Confidential ***Presentation to:***

Lehman Brothers

Credit Ratings Strategy

March 1, 2007

LEHMAN BROTHERS

Executive Summary (I)

- Since mid-90s, Lehman's credit rating has been improving:
  - In absolute terms, we improved our credit rating two notches: from A-/A3 (the lowest single-A grade) to A+/A1 (the highest single-A grade)
  - In relative terms, closed the gap between us and best-in-class peers from 3 notches to 1 notch
  - Currently on outlook positive with Moody's, Fitch, and DBRS

- Our target rating is low double-A (AA-/Aa3). Several reasons for this target:
  - Lower cost of debt and hybrid equity, estimated savings up to $50 million per year
  - Basel II introduces capital charge distinction between AA and A counterparties
  - Lower capital charges in derivatives business, increasing our attractiveness as a counterparty
  - Competitiveness of our CDO structuring business, both in structuring swaps and supporting with our paper
  - Parity with our IB competitors (GS, MER, MS, C, JPM)

- We believe that Lehman qualifies for a double-A rating upgrade:
  - Scale and diversification better than the same factors of larger peers when they got AA rating
  - Best-in-class (lowest) margin volatility and net income volatility
  - Best-in-class risk management, liquidity management, strong culture and effective governance

  The accomplishments are well understood by rating agencies; reflected in "outlook positive" and several publications

Executive Summary (II)

- Yet obtaining the upgrade is by no means a certainty. Several key challenges:
  - Rating agencies believe the industry is at the cyclical peak. Indicated that they may be hesitant to sign off on the upgrade when the overall industry performance is bound [in their view] to deteriorate
    - This has a greater relevance for Lehman, which is perceived as having higher exposure to mortgage and real estate businesses than others
  - Rating agencies may have an issue with relative credit rating. May be hesitant to put LEH at the same level as much larger MER/MS/GS.
    - While in other circumstances they could upgrade LEH to AA-/Aa3 and further upgrade MER/GS to AA/Aa2, going that high now may be viewed as credit grade inflation
  - Rating agencies (specifically, Moody's and S&P) are in the process of revamping their methodologies to make them more consistent with Basel II (CSE)
    - Could be hesitant to upgrade LEH to the double-A category when the criteria are still in flux (S&P example)

- To overcome these challenges, Lehman needs to accomplish the following:
  - Continue to excel in the areas of our strength: strong growth, high margins, low margin volatility, effective risk and liquidity management
  - Alleviate rating agencies' concerns about efficiency of risk-taking and less liquid assets, which are increasingly viewed as the primary credit metrics (rather than net leverage)
  - Specifically demonstrate robustness and resilience of our Mortgage and Real Estate businesses

Executive Summary (III)

- Our risk-taking efficiency has deteriorated
  - Risk appetite has grown faster than revenue
  - Trading revenue per unit VaR has declined (still at par with Goldman, but the trend is unfavorable)

- Our less liquid position is a matter of concern
  - Ratio of less liquid assets to tangible common equity continues to increase
  - Higher that the same ratio of our peers
  - Driven primarily by High Yield, Non-Investment Grade Retained Interests and Real Estate Inventory

- We are likely to be reviewed by Moody's and Fitch in May/June 2007. The opportunity is unique
  - If we don't get the upgrades now, the next window is unlikely to happen until 2009-2010
  - Failure to win the upgrade may consolidate the view of two-tier pier group: GS/MER/MS as tier 1 and LEH/BSC as tier 2
  - We have been in constant dialog with the agencies (Governance assessment, Prime Services) and plan to have additional reviews of our overall earnings progress and specifically, mortgage and real estate businesses
  - Essential that we demonstrate our progress and commitment to achieving double-A status

