

Confidential Presentation

2007 High Grade and High Yield Credit Facilitation Summary

2nd Quarter 2007 Review

Credit Facilitation Group

June 2007

LEHMAN BROTHERS

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2Q 2007 – Lending Summary

Credit Facilitation Overview Q207

- ◆ Lehman’s current lending pace already more than twice 2006’s record setting year (HG and HY combined)
 - Syndicated Loan League Tables show Lehman’s ‘07 YTD closed commitments (\$32b) exceeds full year ‘06 (\$31b)
 - Signed but not syndicated commitments (Psynds) surpassed closed Gross Loan risk for 1st time in April
- ◆ Aggressive mitigation and tight market conditions have allowed CFG to keep aggregate net exposure relatively low
 - HG and HY Net Loan Exposures are in the area of \$5bn each
 - Closed Net Risk in the portfolio has decreased during 2007, despite a 45% increase in Gross Exposure
 - Largest HY exposures are European credits in the process of being syndicated
- ◆ Firm’s aggressive lending/risk mitigation strategy is helping drive revenues
 - Record 2Q earnings with large revenue growth in Debt Origination & IBD, areas supported by relationship lending and large commitments in a variety of high-profile transactions
 - Favorable market conditions have presented cost effective risk transfer trades, lowering the overall bottom line impact of relationship lending
- ◆ Firm’s lending pace, MtM accounting & smaller capital base than many competitors grows risk mitigation importance
 - Increasing liquidity in LCDS/LCDX (new loan only index) has increased ability to hedge HY relationship loans
 - Innovative “package trade” combining a loan sale/LCDS has been used to free up more than \$2b of Balance Sheet
 - Bulk Portfolio trade continues to be an important source of risk mitigation for both FRLs and Acquisition facilities
 - Increasing use of macro hedges, credit indices, and tranches to reduce overall risk and manage “risk appetite” limits

Stats and Facts – FY07

Credit Facilitation Trends – Q207

- ◆ Majority of our clients expect us to hold a high percentage (often all) of our primary allocation
 - Only a handful of secondary market accounts will purchase loans on a participation basis
 - HY Hold requirements growing, recently been asked to maintain positions from \$50 - \$150mm
 - Executed large participation sales on several of the bigger HY Hold positions

