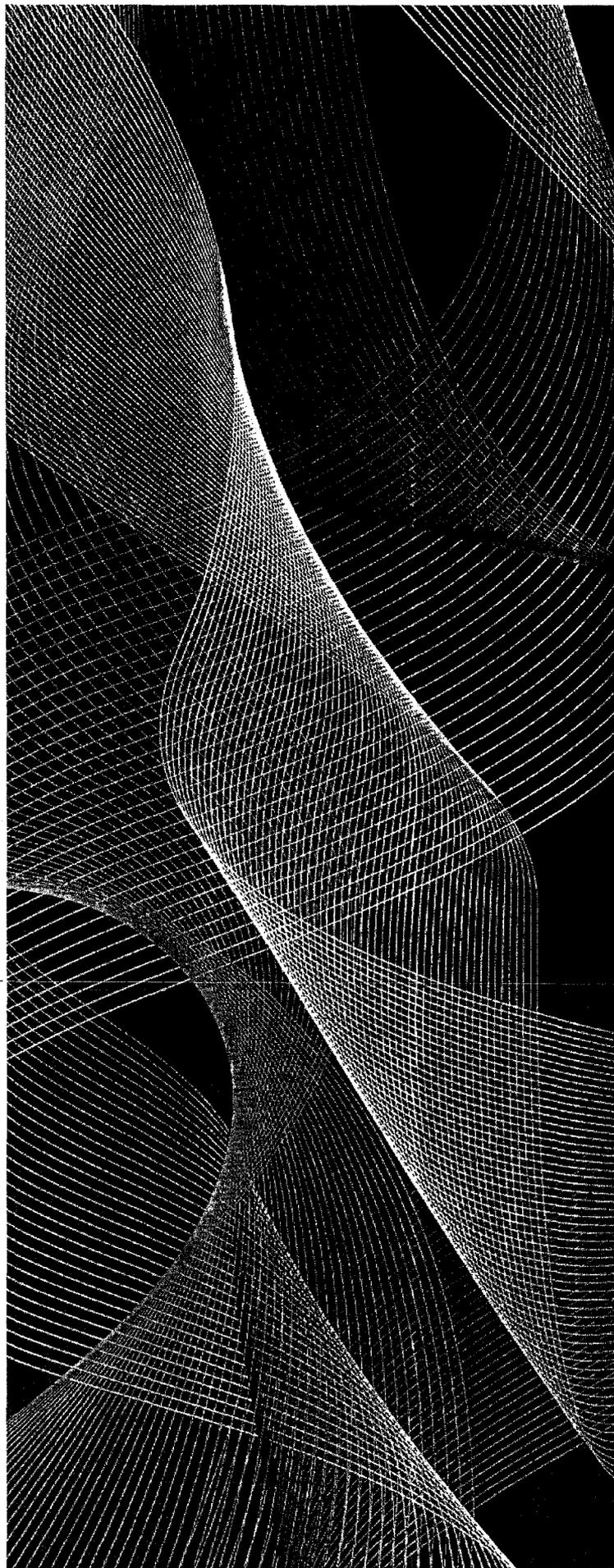


LEHMAN BROTHERS

June 5, 2008

# S&P Ratings Q2 2008 Update



Confidential Presentation

# Overview

Despite a sizeable forecast loss of almost **\$2.8 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 **\$140 billion** reduction in gross and almost \$70 billion reduction in net assets), combine to drive very strong forecasted capital ratios <sup>1</sup>
  - Net leverage of 9.9x – 10.6x., down from 15.4x in Q1 '08
  - CSE Capital Ratio of 19.3% – 20.6%, up from 15.5% in Q1 '08
  - Tier 1 Capital Ratio of 12.9% - 13.7%, up from 10.3% in Q1'08
  - Surplus over Lehman's internal equity allocation model of 31-38% (\$8.4 – 10.4 billion) in Q2 '08
  
- ◆ Liquidity Pool stood at a record \$45 billion (up from \$34 billion in Q1 '08)
  - Increased coverage of short-term debt up of 1.3x, up from 1.0x in Q1 '08
  - Cash Capital Surplus estimated to be at \$14 billion
  
- ◆ Lehman is considering implementing an additional equity raise of between \$4 billion and \$ 6 billion to further improve its capital position
  - 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 will likely reassure the market and improve Lehman's competitive position

*1. Financial ratios reflect the impact of the \$4 billion to \$6 billion capital raise mentioned below*

# Overview

- ◆ The loss for the quarter, while large, is less concerning when deconstructed 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 \$4.3 billion, down 9% from Q1 ‘08. However:
    - While gross writedowns are lower in Q2 ‘08 than Q1 ‘08 – \$4.5 billion vs. \$5.9 billion – hedges which generated \$3.8 billion of offset in Q1 ‘08 generated significantly lower 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
      - 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 \$383 million vs. a gain of \$156 million in Q1 ‘08, a \$539 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		4.7	4.3	(0.4)
Gross Writedowns		(5.9)	(4.5)	1.4
Hedges		3.8	0.7	(3.1)
Net Writedowns		(2.0)	(3.8)	(1.8)
Defensive Trading		0.7	(0.8)	(1.4)
Principal		0.2	(0.4)	(0.5)
Net Revenues		3.5	(0.7)	(4.2)

# Overview

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- ◆ We believe that Lehman's core underlying franchise remains as strong as ever
  - Sales credits in Fixed Income remain strong; only down 6% in Q2 '08 vs. Q1 '08
  - Gaining market share in Investment Banking
  - Investment Management Division is performing well
  - 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
  - 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

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- ◆ 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 9% 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**

# \$6 billion of Capital Raised in Q2 and \$7.9 billion in 2008...

## \$4.0 B Convertible Preferred Stock

- ◆ Issued in April 2008
- ◆ Non-Cumulative Dividends at 7.25%, Perpetual  
Initial Conversion Rate 20.0509 per share, equivalent to \$49.87 strike per share
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital
- ◆ More than three times over subscribed

## \$2.0 B Subordinated Debt

- ◆ Issued in May 2008
- ◆ Coupon of 7.50%, 30-year maturity
- ◆ Subordinate to Senior Debt
- ◆ Included as CSE Equivalent Tier 2 Capital
- ◆ \$4.0 billion of orders within one hour

## \$1.9 B Preferred Stock

- ◆ Issued in February 2008
- ◆ Non-Cumulative Dividends at 7.95%, Perpetual
- ◆ Includes Greenshoe of ~\$250 million
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital

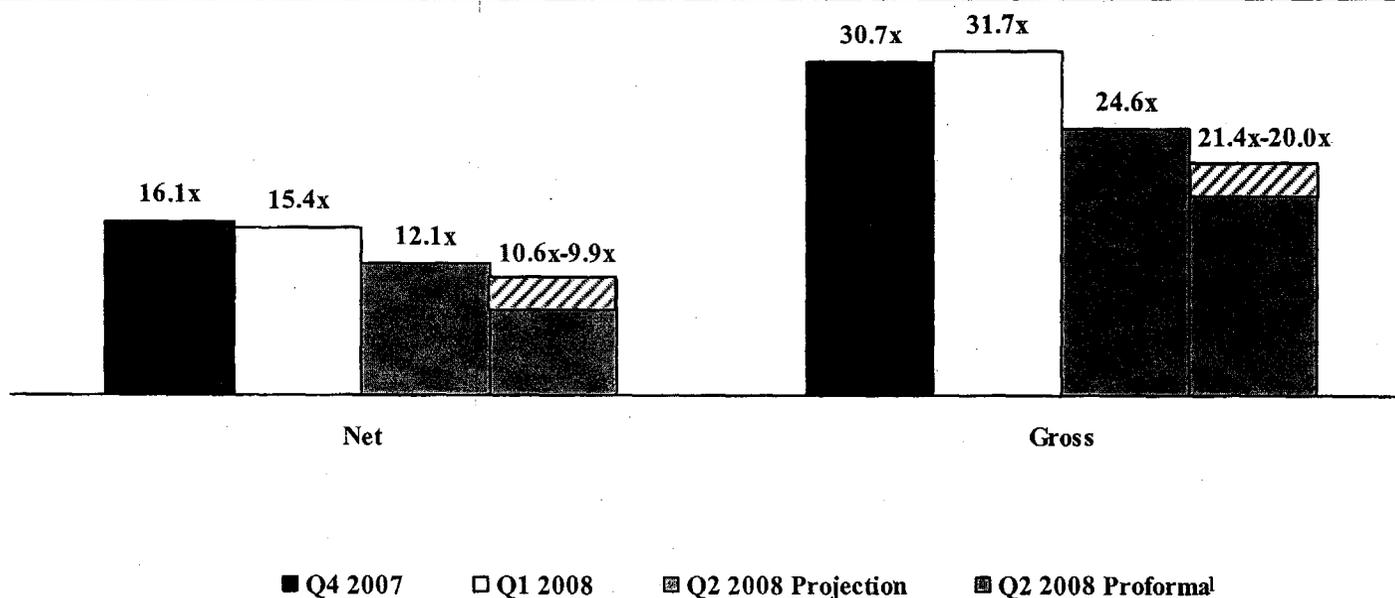
## ...As Well As Shrinkage of the Balance Sheet...

Net balance sheet (primarily inventory) is expected to be almost \$70 billion lower than Q1 '08, and gross balance sheet is expected to be almost \$140 billion lower

### Gross and Net Balance Sheet

<i>\$ billions</i>	<i>Actual</i> <u>Q4' 07</u>	<i>Actual</i> <u>Q1' 08</u>	<i>Estimated</i> <u>Q2 ' 08</u>	<i>Estimated Reduction</i> <u>Q2 '08 vs. Q1 '08</u>
Net Assets	373	397	330	(67)
Gross Assets	691	786	648	(138)
Leveragable Equity	23	26	27	

### Gross and Net Leverage Ratios

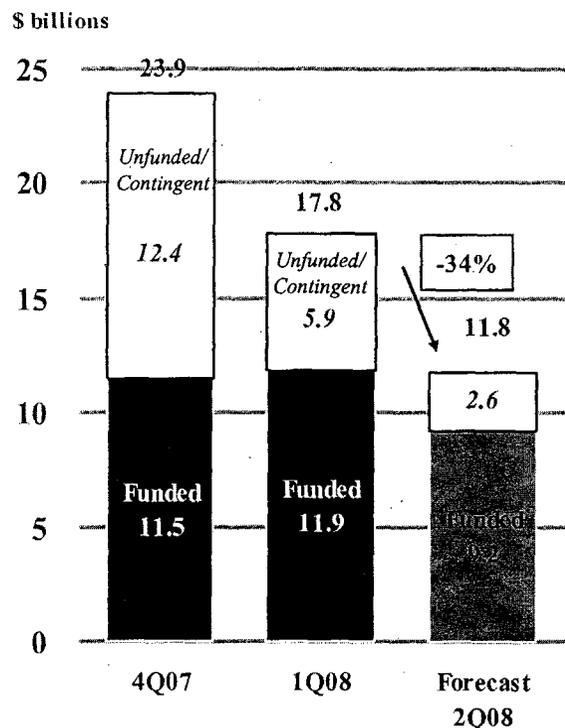


1. Proforma Q2 '08 includes \$4.0 - \$6.0 billion common equity raise

# ...Including Positions in High-Risk Assets...

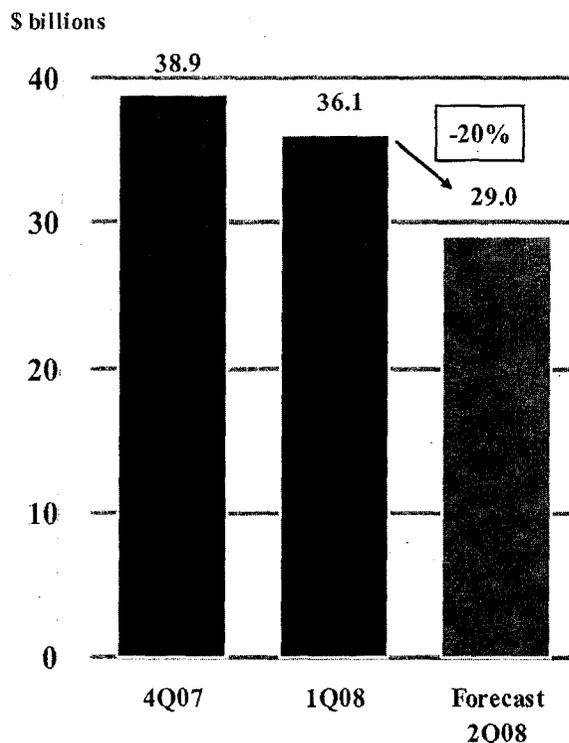
Lehman Brothers is on track to reduce the Firm's key Risk positions in the Fixed Income arena

