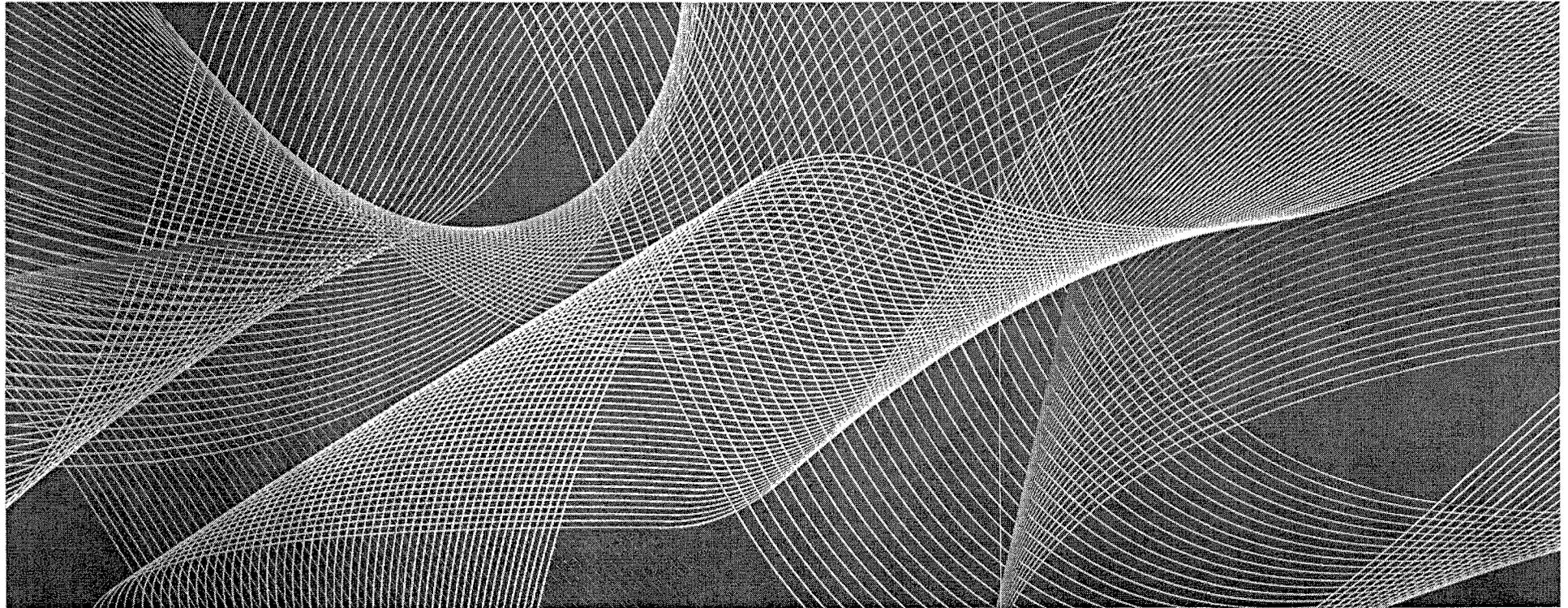


LEHMAN BROTHERS

# Q3 Firmwide Q&A – Summary



v.S.5

Confidential Presentation

# Capital – Why do you have enough equity? Do you need equity?

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- ◆ As I said earlier, based on our capital raise and other actions, the Firm ended 3<sup>rd</sup> quarter with stronger capital position that we had at end of 2<sup>nd</sup> quarter
- ◆ Remember we raised \$4B of convertible preferred in April and \$6B of common and mandatory convertible in June.
- ◆ To reiterate:
  - Tier 1 Capital ratio increased from 10.7% at end of Q2, to over 11% at end of Q3
  - Net leverage improved from 12.1x at end of Q2, to 10.6x at end of Q3
  - Total Stockholders Equity increased by \$2.1B from \$26.3B at end Q2 to \$28.4B at end of Q3
- ◆ As we exit 3<sup>rd</sup> quarter, we are adequately capitalized
- ◆ Depending on the ultimate structure of REI Global there is a potential need for incremental equity, and we have therefore decided to sell a majority stake in IMD

# Capital – If capital is strong, why strategic partners?

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- ◆ We continuously look for opportunities to grow the franchise and a relationship with a strategic partner is one avenue to build our global business platform
- ◆ The reason we've been in discussions with potential strategic partners recently is because we have been looking for capital-raising options outside of the sale of a majority stake in IMD
- ◆ Having said that, we continue to have discussions with potential partners around business opportunities and a strategic relationship with Lehman Brothers, a process we think will be advanced by the formation of "Core" Lehman
- ◆ However, the Firm does not comment on the status / characteristics of individual transactions until terms are finalized.

# Management

## Governance

- ◆ Replace 16-member Executive Committee with larger Management Committee
  - Broader representation from across the firm provides better perspective on challenges and opportunities
  - Increased voice from line operators closest to market

## Management Changes

Individual	Current Position	Prior Positions	Years at Lehman
Riccardo Banchetti	Co-CEO of Europe & Middle East	◆ CEO & COO of Italy	15
Jerry Donini	Global Head of Equities	◆ Head of Americas Equities	10
Eric Felder	Global Co-Head of Fixed Income	◆ Head of Global Credit Products and Municipal Finance	14
Mike Gelband	Global Head of Capital Markets	◆ Global Head of Fixed Income	24
Alex Kirk	Head of Principal Investing	◆ COO of Fixed Income ◆ Global Head of Credit Products	13
Hyung Soon Lee	Global Co-Head of Fixed Income	◆ Head of Capital Markets, Asia-Pacific	15
Ian Lowitt	Chief Financial Officer	◆ Co-CAO ◆ Treasurer	14
Bart McDade	President & COO	◆ Global Head of Equities ◆ Global Head of Fixed Income	25
Christian Meissner	Co-CEO of Europe & Middle East	◆ Head of Investment Banking, Europe & Middle East	4

# Resi – What Drove Gross Writedowns?

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- ◆ **Key reasons for market price declines:**

- Delinquencies have accelerated at a faster pace than anticipated
- Concerns around Fannie and Freddie leading to broader housing market weakness
- Seller pressure from banks and investment banks with limited repo financing available and from regional bank and mortgage provider failures caused concerns around assets failed banks may need to dispose of
- As a result: Alt A Collateral Prices estimated down 18 points in market while ABX AAA down 8 points and ABX Subordinates down 4 points

- ◆ In addition: driven by accelerated LEH selling activity, required to fundamentally reposition franchise and prepare for “Clean Lehman” esp. given difficulty in hedging





# Resi – What Do We Own, by Vintage?

## U.S. total residential by vintage excluding reverse mortgages and servicing

	Market Value (\$bn)	Pre 2005	2006	2007 +
Prime / Alt A	4.1	14%	15%	71%
Non Prime	1.7	25%	22%	53%
S&D	0.2	8%	4%	88%
Residuals	0.2	7%	22%	71%
CDOs	0.5	9%	4%	87%
<b>Aggregate <sup>1</sup></b>	<b>6.8</b>	<b>16%</b>	<b>15%</b>	<b>69%</b>

1. Does not include Reverse Mortgages and Servicing

# Resi – Hedges: Why Didn't they Work? What did we use?

- ◆ Our strategy around hedging this book is to break exposures into a) spread and b)HPA / credit loss exposures. We have used ABX hedges for our HPA/credit exposure and a combination of CDX, CMBX, single name financial CDS , and swaps to hedge the spread exposure. Hedging in ABX/CMBX poses challenges as they can be rather thinly traded markets at times
- ◆ Recently there has been a significant uptick in alt-A delinquencies and loss expectations which are specific to alt A and haven't affected the pricing of our hedges.. Alt-A AAA prices have dropped by 20-25 points during the quarter while ABX AAAs, which references subprime credit on average dropped only 8 points and ABX subs (AA through BBB-) dropped 4 points. The weighted average price of our alt-A book was 64.6 at the beginning of Q3 and is now at 42.1.

Price Change in Q3 2008			
	ABX Change	Alt-A (Leh) Change	Nonprime (Leh) Change
AAA	(8)	(26)	(11)
Subs	(4)	(16)	(9)

- Unfortunately, there is no direct hedge for alt-A residential risk (Bulk of our writedowns were in US alt-A). ABX could be used as a comparable however this quarter alt A significantly under performed it's ABX cousin due to worsening credit performance and market supply concerns.
- ◆ In Q3, our spread hedges were ineffective as residential credit sectors widened significantly (200-600bp) while other spread sectors moved modestly (Corporates widened 35bp).
- ◆ Given the increased basis risk, we have aggressively reduced balance sheet in the sector.

# Resi – Why Comfortable With Remaining Exposure?

---

- ◆ **Residential mortgages portfolio down to \$13.2B (pro-forma for bulk sales) from \$24.9B in Q2 to \$32B in Q1**
    - Achieved by sales through traditional channels, a bulk sale of European assets and write-downs
  
  - ◆ **Remaining portfolio has improved risk profile with significant diversification**
    - Of remaining \$13.2B exposure, 32% (\$4.2B) in less credit-sensitive areas: \$2.8B in servicing, AAA IOs and reverse mortgages, \$0.5B in Asia and \$0.9B in U.S. vintages 2005 and earlier
  
  - ◆ **Our resi book is now at the necessary size to support our position as the #1 U.S. mortgage trader**
    - We have completed the transitions from an origination business to a secondary trading and advisory business
    - We continue to actively trade client flows across many different product types (e.g., prime, Alt-A, Alt-B, subprime, HELOCs, IOs) and now have a book designed to adequately support the secondary trading of these sectors
    - We see significant opportunities in secondary trading, with wider bid offers, fewer competitors and more efficient pricing of capital
  
  - ◆ **Our remaining exposures are marked to reflect conservative assumptions about home price depreciation, defaults and recoveries (see Q. 7 for details)**
-

# Resi – Why Are Positions Marked Appropriately?

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- ◆ **Our remaining exposures are marked to reflect conservative assumptions about home price depreciation, defaults and recoveries**
  - **Aggregate portfolio mark is down approximately 21 points since end of Q2**
  - **Current marks yield 12% returns and assume considerable further deterioration in the U.S. housing market:**
    - **Conservative default assumptions:**
      - 44% Prime/Alt-A defaults (vs. current 60-day+ delinquencies of 18%)
      - 59% Non-Prime defaults (vs. current 60-day+ delinquencies of 23%)
    - **Conservative U.S. home price depreciation and recovery assumptions:**
      - 32% drop in national home prices, peak to trough (vs. 18% decline to date)
      - 50% drop in California home prices, peak to trough (vs. 27% decline to date)
      - 45% recovery rate on Prime/Alt-A, so that a home originally worth \$400K sells for \$180K
      - U.S. portfolio has positive yields even if 80% of borrowers default, with only a 35% recovery on the loan amount

# Resi – Will Blackrock sale lead to another mark?

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- ◆ We have already taken a significant amount of the mark in the 3<sup>rd</sup> quarter

# Resi – Bulk Resi Sales: Degree of Certainty?28

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- ◆ **We are highly confident that we will be completing the transaction shortly**

# Resi –Where Will We Make Revenues?



## Outlook

- ◆ We have completed the transition from an origination business to a secondary trading and advisory business
- ◆ We continue to actively trade client flows across many different product types (e.g., prime, Alt-A, Alt-B, subprime, HELOCs, IOs) and now have a book designed to adequately support the secondary trading of these sectors
- ◆ We see significant opportunities in secondary trading, with wider bid offers, fewer competitors and more efficient pricing of capital

## NON-PUBLIC

## Potential Revenue

<b>Business</b>	<b>Potential Revenue (\$M)</b>
Agency Mortgage Structuring and Trading	\$300-400M
Secondary Trading of Mortgage Credit: Cash and Synthetic	\$150-200M
Secondary Trading of ABS Cash and Synthetics and Related Indices (ABX/CMBX)	\$75-100M
Servicing and NPL management	\$50-75M
Whole loan Trading	\$50-75M
Client Advisory and Structured Solutions	\$50-75M
<b>Total</b>	<b>\$675 -\$925M</b>

# Resi – Q3 Resi marks vs. Q2 stress scenario?

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- ◆ The sensitivity analysis presented in our Q shows the hypothetical sensitivity of a select subset of assets to a limited (10% and 20%) adverse change for a single valuation input. This analysis is dictated by both US GAAP and industry protocol
- ◆ GAAP says the variable must be stressed individually, our stress scenarios (magnitude and variables) are in line with our peers
- ◆ This analysis does not include our complete residential balance sheet at risk, only retained interests are included. Furthermore it includes retained interests in Government Agency securitizations which are guaranteed against credit losses. In all other disclosures in our Q these Agency securities are not included in our residential mortgage figures
- ◆ During the third quarter we experienced an extraordinary adverse move in both market loss assumptions and required returns lead by the problems in the ALT-A sector
- ◆ While our accounting disclosure is run at the position level using performance and yield assumptions reflective of the current market value of each position it is hard to extrapolate the 10 and 20% single variable stress scenarios run to large movements we saw in the spreads and credit loss assumptions due to the interaction of the variables and the convexity profile of the assets
- ◆ Further more the market moves of recent are very much driven by headline market events like the FDIC seizure of Indymac, negative sentiment, and a huge supply/demand mismatch than by the market re-stating valuation model assumptions. In fact it is hard to even solve for the market credit loss and return assumptions that make sense given the current pricing in this sector.

