</li> <li>– Multifactor model</li> <li>– Inputs primarily from 10Ks and 10Qs</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ Disclosed to rating agencies</li> </ul>	<ul style="list-style-type: none"> <li>◆ Gross equity surplus of \$1.5B</li> </ul>

1. As presented to Finance Committee of the Board in September 2007

# Net Leverage

In the past, leverage was the key measure of equity adequacy and is still widely used due to its simplicity. In 2002-2004, the Firm reduced Net Leverage below peers, which contributed to our 2005 credit upgrades. Between 2005 and 3Q'07, our leverage has increased, but remains within the peer range

## Net Leverage 4Q 2002 – 4Q 2007



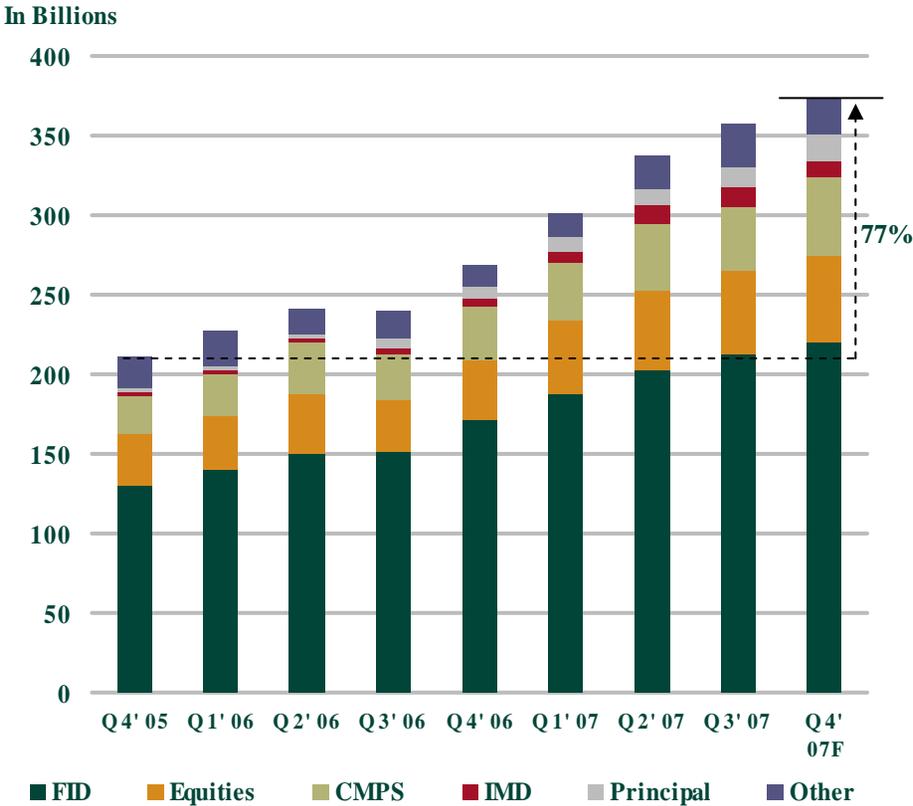
	4Q02	4Q03	4Q04	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
LEH	14.9x	14.9x	13.9x	13.6x	13.5x	13.8x	13.5x	14.5x	15.4x	15.4x	16.1x
GS	12.1x	12.8x	12.2x	14.7x	15.2x	14.8x	13.9x	13.7x	14.8x	14.4x	15.4x
MS	12.5x	12.0x	11.7x	13.4x	14.2x	13.8x	13.4x	14.9x	15.3x	15.9x	16.7x
MER <sup>2</sup>	14.8x	13.1x	15.1x	12.2x	12.2x	13.4x	12.0x	12.6x	12.7x	13.1x	
BSC	12.2x	11.6x	14.3x	15.8x	15.3x	16.3x	16.7x	16.8x	18.5x	19.7x	19.2x
Comp Avg.	12.9x	12.4x	13.3x	14.0x	14.2x	14.6x	14.0x	14.5x	15.3x	15.8x	17.1x <sup>4</sup>

- MER restated their financials due to the adoption of FAS 123. Data shown prior to 4Q03 is not restated.
- Net leverage ratio is defined as net assets divided by Leverage Equity. Leverage Equity includes an internal limit for equity credit given to hybrids at a maximum of 25% of Total Tangible Equity.
- 4Q 07 forecast is as of June mid-year review
- 3Q 07 competitor average does not include MER

