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LEHMAN BROTHERS

June 5, 2008

Chicago Mercantile Exchange

Liquidity Management At Lehman Brothers

Confidential Presentation

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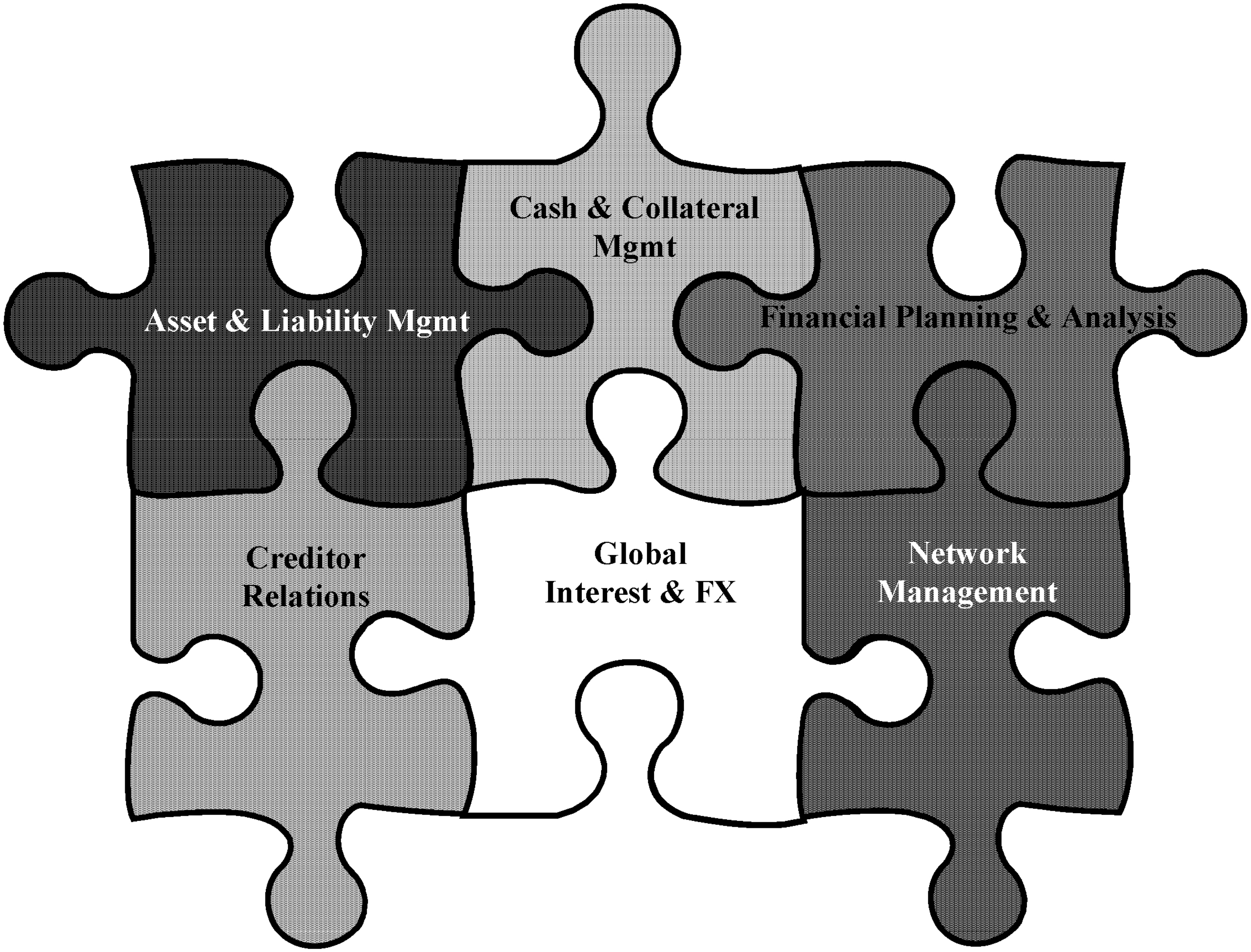
Introduction to Global Treasury

Global Treasury Disciplines

Global Treasury Is Comprised Of The Following Six Disciplines



Global Treasury Disciplines

Global Treasury's primary responsibility is to keep the firm safe from a liquidity standpoint, to fund all business needs and to ensure effective use of the firm's capital

Asset Liability Mgmt
- Manages key corporate treasury risks of liquidity, interest rate and foreign currency
- Manages funding and capital structure issues
- Develops liquidity management policy and projects and monitors liquidity
- Funds business activities and manages the liquidity pool

Cash & Collateral Mgmt
- Establishes controls and processes to efficiently manage intra-day liquidity requirements at an optimal cost
- Provides secured and unsecured funding forecasts; monitors, reconciles and adjusts for changes based on real-time settlement activity

Financial Planning & Analysis
- Responsible for effective management of equity capital
- Manages relationships with credit rating agencies
- Provides analyses to senior management to support decision making on financial policy

Creditor Relations
- Establishes and maintains relationships with credit providers and communicates credit profile
- Builds relationships with creditors to ensure access to reliable credit in all market environments

Global Interest and FX
- Works with Product and Legal Entity Controllers to manage and report interest expense
- Ensures that the expense of secured and unsecured funding is accurately allocated
- Manage various aspects of non-dollar equity, P/L and FAS 133 hedging processes

Network Management
- Negotiates and tracks fee arrangements to securities/cash clearing service providers
- Manages service relationships
- Acts as an internal consultant to businesses looking to enter new markets or launch new products
- Produces MIS as the expense line owner for the clearance bucket

Liquidity Management

Our liquidity management philosophy is embedded in the funding framework – the set of rules and guidelines for determining the appropriate funding for our assets

- Treasury is responsible for managing the liquidity and liquidity risk of Lehman Brothers on a daily basis
  - Daily liquidity projections
  - Weekly cash capital projections
  - Liquidity pool investments
  - Cash capital planning and reporting
  - Short-term liquidity outflow projections
  - Debt issuance – both short-term and long-term
  - Equity planning – including hybrid equity such as perpetual preferred and trust preferred securities

- This management is done in collaboration with the rest of the firm
  - The Finance Committee, which is comprised of key Finance senior management, is responsible for updating the rules of the Funding Framework
  - Through an initiative called the "Funding Optimization Project" launched in 2004, Treasury and the Secured Financing desks (Fixed Income & Equities) have partnered together to improve funding efficiency and liquidity management policies

The Funding Framework

The Funding Framework

The funding framework is based on a set of conservative principles guiding the funding of assets and the mitigation of liquidity risk

