Confidential Presentation to:

U.S. Securities & Exchange Commission

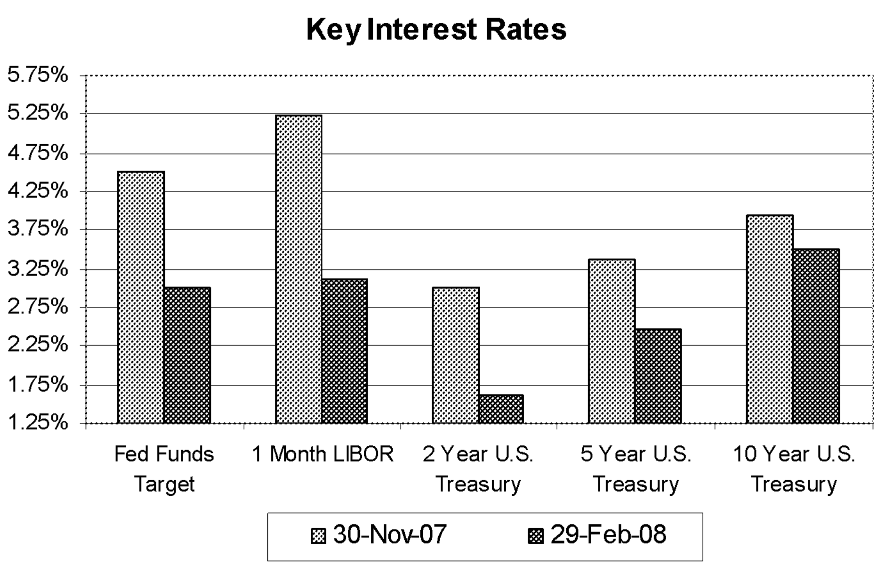
Liquidity & Funding
2008 Q1 Review

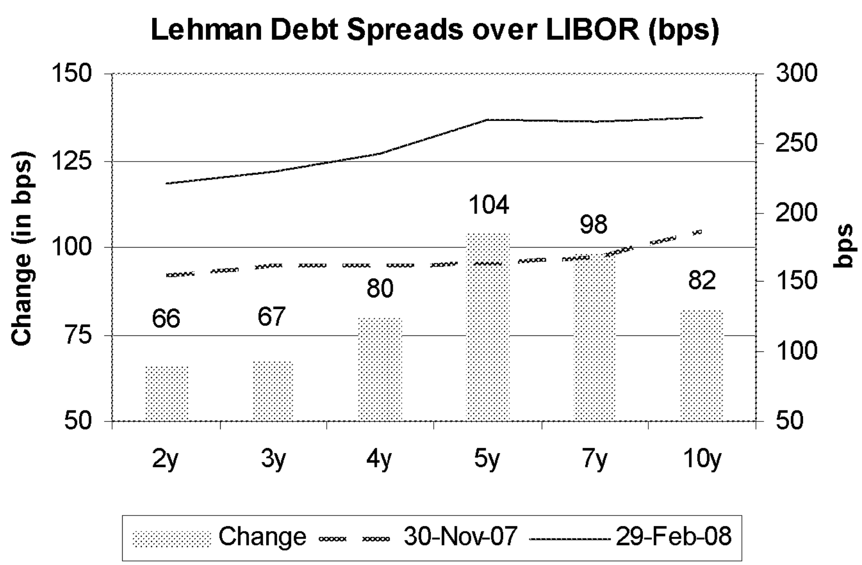
March 14, 2008

LEHMAN BROTHERS

Financial Market Overview

- During FY 2008 Q1, the credit markets stayed extremely volatile as the fall out from the sub-prime turmoil continued to play out and the overall economic outlook for 2008 worsened.
  - Short-term rates fell in Q1 as the Federal Reserve continued to ease monetary policy in response to the deteriorating economic conditions in the overall economy. The Federal Funds Rate was cut on three different occasions including an intermeeting cut on January 22nd . Overall, the Fed Funds Rate was lowered a total of 150bps during the quarter (from 4.50% to 3.00%)
  - Long-term rates fell in Q1 with the Ten Year Treasury trading in a 75 bps range ending the period 34bps lower than the beginning of the period. The Five Year Treasury also fell in Q1, trading in a 122 bps range and ended the quarter 96 bps lower than the beginning of the quarter. Equity markets ended the quarter lower by 1,100 points, with the intra quarter range remaining extremely volatile. The Dow traded in a 1,600 point range, closing on February 29th at 12,266.
  - Lehman debt spreads continued to widen out in Q1(as did practically all credit spreads), after widening out dramatically in the second half of 2007. Debt issuance markets continued to feel the effects of the credit crisis and sub-prime fallout as many issuers chose to stay on the sidelines. Lehman was in the market twice in Q1 issuing a total of $5.5bn ($1.5bn 10yr Fixed / $4.0bn 5yr Fixed) of benchmark transactions





Funding Overview

- In Q1 2008, we issued $12.6bn of unsecured long-term debt.
- Growth in long-term debt has matched growth in balance sheet and equity.