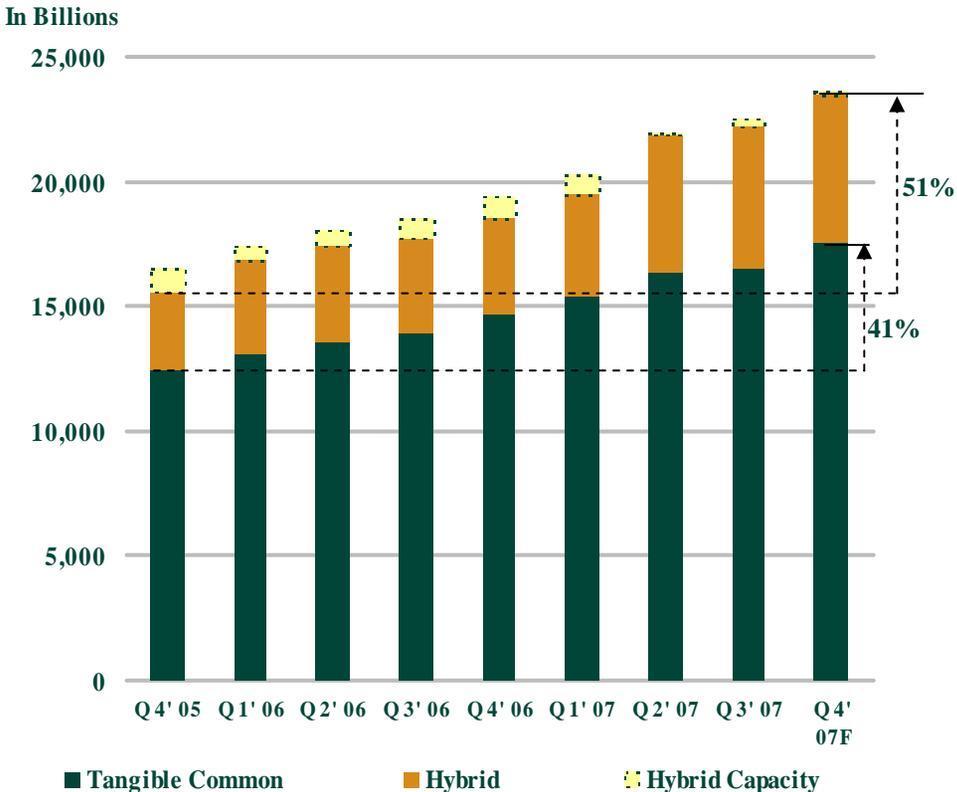
# Net Leverage Drivers

Increase in Net Leverage reflects the fact that the Firm's Balance Sheet has grown faster than its Leverage Equity (Total Tangible Equity). In 2006 and 2007, the Firm aggressively issued Hybrid Equity to supplement Common Equity. By mid-2007, we have maxed out the size of allowable Hybrid instruments

### Net Balance Sheet Growth

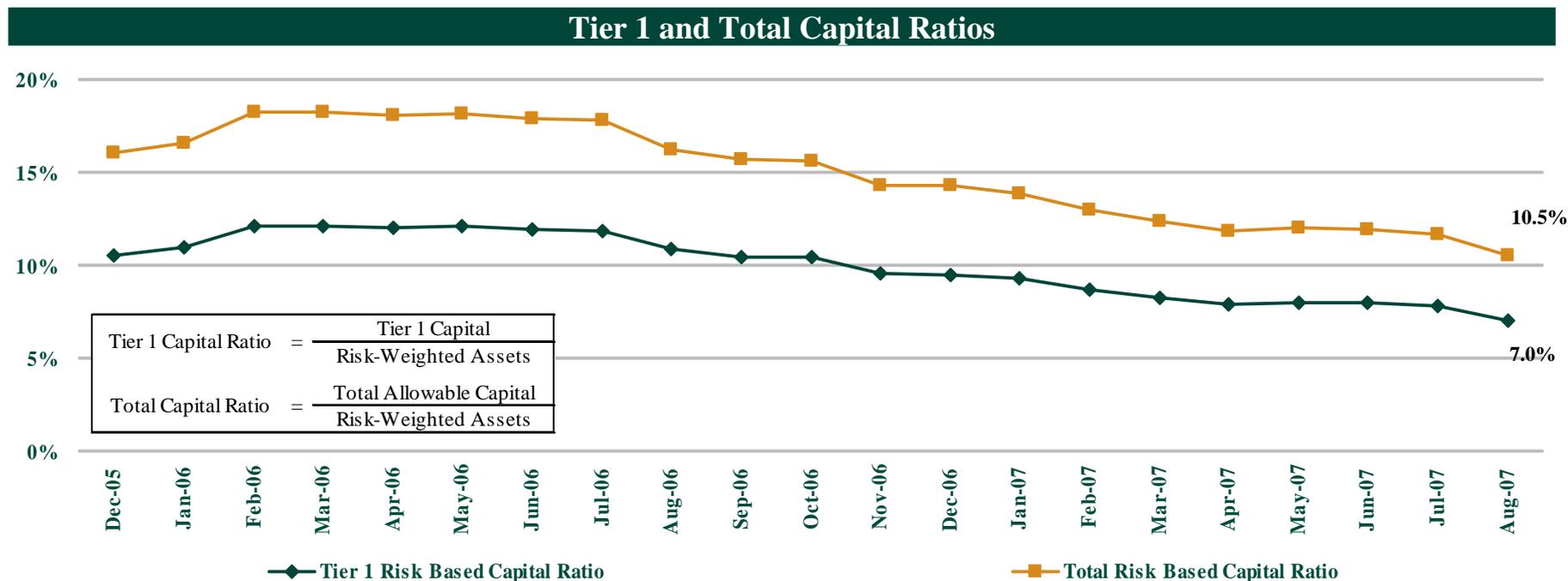


### Equity Growth



# CSE Capital Ratios

Since 2005, when the Firm elected to become a CSE, our capital ratios have been trending down. At present, the Firm's capital ratios are still above "well-capitalized" threshold, but likely at the low end of the peer range



### Targets and Benchmarking

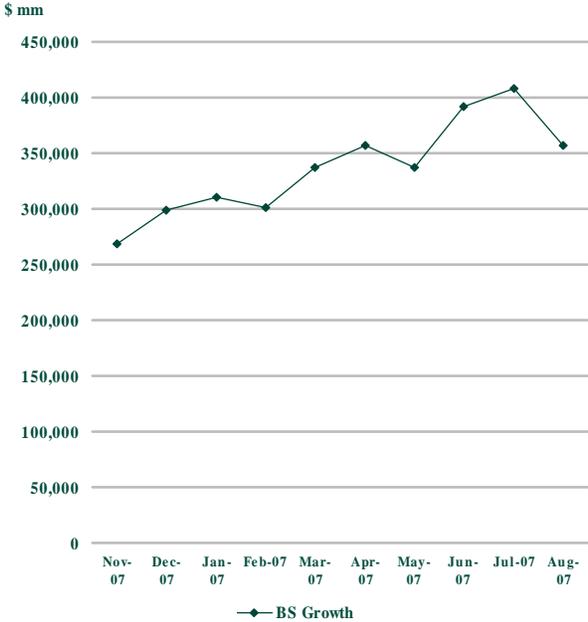
	Absolute	Well	Industry Range <sup>(1)</sup>		Benchmarking <sup>(2)</sup>		
	<u>Minimum</u>	<u>Capitalized</u>	<u>Low</u>	<u>High</u>	<u>Citi</u>	<u>JPM</u>	<u>BoA</u>
Tier 1 Capital Ratio	4%	6%			7.9%	8.4%	8.5%
Total Capital Ratio	8%	10%	10.5%	18.7%	11.2%	12.0%	12.1%

