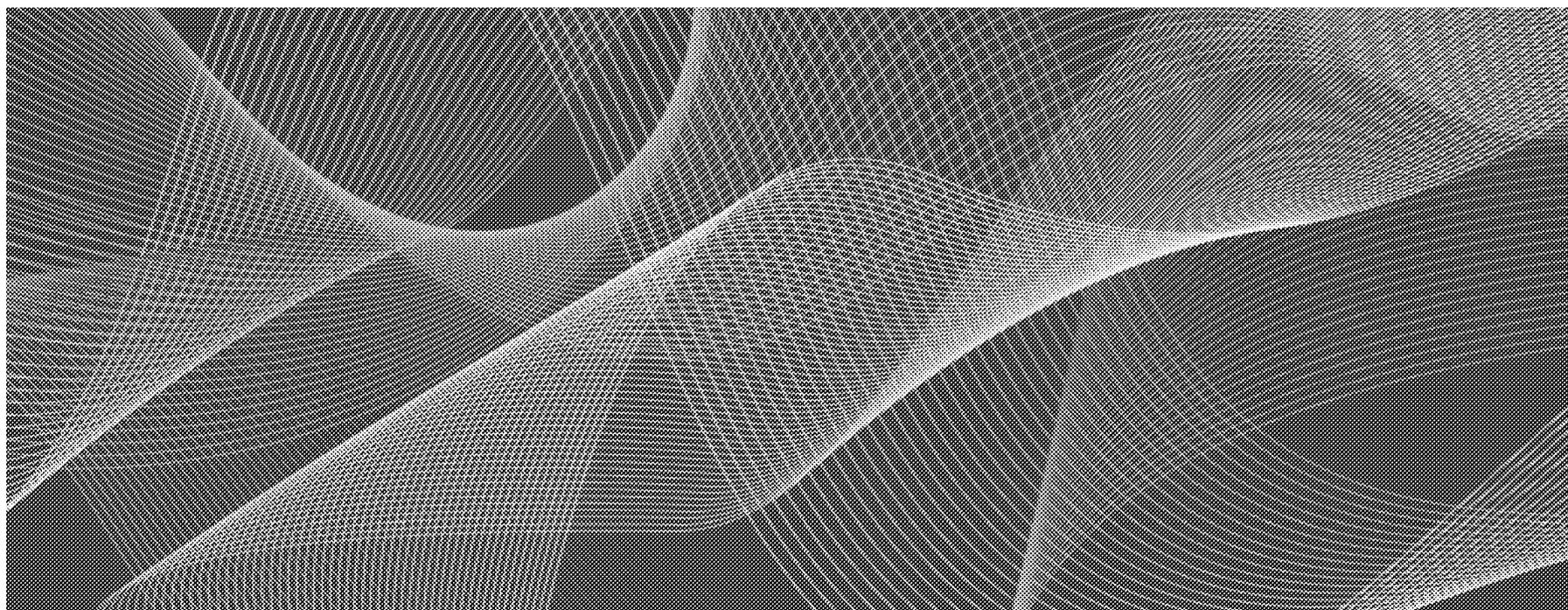


# Business and Financial Review Q2 2008



Confidential Presentation

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## Cautionary Notes

◆ Some of the statements contained in this presentation, including those relating to Lehman Brothers' strategy and other statements that are predictive in nature, that depend on or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These statements are not historical facts but instead represent only Lehman Brothers' expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve uncertainties that are difficult to predict, which may include, but are not limited to, market fluctuations and volatility, industry competition and changes in the competitive environment, investor sentiment, liquidity risks, credit ratings changes, credit exposure, and legal and regulatory proceedings. For further discussion of these risks, see "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Lehman Brothers' most recent Annual Report on Form 10-K. As a global investment bank, the Firm's results of operations have varied significantly in response to global economic and market trends and geopolitical events. The nature of the Firm's business makes predicting the future trends of revenues difficult. Caution should be used when extrapolating historical results to future periods. The Firm's actual results and financial condition may differ, perhaps materially, from the anticipated results and financial condition in any such forward-looking statements and, accordingly, readers are cautioned not to place undue reliance on such statements, which speak only as of the date on which they are made. Lehman Brothers undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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# Executive Summary

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**Despite a loss of \$2.8 billion, the actions taken by Lehman in Q2 '08 have resulted in the strongest capital and liquidity positions the Firm has ever had**

- ◆ The issuance of \$5.9 billion of preferred equity in H1 2008 and \$6.0 billion of equity capital in June, combined with the active de-leveraging and de-risking of the balance sheet (\$147 billion reduction in gross and \$69 billion reduction in net assets), result in an estimated net leverage ratio of 10.1x (pro forma Q2 '08), down from 15.4x in Q1 '08
- ◆ Liquidity Pool stood at a record \$45 billion at the end of Q2 '08 (up from \$34 billion in Q1 '08)
  - Increased coverage of short-term debt of 1.3x, up from 1.0x in Q1 '08
  - Cash Capital Surplus of \$15 billion as of Q2 '08
- ◆ Lehman also made several organizational changes on June 12<sup>th</sup> and June 24<sup>th</sup> designed to strengthen the organization and improve external credibility
  - Bart McDade was appointed Lehman's new President and COO. He has a proven track record of success in building and leading businesses in IBD, Fixed Income and Equities
  - Ian Lowitt was appointed Lehman's new CFO. He brings significant experience to the position as our former Global Treasurer and Finance already reported to Ian in his capacity as co-CAO
  - Mike Gelband rejoined Lehman as Global Head of Capital Markets. During his prior tenure at Lehman, he held several senior roles, most recently as Global Head of Fixed income from 2005 to 2007.
  - Alex Kirk rejoined Lehman as Global Head of Principal Investments. He most recently served as co-Chief Operating Officer for the Fixed Income Division and Head of Global Credit Products.

# Executive Summary, continued

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## **We believe that Lehman's core underlying franchise remains as strong as ever**

- Sales activity within capital markets has remained at levels comparable with 2007, and in many key businesses such as rates, we have seen sizeable increases
- Investment banking has taken market share and been awarded a number of marquee mandates, including in June and July (p 24 & 25)
- Investment management has continued to grow in the highest margin products and has won key mandates in the past few weeks (p 26)
- Prime broker activity has increased profitability. Balances have been reduced as we have changed the financing terms to clients that were not generating sufficient profitability. This has reduced financing needs and increased the returns of the business
- Financing activity has remained consistent. The same clients that were funding us before March are still funding us
- NPE continues to be aggressively managed

# Q2 '08 Performance Driven by Several Factors

Excluding the impact of writedowns and select idiosyncratic items, the quarterly run rate was \$4.2 billion.

## Q2 '08 Net Revenues (In Billions)

	<u>Q2 2008</u>
Revenue Run-Rate	\$ 4.2
Losses :	
Net Mark to Market Adjustments	\$ 3.7
Credit & Rate Positions	\$ 0.7
Principal investments	\$ 0.5
<b>Net Revenues</b>	<b>\$ (0.7)</b>

## Mark to Market Adjustments (In Billions)

	<u>Feb 29, 2008</u>		<u>May 31, 2008</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u> <sup>1</sup>
Residential mortgage-related positions	\$(3.0)	\$(0.8)	\$(2.4)	\$(2.0)
Other asset-backed related positions	(0.2)	(0.1)	(0.4)	(0.4)
Commercial mortgage and RE-related investments <sup>2</sup>	(1.4)	(1.0)	(0.9)	(1.3)
Acquisition finance facilities (unfunded and funded)	(0.7)	(0.5)	(0.3)	(0.4)
Subtotal	<u>\$(5.3)</u>	<u>\$(2.4)</u>	<u>\$(4.0)</u>	<u>\$(4.1)</u>
Valuation of debt liabilities <sup>3</sup>	0.6	0.6	0.4	0.4
	<u>\$(4.7)</u>	<u>\$(1.8)</u>	<u>\$(3.6)</u>	<u>\$(3.7)</u>

1. The net impact represents the remaining impact from the components after deducting the impact of certain economic risk mitigation strategies. Gross balances shown do not reflect the impact of economic hedges.

2. Included within this category are valuation adjustments attributable to commercial mortgage-related positions, equity investments in real estate companies and debt and equity investments in parcels of land and related physical property.

3. Represents the amount of gains on debt liabilities for which the Firm elected to fair value under SFAS No. 159. These gains represent the effect of changes in the Firm's credit spread and exclude any interest income or expense as well as any gain or loss from the embedded derivative components of these instruments. Changes in valuations are allocated to the businesses in relation to the cash generated by, or funding requirements of, the underlying positions.

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## Capital Adequacy

# \$11.9 Billion of Capital Raised in 2008...

---

## \$1.9 B Preferred Stock

- ◆ Issued in February 2008
- ◆ Non-Cumulative Dividends at 7.95%, Perpetual
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital

## \$4.0 B Convertible Preferred Stock

- ◆ Issued in April 2008
- ◆ Non-Cumulative Dividends at 7.25%, Perpetual  
Initial Conversion Rate 20.0509 per share, equivalent to \$49.87 strike per share
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital
- ◆ More than three times over subscribed

## \$4.0 B Common Equity

- ◆ Issued in June 2008
- ◆ 143 million shares of common stock
- ◆ Public Offering price \$28 per share
- ◆ Included as CSE Equivalent Tier 1 Capital

## \$2.0 B Convertible Preferred Stock

- ◆ Issued in June 2008
- ◆ Non-Cumulative Mandatory Convertible Dividends at 8.75%
- ◆ Initial Conversion Rate between 30.2663 and 35.7142 per share at \$33.04 - \$28.00
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital

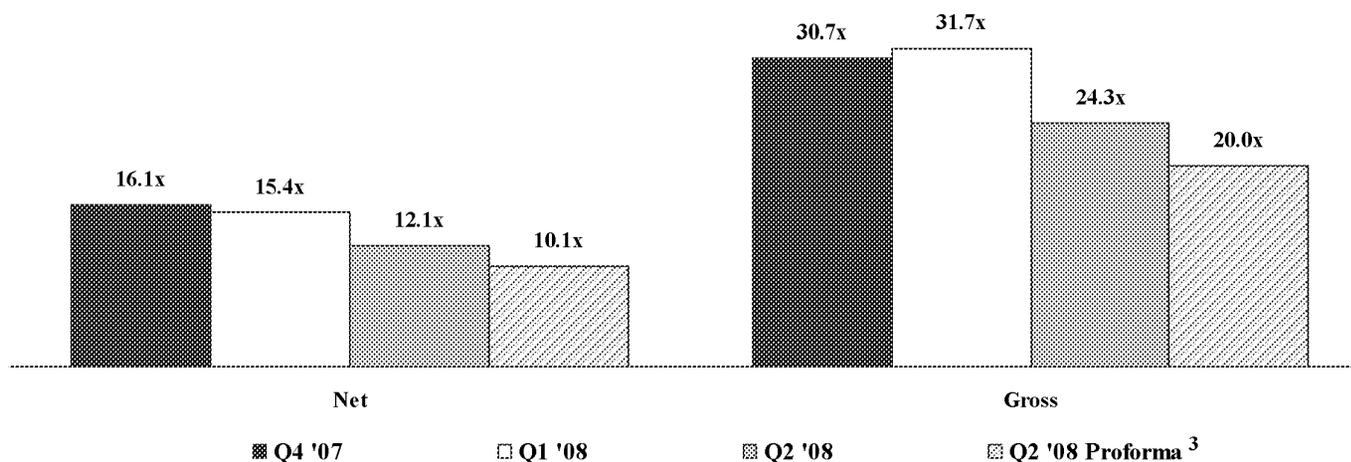
# ...As Well As Shrinkage of the Balance Sheet...

