

Confidential Presentation to:

Client Name

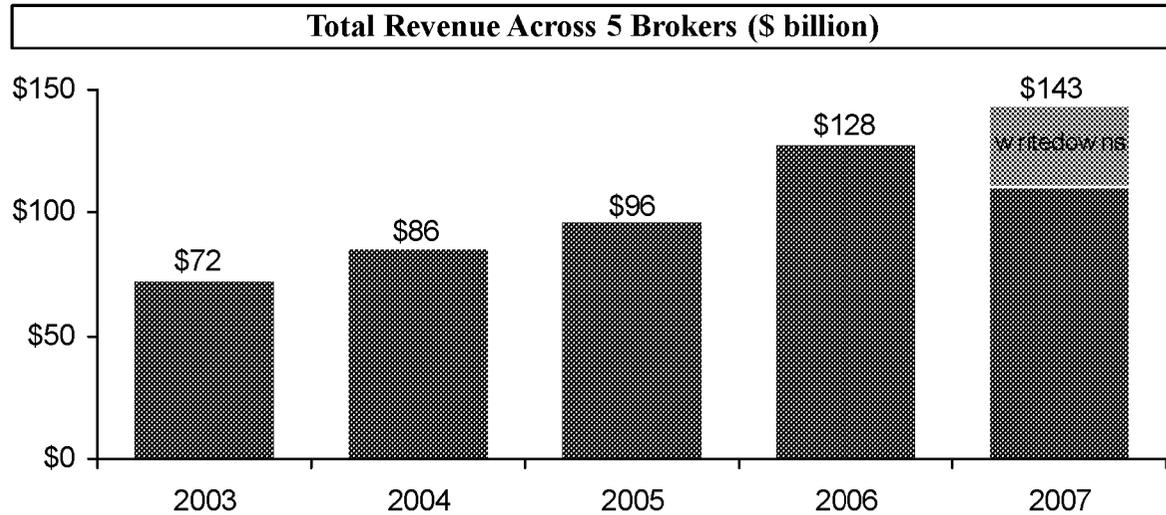
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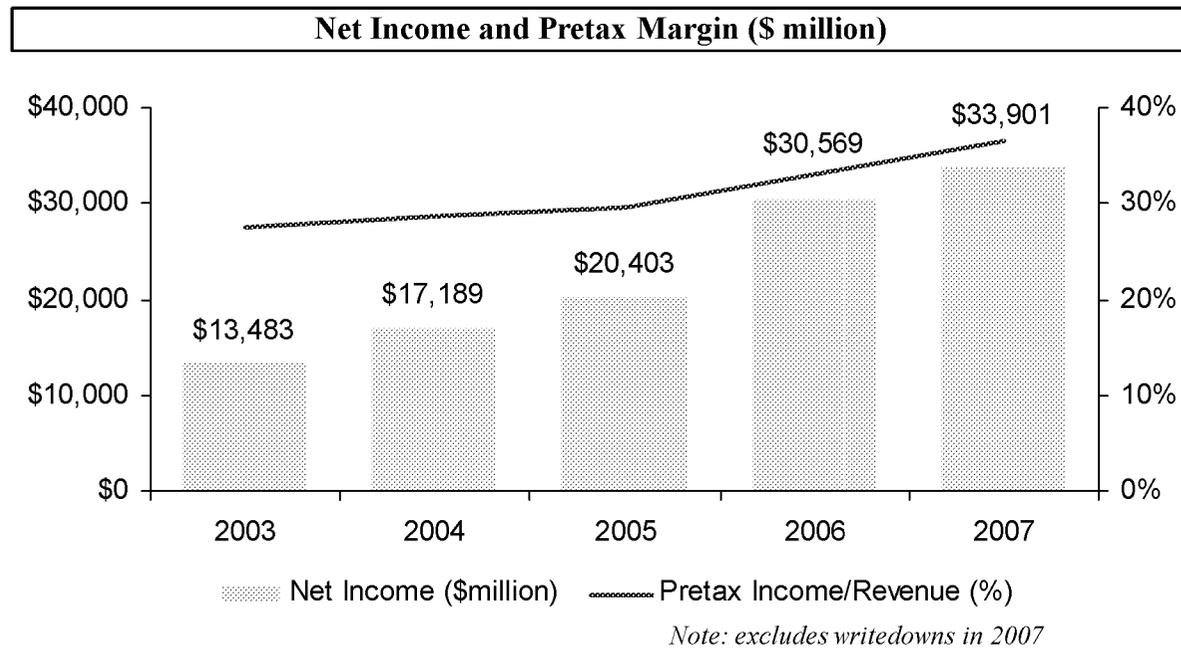
LEHMAN BROTHERS

Brokers have experienced strong revenue and earnings growth

Total revenue has doubled since 2003 (excluding markdowns in 2007)...

