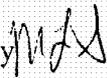

LEHMAN BROTHERS

DATE: May 1, 2008
TO: Members of the Finance and Risk Committee of Lehman Brothers Holdings Inc
FROM: Madeline L. Shapiro, Assistant Secretary 
RE: **MAY 7, 2008 MEETING OF THE FINANCE AND RISK COMMITTEE**

Enclosed please find an Agenda for the May 7, 2008 meeting of the Finance and Risk Committee and accompanying materials.

The meeting is scheduled to be held in the Executive Conference Room on the 31st Floor, 745 Seventh Avenue (between 49th and 50th Streets), from 8:30 a.m. to 10:30 a.m. Please bring the attached materials with you.

Distribution:

Mr. Henry Kaufman (Chairman)
Mr. John F. Akers
Mr. Roger S. Berlind
Ms. Marsha Johnson Evans
Mr. Roland A. Hernandez

Copy to:

Ms. Erin M. Callan
Mr. Richard S. Fuld, Jr.
Mr. Joseph M. Gregory
Mr. Ian T. Lowitt
Mr. Christopher M. O'Meara
Mr. Thomas A. Russo
Mr. Paolo Tonucci
Mr. Jeffrey A. Welikson

LBEX-AM 067312

AGENDA

LEHMAN BROTHERS HOLDINGS INC.

FINANCE AND RISK COMMITTEE MEETING

May 7, 2008

745 Seventh Avenue

31st Floor Executive Conference Room

8:30 a.m. – 10:30 a.m.

- 1) Approval of Minutes of Finance and Risk Committee Meeting held March 25, 2008.
(Resolution and Minutes Attached) (Kaufman)
- 2) Liquidity and Risk Management Update.
(Materials Attached) (O'Meara/ Tonucci)

LBEX-AM 067313

HOLDINGS

05/07/2008 FINANCE AND RISK COMMITTEE MEETING

Item 1

LBEX-AM 067314

**Holdings
Finance and
Risk Committee
05/07/2008**

RESOLVED, that the Minutes of the meeting of the Finance and Risk Committee held on March 25, 2008, are hereby approved in the form submitted at this meeting, and that a copy of these Minutes be placed in the appropriate Minute Book of the Corporation.

LBEX-AM 067315

LEHMAN BROTHERS HOLDINGS INC.
Minutes of the Finance and Risk Committee Meeting
March 25, 2008

A meeting of the Finance and Risk Committee of Lehman Brothers Holdings Inc. (the "Corporation" and collectively with its subsidiaries, the "Firm") was held on March 25, 2008 at 9:00 am in the Executive Conference Room, 31st floor, 745 Seventh Avenue, pursuant to written notice.

PRESENT - COMMITTEE MEMBERS

Messrs. Henry Kaufman (Chairman)
John F. Akers
Roger S. Berlind
Ms. Marsha Johnson Evans
Mr. Roland A. Hernandez

ALSO PRESENT BY INVITATION

Ms. Erin M. Callan
Messrs. Ian T. Lowitt
Christopher M. O'Meara
Paolo Tonucci
Jeffrey A. Welikson

APPROVAL OF MINUTES

The first order of business was the approval of the Minutes of the meeting held on January 29, 2008. Upon motion, duly made and seconded, it was unanimously

RESOLVED, that the Minutes of the meeting of the Finance and Risk Committee held on January 29, 2008 are hereby approved in the form submitted at this meeting, and that a copy of such minutes be placed in the appropriate Minute Book of the Corporation.

FIRST QUARTER 2008 UPDATE

At the request of the Committee, Ms. Callan and Mr. Lowitt provided an update of market events surrounding the sale of Bear Stearns ("Bear") to JPMorgan Chase and current market conditions. Ms. Callan and Mr. Lowitt provided their views as to the

LBEX-AM 067316

factors leading to the sale of Bear and highlighted certain differences in liquidity and funding practices between Bear and the Firm, noting for example that Bear accounted for cash balances of their prime brokerage clients as part of their liquidity pool whereas such assets are not included in the Firm's liquidity pool calculation and noting that, unlike the Firm, Bear does not appear to have maintained excess secured funding capacity. They also noted that there is now industry-wide pressure to delever and that the Firm is focused on reducing its exposure to mortgages, real-estate related investments and acquisition finance facilities. Ms Callan and Mr. Lowitt indicated that lessons learned include the need for pro-active communications and the possible need to update the Firm's funding framework to reflect that even secured lending for high quality assets may become challenged during a market crisis.

The Committee then asked management about the potential impacts on the Firm's business model going forward. Ms. Callan indicated that there is now industry-wide pressure to improve asset quality and delever balance sheets even though this may lead to lower ROEs. She also noted that the Firm was working on a plan for reducing total assets which would most likely focus on the Fixed Income and Principal Investment business units.

The Committee asked management questions about the new Federal Reserve primary dealer credit facility, the Firm's exposure to monoline insurers, activity levels of the prime brokerage unit and the intercompany transfer of assets to Lehman Brothers Bankhaus AG.

Mr. Tonucci then proceeded with a presentation of the Firm's liquidity and capital management. He stated that the Firm has maintained a strong liquidity position with a liquidity pool of approximately \$32 billion and a \$5 billion cash capital surplus. He noted that the Firm's net leverage ratio had decreased from 16.1x at the end of the 2007 fiscal year to 15.1x at February 29, 2008. Mr. Tonucci noted that market credit spreads were generally at all time highs and liquidity was extremely tight in the wake of the near collapse of Bear and he provided examples of credit spreads in various fixed income markets.

Mr. Tonucci provided a detailed overview of the sources of the Firm's liquidity, reviewing the first quarter change in sources of liquidity including public debt, public preferred stock, structured notes and bilateral facilities. Funding for the balance of the year would be achieved from the origination of new longer tenor secured facilities and a reduction in the Firm's capital needs by way of a balance sheet reduction if market conditions prevent public issuances. Mr. Tonucci provided a multi-quarter overview of the Firm's cash capital balances and the usage of cash capital by business unit and products. He then proceeded to detail the composition of the Firm's Net Assets and the growth in certain assets such as Government/Agencies and derivatives and the reduction in certain assets such as mortgages and an overall decrease in Net Leverage. Mr. Tonucci then reviewed the Firm's credit ratings, including the change in outlook by Moody's from

positive to stable on March 17, 2008, affirmation by DBRS of the Firm's AA (low) rating and outlook and the S&P change in outlook from stable to negative.

