LEHMAN BROTHERS

June 4, 2008

Capital Adequacy & Liquidity Update

Confidential Presentation

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BY LEHMAN BROTHERS HOLDINGS INC.

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Overview

Despite a forecast loss in Q2 '08, the actions taken by Lehman in the quarter will result in the strongest capital and liquidity positions the Firm has ever had

- The issuance of $4.0 billion of convertible preferred in April and $2.0 billion of subordinated debt in May, combined with the active de-leveraging and de-risking of the balance sheet (approximately $140 billion reduction in gross and almost $70 billion reduction in net assets), combine to drive very strong forecasted capital ratios
  - Net leverage of 12.1x, down from 15.4x in Q1 '08
  - CSE Capital Ratio of 16.7%, up from 15.5% in Q1 '08
  - Tier 1 Capital Ratio of 11.1%, up from 10.3% in Q1'08
  - Surplus over Lehman's internal equity allocation model of 16.3% ($4.4bn) in Q2 '08

- Liquidity Pool stands at a record $45 billion (up from $34 billion in Q1 '08)
  - Increased coverage of short-term debt to 1.3x, up from 1.0x in Q1 '08
  - Cash Capital Surplus estimated to be at $14 billion

Overview

- Lehman's core underlying franchise remains as strong as ever
  - Gaining market share in Investment Banking
  - Sales credits in Fixed Income remain strong; only down 3% in Q2 '08 vs. Q1 '08
  - Investment Management Division is performing well
  - Hedge ineffectiveness experienced in Q2 '08 is technical in nature and is not expected to drive future results
  - De-leveraging in Q2 '08 is a contributing factor in explaining results, but de-risking is appropriate

- Impact of S&P long-term rating downgrade from 'A+' to 'A' is limited and does not adequately reflect Lehman's strong liquidity and capital positions, balance sheet improvement and underlying franchise strength
  - Lehman's funding ability is unaffected by the downgrade
  - No triggers in borrowing agreements that would cause Lehman to lose cash
  - Impact on collateralization is minimal, with an extra $200 million in additional collateral required to support derivatives trades

- Recent criticisms of Lehman Brothers by short sellers such as David Einhorn are opportunistic and do not accurately reflect the Firm's current situation
  - Arguments are based on faulty analysis of Lehman's Q1 '08 marks and 10-Q filing
  - The shorts also do not take the following into consideration in their analysis:
    - Significant reduction in Lehman's exposure to high-risk assets in Q2
    - Capital raises which will result in the strongest leverage, liquidity and capital positions that Lehman has ever had as a public company
    - Continued momentum in Lehman's core underlying client franchise

Capital Adequacy

$6 billion of Capital Raised in Q2 and $7.9 billion in 2008…

Lehman's ability to raise substantial amounts of capital in 2008 conveys a positive story about the Firm's access to funding as well as the market's view of Lehman's creditworthiness

$4.0 B Convertible Preferred Stock

- Issued in April 2008
- Non-Cumulative Dividends at 7.25%, Perpetual
  Initial Conversion Rate 20.0509 per share, equivalent to $49.87 strike per share
- Deeply Subordinated and senior only to Common Equity
- Included as CSE Equivalent Tier 1 Capital
- **More than three times oversubscribed**

$2.0 B Subordinated Debt

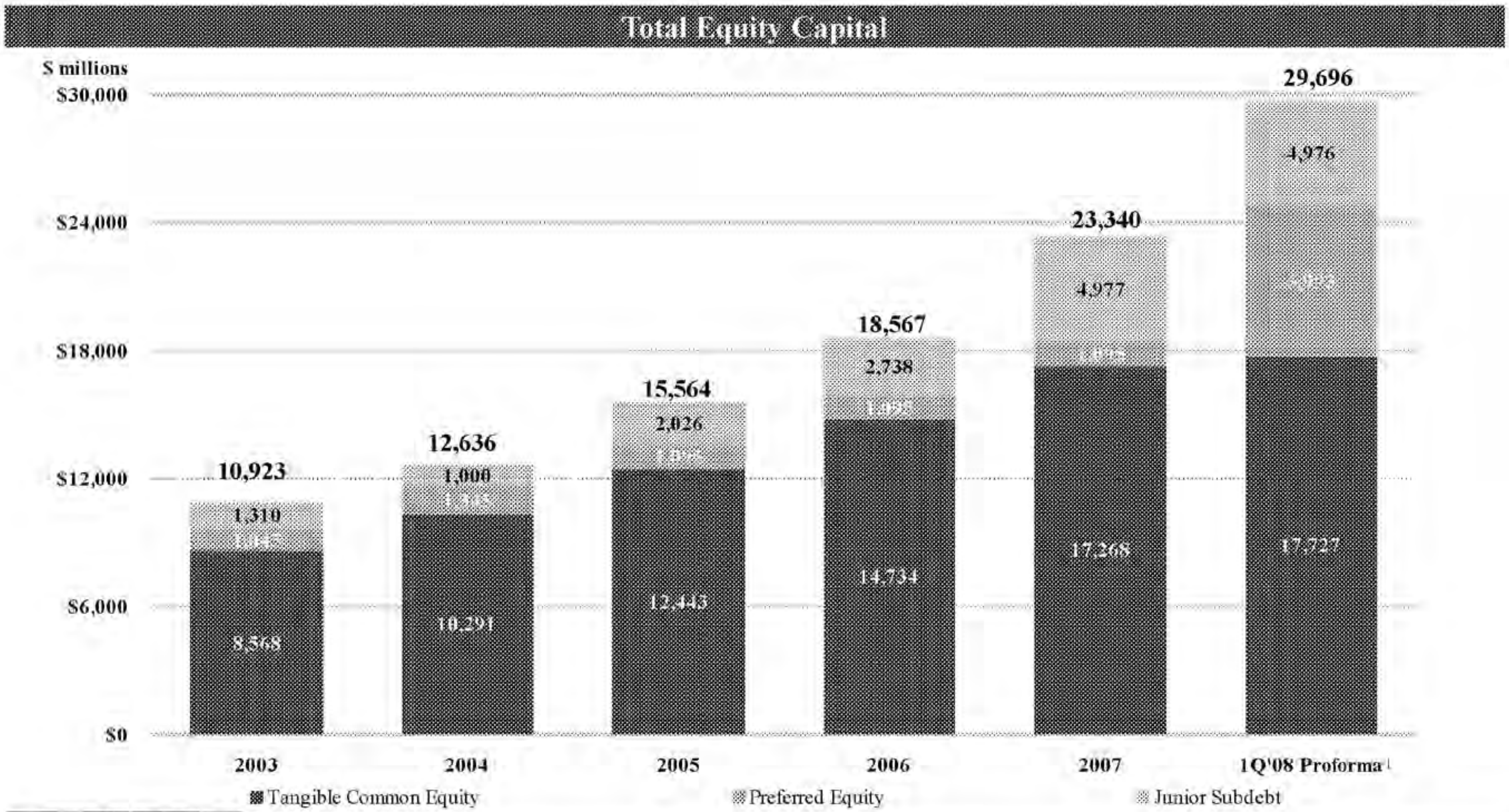
- Issued in May 2008
- Coupon of 7.50%, 30-year maturity
- Subordinate to Senior Debt
- Included as CSE Equivalent Tier 2 Capital
- **$4.0 billion of orders within one hour**