History

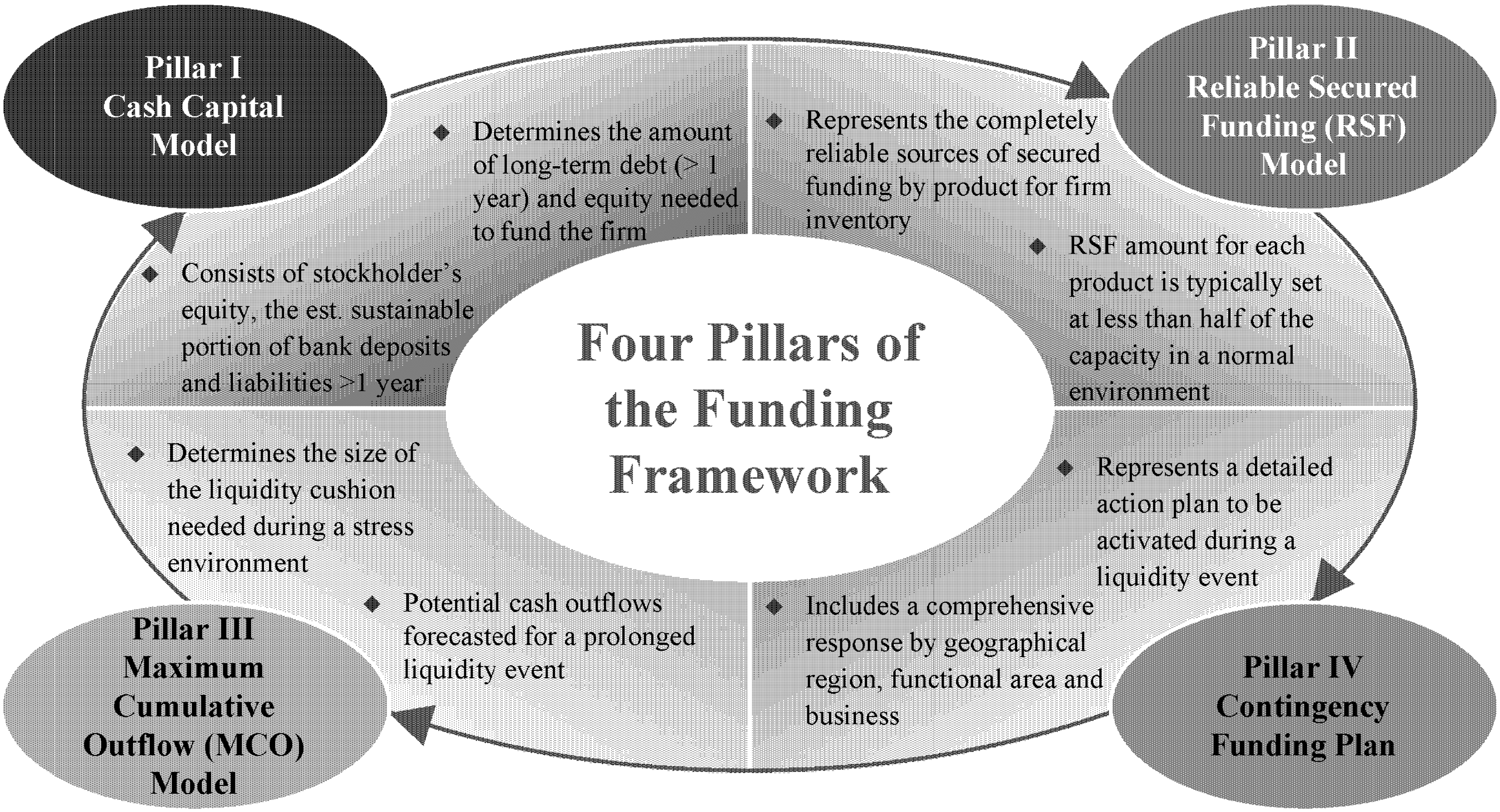
- Established in the aftermath of the liquidity event of 1998, the funding framework's core embodies the following principles
  - Remain in a state of constant liquidity readiness
  - Do not rely on asset sales, increase in operational effectiveness or access to the unsecured debt market in a time of crisis
  - Be proactive with your key stakeholders before and during a liquidity event: regulators, creditors, trading counterparts and rating agencies
- The framework is structured around three dimensions
  - Liquidity pool to cover cash outflows over a 12 month horizon at the Holdings Company
  - Cash capital to cover funding of illiquid assets as well as contingent liquidity risk
  - Secured funding plan to mitigate the liquidity risk associated with short-term secured funding, including the prime broker business

Recent Changes

- Increased cash capital surplus targets from $2-5 billion to $4-7 billion
- Began an active program of deleveraging
  - Projected to free up ~$5-10 billion of cash capital
- Completed benchmark issuance plan by early May
  - Raised $9.5 billion of cash capital, coupled with the deleveraging effort essentially completes debt issuance program for the year
- Increased funding of illiquid assets in bank entities – particularly Lehman Brothers Bankhaus
  - Maintain access through Bankhaus to ECB window
- Increased "overfunding" of repos to $18 - $8 billion, most in high yield securities and harder to fund assets
- Renewed $2 billion 3-year syndicated bank facility
- Increased CP program to mitigate risk of operations friction in a very volatile environment
- Started a program to securitized illiquid assets such as corporate loans and commercial whole loans
  - Resulting rated securities can be pledged to couterparties or Central Banks

Four Pillars of the Funding Framework

The funding framework comprises four pillars that direct the target liquidity structure



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Pillar I – Cash Capital

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All unsecured funding requirements in normal operating conditions require cash capital

Cash Capital Uses

	Examples	Cash Capital Principle
Illiquid positions	◆ Corporate and commercial whole loans ◆ Long-term non-trading assets ◆ Exchange margin & other LT collateral ◆ Fixed income, equity derivative and FX	◆ Funded 100% with cash capital ◆ Determine whether a position is illiquid by looking at its fundability in a stress liquidity event
Secured haircuts on long inventory	◆ Reverse repo agreements and borrowed securities ◆ Collateralized funding to counterparts	◆ Cash capital charge dependent on asset haircut ◆ Haircuts conservatively estimated and regularly reviewed ◆ If asset cannot be reliably funded on a secured basis in a liquidity event, the haircut assessed against the asset is 100%
Operational Friction	◆ Inventory in the "box" ◆ Cash at banks	◆ Unsecured financing assessed a "box" charge irrespective of their liquidity characteristics ◆ Cash at banks deemed not to be freely available to Holdings
Legal Entity Trapped	◆ Intercompany margin postings ◆ Structural trapped liquidity	◆ Margin posted by other entities into regulated entities ◆ Surplus cash due to regulatory capital requirements
Contingent liquidity	◆ CP backstops ◆ High-yield revolvers ◆ Secured lines of credit	◆ Prefund unfunded loans to mitigate contingent liquidity risk ◆ Revolvers typically include covenants that prevent draws in distressed market events ◆ Secured LOCs over-collateralized with wider than market haircuts
"Match funding"	◆ Integrated transaction on asset and liability side	◆ Asset and liability have self-funding and self-liquidating characteristics ◆ Structures reviewed on an individual basis

Pillar I – Cash Capital Continued

Target cash capital sources to exceed uses by $4 - $7 billion on an ongoing basis

Cash Capital Sources

	Examples	Cash Capital Principle
Equity and long term debt	◆ Equity ◆ Preferred and trust preferred ◆ Long term debt remaining term > 1yr	◆ Limit amount of maturing debt over any rolling three, six and twelve month horizon ◆ If debt limits are exceeded, do not recognize excess as reliable liquidity ◆ Source diversity by limiting individual aggregate holdings to 5% of Lehman Brothers' total debt outstanding
Cash capital structures	◆ Evergreen structures ◆ Non-extendible structures ◆ Structured notes	◆ Extendible secured and unsecured structures with terms > 1yr ◆ Structures with completely reliable funding with remaining terms >1 yr ◆ Structure limit implemented based on amount of available financing after day 390
Restricted entity cash capital	◆ Certificates of deposit	◆ CDs with maturities > 1yr assigned cash capital charge of 25% - 80% ◆ CDs with maturities < 1yr assigned cash capital charge of 100% ◆ Any shortfall in regulated entities results in a secured inter-company payable to Holdings – which is [100%] cash capitalized
Committed facilities	◆ Revolving credit facilities	◆ $2.0 billion U.S. and $2.5 billion European syndicated facilities ◆ Routinely drawn and repaid for working capital purposes ◆ Full facility amount is considered 100% source of cash capital

➨ No reliance on hot money such as customer free credits or short term debt as a cash capital source

Pillar II – Reliable Secured Funding Model (RSF)

The RSF limits represent the current expected capacity by collateral and counterparty in the event of a liquidity crisis

Reliable Secured Funding

	Example	RSF Principle
Firm Financing	◆ Tenor by asset class	◆ RSF quantity by asset class is set for overnight/open funding for that class ◆ Equity and Fixed Desks propose initial RSF limits by asset class ◆ Creditor Relations engages in ongoing dialogue with secured funding counterparts to assess and negotiate facility limits ◆ Highly liquid assets (e.g. Government, Agency MBS) are assessed as having no restriction of secured funding ◆ RSF limits are adjusted downward for cannibalization effects across facilities provided by the same counterparty ◆ Inventory in excess of the RSF limit requires term financing, with the required tenor having a minimum of 90 days
Customer Financing	◆ Prime Broker Model	◆ Finance customer assets through term funding with tenor of funding at least matching the tenor of the financing trade – Business operates without any additional unsecured cash in stress scenario ◆ Protected against unexpected funding requirements through requirement that couterparties obtain sign off prior to taking on any incremental positions

