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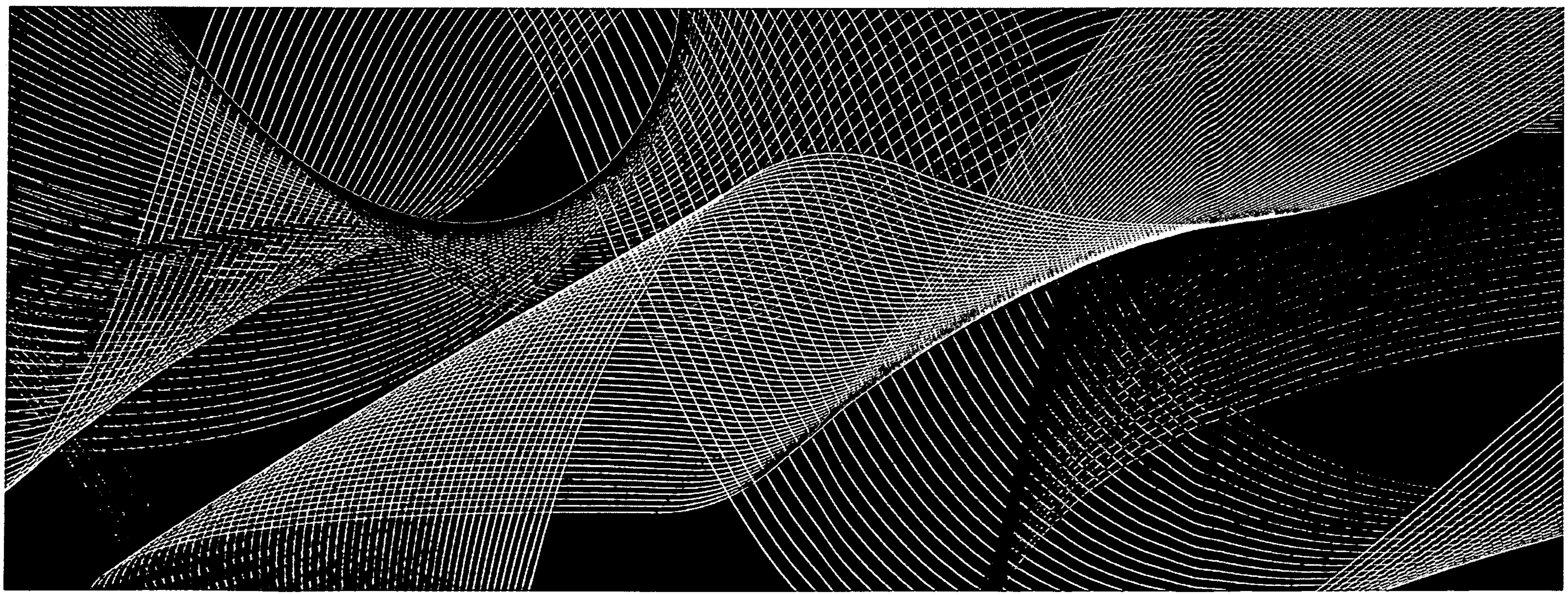
LEHMAN BROTHERS

October 7, 2008

Liquidity Of Lehman Brothers



Confidential Presentation

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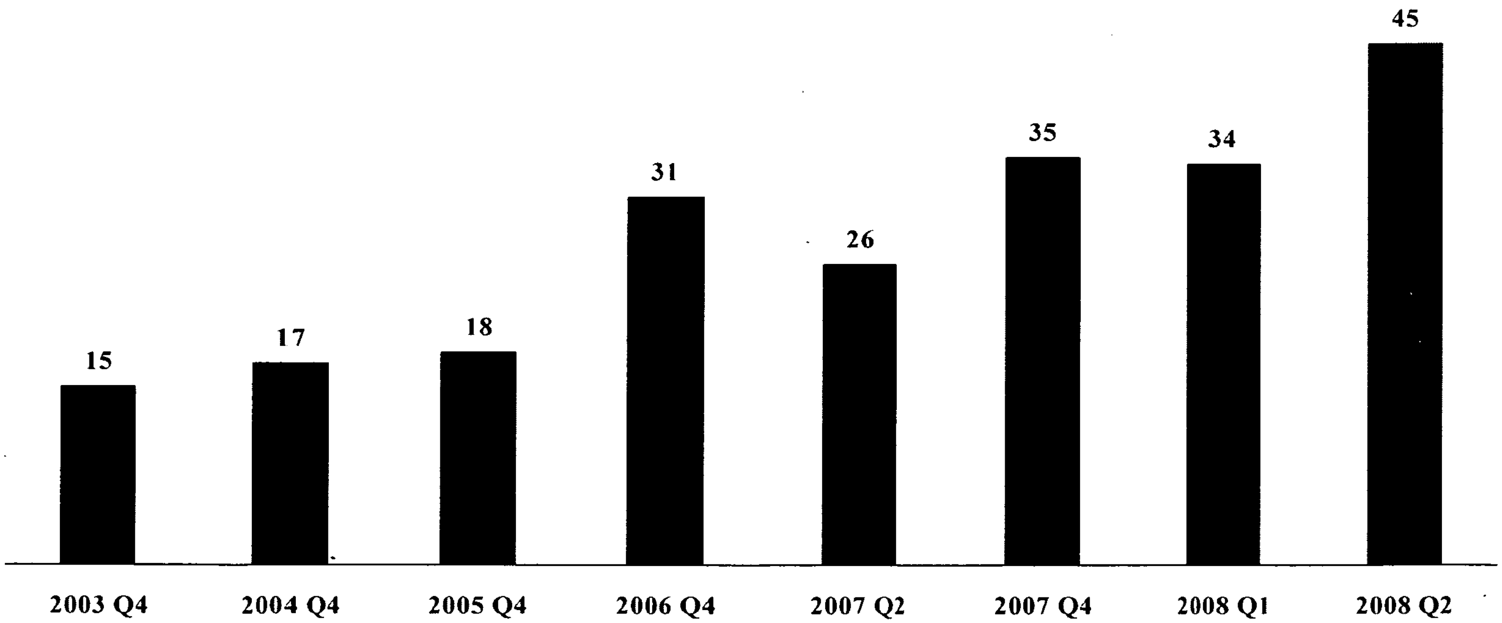
Liquidity Situation As Of May 31, 2008

- Liquidity available to Holdings stood at a record $45 billion at the end of 2008 Q2, up 30% sequentially and 74% year over year.
- Additionally, "trapped" liquidity at LBIE, Lehman's European broker dealer, and LBI, Lehman's U.S. broker dealer, stood at $7.0 billion and $0.3 billion, respectively, as of May 31, 2008. Although these liquidity pools are not available to the Holdings company, they could be used to mitigate any loss of liquidity at these entities.

