Confidential ***Presentation to:***

Moody's Investor Services

Development of the Franchise

May 31, 2006

LEHMAN BROTHERS

Introduction

- Since our last upgrade in 2003, the Firm has substantially strengthened its franchise.
  - Our revenues and net income almost doubled, substantially outpacing our industry peers and closing the scale gap.
  - Our growth has been broad based. We have shown that we can win in the most competitive markets, consistently gaining market share against the most established competitors.
  - We have achieved significant progress in diversifying the revenue sources.
    - Our non-Fixed Income businesses are almost as large as the whole Firm was in 2003.
    - Our Investment Management and Investment Banking franchises contribute over one-third of the Firm's revenue. Our assets under management have grown the fastest of the peer group.
    - Our franchise is among the most geographically diverse and we continue to strategically build our presence in rapidly developing overseas markets.
  - Our Fixed Income franchise has further solidified its position as the industry leader. As a result of its internal diversification, our Fixed Income franchise has delivered not only rapid, but stable growth, with performance volatility substantially below competitors'. We believe that our Fixed Income franchise is well positioned to withstand market turbulence and continue to take advantage of the huge secular growth opportunity.
  - Lehman continues to lead peers in delivering high and stable margins. This is the result of our improving diversification, client-centric strategy, flexible cost structure, and best in class expense discipline.
  - Since 2003, we added almost $5 billion to our tangible equity. Due to the diversification of our franchise, we have been able to de-lever to below the level of our higher-rated peers. Our CSE capital adequacy measures exceed those of the leading commercial banks. Our liquidity is best in class.
- Protecting the Firm's franchise is, and has always been, at the heart of the Firm's culture. We have developed state-of-the-art risk management capabilities and have demonstrated that adherence to high credit and liquidity standards is non-negotiable, no matter how attractive an opportunity might look.
- We have built a broad-based, dynamic, and resilient business, performing at par or better than our more established Aa3 peers. The debt markets have already demonstrated that they see us at par or better than our Aa3 rated broker/dealer peers. We see ourselves the same way.

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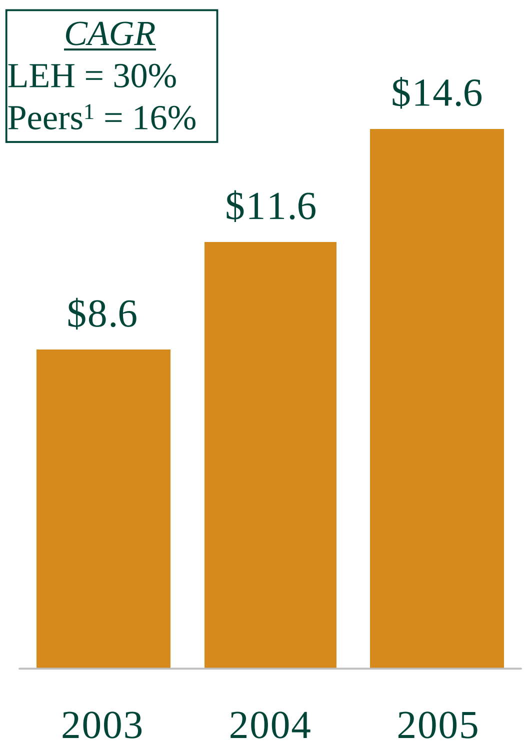
Scale, Growth, Diversification, and Consistency of Performance

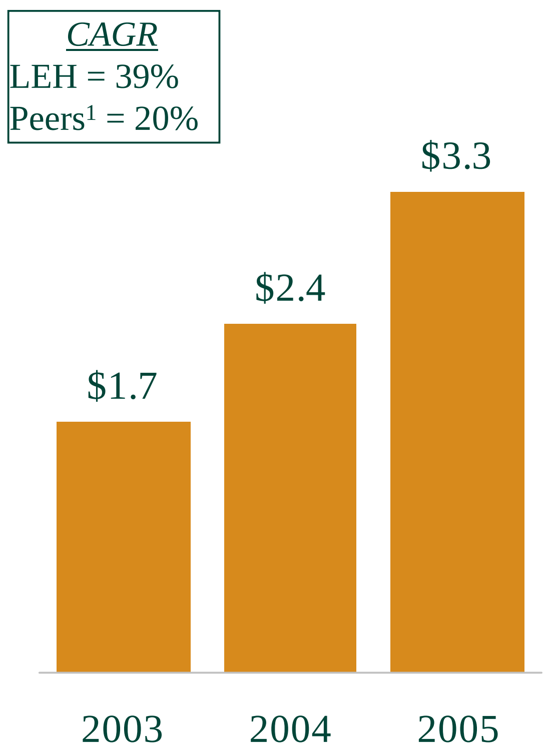
Since Our Last Upgrade, We Have Outperformed Our Peers

Over the last 2 years, we have demonstrated outstanding growth, outperforming the peer group in net revenues and net income growth and ROE.

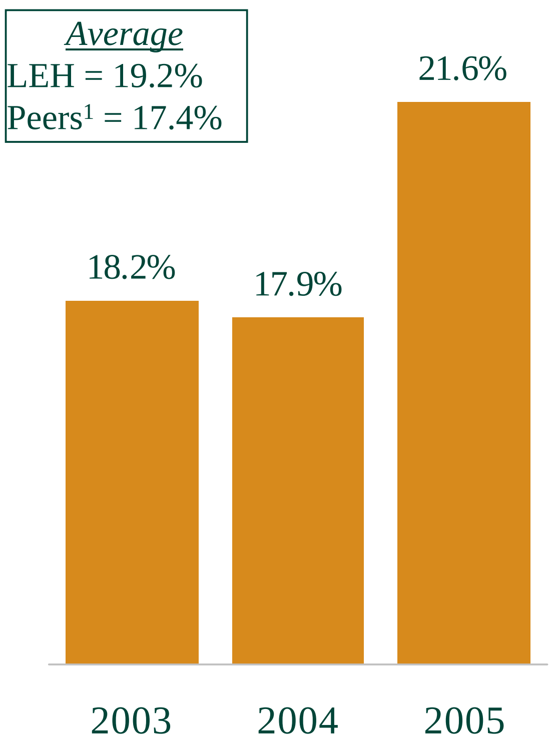
Net Revenues - $ Billions



Net Income - $ Billions



ROE - Percent

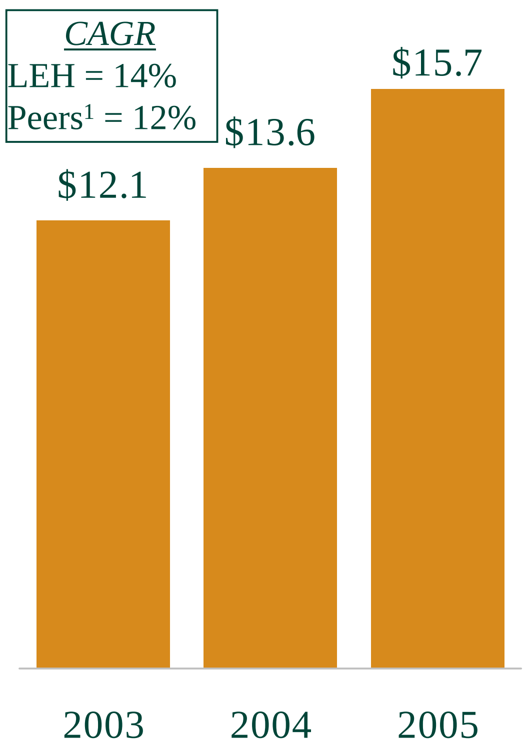


1. *Peers is an average of Bear Stearns, Goldman Sachs, Merrill Lynch and Morgan Stanley.*

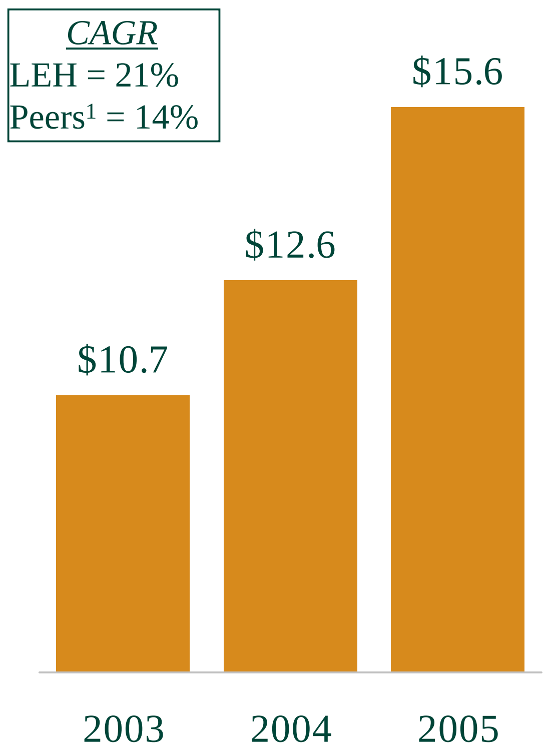
We Have Become A Stronger Credit

Over the last 2 years, we have demonstrated our ability to grow our capital base rapidly, strengthening our credit, including de-levering the Firm to a level below that of our peer group.

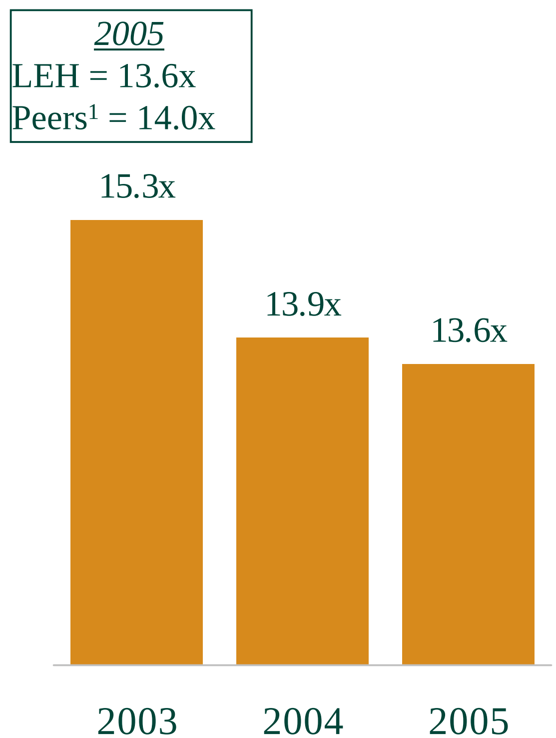
Common Equity - $ Billions



Total Tangible Equity - $ Billions



Net Leverage Ratio

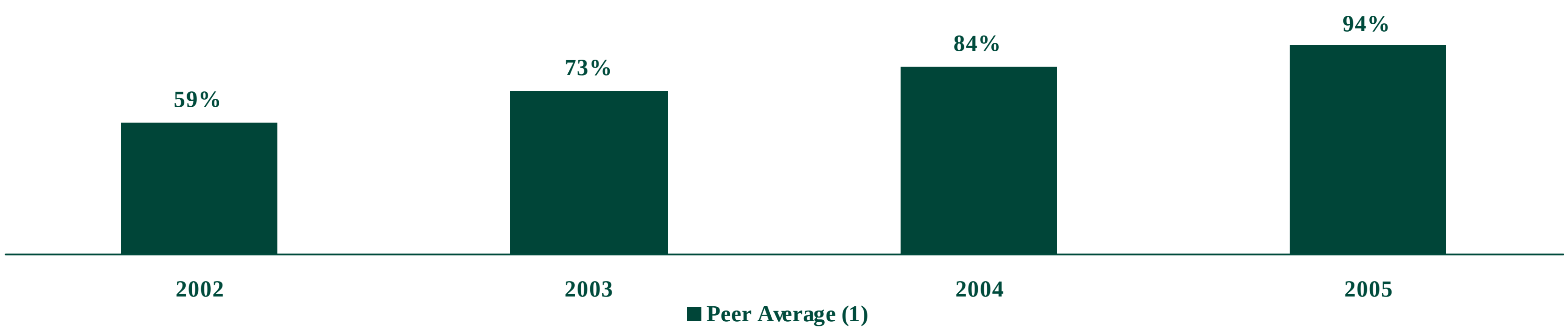


1. *Peers is an average of Bear Stearns, Goldman Sachs, Merrill Lynch and Morgan Stanley.*

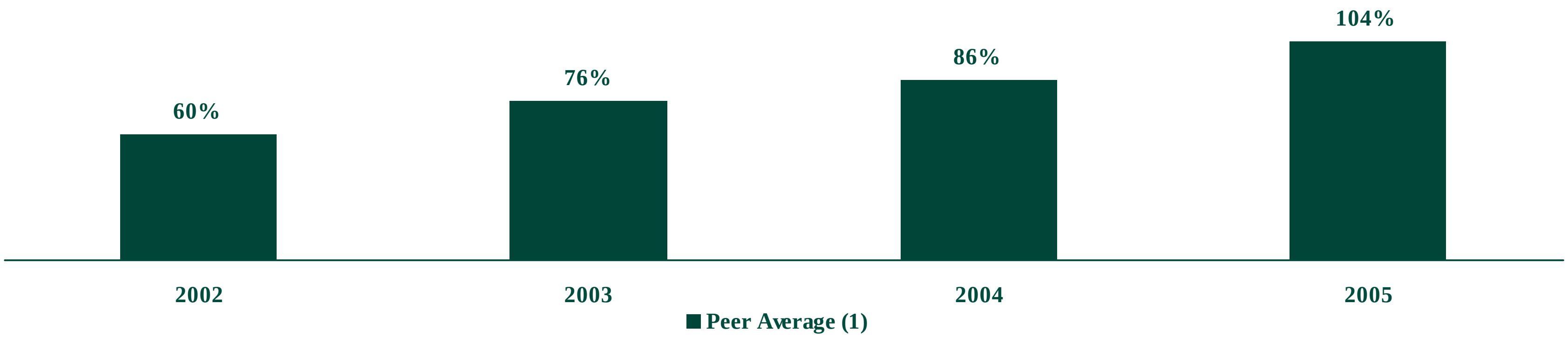
Closing The Size Gap

Since 2002, Lehman has grown faster than its peers, closing the size gap with its peers. While we remain slightly smaller in terms of net revenues, we think the other aspects of our business model and management make us a better credit.

Net Revenues Relative to Peers - Percent



Net Income Relative to Peers – Percent

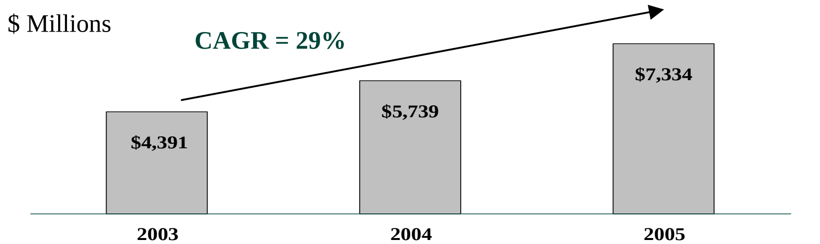


1. *Peer Average includes Bear Stearns, Goldman Sachs, Merrill Lynch and Morgan Stanley*

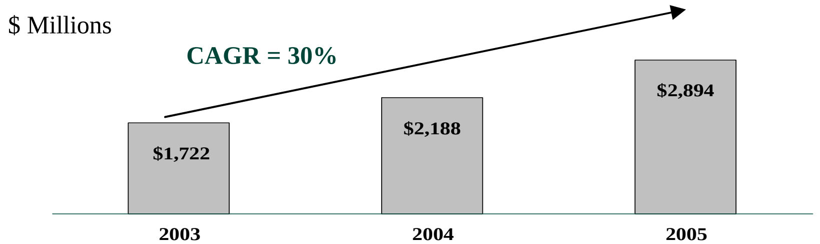
Growth Has Been Broad Based

We have achieved record growth in all of our operating segments. We have taken ground in all our business lines and Investment Management (IMD) has become a significant component of our earnings and franchise. We have continued to develop our Equities franchise and the progress is evident.