$1.9 B Preferred Stock

- Issued in February 2008
- Non-Cumulative Dividends at 7.95%, Perpetual
- Includes Greenshoe of ~$250 million
- Deeply Subordinated and senior only to Common Equity
- Included as CSE Equivalent Tier 1 Capital

…Has Resulted In a Solid Capital Base…

Lehman was quick to respond to market demand by raising equity capital via hybrid issuances when markets were opportune



1. Includes $4.0bn of preferred issuance

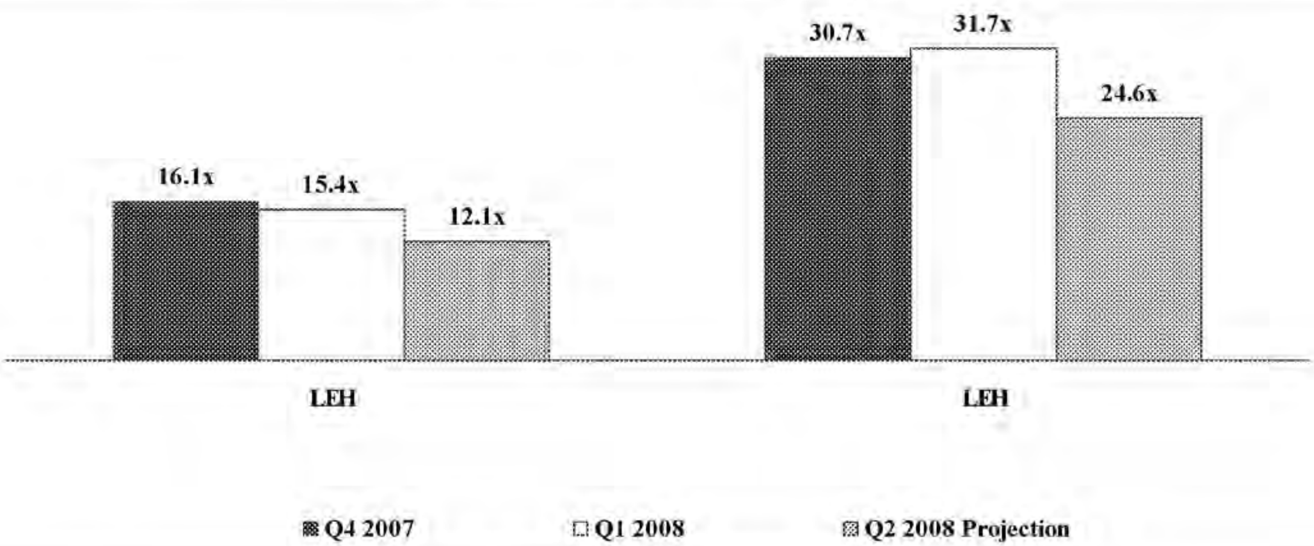
…As Well As Shrinkage of the Balance Sheet…

Net balance sheet (primarily inventory) is expected to be almost $70 billion lower than Q1 '08, and gross balance sheet almost $140 billion lower

Gross and Net Balance Sheet

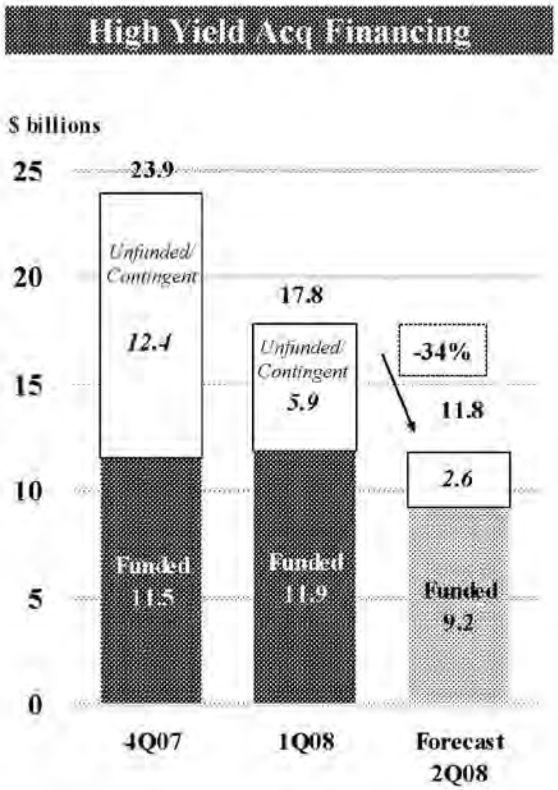
$ billions	*Actual* Q4' 07	*Actual* Q1' 08	*Estimated* Q2 ' 08	*Estimated Reduction* Q2 '08 vs. Q1 '08
Net Assets	373	397	330	*(67)*
Gross Assets	691	786	648	*(138)*
Leveragable Equity	23	26	27	

