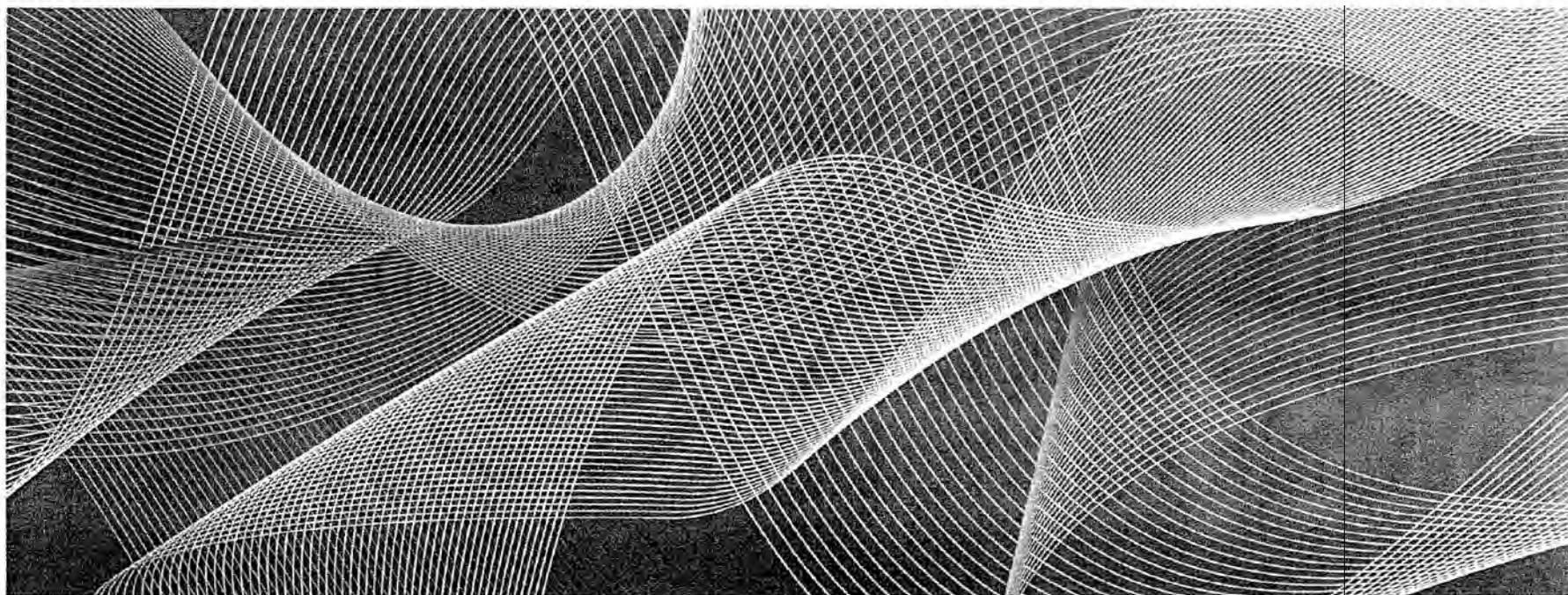


DRAFT

LEHMAN BROTHERS

September 24, 2008

Change In Liquidity Week of September 8, 2008



Confidential Presentation

Introduction

- ◆ Lehman Brothers manages liquidity pools to mitigate the liquidity risk inherent in the set of businesses that it is involved with
 - Holdings' liquidity pool is meant to mitigate
 - Refinancing risk due to the maturity of its unsecured debt (primarily commercial paper and current portion of long-term debt)
 - Contingent liquidity risk related to unfunded liquidity commitments (e.g., unfunded loan commitments) and to additional margin postings as a result of a credit rating downgrade
 - Additionally, as it is freely down-streamable into any subsidiary, Holdings' liquidity pool can also be used to mitigate cash outflows into Holdings' regulated entities (broker dealers and bank entities).
 - Holdings' liquidity pool is typically held at Holdings in the form of cash, cash equivalent and unencumbered collateral because it is mostly meant to mitigate liquidity risk of Holdings and other unregulated entities
 - Broker dealers' liquidity pools (one for each broker dealer) are meant to mitigate
 - Refinancing risk of its secured funding – primarily triparty repurchase agreements
 - Liquidity risk associated with its prime broker business – for example, the withdrawal of the clients' free credit balances
- ◆ These liquidity pools were meant to be a protection of last resort after other mitigants were used
 - Majority of loan commitments was originated by our bank entities, which have access to insurance-protected pools of liquidity
 - Triparty repo book was significantly overfunded – i.e., our repo capacity was materially in excess of our repo requirements – thereby providing an effective liquidity mitigant if Lehman Brothers were to lose repo capacity

Sources Of Liquidity Pools

- ◆ Holdings' liquidity pool is primarily sourced from
 - Unsecured debt issued by Holdings and other unregulated entities maturing within 12 months
 - Cash capital surplus – i.e., surplus of long-term funding sources over long-term funding requirements
 - Prefunding earmarked for contingent liquidity risk

