

- **WHAT HAPPENED & WHY**
- **NEAR TERM – WHAT WE HAVE DONE & MUST DO**
- **LONGER TERM – WHERE INDUSTRY AND FIRM GOING**
- **WHAT HAPPENED...**
 - MONT'RY POL: MANAGE RELATION INT RATES, GDP, INFL
 - COUPLE SIGNIFICANT SHOCKS – DOT-COM, 9/11
 - POLICY WENT TOO LOOSE; RATES TOO LOW, TOO LONG
 - ASSET PRICE↑, LEV↑, COMPLEXITY↑, PRICE OF RISK↓
 - 2007: RISING RATES → SEVERE DISLOCATION
 - SLOW CEN BNK RESP → LIQUID PROB → ASSET QUAL PROB
- **WHY DID WE ALLOW OURSELVES TO BE SO EXPOSED?**
 - CONDITIONS CLEARLY NOT SUSTAINABLE
 - SAW WARNING SIGNS
 - DID NOT MOVE EARLY/FAST ENOUGH
 - ILLIQUID ASSET ORIG'N TOO MUCH/TOO LONG
 - BEHAVED TOO MUCH INVESTORS, NOT TRADERS
 - NOT ENOUGH DISCIPLINE ABOUT CAPITAL ALLOCATION

- **WHERE WE ARE NOW**
 - **AUTHORITIES INITIALLY SLOW TO ACT**
 - **RIGHT THINGS NOW**
 - **LIQUIDITY ISSUE OFF THE TABLE**
 - **BANKS RAISING/RAISED CAPITAL**
 - **MKT HEALING ITSELF**
 - **CAPITAL SEEKING OUT DISTRESSED ASSETS**
 - **RISK EARNING MORE APPROPRIATE RETURN**

- **PAINFUL PROCESS, BUT REMEMBER CRISES NOT UNUSUAL**
 - **HISTORICALLY, CRISES EVERY FEW YRS**
 - **MKT/ECONOMY BENEFIT OVER L-TERM**
 - **DARWINIAN PROCESS → HEALTHY FOR PROGRESS**
 - **BULL MKT THIS TIME V. LONG;**
 - **NO SERIOUS CORRECTION SINCE DOT-COM**
 - **BOOM CONDITIONS SO EXTENDED = MORE SEVERE CRISIS**

SO, WHAT DOES THIS MEAN FOR US ALL RIGHT NOW?

- **FIN MKTS STILL IN 'TRANSITION' PHASE**
- **PROB NEXT Qs LESS VOL THAN RECENTLY**

- ESSENTIAL FOR US TO RESPOND INTELLIGENTLY + RAPIDLY
 - CRISES LAST AVG 1 YEAR;
 - THIS ONE IS MORE SEVERE BUT MKT IS HEALING ITSELF
 - GOAL OUTPERFORM PEERS AS MKTS RECOVER

- SUBSTANTIALLY BOLSTERED B/S
 - DELEVERAGING (FOCUSSED ACHIEVED QUICKLY; DONE)
 - RAISED \$ 10BN IN NEW EQUITY + \$1.9BN PEF
 - \$1.9BN PEF (FEB); \$4BN CONVERT (APR); \$6BN COMMON + CONVERT (JUNE)
 - NET LEVERAGE ↓:
 - 15.4X (Q1 08) TO 12.0X (Q2 08) AND 10X PRO-FORMA POST CAPITAL RASE
 - MAKING B/S MORE LIQUID (ONGOING PROCESS)

- RE-POSITIONING OF BUSINESS
 - STAFF CUTS PAINFUL
 - BUT V FOCUSSED + THOUGHTFUL PROCESS
 - LOOKED ALL BUSINESSES/PRODUCTS
 - ASSESSED CYCLICAL, SECULAR OUTLOOKS
 - FINITE RESOURCES: DISCIPLINED ALLOCATION

- ALSO MADE IMPORTANT MANAGEMENT CHANGES
 - REQUIRED TO REPOSITION/REORIENT FIRM TO MOVE FWD
 - COMPANIES NEED TO CHANGE LEADERSHIP
 - NECESSARY FOR GROWTH AND EVOLUTION
 - IMPORTANT PUT RIGHT PEOPLE IN PLACE AS BEGIN H2
 - BART – STRENGTHS, VALUES
 - NEW CFO: IAN BROAD & RELEVANT LEH EXPERIENCE
 - ALSO, MIKE G, ALEX K, JERRY D, DAVE G
 - NOW DISCIPLINE & FOCUS; GET BACK TO BEST OPERATOR