Pillar III – Maximum Cumulative Outflow (MCO)

By projecting a series of cash flows over a one year horizon, MCO defines the size of the liquid cash pool needed in a stress environment

- MCO assumptions
  - Cannot issue any short term or long term debt, or draw on uncommitted bank lines for one year
  - No secured funding availability above the RSF limits by asset class for at least 90 days
  - Roll off of all unsecured short term debt will be covered by the liquidity pool
  - Average secured financing haircut increases
  - Additional funding requirements resulting from a credit rating downgrade
  - Anticipated funding requirement for contingent commitments
  - Opportunistic repurchase of up to $2 billon of capital

- MCO model determines the target level for free cash on hand needed to ensure a liquidity position of at least $2 billion after a stress period lasting 90 days and a positive position throughout a stress period lasting one year

- MCO policy aims to maintain a liquidity pool for Holdings and its unrestricted subsidiaries that covers, in a stressed liquidity environment, all expected cash outflows for one year

- In a liquidity event, Holdings can withdraw its unsecured loan from its bank subsidiary, providing the bank has sufficient inventory to pledge for FHLB funds to replace the loan

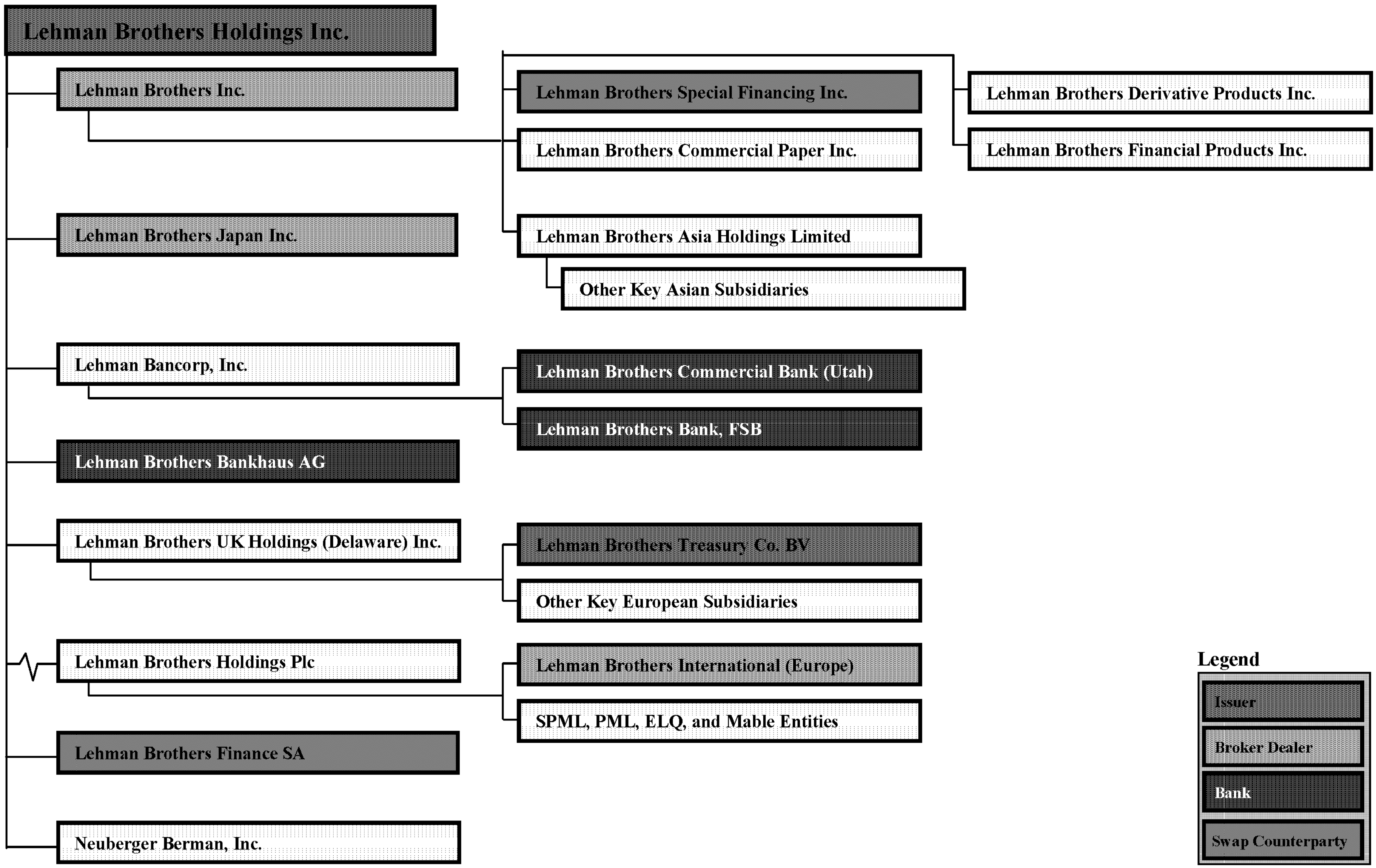
Pillar IV: Contingency Funding Plan

The Contingency Funding Plan is a detailed action plan activated in a liquidity event

- The Contingency Funding Plan (CFP) includes the following components:
  - Creates an executable plan for a comprehensive response to extreme liquidity events by geographical region, functional area, and business
  - Defines roles and responsibilities within the management framework to execute the plan
  - Provides key contact points within and outside the firm for decision making and implementation
  - Identifies key resources within the firm, including senior management, information, and operational support that need to be mobilized to implement the plan
  - Incorporates a comprehensive communication strategy to consolidate feedback to senior management and creditor institutions.
- It was last activated in the aftermath of September 11, 2001 as a precautionary measure.
  - There was no liquidity event on September 11, 2001. On the other hand, the firm was very long cash and was able to provide liquidity to European banks that had trouble funding their dollar positions. The plan was activated primarily because of the state of disarray of the secured funding markets.

Banking and Other Entities

Key Global Entities



Legal Entity Structure

Legal entity structure can constrain liquidity flows – accounted for in funding framework

- Holdings Company Chain
  - LBHI: Holding company
  - LBF and LBSF: Derivatives subsidiaries
  - LB Treasury Co. BV: Main European debt issuing entity

  - Issues nearly all unsecured debt
  - Holds mostly illiquid (100% cash capital) assets

- Broker dealers
  - LBI, Neuberger Berman and LOTC: U.S. broker dealers
  - LBIE: European broker dealers
  - LBJ: Japanese broker dealers

  - Funded with equity and debt from Holdings (LBI also has some external debt)
  - Primarily securities trading, including prime brokerage
  - Bulk of securities are being funded on a secured basis

- Bank Entities
  - Lehman Brothers Bank
  - Lehman Brothers Commercial bank
  - Lehman Brothers Bankhaus: German bank

  - Funded with equity and sub debt from Holdings
  - Raise insured term funding (brokered CDs in the U.S.)
  - Primarily fund whole loans and corporate loans
  - Access FHLB system to fund whole assets
  - Also access ECB discount window

Lehman Brothers Banks: An Overview

	Lehman Commercial Bank	Lehman Brothers Bank	Lehman Brothers Bankhaus
Primary Oversight	◆ FDIC, Utah Dept ◆ Fin'l Institutions	◆ OTS	◆ Bundesbank ◆ GDPF
Primary Asset Base	◆ Corporate Loans ◆ CWL ◆ Warehouse Lending ◆ IR Deriv Receivables ◆ *Non USD allowable*	◆ RWL ◆ CWL ◆ Warehouse Lending ◆ Corporate Loans ◆ *USD assets only*	◆ Corporate Loans (outright) ◆ CWL (outright) ◆ Warehouse/Retail (UK mtges) ◆ Swap Receivables (RR) ◆ *Non USD allowable* ◆ *Qualifies as 20% Risk Weighted*
External Liabilities	◆ FDIC Insured CDs ◆ Sweeps	◆ FDIC Insured CDs ◆ Sweeps ◆ FHLB Secured Borrowing	◆ GDPF Insured CDs ◆ Schuldschein Issuance ◆ Committed Facility

