LEHMAN IB UPDATE J^2: F.R. Restricted 6/25/2008

Update Discussion and Data for June 24th (Go to the Appendix to see recent days narratives).

The Treasurer noted that the senior management changes announced yesterday were favorably received both internally and by creditors and rating agencies. All four individuals, each with at least ten years' Lehman experience, are considered well-respected, popular, and vigilant about risk positions and capital usage. Reportedly, none of these appointments had been previously involved with Lehman's decisions affecting its current mortgage and real estate exposures.

Quarter-end activity
Financing activity approaching the end of the second calendar quarter is reportedly quieter than Lehman anticipated. The Treasurer was concerned that here might be a reduction in tri-party RP, and placed additional collateral with the ECB as a contingency. However, no pressure has emerged and Lehman has thus far had no significant disturbance in its secured funding activity.

Liquidity Pool
Balances are expected to increase by $1B to $43B tonight, presumably based on the additional €1B in RP done through Bankhaus with the ECB (see next).

Secured Funding
In preparation for quarter-end balance reduction efforts by existing tri-party counterparties, Lehman entered into a three-month repo with the ECB for € 1B, bringing total balances to € 8B or $12.5B. (Notwithstanding the upcoming quarter-end balance reduction exercise, the Treasurer opined that there may be additional secured funding opportunities going forward should Lehman's repo book be recognized as a "flight-to-quality" refuge for unsecured investors under the current climate.)

Unsecured Funding
The Treasurer shared concerns with Lehman's low CP levels and term structure. Outstanding CP levels are expected to remain at $6B today, with $1.7B of $2.0B CP maturing in the US having thus far rolled. A $250 million one-month tranche held by **New York State** was rolled overnight. There was no term issuance nor any new cash today. A $1B one-month term loan with **Freddie Mac** rolled for another month, however.

Discussion with PIMCO
The Treasurer learned from PIMCO management that they are currently concerned with potential receiverships for one or two (unnamed) regional banks. They also shared concerns about Merrill Lynch's capital raising efforts and (along with UBS, Citi, CIBC, and Societe Generale) its ongoing CDO exposures wrapped in monolines.

CDS Spreads
Spreads are currently at 262, slightly lower than yesterday's 265-275 range.

Stock Price Metrics at 11:46 AM

Price25.180	Change0.830	% Change3.409	BidN.A.	AskN.A.	Open24.510
Volume12,143,280	High25.700	Low24.510	52-Week High77.58(06/25/07)	52-Week Low20.25(03/17/08)	1-Yr Return-65.855%

LEHMAN IB UPDATE J²: F.R. Restricted 6/25/2008

JUNE 25 SUMMARY DETAILS FOR JUNE 24

6/24/2008 Changes in Liquidity Pool					
Asset Composition ($B)			**Funding Composition**		
Position	**Change in Cash**		**$B Sources**		
24.9	3.5	NY	2.0	CP Issuance	
89	0.1	London	0.1	Bank Loans	
			0.1	Derivatives	
Position	**Change in Inventory**		0.3	Intercompany	
4.9	(0.2)	LBHI			
1.1	(2.6)	LBI (NY)			
1.6	(1.2)	LBIE (LDN)	**Uses**		
-	0.0	LBAH (ASIA)	2.3	CP Maturities	
			0.2	LTD Maturities	
			0.1	Bank Loans	
			0.1	Loan Funding	
			0.3	Other	
41.5	**$(04)B**	**Net Change**	**$(0.4)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	450 – 273	
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
6/13	270	257
6/16	260	248
6/17	225	251
6/18	245	259
6/19	249	265
6/20	258	266
6/23	258	264
6/24	270	270

LEHMAN IB UPDATE J²: F.R. Restricted 6/25/2008

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		
6/13	34.5	12.0	46.5	2.8	3.9		
6/16	30.1	12.5	42.6	5.6	3.6		
6/17	23.0	18.5	41.5	5.6	3.1		
6/18	25.9	17.2	43.1	5.6	3.2		
6/19	27.1	15.0	42.1	5.6	3.4		
6/20	25.4	17.2	42.6	5.6	3.5		
6/23	30.2	11.7	41.9	2.5	3.6		
6/24	33.8	7.7	41.5	2.5	3.7		

LEHMAN IB UPDATE J^2: F.R. Restricted 6/25/2008

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 – 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 –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 – 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– 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 – 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 – 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 – 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 – 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
6/13	1.7	49.9	55.2	106.8		39	10	51
6/16	1.7	49.9	56.4	108.0	1.2	37	12	50
6/17	1.7	51.0	57.3	110.0	2.0	40	10	50
6/18	1.7	50.7	58.3	110.7	0.7	44	7	49
6/19	1.7	50.5	59.9	112.1	1.4	44	7	49
6/20	1.7	50.3	59.4	111.4	(0.7)	43	7	49
6/23	1.7	50.1	58.9	110.7	(0.7)	43	8	49
6/24	1.7	49.7	59.7	111.0	0.3	42	10	48