Mr. O'Meara reviewed the Firm's risk appetite usage and noted that the Firm's average risk usage in the first fiscal quarter remained essentially unchanged from the fourth quarter of 2007. Mr. O'Meara then reviewed selected key risk items in the current market environment which included risks relating to commercial real estate, residential mortgages, high yield acquisition facilities, hedge fund counterparty exposure and monoline and financial guarantors. He noted that the Firm had approximately \$55.2 billion of commercial real estate assets and \$31.8 billion of residential mortgages at February 29, 2008, each of which represented a slight decrease from the previous fiscal quarter's balances, and that commercial real estate would be the subject of the presentation at the Board of Directors meeting. Mr. O'Meara stated that the Firm had approximately \$13.3 billion of high yield acquisition facilities which represented a reduction from the prior fiscal quarter's balance of \$19.8 billion. He also noted that the Firm had hedge fund counterparty exposure, net of collateral, of approximately \$560 million and that the Firm remains well collateralized against its hedge fund clients and noted that its total hedge fund current credit exposure as of February 29, 2008 was less than 2% of the Firm's aggregate counterparty credit exposure. Mr. O'Meara also provided a summary of the nature of the Firm's exposure to large monoline insurers and financial guarantors, noting that the Firm was well diversified on a risk-adjusted basis in its exposure to such insurers and guarantors. He described that the Firm had repurchased certain securities from its cash management business.

The Committee directed additional questions to management regarding the Firm's liquidity, Level III assets, credit ratings and other matters.

There being no further business to come before the meeting, the meeting was, upon motion duly made and seconded, adjourned.

Respectfully submitted,

Jeffrey A. Welikson
Secretary of the Meeting

HOLDINGS

05/07/2008 FINANCE AND RISK COMMITTEE MEETING

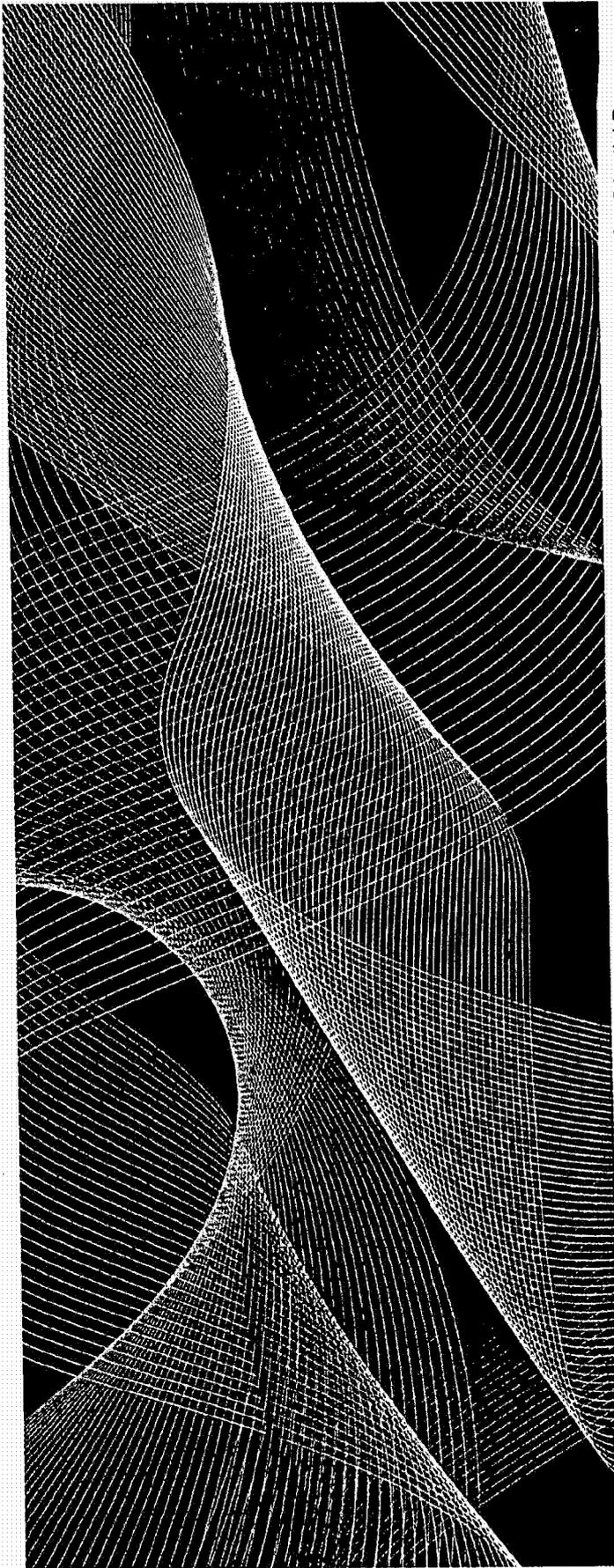
Item 2

LBEX-AM 067319

LEHMAN BROTHERS

May 7, 2008

Finance & Risk Committee of the Board Liquidity And Risk Management Update



Confidential Presentation

LBEX-AM 067320

Liquidity Management Update

LBEX-AM 067321

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LEHMAN BROTHERS HOLDINGS, INC.

Summary

- ◆ Since our last update on March 25, long-term financing conditions have improved
 - Large volume of senior debt, hybrid and common equity issuances by banks and securities firms
 - Significant tightening of credit spreads

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

- ◆ Our liquidity metrics continue to improve relative to where they were on March 17. Forecast for Q2 is:
 - Liquidity pool of \$40 billion (versus \$34 billion at the end of Q1)
 - Cash capital surplus of \$8-10 billion (versus \$7 billion at the end of Q1)

- ◆ Market conditions are expected to remain challenging in the short-to-medium term
 - Large supply from financial institutions
 - Risk aversion still remains high
 - Regulators are likely to increase to increase liquidity requirements to prevent another Bear Stearns-type liquidity crisis

2008 Q2 Funding Update

◆ Long-term capital update

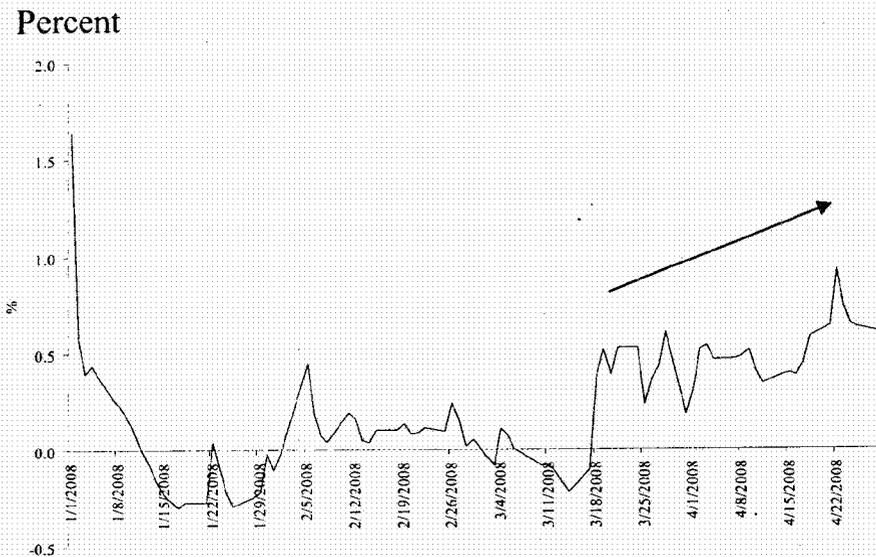
- Issuance window reopened at the end of March as investors took comfort in the Fed actions and credit spreads started to tighten
 - Lehman Brothers' 5 year credit default swaps have tightened by 290 bps to 160 bps since the wides of March 14
- We have taken advantage of this issuance window by doing three benchmark issuances
 - \$4 billion convertible perpetual preferred
 - \$2.5 billion 10-year senior debt
 - £0.5 billion (\$1.0 billion) 10-year senior debt
- Other financial institutions have done large benchmark issuances
 - More than \$60 billion issued by financial institutions the week of April 21

