

Confidential Presentation to:

Finance and Risk Committee of the Board of Directors

2008 Financial Plan – Risk Mgt Pages

January xx, 2008

LEHMAN BROTHERS

Risk Appetite Limit Allocation and Usage

Risk

Risk Appetite and VaR

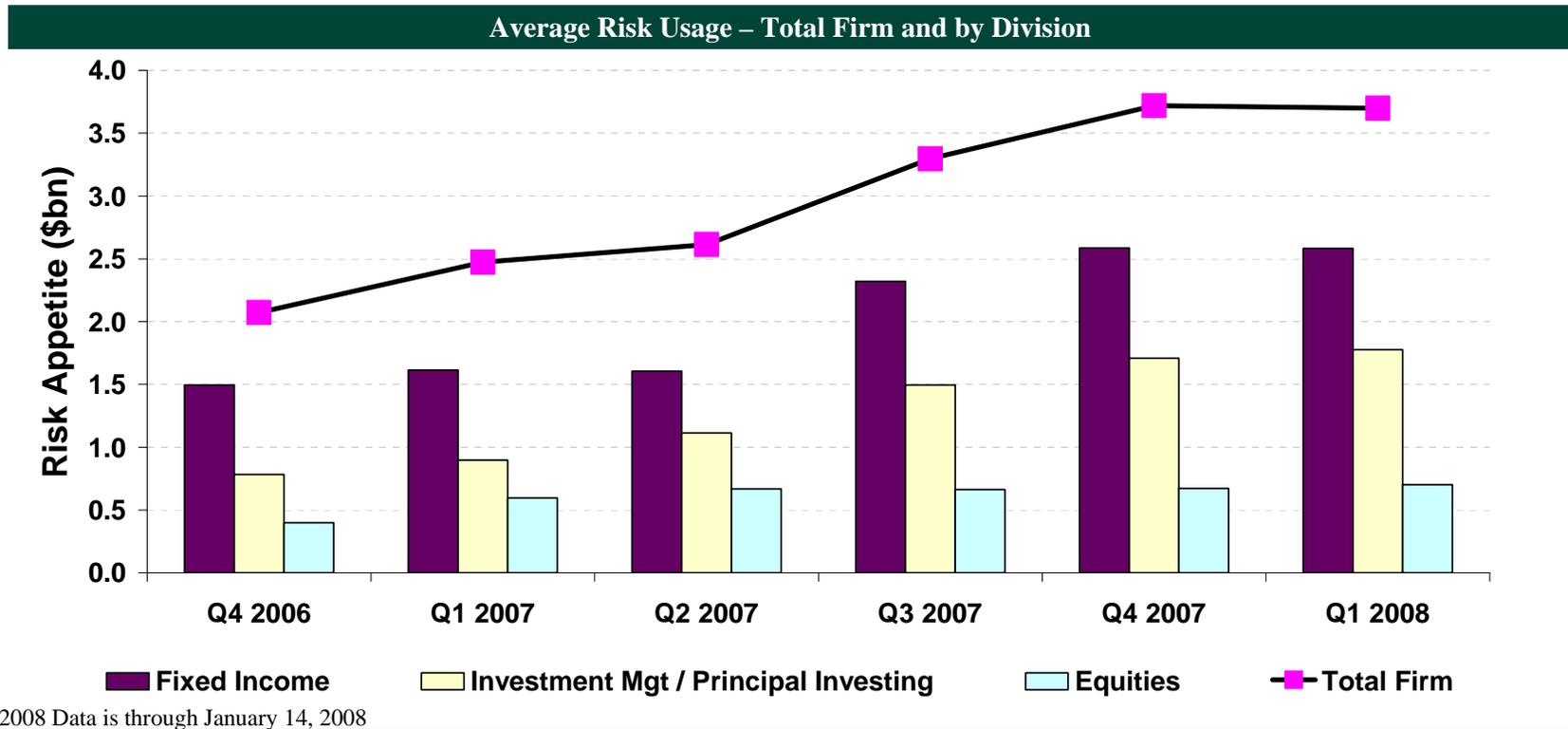
Business	Risk Appetite Usage		RA Limits	
	2007 Average	Jan 14 2008 Usage	2007 Year End Limit	2008 Limit
Fixed Income	1,963	2,678	2,500	2,500
Equities	650	560	800	800
Capital Markets Prime Services	98	117	150	150
Investment Mgt / Principal Investing	1,202	1,657	2,000	2,000
Investment Banking	80	92	100	100
Non-Core	75	64		
Total Risk Appetite	2,975	3,762	3,500	4,000
Risk Appetite Diversification %	27%	27%	37%	28%
Total VaR (95% 1-day)	88	149	135	150

Risk Appetite is a aggregate risk measure which includes Market Risk, Event Risk, and Counterparty Credit Risk.