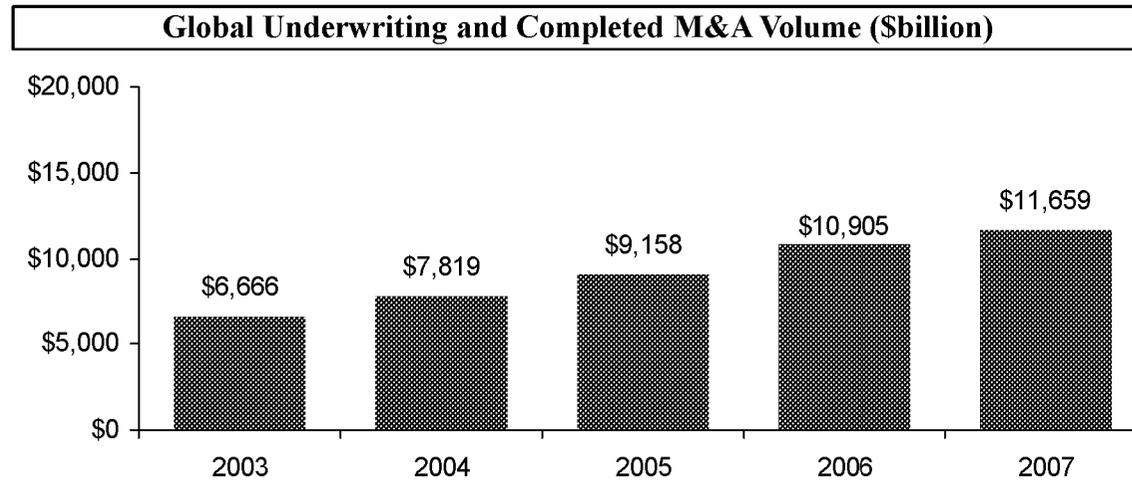


...Leading to improved margins and earnings

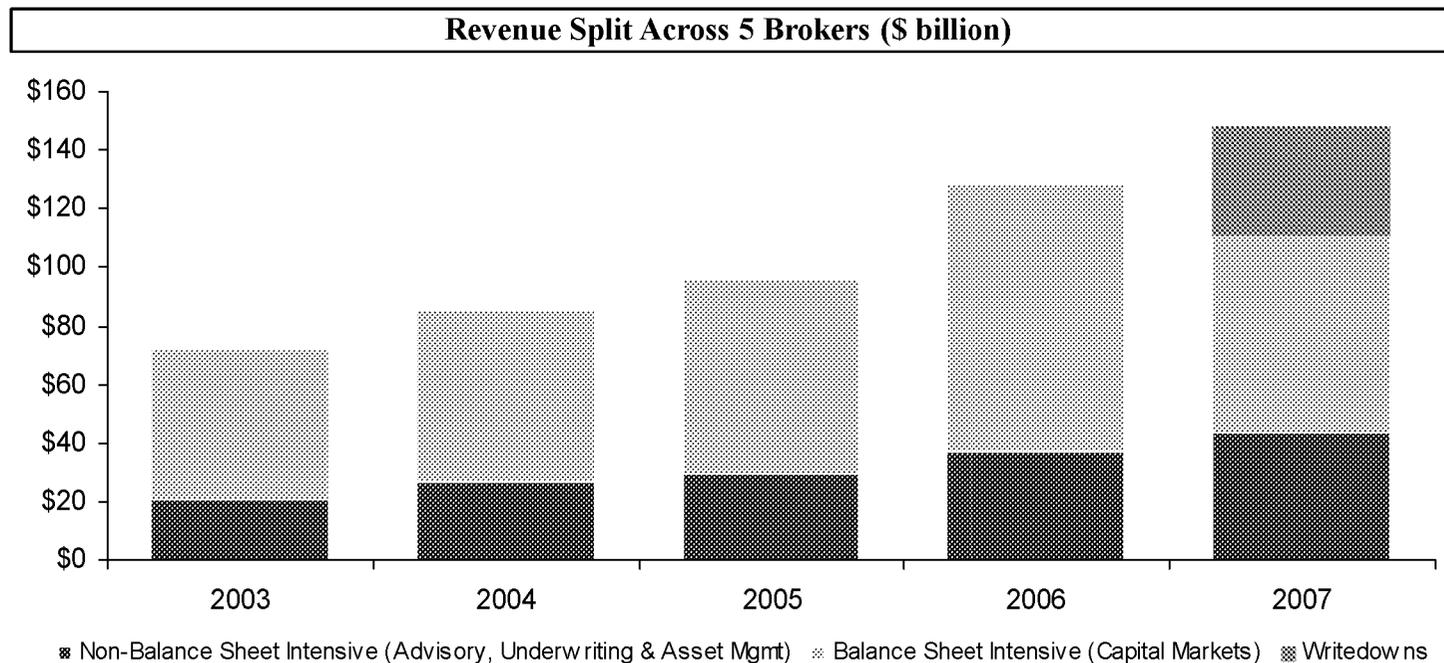


Capital markets have grown more than investment banking

Merger advisory and underwriting business grew...