Net balance sheet was \$69 billion lower than Q1 '08, and gross balance sheet was \$147 billion lower

## Gross and Net Balance Sheet

<i>S billions</i>	<i>Actual</i> <b>Q4' 07</b>	<i>Actual</i> <b>Q1' 08</b>	<i>Actual</i> <b>Q2' 08</b>	<i>Reduction</i> <b>Q2 '08 vs. Q1 '08</b>
Net Assets 1	373	397	328	(69)
Gross Assets	691	786	639	(147)
Leveragable Equity	23	26	27	

## Gross and Net Leverage Ratios <sup>2</sup>

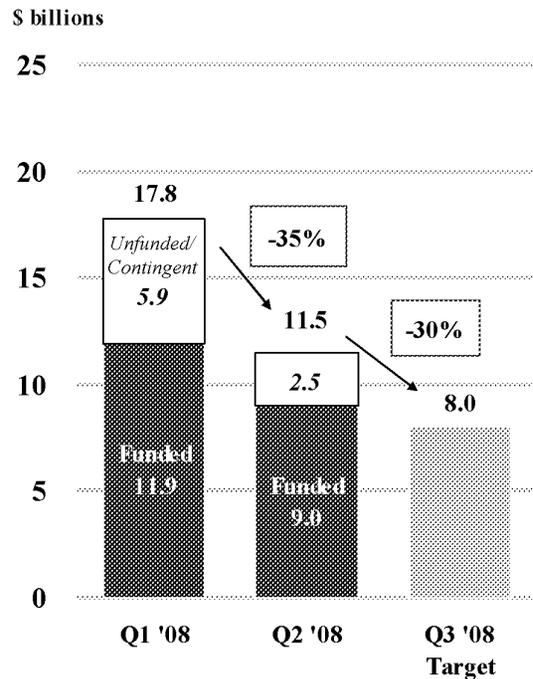


1. Net assets exclude from total assets: (i) cash and securities segregated and on deposit for regulatory and other purposes; (ii) collateralized lending agreements; and (iii) identifiable intangible assets and goodwill. Net assets as presented are not necessarily comparable to similarly-titled measures provided by other companies in the securities industry because of different methods of presentation.
2. Net leverage ratio is defined as net assets divided by tangible equity capital. We believe net leverage based on net assets to be a more useful measure of leverage, because it excludes certain low-risk, non-inventory assets and utilizes tangible equity capital as a measure of our equity base. Net leverage as presented is not necessarily comparable to similarly-titled measures provided by other companies in the securities industry because of different methods of presentation.
3. Proforma Q2 '08 includes \$6.0 billion capital raise on 6/9/08 and \$6.0 billion increase in assets

# ...Including Positions in High-Risk Assets...

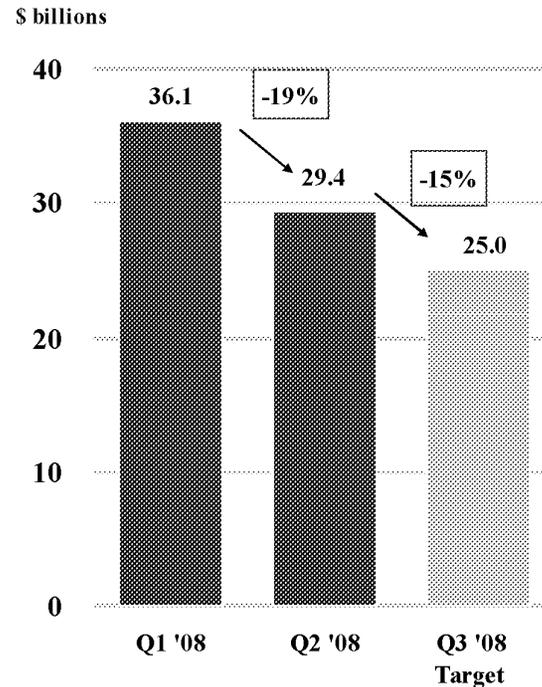
Lehman Brothers continues to reduce the Firm's key Risk positions in the Fixed Income arena

## High Yield Acq Financing



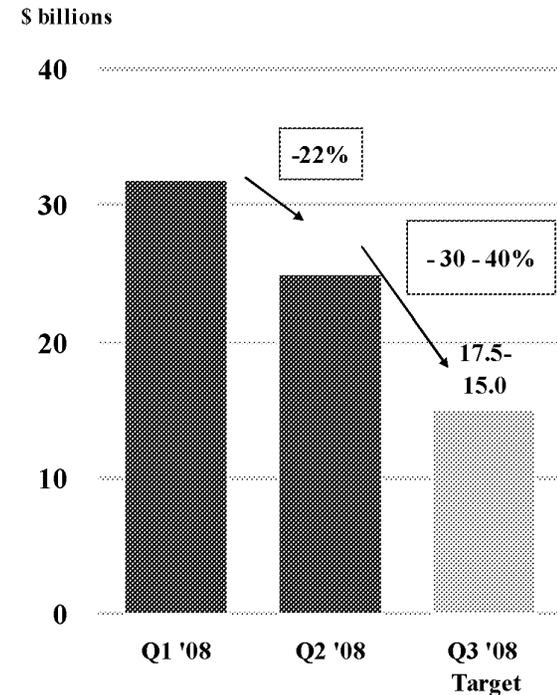
- ◆ Steady progress in selling/syndicating
- ◆ Non-traditional buyers account for 73% of sales in 2008

## Commercial Mortgages



- ◆ Sales have been focused on largest exposures

## Residential Mortgages

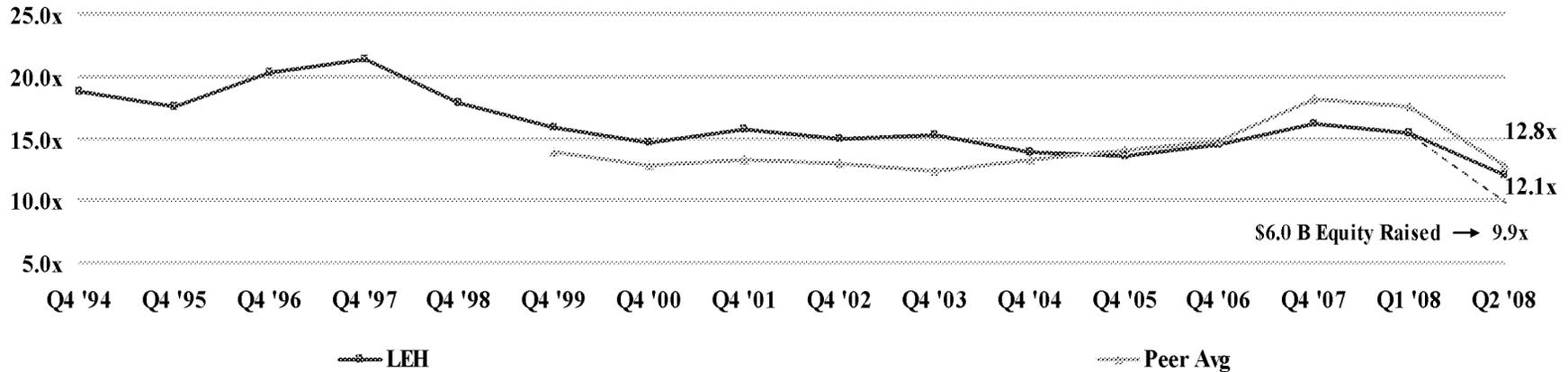


- ◆ Includes whole loans & securities in ~ 40: 60 proportion

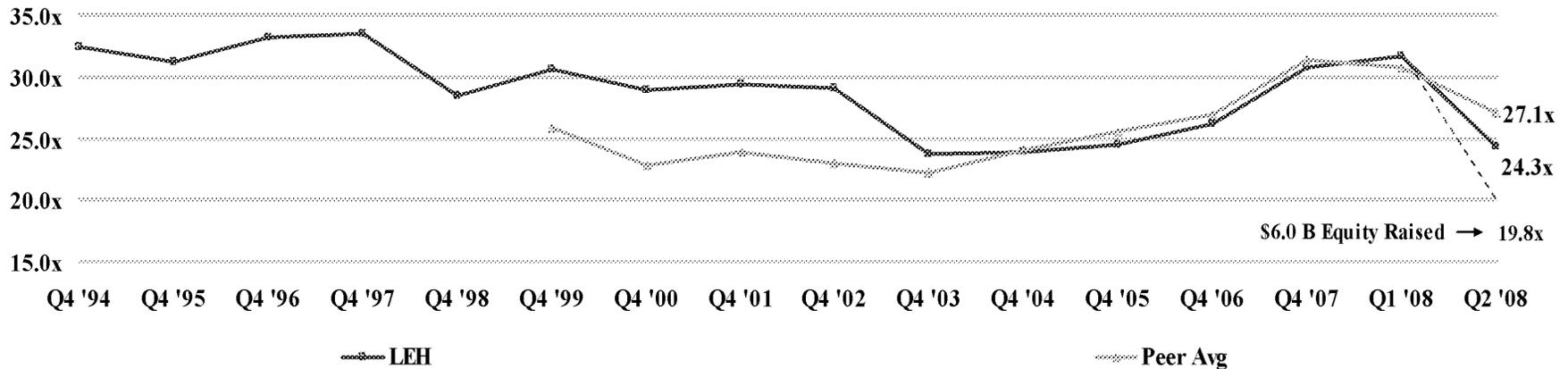
# ...Result in Historically Low Leverage Levels

Lehman ended Q2 '08 with the lowest leverage ratios in its history as a public company