# CRE – What drove write-downs?

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- ◆ Write-downs were caused by a combination of widening investor yield expectations and credit impairments reflecting both realized and unrealized losses driven by an overall deterioration in commercial real estate and for sale housing fundamentals
- ◆ For many asset classes the potential buyer base has shifted away from Core / Core plus buyers to more opportunistic capital resulting in significantly higher yield requirements
- ◆ Major factors that contributed to weakening fundamentals are: Increased Cap rates, less aggressive rent growth assumptions, slower absorption in for sale housing, increased construction costs, increased carry costs, continued sales price declines, and slower leasing velocity
- ◆ The securities write-downs were reflective of higher yield requirements

# CRE – What drove writedowns?

## Commercial Mortgages and REHFS (8/31/08)

(in millions)

US	Q2			Buy	Sale			Repayments	Write Down		Other	3Q 2008		
	Notional	Market Value	AVG Price	Market Value	Notional	Market Value	AVG Price	Market Value	Writedown from Sales	Writedown Amount	Other <sup>(3)</sup>	Notional	Market Value	AVG Price
Senior (1)	11,810	10,674	90.4	69.4	822	(752)	91.4	(468)	(21)	(334)	(414)	10,278	8,775	85.4
Mezz (1)	5,267	4,591	87.2	24.0	975	(910)	93.3	(43)	2	(322)	221	4,526	3,561	78.7
Equity	6,459	4,484	69.4	45.0	291	(212)	72.9	(11)	(30)	(399)	63	5,830	3,969	68.1
NPL (4)	322	198	61.4	-	0	0	0	0	0	0	(3)	317	195	61.6
Securities Bonds (2)	851	589	69.2	29.0	262	(187)	71.5	0	0	0	(56)	670	375	56.0
Securities IO's (4)	28,283	319	1.1	-	8,150	(123)	1.5	0	0	0	0	20,133	196	1.0
Commercial mortgage and real estate related investments		20,855	83.4	167.3		(2,183)	87.7	(522)	(49)	(1,055)	(190)		17,072	78.3
<b>Europe</b>														
Senior	4,814	4,700	97.6	0	201	(194)	96.6	(754)	1	(61)	(530)	3,297	3,161	95.9
Mezz	764	734	96.1	15.2	185	(185)	100.0	(6)	0	(6)	(77)	601	476	79.2
NPL (4)	105	43	41.0	0	0	0	0	0	0	0	(9)	119	34	28.5
Equity	1,563	1,474	94.3	41.0	0	0	0	0	0	(130)	0	1,714	1,385	80.8
Securities Bonds	3,942	3,769	95.6	0	105	(97)	92.5	(286)	(1)	(45)	(168)	3,406	3,172	93.2
Commercial mortgage and real estate related investments		10,720	96.3	56.2		(476)	98.3	(1,046)	(1)	(242)	(784)		8,228	90.9
<b>Asia</b>														
Senior	4,279	4,122	96.3	133.8	44	(44)	100.0	(338)	0	(88)	28	4,029	3,815	94.7
Mezz	589	583	99.0	13.5	0	0	0	0	0	0	(210)	390	387	99.1
Equity	1,287	1,227	95.3	18.6	18	(18)	100.0	(6)	15	(5)	(19)	1,203	1,198	99.6
NPL (4)	19,404	1,670	8.6	2.3	0	0	0	(172)	0	3	(66)	18,169	1,438	7.9
Securities Bonds	589	584	99.2	2.3	66	(66)	99.2	0	(1)	(5)	(23)	507	493	97.1
Securities IO (4)	1,852	17	0.9	-								1,852	17	0.9
Commercial mortgage and real estate related investments		8,203	96.6	170.5		(127)	100.0	(515)	14	(95)	(290)		7,347	96.1
<b>Total</b>		<b>39,778</b>	<b>88.6</b>	<b>394.1</b>		<b>(2,787)</b>	<b>89.7</b>	<b>(2,083)</b>	<b>(35)</b>	<b>(1,391)</b>	<b>(1,264)</b>		<b>32,647</b>	<b>84.4</b>

1. Senior and mezzanine include \$0.9 billion & \$0.1 billion, respectively, of SunCal debt that is currently being restructured to equity.
2. Sales activity represents sales of bonds we owned at the end of Q2. We also had intra-quarter buys and sales of approximately \$1.5bn. The buys of \$29mm (Notional \$40mm marked at 71.7) represent the positions which remained from those intra-quarter buys.
3. Other in Europe and Asia is primarily due to fx revaluations of assets.
4. Excluded from average price.

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## CRE – Hedge performance? What do you use to hedge?

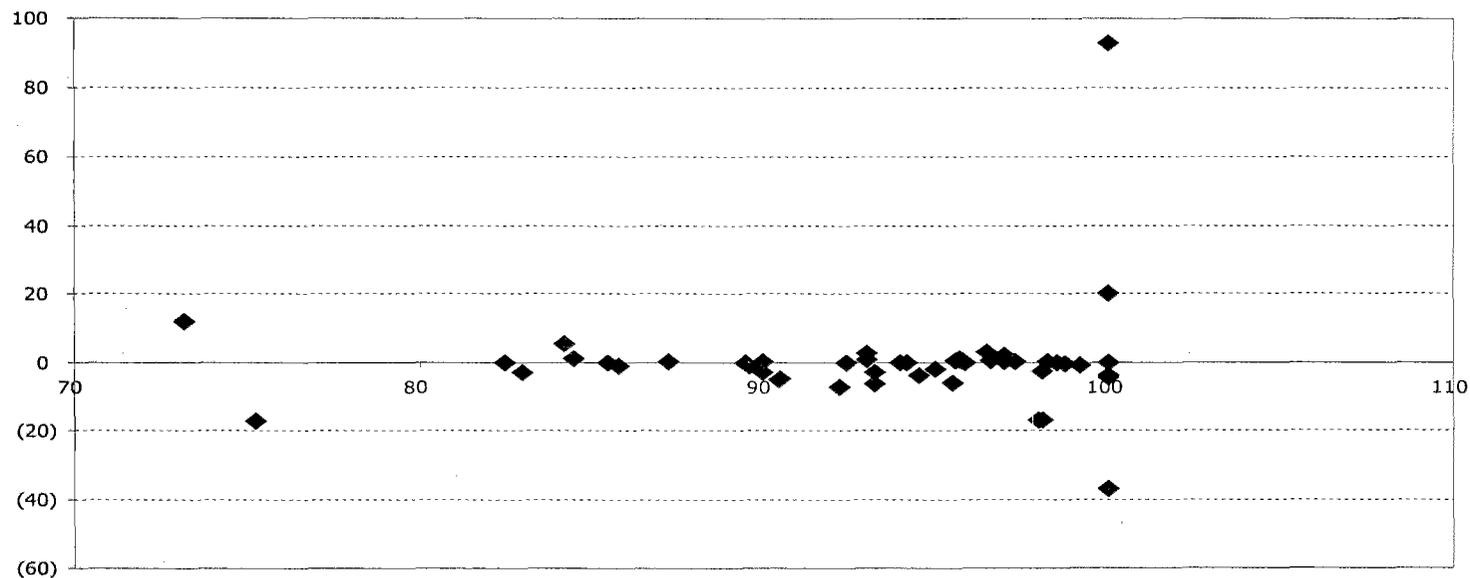
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- ◆ US Fixed rate Loans and CMBS securities of \$1.6bn are fully hedged for interest rate and credit spread risk.
- ◆ US Floating rate Loans and CMBS securities of \$6.3bn are macro hedged, but only 14% of the portfolio, with various CDS products.
- ◆ US gains from hedges of \$107MM were offset by comparable decreases in the market value of the corresponding asset class.
- ◆ Europe and Asia's debt exposure of ~\$13bn is predominantly floating rate. This exposure is not hedged.

# CRE – How did sale price compare to marks?

The losses we incurred in Commercial Real Estate were more limited and driven in part by increase yield expectations among investors. We continued to reduce our exposure to these assets through the quarter and sold these positions at or near our marks.

Initial Carrying Mark vs Sales Price Gain (Discount) in Q3



- ◆ As evidenced by the graph below, the vast majority of 3rd quarter sales were marked at or near their respective sales levels. During the quarter, an estimated \$3.7B<sup>1</sup> in assets were sold resulting in approximately \$59MM in net losses

# CRE – Asset quality?

As of August 31, 2008									
	At Aug 31, 2008	Aug 31, 2008 vs. May 31, 2008 Inc / (Dec)		At Aug 31, 2008			August 31, 2008		Mark
		Dollars	Percent	Americas	Europe	Asia	Number of Positions	Average Position Value	
Whole loans									
Senior	\$ 15.8	\$ (3.7)	-19%	8.8	3.2	3.8	702	\$ 22.4	89.5
Mezzanine	\$ 4.4	(1.5)	-25%	3.6	0.5	0.4	231	\$ 19.2	80.2
NPL	\$ 1.7	(0.2)	-12%	0.2	0.0	1.4	308	\$ 5.4	9.0
Equity	\$ 6.6	(0.6)	-9%	4.0	1.4	1.2	571	\$ 11.5	74.9
Securities	\$ 4.3	(1.0)	-20%	0.6	3.2	0.5	286	\$ 14.9	88.1
<b>Total</b>	<b>\$ 32.6</b>	<b>(7.2)</b>	<b>-18%</b>	<b>\$17.1</b>	<b>\$8.2</b>	<b>\$7.3</b>	<b>2098</b>	<b>\$ 15.6</b>	<b>84.4</b>

As of August 31, 2008										
	At Aug 31, 2008	At Aug 31, 2008					Fixed	Float		
		WA Cur LTV	WAM	WALA						
Whole loans										
Senior	\$ 15.8	81%	37	21	6%	94%				
Mezzanine	\$ 4.4	83%	39	19	33%	67%				
NPL	\$ 1.7									
Equity	\$ 6.6									
Securities	\$ 4.3	<b>Inv. Grade</b> 93%	<b>Non-Inv. Grade</b> 6%	<b>AA or Better</b> 77%						
<b>Total</b>	<b>\$ 32.6</b>									

**Non-Public Information**

- (1) In millions.
- (2) Senior and mezzanine include \$0.9 billion & \$0.1 billion, respectively, of Sunca debt that is currently being restructured to equity.
- (3) WAM is weighted average number of months remaining to fully extended maturity.
- (4) WALA is weighted average loan age in months.
- (5) NPLs are loans purchased as non-performing loans.
- (6) Mark for securities excludes interest only securities.
- (7) Average mark for the entire portfolio excludes NPLs and IO securities.