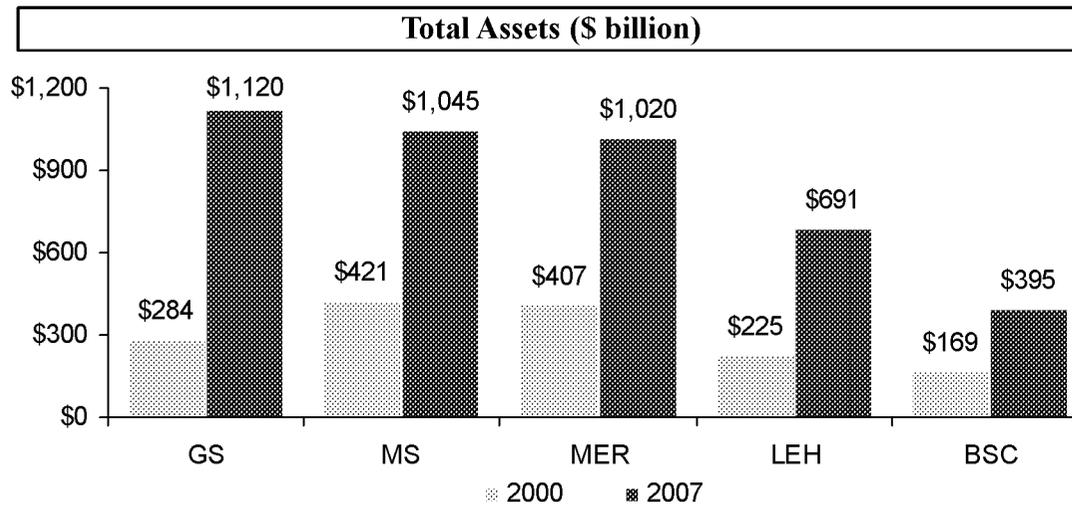
...But the real driver was balance sheet intensive businesses such as trading and principal investing



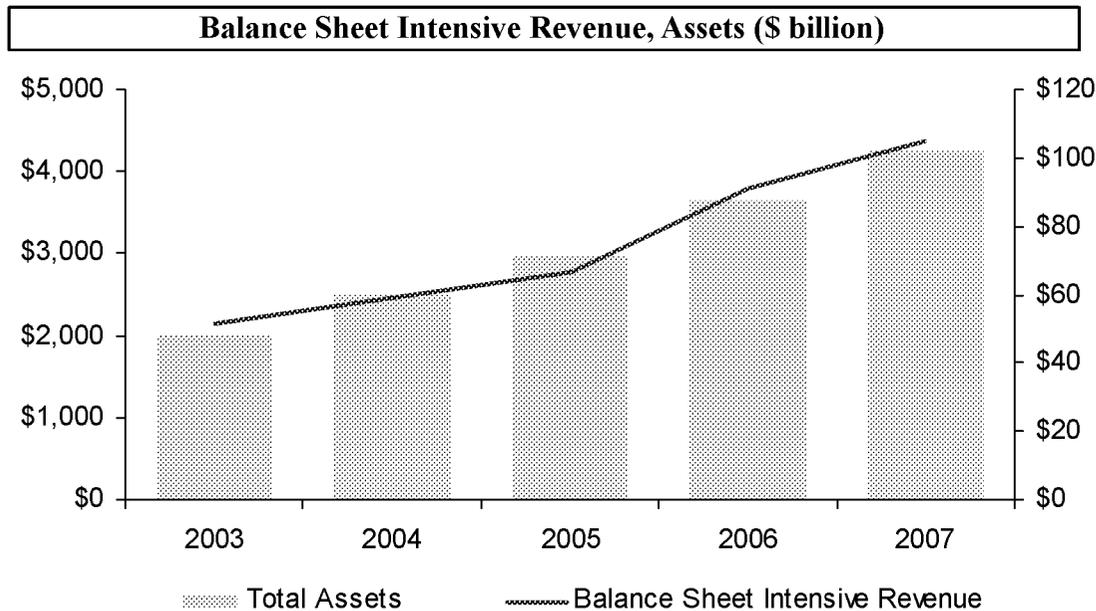
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Revenue growth in capital markets was fueled by bigger balance sheets

Balance sheets expanded to capitalize on opportunities



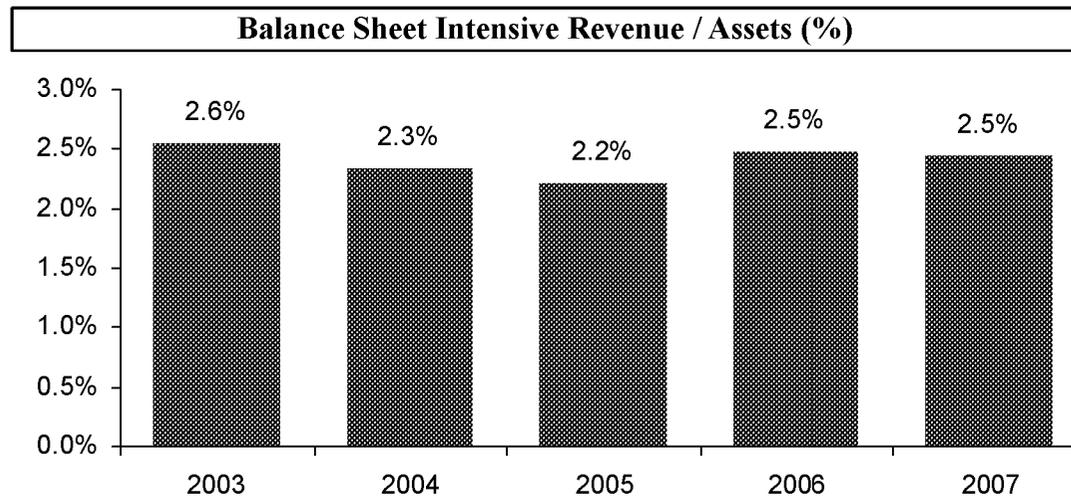
Capital Markets revenue followed...growing with assets



