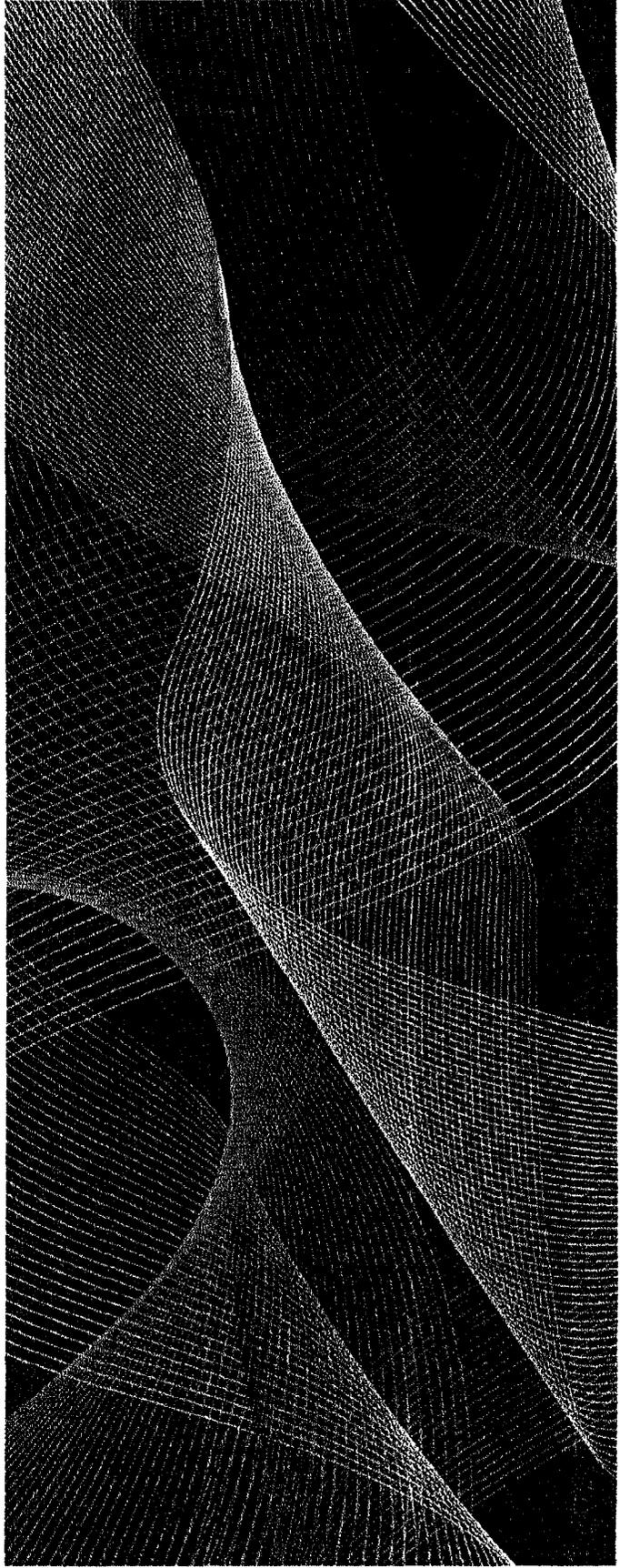


LEHMAN BROTHERS

June 3, 2008

Fitch Ratings Q2 2008 Update



Confidential Presentation

Overview

#2.5hr final #

Despite a sizeable forecast loss of almost \$2.9 billion, the actions taken by Lehman in Q2'08 will result in the strongest capital and liquidity positions the Firm has ever had

◆ The issuance of \$4.0 billion of convertible preferred in April and \$2.0 billion of subordinated debt in May, combined with the active de-leveraging and de-risking of the balance sheet (approximately \$130 billion reduction in gross and almost \$70 billion reduction in net assets), combine to drive very strong forecasted capital ratios

- Net leverage of 12.2x, down from 15.4x in Q1 '08
- CSE Capital Ratio of 16.5%, up from 15.5% in Q1 '08
- Tier 1 Capital Ratio of 11.0%, up from 10.3% in Q1'08
- Surplus over Lehman's internal equity allocation model of 13.8% (\$3.8bn) in Q2 '08

*Gross leverage = 25.1x down from 31x
Take out FV gains, then CSE Capital Ratio = 15.4%
" " " " " Tier 1 " " = 10.4%*

*→ Wholesale trading book treatment for prot equity + merchant bank book ~ new CSE treatment
No grandfathering by CEH.*

◆ Liquidity Pool stood at a record \$45 billion (up from \$34 billion in Q1 '08) = \$(↑debt, mer kifi, ↑delevering)

- Increased coverage of short-term debt up of 1.2x, up from 1.0x in Q1 '08
- Cash Capital Surplus estimated to be at \$14 billion

*'07 flow = 2hr target = \$5-6bn
'08 flow = 2hr target = \$10 bn*

◆ Lehman is actively exploring replenishing the common equity lost in Q2 '08 with strategic investors, both in the US and internationally

*Am't & type equity primarily
Process just beginning. First due diligence call w/ prospective invs.*

- While capital ratios are very strong, we appreciate that Q2 '08 results will be a disappointment to the market
- Co-announcing a capital raise with earnings would likely reassure the market and improve Lehman's competitive position