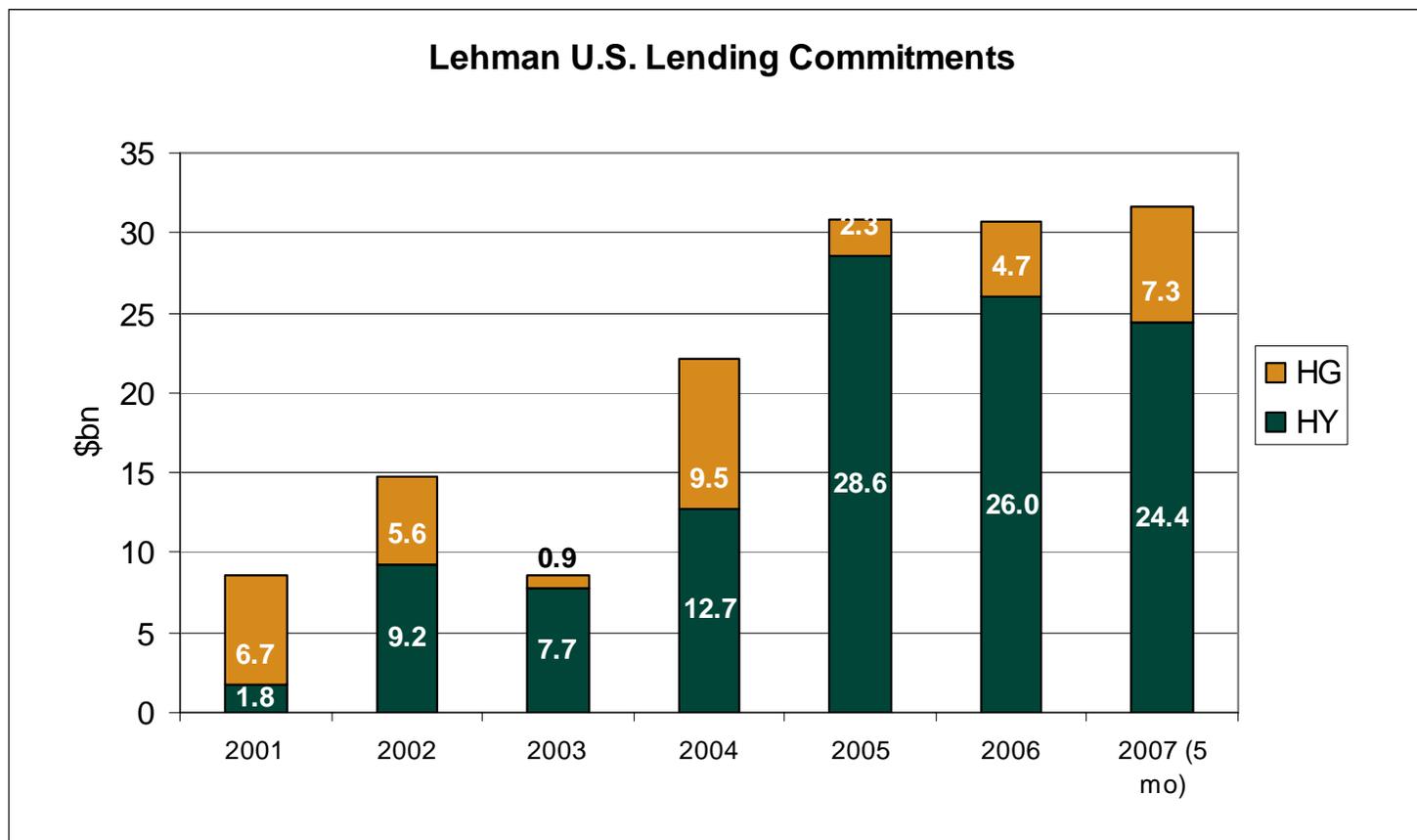
- ◆ Loans to clients lacking hedging instruments have grown substantially in recent months
 - Private Equity/Hedge Fund commitments (exceeds \$1b now) - usually cannot be sold for “relationship” reasons
 - HY and HG commitments to illiquid credits that are not broadly followed in the capital markets, difficult to sell

- ◆ As illiquid exposures continue to grow, the following risk management decisions must be made:
 - Grow our use of macro hedges (credit indices, tranches, CDS/LCDS options)
 - Relax relationship restrictions on loan sales
 - Equity shorts when applicable
 - Hedge liquid credits to a greater extent to keep the aggregate exposure down

- ◆ When combining the existing Psynds with the torrid loan request pace, we expect to need increase the risk mitigation pace even more in the 2nd half.
 - If market conditions weaken, risk mitigation could be more difficult and more costly