Lehman versus Peers Net Leverage <sup>1,2</sup>

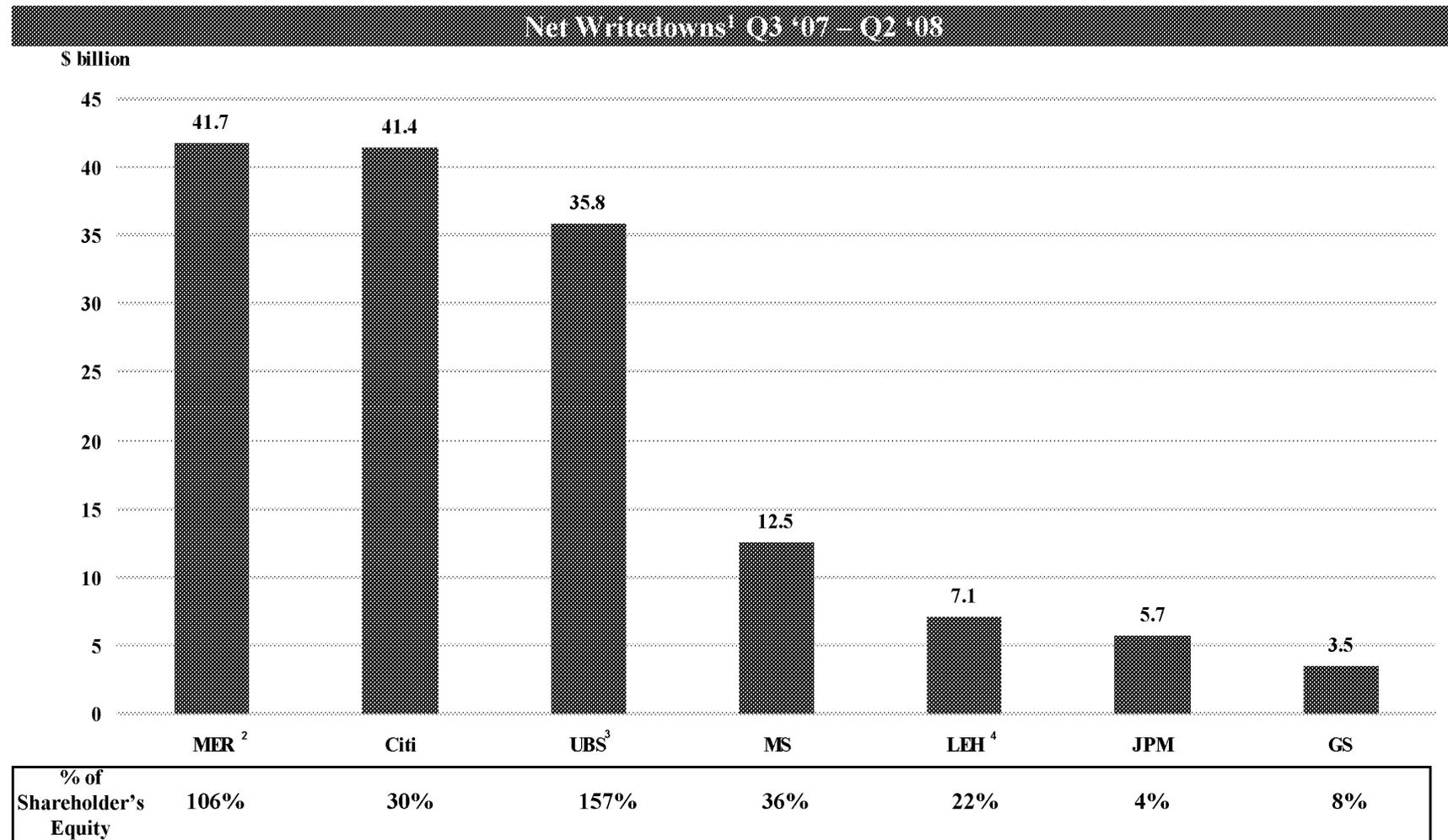


Lehman versus Peers Gross Leverage <sup>1,2</sup>



1. Peers include GS, MS, MER & BSC through Q1 '08. In Q2 '08, peers include GS, MS & MER.  
 2. Gross & Net Peer Average for Q2 '08 includes actual GS and MS.

# Lehman's Net Writedowns Have Been Lower Than Some Competitors

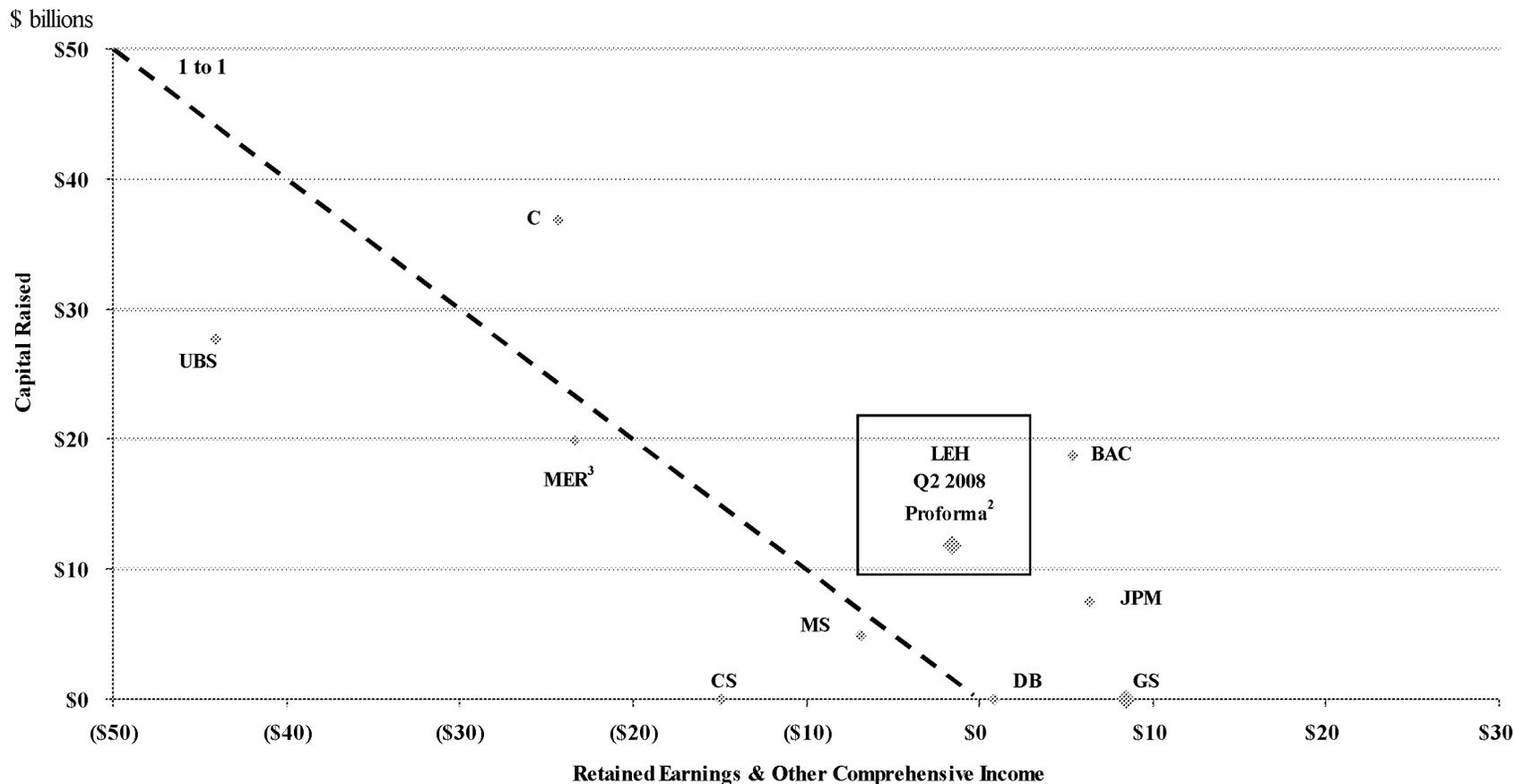


1. Includes all asset classes, including leverage loans, residential and commercial real estate / mortgages, CDOs and monolines plus gains on structured debt liabilities.  
 2. MER equity as of Q2 '08 + After tax gain on sale of Bloomberg (\$2.7B) and FDS (\$1.8B)  
 3. UBS as of Q1 '08  
 4. LEH equity as of Q2 '08 + \$6.0B Equity Raise

# ...And Capital Raised More than Offsets Impact of Writedowns

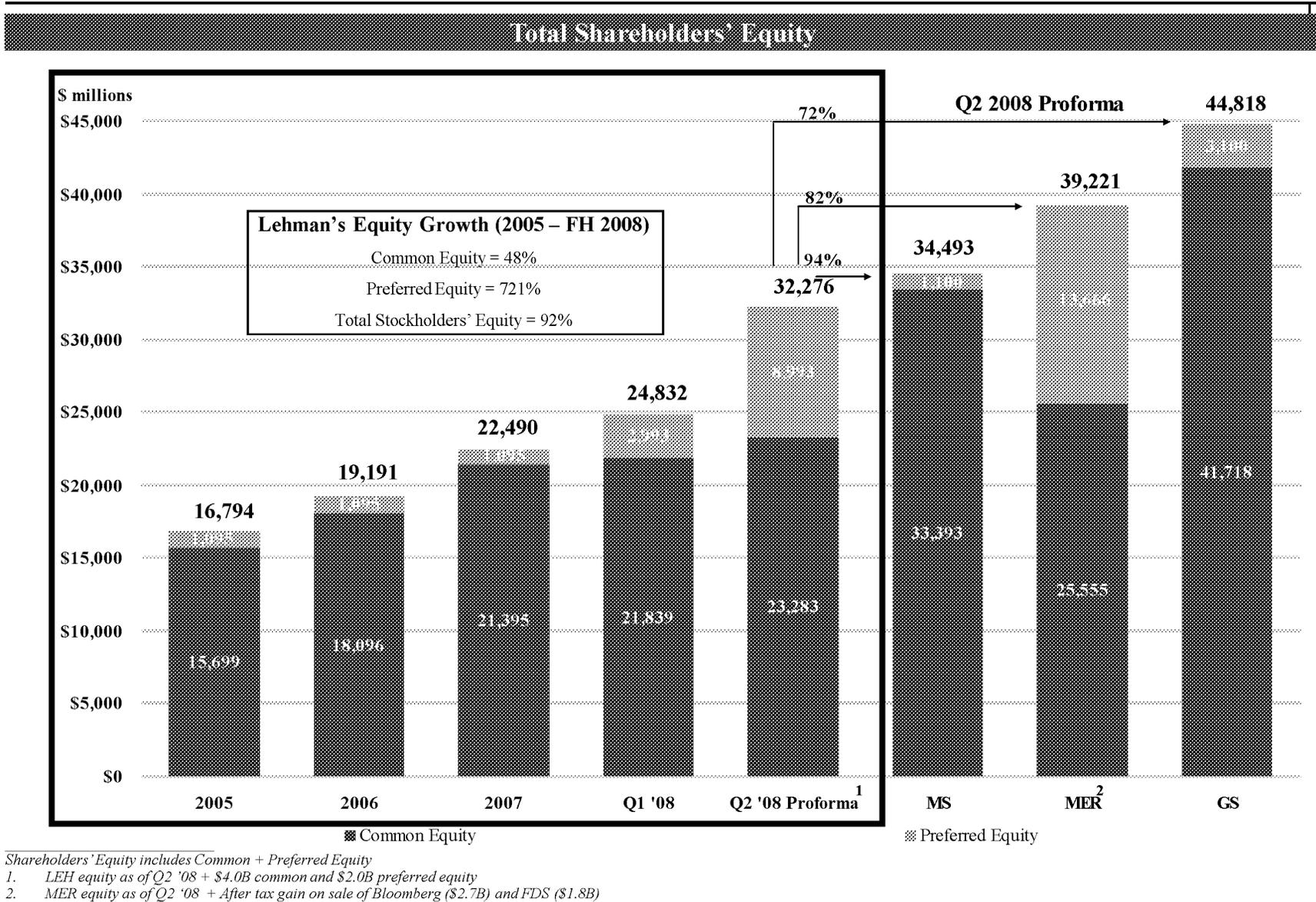
The Firm has proactively raised capital to offset the impact of writedowns

**Capital Raised versus Retained Earnings and Other Comprehensive Income Q3 '07 to Q2 '08<sup>1</sup>**



1. LEH, GS, MS, MER as of Q2 '08  
 2. LEH equity as of Q2 '08 + \$6.0B Equity Raise  
 3. MER equity as of Q2 '08 + After tax gain on sale of Bloomberg (\$2.7B) and FDS (\$1.8B)