Overview

- ◆ The loss for the quarter, while large, is less concerning when decomposed into its constituent pieces as it illustrates that idiosyncratic “one-time” factors explain most of the poor performance and that Lehman’s underlying franchise remains strong and competitive
 - Underperformance is concentrated in Fixed Income, while the other parts of Lehman – Equities, Investment Banking and Investment Management – are performing well
 - The Revenue Run Rate for the quarter is \$4.5 billion, down 5% from Q1 ‘08. However:
 - While gross writedowns are lower in Q2 ‘08 than Q1 ‘08 – \$4.1 billion vs. \$5.5 billion – hedges which generated \$3.4 billion of offset in Q1 ‘08 generated minor gains in Q2, resulting in a \$1.8 billion quarter-to-quarter increase in net writedowns
 - Additionally, in Q2 ‘08 Lehman lost money on two defensive trading positions (Credit Basis and Long Interest Rates) which together reduced revenues by \$776 million *short credit basis*
 - These positions were prudent in a post-Bear world
 - Customers generally wanted to be long credit in April, so reducing the credit position was in part the result of supporting Lehman’s customer franchise
 - Positions had generated \$668 million of revenues in Q1 ‘08, resulting in a quarter-over-quarter swing of \$1.4 billion
 - Principal investing in Q2 ‘08 lost \$408 million vs. a gain of \$156 million in Q1 ‘08, a \$564 million quarter-over-quarter differential

<i>\$ billions</i>	<i>Actual</i>	<i>Forecast</i>	<i>QoQ</i>
	<u>Q1'08</u>	<u>Q2'08</u>	<u>Δ</u>
Run Rate	4.8	4.5	(0.2)
Gross Writedowns	(5.5)	(4.1)	1.4
Hedges	3.4	0.3	(3.1)
Net Writedowns	(2.1)	(3.8)	(1.8)
→ Defensive Trading	0.7	(0.8)	(1.4)
Principal	0.2	(0.4)	(0.6)
Net Revenues	3.5	(0.5)	(4.0)

- imp because of market trends not likely to be repeated but can't be confident of return to correlation

Overview

- ◆ We believe that Lehman's core underlying franchise remains as strong as ever
 - Gaining market share in Investment Banking
 - Sales credits in Fixed Income remain strong; only down 3% in Q2 '08 vs. Q1 '08
 - Investment Management Division is performing well *– ARM cleanup*
 - Hedge ineffectiveness is technical in nature and is not expected to drive future results
 - Defensive trading positions prudent in post-Bear environment
 - De-leveraging in Q2 '08 is a contributing factor in explaining results, but de-risking is appropriate

- ◆ As markets improve, we are confident Lehman will perform well
 - Even with the Q2 '08 loss, our performance over the full year ending Q2 '08 is consistent with Morgan Stanley's (assuming MS achieves expected Q2 '08 earnings) and better than Merrill Lynch's }

- ◆ We are, as the market expects, restructuring our resource base
 - Significantly shrinking those businesses in secular decline *– mostly divestitures*
 - Resizing those businesses in cyclical decline

- ◆ Headcount reduced from 28,503 to 23,306 (18%) pre-analyst/associate classes joining in the summer

- ◆ NPE being managed much more aggressively
 - Subletting space to lower costs by \$100 million in 2009
 - Lowering target spending by \$250 million in 2008 →

Overview

- ◆ When all factors are taken into account, we do not believe Q2 '08 results justify any negative rating action for Lehman Brothers
 - Capital ratios are stronger than ever
 - Liquidity position is stronger than ever
 - Poor performance is driven by factors easily explained as “one-time” events
 - Hedge ineffectiveness
 - Defensive trading positions
 - Revenue Run Rate remains strong (only down 5% from Q1 '08 levels) in a very challenging economic environment
 - Lehman is gaining market share and strengthening its franchise
 - Restructuring will position Lehman to take advantage of business opportunities as markets recover

Capital Adequacy

EAF Highlights Lehman's Strong Capital Position

Lehman's Equity Adequacy Framework (EAF) calculates the equity required to enable restructuring during a crisis without accessing capital markets and haircutting existing senior debt holders

- ◆ The Firm is expected to close Q2 '08 with an equity surplus of \$3.8 billion, or 13.8% more than the total gross equity required by the EAF model