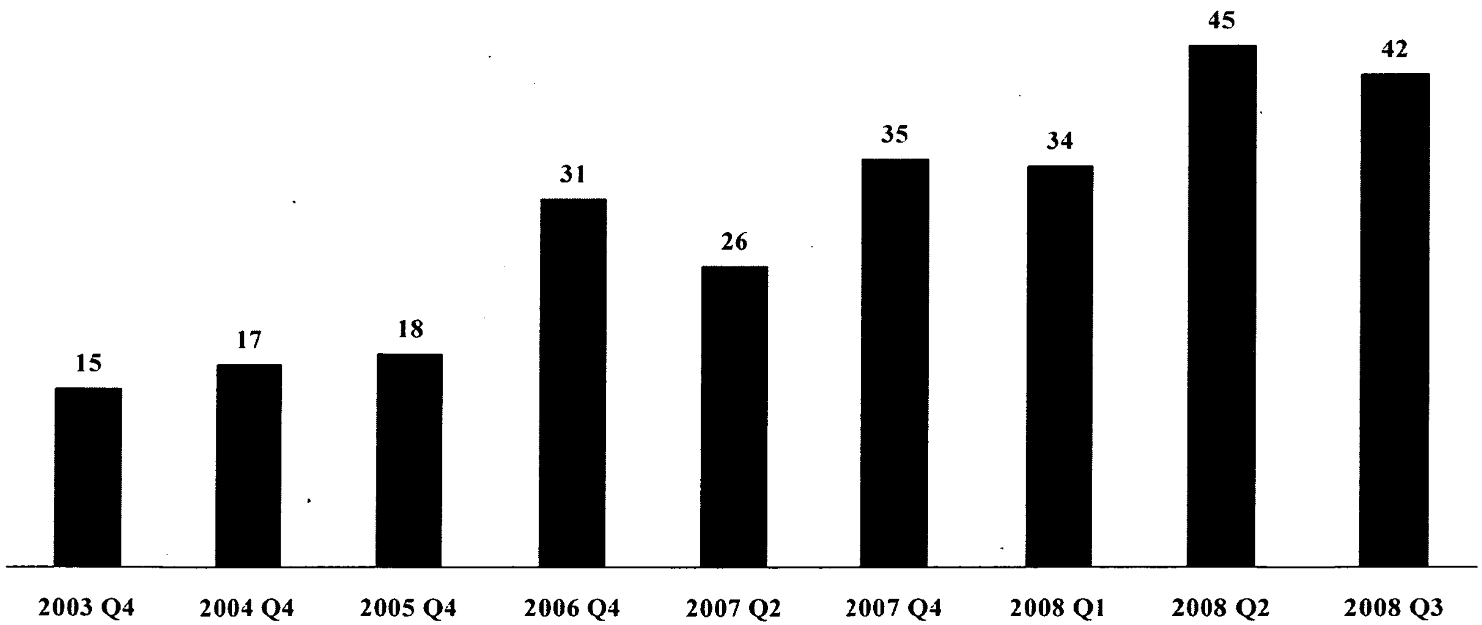
Liquidity Pool ($ Billion)



Liquidity Situation As Of August 31, 2008

- Liquidity available to Holdings stood at $42 billion at the end of 2008 Q3, down 6% sequentially and up 17% year over year.
- Additionally, "trapped" liquidity at LBIE and LBI stood at $1.0 billion (down $6.0 billion sequentially) and $0.9 billion (up $0.6 billion sequentially), respectively, as of August 31, 2008.

Liquidity Pool ($ Billion)



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Composition Of Holdings' Liquidity Pool As Of Q3 2008

- Per Lehman's investment policy, Holdings' liquidity pool is invested in cash and cash equivalent (e.g., money market funds), investment grade fixed income securities and common shares of companies that are included in major equity indices.
- Investments in the form of unencumbered securities can be done at Holdings, LBI and LBIE – the latter two only to the extent that there is a large enough payable between these entities and Holdings to enable the transfer of liquidity to Holdings in the normal course of business without requesting permission from regulatory authorities such as the SEC.

Estimated Composition Of Liquidity Pool Available To Holdings ($ Million)

		Pledge Value*			
Investment Type		**LBHI Pledge Value**	**LBI Pledge Value**	**LBIE Pledge Value**	**Total Pledge Value**
		New York Inv	**New York Inv**	**Europe Inv**	**Global Inv**
1. Cash					
Cash at Banks		3,378	-	-	3,378
Other Cash Inv		553	-	-	553
Money Funds		104	-	-	104
Total Cash	**A**	**4,035**	**-**	**-**	**4,035**
2. Boxed Inventory					
Private Label CMO's		454	-	10	464
Corporates		3,020	-	1,659	4,679
Governments / Treasuries		16,963	1,187	9,470	27,620
Asset Backed		674	-	88	762
Equities		8	-	684	692
Agencies		3,811	-	17	3,828
Canadian		-	-	15	15
Total Boxed Inventory	**B**	**24,930**	**1,187**	**11,944**	**38,060**
C&C Equivs Available to Holding Company (A+B)		**28,965**	**1,187**	**11,944**	**42,095**

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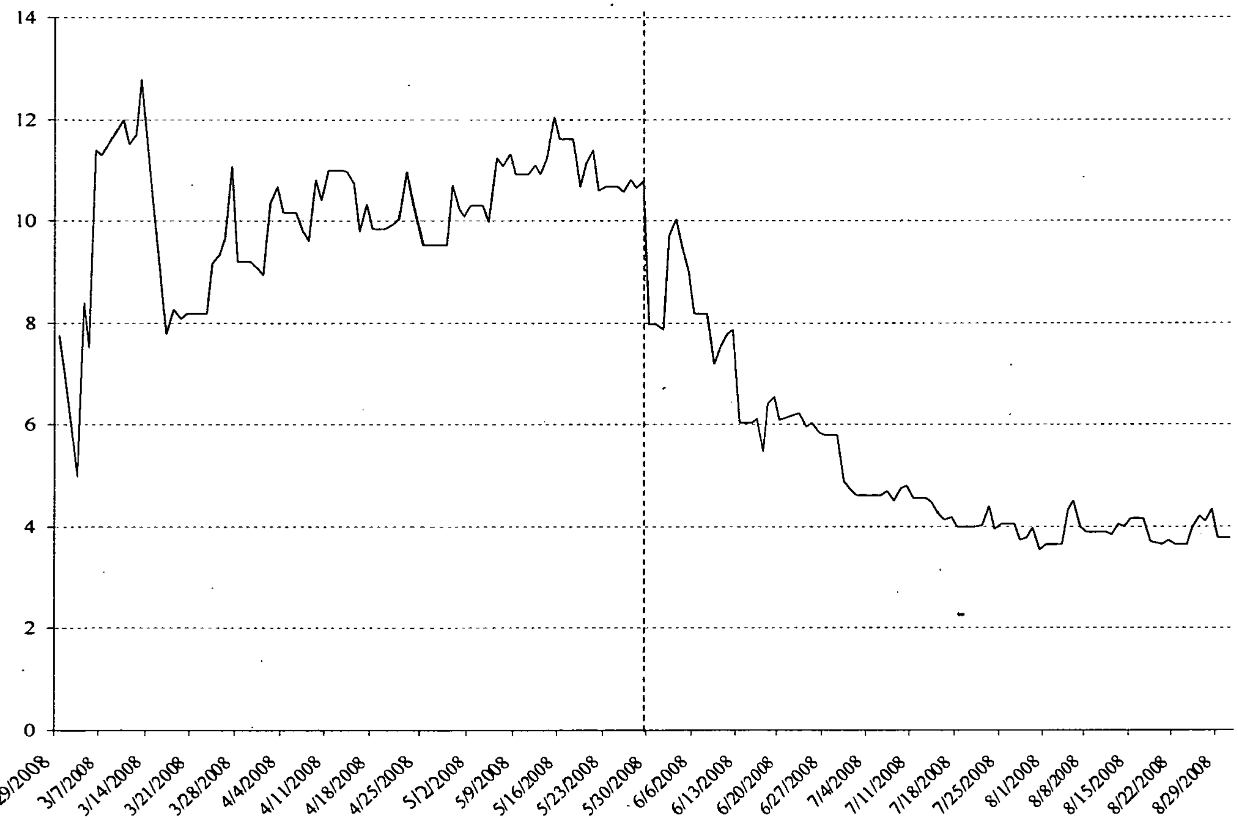
Liquidity Changes During 2008 Q3

