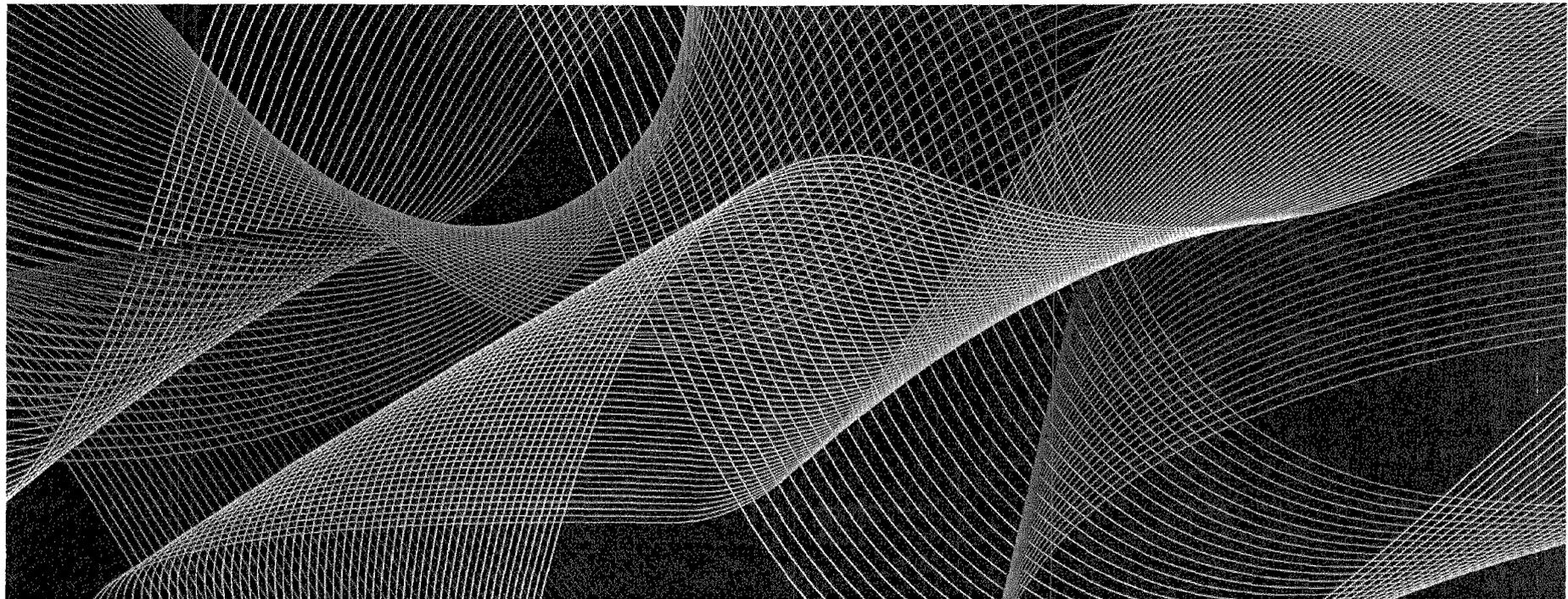


Confidential

LEHMAN BROTHERS

September 9, 2008

Finance & Risk Committee of the Board Risk, Liquidity, Capital And Balance Sheet



Confidential Presentation

Agenda

1. Liquidity Update
2. Capital and Balance Sheet Update
3. Risk Update

1. Liquidity Update

Summary

- ◆ Long-term debt market conditions worsened during 2008 Q3
 - Long-term debt market essentially shut down
 - Credit spreads have widened to levels not seen since March 2008

 - ◆ Short-term debt market conditions continue to remain challenging
 - Limited appetite for term (1 week-12 month) funding due to risk aversion
 - Limited appetite to fund non-ECB, non-Federal Reserve eligible assets such as emerging market or high yield securities
 - Limited appetite to fund asset-backed securities

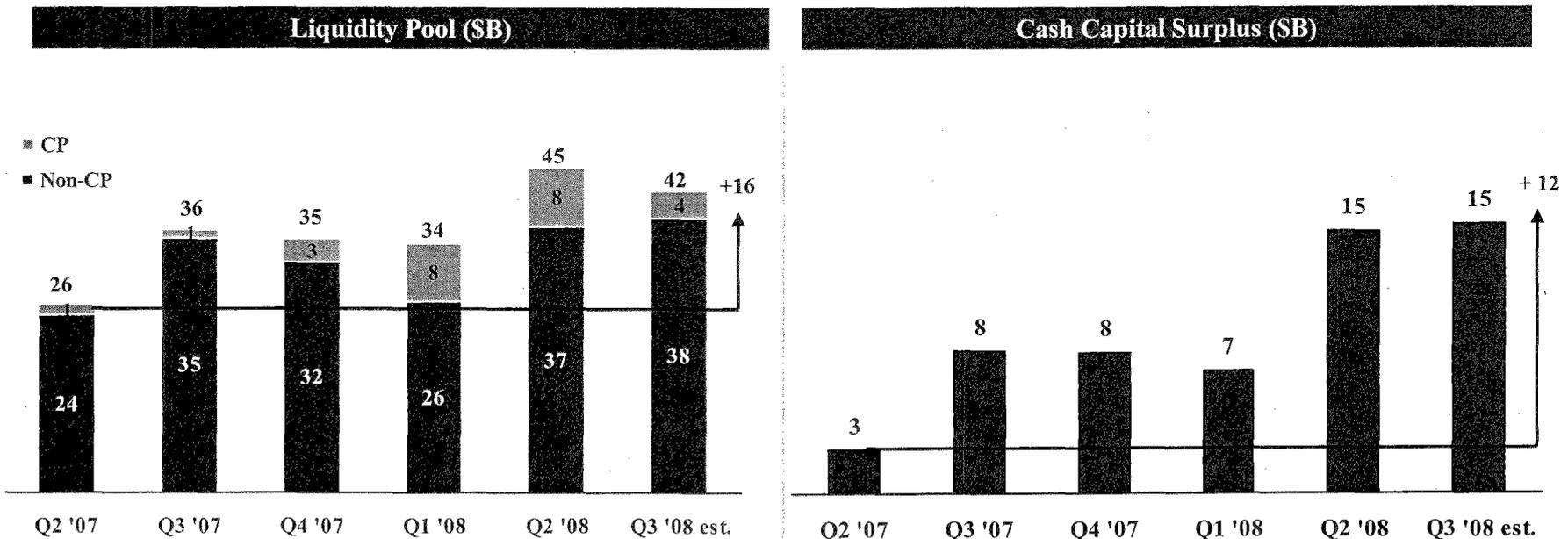
 - ◆ Although trends described above are industry-wide, Lehman Brothers is more affected than most

 - ◆ Despite this challenging market environment, Lehman Brothers was able to broadly maintain the status quo in terms of liquidity – primarily as a result of deleveraging its balance sheet (which was done for risk reasons)
 - Holdings' liquidity pool of \$42 billion (versus \$45 billion at the end of Q2)
 - Excluding the portion of the liquidity pool funded by our CP program (down \$4 billion during Q3), liquidity pool is slightly up in Q3 relative to Q2 (\$38 billion versus \$37 billion)
 - Cash capital surplus at Holdings projected to be unchanged at \$15 billion relative to Q2
 - Strength of the repo book as measured by average tenor and overfunding remained unchanged
-

Liquidity Pool And Cash Capital Surplus

We finished Q3 with a \$42B liquidity pool and \$15B cash capital surplus at Holdings