Gross and Net Leverage Ratios

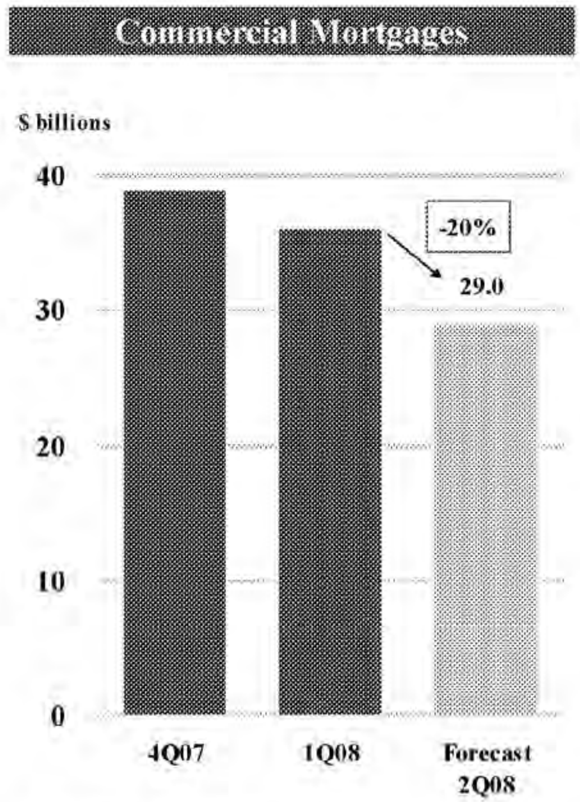


…Including Positions in High-Risk Assets

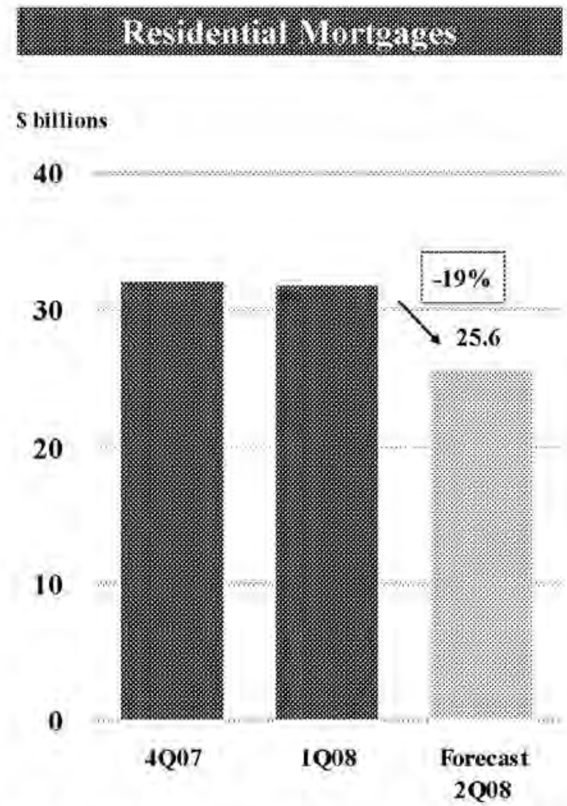
Lehman Brothers is on track to reduce the Firm's key Risk positions in the Fixed Income arena



- Steady progress in selling/syndicating
- Non-traditional buyers account for 73% of sales in 2008



- Sales have been focused on largest exposures

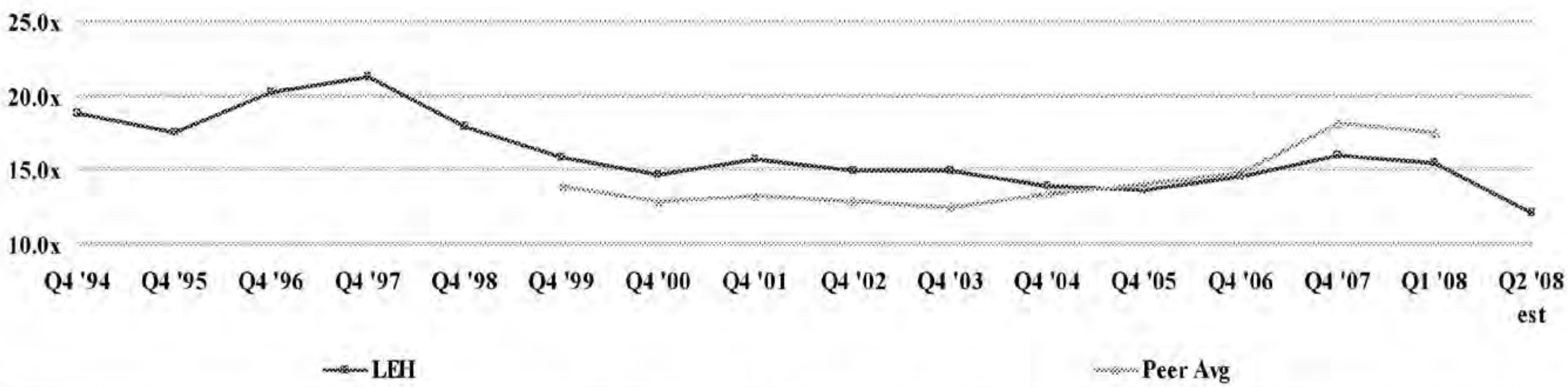


- Includes whole loans & securities in ~ 40: 60 proportion

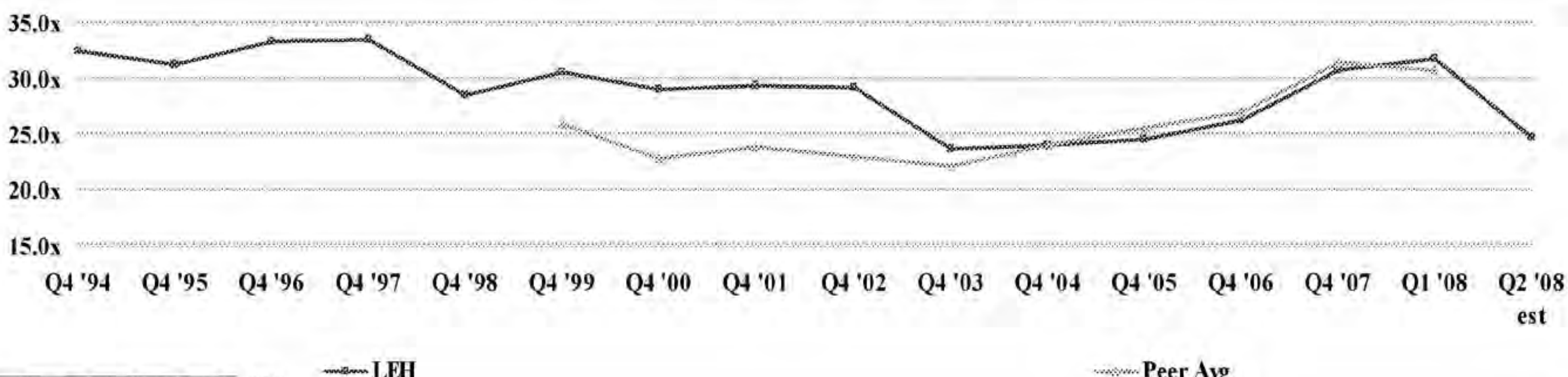
Leverage At Historically Low Levels

Lehman will end Q2 '08 with the lowest net leverage ratio in its history as a public company

Lehman versus Peers Net Leverage[1]



Lehman versus Peers Gross Leverage[1]



1. Peers include GS, MER, MS & BSC.

Despite Anticipated Loss, Lehman Is Strongly Capitalized

As a result of the combined impact of Lehman's capital raising and deleveraging, Lehman is currently well-capitalized by three key measures

- To monitor equity adequacy the Firm uses three measures: Net Leverage, CSE Capital Ratios and our internal Equity Adequacy Framework (EAF)