Source: SNL Financial, Company reports, Lehman Brothers Estimates

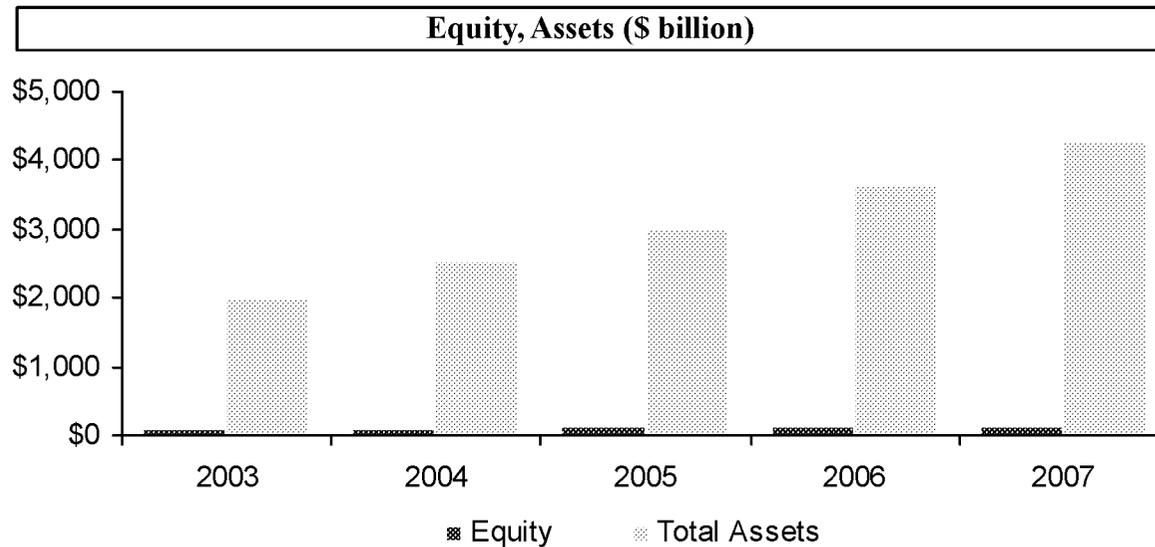
Profitability per asset deployed did not improve

Profitability never really improved... there were just more assets to trade

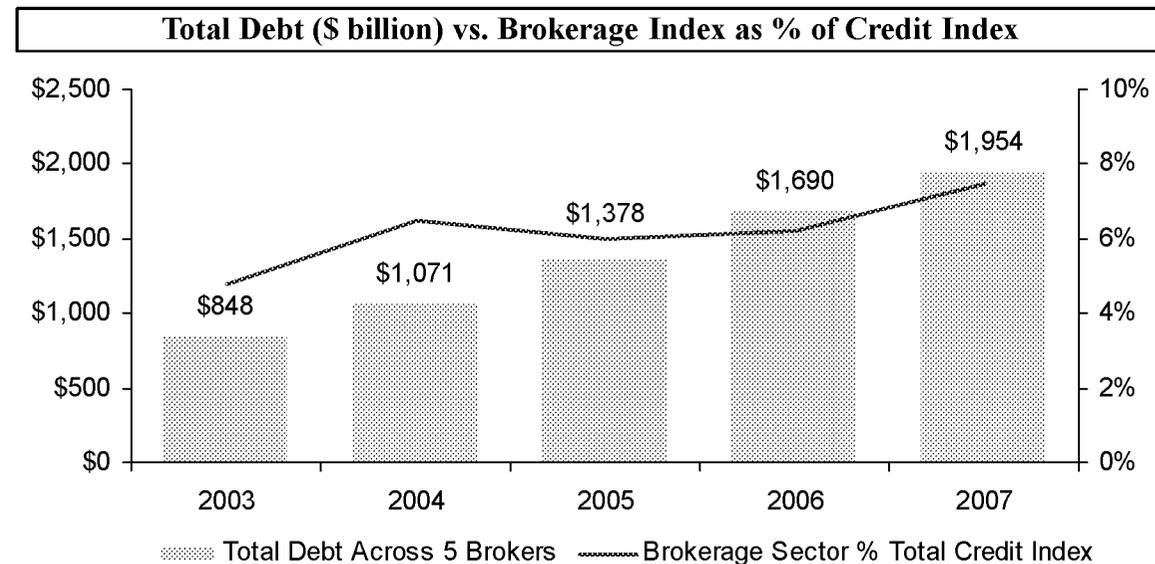


Asset growth was not supported by more capital

Asset growth was not supported by corresponding growth in capital...