Equity Adequacy Framework Surplus/(Deficit) Q2 '08 Forecast

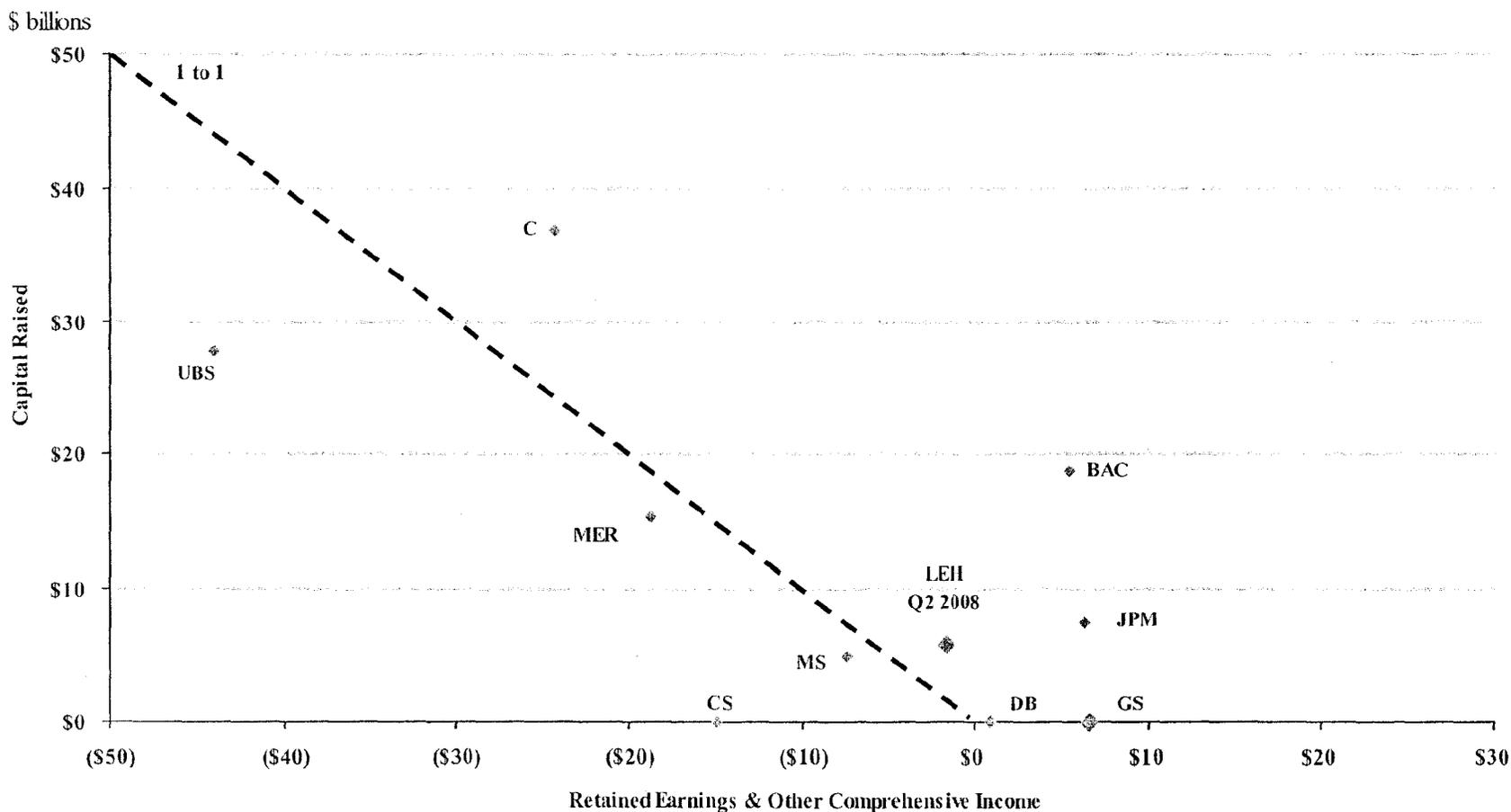
<u>Performance Data</u>		<u>Equity Required</u>	
<i>in \$ millions</i>	<u>Q2' 08</u>	<i>in \$ millions</i>	<u>Q2' 08</u>
VaR 95% 1 day	115	Trading	3,782
Counterparty Risk Appetite	456	Counterparty	958
Less Liquid Assets		Less Liquid Funding Haircuts	
<i>Less Liquid Inventory</i> ¹	154,494	<i>Less Liquid assets</i>	15,637
<i>Fixed Assets</i>	3,861	<i>Fixed assets</i>	2,902
<i>Goodwill</i>	4,127	<i>Goodwill</i>	1,227
<i>DTA</i>	2,309	<i>DTA</i>	1,847
Total	164,791	Total	21,613
Revenue (FY 2007)	19,257	Operational	963
		Total Gross Equity Required	27,315
		<u>Gross Equity Available</u>	
		Common Equity	19,128
		Hybrids/Preferred	11,969
		Total Gross Equity	31,097
		Surplus/(Deficit)	3,782

1. Less Liquid Assets includes commitments

Capital Raising More than Enough to Offset Lower Earnings

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

Capital Raised¹ versus Retained Earnings and Other Comprehensive Income Q3 '07 to Q1 '08



1. Includes equity raised through 5/30/08

Liquidity

Strengthening Capital Position

- substantial appetite for hard debt

- ◆ During the quarter, we issued \$9.5 billion in four benchmark issuances
 - \$4.0 billion of non-cumulative perpetual convertible preferred stock
 - Dividend of 7.25% per annum
 - More than three times oversubscribed
 - \$2.0 billion 30-year subordinated debt
 - Treasuries + 305 bps
 - \$4.0 billion of orders within 1 hour
 - \$2.5 billion of 10-year senior debt
 - Treasuries + 320 bps
 - \$6.5 billion of orders within 1 hour
 - £0.5 billion (\$1.0 billion) 10-year senior debt
 - Gilts + 315 bps
 - £0.8 billion of orders within 4 hours

- ◆ As a result, we have completed our debt issuance program for the rest of the year
 - We may issue further during the latter part of the year to “pre fund” 2009 debt issuance requirements

not opened to general investors

- price = ms.