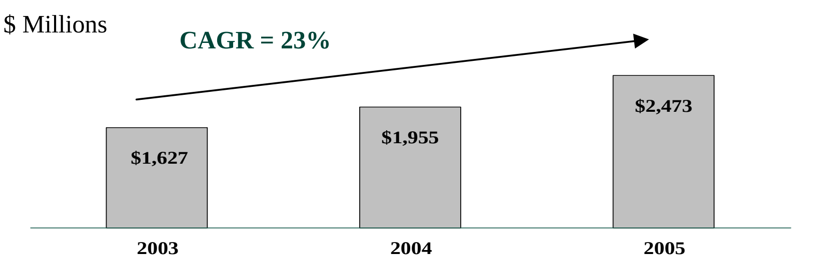
Lehman Fixed Income



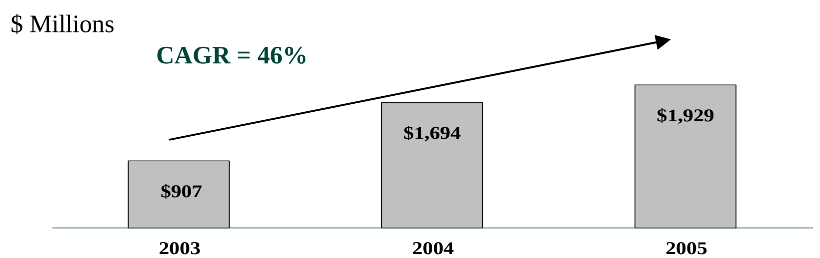
Lehman Banking



Lehman Equities



Lehman Investment Management



Relative Scale of Revenues (2003)

	GS	MS	MER	BSC
Fixed Income	0.8	0.8	0.9	1.5
Equities	0.3	0.5	0.6	0.9
Banking	0.6	0.8	0.8	1.0
IMD	0.1	0.1	0.1	1.8
Total Revenue	0.5	0.5	0.4	1.4

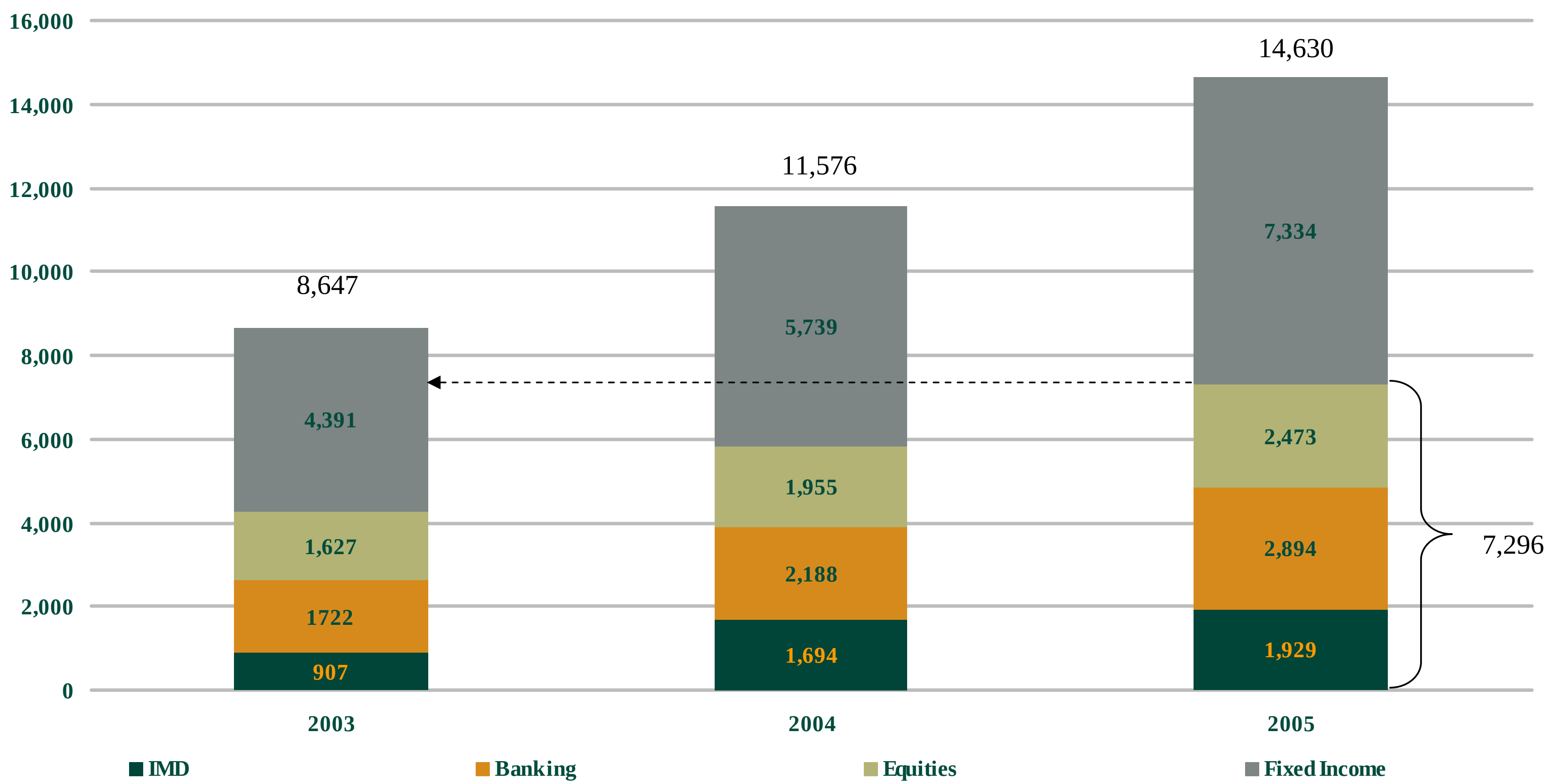
Relative Scale of Revenues (2005)

	GS	MS	MER	BSC
Fixed Income	0.9	1.1	1.2	2.3
Equities	0.3	0.5	0.6	1.0
Banking	0.8	0.8	0.9	1.4
IMD	0.2	0.1	0.2	2.8
Total Revenue	0.6	0.6	0.6	2.0

Diversified Business Portfolio

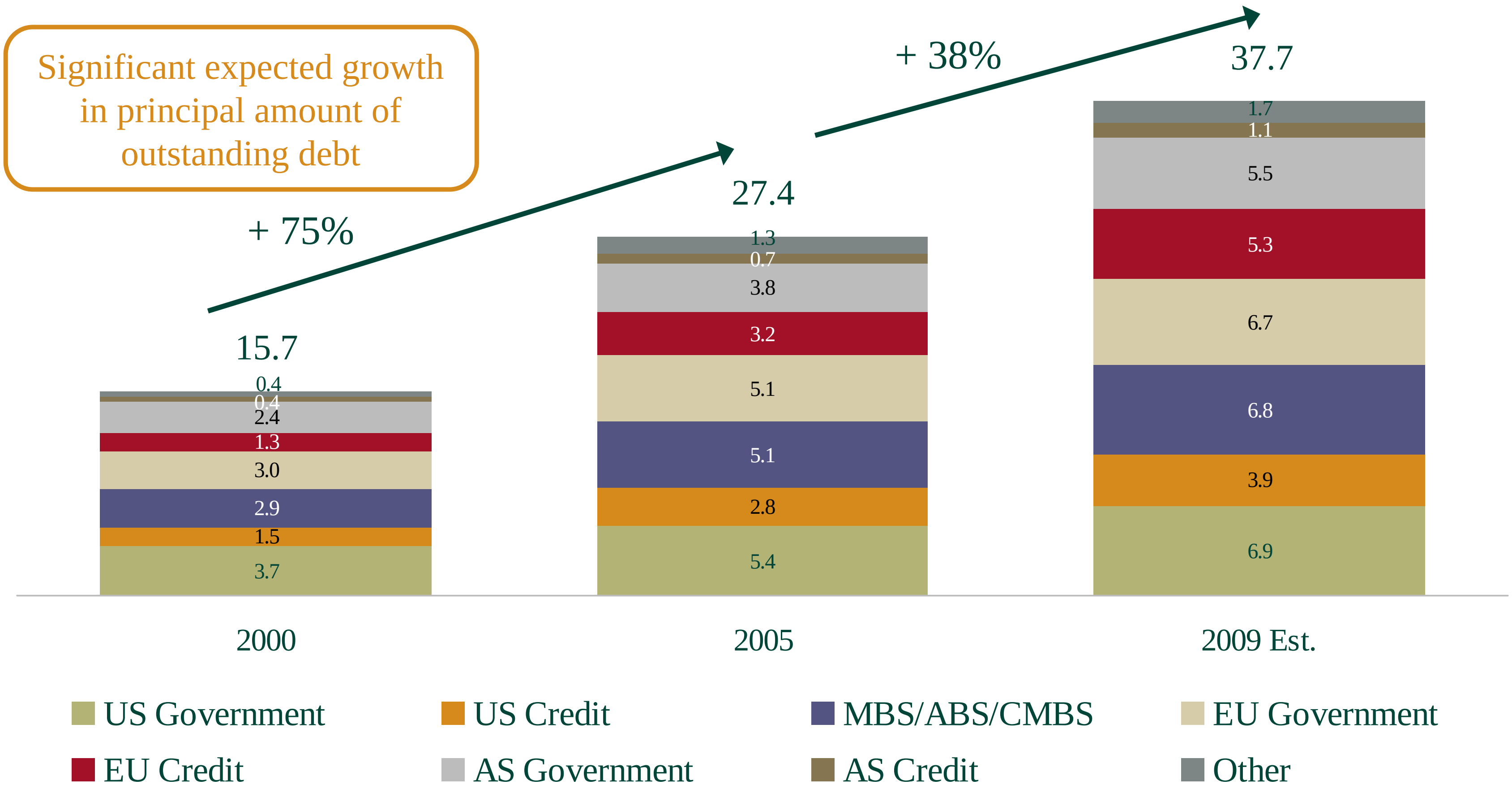
While Fixed Income remains the largest revenue source, and has grown significantly as a result of secular structural changes (e.g., disintermediation), other businesses have also grown significantly. The combined non Fixed Income businesses are now nearly as large as the entire Firm three years ago.

Lehman Business Portfolio Composition by Revenues - $ Millions



Fixed Income Market Rapidly Growing…
… and We Expect this Growth to Continue

Global Bond Market Outstandings[1] - $ Trillions

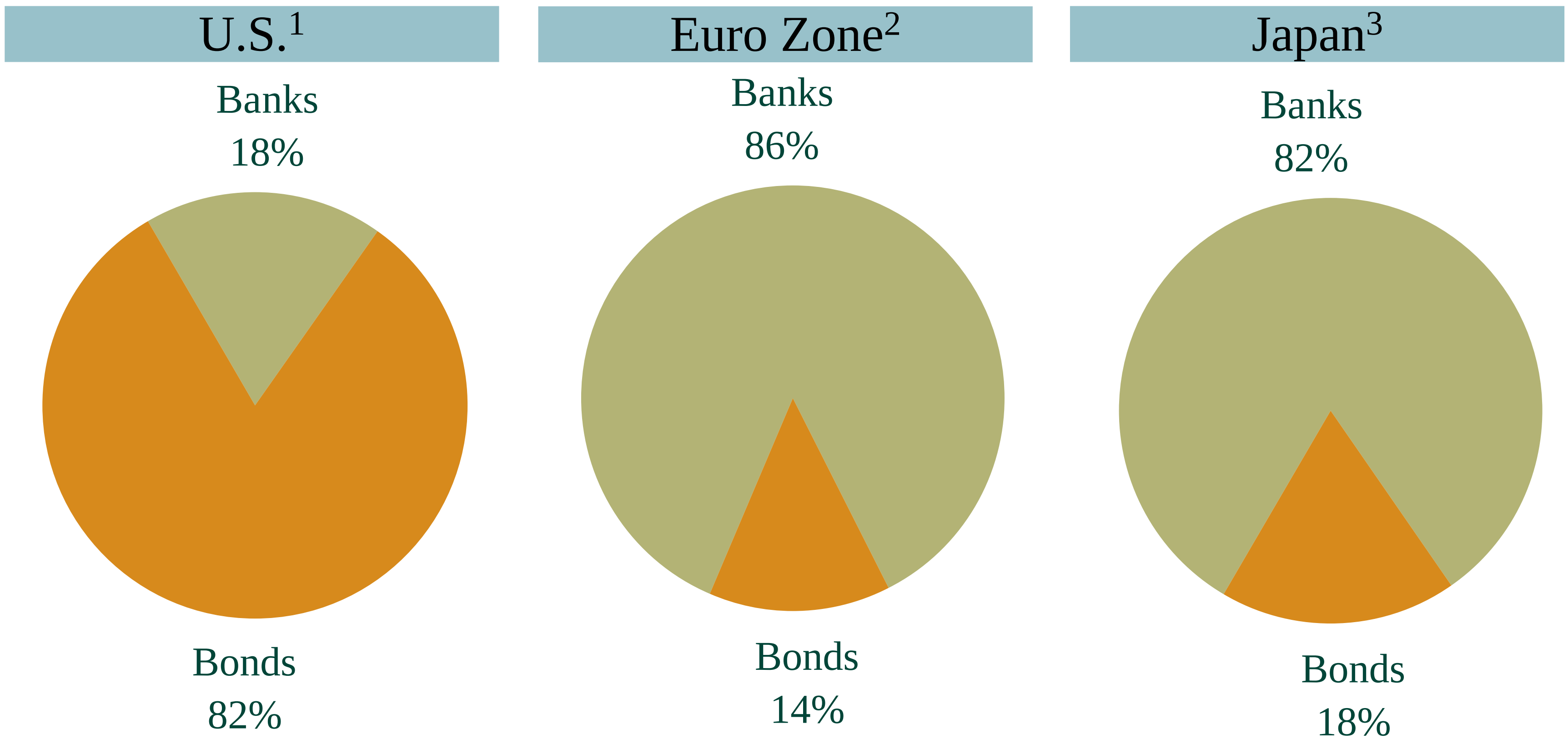


1. *Outstandings are a broad-based measure of the global fixed-income market that captures investment-grade, emerging markets and high yield securities. Included in outstandings are: U.S. Aggregate, Canadian, Eurodollar, and Investment-Grade 144A securities; Pan-Europe Aggregate; Asian-Pacific Aggregate and Euro-Yen securities; GBP denominated securities; U.S. High Yield securities; Pan-European High Yield securities; Emerging Markets securities; and CMBS High Yield securities. Outstandings exclude bonds with equity type features (warrants, convertibility), derivatives, commercial paper, corporates with less than one year to maturity, private placements, STRIPS, CHF denominated bonds, defaulted bonds, privately placed Japanese Government Bonds and USD 25/ USD 50 par bonds*

… Driven By Structural Changes In The Marketplace

While disintermediation is far along in the U.S., it is in early stages in Europe and Japan. We expect the pressures of regulatory, funding and economic capital efficiency to continue to drive the process.

2005 Bonds and Bank Loan Outstandings – Non-Financial Corporations

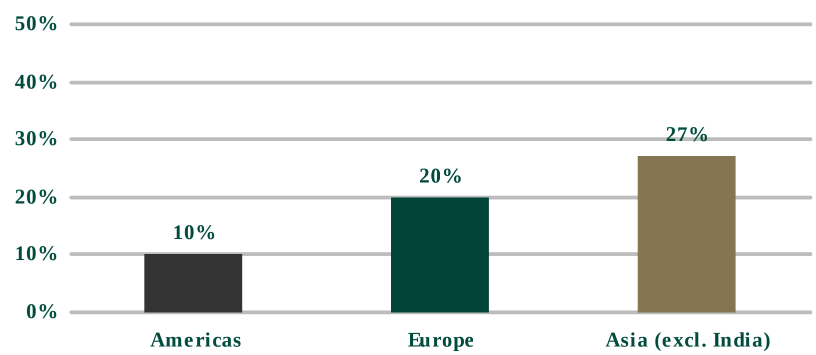


1. Source: US: Federal Reserve Flow of Funds – balance sheet of nonfarm, non-financial corporate business. Corporate Bonds includes Commercial Paper.
2. Source: Euro-Zone: ECB Monthly Bulletin MFI loans to non-financial sectors other than government.
3. Source: Japan: Bank of Japan Flow of Funds Accounts – private non-financial corporations. Corporate Bonds includes Commercial Paper

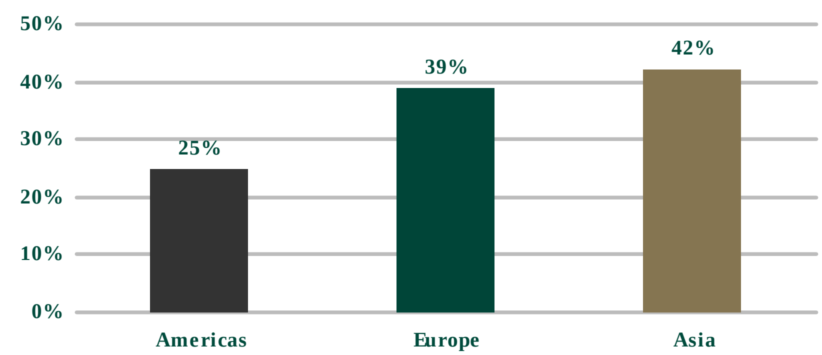
Geographic Diversification

We continue to develop our overseas presence significantly faster than our domestic franchise. Revenue and headcount growth have been significant and we now have critical mass in each region. This has given us a higher level of international diversification than the peer average.