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Bank Entity Asset Growth and Asset Funding

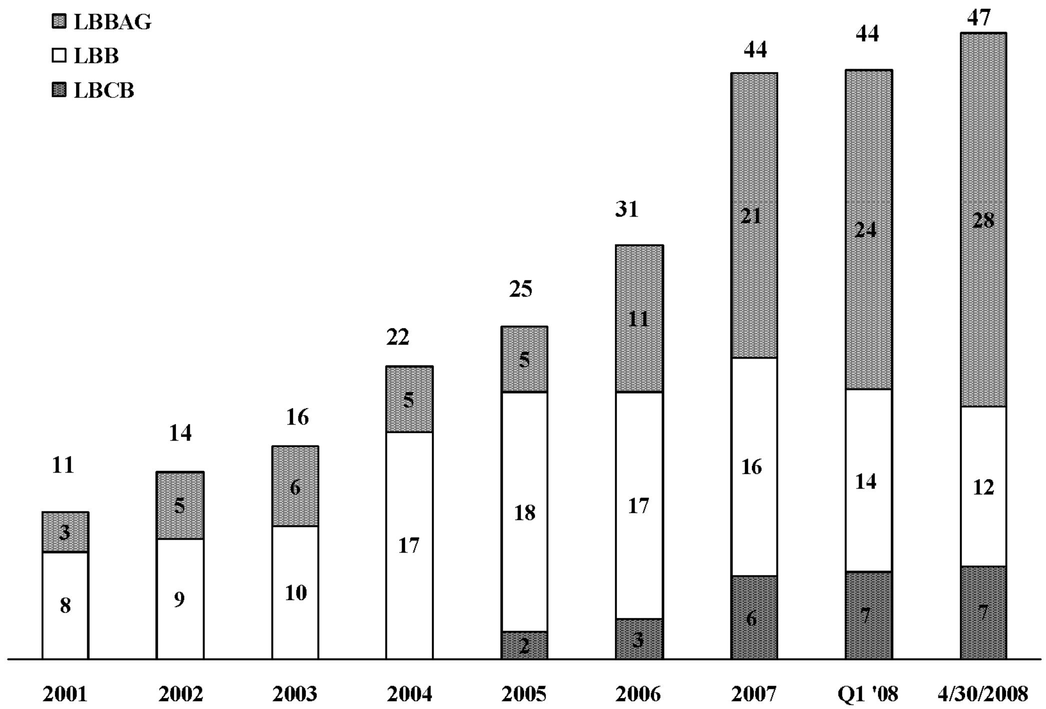
Strong asset growth at bank entities provides a reliable funding source

- The 3 banking entities all benefit from raising cost-effective financing in a depositor-protected environment
- Additionally, the Bankhaus has access to the lending facilities of the European Central Bank (ECB) and the Bundesbank
- The ECB has a $700 billion lending facility accepting a wide range of good quality fixed income collateral, which commercial banks in the Euro zone use regularly for large amounts
  - Bankhaus borrows approximately $8 billion under this program.

Lehman Banking Entities

- **Lehman Brothers Bank (LBB)** : Funds all US residential mortgage origination. Additionally funds commercial mortgages and investment grade US loans. Can access the Fed discount window.
- **Lehman Brothers Commercial Bank (LBCB)** : Funds commercial mortgages, derivative receivables and corporate & industrial loans. Can access the Fed discount window.
- **Lehman Brothers Bankhaus (LBBAG)**: Funds securities on repo and loans (commercial, residential and corporate). Can access the ECB discount window

Lehman Banking Entities – Total Assets ($Billions)



Liquidity

Core Principles of Capital & Liquidity Management

Our capital & liquidity management is based on four principles.

Liquidity Strategy Principle	Implication To Funding Framework
◆ We must remain in a constant state of liquidity readiness	◆ Maintain a **large cash position** in the Holding Chain, sufficient to absorb the impact of a very severe liquidity event
◆ We should not rely on asset sales or increases in unsecured borrowings or funding efficiencies in a liquidity crisis	◆ **Do not plan on reducing balance sheet for liquidity reasons** in a liquidity event (although may do so for risk reasons)
◆ We should not overestimate the availability of secured financing in a liquidity crisis	◆ Establish '**Reliable Secured Funding**' levels
◆ Legal entity structure constrains liquidity flows which should be explicitly accounted for in liquidity planning	◆ Separate Cash Capital Model for each **regulated entity** and the Holding Chain; treat all excess cash in restricted entities as 'trapped'

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Liquidity Events

Lehman Brothers Is Prepared To Face Several Types Of Liquidity Events

Cause	Effect	Lehman's Solution
◆ Lehman Specific Event	◆ Creditors lose faith in the Firm's ability to repay its dept ◆ Creditors unwilling to lend Lehman either unsecured, or even on a secured basis, against less liquid assets	◆ Maintain a large cash position at Holdings, sufficient to ensure the Firm can remain shut off from all unsecured borrowing for over a year; spread out maturities to avoid bouncing
◆ Market Liquidity Event	◆ Large disruption to marketplace leads to a global liquidity squeeze ◆ Increased cost of borrowing materially; causes firms to call on their backstop facilities	◆ In addition to cash position in Holdings, the Firm has a series of pre-funded facilities with "cash on tap": unutilized funding capacity in our banks (LBB, LBCB & Bankhaus), our committed facilities, and unutilized cash capital facilities

Rating Agency Comments on Lehman Liquidity

The rating agencies have recently commented favorably on the Firm's liquidity and have also been supportive of recent Fed action to provide additional solutions to an industry-wide structural liquidity issue

- "…its excess liquidity position ($34 billion at Feb. 29, 2008) is among the largest proportionately of the U.S. broker-dealers, and its sources-to-uses ratio is the strongest of the five."
  - S&P, Research Update; March 21, 2008

- "Lehman has consistently been among the top financial institutions in managing risk, including market, credit, and liquidity risks."
- "…Lehman's liquidity management and position remain robust and are underpinned by a funding framework that is scaled to the firm's expectations for, and vetting of, reliable secured funding…
  - Moody's, Research Update; March 17, 2008

- "Liquidity remains strong with Lehman's lower reliance on short-term funding relative to its peers…"
- "…Lehman has managed its liquidity well in the last eight months."
  - Fitch, Research Update; April 1, 2008