1. August 2007  
2. May 2007

# Drivers of Risk-Weighted Assets Growth

The primary cause of the negative trend is the rapid growth of the Risk Adjusted Assets. Between November '06 and August '07, Risk-Weighted Assets grew by 72%, driven by both the scale and risk-intensity (particularly in the second half of 2007) of the Firm's Assets. In the same period, our Tier 1 capital grew by only 26%

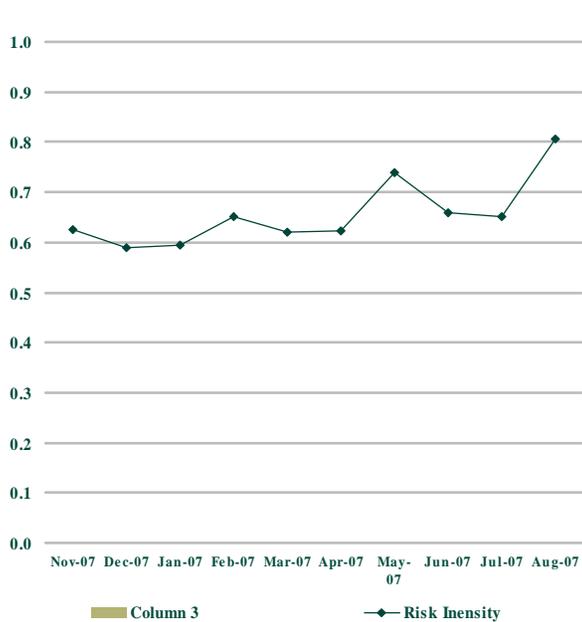
### Balance Sheet



**33% Growth**

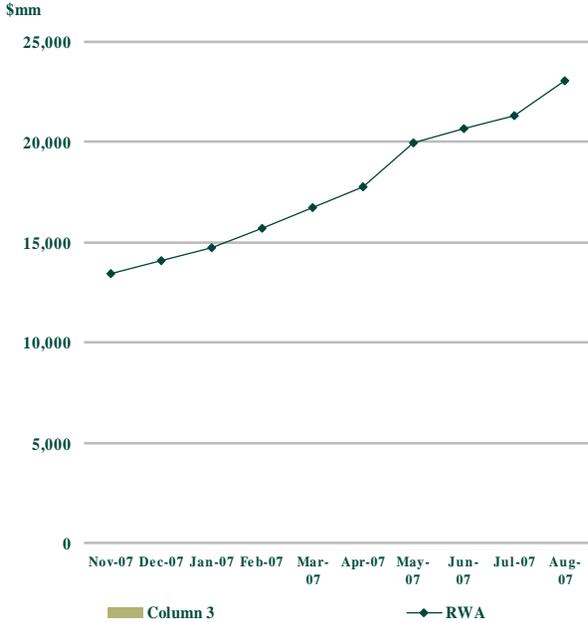
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### \$RAA per \$1 BS



**29% Growth**

### Risk Adjusted Assets



**72% Growth**

# Risk Allowances 9/30

Section Header (used to create Tab Pages and Table of Contents)

**Risk Allowances are highly concentrated. Four areas: Specific Risk Add-on (a.k.a. Reg Y), Real Estate Investment and Loans, Private Equity, and Retained Interests account for 59% of the total Risk Allowances**

## Lehman Brothers Holdings Inc. CSE Capital Calculation

In millions

	September 30, 2007	August 31, 2007	
<b>Market Risk Allowance</b>	<b>Risk Allowance</b>	<b>Risk Allowance</b>	
VaR based	1,903	\$ 1,779	
Scenario/Stress	367	425	
Specific Risk Add-on	6,595	6,595	←
<b>Total Market Risk</b>	<b>8,865</b>	<b>8,799</b>	←
<b>Operational Risk Allowance</b>			
Operational Risk	2,189	2,189	
<b>Credit Risk Allowance</b>			
Counterparty Credit Risk	2,144	2,102	
Real Estate Investments and Loans	2,505	2,261	←
Municipal Real Estate & Loans	36	36	
Mortgage Warehouse & Principal Finance	285	259	
Corporate Loans & Securities	791	818	
Private Equity	2,471	2,564	←
Insurance Entities	22	22	
Retained Interests	2,138	2,082	←
<b>Total Credit Risk</b>	<b>10,392</b>	<b>10,144</b>	←
<b>Other Assets Risk Allowance</b>			
<b>Total Other Assets Risk</b>	<b>1,900</b>	<b>1,928</b>	
<b>TOTAL RISK ALLOWANCE</b>	<b>\$ 23,346</b>	<b>\$ 23,060</b>	
<b>TOTAL RISK WEIGHTED ASSETS</b>	<b>\$ 291,825</b>	<b>\$ 288,250</b>	