- During 2008 Q3, Lehman Brothers experienced a worsening of its liquidity environment
  - Unsecured funding
    - Long-term debt issuance of $2 billion during 2008 Q3 versus $14 billion during 2008 Q2
      - 5 year credit default swaps of Lehman Brothers rose from 220 bps to 335 bps during 2008 Q3
    - Commercial paper outstanding of $4 billion at the end of 2008 Q3 versus $8 billion at the end of 2008 Q2
  - Secured funding
    - 46% of triparty repurchase agreements (repos), excluding repos of Government and Agency securities, was overnight at the end of 2008 Q3 versus 42% at the end of 2008 Q2
    - $12 billion of repo capacity for non-Government and non-Agency securities lost in July and August 2008
      - $8.5 billion of which in repo capacity for asset-backed securities (including private label securities)
      - 85% of the loss was located in LBI
  - Intra-day liquidity
    - Clearing banks, most notably JPMorgan Chase, started asking Lehman Brothers to collateralize its intra day exposure to them as a precondition to act as clearing agents for Lehman Brothers. Although the collateral (cash in most cases) was released at the end of the day when the exposure disappears (and therefore had no impact on reported end-of-day liquidity), this increased operational friction significantly.
      - See page 7 for details
  - Prime broker business in LBIE
    - During 2008 Q3, prime broker balances decreased and, more importantly, prime broker clients limited Lehman's ability to rehypothecate their collateral – thereby making Lehman more vulnerable to a sudden withdrawal of prime broker balances because the business's operational cash cushion decreased
      - Net cash generation provided by the prime broker business as an operational cash cushion decreased 71% to $4 billion

Reduction in Commercial Paper Issuance

- Lehman Brothers finished 2008 Q3 with $3.8 billion of commercial paper compared with $7.9 billion at the end of Q2, 7.8 billion at the end of Q1 and $1.2 billion at the end of Q3 2007. Average life was 30 days as of 2008 Q3 vs. 41 days as of 2008 Q2, 52 days as of 2008 Q1 and 51 days as of 2007 Q4.
- The reduction in commercial paper is partially driven by industry-wide conditions (e.g., increased risk aversion for term funding) and by Lehman-specific concerns (such as the long-term credit rating downgrades by Moody's and S&P from A1 to A2 and from A+ to A, respectively, in June 2008 and the continuation of their negative outlook)

Commercial Paper Outstanding ($ Billion)



July/August Lost Repo Capacity(1)

Shell Booked Variance - August 29th vs. July 1st
Excludes Bankhaus, ECB & Fed
Includes Non-Traditional Repo Book Only

Principal in $Bn's

Region	Counterparty Group	EMG	Equities	HY ABS	HY Convert	HY Corp	HY PL	IG ABS	IG Convert	IG Corp	IG PL	MMKT	Muni	RWL	Cumulative Change Thru 8/29
Asia	CALYON		(0.5)												(0.5)
	JP MORGAN CHASE		0.2												0.2
	MITSUBISHI		0.3												0.3
	Other (3 Counterparties)		(0.0)												(0.0)
Asia Total			(0.0)												(0.0)
Europe	CITIBANK	0.0		0.0		0.0		(0.3)							(0.2)
	CSFB		(0.2)						(0.1)						(0.3)
	DRESDNER	(0.3)	(0.0)		0.1	0.0			0.0	0.1					(0.1)
	DZ BANK	(0.0)	0.3		0.3	(0.4)			0.0	0.0					0.1
	FORTIS	0.3	(0.3)												(0.0)
	ING	(0.1)				(0.1)		(0.0)		(0.2)					(0.4)
	KBC	(0.5)	0.1		(0.1)	(0.0)		(0.0)	0.0	(0.0)					(0.5)
	LCH							(0.2)		(0.1)					(0.3)
	NATIXIS	(0.0)	(0.1)		(0.2)	0.0		0.0	0.0						(0.3)
	RACERS							(1.1)							(1.1)
	RBC	0.5	(0.4)		0.0	0.0			(0.1)	0.7					0.8
	ROYAL BANK OF SCOTLAND PLC	0.5				0.1				0.1					0.6
	RZB	(0.1)	(0.4)		(0.1)	0.0		(0.0)	(0.0)	(0.0)					(0.6)
	STATE STREET	0.1			0.0	(0.0)		0.0	0.0	0.4					0.5
	Other (15 Counterparties)	(0.2)	0.2	0.0	0.0	(0.1)		0.0	(0.0)	0.1		0.0			0.0
Europe Total		0.1	(0.8)	0.0	0.0	(0.5)		(1.6)	(0.1)	1.1		0.0			(1.8)
U.S.	BGI		(0.1)			0.0	(0.1)	(0.3)		1.0	(1.7)	(0.5)			(1.7)
	BONY/MELLON							(0.6)			(0.1)	0.0			(0.7)
	DRESDNER		0.4							(0.5)		0.5	(0.0)		0.3
	DREYFUS			(1.0)		(0.7)									(1.7)
	DWIGHT A.M.			(0.0)		(0.2)	(0.0)								(0.3)
	FENWAY FUNDING LLC					(1.0)									(1.0)
	FHLMC											(3.0)			(3.0)
	FIDELITY		0.0	(0.1)		(1.5)	0.1			0.4	0.8			(0.2)	(0.6)
	FORTIS									0.3		1.0	0.7		2.1
	JP MORGAN CHASE		(0.2)		0.1	0.0		1.0			(3.6)				(2.7)
	LBBW												(0.8)		(0.8)
	MIZUHO										(0.5)				(0.5)
	NORTHERN		0.3			0.3				0.0		0.5			1.0
	NORWEST											(0.7)			(0.7)
	STATE STREET		0.5			0.0		0.0		0.0	0.7	0.0	0.0		1.2
	SUMITOMO									0.4					0.4
	SWISS RE										(0.9)				(0.9)
	Other (31 Counterparties)		0.1	(0.1)	0.0	(0.3)	(0.1)	(0.0)		0.4	(0.2)	(0.0)	0.0	(0.1)	(0.5)
U.S. Total			0.8	(1.4)	0.1	(3.4)	(0.1)	0.1		1.9	(5.5)	(2.1)	(0.1)	(0.3)	(10.0)
Cumulative Change Thru 8/29		**0.1**	**0.0**	**(1.4)**	**0.2**	**(4.0)**	**(0.1)**	**(1.5)**	**(0.1)**	**3.0**	**(5.5)**	**(2.1)**	**(0.1)**	**(0.3)**	(11.8)

1. Loss of repo capacity in June 2008 was negligible

Intra-Day Exposure

- Investment banks utilize intra-day liquidity because of the timing of settlement of Fx transactions and triparty repos. This intraday is critical to smooth functioning activity as investment banks have no control of receipts of cash, which are typically only made at the end of the day.