similar to Mer

Lessons Learned From Bear Stearns Liquidity Event

Lehman Brothers Would Have Reacted Differently

Bear Stearns Liquidity Crisis

- ◆ “At first, some counterparties began pulling back from providing unsecured lending.”
- ◆ “Then the same reluctance to deal with Bear was extended to secured lending on less liquid and lower-quality securities.”
- ◆ “Some skittish prime brokerage clients began moving their cash balances elsewhere.”
- ◆ “As rumors swirled about Bear's financial position, these actions in turn influenced other counterparties.”
- ◆ “Clients and lenders began also to reduce their exposure to Bear Stearns. This, in turn, created large volumes of novations of derivative contracts.”
 - SEC Chairman Cox, Address to the Security Traders 12th Annual Washington Conference, May 7, 2008

Lehman Brothers

- ◆ No reliance on short-term unsecured funding. Liquidity framework assumes that unsecured debt cannot be rolled in a liquidity event
- ◆ More conservative secured funding approach
 - Less liquid assets (e.g., mortgages) funded with cash capital
 - Overfunding in lower quality collateral (e.g., high yield corporates) to avoid having to rely on new funding *diversify sources*
 - Very well coordinated and proactive program of communicating with our creditors during the liquidity event. All senior management, including Dick Fuld, involved in calling key contacts at counterparties
- ◆ Prime broker business overfunded by reposing long positions to avoid relying on customer free credit balances
- ◆ Lock ups calculated on a daily basis during a liquidity event
- ◆ Treasury, Investor Relations and Corporate Communications are in constant communication with key stakeholders. Significant amount of senior management's time spent to address rumors and to reassure key stakeholders
- ◆ No change in “business as usual” philosophy. Disputed calls in derivatives businesses are normal considering lack of transparent marks in the OTC derivatives markets

Recent Modifications In Funding Strategy

- ◆ Since last summer, when the funding and trading environment first became more challenging, we have made a series of modifications in our funding strategy in order to strengthen our liquidity
 - Increased our cash surplus targets from \$2-5 billion to \$4-7 billion
 - Front loaded our issuance program – completed our benchmark issuance plan by early May
 - Increased funding of illiquid assets in our bank entities – particularly Lehman Brother Bankhaus ✓
 - “Overfund” repos for harder to fund asset classes, such as high yield corporates, to mitigate risk of loss of secured funding capacity *2008 and 07 Le noise for it*
 - Increased our CP program to mitigate risk of operational friction in a very volatile environment
 - Started a program to securitize illiquid assets such as corporate loans and commercial whole loans. The resulting securities, which are rated, can then be pledged to counterparties or Central Banks }.
 - Discuss our liquidity management and position more proactively with creditors, trading counterparts, rating agencies and other stakeholders

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

Liquidity Event Of Week Of March 17 (I) – Broker Dealers

- ◆ During the week of March 17, despite being under significant funding pressure, we were able to mitigate liquidity risk through a series of actions
 - Secured Funding
 - We started the week with \$13 billion of repo overfunding in harder to fund asset classes
 - We also funded an additional \$4.5 billion of collateral through Bankhaus where we have been building excess capacity since the summer of 2007
 - Prime Broker
 - We absorbed the loss in prime broker cash balances by relying on the LBIE “excess” liquidity pool (which, because it was “trapped,” was not included in the LBHI liquidity pool) and by recalculating the lock up on a daily basis
 - LBI experienced a very modest (\$75 million) loss of liquidity in prime broker cash balances that week.
- ◆ As a result, the loss of liquidity experienced by the broker dealers was absorbed within the broker dealers and did not require the use of the Holding Company liquidity pool

Key Liquidity Inflows/Outflows During Week Of March 17 (\$ Billions)

	Secured Funding <i>3rd party</i>			Prime Broker (LBIE)		
	Decreases	Increases/ Upgrades	Balance	Decreases	Increases	Balance
17-Mar	(8.7)	3.2	(5.5)	(5.0)	0.8	(4.2)
18-Mar	(3.8)	-	(3.8)	(2.7)	2.8	0.1
19-Mar	(3.0)	5.1	2.1	(1.2)	1.5	0.3
20-Mar	-	-	-	(1.2)	1.1	(0.1)
21-Mar	Market Closed (Good Friday)					
Total	(15.5)	8.3	(7.2)	(10.1)	6.2	(3.8)
Mitigation strategy						
Overfunding repo book	2.7			LBIE excess liquidity pool	3.8	
Bankhaus funding	4.5					
Total	7.2					
"Dry powder" : Overfunding repo book	~10					

LEHMAN BROTHERS *① gross changes, some shift from repo classes requested as collateral*

Liquidity Event Of Week Of March 17 (II) – Holdings

- ◆ Holdings also faced funding pressure – primarily due to the reduction of its commercial paper program and, to a lesser extent, the posting of derivative margins
- ◆ We mitigated this loss of liquidity by:
 - Increasing operational effectiveness: we executed on a plan developed over the weekend to reduce the amount of trapped cash in LBI and increase funding in Bankhaus. These actions generated approximately \$3 billion on March 17
 - Launching the Freedom CLO and executing a previously planned European securitization
 - Drawing on our European committed facility. We draw on our committed facilities 33-50% of the time to avoid any signaling effect

Key Liquidity Inflows/Outflows During Week Of March 17 (\$ Billions)

