

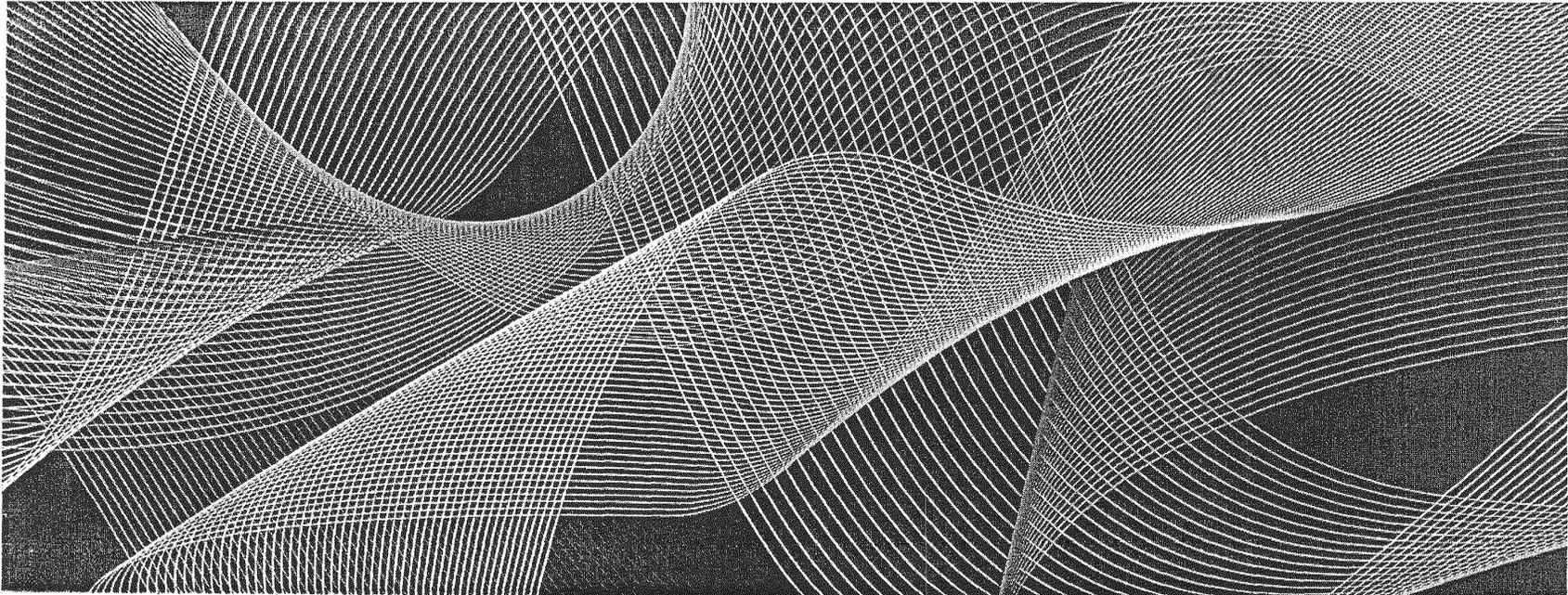
LEHMAN BROTHERS

Q3 vs YTD
YTD SHARE

September 5, 2008

WHAT DETERMINES THE WHO
RAISE CAPITAL
- US OR FINDING SOMEONE

Standard & Poor's Overview Of Lehman's Q3 2008 Results and Game Plan



Confidential

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Overview

During Q3 '08, management has become convinced that it is in the best interests of all Lehman's constituencies – creditors, employees, clients and stockholders – to accelerate the efforts to cleanse our balance sheet and create a “Core” Lehman

- ◆ “Core” Lehman can focus on our clients, competitive position and core franchise away from the noise of the overhang caused by legacy assets

- ◆ To this end, Lehman implemented the following actions:
 - Initiated and developed the concept of spinning off Lehman's Commercial Real Estate portfolio to our shareholders
 - Gained SEC approval on key accounting issues
 - Allocated sufficient equity and governance protections to ensure the debt, which would initially be mostly provided by Lehman, would be well protected
 - A spin-off to shareholders enables them to capture the intrinsic value of the portfolio
 - Continued to reduce Commercial exposure by \$7 billion in Q3 '08
 - Reduced Lehman's residential exposure by approximately 50% to \$11.8 billion
 - Proforma for a bulk sale in Europe to BlackRock, currently being actively marketed to investors and expected to close in September '08
 - The sale of the ELQ platform in the Netherlands also expected in Q4 '08
 - Reduced HY acquisition financing exposure from \$11.5 billion to \$7.1 billion (down 38%)

- ◆ As a result of the actions addressing the legacy assets, “Core” Lehman (post the spin-off of CRE) will have one of the cleanest balance sheets amongst its peer group
 - At current prices the US resi portfolio represents significant intrinsic value, with limited further downside

Overview (Cont'd)

- ◆ While the Lehman franchise has undoubtedly been affected on the fringes by negative publicity and “market noise,” it remains robust
 - Sales credits in line with 2007 levels, despite the seasonal slowdown
 - Clients remain committed to Lehman
 - Franchise remains intact as voluntary employee turnover remains low

- ◆ Core revenue run rate for the quarter was down, but still above breakeven levels
 - Driven by overall market weakness, not deterioration in the Lehman franchise
 - Revenues also adversely affected by Lehman’s focus on de-risking during the quarter

- ◆ Writedowns were sizeable and drove a large overall loss
 - Significant market price declines in residential driven by:
 - Seller pressure from banks and investment banks
 - Faster acceleration of delinquencies than expected
 - Concerns around Fannie and Freddie
 - Failures of regional banks and mortgage providers
 - Writedowns in other less liquid assets broadly consistent with Q1 ‘08 and Q2 ‘08 levels

- ◆ Despite losses, Lehman ended Q3 ‘08 with a better capital profile than Q2 ‘08 as well as a lower risk profile
 - Driven by \$6 billion capital raise in June
 - Net leverage estimated at 11.1x (down from 12.1x in Q2 ‘08)
 - Tier 1 capital ratio estimated at 11.4% (up from 10.7% in Q2 ‘08)

Overview (Cont'd)

- ◆ Lehman's funding remains strong:
 - Holdings' liquidity at \$42 billion (with \$4 billion less CP), \$15 billion above current portion and short-term debt (excluding self funding/self liquidating trades)
 - Cash capital surplus of \$15 billion
 - Overfunding of secured at \$32 billion, with tickets for non-government and agency repos of \$116 billion vs. Firm and customer collateral of \$84 billion
 - Less liquid asset funding (E2/E3 equity, HY collateral, etc.) down to \$23 billion from \$32 billion
 - Over half for clients
 - Funded with repos with an average tenor of 41 days

- ◆ "Core" Lehman needs to be capitalized consistent with a mid to strong "A" credit rating, with a conservative mix of common to hybrid capital
 - Target capitalization for "Core" Lehman is:
 - Net leverage: 12x – 13x range
 - Tier 1 Capital Ratio: >10%, with a target of 11+%
 - Total Capital Ratio: >15%, with a target of 17+%
 - Common to Permanent Capital Ratio: >60%, with a target of 65+%

Overview (Cont'd)

- ◆ There is a risk that if we do not sell a portion of IMD to create some separation and a currency for the employees, the IMD asset deteriorates in value
 - Lehman considering two alternatives:
 - Sale of a 51% stake in portions of the IMD business
 - 20% IPO of the entire IMD business
 - Sale of 51% stake has the following impacts:
 - Reduces Lehman's pre-tax income by \$200 million to \$230 million
 - Increases Tier 1 capital by \$3.2 billion
 - 20% IPO has the following impacts:
 - Reduces Lehman's pre-tax income by \$230 million to \$300 million
 - Increases Tier 1 capital by \$1.4 billion

- ◆ While Q3 '08 capital ratios remain strong, maintaining them within our targeted ranges on a prospective basis will require a capital raise
 - A strategic investor willing to invest \$4.5 billion or more would address this need
 - Continuing dialogues with a range of strategic investors for an investment in "Core" Lehman
 - The sale of a 51% interest in IMD lowers the capital requirement and can potentially be linked with an investment in "Core" Lehman
 - We are also looking to potentially convert \$2 billion of Series Q and Series P converts from preferred to common equity at an attractive issuance price to enhance Lehman's Common to Permanent Capital Ratio
 - We will finalize our capital plan over the next week and will share a timeline of all the elements with you

- ◆ Lehman remains committed to raising the necessary capital to support "Core" Lehman going forward

Overview (Cont'd)

- ◆ Lehman is also implementing a number of complementary initiatives that will further support the Firm's capital position and future operational performance
 - Reduction of common dividend to \$0.05/year from current level of \$0.68/year
 - Will save approximately \$800 million of capital through the end of 2009
 - Reduction in headcount by 1,000 during Q3 '08
 - Initiated cost reduction efforts to further reduce our NPE

- ◆ The key to "Core" Lehman is its ability to compete and generate attractive returns
 - Based on detailed product level analysis of market sizing and our competitive position, we are confident "Core" Lehman can generate \$13.3 billion of revenues in 2009 before the impact of any spread contraction on our debt

↳ \$17.1 AMG

1. Portion of IMD includes Asset Management (Neuberger and LBAM) and PIM

Update on Lehman Commercial Real Estate “SpinCo”

CRE Spin-Off Update

The process for establishing and listing the new “SpinCo” entity has advanced significantly

- ◆ Additionally, significant interest has been expressed in providing funding or participating in the structure by leading players in the space including Apollo, Blackstone, Carlyle, Cerberus, Fortress, Lone Star and Vornado, among others

SEC Approval for Establishment of Listed Entity:

- Not a business transfer requiring three years of financials
- Not a fair value entity
- No 1940 Act application required
- Form R-10 filing

Status:

- Agreed with SEC
- Agreed with SEC
- Agreed with SEC
- Target end of October; SEC review of 1 month

Business Model:

- Cash flow forecasts
- Draft balance sheet
- E&Y review

Status:

- Complete
- Initiated
- Initiated

Consents:

- Determination of required consents
- Obtaining necessary consents

Status:

- Complete, 90+% reviewed by external counsel
- Not started

Funding:

- Optimal funding structure for syndication
- Syndication of seller financing

Status:

- Term sheets drafted
- Not started

Governance & Operations:

- Management structure
- Transfer of assets/location/custody
- Board structure

Status:

- Initiated
- Initiated
- Not Started

Entity Can Withstand Even Major Stress Event

- ◆ For U.S. and Europe, identify 1- and 2-year time periods with largest decline in property values for each property type that Lehman Commercial Real Estate Corp. will own.

- Data sourced from Property & Portfolio Research in U.S. and PMA in Europe, leading commercial real estate research and valuation providers; covers every major market where we own CRE assets
- 1990-2006 time period used encompasses the severe commercial real estate recession of early 1990s

- ◆ Asia property values are stressed 10% for 1-year and 20% for 2-years

- ◆ Apply declines for each property type and region to the current mark-to-market value of every property that will be included in the Company. Scenario represents severe stress case since:

- Stress applied to the already marked-down value of each Lehman asset, not the original face value
 - Since maximum property price decline typically occurs in the 2 years immediately following the market peak, applying the maximum 2-year stress represents an aggressive incremental decline from current levels
- Assumes markets for each property type in each region decline simultaneously to worst case levels
 - Historical experience suggests timing of declines across property types and region can vary significantly
- Assumes we hold every asset throughout entire decline and sell at cycle bottom rather than throughout the period
- For positions >5% of Company equity, apply concentration charge on average – 100% for equity, 20% for debt

- ◆ Adjust 2-year scenario to account for fact that (1) we are already part way through the current cycle, and (2) current downturn is driven by different fundamentals - e.g., substantially less overbuilding than prior cycles

- Adjustments based on degree to which each property type, by region, has already fallen from the market peak
- This “Through the Cycle” decline falls between the 1- and 2-year scenarios and represents the most realistic “worst case” around the Company’s incremental exposure, given the current environment

- ◆ Determine impact of the maximum decline in property values on each asset to be transferred to Lehman Commercial Real Estate Corp., based on:

- Aggregate Lehman Brothers exposure to that property
- Lehman’s position in the overall capital structure

US Property Type: Price-Based Stress Assumptions

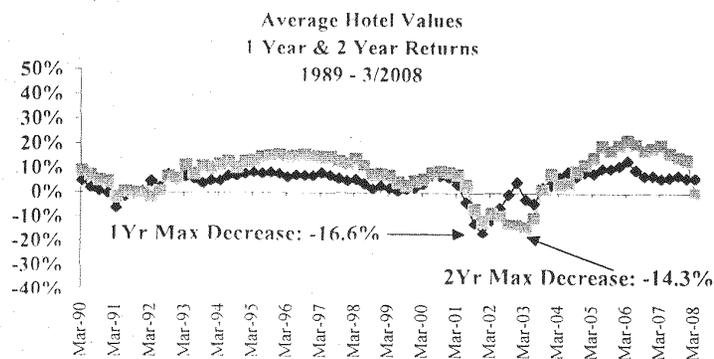
Empirical analysis quantifies the maximum decrease in property values over 1 and 2 year periods from 3/1990 to 3/2008 and the impact is calculated on the capital structure

Maximum Empirical Losses

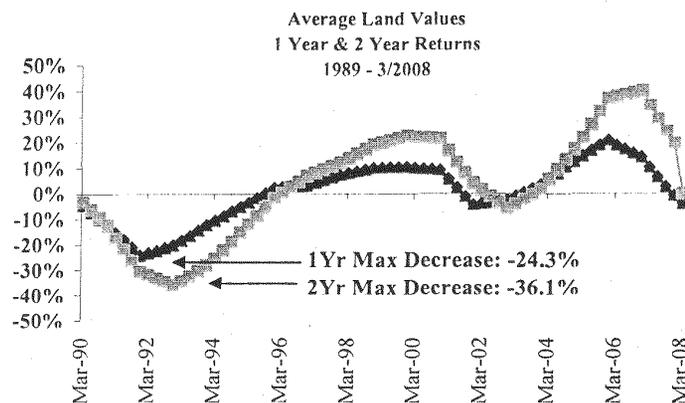
Property Type	1 Year Loss		Thru The Cycle	2 Year Loss	
	Period Ending	Max Loss	Max Loss	Period Ending	Max Loss
United States					
Apartments	Dec 1991	-4.51%	-4.51%	Dec 1992	-8.04%
Industrial	Dec 1991	-7.49%	-7.49%	Dec 1992	-13.64%
Office	Dec 1991	-16.53%	-20.00%	Dec 1992	-27.03%
Retail	Dec 1991	-7.48%	-7.48%	Dec 1992	-14.08%
Hotels	Dec 2001	-16.60%	-16.60%	Dec 2001	-14.30%
Land	Dec 1991	-24.30%	-20% & -35%	Dec 1992	-36.10%

Data Source: Property & Portfolio Research (PPR) provides historical time series data for 54 Metropolitan Statistical Areas across property types. PPR data is derived from multiple sources including real estate analytics providers, appraisers and real estate brokers.

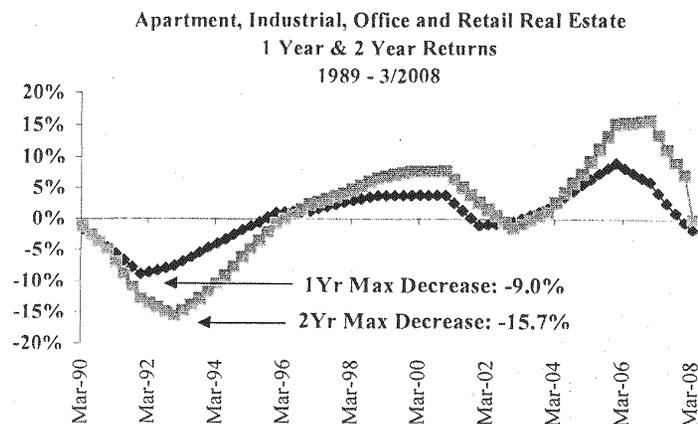
Hotels



Land



Apartments, Industrial Office and Retail



Europe Property Type: Price-Based Stress Assumptions

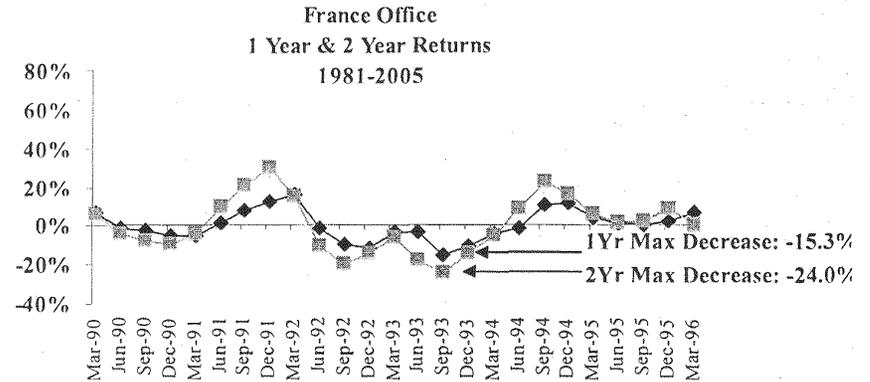
Empirical analysis of European property values is used to quantify the maximum decrease in property values over 1 and 2 year periods from 1990 to 2005

Maximum Empirical Losses

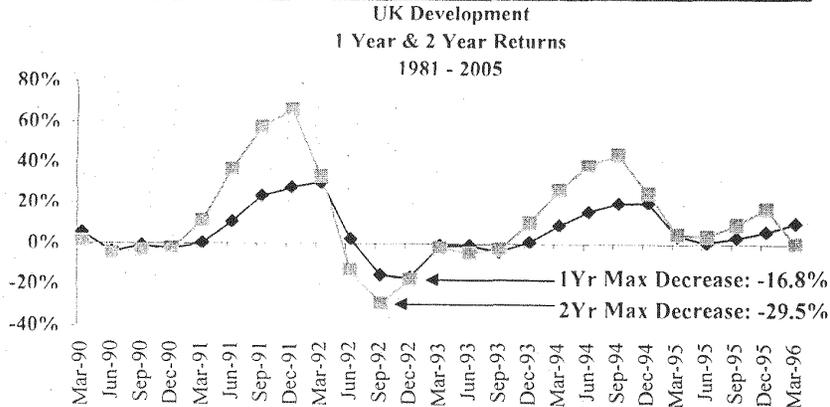
Property Type	1 Year Loss		Thru The Cycle	2 Year Loss	
	Period Ending	Max Loss	Max Loss	Period Ending	Max Loss
Europe					
UK Development	Dec 1992	-16.84%	-16.84%	Sept 1992	-29.48%
UK Offices	Sept 1992	-26.11%	-26.11%	June 1992	-41.39%
France Office	Sept 1993	-15.26%	-15.26%	Sept 1993	-24.01%
Sweden Retail	Sept 1992	-23.70%	-23.70%	Sept 1992	-34.60%
Apt/Ind/Office/Retail	Sept 1992	-18.71%	-18.71%	Sept 1992	-30.71%
Euro All Property Avg.	Dec 1992	-8.42%	-8.42%	Sept 1992	-15.38%

Asia Stress Assumptions: The 1 Year stress assumption is -10% and the 2 year stress assumption is -20%. The "Through-the-Cycle" stress assumption is -20% since Asia is at the early stages of the downturn.