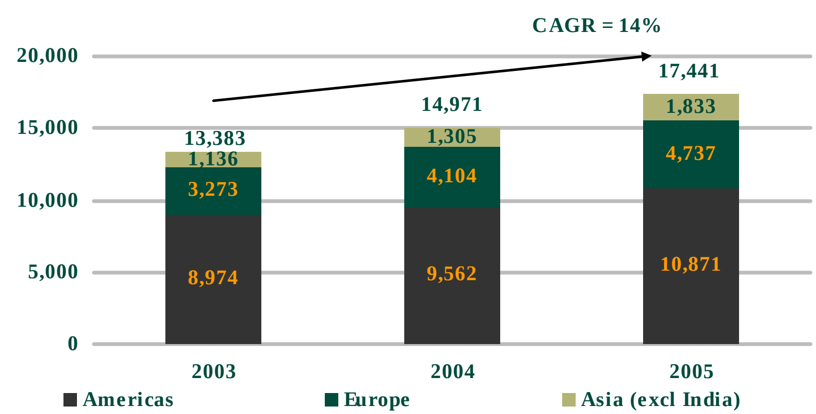
Headcount CAGR by Region, 2003-05[1]



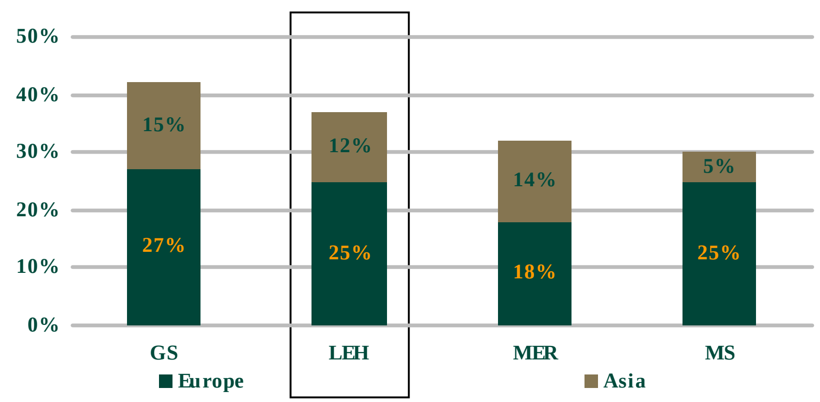
Revenue CAGR by Region, 2003-05



Headcount by Region, 2003-05[1]



Revenue Contribution of Non-Americas Regions, 2005

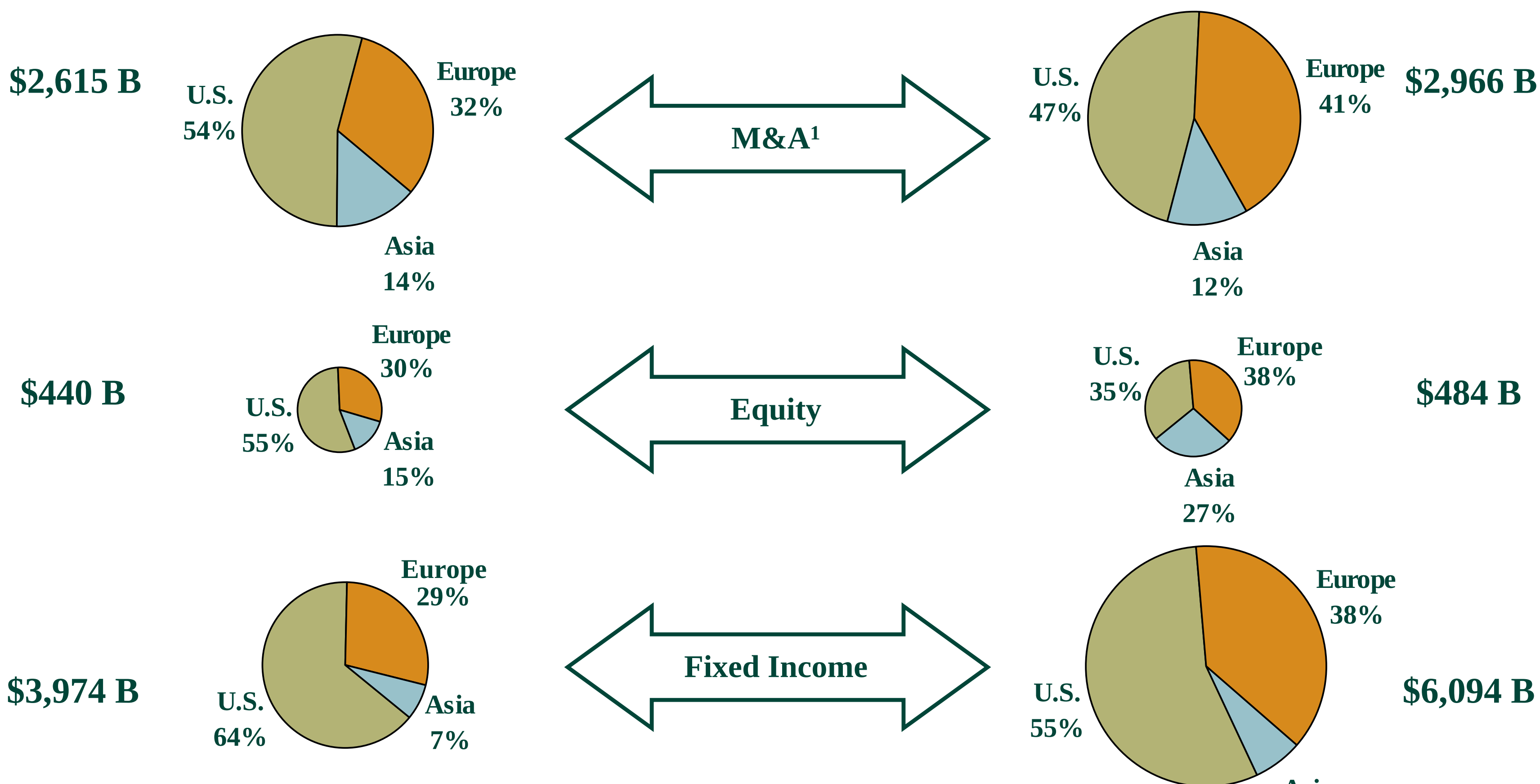


1. Excluding US Mortgage Capital

Secular Changes Support Industry Growth Outside the U.S.

Europe and Asia now account for a growing proportion of a larger primary issuance and M&A investment banking pool.

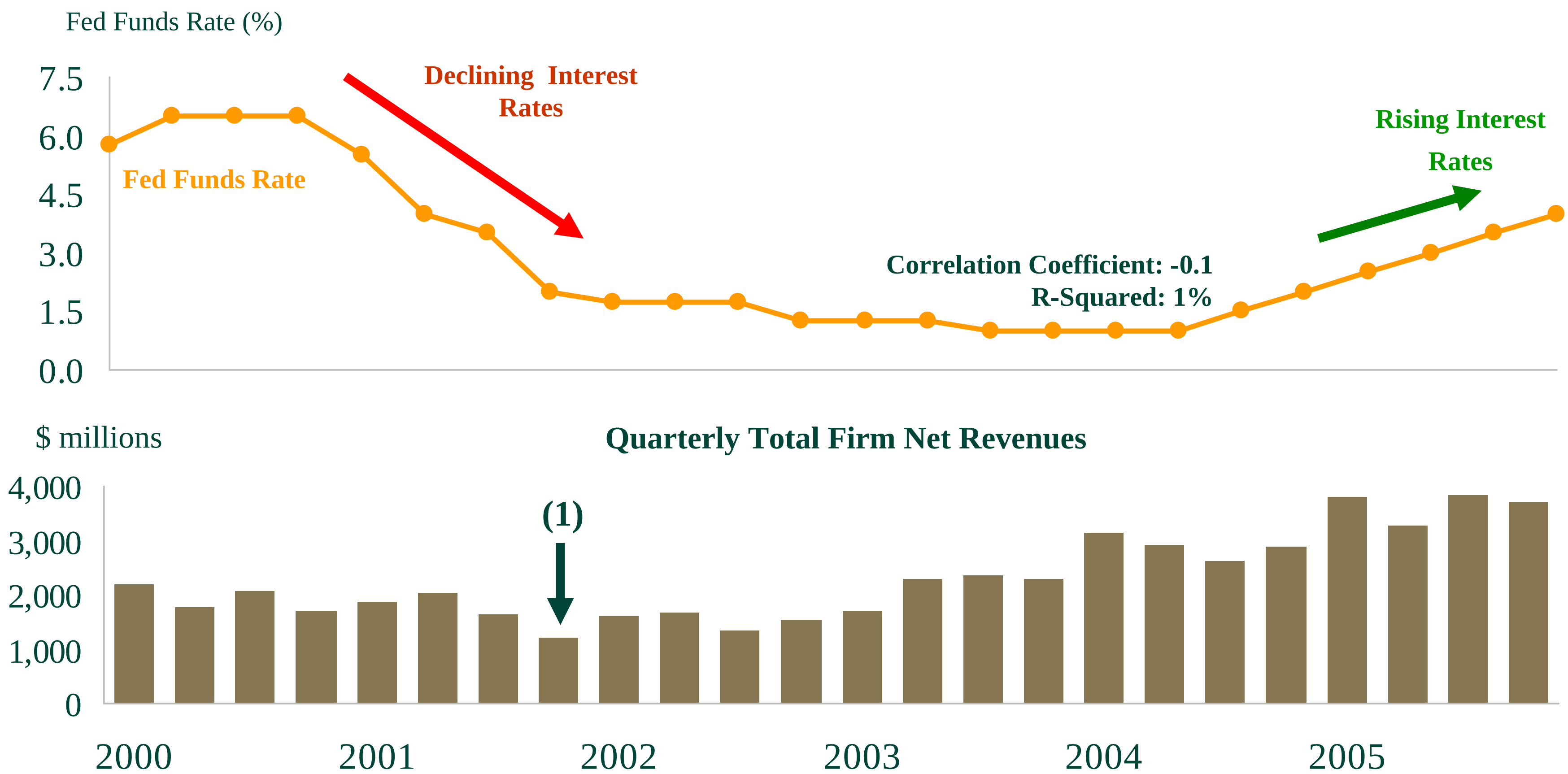
2001 Volumes	2005 Volumes



Source: Thomson Financial Services Data, based on calendar year
1. M&A: completed volumes

Resilience in Firm Revenues vs. Interest Rates

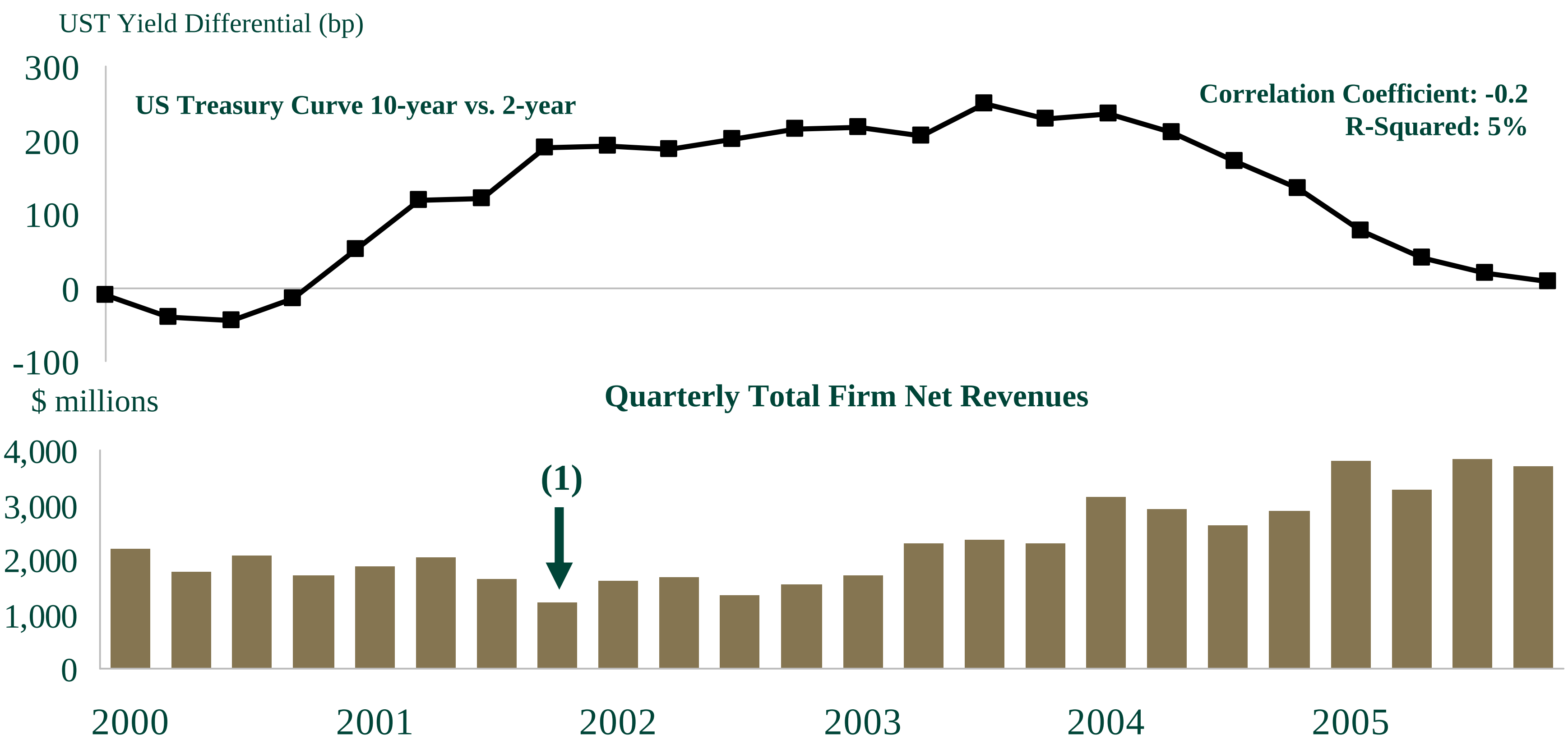
The volume and mix of client activity have been the primary drivers of our performance. Over the last six years, the Firm's revenues have had almost no correlation to the level of interest rates.



(1) *9/11 Capacity Constraints*

Resilience in Firm Revenues vs. Yield Curve

The volume and mix of client activity have been the primary drivers of our performance. Over the last six years, the Firm's revenues have had almost no correlation to the shape of the yield curve.

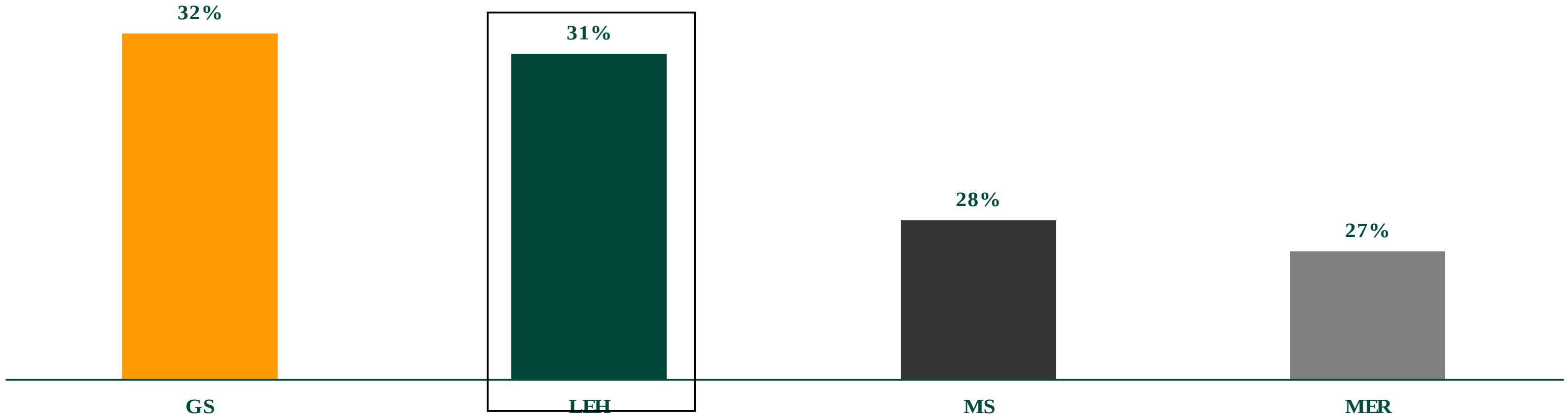


(1) *9/11 Capacity Constraints*

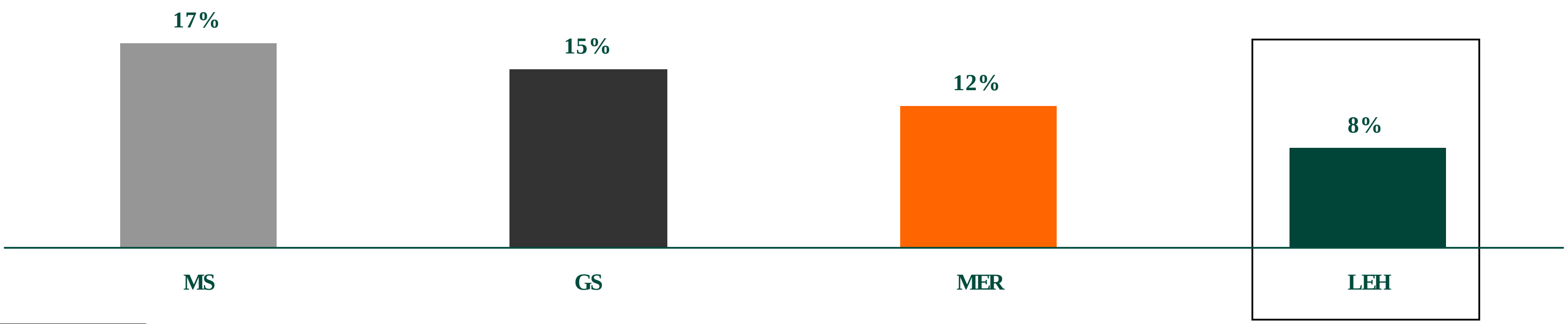
Strong And Consistent Profitability

Since 2003, Lehman has been leading the peer group in profitability and consistency of performance. We have achieved the highest or the second highest pre-tax margin in 10 out of 12 past quarters, delivering the second highest average pre-tax margin. At the same time, volatility of our pretax margin has been lower than that of our more diversified peers due in part to our flexible cost structure and best in class expense discipline.