LEHMAN IB UPDATE J^2: F.R. Restricted 6/25/2008

Commercial Paper	Europe	U.S.	Total	Chang e	% 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
6/13	1.2	5.0	6.1	(1.8)	20.8	77.8
6/16	1.2	5.0	6.2	0.1	24.6	n/a
6/17	1.0	4.6	5.6	(0.6)	17.9	n/a
6/18	1.3	5.3	6.5	0.9	30.8	n/a
6/19	1.2	5.5	6.7	0.2	30.9	n/a
6/20	1.2	5.1	6.2	(0.5)	29.3	66.5
6/23	0.9	5.3	6.2	0.0	36.3	66.6
6/24	0.9	5.1	6.0	(0.2)	37.0	65.5

LEHMAN IB UPDATE J^2: F.R. Restricted 6/25/2008

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	
6/13	2.6	1.6	2.8	23.8	30.8	(2.2)
6/16	1.7	1.3	3.0	23.9	29.8	(1.0)
6/17	1.1	1.5	2.7	23.9	29.3	(0.5)
6/18	2.1	1.7	1.8	24.5	30.1	0.8
6/19	2.4	2.3	1.6	23.8	30.2	0.1
6/20	2.0	2.1	1.7	24.1	29.9	(0.3)
6/23	2.4	1.8	1.6	23.7	29.5	(0.4)
6/24	2.4	1.7	1.6	23.8	29.5	0.0

CURRENT RATINGS

Ratings Summary			
Rating Agency	LBHI	LBI	Comments
Moody's			
• Short-term	P-1	P-1	• 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)	A-1	Aa3	
• Long-term (subordinated)	A-2	A1	
Standard & Poor's			
• Short-term	A-1	A-1	• June 2008 LT Ratings Downgraded • 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 • 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 and Data for June 23rd.

The overall tone remains largely negative for financials but no immediate overt signs of stress were noted. One customer (unnamed as yet) alerted Lehman that for the upcoming June 30 quarter-end they will not roll $2.0B in CP but will come back on July 1 and replace the funding. This is reportedly more reflective of the customer's window dressing and not a negative vote on Lehman.

Medium Term Notes:

The recent $1.2B repurchases of MTNs was characterized by the Treasury staff as somewhat out of the ordinary in terms of overall size, though some of it is related to portfolio and credit rebalancing by recent purchasers of Lehman's convertible debt and equity. For example, Franklin Templeton was active in the convertible offering but recently sold MTNs because they were over-limit in Lehman. Overall, the Treasury staff noted that institutions were rebalancing exposures to financial institutions generally, It was also noted that Lehman is accommodating in price offering levels for the buybacks as a customer accommodation. I asked if there was a typical price level or concession that might be offered - and the reply was that negotiation typically stays within the bid-offer spread of the current market price. We asked for any available MIS on repurchase activity -

Commercial Paper

CP maturities of $176 in London rolled, while NY issuance was $1.83B against $2.1B maturing for a $200mil. shortfall.
Three term trades (roughly in the one-week maturities) were rolling in NY and two of the three (AIG and Ameriprise) rolled overnight. The third account, City of NY, rolled for another 1-week term.

CDS Spreads

Opened and traded in a range around 265-275, hit a high of 280 and settled back to 260-265 at mid-day.

LATE NEWS - Lehman's Gelband to Return as Capital Markets Head, People Say (By Yalman Onaran)

June 24 (Bloomberg) -- Lehman Brothers Holdings Inc. is bringing back Michael Gelband, who left the fourth-biggest U.S. securities firm a year ago, as head of its capital markets unit, a new post with oversight of equities and fixed income. Gelband's appointment may be announced as soon as today, according to people with knowledge of the matter. Gelband, who ran fixed income until May 2007, stepped down after a dispute with top management over the speed of the unit's expansion. Herbert ``Bart'' McDade, who became president on June 12, was Gelband's predecessor as head of fixed income until 2005 when he switched to running equities. Chief Executive Officer Richard Fuld replaced his finance chief and president earlier this month amid speculation about mounting mortgage-related losses and a 65 percent plunge in the stock this year. The New York-based firm reported a $2.8 billion second- quarter loss and raised $6 billion capital on June 9. Lehman spokesman Mark Lane declined to comment on Gelband's appointment.

Update Discussion and Data for June 20th.

The liquidity pool closed on Friday at $42.6B, up $0.6B from Thursday, above recent days, in line with the level at the start of the week.

Secured funding levels on Friday (excluding Treasurys, agencies, and agency mortgage-backeds) were at $111.4B. Although down $0.7B from yesterday, levels continue to be higher than those experienced over the quarter end. The increase is due completely to US activity.

Commercial paper funding, at $6.2B, continues to be at the lowest levels since we began tracking. Of the $2.1B maturing Friday, $1.7B rolled. Today, J. P. Morgan investment funds in Europe did not roll $110 million of five-month term commercial paper (although they did roll an additional $20 million to the $110 million as overnight commercial paper).

Lehman repurchased $981 million MTN's recently: $512 million on Friday and $469 million today.