# ...And Drives Significant Growth in Shareholder's Equity



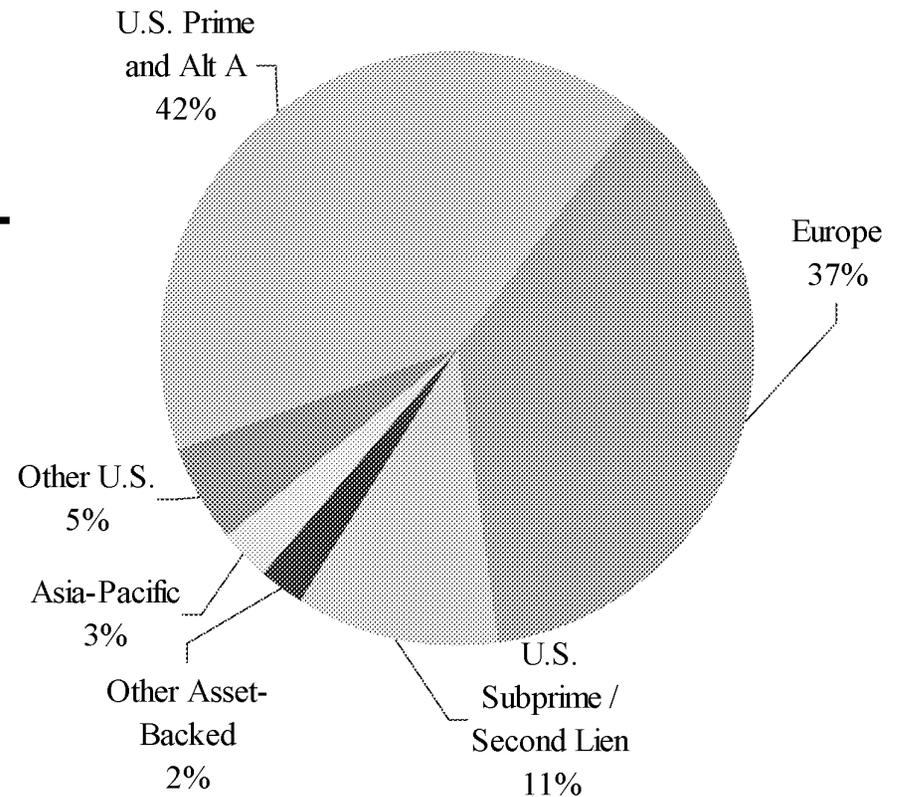
LEHMAN BROTHERS

# Substantial Reduction in Residential Real Estate Inventory

## Aggregate Residential Mortgage-Related Inventory

In \$ Billions	Q4 '07	Q1 '08	Q2 '08
U.S. Prime and Alt A	12.7	14.6	10.2
Europe	10.2	9.5	9.3
Asia-Pacific	0.5	0.7	0.7
U.S. Subprime/Second Lien	5.3	4.0	2.8
Other Asset-Backed	1.1	0.9	0.6
Other U.S.	2.3	2.1	1.3
<b>Current Mark to Market</b>	<b>32.1</b>	<b>31.8</b>	<b>24.9</b>

As of Q2 '08



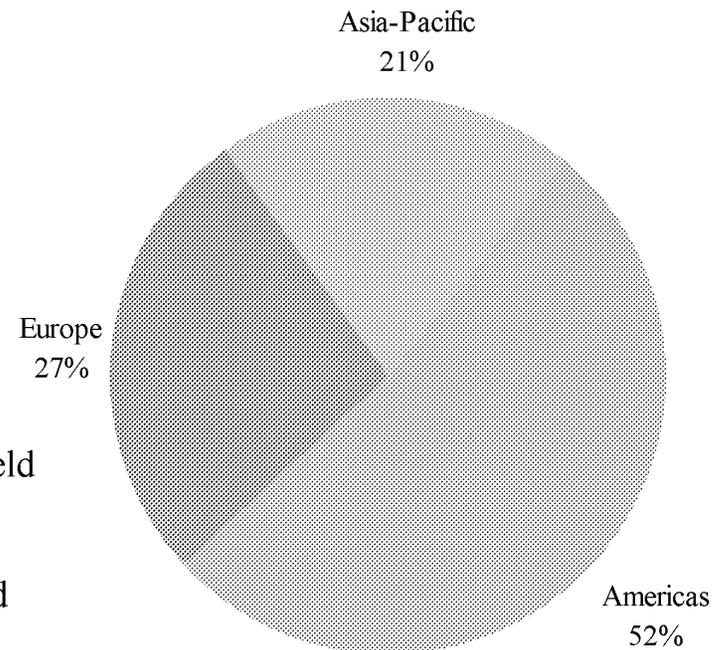
- ◆ Reduction in overall residential mortgage related exposure by 22% versus Q1 '08
- ◆ Reduction of 31% for both US Prime/Alt A and Subprime/Second Lien versus Q1 '08

# ...As Well As Commercial Real Estate Inventory...

## Aggregate Commercial Mortgage Related-Inventory

In \$ Billions	Q4 '07	Q1 '08	Q2 '08
Whole loans	26.2	24.9	19.9
Securities & Other	12.7	11.2	9.5
Real Estate held for sale <sup>1</sup>	12.8	12.9	10.4
Current Mark to Market	51.7	49.0	39.8

### As of Q2 '08

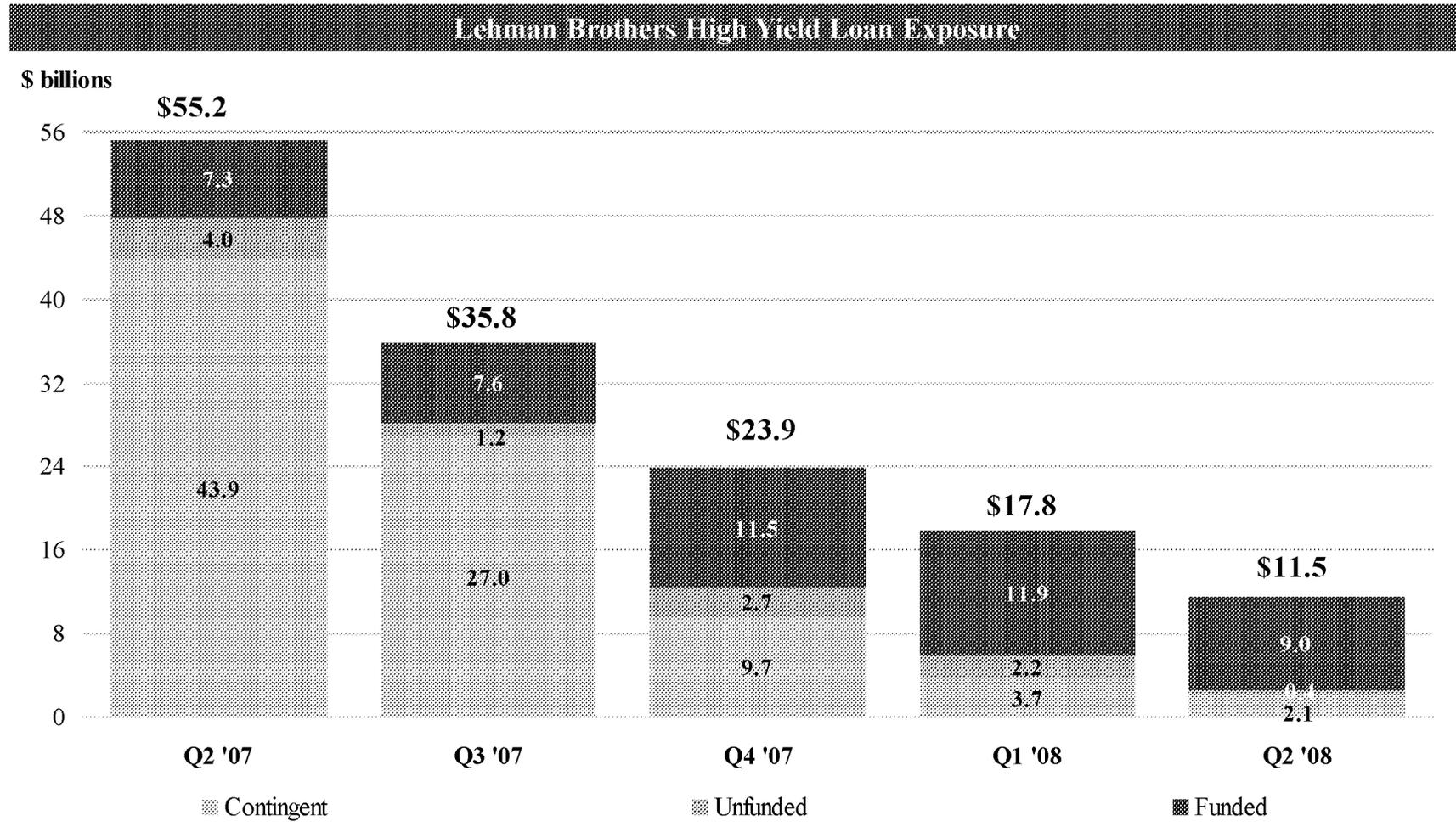


- ◆ Commercial real estate inventory is well diversified
  - \$20.9 billion in Americas
  - \$10.7 billion in Europe
  - \$8.2 billion in Asia
- ◆ Reduction in overall commercial real estate related exposure by 19% versus Q1 '08 (includes Real Estate Held for sale).
- ◆ Weighted average LTV of senior whole loans is 76% and mezzanine whole loans is 78%
- ◆ 94% of securities are investment grade

1. These positions are reflected within Real estate held for sale and are accounted for at the lower of its carrying amount or fair value less cost to sell. The Company makes equity and debt investments in entities whose underlying assets are real estate held for sale. The Company consolidates those entities in which we are the primary beneficiary in accordance with FIN No. 46-R, Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51. The Company does not consider itself to have economic exposure to the total underlying assets in those entities. The amounts presented are the Company's net investment and therefore exclude the amounts that have been consolidated but for which the Company does not consider itself to have economic exposure.

# ...And Leveraged Loan Exposure

Overall high yield exposures are down from \$55.2B (Q2 '07) to \$11.5B (Q2 '08), and are down 37% versus Q1 '08. Exposures continue to be reduced in Q3 '08



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## Liquidity

# 2008 Q2 Liquidity Position

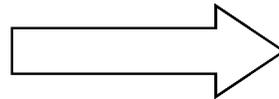
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We ended 2008 Q2 in our strongest liquidity position ever

## Q2 Liquidity Metrics

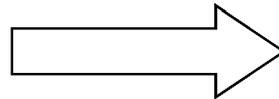
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### Holdings



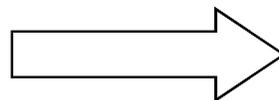
- ◆ Record liquidity pool of \$45 billion and cash capital surplus of \$15 billion

### Secured Funding



- ◆ Increased overfunding in the repo book
- ◆ Average tenor of repo book funding non-Central Bank eligible collateral of 38 days, up from 25 days in Q1'08