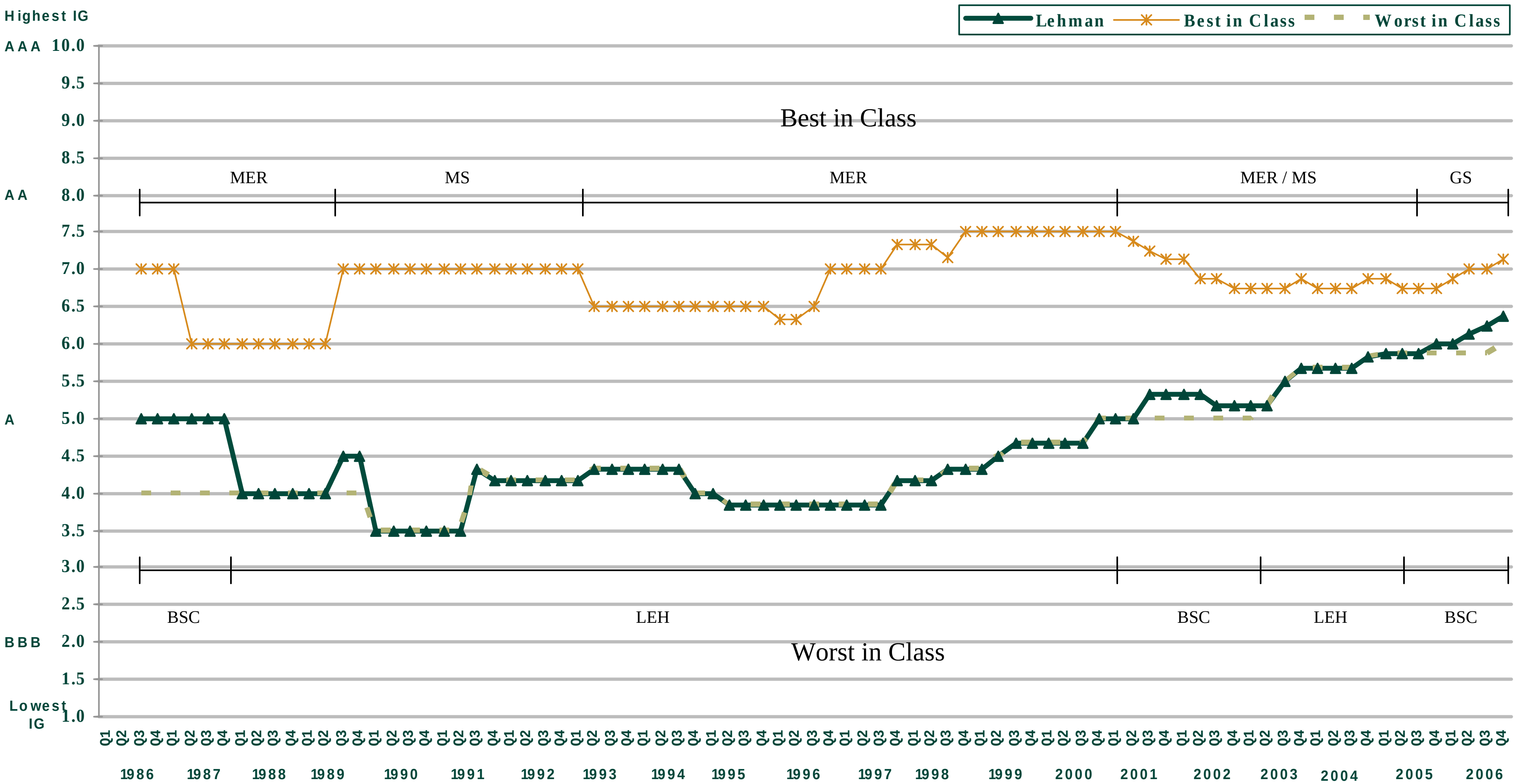
- The rating agencies will want to review
  - Large loan positions, including syndication success and risk mitigation
  - Mortgage business, profitability and risk management
  - Changes in less liquid assets

Credit Rating Background

Peer Benchmarking Credit Ratings Trend

Since 1994, the Firm has improved its credit ratings by two notches – from A-/A3 to A+/A1 and has closed the gap with its best-in-class peers from three notches to one

Peer Ratings Trend



1. *Ratings history was taken from rating agency websites.*

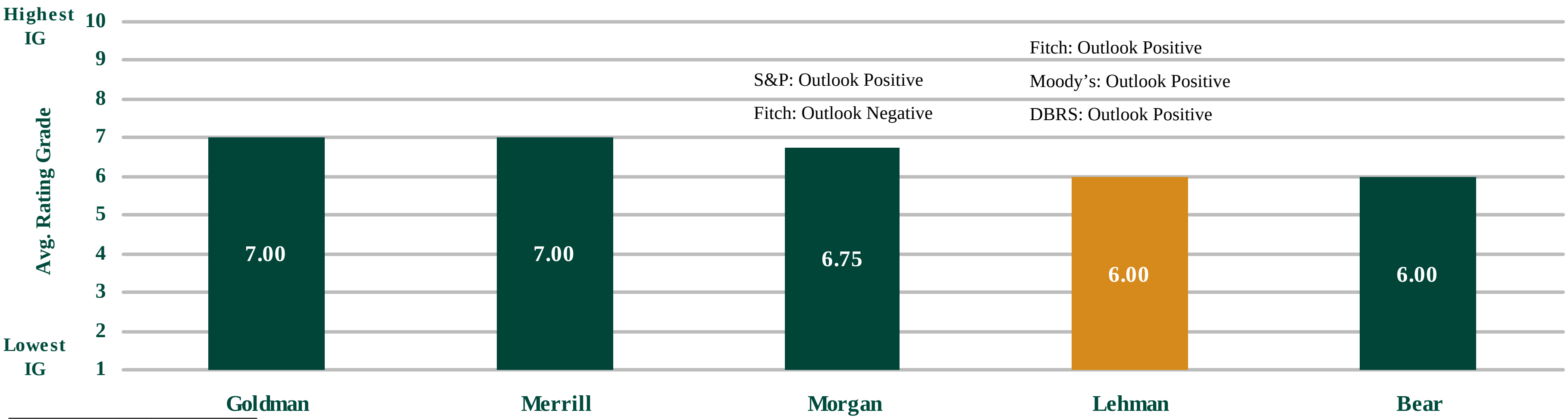
Credit Ratings Overview

Lehman is rated at the same level by all four major rating agencies. We are on Outlook Positive with Moody's, Fitch, and DBRS. GS and MER are currently best-in-class with uniform AA-/Aa3 rating.

Lehman Brothers, Year End 2006

	Grade	S&P	Fitch	Moody's	DBRS
Highest IG	10	AAA	AAA	Aaa	AAA
	9	AA+	AA+	Aa1	AA (high)
	8	AA	AA	Aa2	AA
	7	AA-	AA-	Aa3	AA (low)
LEH Current Rating →	6	A+	A+	A1	A (high)
	5	A	A	A2	A
	4	A-	A-	A3	A (low)
	3	BBB+	BBB+	Baa1	BBB (high)
	2	BBB	BBB	Baa2	BBB
Lowest IG	1	BBB-	BBB-	Baa3	BBB (low)

Average Credit Rating Grade Across Agencies, February 2007



Note: Ratings converted into numerical rating grades and averaged with all four rating agencies.