# CRE – Asset detail?

GAAP Asset Class Mix		8/31/2008			
(\$ in millions)	At Risk Balance Sheet				
	Global	Americas	Europe	Asia	
Commercial Mortgages	23,973	11,015	5,959	6,999	
RE Held for Sale	8,674	6,058	2,268	348	
<b>Total</b>	<b>32,647</b>	<b>17,073</b>	<b>8,228</b>	<b>7,346</b>	

Lien Type Mix		At Risk Balance Sheet			
(\$ in millions)	At Risk Balance Sheet				
	Global	Americas	Europe	Asia	
First	15,752	8,776	3,161	3,815	
Mezz	4,100	3,237	476	387	
NPL	1,666	195	34	1,437	
Securities	4,252	571	3,172	510	
Equity / REO	6,553	3,970	1,385	1,198	
Other:					
Corporate Loans	229	229	-	-	
Revolvers	95	95	-	-	
<b>Total</b>	<b>32,647</b>	<b>17,073</b>	<b>8,228</b>	<b>7,346</b>	

Property Mix		At Risk Balance Sheet			
(\$ in millions)	At Risk Balance Sheet				
	Global	Americas	Europe	Asia	
Office	6,604	3,775	2,245	584	
Mixed Use	3,160	-	1,076	2,084	
Multi-family	4,307	2,939	278	1,090	
Hotel	2,867	2,238	123	506	
Land / SF	4,988	3,934	279	775	
Retail	1,641	363	637	641	
Condominium	2,177	1,892	285	-	
Other <sup>(1)</sup>	6,905	1,932	3,306	1,667	
<b>Total</b>	<b>32,647</b>	<b>17,073</b>	<b>8,228</b>	<b>7,346</b>	

FAS 157 Category		At Risk Balance Sheet			
(\$ in millions)	At Risk Balance Sheet				
	Global	Americas	Europe	Asia	
Level 1	9	-	-	9	
Level 2	13,575	5,811	5,169	2,595	
Level 3	10,389	5,204	790	4,395	
Consolidated (Not subj. to FAS157)	8,674	6,058	2,268	348	
<b>Total</b>	<b>32,647</b>	<b>17,073</b>	<b>8,228</b>	<b>7,346</b>	

<sup>(1)</sup> Other includes CMBS securities, derivative MTM, industrial, storage and other miscellaneous items.

GAAP Asset Class / Lien Type Mix		At Risk Balance Sheet		
(\$ in millions)	At Risk Balance Sheet			
	Total	Mortgage Inventory	Held for Sale	
Senior	15,752	12,357	3,395	
Mezzanine	4,424	3,183	1,240	
Equity	6,553	2,514	4,039	
NPL	1,666	1,666	-	
Securities	4,252	4,252	-	
<b>Total</b>	<b>32,647</b>	<b>23,973</b>	<b>8,674</b>	

GAAP Asset Class / Lien Type Mix		At Risk Balance Sheet		
(\$ in millions)	At Risk Balance Sheet			
	Total	Mortgage Inventory	Held for Sale	
First	15,752	12,357	3,395	
Mezz	4,100	3,183	916	
NPL	1,666	1,666	-	
Securities	4,252	4,252	-	
Equity / REO	6,553	2,514	4,039	
Other:	-	-	-	
Financing Trades	229	-	229	
Revolvers	95	-	95	
<b>Total</b>	<b>32,647</b>	<b>23,973</b>	<b>8,674</b>	

GAAP Asset Class / Property Type Mix		At Risk Balance Sheet		
(\$ in millions)	At Risk Balance Sheet			
	Total	Mortgage Inventory	Held for Sale	
Office	6,604	3,451	3,153	
Mixed Use	3,160	3,030	130	
Multi-family	4,307	3,656	650	
Hotel	2,867	2,468	399	
Land / SF	4,988	2,401	2,587	
Retail	1,641	1,387	254	
Condominium	2,177	1,455	721	
Other <sup>(1)</sup>	6,905	6,124	780	
<b>Total</b>	<b>32,647</b>	<b>23,973</b>	<b>8,674</b>	

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# CRE – Asset details by vintage and location?

B/S at Risk - Vintage	
< 2006	13%
2006	19%
2007	58%
2008	10%
Total	100%

B/S at Risk - Regional Diversification	
Americas	52%
Asia	23%
Europe	25%
Total	100%

B/S at Risk - Global Concentration	
Japan	16%
CA	10%
NY	9%
GER	7%
UK	4%
FL	3%
FR	2%
TX	2%
HI	2%
Other	45%
Total	100%

B/S at Risk - Regional Concentration - Americas	
CA	20%
NY	17%
FL	6%
TX	4%
HI	3%
VA	3%
DC	3%
NV	3%
CT	2%
Other	39%
Total	100%

B/S at Risk - Regional Concentration - Asia	
Japan	72%
Thailand	8%
China	5%
Korea	4%
Australia	3%
Other	8%
Total	100%

B/S at Risk - Regional Concentration - Europe	
GER	26%
UK	16%
FR	9%
SWE	5%
Other	44%
Total	100%

# Other ABS – Exposures and marks?

Collateral Type	Q2 2008			Purchases			Sales			Writedowns & Other				Q3 2008		
	Notional	Market Value	Avg Price	Notional	Market Value	Avg Price	Notional	Market Value	Avg Price	MTM on Sales	Total Writedown Amount	Transfers <sup>(2)</sup>	Other <sup>(1)</sup>	Notional	Market Value	Avg Price
Franchise	1,535	1,407	0.92	-	-	na	(773)	(623)	0.81	(28)	(186)	308	(369)	702	504	0.72
CLO/CBO	2,573	1,344	0.52	104	40	0.39	(234)	(190)	0.81	-	(38)	(100)	(74)	2,269	1,060	0.47
MH	738	440	0.60	34	29	0.85	(76)	(68)	0.90	-	(7)	-	(3)	693	382	0.55
SBF	611	428	0.70	8	6	0.75	(247)	(190)	0.77	(36)	(108)	113	(68)	418	176	0.42
Credit Card Debt	233	226	0.97	661	634	0.96	(851)	(817)	0.96	-	-	-	(7)	35	29	0.82
Auto Loans	135	130	0.96	796	796	1.00	(968)	(820)	0.85	-	(7)	-	137	101	95	0.94
Aircraft	169	117	0.69	98	37	0.38	(48)	(34)	0.70	-	-	-	(7)	212	110	0.52
Structured Settlements	94	91	0.97	-	-	na	(90)	(77)	0.86	(10)	-	-	(3)	1	0	0.00
Insurance	140	87	0.62	-	-	na	-	-	na	-	(11)	-	6	147	87	0.59
ABCP	84	76	0.90	-	-	na	-	-	na	-	-	-	0	84	76	0.90
Other	382	128	0.33	73	54	0.74	(98)	(80)	0.82	-	(17)	(113)	65	309	213	0.69
<b>ABS Securities</b>	<b>6,695</b>	<b>4,474</b>	<b>0.67</b>	<b>1,774</b>	<b>1,596</b>	<b>0.90</b>	<b>(3,385)</b>	<b>(2,901)</b>	<b>0.86</b>	<b>(74)</b>	<b>(374)</b>	<b>208</b>	<b>(322)</b>	<b>4,971</b>	<b>2,732</b>	<b>0.55</b>
SBF	990	962	0.97	-	-	na	(211)	(167)	0.79	(42)	(121)	-	11	790	705	0.89
Cap Crossing	856	640	0.75	-	-	na	-	-	na	-	(84)	-	(23)	833	526	0.63
Campus Door	472	402	0.85	140	143	1.02	-	-	na	-	-	-	16	628	549	0.87
<b>Whole Loans</b>	<b>2,318</b>	<b>2,004</b>	<b>0.86</b>	<b>140</b>	<b>143</b>	<b>1.02</b>	<b>(211)</b>	<b>(167)</b>	<b>0.79</b>	<b>(42)</b>	<b>(205)</b>	<b>-</b>	<b>4</b>	<b>2,251</b>	<b>1,781</b>	<b>0.79</b>
<b>Total Whole Loans and Securities</b>	<b>9,013</b>	<b>6,478</b>	<b>0.72</b>	<b>1,914</b>	<b>1,739</b>	<b>0.91</b>	<b>(3,596)</b>	<b>(3,068)</b>	<b>0.85</b>	<b>(116)</b>	<b>(579)</b>	<b>208</b>	<b>(318)</b>	<b>7,221</b>	<b>4,513</b>	<b>0.62</b>
Servicing	-	31		-	-	na	-	-	na	-	-	-	-	-	29	na
Residual	-	36		-	-	na	-	-	na	-	(14)	-	-	-	27	na
<b>Total Other ABS</b>	<b>9,013</b>	<b>6,545</b>	<b>0.72</b>	<b>1,914</b>	<b>1,739</b>	<b>0.91</b>	<b>(3,596)</b>	<b>(3,068)</b>	<b>0.85</b>	<b>(116)</b>	<b>(593)</b>	<b>208</b>	<b>(318)</b>	<b>7,221</b>	<b>4,569</b>	<b>0.63</b>

(1) Other reflects adjustments to Notional post purchases, sales and transfers. Franchise includes \$350mm in paid down notionals.

(2) Transfers relate to positions in High Yield LIM securitization previously classed as Corp Debt, CLO/CBO positions transferred to High Yield and positions in SBF Consumer Finance that were previously categorized with 'Other Collateral Type'.

# Contingent Acquisition Positions – Largest?

	Deal Name	Q2	Synd / Xfer Add/ Buys	Paydown	Fusion CLO	Sales	Sale Px	Q3	Q3	Avg Px Change	Q3	MV
		Notional						Notional	Avg Px		MV	Change
◆ <b>Top 5 positions (notional value):</b>	Archstone	2,512		(177)				2,335	98.29	(0.3)	2,295	2,218
	Hilton	1,203				(725)	90.0	478	89.29	(3.1)	427	418
	TXU	590			(55)	(197)	92.6	338	87.75	(3.8)	297	227
	Houghton Mifflin	533				(171)	77.3	362	80.84	(3.8)	292	(2,183)
	Debitel	330		(17)		(0)		313	93.00	(2.0)	291	122
	First Data	836			(45)	(532)	79.6	259	88.00	1.3	228	174
	HD Supply	505			(20)	(210)	95.8	275	81.97	(6.5)	226	204
	ARINC	192		74	(55)			212	88.04	0.1	186	148
	FairPoint	267			(55)	(0)		212	87.89	(0.5)	186	(224)
	Icopal	271		(13)		(0)		258	68.28	(4.7)	176	86
	Endemol	622				(435)	69.2	188	60.00	(15.0)	113	(35)
	Targa	94		2				96	83.50	-	80	16
	PHS	89		(5)		(1)		82	86.87	(0.1)	72	(242)
	Dana Corporation	64				0		64	99.25	(0.0)	64	(403)
	ACTS	93				(3)		90	70.00	(13.4)	63	(173)
	Vertrue	86				(22)	80.0	64	79.26	(0.4)	50	(674)
	CDW	496			(55)	(391)	81.7	50	97.00	14.4	49	(175)
	Arysta	55				(8)	100	47	97.17	(0.8)	46	41
	Chevron (Delek)	157				(108)	90.2	49	91.51	(2.8)	45	(403)
	PQ Corp	487			(20)	(418)	89.6	49	90.18	(0.0)	44	(1,068)
	Allison	83			(30)	(1)		52	85.00	-	44	(407)
	Biomet, Inc.	42		15	(15)	-		42	93.38	0.3	39	(159)
	McJunkin	158			(25)	(93)	91.5	40	92.75	2.8	37	31
	USIS	59		20	(40)	-		39	87.00	-	34	(353)
	R.J. O'Brien	47				(0)		46	67.58	0.6	31	(110)
	LTSB	449				(415)	85.7	34	88.00	1.8	30	2
	Sequa	315		(283)		0		32	92.00	(1.8)	29	(271)
Metavante	30		23	(23)	-		30	92.00	-	28	(50)	
Tribune	40				(0)		40	66.00	(1.3)	26	(413)	
Syniverse	28				-		28	92.40	0.0	26	(5)	
Asurion	25				-		25	87.00	1.0	22	(274)	
Sheridan HC	26				-		26	85.00	-	22	0	
Varel	22		(2)		-		20	92.00	(0.9)	18	(8)	
Wesco Aircraft	25				(15)		10	96.25	(3.8)	10	(69)	
Local Insight Regatta	6				-		6	95.00	-	6	(21)	
O'Reilly Automotive	300		(295)		5		5	97.00	(3.0)	5	(535)	
Hawaiian Telcom	6				(2)		4	77.00	(1.5)	3	(48)	
Alliance Atlantis	10				(10)		-		n/a		(20)	
Cenveo	90		(90)		-		-		n/a		(68)	
Hawaiian Tel YP	311		(311)		-		-		n/a		(25)	
Windstream	4				(4)		-		n/a		(4)	
<b>Sub-total Q2 Vintage</b>	<b>11,554</b>			(1,057)	(440)	(3,761)		<b>6,296</b>	<b>89.52</b>		<b>5,637</b>	<b>(4,732)</b>
Fusion CLO (GE) reconsolidated					440			440	90.66		399	
Converteam		315	(49)					266	100.00		266	
Bonten Media		168	(106)					62	100.00		62	
SunGard Data Systems		333	(303)					30	100.00		30	
Booz Allen Hamilton		453	(432)					21	93.00		20	
Huish Detergent		18	-					18	100.00		18	
<b>Total High Yield</b>	<b>11,554</b>	<b>1,287</b>	<b>(1,947)</b>			<b>(3,761)</b>		<b>7,134</b>	<b>90.15</b>		<b>6,432</b>	<b>(4,732)</b>