Net Leverage

- Accounting ratio that measures the value of assets supported by $1 of equity
- Does not account for different risk/liquidity characteristics of assets
- Heavily quoted by journalists and analysts

CSE Capital Ratios

- Measures by which regulators determine whether a bank is adequately capitalized
  - Tier 1 and Total Capital Ratio
- Account for on- and off-balance sheet assets with different risk profiles
- Will begin reporting externally in Q2 '08

Equity Adequacy Framework

- Multi-factor model that determines the Gross Equity (Common Equity + Hybrid Equity) requirement
  - Additive charges for Trading, Counterparty, Operational, Liquidity, and Corp Assets
- Accounts for on and off-balance sheet assets with different risk profiles
- Liquidity component will be charged to businesses

	Net Leverage	CSE Capital Ratios	Equity Adequacy Framework
Q2 '08 Estimate	Net Leverage = 12.1x	Tier 1 Ratio = 11.1%[1] Total Capital Ratio = 16.7%	Surplus = $4.4 billion (16.3% of gross equity required)

1. Updated for approved SEC Methodology. If FV gains on debt are excluded from capital then Q2'08 ratios would be 10.5% Tier 1 and 15.8% Total Capital

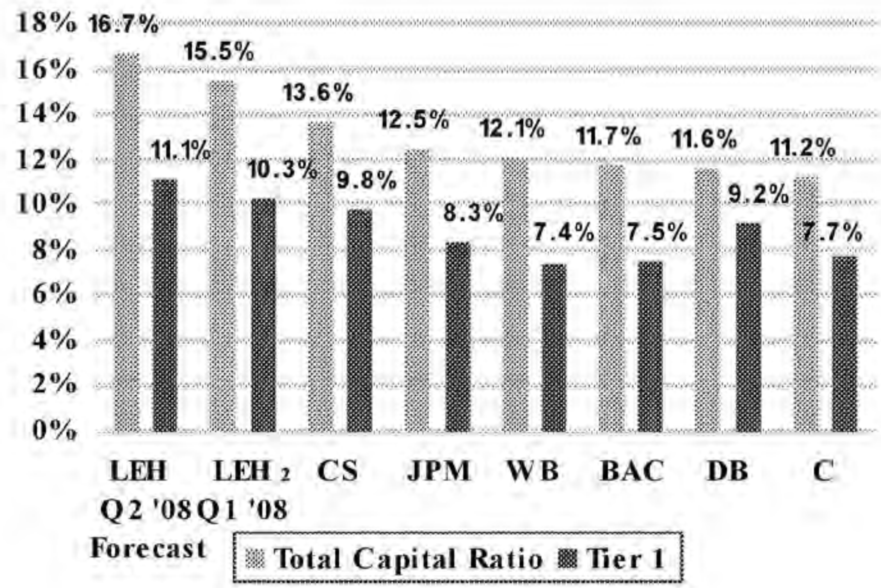
CSE Capital Ratios Strong

The Firm has made a conscious decision to shore up its capital base and maintain a Total Capital ratio under the CSE regime above that of the major Commercial Banks' equivalent Total Capital Ratio under Basel

Consolidated Supervised Entity (CSE)

- The Firm must maintain a minimum "Total Risk-Based Capital Ratio", as defined as allowable capital divided by risk weighted assets, of **10.0%**
- Allowable capital consists of common equity, perpetual preferred stock, and hybrids/ subordinated debt subject to certain thresholds and restrictions less deductions (e.g. Goodwill, DTA, and other)
- Risk-weighted assets are principally driven by market risk, credit risk and operational risk allowances computed using methodologies developed by the Company and approved by the SEC.

Total Capital and Tier 1 Ratios[1]