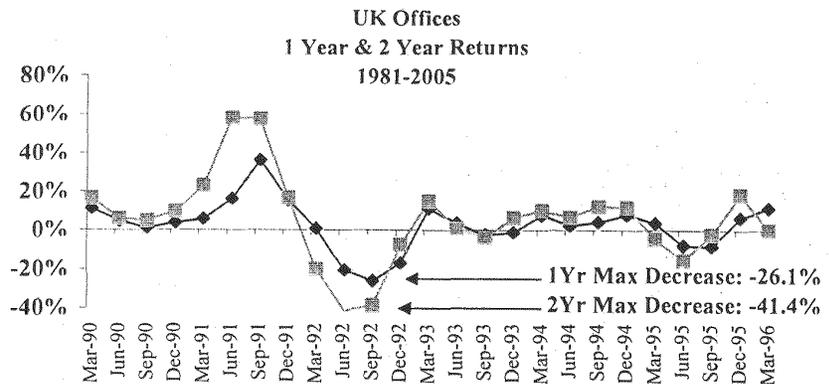
France Office



UK Residential and Industrial Development

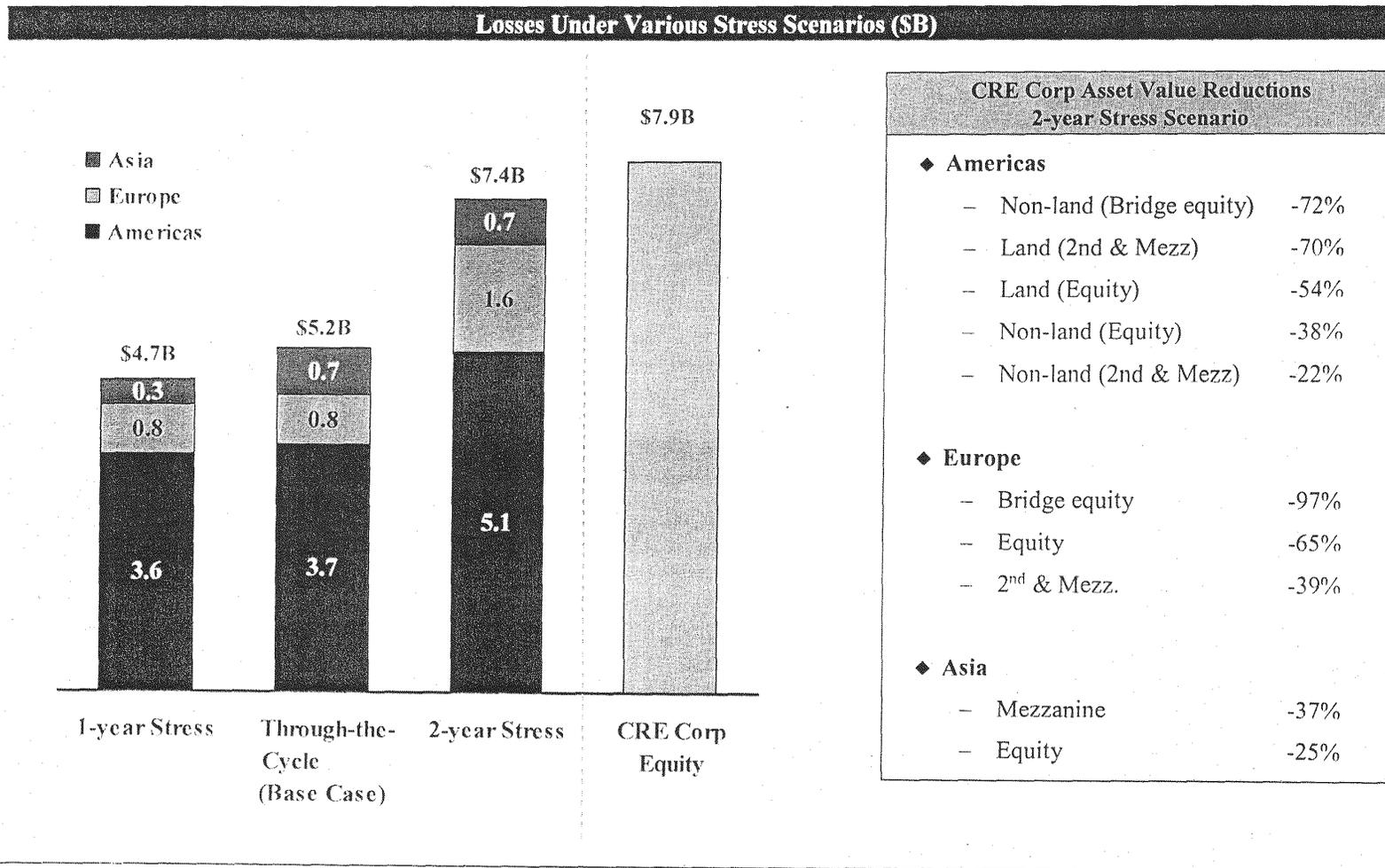


UK Offices



Losses Under Various Stress Scenarios

Under all three stress scenarios, "SpinCo" is adequately capitalized and will not result in realized losses to debtholders



Region and Property Type Stress Analysis Breakout

The Real Estate stress losses are provided by region and lien type below

Real Estate Portfolio Stress Analysis (SMM)	Market Value	1 Year Stress		Through-the-Cycle		2 Year Stress	
		Property	Stress %	Property	Stress %	Property	Stress %
		Stress	MV	Stress	MV	Stress	MV
Americas							
Land							
First	3,160	(181)	-6%	(227)	-7%	(392)	-12%
2nd & Mezzanine	472	(276)	-58%	(252)	-53%	(332)	-70%
Equity	462	(176)	-38%	(148)	-32%	(249)	-54%
Total Land	4,094	(633)	-15%	(627)	-15%	(973)	-24%
Other Property Types							
First	3,934	(130)	-3%	(116)	-3%	(166)	-4%
2nd & Mezzanine	3,204	(422)	-13%	(406)	-13%	(720)	-22%
Term Loans	2,214	(344)	-16%	(344)	-16%	(344)	-16%
CMBS Securities & Hedges	670	-	0%	-	0%	-	0%
Equity	1,365	(226)	-17%	(228)	-17%	(525)	-38%
Bridge Equity	3,256	(1,814)	-56%	(1,981)	-61%	(2,353)	-72%
Total Other Property Types	14,643	(2,936)	-20%	(3,075)	-21%	(4,107)	-28%
Total Americas	18,737	(3,569)	-19%	(3,702)	-20%	(5,080)	-27%
Europe							
First	3,257	(34)	-1%	(34)	-1%	(247)	-8%
2nd & Mezzanine	675	(83)	-12%	(83)	-12%	(266)	-39%
CMBS Securities	3,462	-	0%	-	0%	-	0%
Equity	414	(155)	-37%	(155)	-37%	(270)	-65%
Bridge Equity	853	(496)	-58%	(496)	-58%	(824)	-97%
Total Europe	8,661	(768)	-9%	(768)	-9%	(1,607)	-19%
Asia							
First	3,560	(154)	-4%	(404)	-11%	(404)	-11%
Mezzanine	370	(97)	-26%	(138)	-37%	(138)	-37%
CMBS Securities	811	-	0%	-	0%	-	0%
Equity	575	(99)	-17%	(145)	-25%	(145)	-25%
Total Asia	5,316	(349)	-7%	(687)	-13%	(687)	-13%
TOTAL GLOBAL REAL ESTATE	32,714	(4,686)	-14%	(5,156)	-16%	(7,374)	-23%

LEHMAN BROTHERS

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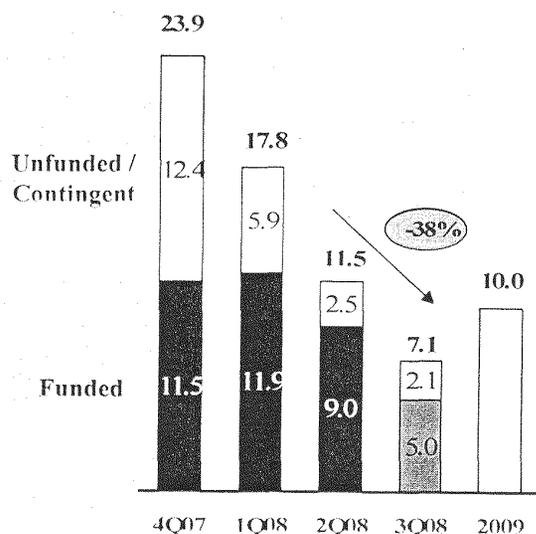
Balance Sheet and Risk Reductions

Aggressively Addressing Legacy Assets

Lehman has continued to reduce exposures to less liquid asset classes. Following the spin-off of CRE assets, Lehman will have very limited exposure to these asset classes

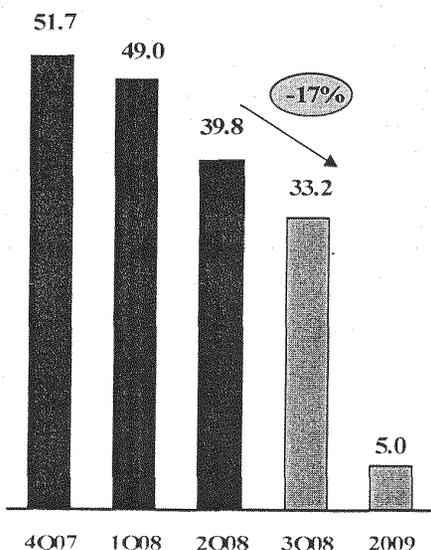
Reduction in Key Asset Classes (\$B)

High Yield Acquisition Financing



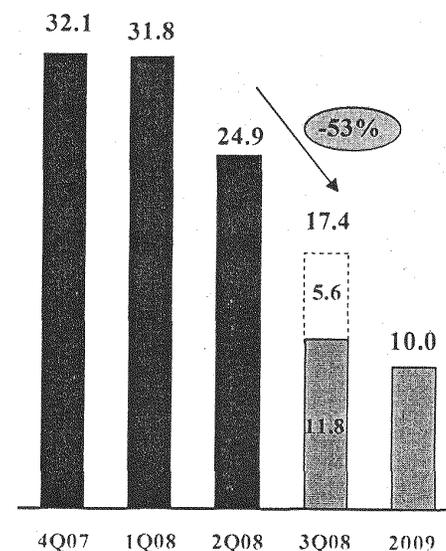
- ◆ Combination of sales / roll-off
- ◆ Remaining exposures well diversified

Comm. Mortgages & Real Estate Held for Sale



- ◆ Exposures limited to positions not transferable to "SpinCo"
- ◆ Remaining business focused on private equity fund origination

Residential Mortgages



- ◆ Pro-forma for bulk sales of ~\$6B in Europe in early Q4 '08
- ◆ Trading business active and focused on market making with rapid asset turnover

European Sales Transactions

Several European bulk sales that are expected to close in Q4 '08 will significantly reduce Lehman's residential exposure

- ◆ Sale of Senior UK Non-conforming RMBS
 - All AAA pieces (€2.1B) and AA pieces of mortgage funding 08-1 (€1.1B) to be sold
 - Potential purchaser: BlackRock
 - Size: €3.2B (\$4.7B)
 - Average expected price: range of 80-82%
 - Financing required: approximately 75% of market value via reverse repo, with sweep features and rapid paydown to 50% LTV in two years
 - Probable date of execution: second or third week of September 2008
 - Exclusivity details:
 - BlackRock not working on any other European portfolios at present
 - Working on an exclusive basis with Lehman, although Lehman has the ability to walk away at any point

- ◆ Sale of Dutch Non-conforming RMBS
 - All Dutch Non-conforming Senior and Mezzanine RMBS plus all Dutch residuals held by Lehman
 - Potential Purchaser: Engelfield Capital
 - Engelfield also interested in purchasing the Dutch origination platform ELQ
 - Size: €985M (\$1.44B)
 - Probable date of execution: Expected resolution in early Q4 '08

Residential Mortgages: Remaining Exposure

Exposure in Residential Mortgages (\$B)										
	2Q 2008			3Q 2008			3Q 2008 Proforma			% Chg in Mkt
	Face	Mkt Value	Price	Face	Mkt Value	Price	Face	Mkt Value	Price	
US										
Prime/Alt-A										
Whole loans	2.4	2.1	86.6	1.8	1.2	65.9	1.8	1.2	65.9	-42%
AAA securities	4.3	3.4	78.3	2.4	1.3	54.5	2.4	1.3	54.5	-61%
AAA IO	0.5	0.5		0.6	0.6		0.6	0.6		8%
Subordinates	4.7	1.8	37.3	4.8	1.0	21.3	4.8	1.0	21.3	-42%
Total Prime / Alt-A	12.0	7.7	64.6	9.6	4.1	42.7	9.6	4.1	42.7	-47%
Non-Prime										
Whole Loans	1.7	1.1	63.2	1.5	0.6	41.5	1.5	0.6	41.5	-40%
Securities	3.8	1.9	50.9	3.4	1.1	32.5	3.4	1.1	32.5	-45%
Total Non-Prime	5.4	3.0	54.7	4.9	1.7	34.4	4.9	1.7	34.4	-43%
Servicing	1.7	1.7		1.7	1.7		1.7	1.7		0%
Reverse Mortgages	0.6	0.6	99.1	0.7	0.7	95.9	0.7	0.7	95.9	16%
Residuals	0.9	0.9		0.2	0.2		0.2	0.2		-76%
Scratch & Dent	0.9	0.4	43.4	0.5	0.2	41.4	0.5	0.2	41.4	-47%
ABS CDOs	1.8	0.6	35.0	1.7	0.5	28.6	1.7	0.5	28.6	-21%
Total US	23.3	14.9	64.1	19.4	9.1	46.9	19.4	9.1	46.9	-39%
Europe										
Whole loans										
UK	2.4	2.2	88.9	2.2	1.9	87.2	0.5	0.5	87.8	-79%
Ireland	0.3	0.3	97.3	0.3	0.2	85.5	0.3	0.2	85.8	-18%
Netherlands	0.4	0.4	98.5	0.1	0.1	90.2	0.0	0.0		-100%
Italy	0.2	0.2	89.1	0.2	0.1	74.4	0.0	0.0	74.4	-92%
NPL	0.6	0.6		0.6	0.6		0.6	0.6		-5%
Europe Wholeloans	4.0	3.7	92.2	3.3	2.9	88.7	1.4	1.3	92.4	-64%
Securities	5.7	5.3	91.8	5.2	4.6	88.7	0.8	0.6	67.6	-89%
Residuals	0.4	0.4		0.3	0.3		0.3	0.3		-27%
Total Europe	10.1	9.3	92.3	8.8	7.8	89.1	2.6	2.2	85.2	-76%
Asia (Japan / Korea)										
Whole loans	0.5	0.5	100.0	0.7	0.5	66.8	0.7	0.5	66.8	1%
Securities	0.2	0.2	87.8	0.0	0.0	100.0	0.0	0.0	100.0	-97%
Total Asia	0.7	0.7	96.4	0.7	0.5	67.1	0.7	0.5	67.1	-26%
Total Residential	34.1	24.9	73.1	28.9	17.4	60.3	22.7	11.8	52.0	-53%

- ◆ During the quarter, we lowered our marks to reflect the distressed nature of the residential mortgage market
 - These prices assume considerable further deterioration in performance that may or may not actually materialize
- ◆ Portfolio reduced to under half its size from Q2 '08 levels
- ◆ Remaining \$11.8B exposure significantly diversified, with about \$3bn in servicing, IOs and reverse mortgages and another \$3bn in non US assets
- ◆ Reduction in credit-sensitive areas
 - Non-Prime down 43%
 - Prime Subordinates down 42%
 - Residuals down 76%

Residential Mortgage: Remaining Exposure

Summary

- ◆ Our overall exposure to residential mortgages is down to \$11.8bn (pro forma) from \$25bn with about \$3bn in assets like servicing, IOs and reverse mortgages
- ◆ The mark down on the book has been over 20 points
- ◆ The base-case return on the US portfolio is 12% with 50% defaults and 30-35% recovery in a scenario where home-prices drop 32% peak-to-trough at a national level (17% to date), with California down 50% (23% to date)
- ◆ For a 0% yield, we need 80-100% of the remaining borrowers to default with a 35% recovery

Prime / Alt-A Loans and AAAs (\$2.5B)

- ◆ Loans marked at 66 and securities marked at 55
- ◆ Assets earn 10-12% yield under basecase assumption of 40-50% defaults on assets and need 80-100% of the borrowers to default for 0% yield.

Prime / Alt-A Subordinates (\$1.0B)

- ◆ Has 3 components – 2005 and earlier (25%), 2006 and later (38%) and NPL securities (37%)
- ◆ Pre 2005 subordinates are marked at 29, post 2006 subordinates marked at 9 and NPL securities equate to a loan value of 45 (which are consistent with market observables)

Servicing (\$1.7B)

- ◆ Loan balance of \$135B – 25% fixed rates, 50% hybrid ARMs and 25% Option ARMs
- ◆ There is a negligible amount of subprime and second-lien servicing (26M)
- ◆ The average multiple is 3.9x IO stream which is conservative in the context of where banks hold the asset

Reverse Mortgages (\$700M)

- ◆ Loans with an average original LTV ratio of 30%. Even with a strong drop in home-prices, recoveries should be close to 100%
- ◆ Assets with similar credit risk profile (ABX 06-1 AAAs) are trading at L+300bps, where these are priced at L +400bps

Europe (\$2.2B)

- ◆ \$700M in loans (mostly UK and Ireland), \$600M in NPLs and \$900M in securities
- ◆ The average LTV of loans in UK and Ireland is in the 65-70% territory
- ◆ Current prices consistent with recent sales

Resi Marks Reflect Conservative Assumptions

The base case return is 12% (approximately L + 600bps) with expected default rates of 40-60%

- ◆ Recoveries are conservatively modeled at 30-35%
- ◆ To earn L+100 on assets, alt-A defaults need to be 60-65% while nonprime defaults need to be 70-75%. This is approximately 3x to 4x the 60+ delinquencies in securities and loans at this time

Market Implied Defaults vs. Current Delinquencies ¹

Sector	Market Value (\$B)	Price	Base Case Yield (%)	Collateral Defaults (% Outstanding Balance)			60+ Delinq (incl. Defaults) (%)	Defaults as a Multiple of 60+ Delinq		
				Base Case L + 600	To Earn L + 100	To Earn 0% Yield		Base Case L + 600	To Earn L + 100	To Earn 0% yield
Prime/Alt-A	4.1	42.7	14.2	43.5	63.2	79.4	17.7	2.5	3.6	4.5
Non Prime										
Seconds	0.5	41.8	14.6	70.2	75.9	79.0	33.7	2.1	2.3	2.3
HELOCs	0.3	64.3	20.4	25.9	71.4	85.8	16.0	1.6	4.5	5.4
Others	0.9	21.9	14.5	59.2	73.2	87.0	19.2	3.1	3.8	4.5
Nonprime	1.7	34.4	15.3	57.2	73.7	84.5	23.0	2.5	3.2	3.7

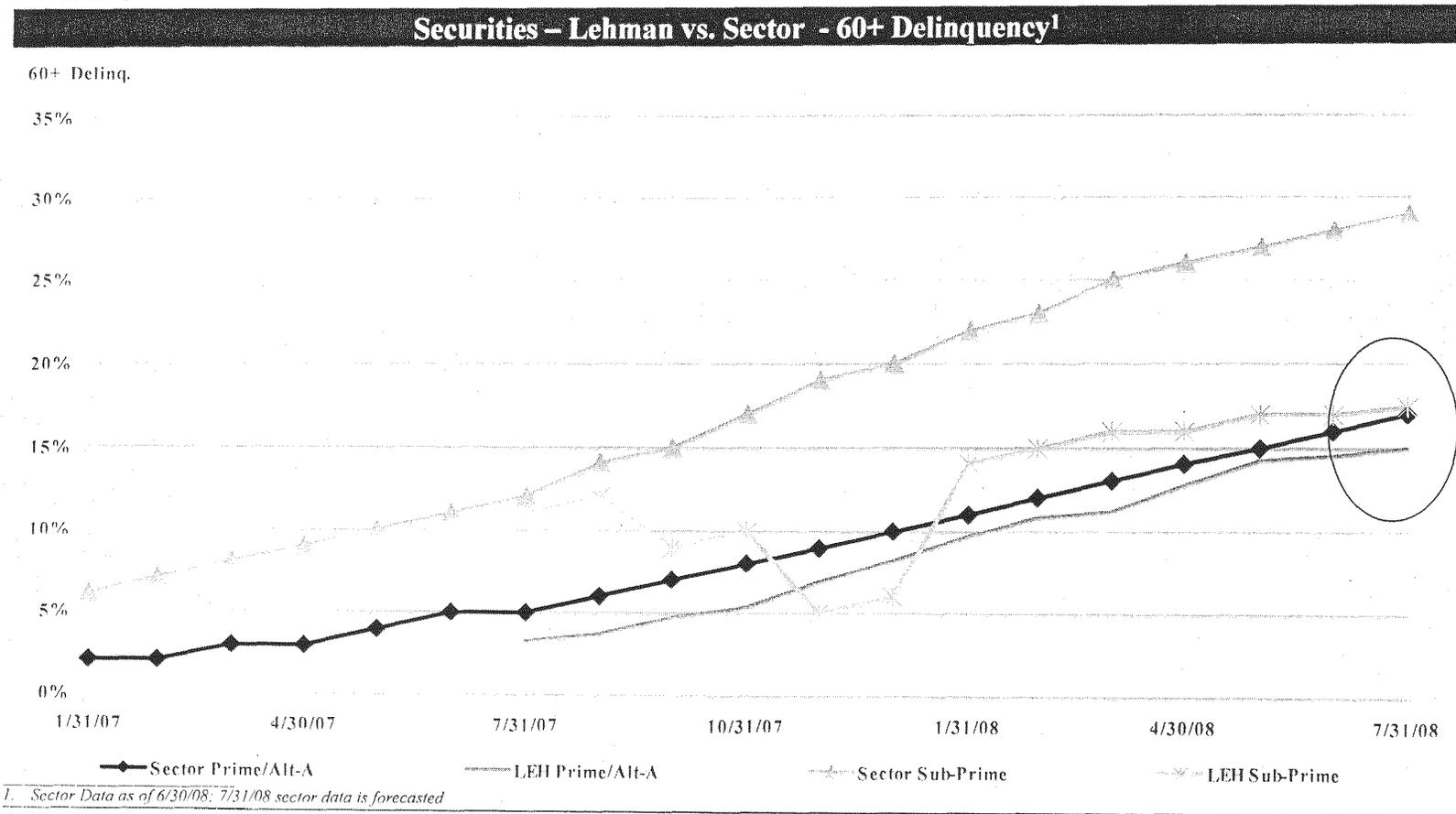
Recog

5

Resi Marks Reflect Conservative Assumptions

Current delinquencies are significantly below those implied by current marks that provide an attractive yield to investors

- ◆ Lehman's delinquency rates have been consistently lower than the rest of the market, suggesting even better implied returns



Severity and Default Assumptions

Severities

- ◆ Our assumption corresponds to a \$400K home selling at about \$160K or about 40% of the original home value

