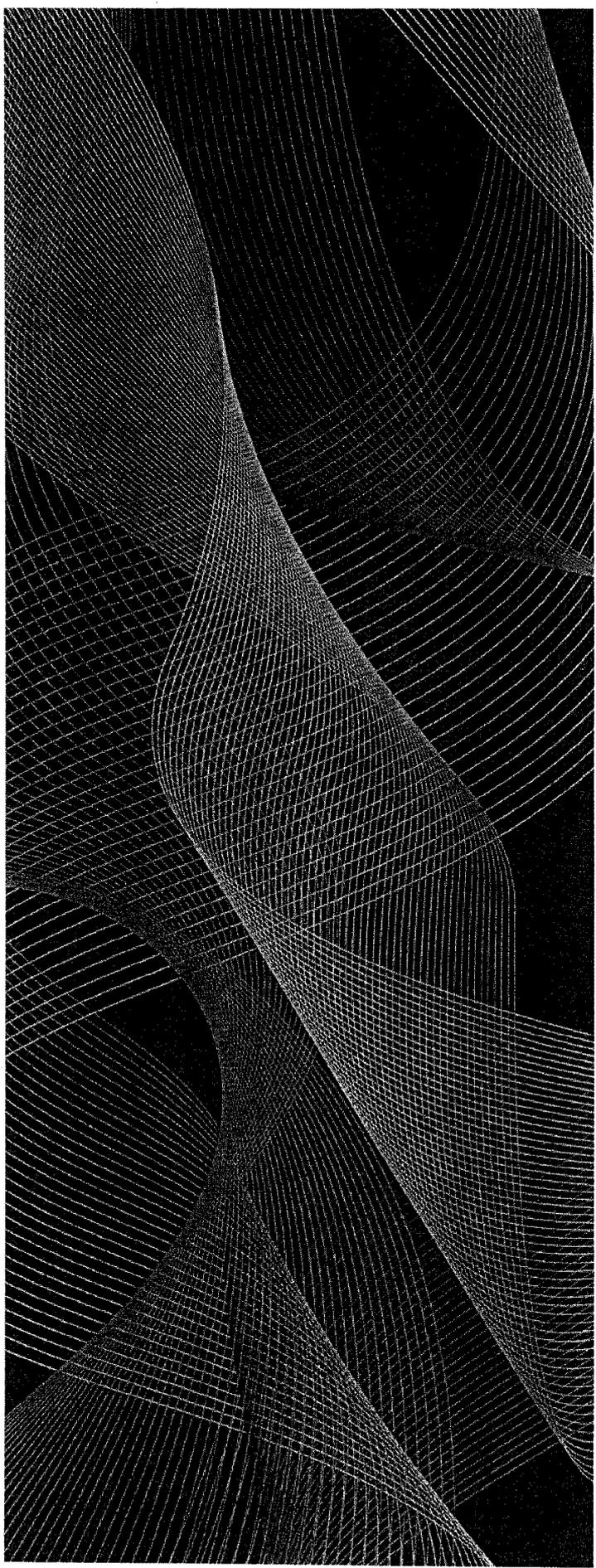


Jeff Michael
John (Schafer)

LEHMAN BROTHERS

Global Rates Mid-Year Review 2008



Confidential Presentation

Revenue Summary

GLOBAL RATES - REVENUE DETAIL

	May 2008 YTD	2008 FY Forecast	May 2007 YTD	2007 Full Year	2006 Full Year
	Revenue Net LTD	Client Revenue	Revenue Net LTD	Revenue Net LTD	Revenue Net LTD
DURATION AMERICAS	408,480	246,197	593,000	297,646	311,305
OPTIONS AMERICAS	88,930	93,812	140,000	71,983	167,547
FUND DERIVATIVES AMERICAS	8,309	4,011	15,000	9,212	2,715
STRUCTURED PRODUCTS AMERICAS	84,830	61,003	142,000	65,963	88,169
LIQUID MKTS PROP AMERICA	310,775	57	500,000	85,966	168,988
RATES MANAGEMENT AMERICAS	(54,274)	4	(40,000)	(1,391)	(1,464)
GLOBAL RATES AMERICAS	847,051	405,083	1,350,000	692,941	737,260
DURATION EUROPE	59,867	93,665	150,000	120,024	105,921
OPTIONS EUROPE	(24,822)	36,715	71,000	251,250	130,266
FUND DERIVATIVES EUROPE	54,424	32,744	86,000	66,141	53,469
STRUCTURED PRODUCTS EUROPE	149,584	105,039	193,582	309,937	282,334
LIQUID MKTS PROP EUROPE	38,108	726	70,000	87,764	6,614
RATES MANAGEMENT EUROPE	(371,508)	-	(348,000)	594	2
GLOBAL RATES EUROPE & MIDDLE EAST	(94,348)	268,889	222,582	835,710	578,626
DURATION ASIA	34,254	41,912	62,997	51,585	28,214
OPTIONS ASIA	36,286	22,063	92,000	124,759	(62,761)
STRUCTURED PRODUCTS ASIA	48,866	64,736	90,000	3,822	55,246
RATES MANAGEMENT ASIA	(16,303)	-	(16,000)	(11)	-
GLOBAL RATES ASIA	103,104	128,712	228,997	180,155	20,699
GLOBAL RATES	855,806	802,684	1,801,579	1,708,806	1,336,585

Global Rates

2008 Accomplishments & Disappointments

2008 Accomplishments:

- ◆ Great progress standardizing infrastructure across three regions
- ◆ Flow businesses in Asia still very solid
- ◆ 3 Flow desks in the US with record 1H (TBA, Swaps, Gov)

2008 Disappointments:

- ◆ Weak Risk Management framework resulted in losses in Europe
- ◆ Flow distribution in NJA and Europe still needs to be strengthened

2008 2H Revenue Opportunities

- ◆ Exotics growth in Asia and US
- ◆ Broadening the distribution footprint of the flow businesses in Asia and Europe
- ◆ Protect the existing flow franchise through eCommerce

2008 Challenges & Action Steps

2008 Challenges:

- ◆ eCommerce – leverage internal know-how in FX, while playing ‘catch-up’ to major competitors
- ◆ Europe Management gap

2008 Action Steps:

- ◆ Identify candidates for Europe role
- ◆ Continuing to globalize and strengthen the infrastructure
- ◆ Globalize strategic responsibilities
 - Exotics
 - Structured Notes
 - USD Swaps
 - Hybrids

Global Rates

Strategic Business Objectives

Changes in 2008 Business Strategy

- ◆ Increase Distribution in Europe
- ◆ Continue build out of Flow products in Europe
- ◆ Help sponsor RSG build out in NJA
- ◆ Strengthen Exotics offering in Americas
- ◆ Continue to globally enhance Flow and Exotics infrastructure