- Fx transactions are a typical example with the initiation starting in one time zone and the conclusion in a different time zone. During that time period, one Fx counterparty or, most likely, the clearing bank (if a transaction is done under the CLS (Continuous Linked Settlements) framework) is exposed to one of the counterparties
  - Lehman Brothers settles most of its Fx transactions under the CLS framework
  - For example, in a simple USD-NZD spot transaction, if counterparty A receives New Zealand dollars from counterparty B but fails to deliver US dollars hours later

- In a triparty repo transaction, the triparty agent (JP Morgan Chase in the case of LBI and LBIE) returns the cash to the repo counterparty early in the morning in return for the securities that the cash was financing. This enables the broker dealer to conduct transactions on these securities freely (e.g., buy/sell them or return them to its customers) during the day. As a result, the triparty agent runs a large exposure to the broker dealer, albeit a secured one, during the day before the repo transaction for the night settles – at which securities are segregated for the benefit of the repo counterparty in exchange for the cash transferred to the broker dealer's bank account
  - In a presentation to Lehman Brothers dated July 24, 2008 ("*Tri-Party Repo Margin Analysis – Lehman*"), which was based on July 11 data (morning unwind of July 10 tri-party repos), JP Morgan Chase estimated its potential loss at $7.2 billion using a "risk-based margin [which] covers the one-day liquidity risk of the collateral plus the price risk for the less liquid securities." (p. 4 of the presentation). This is an imperfect analysis as it assumes all refinancing is overnight.

- In a normal market environment, clearing banks provide intra-day liquidity to their clients as part of their clearing services. However, in the difficult environment experienced by Lehman starting in 2008 Q3, clearing banks started requesting Lehman to reduce its intra-day exposure to them by providing collateral or cash during the day.

September Activity

- In September 2008, issues that started appearing during 2008 Q3 became more acute
  - Lehman credit spreads and credit default swaps continued to be under pressure – thereby requiring the desk to buy back debt in large quantities to maintain order in cash and CDS markets. Liquidity in investment bank debt was virtually zero with no dealers buying any debt other than their own in small size. Additionally, it became increasingly difficult to roll commercial paper maturing
  - Secured funding capacity decreased as repo counterparties became more reluctant doing business with Lehman – particularly for asset classes with limited price transparency
  - Prime broker clients continued to withdraw balances and make the rehypothecation of their collateral more difficult
  - Clearing banks kept increasing the amount of collateral to be posted at the beginning of the day so that they could perform normal clearing activities for Lehman

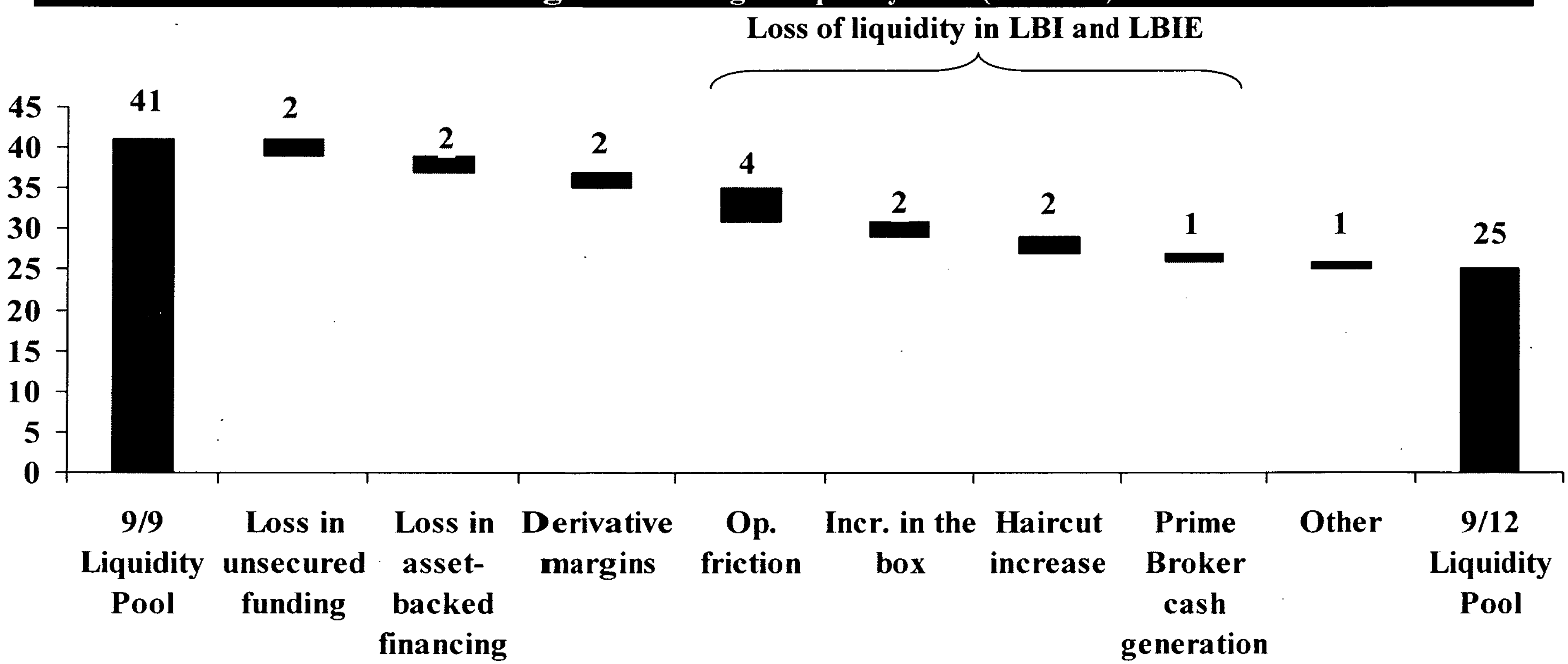
- The first week of September 2008 saw relatively few changes to our reported liquidity position
  - Holdings' liquidity pool remained essentially unchanged at $41 billion
    - Commercial paper outstanding was unchanged at $4.0 billion
  - "Trapped" liquidity at the broker dealers was reduced to $900 million in LBI and flat in LBIE
  - Prime broker operational cash cushion was down $800 million to $3 billion
  - Cash and collateral used to collateralize clearing banks' intra day exposure grew from $8 billion to $11 billion

- The second week of September 2008 saw a rapid worsening of Lehman's liquidity position however – culminating in Holdings filing for bankruptcy on September 15.
  - See details in following slides

Liquidity Situation Post Q3 Earnings Announcement

- Post earnings announcement on September 9, Holdings' liquidity decreased by $16 billion from $41 billion to $25 billion - $16 billion of which was required by clearing banks at the start of the day and approximately $7 billion of which was in liquid securities that became near impossible to monetize immediately in this extremely stressed market environment – primarily because of a loss of repo capacity.
- As a result, the result of "free cash" available intra day was less than $2 billion. With LBIE facing a projected cash shortage of $4.5 billion on September 15, Lehman had no choice but to place LBIE into administration because of potential director liability. This resulted in a cross-default of and triggered the filing on September 15.