◆ Short-term capital update

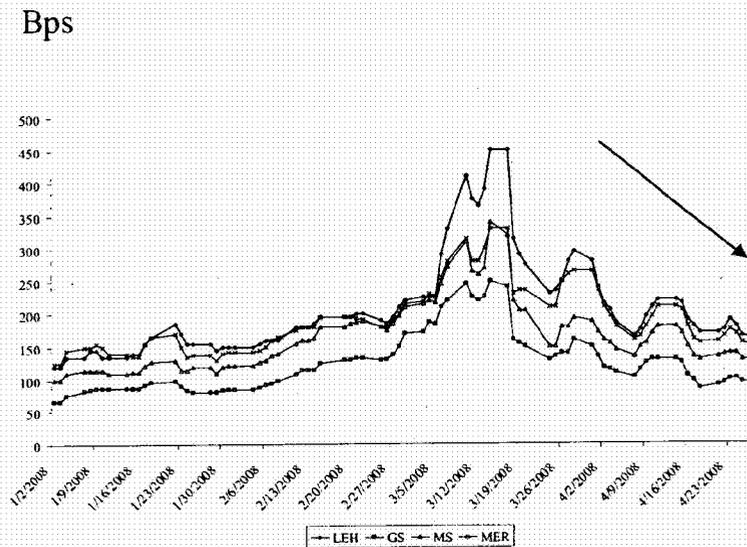
- Risk aversion remains high at banks as evidenced by the wide spread between Fed Funds and 3 month LIBOR rates
- Repo capacity for high yield or EMG collateral has been hard to replace
 - Repo market has bifurcated between ECB or Federal Reserve eligible collateral, and ECB or Federal Reserve non-eligible collateral
- Term issuance of commercial paper is slowly returning but commercial paper market continues to be heavily skewed toward overnight issuances

Selected Market Metrics

3 Month LIBOR-Fed Funds Spread



Five Year CDS spreads for Securities Firms

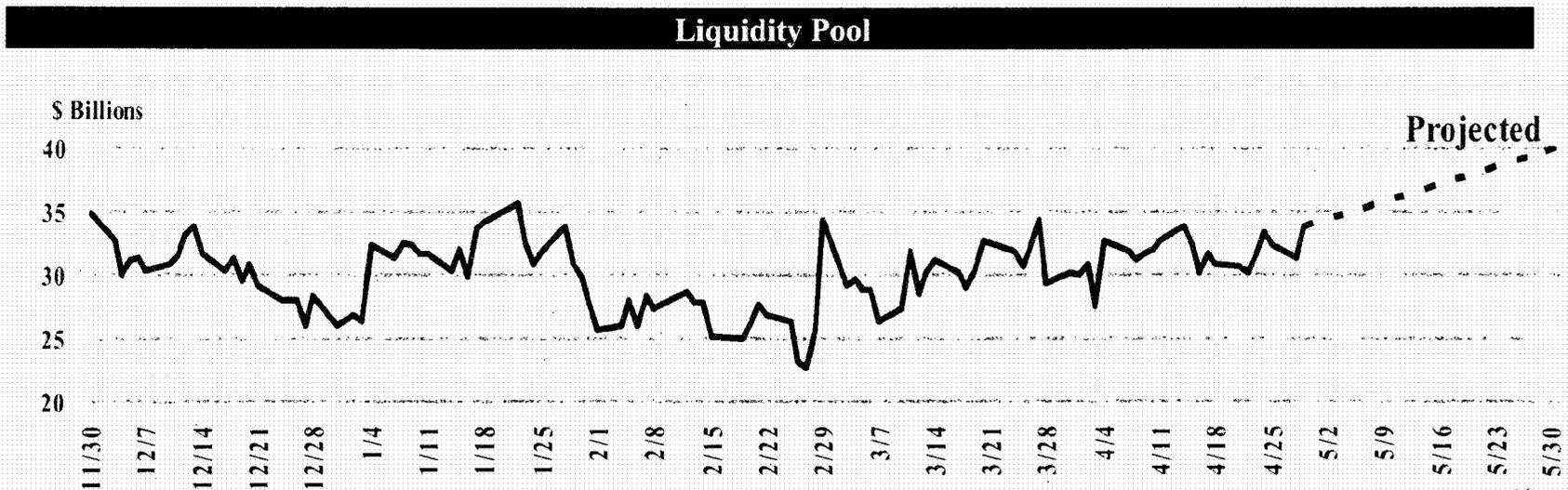


Recent issuances by large banks and broker dealers

<i>\$ billion</i>	Senior Debt	Preferred	Total
Lehman Brothers	3,500	4,000	7,500
Goldman Sachs	4,000	-	4,000
Morgan Stanley	5,830	-	5,830
Merrill Lynch	8,675	2,550	11,225
Citigroup	4,750	6,000	10,750
JPMorgan	2,500	-	2,500
Total	29,255	12,550	41,805