## High Yield Acq Financing



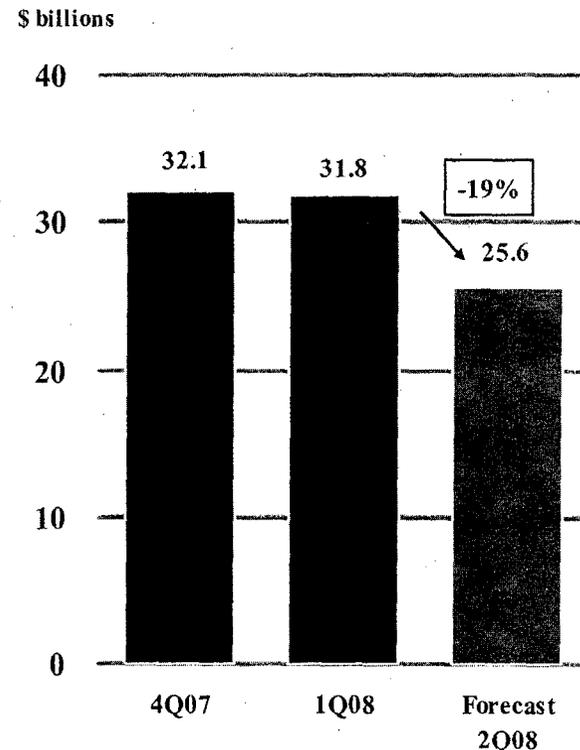
- ◆ Steady progress in selling/syndicating
- ◆ Non-traditional buyers account for 73% of sales in 2008

## Commercial Mortgages



- ◆ Sales have been focused on largest exposures

## Residential Mortgages

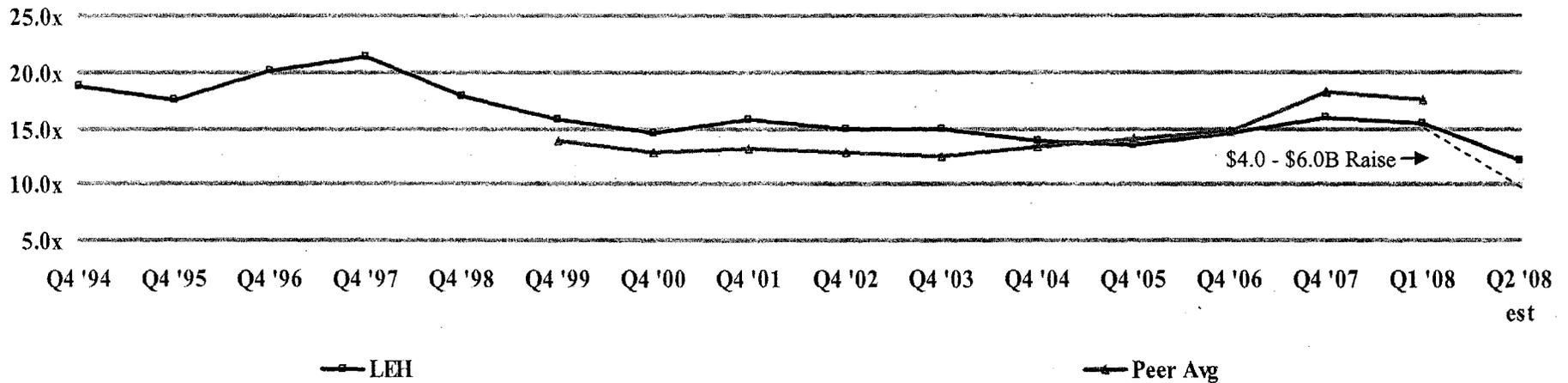


- ◆ Includes whole loans & securities in ~ 40: 60 proportion

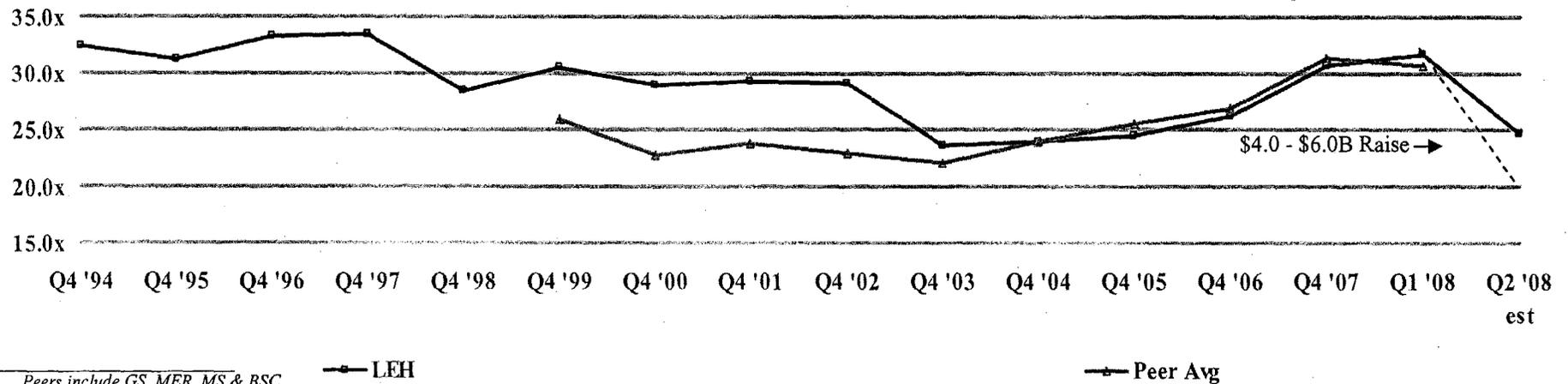
# ...Resulting in Historically Low Leverage Levels

Lehman will end Q2 '08 with the lowest net leverage ratio in its history as a public company

**Lehman versus Peers Net Leverage<sup>1</sup>**



**Lehman versus Peers Gross Leverage<sup>1</sup>**



<sup>1</sup> Peers include GS, MER, MS & BSC.

# Despite Anticipated Loss, Lehman Is Strongly Capitalized

As a result of the combined impact of Lehman's capital raising and deleveraging, Lehman is currently well-capitalized by three key measures

- ◆ To monitor equity adequacy the Firm uses three measures: Net Leverage, CSE Capital Ratios and our internal Equity Adequacy Framework (EAF)

Net Leverage	CSE Capital Ratios	Equity Adequacy Framework
<ul style="list-style-type: none"> <li>◆ Accounting ratio that measures the value of assets supported by \$1 of equity</li> <li>◆ Does not account for different risk/liquidity characteristics of assets</li> <li>◆ Heavily quoted by journalists and analysts</li> </ul>	<ul style="list-style-type: none"> <li>◆ Measures by which regulators determine whether a bank is adequately capitalized                             <ul style="list-style-type: none"> <li>– Tier 1 and Total Capital Ratio</li> </ul> </li> <li>◆ Account for on- and off-balance sheet assets with different risk profiles</li> <li>◆ Will begin reporting externally in Q2 '08</li> </ul>	<ul style="list-style-type: none"> <li>◆ Multi-factor model that determines the Gross Equity (Common Equity + Hybrid Equity) requirement                             <ul style="list-style-type: none"> <li>– Additive charges for Trading, Counterparty, Operational, Liquidity, and Corp Assets</li> </ul> </li> <li>◆ Accounts for on and off-balance sheet assets with different risk profiles</li> <li>◆ Liquidity component will be charged to businesses</li> </ul>
<p style="text-align: center;">▼</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> <p>Q2 '08 Pf Estimate<sup>1</sup></p> <p>Net Leverage = 9.9x – 10.6x</p> </div>	<p style="text-align: center;">▼</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> <p>Tier 1 Ratio = 12.9% – 13.7%<sup>2</sup> Total Capital Ratio = 19.3% – 20.6%</p> </div>	<p style="text-align: center;">▼</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> <p>Surplus = \$8.3 – 10.3 billion (31%-38% of gross equity required)</p> </div>

1. Proforma Q2 '08 includes \$4.6B common equity raise  
 2. Updated for approved SEC Methodology. If FV gains on debt are excluded from capital then Q2 '08 ratios would be 12.3% – 13.2% Tier 1 and 18.4% – 19.7% Total Capital

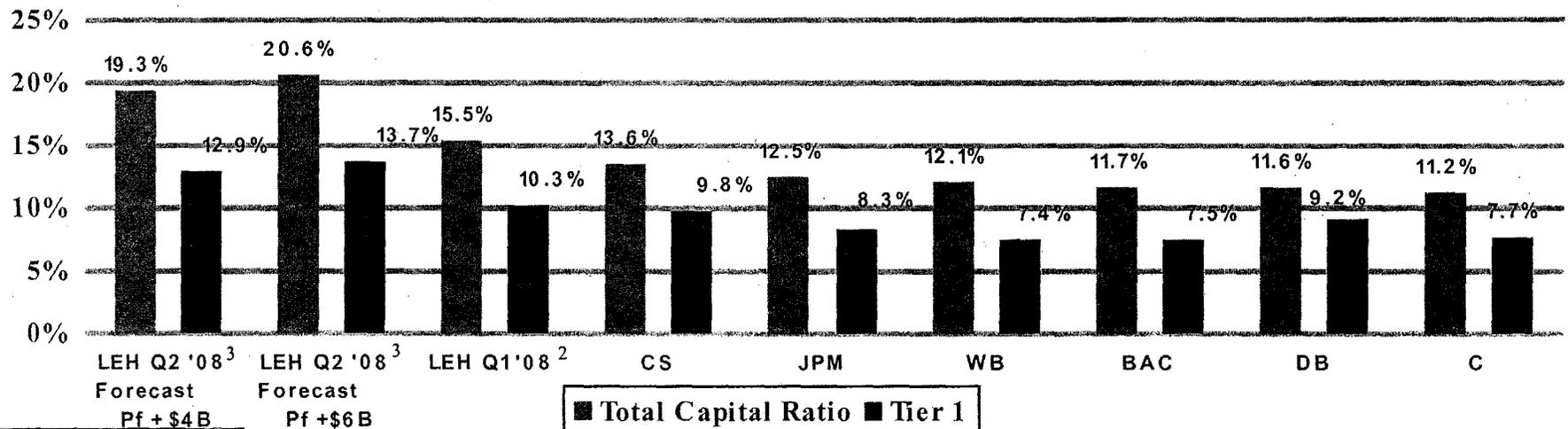
# CSE Capital Ratios Strong

The Firm has made a conscious decision to shore up its capital base and maintain a Total Capital ratio under the CSE regime above that of the major Commercial Banks' equivalent Total Capital Ratio under Basel

## Consolidated Supervised Entity (CSE)

- ◆ The Firm must maintain a minimum "Total Risk-Based Capital Ratio", as defined as allowable capital divided by risk weighted assets, of 10.0%
- ◆ Allowable capital consists of common equity, perpetual preferred stock, and hybrids/ subordinated debt subject to certain thresholds and restrictions less deductions (e.g. Goodwill, DTA, and other)
- ◆ Risk-weighted assets are principally driven by market risk, credit risk and operational risk allowances computed using methodologies developed by the Company and approved by the SEC.

