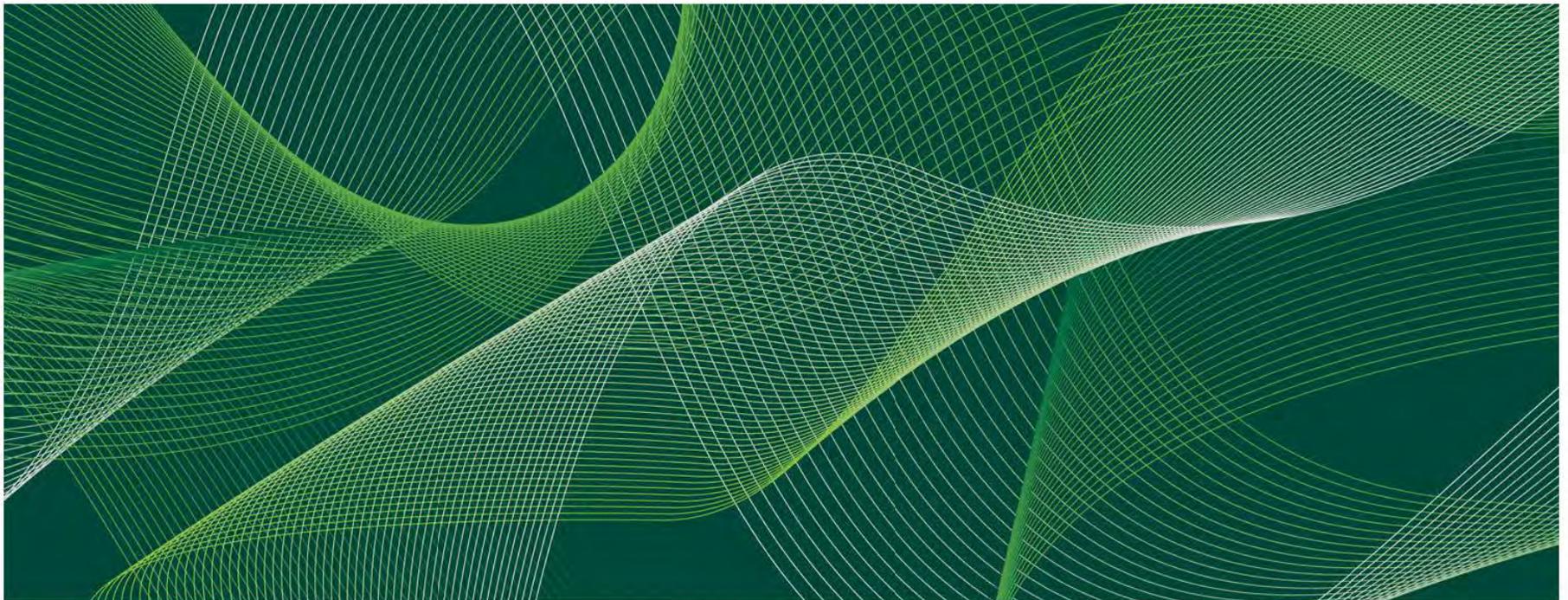


Q2 2008 Update



Confidential Presentation

Overview

Despite a sizeable loss of \$2.8 billion, the actions taken by Lehman in Q2 '08 have resulted in the strongest capital and liquidity positions the Firm has ever had

- ◆ The issuance of \$5.9 billion of preferred equity in H1 2008 and \$6.0 billion of equity capital in June, combined with the active de-leveraging and de-risking of the balance sheet (\$147 billion reduction in gross and \$70 billion reduction in net assets), drive very strong capital ratios ¹
 - Net leverage of 10.0x, down from 15.4x in Q1 '08
 - CSE Capital Ratio of 20.0%, up from 15.5% in Q1 '08
 - Tier 1 Capital Ratio of 13.3%, up from 10.3% in Q1 '08
 - Surplus over Lehman's internal equity allocation model of 40% (\$10.7 billion) in Q2 '08
- ◆ Liquidity Pool stood at a record \$45 billion at the end of Q2 '08 (up from \$34 billion in Q1 '08)
 - Increased coverage of short-term debt of 1.3x, up from 1.0x in Q1 '08
 - Cash Capital Surplus of \$15 billion as of Q2 '08
- ◆ Lehman implemented an equity raise on June 9th of \$6 billion to further improve its capital position
 - While capital ratios are very strong, we appreciate that Q2 '08 results were a disappointment to the market
 - Co-announcing a capital raise with earnings reassured the market and will improve Lehman's competitive position in the long run
- ◆ Lehman also made several organizational changes on June 12th designed to ensure that the right people are in the right seats to move Lehman forward
 - These moves will strengthen the organization, improving internal management and external credibility
 - Bart McDade was appointed Lehman's new President and COO
 - Ian Lowitt was appointed Lehman's new CFO

