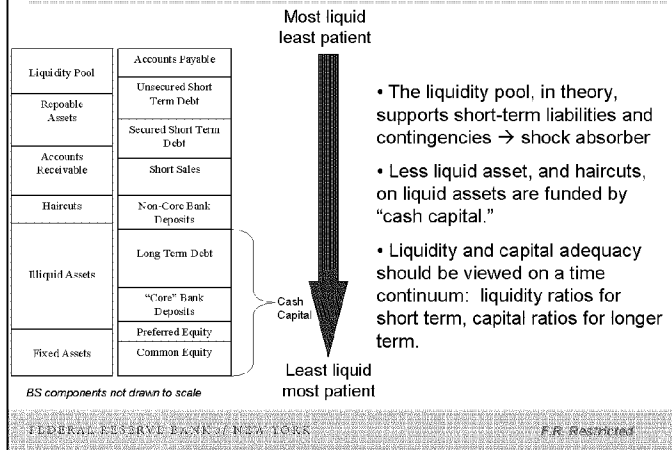


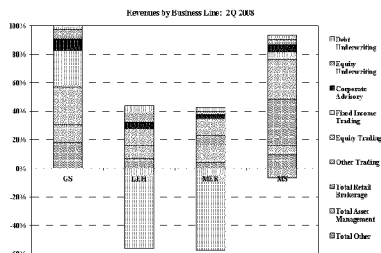
Simplified Broker Dealer Balance Sheet



Broker Dealer Size: Assets and Revenues

| (\$Millions) 2Q 2008 | GS | LEH | MER | M5 |
|-------------------------------|-----------|---------|---------|-----------|
| Total Revenues | 9,422 | (668) | (2,116) | 6,510 |
| Net Income | 2,087 | (2,774) | (4,654) | 1,026 |
| Net Profit Margin | 22.3% | NM | NM | 15.3% |
| Return On Equity (annualized) | 19.3% | NM | NM | 12.1% |
| Total Assets | 1,088,145 | 639,432 | 966,210 | 1,031,228 |
| Total Equity | 44,818 | 26,376 | 34,778 | 34,493 |
| Total Liabilities | 1,043,327 | 613,156 | 931,432 | 996,735 |

Trading revenues have always made up the bulk of total net revenues among the four investment banks, so as their trading revenues go, so goes their total revenues.



FEDERAL RESERVE BANK OF NEW YORK

F.R. RES/PT08

As a starting point it seems worthwhile to look at the composition of the balance sheets ...

While rather simplistic, insights that may be gained include:

- Are any of the firms funding their balance sheet overwhelmingly with any one particular liability? Potential vulnerabilities?
- Which balance sheets appear, at least on the surface, to be more liquid / flexible?
- Off-balance sheet: Do any of the firms have significant off-balance sheet exposure that may need to be brought onto their consolidated balance sheet?
- X-factors: Are there any factors either on or off balance sheet that one firm reports that the others do not that may expose the firm more so than the others?

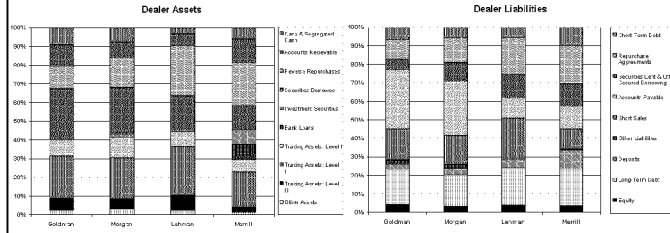
Potential Views:

- Asset Composition
- Liability Composition
- A/P as % of Total Assets
- Collateralized Financing as % of Total Assets
- Short Term Debt as % of Total Assets
- 'Reposable' Assets as % of Total Assets
- Illiquid Assets as % of Total Assets

FEDERAL RESERVE BANK / NEW YORK

F.R. RESERVED

High Level Balance Sheet Composition

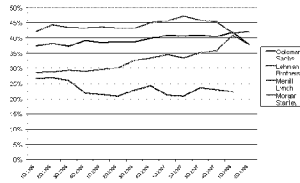


With the most liquid items at the top and the more illiquid toward the bottom, one might gain a reasonable snapshot of the firms' balance sheet liquidity / flexibility potential.

