LEHMAN IB UPDATE J^2: F.R. Restricted 7/23/2008

Update Discussion with Treasurer on the Week in Review and Data for July 22nd (Go to the Appendix to see recent days' narratives).

The Treasurer characterized the past week as a return to stability as the noise and news in recent weeks began to settle down.

Liquidity Pool: The pool remained within a tight range, $38B to $40B, in line with the firm's stabilizing, but lower, commercial paper levels. The Treasurer expects an uptick from the current $38.0B level from both a revised 15c3-1 lockup computation (which increased from $3.9B to $4.8B this week) and adjustments under way to London's prime brokerage business's funding engine.

Commercial Paper: Outstanding balances were stable in the $4.0B to $4.2B range.

Repo: Non-tradtional repos declined from $106.0B to $102.6B due to ongoing deleveraging efforts and market movements away from private label repos. Last Friday **Mizuho** pulled its $500 billion private label repo line. This week **Federated** negotiated changes in its haircuts for private label mortgage repos. **Fidelity,** on the other hand, recently began to accept the asset category.

CDS: Spreads, which retreated yesterday to 338 from 357, further declined to 320 today.

Debt Buybacks: Lehman reversed its recent adverse trend by being a net seller of bonds for the week.

14:45 Stock Price

Price 21.180	Change 0.980	% Change 4.851	Bid N.A.	Ask N.A.	Open 20.100
Volume 28,654,624	High 22.050	Low 19.200	52-Week High69.86 (07/23/07)	52-Week Low12.02 (07/15/08)	1-Yr Return -68.837%

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JULY 23 SUMMARY DETAILS FOR JULY 22

7/22/08 Changes in Liquidity Pool					
Asset Composition ($B)			Funding Composition ($B)		
Position	Change in Cash		Sources		
15.8	(3.2)	NY	1.9	CP Issuance
4.2	(0.4)	London	0.3	Bank Loans
			0.6	ABCP Investments
Position	Change in Inventory			
4.7	0.6	LBHI		
4.9	(0.9)	LBI (NY)		
8.4	1.8	LBIE (LDN)	Uses	
-	-	LBAH (ASIA)	1.9	CP Maturities
			0.1	Bank Loans
			0.3	Loan Funding
			2.1	Intercompany
			0.4	Other
$38.0B	$(2.1)B	Net Change	$(2.1)B	Net Funding

Lehman Credit Spreads		
Day / Week	5-Year CDS (open)	5-Year (vs 3 Mo LIBOR)
3/14	650	
3/17 – 3/21	273 – 450	
3/24 – 3/28	210 – 300	313 – 328
3/31 – 4/4	183 – 300	245 – 283
4/7 – 4/11	158 – 222	234 – 269
4/14 – 4/18	167– 222	214 – 269
4/21 – 4/25	169 – 190	215 – 232
4/28 – 5/2	135 – 160	219 – 232
5/5 – 5/9	135 – 171	219 – 233
5/12 – 5/16	154 –164	225 – 232
5/19 – 5/23	153 – 215	229 – 251
5/27 – 5/30	226 – 247	273 – 278
5/30 (2 Q End)	226	274
6/2 – 6/6	233 – 262	253 – 275
6/9 – 6/13	237 – 280	246 – 273
6/16 – 6/20	225 – 260	248 – 266
6/23 – 6/27	258 – 285	264 – 279
6/30 – 7/3	276 – 280	274 – 279
7/7 – 7/11	283 – 360	276 – 317
7/11	360	317
7/14	381	315
7/15	391	335
7/16	385	333
7/17	376	340
7/18	378	339
7/21	357	331
7/22	338	332