REO Sale Price and Implied Severity					
Original Home Value	Original Loan Value				
\$400K	\$320K				
Severity across Home Sale Price					
Sale Price	\$300K	\$250K	\$200K	\$150K	\$100K
Broker Fee	15.0	12.5	10.0	7.5	5.0
Advances	25.6	25.6	25.6	25.6	25.6
Other Expenses	5.0	5.0	5.0	5.0	5.0
Proceeds from Sale	254.4	206.9	159.4	111.9	64.4
Recovery	80%	65%	50%	35%	20%

Defaults

- ◆ Based on our base-case default assumptions (where the portfolio yields 12%), we estimate that aggregate foreclosures / liquidations of over 5 million units in the next 4 years
- ◆ In a scenario where our portfolio yields 0%, we estimate that aggregate foreclosures / liquidations would be about 10 million units in the next 4-years

10%

1. Assumes a 320K loan size, 80 LTV loan with 5% broker fee and 8% in advances

Key Credit Metrics Solid Post De-Risking

Lehman's credit metrics will compare favorably to those of its competitors subsequent to Q3 de-risking initiatives

◆ Lehman's leverage and capital ratios have improved over the last few quarters and compare well to those of its peers'

Credit Metrics								
	LEH				"Core" Lehman ¹	MER	MS	GS
	Q4' 07	Q1' 08	Q2' 08	Q3' 08 F		Q2' 08	Q2' 08	Q2' 08
Net Leverage	16.0x	15.4x	12.1x	11.1x	10.9x	15.2x	12.8x	12.8x
Tier 1 Ratio	na	10.3%	10.7%	11.4%	11.0%	7.6%	12.4%	10.8%
Less Liquid Assets ²								
Residential Mortg.	32	32	25	17	10	55	19	15
Commercial Mortg. + RHS	52	49	40	33	5	22	16	17
Other ABS /CDO	6	7	7	5	3	26	18	6
HY Acquisition Finance	24	18	12	7	6	8	13	22
Private Equity/ Principal Investments	4	5	4	4	4	4	15	29
Total LLA's	118	110	88	66	28	115	80	89
Level III Assets	39	40	38	35	23	58	69	78

1. "Core" Lehman in Q4 '08 after CRE Spinoff, expected capital raising and a 51% Sale of Asset Management, PIM, and Alternatives businesses

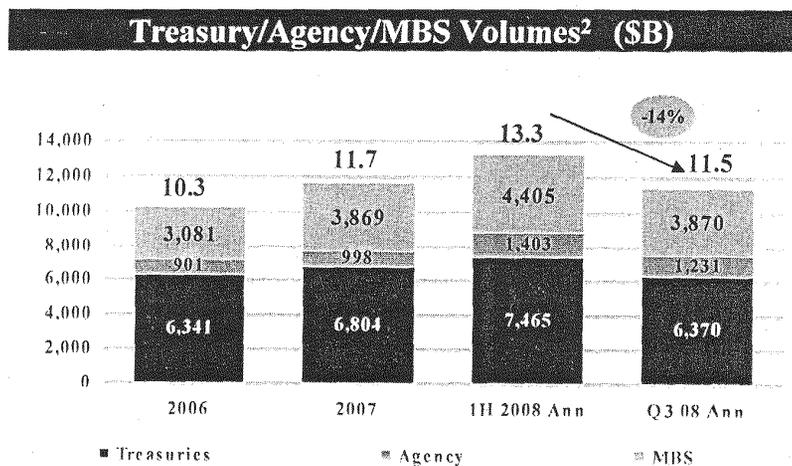
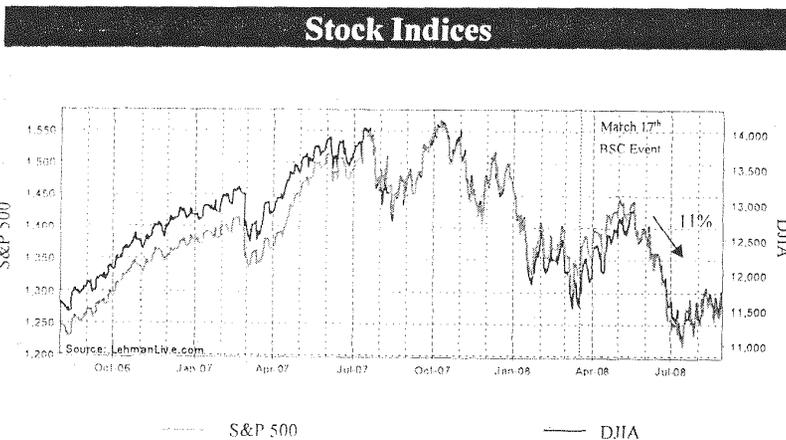
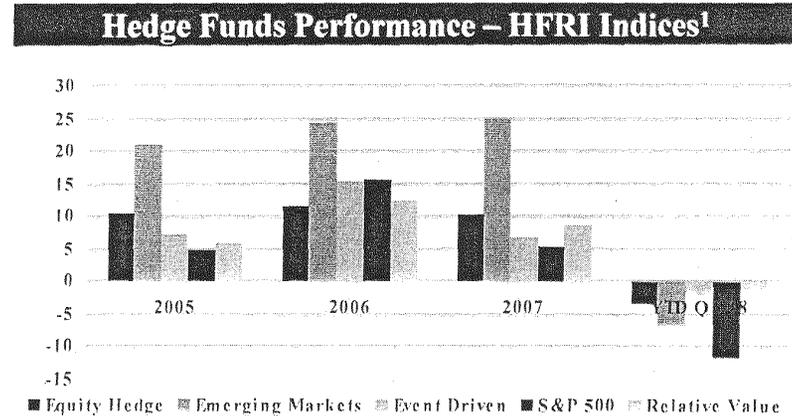
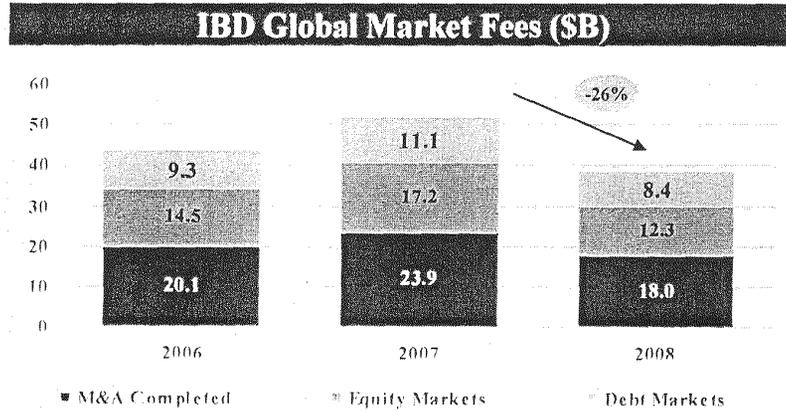
2. Less Liquid for Peers as of Q2 '08

- MER – Residential and Commercial are reported on a 'net basis' and includes positions held in banks. Other ABS includes Super Senior ABS/CDO Gross Longs and Secondary Trading ABS/CDO Net. All ABS/CDO include Resi and non Resi positions, as MER separates these positions from straight Resi and Commercial positions
- MS – Residential and Commercial are reported on a 'gross basis' and includes positions held in First Republic and other banks. Other ABS/CDO includes both Resi and non Resi positions, as MS separates these positions from straight Resi and Commercial positions.
- GS – Residential and Commercial are reported on a 'gross basis'. Other ABS/CDO is the difference between Total Mortgage and ABS disclosed and the disclosed Residential and Commercial Mortgage positions. Private Equity includes PE, and investments in SMFG and ICBC

Franchise Strength In A Tough Environment

Backdrop To Quarter: Overall Market Slowdown

The current quarter has been affected by continued concerns around liquidity and significant valuation volatility that has resulted in many investors and issuers remaining on the sidelines



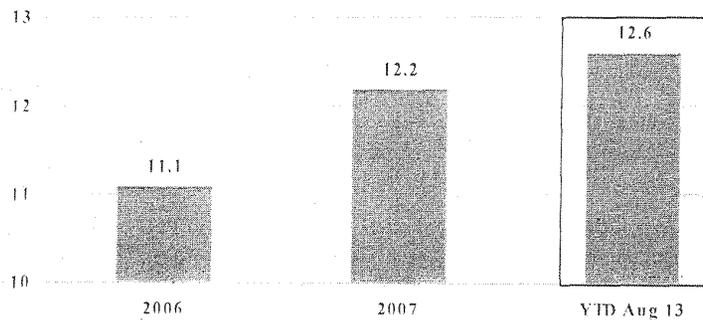
¹ HFRI (Hedge Fund Research Institute) Indices Annual Investment Returns
² MBS is MBS Pass-throughs; increasing volumes from 2007 to 1H 2008 demonstrates investors risk-averse and flight to quality behavior

Lehman Still Experiencing Market Share Gains...

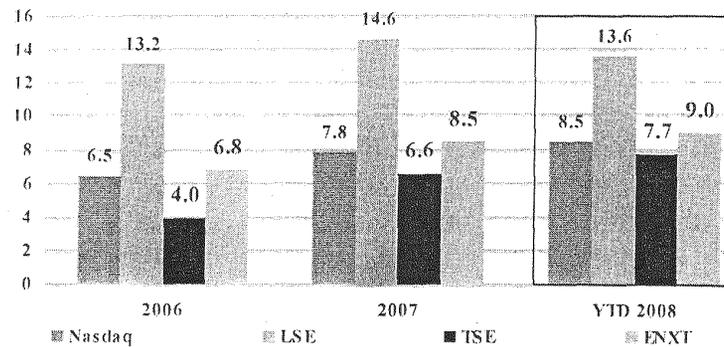
Lehman's YTD '08 market share in all areas of Origination¹ and Trading² is generally stronger than prior years, reflecting the Firm's increasing share in a difficult market

- ◆ Q3 revenue declines are primarily a function of weaker economic markets rather than any deterioration in Lehman's core franchise

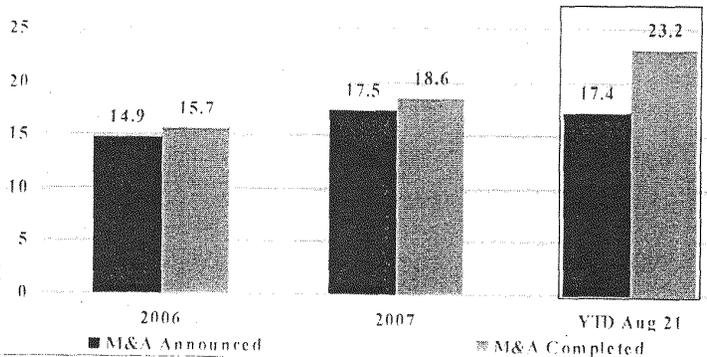
Fixed Income Trading Volume (%)



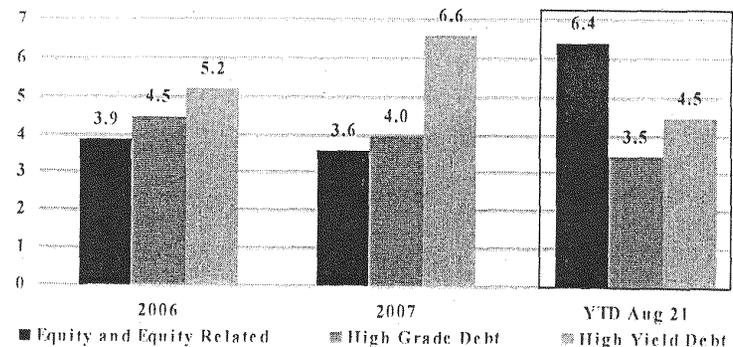
Equity Trading Volume (%)



M&A (%)



IBD Capital Markets (%)



1. Thomson Financial; all data is calendar year.

2. Fixed Income - Federal Reserve Bank of NY; all data is fiscal year. Equity - Applicable exchanges and Lehman Brothers; all data is calendar year, YTD is through June 30, 2008; NYSE share data is not shown or used externally due to change in methodology by Exchange with no restatement of history

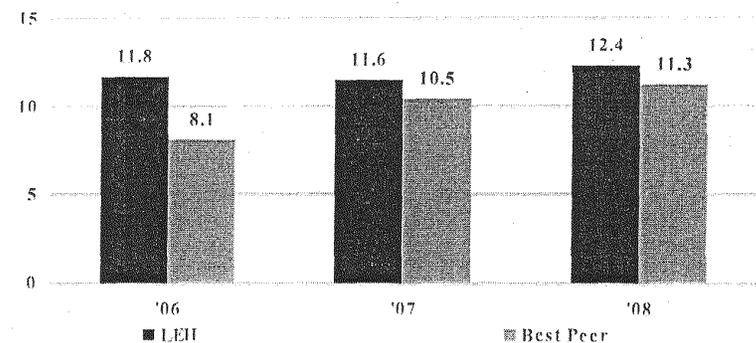
...Reflecting Market Leadership

Lehman has maintained overall market leadership among most active US Fixed Income investors, increasing the depth of our relationships and ranking ahead of all of our US Broker Dealer peers and most non-US Broker Dealer peers¹

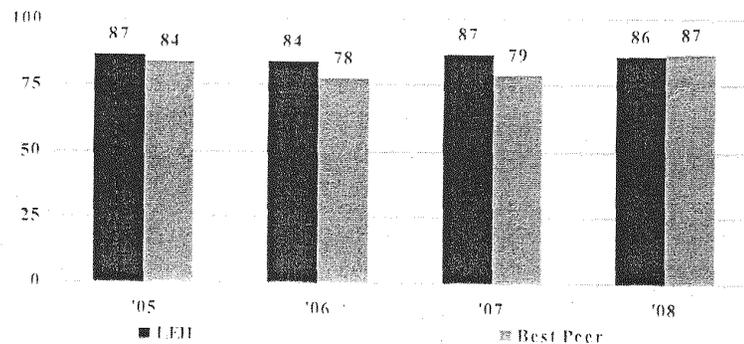
1 Rank

- ◆ Overall Market Share (again), increasing from 11.6% to 12.4%
- ◆ Overall Service Quality (again)
- ◆ Consistent Coverage Quality (again), by a very wide margin
- ◆ Overall Footprint²
- ◆ Top 3 Relationships², increasing rank from previously 2nd
- ◆ Lead Relationships², increasing rank from previously 2nd
- ◆ Relationship Capital², a new category
- ◆ E-Trading penetration²

Overall Market Share² (%)



Overall Market Penetration² (%)



Greenwich Quality Index²

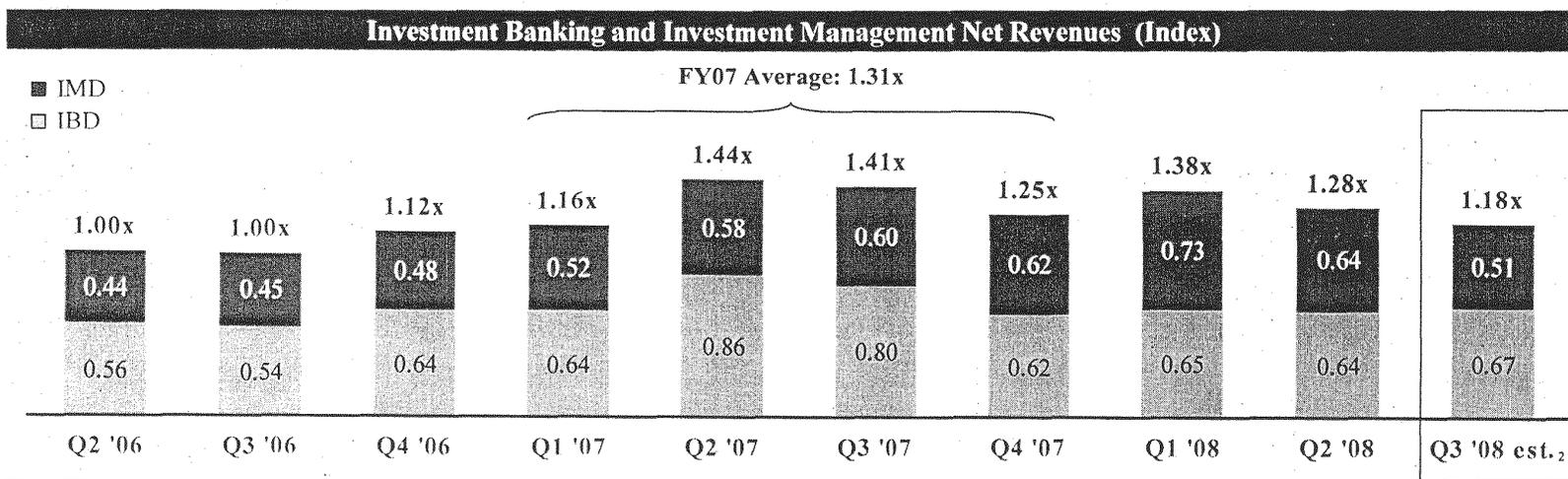
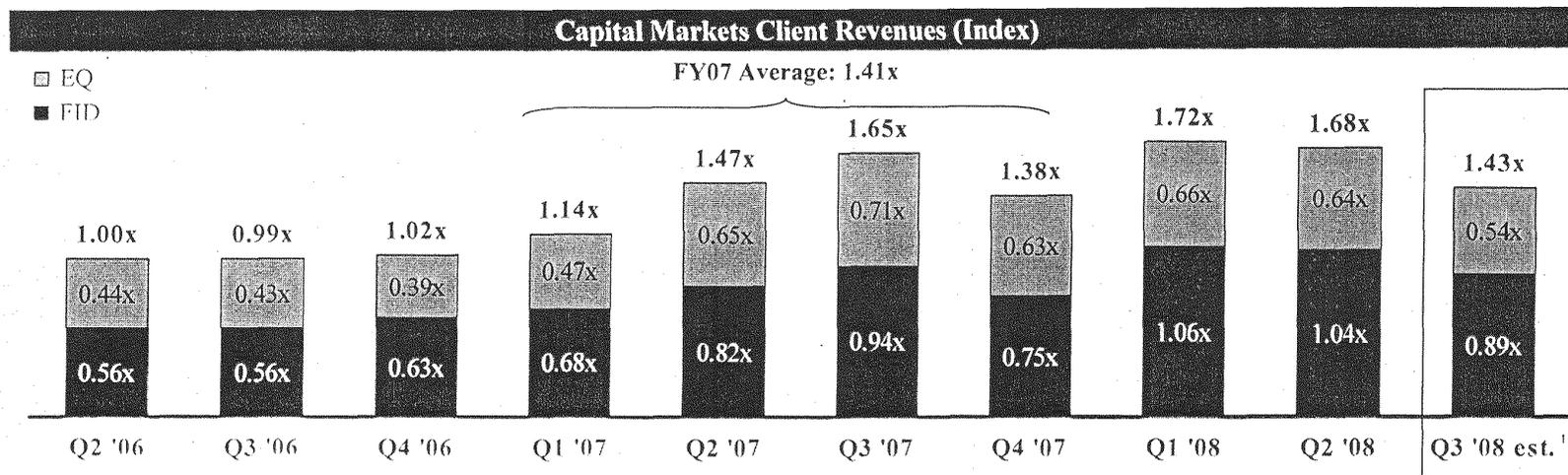
- ◆ #1 overall each year '04 – '08
 - Highest score of Best Peer (any period) < LEH's lowest score (current period)
- ◆ No negative score in any period
 - All US B/D peers have had negative scores
 - 2 of those peers were negative in each year '06 -'08
- ◆ #1 in sales past two years
 - Highest score of Best Peer in '08 < LEH's '07 score

1. Greenwich Associates, July '08; conducted March – April '08

2. Best Peer is a non-US Broker Dealer and the same in each depiction; under a confidentiality agreement with Greenwich, LEH is not allowed to disclose the names of any peers

Given the Backdrop, Client Revenues At 2007 Levels Suggest Lehman Maintaining Market Share

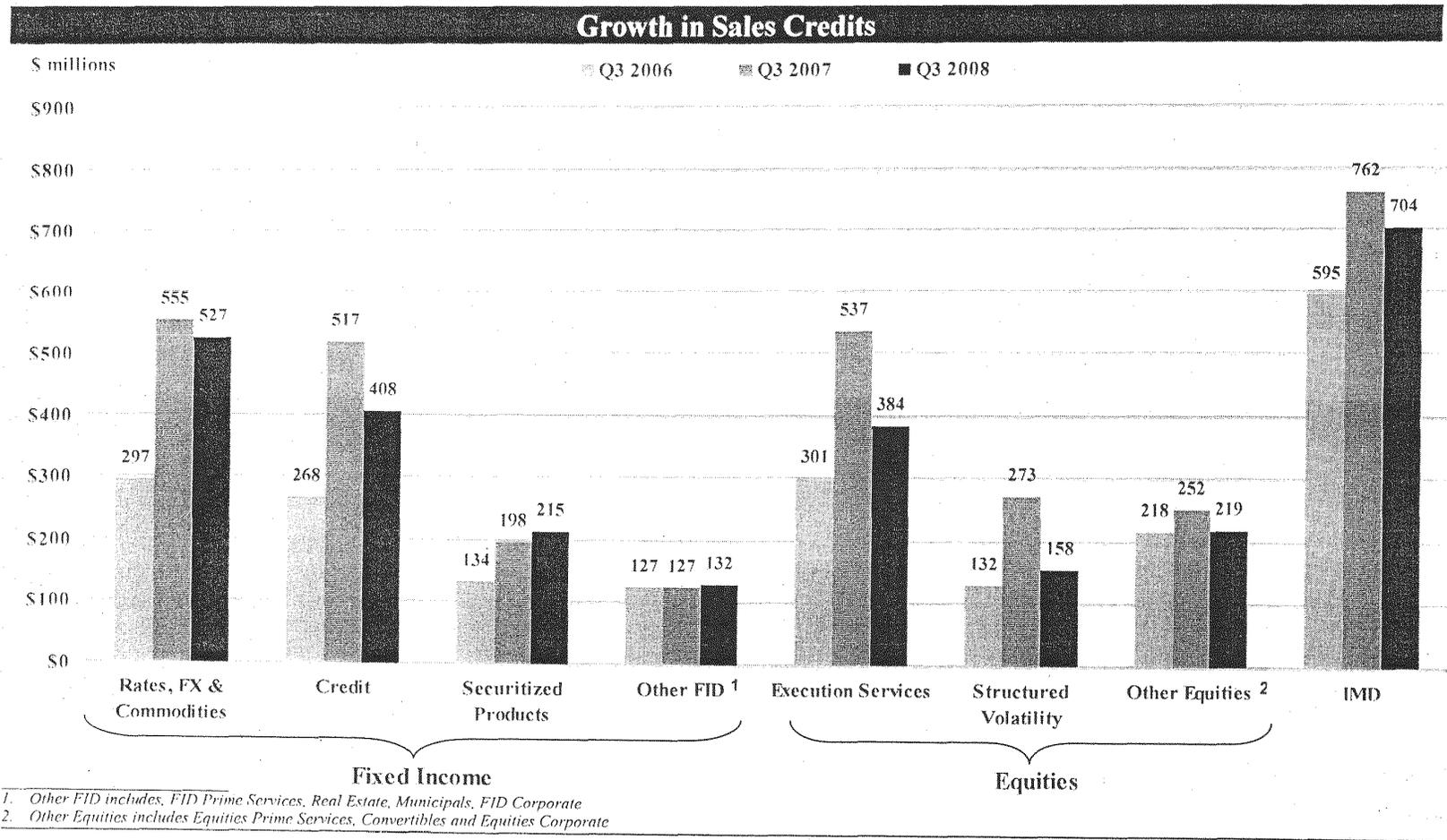
Lehman's client revenues remain roughly comparable to early 2007 levels despite a much harsher economic environment



1) Q3 data represents QTD through 8/21/08 extrapolated from 58 to 64 trading days.
 2) Q3 data represents QTD through 8/14/08 extrapolated from 53 to 64 trading days.