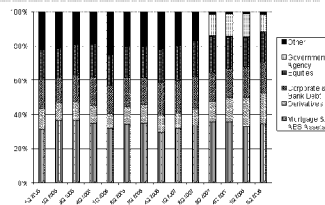
Assets

Trading assets make a large portion of the Securities firms' total assets ...

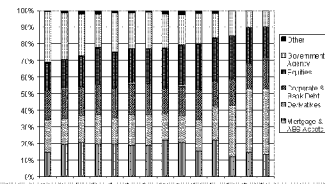
Trading Assets as a % of Total Assets



Lehman Brothers Trading Assets



Merrill Lynch Trading Assets



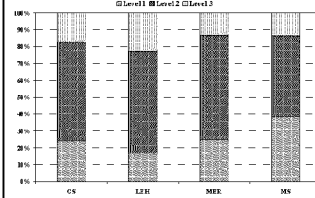
FEDERAL RESERVE BANK OF NEW YORK

F.R. RESERVED

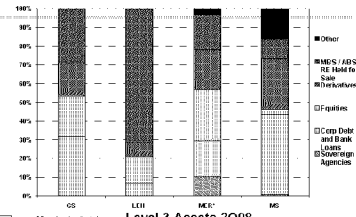
Assets, Cont'd

...Looking at the size and breakdown of level 3 trading assets, the most illiquid, can help determine the ability of a broker-dealer to shed more illiquid, risky assets.

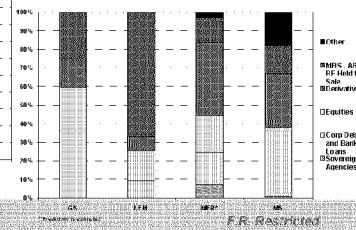
Breakdown of Trading Assets by Level



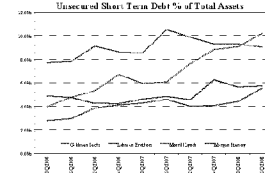
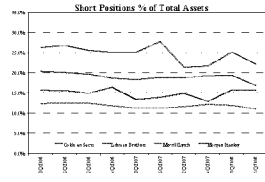
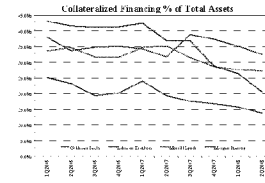
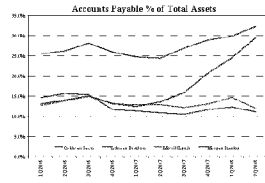
Level 3 Assets 1Q08



Level 3 Assets 2Q08



Balance Sheet Funding



FEDERAL RESERVE BANK OF NEW YORK

F.R. RESOURCES

Balance Sheet Funding: Secured Funding Maturity Profiles

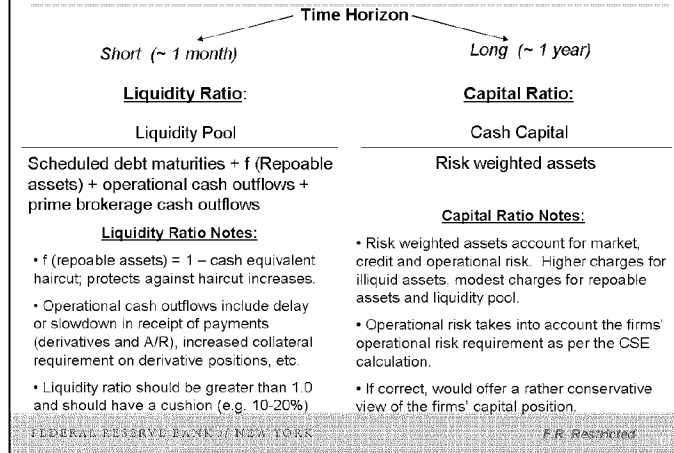
| Extensions of Secured Funding Term Structure Percent Rolling Overnights and Open | | | | | | | | | | | | |
|---|-----|--------|-------|-----|--------|-------|-----|--------|-------|-----|--------|-------|
| Period | LEH | | | MER | | | MS | | | GS | | |
| | FI | Equity | Total | FI | Equity | Total | FI | Equity | Total | FI | Equity | Total |
| 1 | 47% | 33% | 45% | 46% | 46% | 46% | 57% | 81% | 70% | 24% | 11% | 18% |
| 2 | 44% | 29% | 40% | 48% | 34% | 43% | 64% | 56% | 59% | 12% | 7% | 10% |