Changes In Holdings' Liquidity Pool ($ Billion)



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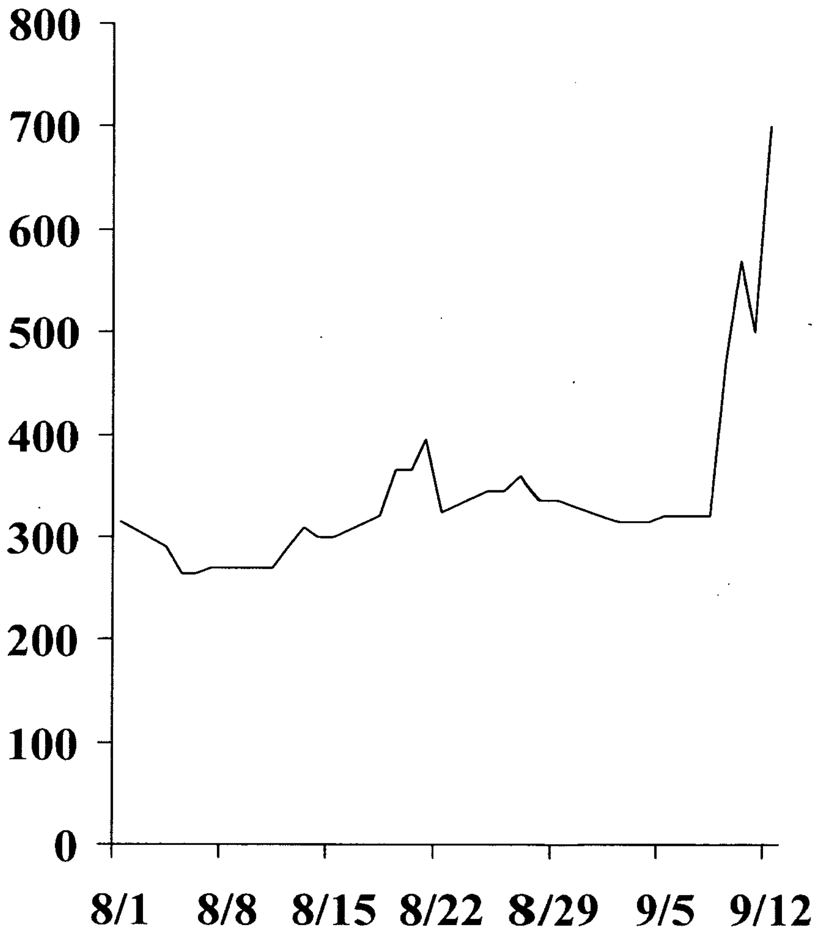
Key Events Impacting Liquidity Situation During 9/8 Week

- Market rumors impacted credit spreads and share prices and, as a result, market sentiment
  - Potential strategic investment by a South Korean financial consortium headed by Korea Development Bank ("KDB"). KDB's hesitations were reported in the media. Its ultimate decision of not investing in Lehman was one of the main proximate cause to the decline in Lehman's share price on September 8.
  - Sale of Lehman's real estate investments to private equity investors
  - Complete or partial sale of Lehman's investment management business to third party investors
- Earnings release
  - Initially scheduled for release on Thursday, September 18, 2008 Q3 earnings were released on Tuesday, September 9
  - Diluted EPS of ($5.92) was far worse than market consensus of ($3.35)
  - Lack of immediate actions around asset disposal further dampened market sentiment
- Rating agency actions
  - On June 9. Fitch and S&P put the credit ratings of Lehman Brothers on credit watch negative due to "heightened uncertainty about Lehman's ability to raise additional capital, based on the precipitous decline in its share price" (S&P press release) and indicated the possibility of a multi-notch downgrade of its long-term credit ratings
  - More importantly, on September 10, Moody's put Lehman's rating on review for downgrade and indicated that it would downgrade Lehman's rating by more than two notches if Lehman could not find a strategic partner in the "near term" (meaning before September 15) . Fitch took a similar view on Thursday

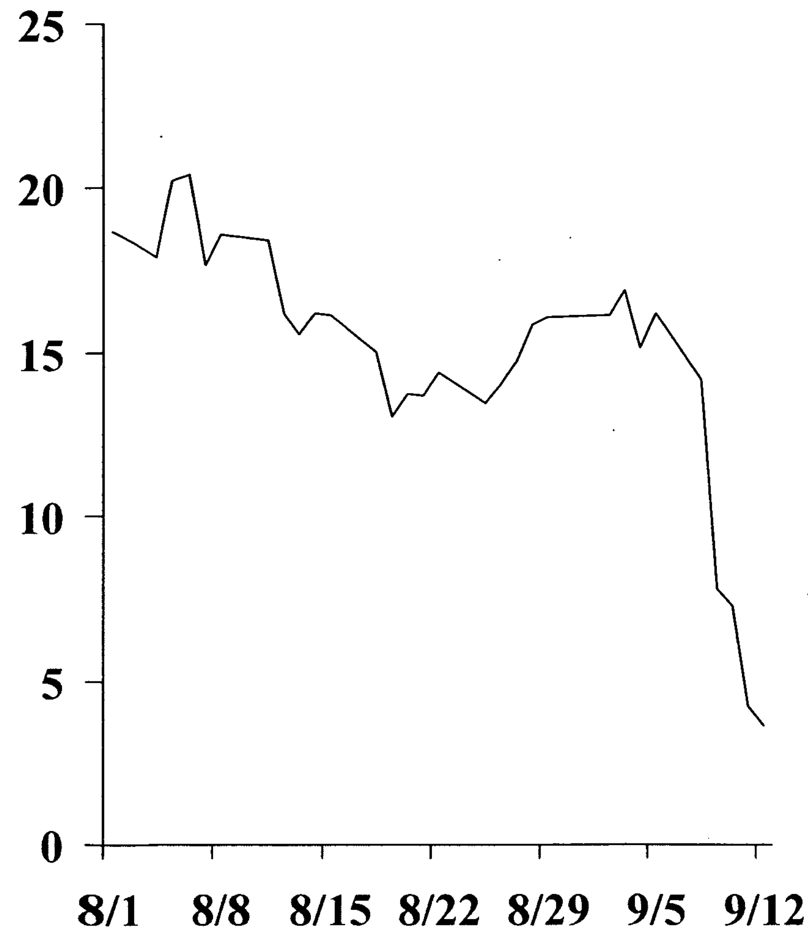
- Unsecured funding
  - $3.0 billion lost in derivatives margins due in part to novations
  - $1.5 billion lost in CP; $2 billion lost of asset-backed financing lost
  - $0.6 billion lost due to long-term buybacks
- Secured funding
  - $20 billion of repo capacity lost
    - $3 billion in corporates
    - $7 billion in asset-backed securities
    - $4 billion in commercial paper / money markets
    - $5 billion in equities
  - Major counterparties, such as Fidelity, significantly reducing their exposure to Lehman
  - At no point between April 17 and September 12, the Primary Dealer Credit Facility was used by Lehman
- Prime broker in LBIE
  - Prime broker moved from being a modest generator of cash to be a user – a swing of more than $4 billion (from $3.0 billion to ($1.2) billion)
- Intra-day liquidity
  - Clearing banks increased their collateral requirements in order to clear for Lehman from $11 billion to $16 billion of liquidity