- ◆ Broker dealers' liquidity pools are primarily sourced from
 - Firm's unencumbered collateral
 - Customers' free credit balances and unencumbered collateral to the extent that it is not segregated

- ◆ Broker dealers' liquidity pools are typically “trapped” inside the broker dealers – i.e., they cannot be used to support another Lehman entity. The major exception to this rule is when there exists a payable between the broker dealers and another affiliate.
 - In this scenario, part of the broker dealers' liquidity is deemed to be upstreamable – up to the amount of this payable assuming that the broker dealer has sufficient liquidity to repay the payable. This upstreamable balance is then included in the liquidity pool of the entity having the receivable with the broker dealer
 - In practice, this payable is almost always between Holdings and the broker dealers and represents temporary funding of the broker dealers by Holdings. On rare occasions, there might be a payable between the broker dealers as a result of transactions where collateral and cash are not exchanged simultaneously (e.g., partial fails)

LBI's Intercompany Payable To LBIE

- ◆ Work in progress

LBI's Intercompany Payables To LBIE (\$ Millions)

	10-Sep	11-Sep	12-Sep	Note
Unadjusted balance	(2,952)	(981)	(1,000)	
Adjustments	2,862	563	480	\$574 million unsubstantiated dividend/interest payable
Fails		150	175	
Adjusted balance	(91)	(268)	(344)	\$344 million meant to be paid on 9/15
Payments to LBIE		91	268	

Liquidity Pools at Holdings, LBI and LBIE

- ◆ During the week of September 8, LBI and LBIE, Lehman's U.S. and European broker dealers, respectively, experienced loss of liquidity, which required Holdings to provide liquidity support, resulting in an increase of their payables to Holdings
 - To the extent that enough unencumbered collateral remained in the broker dealer boxes, these payables (in the form of unencumbered collateral at the broker dealers) become part of Holdings' liquidity pool
 - As of September 12, LBIE and LBI owed Holdings \$12.5 billion and \$4.8 billion, respectively
- ◆ Decrease in liquidity at the broker dealers were deemed to be the result of temporary conditions that should reverse themselves the following week. In the case of LBIE, they were
 - Temporary impact of the unwinding of the prime broker business (\$4 billion)
 - Pending payments between LBI and LBIE (\$3 billion)
 - Increase in margin requirements (\$1 billion)
 - Repo rebalancing (\$1 billion)
- ◆ However, as of Monday, September 15, LBIE's initial projection was a showing a liquidity shortfall of \$4.4 billion

	8-Sep	9-Sep	10-Sep	11-Sep	9/12/2008 (Preliminary)
LBI					
Deposit	463	408	750	20	-
Bond/Money Funds					
Boxed Inventory					
Core Investments	463	408	750	20	-
Cash at Banks	290	155	293	-	12
Inventory lock up / Pending	2,531	1,997	8,165	5,062	4,700
Total Investments	3,284	2,560	9,208	5,082	4,712
Upstreamable Receivable / (Payable)	(3,279)	(2,556)	(9,206)	(5,078)	(4,834)
LBI Trapped Liquidity	5	4	2	4	(122)
LBIE					
Deposit	976	777	977	200	200
Bond/Money Funds	782	779	-	-	-
Boxed Inventory	952	2,314	1,264	392	465
Core Investments	2,710	3,870	2,241	592	665
Inventory lock up / Pending	1,821	5,159	6,081	11,385	11,595
Total Investments	4,531	7,029	8,322	11,978	12,260
Upstreamable Receivable / (Payable)	(3,487)	(6,236)	(7,637)	(12,111)	(12,493)
PB Free Cash	(1,039)	(788)	(681)	(1,066)	(1,066)
LBIE Trapped Liquidity	5	5	4	(1,299)	(1,299)
LBHI					
Deposit	4,842	4,441	7,395	10,996	10,502
Bond/Money Funds	21,564	20,676	8,047	2,532	2,300
Boxed Inventory	2,800	1,250	-	-	-
Core Investments	29,206	26,367	15,442	13,528	12,802
Cash at Banks	360	360	360	360	360
Inventory lock up / Pending	5,107	4,865	4,715	3,924	3,224
Total Investments	34,673	31,592	20,517	17,812	16,386
Upstreamable Receivable / (Payable):					
LBI	3,279	2,556	9,206	5,078	4,712
LBIE	3,487	6,236	7,637	10,912	11,194
LOTC	200	200	200	200	200
LBHI Reportable Liquidity	41,639	40,584	37,560	34,002	32,492

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Holdings' Liquidity Of Week Of September 8

- ◆ We saw a deterioration in liquidity the week of September 8
 - Contractual maturities of debt and buybacks
 - Loss of repo and increase in repo haircuts
 - Margin increases in derivatives contracts