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22

# Level 3 Assets?

## Q3 ESTIMATES ONLY

	May 2008		Projected movements - August 2008		
	Closing	Closing	Movements	Closing	Comments
Total securitized products		9,874	(1,013)	7,916	
Total Real Estate		10,865	244	11,057	
IMD		75	(66)	9	
Others		(216)		(216)	
Mrtg and Mrtg Backed total		20,598	(835)	18,766	
Corp Debt and Other total		5,590	507	5,684	
Corp Equities total		10,157	790	10,383	
Derivatives total		1,566	(255)	1,236	
Level 3 - Total Forecast		37,911	207	36,070	
				(900)	
			Potential quarter end balance	35,170	

# Principal – Losses by GAAP Segment?

	FID Segment	EQ Segment	IMD Segment	Total PI	Comments	
<b>Principal Investing</b>	<b>PI BPM</b>					
	GTS	(222)	(198)	(420)	FID: GMAC/ABX; EQ: KSK	
	GPS	(76)	(1)	(76)	R3	
	GOG		2	2		
	Direct PI		27	27	Mark up on TXU (+61mm); loss on Gulfmark (-25mm)	
		<u>(298)</u>	<u>(169)</u>	<u>-</u>	<u>(467)</u>	
	<b>IMD JV BPM</b>					
	PE Principal	(3)	(122)	(125)	-\$39 on MLP Prop, -\$24 MLP Opp, -\$34 Priv. Fund Invst	
	AM Strategic Invest		(16)	(16)	-\$20 on Blue Bay, +\$10 on GLG	
	Min. Stakes in HF	-	-	(60)	-\$65 on Ospraie	
	<u>(3)</u>	<u>(138)</u>	<u>(60)</u>	<u>(200)</u>		
<b>Total Principal Investing</b>	<b>(301)</b>	<b>(307)</b>	<b>(60)</b>	<b>(667)</b>		
<b>Other Principal</b>	<b>FID BPM</b>					
	Bawag - HY	(26)		(26)	} Principal investments that FID has in common with the PI unit	
	Bawag - Rates	(2)		(2)		
	Chrysler - HG	(0)		(0)		
	GMAC - HG	(4)		(4)		
	Gate Gourmet - HY	(13)		(13)		
		<u>(45)</u>		<u>(45)</u>		
	<b>IMD BPM</b>					
	AM Seed Investments		(30)	(30)	Seed investments in Lehman funds (LibertyView, Europe funds)	
	AM Principal Inventory	6		6		
Private Equity Warehouse	(39)		(39)			
	<u>(33)</u>	<u>(30)</u>	<u>-</u>	<u>(63)</u>		
<b>Equity Credit (net fees)</b>		<b>16</b>	<b>16</b>			
<b>Total Principal Portfolios (Excluding W/D)</b>	<b>(379)</b>	<b>(321)</b>	<b>(60)</b>	<b>(759)</b>	Principal Portfolio losses outside of Writedown	
<b>Principal Portfolio W/D</b>						
PE Real Estate Direct Investments	(53)	-	-	(53)	Principal Portfolio losses included as part of Writedown	
AM Principal Inventory	(47)	-	-	(47)	MTM on Suncal, Archstone, Coeur Defense, Toy Bldg, Roslyn	
	<u>(100)</u>	<u>-</u>	<u>-</u>	<u>(100)</u>	Realized and Unrealized losses on IMD resi inventory	
<b>Total Principal Portfolios</b>	<b>(479)</b>	<b>(321)</b>	<b>(60)</b>	<b>(859)</b>	PI Losses Including Writedown	

# Principal – Losses by Position?

## Q3 P&L Summary for Principal Investing

(\$ in millions)

### GTS

KSK	(185.9)	<i>(including -\$21.6 for sale restriction haircut)</i>
GMAC	(110.8)	
ABX	(99.2)	
Chrysler	(40.0)	
Meg Energy	(20.9)	
Dana Corp	(14.4)	
Term Loans	(11.7)	
Castex Energy	14.7	
GTS Hedges	65.5	
Sequenom	80.0	
<b>Investments in Lehman Funds</b>	<b>(124.6)</b>	
<b>LP Investments in Third Party Funds</b>	<b>(66.4)</b>	
<b>Ospraie (estimate)</b>	<b>(65.0)</b>	
<b>Gulfmark</b>	<b>(24.8)</b>	
<b>TXU</b>	<b>60.5</b>	
<b>Other (primarily GTS &lt;10mm)</b>	<b>(124.3)</b>	
	<u>\$</u>	<u>(667.3)</u>

# Principal – Drivers of Losses?

## Principal Investing Q3 Significant P&L Items

### ◆ KSK Public Shares (-\$185.9M)

Loss of \$185.9M driven primarily by decline in the stock price (-\$164.3M) as well as restriction discount (-\$21.6M). KSK went public mid-July at \$240 INR/share (same as our mark as of May 30, 2008). The stock price closed at 175.95 INR/share on August 29, 2008. KSK carrying value at the end of Q3 is \$377.9M vs. \$550.4M at the end of Q2. The shares have a 1-year lock-up from the IPO date. While we cannot sell the KSK shares outright for another 10.5 months, we can sell the SPV that holds our KSK position. We currently own ~28% of KSK shares.

### ◆ GLG Shares

The stock price remained flat over this period (\$8.29 end of Q3 vs. \$8.31 end of Q2). Lehman's carrying value of GLG public shares as of August 29, 2008 is \$213.2M (net of 23.6% restriction discount which is determined based on volatility option model) vs. 213.8M as of May 30, 2008.

### ◆ GMAC (-\$110.8M)

- GMAC Debt: At the end of Q2, we had \$136.5M (notional) of long exposure in GMAC debt which was marked at low 80s (carrying value of \$116.6M). At the end of Q3, we had \$186.2M (notional) of long exposure in GMAC debt marked at low 60s (carrying value of \$113.6M).
- GMAC CDS: At the end of Q2, we were short CDS protection of \$430M notional. At the end of Q3, we were short CDS protection of \$194M notional. During Q3, spreads widened more than 1,000 bps.
- GMAC Equity: We invested \$25M in GMAC equity which was marked at 74 at the end of Q2 (carrying value of \$18.5M). At the end of Q3, the position was marked at 45 (carrying value of \$11.3M).

### ◆ ABX (-\$99.2M)

At the end of Q2, we were long ABX \$750M (AAA - \$590M marked at 58.66, PENAAA - \$160M marked at 74.63). At the end of Q3, we were long \$700M ABX (AAA - \$265M marked at 48.38, PENAAA - \$435M marked at 60.50).

# Run Rate – 3Q vs. Q2?

Excluding the effect of these writedowns and the offsetting hedges and losses on our principal portfolio, our run rate revenue was \$3.5B.

	Run-Rate Revenues (\$B)				
	2007		2008		
	Q3	Q4	Q1	Q2	Q3
<b>Run-Rate Revenues</b>	\$5.0	\$4.3	\$5.2	\$4.2	\$3.5
Gross MTM Adjustments	(3.5)	(3.2)	(5.3)	(4.0)	(7.8)
Hedges <sup>1</sup>	3.0	2.4	3.5	0.3	2.2
Losses on Principal Portfolio	(0.2)	0.8	0.1	(0.5)	(0.8)
Loss on Defensive Positions	0.0	0.0	0.0	(0.7)	0.0
Net Revenues (Reported)	\$4.3	\$4.4	\$3.5	(\$0.7)	(\$2.9)
<b>Run-Rate Revenues</b>	<b>\$5.0</b>	<b>\$4.3</b>	<b>\$5.2</b>	<b>\$4.2</b>	<b>\$3.5</b>
Compensation and Benefits	2.1	2.2	1.8	2.3	2.0
Non-Personnel Expenses	1.0	1.0	1.0	1.1	1.0
<b>Pre-Tax Income</b>	<b>\$1.9</b>	<b>\$1.2</b>	<b>\$2.4</b>	<b>\$0.8</b>	<b>\$0.6</b>

- ◆ \$5.3B writedown in residential mortgages
- ◆ \$1.7B writedown in CRE
- ◆ \$0.8B writedown in other ABS/LBO

1. Including gains on debt of \$0.9B in Q3 07, \$0.4B in Q4 07, \$0.6B in Q1 08, \$0.4B in Q2 08 and \$1.4B in Q3 08.

# Run Rate – Drivers of decline q-o-q?

## Run-Rate Revenues (\$B)

	Q3 '08				Q2 '08				Q3 '07				QoQ	YoY
	US	Europe	Asia	Total	US	Europe	Asia	Total	US	Europe	Asia	Total	%	%
FID	1.5	0.1	0.2	1.8	1.7	(0.1)	0.2	1.8	1.0	0.6	0.3	1.9	1%	-5%
Equities	0.4	-	-	0.4	0.5	0.3	0.0	0.7	0.4	0.6	0.3	1.3	-47%	-69%
Capital Markets	1.9	0.1	0.2	2.2	2.2	0.2	0.2	2.5	1.4	1.1	0.6	3.2	-13%	-31%
IBD	0.4	0.2	0.0	0.6	0.6	0.2	0.1	0.9	0.7	0.3	0.1	1.1	-29%	-43%
IMD	0.6	0.1	0.0	0.7	0.7	0.1	0.0	0.8	0.7	0.1	0.0	0.8	-11%	-9%
<b>Total</b>	<b>2.9</b>	<b>0.4</b>	<b>0.2</b>	<b>3.5</b>	<b>3.4</b>	<b>0.5</b>	<b>0.2</b>	<b>4.2</b>	<b>2.8</b>	<b>1.5</b>	<b>0.7</b>	<b>5.0</b>	<b>-16%</b>	<b>-30%</b>