## Total Capital and Tier 1 Ratios<sup>1</sup>



1. All Banks' ratios are as of Q1 '08 per their Earnings press releases  
 2. Updated for approved SEC Methodology  
 3. If FV gains on debt are excluded from capital then Q2 '08 ratios would be 12.3% - 13.2% Tier 1 and 18.4% - 19.7% Total Capital

# 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

- ◆ Including the prospective equity raise, the Firm is expected to have an equity surplus of \$8.3 - \$10.3 billion, or 31 - 38% more than the total gross equity required by the EAF model

## Equity Adequacy Framework Surplus/(Deficit) Q2 '08 Estimate Proforma

<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	105	Trading	3,453
Counterparty Risk Appetite	456	Counterparty	958
Less Liquid Assets		Less Liquid Funding Haircuts	
<i>Less Liquid Inventory</i> <sup>1</sup>	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
		<b>Total Gross Equity Required</b>	<b>26,986</b>
		<u>Gross Equity Available</u>	<u>+ \$4b</u> <u>+ \$6b</u>
		Common Equity <sup>2</sup>	23,342    25,342
		Hybrids/Preferred	11,969    11,969
		<b>Total Gross Equity</b>	<b>35,311    37,311</b>
		<b>Surplus/(Deficit)</b>	<b>8,325    10,325</b>

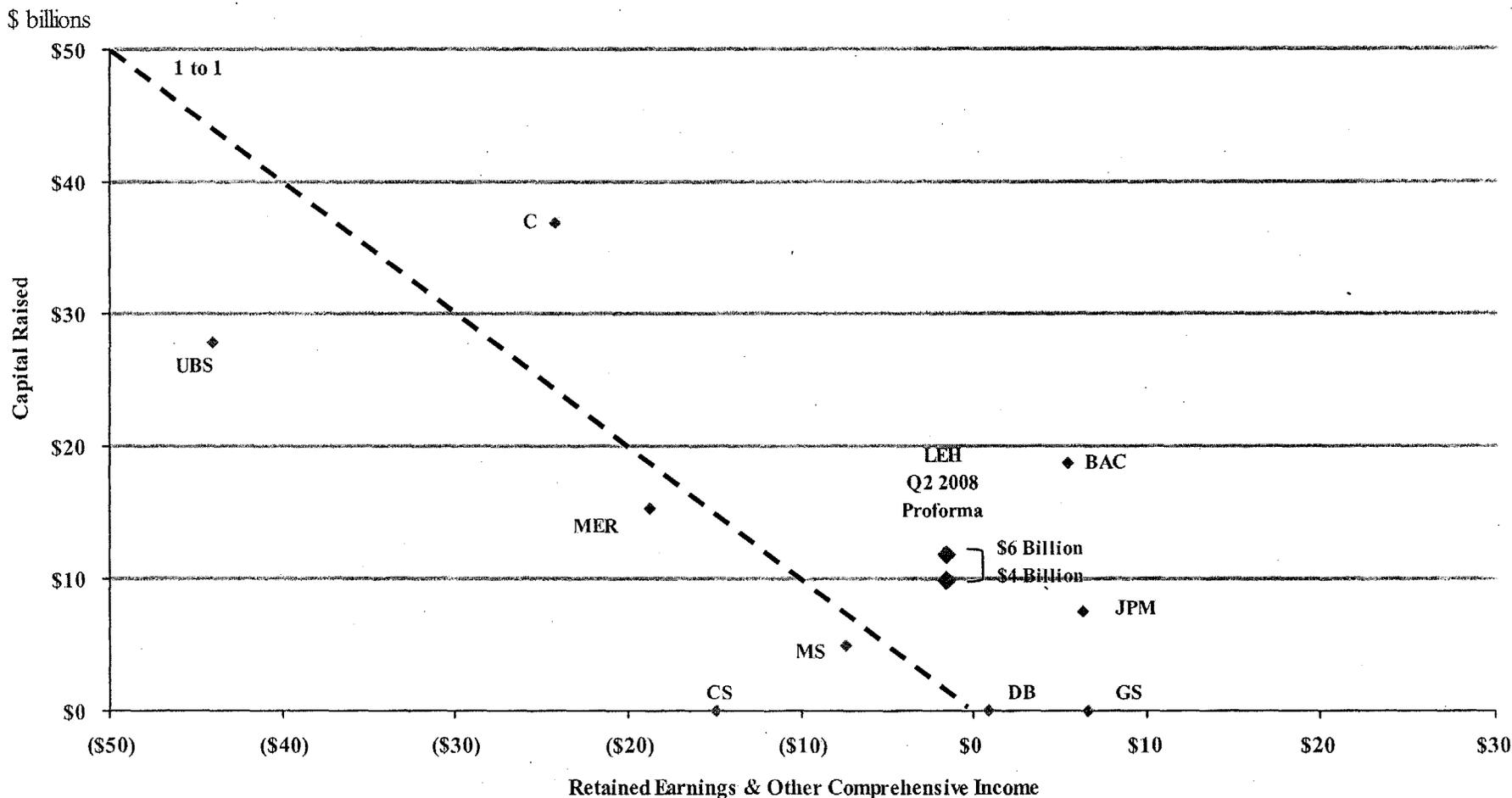
1. *Less Liquid Assets includes commitments*

2. *Common Equity include Proforma \$4 and \$6B common equity raise*

# 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 Raised<sup>1</sup> versus Retained Earnings and Other Comprehensive Income Q3 '07 to Q1 '08**

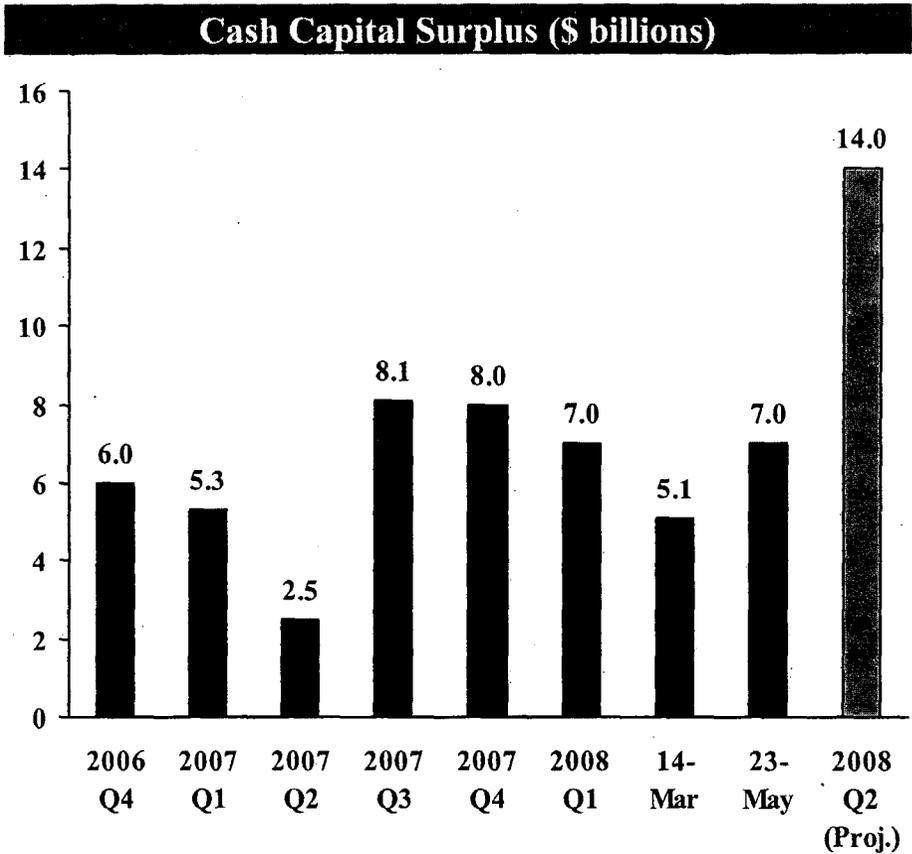
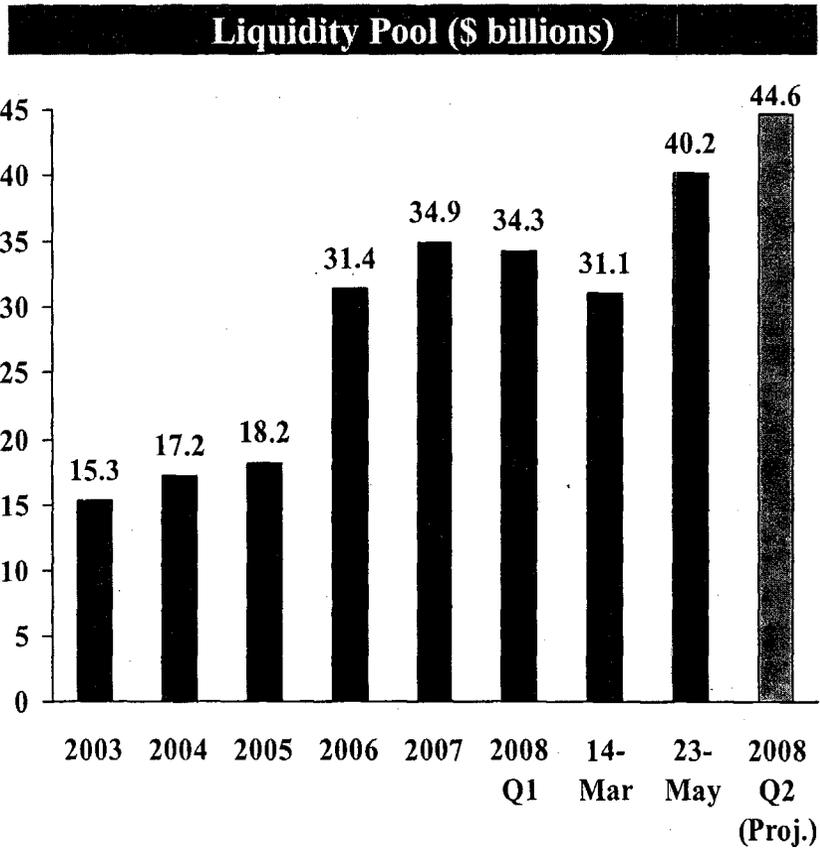


1. Includes equity raised through 5/30/08 for peers and estimated Lehman capital raise in June

**Liquidity**

# Building A "Liquidity Fortress"

- ◆ We project ending the quarter with a record liquidity pool of approximately \$45 billion and a record cash capital surplus of \$14 billion
- ◆ With only \$8 billion of debt moving into current portion for the remainder of the year and with further cash inflows forecast from assets sales, there is minimal refinancing pressure