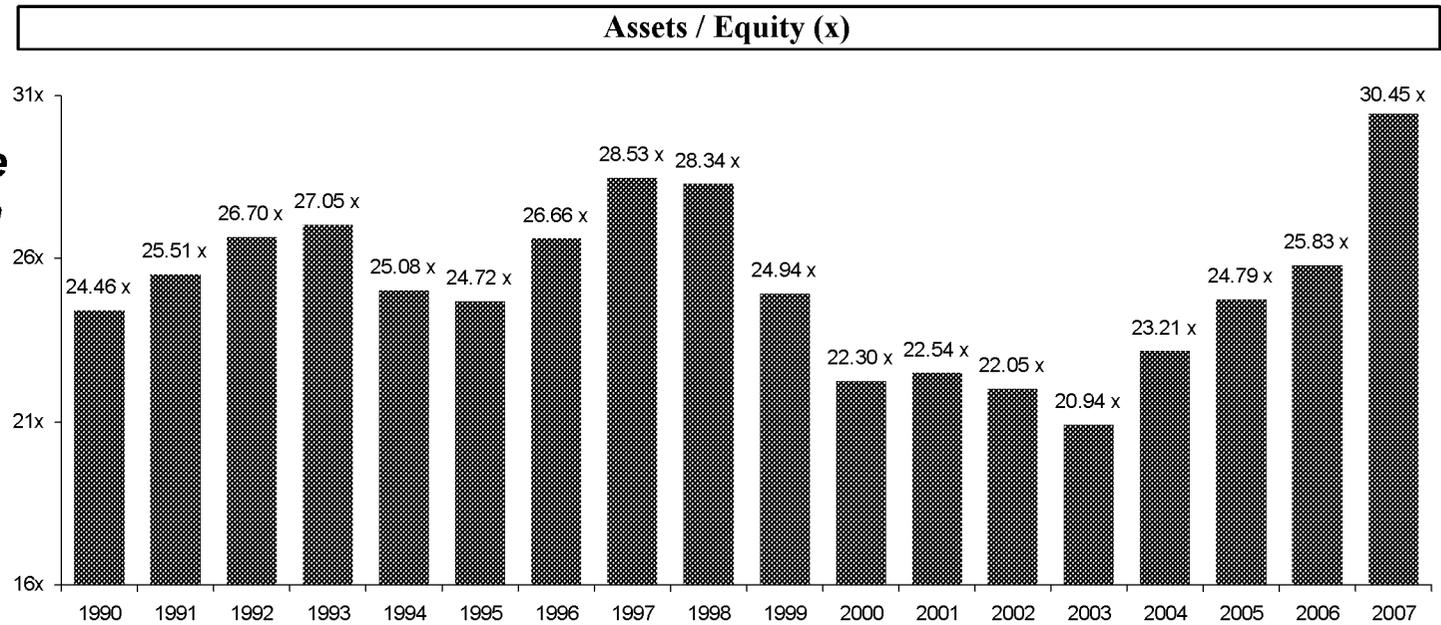


...Rather, it was fueled by more debt

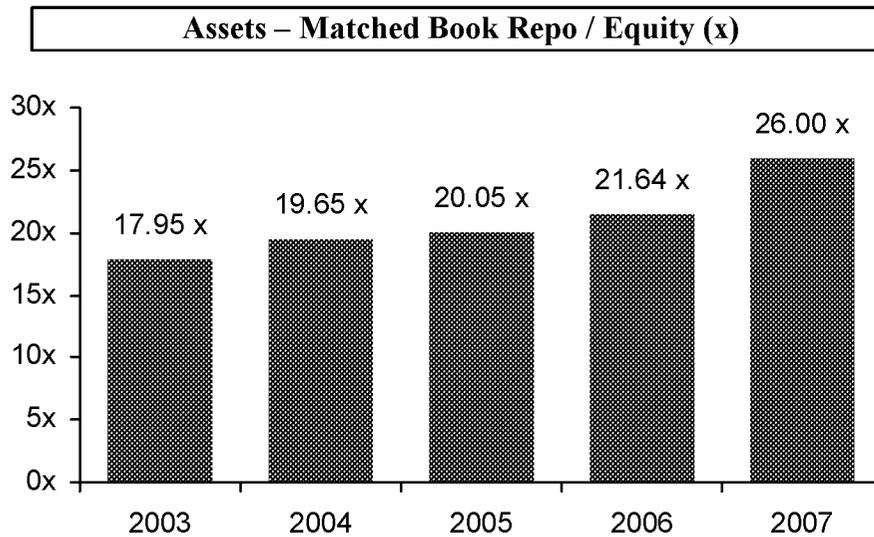


Leverage Grew to New Records

Unadjusted leverage increased by 50% in five years...