Long-Term Debt Issuance [(1)]
$ Billions

	2005	2006	2007	2008 Q1
Beginning Long-Term Debt	48.4	51.9	78.4	118.2
Issuance	22.6	39.3	63.4	14.3
Committed Facility Drawdown		-	-	-
Maturity / Other	(19.1)	(12.8)	(23.7)	(9.0)
Ending Long-Term Debt	**51.9**	**78.4**	**118.2**	**123.4**
Change in Long-Term Debt	3.5	26.6	39.7	5.3
Net Balance Sheet	211.4	268.9	373.0	395.3 [(2)]
Long-Term Debt Ratio	25%	29%	32%	31%

[(1)] Excludes current portion of long term debt and hybrid equity issuances
[(2)] Net balance sheet figure for February 2008 is preliminary

Debt Issuance in 2008 Q1*

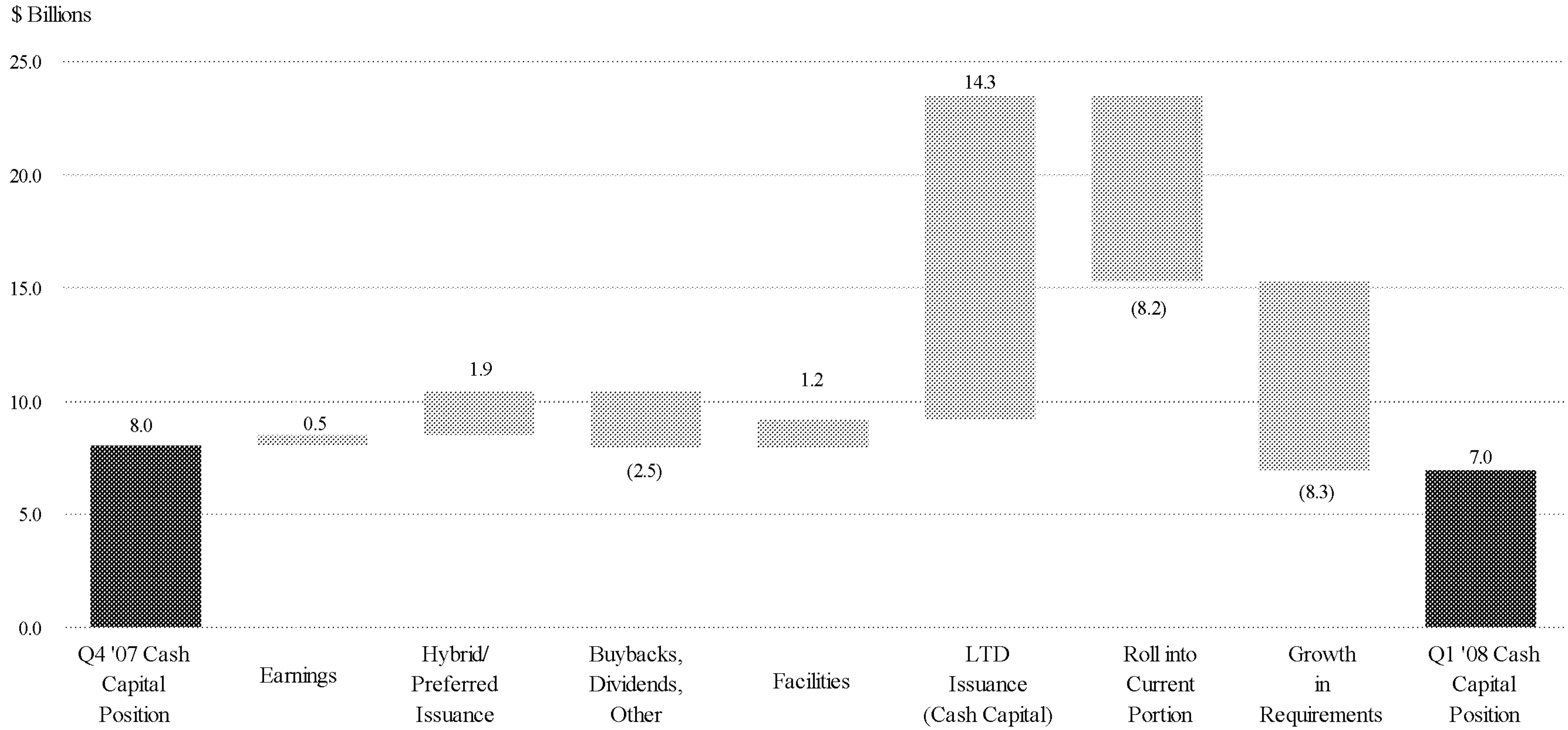
- In Q1, Lehman executed two notable benchmark issuances:
  - On December 17th Lehman raised:
    - $1.5bn in a 10y Fixed rate note @ 1ML+194
  - On January 14th Lehman raised:
    - $4.0bn in a 5y Fixed rate note @ 1ML+214

** Issuances greater than $1.0 bn*

2008 Issuance Update

- In 2008 Cash capital requirements have grown faster than the original budget. In Q1, we have issued approximately $14.3bn of cash capital and added $1.2bn of facilities.