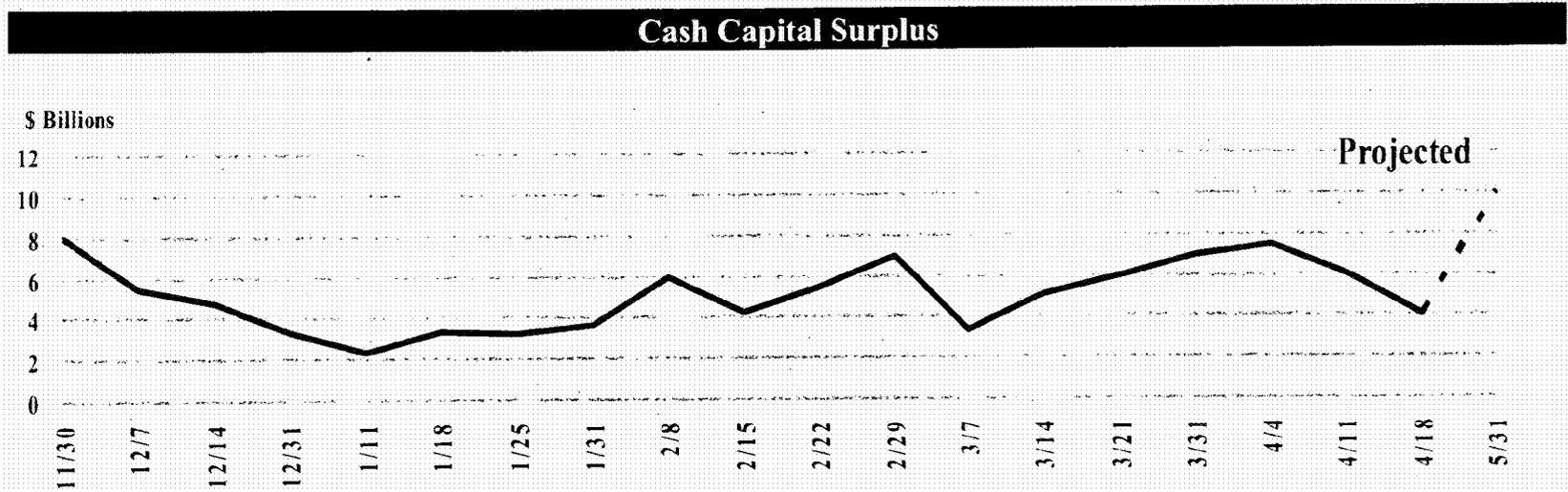
Liquidity Pool

- ◆ LBHI liquidity pool has remained in the low \$30 billion range since March 14 – the lowest reported liquidity pool post March 14 was \$27.5 billion on April 3. The recent issuances totaling \$7.5 billion are strengthening our liquidity position by offsetting some liquidity outflows related to debt buybacks and maturities.
- ◆ Liquidity is projected to increase to \$40 billion by quarter end with the closing of a significant number of new facilities and structures, and asset sales.



Cash Capital

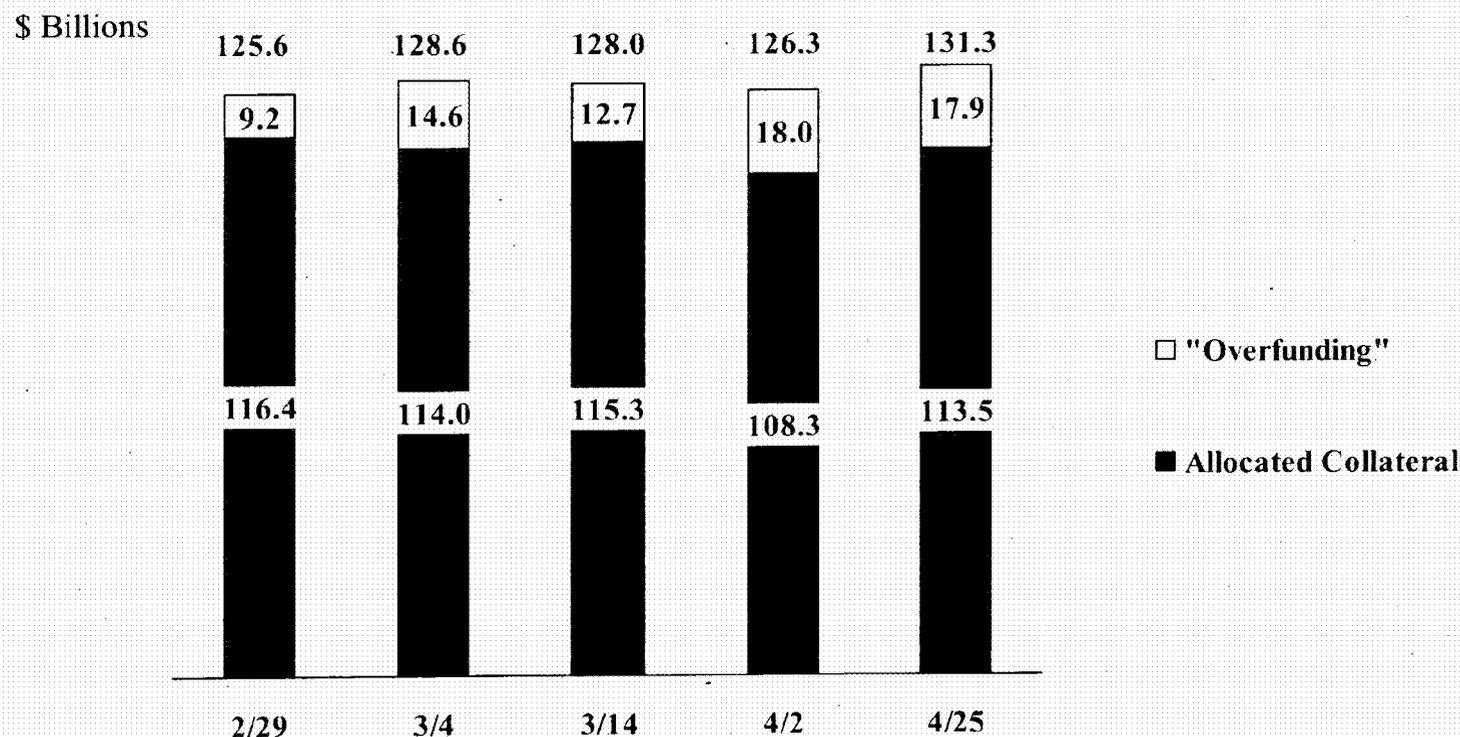
- ◆ Cash capital surpluses have remained relatively stable around \$4-7 billion.
- ◆ Through a combination of closing financing facilities, asset sales and securitizations, the cash capital surplus is projected to increase to \$8-10 billion by quarter end, which eliminates the need to do more benchmark issuances for the rest of the year without further asset sales or securitizations.



Secured Funding

- ◆ We mitigate secured funding risk by overfunding or term-funding at-risk asset classes (high yield corporates, asset backed). The overfunding “cushion” has remained relatively stable around \$15 billion primarily due to the Fed’s TSLF program. Apart from the Fed capacity, repo capacity has been compressed, and that has affected Asian and European financing.

Non-Traditional ⁽¹⁾ Repo Book: Tickets, Allocated Collateral and “Overfunding”