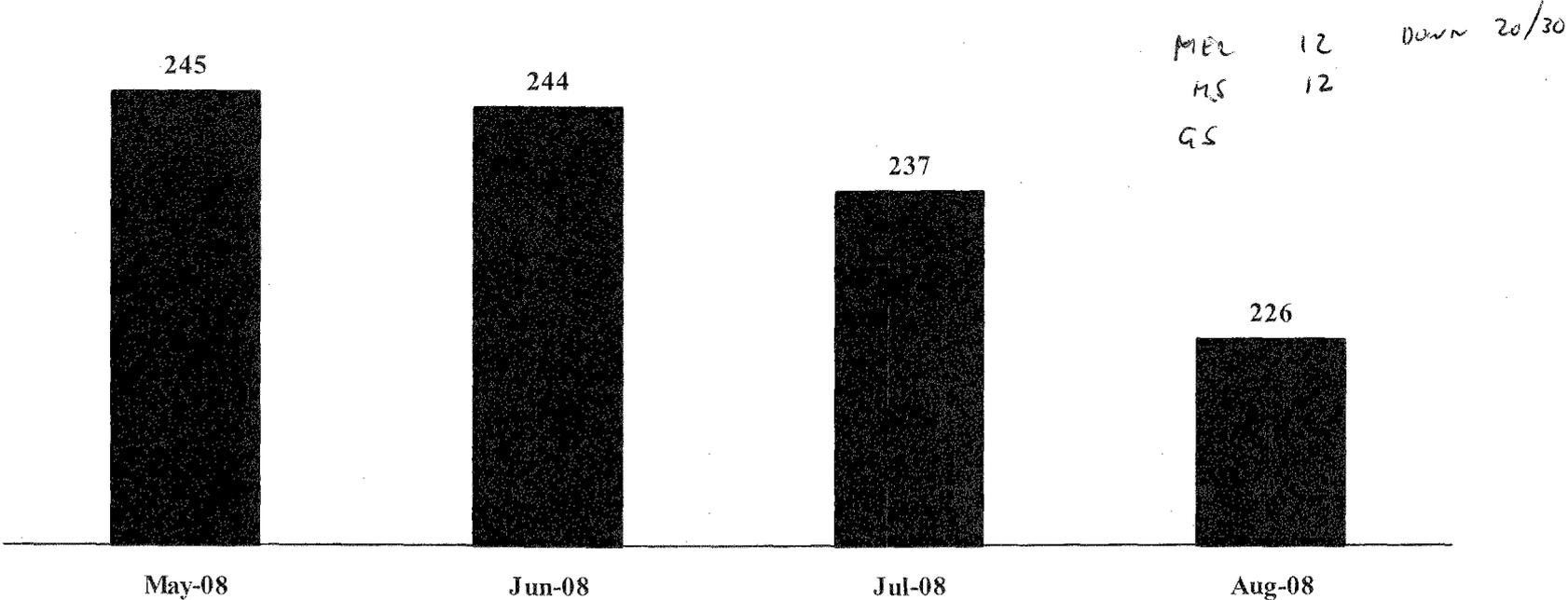
- ◆ Since Q3 '07 when the funding environment became more challenging, we have grown our liquidity pool by \$16 billion and our cash capital surplus by \$12 billion
 - We closed Q3 '08 with an estimated liquidity pool of \$42 billion, slightly higher than Q2 level after adjusting for the reduction in our commercial paper program
 - Cash capital surplus is estimated to be near record levels of about \$15 billion at the end of Q3 '08 – unchanged from Q2



Commercial Paper

- ◆ Lehman Brothers commercial paper program was down \$4.1 billion over the quarter
- ◆ Directly-placed financial sector commercial paper market declined by close to \$20 billion during 2008 Q3
 - Increased risk aversion driving reduced appetite for term commercial paper
 - Limited liquidity value of overnight commercial paper
 - Per Lehman’s Funding Framework, no asset funded by commercial paper; however, term commercial paper provides temporary liquidity, which may prove useful to cope with temporary market dislocation

Directly-Placed Financial Sector Commercial Paper (\$B)

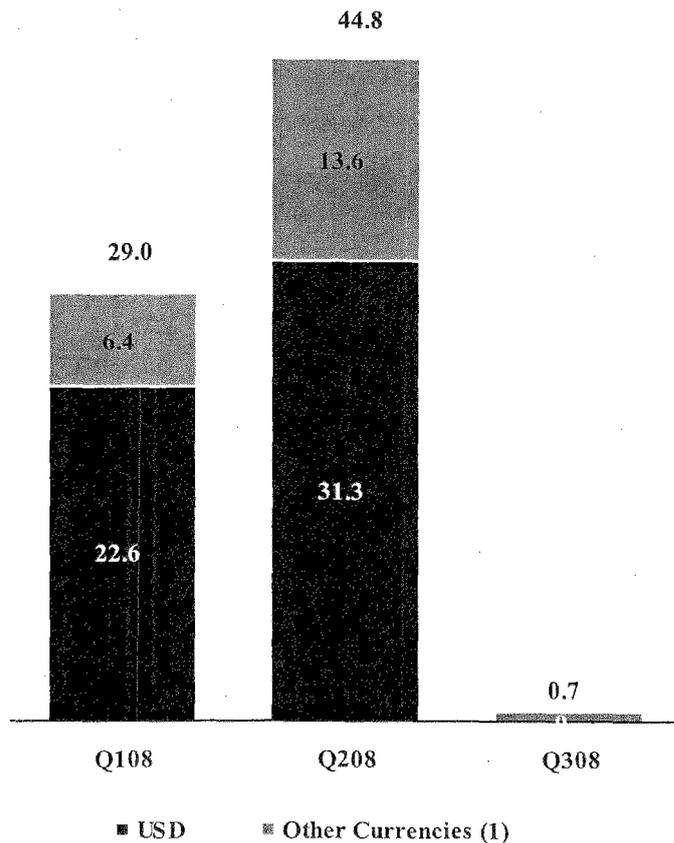


Source: Federal Reserve

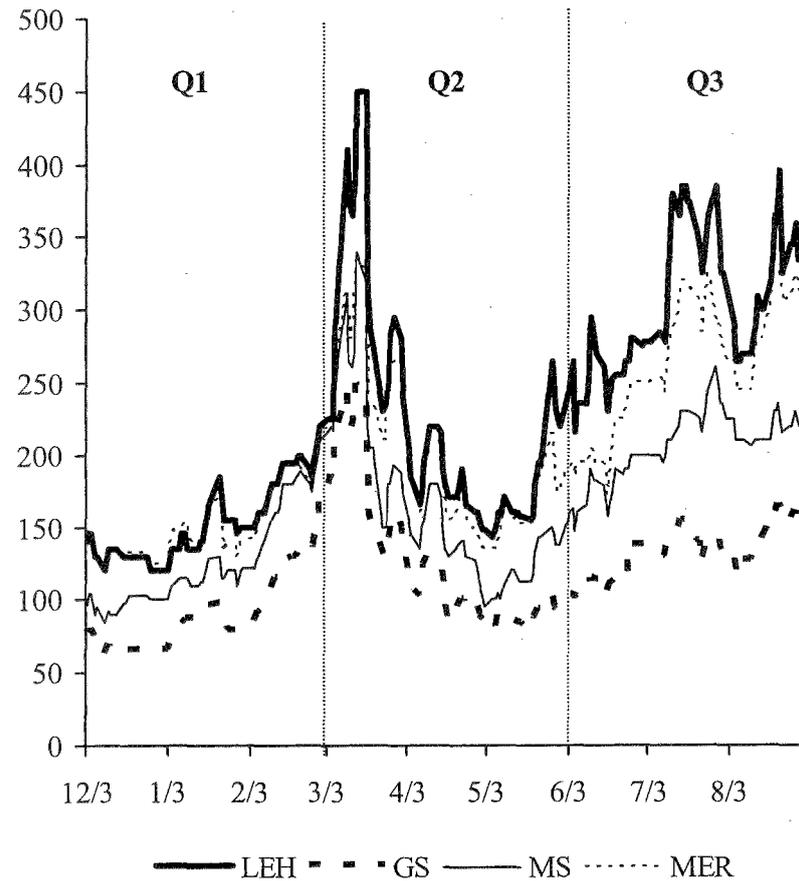
Long-Term Debt Issuances

Issuance by investment banks in Q3 was virtually zero. There remains an overhang of supply from 2007 and 2008 H1, which has contributed to spread widening

Investment Bank⁽²⁾ Public Benchmarks Issuances (\$B)