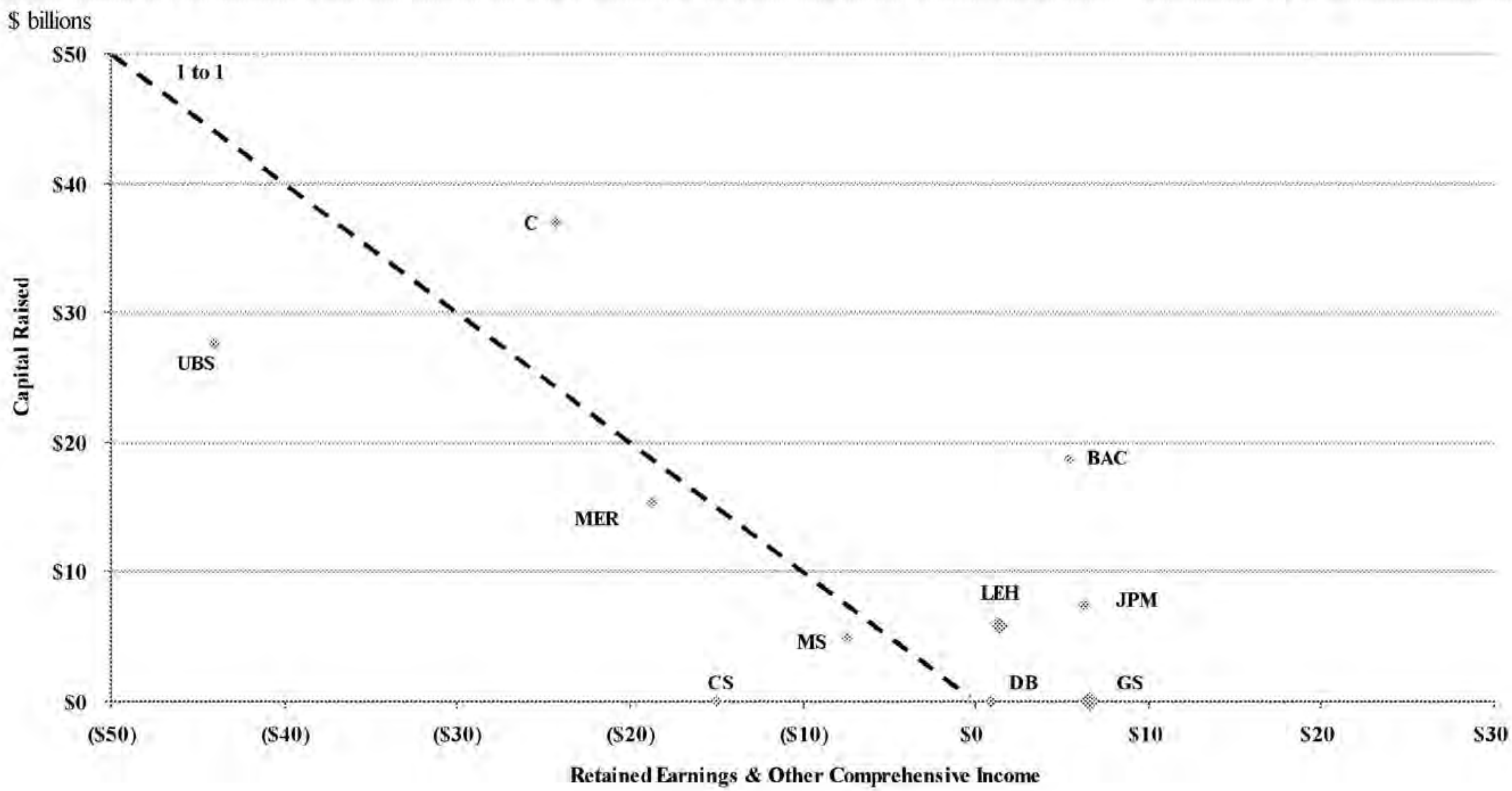


1. *All Banks' ratios are as of Q1 '08 per their Earnings press releases*
2. *Updated for approved SEC Methodology. If FV gains on debt are excluded from capital then Q2'08 ratios would be 10.5% Tier 1 and 15.8% Total Capital*

Capital Raising More than Enough to Offset Lower Earnings

The Firm has proactively raised capital when markets were opportune and has adequate capital to cover depressed earnings during the current downturn

Capital Raised versus Retained Earnings and Other Comprehensive Income Q3 '07 to Q1 '08[1]

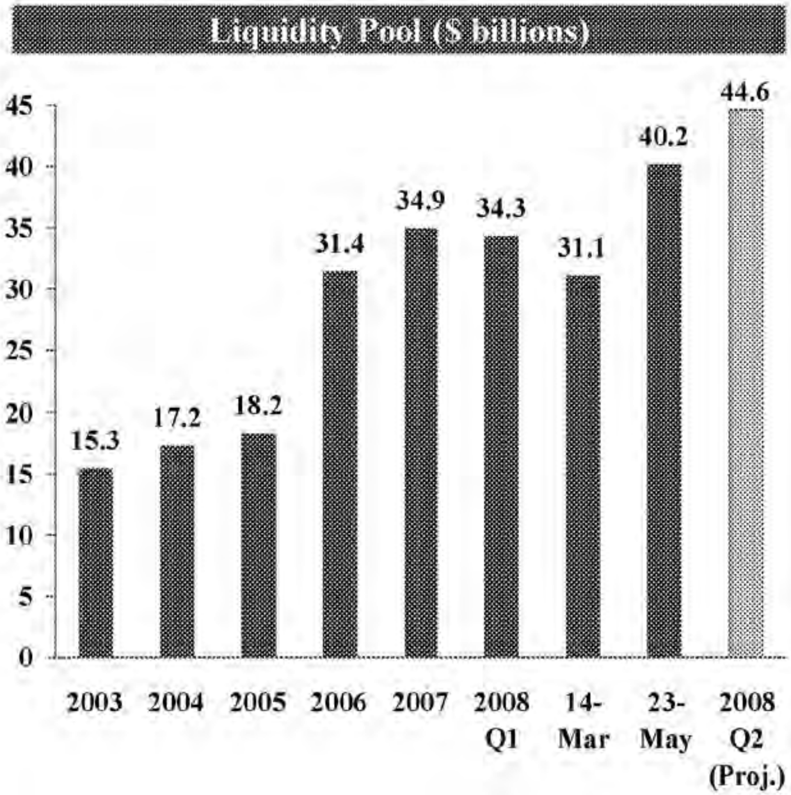


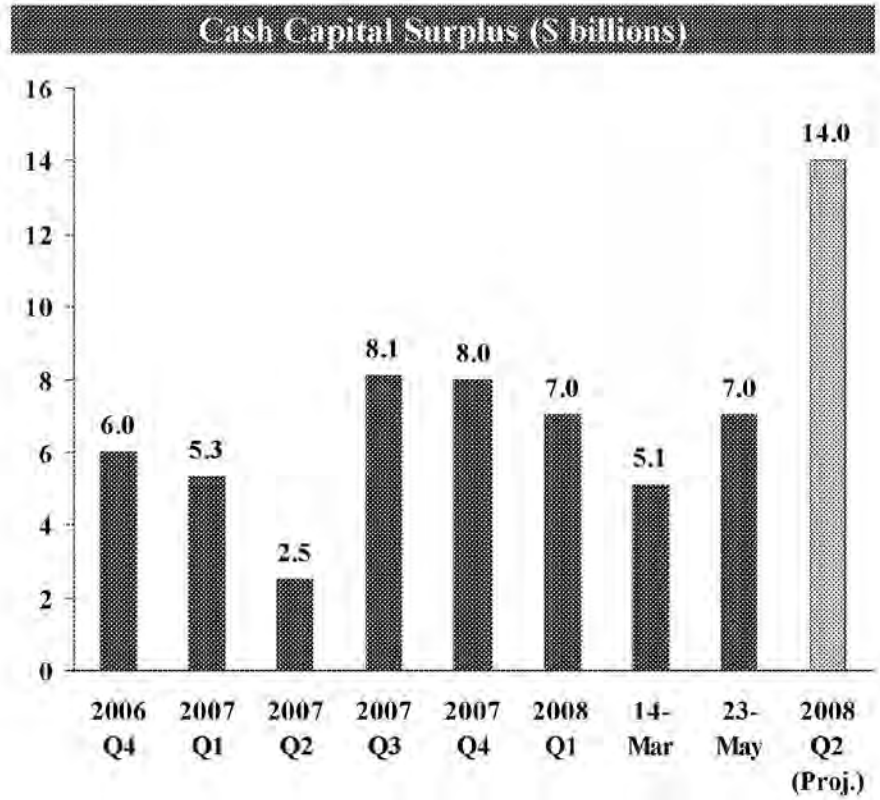
1. *Includes equity raised through 5/30/08*

Liquidity

Building A "Liquidity Fortress"

- We project ending the quarter with a record liquidity pool of approximately $45 billion and a record cash capital surplus of $14 billion
- With only $8 billion of debt moving into current portion for the remainder of the year and with further cash inflows forecast from assets sales, there is minimal refinancing pressure





Reducing Liquidity Risk Of Secured Funding

- We have increased our overfunding from around \$10-15 billion to \$15-20 billion – more than half in non-Central Bank eligible collateral – primarily high yield corporates
  - Including excess collateral (i.e., collateral reversed to fill repo tickets), the excess repo capacity stood at close to \$30 billion on May 22 – 30% of the Firm and customer collateral funded that day
- We also increased the average tenor of the repo book from 20-25 days to 25-35 days (35-40 days for collateral that cannot be pledged to the Federal Reserve or the ECB)
- We are seeing increasing appetite for providing term funding and have raised \$5 billion of additional term financing in the past few weeks