	Commercial Paper				Derivatives in/(out)flows Balance	Operational effectiveness Balance	Other Balance	LBHI Liquidity Pool			Other Details
	Maturities	Issued	Balance	O/S (EOD)				SOD	EOD	Change	
17-Mar	(6.2)	2.2	(4.0)	7.9	(0.0)	3.0	0.0	31.1	30.1	(1.0)	
18-Mar	(3.2)	3.7	0.5	8.4	(1.2)	(0.4)	(0.1)	30.1	28.9	(1.2)	
19-Mar	(3.5)	3.3	(0.2)	8.2	0.9	-	0.7	28.9	30.3	1.4	European mortgage securitization
20-Mar	(3.1)	3.4	0.3	8.5	(1.0)	-	3.1	30.3	32.7	2.4	Draw on committed facility, Freedom
21-Mar					Market Closed (Good Friday)						
Total	(16.0)	12.6	(3.4)		(1.3)	2.6	3.7	31.1	32.7	1.6	

↓
would use action by entities because of prior weeks

Lessons From Bear Stearns Liquidity Event

- ◆ The Bear Stearns liquidity event highlighted the liquidity risk in the broker dealers, specifically secured funding risk and prime broker liquidity risk
 - Secured funding capacity disappeared for harder to fund assets such as mortgages or high yield securities, which we fund with cash capital (mortgages) or which we overfund (high yield securities)
 - As prime broker clients withdrew their free credit balances, the business started consuming cash and Bear Stearns was unable to find new secured funding capacity to replace the lost cash. This is the reason why we structured the business to be cash generative

- ◆ Although the mitigation of both of these risks was already included in our Funding Framework, the speed at which the crisis evolved (\$17 billion liquidity loss at Bear Stearns in 48 hours) made us refine our liquidity stress scenario
 - Revised liquidity stress scenario is significantly more conservative than what we experienced during the week of March 17

Liquidity Stress Scenario Assumptions

Loss of Secured Funding				Loss of Unsecured Funding	
◆ Repos	Governments and Agencies	<u>% Rolled</u> 100%	<u>% Lost</u> 0%	◆ Unsecured debt	
	Corporates			– CP and LCs: 0% roll at maturity	
	High grade	80%	20%	– Buybacks: \$1 billion per month	
	High yield	20%	80%	– Deposits at US banking affiliates: 80% roll at maturity	
	• In practice, no impact on liquidity (operate with significant excess liquidity)			– Ability to draw on committed facilities same day	
	Asset-backed			◆ Loan funding	
	High grade	50%	50%	– Per funding schedule for leveraged loans	
	High yield	0%	100%	– \$2.0 billion per week for unfunded revolvers	
	Commercial paper	80%	20%	◆ Derivatives	
	Munis	50%	50%	– Cash collateralization on derivative payables per CSA requested on day 1 (paid on day 2 per industry practice)	
			– Margin disputes against us paid on day 3 and 4		
			– 2 notch downgrade during second week		
			◆ Other		
			– \$0.5 billion a week to cover operational cash expenses (PE and NPE)		
			– Sale of assets at pledge value with an additional 5% writedown		
◆ Overall assume 90% of “harder to fund” assets repo capacity lost					
◆ Munis TOB – 7 day put exercised on day 1 ✓					
– Customer collateral returned /liquidated over 1 week					
– Firm collateral liquidated					
◆ Prime broker					
– Free credit balances withdrawn on day 1 ✓ 100%					
◆ Dealer-based matched book					
– Unwound to release haircut ✓					
◆ Central banks					
– No PDCF					
– Able to use ECB tender facility through Bankhaus, consistent with normal practice					

Stress Scenario Assumptions Vs. Week Of March 17

- ◆ The assumptions used in our liquidity stress scenario are 3-4 times more severe than what we experienced during the week of March 17

	% Lost		<i>elig.</i>
	Week of 3/17	Stress Scenario	
Secured Funding			
Governments and Agencies	0%	0%	<i>POCF</i>
Corporates			
High grade	0%	20%	<i>POCF</i>
High yield	13%	80%	
Asset-backed			
High grade	7%	50%	<i>POCF</i>
High yield ⁽¹⁾	0%	100%	
Commercial paper	10%	20%	
Munis	0%	50%	
Munis TOB program	0%	100%	
Equities / Converts			
Major index (E1)	}	20%	
Other index (E2/C1)		14%	80%
Non index (E3/C2)			100%
Collateral upgrade (E1)		3%	10%
Total - Secured Funding	6%	23%	
Prime Broker Free Credit Balances	30%	100%	
Unsecured Funding			
LEH commercial paper	29%	100%	
LTD Buybacks (\$ Billions)	0.11	0.25	
Derivatives			
Cash collateralization per CSA	~25%	100%	
Loan funding			
Revolvers (\$ Billions)	0.00	2.00	