### Lehman Bank Entities

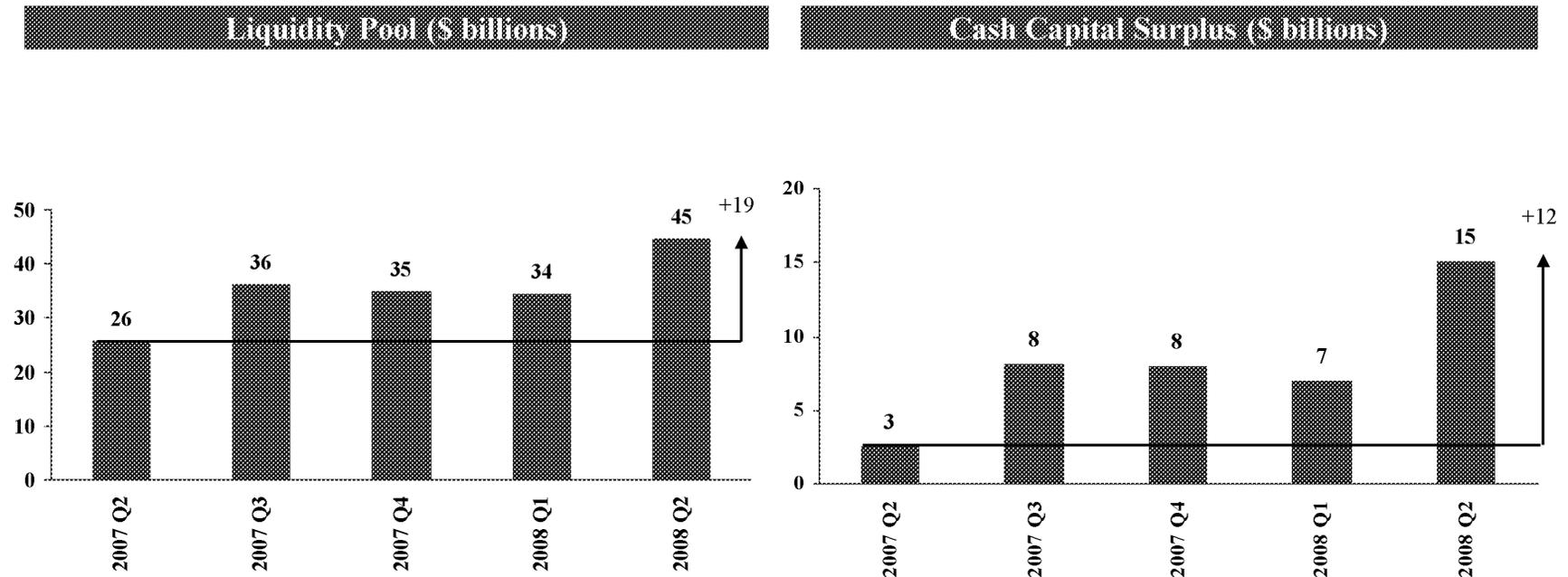


- ◆ Record \$46 billion of assets funded in our three banks at the end of May

# Holdings' Liquidity

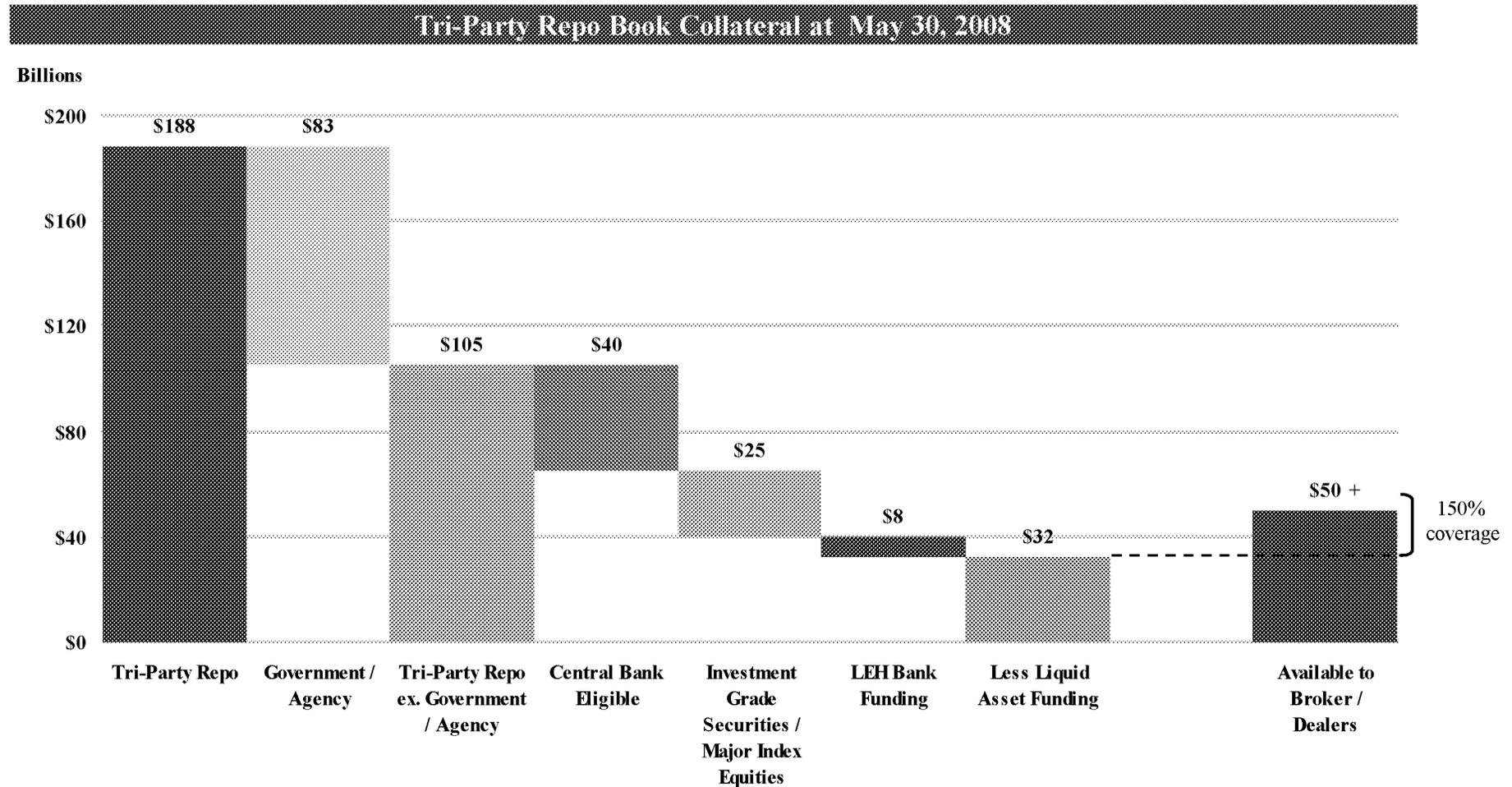
## Record liquidity pool and cash capital surplus

- ◆ Since the third quarter of 2007 when the funding environment became more challenging, we have grown our liquidity pool by \$19 billion and our cash capital surplus by \$12 billion



# Liquidity Risk Of Secured Funding

The liquidity risk of our secured funding is well contained



# Secured Funding

- ◆ We increased the average tenor of the repo book from 22 days to 35 days (38 days for collateral that cannot be pledged to the Federal Reserve or the ECB)
- ◆ We grew term repo by 30% quarter-over-quarter to 58% of the non-traditional repo book. For the less liquid assets the term of repo is significantly greater than the average

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

TriParty Repo Book	Q407	Q108	Q208	QoQ Change	Q2 /Q4 Change
Average tenor (days)	27	22	35	13	8
Central bank eligible	-	-	30	-	-
Non Central bank eligible	-	-	38	-	-
% Overnight	52%	56%	42%	-14%	-10%
% <= 1 week	13%	18%	12%	-6%	-1%
% > 1 week	35%	25%	46%	21%	11%
% > 1 month	24%	20%	29%	9%	5%

*1. Non-traditional repo book excludes Governments, Treasuries, Government/MBS Agencies*

# Lehman Brothers Bank Entities

## Asset growth at bank entities strengthens our liquidity position

### Lehman Brothers Bank/Lehman Brothers Commercial Bank

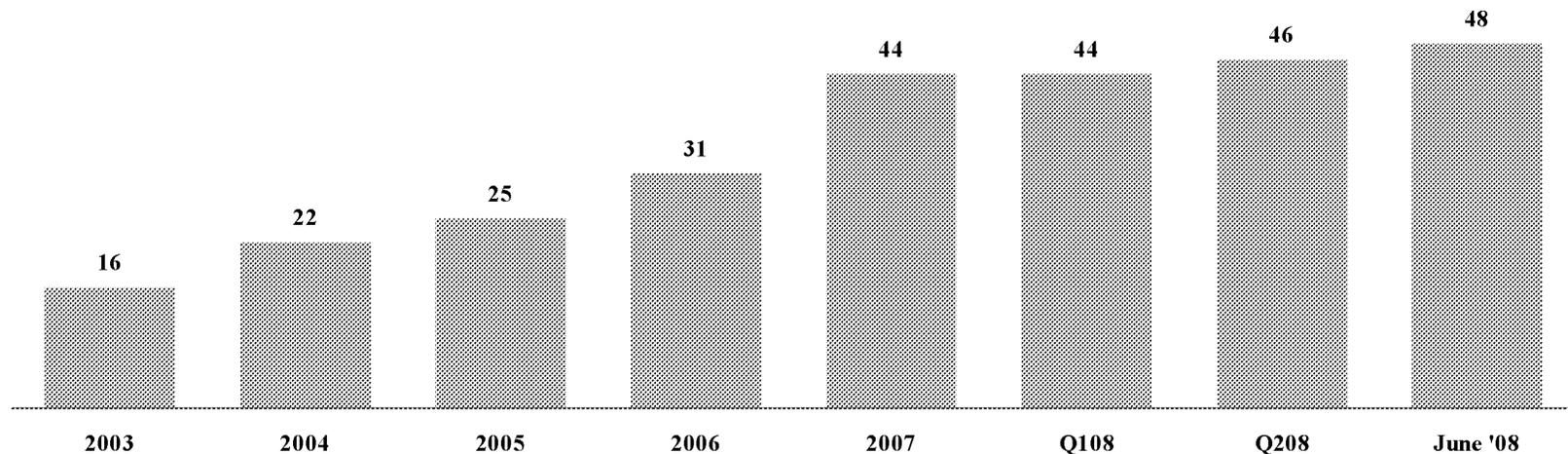
- ◆ Raises FDIC-insured deposits
- ◆ Can pledge mortgage whole loans to the Federal Home Loan Bank
- ◆ Can access the Fed discount window

### Lehman Brothers Bankhaus

- ◆ Raises GDPF-insured deposits
- ◆ Can participate in ECB tender facilities

Bank Entities Total Assets

\$ Bn

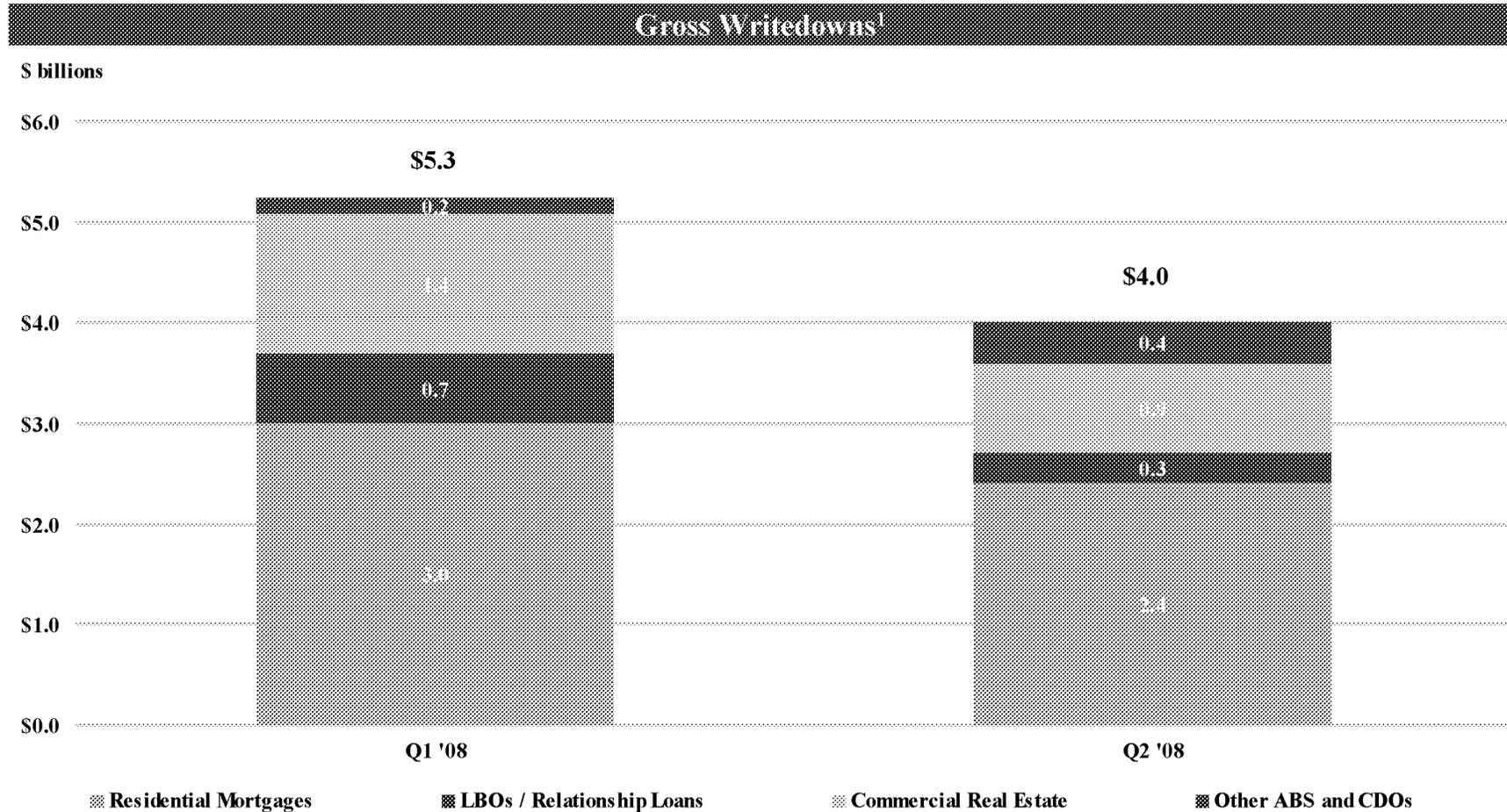


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## Overview of Q2 '08 Results and Lehman's Franchise