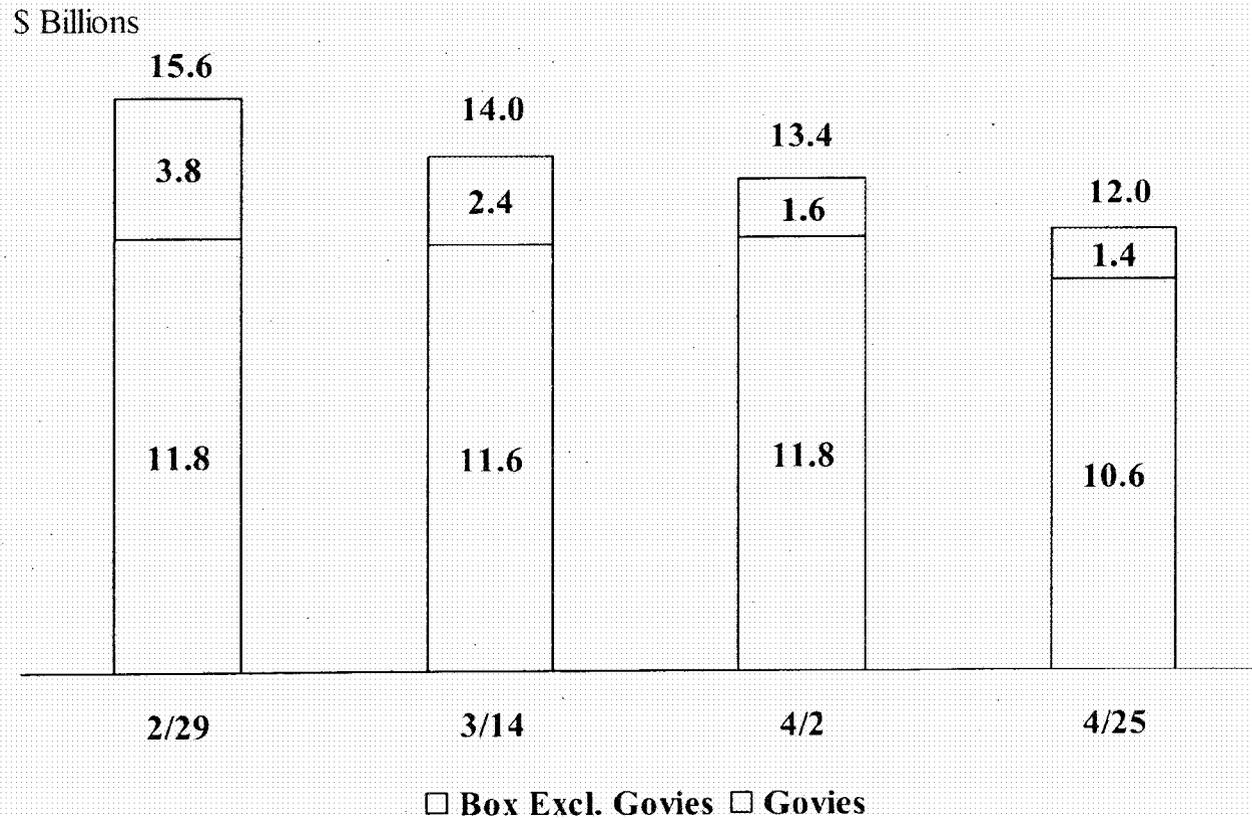


1. Repo book excludes Governments, Treasuries, Government/MBS Agencies, Sovereigns

Box Analysis

- ◆ Repoable boxes at the broker dealers have declined by \$3.6 billion since the start of the quarter – primarily driven by Government securities during March and harder-to-fund assets during April. This is a combination of improvements in operational efficiency and lower customer and inventory levels for these asset classes.

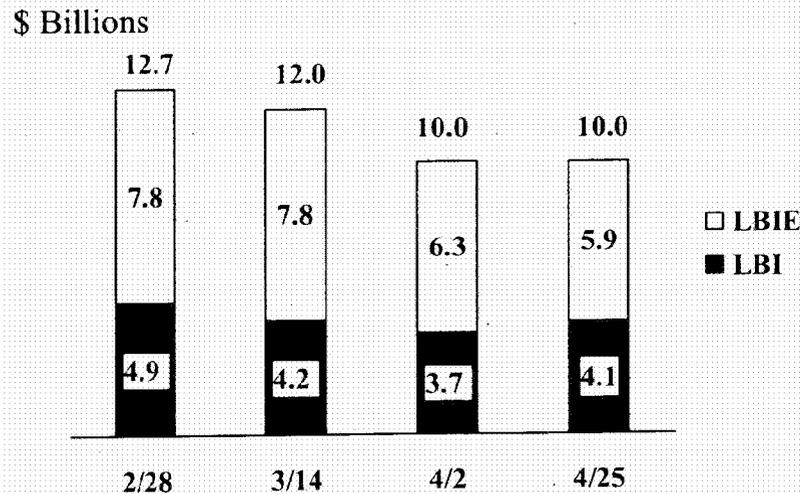
Repoable Boxes At The Broker Dealers



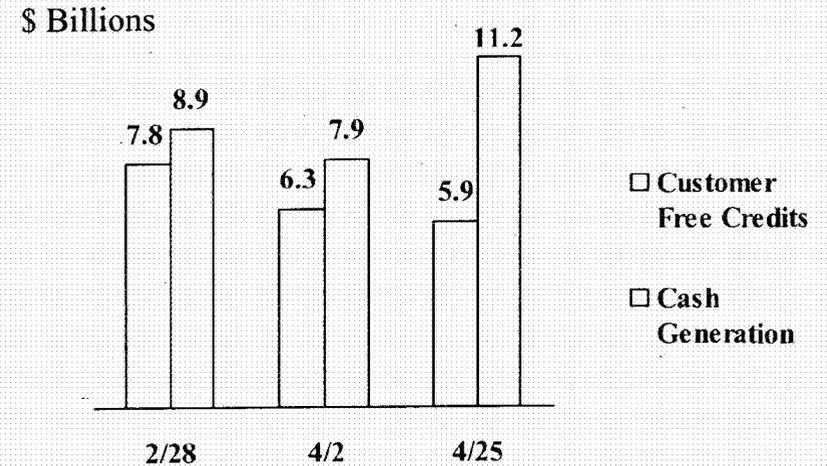
Prime Broker

- ◆ Since the beginning of the quarter, we have lost close to \$3 billion in customer free credits – \$2.0 billion of which since March 14. These withdrawals were primarily caused by hedge funds' customer redemptions and lower leverage. However, their liquidity impact is nil, because, at quarter end and currently, we do not rely on customer free credits to fund the Firm – contrary to Bear Stearns.

Customer Free Credits



LBIE Prime Broker Liquidity Usage



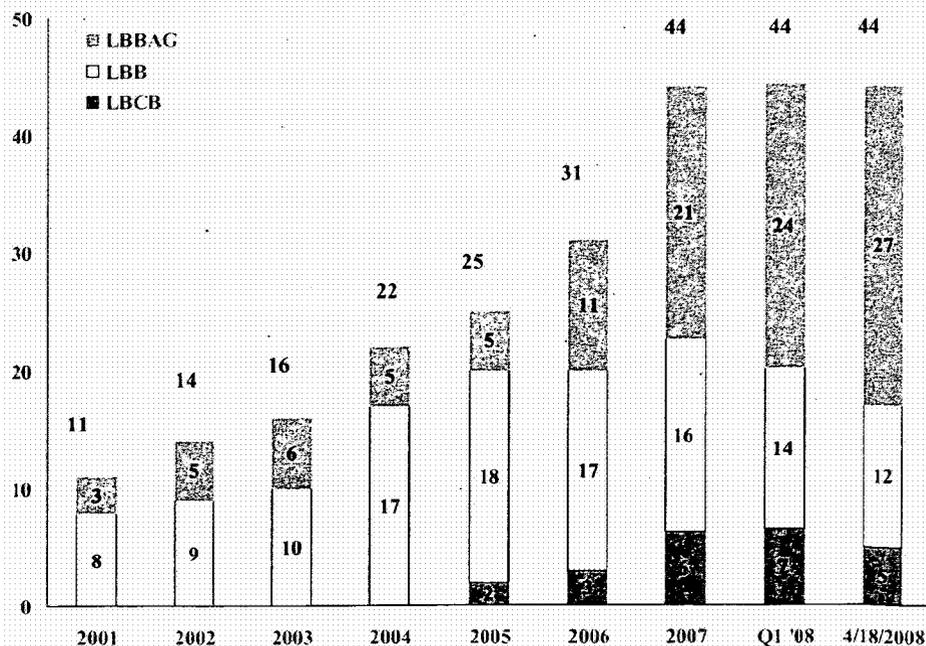
Rapid Asset Growth At Lehman Brothers-Owned Banks