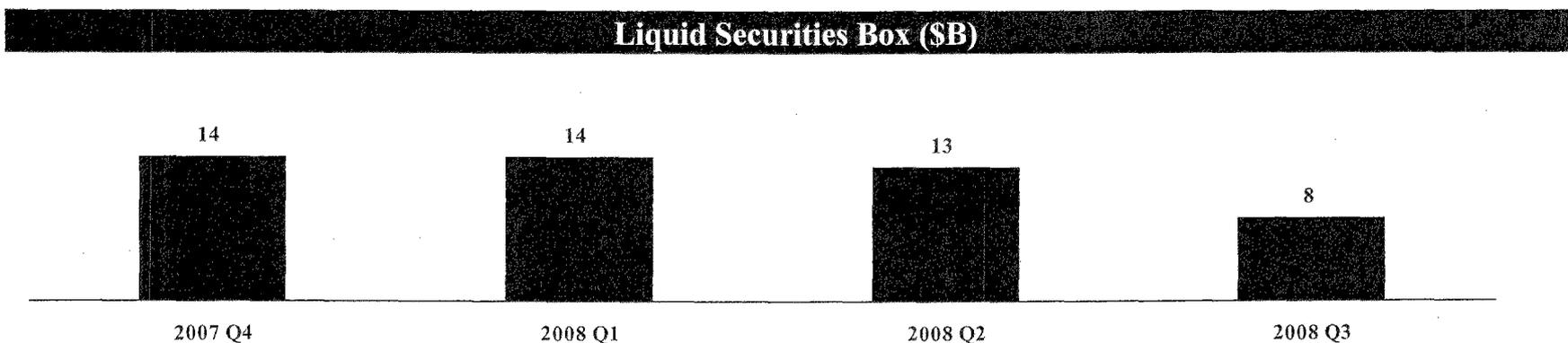
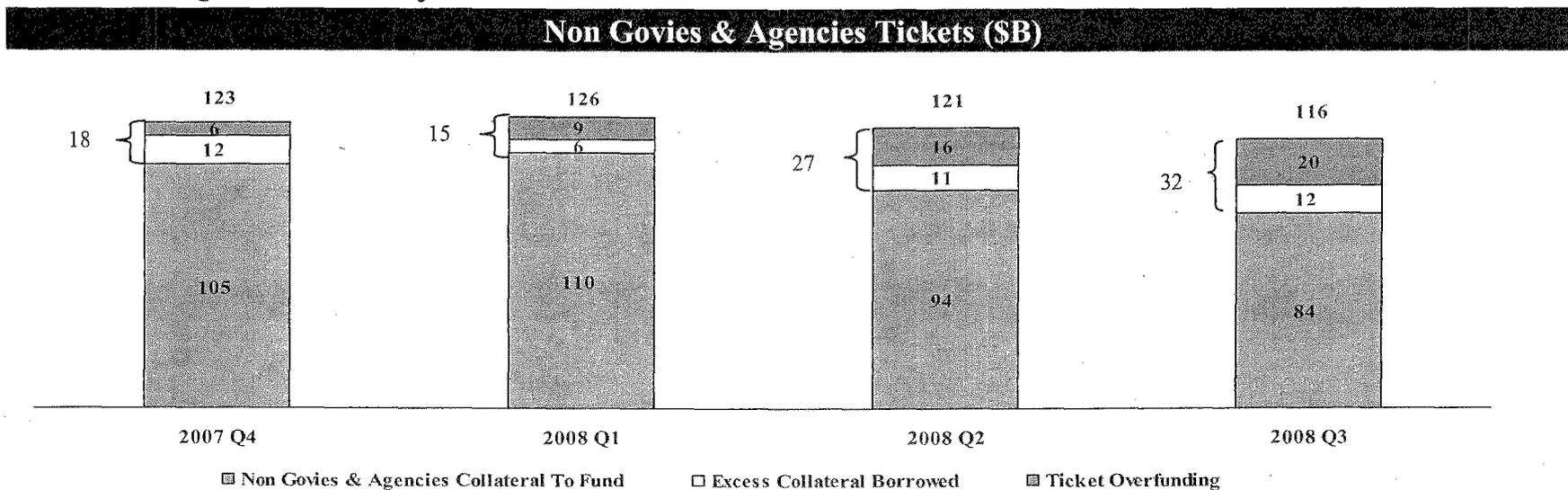
Investment Bank 5 Year Credit Default Swaps (Bps)



1. Other currencies are represented as USD equivalent
 2. Investment banks include Lehman Brothers, Morgan Stanley, Merrill Lynch and Goldman Sachs

Secured Funding

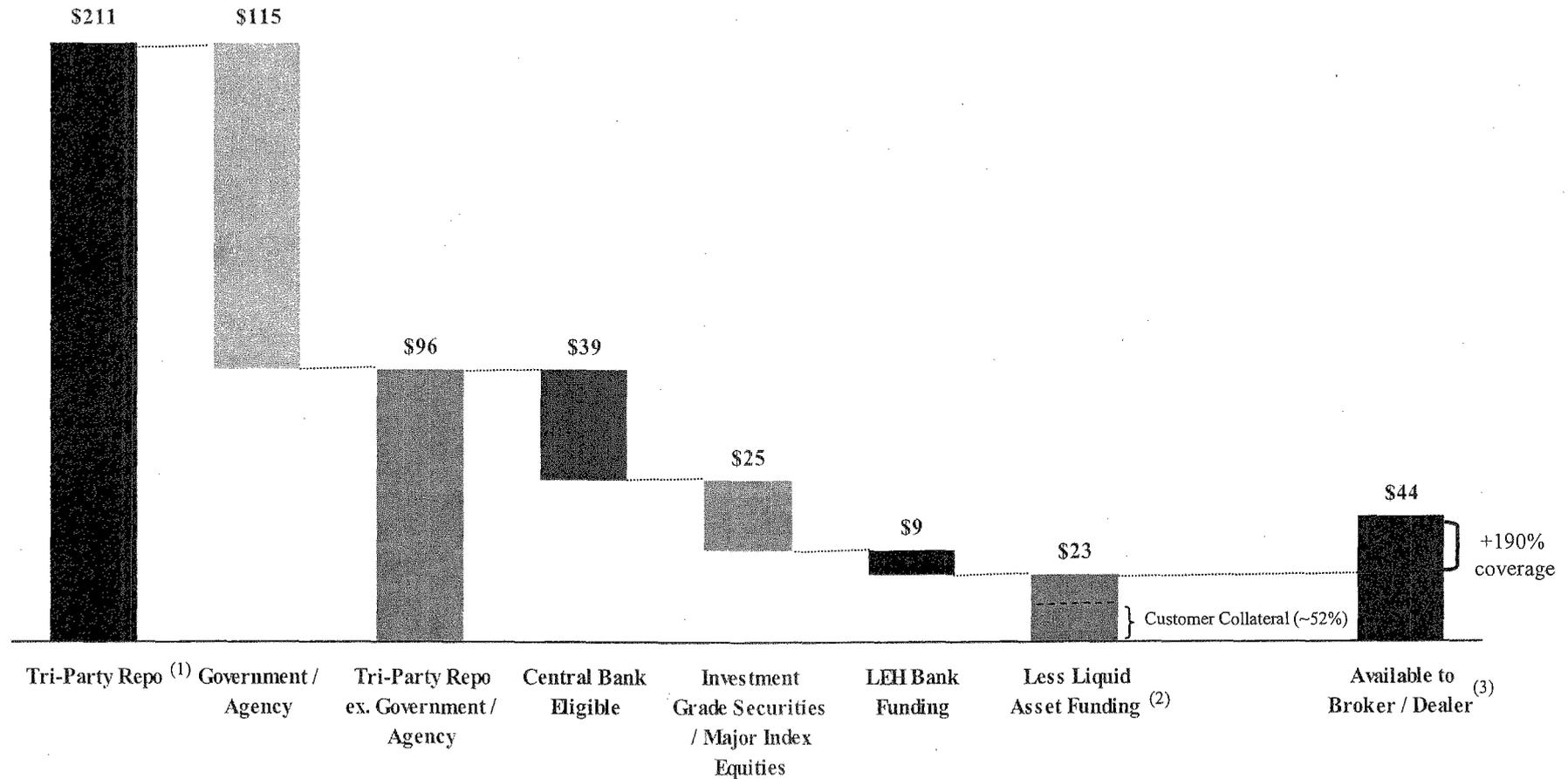
Deleveraging of balance sheet during Q3 drove reduction in secured funding requirements. Overfunding increased by \$5bn to \$32 billion.



Liquidity Risk Of Secured Funding

Liquidity risk of our secured funding continues to be well contained.

Tri-Party Repo Book Collateral - August 31, 2008 (\$B)



Q2 '08:	\$188B	\$83B	\$105B	\$40B	\$25B	\$8B	\$32B	\$50B (+150% coverage)
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1. Gross exposure
 2. Average tenor of repos funding less liquid assets stood at 41 days as of August 29, 2008. 28% of the \$23B is >1 month duration
 3. Includes Holdings' liquidity pool (\$42.1B), LBI's (\$0.9B), LBJ's (\$0.1B), and Bankhaus's (\$1.2B). Excludes \$1B of customer free credits in LBIE

Strength of Secured Funding

Secured funding has remained very resilient during Q3 with significant overfunding of our tri-party repo book and term funding for non-central bank eligible collateral of greater than one month.

There has been pressure however around certain asset classes – in particular private labels where our overfunding has reduced as certain counterparts have taken the decision not to fund this asset class.