Average pre-tax margins, 2003-05 - Percent



Quarterly Pre-tax Margin Volatility 1Q03 – 4Q05; Coefficient of Variation (1,2) - Percent



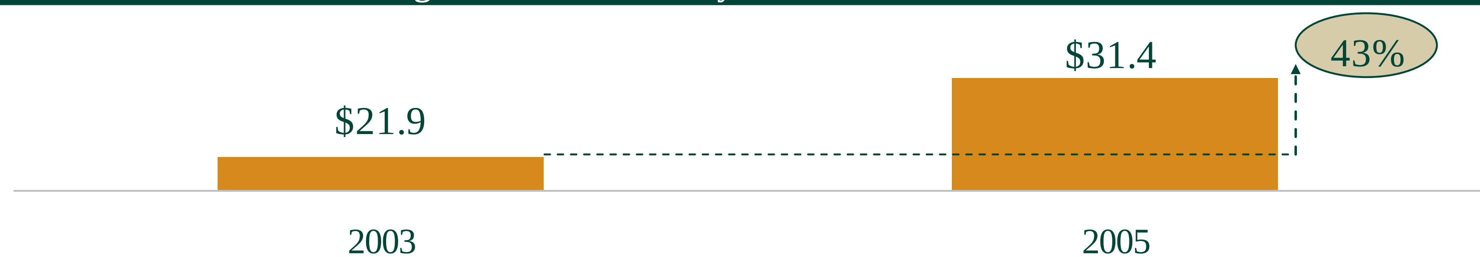
1. *Standard deviation of the pre-tax margin divided by average pre-tax margin*
2. *MS figures excludes Discover*

Efficient Use of Risk And Assets

Since 2003, we have grown capital market revenues by 63% while increasing VaR by 43% and net assets by only 30%.

Capital Market Revenues - $ Billions

Average Revenue Volatility Value at Risk – $ Millions



	2003	2005
VaR / Avg TCE	0.26%	0.28%

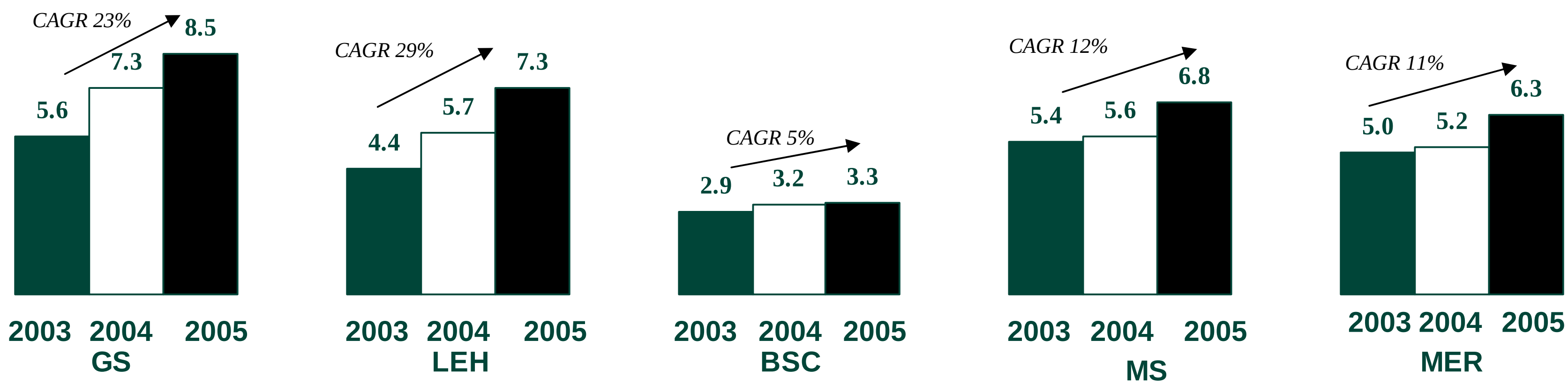
Net Assets - $ Billions

Segment Review – Capital Markets

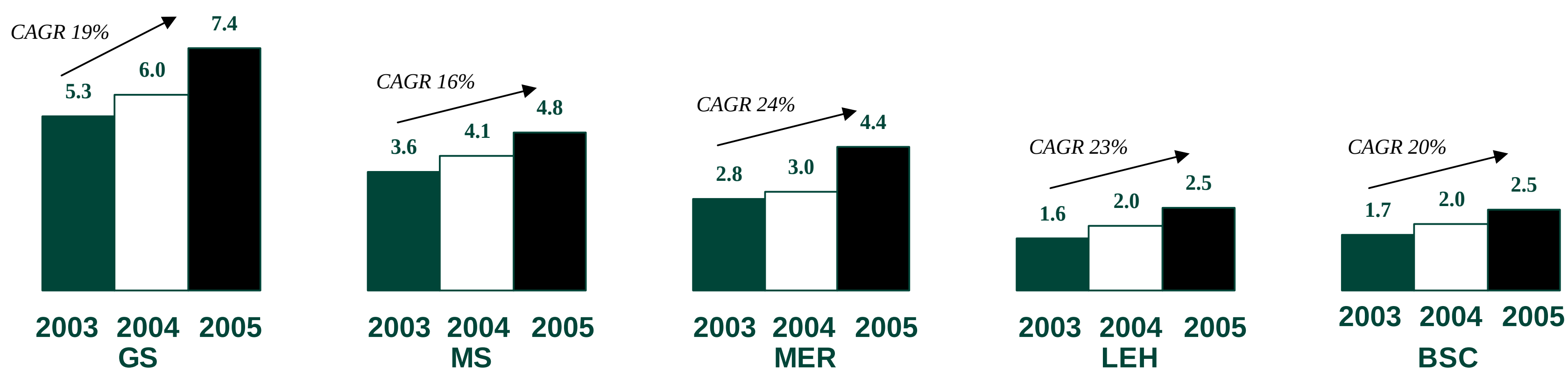
Revenue Dynamics

Lehman's Capital Markets performance has been very strong. We have achieved the highest growth in Fixed Income and the second highest in Equities. Our U.S. Fixed Income franchise is now unquestionably the market leader.

Fixed Income Revenues - $ Billions



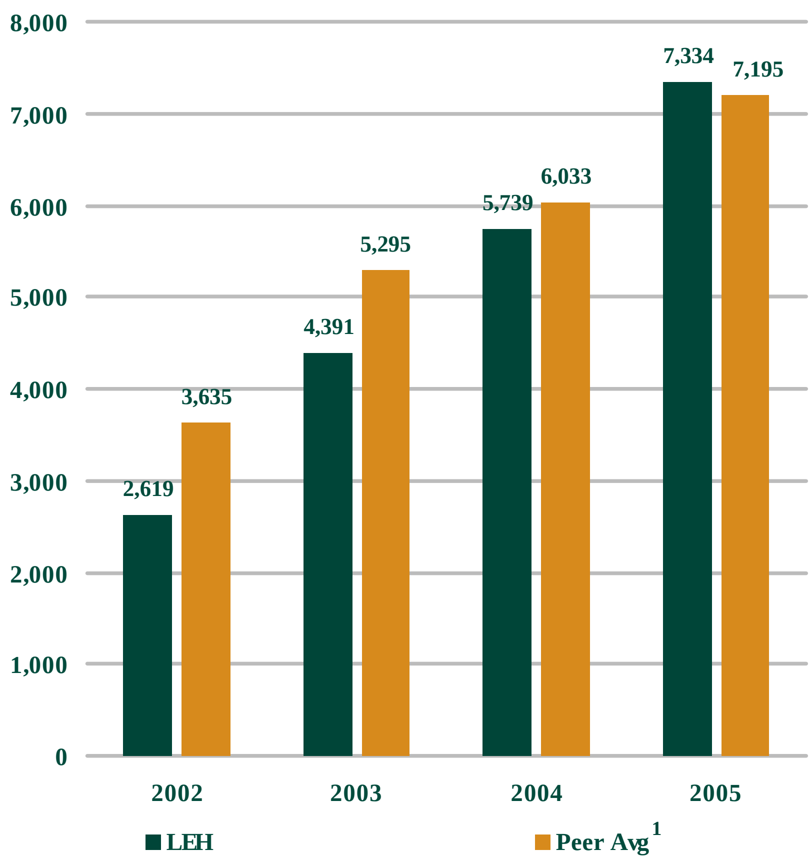
Equities Revenues - $ Billions



Fixed Income Revenues

Our Fixed Income business is broad based and client activity focused and has generated strong and consistent earnings. We have the lowest level of quarterly earnings volatility adjusted for growth, and we are now larger than the higher rated peer group.

FID Revenues 2002 – 2005 - $ Millions



1. Peer average includes Goldman Sachs, Merrill Lynch and Morgan Stanley

Quarterly Revenues 1Q 2002 – 1Q 2006 - Percent

	LEH	GS	MS	MER
CAGR	33%	31%	26%	31%
Coeff. of variation (unadjusted) [1]	38%	41%	40%	32%
Coeff. of variation (growth- adjusted) [1,2]	14%	30%	30%	19%

1. Standard deviation of the revenues divided by average revenues
2. Growth adjustment is done through a linear regression

Fixed Income Portfolio

Lehman Brothers' Fixed Income Division is a portfolio of 15-20 businesses operating in multiple product and geographical markets. None of these businesses has contributed to more than 20% of fixed income revenues in any given year since 2003.

Businesses	% Total Revenues 2003-2005	Max % Revenues 2003-2005	Min % Revenues 2003-2005
Commercial Real Estate	12%	19%	9%
Non-Prime Residential Mortgages	10%	14%	9%
High Yield Credit	10%	12%	9%
High Grade Credit	10%	14%	8%
Derivatives	10%	10%	9%
Governments	9%	13%	6%
Mortgage Origination	9%	14%	N/M
Municipal Bonds	4%	7%	3%
Firm Financing	4%	5%	4%
Other Resi Mortgages	4%	9%	1%
Foreign Exchange	4%	5%	3%
ABS	4%	4%	4%
CDO	4%	4%	3%
Prime Residential Mortgages	3%	4%	2%
European Resi Mortgages	2%	3%	1%
Futures	1%	1%	1%
Total	**100%**		

Equities Portfolio

Lehman Brothers' Equities business is made up of many businesses, which have been relatively stable over the past three years

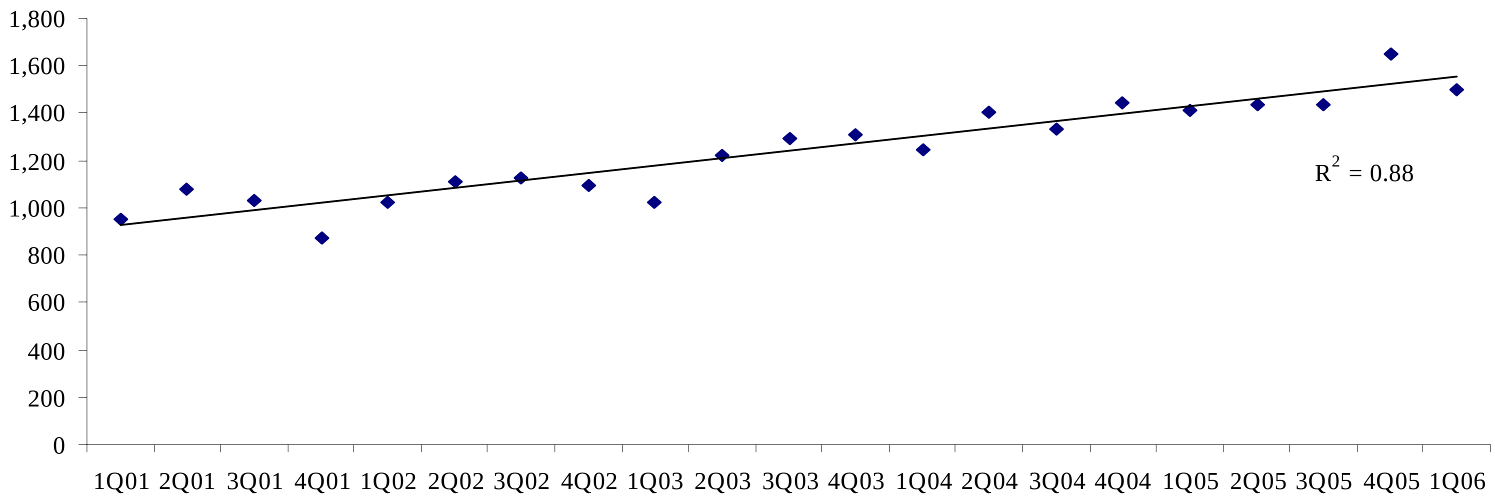
Businesses	% Total Revenues 2003-2005	Max % Revenues 2003-2005	Min % Revenues 2003-2005
Execution Services Americas	31%	34%	27%
Execution Services Europe	14%	15%	14%
Execution Services Asia	4%	5%	3%
Convertibles Americas	5%	9%	2%
Convertibles Europe	0%	1%	-1%
Convertibles Asia	0%	1%	0%
Volatility Americas	10%	12%	9%
Volatility Europe	7%	9%	4%
Volatility Asia	4%	6%	3%
Equity Strategies Americas	2%	3%	1%
Equity Strategies Europe	1%	1%	0%
Equity Strategies Asia	2%	5%	-2%
Customer Financing	9%	10%	6%
Stat Arbitrage	2%	3%	1%
Dividend Strategies	5%	7%	4%
Structured Transactions	2%	3%	2%
Futures	1%	2%	1%
Total	100%		

Growing Firm Client Flows Exhibit Little Volatility

Client flows, proxied by sales credits, have been growing steadily since 2001. These credits now amount to around $1.5 billion per quarter, and show very low volatility (R^{2}=88%). Note that sales credits do not represent the entire value of all transaction with clients – particularly in the case of structured transactions.

