Confidential Presentation to:

U.S. Securities & Exchange Commission

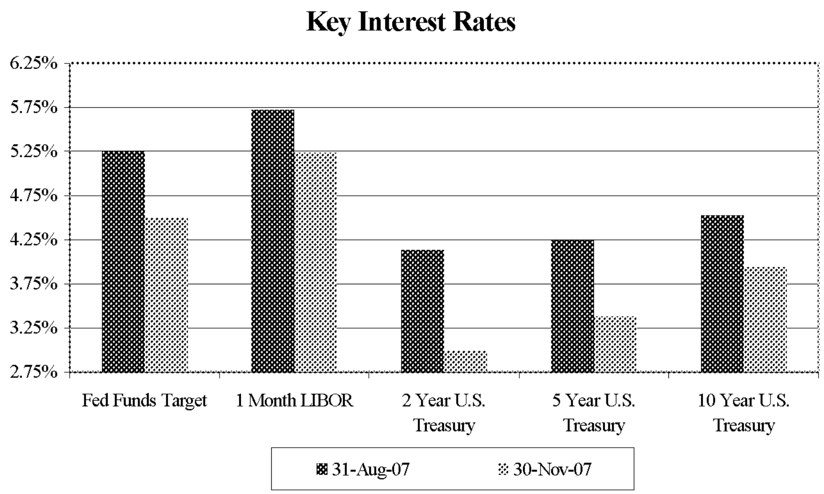
Liquidity & Funding
2007 Q4 Review

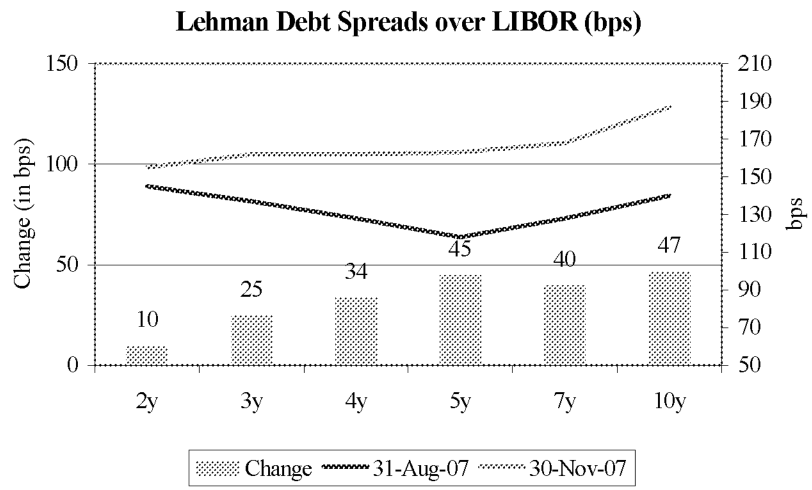
January 18, 2008

LEHMAN BROTHERS

Financial Market Overview

- During FY 2007 Q4, the credit markets continued to be extremely volatile stemming from the sub-prime mortgage turmoil that started in Q3.
  - Short-term rates fell in Q4 as the Federal Reserve responded to the volatile credit markets and the deteriorating housing market in the US that started to threaten economic growth forecasts for 2008. The Federal Reserve cut the Federal Funds target rate on two occasions starting in September with a 50bps cut that brought the target rate to 4.75%. This rate cut was followed up with another 25bps rate cut at the end of October which brought the Federal Funds target rate down to 4.50%.
  - Long-term rates fell significantly in the second half of Q4 with the Ten Year Treasury trading in a 86 bps range ending the period 61bps lower than the beginning of the period. The Five Year Treasury also fell in Q4, trading in a 120 bps range and ended the quarter 87 bps lower than the beginning of the quarter. Equity markets ended the quarter mostly unchanged, even though the intra quarter range was extremely volatile. The Dow traded in a 1,421 point range, hitting an all-time high of 14,164 in the beginning of October. On November 30th, the Dow closed at 13,371.
  - Lehman debt spreads continued to widen out in Q4, after widening out dramatically in Q3. Debt issuance markets continued to feel the effects of the credit crisis and sub-prime fallout that began in Q3, with investors demanding higher new issuance concessions. Lehman was in the market twice in Q4 issuing $3.25bn in the US ($1bn 20yr / $2.25bn 7yr) and EUR1.75bn 5yr in Europe.





Funding Overview

- In Q4 2007, we issued $11.3bn of unsecured long-term debt.
- Growth in long-term debt has matched growth in balance sheet and equity.