After a review of upstreamable balances, $770 million was passed on to LBIE, Lehman's UK broker-dealer.

CDS spreads opened at 257, in line with Friday's closing spreads.

Treasury Call Update for Friday, June 20, 2008 and data for June 19th.

Commercial Paper:
Total funding requirement of $2.1 was met for today ($1.9 in NY) though Mellon UK did not roll $40 mil.

Liquidity Pool:
Closed last night at $42.1B, down slightly by $700 mil. Due to an incorrectly matched FX swap trade that will correct in tomorrow's balance.

LBSF (Lehman Bros. Special Finance):
The cause for what appears to be a collateral imbalance remains unexplained, though the net $4.0B collateral (cash?) outflow was reduced by $600 mil. Yesterday and will decline by another $500 mil. Today for an estimated $3.0B balance.

Mortgage-Backed TBA Roll Trade
Of the $40-45B plus position Lehman recently established, they took delivery of about $15B of 71/2% FNMA bonds, thus reducing their roll position to $30B that will settle in mid-July.

Novations & Terminations:
No significant adverse news, no novations or terminations. However, the knock-off effects of the generally depressed sentiment for financials and the IBs is being watched for its potential impact on Lehman. This is consistent with information received from our Credit colleagues as per Bill Hallacy's update today.

> **Financial Institutions** - *Embeds & CPC Teams*
> Our institutions continue to view **Lehman** as not at risk due to its structural liquidity or other fundamentals; however, they remain concerned that market forces could put pressure on Lehman's funding position. **Novations are being watched closely as an**

indicator of market sentiment. Nevertheless, all banks report that they **continue to trade with Lehman with no reductions in trading limits**.

Broker-dealer-related novation activity has subsided from a small increase last week. Several banks, with Citi being the most recent, are requiring Lehman novations to go through credit approval an attempt to slow down these trades. However, none of the banks had stopped taking Lehman's name outright.

Our institutions are reassessing their exposures to the Financial Institutions sector, noting concentration in exposures, with an emphasis on broker-dealers and Lehman. JPMC reported last week efforts to fully collateralize tri-party exposures to Lehman. Citi reported this week efforts to rationalize and manage more tightly their clearing/settlement lines to Lehman and their intention to apply similar efforts to the 3 remaining B/Ds. No banks have reported reducing trading lines with some noting the negative market consequences of such actions

Treasury Call Update for Thursday, June 19, 2008

Treasury (Robert Azerad) noted little to report today:

— There was a slight decrease in overnight **commercial pape**r issuance: Mellon, who returned yesterday, did not roll a €50 million tranche. In the US, all of the the $1.8B maturing was rolled. Both Black Rock ($225 million) and City of New York ($150 million) extended overnight maturities to one week.

— **Secured funding** is in line with yesterday's levels.

Trading Counterparty Lines

Lehman acknowledged general trading issues with four financial institutions: Natixis (eliminating all activity with Lehman, which should not affect current triparty holdings), Santander, Wespac, and Commonwealth Bank of Australia.

Derivatives Collateral Outflow

Leman continued to investigate the unexplained $4B outflow from LBSF, its derivative subsidiary, as discussed in yesterday's report. Imbalances are thought to relate to its rates and commodities businesses but may be, in part, due to additional posting requirements agreed upon with Citi as discussed in today's Citi Counterparty Report extracted below.

CDS spreads are up to the 250/255 range from yesterday's 240 level. Treasury explained that spread widening was due to Citi's pre-announcement of large mortgage writedowns. (Merrill Lynch spreads reportedly increased by 20 bp to 200/205.)

Lehman Stock at 4:15

Price24.460	Change-0.320	% Change-1.291	BidN.A.	AskN.A.	Open24.670
Volume33,106,169	High24.890	Low23.550	52-Week High82.05(06/20/07)	52-Week Low20.25(03/17/08)	1-Yr Return-69.551%

Citi Counterparty Update (Bill Hallacy)

Lehman - As a result of its recent review, Citi has decided to reduce total clearing/settlement lines to Lehman from approximately $20 bln to around $10-

12 bln. This reduction in limits forces more intra-day exceptions into the manual approval process, prompting closer review of daily transactions which Tom believes, tightens up the credit process. However, in conjunction with the reduction in limits, Citi is now calculating usage against the limits net of match transactions (transactions where the incoming side in known), allowing for greater volume of activity than reducing the limit by itself would suggest. **Further, Lehman has agreed to place $2 bln cash with Citi.** This is not technically collateral, but Citi believes it could have some recourse to these funds in case of difficulties. The cash could also be used to fund any intra-day credit extensions. It should be noted that Citi is Lehman's largest clearer outside the United States. Tom said this approach will also be applied to the other 3 major Broker/Dealers.

There were **no changes to Lehman's other credit Limits (OSUC, which includes counterparty lines)**

Lehman Novations - All Lehman novations greater than $100 mln notional now need credit approval. This was done to slow the pace of novations and to avoid being a dumping ground for Lehman Credit. Tom was clear that Citi will continue to take Lehman's name in novations if it is believed these are being done in the course of regular business.