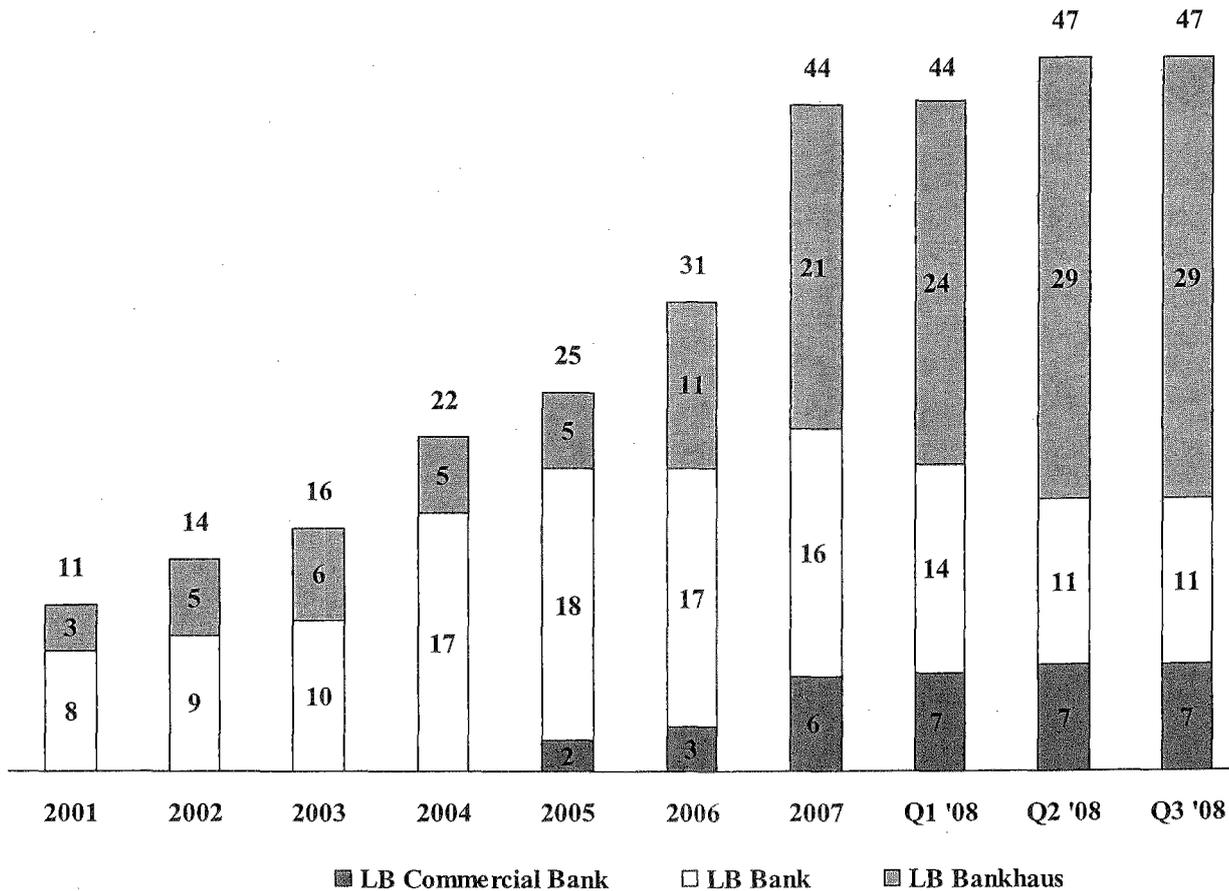
Non-Government, Non-Agency Repo Book Metrics

Triparty Repo Book	Q407	Q108	Q208	Q308	Q3 vs Q2 Change
Total Overfunding (\$B)	\$18	\$15	\$27	\$32	18%
Tickets	\$6	\$9	\$16	\$20	26%
Excess Collateral	\$12	\$6	\$11	\$12	9%
Average tenor (days)	27	22	35	33	-2
Central bank eligible	-	-	30	25	-5
Non Central bank eligible	-	-	38	38	0
% Overnight	52%	56%	42%	46%	4%
% <=1 week	13%	18%	12%	8%	-4%
% > 1 week	<u>35%</u>	<u>25%</u>	<u>46%</u>	<u>46%</u>	0%
% > 1 month	100%	100%	100%	100%	-1%

Lehman Bank Entities

Funding provided by our bank entities has remained flat. We expect to grow our funding from Lehman Brothers Commercial Bank now that we are through its de novo period.

Bank Entities Total Assets (\$B)



Summary Funding Action Plan For Q4

- ◆ In 2008 Q4, \$6.8 billion of cash capital and liquidity is projected to be lost
 - \$5.5 billion of long-term debt maturing and \$5.5 billion of long-term debt rolling into current portion
 - \$1.3 billion planned reduction in bank facilities

- ◆ To mitigate this loss, we have built the following plan to raise liquidity:
 - Proposed capital raise of \$2.5-4.5 billion
 - Assume long-term debt issuance market continues to be essentially shut down for Lehman
 - Growing assets in Lehman Brothers Commercial Bank (LBCB) by \$1-2 billion post the “de novo” period
 - Additionally, sent an application to the Federal Reserve and FDIC for a \$5-7 billion transfer of assets from Holdings to LBCB requiring an exemption to Regulation 23A governing bank transactions with affiliates. Application is being reviewed. Such exemptions are rarely granted.
 - Increasing term deposit base of Bankhaus by \$5 billion by targeting U.S. and Asia clients and increasing broker incentives in Europe
 - Bankhaus provides a significant funding mitigant to losses of repo funding capacity in our European broker dealer for hard to fund assets (emerging markets, asset-backed securities)

Regulator Updates

- ◆ We remain in constant dialogue with the Federal Reserve and the Securities & Exchange Commission.
 - Key liquidity metrics sent on a daily basis
 - Weekly conference calls
 - In depth discussions scheduled approximately every other week

- ◆ In collaboration with the Federal Reserve, we have developed a detailed liquidity stress scenario modeling a very severe disruption in secured and unsecured funding
 - Scenario assumptions and results are described in more details in the rest of this section

- ◆ Uncertainty about the long-term regulatory role of the Federal Reserve with securities firms remains – in particular whether its facilities are temporary or permanent
 - Both facilities extended thru January 30, 2009 “in light of continued fragile circumstances in financial markets” (Federal Reserve; July 30, 2008 press release announcing extension)

Liquidity Stress Scenario Assumptions

Loss of Secured Funding			Loss of Unsecured Funding		
◆ Repos			◆ Unsecured debt		
	<u>% Rolled</u>	<u>% Lost</u>	– CP and LCs: 0% roll at maturity		
Governments & Agencies	100%	0%	– Buybacks: \$1 billion per month		
Corporates			– Deposits at US banking affiliates: 80% roll at maturity		
High Grade	70%	30%	• In practice, no impact on liquidity (operate with significant excess liquidity)		
High Yield	0%	100%	– Ability to draw on committed facilities		
Asset Backs / Private Labels			◆ Loan funding		
High Grade	40%	60%	– Per funding schedule for leveraged loans		
High Yield	0%	100%	– Some loan commitments drawn outside of the bank entities		
Commercial Paper Repo	70%	30%	◆ Derivatives		
Muni	40%	60%	– Cash collateralization on derivative payables per CSA requested on day 1 (paid on day 2 per industry practice)		
Equities / Convertibles			– Margin disputes against us paid on day 3 and 4		
E1	70%	30%	– 2 notch downgrade during second week		
E2 / C1	0%	100%	• Note: The vast majority of the credit rating downgrade-related posting requirements come from derivative transactions with structured vehicles, which have a 30 day cure period, which gives us to assign or restructure the transactions, thereby avoiding the posting of additional collateral.		
E3 / C2	0%	100%	◆ Other		
◆ Munis TOB – 7 day put exercised on day 1			– \$0.5 billion every other week to cover operational cash expenses (PE and NPE)		
– Customer collateral returned /liquidated over 1 week			– No sale of assets or reduction in customer funding		
– Firm collateral liquidated					
◆ Prime broker					
– Free credit balances withdrawn on day 1					
◆ Central banks					
– No access to the Federal Reserve’s PDCF or TSLF					
– Able to use ECB tender facility through Bankhaus, consistent with normal practice					