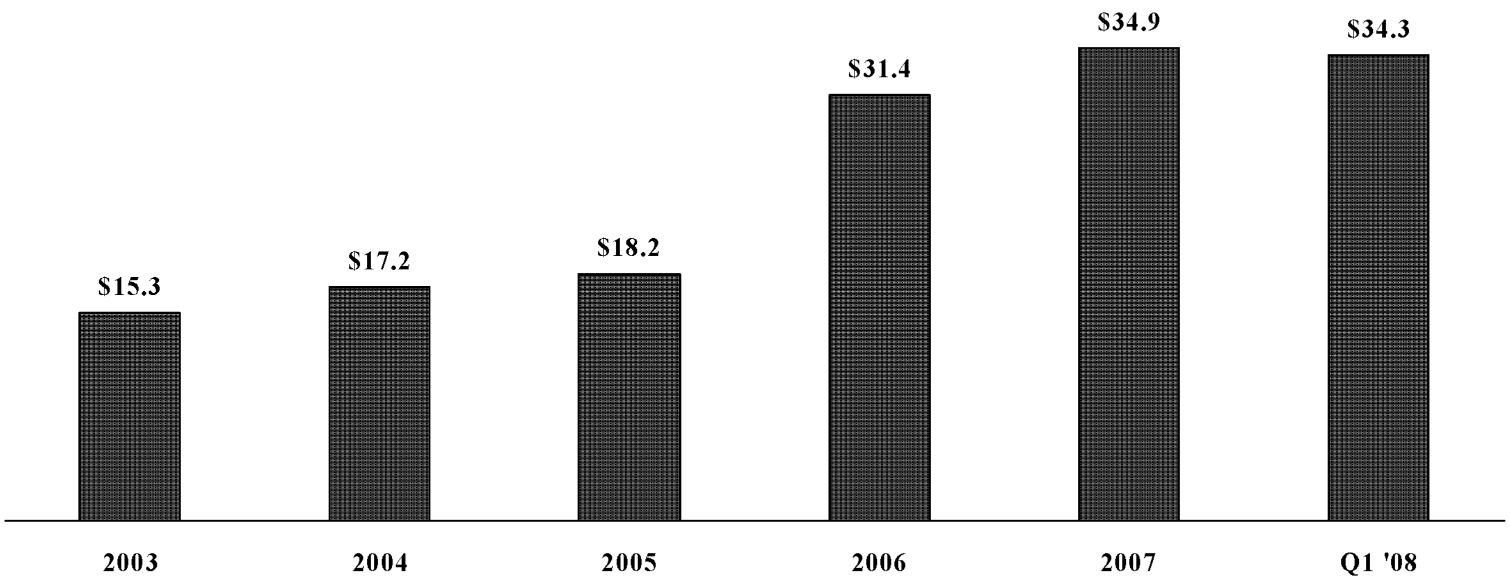
- "Lehman's liquidity position is robust…"
  - DBRS, Research Update; March 19, 2008

Liquidity Pool

The size of the liquidity pool increased to $30 - $35 billion beginning in 2006

- Liquidity pool is managed by Treasury for the Holding Company. It is invested in cash and cash equivalents (e.g., money market funds) and good quality collateral for which there is ample unused funding capacity with external counterparts
  - Investment grade securities (Treasuries, Agencies, Corporates and Asset-Backed Securities)
  - Major index equities
- Not included in the liquidity pool are unencumbered assets ($64 billion in unregulated subsidiaries and $97 billion in regulated subsidiaries as of Feb 29) and the liquidity pools held at the bank entities and broker dealers

Liquidity Pool ($ Billions)



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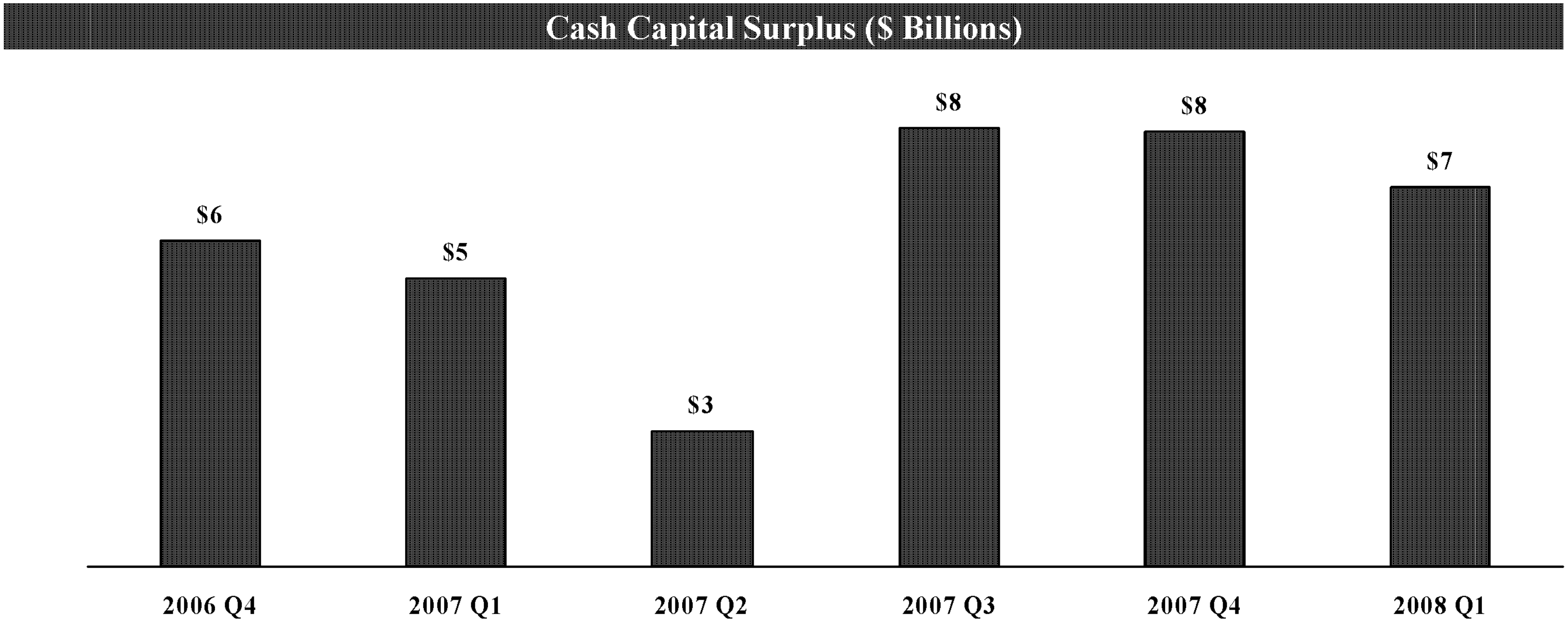
Cash Capital Surplus

Holdings' cash capital surplus historically fluctuated in a range of $2-6 billion. During the summer of 2007, we conservatively increased the target to $4-7 billion



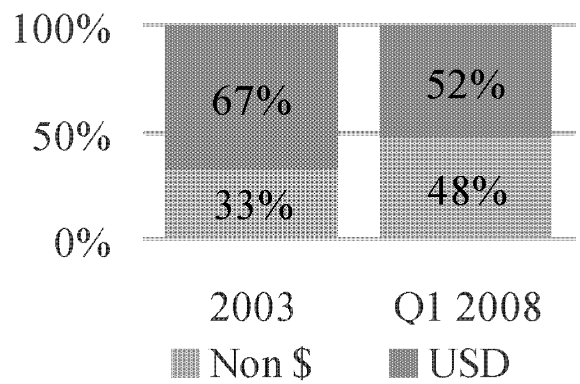
Funding Strategy

Funding Diversification

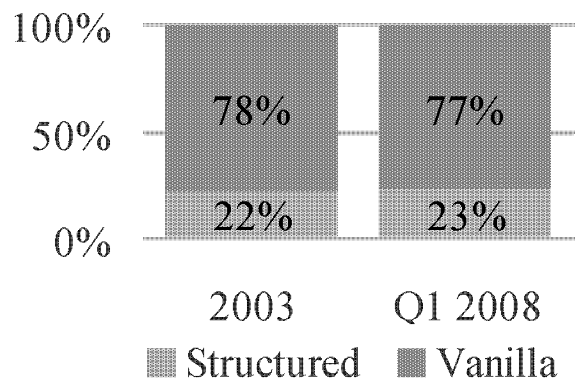
Diversify issuances by currency, type and region to broaden debt investor base

- Currency sources: currency base is diversified, approximately 48% of long-term debt issued in currencies other than USD
- Funding instruments: in addition to plain vanilla debt, diversified funding base by issuing structured notes
- Investor base: diversified issuances geographically to broaden the debt holder base. Approximately 53% of long-term debt portfolio was issued in Europe and Asia