# Strengthening Long Term Capital Position

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- ◆ 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

# Reducing Liquidity Risk Of Secured Funding

- ◆ We have increased our overfunding from around \$10-15 billion to \$15-20 billion – more than half in non-Central Bank eligible collateral – primarily high yield corporates
  - Including excess collateral (i.e., collateral reversed to fill repo tickets), the excess repo capacity stood at close to \$30 billion on May 22 – 30% of the Firm and customer collateral funded that day
- ◆ We also increased the average tenor of the repo book from 20-25 days to 25-35 days (35-40 days for collateral that cannot be pledged to the Federal Reserve or the ECB)
- ◆ We are seeing increasing appetite for providing term funding and have raised \$5 billion of additional term financing in the past few weeks

## Non-Traditional <sup>1</sup> Repo Book Metrics

	29-Feb	4-Mar	14-Mar	2-Apr	22-May	3/14 - 5/22 Change
<u>Repo Book (\$ Billions)</u>						
Excess collateral		Not available			12.8	
Firm and customer collateral					98.9	
Allocated Collateral	116.4	114.0	115.3	108.3	111.7	-3%
Overfunding	9.2	14.6	12.7	18.0	17.1	35%
<b>Repo Capacity</b>	<b>125.6</b>	<b>128.6</b>	<b>128.0</b>	<b>126.3</b>	<b>128.8</b>	1%
<b>Excess Repo Capacity</b>	<b>9.2</b>	<b>14.6</b>	<b>12.7</b>	<b>18.0</b>	<b>29.9</b>	N/A
<u>Average tenor (days)</u>						
Grand Total	25	22	24	25	33	38%
<i>Central Bank Eligible Collateral</i>					26	
<i>Non Central Bank Eligible Collateral</i>					38	
% Repo Book With Maturities <= 1 Week	58%	58%	57%	52%	46%	-11%

1. Non-traditional repo book excludes Governments, Treasuries, Government/MBS Agencies and Sovereigns

**Lessons Learned From Bear Stearns Liquidity Event**

# Key Liquidity Metrics At Lehman Brothers & Bear Stearns

- ◆ Lehman Brothers had stronger liquidity metrics at the end of Q1 '08 than Bear Stearns
  - 60% greater balance sheet but 130% greater equity
  - Bear Stearns' short-term debt stood at 1.5x its liquidity pool vs. 1.0x for Lehman Brothers
- ◆ Bear Stearns had very few unencumbered assets
  - Half of BSC STD was secured, which might have exacerbated the liquidity crisis in view of the exceptionally low amounts of unencumbered assets
- ◆ Bear Stearns was very reliant on customer free credit balances; if it lost these, it would need to quickly create substantial secured funding capacity for equities at a time when lenders would be likely to pull away
- ◆ Bear Stearns had almost no margin for error in terms of liquidity management. A reduction in short-term debt or in customer free credit balances would leave it in a precarious liquidity position

## Q1 '08 Key Liquidity Metrics (\$ billions)

	<u>Bear Stearns</u>	<u>Lehman Brothers</u>	<u>LEH / BSC</u>
Net balance sheet	254	397	1.6x
Net Leverage	22.6x	15.4x	0.7x
Liquidity pool	17	34	2.0x
STD excluding current portion	16	16	1.0x
Current portion of LTD	10	(E) 19	1.9x
Total short-term debt	26	35	1.3x
Short-term debt / Liquidity pool	1.5x	1.0x	0.7x
Unencumbered assets	14	161	11.5x
Free credit balances	43	13	0.3x

# 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
  - 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

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- ◆ 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
  - 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 counterparts 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			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)					
<b>Total</b>	<b>(15.5)</b>	<b>8.3</b>	<b>(7.2)</b>	<b>(10.1)</b>	<b>6.2</b>	<b>(3.8)</b>
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					

# 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	Operational effectiveness	Other	LBHI Liquidity Pool			Other Details
	Maturities	Issued	Balance	O/S (EOD)	Balance	Balance	Balance	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)						
<b>Total</b>	<b>(16.0)</b>	<b>12.6</b>	<b>(3.4)</b>		<b>(1.3)</b>	<b>2.6</b>	<b>3.7</b>	<b>31.1</b>	<b>32.7</b>	<b>1.6</b>	

# Lessons From Bear Stearns Liquidity Event

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- ◆ 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

	<u>% Rolled</u>	<u>% Lost</u>
Governments & Agencies	100%	0%
Corporates		
High Grade	70%	30%
High Yield	0%	100%
Asset Backs / Private Labels		
High Grade	40%	60%
High Yield	0%	100%
Commercial Paper	70%	30%
Muni	40%	60%
Equities / Convertibles		
E1	70%	30%
E2 / C1	0%	100%
E3 / C2	0%	100%

### ◆ Munis TOB – 7 day put exercised on day 1

- Customer collateral returned /liquidated over 1 week
- Firm collateral liquidated

### ◆ Dealer-based matched book

- Unwound to release haircut

### ◆ Central banks

- No PDCF
- Able to use ECB tender facility through Bankhaus, consistent with normal practice

### ◆ Unsecured debt

- CP and LCs: 0% roll at maturity
- Buybacks: \$1 billion per month
- 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

### ◆ Loan funding

- Per funding schedule for leveraged loans
- \$2.0 billion per week for unfunded revolvers

### ◆ Derivatives

- 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)

# 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	
	Week of 3/17	Stress Scenario
<b>Secured Funding</b>		
Governments and Agencies	0%	0%
Corporates		
High grade	0%	20%
High yield	13%	80%
Asset-backed		
High grade	7%	50%
High yield <sup>(1)</sup>	0%	100%
Commercial paper	10%	20%
Munis	0%	50%
Munis TOB program	0%	100%
Equities / Converts		
Major index (E1)	}	20%
Other index (E2/C1)		80%
Non index (E3/C2)		100%
Collateral upgrade (E1)		10%
<b>Total - Secured Funding</b>	<b>6%</b>	<b>23%</b>
<b>Prime Broker Free Credit Balances</b>	<b>30%</b>	<b>100%</b>
<b>Unsecured Funding</b>		
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

	2-Jun	3-Jun	4-Jun	5-Jun	6-Jun	9-Jun	10-Jun	11-Jun	12-Jun	13-Jun	Week 3	Week 4	Total
Beginning Cash Position <sup>(1)</sup>	58.6	33.4	28.2	32.4	30.4	27.0	21.5	21.1	20.5	16.3	16.1	10.6	11.4
Net Loss Secured Funding	(23.6)	(1.2)	0.7	(0.2)	(1.4)	(5.1)	(0.2)	-	(3.6)	(0.1)	1.5	(1.4)	(34.6)
<b>Unsecured Funding</b>													
Unsecured Debt													
CP	(1.3)	(3.4)	(0.1)	(0.9)	(0.1)	(0.3)	(0.1)	(0.1)	(0.1)	(0.5)	(0.8)	(1.1)	(8.8)
STD excluding CP	(0.0)	(0.0)	(0.0)	(0.0)	-	(0.0)	(0.0)	-	(0.0)	(0.0)	(1.2)	-	(1.2)
LTD	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)	(0.0)	(0.0)	(0.1)	-	(0.0)	(0.1)	-	(0.4)
Buybacks	-	-	-	(0.2)	-	-	(0.2)	-	-	-	(0.4)	(0.2)	(1.0)
Deposits of Banking Affiliates	(0.1)	-	-	-	-	-	-	-	-	-	-	-	(0.1)
Committed Facility Drawdown	-	-	4.5	-	-	-	-	-	-	-	-	-	4.5
Loan Activity													
Draw on commitments	-	-	-	-	(2.0)	-	-	-	-	(2.0)	(2.0)	-	(6.0)
Funding	(0.2)	0.0	0.0	-	(0.2)	-	-	-	-	-	2.6	-	2.2
Bankhaus Funding	-	-	-	0.3	0.4	-	-	-	-	-	-	-	0.7
Derivative Activity													
Posting of Uncalled Collateral	-	(0.6)	(0.5)	-	-	-	-	-	-	-	-	-	(1.1)
Downgrade (2 Notches)	-	-	-	-	-	-	-	(0.4)	-	-	-	-	(0.4)
Margin Payments	-	-	(0.4)	(0.4)	-	-	-	-	-	-	-	-	(0.7)
Cash outflows to fund operations (PE, NPE, etc.)	-	-	-	(0.5)	-	-	-	-	(0.5)	-	(0.5)	-	(1.4)
<b>Total Net Loss Unsecured Funding</b>	<b>(1.6)</b>	<b>(4.0)</b>	<b>3.5</b>	<b>(1.7)</b>	<b>(2.0)</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(2.5)</b>	<b>(2.4)</b>	<b>(1.3)</b>	<b>(13.8)</b>
Ending Cash Position	33.4	28.2	32.4	30.4	27.0	21.5	21.1	20.5	16.3	13.8	12.9	10.2	10.2

Details  
next slide

1. \$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
2. 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