Non-Traditional [1] Repo Book Metrics

	29-Feb	4-Mar	14-Mar	2-Apr	22-May	3/14 - 5/22 Change
Repo Book (\$ Billions)						
Excess collateral	Not available				12.8	
Firm and customer collateral					98.9	
Allocated Collateral	116.4	114.0	115.3	108.3	111.7	-3%
Overfunding	9.2	14.6	12.7	18.0	17.1	35%
Repo Capacity	**125.6**	**128.6**	**128.0**	**126.3**	**128.8**	1%
Excess Repo Capacity	**9.2**	**14.6**	**12.7**	**18.0**	**29.9**	N/A
Average tenor (days)						
Grand Total	25	22	24	25	33	38%
Central Bank Eligible Collateral					*26*	
Non Central Bank Eligible Collateral					*38*	
% Repo Book With Maturities <= 1 Week	58%	58%	57%	52%	46%	-11%

1. *Non-traditional repo book excludes Governments, Treasuries, Government/MBS Agencies and Sovereigns*

Key Liquidity Metrics At Lehman Brothers & Bear Stearns

- Lehman Brothers had stronger liquidity metrics at the end of Q1 '08 than Bear Stearns
  - 60% greater balance sheet but 130% greater equity
  - Bear Stearns' short-term debt stood at 1.5x its liquidity pool vs. 1.0x for Lehman Brothers
- Bear Stearns had very few unencumbered assets
  - Half of BSC STD was secured, which might have exacerbated the liquidity crisis in view of the exceptionally low amounts of unencumbered assets
- Bear Stearns was very reliant on customer free credit balances; if it lost these, it would need to quickly create substantial secured funding capacity for equities at a time when lenders would be likely to pull away
- Bear Stearns had almost no margin for error in terms of liquidity management. A reduction in short-term debt or in customer free credit balances would leave it in a precarious liquidity position

Q1 '08 Key Liquidity Metrics ($ billions)

	Bear Stearns		Lehman Brothers	LEH / BSC
Net balance sheet	254		397	1.6x
Net Leverage	22.6x		15.4x	0.7x
Liquidity pool	17		34	2.0x
STD excluding current portion	16		16	1.0x
Current portion of LTD	10	(E)	19	1.9x
Total short-term debt	26		35	1.3x
Short-term debt / Liquidity pool	1.5x		1.0x	0.7x
Unencumbered assets	14		161	11.5x
Free credit balances	43		13	0.3x

Recent Modifications In Funding Strategy

- Since last summer, when the funding and trading environment first became more challenging, we have made a series of modifications in our funding strategy in order to strengthen our liquidity
  - Increased our cash surplus targets from $2-5 billion to $4-7 billion
  - Front loaded our issuance program – completed our benchmark issuance plan by early May
  - "Overfund" repos for harder to fund asset classes, such as high yield corporates, to mitigate risk of loss of secured funding capacity
  - Increased our CP program to mitigate risk of operational friction in a very volatile environment
  - Started a program to securitize illiquid assets such as corporate loans and commercial whole loans. The resulting securities, which are rated, can then be pledged to counterparties or Central Banks
  - Discuss our liquidity management and position more proactively with creditors, trading counterparts, rating agencies and other stakeholders

- As a result, we were well prepared to face the extraordinarily difficult funding environment of the week of March 17
  - Started the week with a strong liquidity position
  - Entire Firm was fully engaged in defending the "Liquidity Fortress"
    - Active communication with clients with quick escalation to senior management if necessary
      - Lehman senior management proactively involved in calling their counterparts at key relationships to put pressure on traders who refused to trade with Lehman
    - Great coordination between Front Office, Finance and Operations to minimize any operational friction