Period 1 LEH=314/608, MER=590/608, ME=561/608, GS=411/608
 Period 2 LEH=81/608, MER=81/608, MS=731/608, GS=86/608

| Extensions of Secured Funding Term Structure Percent Maturing > 30 Days | | | | | | | | | | | | |
|--|-----|--------|-------|-----|--------|-------|-----|--------|-------|-----|--------|-------|
| Period | LEH | | | MER | | | MS | | | GS | | |
| | FI | Equity | Total | FI | Equity | Total | FI | Equity | Total | FI | Equity | Total |
| 1 | na | na | na | 12% | 12% | 12% | 24% | 18% | 21% | 41% | 65% | 52% |
| 2 | na | na | na | 13% | 11% | 12% | 27% | 31% | 28% | 57% | 75% | 66% |

All time periods are same as above, except MS Period 1. 6/1/08

An ideal world might look like this ...



Liquidity

Purpose:

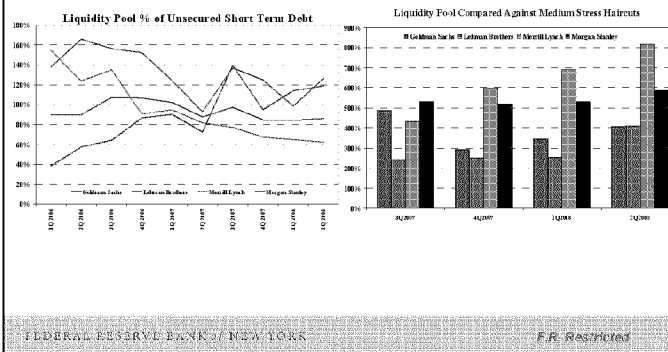
Assess the adequacy of a dealer's liquidity pool relative to its balance sheet exposure, particularly with respect to exposure to a short-term funding shock. While we don't know what a "good" number is, these ratios provide a framework for comparison across the different dealers.

- Liquidity Pool as % of Unsecured Short Term Debt
- Liquidity Pool as % of Medium Stressed Haircuts
- Liquidity Pool as % of Risk Weighted Assets
- Liquidity Pool as % of Short Term Debt, Stressed Haircuts, $f(A/R)$ and $f(\text{derivative positions})$

Liquidity, Cont'd

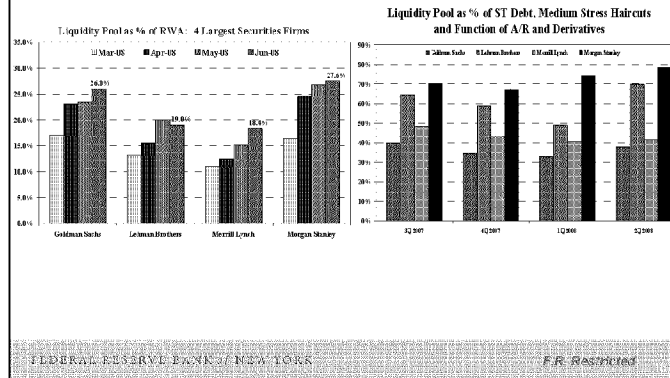
Liquidity Pool is there to cover

- Disappearance of unsecured creditors
- Haircut surprises and / or disappearance of secured creditors



Liquidity, Cont'd

Adequacy of liquidity pool looks different when compared to current portion of unsecured debt, haircuts on secured debt, risk weighted assets, "all-in" liquidity ratio



Capital

Purpose:

Assess the solvency of the broker dealer balance sheets. How leveraged are the broker dealers? How much patient money is available to cover illiquid assets? How sufficient is the capital base relative to potential write-down's on assets?

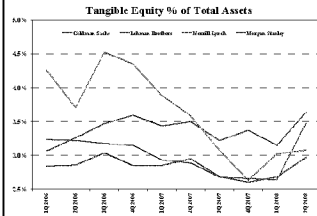
Leverage Ratio
Tangible Equity / Total Assets

Solvency Ratios
Tier I Capital Ratio
Total Capital Ratio

Cash Capital Ratios
Cash Capital as % of Risk Weighted Assets
Cash Capital as % of Illiquid Assets