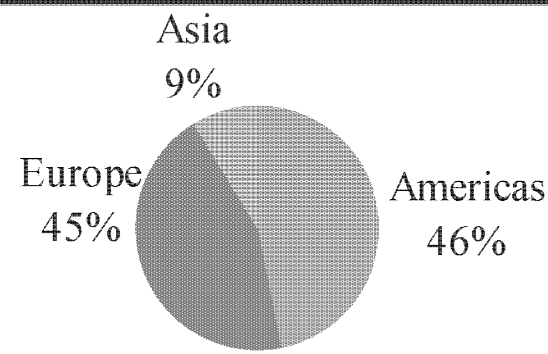
Mix by Currency '08



Mix by Type '08



Mix by Region '08

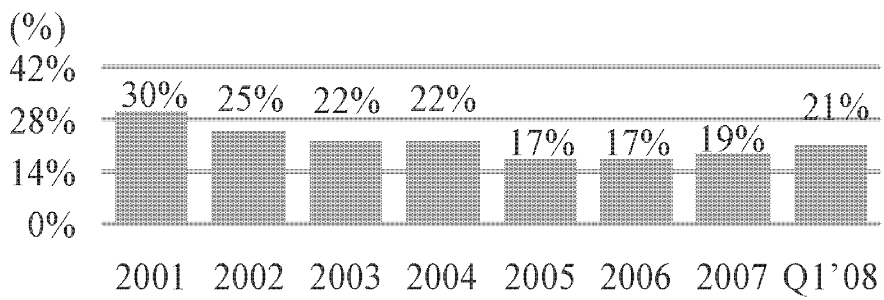


Managing Rollover Risk

Limit rollover risk by distributing debt maturities

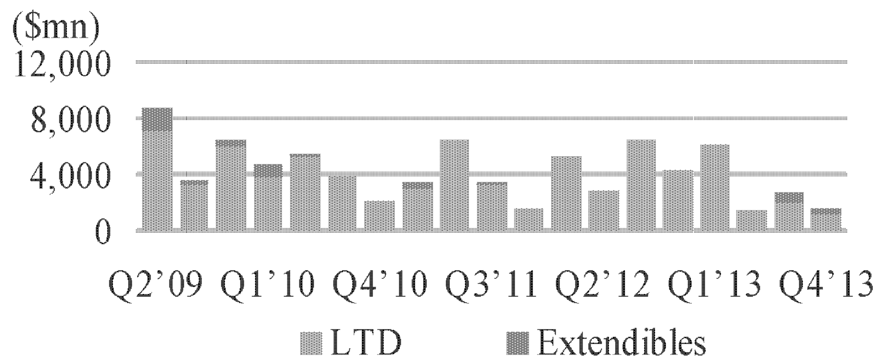
◆Reduce the impact of a liquidity event by not relying on short-term debt. Instead, increased the share of debt that is long-term with ensuring that the percentage of maturing long-term debt is no more than 12.5%, 17.5% and 30.0% of outstanding long-term debt borrowings over any 3-month, 6-month and 12-month horizon, respectively

Short Term Debt to Total Debt



($bn)	2001	2002	2003	2004	2005	2006	2007	Q1'08
St Debt[2]	12.5	10.3	9.9	9.9	11.4	20.6	28.1	34.5
Total Debt	42.3	41.1	45.9	59.3	65.3	101.8	151.2	162.8

Maturing Long-Term Debt[1]



Months	Limits		Actual		Period
3	12.5%	16,051	7%	8,881	3/01/09 – 5/31/09
6	17.5%	22,472	10%	12,675	11/01/09 - 4/30/10
12	30.0%	38,523	18%	23,646	5/01/12 - 4/30/13

1. *$5.05bn of Extendibles are shown at their earliest maturity dates. Extendibles are long-term debt, the earliest maturity date of which is automatically extended unless debt holders instruct us to redeem their debt. Because the redemption notification must occur at least one year prior to the earliest maturity date, extendibles are included in long-term debt. Moreover, because the earliest maturity date generally is extended, extendibles "roll" through the long-term debt profile.*
2. *Short term debt includes current portion of long term debt.*

Recent Benchmark Issuances

Issued $9.5 billion in four benchmark issuances since the start of the quarter

- $4.0bn of non-cumulative perpetual convertible preferred stock
  - Dividend of 7.25% per annum
  - More than three times oversubscribed
- $2.5 billion of 10-year senior debt
  - Treasuries + 320 bps
  - $6.5 billion of orders within 1 hour
- £0.5 billion ($1.0 billion) 10-year senior debt
  - Gilts + 315 bps
  - £0.8 billion of orders within 4 hours
- $2 billion 30-year subordinated debt
  - Treasuries + 305 bps
  - $4.0 billion of orders within 1 hour

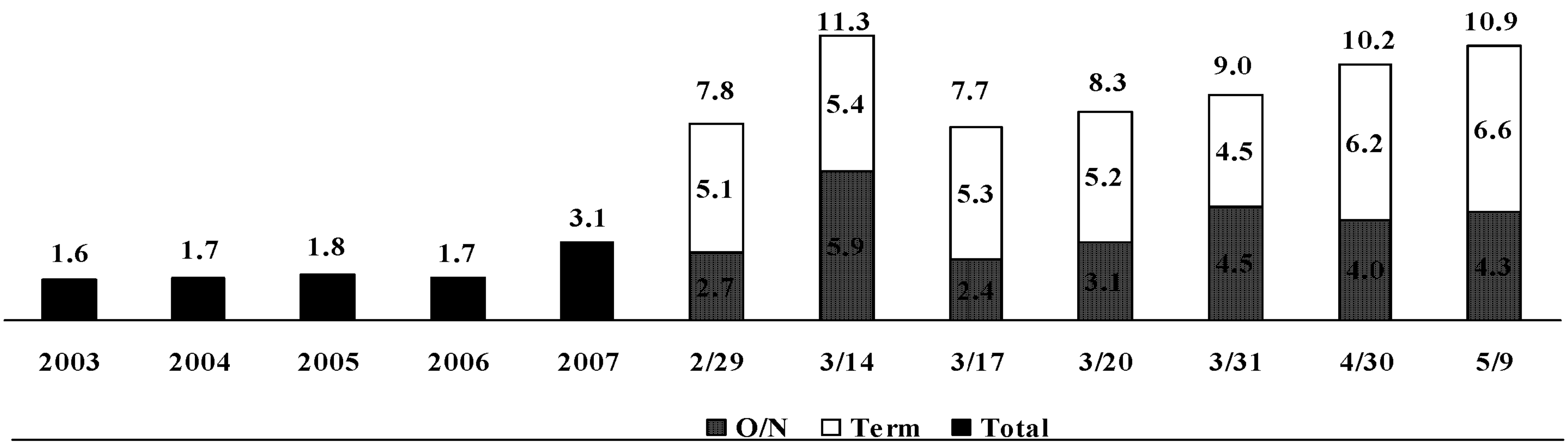
- Completed debt issuance program for the rest of the year
  - May issue further during the latter part of the year to "pre fund" 2009 debt issuance requirements

Commercial Paper

Strategic use of commercial paper rather than as a funding source for core requirements

- Use term commercial paper to mitigate short-term liquidity outflows such as unforeseen operational friction (fails), a sudden drop in prime broker lock ups or sudden changes in secured funding. We do not use commercial paper to fund core requirements or illiquid assets because they are not a good source of cash capital.
- We issue overnight commercial paper for two reasons
  - As a way to introduce new investors to our commercial paper in the hope that they will buy term CP over time – as evidenced by the growth in our term CP program in April and May
  - To measure sentiment toward Lehman Brothers: CP investors tend to be lead indicators of improving markets.
  - We conservatively do not attribute any liquidity value to our overnight CP program even though there is still a market, albeit a small one, in most market environment ($2.4 billion issued on March 17)