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Dates	Total Cash	Boxed inventory	Liquidity Pool: Cash & Equivalents Available to LBHI	LBI 15c3 Lockup	LBIE PB Cust. Free Credit	$2.0B US Committed Bank line (drawn)	$2.5B LDN Committed Bank line (drawn)
3/14 – 3/18	9.0–20.6	6.5–19.9	27.1–30.2				
4/1 – 4/4	10.9–20.5	11.8–19.9	27.5–32.2	2.3	6.3 – 6.4		2.0
4/7 – 4/11	16.2–18.7	12.5–15.8	31.2–32.7	2.3	6.5 – 7.1		
4/14 – 4/18	18.0–21.5	9.3 –12.4	30.2–33.9	2.3	5.7 – 7.3	2.0	
4/21 – 4/25	18.4–20.4	8.9–11.8	30.2–33.3	4.2	5.9 – 6.2	2.0	
4/28 – 5/2	7.7–20.9	10.9–26.3	31.8–35.6	5.5 – 6.0	6.0 – 7.1		
5/5 – 5/9	17.6 – 22.0	17.2 – 19.1	34.8 – 39.2	5.5	3.7 - 6.0		
5/12 – 5/16	21.3 – 27.0	10.5 – 18.4	37.5 –39.7	3.1	3.7– 3.9		
5/19 – 5/23	26.1 – 30.0	9.3 – 12.6	36.4 – 40.2	3.0	3.8 – 4.3		
5/27 – 5/30	1.2 – 30.8	10.9 – 43.4	41.7 – 44.6	3.3	4.0 – 4.3		
5/30 (2Q End)	1.2	43.4	44.6	3.3	4.0		
6/2 – 6/6	26.6 – 31.3	10.2 – 15.9	42.4 – 43.3	3.8	3.7 – 3.9		
6/9 – 6/13	31.2 – 36.6	8.5 – 12.0	40.6 – 48.4	2.8	3.9 – 4.3		
6/16 – 6/20	23.0 – 30.1	12.5 – 18.5	41.5 – 43.1	5.6	3.1 – 3.6		
6/23 – 6/27	30.2 – 33.8	7.7 – 11.7	41.0 – 42.2	2.5	3.6		
6/30 – 7/3	2.6 – 31.9	8.2 – 38.4	39.3 – 41.0	5.0	3.0 – 3.1		
7/7 – 7/11	27.1 – 33.3	7.0 – 13.1	38.4 – 40.3	5.0	1.6 – 2.8		
7/11	27.1	13.1	40.2	5.0	1.6		
7/14	26.8	12.7	39.5	3.9	1.4		
7/15	26.8	11.8	38.6	3.9	1.6		
7/16	22.8	15.4	38.2	3.9	1.5		
7/17	24.5	14.1	38.6	3.9	1.5		
7/18	24.7	15.4	40.1	3.9	1.5		
7/21	23.7	16.4	40.1	4.8	1.3		
7/22	20.0	18.0	38.0	4.8	1.3		

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Secured Funding ($ Billions)							Secured Funding Breakdown		
Secured Funding	Asia	Europe	U.S.	Total	Change		% Next Day	% < 1 week	% > 1 week
3/17 – 3/20	2.9	45.6 – 47.7	65.5 – 67.8	115.3 – 117.4			N/A	N/A	N/A
3/24 – 3/28	1.6	47.1 – 41.6	69.2 – 63.8	117.9 – 107.0			37 – 43	15 – 18	41 – 47
3/31 – 4/4	1.4	41.5 – 48.0	63.2 – 61.6	105.0 – 111.7			38 – 54	8 – 13	38 – 48
4/7 – 4/11	1.4 – 1.5	46.6 – 48.0	61.8 – 62.3	109.9 – 111.7			37 – 44	11 – 17	44 – 49
4/14 – 4/18	1.5 – 1.6	47.4 – 50.5	60.3 – 61.8	110.1 – 112.5			39 – 44	9 – 12	44 – 51
4/21 – 4/25	1.6 – 1.7	50.5 – 51.6	60.2 – 61.7	112.5 – 114.7			40 – 43	11 – 18	42 – 47
4/28 – 5/2	1.7	49.3 – 51.3	59.0 – 60.2	110.8 – 113.2			42 – 48	10 – 17	40 – 45
5/5 – 5/9	1.7	49.6 – 50.6	59.9 – 61.6	112.2 – 113.1			45 - 47	9 -11	43 - 44
5/12 – 5/16	1.7	48.8 – 49.2	59.5 – 61.2	110.4 – 112.0			42 – 48	7 – 9	46 – 51
5/19 – 5/23	1.7	49.1 – 51.4	56.8 – 60.8	109.8 – 111.7			40 – 43	6 – 9	49 – 51
5/27 – 5/30	1.7	48.3 – 50.0	54.1 – 57.1	107.0 – 108.8			39 – 42	11 – 13	46 – 50
5/30 (2Q END)	1.7	49.5	54.1	105.3			42	12	46
6/2 – 6/6	1.7	50.5 – 51.3	54.6 – 56.8	107.4 – 109.2			37 – 40	11 – 14	49 – 51
6/9 – 6/13	1.7 – 1.8	49.9 – 51.2	54.9 – 55.4	106.8 – 108.0			39 – 43	9 – 13	47 – 51
6/16 – 6/20	1.7	49.9 – 50.7	56.4 – 59.9	108.0– 112.1			37 – 44	7 – 12	49 – 50
6/23 – 6/27	1.7	49.7 – 50.3	58.7 – 59.7	109.7 – 111.0			42 – 43	8 – 10	47 – 49
6/30 – 7/3	1.7	48.7 – 49.8	57.4 – 59.1	107.8 – 110.3			42 – 45	9 – 10	46 – 47
7/7 – 7/11	1.4 – 1.7	48.5 – 49.5	57.4 – 58.6	107.4 – 109.6			4 2 – 45	7 – 11	46 – 50
7/11	1.4	49.5	58.6	109.6			42	8	50
7/14	1.5	49.4	58.4	109.3	(0.3)		41	8	51
7/15	1.5	49.0	57.1	107.6	(1.7)		39	10	51
7/16	1.5	48.9	55.5	106.0	(1.6)		39	11	50
7/17	1.5	47.8	54.6	103.8	(2.2)		42	7	51
7/18	1.5	48.4	54.8	104.7	0.9		39	10	51
7/21	1.5	48.6	54.4	104.5	(0.2)		41	11	48
7/22	1.5	47.6	53.5	102.6	(1.9)		40	10	49