- ◆ Lehman's 3 banking entities are all benefit to raise cost-effective financing in a depositor-protected environment (proved extremely reliable).
- ◆ 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. The 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

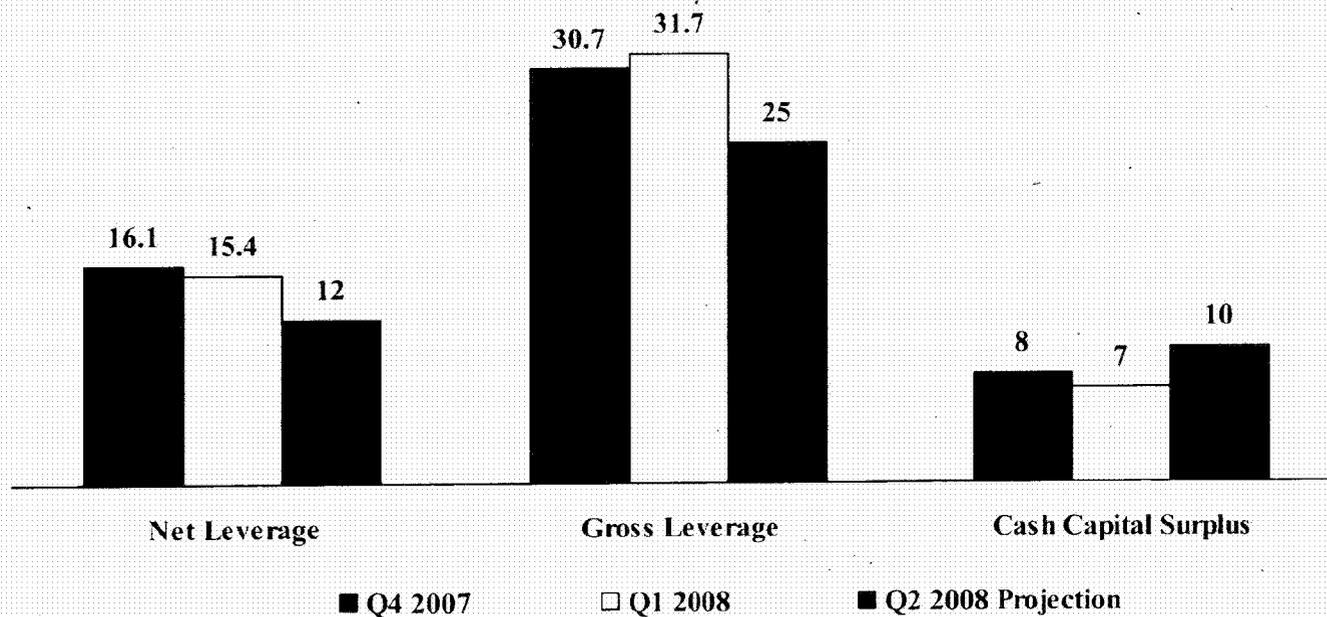
Lehman Banking Entities – Total Assets (\$Billions)



Deleveraging The Firm

The Firm has set aggressive targets to reduce balance sheet and cash capital usage below their Q4 2007 levels by the end of this quarter. This should result in bringing net leverage to 12x, gross leverage to 25x and generating a cash capital surplus of \$8-10 billion – large enough to avoid the need to issue in public debt markets for the rest of the year.

Leverage & Cash Capital Surplus (\$ Billions)



Lehman Net Assets and Leverage

Balance Sheet

In March, the balance sheet has continued to grow in certain liquid asset classes such as Government and Agencies.

Lehman Net Assets (\$ Millions)

	FY 2007					Q1 2008					March-08	
	Assets at Fair Value (FAS 157)					Assets at Fair Value (FAS 157)					Total	%
	Level 1	Level 2	Level 3	Total	%	Level 1	Level 2	Level 3	Total	%		
Mortgages, mortgage-backed and real estate held for sale	240	63,914	24,952	89,106	24%	270	60,527	23,812	84,609	21%	84,294	17%
Corporate Debt	324	50,692	3,082	54,098	15%	336	55,164	4,250	59,750	15%	59,023	12%
Corporate Equities	39,336	10,812	8,373	58,521	16%	34,787	11,956	9,375	56,118	14%	48,705	10%
Government and Agencies	25,393	15,499	-	40,892	11%	19,674	24,900	-	44,574	11%	141,910	29%
Derivatives and other contracts	3,281	35,742	5,572	44,595	12%	3,257	47,284	5,071	55,612	14%	53,440	11%
CDs and Money Markets	4,000	-	-	4,000	1%	3,433	-	-	3,433	1%	7,964	2%
Assets at Fair Value	72,574	176,659	41,979	291,212	78%	61,757	199,831	42,508	304,096	77%	395,336	80%
% Total	25%	61%	14%	100%		20%	66%	14%	100%			
Real Estate Held For Sale				21,917	6%				22,562	6%	21,797	4%
Other Assets ⁽¹⁾				59,830	16%				70,015	18%	79,399	16%
Financial instruments owned, at fair value	72,574	176,659	41,979	372,959	100%	61,757	199,831	42,508	396,673	100%	496,532	100%

Leverage Trend

	FY 2006	Q1 2007	Q2 2007	Q3 2007	FY 2007	Q1 2008	March-08
Lehman:							
Net Leverage	14.5x	15.4x	15.4x	16.1x	16.1x	15.4x	19.7x
Gross Leverage	26.2x	28.1x	28.7x	30.3x	30.7x	31.7x	36.1x
Peer Average: ⁽²⁾							
Net Leverage	14.5x	15.3x	15.8x	16.9x	18.5x	17.8x	N/A

1. Includes receivables from broker dealers, clearing organizations and customers, and fixed assets

2. Bear Stearns, Goldman Sachs, Morgan Stanley and Merrill Lynch (excluding Q1 2008)

Balance Sheet by Fair Value Classification

Balance Sheet

Level III assets have increased slightly in March. Our ratio to total assets was at the low range of our peers at quarter end.