Lehman Brothers CDS And Share Price

Lehman Brothers 5-Year Credit Default Swaps (Bps)



Lehman Brothers Closing Share Price ($)



Source: LehmanLive

Liquidity Pre And Post Earnings Release

- Liquidity position of Lehman has been relatively stable between August 31 and September 8 and, with the exception of the cash position of LBIE's prime broker business, including September 9.
- Liquidity outflows became visible from September 10 – in part due to the negative market reaction to the release of quarterly earnings on September 9
  - Impact of earnings on September 9 was muted because most of the funding that day took place prior to the earnings conference call

Lehman Brothers : Key Liquidity and Market Metrics

$ billion unless otherwise specified	31-Aug	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep (Est.)	8/31->9/8 Change	9/8->9/12 Change
Holdings' Liquidity Pool	42.1	41.7	40.6	37.6	34.0	24.6	(0.4)	(17.1)
LBIE's "Trapped" Liquidity Pool	1.0	1.0	0.8	0.7	(0.3)	(8.9)	-	(9.9)
LBI's "Trapped" Liquidity Pool	0.9	-	-	-	-	(0.4)	(0.9)	(0.4)
Holdings' Liquidity Used For Intra-Day Collateralization	7.5	11.2	11.5	13.6	11.8	15.7	3.8	4.5
Non-Government, Non-Agency Repo Capacity	115.7	112.2	113.0	101.5	99.8	93.2	(3.5)	(19.0)
LBIE Prime Broker Net Cash Margins	6.6	6.0	5.0	4.8	0.2	3.0	(0.7)	(2.9)
LBIE Prime Broker Operational Cash Cushion	3.8	2.5	(0.3)	(0.6)	(3.5)	(1.2)	(1.3)	(3.7)
LEH 5-year Credit Default Swaps (Bps)	335	320	470	570	500	700	(15)	380
LEH Share Price ($)	$ 16.09	$ 14.15	$ 7.79	$ 7.25	$ 4.22	$ 3.65	$ (1.94)	$ (10.50)

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Prime Broker Activity

- Post earnings release on September 9, prime broker customers started pulling their long and short balances from LBIE to other prime brokers.
- The speed of their withdrawal coupled with their request for same-day transfers (common industry practice is to transfer positions 2 days after receiving the request) resulted in operational frictions as Lehman's operations group was struggling processing these requests. In turn, this operational friction worsened our liquidity position – albeit on a temporary basis, but at a critical point for Lehman.
- Additionally, the smaller balances made it more difficult to operate a large enough operational cash cushion to "ring fence" the liquidity requirements of the prime broker business from that of the rest of the Firm. By the end of the week, the prime broker business in LBIE was a net user of $1.2 billion of liquidity from other parts of Lehman.

LBIE Prime Broker Business: Customers' Long and Short Positions

	31-Aug	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep	8/31->9/8 Change	9/8->9/12 Change
Long Market Value	70.6	66.5	65.4	60.1	56.8	52.1	(4.1)	(14.4)
Short Market Value	35.6	34.4	34.4	31.9	26.6	24.3	(1.2)	(10.1)

September 11 MTD Lost Repo Capacity

Shell Booked Variance - September 11th vs. August 29th
Excludes Bankhaus, ECB & Fed
Includes Non-Traditional Repo Book Only

Principal in $Bn's

Region	Counterparty Group	EMG	Equities	HY ABS	HY Convert	HY Corp	HY PL	IG ABS	IG Convert	IG Corp	IG PL	MMKT	Muni	RWL	Cumulative Change Thru 9/11
Asia	Other (5 Counterparties)		(0.0)												(0.0)
Asia Total			(0.0)												(0.0)
Europe	BONY/MELLON	0.0						0.0		0.3					0.3
	CITIBANK	0.0		(0.0)		(0.0)		0.3		0.0					0.3
	DANSKE BANK									(0.5)					(0.5)
	DEKABANK		0.3			0.5				(0.0)					0.8
	DEXIA	(0.5)			(0.0)	0.5			(0.0)	0.2		(0.0)			0.2
	DRESDNER	(0.0)	(0.0)		(0.1)	0.0			(0.0)	(0.4)					(0.4)
	FORTIS	(0.3)	0.5												0.3
	NATIXIS	(0.1)	(0.2)		(0.1)	(0.0)		(0.0)	0.0						(0.4)
	RBC	(0.1)	(0.1)		0.0	0.0			(0.1)	0.0					(0.3)
	RZB	(0.0)	(0.0)		0.0	(0.1)		(0.0)	(0.0)	(0.0)					(0.2)
	ZURCHER KANTONALBANK	(0.0)	(0.3)							(0.1)					(0.4)
	Other (15 Counterparties)	0.3	(0.2)		0.0	(0.0)		(0.0)	(0.0)	(0.3)		0.0			(0.3)
Europe Total		(0.8)	0.0	(0.0)	(0.1)	0.9		0.3	(0.2)	(0.8)		(0.0)			(0.7)
U.S.	BGI		0.1			(0.1)				(2.0)					(1.9)
	DRESDNER		0.0							0.8		(1.0)	(0.0)		(0.2)
	DWIGHT A.M.			(0.7)		0.0	(0.3)								(1.0)
	FIDELITY		(0.3)	0.0		(3.4)	(0.0)			(0.4)	(0.8)				(4.7)
	FORTIS									(0.3)		(1.0)	(0.2)		(1.6)
	JP MORGAN CHASE		(0.2)		(0.5)	(0.0)		(0.1)							(0.8)
	KEYBANK		(0.5)					0.0		(0.6)					(1.1)
	MITSUBISHI										(0.4)				(0.4)
	NORTHERN		0.0			0.0				(0.0)		(1.0)			(1.0)
	NORWEST											(1.3)			(1.3)
	STATE STREET		(0.5)			(0.0)		0.0		1.1	(2.9)	1.0	0.5		(0.8)
	SUMITOMO									(0.4)					(0.4)
	UBOC									(0.2)					(0.2)
	Other (24 Counterparties)		(0.0)	(0.1)	0.0	(0.2)	(0.0)	(0.0)	0.0	(0.1)	(0.2)	(0.0)	0.0	(0.0)	(0.7)
U.S. Total			(1.4)	(0.7)	(0.5)	(3.7)	(0.4)	(0.1)	0.0	(2.0)	(4.2)	(3.3)	0.3	(0.0)	(15.9)
Cumulative Change Thru 9/11		(0.8)	(1.4)	(0.7)	(0.6)	(2.8)	(0.4)	0.3	(0.2)	(2.8)	(4.2)	(3.4)	0.3	(0.0)	(16.6)