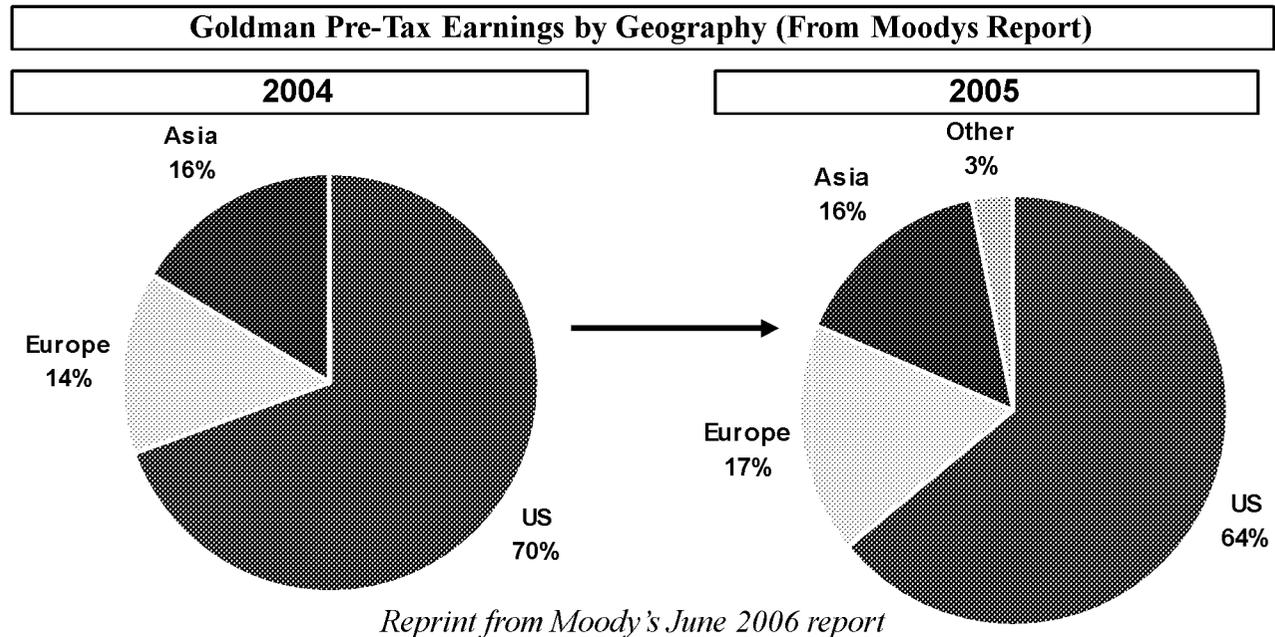
...As did adjusted leverage



Source: SNL Financial, Company reports, Lehman Brothers Estimates

Rating agencies allowed debt to grow

**Rating agencies
applauded earnings,
risk management,
and diversity...**



**...Raising ratings,
while turning a blind
eye to leverage**

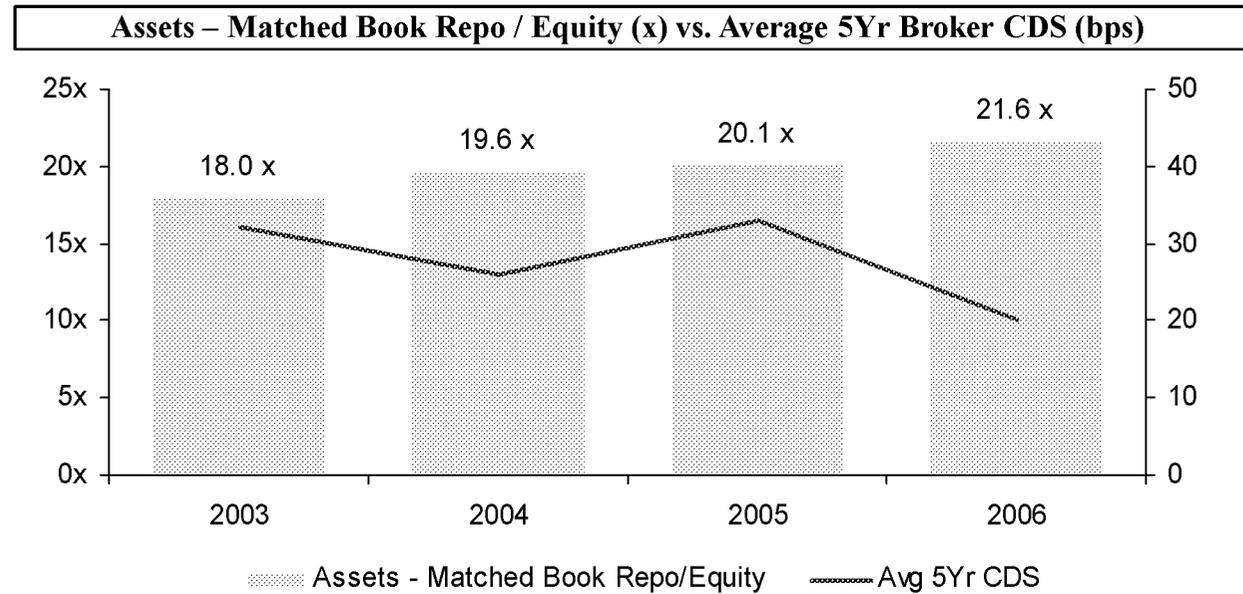
S&P Senior Debt Ratings

	2002	2006
GS	A+	AA-
MS	A+	A+
MER	A+	AA-
LEH	A	A+
BSC	A	A+

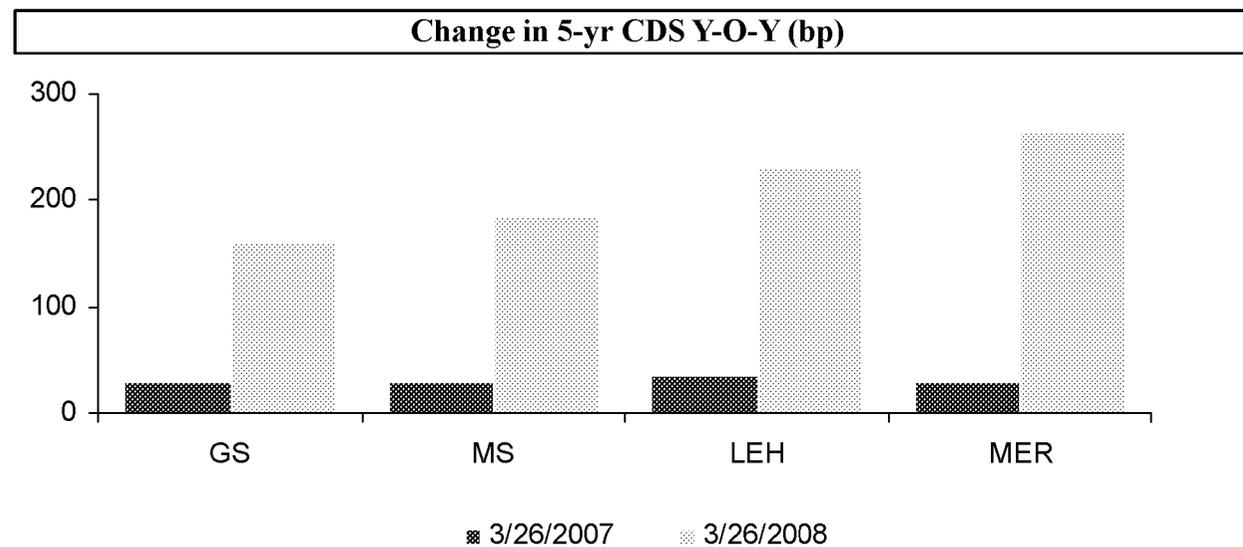
Source: Moodys, SNL Financial, Lehman Brothers Estimates