Capital, Cont'd

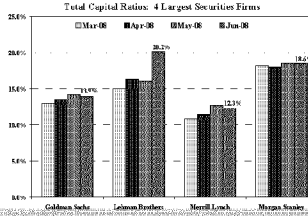
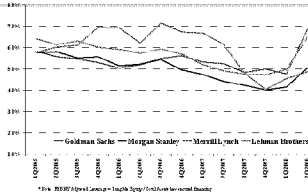
Leverage ratios are crude, but hard to manipulate



CSE ratios, now public, are a step closer to economic capital, but full of judgment

- GS uses CSE as ECap

FRENY Adjusted Leverage*

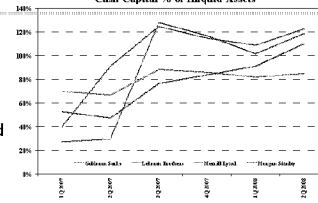


Capital, Cont'd

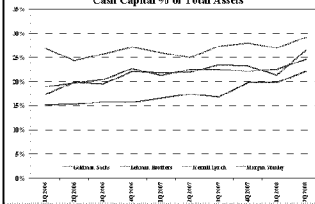
Ideally, cash capital, generally defined as long term debt, total equity and a portion of deposits, is used to fund the illiquid portion of the balance sheet

- You'd like cash capital to cover illiquid assets (at least?)

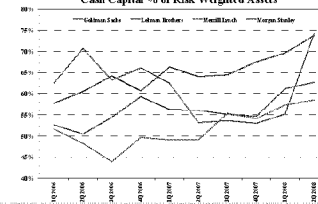
Cash Capital % of Illiquid Assets



Cash Capital % of Total Assets



Cash Capital % of Risk-Weighted Assets



FEDERAL RESERVE BANK OF NEW YORK

F.R. RESERVE

Market Share of Underwriting Activity

| | Share of Underwriting Activity at the 4 Large Investment Banks: First Half 2008 | | | | | | | | |
|----------------------------|---|------|-----------------|------|---------------|------|----------------|------|-----------|
| | Goldman Sachs | | Lehman brothers | | Merrill Lynch | | Morgan Stanley | | 4 B Total |
| | Mkt Share | Rank | Mkt Share | Rank | Mkt Share | Rank | Mkt Share | Rank | |
| Total Corporate Bonds | 4.1 | 7 | 5.9 | 11 | 4.1 | 6 | 4.3 | 9 | 17.3 |
| High-Yield Bonds | 6.8 | 5 | 5.1 | 9 | 5.3 | 7 | 5.2 | 8 | 21.4 |
| Investment Grade Bonds | 4.2 | 7 | 5.7 | 12 | 4.6 | 6 | 4.3 | 9 | 17.1 |
| MBS | 2.3 | 13 | 7.7 | 5 | 5.8 | 6 | 3.6 | 11 | 19.4 |
| ABS | 2.7 | 12 | 4.7 | 7 | 2.5 | 13 | 2.7 | 11 | 12.6 |
| Cash CDOs | 5.4 | 6 | 10.7 | 2 | 1.1 | 14 | 7.6 | 5 | 24.8 |
| Syndicated Loans (all) | 1.6 | 14 | 0.9 | 25 | 0.6 | 30 | 1.1 | 22 | 4.4 |
| Leveraged Syndicated Loans | 2.3 | 7 | 1.2 | 29 | 2.0 | 13 | 3.1 | 3 | 9.6 |
| Equities | 5.0 | 3 | 3.9 | 9 | 4.0 | 6 | 7.5 | 4 | 20.0 |

Source: Thomson Financial

FEDERAL RESERVE BANK OF NEW YORK

F.R. RESOURCES

Appendix – Defined Terms

Tangible Equity

- Common and preferred equity less intangible assets

Cash Capital

- Tangible Equity + Long Term debt + 50% of bank deposits

Repoable Assets

- Securities Purchased under Agreement to Resell + Securities Borrowed + Securities Received as Collateral (to the extent already financed) + a portion of the dealer's non-derivative trading asset inventory (full credit for Level 1 assets, partial credit for Level 2 assets, no credit for Level 3 assets).

Adjusted Assets

- Total Assets - segregated cash - reverse repos, sec borrowed, derivative shorts, intangible assets plus total securities sold short.

Illiquid Assets

- Total Assets less (Repoable Assets plus Total Cash)

f (Accounts Receivable) = 20% of total Accounts Receivable

f (Derivative positions) = 20% of Derivative Assets

f (Repoable Assets) = derived for moderate stress and very stressed scenarios