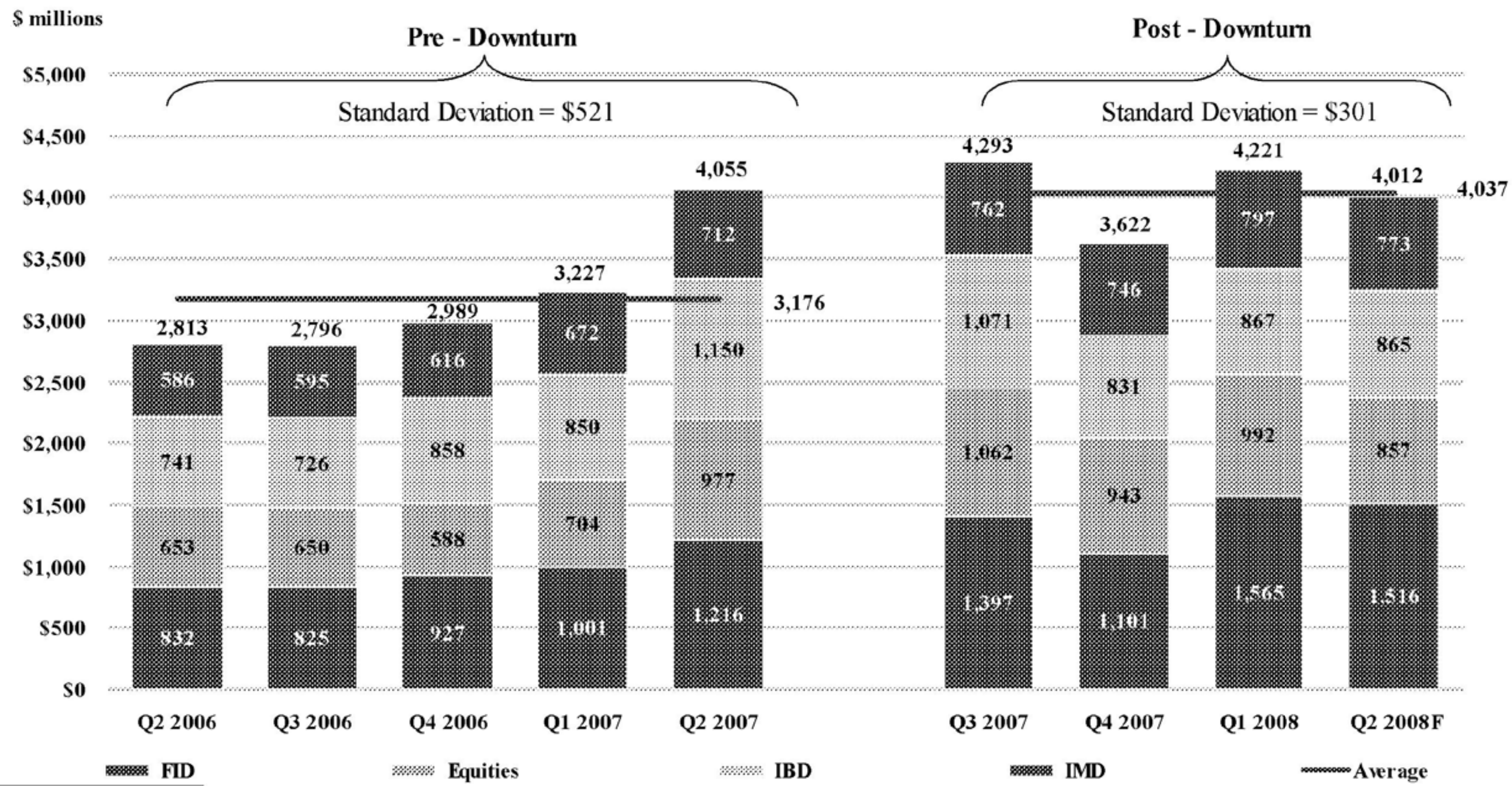
Overview of Client Franchise

Core Sales Credits Are Still Strong…

Lehman's sales credits, which are the majority of the capital markets run rates (historically around 80%), have done well during the economic downturn, and have actually been less volatile during this period

- Lehman's sales credits in Q2 '08 were strong in a particularly difficult economic environment, down only 5% from Q1 levels, and 1% year-over-year

Sales Credits[1]

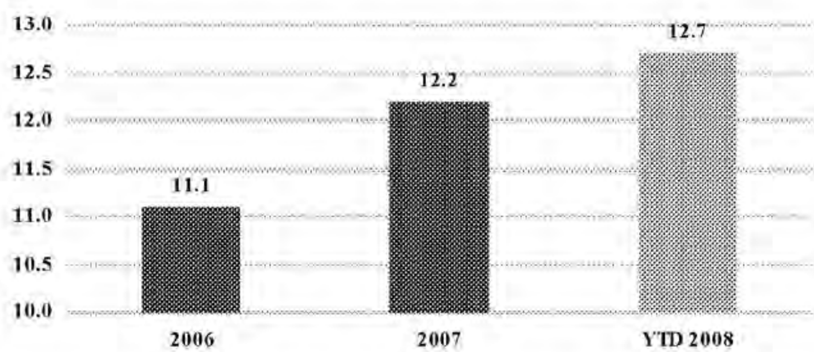


1. *Represents Fixed Income and Equities Sales Credits as well as Investment Banking and Investment Management client revenues represent fees*

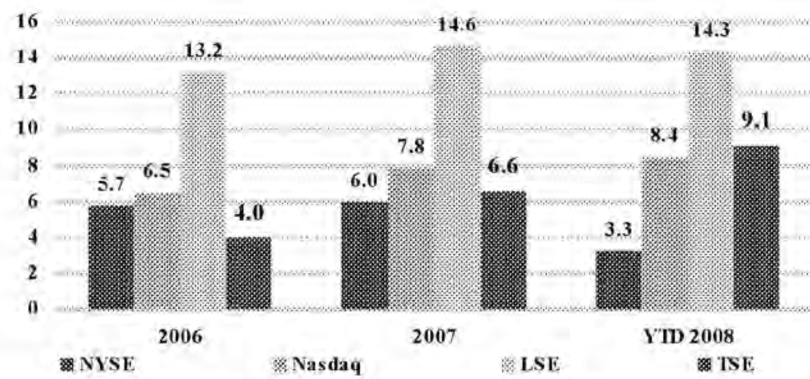
…And Lehman Gaining Market Share in A Weak Market…

We continue to increase our market share in all corners of Origination[1] and Trading[2], highlighting the strength of our client franchise in difficult markets

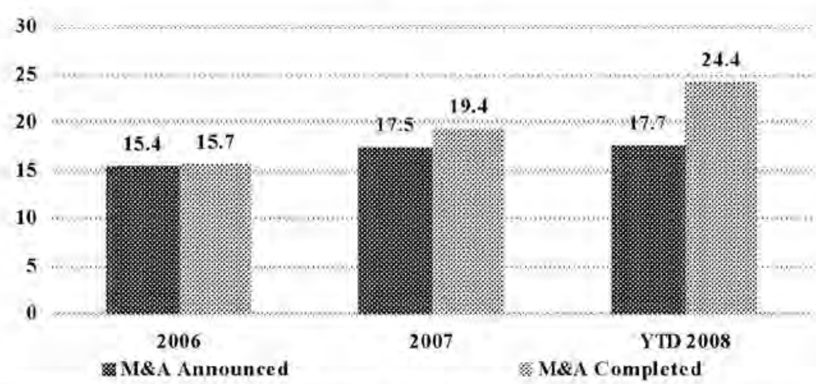
Fixed Income Trading Volume (%)



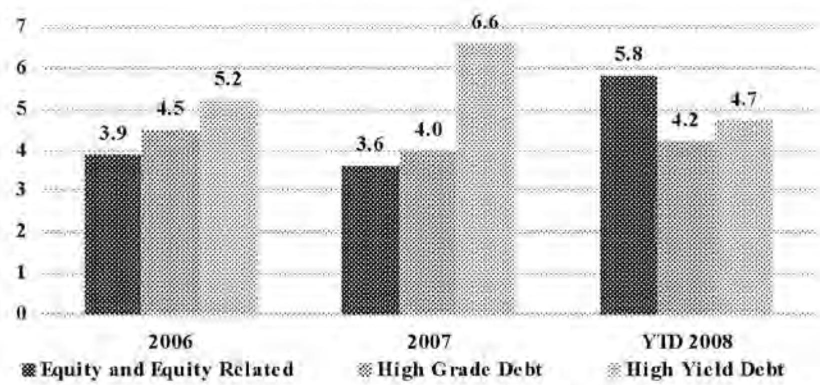
Equity Trading Volume (%)



M&A (%)



IBD Capital Markets (%)



1. *Thomson Financial; all data is calendar year, YTD is through May 30, 2008*
2. *Fixed Income - Federal Reserve; all data is fiscal year, YTD is through May 14, 2008; Equity – Applicable exchanges and Lehman Brothers; all data is calendar year, YTD is through Mar 31, 2008*