Lehman Level III Assets

\$ Millions

	<u>Q4 2007</u>	<u>Q1 2008</u>	<u>Mar-08</u>
Mortgages and asset-backed securities	24,952	23,812	24,906
Government and agencies	-	-	-
Corporate debt and other	3,082	4,250	4,499
Corporate equities	8,373	9,375	9,101
Commercial paper/other money market	-	-	-
Non Derivative Assets	36,407	37,437	38,506
Derivative assets	5,572	5,071	5,071
Total Fair Value Inventory	41,979	42,508	43,577
<u>% of Total Assets</u>			
Lehman	6%	5%	5%
Goldman Sachs	6%	8%	
Merrill Lynch	4%	NA	
Morgan Stanley	7%	7%	
Bear Stearns	6%	9%	

Summary Funding Action Plan

- ◆ Increase term deposit base of Bankhaus by \$5 billion by targeting U.S. clients and increasing broker incentives in Europe
 - Contrary to our U.S. bank entities, which are subject to restrictions on affiliate transactions, Bankhaus is able to fund Lehman Brothers-owned collateral subject to its own credit review
- ◆ Increase term repo funding capacity for hard to fund assets in U.S. and European broker dealers by \$10 billion (notably, high yield, emerging markets, non-major index equities)
- ◆ Establish long-term secured funding facilities with banks to diversify our long-term funding sources
- ◆ Increase Holdings liquidity by about \$10 billion by securitizing assets through securitizations and CDO/CLO creations
 - Similar to the Freedom CLO transaction
 - Securities are investment grade and suitable for repo

Rating Agency Updates

- ◆ Since the end of the quarter, rating agencies have adopted a more negative stance toward our industry. Although there have been few actual downgrades with the notable exception of a one notch downgrade Citigroup by Fitch to AA-, the rating outlook for many firms including Lehman Brothers have been revised to negative.
- ◆ We continue to maintain proactive dialogue with the rating agencies and continually respond to their requests for presentations and reviews.

Senior Debt Rating ⁽¹⁾

	Moody's		S&P		Fitch	
	29-Feb	24-Apr	29-Feb	24-Apr	29-Feb	24-Apr
Lehman Brothers	A1 (P)	A1	A+	A+ (N)	AA-	AA- (N)
Goldman Sachs	Aa3	Aa3	AA-	AA- (N)	AA-	AA-
Merrill Lynch	A1 (N)	A1 (CWN)	A+ (N)	A+ (N)	A+	A+ (N)
Morgan Stanley	Aa3 (N)	Aa3 (N)	AA- (CWN)	AA- (N)	AA- (N)	AA- (N)
Citigroup	Aa3	Aa3 (N)	AA- (N)	AA- (CWN)	AA (N)	AA- (N)
JPMorgan	Aa2	Aa2	AA-	AA-	AA-	AA-

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

Regulator Updates

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

- ◆ We expect the regulatory approach around liquidity to be modified to incorporate the lessons from the demise of Bear Stearns
 - “The Bear Stearns experience has challenged the measurement of liquidity in every regulatory approach, not only here in the United States but around the world.” (SEC Chairman Cox; letter to Senator Grassley; April 16, 2008)
 - Focus on unsecured funding liquidity risk to be complemented by a heightened focus on secured funding risk
 - Immediately available liquidity pool to be sized relative to the secured funding risk

- ◆ Some uncertainty about the long-term regulatory role of the Federal Reserve with securities firms – in particular whether its facilities (Primary Dealer Credit Facility and Term Securities Lending Facility) are temporary or permanent

Outlook For Rest Of Year

- ◆ We expect the environment to remain challenging
 - Issuance needs for the industry are still greater than demand
 - Issuance requirements likely to be boosted by new liquidity regulatory framework
 - Risk aversion remains high as financial institutions are entering a delevering phase
 - Earnings under pressure for Lehman Brothers and the rest of the industry

- ◆ Lehman Brothers is well prepared to face this environment
 - Strong liquidity metrics
 - Delevering the Firm will help boost these metrics
 - “Battle tested” management team

- ◆ Lower leverage going forward will help reduce the Firm’s liquidity risk
 - Lower issuance requirements for long-term debt
 - However secured funding risk will remain

Risk Management Update

LBEX-AM 067338

Risk Update

- ◆ Risk measures in Q2 2008-to-date are consistent with Q1 2008, as the impact of position reductions has been offset by higher volatilities in the market recently
 - We continue to operate within our established risk limits. Risk Appetite limit is \$4.0B; average usage for Q2 2008 to date is \$3.7B
 - Our counterparty credit risk in Q2 2008-to-date is consistent with Q1 2008, and we remain vigilant about collecting margin and updating collateral valuations

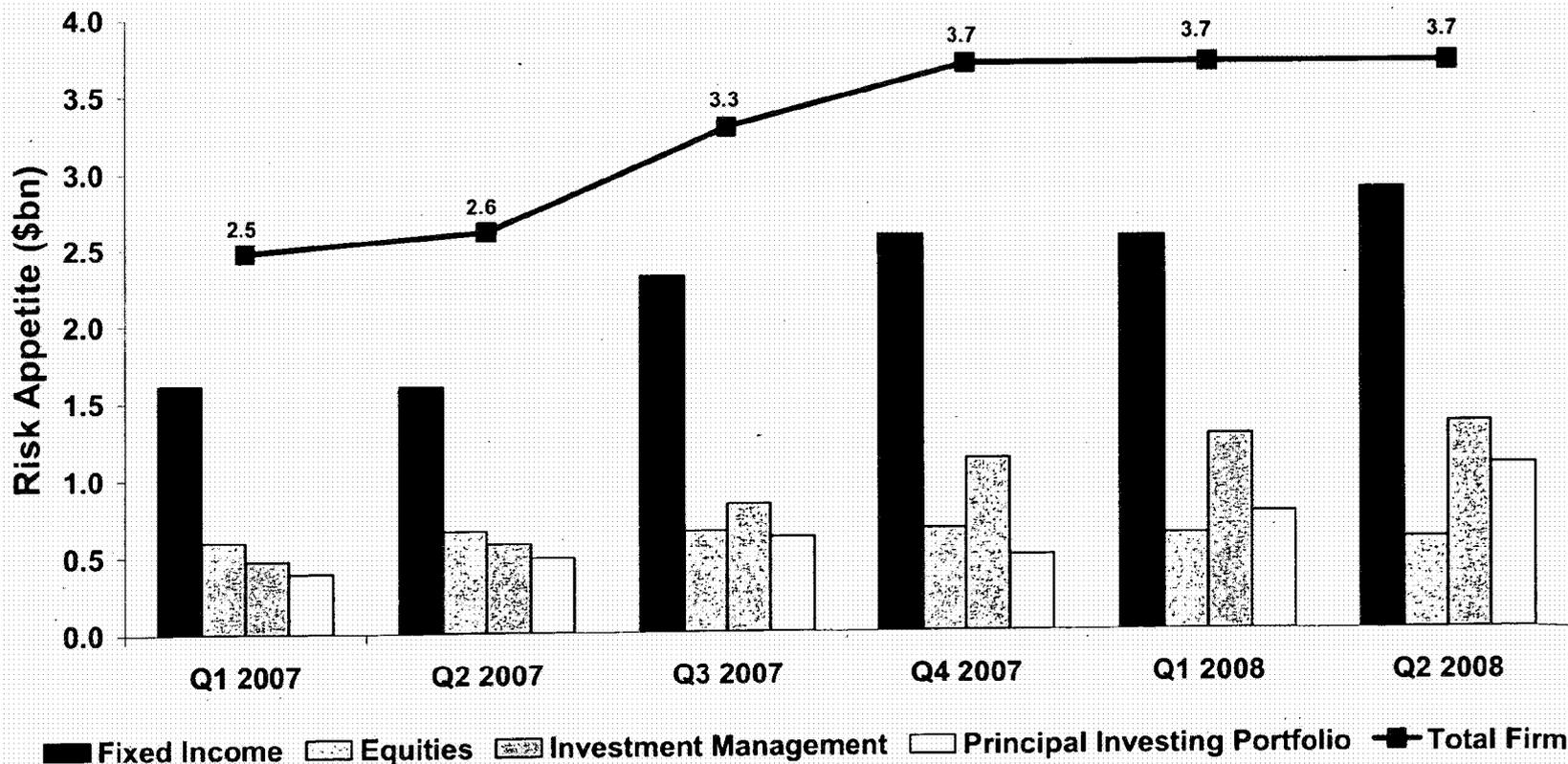
- ◆ We continue to reduce our balance sheet, including commercial real estate, residential mortgages and leveraged loans (LBOs)
 - In certain cases we are providing financing to clients in connection with asset sales