1. Lehman's book was 100% term funded with a weighted average maturity of 57 days.

Stress Liquidity Scenario: Overall Impact

	21-May	22-May	23-May	27-May	28-May	29-May	30-May	2-Jun	Week 3	Week 4	Total
Beginning Cash Position ⁽¹⁾	44.4	25.9	21.2	21.4	19.0	16.9	14.1	14.5	15.3	20.7	20.7
Net Loss Secured Funding ⁽²⁾	(18.3)	(2.7)	0.8	(1.1)	(0.1)	(0.1)	0.9	0.8	8.3	5.1	(6.5)
Unsecured Funding											
Unsecured Debt											
CP	(4.5)	(0.3)	(0.1)	(0.3)	(0.5)	(0.2)	(0.0)	(0.4)	(1.6)	(0.3)	(8.3)
STD excluding CP	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(1.2)	(1.6)
LTD	(0.0)	-	(0.0)	(0.0)	0.0	(2.4)	(0.0)	(0.0)	(0.3)	(0.1)	(2.8)
Buybacks	-	-	-	(0.2)	-	-	(0.2)	-	(0.2)	(0.4)	(1.0)
Deposits of Banking Affiliates	-	-	-	-	-	-	-	-	-	-	-
Letters of Credit	-	-	-	(0.1)	-	(0.0)	(0.0)	(0.0)	(0.0)	-	(0.1)
Committed Facility Drawdown	4.5	-	-	-	-	-	-	-	-	-	4.5
Loan Activity											
Syndication	-	-	-	-	-	-	-	-	-	1.7	1.7
Draw on commitments	-	-	-	-	(2.0)	-	-	-	(2.0)	(2.0)	(6.0)
Funding	-	0.0	0.0	-	-	-	(0.3)	-	(0.2)	-	(0.4)
Bankhaus Funding	-	-	-	0.3	0.4	-	-	-	-	-	0.7
Derivative Activity											
Posting of Uncalled Collateral	-	(1.6)	-	-	-	-	-	-	-	-	(1.6)
Downgrade (2 Notches)	-	-	-	-	-	-	-	(0.3)	-	-	(0.3)
Margin Payments	-	-	(0.4)	(0.4)	-	-	-	-	-	-	(0.7)
Cash outflows to fund operations (PE, NPE, etc.)	-	-	-	(0.5)	-	-	-	-	(0.5)	(0.5)	(1.4)
Total Net Loss Unsecured Funding	(0.1)	(2.0)	(0.5)	(1.3)	(2.1)	(2.7)	(0.5)	(0.7)	(4.7)	(2.8)	(17.4)
Ending Cash Position	25.9	21.2	21.4	19.0	16.9	14.1	14.5	14.6	18.1	20.5	20.5

Details
next slide

- \$44.4 billion liquidity pool as of 5/21 SOD is comprised of \$38.1 billion of Holdings liquidity, \$3.6 billion of LBI liquidity (trapped) and \$2.7 billion of Bankhaus liquidity. In this stress scenario, which involves significant funding losses at the broker dealers, cash positions become practically fungible across legal entities because LBI and LBIE require additional funding from Holdings and Bankhaus*
- Net loss of secured funding also includes the positive impact of the reduction in the funding of prime broker clients and of balance sheet reduction*

Stress Liquidity Scenario: Loss Of Secured Funding

	21-May	22-May	23-May	27-May	28-May	29-May	30-May	2-Jun	Week3	Week4	Total
Lost Capacity											
LBJ											
E3 - Non-Major Index Equities (<\$5)	0.2	-	-	-	-	-	-	-	0.2	-	0.4
	0.2	-	-	-	-	-	-	-	0.2	-	0.4
LBIE											
Asset Backs - Investment Grade	0.1	0.0	-	-	0.0	-	0.4	0.0	0.2	0.0	0.6
C1 - Investment Grade Convertibles	0.1	-	0.3	-	0.0	0.0	0.0	0.0	0.0	0.0	0.4
C2 - Non-Investment Grade Convertibles	0.1	-	0.1	0.0	0.0	0.0	0.0	0.2	0.2	0.0	0.7
Corporates - Investment Grade	0.4	0.1	0.0	0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.9
Corporates - Non-Investment Grade	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	1.0
E1 - Major Index Equities	0.2	-	0.0	0.0	-	-	0.0	0.0	0.0	0.3	0.7
E2 - Non-Major Index Equities	0.1	-	0.1	0.1	0.0	0.0	0.0	0.0	0.5	0.2	1.1
E3 - Non-Major Index Equities (<\$5)	0.2	0.4	0.1	0.0	0.2	0.0	0.0	0.1	0.2	0.1	1.4
EMG (including some Govies)	1.0	0.1	0.1	0.5	0.1	0.0	0.3	0.1	1.0	0.8	4.1
Equities Collateral Exchange (Shorts covering)	2.0	-	-	-	-	-	-	-	-	-	2.0
Total LBIE	4.7	0.7	0.7	0.9	0.4	0.1	0.9	0.5	2.3	1.6	12.8
LBI											
Asset Backs - Investment Grade	1.4	0.0	-	0.0	-	-	-	-	0.4	0.1	1.9
Asset Backs - Non-Investment Grade	0.9	-	-	-	-	-	-	-	0.0	0.8	1.8
C1 - Investment Grade Convertibles	0.4	-	-	-	-	-	-	-	-	-	0.4
C2 - Non-Investment Grade Convertibles	0.7	-	-	0.2	-	-	-	-	-	-	0.9
Corporates - Investment Grade	1.2	-	-	-	-	-	-	-	0.0	0.0	1.2
Corporates - Non-Investment Grade	3.2	-	-	0.2	-	-	-	-	-	0.8	4.2
E1 - Major Index Equities	0.4	-	-	-	-	-	-	-	0.0	-	0.4
E2 - Non-Major Index Equities	1.4	-	-	0.3	-	-	-	0.7	0.4	-	2.8
Money Markets	1.8	-	-	0.1	-	-	-	-	-	0.1	2.0
Muni	1.6	-	-	-	-	-	-	-	-	-	1.6
Private Labels - High Yield	1.7	-	-	0.0	-	-	-	0.2	0.0	0.3	2.2
Private Labels - Investment Grade	1.4	-	0.2	0.4	-	-	-	-	0.1	0.0	2.1
Total LBI	16.2	0.0	0.2	1.2	-	-	-	0.9	1.0	2.2	21.6
Total Lost Capacity	21.1	0.7	0.9	2.1	0.4	0.1	0.9	1.4	3.4	3.8	34.8
Mitigants and other stress elements											
LBIE											
Prime Broker Customer Free Credits	(4.0)	-	-	-	-	-	-	-	-	-	(4.0)
Prime Broker Reduction	-	-	-	-	-	-	-	1.0	3.0	6.0	10.0
Term Overfunding	1.5	0.1	-	0.2	-	-	-	-	(0.8)	-	1.1
ECB	0.4	0.2	0.1	0.2	0.0	-	0.2	0.1	0.1	0.1	1.4
Bankhaus	0.8	0.4	0.6	0.1	0.2	-	-	0.2	0.4	-	2.7
Total LBIE	(1.3)	0.7	0.7	0.6	0.2	-	0.2	1.3	2.7	6.1	11.2
LBI											
Prime Broker Customer Free Credits	(4.0)	4.0	-	-	-	-	-	-	-	-	-
Unwinding of Muni TOB Prog. (\$6 billion gross)	-	-	-	-	-	-	(3.0)	-	3.0	-	-
Balance Sheet Reduction	-	-	-	-	-	-	5.0	1.0	7.0	3.0	16.0
Writedowns on balance sheet reduction	-	-	-	-	-	-	(0.4)	(0.1)	(0.5)	(0.2)	(1.2)
Dealer-based Matched Book Reduction	-	-	1.0	-	-	-	-	-	-	-	1.0
Term Overfunding excl. TSLF	7.2	(6.7)	-	-	-	-	-	-	(0.5)	-	-
TSLF Overfunding	0.8	-	0.0	0.4	-	-	-	-	-	0.0	1.3
Total LBI	4.0	(2.7)	1.0	0.4	-	-	1.6	0.9	9.0	2.9	17.2
Net Loss Secured Funding	(18.3)	(2.7)	0.8	(1.1)	(0.1)	(0.1)	0.9	0.8	8.3	5.1	(6.5)