# Gross Writedowns are Lower Than Q1 '08

Gross writedowns reduced from \$5.3 billion in Q1'08 to \$4.0 billion in Q2'08

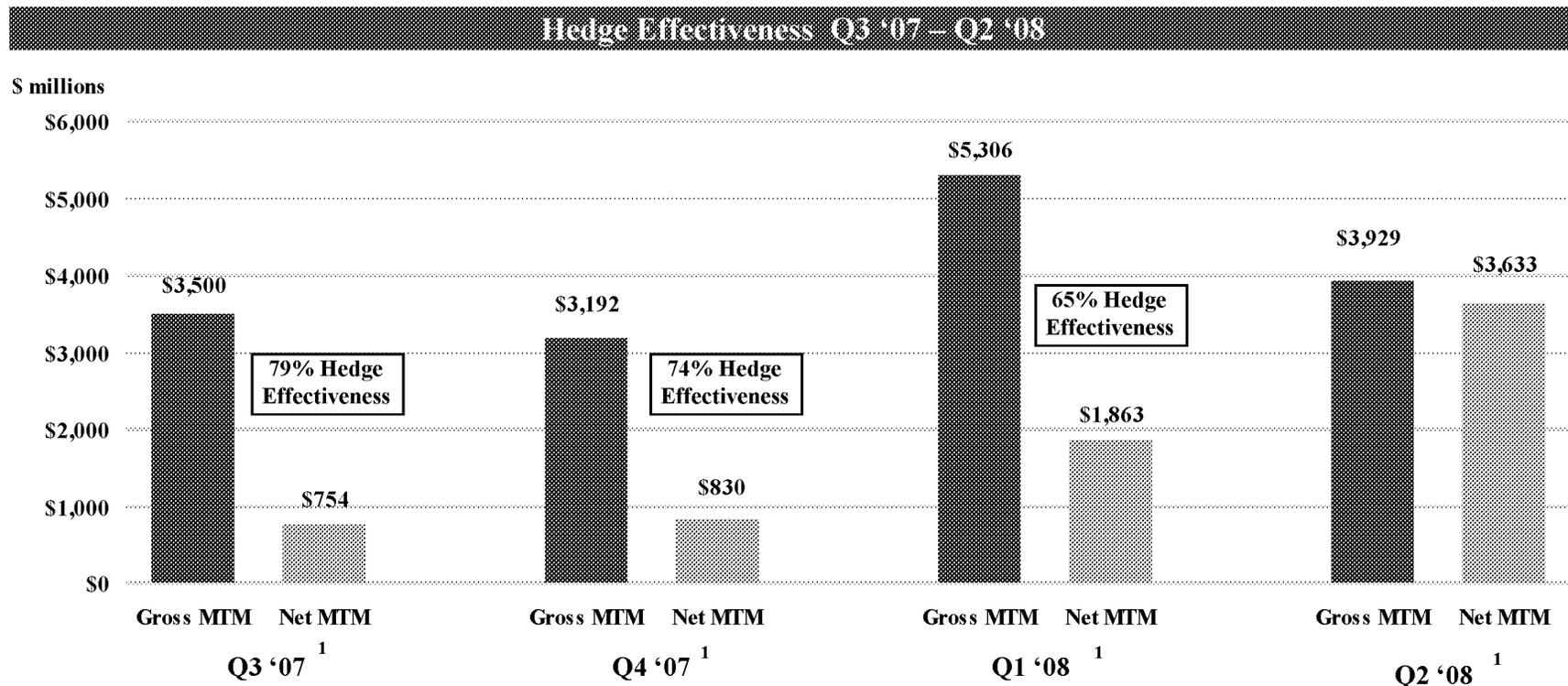


1. Excludes the impact of credit spreads on the valuation of Lehman's structured debt

# Hedges were ineffective in Q2'08

Whereas Lehman's combined effective hedge ratio was 73% during the first nine months of the downturn, in Q2 '08 we reported a minimal benefit from hedging.

- ◆ Assuming a hedge ratio consistent with the average of the last three quarters, the Firm's Net MTM (i.e., after hedges) would have been \$(1.1) billion versus the \$(3.6) billion

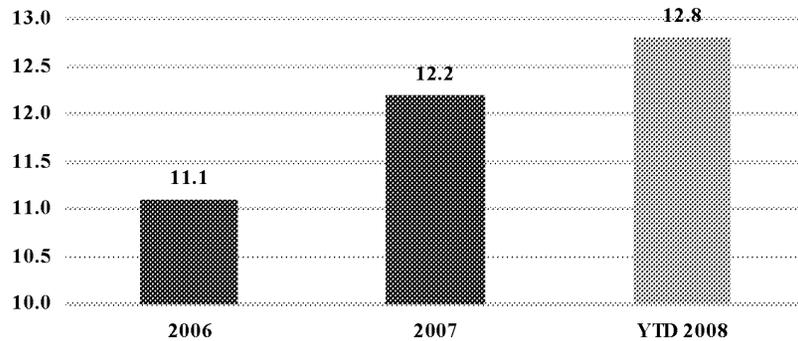


<sup>1</sup> Includes the impact of credit spreads on the valuation of Lehman's structured debt in net writedown figures, but not in gross writedown figures

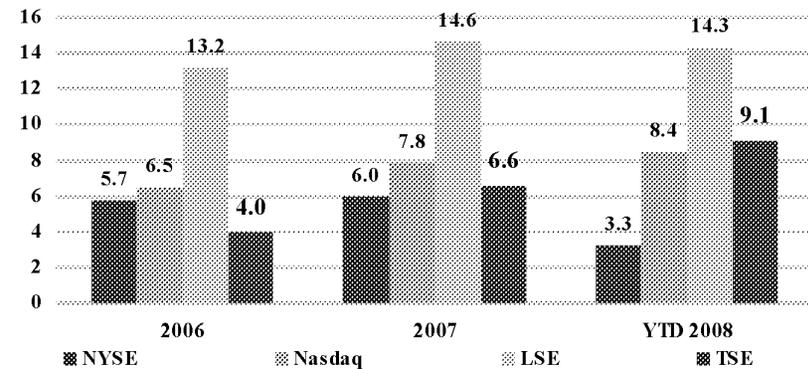
# Lehman Is Gaining Market Share in A Weak Market...

We continue to increase our market share, highlighting the strength of our client franchise in difficult markets

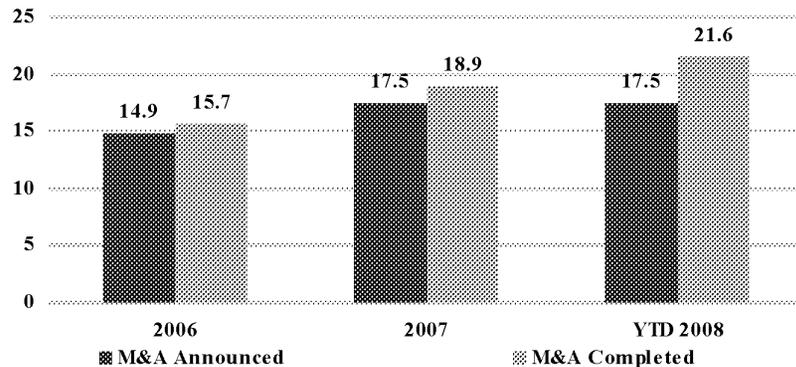
**Fixed Income Trading Volume (%)<sup>1</sup>**



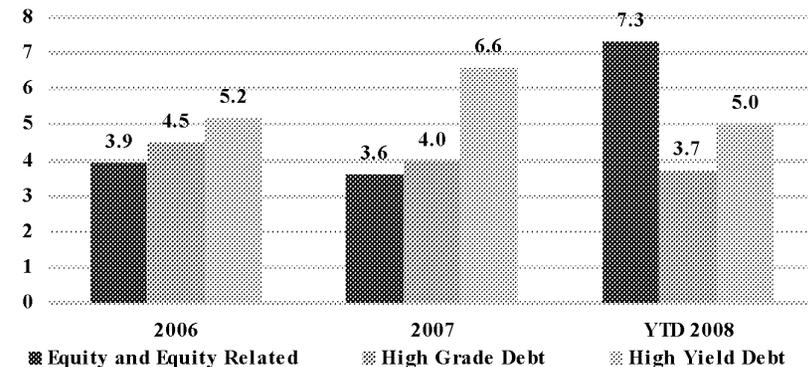
**Equity Trading Volume (%)<sup>1</sup>**



**M&A (%)<sup>2</sup>**



**IBD Capital Markets (%)<sup>2</sup>**



1. Fixed Income - Federal Reserve Bank of New York; all data is fiscal year, YTD is through June 4, 2008; Equity - Applicable exchanges and Lehman Brothers; all data is calendar year, YTD is through Mar 31, 2008

2. Thomson Financial; all data is calendar year, YTD is through June 12, 2008

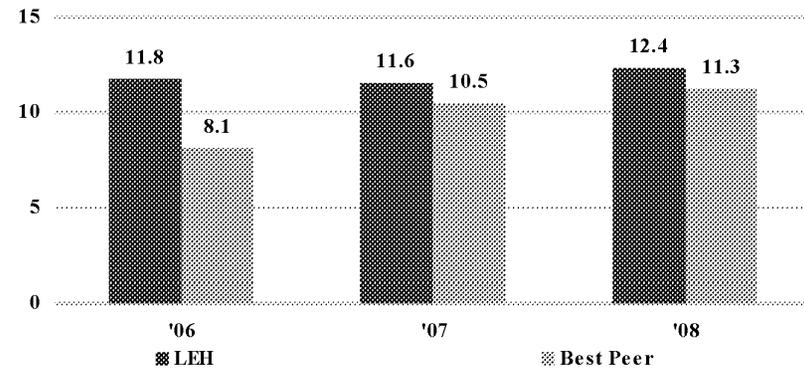
# ...Maintaining Our Overall FID Leadership...