	QTD As of 5-Sep	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep
BOP LBHI Liquidity Pool Position	\$42.1	\$41.5	\$41.7	\$40.6	\$37.6	\$34.0
Secured Facilities	(0.5)	-	-	-	-	-
LTD Activity						
LTD Settlements	0.1	-	-	-	-	0.0
LTD Maturities	(0.3)	(0.2)	(0.0)	(0.3)	(0.0)	(0.0)
Sub total	(0.2)	(0.2)	(0.0)	(0.3)	(0.0)	(0.0)
STD Activity						
CP Issuance	7.4	2.4	1.5	-	0.3	-
Bank Loan drawdown	0.2	0.1	0.2	-	-	-
STD Maturities:						
Short-Term BV notes	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
CP	(7.4)	(1.8)	(2.0)	(1.5)	(0.1)	(0.3)
Bank Loans	(0.1)	(0.1)	(0.1)	(0.2)	(0.0)	-
Letters of Credit	-	-	-	-	-	-
Sub total	0.0	0.7	(0.4)	(1.7)	0.2	(0.3)
Loan Funding	(0.2)	0.1	(0.1)	(0.3)	(1.6)	-
Derivatives	(0.0)	(0.2)	(0.5)	(0.3)	(0.9)	(1.0)
Intercompany funding						
Intercompany funding	(0.2)	(0.1)	0.1	-	(1.1)	-
Capital injection/repatriation	-	-	(0.2)	-	-	-
Sub total	(0.2)	(0.1)	(0.1)	-	(1.1)	-
Other	0.4	(0.0)	(0.0)	(0.3)	(0.1)	(0.1)
EOP LBHI Liquidity Pool Position	\$41.5	\$41.7	\$40.6	\$37.6	\$34.0	\$32.5

Composition In Holdings' Liquidity Pool

- ◆ Additionally, the composition of the liquidity pool became “stickier” than usual
 - Operational friction and fails related to the unwind of Prime Broker positions, resulting in significant increases in LBI’s and LBIE’s payables to Holdings (shown as boxed inventory in LBI and LBIE)
 - Clearing bank requirements related to collateralization of intraday credit, which “freezes” liquidity for most of the day

		QTD					
		As of 5-Sep	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep
Ability to Monetize							
High	UK EMF	-	0.8	0.9	0.8	-	-
	UK Deposit	0.0	0.2	-	-	0.2	0.2
	US Deposit	0.2	2.1	0.7	2.2	5.7	0.6
	UK Money Funds	-	3.8	3.8	-	-	-
	US Money Funds	0.1	15.4	14.9	5.1	0.3	0.1
	UK Boxed Inventory	12.0	1.7	3.0	1.3	0.8	0.6
	US Boxed Inventory	21.5	2.8	1.3	-	-	-
	Total	33.8	26.9	24.7	9.4	7.0	1.4
Mid	US Money Funds	-	0.2	0.2	0.2	0.2	0.2
	US Boxed Inventory	0.2	-	-	-	-	-
	Total	0.2	0.2	0.2	0.2	0.2	0.2
Low	US CLO	4.4	4.0	4.0	4.0	4.0	3.2
	UK Bond Funds	0.6	0.5	0.5	0.5	0.5	0.5
	UK Deposit	-	1.0	1.0	1.0	0.8	0.9
	US Deposit	2.5	2.5	3.5	5.0	4.4	9.4
	UK Money Funds	-	0.9	0.9	0.9	0.9	0.9
	US Money Funds	-	1.6	1.2	1.5	0.8	0.8
	US Trust Investment	-	0.5	0.4	0.5	0.5	-
	Cash at Banks	0.6	0.4	0.4	0.4	0.4	0.4
	UK Boxed Inventory	-	0.7	1.7	8.7	10.0	10.0
	US Boxed Inventory	-	2.5	2.1	5.6	4.6	4.7
	Total	8.1	14.6	15.7	28.0	26.8	30.9
Reportable Liquidity		42.1	41.7	40.6	37.6	34.0	32.5

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Debt Maturities

- ◆ Commercial paper - \$1.7 billion lost
 - We lost \$1.7 billion of commercial paper, bringing our overall CP balance from \$3.9 billion on September 9 to \$2.3 billion on September 12. Key counterparties (with holdings of more than \$100 million) that did not roll their commercial paper are:
 - JP Morgan : \$385 million of Euro CP and \$225 million of US CP - \$610 million in total
 - New York State Comptroller Office: \$187 million
 - Evergreen Investment Management: \$150 million
 - Harris Management: \$135 million
 - AIG: \$100 million
 - County of San Mateo: \$100 million

- ◆ Asset-backed commercial paper program - \$2.3 billion lost
 - Liberty Hampshire, the conduit administrator for Stony Point, a \$1.6 billion, conduit which is used to fund clients' assets, exercised their termination option on September 11, after one of their dealers threatened to stop supporting their other programs, due to their association with Lehman Brothers, the liquidity provider of Stony Point
 - Ebury Finance, another conduit funding client assets, also unwound on September 10 and 11 for a loss of \$650 million

- ◆ Long-term debt maturities - \$0.3 billion
 - This relates to the \$300 million of debt buybacks done on September 9 to support our CDS curve and key client relationships