Lending Growth

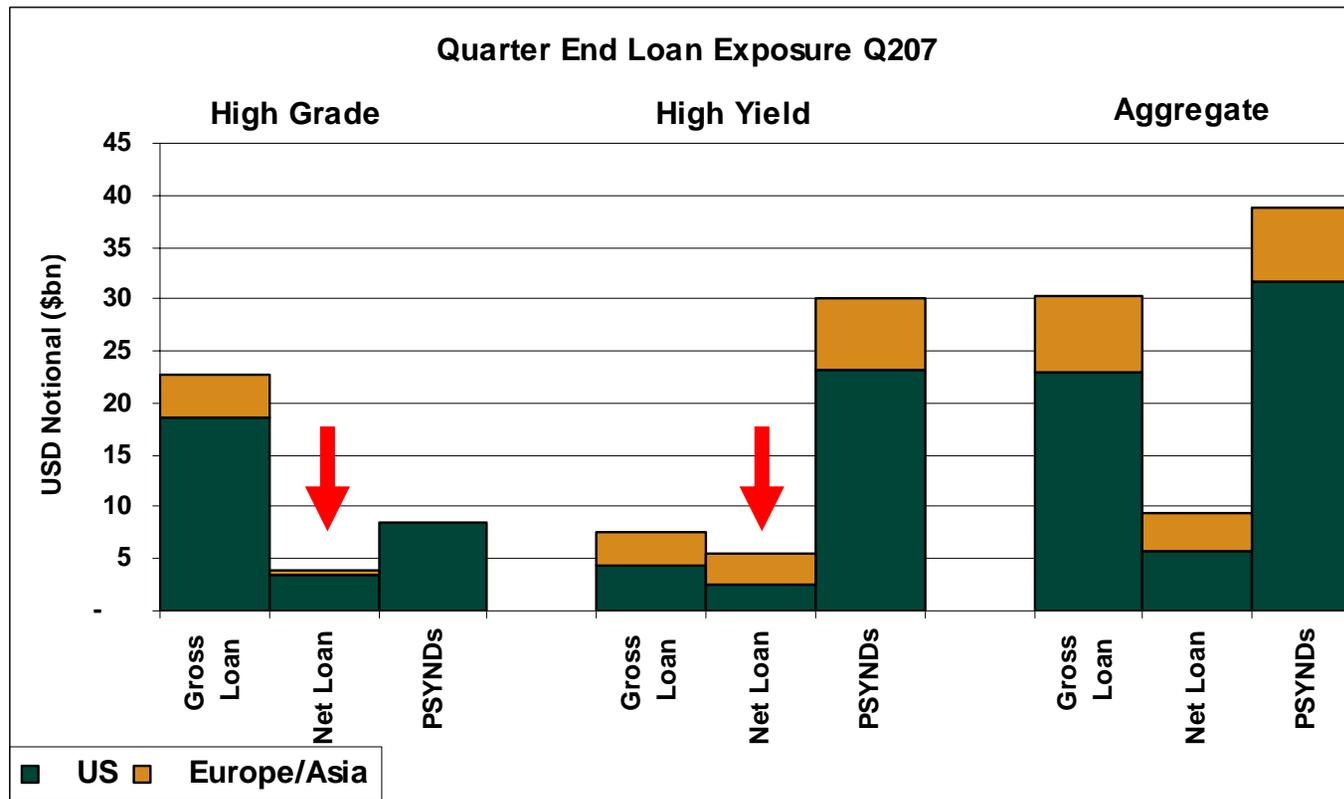
- ◆ Based on Syndicated Loan League Table data, Lehman has lent as much in the first 5 months of the 2007 calendar year as in each 2005 and 2006
 - This data only reflects closed loans and not commitments yet to be syndicated



*Source: Bloomberg LP U.S. Leveraged Loan Underwriter Rankings

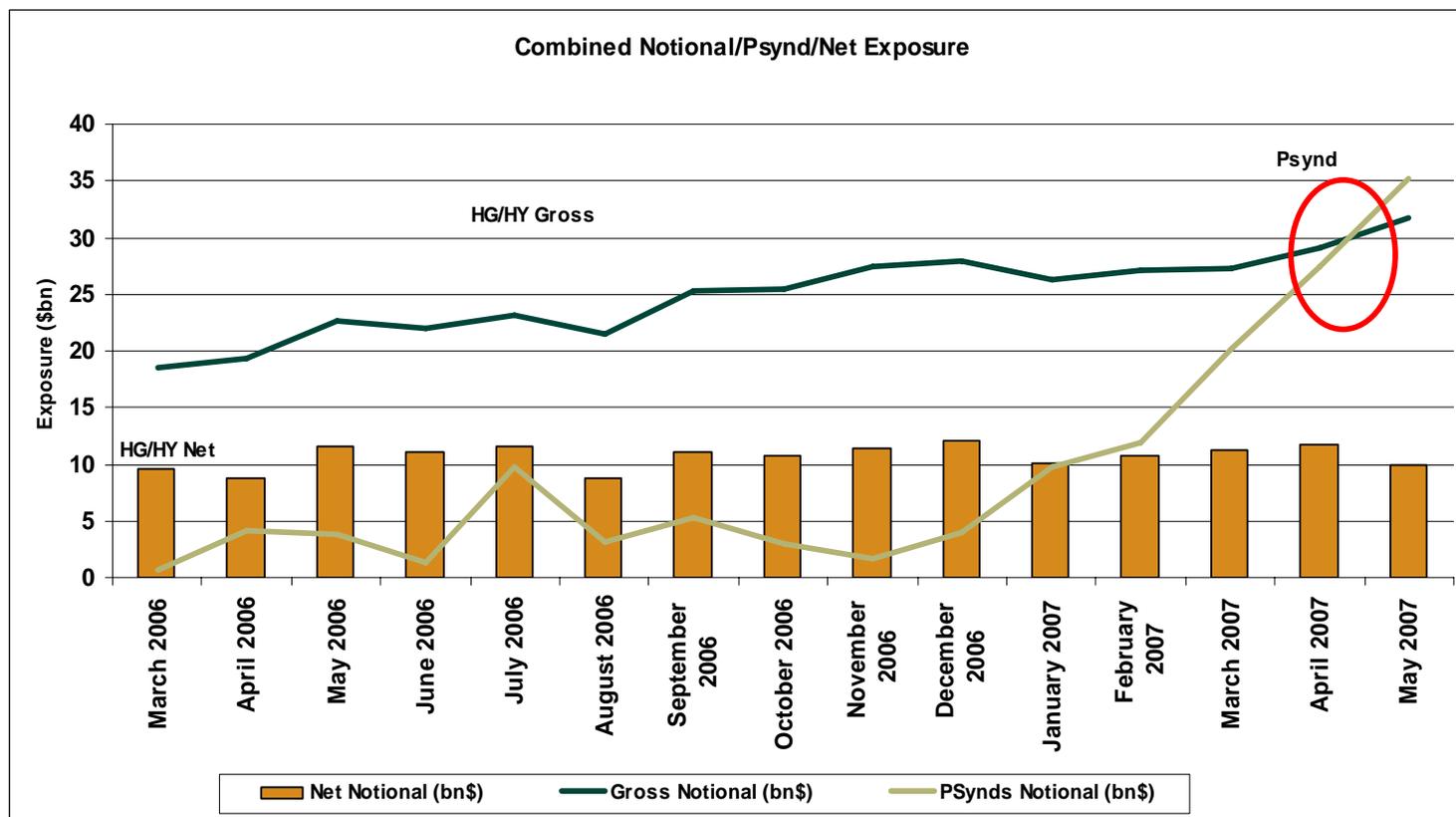
Quarter-end Notional HG and HY Exposures