Debt investors were captivated by strong earnings too

The debt market did not penalize brokers for high leverage...

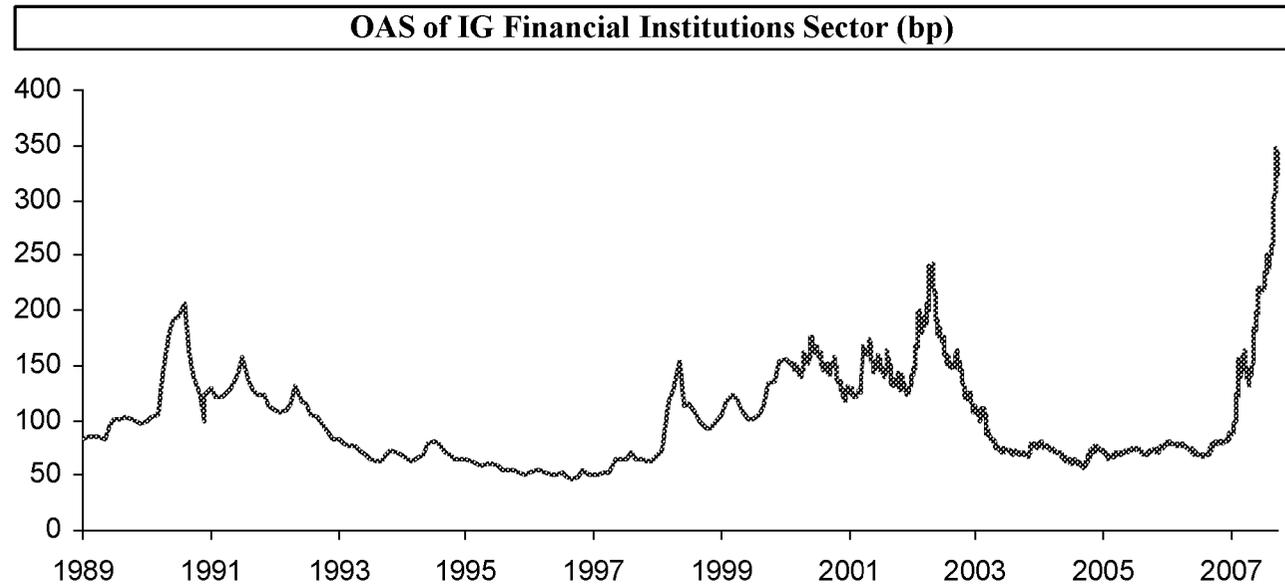


...But it is now

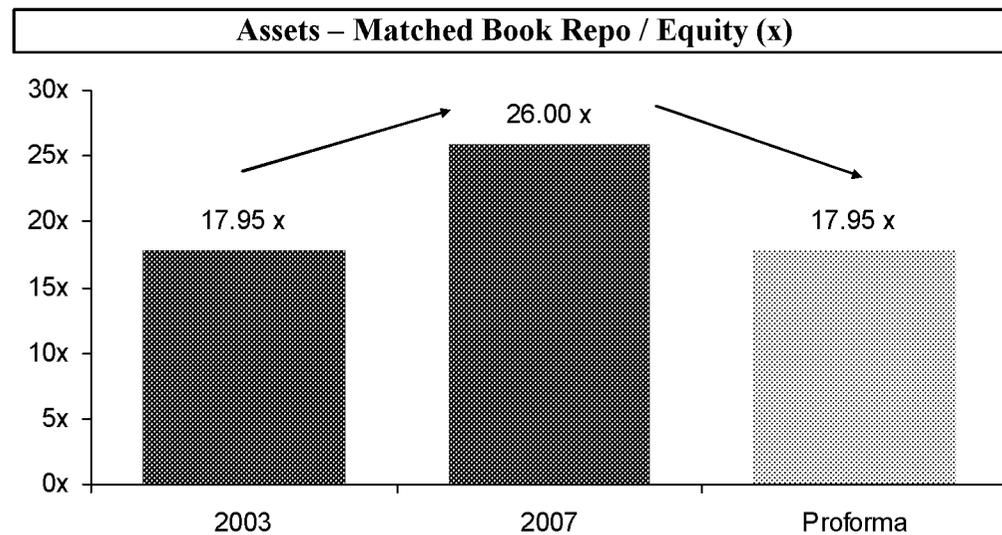


Perception of risk has changed

The market is telling financial institutions to reduce risk...