Risk Appetite Usage

Risk

- ◆ The Firm's overall risk usage trended up significantly since Q4 2006 and reached a peak of \$3.72bn in Q4 2007.
- ◆ Risk increases were seen within Fixed Income, Equities, Investment Management, GTS, and GPS.
- ◆ For Q3 and Q4 2007, risk increased due to increased market volatilities and increased position sizes in the loan and real estate businesses. Securitized Products risk increased due to the increasing volatilities in the subprime and residential mortgage markets.
- ◆ Investment Management risk increased due to increased fund warehouse and private equity positions.



Stress Testing

- ◆ Stress tests and scenario analyses are performed regularly to evaluate the potential P&L impact on the Firm's portfolio of abnormal yet plausible market conditions.
 - Analyses of movements in interest rates, stock prices, FX, volatility, etc., are run over a wide range of possible scenarios to determine the impact on the current portfolio of these extreme instantaneous shocks.
 - These analyses are conservative because they do not allow for re-hedging or selling down a position either actively or through the automatic execution of existing stop-losses.
- ◆ Our stress tests are run regularly on a suite of scenarios, including:
 - Re-runs of historical episodes of extreme market moves, for example:
 - 9/11 terrorist attacks
 - Russia default contagion and LTCM
 - November 2001 volatile bond market
 - October 1987 stock market crash
 - Hypothetical scenarios due to shocks that have some probability of occurrence and are driven by macro fundamental shifts, for example:
 - Liquidity Crunch due to central banks globally raising rates to reduce excess liquidity and investors reducing their riskier bets in high yielding assets.
 - Oil price jump due to a major supply disruption with uncertainty on when production will return to its pre-shock levels. This shock is accompanied by deflation fears which result in significant rate reductions by major central banks.
 - Major shifts in the yield and spread curves such as steepening or flattening, or parallel shifts up or down.
 - Other ad-hoc hypothetical scenarios
- ◆ We subject both our trading and counterparty portfolio to stress tests.

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Stress Testing

Risk

Revenue Impact on Trading Portfolio (\$ Millions)

- Stress tests indicate a worst case loss of \$4.2bn for the Credit Crunch scenario on December 31, 2007.
- The following businesses accounted for \$2.0bn of the \$4.2bn loss: High-Yield and High-Grade Firm-Relationship Loans (\$1.3bn), Securitized Products ABS desk (\$476mm), and Real Estate (\$295mm).

Business	Bull Steepening	Bear Steepening	EMG Crisis	Rating / Default & HF Risk	HY / LBO / Default Risk	Equity Crash (1987)	Parallel Move Down	Black Monday	Oil Supply Crisis	Liquidity Crunch	Credit Crunch
Fixed Income	(748)	(1,115)	(1,747)	(1,387)	(1,653)	(779)	(830)	(649)	(843)	(1,824)	(2,953)
Equities	(179)	(153)	(330)	(116)	(202)	(172)	(177)	(27)	(186)	(193)	(194)
Investment Management	(408)	(295)	(400)	(207)	(465)	(793)	(411)	(521)	(540)	(339)	(445)
12/31/07 Prime Services	44	(29)	49	31	31	44	40	44	72	(49)	48
Investment Banking	(6)	(2)	(6)	(2)	(6)	(16)	(6)	(10)	(9)	(4)	(6)
NON-CORE	(2)	(1)	(2)	(1)	(2)	(5)	(2)	(3)	(3)	(1)	(2)
Principal Investing Portfolio	(423)	(391)	(776)	(460)	(585)	(561)	(433)	(469)	(579)	(526)	(657)
Firm Wide TOTAL	(1,721)	(1,987)	(3,212)	(2,142)	(2,884)	(2,282)	(1,818)	(1,636)	(2,088)	(2,936)	(4,209)
<i>Month-on-Month Change</i>	<i>(247)</i>	<i>(64)</i>	<i>(443)</i>	<i>(208)</i>	<i>(349)</i>	<i>(409)</i>	<i>(132)</i>	<i>(377)</i>	<i>(370)</i>	<i>(403)</i>	<i>(210)</i>
11/30/07 Firm Wide TOTAL	(1,474)	(1,923)	(2,769)	(1,934)	(2,535)	(1,873)	(1,687)	(1,259)	(1,718)	(2,534)	(3,999)
08/31/07 Firm Wide TOTAL	(1,791)	(2,010)	(2,551)	(1,756)	(2,671)	(2,941)	(2,199)	(2,000)	(1,815)	(2,087)	(2,001)

The Bull Flattening, Bear Flattening, and Parallel Move Up scenario results are not shown due to the losses being either positive or negligible.

These represent revenue losses associated with potential market moves occurring over a two-week period. These analyses are conservative because they do not allow for re-hedging or selling down a position either actively or through the automatic execution of existing stop-losses.