Long-Term Debt Issuance [1]
$ Billions

	2004	2005	2006	2007
Beginning Long-Term Debt	37.2	48.4	51.9	78.4
Issuance	20.1	22.6	39.3	63.4
Committed Facility Drawdown			-	-
Maturity / Other	(8.9)	(19.1)	(12.8)	(23.7)
Ending Long-Term Debt	**48.4**	**51.9**	**78.4**	**118.2**
Change in Long-Term Debt	12.0	3.5	26.6	39.7
Net Balance Sheet	175.2	211.4	268.9	373.0 [2]
Long-Term Debt Ratio	28%	25%	29%	32%

[1] Excludes current portion of long term debt and hybrid equity issuances
[2] Net balance sheet figure for November 2007 is based on final figures.

Debt Issuance in 2007 Q4*

- In Q4, Lehman executed three notable benchmark issuances:

  - On September 21st Lehman raised:
    - $2.25bn in a 7y Fixed rate note @ 1ML+129
    - $1bn in a 20y Fixed rate note @ 1ML+168

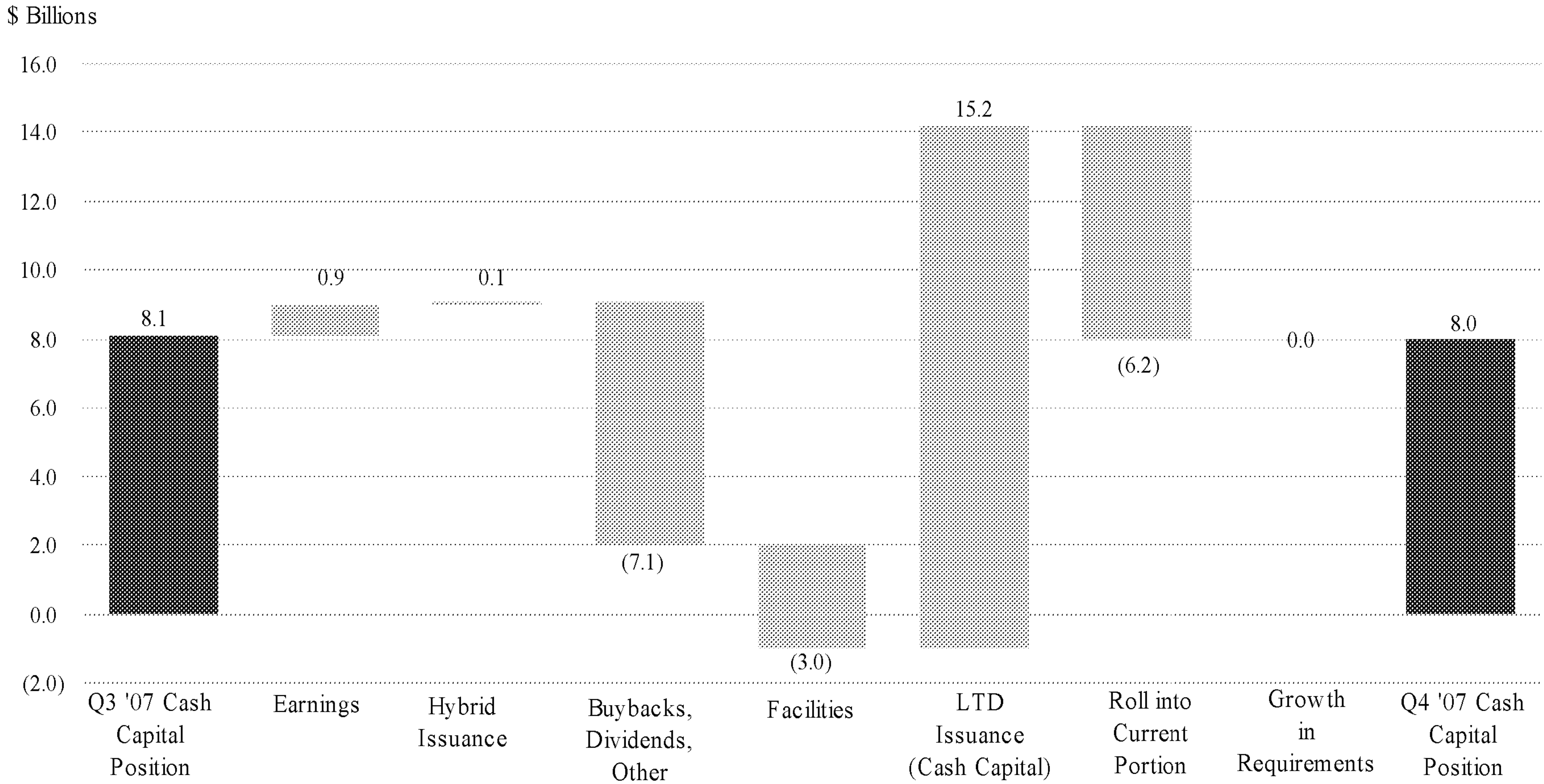
  - On October 11th Lehman raised:
    - $2.5bn (€1.75bn) in a 5y Fixed rate note @ 1ML+95