# Client Revenues – vs. Q2?

	Run-Rate Revenues (\$B)										
	Q3 '08			Q2 '08			Q3 '07			QoQ	YoY
	Client Revenues	Trading	Total Run-Rate	Client Revenues	Trading	Total Run-Rate	Client Revenues	Trading	Total Run-Rate	% in Client Revenues	
FID	1.3	0.5	1.8	1.6	0.2	1.8	1.4	0.5	1.9	-17%	-9%
Equities	0.8	(0.4)	0.4	1.0	(0.2)	0.7	1.1	0.2	1.3	-21%	-29%
Capital Markets	2.0	0.2	2.2	2.5	0.0	2.5	2.5	0.7	3.2	-19%	-18%
IBD	0.6		0.6	0.9		0.9	1.1		1.1	-29%	-43%
IMD	0.7		0.7	0.8		0.8	0.8		0.8	-11%	-9%
<b>Total</b>	<b>3.3</b>	<b>0.2</b>	<b>3.5</b>	<b>4.1</b>	<b>0.0</b>	<b>4.2</b>	<b>4.3</b>	<b>0.7</b>	<b>5.0</b>	<b>-19%</b>	<b>-23%</b>

## ◆ Q3 '08 Highlights:

- ◆ Trading gains in FID primarily in High Grade Credit due to short positioning throughout the quarter
- ◆ Losses in Equities trading primarily in Volatility (reserves on BH long dated options, model adjustment for dividend assumptions and amortization of Europe Volatility losses) and Convertibles (-\$40mm on Fortis)

# NPE – Reduction Detail?

## Run Rate NPE Reductions (\$M)

Category	Occupancy	Non-Occ.	Total	Comments
<b>Fixed Cost per head for headcount reductions</b>		<b>\$28</b>	<b>\$28</b>	Based on HC reduction, less \$9M realized in Q4
Brokerage and Clearing Costs reduction		\$0	\$0	Conservative assumption (could be up to \$80M)
<b>Office Restructuring (ex-Mortgage Cap)</b>	<b>\$99</b>	<b>\$0</b>	<b>\$99</b>	Consolidate and sublease
NY: various subleasing opptys (605, 399, 1271)	\$57		\$57	
London: Broadgate+ S. Quay → Canary Wharf	\$19		\$19	
Tokyo: partial Roppongi → MITA	\$10		\$10	
Hong Kong: partial 2IFC → Man Yee	\$14		\$14	
<b>Office Closures</b>	<b>\$15</b>	<b>\$7</b>	<b>\$22</b>	e.g., Australia
<b>Mortgage Capital Restructuring</b>	<b>\$4</b>	<b>\$8</b>	<b>\$12</b>	
Mortgage Capital Americas	\$0	\$8	\$8	Maintain servicing: Scottsbluff, Indianapolis, Wilmington, partial Littleton
High Wycombe	\$2	\$0	\$2	UK Capstone
ELQ	\$2	\$0	\$2	Netherlands origination platform
<b>Total linked to headcount reduction</b>	<b>\$118</b>	<b>\$43</b>	<b>\$161</b>	
<b>Additional Run Rate Efficiency Gains</b>				
Corporate discretionary add'l NPE efficiencies		\$30	\$30	e.g., Events, Non-Core Training
LX-related add'l brokerage variable cost reduction		\$20	\$20	Primarily U.S. Cash Equities trade crossing
Technology (e.g., Systems Consulting)		\$5	\$5	
Other Consulting		\$10	\$10	
Recruiting (headhunter fees)		\$5	\$5	
Philanthropy		\$5	\$5	
Market data saves		\$5	\$5	e.g., Bloomberg → Thomson ONE
Lehman aviation		\$5	\$5	
<b>Total linked to 2009 efficiency gains</b>	<b>\$0</b>	<b>\$85</b>	<b>\$85</b>	
<b>Total Prior to REI Global and IM Divestiture</b>	<b>\$118</b>	<b>\$128</b>	<b>\$246</b>	
Investment Mgmt. divestiture			\$428	
REI Global			\$74	
<b>Total incl. IM divestiture &amp; REI Global</b>			<b>\$749</b>	

# Monolines – Exposure to default?

The table below represents our exposure to the most-conservative Monoline default scenario, where:

- Recovery rate on all direct claims is zero
- Credit events are triggered on CDS trades referencing Monolines and CDS pay out based on zero recovery
- Of the \$450mm of net exposure, \$353mm (78%) is to Monolines still rated AAA

## Firmwide Monoline Risk in VoD0 Scenario as at August 29, 2008 (USD Millions)

S&P/Moody's Ratings	Assured AAA/Aaa	FSA AAA/Aaa	MBIA AA/A2	Ambac AA/Aa3	FGIC BB/B1	Syncora <sup>(1)</sup> BBB-/B2	CIFG A-/Ba2	Bluepoint <sup>(2)</sup> R/Ca	Total
MTM of Derivatives With Monolines	450	111	1	72	34	663	26	57	1,413
Reserves Held for Derivatives With Monolines	(31)	-	-	(20)	(13)	(383)	(19)	(46)	(512)
<b>Net Counterparty Risk</b>	<b>419</b>	<b>111</b>	<b>1</b>	<b>52</b>	<b>21</b>	<b>280</b>	<b>7</b>	<b>11</b>	<b>901</b>
Value on Default of CDS Referencing Monolines	(138)	(105)	4	(119)	(39)	(182)	-	-	(579)
Value on Default of Cash Trading Positions									
Referencing Monolines	35	31	46	8	8	-	-	-	128
<b>Total Market Risk</b>	<b>(115)</b>	<b>(86)</b>	<b>64</b>	<b>(112)</b>	<b>(34)</b>	<b>(182)</b>	<b>-</b>	<b>-</b>	<b>(465)</b>
<b>Total Direct Risk <sup>(3)</sup></b>	<b>316</b>	<b>37</b>	<b>50</b>	<b>(59)</b>	<b>(10)</b>	<b>98</b>	<b>7</b>	<b>11</b>	<b>450</b>

1. Effective August 4, 2008 XL Capital Assurance Inc. changed its name to Syncora Guarantee Inc.

2. Bluepoint commenced insolvency proceeding in Bermuda on August 7, 2008. Lehman filed a claim for \$56mm based on market quotes pursuant to ISDA protocol.

3. In addition to the "Direct Risk" shown above, we also have second-order or "Contingent" monoline risk arising from (a) CDS claims on CDOs that have invested in monoline GICs and (b) trading positions in wrapped securities, where the marginal value of the wraps has not already been marked down to zero.

# Core Lehman – Why Confident Lehman Can Compete?

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- ◆ **Broadly diversified business mix currently generating \$13B+ in run rate revenues, excluding marks**

- Eleven major business lines generating more than \$400M in 2008 revenues, ex marks
- No individual business representing more than 15% of Firm total
- Not reliant on Mortgages or Commercial Real Estate – contributed just 6% of 2007 revenues

- ◆ **Balance sheet capacity more than sufficient to support client mission**

- Targeting \$300B in net assets at under 11x leverage ratio – down significantly from 2007
- Balance sheet devoted to active trading businesses (ex Securitized Product and Real Estate) 30% higher than '07
- Expected revenues from these businesses broadly in line with 2007
- ⇒ Will have more balance sheet capacity devoted to non-legacy assets

- ◆ **Market opportunity still exists, despite severe disruptions to certain businesses**

- Material decline in market fee pool down from 2007 (e.g., in securitized products, real estate, origination)
- However, opportunity in many products remains largely intact (e.g., Rates, FX, Commodities)

- ◆ **Competitive advantages in each business, grounded in existing capabilities**

- Intellectual capital, client franchise, our business model, technology
- Success requires nothing new, only execution against model

# Core Lehman – Justify \$14-15B in revenues?

## 2008/2009 Revenue Scenario (\$B) - BPM

(BPM View)

	Actuals				Scenario	
	2005	2006	2007	2008	2009 <sup>1</sup>	Excl. Marks & 45% IMD 2008
<b>Fixed Income</b>						
FX	\$0.3	\$0.3	\$0.4	\$0.6	\$0.6	\$0.6
Real Estate	2.0	2.1	1.3	(4.7)	0.2	(0.8)
Securitized Prod.	3.0	2.6	(0.1)	(6.4)	0.7	1.4
Commodities	0.0	0.0	0.3	0.5	0.5	0.5
Munis	0.4	0.4	0.2	0.2	0.3	0.2
Credit	1.8	2.4	2.1	2.3	2.0	2.4
Rates	1.4	1.3	1.7	1.4	1.5	1.6
FID Prime Services	0.5	0.6	0.8	1.2	0.8	1.2
Corp/Other/PIM Adj.	(0.9)	(0.7)	(0.8)	0.2	(0.6)	0.1
<b>Total Fixed Income</b>	<b>\$8.5</b>	<b>\$9.0</b>	<b>\$6.0</b>	<b>(\$4.8)</b>	<b>\$5.9</b>	<b>\$7.1</b>
<b>Equities</b>						
Liquid Mkts	\$1.7	\$2.0	\$2.7	\$2.4	\$2.2	\$2.4
Converts	0.1	0.2	0.1	0.1	0.2	0.1
Vol	0.6	0.9	1.9	0.4	1.2	0.4
EQ Strat	0.2	0.2	0.6	0.3	0.5	0.3
EQ Prime Services	0.6	0.8	1.2	1.1	1.2	1.1
Corp/Other/PIM Adj.	(0.1)	(0.1)	(0.3)	(0.3)	(0.5)	(0.3)
<b>Total Equities</b>	<b>\$3.2</b>	<b>\$4.0</b>	<b>\$6.1</b>	<b>\$4.2</b>	<b>\$4.7</b>	<b>\$4.2</b>
<b>Invest. Mgmt.</b>	<b>\$1.2</b>	<b>\$1.7</b>	<b>\$2.6</b>	<b>\$0.5</b>	<b>\$0.5</b>	<b>\$0.5</b>
<b>Invest. Banking (Net)</b>	<b>\$1.9</b>	<b>\$2.1</b>	<b>\$2.4</b>	<b>\$1.0</b>	<b>\$2.0</b>	<b>\$2.2</b>
<b>Principal Investing</b>	<b>\$0.1</b>	<b>\$0.6</b>	<b>\$0.7</b>	<b>(\$0.6)</b>	<b>\$0.3</b>	<b>\$0.0</b>
<b>Corp/Other</b>	<b>(\$0.2)</b>	<b>\$0.2</b>	<b>\$0.3</b>	<b>\$0.6</b>	<b>\$0.1</b>	<b>\$0.6</b>
<b>Revenue Pre Debt Reval</b>	<b>\$14.6</b>	<b>\$17.6</b>	<b>\$18.1</b>	<b>\$0.9</b>	<b>\$13.4</b>	<b>\$14.6</b>
Debt Reval	0.0	0.0	1.2	2.4	(1.0)	2.4
<b>Total Reported</b>	<b>\$14.6</b>	<b>\$17.6</b>	<b>\$19.3</b>	<b>\$3.4</b>	<b>\$12.4</b>	<b>\$17.0</b>

Note:  
Business  
Performance  
Management  
("BPM")  
View is a  
form of  
management  
reporting  
and differs  
from GAAP.

# Core Lehman – ROAs?

Revenue returns on net assets in the 2009 Scenario are reasonable in light of historical performance, even during 2001-2002 downturn.

(BPM View)

	2009 Scenario	2007	2006	2005	2004	2003	2002	2001	2000
<b>Fixed Income</b>									
FX	10%	9%	11%	11%	12%	9%	14%	16%	13%
Real Estate (Post Spin in '09)	3%	3%	8%	9%	4%	2%	3%	2%	N.A. <sup>(2)</sup>
Securitized Products	3%	0%	5%	7%	7%	4%	3%	2%	N.A. <sup>(2)</sup>
Commodities <sup>(3)</sup>	7%	28%	44%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Municipals	5%	3%	8%	12%	13%	16%	17%	20%	13%
Credit	6%	6%	9%	9%	9%	9%	6%	5%	4%
Rates	2%	4%	4%	6%	5%	6%	4%	2%	3%
<b>Total</b>	<b>4%</b>	<b>3%</b>	<b>6%</b>	<b>8%</b>	<b>7%</b>	<b>5%</b>	<b>4%</b>	<b>4%</b>	<b>3%</b>
<b>Equities</b>									
Liquid Markets	28%	33%	28%	33%	34%	N.A.	N.A.	N.A.	N.A.
Convertibles	4%	3%	5%	2%	4%	10%	5%	6%	6%
Volatility	5%	7%	5%	4%	3%	N.A.	N.A.	N.A.	N.A.
EQ Strategies	9%	14%	15%	30%	1%	19%	N.A.	N.A.	N.A.
<b>Total</b>	<b>10%</b>	<b>13%</b>	<b>11%</b>	<b>10%</b>	<b>8%</b>	<b>8%</b>	<b>7%</b>	<b>9%</b>	<b>8%</b>

Accounting adjustments prevent historical comparability

1. Based on Business Performance Management ("BPM") reporting, which is a form of mgmt reporting & differs from GAAP. Represents revenue over average net assets, except for 2000, which uses EOP balance for net assets.  
 2. Mortgage Trading / Real Estate balance sheet not allocated in 2000.  
 3. Commodities revenue and balance sheet insignificant for 2000 through 2005.