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Commercial Paper	Europe	U.S.	Total	Change	% Overnight Maturing	% Within Two Weeks
3/17 – 3/20	2.4 - 2.6	5.2 – 5.8	7.7 – 9.4		-	-
3/24 – 3/28	2.3 – 2.6	6.7 – 8.6	9.2 – 11.1		45 – 53	
3/31 – 4/4	2.4 – 2.6	6.4 – 8.0	8.8 – 10.6		49 – 52	
4/7 – 4/11	2.3 – 3.4	7.1 – 7.6	9.6 – 11.0		46 – 55	
4/14 – 4/18	3.0 – 3.4	6.6 – 7.8	9.8 - 11.0		47 - 57	
4/21 – 4/25	3.0 – 3.3	6.4 – 7.7	9.5 – 11.0		47 – 52	61 – 70
4/28 – 5/2	2.9 – 3.3	6.2 – 7.5	9.5– 10.7		27 – 50	56 – 61
5/5 – 5/9	3.0 – 3.7	7.0 – 7.9	10.0 – 11.3		41.2 – 50.2	52.2 – 64.1
5/12 – 5/16	2.9 – 3.8	7.7 – 8.3	10.9 – 11.1		35.7 – 40.4	53.9 – 60.3
5/19 – 5/23	3.2 – 3.9	6.9 – 7.5	10.7 – 11.4		33.4 – 41.6	50.7 – 63.2
5/26 – 5/30	1.5 – 3.9	6.4 – 7.1	8.0 – 10.8		16 - 38	55.7 – 64.6
6/2 – 6/6	2.1 – 3.6	6.0– 6.5	8.2 – 10.0		15.4 – 41.1	57.1 –65.4
6/9 – 6/13	1.2 – 2.1	5.0 – 6.0	6.1 – 7.9		20.8 – 42.2	56.7– 77.8
6/16 – 6/20	1.0 – 1.3	4.6 – 55	5.6 – 6.7		17.9 – 30.9	n/a
6/23 – 6/27	0.9 – 1.0	4.8 – 5.3	5.8 – 6.2		36.3 – 43.9	62.0 – 66.6
6/30 – 7/3	0.8 – 1.0	3.8 – 4.0	4.6 – 4.9		43.2 – 48.1	n/a
7/7 – 7/11	0.8 – 0.9	3.6 – 3.9	4.5 – 4.8		46.7 – 52.2	n/a
7/11	0.8	3.7	4.5		52.2	63.5
7/14	0.8	3.6	4.5	0.0	52.1	62.8
7/15	0.8	3.4	4.2	(0.3)	49.5	60.3
7/16	0.8	3.3	4.1	(0.1)	48.2	60.0
7/17	0.8	3.3	4.2	0.1	44.6	58.1
7/18	0.8	3.1	4.0	(0.2)	41.6	60.2
7/21	0.8	3.2	4.0	0.0	47.5	63.2
7/22	0.9	3.1	4.0	0.0	47.5	63.2