Stress Scenario – Overall Results

	2-Sep	3-Sep	4-Sep	5-Sep	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep	15-Sep	Week 3	Week 4	Total
Beginning Cash Position ⁽¹⁾	45.3	37.2	32.2	34.2	33.0	32.4	31.5	29.8	28.4	27.1	24.2	18.7	45.3
Net Loss Secured Funding	(6.5)	(3.7)	1.0	(0.0)	(0.1)	(0.8)	(1.2)	(0.8)	(0.2)	(1.0)	(2.7)	(4.2)	(20.3)
Unsecured Funding													
Unsecured Debt													
CP	(1.1)	(0.1)	(0.2)	-	(0.1)	(0.1)	(0.0)	(0.1)	(0.0)	(0.6)	(0.0)	(0.0)	(2.4)
STD excluding CP	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.0)	0.0	(1.2)	(0.0)	(0.0)	(1.3)
LTD	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.3)	(0.0)	(0.0)	(0.1)	(0.5)	(0.9)	(2.0)
Buybacks	-	-	-	(0.2)	-	-	(0.2)	-	-	-	(0.4)	(0.2)	(1.0)
Deposits of Banking Affiliates	(0.4)	-	-	-	-	-	-	-	-	-	-	-	(0.4)
Committed Facility Drawdown	-	-	4.5	-	-	-	-	-	-	-	-	-	4.5
Net Loan Funding	-	-	(1.5)	-	(0.3)	-	-	-	(1.0)	-	(1.0)	-	(4.2)
Derivative Activity													
Posting of Uncalled Collateral	-	(1.2)	(1.2)	-	-	-	-	-	-	-	-	-	(2.4)
Downgrade (2 Notches)	-	-	-	-	-	-	-	(0.5)	-	-	-	-	(0.5)
Disputed Margin Payments	-	-	(0.5)	(0.5)	-	-	-	-	-	-	-	-	(1.1)
Cash outflows to fund operations (PE, NPE, etc.)	-	-	-	(0.5)	-	-	-	-	-	-	(0.5)	-	(0.9)
Total Net Loss Unsecured Funding	(1.6)	(1.3)	1.0	(1.2)	(0.5)	(0.1)	(0.5)	(0.6)	(1.0)	(1.9)	(2.7)	(1.1)	(11.6)
Ending Cash Position	37.2	32.2	34.2	33.0	32.4	31.5	29.8	28.4	27.1	24.2	18.7	13.4	13.4

1. Includes Holdings' Liquidity Pool (\$42.1B), LBIE's (\$1.0 B), LBI's (\$0.9B), LBJ's (\$0.1B), and Bankhaus's (\$1.2B)

LEHMAN BROTHERS

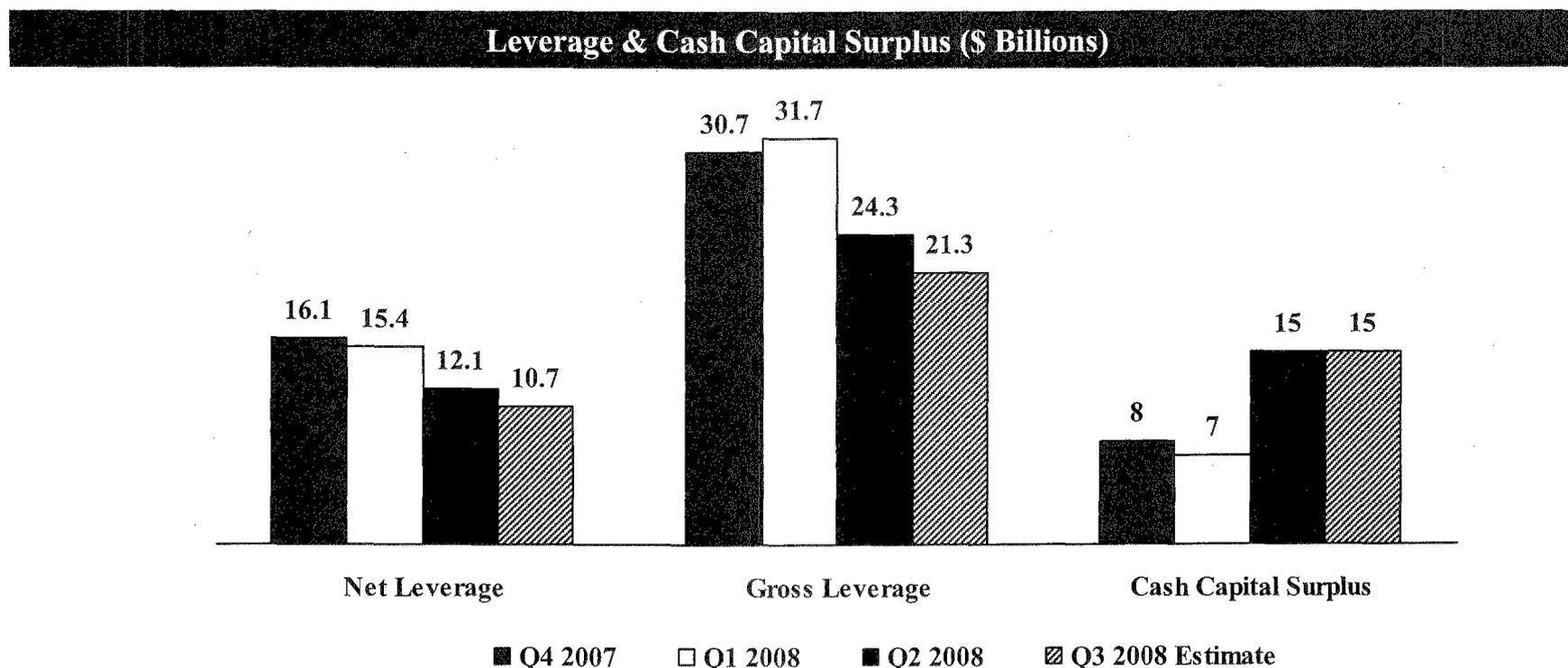
Stress Scenario – Loss Of Secured Funding

Secured Funding	Total Repo Book	Total At Risk	2-Sep	3-Sep	4-Sep	5-Sep	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep	15-Sep	Week 3	Week 4	Total
Lost Capacity															
LBJ															
E1 - Major Index Equities	0.1	0.1	-	-	-	-	-	-	-	-	-	-	-	-	0.0
E2 - Non-Major Index Equities	1.5	0.8	0.2	-	-	-	-	-	-	-	-	-	-	-	0.6
E3 - Non-Major Index Equities (<\$5)	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	0.0
EMG	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	0.0
Total LBJ	1.6	1.0	0.2	-	-	-	-	-	-	-	-	-	-	-	0.7
LBIE															
Government Agency	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sovereigns	7.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset Backs - Investment Grade	14.0	0.3	0.0	-	-	0.0	0.0	-	-	0.0	-	0.0	0.0	0.1	0.2
Asset Backs - Non-Investment Grade	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	0.0
C1 - Investment Grade Convertibles	0.4	0.1	0.0	0.0	-	0.0	0.0	-	-	0.0	-	0.0	0.0	-	0.1
C2 - Non-Investment Grade Convertibles	1.0	0.7	0.1	0.0	-	0.1	0.1	-	-	0.2	-	0.0	0.3	0.0	0.7
Corporates - Investment Grade	8.1	6.2	0.7	0.1	0.3	0.0	0.1	0.0	-	0.1	-	0.1	0.2	0.2	1.8
Corporates - Non-Investment Grade	3.0	1.2	0.6	0.0	0.1	0.1	0.0	-	-	0.1	-	0.0	0.2	0.1	1.2
E1 - Major Index Equities	5.2	2.0	0.1	0.0	0.1	0.2	0.1	0.1	0.0	0.0	-	0.0	0.0	-	0.6
E2 - Non-Major Index Equities	3.4	1.5	0.5	0.1	0.0	0.2	0.3	0.1	0.0	0.1	-	0.0	0.1	0.1	1.5
E3 - Non-Major Index Equities (<\$5)	3.4	1.9	0.6	0.0	0.0	0.1	0.1	0.0	-	0.5	0.2	0.3	0.0	-	1.9
EMG	8.1	3.3	1.2	0.2	0.1	0.2	0.1	0.0	0.0	0.1	-	0.0	0.6	0.6	3.3
Money Markets	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	0.0
Private Labels - High Yield	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Private Labels - Investment Grade	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	0.0
Total LBIE	54.7	17.2	3.8	0.5	0.5	0.9	0.8	0.2	0.1	1.2	0.2	0.6	1.5	1.1	11.3
LBI															
Government Agency	22.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MBS	57.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sovereigns	27.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset Backs - Investment Grade	2.9	2.9	1.0	-	-	-	-	-	0.1	-	-	0.1	0.2	0.4	1.8
Asset Backs - Non-Investment Grade	1.6	1.4	0.5	-	-	-	-	-	0.6	-	-	0.2	0.1	-	1.4
C1 - Investment Grade Convertibles	0.4	0.4	0.4	-	-	-	-	-	-	-	-	-	-	-	0.4
C2 - Non-Investment Grade Convertibles	0.7	0.7	0.7	-	-	-	-	-	-	-	-	-	-	-	0.7
Corporates - Investment Grade	9.2	9.2	2.7	0.1	-	-	-	-	-	-	-	0.0	0.0	-	2.8
Corporates - Non-Investment Grade	3.8	3.5	3.3	-	-	-	0.0	-	0.2	-	-	0.0	-	-	3.5
E1 - Major Index Equities	5.0	3.1	0.9	-	-	-	-	-	-	-	-	-	-	-	0.9
E2 - Non-Major Index Equities	4.4	3.4	2.9	-	-	-	-	-	-	-	-	-	0.5	-	3.4
E3 - Non-Major Index Equities (<\$5)	0.2	0.1	0.1	-	-	-	-	-	0.1	-	-	-	-	-	0.1
Money Markets	7.2	7.2	2.1	-	-	-	-	-	-	-	-	-	-	-	2.1
Muni	2.7	2.7	1.6	-	-	-	-	-	-	-	-	-	-	-	1.6
Private Labels - High Yield	1.7	1.7	0.3	-	-	-	-	-	0.2	-	-	0.1	1.0	0.0	1.7
Private Labels - Investment Grade	7.2	6.2	1.7	-	-	-	-	-	0.0	-	-	0.1	0.1	1.8	3.7
Total LBI	153.7	42.4	18.1	0.1	-	-	0.0	-	1.2	-	-	0.5	1.9	2.2	24.0
LBHI															
Wholeloan Residential	0.6	0.2	0.1	-	-	-	0.1	-	-	-	-	-	-	-	0.2
Total Lost Capacity	210.7	60.7	22.3	0.5	0.5	0.9	0.8	0.2	1.2	1.2	0.2	1.2	3.4	4.0	36.4
Mitigants and other stress elements															
LBIE															
Prime Broker Customer Free Credits			(1.0)	-	-	-	-	-	-	-	-	-	-	-	(1.0)
Prime Broker Reduction			-	-	-	-	-	-	-	-	-	-	-	-	-
Excess Collateral Returned			2.8	0.3	0.2	0.9	0.7	0.1	0.1	0.2	-	0.1	0.2	0.1	5.6
ECB			0.9	0.2	0.3	-	0.1	-	-	0.1	-	0.1	0.2	0.4	2.2
Bankhaus Funding ECB Eligible			1.0	-	-	-	-	-	-	-	-	-	-	-	1.0
FYI : Additional repos with Bankhaus			-	-	-	-	-	0.1	-	0.8	0.2	0.1	-	-	1.2
Total LBIE			3.7	0.4	0.5	0.9	0.7	0.1	0.1	0.3	-	0.2	0.4	0.5	7.9
LBI															
Prime Broker Customer Free Credits			(2.3)	2.3	-	-	-	-	-	-	-	-	-	-	-
Unwinding of Muni TOB Prog.			-	-	-	-	-	(0.7)	-	-	-	-	0.7	-	-
Balance Sheet Reduction			-	-	-	-	-	-	-	-	-	-	-	-	-
Writedowns on balance sheet reduction			-	-	-	-	-	-	-	-	-	-	-	-	-
Dealer-based Matched Book Reduction			-	-	1.0	-	-	-	-	-	-	-	-	-	1.0
Excess Collateral Returned			4.9	-	-	-	-	-	-	-	-	-	-	-	4.9
Term Overfunding			9.3	(5.8)	-	-	-	-	-	-	-	(0.1)	(0.4)	(0.7)	2.3
Total LBI			12.0	(3.6)	1.0	-	-	(0.7)	-	-	-	(0.1)	0.3	(0.7)	8.2
Net Loss Secured Funding			(6.5)	(3.7)	1.0	(0.0)	(0.1)	(0.8)	(1.2)	(0.8)	(0.2)	(1.0)	(2.7)	(4.2)	(20.3)