- ◆ Despite the record lending pace, our Net Exposures in both HG and HY remain around \$5bn (arrows)
- ◆ Note the large amount of signed but not yet syndicated loans (Psynds) in US and Europe



Lending Commitment Growth

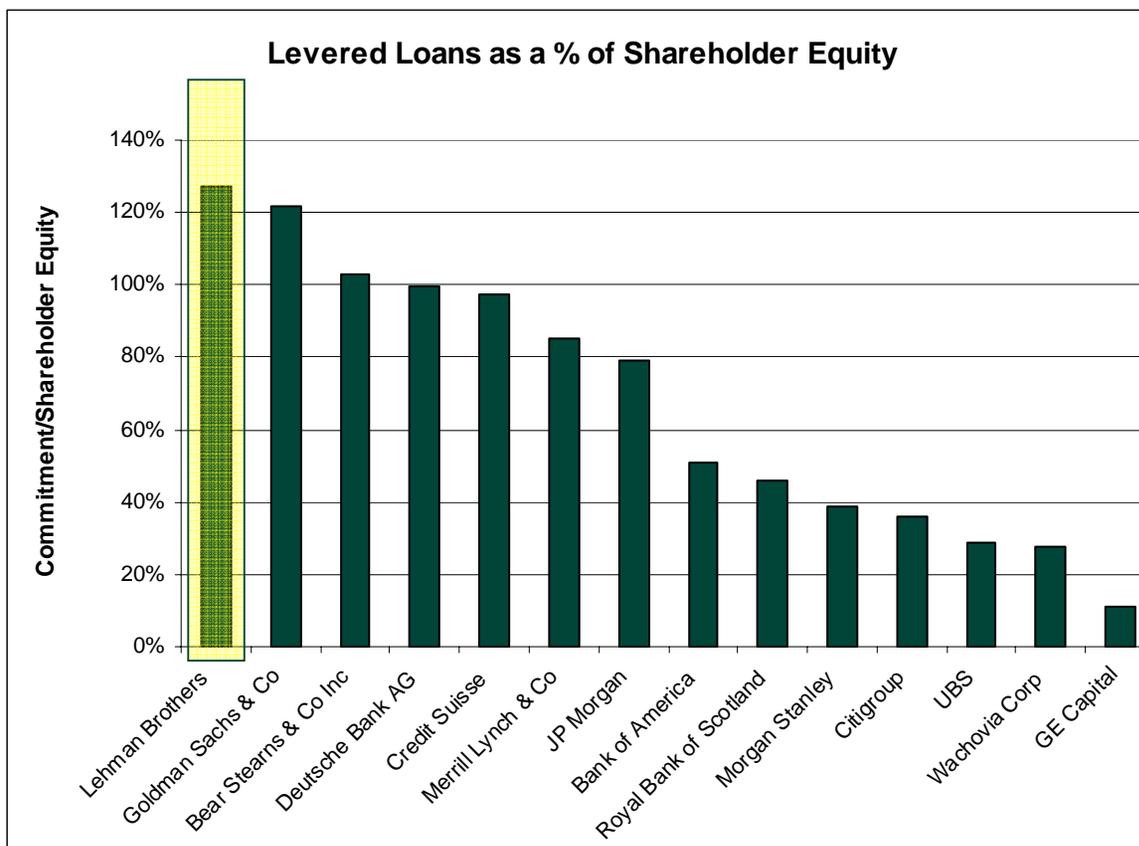
- ◆ Lehman's Psynd commitments (HG & HY) have been growing at an exponential rate over the past 6 months
- ◆ For the first time, total Psyns* have surpassed the combined HG/HY Gross exposure (Circled)
- ◆ Active risk mitigation has kept Lehman's net FRL/Hold exposure around \$10bn (columns)