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ST Debt Maturities:	Next Day	< 1 wk	1wk – 1 mth	> 1 mth	Total	Change
3/19 – 3/20	1.7 – 3.2	1.0 – 4.4	2.4 – 3.7	24.0 – 24.1	32.1 – 32.4	
3/24 – 3/28	4.4 – 7.2	1.3 – 3.8	3.0 – 3.4	23.2 – 25.9	33.9 – 38.2	
3/31 – 4/4	4.7 – 5.5	1.0 – 1.6	3.2 – 3.8	25.9 – 26.9	35.1 – 37.2	
4/7 – 4/11	4.9 – 5.9	2.5 – 2.7	2.2 – 2.5	26.8 – 26.9	36.6 –37.8	
4/14 – 4/18	4.1 – 7.7	0.5 – 1.8	2.7 – 3.5	26.1 – 26.7	36.1 – 37.9	
4/21 – 4/25	4.6 – 5.8	1.6 – 2.3	2.9 – 3.5	26.0 – 26.4	36.1 – 37.1	
4/28 – 5/2	2.8 – 5.7	1.1 – 2.7	5.8 – 6.6	23.6 – 24.2	35.6 – 37.0	
5/5 – 5/9	4.2 – 5.9	0.8 – 2.7	5.3 – 7.2	23.3 – 23.9	35.6 – 37.5	
5/12 – 5/16	4.2 – 5.2	1.0 – 2.3	7.2– 7.7	22.7 – 22.9	36.1 – 37.2	
5/19 – 5/23	3.8 – 4.9	0.9 – 3.7	5.5– 8.4	22.7 – 24.4	35.8 – 37.7	
5/26 – 5/30	1.3 – 6.4	1.9 – 3.4	4.9 – 6.1	24.1 – 24.3	32.4 – 37.9	
6/2 – 6/6	3.4 – 4.3	1,3 – 2.6	2.7 – 4.8	24.0– 25.0	33.5 – 35.5	
6/9 – 6/13	2.6 – 3.5	1.6 – 3.1	2.3 – 2.8	23.8 – 24.6	30.8 – 33.0	
6/16 – 6/20	1.1 – 2.4	1.3 – 2.3	1.6 – 3.0	23.9 – 24.5	29.8 – 30.2	
6/23 – 6/27	2.4 – 3.1	0.6 – 2.7	1.4 – 2.7	23.5 – 23.8	29.5 – 30.5	
6/30 – 7/3	2.0 – 2.4	0.5 – 0.9	1.9 – 2.8	23.4 – 23.6	28.4 – 29.1	
7/7 – 7/11	2.2 – 2.5	1.4 – 2.1	1.7 – 2.2	22.9 – 23.4	29.0 – 29.3	
7/11	2.4	1.4	2.2	23.1	29.0	
7/14	3.5	0.3	2.6	22.8	29.2	0.2
7/15	2.2	0.3	2.7	22.7	28.0	(1.2)
7/16	2.1	0.3	2.6	22.8	27.8	(0.2)
7/17	1.8	0.6	2.6	22.8	27.9	0.1
7/18	1.8	0.6	3.4	22.8	28.6	0.7
7/21	2.0	0.4	3.4	22.7	28.6	0.0
7/22	2.1	0.4	4.0	22.3	28.8	0.2

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CURRENT RATINGS

Ratings Summary			
Rating Agency	LBHI	LBI	Comments
Moody's			
• Short-term	P-1	P-1	• July 2008 LT Ratings Downgraded. (Outlook remains *Negative*) • June 2008 Placement on Negative Watch • June 2008 Outlook change to *Negative* • March 2008 Outlook change to *Stable* • September 2007 Credit commentary opinion with no rating.
• Long-tern (senior)	A2	A1	
• Long-term (subordinated)	A3	A2	
Standard & Poor's			
• Short-term	A-1	A-1	• June 2008 LT Ratings Downgraded, (Outlook remains *Negative)* • April 2008 Commentary on Credit Summary • March 2008 Outlook change to *Negative*
• Long-tern (senior)	A	A+	
• Long-term (subordinated)	A-	A	
Fitch Ratings			
• Short-term	F1	F1	• June 2008 LT & ST Ratings Downgraded, (Outlook remains *Negative)* • April 2008 Outlook change to *Negative* • March 2008 Commentary
• Long-tern (senior)	A+	A+	
• Long-term (subordinated)	A	A	
Dominion Bond Rating Service			
• Short-term	R-1 (Middle)	R-1 (Middle)	• June 2008 Outlook change to *Negative* • March 2008 Ratings Affirmed • December 2007 Ratings Upgraded

• Long-tern (senior)	AA (Low)	AA	
• Long-term (subordinated)	A (High)	AA (Low)	

APPENDIX

Update Discussion with Holding Company Compliance on Tuesday, July 22nd and Data for July 21st

Liquidity Pool: The pool remained at $40.1B.

Commercial Paper: Outstanding balances remained the same in Europe today, but are down $100 million in the US. **New York State Controllers** and **State of Oregon** did not roll $100 million and $50 million, respectively. **Northwestern Mutual**, however, purchased an additional $100 million.

Repo: No issues reported.

CDS: Spreads retreated yesterday to 357 from 375, in line with levels attained two weeks ago.

12:43 Stock Price

Price18.779	Change 0.459	% Change 2.505	Bid N.A.	Ask N.A.	Open 17.640
Volume 18,768,325	High 19.580	Low 17.110	52-Week High 69.86(07/23/07)	52-Week Low 12.02(07/15/08)	1-Yr Return -72.464%

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Update Discussion with Holding Company Compliance on Monday, July 21st and Data for July 18th

Liquidity Pool: The pool started the day $1.5B higher at $40.5B, largely due to the drawdown of $1.1B in bank loans (including a $1B two-week loan with **Freddie Mac**).