2008 Hiring Prioritizations:

- ◆ Europe Flow / Rates Head

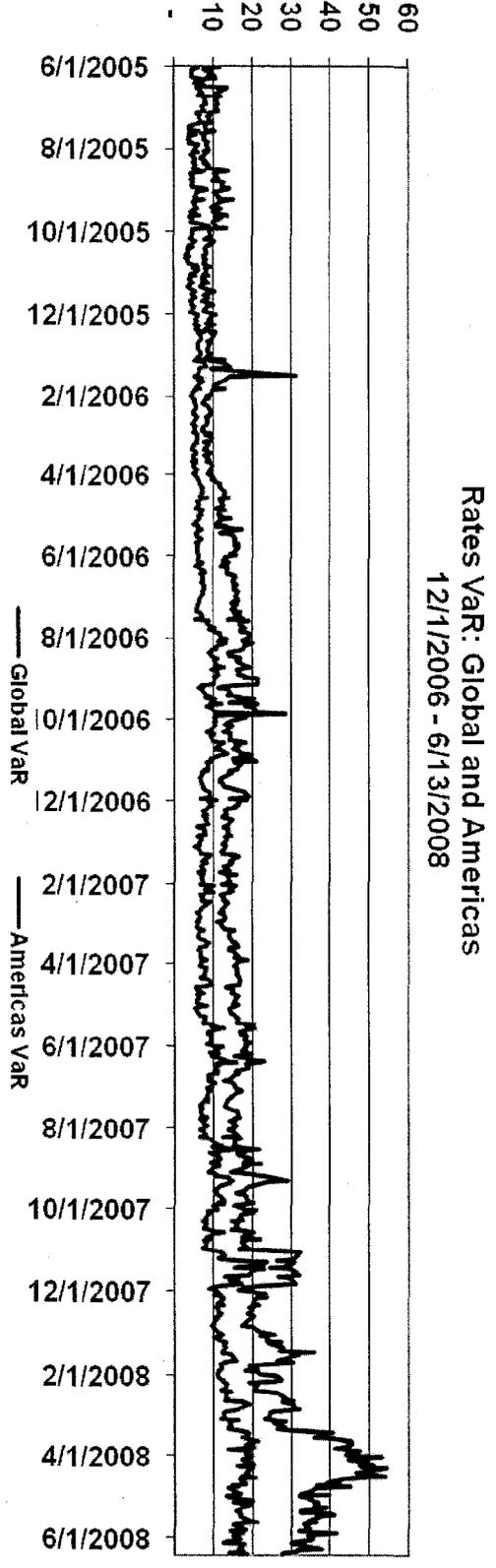
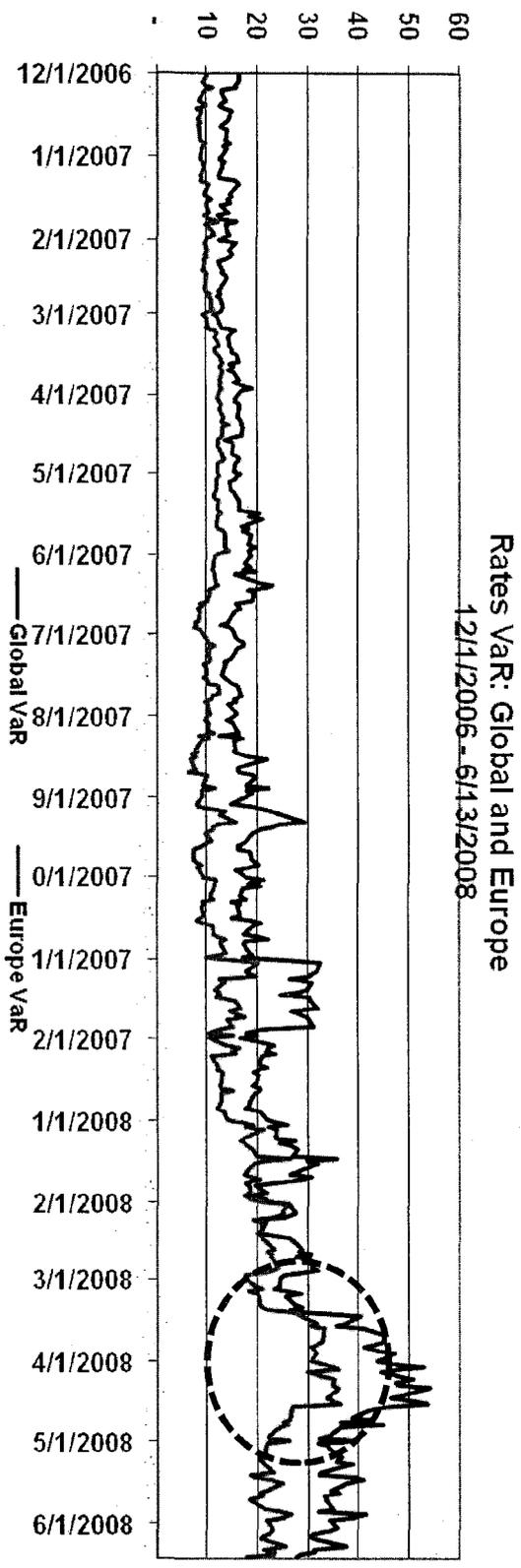
2008 - 2009 Action Steps to Achieve Strategy

- ◆ Focused hiring for Distribution roles in Europe and Asia
- ◆ Through dividing Flow and Exotics technology delivery we expect a quicker time-to-market of IT solutions. Will allow us to fully leverage sales staff in diversified locations.
- ◆ Build out eTrading in Flow across all three regions.

2008 Resource Allocation Changes Within the Business

- ◆ There has been strong leverage of US Middle Office to assist with Europe and Asia trade migration
- ◆ Most tactical IT projects have been stopped. Efforts focusing on Strategic development.

VaR History: Two different Stories



Overall Themes for Global Rates

- ◆ Leverage Technology
 - eTrading: we are leveraging FXLive to deliver swaps, but we will need to deliver “sticky” Lehman branding capabilities (ie: client sees portfolio of trades, etc)
 - Algo Trading: hired Edith Mandel to focus on building out our capability
 - Analytics: Need to continue to force globalization and standards
 - Trade Capture and efficiency for flow products (Blotter)
 - Client Connectivity
 - Strengthen the Flow franchise in Europe

- ◆ Risk Management!!!
 - We know how to price. We don't risk manage well enough. Losses in some global rates businesses are outsized relative to their profit potential Expand Distribution into Asia and Europe
 - Scale risk to the business. We are not long “call options on risk”, but rather “short put options”.
 - Wean ourselves off Repo 105 ASAP!

- ◆ Globalize Key Responsibilities
 - Exotics
 - Structured Notes
 - USD Swaps
 - Hybrids

Global Rates Net Headcount Movement

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LEHMAN BROTHERS HOLDINGS, INC.