Lehman has maintained overall market leadership among most active US Fixed Income investors, increasing the depth of our relationships and ranking ahead of all of our US Broker Dealer peers<sup>1</sup>

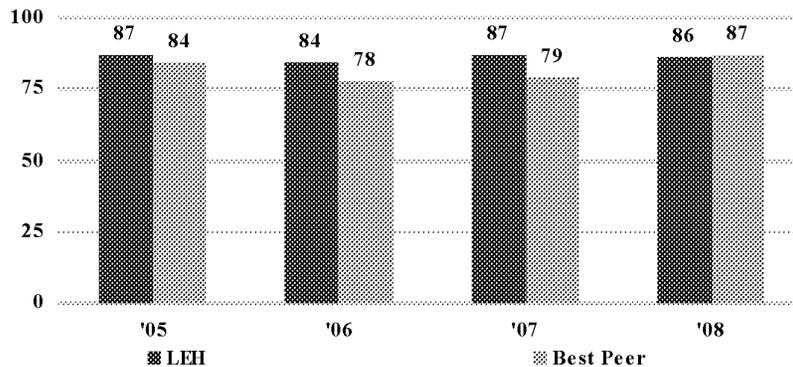
## # 1 Rank

- ◆ Overall Market Share (**again**), increasing from 11.6% to 12.4%
- ◆ Overall Service Quality (**again**)
- ◆ Consistent Coverage Quality (**again**), by a very wide margin
- ◆ Overall Footprint
- ◆ Top 3 Relationships, increasing rank from previously 2<sup>nd</sup>
- ◆ Lead Relationships, increasing rank from previously 2<sup>nd</sup>
- ◆ Relationship Capital, a new category
- ◆ E-Trading penetration

## Overall Market Share <sup>2</sup> (%)



## Overall Market Penetration <sup>2</sup> (%)



## Greenwich Quality Index <sup>2</sup>

- ◆ #1 overall each year '04 – '08
  - Highest score of Best Peer (any period) < LEH's lowest score (current period)
- ◆ No negative score in any period
  - All US B/D peers have had negative scores
    - 2 of those peers were negative in each year '06 -'08
- ◆ #1 in sales past two years
  - Highest score of Best Peer in '08 < LEH's '07 score

1. Greenwich Associates, July '08; conducted March – April '08

2. Best Peer is a non-US Broker Dealer and the same in each depiction; under a confidentiality agreement with Greenwich, LEH is not allowed to disclose the names of any peers

# ...With Strong Franchise Gains in Investment Banking

Lehman is achieving significant market share gains in a challenging environment

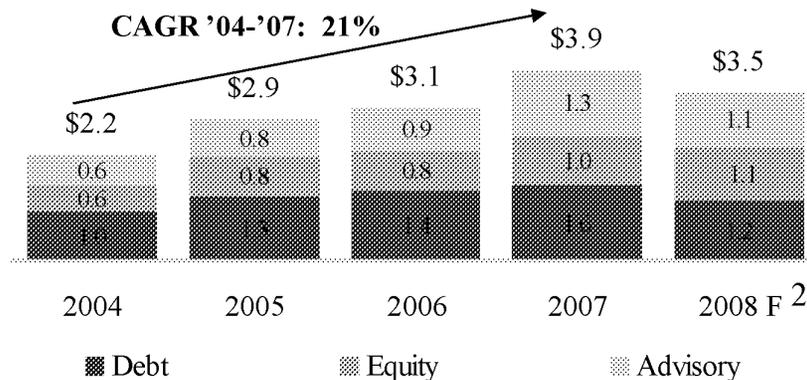
## Investment Banking Market Share <sup>1</sup>

Global	2006	2007	YTD 08
M&A Announced	15.4%	17.5%	18.7%
M&A Completed	15.7%	19.4%	25.2%
Equity & Equity Related	3.9%	3.6%	7.6%
High Grade Debt	4.5%	4.0%	4.0%
High Yield Debt	5.2%	6.6%	6.1%

## Franchise Momentum <sup>1</sup>

- ◆ Leadership in strategic M&A and financial sector restructuring
  - \$5.2 billion equity and convertible preferred issuance for FNMA
  - \$7.0 billion equity and convertible issuance for Washington Mutual
  - As well as issuances for CIT, MBIA and regional banks
- ◆ #4 Globally and # 1 in Asia (ex-Japan) announced M&A
- ◆ Advised on 2 of the top 10 announced M&A as well as 3 of the top 5 completed M&A
  - \$113.0 billion Phillip Morris Int'l spin-off <sup>3,4</sup>
  - \$28.1 billion acquisition of Alltel by Verizon Wireless <sup>3</sup>
  - \$21.5 billion acquisition of Imperial by Altadis <sup>4</sup>
  - \$18.6 billion acquisition of Scottish & Newcastle by Heineken NV and Carlsberg A/S <sup>4</sup>

## Investment Banking Revenues



1. Market share based on year-to-date Thomson data as of June 12, 2008  
 2. 2008 data actual through May and annualized thereafter  
 3. Announced M&A deals  
 4. Completed M&A deals

# ...Which Has Continued In June

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**Lehman's quality of execution has resulted in clients trusting us with their most important and sensitive banking transactions in difficult markets**

◆ **June M&A Announcements**

- Vodafone Group PLC (thru Verizon Wireless, Inc), \$28.1bn Acquisition of Alltel Corp
- Telemex Spin of Telmex International for \$16.2bln
- China Unicom, \$9.6bn Sale of the CDMA Business and Network to China Telecom
- BBVA and CITIC (advised both sides) - BBVA \$1.2bn Increases stake in CITIC International Financial Holdings and China CITIC Bank
- Eni's \$410mm to Acquire Stake in Hewett Unit From Tullow Oil Plc
- Tercica, Inc., \$338mm Sale to Ipsen, SA

◆ **Equities**

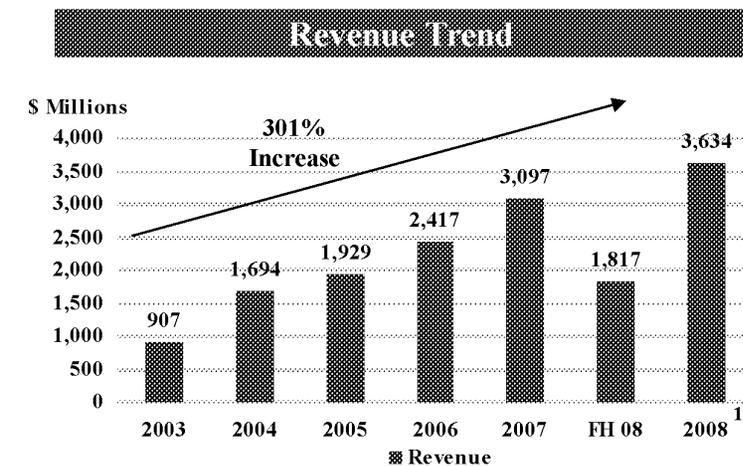
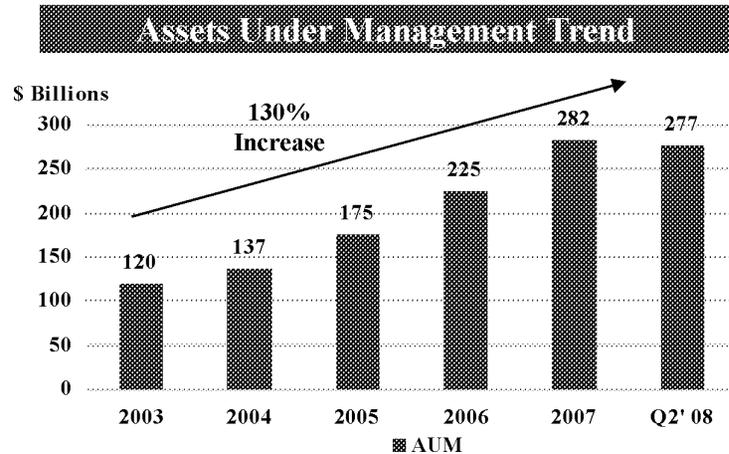
- Completed Rights offering for Carlsberg
- Completed Rights offering for Imperial Tobacco
- Priced Follow On for Boardwalk Pipeline (Loews)
- Priced Follow On for Teekay Offshore Partners
- Priced Power One convertible

◆ **HG & HY**

- Strong Client flows in early June
- Deal Pricing for Cenveo, Iron Mountain and Sequa, FPL, Duke, Republic of Portugal, Hartford Financial, and Northeast Utilities

# Investment Management Also A Key Component of Success

IMD has exhibited steady growth and is a key component of Lehman's strategy to increase revenues while mitigating revenue volatility



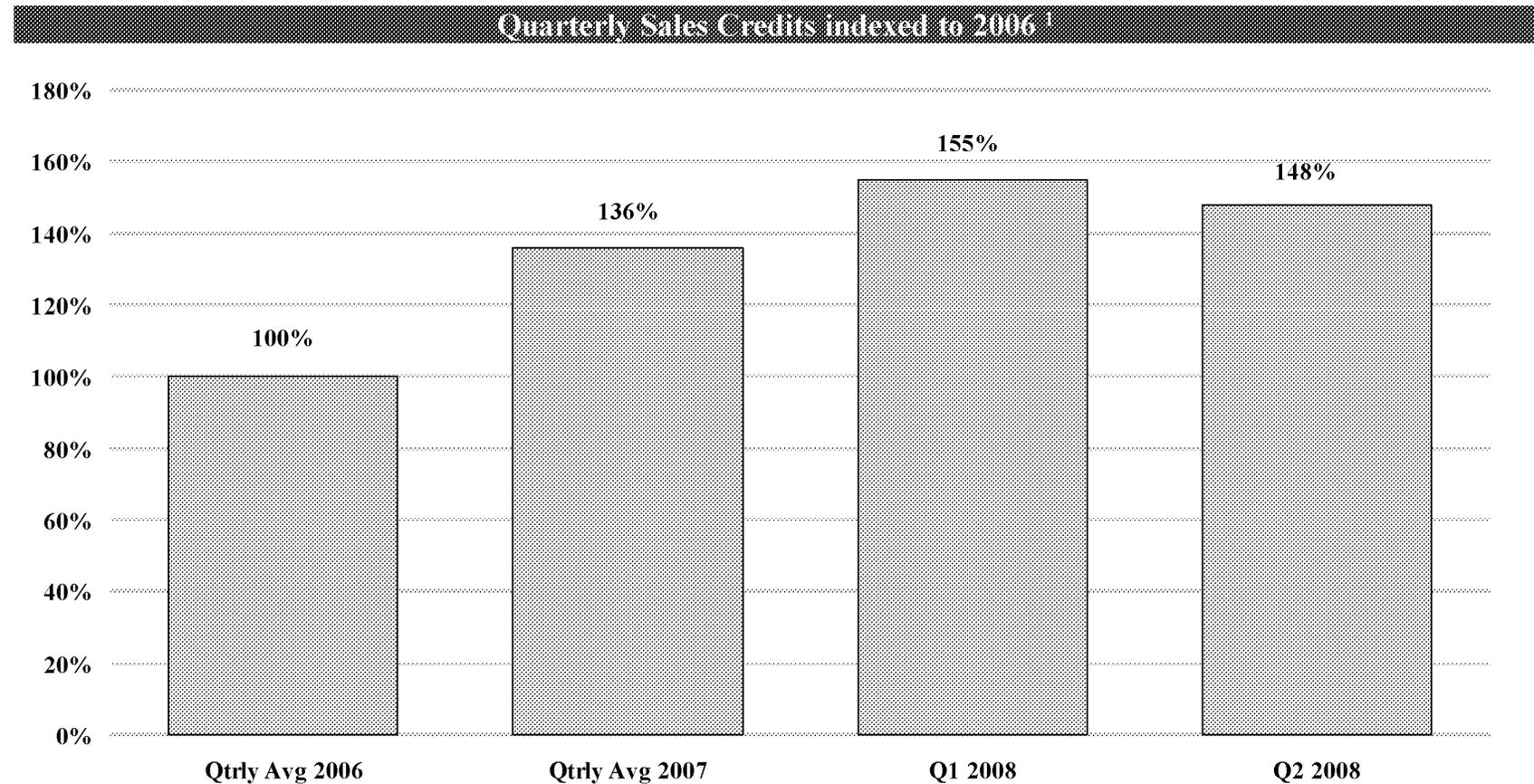
1. Annualized First Half

- ◆ **Ford's Asset Management Mandate - Lehman Brothers was elected as sole strategic advisor of Ford's pension**
  - Ford selected Lehman Brothers to implement its strategic objective as sole strategic partner responsible for tactical asset allocation within the alternatives portfolio. In addition to providing tactical advice, Lehman Brothers will directly manage a portion of the alternatives portfolio, holding responsibility for manager selection for hedge funds, private equity and real estate
  