* It is important to note that Lehman's final post syndication allocation is expected to be a small fraction of the total PSYND figure

Lending Comparison

- ◆ The graph below shows the ratio of 2007 Closed Levered Loans / Shareholders Equity (green columns). Graph is sorted by total Levered Loans Committed to in 2007 from left to right (orange line and right axis)*.
- ◆ Based on this information, Lehman could be defined as the most aggressive lender per dollar of Shareholder Equity.



Company	Levered Ratio	Levered Loans (\$bn)	Shareholder Equity (\$bn)
LEH	127%	24.4	19.2
GS	122%	43.5	35.8
BEAR	103%	12.5	12.1
DB	100%	44.1	44.3
CSFB	97%	34.9	35.8
ML	85%	33.2	39.0
JPM	79%	91.6	115.8
BOA	51%	69.2	135.3
RBS	46%	9.6	20.9
MS	39%	13.7	35.4
CITI	36%	43.3	119.8
UBS	29%	13.2	45.8
WACHOV	28%	19.3	69.7
GECAP	11%	6.3	56.6

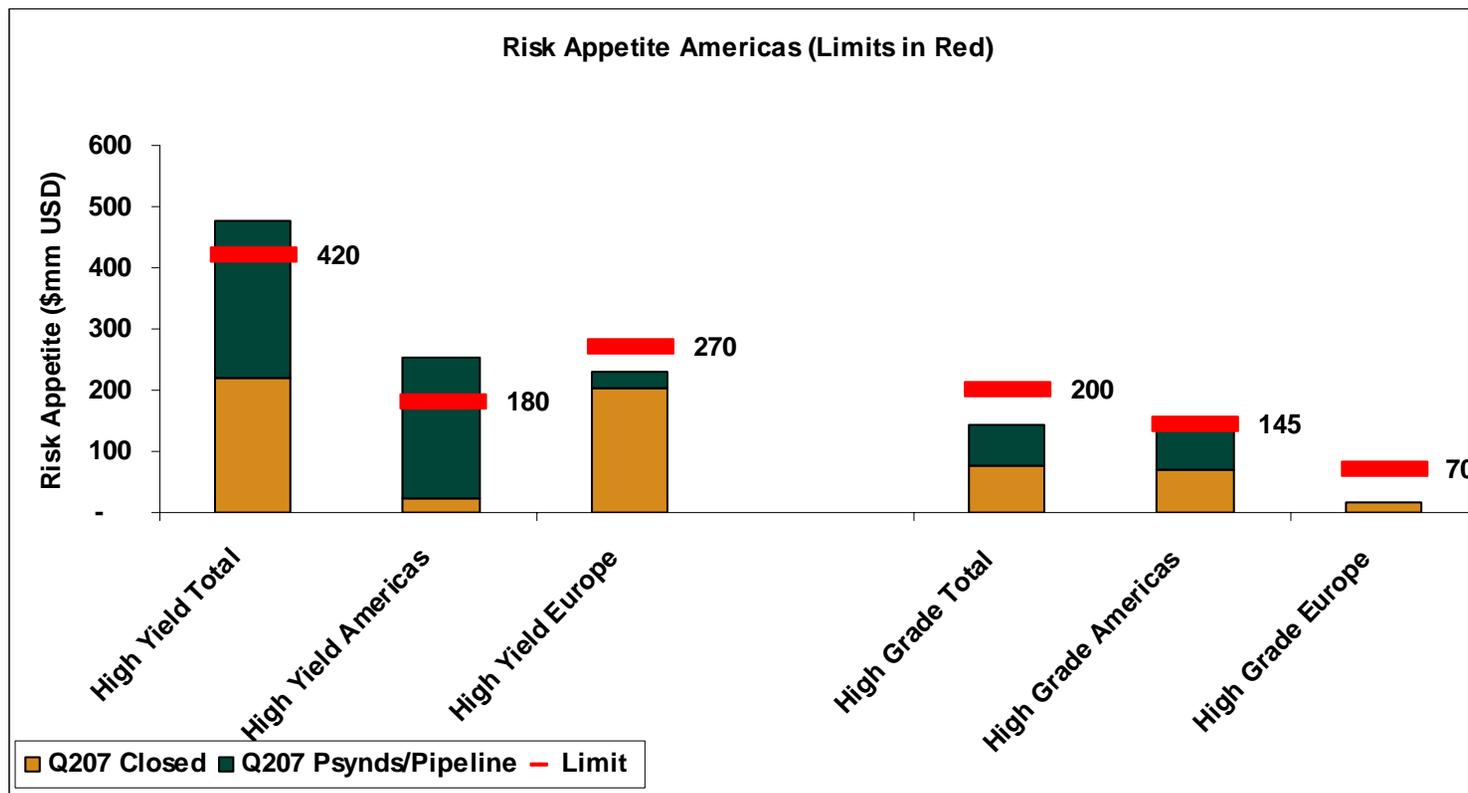
*Source: Bloomberg LP U.S. Leveraged Loan Underwriter Rankings