Bank Intraday Pledges

- Starting in August 2008, five key clearing banks became increasingly concerned about their intra-day exposure to Lehman Brothers and, as a result, asked for cash or collateral to protect themselves.
  - JPMorgan Chase
    - On August 26, JPMorganChase demanded Lehman Brothers Holdings to guarantee the clearing obligations of the following subsidiaries: LBI, LBIE, LOTC, LCPI and LBJ, by depositing cash and securities into two accounts (one for cash and securities) on which JPMorgan Chase put a lien. However, Lehman Brothers was free to move the cash and securities out of these accounts at the end of the day to generate funding.
    - On September 9, JPMorganChase extended its request by putting a lien on all Lehman accounts to cover not only its intra-day clearing exposure but also all other exposures (derivatives, unsecured and secured funding including any future draws by Lehman Brothers on its committed facilities) and demanding a 3 day notice before Lehman could withdraw any collateral from its accounts.
  - Citibank
    - In August 2008, Citibank requested that Lehman left $2 billion on deposit. There was no lien on the account and no notice to withdraw funds
  - Bank of America
    - On August 25, 2008, Bank of America requested that Lehman left $500 million on deposit. There was no lien on the account. However there was a three day notice to withdraw funds.
  - HSBC
    - HSBC requested that Lehman deposit $1.2 billion with them. There was no lien on the account and no notice to withdraw funds.
  - Bank of New York Mellon
    - Bank of New York Mellon requested that Lehman deposit $200 million with them. There was no lien on the account and no notice to withdraw funds.
- The impact of these pledges made it more difficult to manage liquidity intra-day – in particular in situations where Holdings, LBI or LBIE were starting the day with a projected cash shortfall (which would have been the case on September 15). As the banks all removed any intra-day credit, settlements were increasingly difficult to execute.

Broker Dealer Liquidity Positions

- During the week of September 8, LBI lost $2.1 billion of liquidity primarily as a result of
  - Lost repo capacity, which resulted in an increase in the box (most of the lost capacity was absorbed with no impact to liquidity to the repo overfunding policy that maintained repo lines in excess of Lehman's funding requirements)
  - Increase in haircut as repo counterparties became less comfortable with non-Government, non-Agency collateral

- During the week of September 8, LBIE lost $11.0 billion primarily as a result of
  - $4.2 billion decrease in operational cash cushion of its prime broker business (although this cushion is meant to protect its prime broker business, it is commingled with and included in LBIE liquidity)

Change in LBI Liquidity During 9/8 Week ($ Billion)

Secured funding haircut increase	(1.6)
Box increase	(1.5)
Other	(0.3)
Change in 15c3 reserve formula	1.3
Total	(2.1)

Change in LBIE Liquidity During 9/8 Week ($ Billion)

Prime Broker	(4.2)
Margin	(0.9)
Secured funding haircut increase	(0.4)
Operational friction & other	(5.5)
Total	(11.0)

Liquidity Situation During Week Of September 8, 2008

- During the week of September 8, Holdings' liquidity decreased by $16.9 billion from $41.5 billion to $24.6 billion.

Changes In Holdings' Liquidity Pool ($ Billion)

	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep (E)
BOP LBHI Liquidity Pool Position	**$41.5**	**$41.7**	**$40.6**	**$37.6**	**$34.0**
Secured Facilities	-	-	-	-	-
LTD Activity					
LTD Settlements	-	-	-	-	0.0
LTD Maturities	(0.2)	(0.0)	(0.3)	(0.0)	(0.0)
Sub total	**(0.2)**	**(0.0)**	**(0.3)**	**(0.0)**	**(0.0)**
STD Activity					
Net CP issuance	0.7	(0.5)	(1.5)	0.2	(0.3)
Bank Loan drawdown	0.1	0.2	-	-	-
STD Maturities:					
Short-Term BV notes	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Bank Loans	(0.1)	(0.1)	(0.2)	(0.0)	-
Letters of Credit	-	-	-	-	-
Sub total	**0.7**	**(0.4)**	**(1.7)**	**0.2**	**(0.3)**
Loan & Conduit Funding	**0.1**	**(0.1)**	**(0.3)**	**(1.6)**	-
Derivatives	**(0.2)**	**(0.5)**	**(0.3)**	**(0.9)**	**(1.0)**
Intercompany funding					
Intercompany funding	(0.1)	0.1	-	(1.1)	(7.9)
Capital injection/repatriation	-	(0.2)	-	-	-
Sub total	**(0.1)**	**(0.1)**	-	**(1.1)**	**(7.9)**
Other	(0.0)	(0.0)	(0.3)	(0.1)	(0.1)
EOP LBHI Liquidity Pool Position	**$41.7**	**$40.6**	**$37.6**	**$34.0**	**$24.6**