Overview of Q2 '08 Results

Run Rate Flat in Q2 '08

The level of activity was most reduced in March, with April and May seeing more normal flow

- ◆ Additionally, trading conditions were more challenging, especially in March, resulting in reduced trading profits
- ◆ Equities, in particular, was affected by weakness in volatility businesses in Europe

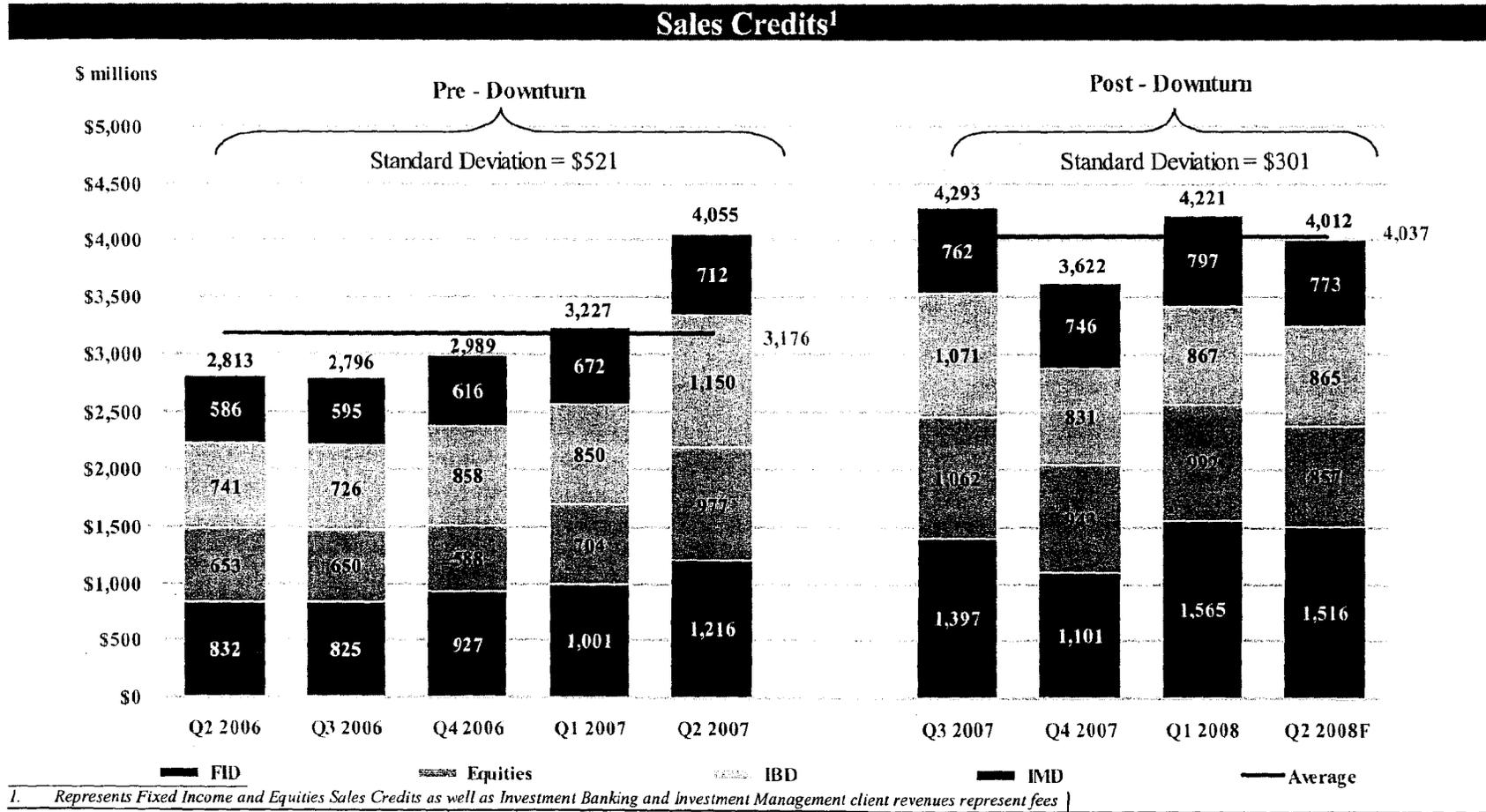
Revenue Run Rate						
<i>\$ billions</i>	<i>Actual</i> <u>Q1 2007</u>	<i>Actual</i> <u>Q2 2007</u>	<i>Actual</i> <u>Q3 2007</u>	<i>Actual</i> <u>Q4 2007</u>	<i>Actual</i> <u>Q1 2008</u>	<i>Forecast</i> <u>Q2 2008</u>
<u>Revenue Run Rate</u>						
FID	1.9	2.2	1.9	1.5	2.1	2.1
Equities	1.1	1.4	1.5	1.3	1.0	0.8
IBD	0.9	1.2	1.1	0.8	0.9	0.9
IMD	0.7	0.7	0.8	0.7	0.8	0.8
Total	4.5	5.5	5.3	4.4	4.8	4.5