Benefits of Ratings Upgrade

Funding Benefits From an AA Rating

The Firm can expect to accrue benefits of approximately $14.5 million per year (growing to $50 million per year over time) from funding efficiencies as well as gaining an increased comfort level in contingent liquidity calculations

Funding Efficiency	Benefits
◆ Tighter spread on Vanilla, Structured and Sub-debt issuance	◆ Using the 2007 issuance plan, we expect to save the following using an average 5bps[1] tighter issuance per debt type: – $15 billion of Vanilla – Savings of $7.5 million – $10 billion of Structured Notes – Savings of $5.0 million – $4 billion of Sub-debt – Savings of $2.0 million ◆ This is cumulative for each year's issuance, or a total annual save of around $50 million as existing debt matures and is replaced
◆ Increasing our ratings by one notch to AA-/Aa3 would provide more cushion in Contingent Liquidity calculations as a two-notch downgrade would still leave the Firm in A1/P1 range	◆ Lower Contingent Funding requirements would result from the Firm having to allocate less hair-cut requirements from a two notch downgrade from AA-/Aa3 as opposed to the same downgrade from A+/A1 – Approximate savings of $4.6 million[2]

1. *Based on recent MER/GS issuances*
2. *Based on a 25 bps cost for $1.85bn of debt which will not be needed if we are at AA- rating*

Business Benefits Arising From An AA Rating

Basel II introduces a capital charge distinction between AA and A rated counterparties. For an AA rating the risk weighting in credit assessment is 20%, while for A rating it is 50%. For the more sophisticated institutions that use internal credit references and default calculations, there is a strong correlation between the rating agency rating and the internal rating, so the impact will still be significant.

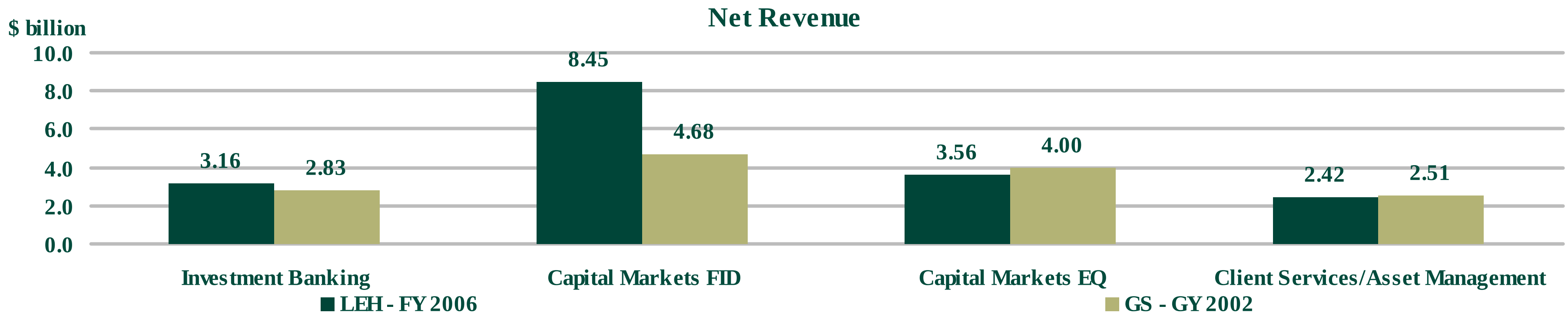
Opportunities	Benefits
◆ Lower capital charges on Derivatives business will allow Lehman to conduct business competitively with other AA-rated firms	◆ With the adoption of Basel II, derivative trades with counterparties rated below AA-/Aa3 will require a specific counterparty credit charge ◆ Certain counterparties will only deal with AA counterparties
◆ Competitiveness of CDO structuring business	◆ This will allow us to be the swap counterparty to higher rated tranches and to collateralize with our own issuance
◆ Structured notes in Asia	◆ Certain counterparties will only buy AA paper
◆ Cross-Selling Opportunities	◆ If we are rated AA-/Aa3, our counterparty risk will be deemed to be zero for structured transactions, allowing us to provide IR/FX swaps and caps in Cash Flow deals

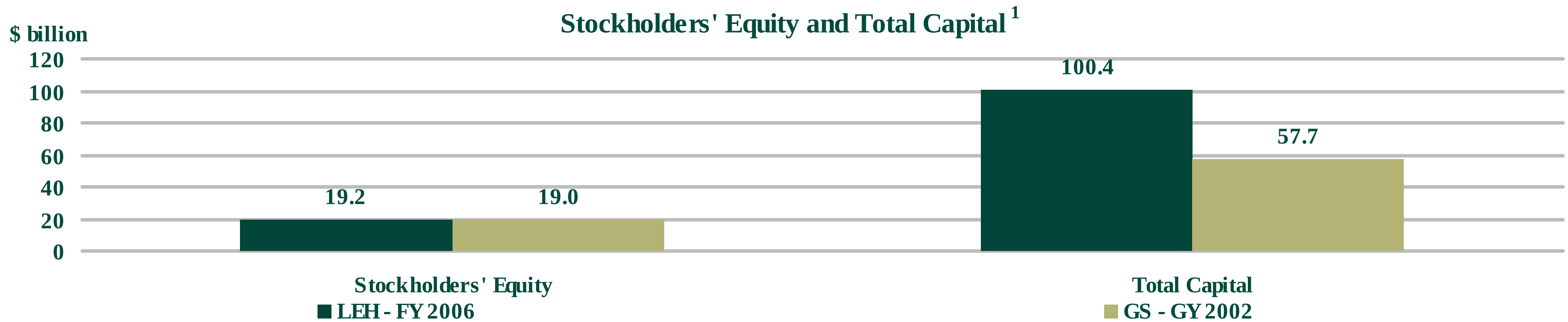
Qualifying for an Upgrade

Substantial Scale

Lehman's scale as measured by Net Revenues, Stockholders' Equity, and Long-term debt net of current portion exceeds or equals Goldman's in 2002, the year when GS got Aa3 rating from Moody's