LEHMAN POST-SPINCO CAPITAL PLAN

55% of Asset Management + $0B Common Issuance

						CleanCo Capital Balance +$3B Raise			CleanCo Capital Balance			
	Actual	*Actual*	*Actual*	*Actual*	*Proforma Capital Restructure*	*Post Spin Co - Div Cut + Convert Pfd + IMD 55% Sale + $3B Capital*	*Post Spin Co - Div Cut + Convert Pfd + IMD 55% Sale + $3B Capital*	*Post Spin Co - Div Cut + Convert Pfd + IMD 55% Sale + $3B Capital*	*Post Spin Co - Div Cut + Convert Pfd + IMD 55% Sale + No Capital*	*Post Spin Co - Div Cut + Convert Pfd + IMD 55% Sale + No Capital*	*Post Spin Co - Div Cut + Convert Pfd + IMD 55% Sale + No Capital*	
	FY 2007	Q1 '08	Q2 '08	Q3 '08	Q3 '08	Q4 '08	FY 2008	FY 2009	Q4 '08	FY 2008	FY 2009	Target
Equity Sources and Uses, $mm												
Net Income	4,192	489	(2,774)	($3,927)	($3,927)	-	(6,212)	1,081	-	(6,212)	1,081	
Preferred Dividend	(67)	(24)	(99)	(163)	(163)	(169)	(455)	(681)	(169)	(455)	(681)	
Net Income Available to Common	4,125	465	(2,873)	(4,090)	(4,090)	(169)	(6,667)	400	(169)	(6,667)	400	
Common Dividends [1]	(319)	(94)	(94)	(117)	(117)	(9)	(314)	(36)	(9)	(314)	(36)	
Other Equity Adjustments [2]	(574)	72	411	370	370	373	1,227	1,573	373	1,227	1,573	
June-08 Common Equity Issuance [3]	-	-	-	4,004	4,004	-	4,004	-	-	4,004	-	
SpinCo [4]	-	-	-	-	(6,000)	(6,000)	(6,000)	-	(6,000)	(6,000)	-	
New Common Equity Issuance [5]	-	-	-	-	-	3,000	3,000	-	-	-	-	
Net Gain (Loss) on IMD Sale [7]	-	-	-	-	22	22	22	-	22	22	-	
Total Common Equity Growth	3,232	444	(2,555)	167	(5,812)	(2,783)	(4,728)	1,938	(5,783)	(7,728)	1,938	
Common Equity	21,395	21,839	19,284	19,450	13,472	16,667	16,667	18,605	13,667	13,667	15,605	
Preferred Equity [8]	1,095	2,993	6,993	8,993	8,993	8,993	8,993	8,993	8,993	8,993	8,993	
Shareholders' Capital	22,490	24,831	26,276	28,443	22,464	25,660	25,660	27,597	22,660	22,660	24,597	
Preferred Securities (Junior Subdebt) [10]	4,978	4,976	5,004	4,919	4,919	4,919	4,919	3,919	4,919	4,919	3,919	
Permanent Capital	27,468	29,808	31,280	33,362	27,383	30,578	30,578	31,516	27,578	27,578	28,516	
Goodwill and Intangibles	(4,127)	(4,112)	(4,101)	(4,085)	(860)	(860)	(860)	(860)	(860)	(860)	(860)	
Leverage Equity	23,341	25,696	27,179	29,277	26,523	29,719	29,719	30,656	26,719	26,719	27,656	
Permanent Capital Composition (%)												
Common Equity	78%	73%	62%	58%	49%	55%	55%	59%	50%	50%	55%	65%
Preferred Equity	4%	10%	22%	27%	33%	29%	29%	29%	33%	33%	32%	
Preferred Securities (Junior Subdebt)	18%	17%	16%	15%	18%	16%	16%	12%	18%	18%	14%	
Equity Measures, $mm												
Risk Weighted Assets, $mm [11]		226,175	216,575	199,000	197,125	192,125	192,125	202,125	192,125	192,125	202,125	
Deferred Tax Assets, net of realizable within 1 year [12]		*(2,054)*	*(2,209)*	*(4,509)*	*(4,509)*	*(4,652)*	*(4,652)*	*(4,273)*	*(4,652)*	*(4,652)*	*(4,273)*	
Capital requirements for insurance entities		*(138)*	*(138)*	*(138)*	*(138)*	*(138)*	*(138)*	*(138)*	*(138)*	*(138)*	*(138)*	
Cumulative fair value gains on debt, net of taxes [13]		-	*(1,511)*	*(2,437)*	*(2,437)*	*(2,437)*	*(2,437)*	*(1,462)*	*(2,437)*	*(2,437)*	*(1,462)*	
Total Capital Deductions		(2,192)	(3,858)	(7,084)	(7,084)	(7,227)	(7,227)	(5,874)	(7,227)	(7,227)	(5,874)	
Tier 1 Capital		23,504	23,262	22,193	19,439	22,492	22,492	24,783	19,492	19,492	21,783	
Tier 1 Ratio		10.4%	10.7%	11.2%	9.9%	11.7%	11.7%	12.3%	10.1%	10.1%	10.8%	11%-12%
Total Capital		35,255	34,892	33,289	30,535	32,238	32,238	35,674	29,238	29,238	32,674	
Total Capital Ratio		15.6%	16.1%	16.7%	15.5%	16.8%	16.8%	17.6%	15.2%	15.2%	16.2%	17%-18%
Book Value Shares	542	554	564	713	713	1,020	1,020	1,075	720	720	775	
Book Value Per Share	$39.44	$39.45	$34.21	$27.29	$18.90	$16.34	$16.34	$17.30	$18.98	$18.98	$20.12	
Stock Price	$62.63	$50.99	$36.81	$16.09	$16.09	$20.00	$20.00	$30.00	$20.00	$20.00	$30.00	
P/B	1.6x	1.3x	1.1x	0.6x	0.9x	1.2x	1.2x	1.7x	1.1x	1.1x	1.5x	
Headline Numbers												
Gross Assets, $mm [13]	691,063	786,035	639,432	600,000	592,740	600,000	600,000	650,000	600,000	600,000	650,000	
Net Assets, $mm [13]	372,959	396,673	327,774	310,915	307,165	300,000	300,000	325,000	300,000	300,000	325,000	
Gross Leverage [13]	30.7x	31.7x	24.3x	21.1x	26.4x	23.4x	23.4x	23.6x	26.5x	26.5x	26.4x	
Net Leverage [13]	16.0x	15.4x	12.1x	10.6x	11.6x	10.1x	10.1x	10.6x	11.2x	11.2x	11.8x	12x-13x
Less Liquid Assets ($B)												
Residential Mortgages	32.1	31.8	24.9	17.3	17.3	10.0	10.0	10.0	10.0	10.0	10.0	
Commercial Mortgages	38.9	36.1	29.4	24.0	24.0	5.0	5.0	5.0	5.0	5.0	5.0	
Real estate for sale	12.8	13.0	10.4	8.7	8.7	-	-	-	-	-	-	
Other ABS	6.2	7.0	6.5	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	
HY Acquisition financing	23.7	17.8	11.5	7.1	7.1	6.0	6.0	6.0	6.0	6.0	6.0	
Total Less Liquid Assets	113.7	105.7	82.7	61.7	61.7	25.6	25.6	25.6	25.6	25.6	25.6	
CRE Financing Loan	-	-	-	-	-	21.7	21.7	21.7	21.7	21.7	21.7	
As a % of Shareholders' Equity	506%	426%	315%	217%	275%	100%	100%	93%	113%	113%	104%	
As a % of Permanent Capital	414%	355%	264%	185%	225%	84%	84%	81%	93%	93%	90%	

[1] Q4 2008 Forward: Common dividend cut to $0.05 a share ($0.0125/Quarterly). FY 2008 Stock Px: $20 & FY 2009 Stock Px: $30

[2] FY 2008: Includes equity effects from compensation awards and accounting adjustments

[3] June-08: $4.0 B Common Issuance at $28.00 per share

[4] SpinCo Deal: Net Equity Impact of $-6 B (reflects the latest deal size statistics)

[5] $5 B New Common Issuance assumed in November at $10 per share

[7] Q4 2008: 55% IMD sale based on $5 B valuation of AM and $3.51 B book value

[8] Q3 2008 YTD: Preferred issuances include: $1.9 B (Jan-08), $4.0 B (Apr-08), $2.0 B (Jun-08)

[9] Q4 2008: $0 B new preferred issuance with 10% coupon

[10] FY 2009: Buyback $1 B subdebt - Trust Preferred redeemed

[11] RWA adjustments Q4 2008: Spin Co estimated at $-7.5 B and $0.6 B in general asset reduction

[12] Q3 2008 Net DTA deduction (includes impacts of tax benefits on losses & capital enhancements) of $2.3 B
Q4 2008 Net DTA deduction (includes impacts of tax benefits on losses & capital enhancements) of $0.143 B
FY 2009 Net DTA deduction (includes impacts of tax benefits on losses & capital enhancements) of $-0.378 B

[13] Q3 2008 includes $0.9 B after-tax ($1.4 B before 35% tax) deduction for credit spread widening
FY 2009 includes $-1 B after-tax ($1.5 B before 35% tax) deduction for credit spread tightening

[14] Q4 2008: Target Gross Assets of $600 B and Net Assets of $300 B after SpinCo
FY 2009: Target Gross Assets of $650 B and Net Assets of $325 B by year end