Strength Broadly Reflected in Client Activity

Client activity in the core businesses within Fixed Income, Equities and IMD have continued to perform, even though the market has slowed down as clients have been hesitant to execute given severe market volatility



Lehman Continued To Win Key Mandates In Q3 '08

Lehman continues to expand its participation and take lead roles in premier investment banking and investment management transactions across all products and geographies

M&A

- ◆ \$15.8B China Unicom to sell its CDMA business to China Tel.
- ◆ \$9.0B Teva Pharmaceutical to acquire Barr Pharmaceuticals
- ◆ \$8.0B Mubadala Dev'p Co partnership with General Electric
- ◆ \$5.3B Staples to acquire Corporate Express
- ◆ E4.9B Credit Mutuel to acquire Citibank Deutschland
- ◆ \$3.8B China Oilfield Services to acquire Awilco Offshore ASA
- ◆ \$3.6B SunPower to spin-off from Cypress Semiconductor
- ◆ \$3.3B Plains Exploration to acquire 20% in CHK leasehold
- ◆ \$2.9B CVS to acquire Longs Drugs Stores
- ◆ \$1.5B Vestar / Huish to acquire Unilever's N. Amer's Laundry

Fixed Income

- ◆ \$5.0B senior unsecured notes for Time Warner Cable
- ◆ \$3.5B benchmark notes for Fannie Mae
- ◆ E3.0B benchmark notes for Republic of Portugal
- ◆ \$2.3B multi-tranche offering for XTO Energy Inc.
- ◆ \$2.0B multi-tranche offering for Telecom Italia Capital S.A.
- ◆ \$1.5B dual-tranche offering for Deutsche Telekom Int'l Finance
- ◆ \$1.5B eurodollar bonds for Hellenic Republic
- ◆ \$1.0B senior unsecured 3yr FRN for IBM

Equities

- ◆ \$6.9B rights offering for Carlsberg
- ◆ E5.9B capital increase and rights offering for Credit Agricole SA
- ◆ \$1.3B follow-on offering for XTO Energy Inc.
- ◆ \$0.8B follow-on offering for Petrohawk Energy
- ◆ E0.3B IPO for Caja Mediterraneo
- ◆ \$0.3B follow-on offering for Energy Transfer Partners LP

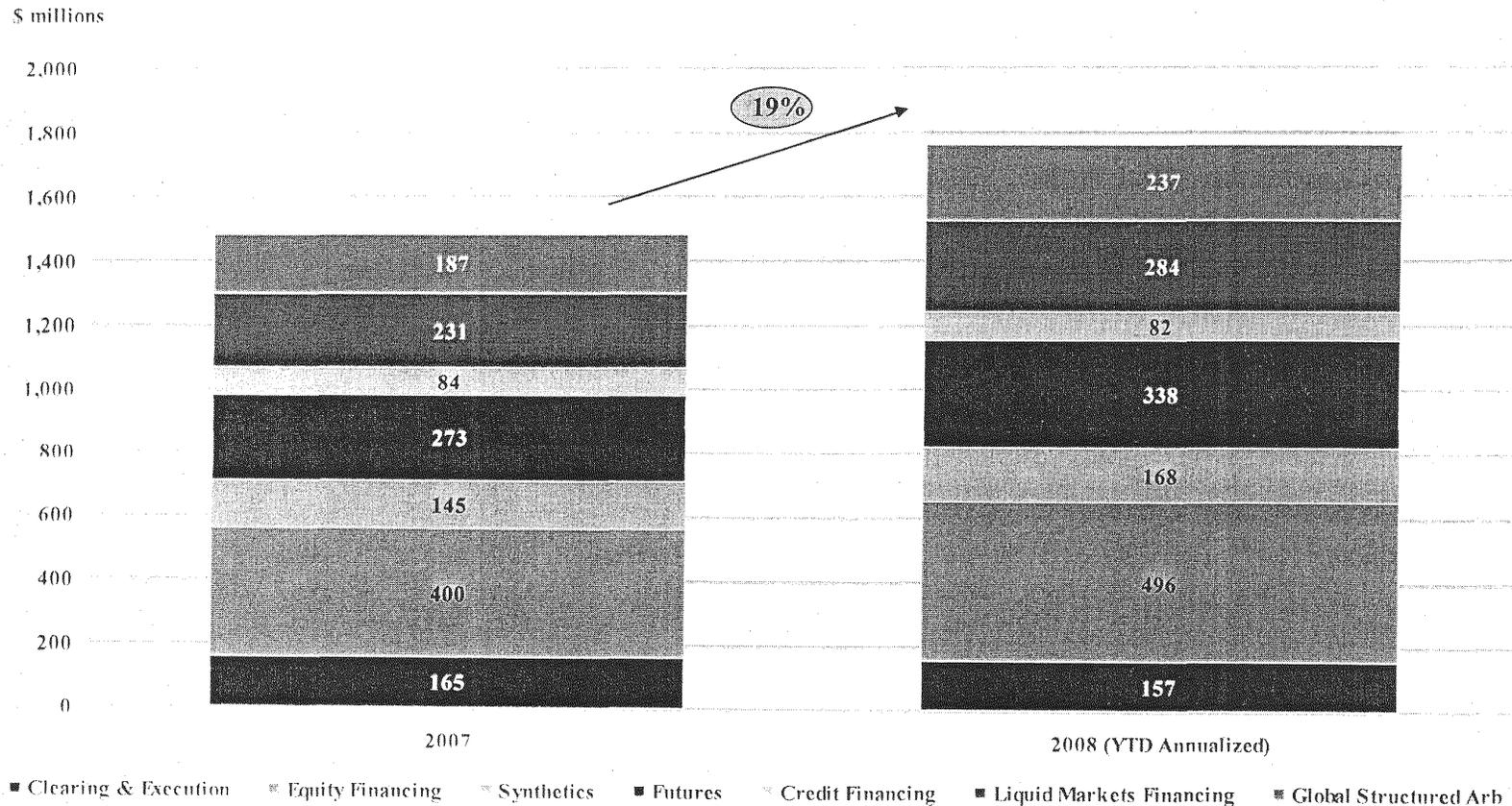
Asset Management / Investment Management

- ◆ State of Saxony; mandated as asset manager for SPV Sealink; a E16.0B mandate to manage a portfolio of structured finance securities
- ◆ Groupe Eurotunnel; LBAM mandated as cash manager
- ◆ Lanxess NV; LBAM mandated as cash manager
- ◆ LBMB agreed to acquire Angelica Corporation

Prime Broker Revenues Have Grown....

Annualized Prime Services client revenues in 2008 are expected to be significantly higher than 2007

Annualized Client Revenues – 2007 vs. 2008

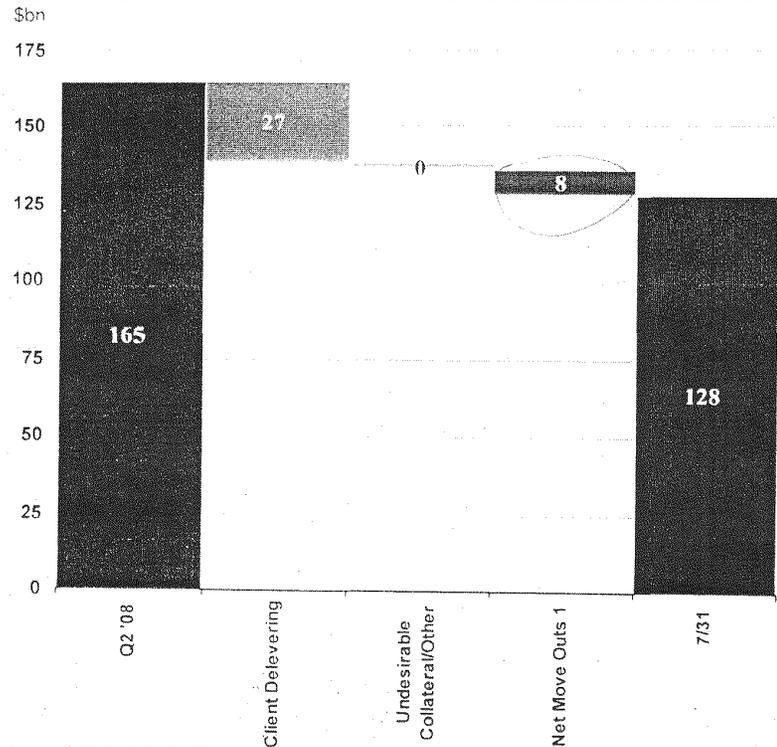


... Driven by Growth in Fixed Income Balances and Improved Pricing

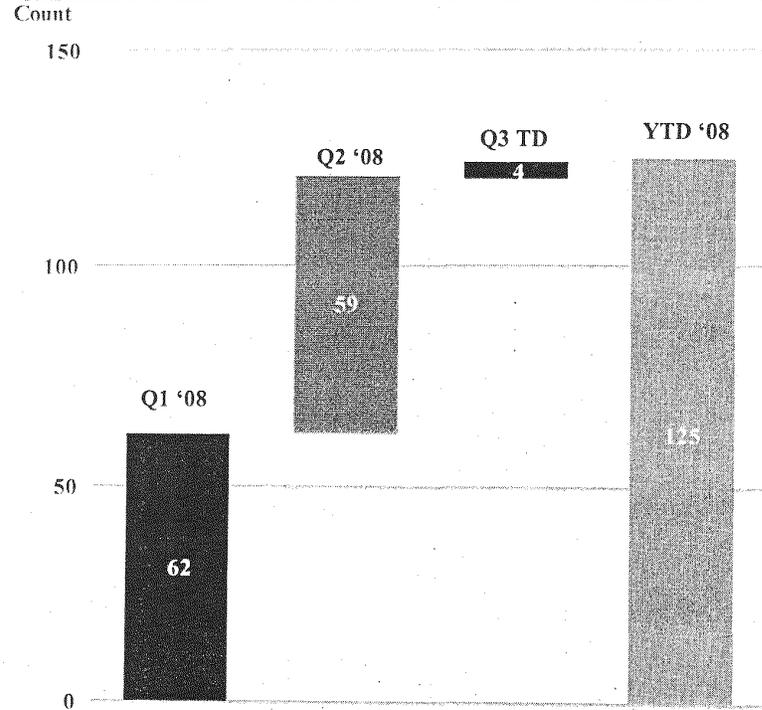
While equity balances have declined due to difficult market conditions and client de-risking, the Firm has continued to win new client mandates

- ◆ Approximately 75% of the decline in balances has been caused by market specific events, although increasing profitability on client balances has offset these declines
- ◆ In spite of these difficult market conditions, the Firm has continued to expand its presence by adding 125 net new clients to Prime Services YTD while only losing one

Equity Client Balances – Q1 '08 – July '08¹



Net New Client Relationships – Q1 '08 to July '08



Run Rate Revenues For Quarter Above Breakeven

Q3 '08 run rate revenues have fallen from record 2007 levels and H1 '08, but Lehman's core franchise still remains sufficient in revenue generation

- ◆ The reduction in run rate revenues is driven primarily by credit crisis slowdown in market activity as well as the seasonally slower summer months

Run Rate By Business ¹

<i>\$ millions</i>	FY 2006 Qrtly Avg	FY 2007 Qrtly Avg	H1 2008 Qrtly Avg	Q3 2008 Estimate
FID	2,440	2,295	2,327	1,749
Global Rates	334	427	628	315
Foreign Exchange	76	91	121	172
High Grade Credit	210	172	443	418
High Yield	267	239	346	24
CDO	112	166	96	61
Securitized Products	642	311	337	486
Real Estate	529	559	(166)	(67)
Commodities	7	68	103	99
Municipals	101	60	94	(14)
Prime Services	161	204	326	256
Equities	1,040	1,596	1,339	703
Liquid Markets Americas	299	391	493	286
Execution Services Europe	131	198	178	122
Execution Services Asia	51	75	81	38
Total ES/Liq Mkts	481	664	752	446
Global Volatility	228	465	82	(48)
Convertibles	54	34	55	(33)
Equities Strategies	76	141	105	78
Equities Prime Services	200	292	345	259
IBD	519	670	520	490
IMD	334	417	433	429
Other	(162)	(173)	121	(15)
Run Rate	4,170	4,805	4,741	3,355
Comp	2,167	2,373	2,083	1,950
NPE	752	938	1,048	975
Pre-Tax Income	1,251	1,494	1,610	430

1. Other includes FID Corporate and Equities Corporate business lines, which include Banking offsets

Q3 '08 Writedown Summary

Impact of Writedowns on Earnings

Lehman's Q3 '08 focus has been on reducing exposures to less liquid assets and this sales activity, together with significant selling activity across the industry and reduced availability of leverage, has adversely affected pricing

- ◆ As a result, the Firm has seen a significant decrease in the level of earnings from the past year

Writedowns and Earnings

<i>\$ billions</i>	<i>Estimate</i>				
	Q3 '07	Q4 '07	Q1 '08	Q2 '08	Q3 '08
Run Rate Revenues	5.3	4.4	5.3	4.2	3.4
Residentials	(1.6)	(2.2)	(3.0)	(2.4)	(5.1)
Commercials	(0.3)	(0.7)	(1.4)	(0.9)	(1.7)
Other ABS	(0.3)	(0.6)	(0.2)	(0.4)	(0.5)
HY Acquisition Facilities	(1.3)	0.3	(0.7)	(0.3)	(0.2)
Total Gross Writedowns	(3.5)	(3.2)	(5.3)	(3.9)	(7.5)
Hedges [†]	2.7	2.4	3.4	0.3	2.0
Defensive Trading	-	-	-	(0.7)	-
Principal Investing	(0.2)	0.8	0.2	(0.5)	(0.7)
Net Revenues	4.3	4.4	3.5	(0.7)	(2.9)
Compensation and Benefits	2.1	2.2	1.8	2.3	2.0
Non-Personnel Expenses	1.0	1.0	1.0	1.1	1.0
Total Non-Interest Expenses	3.1	3.2	2.8	3.4	2.9
Pre-Tax Income	1.2	1.2	0.7	(4.1)	(5.8)
Income Taxes	(0.3)	(0.3)	(0.2)	1.3	1.9
Net Income	0.9	0.9	0.5	(2.8)	(3.9)
Dilutive EPS	\$1.54	\$1.54	\$0.81	(\$5.14)	(\$5.90)

Drive by long seller; \$1.6B

[†] Includes debt revaluations

Alt-A Weakness Drove Resi Writedowns

The majority of Q3 '08 writedowns were related to US Alt-A assets, where performance has deteriorated significantly over the past 3-6 months

Q3 '08 Distribution of Resi Portfolio Gross Writedowns (\$M)

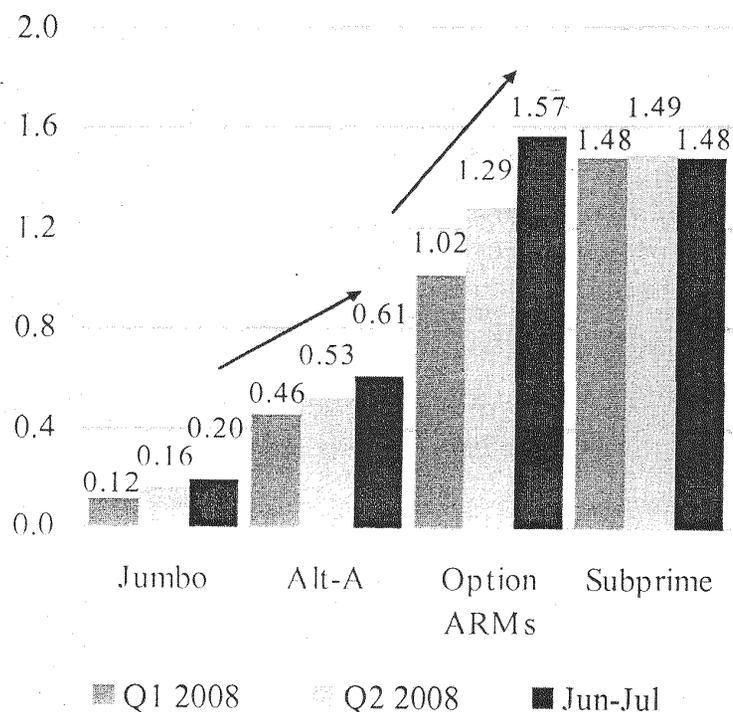
	US Alt-A	US Non-Prime	Europe	Other	Total
Whole loans	\$442	\$366	\$277	\$54	\$1,138
Securities	1,759	156	577	350	2,842
Residuals	604	21	65	0	690
Other	0	0	0	405	405
Total	\$2,805	\$542	\$920	\$809	\$5,076

Q3 2008 Asset Performance

Alt-A and Option performance deteriorated significantly in Q3 '08 while subprime trends have been steadier

◆ Bulk of the writedowns in Q3 '08 have been in alt-A and option ARM securities and loans

Monthly Change in Cumulative Non-performers (CNP) %



Cumulative Non Performers by Sector and Vintage, %

	2005	2006	2007
Jumbo	1.11	1.98	2.19
Alt-A	4.90	8.78	9.21
Option ARM	9.13	16.5	12.3
Subprime	19.2	32.2	28.0

1. Cumulative non-performers (CNP) are 60-day plus delinquencies and cumulative defaults as a % of original balance of the pool. We show monthly changes in this CNP for H1 2006 originations for illustrative purposes

Why Didn't Hedges Work?