	Baseline Headcount		Net Headcount Activity		Headcount as of 5/31/2008	
	HDCT	Run-Rate TC US\$	HDCT	Run-Rate TC US\$	HDCT	Run-Rate TC US\$
Overall						
Total:	427	\$ 291,819,914	0	\$ 55,952,578	427	\$ 347,772,491
Region						
Americas	173	\$ 137,082,549	-11	\$ 52,478,649	162	\$ 189,561,198
Europe	183	\$ 115,285,698	-7	\$ 1,439,485	176	\$ 116,725,183
India	0	\$ -	0	\$ -	0	\$ -
Asia	71	\$ 39,451,666	18	\$ 2,034,444	89	\$ 41,486,110
Total:	427	\$ 291,819,914	0	\$ 55,952,578	427	\$ 347,772,491
Function						
Research	51	\$ 21,380,615	1	\$ (2,750,733)	52	\$ 18,629,881
Sales	185	\$ 103,120,794	-10	\$ (8,384,728)	175	\$ 94,736,066
Trading	191	\$ 167,318,506	9	\$ 67,088,039	200	\$ 234,406,544
Total:	427	\$ 291,819,914	0	\$ 55,952,578	427	\$ 347,772,491
Officer Title						
MD	43	\$ 117,270,099	-4	\$ 49,890,470	39	\$ 167,160,569
SVP	95	\$ 97,789,703	-2	\$ 2,735,575	93	\$ 100,525,279
VP	97	\$ 45,177,894	-2	\$ 2,625,451	95	\$ 47,803,345
Non Titled	192	\$ 31,582,218	8	\$ 701,080	200	\$ 32,283,298
Total:	427	\$ 291,819,914	0	\$ 55,952,578	427	\$ 347,772,491

GLOBAL RATES AMERICAS

LEHMAN BROTHERS

7

US Rates – Duration (Govt, Agency, Pass-Thru, Swaps)

Revenues

Desk	2008 FY Forecast	2007 Full Year	2006 Full Year
	Revenue Net LTD	Revenue Net LTD	Revenue Net LTD
AGENCIES	(100,000)	2,023	53,120
AGENCY CALLABLE	20,000	(8,289)	33,153
COUPON TRADING	180,000	101,958	73,799
INT RATE FLOW STRATEGIES	18,000	(11,618)	-
PASSTHRU JV	150,000	27,140	31,068
SHORT TERM AGENCIES	35,000	10,338	6,586
SHORT TERM US TREASURIES	65,000	25,434	16,947
US SWAPS	225,000	150,670	96,662
DURATION AMERICAS	593,000	297,656	311,334

Comments

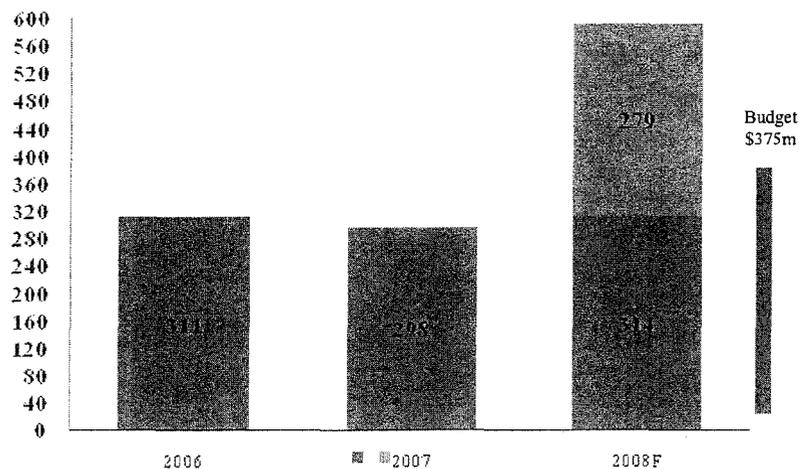
Pass Throughs

- ◆ Pass-thru YTD well over any full year P&L number we have ever achieved. ('07: 54mm, '06: 62mm, '05: 55mm, '04: 90mm)
- ◆ Major contributor to P/L: several large deliveries of specified pools, est. 50mm in P&L. Higher volumes, wider bid/offer, and higher market share with dealer consolidation. Very young desk. Business well positioned.

UST

- ◆ Like P/T's, environment has lead desk to pass highest annual P&L total ever achieved. ('07: 102mm, '06: 84mm, '05: 63mm, '04: 59mm)
- ◆ TIPs business continues to be growth area in business - annualizing \$43mm
- ◆ All sectors at record years: high market share, volatility, and discipline. (2Y: McSweeney: 36mm ann'd, 5Y: Kanos/Stemp: 58mm ann'd, 10Y-30Y: Gewirtz/Judkins: 80mm ann'd)

Revenue Trend



Agency Bullets

- ◆ Caught with a large balance sheet of illiquid paper into a credit crisis
- ◆ P&L down 120mm, forced balance sheet reduction of 25% Q1 to Q2.
- ◆ Still too large in Sub-Debt [2.2b notional, down from 2.8b] and long end agencies.
- ◆ Too reliant on Repo-105 for balance sheet management.

Agency Callables

- ◆ Learned a lesson from last year's loss of (19mm), and have rebounded nicely in a difficult environment. Annualizing at 20mm.
- ◆ Missing some keep mid-east clients for long end callables.

Swaps:

- ◆ Like the rest of our duration businesses (treasuries and P/T's) we have already passed our best year ever ('07: 150mm, '06: 97mm, '05: 77mm, '04: 104mm)
- ◆ Young desk. Lacks senior MD leader. Grooming Kunal Maini for the role. Must invest more in e-commerce capabilities to reach more clients globally. Have to globalize the book.

US Rates – Flow Options

Revenues

Desk	2008 FY Forecast	2007 Full Year	2006 Full Year
	Revenue Net LTD	Revenue Net LTD	Revenue Net LTD
CPI DERIVATIVES US	15,000	9,214	-
DERIV MORTGAGE OPTIONS	30,000	6,192	3,707
OPTIONS-LONDON SYNDICATE	-	2,244	5,813
US SHORT OPTIONS	50,000	(26,696)	35,724
US LONG OPTIONS	45,000	81,028	122,304
OPTIONS AMERICAS	140,000	71,983	167,547

Comments

Long Options:

- ◆ Major growing pains under the leadership of Vivek Sahay. Dropped entire P&L on bad gamma trades and skew hedging.
- ◆ Vivek, while he was the perfect number two trader, has not been productive as a desk head or risk manager. Over thinks and doesn't stay ahead of momentum trades. Trades to P&L.
- ◆ I have been coaching Vivek through both his leadership and his trading style, but he may not be the right person for the lead role. Has lost confidence in himself. May have to consider alternative traders for that book, as our revenue has steadily declined since book was handed over to Vivek. ('07: 81mm, '06: 136mm, '05: 116mm, '04: 115mm)

Short Options:

- ◆ Great turnaround story. Hiring Blake Schmidt and bringing Sumant Gupta back to rates, has re-elevated our franchise in terms of market share and profitability.
- ◆ Blake trades rel-val very actively between CME, CBOT, and OTC. High commissions, but also record profits. Up 37mm in the first half, and having a good start to the second half. Expect a record year after last year's losses without Ceki Boz ('07: (27mm), '06: +36mm, '05: 51mm, '04: 61mm)