** Issuances greater than $1.0 bn*

2007 Issuance Update

- In 2007 Cash capital requirements have grown faster than the original budget. In Q4, we have issued approximately $15.2bn of cash capital.

Roll Forward of Cash Capital Position (Q3 2007 to Q4 2007)



Note: Issuance based on trade date. $2.3 billion accounting gross-up for debt extinguishment is included in Buybacks and Issuance.

Liquidity Pool Management

- We continue to manage our liquidity pool prudently.
  - Per our investment framework, we invest the liquidity pool available to the Holding Company in liquid, investment grade instruments – primarily cash and cash equivalents and unencumbered, liquid, investment grade collateral.
    - By moving the liquidity pool in and out of investments, we constantly monitor our ability to monetize our investments at short notice.
    - We also constantly assess the size of our liquidity pool relative to the amount of liquidity outflows in a liquidity event. We do not target a minimum size for our liquidity pool. Instead, we want to have a liquidity surplus a year forward in a scenario where we cannot issue unsecured debt for one year and have to repay all unsecured debt and meet the liquidity outflows created by a one notch downgrade, draws on our contingent commitments and a $0.5bn debt and equity buyback program.
    - We calculate the liquidity pool on a daily basis and reassess the minimum size that the liquidity pool must have on a weekly basis.
    - As of 2007 Q4, our liquidity one year forward position was at $7.5bn.
  - Additionally, the management of our liquidity pool does not exist in a vacuum but within the context of our comprehensive Funding Framework, which aims to mitigate the liquidity risk faced by the Firm as much as possible (e.g., by carefully selecting secured funding counterparties and by funding illiquid and boxed assets with cash capital). This reduces the liquidity outflows that the liquidity pool must cover.
  - Finally, we also maintain large liquidity pools at our broker dealers and bank institutions, which are managed along the same conservative lines as the liquidity pool available to the Holding Company.
- At the end of 2005 Q4, we decided to remove the undrawn portion of the LBHI Committed Credit Facility from the definition of the liquidity pool, thereby aligning our internal definition of the liquidity pool with that of the SEC.

Liquidity Pool In 2007 Q4

- Lehman Brothers reported a $34.9bn liquidity pool as of November 30, 2007 – versus $35.9bn as of August 31, 2007.
- At the end of Q4 2007, we decided to remove AEGIS Investments from the definition of the liquidity pool.