# Core Lehman – Why are ROE targets do-able?

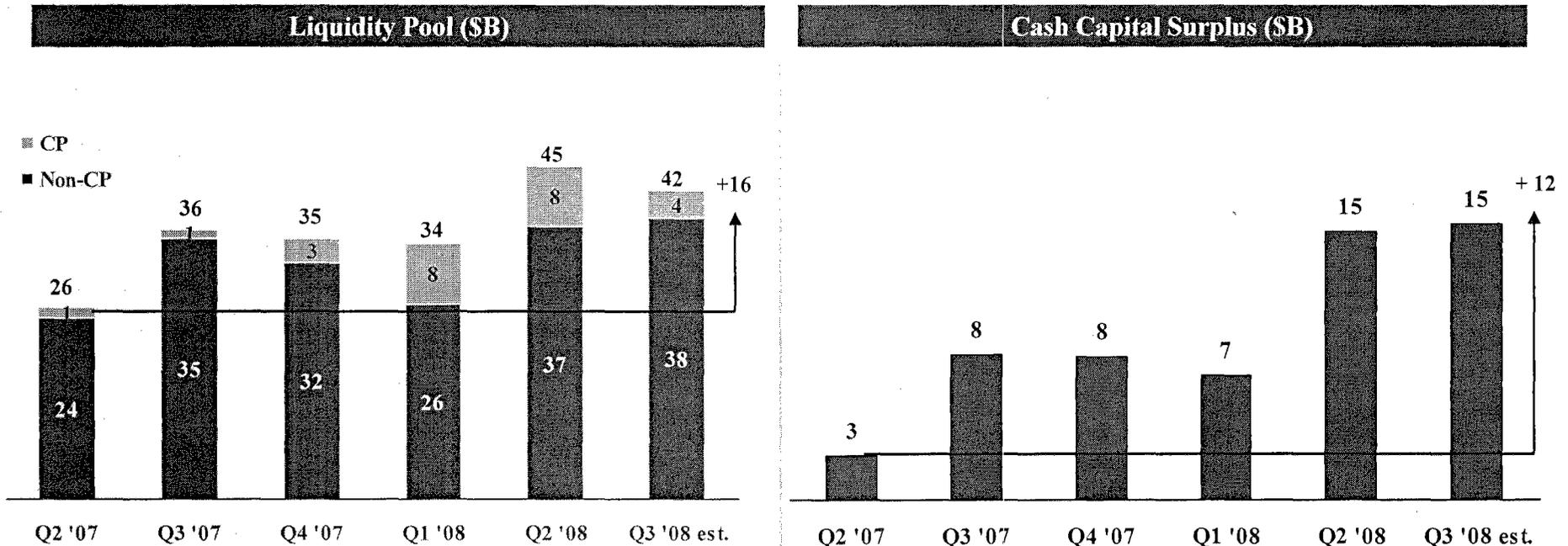
Adjusted ROE (ex. Restructuring and Debt Reval) is projected to be 11% in 2009

Lehman 2007 vs. 2009E Results (\$B)			Assumptions	
<i>\$ in billions</i>			◆ Revenues of \$14.5B	
<i>(BPM View)</i>	FY 2007	Core Lehman 2009	– Fixed Income:	\$5.9B
<b>Revenues</b>			– Equities:	\$4.7B
Fixed Income	\$6.0	\$5.9	– Investment Banking:	\$2.0B
Equities	6.1	4.7	– Investment Management:	\$0.5B
Investment Banking	2.4	2.0	– Principal:	\$0.3B
Investment Management	2.6	0.5		
Principal	0.7	0.3		
Corp / Other	1.5	(0.9)		
<b>Total Firm</b>	<b>\$19.3</b>	<b>\$12.4</b>	◆ Pre-Tax Income:	\$1.4B
Compensation	9.5	6.6		
Non Personnel Expenses	3.8	3.3	◆ Net Income to Common:	\$0.2B
Restructuring Charge		1.1		
<b>Pre Tax Income</b>	<b>\$6.0</b>	<b>\$1.4</b>	◆ 1% ROE	
Taxes	1.8	0.4		
Preferred Dividends	0.1	0.7	◆ 11% Adjusted ROE ex. Restructuring and Debt Reval	
<b>Net Income to Common</b>	<b>\$4.1</b>	<b>\$0.2</b>		
Comp Ratio	49.3%	53.5%		
NPE Ratio	19.5%	26.7%		
Pre Tax Margin	31.2%	10.9%		
<b>Capital</b>				
Common Equity	\$21.4	\$17.3		
Preferred Stock	1.1	9.0		
Junior Subordinated Notes	5.0	4.9		
Goodwill / Intangibles	(4.1)	(0.9)		
<b>Subtotal</b>	<b>\$23.3</b>	<b>\$30.3</b>		
<b>Net Leverage Ratio</b>	<b>16.0x</b>	<b>9.9x</b>		
Common / Permanent	78%	55%		
<b>ROE</b>	<b>19%</b>	<b>1%</b>		
<b>Adjusted ROE (ex. Debt Reval &amp; Restructuring)</b>		<b>11%</b>		

# Liquidity – Position?

## We have 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 its Q2 level after adjusting for the reduction in our commercial paper outstanding
  - Cash capital surplus is estimated to be near record levels of about \$15 billion at the end of Q3 '08 – unchanged from Q2



# Liquidity – Counterparties stopped trading last 24 hrs?

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- ◆ The recent volatility in the Firm's stock price has caused concern for our customers, counterparties and employees.
- ◆ We accelerated our earnings release to address these concerns.
- ◆ We are pre-announcing in part to reassure our constituents that our liquidity and capital base remain strong. We also want to dispel misinformation and rumors regarding the Firm's ongoing viability.



# Liquidity – Current Funding Mix?

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- ◆ Funding mix has not fundamentally changed since the end of Q2
  - Holdings' cash capital usage of \$135 billion funding less liquid assets (e.g., loans, derivative receivables, haircuts on liquid securities, etc.) – down \$6 billion QOQ as a result of asset writedowns and sales
    - Cash capital sources are primarily long-term debt (\$114 billion) and stockholders' equity (\$28 billion)
  - Bank deposits of approximately \$31 billion funding less liquid assets in our bank entities (Lehman Brothers Commercial Bank (LBCB), Lehman Brothers Bank and Lehman Brothers Bankhaus) – up \$2 billion QOQ
    - During Q3, we grew deposits in LBCB by \$2 billion in anticipation of the end of the expiration of the de novo period that took place on August 25.
  - Repo funding – At the end of Q3, our triparty repo book stood at \$211 billion – up \$23 billion QOQ
    - Increase in Governments and Agency collateral.
- ◆ Going forward, expect cash capital at Holdings and repo funding for non-govt. and agency collateral to continue their downward trend to be partially offset by growth in our bank entities
  - Long-term debt issuance market unlikely to return to normal in the next six months
  - Repo market will continue to be challenging as lenders shy away from hard to value asset classes (asset-backed securities, munis)
  - Assets in our bank entities projected to grow
    - New transactions / businesses to be migrated to LBCB
    - Tapping alternative sources of deposits (U.S. and Asia in particular) for Lehman Brothers Bankhaus

# Liquidity – Secured Funding?

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

<b>Triparty Repo Book</b>	<b>Q407</b>	<b>Q108</b>	<b>Q208</b>	<b>Q308</b>	<b>Q3 vs Q2 Change</b>
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%
	100%	100%	100%	100%	
% > 1 month	24%	20%	29%	28%	-1%

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



# Liquidity – Unsecured Funding?

- ◆ We finish the quarter with a projected \$114 billion of long-term debt with an average life of approximately 7.9 years.
- ◆ We manage the debt refinancing risk by setting strict limits on the amount of long-term debt maturing within any quarterly (7.5%), half-year (12.0%) and full-year (20.0%) intervals
  - As of August 31, these limits are \$8.5 billion, \$13.7 billion and \$22.8 billion, respectively
  - If we were to operate above these levels, we would not include the excess amount as a source of cash capital
- ◆ We completed our 2008 refinancing plan at the end of Q2 and we do not need to issue more long-term debt for the rest of the year (although we may do so for opportunistic reasons)
- ◆ \$19 billion of long-term debt is projected to roll into current portion in the next twelve months
  - Expect to cover this refinancing through long-term debt issuance and growth of our bank entities

## Long-Term Debt Maturity Schedule (\$ Bn)

	Qtr	LTD	Extendibles	Total	
11/30/2009	2009 Q4	5,445	416	5,861	} \$18.9 bn
2/28/2010	2010 Q1	3,235	72	3,307	
5/31/2010	2010 Q2	5,425	997	6,422	
8/31/2010	2010 Q3	3,327	25	3,352	
11/30/2010	2010 Q4	2,043	0	2,043	
2/28/2011	2011 Q1	3,039	0	3,039	
5/31/2011	2011 Q2	6,276	25	6,301	
8/31/2011	2011 Q3	3,116	59	3,176	
11/30/2011	2011 Q4	1,448	0	1,448	
2/29/2012	2012 Q1	4,628	0	4,628	
5/31/2012	2012 Q2	2,776	730	3,506	
8/31/2012	2012 Q3	5,768	0	5,768	
11/30/2012	2012 Q4	3,337	0	3,337	
2/28/2013	2013 Q1	5,092	0	5,092	
5/31/2013	2013 Q2	1,840	0	1,840	
8/31/2013	2013 Q3	2,613	0	2,613	
11/30/2013	2013 Q4	1,083	0	1,083	
2/28/2014	2014 Q1	4,168	0	4,168	
5/31/2014	2014 Q2	1,462	0	1,462	
8/31/2014	2014 Q3	1,409	0	1,409	
Total		67,530	2,324	69,854	
Mature after 2014Q3		43,717	0	43,717	
Grand Total		111,247	2,324	113,571	

# Liquidity – Impact Of Ratings Downgrade?

- ◆ Table below incorporates all rating changes as of August 31, 2008. Note that most non-standard trades (i.e., trades with structured vehicles) typically have a 30 day grace period before we are required to post margin.
- ◆ None of our unsecured debt has a rating trigger
- ◆ One of our secured bank facilities has a termination event in case of a downgrade: liquidity impact would a loss of \$1.0 billion in case of a downgrade to Baa2 (or equivalent).
  - Additionally, a few have a rating band-based price schedule