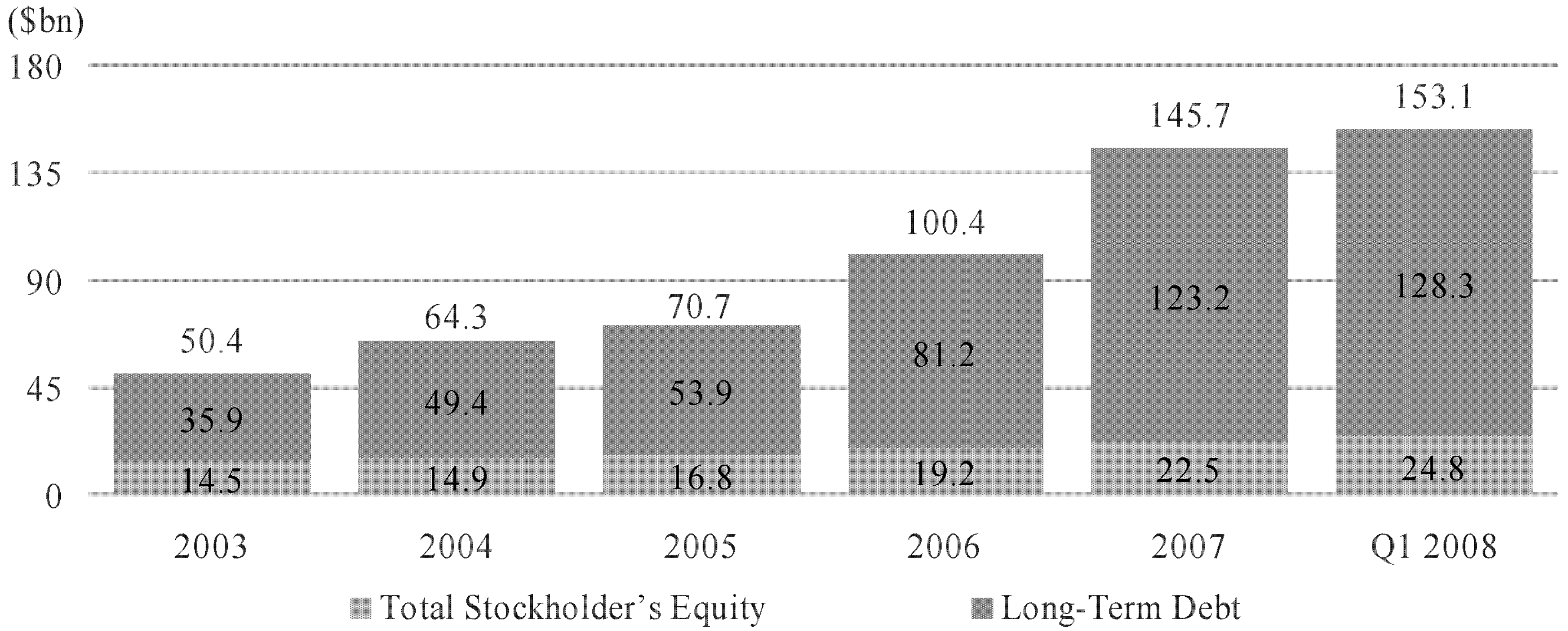
Commercial Paper Outstanding ($ Billions)



Sizing Equity and Total Long-Term Capital

Continued to strengthen capital position, tripling long-term capital since 2003

Total Long-Term Capital[1]



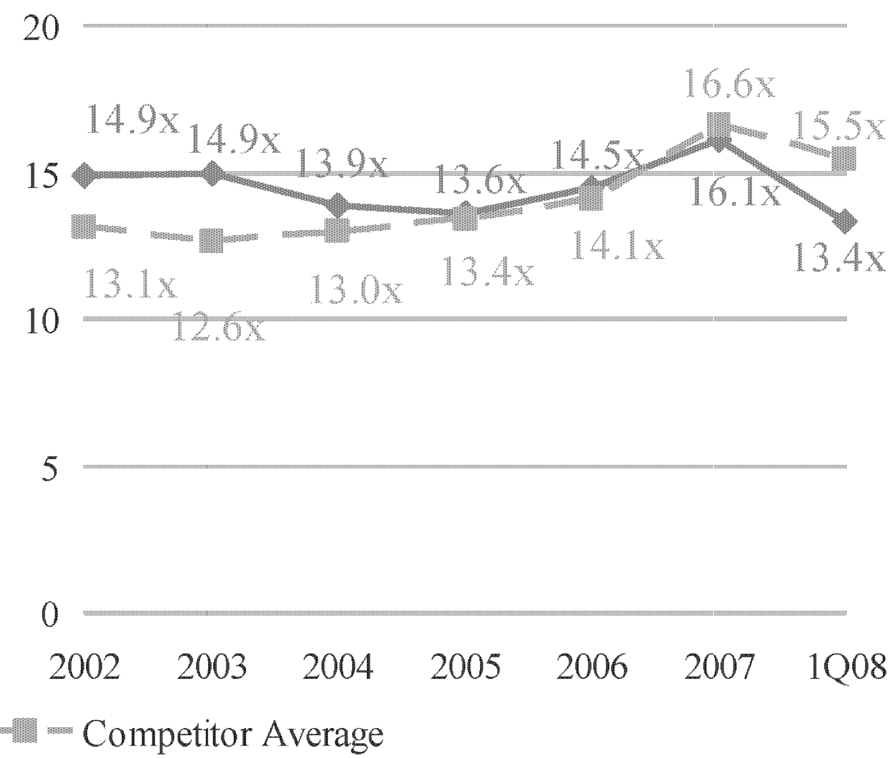
1. *Total long-term capital includes long-term borrowings (excluding any borrowings with remaining maturities within one year of the financial statement date) and total stockholders' equity. We believe total long-term capital is useful to investors as a measure of our financial strength.*

Average Industry Leverage Ratios – 2002 to Q1'08

Significantly reduced leverage and illiquid assets to better position the firm for future opportunities

Gross Leverage Ratios[(1)(2)]

Net Leverage Ratios[(1)(2)]



Note: Leverage ratios are calculated consistent with Lehman Brothers' methodology as detailed in the Appendix

1. *Competitor average includes figures for Goldman Sachs, Morgan Stanley and Merrill Lynch*
2. *Lehman Brothers' Q108 equity number has been adjusted to include $4bn resulting from the convert issuance. Q108 industry average includes pro forma figures for Merrill Lynch, accounting for their $2.55 bn perpetual preferred securities issued on April 22, 2008*

Secured Funding

Overfunding of risky assets mitigates secured funding risk

- Mitigate secured funding risk by overfunding or term-funding at-risk asset classes (high yield corporates, asset backed securities)
- Overfunding historically around $10-15 billion but has lately increased to $15-20 billion – more than half in non-Central Bank eligible collateral – primarily high yield corporates
- Additionally, increased the average tenor of the repo book from 20-25 days to 25-30 days (35-40 days for collateral that cannot be pledged to the Federal Reserve or the ECB)

Non-Traditional [1] Repo Book Metrics

	29-Feb	4-Mar	14-Mar	2-Apr	2-May	3/14 - 5/2 Change
Repo Book ($ Billions)						
Allocated Collateral	116.4	114.0	115.3	108.3	111.7	-3%
Overfunding	9.2	14.6	12.7	18.0	17.5	38%
Repo Capacity	**125.6**	**128.6**	**128.0**	**126.3**	**129.2**	1%
Average tenor (days)						
Grand Total	25	22	24	25	29	21%
Central Bank Eligible Collateral					*23*	
Non Central Bank Eligible Collateral					*37*	
% Repo Book With Maturities <= 1 Week	58%	58%	57%	52%	54%	-3%

1. Repo book excludes Governments, Treasuries, Government/MBS Agencies, Sovereigns

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Managing Secured Liquidity Risk

Short-term secured financing represents the largest source of secured funding

- ◆Key objective is to ensure that short-term funding sources are maintained in adverse market environments
- ◆Manage secured liquidity using a four-pronged risk mitigation strategy, which conservatively assumes: (a) no reliance on Holdings' liquidity, (b) no reliance on customer collateral or free credits