2. Capital And Balance Sheet Update

Deleveraging The Firm

The Firm continued to reduce net and gross leverage this quarter – finishing the quarter with a net leverage of 10.7x (lowest level since the Firm became public in 1994) and a gross leverage of 21.3x (lowest level since the Firm became public in 1994). Cash capital surplus remained stable at \$15 billion.

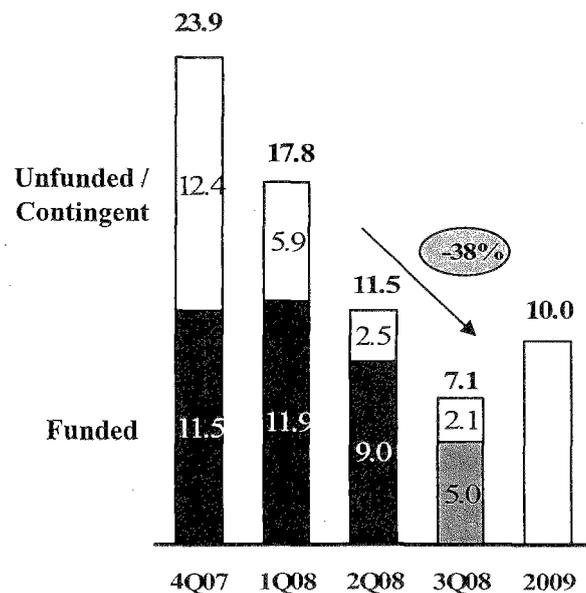


Aggressively Addressing Legacy Assets

Lehman has continued to reduce exposures to less liquid asset classes. Following the spin-off of CRE assets, Lehman will have very limited exposure to these asset classes

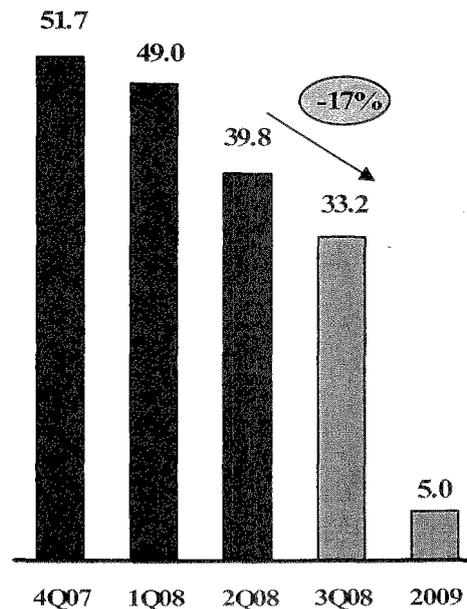
Reduction in Key Asset Classes (\$B)

High Yield Acquisition Financing



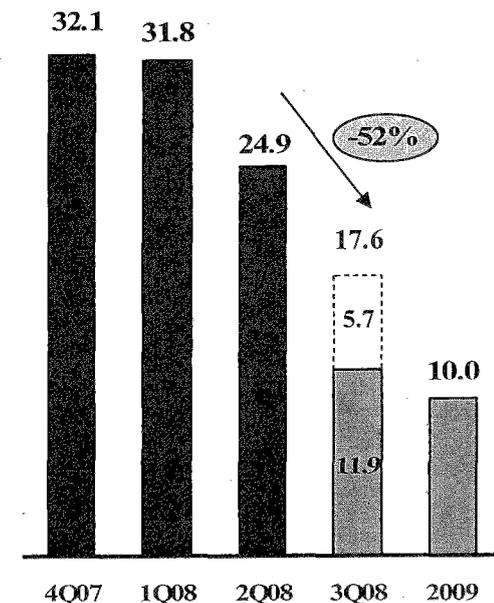
- ◆ Combination of sales / roll-off
- ◆ Remaining exposures well diversified

Comm. Mortgages & Real Estate Held for Sale



- ◆ Exposures limited to positions not transferable to "SpinCo"
- ◆ Remaining business focused on private equity fund origination

Residential Mortgages



- ◆ Pro-forma for bulk sales of ~\$6B in Europe in early Q4
- ◆ Trading business active and focused on market making with rapid asset turnover

Rating Agency Updates

- ◆ Since the end of Q1 '08, the rating agencies have continued to have an unfavorable view towards our industry, resulting in many negative ratings actions - especially as a result of their periodic sector-wide reviews
- ◆ We continue to maintain proactive dialogue with the rating agencies and continually respond to their requests for presentations and reviews