Quarterly Sales Credits (1) - $ Millions

	2001				2002				2003				2004				2005				2006
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
FID	421	553	500	525	527	582	599	650	567	670	700	712	662	739	740	773	781	966	837	927	793
Equities	374	371	390	325	333	362	368	307	323	379	426	436	410	464	436	500	463	303	420	534	540
Subtotal	795	923	891	849	860	945	968	957	890	1,049	1,126	1,148	1,072	1,202	1,176	1,273	1,244	1,269	1,257	1,461	1,334
PIM	159	155	137	136	163	165	157	138	136	170	167	163	170	200	158	171	169	165	182	188	164
Sales credits	**954**	**1,078**	**1,027**	**986**	**1,023**	**1,109**	**1,125**	**1,095**	**1,027**	**1,219**	**1,294**	**1,311**	**1,242**	**1,403**	**1,334**	**1,444**	**1,413**	**1,434**	**1,439**	**1,649**	**1,498**

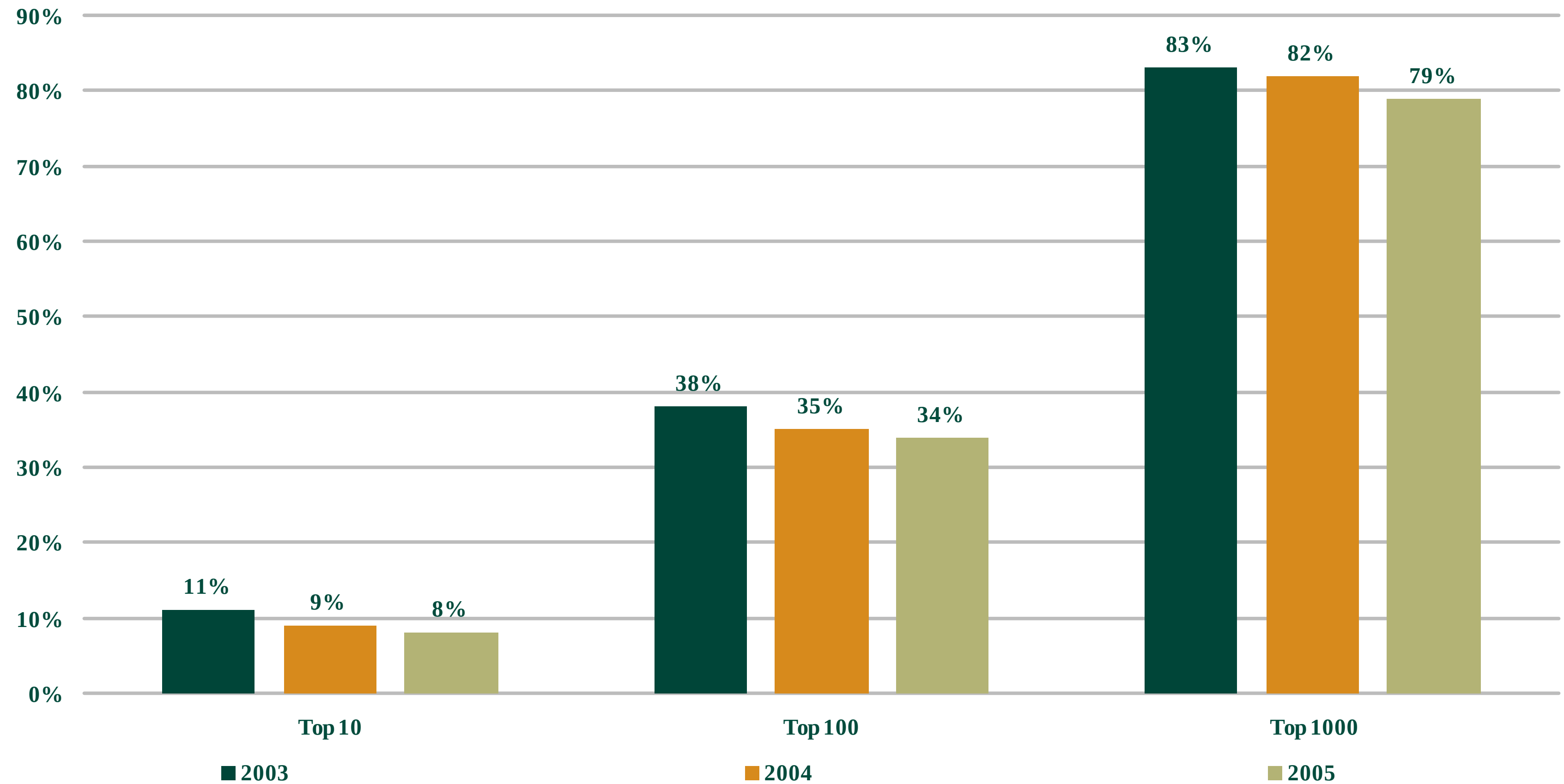


(1) Sales credits include Institutional sales revenue for both Equities and FID but excludes any Syndicate Revenue and securitization fees

Client Flow Revenues

Client flows have been the main driver of growth in Capital Markets. We have a deep and growing client base of more than 4,400 institutional fixed income clients and 3,200 institutional equities clients with low concentration risk (our top 100 clients only account for a third of sales credits). We have also increased our share of wallet with our key clients.

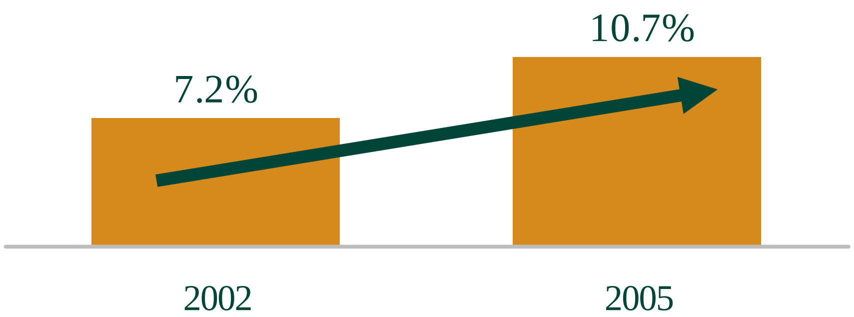
Percentage of Sales Credits by Client Segment - Percent



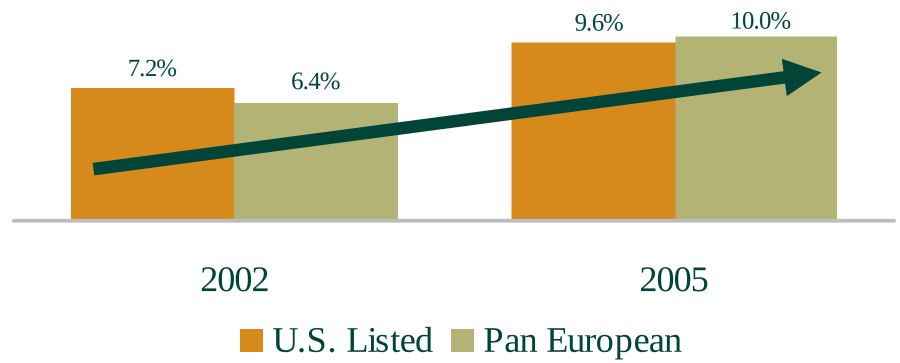
Gaining Share And Awards In Capital Markets

We continue to be ranked #1 in U.S. fixed income trading, and we have gained significant market share in U.S. listed and Pan-European cash equities trading consistent with our strategy of growing wallet share with our clients.

U.S. Fixed Income Trading Volume Market Share[1]



U.S. Listed and Pan European Equities Trading Market Share[3]



U.S. Fixed Income Survey Overall Quality[2]

Ranked #1 fixed income franchise for overall quality for the last five consecutive years (2001 – 2005)

U.S. Equities Trading[4]

Ranked #1 in:

-Trading on the NYSE

-Trading on the NASDAQ

-Sales trading on the NYSE

-Sales trading on the NASDAQ

1. *Source: Federal Reserve*
2. *Source: a leading market research firm*
3. *Source: Autex*
4. *Source: Institutional Investor Magazine, 2005 rankings*

#1 Provider of Advice Through Research and Index Technology

Our gain in market share has been driven by focusing on servicing clients. Our research has been rated #1 by Institutional Investor, and our Fixed Income Indices are the industry standard.

Research Rankings

Equities - All - America Research Team

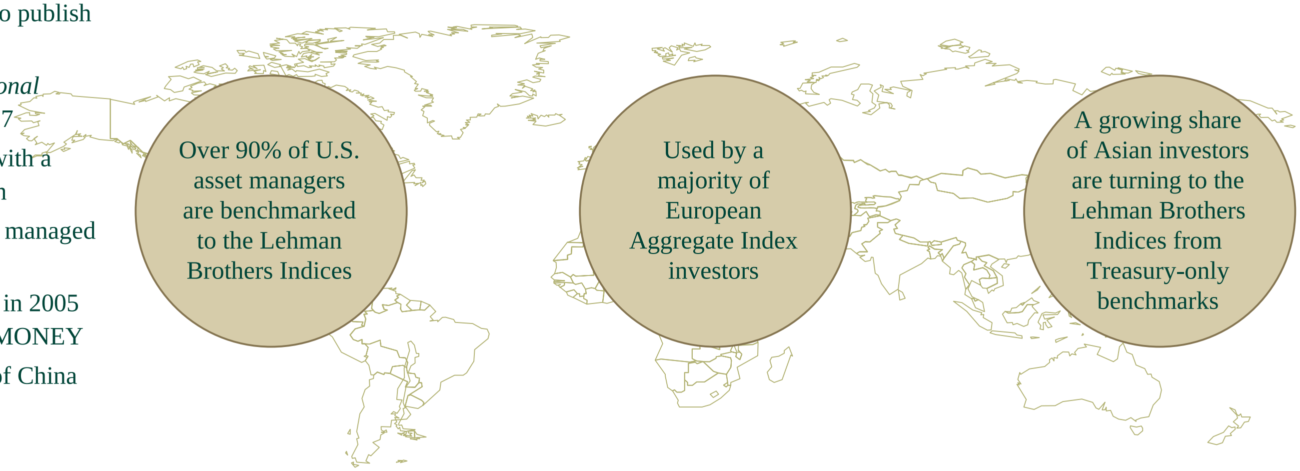
Overall Rank	Firm	Total Positions 2005	First Team Positions 2005	First Team Positions 2004
1	**Lehman Brothers**	**52**	**16**	**11**
2	Merrill Lynch	38	6	6
3	Morgan Stanley	34	6	7
4	Bear, Stearns & Co.	33	11	7
5	Smith Barney Citigroup	28	8	8
6	UBS	28	6	7
7	J.P. Morgan Securities	24	1	3
8	Sanford Bernstein & Co.	23	6	5
9	Goldman, Sachs & Co.	22	6	6
10	Credit Suisse First Boston	22	0	4

FID - All - America Research Team

Overall Rank	Firm	Total Positions 2005	First Team Positions 2005	First Team Positions 2004
1	**Lehman Brothers**	**39**	**12**	**14**
2	J.P. Morgan	38	9	9
3	Credit Suisse First Boston	28	11	7
4	UBS	21	9	8
5	Bear, Stearns & Co.	20	7	7
6	Merrill Lynch	15	0	2
7	Banc of America Securities	17	4	4
7	Citigroup	17	2	2
9	Deutsche Bank	10	3	2
10	Morgan Stanley	9	2	2

Dominant Lehman Fixed Income Indices

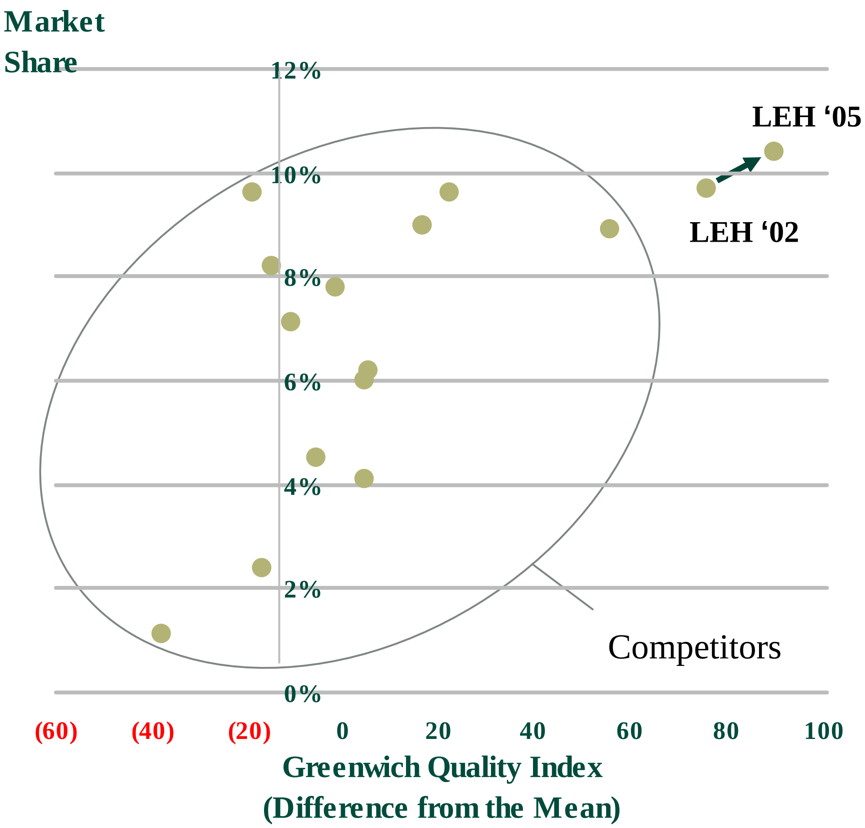
- Lehman Brothers was the first firm to publish bond indices in 1973
- Voted #1 Index provider by *Institutional Investor* since rankings began in 1997
- Coverage of over 55,000 securities with a market value greater than $28 trillion
- Approximately $5.5 trillion in assets managed against the Lehman Indices globally
- Voted #1 Index Franchise in Europe in 2005 by *Institutional Investor* and EUROMONEY
- Launched 1st comprehensive series of China Bond Indices in 2004



Market Dominance Through Client Service

Lehman Brothers' Fixed Income franchise has increased share based on quality of service provided to clients.

US Fixed Income Market Share and Overall Franchise Quality by Firm – 2005



- Maintained position as undisputed market leader:
  - 1st in overall market share with 10.5%
  - 1st in "footprint" and "top 3" relationships among most active investors
  - 1st - by a wide margin - in overall service quality among most active investors
  - Consistent coverage quality: 1st in sales, research, trading, e-trading
- Franchise is more consistent across range of products:
  - Increase in several products where firm has not traditionally been a market leader: high-yield, distressed, credit derivatives, emerging markets
  - Overall service quality is above par in every product.
- Improving market share and quality among banks and hedge funds.

Source: Greenwich Associates Survey of US Institutional Fixed Income Investors – Total Market – 2005 ; The Greenwich Quality Index is a composite measure of quality taking into account each firm's scores on various relationships management, trading, sales and research factors. Various points represent how other banks/brokers/dealers have scored on the Greenwich Quality Index and their Fixed Income products market share

Segment Review – Investment Banking

We Are Winning Lead Roles In Large Deals

- In 2006 YTD , Lehman Brothers was included in as many large transactions (top 10 by category) as our larger, higher-rated peers. Increasing involvement and success in these transactions improves the prospects of follow-up transactions.

Lead Involvement In Largest 10 Transactions in 2006 YTD

\# of Lead Involvements

	LEH	MS	GS	MER	BSC
Worldwide M&A Announced	**5**	5	3	6	0
Worldwide M&A Completed	**2**	4	7	4	2
Corporate High Grade Offerings	**4**	1	2	2	1
Corporate High Yield Offerings	**2**	2	3	1	1
Equities (1)	**7**	10	12	6	0
Total	**20**	**22**	**27**	**19**	**4**

Source: Thomson Financial Securities, as of May 25, 2006

1) Equities includes Initial public offerings, secondary offerings and convertible securities

Increased Market / Wallet Share

The Firm's client focused business model has continued to produce significant market share gains.

	2003		2005
Worldwide M&A Announced (1)	11.0%	→	13.5%
Worldwide M&A Completed (1)	9.1%	→	13.9%
U.S. M&A Completed (1)	11.5%	→	19.8%
U.S. Equity & Equity Related (1)	5.7%	→	10.9%
U.S. Fixed Income (1)	9.4%	→	9.3%
Investment Banking Fee Share (2)	4.7%	→	5.0%

1. *Source: Thomson Financial Securities Data, based on calendar year*
2. *Source: Lehman Brothers' fee share model, based on calendar year.*

Diverse Client Base

In the past four periods only four names have appeared in the top 10 banking clients list more than once. This shows the breadth of client coverage and the lack of dependence on any single name.

Top 10 Revenue Generating Investment Banking Client Revenues
$ Million

2003 Full Year		2004 Full Year		2005 Full Year		2006 1st Qtr	
Client	**Rev ($mm)**	**Client**	**Rev ($mm)**	**Client**	**Rev ($mm)**	**Client**	**Rev ($mm)**
Williams Companies	37.3	Boise Cascade Holdings	44.4	Federal National Mortgage Association	74.4	Hertz Corp	43.2
Telenor	29.3	NRG Energy *	33.7	Hudson City Bancorp Inc	68.4	TEVA Pharmaceutical Industries	31.6
Telcom Italia/Olivetti	27.2	General Growth Properties	27.0	LiveDoor Co	64.3	SAP	27.9
Beacon Capital Partners	25.5	Cingular Wireless	26.9	Tishman Speyer	58.8	Clayton, Dubilier & Rice	22.5
Qwest Communications/Dex Media *	23.1	PG&E Corp *	25.4	The Republic of Italy	43.3	Capital Automotive REIT	21.0
PG&E *	21.6	Enterprise Products Partners	24.3	Coral Eurobet Ltd.	40.6	Dex Media *	18.6
Nissho Iwai Nichimen	21.1	Charter One Financial	23.2	Sprint Nextel Corp.	37.3	ING Groep *	17.1
Woori Financial	20.6	Greenpoint Financial Group	20.0	Kerr-McGee	34.7	Adidas Salomon AG	14.5
KKR	19.1	UFJ Holdings	19.5	Marriott International	31.7	AVAGO Technologies	14.4
Richemont	16.0	HVB AG	18.4	ING Groep *	27.1	NRG Energy *	14.2
Total	240.8	Total	262.8	Total	480.6	Total	225.0
% Total	14%	% Total	14%	% of Total	15%	% of Total	28%

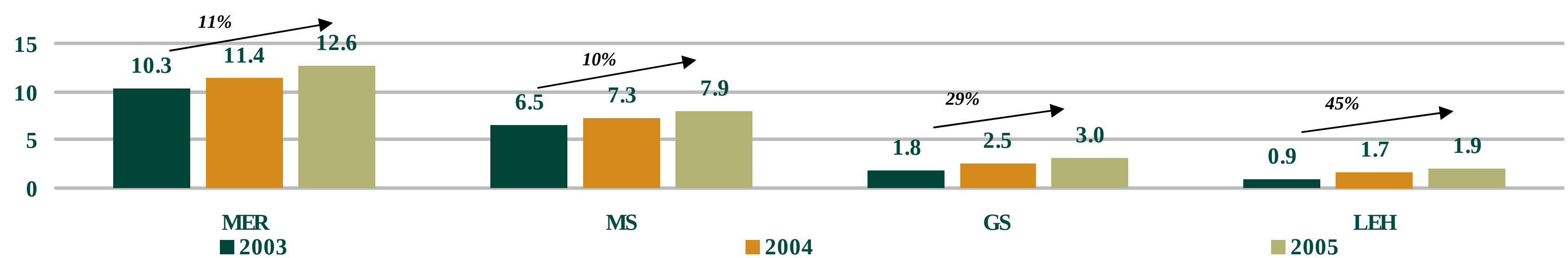
** Clients in Top 10 in multiple years*

Segment Review – Investment Management

Progress Made in Investment Management

- In Investment Management, we have outperformed our higher rated peers since 2003 in terms of revenues and AUM growth. This is an area we continue to strengthen in a prudent way.