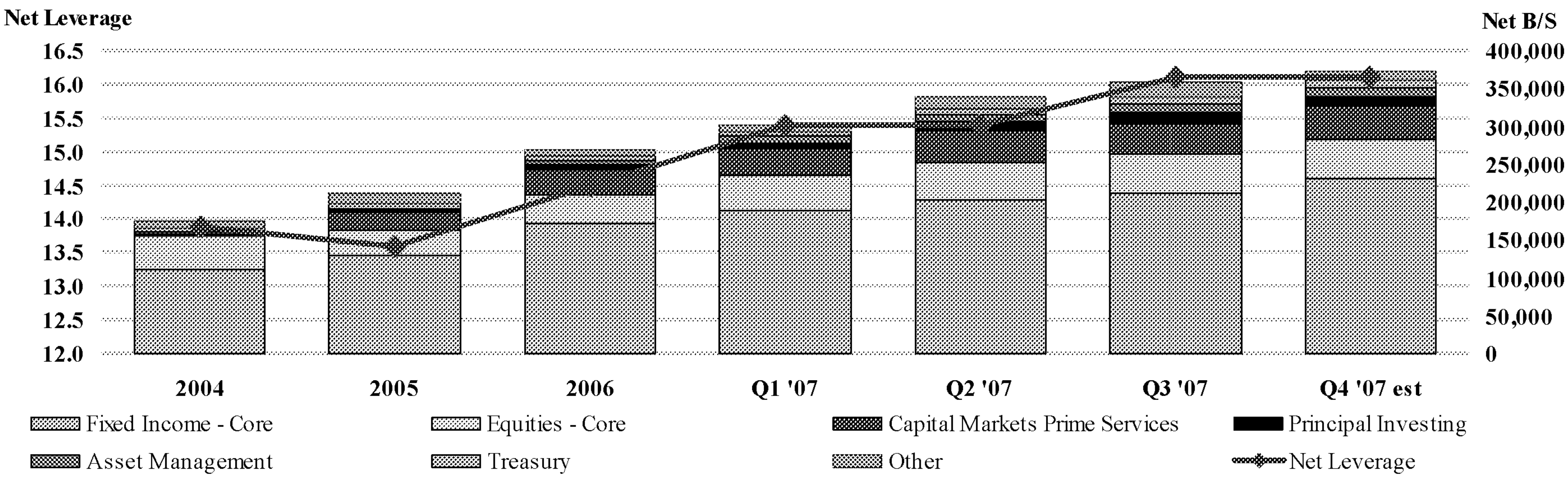
Liquidity Pool

$ millions	2007 Q3	2007 Q4	Difference
Cash			
Bank Deposits	1,685	2,592	908
Other Cash / External Investments	70	751	681
Money Funds	1,126	238	(888)
Total Cash	2,881	3,581	700
Boxed Inventory			
CMO's	143	355	212
Corporates	1,716	-	(1,716)
Goverments / Treasuries	5,458	1,622	(3,836)
Asset Backed	146	-	(146)
Equities	2,707	1,741	(966)
Money Markets	34	-	(34)
Agency MBS	20,559	27,636	7,077
Agencies	1	1	(1)
Total Boxed Inventory	30,764	31,354	591
AEGIS Investments	2,294	-	(2,294)
Liquidity Pool Available to Holdings	35,938	34,935	(1,003)

Net Balance Sheet Target

- For 2007, the Firm's Balance Sheet grew by 37% with 75% of the growth coming via FID Core and Capital Markets Prime Services
- Net Balance Sheet accounts for most of that growth, with it representing 55% of overall Balance Sheet growth
- Headline performance statistics for the quarter are as follows:
  - Net Leverage remained flat at 16.1x for Q4 '07
  - Gross Balance Sheet grew by 5% - FID Core accounted for most of the growth
  - Net Balance Sheet grew by 4% - FID Core accounted for most of the growth

Net Leverage Trend [1]



1. *For 2004, CMPS was incorporated into the numbers for FID and EQ Core*

Cash Capital

- There was no major change in the cash capital policy of the Firm during Q4 2007.
- Lehman Brothers reported a cash capital surplus of $8.0bn as of the end of November 2007 in the Holding Company chain – versus $8.1bn as of the end of August 2007.
- Across legal entities, cash capital usage quarter over quarter remained flat at $141.9bn (excluding $17.4bn of intercompany subdebt and $2.5bn of intercompany Reg-T margin posting).

Asset Category	Q3 2007 Total	Q4 2007 Total	Variance
Less Liquid Assets	83,493	79,953	-3,540
Non Trading Assets	19,677	17,638	-2,039
Liquid Assets Haircuts	7,600	7,480	-120
Liquid Assets Box	6,892	9,101	2,209
Margin, Chaining & OTC Req	8,948	14,873	5,925
Equity/Subdebt for Self-funded Legal Entities	4,751	4,792	41
Other	7,033	7,729	696
Trapped Cash Capital in Regulated Entities	3,494	293	-3,201
Total	**141,888**	**141,860**	**-28**