## Liquidity Impact Of A Rating Downgrade (\$ Millions)

	2008 Q3			2008 Q2			Variance		
	Immediate impact	1 notch downgrade	2 notches downgrade	Immediate impact	1 notch downgrade	2 notches downgrade	Immediate impact	1 notch downgrade	2 notches downgrade
<b>Total Standard Trades</b>	2,575	79	402	2,419	220	455	156	(140)	(53)
<b>Non-Standard trades</b>									
IRP transactions - Americas	79	382	467	72	451	2	7	(69)	466
IRP transactions - Europe	34	1,689	993	82	1,975	786	(48)	(286)	207
IRP transactions - Asia	-	12	-	-	2	6	-	10	(6)
CDO transactions - Americas	0	4	0	0	19	3	0	(14)	(3)
CDO transactions - Europe	-	28	36	295	74	215	(295)	(46)	(179)
CDO transactions - Asia	-	98	14	44	107	-	(44)	(8)	14
Securitized Products - Americas	-	312	-	170	61	16	(170)	251	(16)
Other (IRP) - Europe	-	23	-	14	14	28	(14)	9	(28)
<b>Total Non-standard Trades</b>	113	2,548	1,511	677	2,702	1,055	(563)	(154)	456
<b>Total Collateral Requirement</b>	<b>2,688</b>	<b>2,627</b>	<b>1,913</b>	<b>3,095</b>	<b>2,921</b>	<b>1,510</b>	<b>(407)</b>	<b>(294)</b>	<b>403</b>

Increase of \$600m in our 2 notch number results from more conservative Moody's "2nd trigger" at Baa1 coming in

Decrease of \$200m in 1 notch numbers for IRP Europe due to stronger dollar and lower Euro rates (we pay float mostly)

Decrease of \$200m in overall CDO numbers resulting from more in depth calculation of contingent collateral requirements

Decrease of \$563m in the immediate impact numbers due to ~\$400m of postings of collateral since the S&P and Moody's downgrades

# Tax – Given NOLs, Will You Write Down DTAs?

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- ◆ Based on projections of pretax losses for 2008, it is estimated that the firm will have the following tax attributes at the end of 2008:
  - Net Operating Loss Carryforward of approximately \$9 billion
  - Deferred Tax Asset of approximately \$5.0 to \$6.0 billion
  - Foreign Tax Credit Carryforward of approximately \$200 - \$300 million
  - Effective Tax Rate of approximately 33 to 34% for the full year
  
- ◆ **The effective tax rate for 2008, includes the recognition of a DTA for the entire NOL. In other words, there is no valuation allowance recorded against the NOL or Foreign Tax Credit carryforwards.**
  
- ◆ **Based on current expectation of the future profitability, it is “more likely than not” that the firm will generate enough taxable income to utilize all of the deferred tax assets that are currently recorded on the balance sheet.**
  - Future earnings sufficient to absorb losses
  - NOL completely utilized by the end of 2011
  - FTC carryforwards completely utilized by the end of 2011
  - Increase in tax rate going forward. Primarily due to reduction in APB 23 benefits.

# REI – Why pursue?

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## **REI Global is an innovative structure that strengthens Lehman's balance sheet while preserving the CRE portfolio value for our shareholders**

- ◆ Lehman's concentration of positions in commercial real estate-related assets has become a significant concern for Lehman's equity and debt investors
  - The earnings volatility created by the current lack of liquidity in the market place is compounded by having these assets in an entity that is subject to fair value (mark-to-market) accounting
  - Various constituencies have expressed a desire that Lehman eliminate this earnings volatility by either selling the positions or transferring them to entities that can hold the positions through the cycle
- ◆ We have sold significant amounts of illiquid assets over the last twelve months, including leveraged loans, residential mortgages, commercial mortgages and equity investments in operating real estate entities
  - Sales of assets in today's market environment forces the realization of losses, which could otherwise be potentially recovered
- ◆ We believe that it is in the best interests of our shareholders, creditors and counterparties that we find a way to separate the risk of commercial real estate-related assets from the rest of the firm
  - REI Global will be able to manage its assets for economic value maximization with a longer time horizon than Lehman would have in the current market environment
  - A portfolio sale in today's distressed market would monetize a loss to our shareholders that could otherwise be recovered by taking a long term approach to managing the assets
- ◆ These concerns are being addressed by transferring the large majority of our commercial real estate-related assets to an appropriately capitalized new entity that can manage such assets without the pressure of short-term earnings and mark to market volatility and without the pressure to sell assets below what we believe to be their intrinsic value
- ◆ While the proposed transaction will achieve a complete separation of REI Global from Lehman, the assets being transferred to REI Global are diverse, high quality assets that are in no way indicative of a "bad bank"

# REI – What is REI Global?

## REI Global is being created to maximize the value of Lehman Brothers' commercial real estate portfolio

- ◆ REI Global will be one of the largest publicly traded commercial real estate enterprises
- ◆ REI Global will be a separate public company and is expected to be listed on the New York Stock Exchange
  - As such, it will have its own Board of Directors and management and will be subject to the corporate governance requirements of the New York Stock Exchange, the SEC and Sarbanes-Oxley
- ◆ The portfolio, underwritten to Lehman's high credit standards, consists of the large majority of Lehman's commercial mortgage inventory and real estate held for sale
  - REI Global will have senior first mortgages, commercial mortgage backed securities, mezzanine or subordinate debt, equity interests in real assets and corporate debt
- ◆ REI Global's assets will be transferred at current mark-to-market values that, in our opinion, are below their intrinsic value
- ◆ A number of assets will require third party consents to transfer; however, the amount is immaterial
- ◆ The assets will be held in a vehicle free from short term earnings and mark-to-market volatility and without the pressure to execute sales at distressed prices
- ◆ When the real estate market returns to a more normalized level, REI Global shareholders will benefit from this return across a diverse, global portfolio
- ◆ REI Global will have the flexibility to maximize value of the assets:
  - Hold to maturity accounting frees REI Global from short term earnings volatility
  - Debt assets can be held to maturity to realize full value instead of selling today substantially below intrinsic value
  - Equity assets can be actively managed with continued investment to realize full value of the underlying asset
  - REI Global's strong liquidity profile and committed term financing removes short-term pressure to execute distressed sales in today's current market environment

# REI – Portfolio & Structure

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## **We believe that a spin of the commercial real estate business allows Lehman's shareholders to receive the full value of the portfolio**

- ◆ Lehman will transfer the large majority of its commercial real estate portfolio to REI Global and then distribute the common stock of REI Global to Lehman's shareholders
  - Approximately \$25-30Bn portfolio across 1,800 positions including Archstone
  - On transfer date, REI Global balance sheet will be at fair value
  - Diversified by geography, property type and collateral
  - No single asset greater than 20%; Only one asset greater than 10% (Archstone)
- ◆ The leverage at REI Global will be approximately 75-80%
  - Lehman and potentially 3<sup>rd</sup> parties will initially provide the financing to REI Global
  - 20-25% equity cushion prudentially protects financing under extreme stress scenarios
  - Current cash flow projections provides substantial coverage on current debt payments as well as necessary capital to meet future funding obligations
  - Lehman will also seek to syndicate some of the debt as markets normalize
- ◆ All of Lehman's shareholders will receive a pro rata taxable distribution of shares in REI Global, including outstanding RSUs
  - Any outstanding Lehman stock options will have their exercise price reduced to reflect the REI Global transaction
- ◆ We are in the process of finalizing the tax and legal structure of the REI Global entity.
- ◆ REI Global is expected to have an initial annual dividend of \$0.05 per share

# REI – Impact to Lehman Brothers

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**While Lehman will not own any shares of REI Global, it will provide REI Global with senior seller financing, potentially with third parties**

- ◆ Senior financing to REI Global will be provided through both Lehman's bank subsidiaries and its broker dealer
  - The portion in bank subsidiaries will be classified as held to maturity and not subject to mark-to-market accounting

**Lehman's financing, behind a 20-25% equity cushion, is protected by the following:**

- ◆ **Diverse, high quality asset portfolio**
  - Geographically diverse across all three regions
  - Diverse by collateral type (office, land, retail, multifamily etc)
  - Diverse by lien type (1<sup>st</sup> mortgage, securities, mezzanine and equity)
- ◆ **Conservative leverage on original face value of the assets**
  - 75-80% loan to value is calculated from market rate leverage on similar financings for underlying asset classes
  - Portfolio leverage is approximately 64-68% based on original face value of assets
- ◆ **Accelerated repayment of leverage and decreasing LTV**
  - Given the proposed cash flow sweep and current projections, leverage quickly declines to below 50% LTV by 2012
  - Weighted average life of financing is approximately three years
- ◆ **Equity can withstand major stress event**
  - Applying the largest historical decline in a two year period to the underlying real estate values in this portfolio, the projected equity value provides an appropriate cushion

# REI – Advanced Are You in Launching?



## Progress Against Milestones



### SEC Approval for Establishment of Listed Entity:

- Not a business transfer requiring three years of financials
- Not a fair value accounting entity
- Not consolidated on Lehman Brothers balance sheet
- No 1940 Act application required
- Form R-10 filing

### Status:

- Agreed with SEC
- Agreed with SEC
- Agreed with SEC
- Agreed with SEC
- Target end of October; SEC review of 1 month



### Business Model:

- Cash flow forecasts
- Draft balance sheet
- E&Y review

### Status:

- Complete
- Initiated
- Initiated



### Consents:

- Determination of required consents
- Obtaining necessary consents

### Status:

- Complete, 90+% reviewed by external counsel
- Initiated



### Funding:

- Optimal funding structure for syndication
- Syndication of seller financing

### Status:

- Term sheets drafted
- Not started



### Governance & Operations:

- Management structure
- Transfer of assets/location/custody
- Board structure and composition

### Status:

- Initiated
- Initiated
- Initiated

# REI – Q4 Writedowns?

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- ◆ We have appropriately marked our positions as of 8/31/08, and we will have some mark to market variability up to transfer date which is expected to be in Q1 2009. We will continue to appropriately risk manage these positions to minimize that risk.

# REI – How comfortable w/senior debt?

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- ◆ Current cash flow projections provide substantial coverage of current debt payments and a substantial portion of excess cashflow will be used to repay debt balances.
- ◆ We believe that cash flow should provide significant de-levering of the senior debt within two years.
- ◆ 75-80% LTV at time of spin-off is based on a portfolio value that has already taken marks – the 20-25% equity cushion supports an asset value that has already sustained impairments.
- ◆ Debt is secured by a portfolio that is very well diversified by geography, real estate type and lien type.

# REI – Expected accounting?

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- ◆ Similar to other commercial real estate finance companies, REI Global's financial statements will not be based on mark-to-market accounting and will be based on:
  - Hold to maturity or available for sale accounting debt securities
  - Cost, equity method or consolidation accounting as appropriate for equity securities
  - Lower of carrying amount or fair value less cost to sell for real estate
  - Amortized cost less allowance for credit loss reserves for loans
  
- ◆ Lehman has reviewed proposed policies for REI Global financial statements with the SEC and reached agreement on this method of accounting.

**NON PUBLIC**

- ◆ The debt will be accounted for at hold to maturity with provisions for expected loan losses, and equity investments at lower of cost or market.