Investment Management Revenues- $ Billions



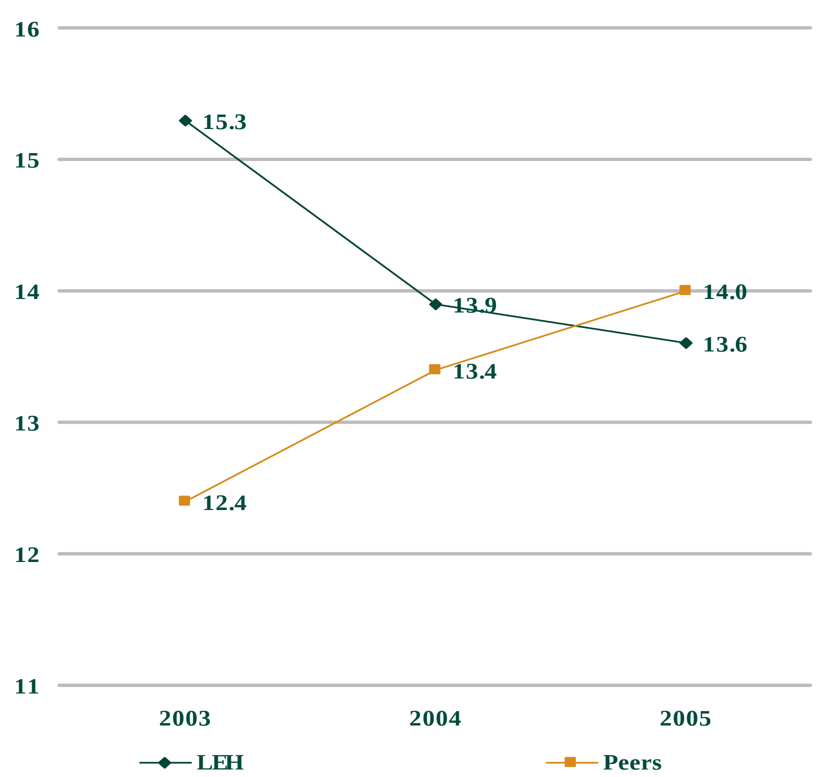
Assets Under Management - $ Billions

Capital Management

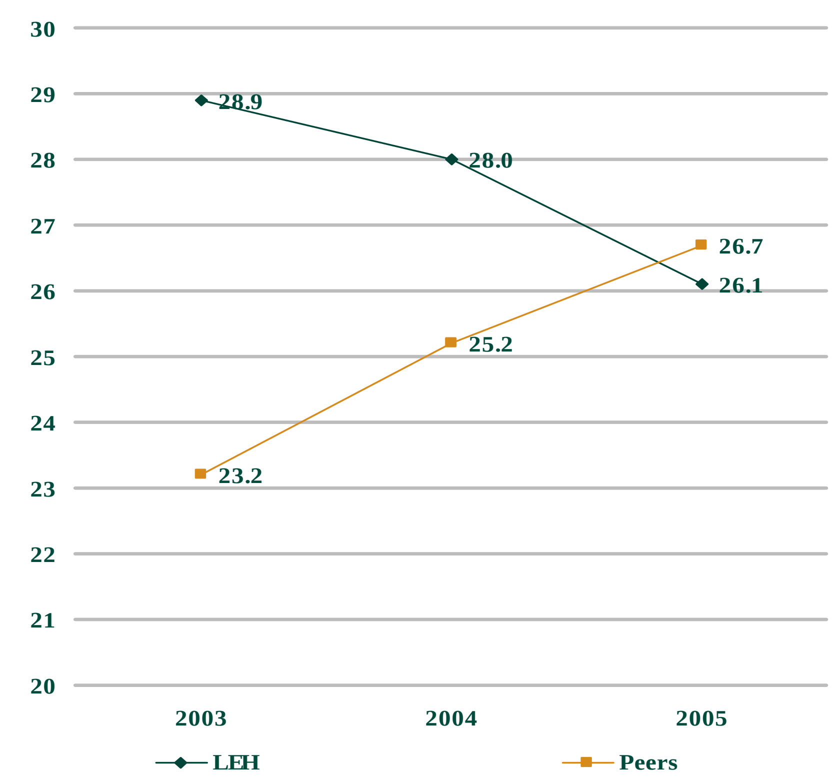
Leverage

- We have been able to grow equity faster than the average of our Aa3 rated peers (21% CAGR in 2003-05 vs. 12%). Strong equity growth together with disciplined risk management has led to our leverage moving from the highest in the peer group to the lowest.

Net Leverage Ratio (1)



Gross leverage Ratio (2)



(1) Net leverage ratio is defined as net assets divided by tangible equity capital. Net Assets represent total assets excluding cash and segregated cash, securities received as collateral, reverse repos, securities borrowed, intangible assets and goodwill.

(2) Gross leverage ratio is defined as total assets divided by total stockholder's equity

Regulatory Capital Comparison

Since December 2005, Lehman has been operating under the SEC's Consolidated Supervised Entity (CSE) rules. Comparison indicates that Lehman Brothers is better capitalized than many of higher-rated commercial banks. Although the rules are not 100% consistent they are sufficiently close so that the comparison is valid.

CSE Capital Adequacy Measures - Percent

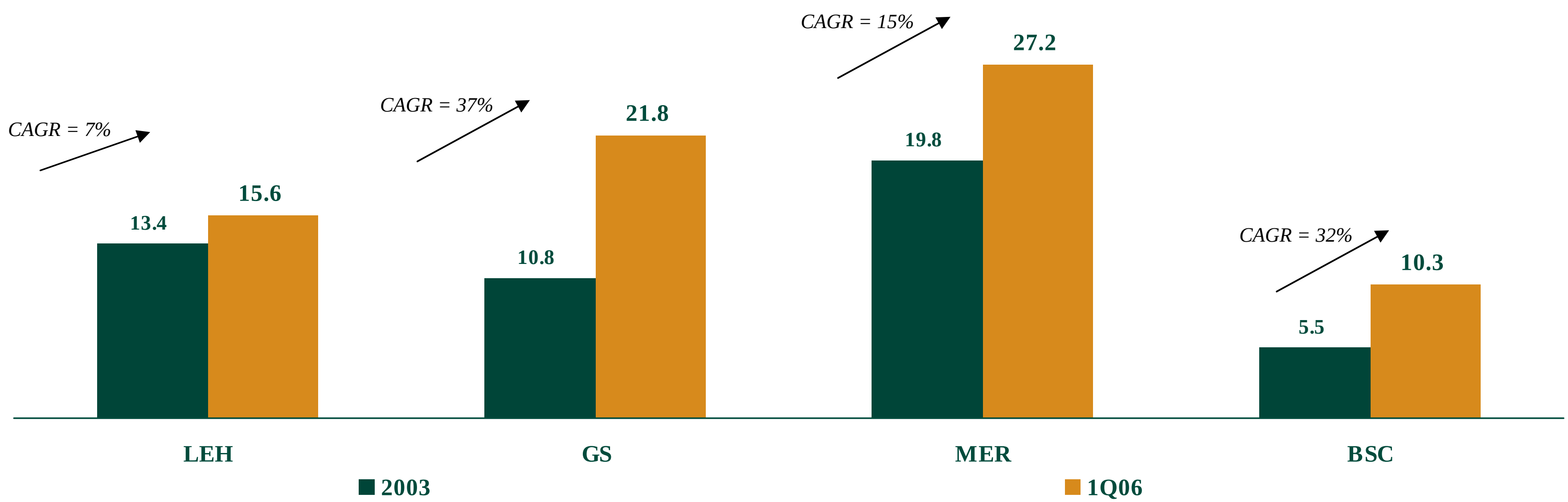
First Quarter 2006	**LEH**	**C**	**BAC**	**JPM**	**WB**	**WFC**
1) Tier 1 Capital Ratio	12.14%	8.60%	8.45%	8.50%	7.87%	8.30%

Year End 2005	**LEH**	**C**	**BAC**	**JPM**	**WB**	**WFC**
1) Tier 1 Capital Ratio	10.56%	8.79%	8.25%	8.52%	7.50%	8.26%
Moody's Credit Rating	A1	Aa1	Aa2	Aa3	Aa3	Aa1

Credit-Sensitive Assets Growing Slowly

- Credit-sensitive assets, which include our commercial mortgages, private equity, high yield exposure and non investment grade interests, have grown at a significantly slower pace than our peers.

Less Liquid Assets [1] - $ Billions

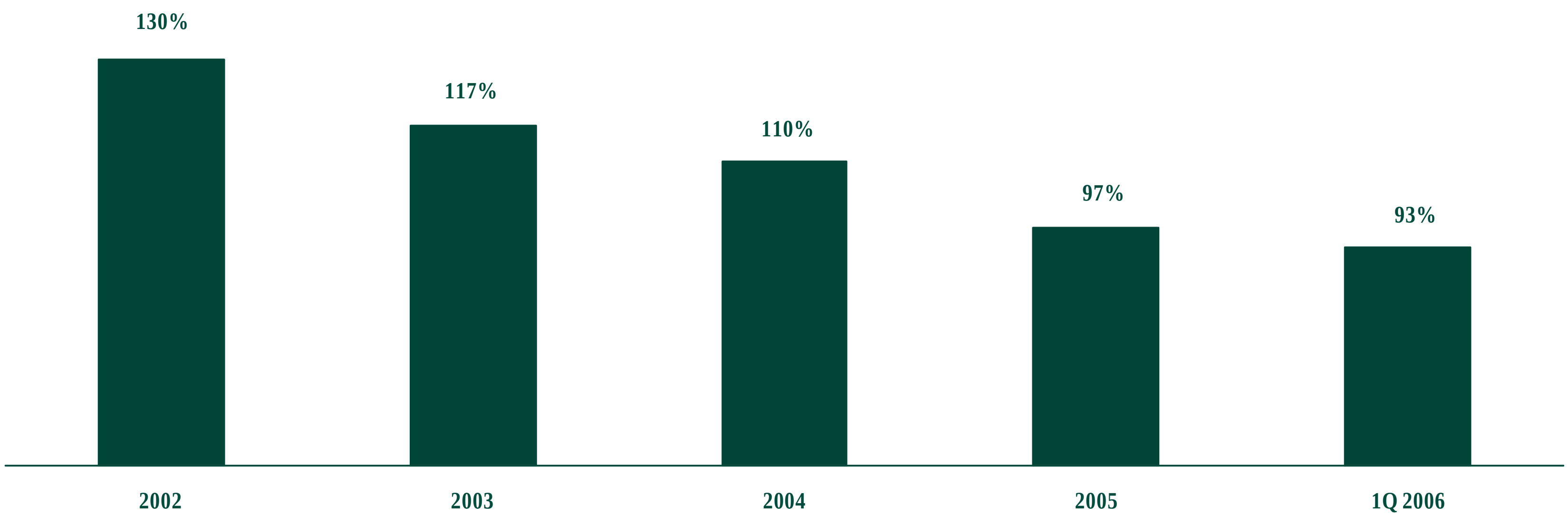


1. *Excludes MS as they no longer report high yield exposure*

Credit-Sensitive Assets Versus Equity

◆ Credit-sensitive assets have fallen significantly as a proportion of our total tangible equity.

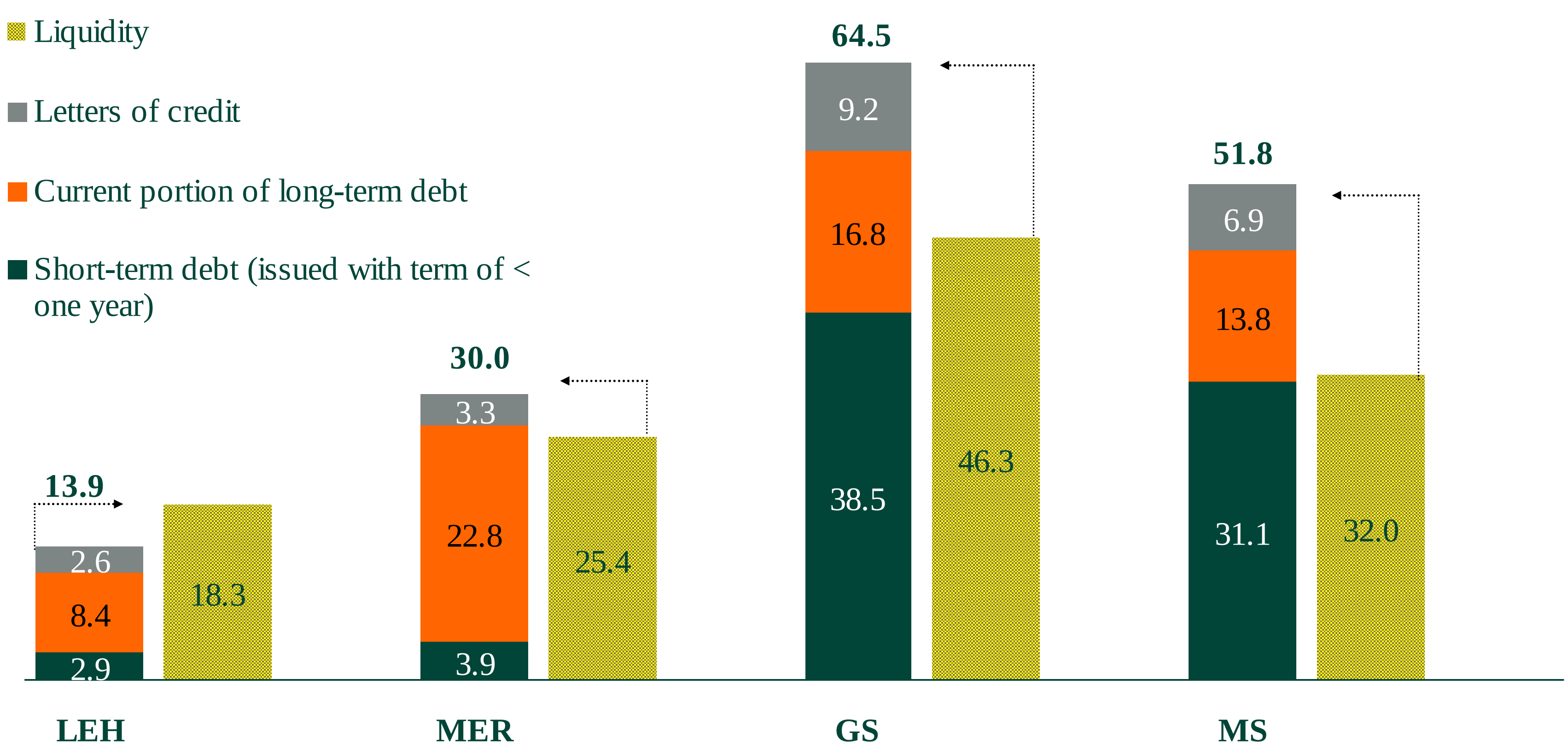
Credit-Sensitive Assets / Total Tangible Equity - Percent



Best-In-Class Liquidity

Relative to our principal competitors, we maintain the most conservative liquidity pool in relation to the amount of short-term debt and long-term debt maturing within the current year.

2005 Q4 Short-Term Debt – Liquidity Pool Comparison - $ Billions



Large Lending Commitments

Large Lending Commitments Are Increasing In The Market… … But Our Risk Appetite Is Not

- Driven by leveraged buy outs, lending commitments in the market are getting larger. The top 20 leveraged loans announced so far this year amounted to $107 billion in total – 56% more than the $69 billion announced for the same time period last year.

- The Lehman model is one of credit syndication in all market environments. This requires two criteria to be met before we provide financing:
  - Is the credit profile suitable? This involves an assessment of the borrowers' ability to service the debt, and the protection that the lenders are afforded in the terms of the deal.
  - Will we be able to distribute the loans? This requires a detailed assessment of the market appetite for such a borrowing, as well as protection in MAC clauses and flex pricing. Our objective is to reduce our exposure to a credit to a size as small as possible and as quickly as possible.

- We have a very successful track record of managing our risk positions. Between initial underwriting and closing, we typically reduce our leveraged loan underwriting by 85-90%. Post closing, the average loan size net of hedges is typically below $10 million. This has been our strategy over many years – the percentage held at close of syndication has been consistently below 15%.