Commercial Paper: Commercial paper balances declined from $4.2B to $4.0B on Friday, where they remained today. Outstanding commercial paper balances are currently at half the level reported at May's Quarter End.

Repo: No issues reported.

16:10 Stock Price

Price 18.320	Change -0.790	% Change -4.134	Bid N.A.	Ask N.A.	Open 19.980
Volume 40,160,063	High 21.210	Low 18.030	52-Week High 69.86(07/23/07)	52-Week Low 12.02(07/15/08)	1-Yr Return -73.131%

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Update Discussion with Holding Company Compliance on Friday, July 18th and Data for July 17th (Go to the Appendix to see recent days' narratives).

Liquidity Pool: The pool began the day at $38.6B, $0.4B up from the start of the prior day. Outflows from debt buybacks, bank loan repayments, derivatives, and inter-company balances were more than offset by the migration of $1.5B loans to Bankhaus.

Commercial Paper: Commercial paper balances increased $55 million yesterday due to new money from **Frank Russell** ($100 million) and **Harris Bank** ($50 million). Balances will revert and further decrease due to several large balances that will not be rolled: **Ameriprise** ($100 million), **LBBW** ($240 million), and **Metropolitan West** ($200 million). Partially offsetting these outflows is $150 million of new money from **Northwestern Mutual Life.**

Repo: Less liquid repo (Non-Treasury, agency, MBS) has declined by $5B to $103.8B from the recent average of $108B over recent weeks. This is the lowest level since we initiated monitoring in March. The decline is explained by two factors – an outright withdrawal of $3.3B by some investors (see below) , and collateral upgrades by others who had previously been taking private label mortgage paper. Note: upgrades to better classes of Treasury and agency collateral affect this less liquid pool, but not total outstandings, which are only updated in the global totals weekly. The upgrades to better collateral are in response to the week's developments concerning FNMA and FHLMC.

Customers upgrading collateral include:

- **Dreyfus** moved $1B to agency repos
- **BGI** moved $600 million to high grade corporate repos, and
- **Frost Financial Services** moved $200 million to triple-A muni repos

Customers who have not rolled include:

- **Mizuho** and **Swiss Re** at $500 million and $300 million, respectively, and
- **Chase Securities Lending** at $2.5B. (Note: Chase also upgraded $1B to triple-A asset-backed repos**)**

Rating Agencies: Moody's lowered Lehman's senior debt rating from A1 to A2 after placing it on Negative Watch last month. The outlook continues to be negative. Standard & Poor's and Fitch rate Lehman's senior debt A and A+, respectively, both with negative outlooks.

Recent CPC Comments: CS will continue to take any novations that happen to offset LB exposure that they receive in the normal course of business but the concentrated effort to reduce the exposure is over. (Credit Suisse Credit Counterparty Update)

From Bill Hallacy re: Citi's view on Lehman
Restricted FR: Meeting with Tom Fontana, CRM, Head of US Financial Institutions

Citi is continuing to conduct all business as usual with **Lehman** this week, but according to Tom, is preparing itself for the worst. CDS protection on Lehman was increased slightly to $460 mln. (was $390 mln as of April 30). As we reported earlier, Citi's had asked that Lehman keep $2 bln on deposit as an offset to intra-day clearing/settlement risk.

Citi is now asking for a formal collateral agreement to be negotiated. This agreement would not be executed now, but could be executed quickly in the event of any problems. Citi continues to manage these lines very closely and kept exposure below $1 bln. (Citi believes that Lehman was unaware of how much intra-day credit they were using, and have begun to manage more closely from their end also.)

Citi continues to take **novations** on Lehman's name with the price discounted for credit risk. Citi reports that it has gotten push back from some firms, but will hold the line. In Tom's opinion, the market should always trade this way.

3:00 pm Stock Price

Price18.909	Change0.009	% Change0.048	BidN.A.	AskN.A.	Open19.570
Volume41,013,772	High20.100	Low17.760	52-Week High72.50(07/19/07)	52-Week Low12.02(07/15/08)	1-Yr Return-73.176%

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Update Discussion with Holding Company Compliance on Thursday, July 17 and Data for July 16th

Liquidity Pool: The pool began the day at $38.2B, $0.5B down from the start of the prior day, and the fifth successive day down from its previous day – decline is attributable to CP and debt buybacks.

Commercial Paper: CP outstanding declined again: yesterday from $4.2B to $4.1B and today by another $230 million. Investors that did not roll today include **Ameriprise** ($100 million), **Harrison Investments** ($75 million), and **New York State Controllers** ($55 million). The money fund asset manager, **Frank Russell**, was a new buyer of $100 million.

Repo: Non-Treasury, non-agency, and non-agency MBS repos decreased from $107.6B to $106.0B yesterday.