Roll Forward of Cash Capital Position (Q4 2007 to Q1 2008)



Note: Issuance based on trade date.

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 2008 Q1, our liquidity position one year forward position was at $3.4bn.
  - 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 2008 Q1

- Lehman Brothers reported a $34.3bn liquidity pool as of February 29, 2008 – versus $34.9bn as of November 30, 2007.
- At the end of Q4 2007, we decided to remove AEGIS Investments from the definition of the liquidity pool.

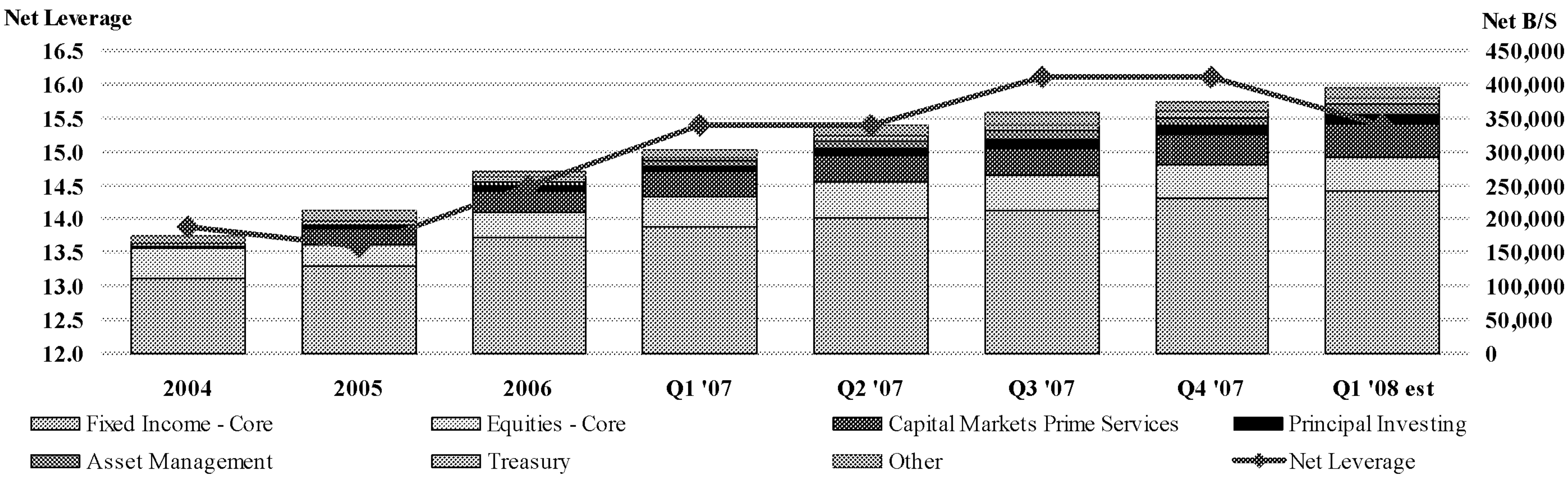
Liquidity Pool

$ millions	2007 Q4	2008 Q1	Difference
Cash			
Bank Deposits	2,592	1,054	(1,538)
Other Cash / External Investments	751	724	(27)
Money Funds	238	123	(115)
Total Cash	3,581	1,902	(1,679)
Boxed Inventory			
CMO's	355	1,282	927
Corporates	-	275	275
Goverments / Treasuries	1,622	15,448	13,825
Equities	1,741	1,267	(474)
Agency MBS	27,636	3,334	(24,302)
Agencies	1	10,764	10,763
Total Boxed Inventory	31,354	32,369	1,014
Liquidity Pool Available to Holdings	34,935	34,270	(665)

Net Balance Sheet Target

- For 2008, we expect the Firm's Balance Sheet to grow by 16% with 80% of the growth coming from Principal Investing
- Net Balance Sheet is expected to account 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 decreased to 15.4x for Q1 '08
  - Gross Balance Sheet grew by 13% - growth was split across divisions
  - Net Balance Sheet grew by 6% - growth was split across divisions

Net Leverage Trend [1]



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

Cash Capital in 2008 Q1

- As of the end of February 2008, our cash capital surplus was at $7.0bn, well above our targeted surplus of $2.0bn.