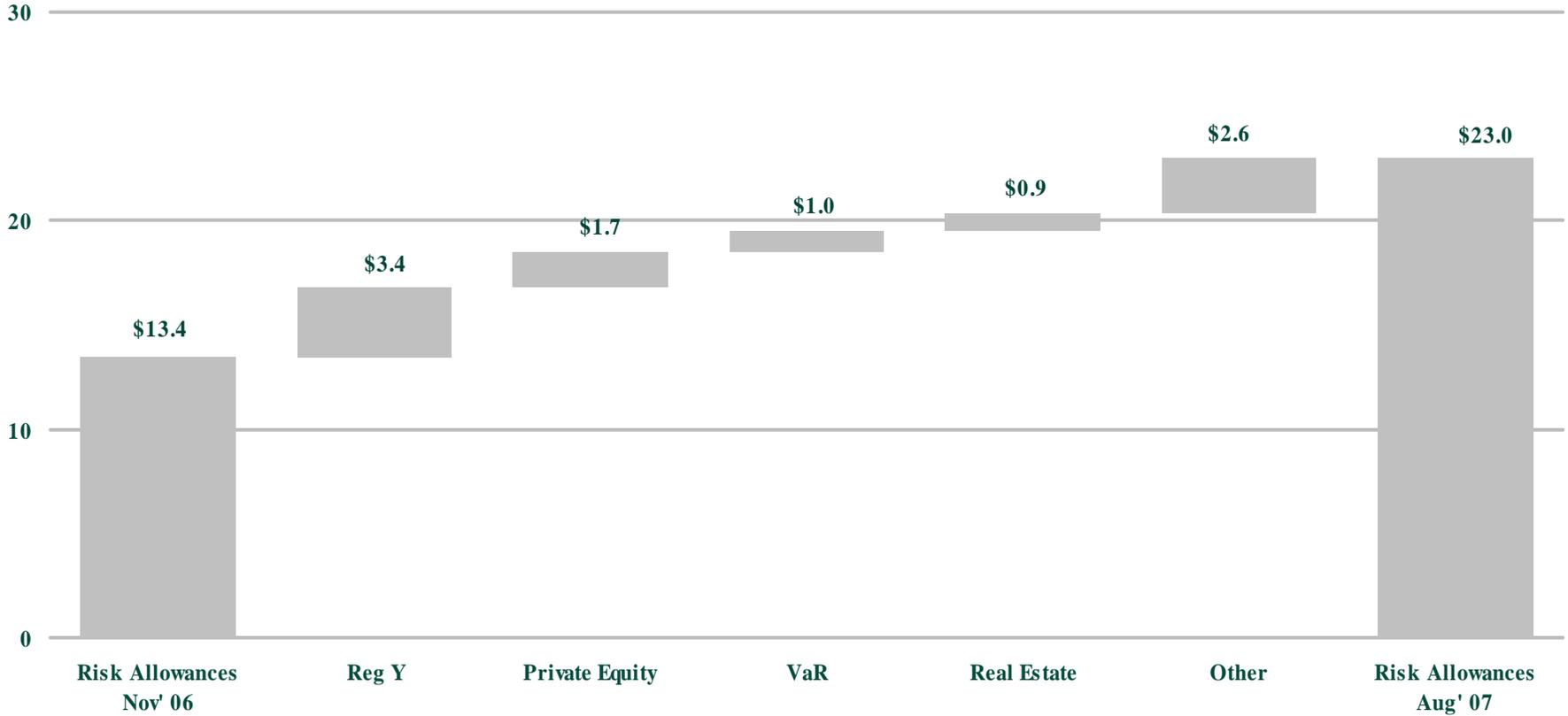
**High Impact Areas**

# Contributions to Risk Allowance Growth

Of the \$9 B increase in Risk Allowances, almost 73% is associated with four major sources: Regulation Y (High Yield-driven), Private Equity, VaR, and Real Estate

## Risk Allowance Growth Components

In Billions



# Internal Models

The two internal models -- Risk Equity and Equity Adequacy Framework -- show trends similar to CSE ratios: rapid decline in the level of capitalization.

## Capital Adequacy Metrics

<u>Equity Adequacy Framework</u>	<u>Q1'06</u>	<u>Q2'06</u>	<u>Q3'06</u>	<u>Q4'06</u>	<u>Q1'07<sup>1</sup></u>	<u>Q2'07</u>	<u>Q3'07</u>	<u>Q4'07F</u>
Requirements	12,889	13,579	16,120	17,099	19,660	23,778	26,689	27,486
Target Surplus	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Gross Equity	20,116	20,699	21,089	21,929	24,518	26,001	26,647	27,739
<b>Surplus/(Deficit) Before Target Surplus</b>	<b>8,727</b>	<b>8,620</b>	<b>6,469</b>	<b>6,330</b>	<b>6,358</b>	<b>3,723</b>	<b>1,458</b>	<b>1,753</b>
Target Surplus	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
<b>Surplus/(Deficit) in Excess of Target Surplus</b>	<b>7,227</b>	<b>7,120</b>	<b>4,969</b>	<b>4,830</b>	<b>4,858</b>	<b>2,223</b>	<b>(42)</b>	<b>253</b>
<u>Risk Equity</u>	<u>Q1'06</u>	<u>Q2'06</u>	<u>Q3'06</u>	<u>Q4'06</u>	<u>Q1'07</u>	<u>Q2'07</u>	<u>Q3'07</u>	
Requirements	13,797	13,247	14,706	15,650	17,183	19,321	20,148	
Common Equity	16,398	16,887	17,301	18,096	18,910	20,034	20,638	
<b>Surplus/(Deficit)</b>	<b>2,601</b>	<b>3,640</b>	<b>2,595</b>	<b>2,446</b>	<b>1,727</b>	<b>713</b>	<b>490</b>	
<u>CSE @ 8%</u>	<u>Q1'06</u>	<u>Q2'06</u>	<u>Q3'06</u>	<u>Q4'06</u>	<u>Q1'07<sup>1</sup></u>	<u>Q2'07</u>	<u>Q3'07F</u>	
Requirements	9,740	10,247	11,700	13,443	15,694	19,992	23,060	
Tier 1 Capital	14,775	15,535	15,861	16,015	18,488	20,377	20,170	
<b>Surplus/(Deficit)</b>	<b>5,035</b>	<b>5,288</b>	<b>4,161</b>	<b>2,572</b>	<b>2,794</b>	<b>385</b>	<b>(2,890)</b>	