Scale of Operations



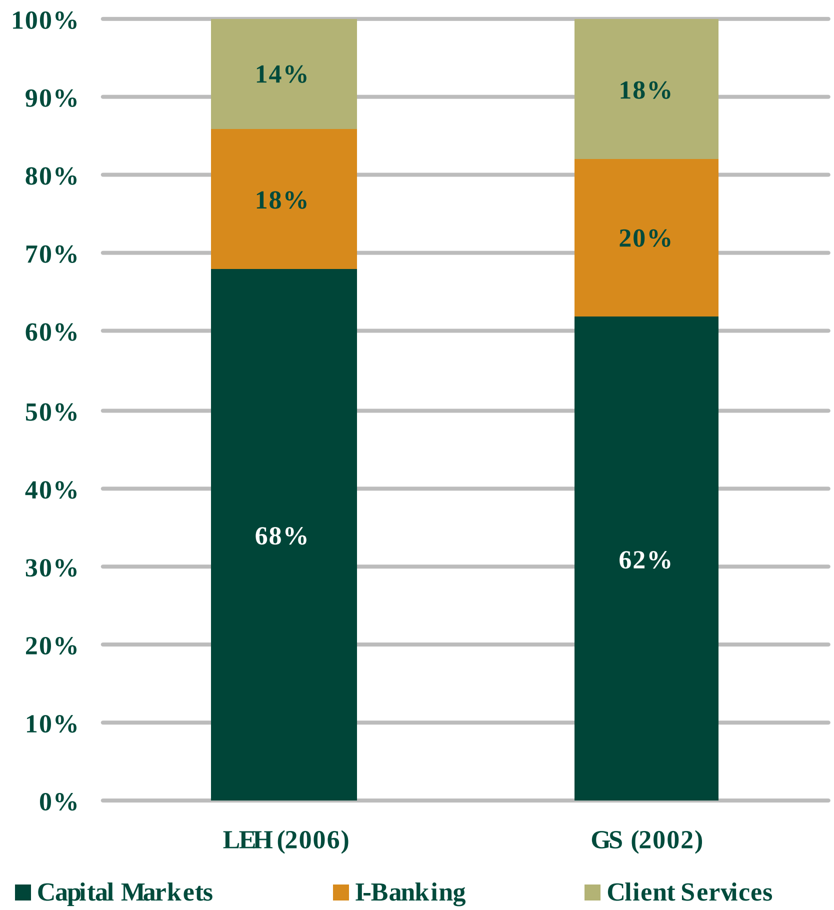


1. *Total Capital includes Shareholders' Equity and Long Term Debt net of current portion*

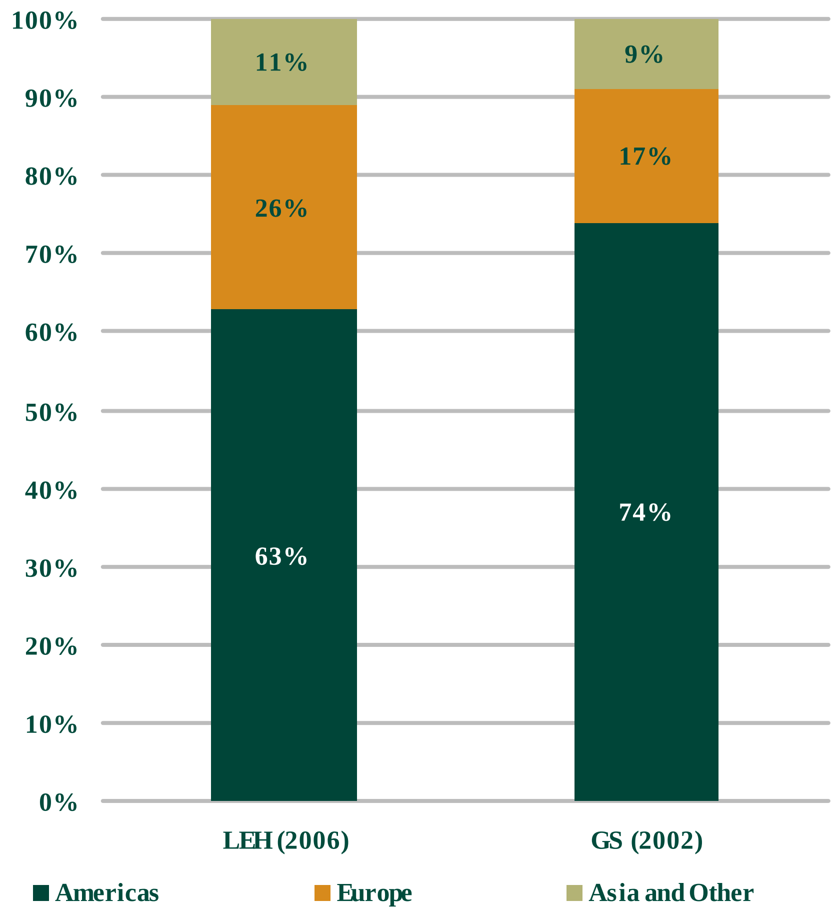
Segment and Geographic Diversification

Lehman's segment and geographic diversity is also comparable with GS's levels in 2002