Lost Capacity	2-Jun	3-Jun	4-Jun	5-Jun	6-Jun	9-Jun	10-Jun	11-Jun	12-Jun	13-Jun	Week 3	Week 4	Total
<b>LBJ</b>													
E3 - Non-Major Index Equities (<\$5)	-	-	-	-	-	0.2	-	-	-	-	-	0.2	0.4
						0.2	-	-	-	-	-	0.2	0.4
<b>LBIE</b>													
Asset Backs - Investment Grade	0.2	-	-	-	-	0.2	-	-	0.0	-	0.0	0.0	0.4
C1 - Investment Grade Convertibles	0.0	0.0	-	0.4	0.0	0.0	-	-	-	0.0	0.0	0.0	0.5
C2 - Non-Investment Grade Convertibles	0.1	0.0	-	0.1	-	0.2	-	-	0.0	0.0	0.2	0.0	0.6
Corporates - Investment Grade	0.2	0.1	-	0.2	0.2	0.0	-	-	0.0	0.0	0.1	0.0	0.7
Corporates - Non-Investment Grade	0.2	-	-	0.1	0.5	0.3	-	-	0.2	0.0	0.2	0.1	1.6
E1 - Major Index Equities	0.0	0.2	0.0	0.0	-	0.0	-	-	0.1	0.1	0.3	0.1	0.9
E2 - Non-Major Index Equities	0.0	0.2	0.0	0.3	0.1	0.1	-	-	0.0	0.1	0.2	0.2	1.3
E3 - Non-Major Index Equities (<\$5)	0.0	0.0	0.4	0.5	0.1	0.1	-	-	-	0.2	0.2	0.2	1.7
EMG	0.6	0.2	0.0	0.1	0.4	1.2	-	-	0.5	0.0	0.5	0.5	4.0
Total LBIE	1.4	0.8	0.4	1.6	1.3	2.0	-	-	0.9	0.4	1.7	1.3	11.8
<b>LBI</b>													
Asset Backs - Investment Grade	1.8	-	0.3	-	-	-	0.1	-	0.0	-	-	-	2.2
Asset Backs - Non-Investment Grade	1.1	-	0.0	-	-	-	0.1	-	0.7	-	-	-	1.8
C1 - Investment Grade Convertibles	0.6	-	-	-	-	-	-	-	-	-	-	-	0.6
C2 - Non-Investment Grade Convertibles	0.8	-	-	-	0.2	-	-	-	-	-	-	-	1.0
Corporates - Investment Grade	2.0	0.0	0.0	0.0	0.0	-	0.0	-	-	-	-	-	2.0
Corporates - Non-Investment Grade	4.3	-	-	0.0	0.1	-	-	-	1.0	-	-	-	5.5
E1 - Major Index Equities	0.8	-	-	-	-	0.0	-	-	-	-	-	-	0.8
E2 - Non-Major Index Equities	3.3	-	-	-	0.5	0.5	-	-	-	-	-	-	4.2
E3 - Non-Major Index Equities (<\$5)	0.1	-	-	-	0.0	0.0	-	-	-	-	-	-	0.1
Money Markets	2.2	-	-	-	-	-	-	-	-	-	-	-	2.2
Muni	1.3	-	-	-	-	-	-	-	-	-	-	-	1.3
Private Labels - High Yield	1.8	0.0	-	-	-	-	0.0	-	0.3	-	-	0.1	2.3
Private Labels - Investment Grade	2.2	0.1	0.0	-	-	-	-	-	0.0	-	-	0.4	2.7
Total LBI	22.2	0.1	0.3	0.0	0.8	0.5	0.2	-	2.0	-	-	0.5	26.6
<b>Total Lost Capacity</b>	<b>23.6</b>	<b>0.9</b>	<b>0.7</b>	<b>1.6</b>	<b>2.1</b>	<b>2.7</b>	<b>0.2</b>	<b>-</b>	<b>2.9</b>	<b>0.4</b>	<b>1.7</b>	<b>2.0</b>	<b>38.8</b>
<b>Mitigants and other stress elements</b>													
<b>LBIE</b>													
Prime Broker Customer Free Credits	(4.0)	-	-	-	-	-	-	-	-	-	-	-	(4.0)
Prime Broker Reduction	-	-	-	-	-	-	-	-	-	-	-	-	-
Term Overfunding	1.2	0.7	0.4	1.4	0.7	0.4	-	-	0.1	0.3	(0.1)	0.4	5.5
ECB	0.1	-	-	-	-	0.2	-	-	0.0	-	0.0	-	0.3
Bankhaus	-	-	-	-	-	-	-	-	-	0.0	0.2	0.2	0.4
Total LBIE	(2.6)	0.7	0.4	1.4	0.7	0.5	-	-	0.1	0.3	0.1	0.7	2.4
<b>LBI</b>													
Prime Broker Customer Free Credits	(3.9)	3.9	-	-	-	-	-	-	-	-	-	-	-
Unwinding of Muni TOB Prog. (\$6 billion gross)	-	-	-	-	-	(3.0)	-	-	-	-	3.0	-	-
Balance Sheet Reduction	-	-	-	-	-	-	-	-	-	-	-	-	-
Writedowns on balance sheet reduction	-	-	-	-	-	-	-	-	-	-	-	-	-
Dealer-based Matched Book Reduction	-	-	1.0	-	-	-	-	-	-	-	-	-	1.0
Term Overfunding excl. TSLF	6.6	(4.9)	-	-	-	-	-	-	(0.8)	-	-	(0.1)	0.8
Total LBI	2.7	(1.0)	1.0	-	-	(3.0)	-	-	(0.8)	-	3.0	(0.1)	1.8
<b>Net Loss Secured Funding</b>	<b>(23.6)</b>	<b>(1.2)</b>	<b>0.7</b>	<b>(0.2)</b>	<b>(1.4)</b>	<b>(5.1)</b>	<b>(0.2)</b>	<b>-</b>	<b>(3.6)</b>	<b>(0.1)</b>	<b>1.5</b>	<b>(1.4)</b>	<b>(34.6)</b>

**Overview of Q2 '08 Results**

# Breaking Down Q2 '08

Although the Firm is expected to suffer significant revenue reduction in Q2, a large portion can be attributed to “one-time” idiosyncratic events

- ◆ Lehman’s revenue run rate was adversely impacted by events in March (as investors stayed on the sidelines), although revenues in April and (especially) May improved substantially
- ◆ Although gross writedowns in Q2 '08 were lower than Q1 '08, hedges which generated gains in the past generated small losses in Q2 '08, resulting in a \$1.8 billion quarter-over-quarter increase in net write downs
- ◆ Revenues were also adversely impacted by short credit positions supporting Lehman’s client franchise as well as a defensive long interest rate position
- ◆ May was a strong month for both sales and trading
- ◆ Finally, revenues were also negatively impacted by a \$539 million decline in principal investing, largely from a valuation reduction of GLG

## Net Revenues Trend

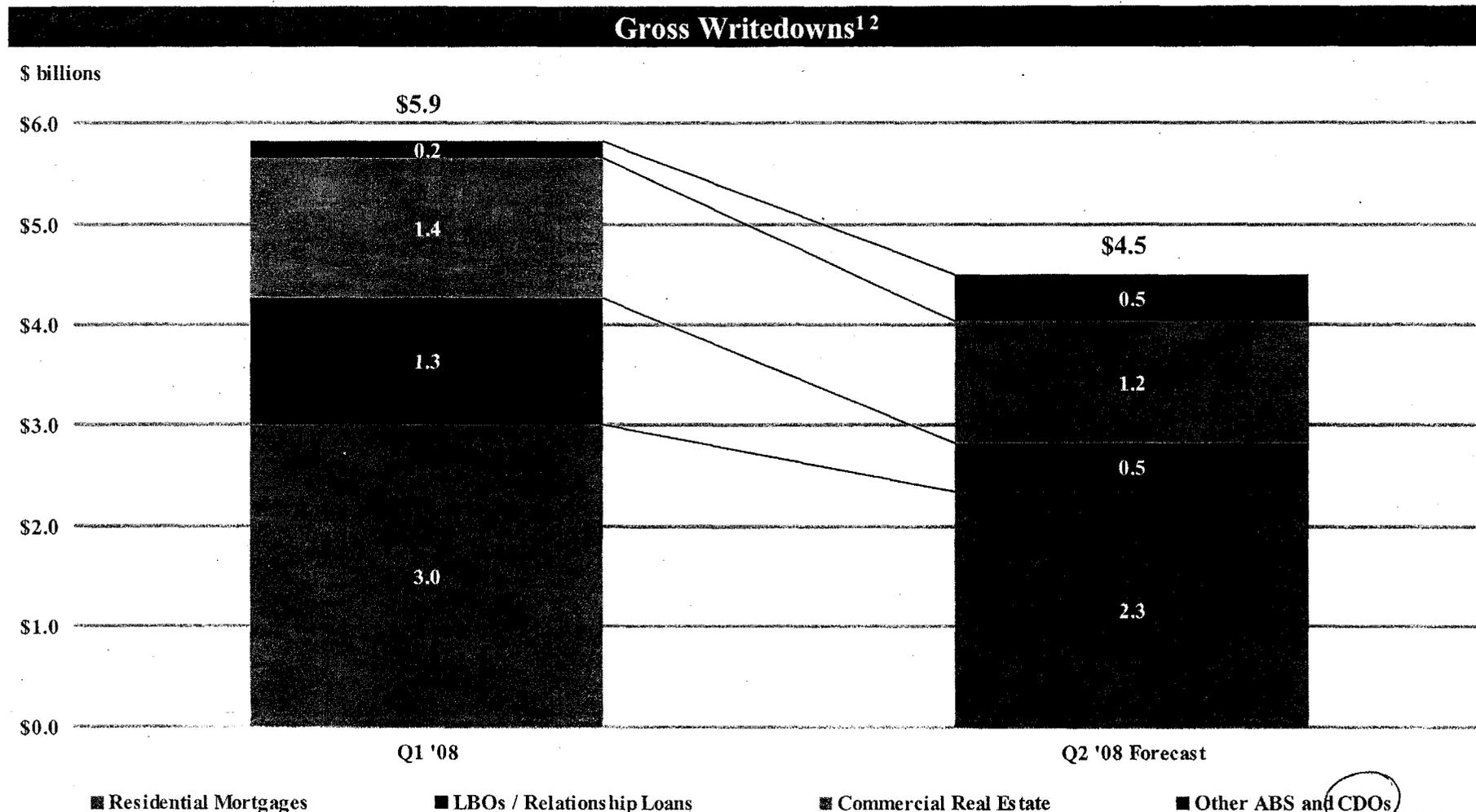
<i>\$ millions</i>	<i>Actual</i> <b>Q3 2007</b>	<i>Actual</i> <b>Q4 2007</b>	<i>Actual</i> <b>Q1 2008</b>	<i>Forecast</i> <b>Q2 2008</b>	<i>Quarterized</i> <b>May 2008</b>	<b>QoQ</b> <b>Δ</b>	<b>Q1 '08 to Q2 '08</b> <b>Variance</b>
<b>Revenue Run Rate</b>	5,261	4,386	4,731	4,288	6,797	(443)	-9%
FID	1,887	1,545	2,041	1,924	4,062	(117)	-6%
Equities	1,541	1,263	1,026	727	805	(299)	-29%
IBD	1,071	831	867	858	1,135	(9)	-1%
IMD	762	746	797	779	795	(18)	-2%
Gross Writedowns <sup>1</sup>	(3,500)	(3,192)	(5,853)	(4,499)	(5,854)	1,353	N/M
Hedges <sup>2</sup>	2,746	2,362	3,805	670	1,296	(3,135)	-82%
<b>Net Writedowns</b>	<b>(754)</b>	<b>(830)</b>	<b>(2,048)</b>	<b>(3,830)</b>	<b>(4,557)</b>	<b>(1,782)</b>	<b>87%</b>
<b>Defensive Trading</b>	-	-	668	(776)	(357)	(1,444)	-216%
Short Credit	-	-	668	(479)	(357)	(1,147)	-172%
Long Interest Rate	-	-	-	(297)	-	(297)	
Principal Investing	(199)	835	156	(383)	(211)	(539)	-346%
<b>Total Net Revenues</b>	<b>4,308</b>	<b>4,391</b>	<b>3,507</b>	<b>(701)</b>	<b>1,671</b>	<b>(4,208)</b>	<b>-120%</b>

1. Nets out gains on cash in Commercial Real Estate assets

2. Gain on debt included in Hedges

# Gross Writedowns are Significantly Less Than Q1 '08

Lower Q2 writedowns may signal a more rational framework for pricing securities and an eventual reconnection between the cash and derivatives markets. Continued price reductions have brought asset values to levels where strong buyer interest exists