1. Includes MCAPS issuance for \$1.5 Billion accelerated from Q2

# Drivers of the Equity Adequacy Trend

The primary driver of declining equity adequacy is rapid growth of equity requirements associated with Less Liquid Assets

## Equity Surplus / (Deficit)

Variables in \$mm

Performance data	Q1'06	Q2'06	Q3'06	Q4'06	Q1'07 <sup>1</sup>	Q2'07	Q3'07	Q4'07 - F
VaR 95% 1 day	42	33	48	53	73	87	99	103
Counterparty Risk Appetite	240	172	306	246	275	287	310	324
Less Liquid Assets	23,654	30,280	43,001	44,561	57,352	79,980	81,965	83,097
Revenue	15,281	16,414	16,740	17,583	18,168	19,270	19,402	20,000
PP&E	2,966	3,079	3,150	3,269	3,398	3,519	3,677	3,841
GW&I	3,282	3,297	3,364	3,362	3,531	3,652	4,108	4,128
DTA	2,620	2,640	2,660	2,670	2,722	2,774	2,657	2,775

Variables in \$mm

Equity Required	Q1'06	Q2'06	Q3'06	Q4'06	Q1'07 <sup>1</sup>	Q2'07	Q3'07	Q4'07 - F
Trading	1,371	1,096	1,593	1,740	2,401	2,861	3,256	3,400
Counterparty	504	361	643	516	578	602	639	681
Less Liquid Funding Haircuts								
Operational	764	821	837	879	908	964	970	1,000
<b>Total Gross Equity Required Before Target Surplus</b>	<b>11,389</b>	<b>12,079</b>	<b>14,620</b>	<b>15,599</b>	<b>18,160</b>	<b>22,278</b>	<b>25,189</b>	<b>25,986</b>
Target Surplus	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
<b>Total Gross Equity Required</b>	<b>12,889</b>	<b>13,579</b>	<b>16,120</b>	<b>17,099</b>	<b>19,660</b>	<b>23,778</b>	<b>26,689</b>	<b>27,486</b>
<b>Gross Equity Available</b>								
Common Equity	16,398	16,887	17,301	18,096	18,910	20,034	20,638	21,725
Hybrids/Preferred	3,718	3,812	3,788	3,833	5,608	5,967	6,009	6,014
<b>Total Gross Equity</b>	<b>20,116</b>	<b>20,699</b>	<b>21,089</b>	<b>21,929</b>	<b>24,518</b>	<b>26,001</b>	<b>26,647</b>	<b>27,739</b>
<b>Surplus/(Deficit) Before Target Surplus</b>	<b>8,727</b>	<b>8,620</b>	<b>6,469</b>	<b>6,330</b>	<b>6,358</b>	<b>3,723</b>	<b>1,458</b>	<b>1,753</b>
Target Surplus	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
<b>Surplus in Excess of Target Surplus</b>	<b>7,227</b>	<b>7,120</b>	<b>4,969</b>	<b>4,830</b>	<b>4,858</b>	<b>2,223</b>	<b>(42)</b>	<b>253</b>

1. \$1.5 Billion MCAPS have been added to Q1 gross Equity and \$350mm ECAPS to Q2

# Contribution to Capital Requirements

Equity usage is quite concentrated. The top 10 BPMs account for 75% of the Equity requirements and almost all of the Equity requirements growth. The largest and the fastest growing users are Real Estate and High Yield businesses.

## Top 10 BPMs by Capital Req'ts Q3' 07

	<u>Equity Requirement</u>	<u>% of Total Firm</u>
Real Estate	3,934	15%
High Yield	3,754	14%
Investment Banking	3,419	13%
Asset Management	2,098	8%
Securitized Products	1,733	6%
Private Equity	1,669	6%
CDO	887	3%
Global Principal Strategies	886	3%
High Grade	856	3%
IR Products	814	3%
Other	6,642	25%
<b>Total Firm</b>	<b>26,691</b>	<b>100%</b>