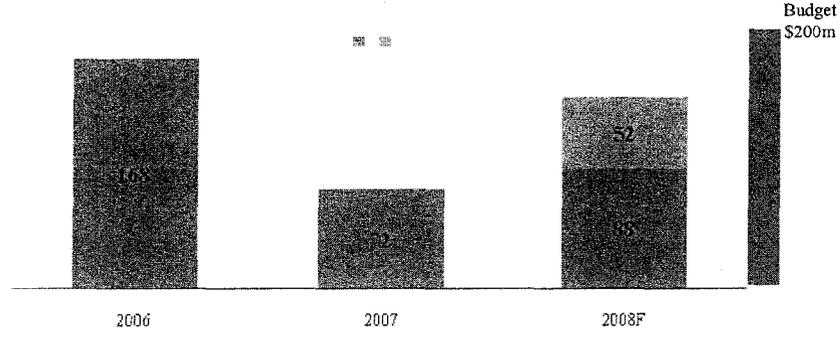
Mortgage Options/CMM:

- ◆ John Scelsa continues to drive the most profitable mortgage options business on the street.
- ◆ First half P&L of 31mm, 2/3rds mortgage options and 1/3rd CMM (Amit Ambuj).

Inflation:

- ◆ Brought European expertise to NY. Working with real estate, munis, RSG to build pipeline. Lack of ability to syndicate risk associated with infrastructure products will preclude homerun trades.

Revenue Trend



US Rates – Structured Products

Revenues

Desk	2008 FY Forecast	2007 Full Year	2006 Full Year
	Revenue Net LTD	Revenue Net LTD	Revenue Net LTD
FUND DERIVATIVES AMERICAS	15,000	9,212	2,715
STRUCTURED PRODUCTS AMERICA	142,000	65,963	88,169

Comments

Interest Rate Exotics/Structured Notes:

Structured Notes

- ◆ Exceptional first half of year. Annualizing \$100mm (notes only). Business driven by working with issuers on buybacks, a few high margin trades, and US Distribution.
- ◆ Morgan Baumann continues to be a high energy innovator in both business model and use of technology. Only competition is Morgan Stanley on the structured notes side.
- ◆ Increasing global coordination (produced >7mm in revenue for London/EUR)
- ◆ Desire to relocate Hong Xie to Hong Kong to build out secondary notes trading operations. Put on hold due to headcount issues in Asia. However, feel this is a key requirement to being a credible and scalable structured products franchise.

Exotics

- ◆ International: Sent Gourav Varma, to Ldn to leverage our European exotics expertise and to focus on the USD product. Has been key to asst Asia pricing USD exotics risk
- ◆ International trading down due to over-reliance on Lehman structured notes.
- ◆ Trading Infrastructure: Flow infrastructure is improving. Migrating to FIRE..
- ◆ We are globalizing the model libraries/system, but still not a global business.
- ◆ Need to globalize the exotics business under one strong leader, creating standards for infrastructure, pricing, models, reserves, and distribution.

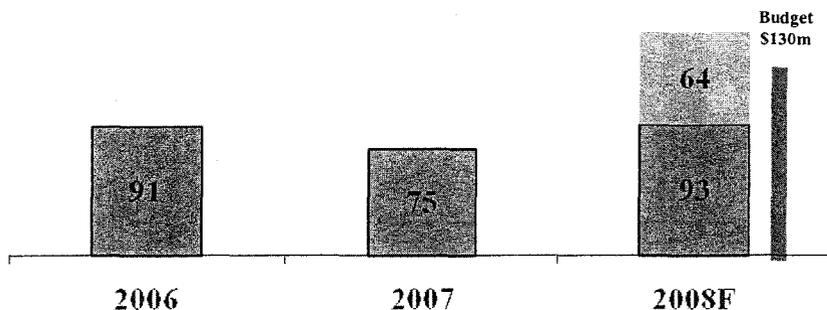
CVA:

- ◆ Paul Bowmar has navigated us safely through a difficult credit environment. One loss on LIM2 of 12mm(overstated in 1st half), but gains elsewhere.
- ◆ Need to have global standards for 'liability benefit' and 'set-off'

Fund of Funds:

- ◆ Rusty Schreiber moved to LDN to run global business. Lingfeng Song has done a great job keeping risk disciplined in difficult environment..

Revenue Trend



GLOBAL RATES EUROPE

LEHMAN BROTHERS

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LBEX-WGM 756164

Europe Rates I – Flow Rates

Revenues

(\$ in millions)	1st Half	2nd Half F'Cast	2008 FY F'Cast	2007 Actual	Δ	2008 Budget
Gilts	(3)	20	17	21	(3)	25
Euro Govts	28	15	43	6	37	30
Dollar Govts	7	5	12	(12)	24	10
Swaps	28	50	78	105	(28)	100
Total	60	90	150	120	30	165
Headcount			-	61	-	n/a

Comments

1st Half

◆ Gilts

- Very disappointing flat revenue for gilts having been up \$20mm at one stage
- Loss of P&L due to macro long UK front end/ curve steepening trades. Also difficult market with liquidity, client buying of 40-50 yrs in illiquid curve flattening environment
- Short staffed - Tim Hawkins has been away since August 2007, due back in two weeks

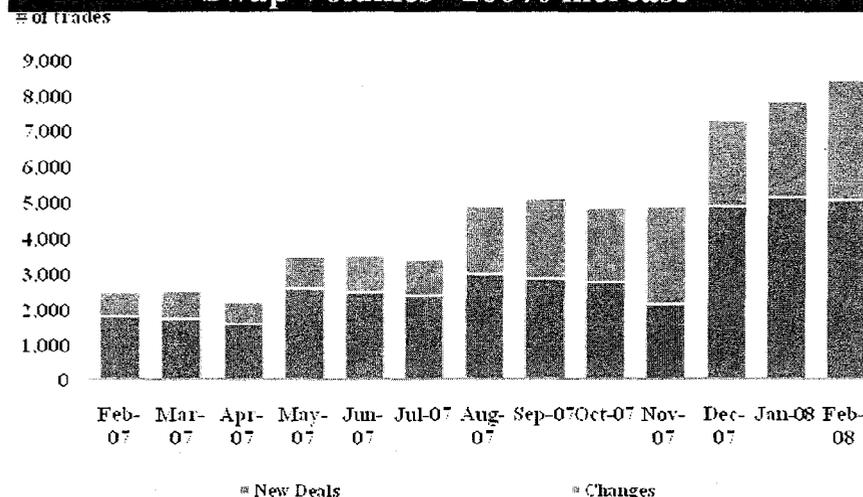
◆ Governments

- Greece 30yr lead/duration manager, Portugal 15yr lead
- Started build of Europe franchise - Hired James Hodges (VP)

◆ Swaps

- Market distribution was de-correlated between Europe and North America
- Loss of market share due to Lehman credit (Bear Sterns effect)
- Reviews with clients in latter part of H1 to strengthen image and improve relationship
- Created foundations for eTrading strategy

Swap Volumes - 200% increase



Europe Rates I - Flow

H2 Comments

◆ Gilts

- Plan is to be more nimble, run small macro risk, take advantage of increased volatility, rather than be at the mercy of it
- Smaller gross positions to avoid having to reduce hard at month/quarter ends (from avg. \$5bn to less than \$4bn)
- Clients are struggling to find liquidity and prepared (in some cases) to pay more bid/offer (2x wider than 6 months ago)
- Use supply and street's lack of liquidity for short term auction driven trades. Possible 12-15 auctions, +\$5-7m P&L
- If market stabilises expect to meet budget \$25mm

◆ Governments

- Expected to exceed 2008 budget
- Redesign the way we price to customers and the way we generate revenue from the customer base.