Segment Diversification



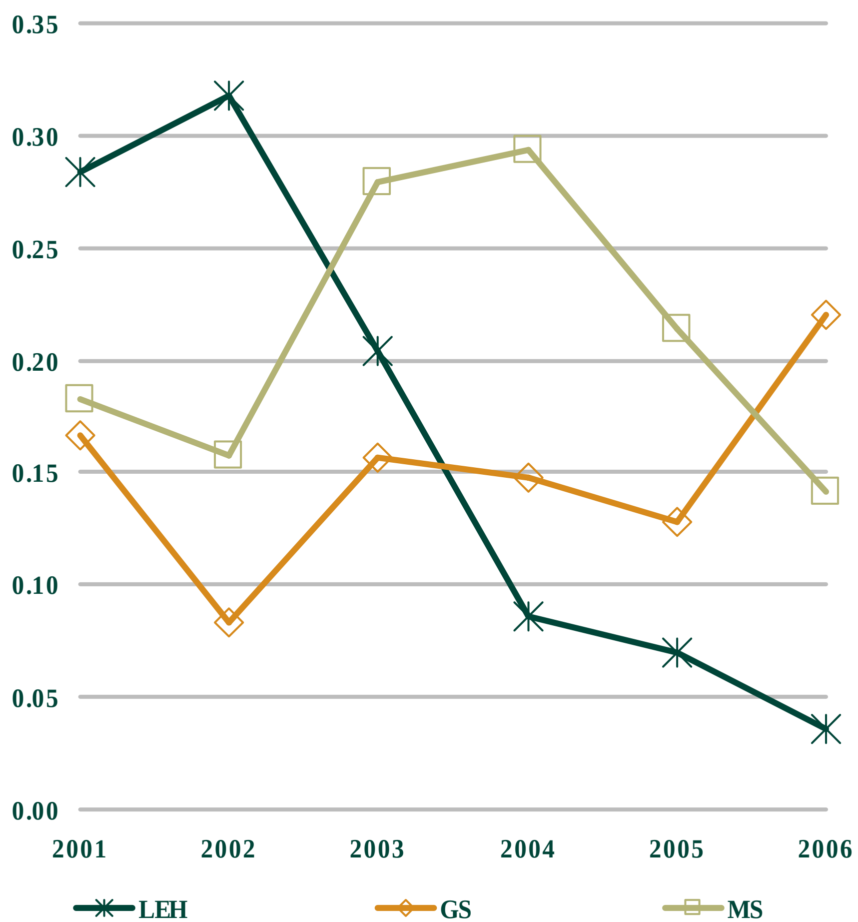
Geographic Diversification



Pre-Tax Margin And Earnings Consistency

Lehman's Pre-Tax Margin and Earnings volatility is lower than Goldman's or Morgan's

Pre-Tax Margin Co-efficient of Variation



Pre-Tax Income Co-efficient of Variation

1. *For each period, the most recent pre-tax profit and margins for eight quarters were used to calculate volatility. For example, in 2001, the standard deviation of the pre-tax figures from Q1 '00 to Q4 '01 was divided by the average margin for the period to arrive at the coefficient of variation for that period.*

Lehman's Strengths, Weaknesses, and Upgrade Factors

For Lehman, high profitability, strong risk management and liquidity are the common strengths cited by the Rating Agencies; size of illiquid positions and exposure to fixed income markets are the most often mentioned concerns

Strengths	Weaknesses	Factors for Upgrade	Factors for Downgrade
◆ Exceptional cost flexibility and discipline ◆ Strong profitability with good earnings stability ◆ Strong Risk Management and excellent Liquidity ◆ Successful, increasingly global franchise	◆ High exposure to leveraged lending and high yield potentially exposes Lehman to greater event risk relative to its equity base ◆ High level of exposure to fixed-income markets could lead to weaker performance in a rising rate environment ◆ Asset management scale lags best-of-class peers	◆ Continued broadening of the Franchise and growth in earnings from high margin or low-capital intensive businesses ◆ Continued low cross-cycle earnings volatility ◆ Continued strong performance in an environment challenging for Fixed Income products ◆ Any growth should not be accompanied by deterioration of the risk profile or liquidity management	◆ Material erosion in the Firm's business franchise ◆ More aggressive posture towards market, credit and liquidity risks as evidenced by: – Higher revenue or earnings volatility – Increased risk assets – Outsize trading losses ◆ Evidence of weakness in: – Risk management processes – Liquidity management – Cost controls

Peer Scorecard Rating

Moody's recent (Dec-2006) quantitative assessment of Securities industry showed Lehman generally qualifying for Aa3 rating. The Firm received high grades for Risk Management, Earnings Strength, and Management, which carry considerable weights.

		SCORECARD RATINGS									
		GOLDMAN		MERRILL		MORGAN		LEHMAN		BEAR	
Factor	**Factor Weight**	**Rating**	**Grade**	**Rating**	**Grade**	**Rating**	**Grade**	**Rating**	**Grade**	**Rating**	**Grade**
Earnings Strength & Stability	25%	Aa3	21	Aa2	24	Aa3	21	Aa2	24	A1	21
Management Quality & Culture	20%	Aa2	8	A1	6	A1	6	Aa2	8	A1	6
Franchise Strength & Diversification	17%	A1	6	A2	5	A2	5	A1	6	A3	4
Risk Management	12%	Aaa	10	Aa2	8	Aa2	8	Aaa	10	Aa2	8
Operating Environment	10%	Baa1	3	Baa1	3	Baa1	3	Baa1	3	Baa1	3
Liquidity	8%	A	5	Aa	8	A	5	A	5	A	5
Capital Adequacy	8%	Baa	2	Baa	2	A	5	A	5	A	5
Total Score	100%	**6.5**		**6.1**		**6.0**		**6.9**		**5.5**	
Scorecard Rating		**Aa3**		**A1**		**A1**		**Aa3**		**A1**	
Current Moody's Rating		**Aa3**		**Aa3**		**Aa3**		**A1**		**A1**	