- ◆ Recently there has been a significant uptick in alt-A delinquencies and loss expectations which are specific to alt A and haven't affected the pricing of our hedges. Alt-A AAA prices have dropped by 20-25 points during the quarter while ABX AAAs on average dropped 8 points and ABX subs (AA through BBB-) dropped 4 points. The WA price of our alt-A book was 64.6 at the beginning of Q3 and is now at 42.7

Price Change in Q3 2008		
	Alt-A (Leh) Change	Nonprime (Leh) Change
AAA	(21)	(11)
Subs	(18)	(9)

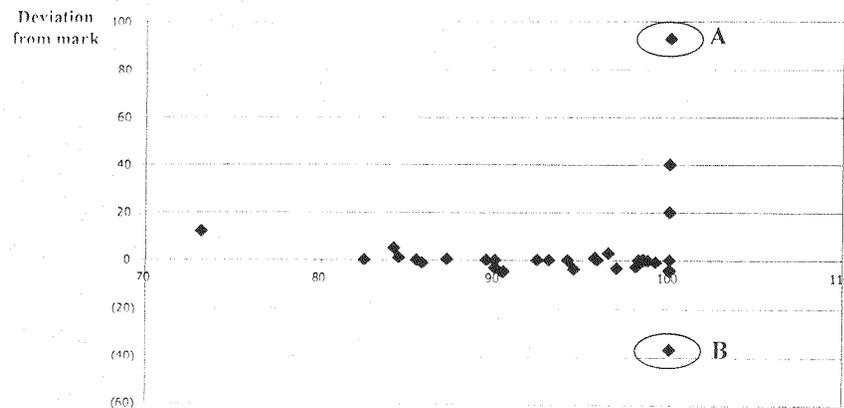
- ◆ Unfortunately, there is no direct hedge for alt-A residential risk (Bulk of our writedowns were in US alt-A). ABX could be used as a comparable however this quarter alt A significantly under performed it's ABX cousin due to worsening credit performance and market supply concerns
- ◆ Our strategy around hedging this book is to break exposures into a) spread and b)HPA / credit loss exposures. We have used ABX hedges for our HPA/credit exposure and a combination of CDX, CMBX, single name financial CDS , and swaps to hedge the spread exposure. Hedging in ABX/CMBX poses challenges as they can be rather thinly traded markets at times
- ◆ In Q3, our spread hedges were ineffective as residential credit sectors widened significantly (200-600bp) while other spread sectors moved modestly (Corporates widened 35bp)
- ◆ Given the increased basis risk, we have aggressively reduced balance sheet in the sector

Commercial Real Estate Exposure

Our exposure to CRE continues to decline with significant sales in the quarter

- ◆ Sales have been achieved at levels close to our marks and writedowns have been a result of spread widening

Carrying Mark as of Q2 vs. Sale (Discount) in Q3



- ◆ On a weighted average, the Firm sold positions within .60 of the mark prior to sale (average mark 94.5 vs. 93.9 average sale price)
- ◆ **Outliers:**
 - (A) REO sale in Asia (93 points over the current mark), which was required to be held at the lower of cost or market
 - (B) REO sale in Asia (37 points under mark), which was for ~\$700K resulting in a loss of only \$400K

Writedowns

Americas Top 10

Position	Debt/Equity	Amt
SunCal (excludes \$27mm taken by IMD)	Debt/Equity	(\$212)
Archstone (excludes \$15mm taken by IMD)	Equity	(\$110)
Beacon III Bridge Mezz	Debt	(\$100)
PLF LB Syndication Partner LLC	Equity	(\$73)
Austin EOP - Various B notes	Debt	(\$50)
237 Park Bridge Mezz li	Debt	(\$67)
PCCP LB Mountain House LLC	Equity	(\$41)
Roslyn LB Syndication Partner LLC	Equity	(\$40)
25 Broad	Debt	(\$40)
Commons of McLean	Debt	(\$35)
Total		(\$768)

Europe Top 5

Miscellaneous Whole loans & NPLS		(\$34)
Miscellaneous bonds		(\$28)
Coeur Defense (excludes \$6mm taken by IMD)	Equity	(\$55)
Rockpoint	Equity	(\$29)
Octopus	Debt / Equity	(\$25)
Total		(\$171)

Asia Top 5

Cowboy (Retail Properties)		(\$50)
Japan PL- Kyoto Karasuma markdown		(\$16)
Project Tada		(\$9)
Crescent		(\$5)
NCC Hatchi MTM		(\$5)
Total		(\$85)

Q3 Headcount Reduction

In Q3 '08 we reduced headcount, focusing disproportionately on businesses in secular decline (such as Mortgage Capital) and discretionary corporate areas

- ◆ Lehman has also reallocated human resources into those businesses that we believe will provide the best future risk-adjusted returns

Headcount Reduction							
	11/30/07	6/30/08	Net Reductions ¹	Pro Forma	% Change from 6/30	Associate & Analyst Class ²	9/15/08
Fixed Income	3,467	3,012	(262)	2,750	(9%)	203	2,953
Equities	2,427	2,332	(164)	2,168	(7%)	160	2,327
Prime Services	699	686	(64)	622	(9%)	51	674
Investment Banking	2,537	2,275	(178)	2,097	(8%)	324	2,421
Investment Management	3,035	2,877	(40)	2,837	(1%)	74	2,911
Principal	111	125	(18)	107	(14%)	0	107
Front Office ex-Mortgages	12,276	11,307	(726)	10,581	(6%)	812	11,393
Mortgage Capital ³	4,419	2,692	(1,209)	1,483	(45%)	0	1,483
Front Office	16,695	13,999	(1,935)	12,064	(14%)	812	12,876
IT	4,860	4,909	(158)	4,751	(3%)	91	4,842
Operations	2,422	2,625	4	2,629	0%	94	2,723
Finance	2,193	2,163	51	2,214	2%	53	2,267
Core HR	423	412	(16)	396	(4%)	4	400
Legal / Compliance / Audit	836	837	12	849	1%	14	863
Discretionary Corp	1,120	1,076	(298)	778	(28%)	3	781
Total Corporate	11,854	12,022	(405)	11,617	(3%)	259	11,876
Total Firm	28,549	26,021	(2,340)	23,681	(9%)	1,071	24,752

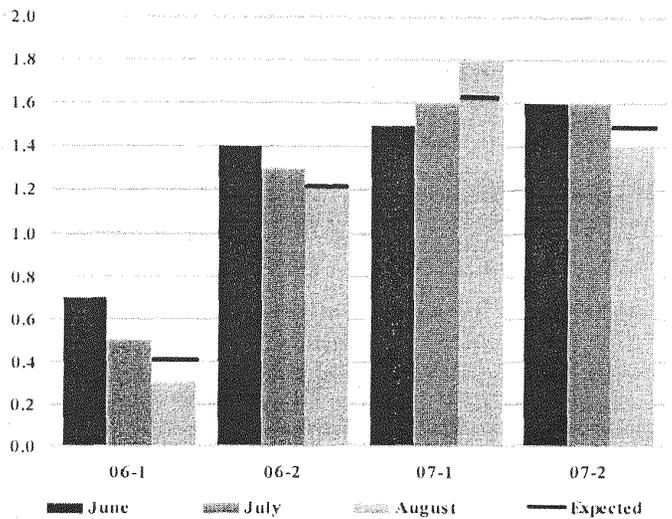
Repositioning the franchise

1. Incl. completed reductions & those targeted by 9/15/08 as well as transfers, pipeline activity and replacement hires.
 2. Includes all analysts and associates who will be joining after 6/30/08.
 3. Mortgage Capital net reductions include Q4 pipeline.

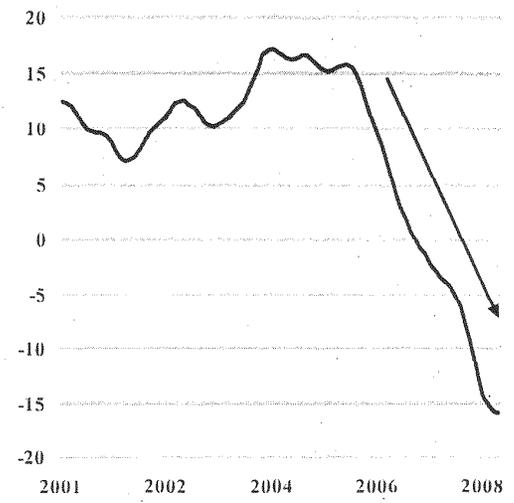
Outlook For Residential Mortgages Is More Constructive

The pace of credit deterioration in subprime continues to slow as macroeconomic data is becoming more positive

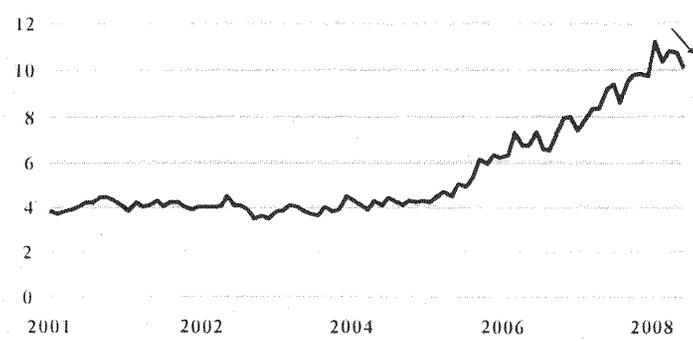
M-o-M Increase in 60+ Dq as % of Current Bal



Case-Shiller Composite 20 City US HPI (YoY Chg %)



New Homes – Supply in Months of Sales (Months)



Lehman Business Is Well Positioned

- ◆ More balanced business mix
 - Multiple distinct and active sub-businesses
 - Significant shift from origination business to secondary trading
- ◆ Attractive valuations of core portfolio
- ◆ Significant opportunities in secondary trading
 - Uncertainty in sector leading to fewer competitors

Expectations for Q4 '08

Liquid Markets

- ◆ FX activity benefiting from significant currency movements
- ◆ Wide bid-offer spreads offsetting limited volume reductions
- ◆ Productivity expected to improve more than 20% with credit stabilization (expected positive response to capital raise, "SpinCo", etc.)
- ◆ Significant market share retained as majority of activity on a fully collateralized basis
- ◆ Agency trading reduced due to lower market appetite

Credit

- ◆ Reduction in competition gives opportunity for increasing market share (ABN, RBS, HSBC, etc.)
- ◆ Consistently top tier in primary markets, especially in U.S., including through Q3 – syndication activity unaffected
- ◆ Spreads in investment grade at historical wides and bid-offer spreads much wider, creating more profitable trading opportunities
- ◆ Loan activity more profitable as IG borrowers moved to market-based pricing
- ◆ Significant debt coming due so refinancing activity expected to be high
- ◆ High Yield challenged with limited risk appetite, but offset by greater opportunities in High Grade
- ◆ CDO restructuring advisory activity highly lucrative

Execution Services

- ◆ Business unaffected by credit concerns as no credit risk taken
- ◆ U.S. activity annualizing to record levels despite slowdown in markets suggesting higher market share
- ◆ Volatility business affected by market slowdown and credit concerns, and unlikely to rebound quickly
- ◆ European flow business focused on higher volumes including dark pool partnerships (such as Baikal with LSE)

Other

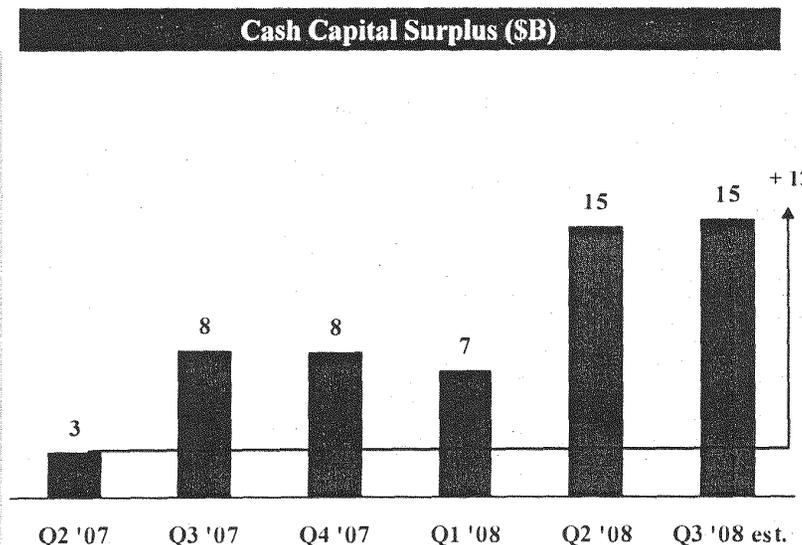
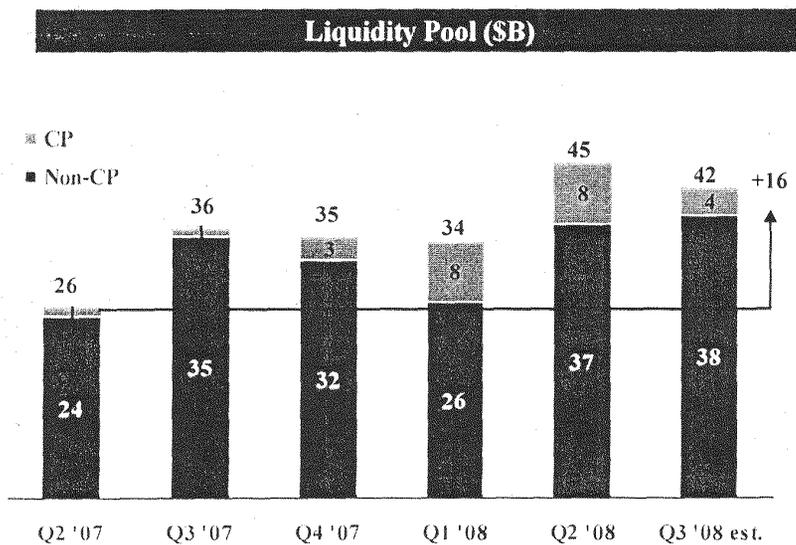
- ◆ Mortgage trading opportunities significant across agency CMOs, agency structuring and non-agency mortgages
- ◆ Advisory revenues in residential products growing – e.g., with financial guarantors, bonds involved in liquidity support structures supported by mortgages
- ◆ Pricing pressure on assets likely to persist but risks well diversified and limited
- ◆ Muni opportunities huge – enormous amount of refinancing
- ◆ Good financing pipeline with several large transactions, particularly in Asia
- ◆ Commodities related flow business strong
- ◆ Derivative business has continued to build
- ◆ M&A business well-positioned with excellent reputation, increasing market share and improving business mix helping to offset market weakness

Liquidity

Lehman's Liquidity Continues to Be Strong

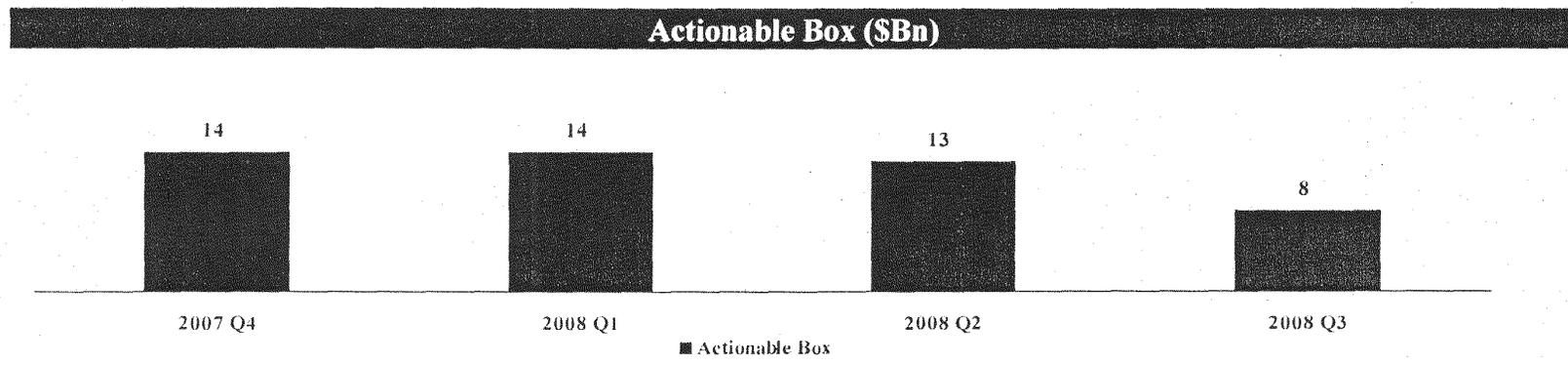
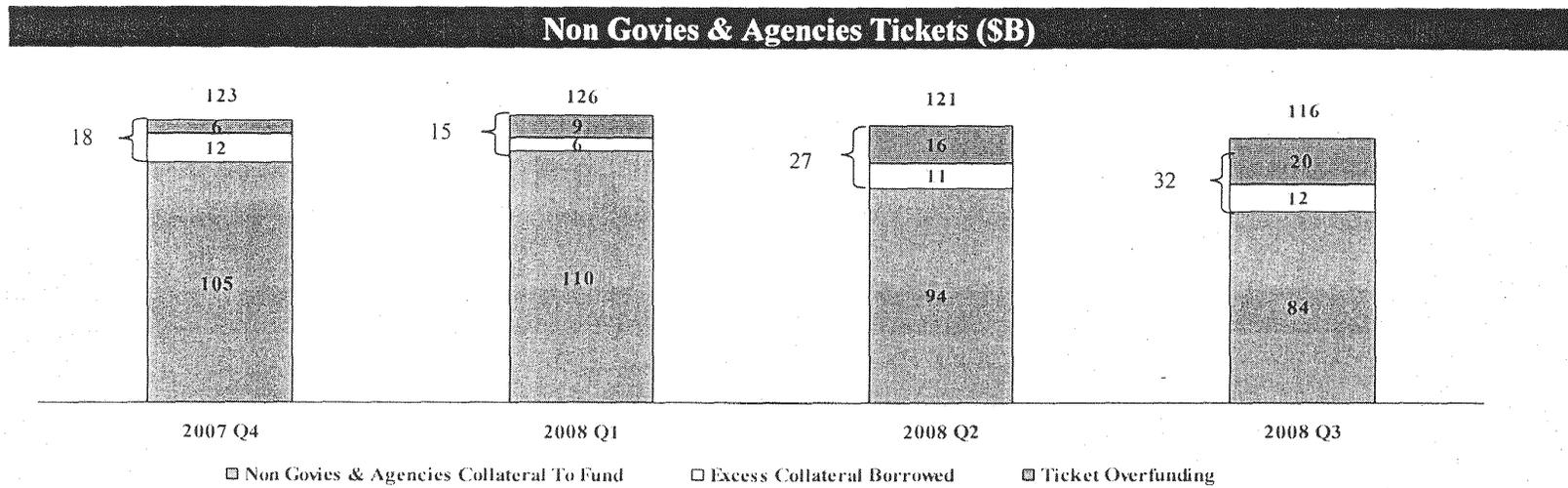
We finished the quarter with a \$42B liquidity pool and \$15B cash capital surplus at Holdings

- ◆ Since Q2 '07 when the funding environment became more challenging, we have grown our liquidity pool by \$16 billion and our cash capital surplus by \$12 billion
 - We closed Q3 '08 with a liquidity pool of \$42 billion, slightly higher than its Q2 level after adjusting for the reduction in our commercial paper outstanding
 - Cash capital surplus is estimated to be near record levels of about \$15 billion at the end of Q3 '08 – unchanged from Q2



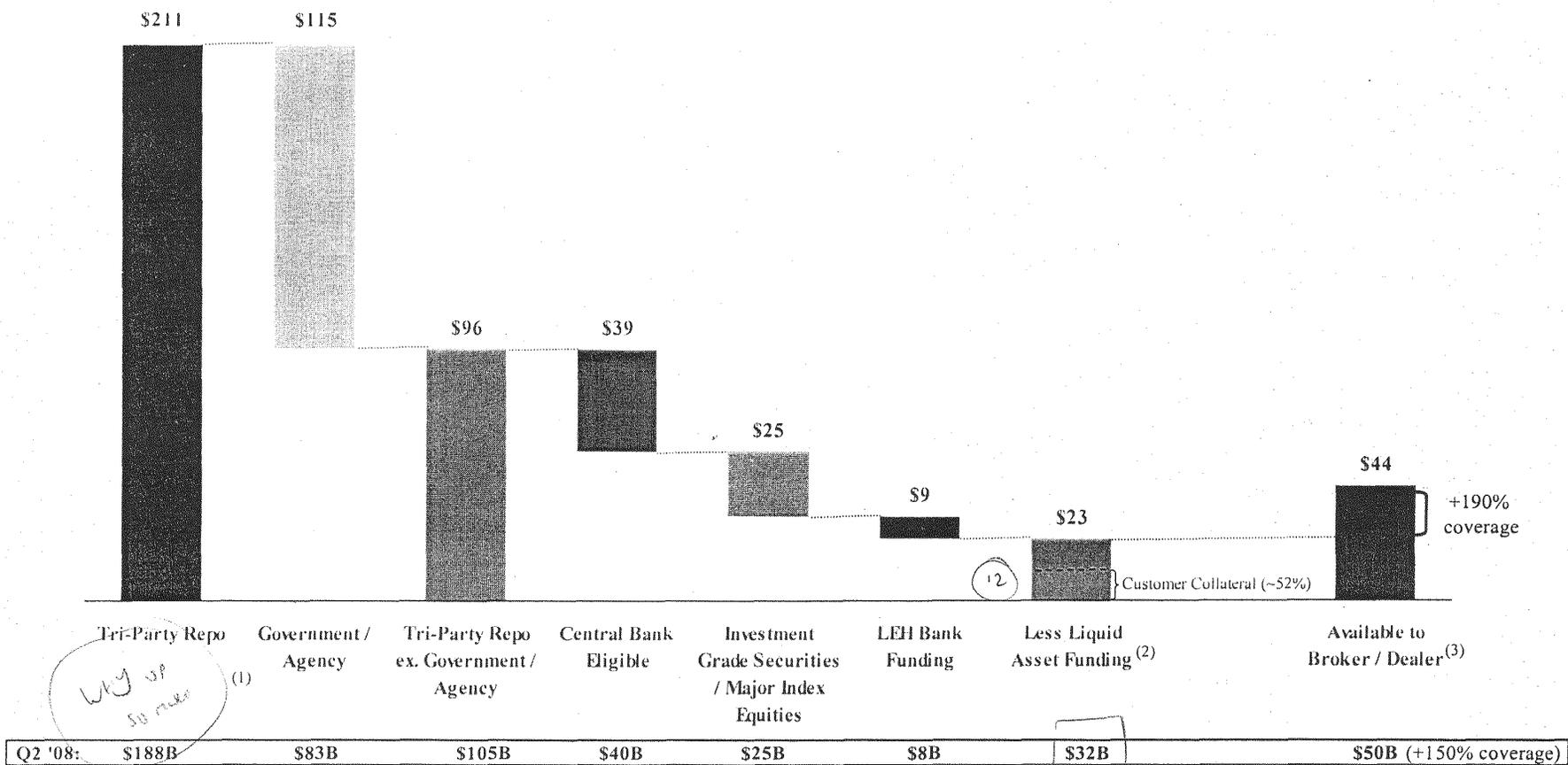
Reduction in Funding Requirements

Deleveraging of balance sheet during Q3 drove reduction in secured funding requirements. Overfunding increased by \$5 billion to \$32 billion