Senior Debt Rating ⁽¹⁾

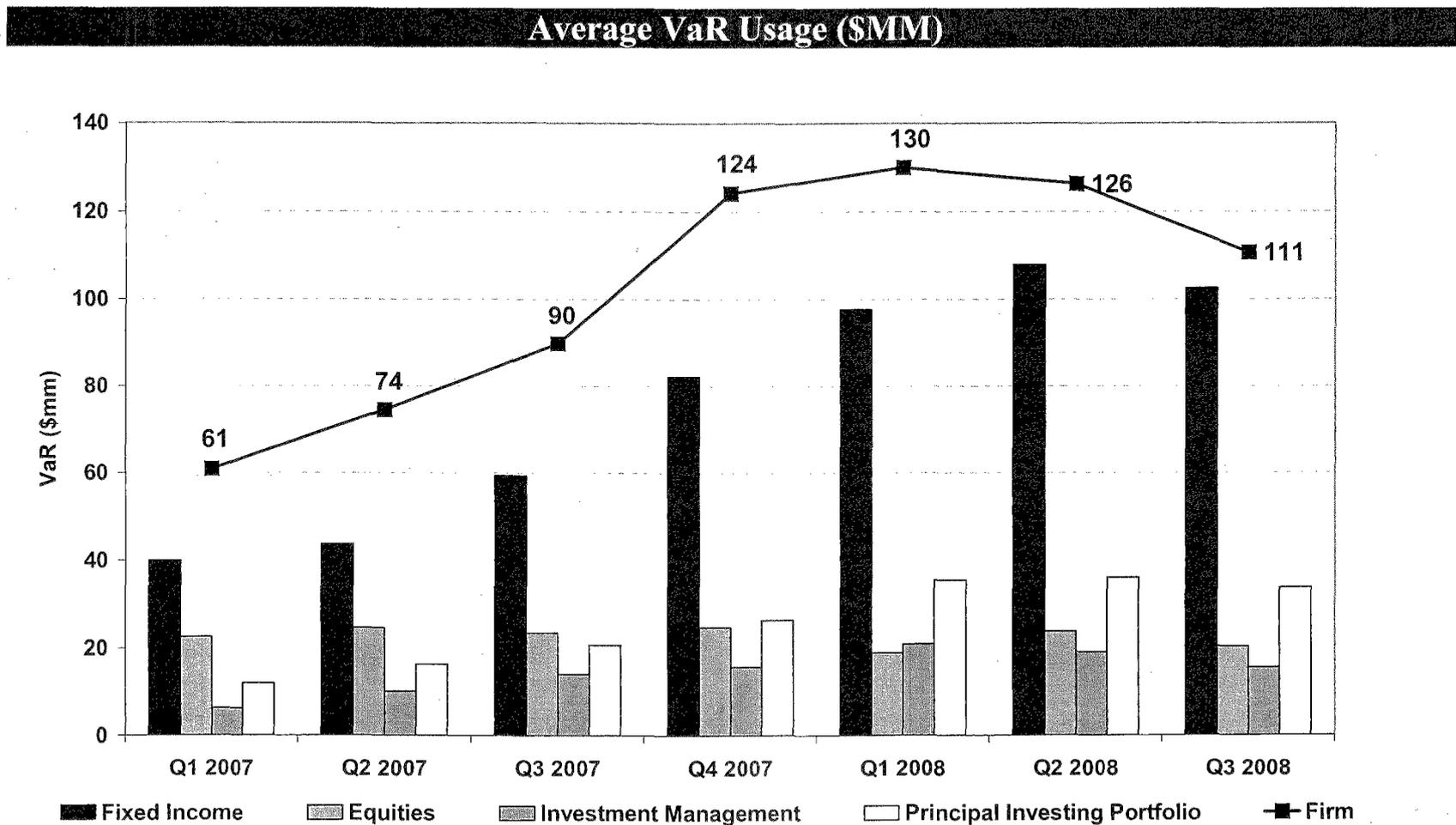
	29-Feb			31-May			31-Aug		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch	S&P	Moody's	Fitch
Lehman Brothers	A+	A1 (P)	AA-	A+ (N)	A1	AA- (N)	A (N)	A2 (N)	A+ (N)
Goldman Sachs	AA-	Aa3	AA-	AA- (N)	Aa3	AA-	AA- (N)	Aa3	AA-
Morgan Stanley	AA- (CWN)	Aa3 (N)	AA- (N)	AA- (N)	Aa3 (N)	AA- (N)	A+ (N)	A1	AA- (N)
Merrill Lynch	A+ (N)	A1 (N)	A+ (N)	A+ (N)	A1 (CWN)	A+ (N)	A (N)	A2	A+ (CWN)
Citigroup	AA- (N)	Aa3	AA (N)	AA- (CWN)	Aa3 (N)	AA (N)	AA- (N)	Aa3 (N)	AA- (N)
JP Morgan	AA-	Aa2	AA-	AA-	Aa2	AA-	AA- (N)	Aa2	AA-

(1): (N) = Negative Outlook; (P) = Positive Outlook; (CWN) = Credit Watch Negative

3. Risk Update

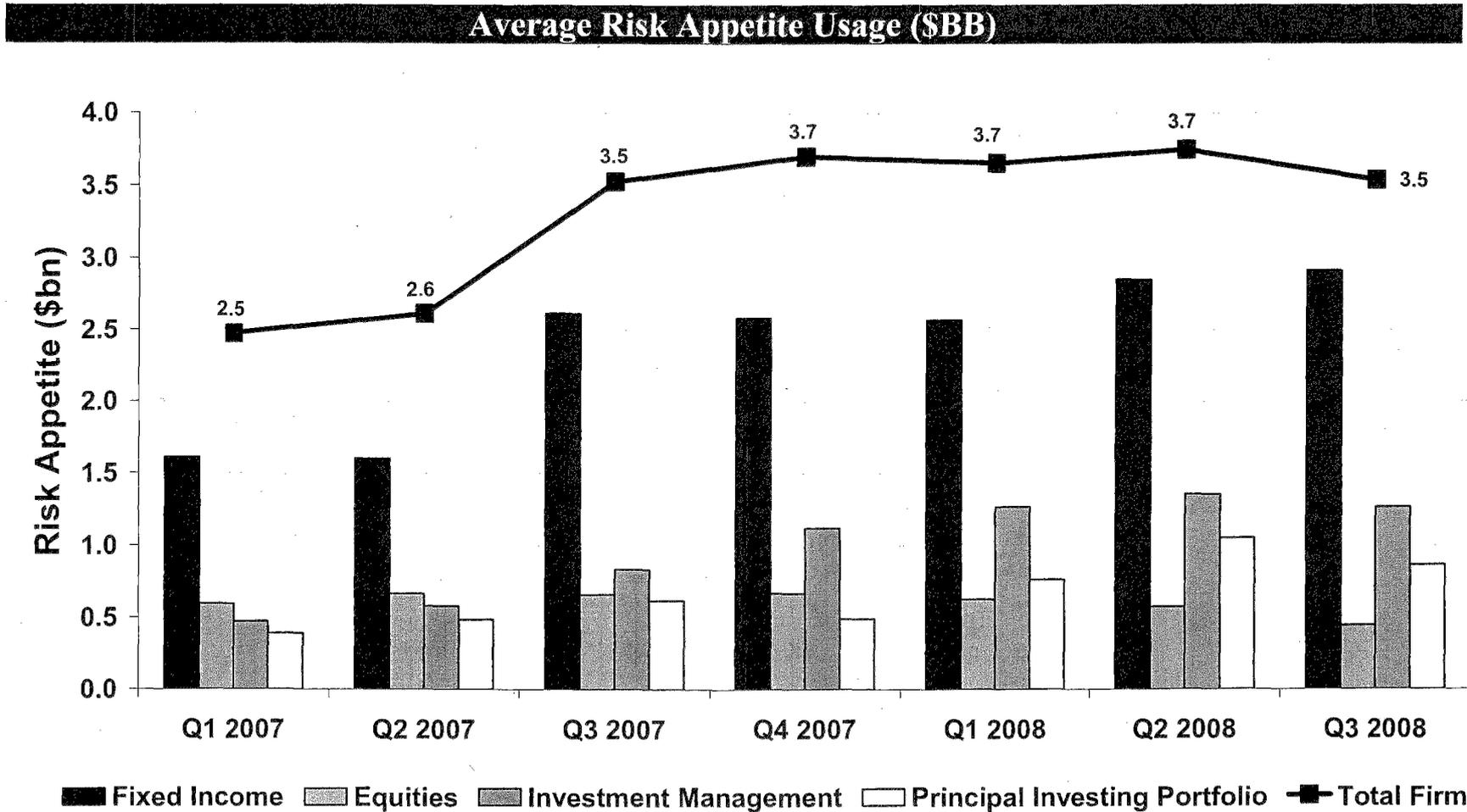
VaR

The average VaR declined by \$15MM to \$111MM in Q3 2008 from \$126MM in Q2 2008 as a result of reductions in risk positions:



Risk Appetite

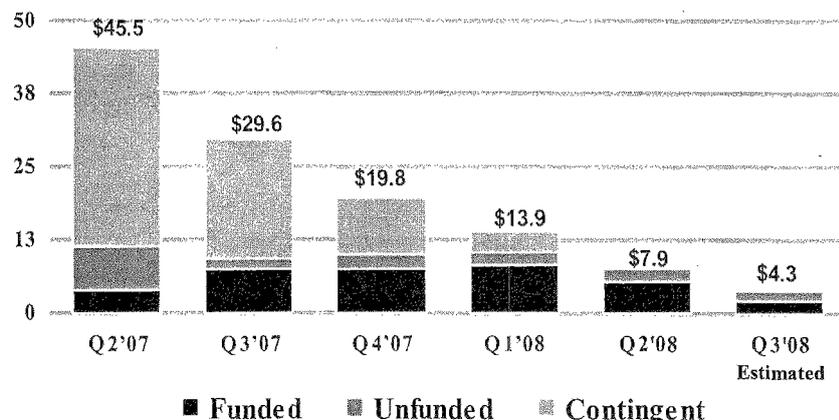
Firm Risk Appetite usage in Q3 2008 decreased to \$3.5BB from \$3.7BB in Q2 2008, due to position reductions:



Firm total is less than the sum of businesses due to "diversification benefit," resulting from risk across businesses not being 100% correlated

High Yield Acquisition Facilities

High Yield Acquisition Facilities (\$BB)



Note: Excludes Archstone and Hilton debt (\$2.8 at 8/31/08) which are included in HY Acquisition Facilities in Lehman's public disclosures but included in Commercial Real Estate exposures for internal purposes.