Scorecard rating higher than actual Moody's rating

Scorecard rating lower than actual Moody's rating

Source: Moody's Investors Service Global Credit Research Report: "Global Securities Industry Methodology" December 2006 - Page 24

Challenges To Ratings Upgrade

Challenges To Ratings Upgrade

There are several key challenges that the Firm needs to overcome in order to secure the upgrade from Moody's and Fitch

Challenges

- Rating agencies believe the industry is at its cyclical peak – this indicates that they may be hesitant to sign-off on the upgrade when the overall industry performance is bound to, in their view, deteriorate. This has a greater relevance for Lehman due to:
  - Lehman's upgrade would be across categories (A to AA level)
  - Lehman is perceived as having higher exposure to the mortgage and real estate business than others – a sector that rating agencies are particularly bearish about
- MS/GS/Merrill are still roughly double our size in capital and revenues
- Rating agencies, specifically Moody's and S&P, are in the process of revamping their methodologies to make them more consistent with Basel II (CSE)
  - This may make them more hesitant to upgrade Lehman while their criteria are still somewhat in flux

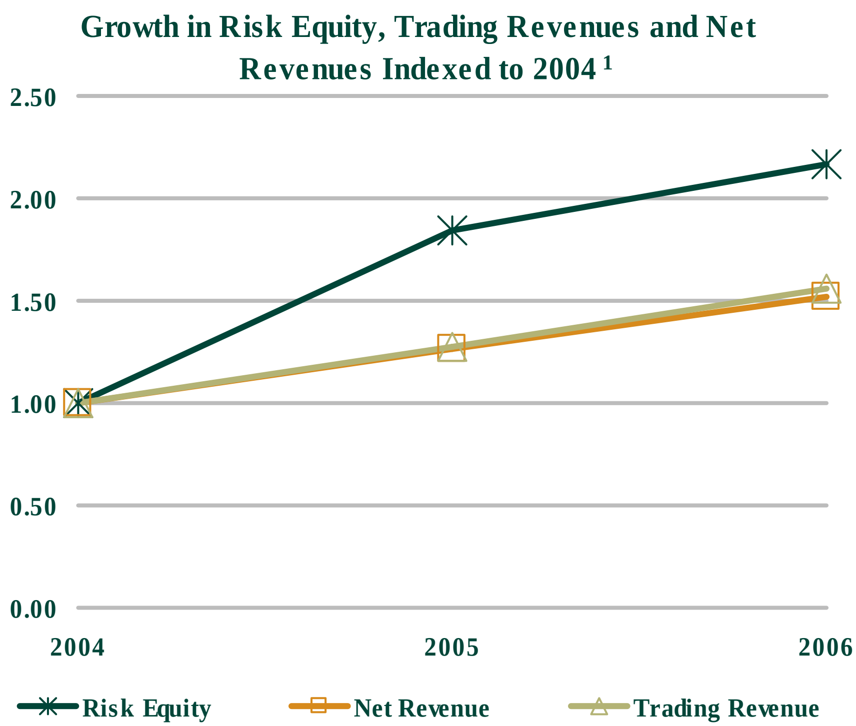
Action Required to Succeed

- Continue to excel in areas considered the Firm's strength:
  - High growth rate
  - High margins
  - Low margin and earnings volatility
  - Effective risk and liquidity management
- Address a potential issue with the rating agencies related to the reduced efficiency of risk taking
  - Net revenues to VaR has been on a downward trend
- Alleviate rating agencies' concerns about the Firm's less liquid assets, which are increasingly viewed as the primary capital adequacy metric – as opposed to net leverage
- Specifically demonstrate the robustness and resilience of the Mortgage and Real Estate businesses
- Address perceived loosening of risk standards – particularly in leverage lending and proprietary risk taking