- WE ARE HEALTHY + STRONG AS ENTER H2
- SHARES HAVE FALLEN BUT SAME FIRM AS BEFORE
- H2 08 MUST + CAN BE VERY DIFFERENT FROM H1
 - HAVE RESOURCES
 - PEOPLE NOW BETTER AT OPERATING IN THIS ENVIRON
 - MKT ENVIRON NOT YET STABLE = RICH RANGE OF OPPTS
 - MID-YEAR REVIEWS = NEW REALISTIC BUDGETS
 - NOW SHIFT MINDSET ESSENTIAL
 - MUST TO TAKE ADVANTAGE OF SITUATION

TALK LONGER TERM WHERE WE AND INDUSTRY GOING

- **INEVITABLE QUESTIONS: BUSINESS MODEL BROKEN?**
- **PUT THINGS IN PERSPECTIVE**
 - **CRISES A FEATURE OF FINANCIAL MKTS**
 - **INNOVATION NECESSARY TO GROWTH**
 - **CHALLENGE IS TO ADAPT**
- **MODEL NOT BROKEN**
 - **ORIG'N & DISTRIBUTION MACHING + HUGE CONTENT**
 - **INV BNKS ARE THE INNOVATORS IN FIN MKTS.**
 - **OUR BUSINESS IS CHANGE AND ADAPTATION**
 - **INDUSTRY PROVEN HIGH CAPACITY TO RENEW**
 - **NO OTHER TYPES OF INSTITUTIONS HAVE OUR COMBINATION OF:**
 - **GLOBAL INFRASTRUCTURE/TECHNOLOGY**
 - **INTELLECTUAL CAPITAL**
 - **DRIVE**
 - **WHAT WE DO IS NECESSARY FOR GROWTH OF ECONOMY**
- **LEHMAN GROWTH COMPANY IN A GROWTH INDUSTRY**

- GROWTH IS NOT SMOOTH; BUMPS NORMAL
- PRIORITISING SOURCES OF FUTURE GROWTH:
 - REGIONAL MKTS:
 - EMG – LATAM, RUSSIA, ME, INDIA, CHINA
 - PRODUCTS – NEW AND OLD:
 - COMMODITIES
 - DERIVS → RISK MGT; ALWAYS EVOLVING
 - CUSTOMERS:
 - SWFs
 - NEW CUST ACCESSED VIA TECHNOLOGY
 - ‘OLD’ CUSTOMERS NOT DISAPPEARED
 - HF INDUSTRY → EVOLVING & GROWING
 - PE → LOTS \$ INVEST; ADVICE/PARTNER
 - TECHNOLOGY:
 - V IMPORTANT TO ALL ASPECTS OUR BUSINESS
 - GLOBAL PLATFORM NOT EASY TO REPLICATE
 - NEED TO LEVERAGE VALUE MORE
 - TECH EXPERTISE → NEW PROD + NEW CUST
- SO, KNOWN GROWTH OPPS ARE MANY & NEW ALWAYS EMERGE

- POSITIONING IS KEY TO TAKING ADVANTAGE
- MUST DO THINGS RIGHT AT:
 - FIRM LEVEL
 - INDIVIDUAL LEVEL
- AT FIRM LEVEL:
 - ALREADY MENTIONED:
 - FIRM EXEC MGT CHANGES
 - BUSINESS REPOSITIONING
 - B/S RESTRUCTURING
- WE HAVE LEADERSHIP AND FIN RESOURCES TO SUCCEED
- BUT BUSINESS GETS DONE AT INDIVIDUAL LEVEL
- HOW WELL WE DO – AND HOW WELL YOU DO – ABOUT WHAT YOU DO
- CAREER IN INVESTMENT BANKING IS EXCITING THING
 - THINK CREATIVELY
 - BE GLOBAL
 - BE AGGRESSIVE
 - BE LEADER + POSITIVE INFLUENCE THOSE AROUND YOU
 - ALSO BE FLEXIBLE–IN YOUR THINKING & YOUR CAREER

- CAREER PATHS ARE MANY; WE VALUE TALENT
- NETWORK; WE GREAT FIRM; WORK WELL TOGETHER
- USE WHAT THE FIRM HAS
 - V SMART GROUP OF PEOPLE
 - GLOBAL PLATFORM
 - STRONG CLIENT RELATIONSHIPS
 - FINANCIAL RESOURCES
- YOU WILL BE REWARDED
 - FINANCIALLY
 - INCREDIBLY INTERESTING + SATISFYING CAREER