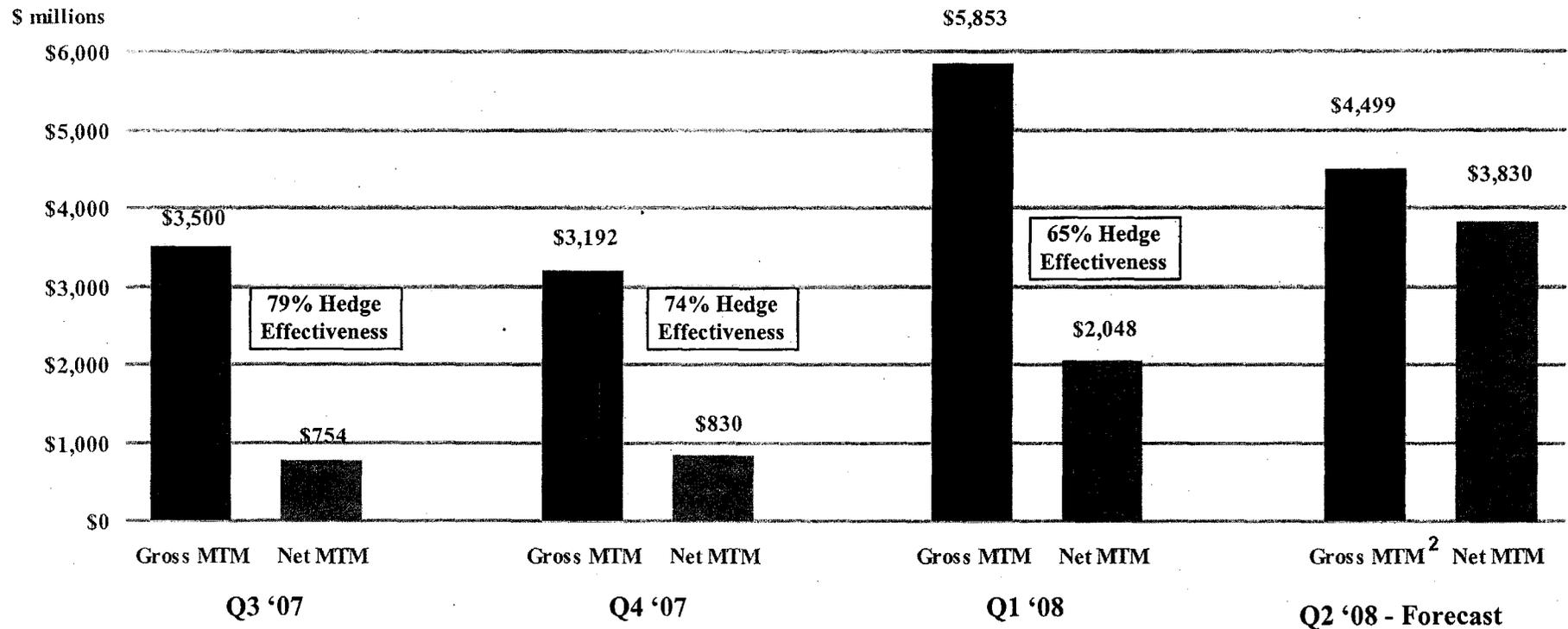
1. Q2 includes May estimate  
 2. Nets out gains on cash in Commercial Real Estate assets

# Hedge Effectiveness Affected by Cash vs. Derivatives Basis

Whereas Lehman's combined effective hedge ratio was 73% during the first nine months of the downturn, in Q2 '08 we expect to report a minimal benefit from hedging

- ◆ Assuming a hedge ratio consistent with the average of the last three quarters, the Firm's Net MTM (i.e., after hedges) would have been \$(1.2) billion versus the \$(3.8) billion

**Hedge Effectiveness<sup>1</sup> Q3 '07 – Q2 '08**



1. Includes the impact of credit spreads on the valuation of Lehman's structured debt  
 2. Nets out gains on cash in Commercial Real Estate assets

# Asset Values Have Declined And Buying Has Increased

Prices have continued to decline across most categories and rating tranches for Prime and Non-Prime RMBS securities, but these declines have been associated with a significant increase in trading volume

- ◆ Attractive yields and implied risk of default combined with higher liquidity suggest that prices are approaching a floor
- ◆ AAA securities yield unlevered 9% (risk adjusted) with significant prepayment upside, which bring in non-traditional investors (e.g., Credit Funds)
- ◆ Whole loan trading strategies also evident, primarily for workout
  - Regional banks and distressed specialties are primary bidders
- ◆ High level of trading observability and validation of marks – including versus the UBS portfolio

## Residential Mortgages Marks

	Values		Quarterly Volume Traded (\$mm)			Values		Quarterly Volume Traded (\$mm)	
	Q1 '08	Current	Q1 '08	Q2 '08		Q1 '08	Current	Q1 '08	Q2 '08
<b><u>Prime Securities</u></b>			543	6,892	<b><u>Non - Prime</u></b>			675	1,653
AAA	76.5	78.4			AAA	89.9	74.9		
AA	55.9	43.9			AA	68.4	30.0		
A	49.4	38.5			A	51.9	16.8		
BBB	48.3	33.0			BBB	20.1	8.2		
≤ BB <sup>1</sup>	27.4	26.1			≤ BB <sup>1</sup>	14.1	6.8		

1. Average of BB and B prices

# Global Real Estate: Top 10 Update

Exposure to top 10 positions declined from \$15.9 billion at Q4 '07 to \$12.2 billion by Q2 '08

- ◆ Additionally, writedowns taken to reflect where sales were being executed and expected to be executed
- ◆ Significant buyer interest in mortgages as returns now approaching levels targeted by equity funds

## GREG Top 10 Risks (expected Market Value as of May 31, 2008)

Property / Asset	Nov 2007 Funded Market Value (\$mm)	HI '08 Disposition	HI '08 Mark downs	Additional Fundings	May 2008 Funded Market Value (\$mm)	Feb 2008 Funded Market Value (\$mm)	Quarterly Variance (\$mm)	Comments
1 Archstone	\$4,880	\$307	\$289	\$192	\$4,476	\$4,785	(\$309)	Asset-level mezzanine debt to be opportunistically sold to mezz buyers and/or repaid with proceeds from Asset sales
2 Diversity Funding	2,910	232	70	-	\$2,608	2,775	(167)	Disposition over next 6 months through a combination of loan portfolio sales and prepayments
3 Hilton/Project Murphy	1,482	313	67	-	\$1,102	1,279	(177)	GE Committed to purchase \$1.3B of Senior Debt (LEH portion \$126mm) Currently marketing the senior debt and multiple mezzanine tranches
4 Prologis	1,458	649	45	-	\$764	1,490	(726)	\$398mm of commitments from 3rd party lenders expected to close by June 08 and currently working with Prologis to restructure the deal
5 Coeur Defense	1,261	145	61	-	\$1,055	1,229	(174)	CMBS - anticipated exit over the next 3 months through continued disposal of bonds. Equity - to be syndicated over next 6 or so months
6 Project Green/AMV	867	235	22	-	\$610	739	(129)	Disposition over next 6 months through a combination of loan portfolio sales and prepayments
7 Beacon Fund III	1,006	624	13	-	\$369	960	(591)	On March 19th, the transaction was restructured resulting in a \$27m paydown. Since April 30th, have closed on the sale of approximately \$188mm of fixed rate mezz and currently marketing the mezz debt
8 EOP Austin	649	117	22	-	\$510	625	(115)	Property operating performance and projected lease-up velocity in line with pro-forma. Lehman is currently marketing the B notes
9 Rosslyn Office Portfolio	548	285	35	-	\$228	521	(293)	Property operating performance outperforming pro-forma
10 237 Park Avenue	846	333	53	-	\$460	769	(309)	On March 19th, the transaction was restructured resulting in a \$49m paydown. Lehman is currently marketing the mezzanine debt
Sub-Total Top 10	\$15,907	\$3,239	\$677	\$192	\$12,182	\$15,172	(\$2,990)	
Sub-Total Next 10					\$3,794			
Total Top 20					\$15,976			

# Leveraged Loans: Update

We continue to de-risk our balance sheet by selling inventory / reducing commitments by ~\$6.0B in Q2, while the marks ended comparable to Q1

## Leveraged Loans, (\$ Millions) <sup>1</sup>

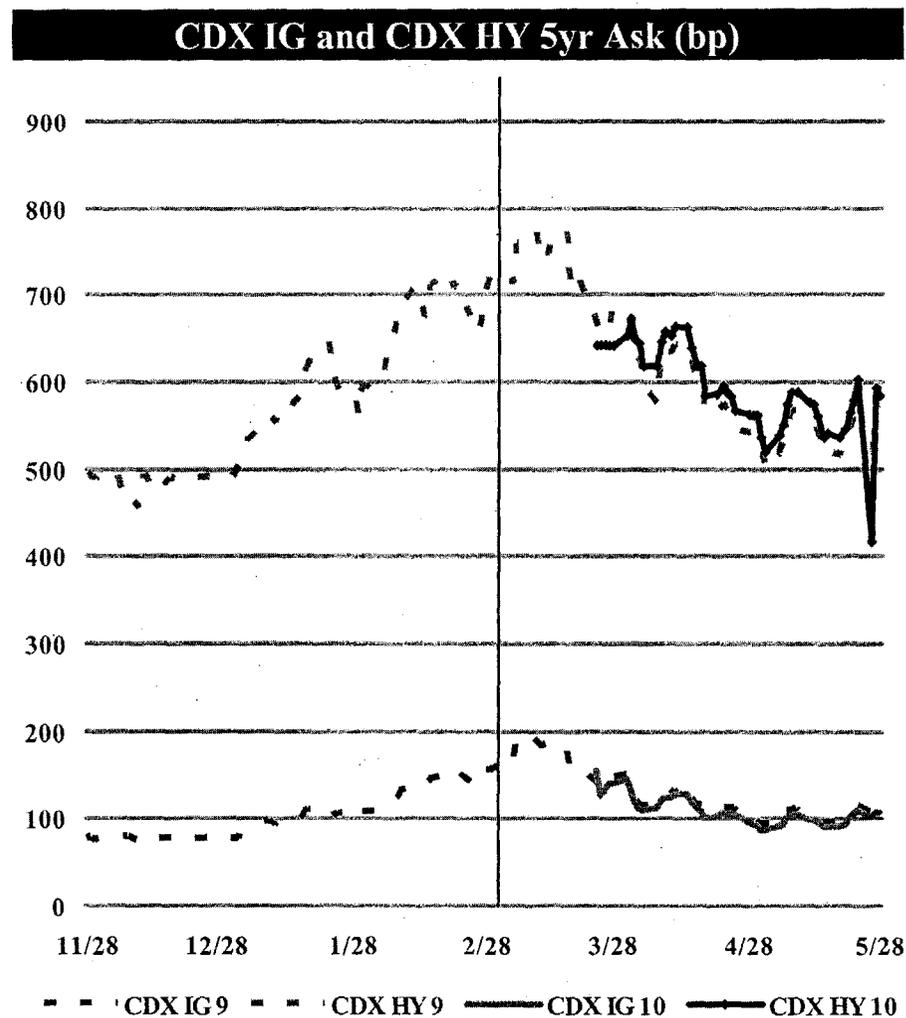
Deal Name	February 29, 2008			Q2 Activity		May 21, 2008		
	Notional	MV	Avg Current Mark	Sales / Dispositions	Avg Sales Price	Notional	MV	Avg Current Mark
Alliance Data	1,309	1,289	98.5	1,309	-	-	-	-
CDW	1,226	1,063	86.7	730	82.4	496.3	409.3	82.5
FairPoint	585	543	92.8	318	87.7	266.7	235.6	88.3
First Data	1,152	942	81.8	316	79.0	835.9	730.1	87.3
HD Supply	1,611	1,390	86.3	1,106	75.0	505.2	449.7	89.0
Houghton Mifflin	1,032	936	90.7	470	90.2	562.1	487.0	86.6
O'Reilly Automotive	808	808	100.0	508	-	300.0	300.0	100.0
PQ Corp	633	559	88.3	146	N/A	487.0	439.5	90.2
Others	12,281	11,452	93.3	961	N/A	11,320	10,156	89.7
<b>Total</b>	<b>20,637</b>	<b>18,982</b>	<b>92.0</b>	<b>5,864</b>		<b>14,773</b>	<b>13,207</b>	<b>89.4</b>

1. Includes Contingent (unclosed) deals such as Alliance Data (merger agreement terminated) and O'Reilly (commitment reduced due to restructuring)