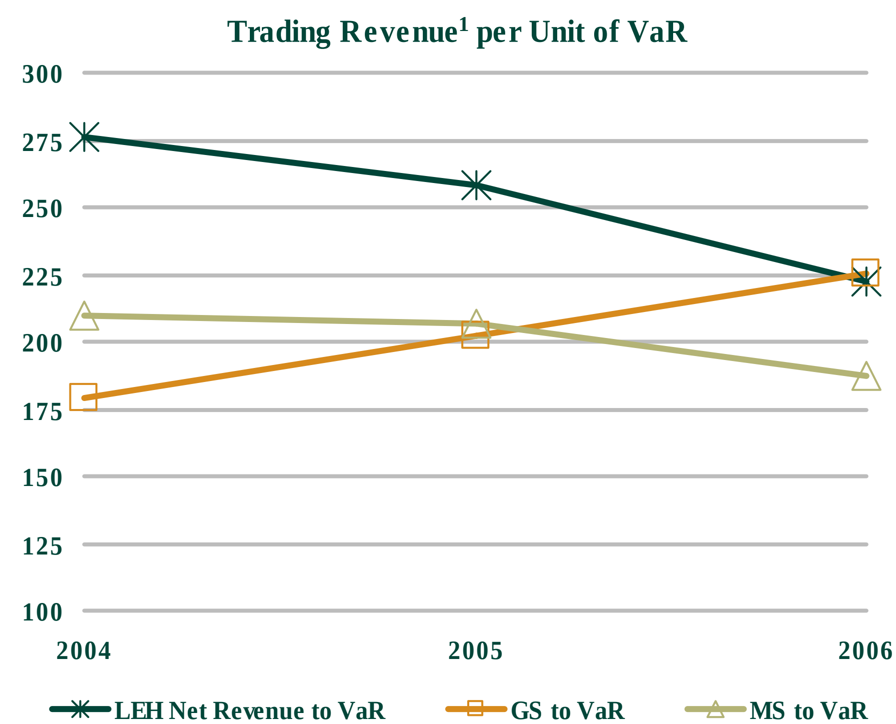
Efficiency Of Risk-Taking

In the last two years, the Firm's risk-taking efficiency has been decreasing

- Revenue growth lags risk appetite increase



- The Firm requires higher VaR to generate $1 of trading revenue
  - Still at par with GS, but the trend is unfavorable



1. Figures retreived from 2006 10Ks for all Firms. Trading Revenue includes Fixed Income and Equities Capital Markets as reported.

Risk Equity Growth

Over the past 6 months, Risk-Based Equity has increased by nearly $3 billion [15% of Common Equity]. This is being further stressed by positions being added in the principal risk areas. We may need to issue preferred securities to provide capital cushion.

Top 10 Businesses with Risk Equity Growth

As of 12/31/06		6 mth Abs Δ	% Total Abs Δ
1	Emerging Markets	543.4	19%
2	IMD - Private Equity	403.5	14%
3	Equity Financing	329.0	12%
4	High Yield	321.6	11%
5	IMD - Asset Management	288.0	10%
6	High Grade	282.2	10%
7	Investment Banking (Including FRL)	247.1	9%
8	CDO	204.7	7%
9	Alternative Portfolio Solutions	203.6	7%
10	Foreign Exchange	191.1	7%
	TOTAL FIRM	**2,821.1**	
	COMMON EQUITY	**18,930.1**	
	Risk Equity % of Common Equity	**15%**	

Tangible Common Equity And Less Liquid Assets

The Firm has the highest Less Liquid Assets (LLA) to Tangible Common Equity (TCE) ratio. Relative to Goldman, it is due to a much higher growth rate of Less Liquid Assets. Relative to Morgan, whose LLA grew faster than Lehman's, it is due to Morgan's much lower starting point

Tangible Common Equity and Less Liquid Assets[1], 2004 to 2006

	2004		2005		2006		% CAGR		CAGR Ratio
	LLA	TCE	LLA	TCE	LLA	TCE	LLA	TCE	LLA to TCE
LEH	15.87	10.29	16.04	12.44	28.90	14.73	35%	20%	1.78x
GS	26.67	20.21	29.21	21.05	40.08	27.00	23%	16%	1.45x
MS	18.92	26.01	21.75	26.68	43.12	30.91	51%	9%	5.65x

Less Liquid Assets to Tangible Common Equity

1. *There are inconsistencies in the disclosures. The analysis based for Lehman on the Moody's definition of less liquid assets. Goldman provide a detailed splite while Morgan only report aggregate position*

Lehman's Less Liquid Assets

Over the past couple of years, High Yield, Non-Investment Grade Retained Interests and Real Estate Inventory have been the fastest growing components of Less Liquid Assets. All are FID based products and, in aggregate, make up 72% of the total

Lehman's Less Liquid Assets – 2004 to 2006

	2004	2005	2006	CAGR
Commercial Mortgages	2.9	3.5	3.9	16%
Real Estate Inventory	4.1	4.8	5.9	20%
High Yield	4.5	4.5	12.8	69%
Non-Performing Loans	1.4	0.9	1.4	0%
Total Less Liquid Cash Inventory	12.9	13.7	24.0	36%
Private Equity and Other Principal Investments	1.5	1.1	2.1	18%
Uncollateralized Speculative Grade Derivatives	0.6	0.5	0.8	18%
Non-Investment Grade Retained Interests	0.9	0.7	2.0	49%
Total Less Liquid Assets - Net of Hedges	**15.9**	**16.0**	**28.9**	**35%**
Tangible Commone Equity	10.3	12.4	14.7	20%
Illiquid Capital Adequacy Ratio	**1.5x**	**1.3x**	**2.0x**	**13%**

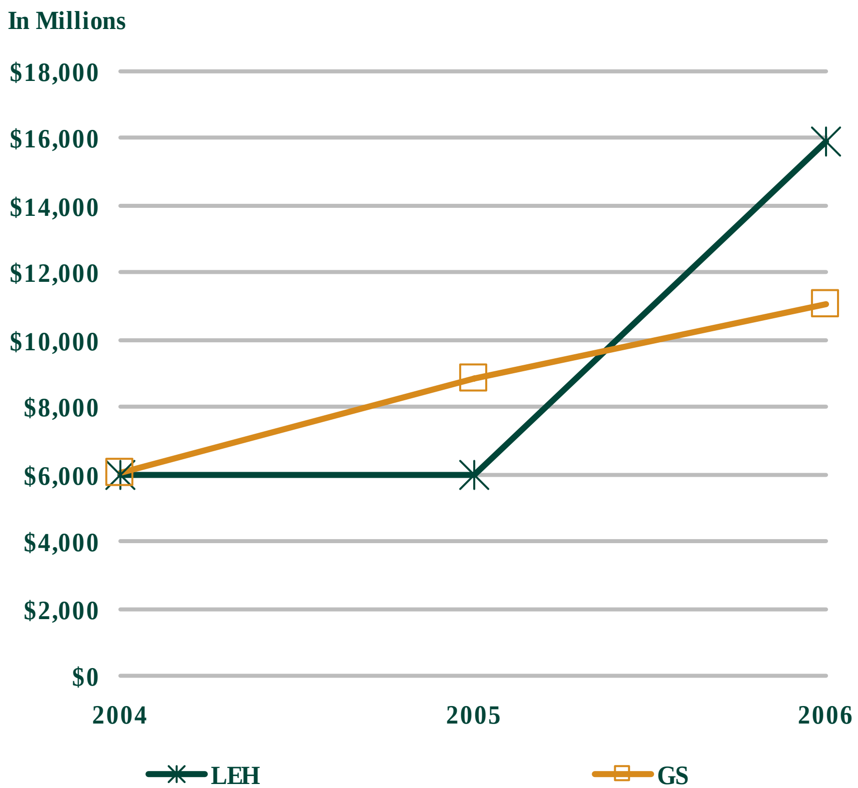
1. All Liquid Cash inventory Positions are reported Net of Hedges