# IMD - State of overall franchise?

- ◆ Overall stable AUM throughout 2008:
  - Q3'08 \$273B AUM
  - Q2'08 \$277B AUM
  - FY '07 \$282B AUM
- ◆ Revenue in Q3 was challenging due in large part to market activity
  - Q3 \$634M versus Q2 \$848M
  - In AM segment, ~\$130mm swing tied to 3<sup>rd</sup> Party Hedge Fund Minority Stakes
- ◆ Strong and diversified product offerings won us significant new mandates YTD
  - e.g., Ford Motor, Texas Retirement System, & Free State of Saxony

AUM (\$B)	Q3'08	'08 YTD
Beginning of Period AUM	277	282
Market Apprec/(Deprec)	(15)	(11)
Net Flows (excl Liquidity Prod's)	22	27
Net Outflows Liquidity Prod's	(11)	(25)
End of Period AUM	273	273

Revenue (\$M)	Q3'08	Q2'08
Asset Management	360	496
PIM	274	352
Total	634	848

## Segment Highlights

	Asset Mgmt, incl NB	Private Equity	PIM
Assets/Revs	<ul style="list-style-type: none"> <li>◆ Net Q3 flows +\$1.3B</li> <li>- Excl \$20B Saxony mandate</li> </ul>	<ul style="list-style-type: none"> <li>◆ \$30B+ AUM</li> <li>◆ \$6B+ YTD in new funds closed</li> </ul>	<ul style="list-style-type: none"> <li>◆ Challenging environment due to market conditions</li> </ul>
Clients	<ul style="list-style-type: none"> <li>◆ \$25B prospect pipeline</li> </ul>	<ul style="list-style-type: none"> <li>◆ Continued to close funds in Q3</li> <li>- LB RE Partners III</li> <li>- Secondary Opp Fund II</li> </ul>	<ul style="list-style-type: none"> <li>◆ -</li> </ul>
Employees	<ul style="list-style-type: none"> <li>◆ Headcount +0.3%</li> <li>◆ Limited departures over last 2 quarters</li> <li>- FYI: 3 sr departures in Q2-3</li> </ul>	<ul style="list-style-type: none"> <li>◆ Headcount +8.5% in Q3</li> <li>◆ No significant voluntary departures</li> </ul>	<ul style="list-style-type: none"> <li>◆ Voluntary IR attrition ~2% in PIM</li> <li>- ~\$2M impact on Q3 results</li> </ul>

# IMD – Why Sell? Next Steps?

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- ◆ Decision driven by a focus on ensuring that this business has most attractive structure to continue to best serve our clients and maximize the significant growth opportunities for the business
  - Clients favor legal structural separation of Investment Management business from broker dealer operations
  - Lehman would capture ~45% of the business profitability
    - But deconsolidation would “free up” tangible equity for other high growth opportunities in the broader Firm
  - Very confident in existing senior Mgt team
  - Firm will have significant Board representation and look forward to working with new partners
- ◆ Importantly, significant components of the current IMD will not be part of the transaction, including:
  - Firm’s middle market inst coverage bus. that currently are part of Private Investment Management
  - The Firm’s minority stakes in hedge fund managers that is currently part of Asset Management
- ◆ Lehman and IMD Newco will continue to have strong operational ties as it relates to:
  - Providing best available resources to our Clients
  - Sourcing business opportunities
- ◆ Very significant interest from potential partners and we continue to advance discussions with the objectives of identifying a lead partner and proceeding to a definitive transaction agreement

# Clients – Attrition?

- ◆ Have seen stable Asset Management AUM base in 3Q with balances of \$273B (slightly down from to AUM at end of Q2) driven by strong and diversified product offerings
  - Market depreciation of \$15B offset by positive net flows of \$11B
  
- ◆ Added \$6B of new Private Equity funds YTD

## By Segment

	Asset Mgmt, incl NB	Private Equity	PIM
<b>Assets</b>	<ul style="list-style-type: none"> <li>◆ Net Q3 flows +\$1.3B               <ul style="list-style-type: none"> <li>– FYI: Includes Robeco acq. (+0.8B)</li> <li>– FYI: Excl (\$10.0B) liq. exits</li> <li>– FYI: Excl \$20B Saxony</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ \$35B+ AUM</li> <li>◆ \$6B+ in new funds closed YTD</li> </ul>	<ul style="list-style-type: none"> <li>◆ N/A</li> </ul>
<b>Clients</b>	<ul style="list-style-type: none"> <li>◆ \$4.4B Q3 new business AUM (excl Saxony)</li> <li>◆ \$25B prospect pipeline<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>◆ Closed 2 funds in 3Q08               <ul style="list-style-type: none"> <li>– LB RE Partners III (\$3.3B)</li> <li>– Secondary Opp Fund II (\$1.8B)</li> </ul> </li> <li>◆ FYI: Closing delays late in quarter due to client delays</li> </ul>	<ul style="list-style-type: none"> <li>◆ NON-PUBLIC               <ul style="list-style-type: none"> <li>– 12% decline in number of \$5MM households in Q3                   <ul style="list-style-type: none"> <li>• Largely due to Asset Transfers</li> </ul> </li> </ul> </li> </ul>

1. [Background: 50% probability of securing mandate]



# Employee Attrition?

- ◆ Overall **IMD headcount** for the quarter was slightly higher in Q3
  - Up 2 people for the quarter
- ◆ **Asset Management** team saw slight growth in Q3 (+0.3%) and had only 3 senior departures to competitors
- ◆ Our **Private Equity** group continues to add investment professionals (up 8.5% in Q3) and has seen no significant voluntary departures of senior investment professionals
- ◆ **PIM** saw less than 2% voluntary and a 3.5% overall attrition among our producers with <\$2M of impact on Q3 rev
  - Enabled us to ensure continuous high-quality client coverage

NON-PUBLIC					
<b>Asset Mgmt Headcount (+0.3%)</b>		<b>Private Equity Headcount (+8.5%)</b>		<b>PIM Headcount (-4.5% total)</b>	
<b>Q2'08</b>	<b>Q3'08</b>	<b>Q2'08</b>	<b>Q3'08</b>	<b>Q2'08</b>	<b>Q3'08</b>
1,152	1,155	504	547	1,184	1,131
<ul style="list-style-type: none"> <li>◆ Last 2Q's: only 3 senior departures to competitors over the last 2 quarters                             <ul style="list-style-type: none"> <li>– FYI -- DETAILS                                     <ul style="list-style-type: none"> <li>• 2 research professionals</li> <li>• 1 sales executive</li> </ul> </li> </ul> </li> </ul>				<ul style="list-style-type: none"> <li>◆ Mainly loss of IR teams to competitors                             <ul style="list-style-type: none"> <li>– Rich incentive packages</li> <li>– Modest 3Q impact ~ \$2mm</li> </ul> </li> <li>◆ Have lost 8 IR teams since May                             <ul style="list-style-type: none"> <li>– avg. T-12 production ~\$30mm                                     <ul style="list-style-type: none"> <li>• ~2% of ann. PIM revenues</li> <li>• ~7.5% ann. HNW revenues</li> </ul> </li> </ul> </li> </ul>	

# Ospraie – Impact?

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- ◆ Important to note that LEH's investment is in the management company, Ospraie Management LLC
- ◆ Since 2005, when we acquired our interest in the management company, we have received substantial profit distributions relative to our investment (albeit, not material to our IMD segment or Firm profitability overall)
- ◆ Specific terms of our transaction subject us to confidentiality provisions

# Exposure to ARS? Settlements?

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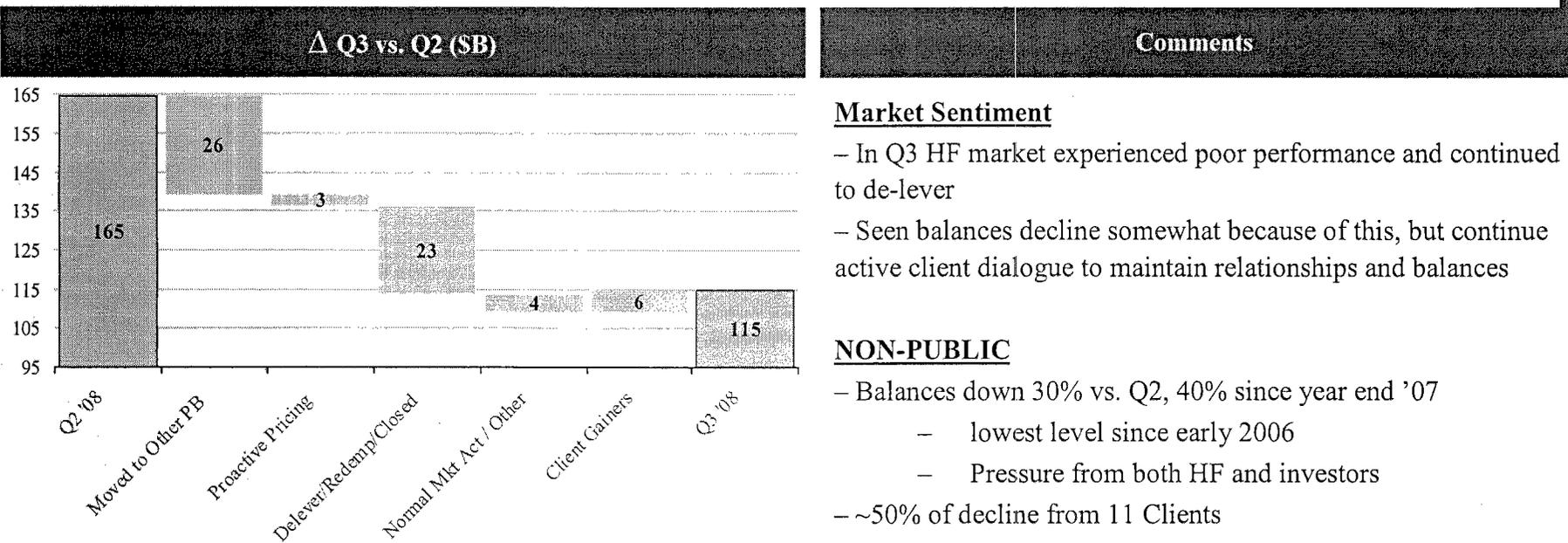
- ◆ It is not appropriate for us to comment extensively about Regulatory Matters
  - However, I will note that our participation in retail market for municipal type product was very modest compared to our competitors, and exposure is minimal
    - We have a program in place to provide liquidity to the retail customers in these failed muni auctions
  - On the institutional side, we continue to engage with our many of our clients individually to discuss liquidity solutions in situations of demonstrated need

# Prime Services – Q3 Performance?

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- ◆ On recurring revenue – excluding one-time and seasonal events - Q3 Prime Services revenues were flat vs. Q3'07, but down 23% from Q2'08, but
  - YTD Prime Services revenue of \$1.9B is 25% ahead of 2007
  - Continue to exceed budget and are on course for a record year
- ◆ Saw some decline in equity balances, approximately 50% of which was driven by hedge fund deleveraging, investor redemptions, poor fund performance and Lehman aggressive pricing on the financing of unattractive assets
  - **NON-PUBLIC:** Balances down ~30% in Q3 (~\$50B), 40% YTD
- ◆ The total net # of clients remained virtually unchanged in Q3

# Prime Services – Balances?



## Top Client Decliners By Category

Redemptions / Deleveraging			
Client	Q3 '08	Q2 '08	Variance
Amber	1,477	2,993	(1,516)
Salida	1,084	1,699	(615)
State St Gl Adv	173	655	(481)
MKM	790	1,153	(363)
Ridgefield	180	392	(212)
<b>Top Redemp.</b>	<b>3,704</b>	<b>6,891</b>	<b>(3,187)</b>
GLG	1,965	5,489	(3,524)
Tiger Asia	2,759	4,489	(1,730)
Centaurus	304	1,760	(1,457)
Marble Bar	883	2,128	(1,246)
Tudor	1,790	2,742	(952)
<b>Top Delever</b>	<b>7,701</b>	<b>16,609</b>	<b>(8,909)</b>

Undesirable Collateral / Closed Funds			
Client	Q3 '08	Q2 '08	Variance
Aristeia	2,447	3,483	(1,036)
CQS	920	1,465	(545)
Silver Point	343	789	(446)
Libertyview	1,484	1,894	(410)
Liberty Harbor	202	468	(266)
<b>Top Un. Coll</b>	<b>5,396</b>	<b>8,099</b>	<b>(2,703)</b>
Sailfish	0	699	(699)
Andor	11	58	(47)
Eagle Lake	3	13	(10)
-	-	-	-
-	-	-	-
<b>Top Closed</b>	<b>14</b>	<b>769</b>	<b>(756)</b>

Moved To Other PB / Counterparty Concerns			
Client	Q3 '08	Q2 '08	Variance
GCNF	1	6,048	(6,046)
GLG	1,965	5,489	(3,524)
Profund	2,314	5,506	(3,193)
Tiger Asia	2,759	4,489	(1,730)
Tewksbury	794	2,447	(1,653)
Camden	188	1,303	(1,115)
Tudor	1,790	2,742	(952)
Millennium	2,987	3,814	(827)
DE Shaw	829	1,603	(773)
GSA	3,410	4,129	(719)
<b>Total Top 10</b>	<b>17,038</b>	<b>37,571</b>	<b>(20,533)</b>