# Defensive Trading Positions: Credit

With significant uncertainty in Q1 '08, hedge ratios were increased across the credit trading books. The additional hedges were largely in index derivatives and CDS, which subsequently outperformed cash significantly

- ◆ High-grade loan portfolio increased hedge ratio to 65%
- ◆ Cash vs derivatives basis widened by over 70 bps resulting in high grade loan book generating losses of \$190 million
- ◆ Derivatives rallied strongly with IG10 Index trading to around 107 bps from 155 bps at inception. This suggests further basis movement is limited
- ◆ High yield loans hedged to 51% over the quarter, largely through macro and index hedges
- ◆ Basis movement resulted in losses of \$130 million. This is a combination of derivative outperformance and name-specific loan performance mismatch



## Defensive Trading Positions: Rates

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A long position was established in interest rates (roughly \$4 million PV01 globally) as a hedge against market deterioration. Losses generated by a combination of technical LIBOR movement, increasing inflationary concerns and pressures on liquid asset values from market de-levering. Risk has now been reduced by completion of de-levering and unwinding duration exposure. [REDACTED]

- ◆ The position was intended to be risk reducing, historically negatively correlated with asset value reductions
  
- ◆ Long interest rates globally concentrated on the front end of the curve where correlation highest
  - Multi-currency position
  - Risk-reducing as historically negatively correlated with asset values
  
- ◆ Due to the combination of unexpected technical moves experienced in the LIBOR market, increasing inflationary concerns and asset value pressure from de-levering, the positions generated losses
  - Expected negative correlation between interest rate movements and the cash market did not materialize
  - Asset values underperformed because of the volume of selling across a broad range of asset classes including agencies, covered bonds, long end Japanese government bonds and European governments
  - Resulted in \$297 million of losses in March and April

# 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

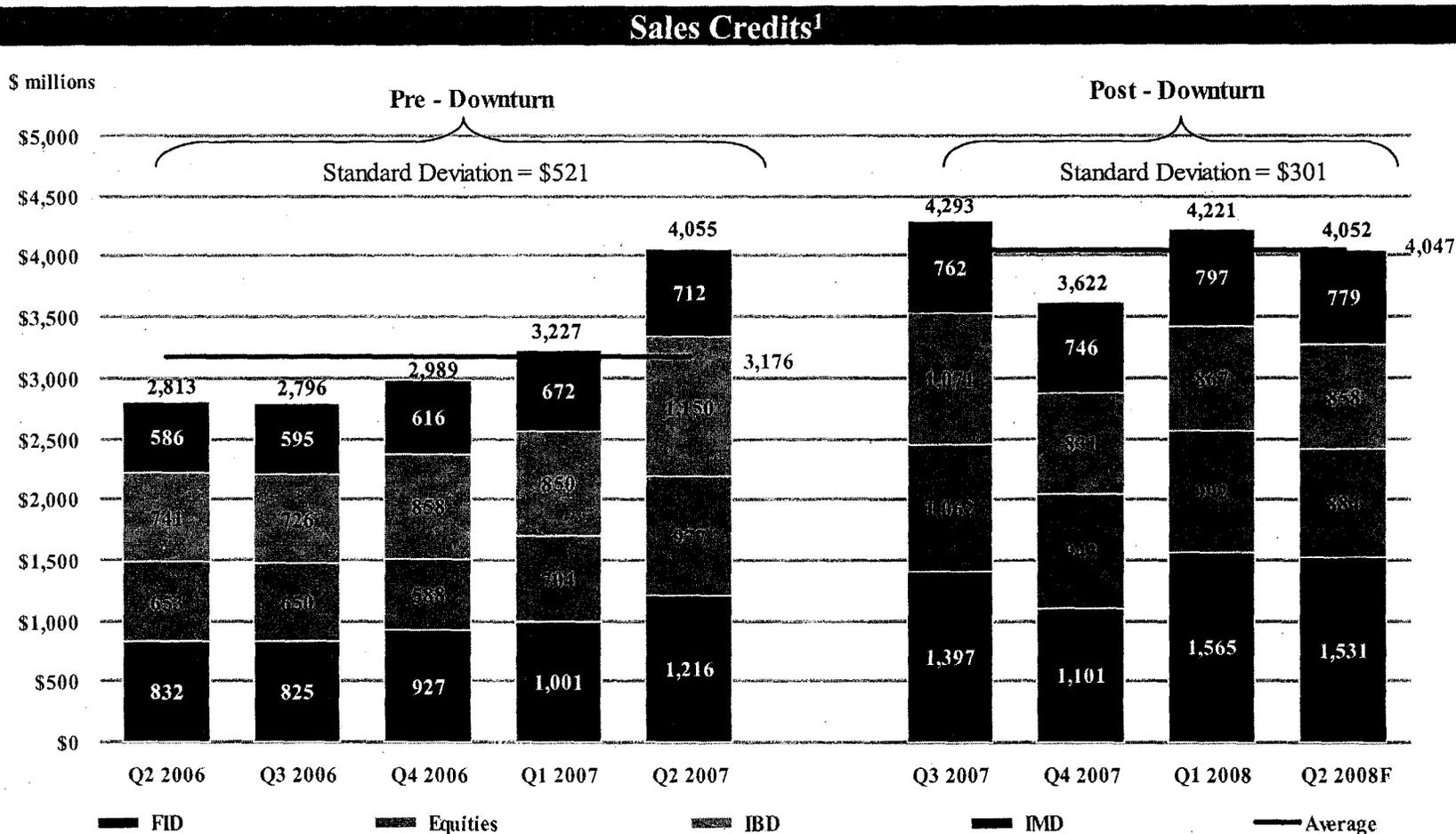
<i>\$ billions</i>	<i>Actual</i> <u>Q1 2007</u>	<i>Actual</i> <u>Q2 2007</u>	<i>Actual</i> <u>Q3 2007</u>	<i>Actual</i> <u>Q4 2007</u>	<i>Actual</i> <u>Q1 2008</u>	<i>Forecast</i> <u>Q2 2008</u>
<b>Revenue Run Rate</b>						
FID	1.9	2.2	1.9	1.5	2.0	1.9
Equities	1.1	1.4	1.5	1.3	1.0	0.7
IBD	0.9	1.2	1.1	0.8	0.9	0.9
IMD	0.7	0.7	0.8	0.7	0.8	0.8
<b>Total</b>	<b>4.5</b>	<b>5.5</b>	<b>5.3</b>	<b>4.4</b>	<b>4.7</b>	<b>4.3</b>

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 4% from Q1 levels, and relatively flat year-over-year

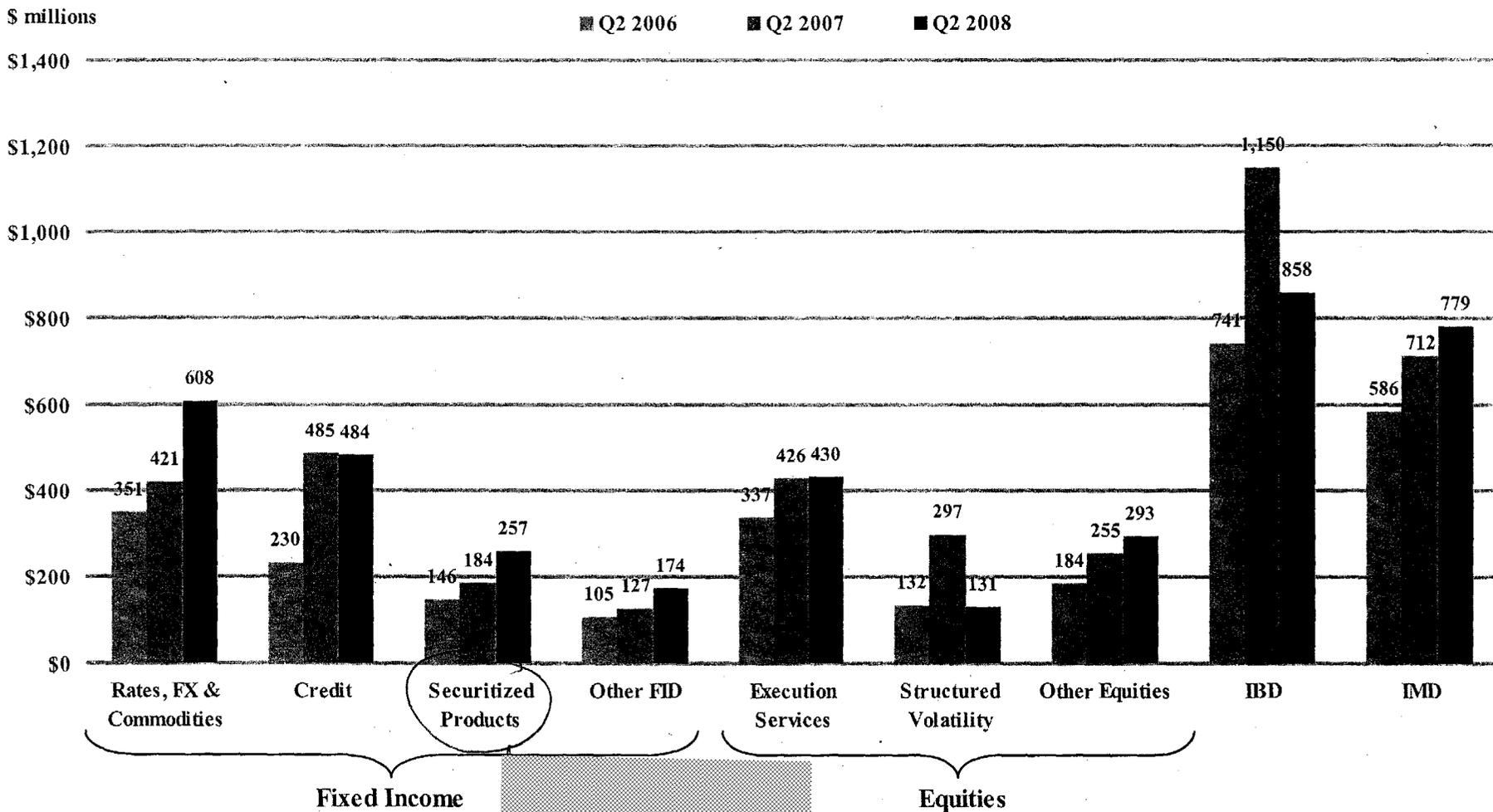


1. Represents Fixed Income and Equities Sales Credits as well as Investment Banking and Investment Management client revenues represent fees

# ...With Strength Broadly Reflected Across Businesses...

Sales credits are robust across all of Lehman's segments

## Growth in Sales Credits

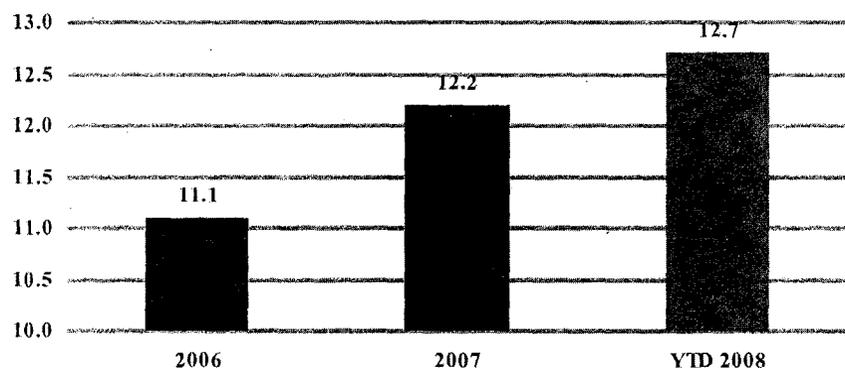


1. Other FID includes, FID Prime Services, Real Estate, Municipals, and  
 2. Other Equities includes Equities Prime Services, Convertibles and

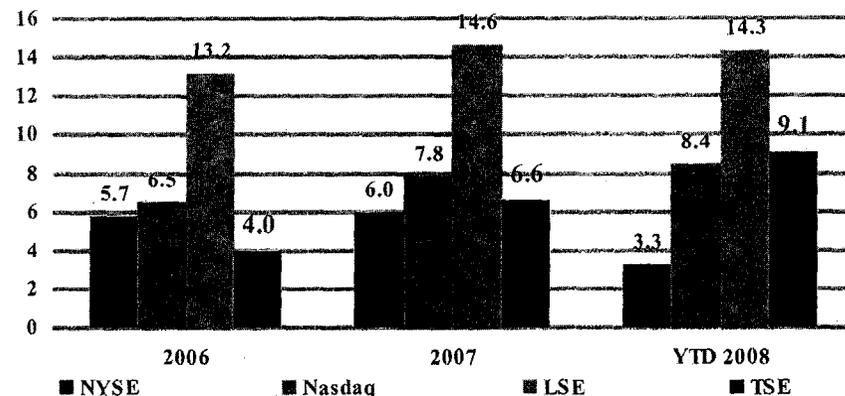
# Lehman Is Gaining Market Share in A Weak Market...