## Top 10 BPMs by Capital Req't Growth Q4'06 -Q3' 07

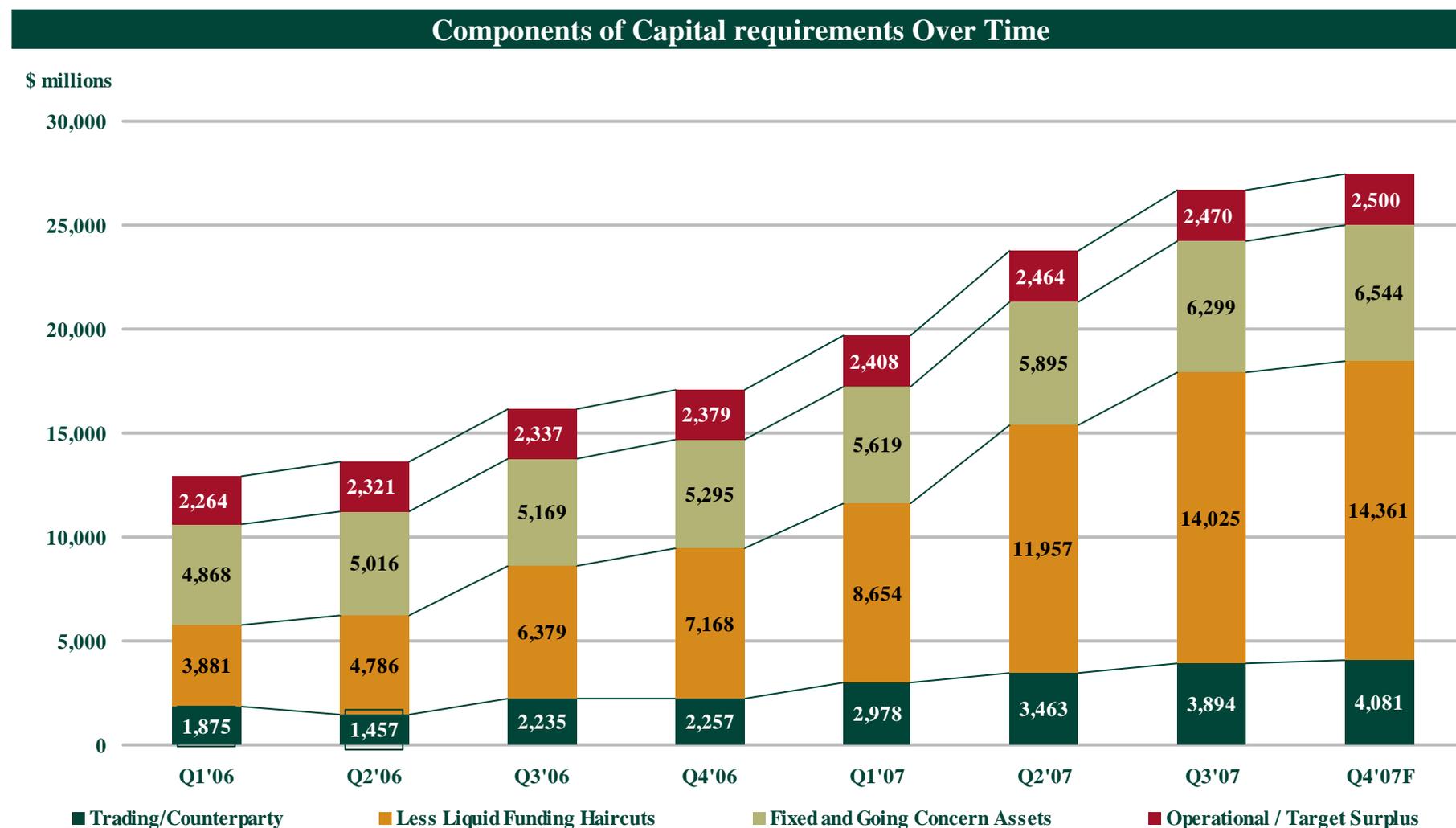
	<u>Equity Requirement</u>	<u>% of Total Firm</u>
Real Estate	2,064	22%
High Yield	2,049	21%
Asset Management	1,067	11%
Investment Banking	1,038	11%
Private Equity	731	8%
Energy Trading	417	4%
CDO	343	4%
Convertibles	269	3%
Fixed Income Corporate	267	3%
Volatility	236	2%
Other	1,109	12%
<b>Total Firm</b>	<b>9,590</b>	<b>100%</b>

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**Unused**

# Components of the Capital Requirements Over Time

Growth primarily driven by requirements for illiquid and, to a lesser extent, liquid risks, while other components remain relatively flat



# Leverage Ratios (S&P)

Historically, we used leverage ratios (specifically, Net leverage) as key measures

## Definitions

$$\text{Net Leverage} = \frac{\text{Net Assets}}{\text{Tangible Equity}} = \frac{(\text{Total Assets} - \text{Seg Cash \& Securities} - \text{Reverse Repos} - \text{Borrows} - \text{FAS 140} - \text{Goodwill})}{(\text{Common Equity} + \text{Perpetual Preferred} + \text{Hybrid Securities} - \text{Goodwill})}$$

$$\text{Gross Leverage} = \frac{\text{Total Assets}}{\text{Stockholders' Equity}} = \frac{\text{Total Assets}}{(\text{Common Equity} + \text{Perpetual Preferred})}$$

## Advantages

- Simple and easy to calculate
- Transparent, all data publicly available
- Highly comparable across peers
- Used by creditors and credit rating agencies

## Shortcomings

- No recognition of hedges and other off-B/S positions
- No differentiation between asset classes
- Customer financing can appear as Firm position
- Multiple definitions