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Aggressive Lending Has Lead To Increased Risk Appetite

- ◆ Along with strong syndication and sales/trading efforts, active mitigation of the firm’s loan positions has helped the Relationship Loan ledgers stay near or below Risk Appetite limits
- ◆ HY Europe currently maintains the largest Risk Appetite due to large M&A commitments & a longer syndication process
- ◆ The PSYND/Pipeline (shown in green) currently takes up a large portion of each ledger’s Risk Appetite limit



*Note – High Yield and High Grade Totals will not equal the sum of the individual portfolios

Stats and Facts – FY07

IBD Results of Relationship Lending – Q207

- ◆ Based on the IBD results of relationship lending report, firm-wide revenue to FRL clients in 2007 is nearly \$500mm. The Actual Loan P/L to manage and mitigate the FRL portfolio has been -\$43mm ⁽¹⁾
 - In aggregate, every \$1mm of loan cost has been monetized into \$11.5mm of firm-wide revenue
 - Actual Loan P/L remains materially less than Initial Marks due to dynamic risk management
 - Business Loans have also been very profitable but we only have access to the Actual Loan P/L

HG Relationship Loans	Firm-wide Client Related Revenue	Actual Loan P/L (2)	Initial MTM
HG US	\$305mm	-\$47mm	-\$69mm
HG Europe	\$46mm	\$9mm	-\$8mm
Total HG FRL	\$351mm	-\$38mm	-\$77mm

HG Relationship Loans	Firm-wide Client Related Revenue	Actual Loan P/L (2)	Initial MTM
HG US	\$136mm	-\$5mm	-\$12mm
HY Europe	\$4mm	\$0mm	\$0mm
Total HY FRL	\$140mm	-\$5mm	-\$12mm

FRL Total	\$491mm	-\$43mm	-\$89mm
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Business Loans (3)	Firm-wide Client Related Revenue	Total FRL Cost (2)	Initial MTM
HG Business	N/A	\$11.mm	N/A
HY Business	N/A	-\$1.mm	N/A
Total Business		\$10.mm	