Growth In Less Liquid Assets Relative To Peers

Lehman still has the lowest absolute levels of Less Liquid Assets, although growth in High Yield and Retained Interests at 63% and 49%, respectively, is outpacing peers

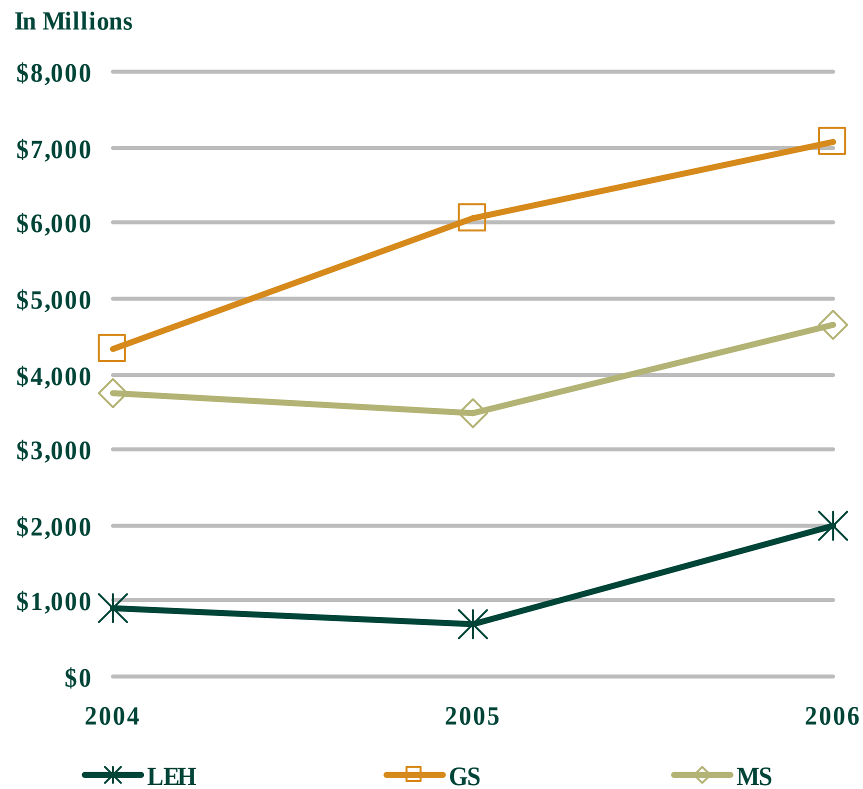
- Lehman's High Yield inventory has grown much faster than Goldman's. The Firm experienced a 63% CAGR over the period as compared to 35% for Goldman

High-Yield Inventory(1), $ millions



- Lehman has the least amount of Retained Interests
- However, Lehman's level of retained interests has grown the fastest at 49% compared to Goldman's 28% and Morgan's 11%

Retained interests(2), $ millions



1. *Figures for High-yield do not reflect hedges as Goldman does not disclose their inventory of High-yield securities net of hedges. Also, the figure reported for 2004 by Lehman on page 61 of the 2005 10K has been adjusted to a level similar to the 2005 gross high-yield inventory reported on page 66 of the 2006 10K to reflect the fact that it represents only the hedged high yield inventory for that period.*
2. *For Retained Interests, Goldman and Morgan did not disclose a split between investment grade and non-investment grade Retained Interests. As such, the figures they disclosed for Retained Interests were assumed to be non-investment grade*

Action Plan

Unique Opportunity To Secure An Upgrade

The Firm is likely to be reviewed by Moody's and Fitch in May/June of 2007, failure to get the upgrade now will likely push back the window of opportunity to 2009/2010. As such, it is essential that we demonstrate our progress and commitment to achieving double A status

Actions to date

- The Firm has been in constant dialogue with the rating agencies
  - Governance Assessment
  - Prime Services
  - Liquidity calculation

Actions planned

- We plan to have additional reviews of the following:
  - The Firm's overall earnings progress
  - Update on the Mortgage and real estate businesses
  - Changes in High Yield risk

Actions required

- Take action to demonstrate our commitment to conservative management of less liquid assets
  - In ideal world, bring less liquid asset ratio to the level consistent with our Aa3 peers
    - Requires reduction of less liquid asset reduction by approximately $6 bn
  - At the very minimum, prevent less liquid asset ratio from breaking the Baa boundary
    - Restrict growth of less liquid assets to 2006 year-end level
- Increase cooperation with Treasury to speed up preparation of presentation requested by the agencies