# Backup: Risk Allowances Details

## Section Header (used to create Tab Pages and Table of Contents)

	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Abs. Δ	% Δ
<b>Tier 1 Capital</b>	16,015	16,748	17,071	16,988	17,196	17,565	20,027	20,537	20,693	20,170	6,756	50%
<b>Total Capital</b>	24,023	25,122	25,607	25,482	25,794	26,348	30,040	30,806	31,040	30,255	9,901	49%
<b>Market Risk Allowance</b>												
VaR based	793	937	1,067	1,186	1,235	1,336	1,487	1,688	1,833	1,779	1,016	133%
Scenario/Stress	280	264	267	225	271	254	267	326	408	425	229	117%
Regulation Y Add-on	3,234	3,234	3,234	4,228	4,228	4,228	5,361	5,361	5,361	6,595	4,159	171%
<b>Total Market Risk</b>	<b>4,307</b>	<b>4,435</b>	<b>4,568</b>	<b>5,639</b>	<b>5,734</b>	<b>5,818</b>	<b>7,115</b>	<b>7,375</b>	<b>7,602</b>	<b>8,799</b>	<b>5,404</b>	<b>159%</b>
<b>Operational Risk Allowance</b>												
Operational Risk	<b>1,743</b>	<b>2,189</b>	<b>446</b>	<b>26%</b>								
<b>Credit Risk Allowance</b>												
Counterparty Credit Risk	1,543	1,349	1,299	1,454	1,606	1,716	1,679	1,821	2,129	2,102	408	24%
Real Estate Investments and Loans	1,392	1,423	1,462	1,564	1,673	1,733	1,902	2,044	2,182	2,261	1,284	132%
Municipal Real Estate & Loans	47	49	49	43	43	43	37	37	36	36	(24)	-40%
Mortgage Warehouse & Principal Finance	234	255	270	305	298	312	317	304	271	259	145	126%
Corporate Loans & Securities	546	613	810	428	701	935	1,033	1,062	857	818	382	87%
Private Equity	781	800	938	958	1,186	1,444	2,170	2,163	2,433	2,564	2,352	1112%
Insurance Entities	21	21	21	21	21	21	21	22	22	22	(1)	-5%
Retained Interests	1,625	1,673	1,837	1,627	1,586	1,660	1,835	1,836	1,794	2,082	1,383	198%
<b>Total Credit Risk</b>	<b>6,189</b>	<b>6,181</b>	<b>6,686</b>	<b>6,400</b>	<b>7,114</b>	<b>7,864</b>	<b>8,994</b>	<b>9,289</b>	<b>9,724</b>	<b>10,144</b>	<b>5,929</b>	<b>141%</b>
<b>Other Assets Risk Allowance</b>												
Cash and Cash Equivalents	46	44	52	60	53	63	69	73	77	109	27	33%
Segregated Cash and Securities	77	66	52	65	69	68	70	82	57	108	54	99%
Receivables from Brokers, Dealers and Clearing Orgs											0	
Fail to Deliver	25	33	19	26	18	17	25	50	46	43	40	1225%
Clearing Organizations	23	15	23	20	13	17	21	19	33	47	16	51%
Other	88	105	97	104	86	152	113	184	118	165	84	103%
Total Receivables from Brokers, Dealers and Clearing Orgs	136	153	139	150	117	186	159	253	197	255	139	120%
Receivables from Customers											0	
Fail to Deliver	101	145	91	103	108	120	180	262	190	207	182	716%
Other	68	58	75	93	71	121	85	95	144	172	140	434%
Receivables from Customers	169	204	166	196	179	241	265	357	334	379	321	558%
Receivables from Others	164	164	146	183	206	194	229	207	251	211	102	93%
Property, Equipment and L/H	262	264	267	272	277	281	282	287	291	294	58	25%
Other Assets											0	
Investments in Partnerships and JVs	256	264	382	442	711	759	509	444	450	461	400	659%
Other Assets	95	122	110	98	94	110	111	114	125	111	14	15%
<b>Total Other Assets Risk</b>	<b>1,205</b>	<b>1,282</b>	<b>1,314</b>	<b>1,466</b>	<b>1,706</b>	<b>1,902</b>	<b>1,694</b>	<b>1,817</b>	<b>1,782</b>	<b>1,928</b>	<b>1,116</b>	<b>138%</b>
<b>Total Risk Allowances</b>	<b>13,443</b>	<b>14,087</b>	<b>14,757</b>	<b>15,694</b>	<b>16,743</b>	<b>17,773</b>	<b>19,992</b>	<b>20,670</b>	<b>21,297</b>	<b>23,060</b>	<b>12,896</b>	<b>127%</b>

# Risk Allowance Remediation

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**Below are some actions that have been discussed to reduce the total Risk Allowance by Q1' 08**

Area	Action	Impact to Risk Allowance	Comment
Reg Y -Cash + CDS	Syndicate Top 3 Loans	-450mm	
	Reduce Top 5 EMG positions by 25%	-110mm	
Reg Y -Synthetic CDOs	Manage Gross Positions Down 10%	-120mm	Take an offsetting position at month end May cause some P&L impact
Real Estate PTG	Syndicate 50% of Archstone and Coeur Defense	-110mm	GREG is working to reduce entire PTG book by Q1' 08
Retained Interests	5% reduction due to lowered securitization volume	-105mm	