...And brokers will be forced to de-lever to maintain ratings and access to low-cost debt

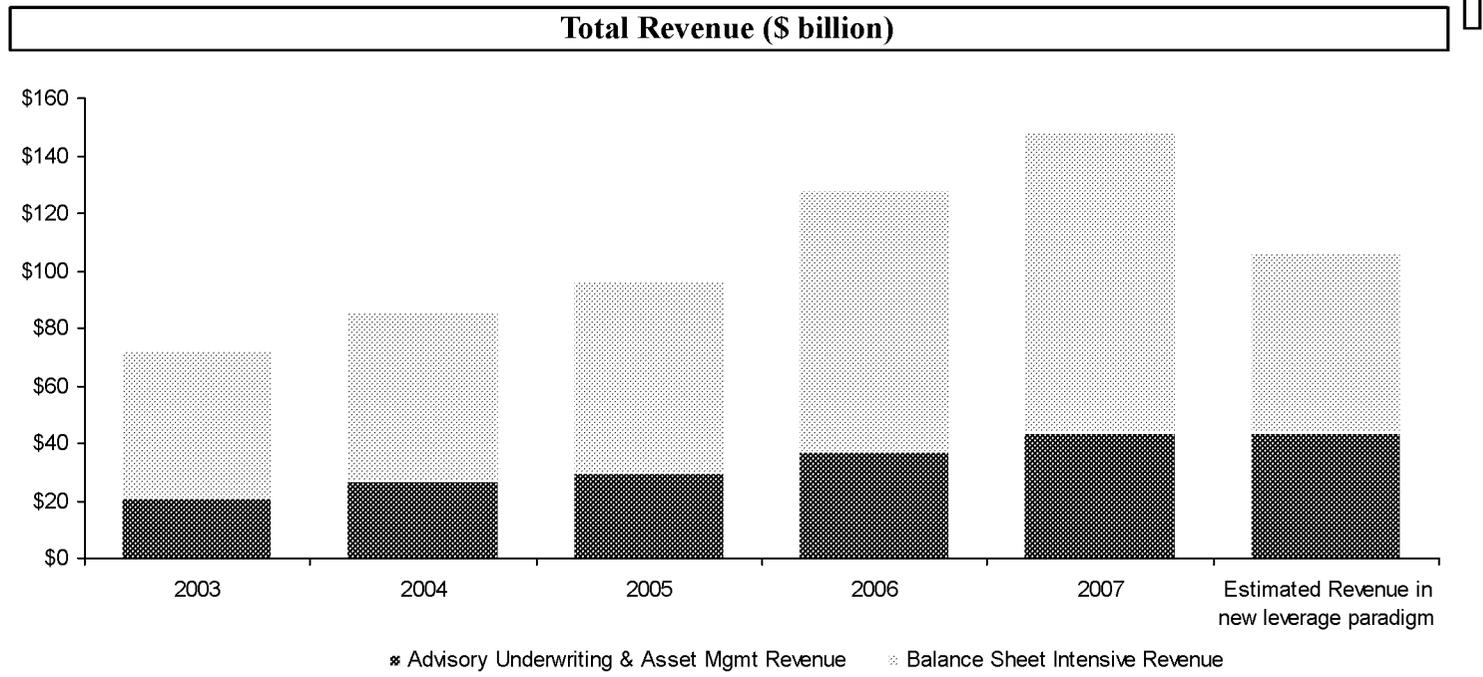


Source: SNL Financial, Company reports, Lehman Brothers Estimates

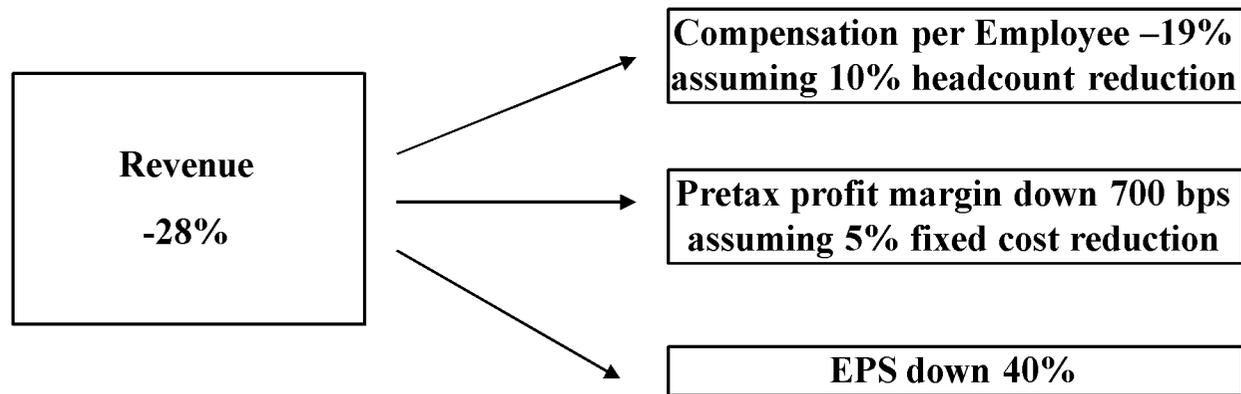
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Deleveraging will have a material impact on profitability

A return to 2003 leverage will result in a 28% decline in revenue (assuming capital markets rev/assets stable at 2.5%)...



...As revenue declines so does EPS



Source: SNL Financial, Company reports, Lehman Brothers Estimates