	Secured Financing Risk Mitigation Strategy	
Traditional Approach	Assess Reliability of Funding Counterparts	◆ Reliability of repo counterparties assessed continuously on an asset class basis ◆ Funding is typically with counterparts, which have a long and deep funding/trading history with Lehman Brothers (e.g., clearing banks, large asset managers)
Recent Changes	Overfunding Of Less Liquid Asset Classes	◆ Capital Markets Prime Services funds more less liquid collateral than it needs, thereby creating a "cushion" in case counterparts decide to stop funding or ask for higher quality collateral
	Use Lehman Brothers Bankhaus	◆ Contrary to the U.S. bank entities, Lehman Brothers Bankhaus is able to fund good quality collateral (~$3 billion) held by other Lehman entities ◆ This collateral can be funded either on an unsecured basis (Bankhaus operates in a deposit-protected environment) or can be repoed to the discount window of the ECB
	"Transforming" Balance Sheet	◆ In a severe liquidity event, Lehman Brothers would reduce liquidity-consuming proprietary positions, such as the Matched Book ◆ Additionally, use structuring capabilities to create liquid, investment grade securities of a pool of less liquid collateral (e.g., through CLO or CDO)

Risky and Less Liquid Assets

Participation in other "troubled" asset classes has remained limited with the ability to transform illiquid assets at a fairly short notice

- Generally participate as agent only in the ABCP market
- Do not own or sponsor any SIVs
- 93% of derivative counterparty exposure is to investment grade-rated entities
- Net exposure to monolines, after hedges and credit reserves is not significant
- Minor participant in the Auction Rate Securities market
- Witnessed a favorable resolution to a number of troubled exposures where we largely avoided losses
- Can transform less liquid assets at a fairly short notice (1-2 weeks)
  - Less liquid assets include high yield securities or loans into investment grade securities, which can be treated as any other investment grade securities from a secured funding perspective and a subordinated note/equity, which would be funded with cash capital
- We created $11 billion of additional liquidity through these securitizations YTD

Less liquid collateral pool
- High yield securities
- Corporate loans
- Whole loans

→

Structuring transaction
- CLO
- Securitizations
- CDO

→

Output
- Investment grade securities (on a stand alone basis)
- Subordinated note/equity (funded with cash capital)

Commitments and Contingencies

Contingent Liquidity Risk

- The Funding Framework is designed to set rules in order to protect Lehman in a stress liquidity environment. In a stress environment, whether Lehman-specific or market-wide, we plan for an increase in cash capital requirements due to
  - Unfunded loan commitments that get drawn due to a contraction in the market liquidity or due to a series of credit events impacting Lehman's banking clients.
  - Downgrade of Lehman's ratings

- The committed portfolio is very diversified across clients and industries, which is an effective liquidity risk mitigant
- To further mitigate the risk, the majority of loan commitments are booked in the bank entities
  - Best suited to handle commitment risk because of access to the insurance-protected deposit markets and the Central Bank and, in the case of the U.S. bank entities, FHLB borrowing windows
  - Additionally, the liquidity risk is prefunded with cash capital based on a quantitative assessment of the draw, which is takes into account client ratings and industries.

- A downgrade of Lehman's ratings would mechanically result in an increase in cash capital requirements – primarily due to additional cash collateralization of our derivatives receivables
  - The increase in funding requirements due to a one-notch downgrade is also funded with cash capital.

Committed Facilities

- Various hedging and funding strategies used to actively manage market, credit and liquidity exposures
- Total contractual commitment are not necessarily indicative of actual risk or funding requirements
  - Commitments may not be drawn or fully used
  - Contractual amount does not net out hedging effects

Committed Facilities

	Expiration per Period at 2/29/2008					Contractual Amount	
($bn)	**2008**	**2009**	**2010 - 2011**	**2012 - 2013**	**Later**	**2/29/2008**	**11/30/2007**
Lending Commitments							
High grade [1]	$4.2	$3.6	$6.6	$11.4	$0.4	$26.2	$24.0
High yield [2]	2.5	1.6	1.7	4.8	1.9	12.5	14.4
Contingent Acquisition Facilities							
High grade	7.2					7.2	10.2
High yield	3.7					3.7	9.7
Mortgage Commitments	1.7	0.5	1.4	0.3	0.0	3.9	7.4
Secured lending transactions [3]	113.0	1.6	1.2	0.4	0.5	116.7	124.6
Other Commitments							
Derivatives (notional) [4]	167.1	69.3	187.7	220.0	225.0	869.0	737.9
Municipals	1.4	2.0	0.2	0.1	3.8	7.5	6.9
VIEs	0.1	1.3	0.4	1.0	6.8	9.6	10.4
Standby LOCs	1.7	0.4	0.0	0.0	0.0	2.1	1.7
Private equity and other	0.8	0.7	0.9	0.1	0.0	2.4	2.6

1. *$15.4 billion and $12.2 billion credit exposure net of hedges for 2/28 and 11/30, respectively*
2. *$12.5 billion and $14.4 billion credit exposure net of hedges for 2/28 and 11/30, respectively*
3. *Repurchase agreements accounted for $52.6 billion and $45.3 billion for 2/28 and 11/30, respectively*
4. *Fair value approximated $45.9 billion and $36.8 billion for 2/28 and 11/30, respectively*

DRAFT

Repo Book

Reliable funding counterparts in the repo book

- Top 20 counterparties account for about 80% of the repo book, outside of Governments and Agencies.
  - Reliable counterparts with which Lehman has strong relationships
    - Clearing banks (JPMorgan Chase, Citibank, BONY/Mellon)
    - Large trading clients (State Street, Fidelity)

Repo Book Principal Amount By Counterparty And Asset Class Allocated ($ Billions) – May 8, 2008

Counterparty	IG ABS	HY ABS	IG Conv.	HY Conv.	IG Corp.	HY Corp.	EMG	Equities	Money Markets	Muni	IG CMO	HY CMO	**Total**	*% Total*
A	1.0	0.2	0.0	0.2	4.1	1.7	0.6	2.9	1.0	1.3	2.0	1.1	**16.3**	*15%*
B	5.4	0.4	0.2	0.1	0.1	0.2	0.5	2.3				0.0	**9.1**	*8%*
C	8.0				0.1								**8.1**	*7%*
D	0.4		0.4	0.1	1.3	0.7	0.9	1.6	0.8	0.6	0.2	0.0	**7.0**	*6%*
E	1.3	0.2	0.6	0.0	0.4	1.8		0.5		1.9	0.0	0.0	**6.7**	*6%*
F	1.3	0.0			0.0				3.0		0.9	0.2	**5.5**	*5%*
G			0.2	0.1	1.3	0.1	0.2	2.8					**4.7**	*4%*
H	0.0										4.6	0.1	**4.7**	*4%*
I	0.3	0.0				0.2		0.9	0.5		2.2	0.0	**4.0**	*4%*
J	1.3	0.0		0.0	0.9	0.1	0.5						**2.9**	*3%*
K	0.2		0.0	0.4	0.0	0.2	1.1	0.8					**2.7**	*2%*
L	1.0	0.0		0.1	0.2	0.5		0.5	0.2		0.0	0.0	**2.5**	*2%*
M	0.0		0.1	0.2	0.5	0.2	0.1	1.1					**2.2**	*2%*
N	0.3	0.0	0.0	0.2	0.0	0.1	0.9	0.5	0.0		0.0	0.0	**2.0**	*2%*
O	0.4				0.6	0.0		0.8		0.0	0.0	0.1	**2.0**	*2%*
P							0.0	1.9					**1.9**	*2%*
Q	0.0	0.6			0.8	0.0					0.1	0.4	**1.9**	*2%*
R			0.0	0.5	0.0	0.0	0.1	1.1					**1.8**	*2%*
S	0.7	0.1			0.3	0.0		0.0	0.6		0.0		**1.7**	*1%*
T									1.5				**1.5**	*1%*
U	0.0		0.0	0.2	0.3	0.1	0.2	0.3					**1.2**	*1%*
Other (58 counterparties)	0.5	0.8	0.1	0.6	5.2	1.8	2.5	7.2	2.4	-	1.4	0.5	**22.9**	*20%*
Total	**22.1**	**2.3**	**1.6**	**2.6**	**16.0**	**7.6**	**7.5**	**24.9**	**9.9**	**3.9**	**11.3**	**2.4**	**112.0**	***100%***