- This track record is the result of:
  - A stringent, multi-stage approval process;
  - An aggressive risk mitigation strategy relying on syndication, sales, CDS (both plain vanilla and loan delivery only);
  - Our broad fixed income franchise which enables us to distribute the loans widely and come up with innovative risk mitigation strategies.

A Stringent Approval Process For Commitments

The commitment process is the first, but probably most important control on high yield loan activity.

Individual business units and product groups first review and approve transactions prior to them being elevated to Firmwide Committees. The process is rigorous and comprehensive requiring input from key areas of the Firm to assess the suitability of the risks of the transaction across a number of dimensions including, but not limited to: credit, market, reputation, legal, syndication, funding, use of capital, and operational.

Deal Team, Risk & Research Analysts participate in due diligence	Deal Team prepares detailed memorandum	Divisional Commitment Committees	Firmwide Commitment Committee
Investment Banking relationship managers responsible for coordinating the approval process Commitment Committee Credit Review analyst and Research participate in formal due diligence and risk assessment Credit and Market Risk Management review results and assumptions for reasonableness	Proposal described Results of all due diligence reported Opinions, financial projections and recommendations of Commitment Committee Credit Review analyst, Credit and Market Risk Management, and research reported	Deal Team presents the transaction and the results of diligence conducted Opinions, financial projections and recommendations of Ratings Credit assessments Discussion of proposed commitment terms, pricing and syndication Approval of proposed terms and ratings requires satisfactory diligence, research and ratings opinions and syndication strategies	Ensures that – The transaction fits within our funding and risk frameworks – Even in downside scenarios, meets minimum return hurdles – Due diligence has been thorough – The Firm is comfortable doing business with the client – The Firm is protected from a legal perspective – The syndication strategy is clear, and where appropriate we have pre-syndicated with our “Club”

Aggressive Risk Mitigation

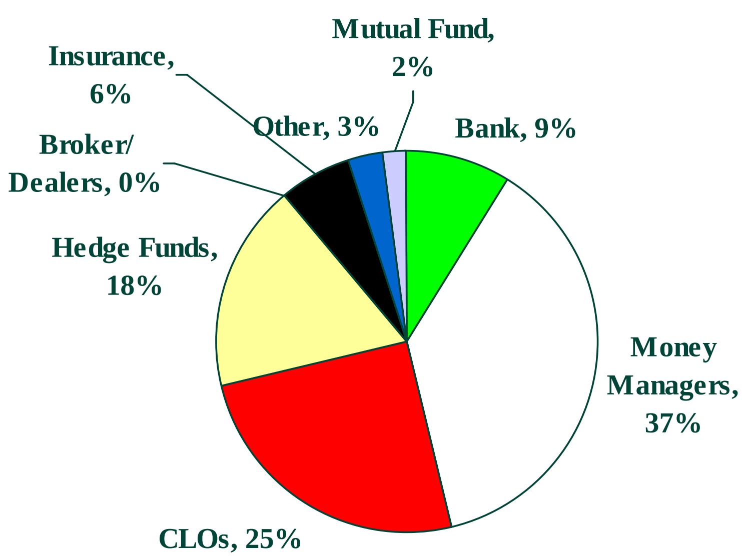
We aggressively seek to reduce our risk exposure to high yield loans. We believe that this is key to generating long-term consistent performance in our business.

- When we are about to underwrite to a large transaction, we typically seek to partner with 2-4 banks to reduce the size of our underwriting. On average, we underwrite about 35% of the transaction.
- Between initial underwriting and closing, we substantially reduce our exposure primarily through a combination of syndications and purchase of default protection through credit derivatives. On average, we reduce our underwriting by 85-90% before closing. This has been the case over many years, and has not changed in the recent, more positive credit environment.
- Post closing, we seek to reduce our positions to a minimum size through further sales and hedges.
- This strategy of aggressive risk mitigation has led us to create innovative risk mitigation solutions such as loan delivery only CDS, which provides a better hedge than plain vanilla CDS.
- We focus on extending our distribution capabilities, across the syndication, sales and CDS product range.
- Mark to market accounting is also a significant incentive in managing the risk.

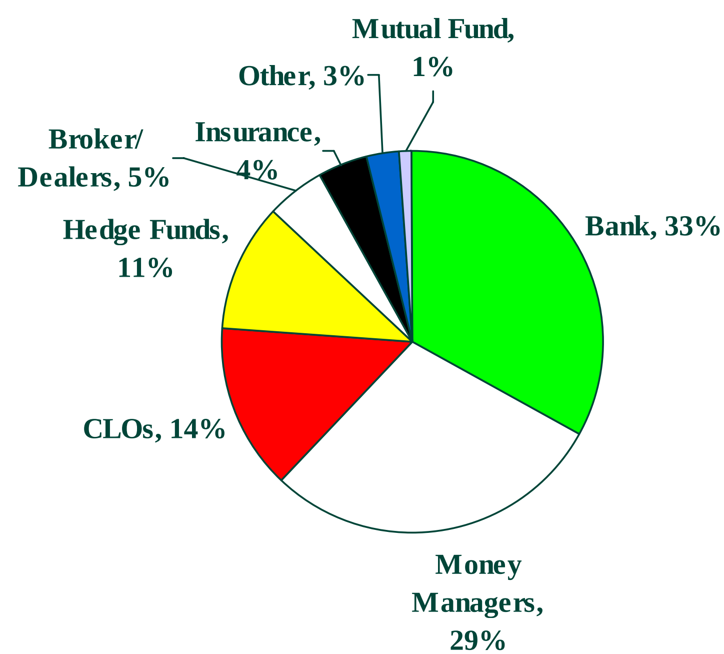
High Yield Loan Syndication

We syndicate high yield loans across more than 250 buyers. As banks have increased their appetite for higher yielding assets, we have been able to shift our syndication strategy toward them.

2004 High Yield – Syndicate Allocation by Client Type
Percent

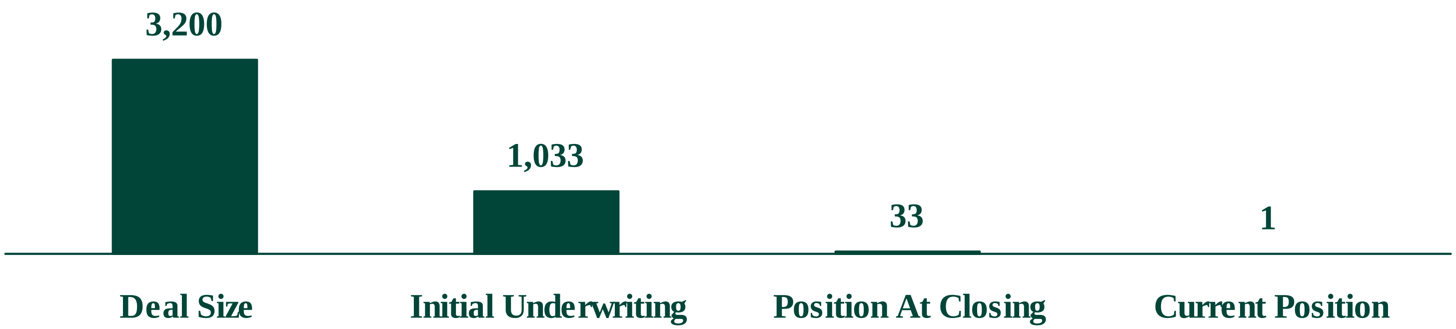


2005 High Yield – Syndicate Allocation by Client Type
Percent



Example of Lehman's Disciplined Approach: Reducing Risk Intelsat LBO

The typical multiple phase syndication results in the rapid distribution of risk and minimal "remaining positions" at the close which are then transferred to and managed by an independent Loan Portfolio Management group.



- $5.2 billion LBO of Intelsat by Apollo Management, Apax Partners, Madison Dearborn and Permira
- $3,200 million HY debt offering
  - $650 million senior secured credit facilities
    - $350 million term loan
    - $300 million revolver
  - $2,550 million senior notes offering w/ bridge loan
- 3 handed deal (Lehman Brothers, Deutsche Bank, CSFB).
- The commitment had business MAC, market MAC and flex pricing

- Credit facilities
  - Due to strong demand, pricing for the facility was reduced by 25 bps
  - Three days before closing, facility was allocated to secondary market
  - Lehman left with $32.5 million of the revolver
- Bridge Loan Syndication spearheaded by Deutsche Bank with assistance from Lehman and CSFB
  - 50% of bridge loan syndicated to 29 accounts
  - High yield bond road show launched
  - Senior notes priced and fully sold before closing

- Post closing, $26 million of loan only deliverable default swaps are bought to hedge the revolver reducing our exposure to $7 million.
- Further hedges were bought reducing our net exposure to less than $1 million.

Examples of Lehman's Disciplined Approach: How To Say No

Deal	Sponsor	Commentary
ABC Radio (Disney)	KKR	LBO opportunity. Very high valuation….leverage needed to drive purchase price. Other banks much more aggressive on leverage and terms. LB terms (based on historical standards) well off competition.
Affinion (Cendant Marketing)	Apollo	Turned down deal based on leverage. Execution struggled and bridge loan funded.
VNU	KKR, TH Lee, Blackstone, Carlyle, H&F	Significantly behind market on leverage/terms/flex. Commitment being signed with other banks at levels (approx. 50bps cushion) inside historical standards. Other banks claim willingness to underwrite 100% or $7+ billion.
Quiznos	JPMorgan Partners	Initially co-M&A and financing advisor. Decided to withdraw from the transaction because of high leverage (7.2x) in view of the negative business trends and and legal issues (franchisee lawsuits, FTC investigation).

Prime Broker Business

Prime Broker - Executive Summary

- Lehman sees its prime broker business as a natural extension of its well established strategy of being the "Capital Markets Counterparty of Choice" – servicing large institutional clients through superior ideas and execution.

- We focus on the larger well capitalized hedge funds with AUM size greater than $1 billion. From time to time, we also opportunistically target mid-sized funds whose performance is likely to outperform market and smaller, reputable funds of strategic importance.

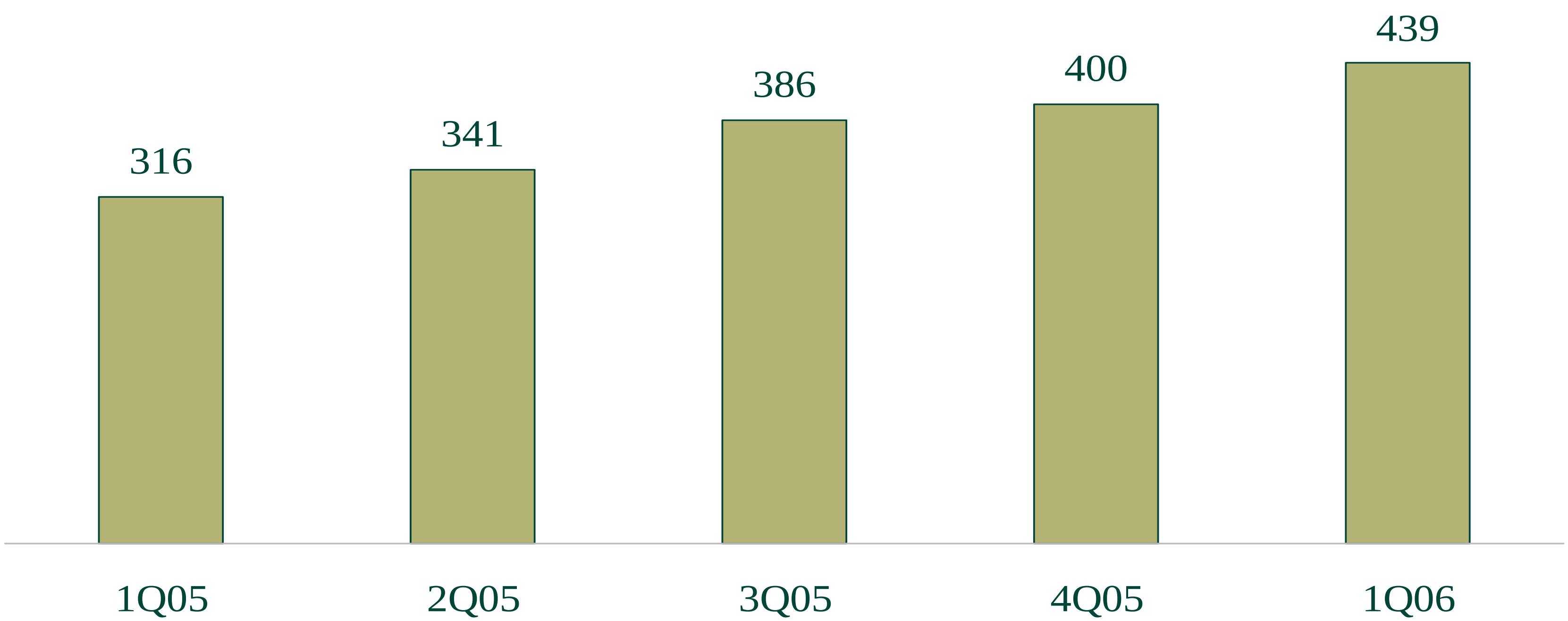
- We believe that we have a competitive advantage because of our fully-integrated service offering, which encompasses not only the traditional operational services but also a suite of services designed to build long-term strategic alliances with hedge fund clients (e.g., fully integrated, seamless view across fixed income and equities products; world-class fixed income analytics (POINT); research; leading fixed income market share). For two years in a row, *Global Custodian* has ranked Lehman Brothers #1 in its annual Global Custodian Prime Brokerage Survey.

- In addition to the Firmwide control environment, there is formal oversight over all core prime broker functions. Best practices are followed with regard to legal, risk and liquidity management.

Industry Position

Our prime brokerage business continues to grow and win clients from our competitors. In the past year, we have added 123 clients, or over 30%. Significant investments have been made in both technology and operational support.

Number of Clients [1]



1. *The total number of clients represents the collective fund relationships that prime broker with Lehman Brothers*

Thorough Vetting Process Of New Prime Broker Clients

- We thoroughly vet hedge funds before signing them up as prime broker clients.

- Legal reviews client documentation including offering memoranda, partnership agreements, tax forms, etc. for evidence of corporate authority and for compliance with anti-money laundering requirements. Where appropriate, the Firm's internal due diligence group may be included in the review for further investigation of the client and its principals.

- The Firm has an integrated Risk Management approach between Market Risk Management and Credit Risk Management focused on counterparty credit evaluation, margin determination and risk measurement, monitoring and reporting.
  - Credit Risk Management (CRM) includes a specialized hedge fund credit team that is actively involved in all aspects of reviewing new hedge fund prime brokerage clients and monitoring exposure to hedge funds. The team performs comprehensive credit evaluations and due diligence of hedge funds The team establishes an internal credit rating for each hedge fund, sets credit limits and then monitors current and potential exposures against those limits on an on-going basis. The group is also involved in the new account approval process.
  - Market risk management interacts daily with senior prime brokerage business management on counterparty and market events. The group conducts periodic risk meetings to review exposures and is involved in the new account approval process. Market risk management determines margin rates for new hedge funds by taking into consideration CRM's assigned Internal Credit Rating and credit assessment, the fund's trading strategy and leverage, and the diversification, volatility and liquidity characteristics of the assets being financed.
  - Margin is generally set on a rules basis which includes:
    - Hedge funds are assigned "tiers" according to creditworthiness
    - The most conservative margins are applied to less credit worthy hedge funds
    - Minimal margin benefit is provided for risk-reducing exposures
    - Clear transparency for counterparty on required margins
    - Margins vary by strategy, country and product type

Risk Management and Stress Testing

Risk Philosophy

- Protecting the franchise is, and has been, at the heart of the Firm's culture.
- The Firm has committed many of its best people to its control infrastructure. We also reward those people whose job it is to protect the Firm, so we can continue to attract great people to these roles.
- We have also invested significantly in technology to support our control infrastructure.
- Our policy of compensating employees with a large portion of deferred stock has raised the level of employee ownership to around 30%, so employees think and act like owners.
  - For our senior managers, the change in stock price is far more material to their net worth than their annual compensation, incenting them to take the long view, and maintain tight controls.
- Our commitment to the highest standards of governance and ethical behavior is grounded in our recognition that nothing is as valuable as our reputation, and is a core part of who and what we are as a Firm.