We continue to increase our market share in all corners of Origination<sup>1</sup> and Trading<sup>2</sup>, highlighting the strength of our client franchise in difficult markets

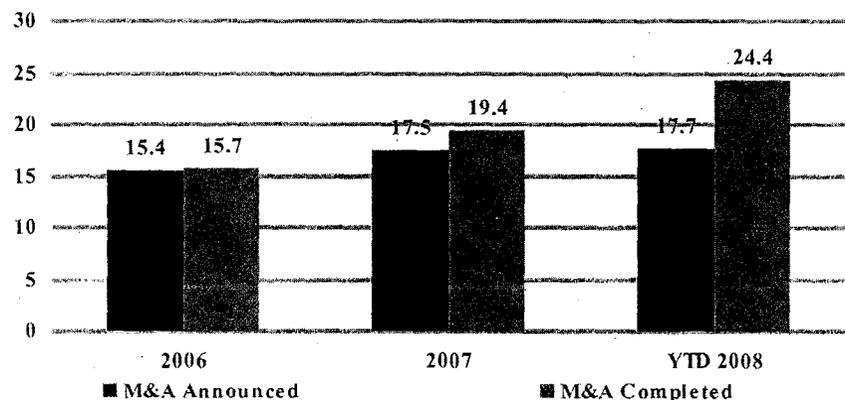
**Fixed Income Trading Volume (%)**



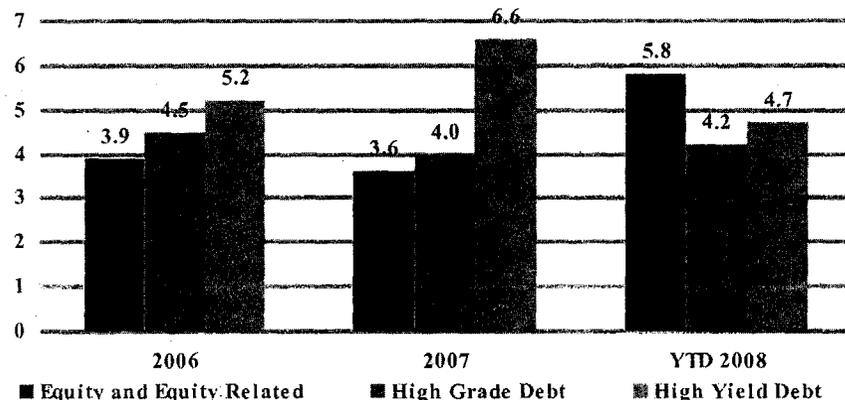
**Equity Trading Volume (%)**



**M&A (%)**



**IBD Capital Markets (%)**



1. Thomson Financial; all data is calendar year, YTD is through May 30, 2008

2. Fixed Income - Federal Reserve; all data is fiscal year, YTD is through May 14, 2008; Equity - Applicable exchanges and Lehman Brothers; all data is calendar year, YTD is through Mar 31, 2008

# ...And Strong Franchise Gains in Investment Banking

Lehman is achieving significant market share gains in a challenging environment

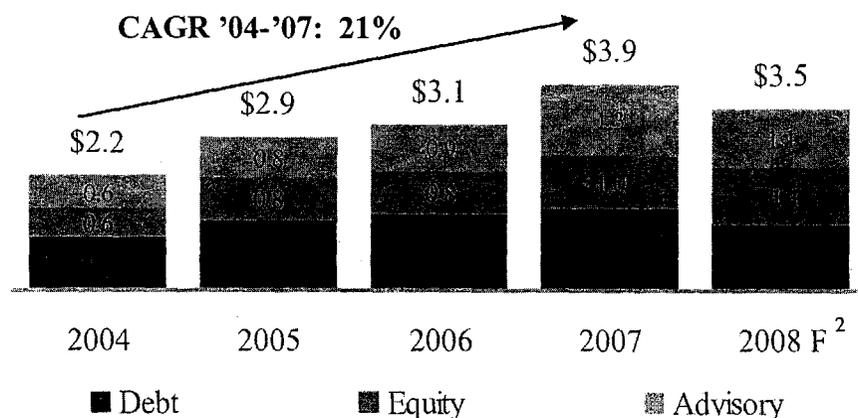
## Investment Banking Market Share <sup>1</sup>

Global	2006	2007	YTD 08
M&A Announced	15.4%	17.5%	17.7%
M&A Completed	15.7%	19.4%	24.4%
Equity & Equity Related	3.9%	3.6%	5.8%
High Grade Debt	4.5%	4.0%	4.2%
High Yield Debt	5.2%	6.6%	4.7%

## Franchise Momentum <sup>1</sup>

- ◆ Leadership in strategic M&A and financial sector restructuring
  - \$4.5 billion equity and convertible preferred issuance for FNMA
  - \$7.0 billion equity and convertible issuance for Washington Mutual
  - As well as issuances for CIT, AIG, MBIA and regional banks
- ◆ #3 in U.S. and # 1 in Asia (ex-Japan) announced M&A
- ◆ Advised on the 2 largest announced M&A transactions of the year and 3 of the top 4 completed deals
  - \$109.0 billion Phillip Morris International spin-off
  - \$42.0 billion hostile bid by Microsoft for Yahoo
  - \$21.0 billion acquisition of Imperial by Altadis
  - \$15.0 billion Sprint Nextel / Clearwire transaction
- ◆ Increased focus on corporate derivatives (10% and 14% of Investment Banking revenues in FY06 and FY07, respectively)

## Investment Banking Revenues



1. Market share based on year-to-date Thomson data as of May 31, 2008

2. 2008 data actual through April and annualized thereafter

# 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 12 Months Q3 '07 - Q2 '08	Last 12 Months Q3 '06 - Q2 '07	Current vs. Last Variance	Morgan Stanley 9 Months Q3 '07 - Q1 '08	Merrill Lynch 9 Months Q3 '07 - Q1 '08
	Q3 '07 - Q1 '08	Q2 '08	Q2 '08	Q2 '08					
<b>Capital Markets:</b>									
Fixed Income	\$2,183	(\$2,962)			(\$779)	\$8,200	-110%		
Equities	4,661	551			5,212	4,778	9%		
<b>Total</b>	<b>\$6,844</b>	<b>(\$2,410)</b>			<b>\$4,433</b>	<b>12,978</b>	<b>-66%</b>		
<b>Investment Banking:</b>									
Global Finance	1,626	618			2,245	2,609	-14%		
Advisory Services	1,143	240			1,382	975	42%		
<b>Total</b>	<b>\$2,769</b>	<b>\$858</b>			<b>\$3,627</b>	<b>3,584</b>	<b>1%</b>		
<b>Investment Management:</b>									
Asset Management	1,609	496			2,105	1,593	32%		
Private Investment Management	983	355			1,338	1,115	20%		
<b>Total</b>	<b>\$2,592</b>	<b>\$851</b>			<b>\$3,443</b>	<b>2,708</b>	<b>27%</b>		
<b>Total Net Revenues</b>	<b>\$12,205</b>	<b>(\$701)</b>			<b>\$11,504</b>	<b>19,271</b>	<b>-40%</b>	<b>\$15,830</b>	<b>(\$5,698)</b>
Compensation and Benefits	6,129	2,324			8,453	9,501	-11%	10,854	10,453
Non-personnel Expenses	2,978	1,094			4,072	3,335	22%	6,301	6,399
<b>Total Expenses</b>	<b>9,107</b>	<b>3,418</b>			<b>12,525</b>	<b>12,836</b>	<b>-2%</b>	<b>17,155</b>	<b>16,852</b>
Pre-tax Income / (Loss)	3,098	(4,119)			(1,021)	6,435	-116%	(1,325)	(22,250)
Taxes	836	(1,353)			(517)	2,095	-125%	(761)	(7,379)
<b>Net Income</b>	<b>\$2,261</b>	<b>(2,766)</b>			<b>(\$505)</b>	<b>4,340</b>	<b>-112%</b>	<b>(494)</b>	<b>(14,036)</b>
ROE	14%	-59%			-3%	24%			

1. Includes investments in minority stakes

# Restructuring and Downsizing Lehman For the New Market

In addition to its financial initiatives, Lehman has been proactive in implementing operational programs to rationalize its different businesses in the current market environment

- ◆ Initiatives designed to provide sustainable profitability in the current downturn while positioning Lehman to take advantage of growth opportunities when the cycle turns in 2009, and including:
  - Exiting of Mortgage Capital Business (MCD)
  - Streamlining organization and processes
  - Consolidating groups, roles and functions
  - Scaling back marginal offices/functions
  - Subletting space to lower costs by \$100 million in 2009
  - Lowering target spending by \$250 million in 2008
- ◆ Goal is to resize/redeploy headcount to realign against the medium-term opportunity
  - Secular decline: Aggressively reduce
  - Cyclical downturn: Resize to opportunity
  - Growth engines: Preserve
- ◆ Do not want to overshoot since:
  - Industry will potentially rebound in 2009
  - Must protect early stage growth engines
  - Must not undermine profitable franchise businesses

## Net Run Rate Headcount and Comp Impact of Resizing

	December 1, 2007	Estimated Resizing	% Δ Headcount	% Δ Compensation
Fixed Income	3,758	3,380	-10%	-6%
Equities	2,421	2,354	-3%	-3%
Prime Services	695	689	-1%	3%
Investment Banking	2,565	2,316	-10%	-10%
Investment Management <sup>1</sup>	3,181	3,060	-4%	-5%
<b>Total Business (excl. Mortgage Capital)</b>	<b>12,620</b>	<b>11,799</b>	<b>-7%</b>	<b>-5%</b>
Corporate	11,467	11,049	-4%	-3%
<b>Total Business + Corporate</b>	<b>24,087</b>	<b>22,848</b>	<b>-5%</b>	<b>-5%</b>
Mortgage Capital	4,416	458	-90%	-90%
<b>Total Firm</b>	<b>28,503</b>	<b>23,306</b>	<b>-18%</b>	<b>-8%</b>

1. Includes Principal Investments

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## Conclusion

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- ◆ 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