Long-term debt buybacks: Lehman noted that PIMCO is an aggressive seller of financial debt as Lehman bought back a small (undisclosed) amount of its debt from the PIMCO asset manager as part of a wider showing.

CDS Spreads: Five year CDS spreads, which closed yesterday at 385, tightened to 375 in the early afternoon. The Credit Trading desk passed along information that Lehman CDS spreads have not tightened as much as anticipated (given improved share price) due to continued arbitrage between Lehman CDS (long) and Lehman stock (short). A foreign offshore institution is reported to be aggressive in this strategy over recent weeks.

Closing Stock Price

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Update Discussion with Treasurer for Wednesday, July 16 and Data for July 15th

Liquidity Pool: The pool began the day at $38.6B, $0.8B down from the start of the prior day, and the fourth successive day down from its previous day – decline is attributable to CP. Also, anticipate that CP balances will fall to $1-2B range by end of 3Q since Lehman sees no reason to pay up for funds given the current depth of the liquidity pool. When asked, the Treasurer noted that a low CP balance has not affected public perception in the past and does not anticipate it will this time.

Commercial Paper: CP outstanding further declined yesterday from $4.5B to $4.2B, with new issuances ranging from overnight to one-week. Lehman Treasury is evaluating whether or not to continue to issue in this market, given that relatively few large buyers have an interest in Lehman.

Repo: The Treasurer noted in today's SEC quarterly review (funding, liquidity, P & L) that secured funding remains very solid, though a few counterparties are either looking to increase haircuts (marginally) or take higher quality collateral (high yield corporate & ABS and private label MBS are most problematic categories). Most of the US market is overnight, but new three-month repo trades are still getting done in Europe. Repo with the ECB, currently at $13.4B, is expected to come down due to prospective asset sales.

Long-term debt buybacks: Last week's public debt buybacks totaled $600 to $700 million. Large consistent sellers included **Goldman Sachs Asset Management** ($200 million) and the European debt specialist **Rogge Global Partners** ($200 million). Recently **Bank of Korea** also sold $100 million.

Medium-term notes: The last buyback of a medium term note was in early June from **Franklin Templeton** (due to its overexposure from having purchased new shares/debt).

CDS Spreads: Five year CDS spreads opened at 400/405, up from the prior day close of 391. Spreads tightened by mid-morning to 380/390.

Balance Sheet Reductions: Funding requirements are expected to decline as Lehman continues to shrink its balance sheet. Primary contributors include significant residential mortgage sales, securitizations to free up cash or obtain secured repo, continuing sales of commercial mortgages, and the migration of $1.3B assets to Bankhaus.

17:08 Stock Price

Price16.650	Change 3.430	% Change 25.946	BidN.A.	AskN.A.	Open 14.270
Volume83,388,570	High 16.850	Low 13.470	52-Week High 74.09(07/17/07)	52-Week Low 12.02(07/15/08)	1-Yr Return-76.853%

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<u>Update Discussion with Holding Company Compliance for Tuesday, July 15 and Data for July 14th (Go to the Appendix to see recent days' narratives).</u>

CDS Spreads: Five year CDS spreads, which closed yesterday at 381, moved to 420 this morning, the highest level reported since the week of March 17, and retreated by the end of the day to 391. The one year spread this morning, continued to be appreciably higher at 750.

CP: All of the $0.4B CP maturing in Europe rolled. All but $255 million of $1.9B CP maturing in the US rolled. Both **State of New Jersey Division of Investments** and **Evergreen Investments** did not roll $125 million and $130 million of overnight CP, respectively.

Liquidity Pool: The pool began the day at $39.5B, $0.7B down from the start of the prior day, its lowest level in two weeks.

REPO: ING's Board directed management to reduce Lehman exposure "in an orderly manner". Lehman staff is not sure if this will immediately affect ING's $300 million repo balances maturing July 17 ($100 million in emerging markets and $200 million in corporate investment grade).

17:23 Stock Price

Price 13.220	Change 0.820	% Change 6.613	BidN.A.	Ask N.A.	Open 12.990
Volume1 32,415,923	High 14.580	Low 12.020	52-Week High 74.09(07/17/07)	52-Week Low 12.02(07/15/08)	1-Yr Return-81.797%

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<u>Update Discussion with Treasurer for Monday, July 14 and Data for July 11th</u>

5:00pm update

Stock Price: In the last minute of trading, a sell order was placed for 2.5 million shares.

Price12.400	Change-2.030	% Change-14.068	BidN.A.	AskN.A.	Open16.250
Volume107,728,561	High16.300	Low12.300	52-Week High74.09(07/17/07)	52-Week Low12.30(07/14/08)	1-Yr Return-82.926%

CDS Spreads: CDS spreads closed at 381, after having opened at 360-362 and trending lower earlier to 345.