◆ Swaps

- Focus on market making and building value from the franchise
- Assume no issues with client perception of Lehman
- Assume market distribution will normalise across Europe and North America
- Key Risks : Operations resourcing to manage increased volumes

Europe Rates II – Options and Inflation

Revenues

(\$ in millions)	1st Half	2nd Half F'Cast	2008 FY F'Cast	2007 Actual	Δ	2008 Budget
Vanilla	(27)	40	13	159	(147)	135
Inflation	(2)	60	58	92	(34)	120
Rates Management	(348)	-	(348)	1	(349)	-
Total	(378)	100	(278)	252	(530)	255
Headcount			-		-	n/a

VAR Usage and Limit

H1 Comments

1st Half

◆ Vanilla Options

- Significant short positioned risk - 4 to 5 times ordinarily held
- Experienced extreme front end fixing risk and spread
- Liquidity dried up due to credit concerns across the market, realised volatility up and moved against positions
- Key resignation in team (Arjun V)

◆ Inflation

- Challenging environment marked by deteriorating liquidity and increased volatility
- Volatility especially high between various government bond credit spreads and the relative asset swaps of inflation vs nominal bonds
- Given the size of the eur inflation book and the large positions we are trying to hedge in the long end of the curve (legacy from Italy 50yr trades), this has proven particularly difficult for us
- Situation further complicated by balance sheet pressures which have reduced our ability to hedge sovereign credit risk
- 500mm of 50yr Italy private placement. The trade did not suit our risk and we were not able to sell all the bonds (300mm remains on the balance sheet). However, trade did strengthen our relationship with ROI

Europe Rates II – Options and Inflation (Cont.)

H2 Comments

2nd Half

◆ Options

- Keep risk and exposure tight across curve and vol; Ensure vol is adjusted to fit market more closely
- Restructure portfolio with a position for positive p&l in 2009
- Restructure team with 2 additional hires (agreed internal hires) for focus on building model trading and additional ccy option trading
- Revisit dedicated TA for Options and Inflation – operational support to ensure correct trade capture and ticketing

◆ Inflation

- P&L potential through pipeline:
 - Italy hedge of their 30yr inflation risk (high profitability through monetization of CVA and risk reducing for our business); P&L: **100mm-200mm** split with CVA book
 - Greece hedge of their long end inflation risks (similar logic to Italy above); P&L: **75mm-150mm** split with CVA book
 - Abertis hedge of toll-road receivables. LEH would receive 20yr French CPI. P&l potential: **75mm-150mm**
 - Abertis hedge of Pennsylvania toll-road. P&L potential: **100mm-400mm**
- Beyond the large trades the environment to continue to be challenging as the deleveraging process continues

Europe Rates III – Structured Products

Revenues

(\$ in millions)	1st Half	2nd Half F'Cast	2008 FY F'Cast	2007 Actual	Δ	2008 Budget
Flow Exotics	78	(150)	(72)	115	(188)	130
Strategic Exotics	(9)	5	(4)	71	(75)	90
Insurance	0	50	50	-	50	-
Hybrid Products	62	158	220	124	96	140
- Liquid Markets Hybrids		5	5	16	(11)	-
- Credit Hybrids		5	5	-	5	-
- EM Hybrids		6	6	-	6	-
- CVA		70	70	108	(38)	-
- High Yield CVA		2	2	-	2	-
- MidCaps		15	15	-	15	-
- Balance Gaurantee Swaps		5	5	-	5	-
- Index Products (ex RBI and Inflation)		30	30	-	30	-
- Property Derivatives		(10)	(10)	-	(10)	-
- Alternative Funding		30	30	-	30	-
Total	131	63	194	310	(117)	360
Headcount			-	-		n/a

Comments

1st Half

◆ Exotics

- Continued growth of Strategy (fund replication) trades
- Started transatlantic trades with Asia (booked in London)
- Oppenheimer Steepner (Euro 275m)

◆ Hybrids Products

- Success in infrastructure build out for CVA with new model development, p&l contributed by increase in EM and Credit CVA
- Index Business contributed by extension to build out across sales especially banking and JV with research team, possibly restricted due to balance sheet over H2 08
- Balance Guarantee Swaps p&l realised through model development and JV with securitised products
- Early revenue opportunities in alternative funding and JV with Credit, mandate required to centralise efforts
- Property Derivative portfolio impacted by global downturn, specially with UK housing market, losses hedged appropriately

◆ Insurance Products

- The insurance business has been challenging in the first half – clients had LEH credit concerns
- Increased the scope of Insurance product offerings

2nd Half

◆ Exotics

- Use structured sales force to sell negative positions - Euro Non Inversion Notes (NIN); Majority of risk is held in these positions (-\$150mm)
- Continue pipeline for strategy trading and structuring efforts including in strategies such as IRIS (+\$30m)

◆ Hybrids Products

- **EM Hybrids**
 - Focus of corporate and banking clients and credit hybrids across carry currencies
 - Continue infrastructure build out for delivery in Dec 08
- **CVA**
 - Extend platform capability across all CVA businesses across FID including Credit Hybrids and EM Hybrids
 - Continue and complete model and technology infrastructure for delivery in Dec 08

Europe Rates III – Structured Products

H2 Comments

- ◆ **Hybrids Products (continued)**
 - **MidCap**
 - Serious credit concerns for client trades and current MTM. Need to define strategy to hedge and possibly restructure portfolio
 - **Balance Guarantee Swaps**
 - Pipeline minimal given current securitisation market
 - Focus can turn to hedging of others whole loans but models lack effective pre payment behaviour
 - **Property Derivatives**
 - Commercial Properties – UK, France and Germany - positions are short and well hedged
 - UK Residents – given current credit markets and level of interest rates - Possible \$20m write down
 - **Index Products**
 - Roll out to client base across all Index products
 - Electronic trading capability to be completed in Q3 08
 - Risk will be that all trades restricted due to focus on repo 105 and general balance sheet concerns
 - **Insurance Products**
 - CAT linked derivatives, complete L&G, and Protective trades
 - Complete SNS, L&G, Protective trades and Florida hurricane swap (\$50m)
- ◆ **Other Opportunities**
 - Large opportunity for derivatives (no credit risk - buying CDS) as an underlying if there was dedicated and ring fenced balance sheet assumptions and regression of behaviour. **With Balance Sheet of \$1bn generating \$50m-100m P&L**