Cash Capital Usage By Asset Class – 2007 Q4

$millions

Asset Category	100% Assets	Haircuts	Box Req	Margin/ Chaining/OTC Req	Equity/ Subdebt	Other	TOTAL		% of Total Cash Capital Usage	Q3 2007 Total	Variance
Less Liquid Assets:							-				
Commercial Wholeloan/Mortgages	43,872						43,872	[1]See note	31%	42,201	1,671
Corporate Loans	9,656						9,656	[2]See note	7%	16,863	(7,207)
Corporate Bonds - Non Rated	7,185						7,185		5%	7,583	(398)
Private Equity Investments	4,841						4,841	[3]See note	3%	3,649	1,193
Equity - Restricted	4,470		-				4,470		3%	3,850	620
Fund Units	2,777						2,777		2%	2,651	126
Private Label (Non Rated/Non Investment Grade)	1,610						1,610		1%	1,370	240
Lehman Paper	1,535						1,535		1%	2,005	(470)
Asset Backs - Non Rated	1,273						1,273		1%	799	474
Convertibles	489						489		0%	295	194
MONEY MARKETS	378						378		0%	408	(30)
Sovereigns - Eurobonds	84						84		0%	105	(21)
Sovereigns - Locals	47						47		0%	173	(126)
TBA	-						-		0%	-	-
Miscellaneous Illiquid Assets	1,737						1,737		1%	1,543	194
Non Trading Assets:											
Fixed Assets	3,721						3,721		3%	3,505	216
Goodwill	4,019						4,019		3%	3,858	162
Operational Cash at Banks	2,162						2,162		2%	2,255	(93)
Deferred Tax Assets	2,693						2,693		2%	2,609	83
Retirement plans	631						631		0%	650	(19)
Investment in Partnerships & Joint Ventures	1,752						1,752		1%	1,752	-
Miscellaneous Non Trading Assets	2,660						2,660		2%	5,049	(2,388)
Liquid Assets:											
Equity		2,394	2,669				5,062		4%	5,804	(742)
Governments		803	1,433				2,236		2%	549	1,687
Convertibles		844	695				1,539		1%	1,293	246
Corporate		820	656				1,476		1%	2,156	(680)
Preferreds		98	793				891		1%	1,122	(230)
Private Label		485	169				654		0%	580	74
Muni		134	493				627		0%	539	87
Agency		275	215				490		0%	176	314
Treasuries		347	(0)				346		0%	291	55
Asset Backs		161	166				327		0%	336	(9)
MBS		188	85				273		0%	197	76
Fund Units		205	(0)				205		0%	168	36
Warrants		115	65				180		0%	134	46
Wholeloan (Residential)		101	23				124		0%	130	(6)
Sovereigns		24	78				102		0%	182	(80)
Miscellaneous Liquid Assets		488	1,562				2,050		1%	835	1,215
Margin, Chaining & OTC Req:											
Uncollateralized Receivables for OTC Derivatives				8,975	-		8,975		6%	4,274	4,701
Futures Margin Req				2,498			2,498		2%	2,498	-
Miscellaneous Margin and Chaining Req				1,791			1,791		1%	566	1,225
Guaranty Fund Deposits at Exchanges				676			676		0%	676	-
LCH				507			507		0%	507	-
Euroclear				225			225		0%	225	-
CREST				202			202		0%	202	-
Equity/Subdebt for Self-funded Legal Entities:											
SLFT Equity and Subloan					-		-		0%	-	-
Thrift Equity					2,437		2,437		2%	2,523	(87)
Bankhaus and subdebt					1,437		1,437		1%	1,400	37
LBCB Equity					918		918		1%	828	90
Other:											
Prefunding for Loan Commitments						4,209	4,209		3%	3,432	777
15c3-3 lockup Reqs (Firm Funded)						733	733		1%	864	(131)
Bankhaus Collateral Reqs						1,139	1,139		1%	1,786	(647)
Gross-up for Self-funding Trades						198	198		0%	750	(552)
Contingent Collateralization						201	201		0%	201	-
Unallocated ITS Box						1,249	1,249		1%		1,249
Trapped Cash Capital in Regulated Entities:						293	293		0%	3,494	(3,200)
TOTAL	97,591	7,480	9,101	14,873	4,792	8,023	141,860		100%	141,888	(28)
Gross-ups:											
Intercompany Subdebt						17,431	17,431	[4]See note		16,418	1,013
Reg T Margin						2,454	2,454	[4]See note		5,046	(2,592)
TOTAL	97,591	7,480	9,101	14,873	4,792	27,907	161,744			163,351	(1,607)
% of Total Cash Capital Usage	69%	5%	6%	10%	3%	6%	100%				

[1] Increase due to net loan funding: Archstone 5.4bn, Project Murphy/Hilton 1.2bn, Gospel securitization (2.4)bn, USCWL C-7 securitization (1.0)bn, Project Green securitization (0.8)bn, LJAC6 securitization (0.8)bn

[2] Decrease mainly due to net loan syndications: Allison Transmission syndication (0.8)bn, Project Vancouver (0.6)bn, USIS syndication (0.6)bn, and smaller loans totaling approx. (5.6)bn

[3] Increase mainly due to 0.6bn new warehoused investments for RE Opportunity Fund III and RE mezzanine Fund II, and 0.2bn for RE Archstone GP (equity)

[4] Gross-up intercompany transactions related to Subdebt & Reg T. An equal and offsetting balance is included in sources. => No net impact to position

Cash Capital in 2007 Q4

◆ As of the end of November 2007, our cash capital surplus was at $8.0bn, well above our targeted surplus of $2.0bn.

Cash Capital Sources and Uses