CP: $800 mil rolled in the UK, and $1.87B rolled in the U.S, about $79 million below maturities. $150mil. of 6 month term CP with Dreyfus matured today that Dreyfus did not roll. In addition in London, Dreyfus did not roll $600 mil. in non-investment grade corporate collateral in LBIE (as discussed in previous daily updates.

Prime Broker Free Credits: Balances have run down by about $1.2B since Monday 7/7. The cause is customers' requests that Lehman segregate free credit balances, the largest of which was GLG for about $1.0B. The funde remain with Lehman though they are not accessible. Note, Lehman does not count these funds as part of their liquidity pool or broader estimates.

Liquidity Pool: Closing around $39.3 billion though the balance may improve before morning. A $500 mil. loan funding outflow went to LCPI (commercial paper sub) which is being reviewed.

Debt buybacks: About $200 million was repurchased by Lehman today with two blocks of note:

- $65 mil. with the Govt. of Singapore
- $25 mil. with Munich RE
- Remainder was small transactions

REPO: Other than Dreyfus, no novations or terminations, though an update will follow to confirm the status of activity with State Street and Dredsner, both of which have significant overnight balances with Lehman (will follow-up).

RATING AGENCIES:
Last week, Moodys sent Lehman a request for information. In June, Moody's placed Lehman on negative credit watch and is obligated to make some determination within 90 days – close to late August-September.

<u>1:30pm update</u>

LEHMAN IB UPDATE J^2: F.R. Restricted 7/23/2008

Market weakening has taken LEH stock to 13.75 range, with CDS spreads back to the 365 level.

NY financed an additional $300 mil in CP, as Dreyfus remains uncertain about rolling CP. No news of terminations, though some debt buyback was noted. More detail to follow from 5pm call later today

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__9:15am update__

__European Repo__
The European counterpart still undecided on rolling is LBBW which is financed $800 mil. in muni collateral as-of Friday.

__U.S. Market__

- FHLMC has been funding $3.5B of Lehman's CP, and pending FHLMC's offering today has only committed to $2.0B, and has promised to take the additional $1.5 if their offering is successful.
- HSBC is financing around $3.7 - $4.0B in Lehman U.S. repo and earlier this morning noted their preference for Treasury collateral rather than agencies. The Treasury staff noted that this was before the market had appeared to improve over the FHLMC/FNMA press this morning following yesterday's announcement. Their opinion might change.

Conversation with Paolo
He confirmed Lehman's intention to sell $10B residential, and $5-10B in commercial mortage/ related inventory.
Their target is a total position of $45B in all motgage products.
Paolo is optimistic that they can get better bids that the ones discussed with you over the weekend, and should be getting back to you later.
For the call later this am, they are preparing more detail to back-up the high level info provided yesterday.

Paolo on the clearing banks
Paolo is clearly riled over JPMC's lock-up of the $5.0B in perfected collateral. He believes that JPMC has not demonstrated, with data, that the daylight overdraft expose to JPMC is above the $3.0B level, and believes it should be around $2-3B range.

A similar position was expressed with regard to Citi's desire to hold (unperfected) the $2.0 against FX clearing exposure.
He noted that even though Lehman "technically" has access to the $2B, if they pull it of some major portion thereof, Citi will stop clearing>

Paolo raised the possibility of Lehman self-clearing, without being much more specific.
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Update Discussion with Treasurer on July 11th and Data for July 10th

Liquidity Pool

The pool started the day up at $40.3B from yesterday's $39.9B beginning balance. The increase was in part due to the influx of $375 million cash triggered from a longer term structured transaction with insurance and pension fund investors.

PM Update: The pool ended at $40.0B, down $0.3B, primarily due to a commensurate reduction in commercial paper outstandings.

Repo

No issues rolling in either Europe or the US today. Repos in Europe included a three-month term financing. Reports show that yesterday's $1.5B increase was primarily due to a $2.0B increase with the ECB to $13.3B and a $500 million increase with State Street Bank to $12.6B.

PM Update: Repo balances were flat. Next week there will be several repo trades coming due that will likely not roll: **Federated**'s $900 million in high yield asset-backeds, **Dreyfus**'s $650 million in high yield corporates, **Fidelity**'s $1.1B in emerging markets (due July 22), and a master note arrangement with **Chase Asset Management** funding $750 million money market preferreds and convertibles (due July 21). Treasurry expects to either decrease comparable matched book amounts or absorb any shortfalls through its overfunded positions.

CP

Although CP issuance was reported to be in line with current levels, two term investors did not roll: **State of Oregon** ($100 million) and **AIG** ($100 million). **T. Rowe Price,** a third maturing term investor, opted to roll $75 million until August.