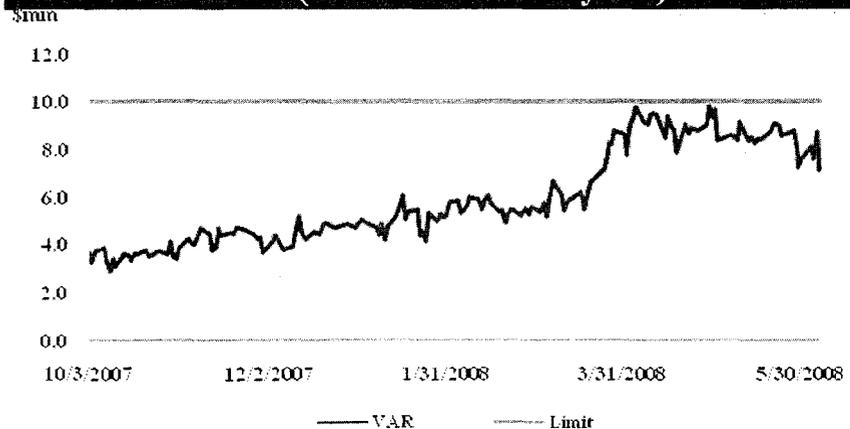
Liquid Markets Prop

Revenues

(\$ in millions)	1st Half	2nd Half F'Cast	2008 FY F'Cast	2007 Actual	Δ	2008 Budget
Rates Prop *	38	37	75	54	21	60
Management Prop	n/a	n/a	n/a	34	(34)	-
Total	38	37	75	88	(13)	60
Headcount	8	8	-	9	-	n/a

*Management Prop no longer exists (Andy Morton's book)

VaR (October '07 – May '08)



Comments

1st Half

- ◆ High volatility and de-leveraging increased Relative Value (RV) opportunities substantially (Bond arb. \$10mm and Vol. arb.¹ \$27mm)
- ◆ Profitable Event (long tail) Risk positions (put on 2-3 years ago)
- ◆ Caught in short Sterling sell-off in May (\$-7mm)
- ◆ Started taking positions in Oil to express Macro views

2nd Half

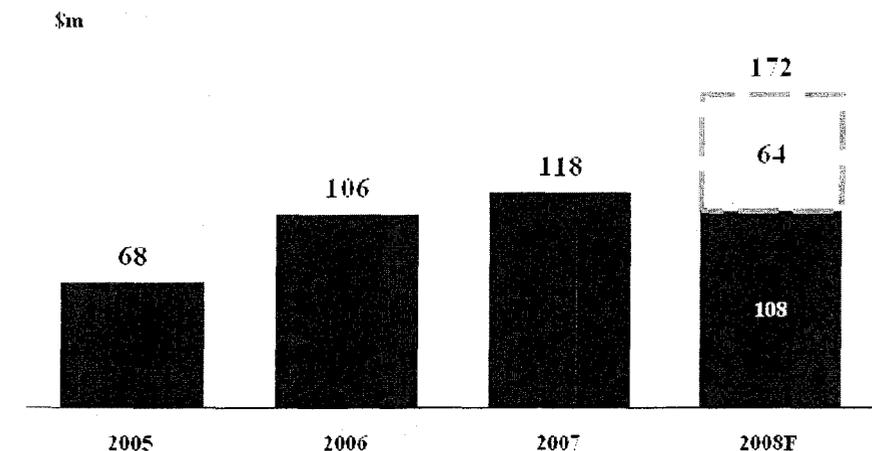
- ◆ Bullish on H2, focus will be on Relative Value trades (75%) and less on Macro strategies (25%)
- ◆ To take further advantage in Relative Value opportunities (in bond arb. and vol arb.) look to increase VAR from \$10mm to \$12.5mm
- ◆ Explore usage of Total Return Swaps Index to shift positions off balance sheet

1. Event Risk trades expressed through volatility arbitrage and included in this figure

Fund Derivatives

Revenues						
(\$M)	1st Half	2nd Half F'Cast	2008 FY F'Cast	2007 Actual	Δ	2008 Budget
Legacy Fund Book	2	2	4	14	(10)	5
Mutual Funds	24	15	39	24	15	
Hedge Fund Options	4	4	8	5	3	
Hedge Fund CPPI	58	27	85	50	35	
Hedge Fund Passthrough	8	8	16	5	11	
Leverage	12	8	20	20	0	
European Funds Total	108	64	172	118	60	155
FID Europe Total	55	33	88	66	22	80
<i>Headcount</i>	<i>14</i>	<i>10</i>	<i>10</i>	<i>20</i>	<i>-</i>	<i>n/a</i>

Revenues (Capital Markets)



Comments

1st Half

- ◆ P&L in Europe was very strong but concentrated in 3 large trades: (i) Enasarco restructure (P&L: +\$34M), (ii) North African Sovereign Wealth Fund Principal Protected Note (+\$20M), (iii) Monte Paschi/Tarchon restructure (+\$6M)
- ◆ No new Basel II transactions in H1; reluctance of investors to take LB credit
- ◆ Key Developments: (i) Managed Account Platform launch (Sapiance), (ii) IT development reduced operational risk

2nd Half

- ◆ Prospective trades: (i) Italy: Banks, pension funds & foundations \$15M, (ii) HF Index replication transactions \$15M, (iii) Structures on managed accounts \$15M, (iv) Delta Plus Notes & Leverage Notes \$10M

◆ Main Risks & Challenges

- Layoff to reduce \$476M of Bluebay exposure
- \$3.6M Vega on Fund of Funds Volatility
- HF returns (May ytd) index -0.2% & high profile blow ups
- Perception of LB for principal protection and balance sheet
- Lack of experienced personnel - limiting execution capacity
- Critical that LB 5 yr CDS below 1.50%
- Need to be able to finance \$200-300M of hedge fund shares
- Continued challenged environment in hedge funds provide head winds

◆ Funds a potential \$300M business in 09/10. Resources needed:

- Institutional Investors: One senior Structurer (MD/SVP) to lead & one Strategy Due Diligence person
- Distributive product: add one mid-level Structurer
- Managed Account Platform to add managers and investors: 1 HC
- Across Capital Markets extra Balance sheet/Cash Cap : \$2B / \$1B

Business Strategy: Leverage risk-taking appetite to win low balance sheet usage transactions. (i) Stay aggressive on physical CPPI (ii) Managed Account Platform and HF Replication (iii) Rated CFO for Solvency II