Risk Management Integrated Framework

The Three Core Functions of Risk Management are

1. Understanding and identifying all risks
2. Ensuring that appropriate limits are in place for all transactions and products
3. Protecting the Firm against "catastrophic" loss

1. Have metrics to measure the risk for all products
2. Define a "Risk Appetite"
3. Have the ability to measure and monitor "tail risk"

Risk Management Integrated Framework

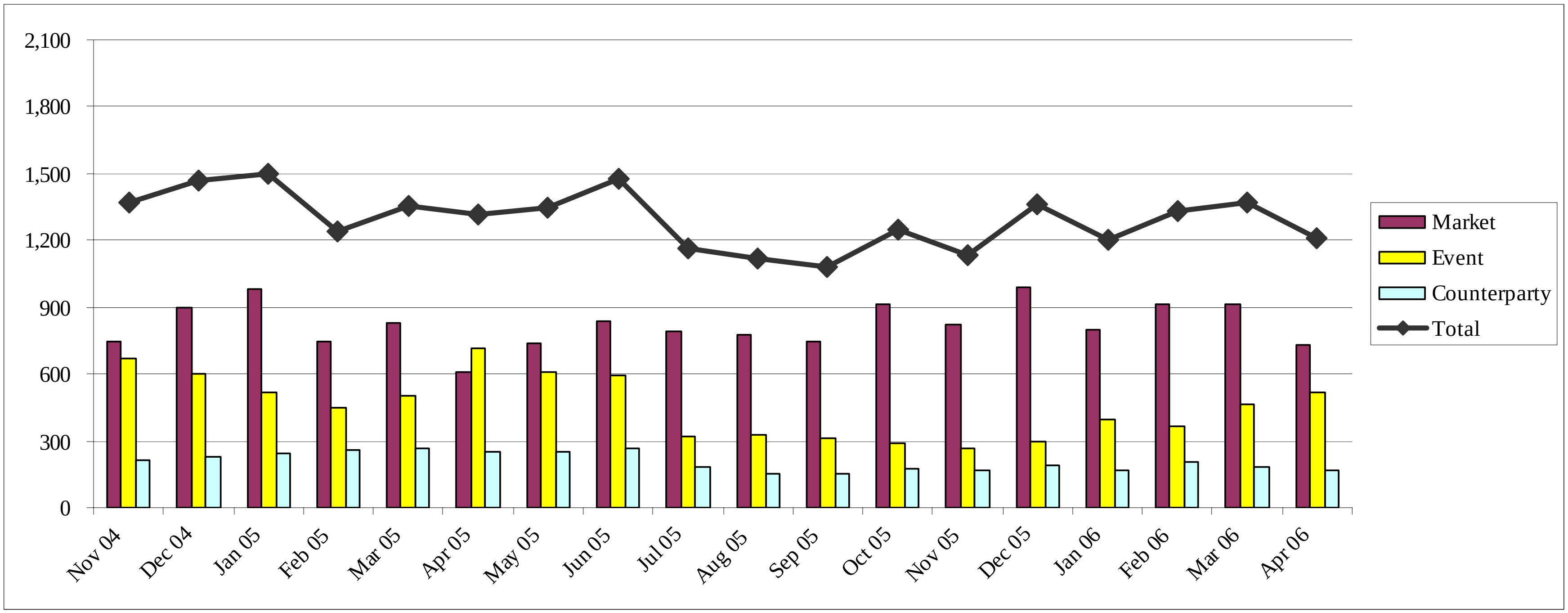
Risk Appetite

- We have established a framework for determining the most appropriate overall level of risk the Firm should be taking.
- The framework begins with the amount of revenue the Firm would make in a downturn and is designed to balance risk and return.
  - Our aim is to deploy enough risk in our businesses to generate strong cross-cycle returns.
  - While at the same time limiting needless risk levels to ensure we meet our financial targets.
- We have defined this level of risk as our Risk Appetite, which represents the quantity the Firm is “prepared to lose” in a year from market and counterparty credit risk, as well as from stress events.
- We start with our financial targets.
- We take into account a potential simultaneous slowdown in customer flow and banking activities (origination / advisory) which would negatively impact our financial targets since revenue shortfalls can also come from non-risk taking activities.
- In calculating our overall Risk Appetite, our goal is to maintain a minimally acceptable ROTE and compensation adequacy including maintaining sufficient headcount to protect the franchise for the long-term.
- The overall risk limit is driven by Risk Appetite which is approved by the Executive Committee and the Board on an annual basis and is reviewed quarterly for requisite changes.

Risk Usage Has Remained Stable

- The Firm's overall risk usage remains well within its risk appetite limit which is set annually, and reviewed quarterly.
- Risk appetite usage is calculated daily on a global, consolidated basis and measured against limits.
- Our franchise is highly diversified due to our product and business mix as well as our international presence.

Risk Usage – Total Firm - $ Millions



Re-runs of Historical Episodes

- Stress tests and scenario analyses are performed periodically to evaluate the potential P&L impact on the Firm's portfolio of plausible yet abnormal market conditions.
  - Analyses of movements in interest rates, stock prices, FX, volatility, etc., are run over a wide range of possible scenarios to determine the impact on the current portfolio of these extreme instantaneous shocks.
  - These analyses are conservative because they do not allow for re-hedging or selling down a position either actively or through the automatic execution of existing stop losses.
- Re-runs of historical episodes help us evaluate the impact on the current portfolio of a repeat of a time period with extreme market moves.

Stress Scenario	Hypothetical Revenue Impact ($ Millions) [1]	Historical Period	Scenario Description
Bear Flattening	503	November 2001	Treasury down trade caused by asset reallocation and yield searching. Spreads generally widened moderately, and Equity and high yield asset classes outperformed others
Parallel Move Up	423	November 2001	Similar to Bear Flattening
Bull Flattening	337	May 2003	Period before major backup in Summer 2003. Generally strong market tone across all asset classes due to signs of economic recovery and low inflation expectations, but reduced demand for energy
Bear Steepening	2	October 1998	Post LTCM
Bull Steepening	(366)	September 2001	Post 9/11 Flight to Quality
Parallel Move Down	(438)	September 2001	Modeled after Post 9/11 Flight to Quality

1. As of February 28, 2006. Net income impact would be substantially smaller because of lower compensation and tax expenses.

Conclusion

Substantial Progress Made Since Last Upgrade

Lehman has thoroughly transformed itself in terms of earnings, diversification, scale and competitiveness since it was last upgraded by Moody's. We believe that we are due for an upgrade.

Performance Trends and Ratings

	2003	2004	2005	1Q06 Ann	2003 vs. 1Q06
Revenues ($ Millions)	8,647	11,576	14,630	17,844	106%
Pre-tax Income ($ Millions)	2,536	3,518	4,829	4,152	64%
Net Income ($ Millions)	1,699	2,369	3,260	4,340	155%
Pre-tax margin	29.3%	30.4%	33.0%	34.8%	6%
ROE	18.2%	17.9%	21.6%	26.7%	9%
ROTE (Return on Average Tangible Equity)	19.2%	24.7%	27.8%	33.5%	14%
Total Capital ($ Millions) *	58,013	71,406	79,103	83,589	44%
Common Equity ($ Millions) *	12,129	13,575	15,699	16,398	35%
Research Rank : FID *	1	1	1	1	
Research Rank : Equity *	1	1	1	1	
Headcount *	16,188	19,579	22,919	22,919	42%
Employee ownership	30%	30%	30%	30%	
Relative 5 Yr Spreads to GS / MS (Bps) *	-3.0	-1.5	-3.0	-3.0	
Rating (Beginning of period)	A2	A1	A1	A1	

* *Period end numbers*

Beyond the Numbers: Our Culture Gives Us A Strong Competitive Edge

Our strong culture sets us apart, allowing us to recruit, develop and retain the best people.

Maintaining strong employee ownership

- Employee ownership over 30%
- Continued alignment of the interests of employees and shareholders

Delivering the entire Firm to our clients

- Working as a team to emphasize a cross divisional mindset
- Offering the optimal solutions to our clients

Strengthening and protecting our brand

- Commitment to excellence around strong risk management, internal controls environment and infrastructure
- 90% of employees “proud to work for Lehman” and say we have “positive brand vs. competitors”

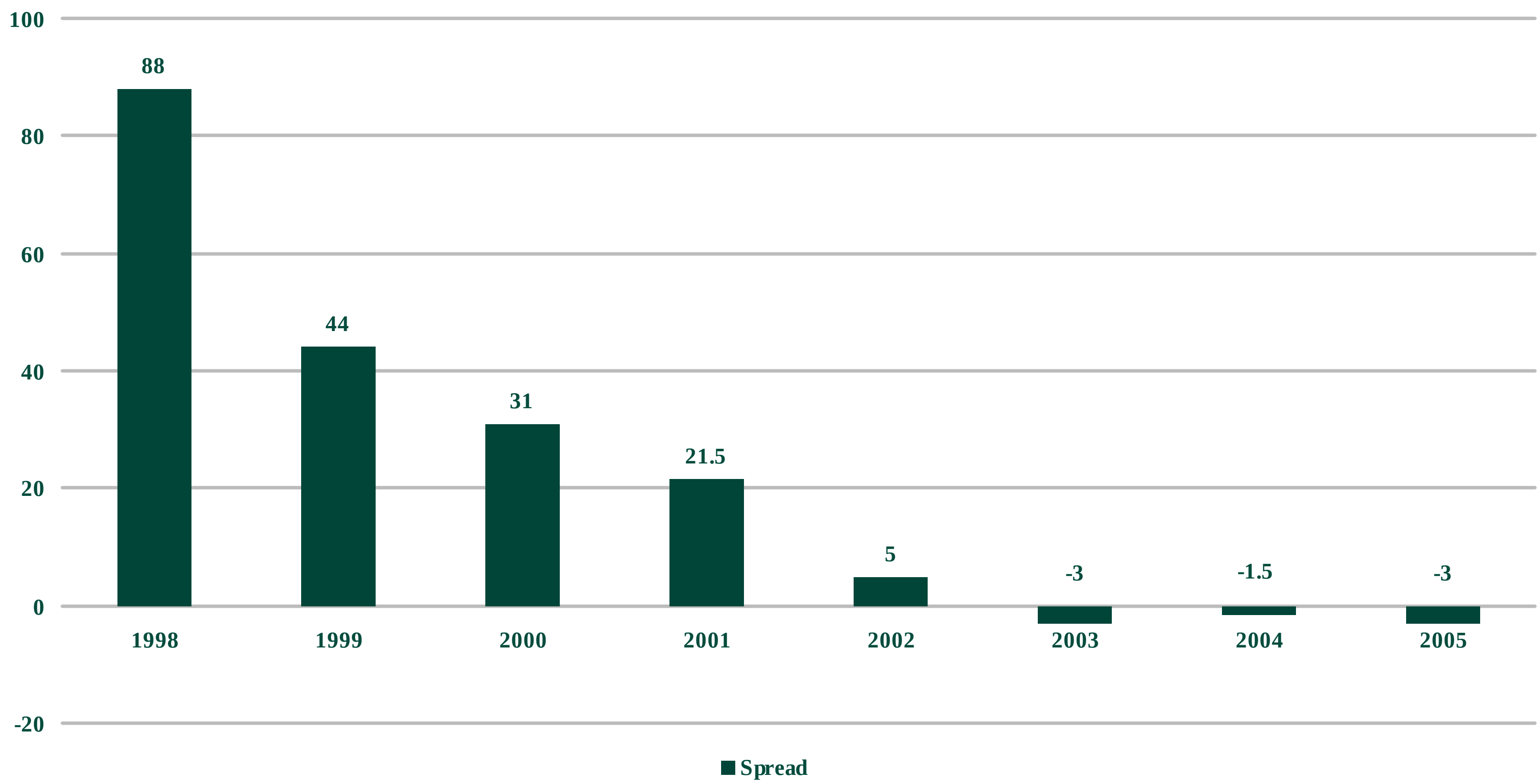
Attracting / developing the best and brightest people

- Investment of time, energy and money in making Lehman Brothers the employer of choice
- Commitment to fostering an inclusive business environment

Market Views Lehman As A "Aa"-Rated Credit

Since 2003 we have been trading at tighter spreads than our higher rated competitors, Goldman Sachs and Morgan Stanley.

5 Year Lehman Spread to Goldman Sachs and Morgan Stanley – Basis Points



Summary

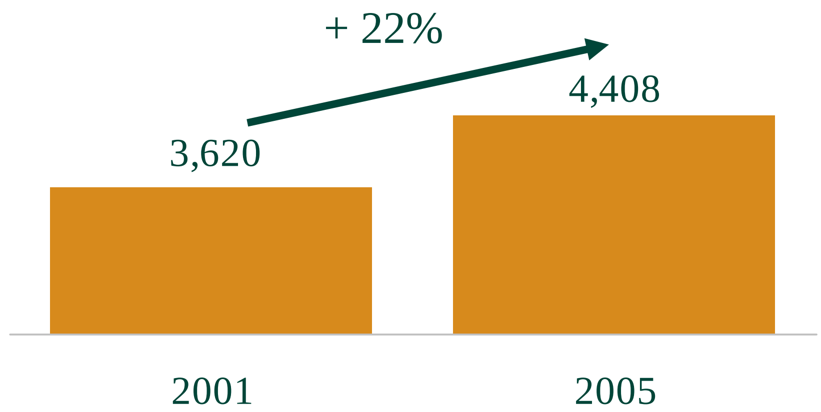
- Outperformed all expectations since the last upgrade.
- Closed the size gap to GS, MS and MER, and widened the gap significantly on BSC.
- Diversified the range of businesses and the geographical mix, and strengthened the range of businesses within Fixed Income.
- Our focus on client activity is reflected in steady and sustained growth in client activity in Capital Markets, as well as in meaningful improvements in Investment Banking and Investment Management.
- All key risk metrics have improved, and our relative creditworthiness versus peers is far better.
- Risk Management remains a central tenet of our business model, and this permeates loan commitments through to prime broker client terms – across all aspects of business activity.

Appendices

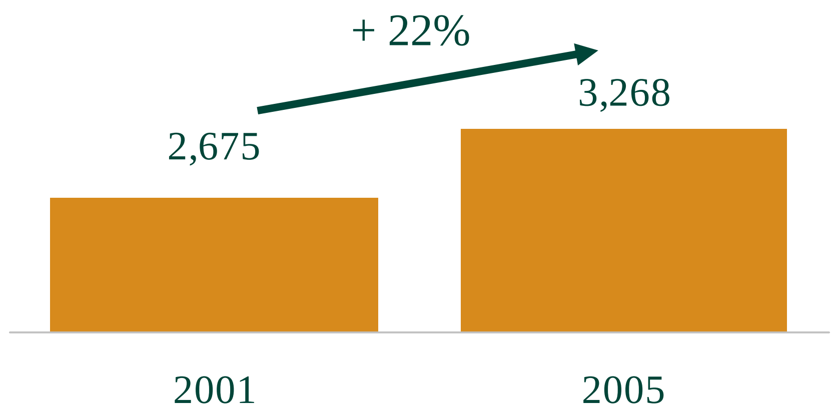
We Have Expanded Global Client Base

Lehman Brothers has continued to grow its institutional client base.

Active Institutional Fixed Income Clients



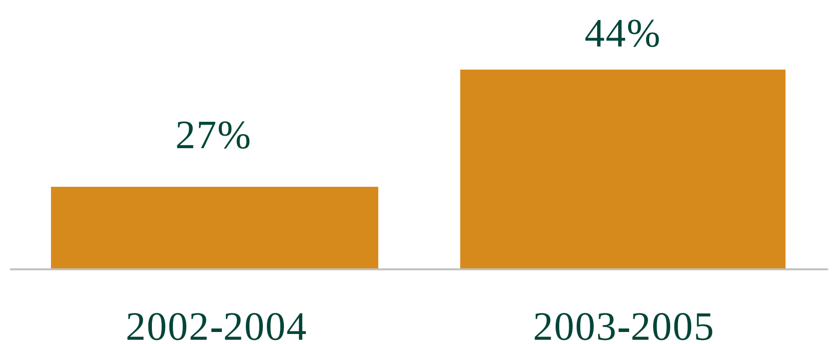
Active Institutional Equity Clients



Improved Investment Banking Fee Pool Penetration

Total IBD Industry Fee Pools

Lehman Brothers Fee Pool Coverage



Prime Broker Services - Execution and Financing

Core Execution and Financing services offered :

Clearing / Settlement	Clearance and settlement of client trades either executed with Lehman or "done-away" with other broker-dealers
Securities Lending	Locate and borrow stocks to facilitate client short selling activity
Margin Lending / Financing	Collateralized lending through the provision of margin loans, creating client leverage
Execution Platform	Electronic 'direct to market' execution is integrated into prime broker products where appropriate

Prime Broker Services –Service and Technology

Core Post-Trade Services offered :

Client Service	Dedicated service representatives providing intense account maintenance and issue resolution
Client Reporting	Systems include dynamic customisable reporting, online location and execution of stock loans, electronic trade capture and management of positions
Risk Management Tools	Strategic alliance with RiskMetrics to offer clients a full suite of risk measurements tools. These include a comprehensive standard end-of-day reporting suite and a fee-based interactive capability
Portfolio Accounting	Consolidated portfolio tool reporting full P&L and analytics

Prime Broker Services - Business Solutions

Value proposition services offered :

Capital Introductions	Dedicated resources with clear guidance to enable meaningful introductions to facilitate hedge funds meeting their capital requirements
Start Up Services	Dedicated resources providing start-up fund managers with a range of services required to successfully launch a fund
Business Services	Dedicated resources providing existing managers with services to assist with the expansion or re-engineering of their business

New Prime Broker Account Approval Process