Liquidity Risk Of Secured Funding

Tri-Party Repo Book Collateral - August 31, 2008 (\$B)



1. Gross exposure
 2. 28% of the \$23B is >1 month duration-- Average tenor is 41 days
 3. Includes Holdings' Liquidity Pool (\$42.1B), LBI's (\$0.9B), LBJ's (\$0.1B), and Bankhaus' (\$1.2B)-- Excludes \$1 billion of customer free credits in LBIE

Liquidity Stress Scenario Assumptions

Loss of Secured Funding			Loss of Unsecured Funding		
◆ Repos			◆ Unsecured debt		
Governments & Agencies	% Rolled	% Lost	– CP and LCs: 0% roll at maturity		
	100%	0%	– Buybacks: \$1 billion per month		
Corporates			– Deposits at US banking affiliates: 80% roll at maturity		
High Grade	70%	30%	• In practice, no impact on liquidity (operate with significant excess liquidity)		
High Yield	0%	100%	– Ability to draw on committed facilities		
Asset Backs / Private Labels			◆ Loan funding		
High Grade	40%	60%	– Per funding schedule for leveraged loans		
High Yield	0%	100%	– Some loan commitments drawn outside of the bank entities		
Commercial Paper Repo	70%	30%	◆ Derivatives		
Muni	40%	60%	– Cash collateralization on derivative payables per CSA requested on day 1 (paid on day 2 per industry practice)		
Equities / Convertibles			– Margin disputes against us paid on day 3 and 4		
E1	70%	30%	– 2 notch downgrade during second week		
E2 / C1	0%	100%	• Note: The vast majority of the credit rating downgrade-related posting requirements come from derivative transactions with structured vehicles, which have a 30 day cure period, which gives us to assign or restructure the transactions, thereby avoiding the posting of additional collateral.		
E3 / C2	0%	100%	◆ Other		
◆ Munis TOB – 7 day put exercised on day 1			– \$0.5 billion every other week to cover operational cash expenses (PE and NPE)		
– Customer collateral returned /liquidated over 1 week			– No sale of assets or reduction in customer funding		
– Firm collateral liquidated					
◆ Prime broker					
– Free credit balances withdrawn on day 1					
◆ Central banks					
– No PDCF or TSLF					
– Able to use ECB tender facility through Bankhaus, consistent with normal practice					

Stress Scenario – Overall Results

	2-Sep	3-Sep	4-Sep	5-Sep	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep	15-Sep	Week 3	Week 4	Total
Beginning Cash Position ⁽¹⁾	45.3	37.2	32.2	34.2	33.0	32.4	31.5	29.8	28.4	27.1	24.2	18.7	45.3
Net Loss Secured Funding	(6.5)	(3.7)	1.0	(0.0)	(0.1)	(0.8)	(1.2)	(0.8)	(0.2)	(1.0)	(2.7)	(4.2)	(20.3)
Unsecured Funding													
Unsecured Debt													
CP	(1.1)	(0.1)	(0.2)	-	(0.1)	(0.1)	(0.0)	(0.1)	(0.0)	(0.6)	(0.0)	(0.0)	(2.4)
STD excluding CP	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.0)	0.0	(1.2)	(0.0)	(0.0)	(1.3)
LTD	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.3)	(0.0)	(0.0)	(0.1)	(0.5)	(0.9)	(2.0)
Buybacks	-	-	-	(0.2)	-	-	(0.2)	-	-	-	(0.4)	(0.2)	(1.0)
Deposits of Banking Affiliates	(0.4)	-	-	-	-	-	-	-	-	-	-	-	(0.4)
Committed Facility Drawdown	-	-	4.5	-	-	-	-	-	-	-	-	-	4.5
Net Loan Funding	-	-	(1.5)	-	(0.3)	-	-	-	(1.0)	-	(1.0)	-	(4.2)
Derivative Activity													
Posting of Uncalled Collateral	-	(1.2)	(1.2)	-	-	-	-	-	-	-	-	-	(2.4)
Downgrade (2 Notches)	-	-	-	-	-	-	-	(0.5)	-	-	-	-	(0.5)
Disputed Margin Payments	-	-	(0.5)	(0.5)	-	-	-	-	-	-	-	-	(1.1)
Cash outflows to fund operations (PE, NPE, etc.)	-	-	-	(0.5)	-	-	-	-	-	-	(0.5)	-	(0.9)
Total Net Loss Unsecured Funding	(1.6)	(1.3)	1.0	(1.2)	(0.5)	(0.1)	(0.5)	(0.6)	(1.0)	(1.9)	(2.7)	(1.1)	(11.6)
Ending Cash Position	37.2	32.2	34.2	33.0	32.4	31.5	29.8	28.4	27.1	24.2	18.7	13.4	13.4

1. Includes Holdings' liquidity pool (\$42.1B), LBI's (\$0.9B), LBIE's (\$1.0B), LBJ's (0.1B) and Bankhaus' (\$1.2B)

Stress Scenario – Loss Of Secured Funding

Secured Funding	Total Repo Book	Total At Risk	2-Sep	3-Sep	4-Sep	5-Sep	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep	15-Sep	Week 3	Week 4	Total
Lost Capacity															
LBJ															
E1 - Major Index Equities	0.1	0.1	-	-	-	-	-	-	-	-	-	-	-	-	0.0
E2 - Non-Major Index Equities	1.5	0.8	0.2	-	-	-	-	-	-	-	-	-	-	-	0.6
E3 - Non-Major Index Equities (<\$5)	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	0.0
EMG	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	0.0
Total LBJ	1.6	1.0	0.2	-	-	-	-	-	-	-	-	-	-	-	0.7
LBIE															
Government Agency	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sovereigns	7.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset Backs - Investment Grade	14.0	0.3	0.0	-	-	0.0	0.0	-	0.0	-	0.0	0.0	0.0	0.1	0.2
Asset Backs - Non-Investment Grade	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	0.0
C1 - Investment Grade Convertibles	0.4	0.1	0.0	0.0	-	0.0	0.0	-	-	0.0	-	0.0	0.0	-	0.1
C2 - Non-Investment Grade Convertibles	1.0	0.7	0.1	0.0	-	0.1	0.1	-	-	0.2	-	0.0	0.3	0.0	0.7
Corporates - Investment Grade	8.1	6.2	0.7	0.1	0.3	0.0	0.1	0.0	-	0.1	-	0.1	0.2	0.2	1.8
Corporates - Non-Investment Grade	3.0	1.2	0.6	0.0	0.1	0.1	0.0	-	-	0.1	-	0.0	0.2	0.1	1.2
E1 - Major Index Equities	5.2	2.0	0.1	0.0	0.1	0.2	0.1	0.1	0.0	0.0	-	0.0	0.0	-	0.6
E2 - Non-Major Index Equities	3.4	1.5	0.5	0.1	0.0	0.2	0.3	0.1	0.0	0.1	-	0.0	0.1	0.1	1.5
E3 - Non-Major Index Equities (<\$5)	3.4	1.9	0.6	0.0	0.0	0.1	0.1	0.0	-	0.5	0.2	0.3	0.0	-	1.9
EMG	8.1	3.3	1.2	0.2	0.1	0.2	0.1	0.0	0.0	0.1	-	0.0	0.6	0.6	3.3
Money Markets	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	0.0
Private Labels - High Yield	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Private Labels - Investment Grade	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	0.0
Total LBIE	54.7	17.2	3.8	0.5	0.5	0.9	0.8	0.2	0.1	1.2	0.2	0.6	1.5	1.1	11.3
LBH															
Government Agency	22.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MBS	57.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sovereigns	27.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset Backs - Investment Grade	2.9	2.9	1.0	-	-	-	-	-	0.1	-	-	0.1	0.2	0.4	1.8
Asset Backs - Non-Investment Grade	1.6	1.4	0.5	-	-	-	-	-	0.6	-	-	0.2	0.1	-	1.4
C1 - Investment Grade Convertibles	0.4	0.4	0.4	-	-	-	-	-	-	-	-	-	-	-	0.4
C2 - Non-Investment Grade Convertibles	0.7	0.7	0.7	-	-	-	-	-	-	-	-	-	-	-	0.7
Corporates - Investment Grade	9.2	9.2	2.7	0.1	-	-	-	-	-	-	-	0.0	0.0	-	2.8
Corporates - Non-Investment Grade	3.8	3.5	3.3	-	-	-	0.0	-	0.2	-	-	0.0	-	-	3.5
E1 - Major Index Equities	5.0	3.1	0.9	-	-	-	-	-	-	-	-	-	-	-	0.9
E2 - Non-Major Index Equities	4.4	3.4	2.9	-	-	-	-	-	-	-	-	-	0.5	-	3.4
E3 - Non-Major Index Equities (<\$5)	0.2	0.1	0.1	-	-	-	-	-	0.1	-	-	-	-	-	0.1
Money Markets	7.2	7.2	2.1	-	-	-	-	-	-	-	-	-	-	-	2.1
Mun	2.7	2.7	1.6	-	-	-	-	-	-	-	-	-	-	-	1.6
Private Labels - High Yield	1.7	1.7	0.3	-	-	-	-	-	0.2	-	-	0.1	1.0	0.0	1.7
Private Labels - Investment Grade	7.2	6.2	1.7	-	-	-	-	-	0.0	-	-	0.1	0.1	1.8	3.7
Total LBH	153.7	42.4	18.1	0.1	-	-	0.0	-	1.2	-	-	0.5	1.9	2.2	24.0
LBHH															
Wholeloan Residential	0.6	0.2	0.1	-	-	-	0.1	-	-	-	-	-	-	-	0.2
Total Lost Capacity	210.7	60.7	22.3	0.5	0.5	0.9	0.8	0.2	1.2	1.2	0.2	1.2	3.4	4.0	36.4
Mitigants and other stress elements															
LBIE															
Prime Broker Customer Free Credits	-	-	(1.0)	-	-	-	-	-	-	-	-	-	-	-	(1.0)
Prime Broker Reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Excess Collateral Returned	-	-	2.8	0.3	0.2	0.9	0.7	0.1	0.1	0.2	-	0.1	0.2	0.1	5.6
ECB	-	-	0.9	0.2	0.3	-	0.1	-	-	0.1	-	0.1	0.2	0.4	2.2
Bankhaus Funding ECB Eligible	-	-	1.0	-	-	-	-	-	-	-	-	-	-	-	1.0
FYI - Additional repos with Bankhaus	-	-	-	-	-	-	-	-	0.1	-	0.8	0.2	0.1	-	1.2
Total LBIE			3.7	0.4	0.5	0.9	0.7	0.1	0.1	0.3	-	0.2	0.4	0.5	7.9
LBH															
Prime Broker Customer Free Credits	-	-	(2.3)	2.3	-	-	-	-	-	-	-	-	-	-	-
Unwinding of Mun TOB Prog	-	-	-	-	-	-	-	(0.7)	-	-	-	-	0.7	-	-
Balance Sheet Reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Writedowns on balance sheet reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dealer-based Matched Book Reduction	-	-	-	-	1.0	-	-	-	-	-	-	-	-	-	1.0
Excess Collateral Returned	-	-	4.9	-	-	-	-	-	-	-	-	-	-	-	4.9
Term Overfunding	-	-	9.3	(5.8)	-	-	-	-	-	-	-	(0.1)	(0.4)	(0.7)	2.3
Total LBH			12.0	(3.6)	1.0	-	-	(0.7)	-	-	-	(0.1)	0.3	(0.7)	8.2
Net Loss Secured Funding			(6.5)	(3.7)	1.0	(0.0)	(0.1)	(0.8)	(1.2)	(0.8)	(0.2)	(1.0)	(2.7)	(4.2)	(20.3)

Partial Sale of IMD

Overview

We believe that a sale of at least a portion of IMD is necessary to maintain the franchise and preserve the value of the asset

- ◆ “Doing nothing” is not a viable option for preserving long-term value

- ◆ We are considering two alternatives:
 - Sale of a 51% stake in portions of the IMD business including Asset Management (Neuberger Berman and LBAM), PIM, Private Equity and LBAIM
 - Excludes ICG and Minority Stakes in Hedge Funds (“Minority Stakes”)
 - 20% IPO of all of IMD business

- ◆ Sale of 51% stake would result in a relatively minor impact of \$200- \$230 million on Lehman’s pre-tax earnings
 - Would increase Tier 1 capital by \$3.2 billion

- ◆ 20% IPO would reduce Lehman’s pre-tax earnings by between \$230-\$300 million
 - Would increase Tier 1 capital by \$1.4 billion

- ◆ Remains one of the moving pieces linked to capital raising options

IMD Process and Bid Discussion

- ◆ For the purposes of this discussion, we include/exclude the following businesses/positions when referring to IMD:
 - **Included:** Asset Management (Neuberger Berman and LBAM), PIM, Private Equity and LBAIM, and “Minority Stakes”
 - **Excluded:** ICG, Satori, Liberty View, Corporate Cash Management business, Private Equity LP and Asset Management seed capital positions residing on Lehman’s balance sheet

- ◆ Currently engaged in due diligence and negotiations with 5 financial sponsors (Bain Capital, KKR, Silver Lake Partners, Hellman Friedman LLC, and Clayton, Dubilier & Rice)
 - Selection based on initial indications of interest received from 10 financial sponsors
 - Revised (final) bids expected during the week of September 8th
 - 5 bids for IMD, with an average bid of almost \$8 billion
 - Also in discussion with one potential strategic partner

- ◆ Bids also taken for sale 51% stake in IMD (based on above definition) excluding “Minority Stakes”
 - Indicative valuation in \$5.0 to \$5.5 billion range
 - Sale of 51% would result in pre-tax proceeds of approximately \$2.5 - \$2.75 billion

- ◆ Necessary consents and pro forma reporting requirements pose challenges for including Minority Stakes in 51% stake
 - Unlikely to be resolved within accelerated timeframe of the process
 - Financial Sponsors have expressed willingness to include, if preferred by LEH
 - A separate transaction with alternative partners such as SWFs may improve valuation if monetization is desirable

- ◆ Potential to monetize a portion of the LP and seed capital positions on LEH balance sheet also exists
 - Alternative partners such as SWF are most likely to have an interest

IMD Sale Options Impact

A sale of 51% of Neuberger, the Fixed Income Asset Management platform, Private Client and Alternatives businesses would have reduced Lehman's pre-tax profits by approximately \$200mm in 2007

IMD FY 2007

	Rev	Comp	NPE	Dedicated	Allocations		Pre-tax	Δ to Current
					Shared (going)	Shared (remaining) ¹		
FY 2007 IMD								
NEU + Fixed income platforms	1,139	551	156	101	53		278	
PIM	631	315	146	75	60		35	
Minority stakes	127						127	
Alternatives	345	113	44	54	22		112	
ICG	770	154	20	90			506	
Allocation/Other	85						(267)	
Total	3,097	1,133	366	320	135	352	791	
NEU + Fixed income platforms	(1,139)	(551)	(156)	(101)	(53)	0	(278)	
PIM	(631)	(315)	(146)	(75)	(60)	0	(35)	
Alternatives	(345)	(113)	(44)	(54)	(22)	0	(112)	
Total	(1,770)	(866)	(302)	(176)	(113)	0	(425)	
Remaining IMD	1,327	267	64	144	22	352	366	(425)
NEU + Fixed income platforms	(1,139)	(551)	(156)	(101)	(53)	0	(278)	
PIM	(631)	(315)	(146)	(75)	(60)	0	(35)	
Alternatives	(345)	(113)	(44)	(54)	(22)	0	(112)	
49% LEH Minority Interest	208	0	0	0	0	0	208	
Total	(1,562)	(866)	(302)	(176)	(113)	0	(217)	
Remaining IMD	1,535	267	64	144	22	352	574	(217)
20% Outside Minority Interest in IMD	0	0	0	0	0	0	(229)	
Remaining IMD	3,097	1,133	366	320	135	352	562	(229)

1. Shared Allocation 'remaining' represent those allocation that the Firm is expected to retain in the event of a partial/entire sale. Minority Interest shares are determined excluding these amounts (e.g. IPO 20% scenario Minority Interest reduction = (\$791mm + \$352mm = \$1129mm x 20% = \$229mm)

IMD Sale Options Impact (Cont'd)

For FY2008, the pre-tax impact would be approximately \$225 million

		IMD FY 2008							
		Rev	Comp	NPE	Dedicated	Shared (going)	Shared (remaining) ¹	Pre-tax	Δ to Current
FY 2008 IMD	NEU + Fixed income platforms	1,250	588	173	109	56		324	
	PIM	609	312	137	78	63		19	
	Minority stakes	336						336	
	Alternatives	374	142	48	55	24		105	
	ICG	809	162	21	95			531	
	Allocation/Other	70					370	(300)	
	Total	3,448	1,204	379	337	143	370	1,015	
Options	NEU + Fixed income platforms	(1,250)	(588)	(173)	(109)	(56)	0	(324)	
	PIM	(609)	(312)	(137)	(78)	(63)	0	(19)	
	Alternatives	(374)	(142)	(48)	(55)	(24)	0	(105)	
	Total	(1,859)	(900)	(310)	(187)	(119)	0	(448)	
	Remaining IMD	1,589	304	69	150	24	370	567	(448)
Options	NEU + Fixed income platforms	(1,250)	(588)	(173)	(109)	(56)	0	(324)	
	PIM	(609)	(312)	(137)	(78)	(63)	0	(19)	
	Alternatives	(374)	(142)	(48)	(55)	(24)	0	(105)	
	49% LEH Minority Interest	220	0	0	0	0	0	220	
	Total	(1,639)	(900)	(310)	(187)	(119)	0	(228)	
	Remaining IMD	1,809	304	69	150	24	370	787	(228)
	20% Outside Minority Interest in IMD	0	0	0	0	0	0	(277)	
	Remaining IMD	3,448	1,204	379	337	143	370	738	(277)

1. Shared Allocation 'remaining' represent those allocations that the Firm is expected to retain in the event of a partial/entire sale. Minority Interest shares are determined excluding these amounts (e.g. IPO 20% scenario Minority Interest reduction = (\$1,015mm + \$370mm = \$1,385mm x 20% = \$277mm)

Capital Raising Options

Capital Plan

While Lehman's Q3 '08 capital ratios remain strong (net leverage of 11.1x, Tier 1 ratio of 11.4% and Total Capital Ratio of 17.1%), maintaining these ratios within our targeted ranges going forward will require a capital raise

- ◆ A strategic investor willing to invest \$4.5 billion or more would address this need for additional capital
 - A Korean consortium was willing to invest \$6 billion into “Core” Lehman
 - Although a deal was far along, recent turmoil in the Korean market (Won depreciated 14% vs. the USD in one day) and difficulty of working with a consortium makes this transaction unlikely
- ◆ We continue to have ongoing dialogue with various strategic investors, including sovereign wealth funds, Private Equity shops and a large Commercial Bank, for “Core” Lehman
- ◆ Raising capital so far ahead of the CRE spin-off (which is likely to be a Q1 '09 event) is challenging with investors
 - Stronger interest in investing in “Core” Lehman post “SpinCo”
 - Challenging to sell as an illiquid security that is contingent on shareholder approval to be converted into “Core” Lehman 4 to 6 months in the future
- ◆ The tradeoff is the certainty of having the capital raised vs. the risk of destabilization that could result from a capital raise at a potentially low price because of the unusual nature of the contingent security
 - Particularly true if a capital raise directly into “Core” Lehman would be much better received by the market
- ◆ The sale of a 51% interest in IMD lowers the capital requirement and can potentially be linked with an investment in “Core” Lehman
- ◆ Lehman remains completely committed to raising the capital necessary to support “Core” Lehman's operations going forward

Capital Requirements: 51% Sale of IMD + \$3.0B Common

Lehman's capital raise and capital improvements will be sized to leave the Firm with a strong capital position subsequent to "SpinCo" and other de-risking initiatives

◆ The below "base case" scenario is one of several which would achieve similar levels of capital adequacy