GLOBAL RATES ASIA

LEHMAN BROTHERS

20

Asia: 2008 Mid Year Overview

1H 2008 Highlights

- ◆ Flow Rates : Announced Katsuya Miyoshi as Head of Japan Flow Interest Rate Trading and Jeremy Martin as Head of Yen Derivatives.
- ◆ Flow Rates : Replaced bond options trader (Suwa) and transferred DCM coverage to FID. Generally replaced senior resources through junior resources only .
- ◆ Exotics:
 - 7 bn AUD/JPY FX TARN Uridashi (public offering) through MUFJ securities
 - Added around 10 new active counterparties in Japan (BBB-BB internal rating)
 - BMA linked swaps with Southern Grid 200mm EUR (PnL : \$9m)
 - 160mm 15y USD rate Lehman notes sold to China Trust (PnL: \$7 m)
- ◆ Exotics build out:
 - Mark de Vries to join June 1st as Head Quant for Structured business
 - James Lee to establish framework to deal with illiquid and lesser credits
- ◆ Hired John Goff and Rana Dasgupta as Senior NJA structurer. Hired Samir Bhandari to head Corporate sales NJA

Key Issues & Actions

- ◆ Adjust to new reduced balance sheet limits
- ◆ Adjust risk taking to more volatile environment
- ◆ Expand flow coverage beyond hedge funds and banks into real money
- ◆ Increase focus in LM / FX / Rates Exotics, Private Banks, Corporate Coverage
- ◆ Expand CVA and SME framework to all Asian countries
- ◆ Agree terms on banking JV

Asia Liquid Markets: Financials and Headcount

Financials Highlights (As of May 30th)

(\$ mm)	2008 (YTD)	2008 (Fcast)	2008 (Target)**	2007 (Act)
Exotics	80.0	145	175	122.0
FX	99.0	160	150	76.9
Swaps	(1.6)	18	50	34.4
Options	19.3	22	30	(37.3)
Cash	39.5	65	60	67.6
LM Prop	4.9	20	35	47.2
Australia	(11.9)	10	20	
IRP Corp	(15.3)			
LTD	(8.4)			(8.9)
Revenues	205.5	440	520	301.9

**Official Liquid Markets budget is \$405 m (Excludes Australia \$20 m)

Joiners and Leavers

◆ Significant Headcount Re-allocation

	Sales	Trading	Structuring	Research	Total
Joiners	20	21	3	6	50
Leavers	9	11	3	3	26
Net Change	11	10	0	3	24

Headcount Analysis (Function View)

◆ Focused Investment in Structured Products , Japan (Corporate Sales) and Singapore (LM Sales and Trading)

Headcount	Sales		Trading		Structuring		Research		Total	
	'07	'08(MY)	'07	'08(MY)	'07	'08(MY)	'07	'08(MY)	'07	'08(MY)
Exotics	21	29	9	8	20	20	9	8	59	65
FX	25	26	25	29	2	2	1	3	53	60
Swaps			3	2					3	2
Options			2	2					2	2
Cash	12	14	11	11			2	4	25	29
LM Prop			1	5					1	5
Australia Derivs			1	5					1	5
Total	58	69	52	62	22	22	12	15	144	168

Headcount Analysis (Location View)

Headcount	Sales		Trading		Structuring		Research		Total	
	'07	'08(MY)	'07	'08(MY)	'07	'08(MY)	'07	'08(MY)	'07	'08(MY)
Japan	32	39	28	26	10	10	10	13	80	88
China										
Hong Kong	15	12	1		7	8	1		24	20
Australia	1	1	1	5	1				3	6
India	2	3	4	5	2	2			8	10
Korea		1	4	5					4	6
Singapore	8	13	14	21	2	2	1	2	25	38
Total	58	69	52	62	22	22	12	15	144	168

Exotics - 1H Financials, Headcount Overview

Financials Highlights

Financial Highlights

(\$mm)	2008 (YTD)	2008 (Fcast)	2008 (Target)	2007 (Act)
FX, JPY Rate Exotics, USD/EUR Exotics	73.8	137.2	163.9	146.9
CVA, Fund Derivatives, Credit Hybrid	3.6	6.7	8.0	9.8
Korea/Taiwan/HK Exotics, RBI	18.0	33.5	40.0	7.9
Inflation, Real Estate, Commodity	1.4	2.6	3.1	2.0
Total Asia Exotics	96.8	180.0	215.0	166.6
JV Transfers	-16.9	-35.0	-40.0	-45.1
Asia Exotics post transfer	79.9	145.0	175.0	122

Exotics post transfer budget at 140mio

- ◆ YTD report as of 30th May 2008.
- ◆ Forecast and Budget breakdowns are pro rated based on YTD actuals.

Exotics – Top 5 Clients

Top 5 Clients and Revenues

Client name	Revenue
China Construction Bank Prc	9,521
Chinatrust Commercial Bank Taiwan	7,535
Taishin International	6,316
FIT House Co., Ltd	3,700
Mizuho Investors Securities Co., Ltd.	3,650
Top 5 Total	30,722
Exotics total	72,547

- ◆ Revenue in US\$ 000. As of May 23rd.

Headcount Analysis

Headcount	Corp / RSG Sales		Trading		Structuring		Research		Total	
	'07	1H'08	'07	1H'08	'07	1H'08	'07	1H'08	'07	1H'08
Japan	13	18	8	8	10	10	8	8	39	44
China										
Hong Kong	5	4	1		7	8	1		14	12
Australia	1	1			1				2	1
India	2	3			2	2			4	5
Korea		1							0	1
Singapore		2							0	2
Total	21	29	9	8	20	20	9	8	59	65

- ◆ Generalist Sales are excluded from above headcount analysis

Sales Credits by Country

(\$ Thousands)

Country	Sales Credits
Australia	940
China	19,805
Hong Kong	2,512
India	868
Japan	28,550
London	1,010
Singapore	1,940
Taiwan	19,252
Total	74,877

Exotics : 1H Highlights & Disappointments

2008 1H Business Highlights

- ◆ Key Deals:
 - FX/Rates Exotics :
 - 7 bn AUD/JPY FX TARN Uridashi (public offering) through MUFJ securities
 - Corporate deals with around 10 new Japanese accounts (BBB-BB internal rating counterparties(SME portfolio , around 1mm US\$ each) ,
 - BMA linked swaps with Southern Grid 200mm EUR (P&L: US \$9mm) , 160mm 15y USD rate Lehman notes sold to China Trust (P&L: US \$7mm)
 - Fund Derivatives : YTD PnL \$ 2.7 mm (1 JP trade and 4 Ex Japan)
 - Inflation Business : High demand in Australia for IL Linked products. Sourced 5 IL bonds issued by local governments in Australia and sold on asset swapped basis
- ◆ People
 - Lost Remy Klammers, Alexis Suzat, Marten Agren, 2 Quants, 1 FTA
 - Hired James Lee to establish framework to deal with illiquid and lesser credits
 - Mark de Vries joined June 1st as Head Quant for Structured business
 - Hired John Goff, Rana Dasgupta (NJA Structuring)
 - Hired Samir Bhandari, Sri Dewi , Juwon Kim (NJA Corp Sales)
- ◆ Infrastructure
 - Completed migration from Lens to OptModel.
 - Scenario Manager used for intraday risk and ability for 1st order skew impact from Skew Tool onto Optmodel on daily basis