# Backup: Equity Allocation Components, Q3' 2007

3Q '07	Trading		Counterparty		Less Liquid Funding Haircut		Fixed Assets Haircuts		Going Concern Salvage				Target Reserve + Operational Risk		Total Capital Requirement
	VaR	Capital Requirement	Risk Appetite Usage	Capital Requirements	Less Liquid Assets	Capital Requirements	PP and E	Capital Requirement	Comp Exp	DTA	Goodwill	Capital Requirement	Total Revenues	Capital Requirement	
<b>FIXED INCOME</b>															
IR Products	5.1	169	55	116	247	49	269	217	370	103		82	1,419	181	814
Liquid Market Proprietary	2.4	78	0	0	-	-	21	17	30	8		7	111	14	116
High Grade	8.0	262	15	31	2,464	304	143	115	211	59		47	752	96	856
Emerging Markets	-	-	-	-	-	-	-	-	-	-		-	-	-	-
Securitized Products	6.1	201	10	22	2,032	746	247	199	693	193	244	398	1,305	166	1,733
Real Estate	1.7	57	0	0	14,951	3,272	365	294	296	82		66	1,925	245	3,934
High Yield	13.8	453	11	24	19,516	2,838	258	208	260	72		58	1,360	173	3,754
Insurance Products Group	-	-	-	-	30	2	-	-	-	-		-	-	-	2
Municipals	2.1	71	12	25	121	10	43	35	88	25		20	226	29	189
Foreign Exchange	1.9	64	25	52	7	1	50	41	136	38		30	266	34	223
CDO	1.4	48	18	37	4,530	601	116	93	133	37		30	611	78	887
Energy Trading	2.2	74	28	58	-	-	30	24	105	29	297	320	158	20	496
Fixed Income Corporate	0.0	1	0	0	1,442	288	(150)	(121)	360	100		89	(792)	(101)	156
Firm Relationship Loans - Fixed Income Share	-	-	-	-	-	-	-	-	-	-		-	-	-	-
Alternative Portfolio Solutions	-	-	-	-	-	-	-	-	-	-		-	-	-	-
<b>Total FIXED INCOME</b>	<b>44.9</b>	<b>1,477</b>	<b>175</b>	<b>367</b>	<b>45,341</b>	<b>8,113</b>	<b>1,391</b>	<b>1,121</b>	<b>2,682</b>	<b>746</b>	<b>550</b>	<b>1,146</b>	<b>7,340.8</b>	<b>935</b>	<b>13,159</b>
<b>EQUITIES</b>															
Cash	0.9	29	25	49	109	22	281	226	237	66		53	1,480.1	188	566
Portfolio	0.8	28	-	-	-	-	113	91	58	16		13	597	76	208
Volatility Flow	1.8	59	-	-	0	0	61	49	41	11		9	322	41	159
Systematic Trading	0.3	11	-	-	-	-	23	19	40	11		9	123	16	55
Event Driven	0.5	16	-	-	-	-	28	23	14	4		3	150	61	61
Convertibles	1.6	53	-	-	1,903	363	33	26	28	8		6	173	22	470
Volatility	1.8	59	42	78	211	42	306	246	245	68		54	1,613	205	685
Equities Strategies	1.7	55	-	-	88	18	57	46	86	24		19	303	39	176
Equity Corporate (Including High Yield Loan Share)	0.2	6	-	-	0	0	(52)	(42)	600	167	58	191	(273)	(35)	120
Firm Relationship Loans - Equities Share	0.4	12	-	-	-	-	-	-	-	-		-	-	-	12
<b>Total EQUITIES</b>	<b>9.9</b>	<b>327</b>	<b>67</b>	<b>127</b>	<b>2,311</b>	<b>444</b>	<b>851</b>	<b>685</b>	<b>1,348</b>	<b>375</b>	<b>58</b>	<b>357</b>	<b>4,487.7</b>	<b>571</b>	<b>2,513</b>
<b>CAPITAL MARKET PRIME SERVICES</b>															
Firm Financing	1.4	45	22	47	26	5	84	67	31	9		7	441	56	227
Futures	-	-	-	-	-	-	62	50	41	11		9	329	42	101
Equity Financing	-	-	22	45	60	12	137	111	42	12		9	723	92	269
Equity Synthetic	-	-	16	33	47	9	37	30	11	3		2	197	25	100
Clearing and Execution	-	-	2	3	-	-	50	40	35	10		8	262	33	84
Structured Transactions	-	-	-	-	-	-	30	24	11	3		2	160	20	47
Prime Services Corporate	-	-	-	-	-	-	(51)	(41)	157	44		35	(271.2)	(35)	(41)
<b>Total CAPITAL MARKET PRIME SERVICES</b>	<b>1.4</b>	<b>45</b>	<b>61</b>	<b>129</b>	<b>132</b>	<b>26</b>	<b>349</b>	<b>281</b>	<b>328</b>	<b>91</b>	<b>-</b>	<b>73</b>	<b>1,841.1</b>	<b>234</b>	<b>788</b>
<b>INVESTMENT MANAGEMENT</b>															
IMD - Private Equity	-	-	-	-	4,038	1,289	110	89	318	89	146	217	580	74	1,669
IMD - Asset Management	9.3	305	-	-	2,925	969	272	219	1,085	302	3,080	422	1,433.4	182	2,098
<b>Total INVESTMENT MANAGEMENT</b>	<b>9.3</b>	<b>305</b>			<b>6,963</b>	<b>2,259</b>	<b>382</b>	<b>307</b>	<b>1,404</b>	<b>390</b>	<b>3,227</b>	<b>639</b>	<b>2,013.0</b>	<b>256</b>	<b>3,767</b>
<b>INVESTMENT BANKING</b>	<b>3.4</b>	<b>111</b>			<b>22,040</b>	<b>1,737</b>	<b>797</b>	<b>643</b>	<b>1,765</b>	<b>491</b>		<b>393</b>	<b>4,206</b>	<b>536</b>	<b>3,419</b>
<b>PRINCIPAL INVESTING</b>															
Global Trading Strategies	16.8	552	-	-	261	52	71	57	146	40		32	373.5	48	741
Global Principal Strategies	8.7	286	-	-	2,671	496	58	47	84	23		19	306.1	39	886
Global Opportunity Group	-	-	-	-	600	240	-	-	14	-		-	(11.3)	-	240
Direct Principal Investments	-	-	-	-	403	161	-	-	-	-		-	(2.5)	-	161
<b>Total PRINCIPAL INVESTING</b>	<b>25.5</b>	<b>837.1</b>			<b>3,936</b>	<b>950</b>	<b>129</b>	<b>104</b>	<b>243</b>	<b>64</b>	<b>-</b>	<b>51</b>	<b>665.9</b>	<b>86.5</b>	<b>2,028</b>
<b>NON-CORE</b>	<b>4.6</b>	<b>155</b>	<b>7</b>	<b>16</b>	<b>5</b>	<b>0</b>	<b>(219)</b>	<b>(176)</b>	<b>1,789</b>	<b>501</b>	<b>274</b>	<b>675</b>	<b>(1,153.2)</b>	<b>(147)</b>	<b>522</b>
<b>TOTAL</b>	<b>99.0</b>	<b>3,256</b>	<b>310</b>	<b>639</b>	<b>80,727</b>	<b>13,530</b>	<b>3,680</b>	<b>2,966</b>	<b>9,560</b>	<b>2,657</b>	<b>4,108</b>	<b>3,333</b>	<b>19,402</b>	<b>2,472</b>	<b>26,195</b>
<b>UNALLOCATED</b>	<b>-</b>	<b>-</b>			<b>1,238</b>	<b>495</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>495</b>
<b>TOTAL FIRM</b>	<b>99.0</b>	<b>3,256</b>	<b>310</b>	<b>639</b>	<b>81,965</b>	<b>14,025</b>	<b>3,677</b>	<b>2,966</b>	<b>9,560</b>	<b>2,657</b>	<b>4,108</b>	<b>3,333</b>	<b>19,402</b>	<b>2,472</b>	<b>26,691</b>