1. We utilize sales credits as a proxy for client revenues in Fixed Income and Equities

Core Sales Credits Are Still Strong...

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

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



low mgt.

Fixed Income Activities Have Been Driver of Underperformance

While Fixed Income has been affected by significant asset revaluations, challenging trading conditions and de-leveraging, Lehman's other businesses have performed well relative to the prior year

- ◆ We expect our 12 month performance to be consistent with Morgan Stanley and significantly better than Merrill Lynch
- ◆ Core Fixed Income businesses (Rates, Credit, FX) have continued to perform well
- ◆ Segment view includes all writedowns in Fixed Income assets from Investment Management as assets taken out of funds, as well as losses on LBO loans associated with banking activity

Recent 12 Month Financial Performance

\$ millions	9 Months	Forecast	Current	Last	Current vs. Last		
	Q3 '07 - Q1 '08	Q2 '08	12 Months Q3 '07 - Q2 '08	12 Months Q3 '06 - Q2 '07	Variance	Morgan Stanley 9 Months Q3 '07 - Q1 '08	Merrill Lynch 9 Months Q3 '07 - Q1 '08
Capital Markets:							
Fixed Income	\$2,183	(\$2,824)	(\$641)	\$8,200	-108%		
Equities	4,661	607	5,268	4,778	10%		
Total	\$6,844	(\$2,217)	\$4,627	12,978	-64%		
Investment Banking:							
Global Finance	1,626	630	2,256	2,609	-14%		
Advisory Services	1,143	235	1,378	975	41%		
Total	\$2,769	\$865	\$3,634	3,584	1%		
Investment Management¹:							
Asset Management	1,609	496	2,104	1,593	32%		
Private Investment Management	983	356	1,339	1,115	20%		
Total	\$2,592	\$852	\$3,443	2,708	27%		
Total Net Revenues	\$12,205	(\$500)	\$11,705	19,271	-39%	\$15,830	(\$5,398)
Compensation and Benefits	6,129	2,300	8,429	9,501	-11%	10,854	10,453
Non-personnel Expenses	2,978	1,138	4,116	3,335	23%	6,301	6,399
Total Expenses	9,107	3,438	12,545	12,836	-2%	17,155	16,852
Pre-tax Income / (Loss)	3,098	(3,938)	(840)	6,435	-113%	(1,325)	(22,250)
Taxes	836	(1,059)	(222)	2,095	-111%	(761)	(7,379)
Net Income	\$2,261	(2,880)	(\$619)	4,340	-114%	(494)	(14,036)
ROE	14%	-62%	-4%	24%			

1. Includes investments in minority stakes

Conclusion

- ◆ Current quarter has been affected by significant writedowns without the benefit of the hedges performing
- ◆ Additionally, basis losses incurred in the credit areas and trading losses in the rates business are from largely technical and outsized movements.
- ◆ Writedowns are smaller than previous quarters and traded volumes suggest that support levels are strong for these asset classes, reducing the risk of further losses
- ◆ The revenue run rate has been resilient with client flow affected by overall market turbulence in March
- ◆ Capital position is stronger than ever with de-levering bringing both net and gross leverage ratios to multi-year lows.
- ◆ Liquidity position at record levels though debt and capital raises, de-levering, asset transformation, leveraging our Banks and operational improvement
- ◆ Overall creditworthiness looking forward is strong, but actively considering common equity raise