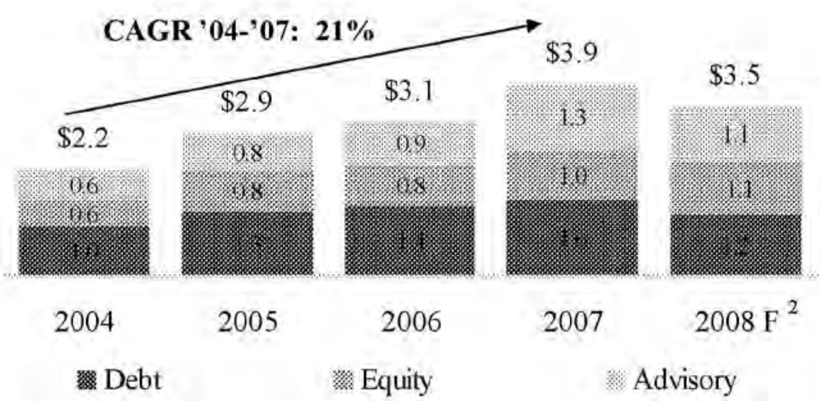
…With Strong Franchise Gains in Investment Banking

Lehman is achieving significant market share gains in a challenging environment

Investment Banking Market Share [1]

Global	2006	2007	YTD 08
M&A Announced	15.4%	17.5%	17.7%
M&A Completed	15.7%	19.4%	24.4%
Equity & Equity Related	3.9%	3.6%	5.8%
High Grade Debt	4.5%	4.0%	4.2%
High Yield Debt	5.2%	6.6%	4.7%

Investment Banking Revenues



Franchise Momentum [1]

- Leadership in strategic M&A and financial sector restructuring
  - $4.5 billion equity and convertible preferred issuance for FNMA
  - $7.0 billion equity and convertible issuance for Washington Mutual
  - As well as issuances for CIT, AIG, MBIA and regional banks
- #3 in U.S. and # 1 in Asia (ex-Japan) announced M&A
- Advised on the 2 largest announced M&A transactions of the year and 3 of the top 4 completed deals
  - $109.0 billion Phillip Morris International spin-off
  - $42.0 billion hostile bid by Microsoft for Yahoo
  - $21.0 billion acquisition of Imperial by Altadis
  - $15.0 billion Sprint Nextel / Clearwire transaction
- Increased focus on corporate derivatives (10% and 14% of Investment Banking revenues in FY06 and FY07, respectively)

1. *Market share based on year-to-date Thomson data as of May 31, 2008*
2. *2008 data actual through April and annualized thereafter*

Discussion of S&P Downgrade

S&P Downgrade Reflects Industry Concerns…

On June 2, S&P reviewed the global securities industry to rassess the impact of a protracted negative economic environment on industry credit ratings

- As a result of this review, S&P took the following actions:
  - Downgraded Lehman Brothers' long-term credit rating to 'A' from 'A+', while affirming its short-term credit rating of 'A-1'
  - Ratings for Morgan Stanley and Merrill Lynch were similarly lowered one notch (to 'A+' and 'A', respectively)
  - Outlooks for all three firms remained negative, while the outlooks on JPMorgan Chase and Bank of America were downgraded from Stable to Negative
- Lehman Brothers' ratings relative to most of its direct peers did not change and the downgrades primarily reflect S&P's concerns that the earnings capacity of "the securities industry as a whole" has deteriorated since its last industry outlook on March 21, 2008
- With respect to Lehman Brothers, S&P acknowledged that:
  - Up to Q1 '08, Lehman Brothers' performance "has held up relatively well under current market conditions"
  - On its June 3 conference call, S&P noted that Lehman Brothers' cost-cutting initiatives will positively influence future revenues
  - Lehman Brothers' has "been bolstering its liquidity and funding profile…and continues to implement a number of measures to ensure sound liquidity and the ability to meet funding obligations in a stressed economic environment" as well as a contingent funding plan that S&P "considers to be sound"
  - The Fed's recent actions also "enhance the near-term funding flexibility of Lehman and its peers"
- The impact of S&P's downgrade on Lehman's funding and liquidity is limited
  - Funding is unaffected
  - No triggers in Lehman's borrowing agreements that would cause the Firm to lose cash
  - Impact on collateralization is minimal, with an extra $200 million in additional required collateral to support derivatives trades

…But Does Not Accurately Reflect Lehman's Entire Story

While Lehman Brothers agrees with S&P's statements regarding our liquidity and funding profile,the Firm believes that the downgrade and maintenance of a negative outlook do not reflect or acknowledge Lehman's material improvement in a number of areas

- Liquidity pool
  - Lehman Brothers will close Q2 '08 with an expected liquidity pool of $45 billion, the highest that it has ever been
- Capital position
  - Lehman Brothers has issued $7.9 billion of capital in 2008 and will close Q2 '08 with record capital ratios
  - During its June 3 conference call S&P specifically referred to Lehman's capital raises and noted that "Lehman does not have a capital issue at this time"
- Balance sheet contraction and deleveraging
  - Lehman Brothers has significantly reduced its exposure to high-risk assets, which combined with the abovementioned capital issuances will allow the Firm to close Q2 '08 at an all-time low for net leverage
- Underlying franchise strength
  - Lehman Brothers' core client franchise has been resilient and the Firm has increased its market share across a broad array of its businesses in a difficult market environment

The Impact of Short Sellers

Opportunistic Short Sellers Ignoring the Lehman Story…

A number of short sellers (led by David Einhorn) have recently stepped up their attacks on Lehman Brothers

- Einhorn in particular has been aggressive in his criticism of Lehman's accounting policies and methods of valuing the assets on its balance sheet
  - Recent focus has been on alleged discrepancies between figures provided during Lehman's Q1 '08 earnings call and the numbers in the Q1 '08 10-Q
- At the same time, the market has increasingly questioned Einhorn's motives and methods
  - Buckingham Research Group noted that "these recent criticisms seem well-timed to take advantage of the market's concern around weak second-quarter results that we expect for Lehman"
  - Einhorn's excessive use of the media to get his point across has also been questioned by those who claim that the current crisis is being driven by a "perceived" lack of confidence in Lehman rather than by any actual fundamental risk of default
- Several market commentators, including Brad Hintz at Bernstein Research, have noted that Einhorn's analysis is faulty and that they "do not believe that Lehman's Q1 '08 marks or Level 3 disclosures are materially incorrect"
  - Buckingham Research Group has also stated that Einhorn's concerns are "just wrong"

…That Highlights Lehman's Ability to Weather The Crisis

Short sellers are completely ignoring important considerations that provide a very different view of Lehman's ability to weather the current economic crisis

- Gross writedowns are smaller than previous quarters and traded volumes suggest that support levels are strong for high-risk asset classes, reducing the risk of further losses in the future
- Capital position is stronger than ever with de-levering bringing both net and gross leverage ratios to multi-year lows
- Liquidity position at record levels through debt and capital raises, de-levering, asset transformation, leveraging our Banks and operational improvement
- Continued momentum in Lehman's underlying client franchise that is reflected in a strong revenue run rate and market share increases across a broad array of the Firm's business segments