- ◆ We have losses in Q2 2008-to-date primarily due to:
 - Writedowns on certain securitized products, real estate, and leveraged loan positions
 - Hedge ineffectiveness in some assets classes (basis mismatch), as credit spreads on derivative hedges tightened but cash instruments did not
 - Being positioned for further interest rate declines and curve steepening (macro hedge position)
 - Certain principal investments, most notably our minority stake in hedge fund GLG, which lost value when a star trader resigned from the Firm
 - Supporting our Asset Management business (investors) by purchasing certain distressed assets from some money market funds

Risk Appetite

Risk Appetite usage in Q2 2008 was flat relative to Q1 2008, despite position reductions, due to higher volatilities in the market

Average Risk Appetite Usage (\$Billion)



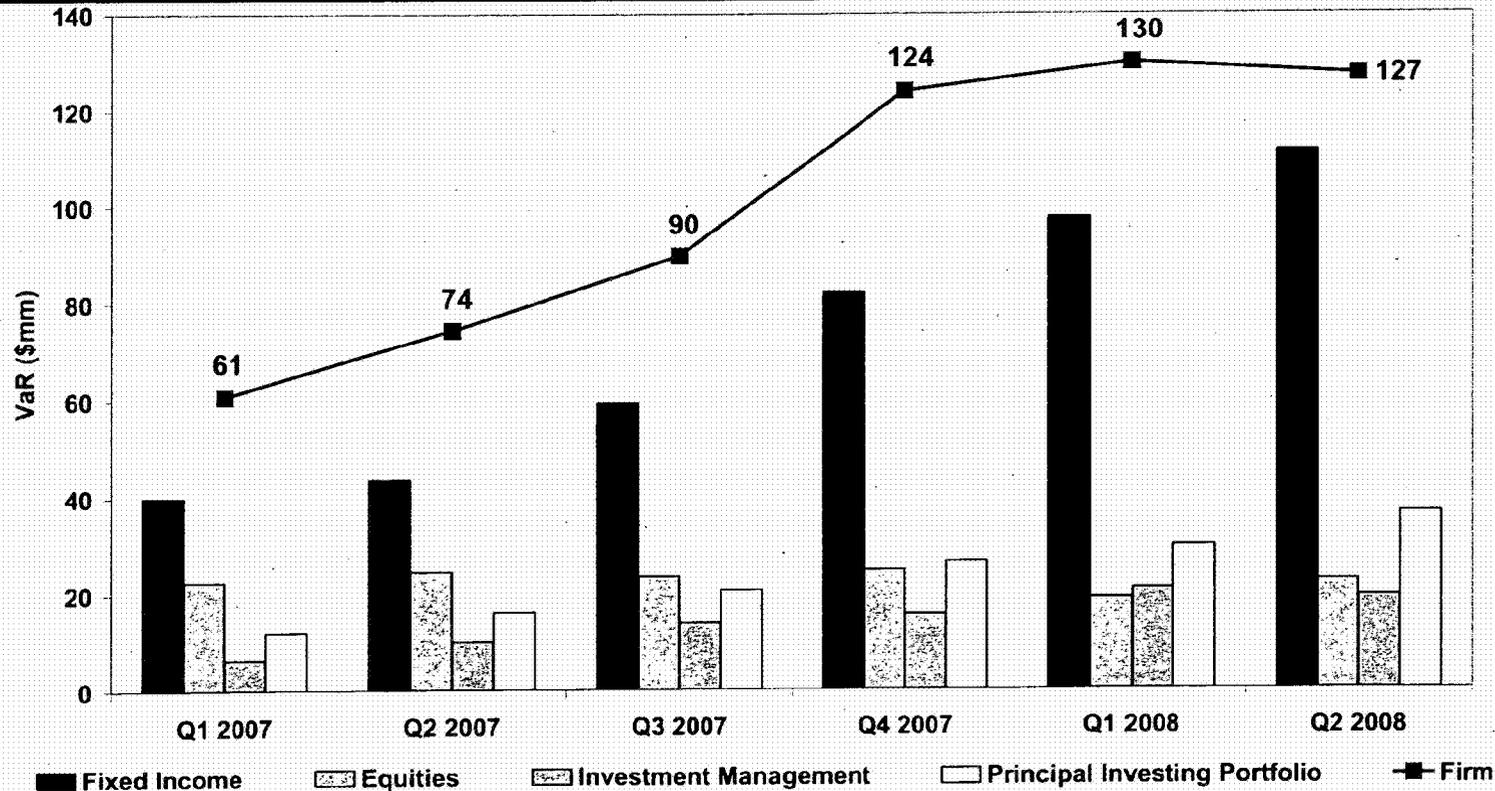
Note: Q2 2008 results are for quarter-to-date through April 28, 2008.

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

VaR

- ◆ VaR decreased slightly in Q2 2008 as a result of position reductions and increased portfolio diversification, despite higher volatilities in the market
- ◆ Average weighted VaR declined to \$127mm in Q2 2008-to-date from \$130mm in Q1 2008
- ◆ Average un-weighted VaR fell to \$84mm in Q2 2008-to-date from \$97mm in Q1 2008

Average VaR Usage (\$mm)



Note: Q2 2008 results are for quarter-to-date through April 28, 2008.