Capital Requirements									
<i>\$ millions</i>	Q4 2007	Q1 2008	Q2 2008	Q3 2008 Estimate	SpinCo	Q4 2008 "Core" Lehman ¹	IMD 51% Sale	Q4 2008 "Core" Lehman ²	Target
Common									
Balance	21,395	21,839	19,284	15,441	(7,918)	11,422	169	16,591	
New Issuance	-	-	-	4,004	3,000	3,000		-	
Induced Conversion	-	-	-	-	2,000	2,000		-	
+ Total Common	21,395	21,839	19,284	19,445		16,422		16,591	
Preferred									
Balance	1,095	2,993	6,993	8,993		8,993		6,993	
Induced Conversion	-	-	-	-	(2,000)	(2,000)		-	
+ Total Preferred	1,095	2,993	6,993	8,993		6,993		6,993	
+ Hybrids (excl. Preferreds)	4,978	4,976	5,004	4,923		4,923		4,923	
= Permanent Capital	27,468	29,808	31,280	33,360		28,337		28,507	
- Goodwill	4,127	4,112	4,101	4,091		4,091	(3,225)	866	
= Leverage Equity	23,341	25,696	27,179	29,268		24,246		27,640	
Deferred Tax Assets, net of realizable within 1 year			(2,209)	(4,509)		(4,509)	(119)	(4,628)	
Capital requirements for insurance entities			(138)	(138)		(138)		(138)	
Cumulative fair value gains on debt, net of taxes			(1,511)	(2,436)		(2,436)		(2,436)	
- Total Capital Deductions			(3,858)	(7,083)		(7,083)		(7,202)	
= Tier 1 Capital			23,262	22,185		17,163		20,438	
Net Assets	372,959	396,673	327,774	326,000		300,000		300,000	
Net Leverage	16.0x	15.4x	12.1x	11.1x		12.4x		10.9x	12x-13x
Risk Weighted Assets	na	na	216,575	195,000		185,000		185,000	
Tier 1 Ratio	na	na	10.7%	11.4%		9.3%		11.0%	11%-12%
Common + Mandatory As % of Permanent Capital	78%	73%	62%	64%		65%		65%	65%

1. Q4 2008 Proforma for impacts of SpinCo

2. Q4 2008 Proforma for impacts of sale of 51% stake in AM, PIM and Alternatives businesses and deconsolidation of balance sheet

Capital Requirements: 20% IPO of IMD + \$4.5B Common

An alternative scenario that would achieve similar capital ratios would be a 20% IPO of IMD combined with a \$4.5 billion common equity raise

Capital Requirements									
<i>\$ millions</i>	Q4 2007	Q1 2008	Q2 2008	Q3 2008 Estimate	SpinCo	Q4 2008 "Core" Lehman ¹	IMD 20% IPO	Q4 2008 "Core" Lehman ²	Target
Common									
Balance	21,395	21,839	19,284	15,441	(7,918)	11,422	78	18,000	
New Issuance	-	-	-	4,004	4,500	4,500		-	
Induced Conversion	-	-	-	-	2,000	2,000		-	
+ Total Common	21,395	21,839	19,284	19,445		17,922		18,000	
Preferred									
Balance	1,095	2,993	6,993	8,993		8,993		6,993	
Induced Conversion	-	-	-	-	(2,000)	(2,000)		-	
Minority Interest	-	-	-	-			1,322	1,322	
+ Total Preferred	1,095	2,993	6,993	8,993		6,993		8,315	
+ Hybrids (excl. Preferreds)	4,978	4,976	5,004	4,923		4,923		4,923	
= Permanent Capital	27,468	29,808	31,280	33,360		29,837		31,237	
- Goodwill	4,127	4,112	4,101	4,091		4,091		4,091	
= Leverage Equity	23,341	25,696	27,179	29,268		25,746		27,146	
Deferred Tax Assets, net of realizable within 1 year			(2,209)	(4,509)		(4,509)		(4,509)	
Capital requirements for insurance entities			(138)	(138)		(138)		(138)	
Cumulative fair value gains on debt, net of taxes			(1,511)	(2,436)		(2,436)		(2,436)	
- Total Capital Deductions			(3,858)	(7,083)		(7,083)		(7,083)	
= Tier 1 Capital			23,262	22,185		18,663		20,063	
Net Assets	372,959	396,673	327,774	326,000		300,000		300,000	
Net Leverage	16.0x	15.4x	12.1x	11.1x		11.7x		11.1x	12x-13x
Risk Weighted Assets	na	na	216,575	195,000		185,000		185,000	
Tier 1 Ratio	na	na	10.7%	11.4%		10.1%		10.8%	11%-12%
Common + Mandatory As % of Permanent Capital	78%	73%	62%	64%		67%		64%	65%

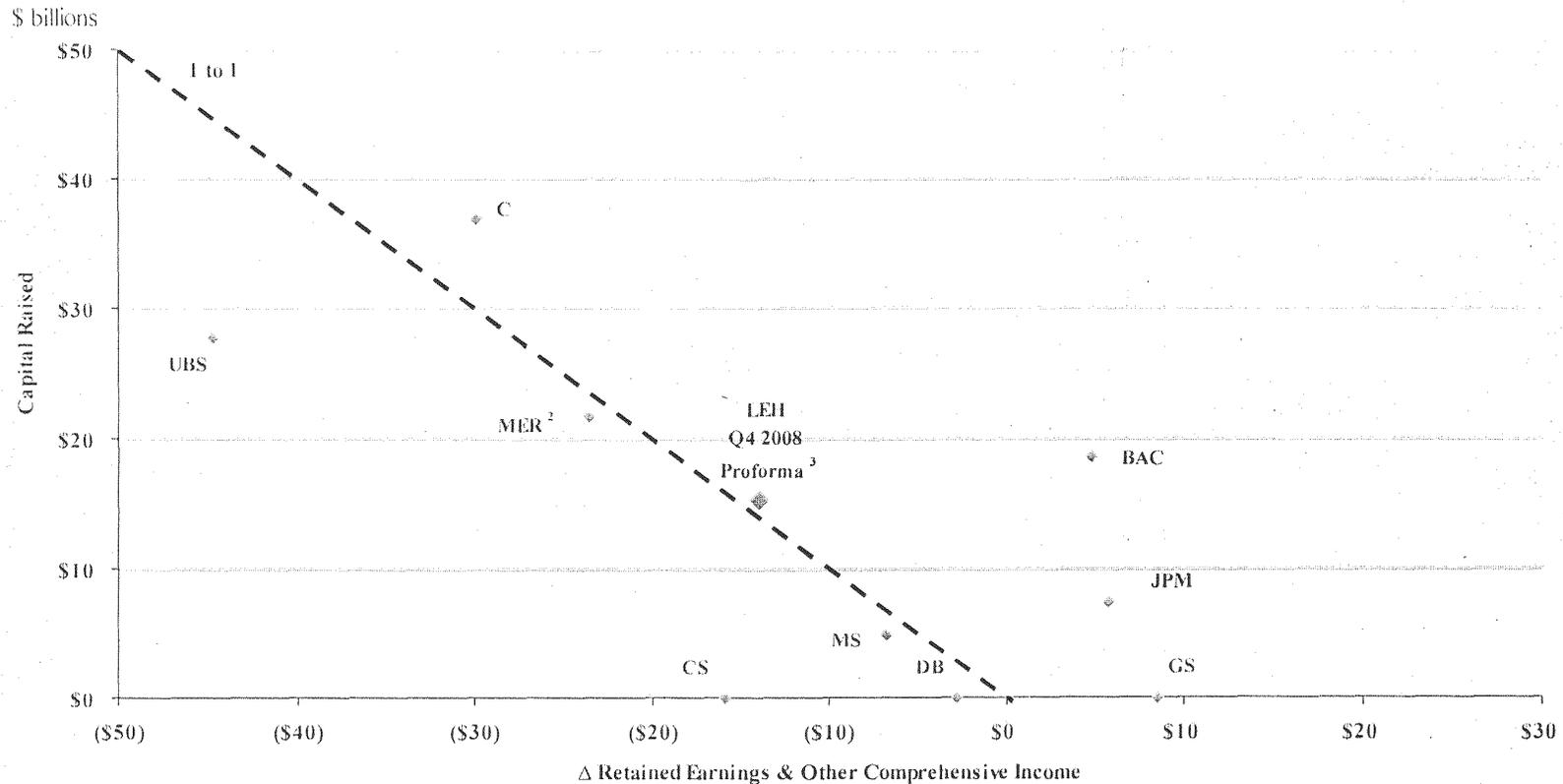
1. Q4 2008 Proforma for impacts of SpinCo

2. Q4 2008 Proforma for impacts of 20% IPO of IMD with valuation of \$7.0B

Lehman Proactive in Replenishing Capital

Lehman has proactively raised capital when markets were opportune and has been able to cover depressed earnings during the current downturn

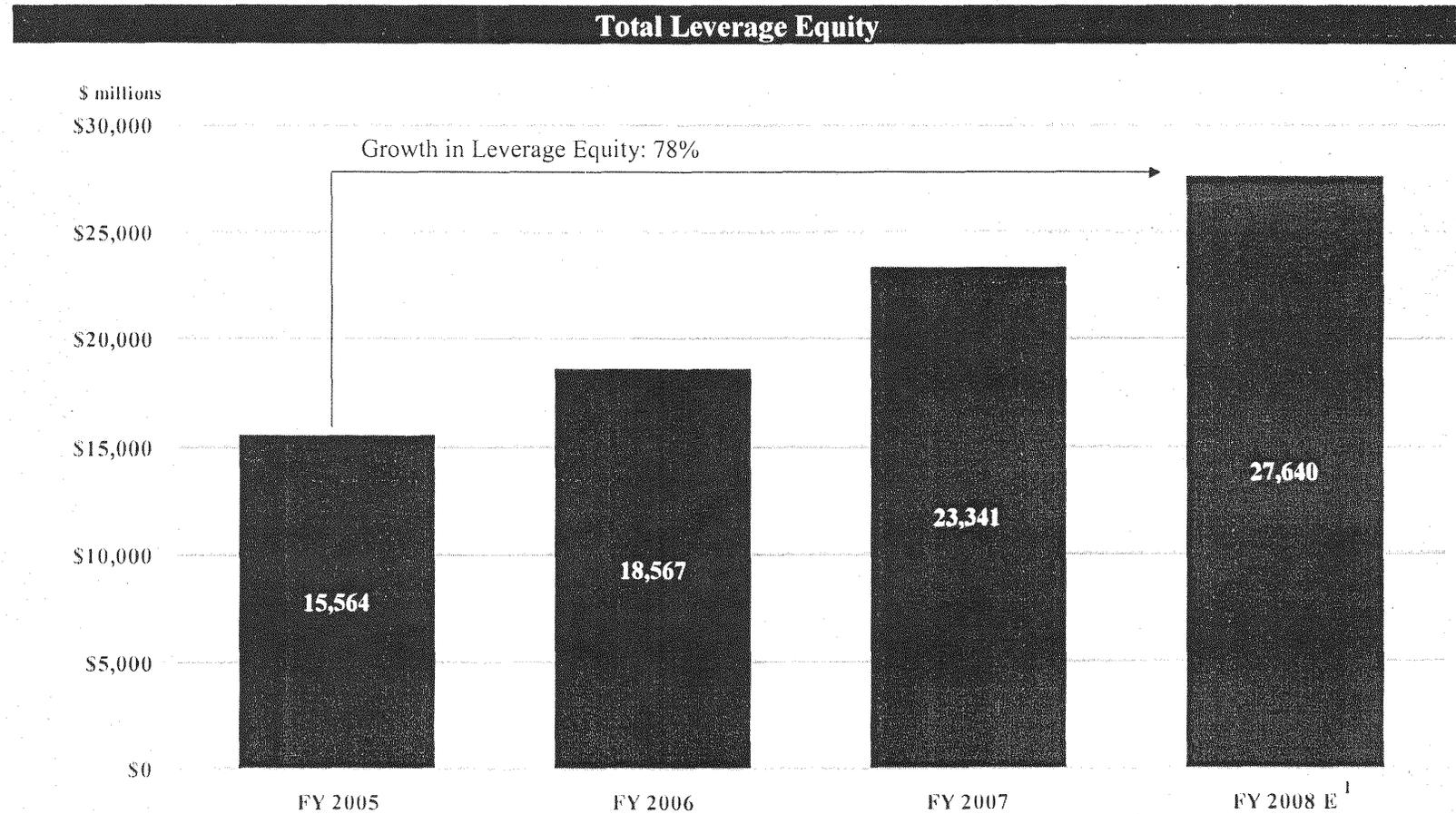
Capital Raised versus Retained Earnings and Other Comprehensive Income Q3 '07 to Q2 '08¹



1. All peers as of Q2 '08 and includes equity capital raised through 8/15/08
 2. MER capital raised as of Q2 '08 + After tax gain on sale of Bloomberg \$2.8B and FDS \$2.3B + Common Stock offering of \$8.5B. Decrease in Retained Earnings includes After-tax Writedowns of ABS CDOs / Monolines of \$3.7B - \$1.6B After-tax payment to Temasek as reset provision - \$2.4B of additional dividends for exchange of existing mandatory convertible preferred to common stock
 3. LEH equity estimated through Q4 '08: Includes \$(4.4)B decrease in retained earnings and \$(7.9)B SpinCo transaction offset by \$3.0B common equity raise + \$0.3 gain on sale of 51% stake in AM, PIM and Alternative businesses

FY 2009 Post-SpinCo Equity Stronger Than Before

Despite the losses and the CRE spin-off, Lehman's capital base will be strong with capital enhancements



Shareholders' Equity includes Common + Preferred Equity + Junior Subdebt - Goodwill

¹ LEH shareholders' equity as of FY2008 reflects impacts of SpinCo, sale of 51% stake in AM, PIM and Alternatives businesses and \$3.0B common equity raise

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“Core” Lehman Going Forward

“Core” Lehman Overview

- ◆ Over the past several quarters, there have been significant changes in the marketplace and competitive environment
 - Reduced activity in key businesses such as securitized products and real estate
 - Less liquidity and availability of capital, such that capital is now priced at market-clearing levels
- ◆ However, these changes have not reduced our clients’ fundamental demand for our products/services or our ability to compete in our core businesses (Fixed Income, Equities, Investment Banking and Investment Management)
- ◆ Our ability to compete in these businesses is grounded in our operating model which centers on four principles: operational excellence, the creation and delivery of intellectual capital, risk management and a strong client orientation
- ◆ Through consistent execution of these principles, Core Lehman has the capacity to generate \$13.3B¹ in annual revenues in 2009
- ◆ We are confident we can deliver this performance, even without a material contribution from securitized products or real estate, since:
 - We have competitive advantages in each of the underlying products and geographies where we choose to compete
 - We have well-defined growth opportunities which we can capture by leveraging our existing capabilities
 - We have achieved comparable performance in the recent past with substantially less balance sheet
- ◆ Going forward, our balance sheet composition of Core Lehman will be significantly more liquid, with fewer Level 3 assets
 - And we will fund these assets from existing, more stable sources, such as the increased use of our bank entities
- ◆ To support these assets at 10x net leverage, we will need ~\$30B of tangible equity capital
 - This will require us to raise \$3.0B in new equity capital
- ◆ We will also need to reduce our NPE from current levels, and have identified a series of specific saves to achieve that goal

¹ \$12.3B after effect of debt revaluation

Change in Market and Impact on Lehman's Model

What's Changed

- ◆ Shift in market opportunity
 - Residential / commercial mortgage origination and securitization substantially reduced
 - Sponsors activity diminished / re-oriented
 - Increase in distressed and restructuring
- ◆ Less liquidity in market
- ◆ Reduced access to long-term debt market
- ◆ Capital priced at market clearing levels

What Hasn't

- ◆ Client needs
 - Activity levels remain strong
 - Capital accumulating / needs to be invested
- ◆ Growth of key geographies
 - Asia
 - Emerging Markets

Implications for Lehman Model

- ◆ Focus on client franchise
 - Content
 - Service quality
 - Differentiation
- ◆ Diversify funding sources
 - Reduce reliance on secured market
 - Expand use of banks
- ◆ Increase discipline around risk-return characteristics of balance sheet
 - Charge for all risks incurred, including funding
- ◆ Establish and adhere to absolute limits around asset class concentration

Lehman's core competencies and culture remain intact

What Defines “Core” Lehman?

- ◆ Global institutional investment bank => four major business lines, three geographic regions
- ◆ Concentrated operations focused on key money centers
- ◆ Client-focused business model

“Core” Lehman

Fixed Income

- ◆ Rates
- ◆ Credit (HG, HY)
- ◆ FX
- ◆ Commodities
- ◆ Securitized Products
- ◆ Comm. Mortgages / Real Estate
- ◆ Municipals and Public Finance
- ◆ Research

Equities

- ◆ Liquid Mkts / Execution Svcs
- ◆ Leveraged Products
- ◆ Equity Strategies
- ◆ Research

Prime Services

Investment Banking

- ◆ M&A
- ◆ Restructuring
- ◆ Equity Underwriting
- ◆ Debt Underwriting
- ◆ Leveraged Finance
- ◆ Derivative Solutions

Investment Management

- ◆ Asset Management
- ◆ Alternative Investments
- ◆ Private Equity
- ◆ Private Investment Management

Changes

Businesses exited

- ◆ Residential mortgage origination, globally
- ◆ Non-U.S. residential mortgage servicing
- ◆ All other asset origination, including student loans and small business finance

Businesses repositioned

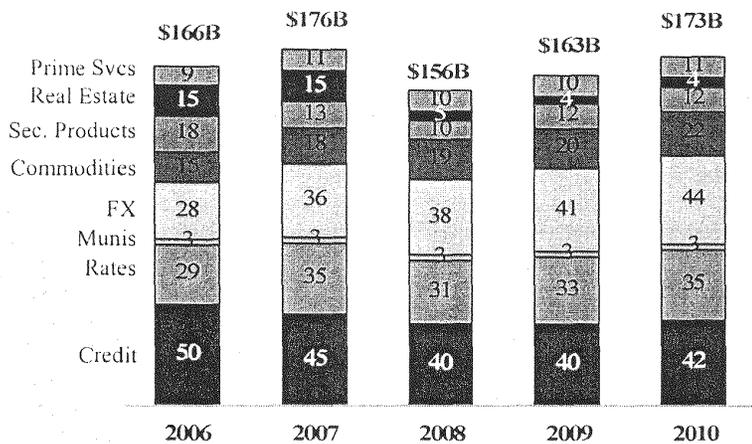
- ◆ Commercial Real Estate
 - Transition to fund format and advisory

Drivers of Future Success

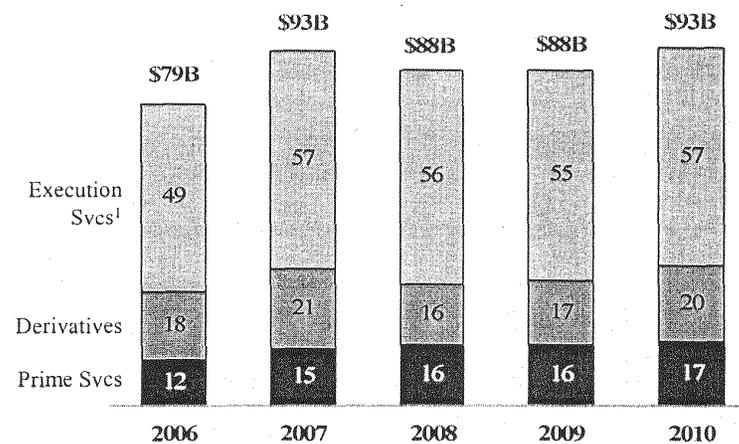
- ◆ Operational Excellence
 - Diversified and integrated global platform
 - Efficient operators
 - Tactical and strategic expertise
- ◆ Intellectual Capital
 - Identifying new market opportunities
 - Thinking “outside the box”
 - Quantitative & analytical differentiation
- ◆ Client-Focused Franchise
 - Forging inner-circle relationships
 - Being the “first call” for clients
 - Bringing the entire firm to our clients

Market Fee Pools...

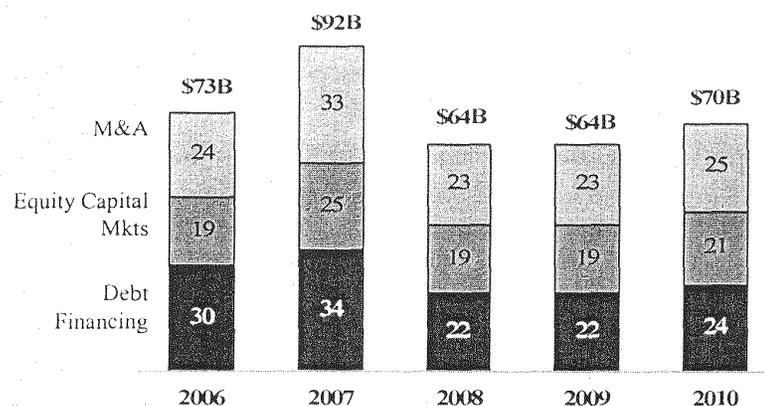
Fixed Income (excl. writedowns)



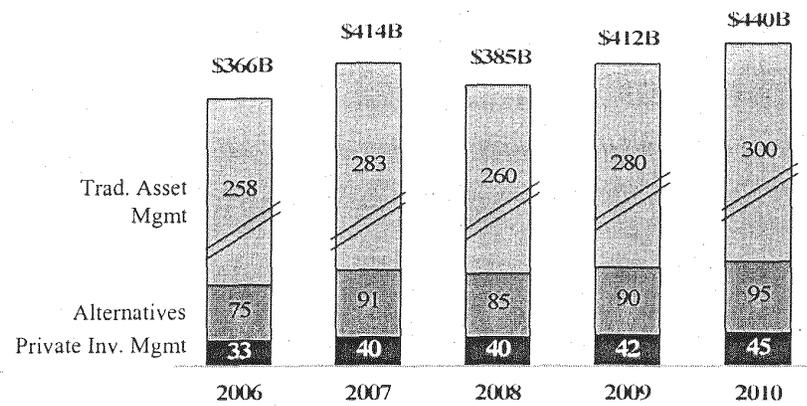
Equities



Investment Banking



Investment Management



LEHMAN BROTHERS

¹ Includes Flow Vol for Americas
Note: Lehman Brothers estimates

...And Lehman's Current Market Positioning...