- ◆ **Teacher Retirement System (TRS) of Texas Strategic Partnership**
  - TRS is one of the ten largest plan sponsors in the U.S. with \$110 billion assets under management
  - Lehman Brothers was selected as one of four strategic partners to transact a share of TRS' capital markets business
  
- ◆ **Central European Media Enterprises (CME) Invested \$45 Million Into the Lehman Brothers Asset Management USD Off-Shore Liquidity Fund**
  - CME operates the leading pan-Central and Eastern European national private television stations and networks

# Lehman's Core Franchise Remains Strong in Q3 '08...

Lehman's sales credits, which reflects the volume of client activity, have done well during the recent period of turbulence and are continuing to hold up in Q3 '08

- ◆ This is also confirmed by trade volumes, with 2008 volumes above 2007 averages



1. Represents Fixed Income and Equities Sales Credits as well as Investment Banking and Investment Management client revenues represent fee

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## Roadmap For the Future

# Restructuring and Downsizing Lehman For the New Market

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**Lehman has taken steps to adjust its cost base by reducing expenses in those businesses experiencing a secular decline while continuing to deploy resources to those businesses with strong future growth potential**

- ◆ Head Count reduced from 28,556 in Q4'07 to 26,189 in Q2'08
  - Majority of reductions coming from “secular decline” businesses
  
- ◆ Initiatives designed to provide sustainable profitability in the current downturn while positioning Lehman to take advantage of growth opportunities when the cycle turns in 2009, and including:
  - Exiting of Mortgage Capital Business (MCD)
  - Streamlining organization and processes
  - Consolidating groups, roles and functions
  - Scaling back marginal offices/functions
  
- ◆ We want to be careful not to overshoot

# Revenues Required to Achieve Lehman's 15% Target ROE...

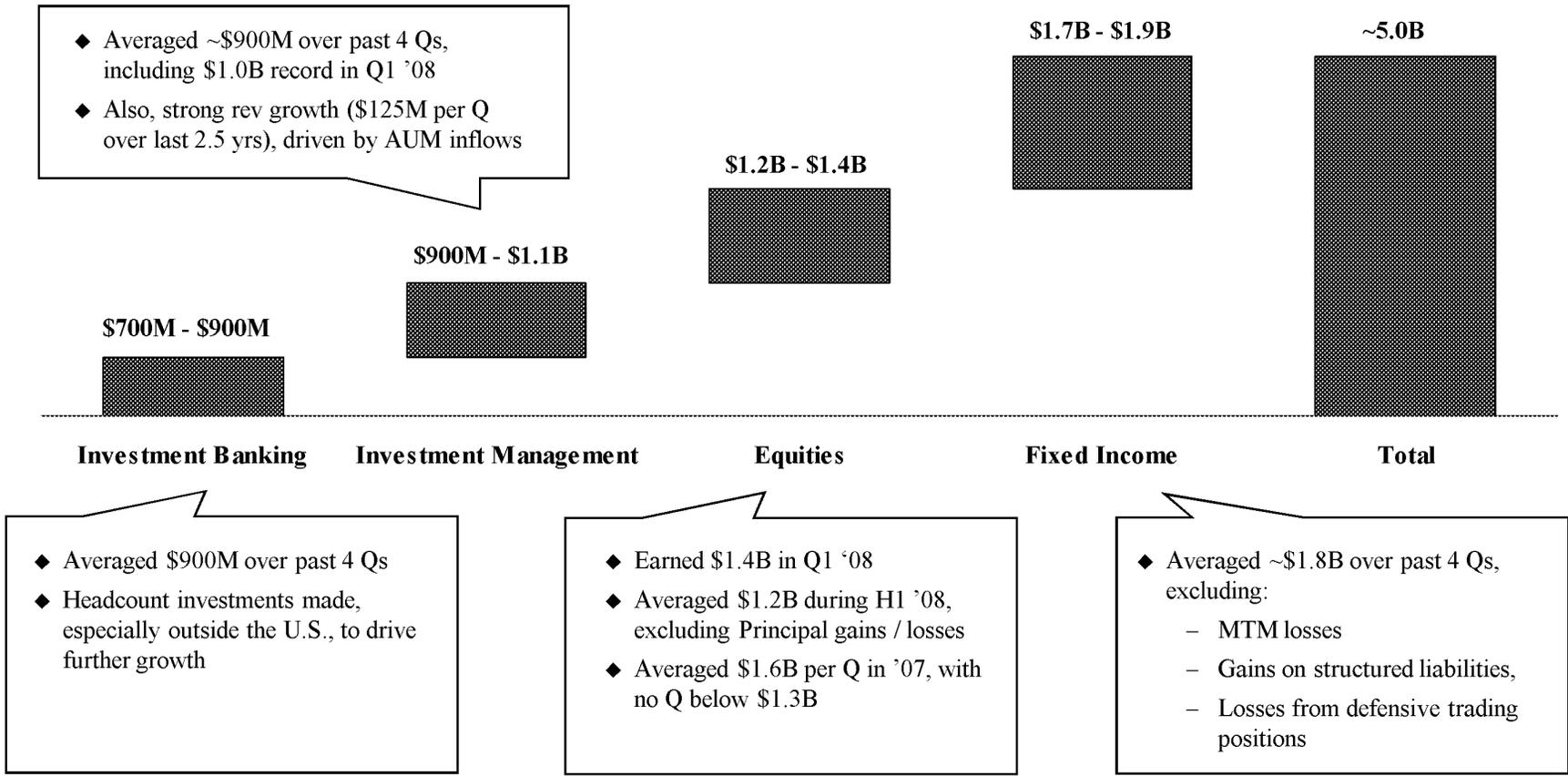
Based on current cost structure and capitalization, \$19.5 to \$20 billion of annual revenues are required to achieve a target ROE of ~15%

## ROE Scenarios (in \$ billions)

<b>Revenue</b>	<b>\$15.0</b>	<b>\$17.0</b>	<b>\$19.0</b>
Compensation	\$7.4	\$8.4	\$9.4
NPE	\$3.8	\$3.9	\$4.0
<b>Pre-Tax Income</b>	<b>\$3.8</b>	<b>\$4.7</b>	<b>\$5.6</b>
Taxes	\$1.1	\$1.4	\$1.7
<b>Net Income</b>	<b>\$2.6</b>	<b>\$3.3</b>	<b>\$3.9</b>
Preferred Dividends	\$0.7	\$0.7	\$0.7
<b>Net Income to Common</b>	<b>\$2.0</b>	<b>\$2.6</b>	<b>\$3.3</b>
Common Equity	\$23.3	\$23.3	\$23.3
<b>ROE</b>	<b>8%</b>	<b>11%</b>	<b>14%</b>

# ...History as a Guide...

## Quarterly Revenue Requirements (\$B)

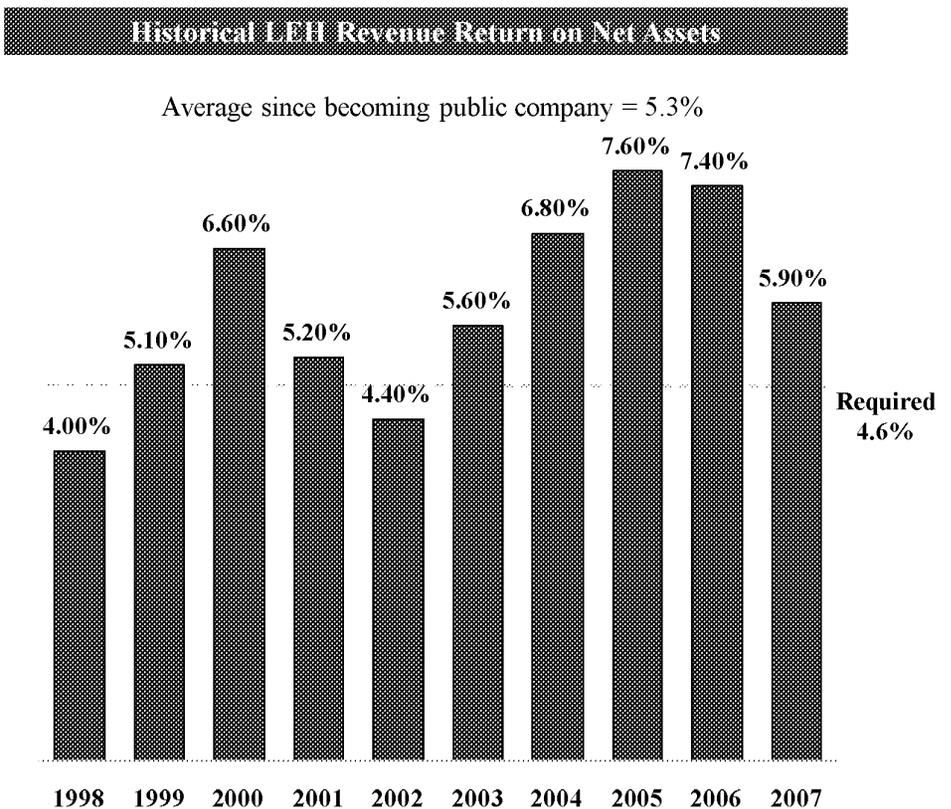


# ...And Are Consistent With Historical Return on Assets

## A mid teens ROE is achievable even with increased capital and decreased leverage

- ◆ Achieving \$19bn in net revenue would require the Firm to earn a 4.6% revenue return on assets (ROA), which is conservative given the ROA earned last year and throughout most of Lehman public company history

Required Revenue Return on Assets (SB)			
	Avg 2007	Proforma	Δ vs. Avg '07
Tangible Equity Capital	\$21.0	\$33.2	58%
Net Leverage	15.6x	12.5x	-3.1x
Net Assets	\$327	\$415	27%
Net Revenue	19.3	19.0	-1%
<b>Revenue ROA</b>	<b>5.9%</b>	<b>4.6%</b>	-1%



# Summary

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- ◆ Lehman's capital position and liquidity have never been stronger
  
- ◆ We continue to reduce exposure to higher risk assets and de-risk the Firm
  - Residential Mortgages down 22% from Q1
  - Commercial Mortgages down 19% from Q1
  - HY Acquisition Finance down 35% from Q1
  - Total Assets down 19% from Q1
  
- ◆ Derisking continues in Q3
  
- ◆ Client franchise has continued to perform well
  - Sales Credits are trending above 2007 levels
  - New sizeable mandates in Investment Banking and Investment Management
  - Evidenced by strong results in Greenwich Survey
  
- ◆ Management changes have strengthen the organization
  
- ◆ Returning a mid teens ROE is consistent with the strength of the client franchise and the current cost base even with increased capital and lower leverage, excluding the effects of legacy writedowns