2008 1H Disappointments

- ◆ Japan
 - Corporate : Revenue slow this year due to stronger Yen/FX volatility
 - Institutional : Very few structured notes sold
 - Private Bank / Retail : Mainly dealer business
- ◆ Ex Japan
 - Corporate : Mainly Chinese clients.
 - Institutional : Few trades.
 - Private Bank / Retail : Slower structured notes business since mid Mar due to market environment
 - India JBF trade : Valuable lessons learnt . New deal approval process to be put in place (Scott Carran, David Cummins)
- ◆ People
 - Lost Vincent Kwok (Trading Algorithms)
 - Lost Lana Lam. (NJA Structuring)
- ◆ Infrastructure
 - Need to upgrade & harmonize Exotics system platform globally

Exotics : 2H Outlook & Business Focus

2008 2H Market Outlook

- ◆ Strong Yen, flat / inverted G3 curves to slow down long dated structures
- ◆ India
 - Negative impact of increased disclosure requirements for corporates
 - Intermediation model (BNS) implemented
- ◆ China
 - Sustainability of intermediation in absence of direct access
- ◆ Taiwan
 - Trust Banks pushing for documentation to devolve responsibility for suitability to the swap provider
- ◆ Structured Notes business dependent on acceptance of Lehman as issuer

2008 2H Business Focus

FX/Rates Exotics-

- ◆ Focus more on LM Rate Exotics, Private Bank, Corporate Coverage. Monetize new corporate coverage in Japan and non-Japan

Commodity Hybrids-

- ◆ Capitalize from increased investor focus on commodities through structured notes placement , especially in Japan.

Credit Valuation Analysis –

- ◆ Apply SME framework to all Asian countries
- ◆ Increase product scope (Equity, Commodities)

Fund Derivatives –

- ◆ Developing new Alpha strategy ideas (Reprioritize to 2009)

Inflation -

- ◆ Australia / New Zealand – Local team active in pitching to local issuers
- ◆ Japan – Offer new products on vol, floors through DCM

Real Estate –

- ◆ Develop dialogue with local real estate players with focus on Hong Kong , Australia/ New Zealand and Japan.

G3 Flow Rates - 1H Financials, Headcount Overview

Financials Highlight (As of May 30th)

Financial Highlights

(\$mm)	2008 YTD	2008F	2008 (Target)**	2007 (Actuals)
Yen	31.3	50.0	47.0	47.8
Non Yen	6.9	13.0	10.0	18.7
Mortgages	1.3	2.0	3.0	1.1
Swaps	-1.6	18.0	50.0	34.4
Swaptions	19.3	22.0	30.0	-37.3
LTD	-5.4			-8.4
G3 Flow Rates	51.8	105.0	140.0	56.3
Sales Credit	59.8	115.0	120.0	104.1

** Official budget for G3 Flow Rates is 110

Headcount Analysis (As of May 30th)

Headcount	Sales		Trading		Research		Total	
	'07	1H 08	'07	1H 08	'07	1H 08	'07	1H 08
Swaps			3	2			3	2
Options			2	2			2	2
Cash	12	14	11	11	2	4	25	29
Total	12	14	16	15	2	4	30	33

* Note : Sales and Research are shared across Swaps, Cash and Options.

Top 5 Clients & Revenues (As of May 23rd)

\$(000)

Flow: Govt - Top 5 Clients and Revenues

Client name	Revenue
Endeavour Capital UK	5,894
Bank of Tokyo-Mitsubishi UFJ	4,835
Resona Bank, Limited	3,089
The Chuo Mitsui Trust And Banking Company, Ltd	2,421
Japan Post Insurance Co.,Ltd.	1,886
Top 5 Total	18,125
Flow Govt Total	41,408

\$(000)

Flow: Options - Top 5 Clients and Revenues

Client name	Revenue
Depfa Bank Europe Dublin	2,755
Nissay Asset Management Corporation	1,770
Nippon Steel Corporation	1,240
Endeavour Capital UK	1,198
Leeds Trnk	700
Top 5 Total	7,063
Flow: Options Total	9,895

\$(000)

Flow: Swaps - Top 5 Clients and Revenues

Client name	Revenue
Endeavour Capital UK	1,504
Citadel Investment Management Lp	1,454
Pimco- Pacific Invstmnt Mgmt California	725
National Australia Bank Limited	712
London Diversified Fund Management Llp	534
Top 5 Total	4,928
Flow: Swaps Total	11,975

2H08 Opportunities and Challenges

2H Revenue Opportunities

SHORT-TERM ORIGINATION

- ◆ Client franchise
 - New unsecured mandates
 - Existing ABCP clients
 - Event driven mandates (i.e. M&A financing)
 - Taking market share from weakened competitors (ML & Citi)
- ◆ Eventual evolution of the next “new” structure in ABCP
- ◆ Australia/NZ & Middle East regions

DEBT & HYBRID ORIGINATION:

- ◆ Execution of large calendar of FRN mandates.
- ◆ Focus on European debt franchise.
 - Opportunities in bank sector for debt and capital.
 - Expansion and support of refocused industrial calling effort
 - Support Middle East calling effort.
- ◆ Continued focus in Power & Natural Resources with funding of increased capital expenditures. We are number one YTD.
- ◆ Early Identification of “Capital Needs” in the US with focus on regional banks.
- ◆ Turn around effort on Funding Agreements at insurers and achieve better penetration in US insurance base for Capital.
- ◆ Continued expansion of retail distribution capabilities to take advantage of large forward calendar of \$25 par securities.
- ◆ Japanese Bank Capital issuance.
- ◆ US Issuer mandates in Euros and Sterling

2H Challenges & Action Steps

SHORT-TERM ORIGINATION

- ◆ “Normalization” of curves will negatively impact revenues & opportunities and thereby potentially reverse the 1st half success of being able to push margins wider. Daily volumes could decline as issuers push CP maturities out. Flat money market curve and static Fed Funds will create less opportunities.
 - Action: Continued focus on maximization of near revenue opportunities caused by market turmoil.
- ◆ Connectivity with Banking/DCM in “target” regions and across sectors to identify new program opportunities.
- ◆ Action: Trip to Australia/New Zealand, Middle East, and
- ◆ Pushing Lehman out the Commercial Paper curve.

DEBT & HYBRID ORIGINATION:

- ◆ Execution in the FRN market given lack of depth and liquidity.
 - Action: Better integration of account base directly into origination and trader to uncover opportunistic trades.
- ◆ Support of European DCM franchise with frequent presence (both dialogue and physical presence) of Syndicate with European issuers.
- ◆ Staffing of European Syndicate personnel to focus on industrials
- ◆ Constant identification of resource allocation including lending in a more efficient manner.
- ◆ Continued “Commoditization” of Hybrids by banks pushing “pay to play” lending.
- ◆ Increasing presence and capabilities in Euros and sterling to generate new issue business.