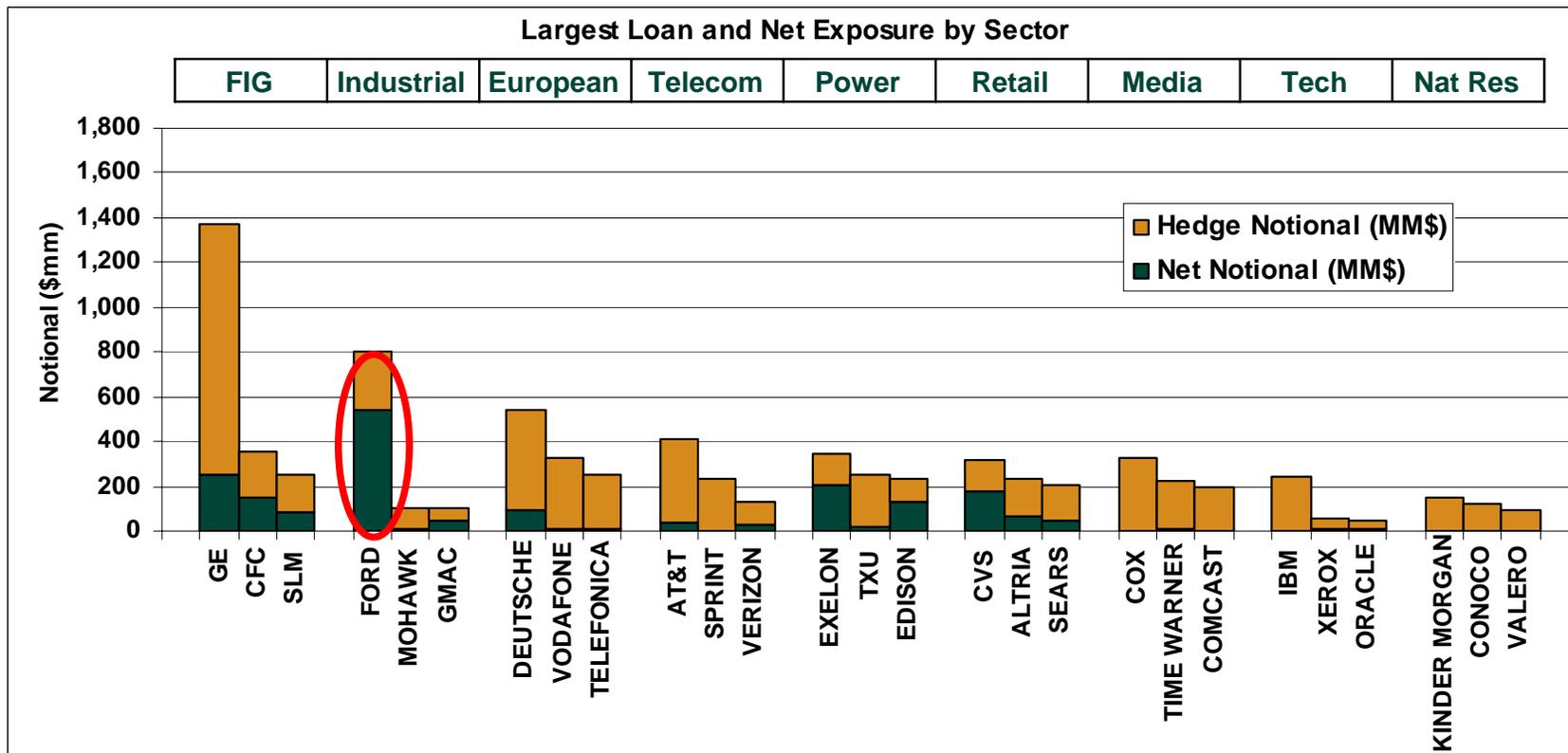
Source: (1) IBD results of relationship lending report

(2) Only loan specific P/L, no other ancillary P/L are included in these figures

(3) Firm-wide client revenue for Business Loans has been substantial, however, CFG does not have the information

Largest Loan Exposures by Sector HG - Q207

- ◆ A majority of our largest exposures are well hedged, especially in the Media, Tech, and Natural Resources sectors
- ◆ Ford Co loan (circled) is secured, leading us to maintain a larger net exposure from higher expected recovery rates in default



Largest Loan Exposures by Sector HY - Q207

- ◆ A higher percentage of names in the HY portfolio (versus HG) don't trade CDS/LCDS, making hedging more difficult
- ◆ The largest HY exposures below are nearly all new within the past several months and represent larger size holds
- ◆ European exposures have been left out of this chart because the European Process shows most pre-syndication commitments as full commitments, and therefore overstates our exposure numbers by a substantial amount