	Product	2007				G'wich/Thomson Rank			Competitive Edge			
		Mkt Size ¹	LEH Share ²	LEH Revs	'06-'07 Δ share	Amer	Eur	Asia	Intellect Capital	Tech-nology	Business model/org	Client Franchise
Fixed Income	Credit	\$45	4.4%	\$2.1	(0.3)%	1	8	>10	✓		✓	✓
	Rates	35	4.6%	1.7	0.0 %	1	>10	6			✓	✓
	Munis	3	7.6%	0.2	(5.2)%	na	na	na	✓		✓	✓
	FX ³	36	0.9%	0.4	(0.2)%	7	10	4	✓	✓		
	Commodities	18	1.4%	0.3	1.2 %	7	8	7			✓	
	Sec Prods	13	10.1%	(0.1)	(4.5)%	1			✓			✓
	Real Estate	15	13.8%	1.3	(0.4)%	6			✓			✓
	FI Prime Svcs ⁴	11	7.2%	0.8	1.4 %	5	>10	>10		✓	✓	
	FI Corp/Other	nm	nm	(0.8)	nm	na	na	na				
Total		\$176		\$6.0								
Equities	Liquid Mkts	\$57	4.7%	\$2.7	0.6 %	2	8	12	✓	✓		✓
	Derivatives ⁵	21	9.6%	2.0	3.2 %	3	2	11	✓			✓
	EQ Prime Svcs ⁴	15	7.8%	1.2	0.2 %	8	7	6			✓	
	EQ Strategies	nm	nm	0.6	nm	na	na	na				
	EQ Corp	nm	nm	(0.3)	nm	na	na	na				
	Total		\$93		\$6.1							
Invest. Banking⁵	Advisory	\$33	3.7%	\$1.2	(0.5)%	6	4	2	✓			✓
	Equity Origination	25	3.8%	0.9	(0.8)%	3	9	>10				✓
	Debt Origination	34	4.2%	1.4	(0.7)%	8	>10	>10			✓	✓
	Banking Offset	nm	nm	(1.2)	nm							
	Total		\$92		\$2.4							
Invest. Mgmt	Traditional AM	\$283	0.4%	\$1.1	0.4 %	na	na	na	✓			
	Alternatives	91	0.7%	0.6	0.7 %	na	na	na	✓			
	Priv. Inv. Mgmt (shadow)	40	3.4%	1.4	0.2 %	na	na	na				✓
	Other ⁷	nm	nm	0.8	nm							
	Total (excl. PIM)		\$374		\$2.6							

1. Lehman Brothers estimates
2. LEH share of client revs; excl effect of MTM losses.
3. Ranking per Euromoney's '08 FX poll.
4. Rank based on financing for FI, eq lending for EQ; Eur & Asia financing = estimates.
5. Amer = client recog; Eur & Asia = quality index.
6. CY YTD through 7/31/08.
7. Includes Private Equity gains.

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...Drive Future Revenue Capacity

Revenue Scenario (\$B)						
(BPM View)	Actuals				Scenario	
	2005	2006	2007	2008	2009	Excl. Marks 2008
Fixed Income						
FX	\$0.3	\$0.3	\$0.4	\$0.6	\$0.6	\$0.6
Real Estate	2.0	2.1	1.3	(4.3)	0.2	(0.4)
Securitized Prod.	3.0	2.6	(0.1)	(6.4)	0.7	* 1.4 →
Commodities	0.0	0.0	0.3	0.5	0.5	0.5
Munis	0.4	0.4	0.2	0.2	0.3	0.2
Credit	1.8	2.4	2.1	2.3	2.0	2.4
Rates	1.4	1.3	1.7	1.4	1.5	1.6
FID Prime Services	0.5	0.6	0.8	1.2	0.8	1.2
Corp/Other/PIM Adj.	(0.9)	(0.7)	(0.8)	(0.2)	(0.6)	(0.2)
Total Fixed Income	\$8.5	\$9.0	\$6.0	(\$4.8)	\$5.9	\$7.1
Equities						
Liquid Mkts	\$1.7	\$2.0	\$2.7	\$2.6	\$2.2	\$2.6
Converts	0.1	0.2	0.1	0.1	0.2	0.1
Vol	0.6	0.9	1.9	0.3	1.2	0.3
EQ Strat	0.2	0.2	0.6	0.3	0.5	0.3
EQ Prime Services	0.6	0.8	1.2	1.1	1.2	1.1
Corp/Other/PIM Adj.	(0.1)	(0.1)	(0.3)	(0.3)	(0.5)	(0.3)
Total Equities	\$3.2	\$4.0	\$6.1	\$4.2	\$4.7	\$4.2
Invest. Mgmt.	\$1.2	\$1.7	\$2.6	\$0.7	\$0.5	\$1.5
Invest. Banking (Net)	\$1.9	\$2.1	\$2.4	\$1.0	\$2.0	\$2.2
Principal Investing	\$0.1	\$0.6	\$0.7	(\$0.7)	\$0.3	\$0.0
Corp/Other	(\$0.2)	\$0.2	\$0.3	\$0.6	(\$0.1)	\$0.6
Revenue Pre Debt Reval	\$14.6	\$17.6	\$18.1	\$0.9	\$13.3	\$15.6
Debt Reval	0.0	0.0	1.2	2.4	(1.0)	2.4
Total Reported	\$14.6	\$17.6	\$19.3	\$3.4	\$12.3	\$18.1

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2009 Scenario

Product	Market Size Est.		LEH '09 Scenario		'07-'09 △ Revs	Growth Drivers				
	2007 ¹	2009 ¹	Share ²	Revs		Electronic Trading	Products	Sectors/ Regions	Clients	
Fixed Income	Credit	\$45	\$40	5.0%	\$2.0		Distressed	EMEA		
	Rates	35	33	4.5%	1.5		Exotics	Non G-7	IBD clients	
	Munis	3	3	9.6%	0.3	0.1				
	FX	36	41	1.4%	0.6	0.2	FXLive	Exotics	EMG	
	Commodities	18	20	2.5%	0.5	0.2		Oil/refined	EU/Asia	Corporates
	Sec Prods	13	12	5.6%	0.7	0.7		NPL	Restruct	
	Real Estate	15	4	5.2%	0.2	(1.1)		Distressed		
	FI Prime Svcs	11	10	8.0%	0.8	(0.0)		Deriv Svc	EU/Asia	
	FI Corp/Other/PIM Adj.	nm	nm	nm	(0.6)					
Total	\$176	\$162		\$5.9	(\$0.1)					
Equities	Liquid Mkts	\$57	\$55	4.0%	\$2.2	(\$0.4)	Internalization	EU/Asia	↑ Tiering	
	Derivatives	21	17	8.1%	1.4	(0.6)		Asia retail	Corp/Pensions	
	EQ Prime Svcs	15	16	7.4%	1.2	0.0	LLive Prime		Long-short	
	EQ Strategies	nm	nm	nm	0.5	(0.1)				
	EQ Corp/Other/PIM Adj.	nm	nm	nm	(0.5)					
Total	\$93	\$88		\$4.7	(\$1.3)					
Invest. Banking	Advisory	\$33	\$23	4.3%	\$1.0	(\$0.2)		X-border EU	BRICs	NatRes/FIG
	Equity Origination	25	19	4.7%	0.9	(0.0)		Recap	Asia	FIG
	Debt Origination	34	22	5.0%	1.1	(0.3)		Esoteric credit	Underfund pens	
	Banking Offset	nm	nm	nm	(1.0)					
Total	\$92	\$64		\$2.0	(\$0.4)					
Invest. Mgmt (100% of Revs)	Traditional AM	\$283	\$280	0.5%	\$1.5	\$0.4				Partner model
	Alternatives	91	90	0.8%	0.7	0.1		Successor funds		
	Priv. Inv. Mgmt (shadow)	40	42	3.5%	1.5	0.1		PE + HF		\$10M+ HHS
	Total (excl. PIM)	\$374	\$371		\$2.3	(\$0.3)				

1. Lehman Brothers estimates

2. Includes only LEH share of client revenues; excludes effect of mark to mkt losses for LEH and market in each product category

Revenue Return on Net Assets

2009 revenue returns on net assets are reasonable in light of historical performance, current business model and existing market dynamics

Revenue Returns (\$B)

	2009 Scenario		Historical Revenue Return on Net Assets		
	Revenue	Revenue Return on Net Assets	Last 12 Months	Q1'05 - Q2'08	Q1'05 - Q3'07
Fixed Income					
FX	\$0.6	10%	9%	10%	11%
Real Estate (Post Spin)	0.2	3%	NM	2%	6%
Securitized Prod.	0.7	3%	NM	2%	4%
Commodities	0.5	7%	14%	15%	30%
Munis	0.3	5%	4%	7%	7%
Credit	2.0	6%	5%	8%	9%
Rates	1.5	2%	4%	5%	5%
Total		4%	NM	4%	6%
Equities					
Liquid Mkts	\$2.2	28%	36%	30%	28%
Converts	0.2	4%	4%	4%	3%
Vol	1.2	5%	4%	5%	6%
EQ Strat	0.5	9%	8%	12%	13%
Total		10%	10%	11%	11%

Non-Personnel Expense Reduction Plan

At our projected lower revenue, we will need to reduce our non-personnel expenses

- ◆ We have already identified a set of specific opportunities worth \$283 million in annualized saves

NPE Detail (\$M)		
Baseline	2009 Run-rate	\$4,079
Less Targeted NPE Savings	Headcount-driven	\$38
	Office consolidations / subleases	\$102
	Country office closures	\$22
	Mortgage Capital exit	\$46
	Efficiency gains	\$75
	NPE Saves (pre-Divestitures)	\$283
	Investment Mgmt. divestiture	\$428
	Commercial Real Estate Partnership	\$74
	Total NPE Saves	\$786
		NPE post saves and divestitures

Australia, Argentina, Thailand

2009 Income Statement

"Core" Lehman to generate ~11% ROE post LEH CRE spin and NPE reductions

2009 Income Statement (\$B)

Core Revenues	13.3		\$13.3	
Less Debt Revaluation	9.8		(1.0)	
Net Revenues	3.5	26% Red	\$12.3	13.3
Compensation & Benefits		11% 2007	6.5	9.8
Non-Personnel Expenses			3.3	
Restructuring, Incl. Acceleration IMD RSUs			1.1	3.5
Pre-Tax Income	13.3		\$1.3	11% Return
Taxes	9.8		0.4	
Preferred Dividends	3.5		0.5	
Net Income to Common		1.9	\$0.4	3% 1.9

18 BW
11-12
ROE 11%

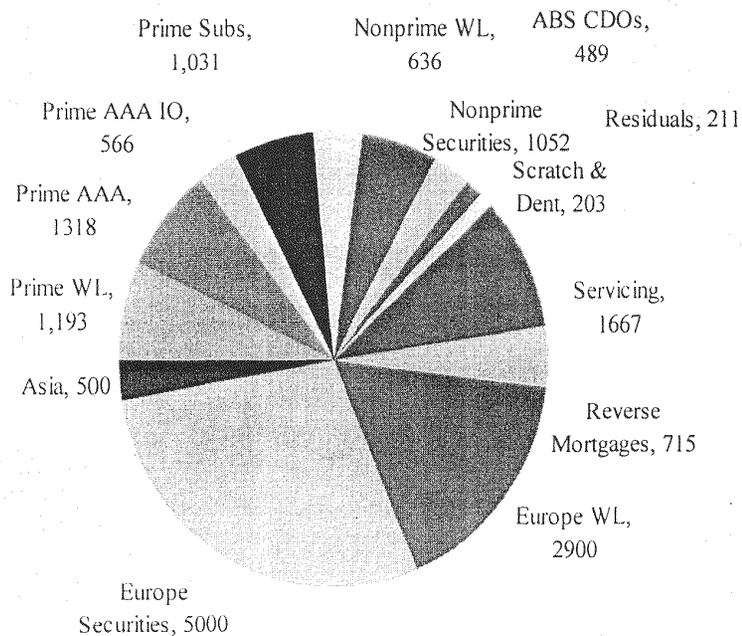
Conclusion

- ◆ Focus of Q3 '08 has been on taking decisive steps to create a clean “Core” Lehman that can focus on building its client-oriented franchise without the “noise” associated with the overhang of legacy assets
 - “SpinCo” removes the Real Estate assets in a way which preserves value for shareholders
 - Resi positions down 53% to \$11.8 billion and now marked at levels consistent with an extremely severe meltdown in the housing market – essentially marked to distressed levels
 - HY Acquisition facilities down 38%
 - ◆ Despite a very substantial loss resulting primarily from writedowns in Resis and Commercials, the Firm’s capital position is stronger than in Q2 '08 as a result of the June \$6 billion raise and de-risking, with leverage at 11.1x and Tier 1 ratio at 11.4%
 - ◆ Liquidity position remains very strong and is materially stronger than it was in March around the Bear event
 - ◆ Revenue run rate for the quarter generates approximately \$400 million of pre-tax profits, with the core business performing well in a difficult environment
 - ◆ We are confident Lehman can perform in Q4 '08 and 2009 as we see opportunities in many businesses and feel asset writedowns are essentially behind us
 - ◆ Capital raise required to ensure “Core” Lehman correctly capitalized post “SpinCo” is a critical element of the plan, and the Firm is committed to a capital raise, which includes the sale of a partial stake in IMD
 - Limited pretax impact of approximately \$200 to \$230 million
 - ◆ In combination we feel our actions have enhanced Lehman’s financial and operating profiles
 - We have dealt decisively with our legacy issues and shifted focus to our ability to generate returns as “Core” Lehman
 - Based on market sizing and competitive positioning, we have a plan in 2009 to generate reasonable returns
 - ◆ We appreciate that we have to demonstrate prospective earnings power to all of our constituencies. At the same time, we believe that the positives associated with our plan and the actions taken to date to implement it should allow Lehman to maintain its current long- and short-term ratings of A and A-1, respectively
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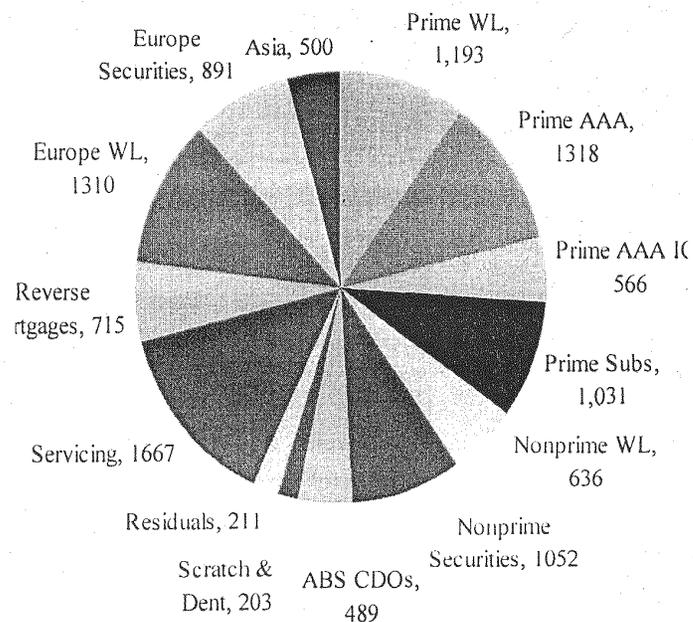
Appendix

Residential Mortgages: Remaining Exposure

Q3 2008 - \$17.4 B



Q3 2008 Proforma - \$11.8 B



Summary of US Residential Positions: Prime / Alt-A

Sector	Asset Type	Face (\$mn)	Market Value (\$mn)	Dollar Price	Key Points
Prime/ Alt-A	Whole loans	1,610	1,193	65.9	<ul style="list-style-type: none"> • Average FICO score of 710 • Combined LTV ratio of 85% at origination • Average loan-size of 300K • California Concentration of only 25% (versus 45% for average Alt-A deal) • 40% fixed-rates, 40% hybrids and 20% Negam loans • Base-case yield of 10% assuming average default rate of 41%¹ • 84% default necessary to generate 0% yield¹
	AAA Securities	2,421	1,318	54.5	<ul style="list-style-type: none"> • Average FICO score of 690 • Average LTV ratio of 80% at origination • Average loan size of 410K • California concentration of 37% • Roughly split 50/50 between senior AAAs and mezzanine AAAs. • Senior AAAs earn base-case yields of 10% with 79% default necessary for 0% yield¹ • Mezzanine AAAs earn base-case yields of 19% with 79% default for 0% yield¹ • Vast majority are current pay bonds and are receiving principal today.
	AAA IOs	566	566		<ul style="list-style-type: none"> • Expect to recover 75%/100% of value in 18 months/3 years. • Base-case yield of 20% • Negative correlation with other resis as higher and back-ended defaults increase their value relative to other securities
	Subordinates	4,930	1,031	21.3	<ul style="list-style-type: none"> • Consists of securities from 2005 or earlier (25%), 2006 or later (38%) and NPL securities (37%). • Pre-2005 securities marked at 29 • Post-2006 securities marked at 9 • NPL securities marked to an underlying loan value of 45
Total Prime		9,627	4,108	42.7	

¹ Base case scenario recovery rate is 35-45%

Summary of US Residential Positions: Nonprime

Sector	Asset Type	Face (\$mn)	Market Value (\$mn)	Dollar Price	Key Points
Non Prime	Whole Loans	1,489	636	41.5	<ul style="list-style-type: none"> • Consist of second liens (77%) and subprime first-liens (23%). • Seconds are marked at 41 with 76% defaults necessary for 0% yield¹ • Subprime first liens are market at 42 • Average FICO score of 646 • Combined LTV of 90% at origination • California concentration of 14.6% (versus 30% for the average subprime deal in the market)
	Securities	3,376	1,052	32.5	<ul style="list-style-type: none"> • Consists of subprime AAAs (33%), wrapped HELOC AAAs (20%) and subprime subordinates (47%) • About 60% of subordinates are from 2005 or earlier vintages which have de-levered and have not seen the magnitude of credit deterioration that recent originations have • Base-case yield of 10% with 79% defaults necessary for 0% yield¹
Total Non-Prime		4,908	1,688	34.4	

1. Stress case scenario has 12% recovery rates for whole loans and 30% recovery rates for AAA securities

Summary of US Residential Positions: Other

Sector	Asset Type	Face (\$mn)	Market Value (\$mn)	Dollar Price	Key Points
Servicing		1,667	1,667		<ul style="list-style-type: none"> • Mortgage Servicing Rights (MSRs) residing at Aurora Loan Services (ALS) • Most MSRs owned by banks and originators (Countrywide owns \$18bn, B of A \$4.5bn and Chase \$11.6bn market value of servicing). • Lower refinancing opportunities for borrowers have resulted in greater stability for the servicing asset class. • Principal balance of loans in servicing portfolio is about \$135bn, with 25% Fixed-rate loans, 50% hybrid ARMs and 25% Option ARMs. • The multiple on our servicing asset is about 4.9x on fixed-rates, 4.3x on hybrid ARMs and 2.7x on Option ARMs with an aggregate multiple of 3.9x. • These multiples are conservative relative to recent servicing trades and where banks have these assets on balance sheet. • Cashflows from servicing running at over \$300mn/year in the last few months.
Reverse Mortgages		746	715	95.9	<ul style="list-style-type: none"> • Loans made to senior citizens (age >65) to allow them to tap equity in their homes. • Underlying loans pay either a floating rate of LIBOR +350bp or a fixed rate of 9%. • Average LTV of 30% (first lien) with subsequent recovery rates close to 100%. • Cash flows driven by mortality rather than default.
Residuals		N/A	221		<ul style="list-style-type: none"> • Includes \$171mn of prime/alt-A residuals, \$10mn of subprime residuals and \$35mn of rev. mortgage residuals.
Scratch and Dent		489	203	41.4	<ul style="list-style-type: none"> • Loans that are either delinquent or have had a serious delinquency episode in the past. • Average LTV of 83% at origination. • Price of 41 reflects 35% of original home value. • Value is realized through the disposition of the foreclosure/REO property and is a short duration asset (1.6 years)
ABS CDO		1,709	489	28.6	<ul style="list-style-type: none"> • Mainly (\$834mn face) of a super senior high grade (30% AAA, 30%AA and 30% A RMBS) CDO with a wrap from XLCA. • Base-case yield of 9% assuming 25% recovery and 16% assuming 50% recovery
Total US Resi		19,367	9,091	46.9	