Top Exposures 8/31/08

Company	\$MM	Industry
Houghton Mifflin	\$362	Publishing
TXU	\$338	Utilities
Debitel	\$313	Telecom
HD Supply	\$275	Wholesaler
First Data	\$259	Data Processing
Icopal	\$258	Building Products
Arinc	\$212	Electronics
Fairpoint	\$212	Telecom
Top Exposures	\$2,229	52% of Total

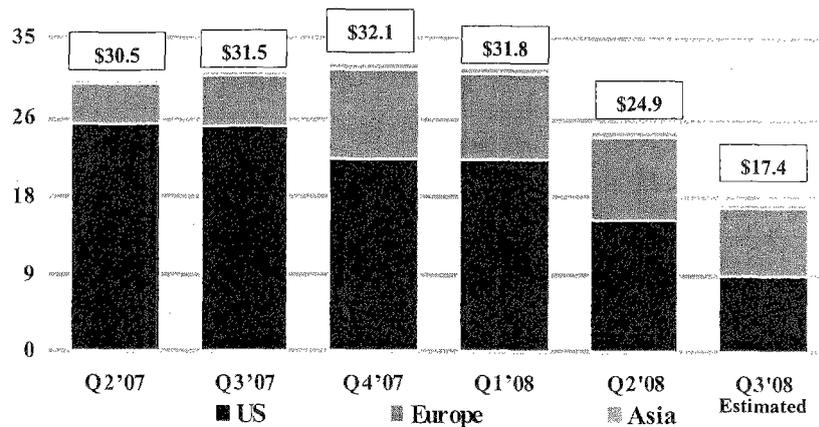
Current Market & Portfolio Conditions

- ◆ High Yield Acquisition facilities currently total \$4.3BB, reduced by \$3.6BB since last quarter and down significantly from the \$45.5BB peak at Q2 2007
- ◆ Remaining supply overhang in the overall market totals ~\$45BB
- ◆ Loan spreads increased during Q3
- ◆ Investor base has shifted from CLOs to Hedge Funds and Distressed Funds
- ◆ Business continues to work on reducing exposures

Securitized Products

Non-Agency Residential Mortgage Exposures

Balance Sheet Asset Trends (\$BB)



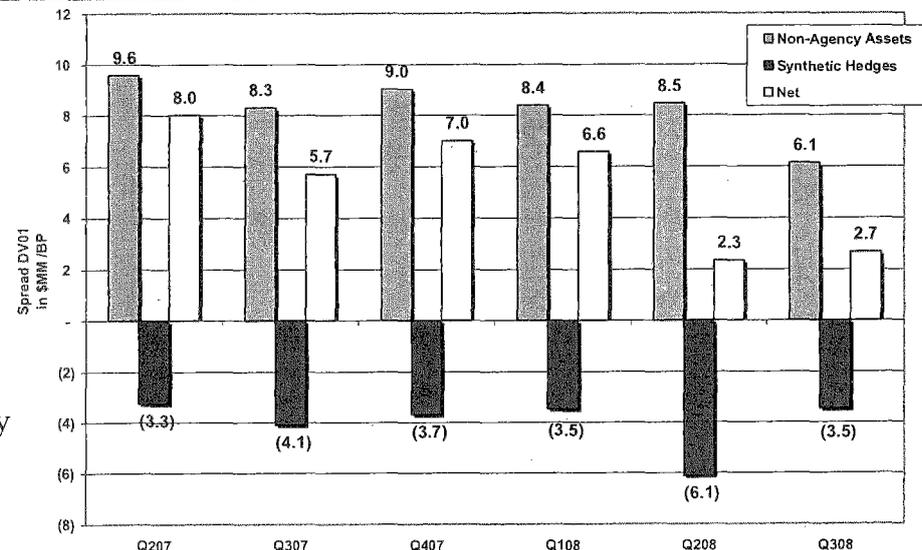
Balance Sheet Assets (\$BB)

Portfolio	Q3'08 Estimated	Q2'08
US		
Alt-A/Prime	5.9	10.2
Subprime/Second Lien	1.6	2.8
Other U.S.	1.6	1.9
Total	9.1	14.9
Europe		
Whole Loans	2.9	3.6
Securities	4.9	5.7
Total	7.8	9.3
Asia		
Whole Loans	0.5	0.5
Securities	0.0	0.2
Total	0.5	0.7
Global Total	17.4	24.9

Current Market & Portfolio Conditions

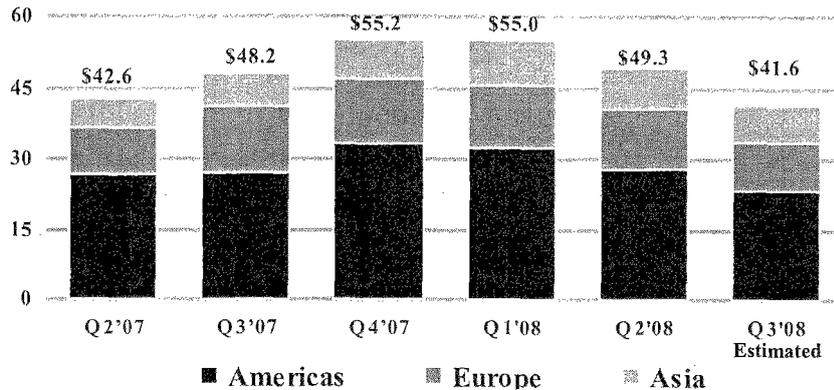
- ◆ US Prime /Alt-A assets were reduced to \$5.9BB from \$10.2BB in Q2'08 and \$14.6BB in Q1'08. Sub Prime/2nd Lien exposures are down to \$1.6BB from \$2.8BB in Q2'08 and \$4.0BB in Q1'08
- ◆ In Q3'08, US Alt-A AAA securities have dropped in price on average by approximately 18 points
- ◆ Current Alt-A pricing implies a 70% default rate of all underlying borrowers with only a 35% recovery rate
- ◆ Our position is net long \$2.7MM/bp. The hedges are primarily derivatives on high grade corporate debt

Non-Agency Risk Exposures & Hedges (\$MM/bp)



Commercial Real Estate

Regional Balance Sheet Trends (\$BB)



GAAP Asset Class (\$BB)

	Q3'08 Est.	Q2'08
Commercial Mortgages	\$24	\$30
Real Estate Held For Sale	\$9	\$10
Corporate Debt	\$7	\$7
Corporate Equity	\$2	\$2
Total Commercial Real Estate	\$42	\$49

Current Market & Portfolio Conditions

- ◆ Income producing commercial real estate market fundamentals are softening - demand and property values have weakened
- ◆ There have been only nominal increases in CMBS delinquencies to date, however more significant increases are expected
- ◆ CMBS/CMBX spreads have widened sharply over the quarter
- ◆ Land and condominium development positions have experienced significant declines in value
- ◆ New loan origination has been shut down except for providing seller financing for select asset sales
- ◆ Business continues to reduce balance sheet

Top 10 Q4 2007 Vs Current Exposures (\$BB)

Property / Asset	Q4 2007	Q3 2008 Estimated	Reduction
1a Archstone - Debt	3.0	2.5	-0.5
1b Archstone - Equity	2.2	1.6	-0.6
2 Diversity Funding (UK CMBS)	2.9	2.2	-0.7
3 Hilton Portfolio	1.5	0.6	-0.9
4 Prologis Portfolio	1.5	0.6	-0.9
5 Coeur Defense	1.4	1.0	-0.4
6 Beacon Fund III (Broadway Partners)	1.0	0.3	-0.7
7 Project Green (German RE Loans)	0.9	0.6	-0.3
8 237 Park Avenue	0.8	0.4	-0.5
9 EOP Austin Office Portfolio	0.6	0.3	-0.3
10 Rosslyn Office Portfolio (Monday Properties)	0.5	0.2	-0.3
Total Top 10	16.3	10.5	-5.9