PM Update: $250 million roughly did not roll: $220 million in the US (including the **State of Oregon** and **AIG** $100 million tranches) and $30 million in Europe.

CDS

Five-year spreads widened further from 327 to 360/370, levels not seen since the week of March 17. **Rogge Global Partners**, a bond specialist fund, and **Dai Ichi** sold $100 million and $55 million, respectively, away from Lehman. As with Lehman's stock price, the widening over the past several days is due to what Lehman characterizes as being a "side casualty" to current concerns with FNMA and Freddie Mac.

PM Update: Spreads opened and closed at 360, but had widened to 390/395 during the day. (Five-year cash spreads, which opened at 325, widened by 15bp from yesterday and closed at 317.)

Debt Repurchases

PM Update: $250 million debt was repurchased from multiple accounts.

Prime Brokerage Movements

Three brokerage accounts, GLG ($800 million), Marble Bar ($1.0B), and Amber ($500 million), moved balances away from LBIE, Lehman's UK broker-dealer. The Treasurer reported that this had limited impact on the U.K. broker's liquidity, which continues to be long by $3.5B to $4.0B.

Novations

The Treasurer reported nothing out of the ordinary regarding novations. He added, however, that both **AIM** and the **Central Bank of France** are substituting FNMA/Freddie Mac paper with Treasuries and other GSE paper (i.e., Federal Home Loan Banks and Federal Farm Credit Banks).

PM Update: Treasury identified **Fairpoint**, a hedge fund offshoot of Morgan Stanley, to be moving away from Lehman.

Comments from CPC Teams

Prime Brokerage: CS reported that it has received a flurry of activity from Lehman Brothers clients looking to open Prime Brokerage accounts at CS. The past several days have been very active in the number of these requests coming into CS. Gary Gluck (Global Treasury) noted that this level of activity reminds him of the Bear Stearns March period.
Secured Markets: The Repo desk has seen a notable volume of offers of cash against agencies coming to CS. CS is not currently looking to build up its balance sheet and so is not currently taking these trades. CS noted that the increase could indicate trouble in Lehman Brothers ability to finance their agency portfolio, or simply concerns over Fannie Mae and Freddie Mac. This is concerning to CS since, to date, they have never seen problems in the agency repo markets. CS noted that Lehman Brothers did not have a lot of equity finance rolling in the short term, giving no indicators of concern in this segment of the repo market.
(Credit Suisse 7/11 Funding Update 2 PM)

The **Deutsche Bank** Treasurer pointed out that on July 2, there were zero draws from the PDCF. While this may be a sign that sufficient liquidity is returning, it may also be a sign that institutions simply do not want to be seen borrowing from the PDCF. The Treasurer noted that he did not feel that Lehman Brothers "did itself a favor" by telling the press that it wouldn't borrow from the PDCF – which could potentially put the institution in a bind in the future if it needed access to PDCF funding again. *(Weekly Liquidity Update 7/7 – 7/10)*

Lehman Bros. dropped 12% and CDS spreads widened dramatically as the market continues to question the IB's viability; **WFC** management, in concert with near-unanimous market participant opinion, dismissed PIMCO statements of business as usual relationship with Lehman. (WFC 7/10 Update)

Rumors around Lehman, Fannie and Freddie continue in market. **Barclay's** rationalized limits where appropriate and reasonable for Lehman. Continue to trade on a business as usual basis. *(Barclays 7/10 Credit Update)*

18:15 Stock Price

Price14.430	Change-2.870	% Change-16.590	BidN.A.	AskN.A.	Open15.090
Volume174,226,413	High16.060	Low13.290	52-Week High74.09(07/17/07)	52-Week Low13.29(07/11/08)	1-Yr Return-79.543%

Lehman's Stock Slide Hasn't Hurt Firm's Liquidity, S&P Says
By Steve Dickson

July 11 (Bloomberg) -- Lehman Brothers Holdings Inc.'s record share price decline hasn't damaged the firm's liquidity, funding or client business, Standard & Poor's said. ``The firm's management continues to successfully implement a number of measures -- including strengthening its funding platform, reducing exposure to troubled assets, and increasing capital -- to ensure the maintenance of sound liquidity and the ability to meet funding obligations,'' S&P said today in a statement.

Lehman fell as much as 23 percent today, the most since the company went public in 1994, on speculation home-loan financing companies Freddie Mac and Fannie Mae might fail. The shares dropped $3.36, or 19 percent, to $13.94 at 12:33 p.m. in New York Stock Exchange composite trading. S&P lowered its credit rating on Lehman to A from A+ on June 2, based on expectations that the global credit contraction would continue to weigh on earnings. ``We are concerned that ill-founded and persistent pressures on Lehman's stock unnecessarily prolong what is already a very challenging business environment,'' S&P said today.

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