1. Financial ratios reflect the impact of the \$6 billion capital raise on 6/12/08

Overview

- ◆ The loss for Q2 '08, 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 was concentrated in Fixed Income, while the other parts of Lehman – Equities, Investment Banking and Investment Management – performed well
 - The Revenue Run Rate for the quarter was \$4.4 billion, down 8% from Q1 '08. However:
 - While gross writedowns were lower in Q2 '08 than Q1 '08 – \$3.9 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 \$667 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 \$1.3 billion
 - Principal investing in Q2 '08 lost \$509 million vs. a gain of \$156 million in Q1 '08, a \$665 million quarter-over-quarter differential

<i>\$ billions</i>	<i>Actual</i> Q1'08	<i>Actual</i> Q2'08	QoQ Δ
Run Rate	4.7	4.4	(0.4)
Gross Writedowns	(5.9)	(3.9)	1.9
Hedges	3.8	0.1	(3.7)
Net Writedowns	(2.0)	(3.9)	(1.8)
Defensive Trading	0.7	(0.7)	(1.3)
Principal	0.2	(0.5)	(0.7)
Net Revenues	3.5	(0.7)	(4.2)

Overview

- ◆ We believe that Lehman's core underlying franchise remains as strong as ever
 - Sales credits in Fixed Income remain strong; only down 2% in Q2 '08 vs. Q1 '08
 - Gaining market share in Investment Banking
 - Investment Management Division and Prime Services business are 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 roughly comparable with Morgan Stanley's 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

Capital Adequacy

\$11.9 Billion of Capital Raised in 2008...

\$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

\$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

\$4.0 B Common Equity

- ◆ Issued in June 2008
- ◆ 143 million shares of common stock
- ◆ Public Offering price \$28 per share
- ◆ Included as CSE Equivalent Tier 1 Capital

\$2.0 B Convertible Preferred Stock

- ◆ Issued in June 2008
- ◆ Non-Cumulative Mandatory Convertible Dividends at 8.75%
- ◆ Initial Conversion Rate between 30.2663 and 35.7142 per share at \$33.04 - \$28.00
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital

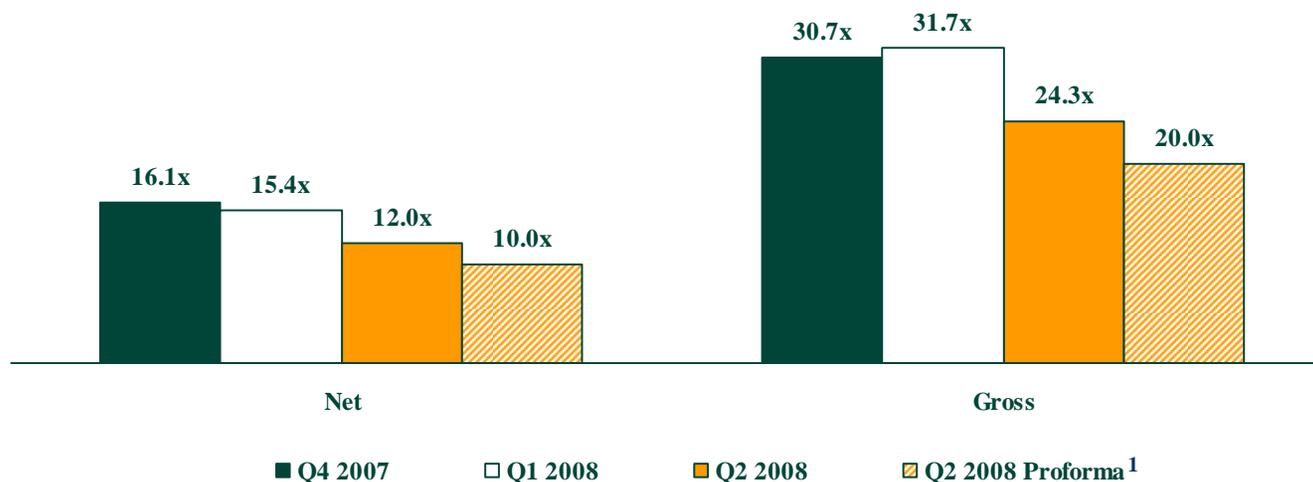
...As Well As Shrinkage of the Balance Sheet...

Net balance sheet (primarily inventory) was \$70 billion lower than Q1 '08, and gross balance sheet was \$147 billion lower

Gross and Net Balance Sheet

<i>\$ billions</i>	<i>Actual</i> Q4 ' 07	<i>Actual</i> Q1 ' 08	<i>Actual</i> Q2 ' 08	<i>Reduction</i> Q2 '08 vs. Q1 '08
Net Assets	373	397	327	(70)
Gross Assets	691	786	639	(147)
Leveragable Equity	23	26	27	

Gross and Net Leverage Ratios

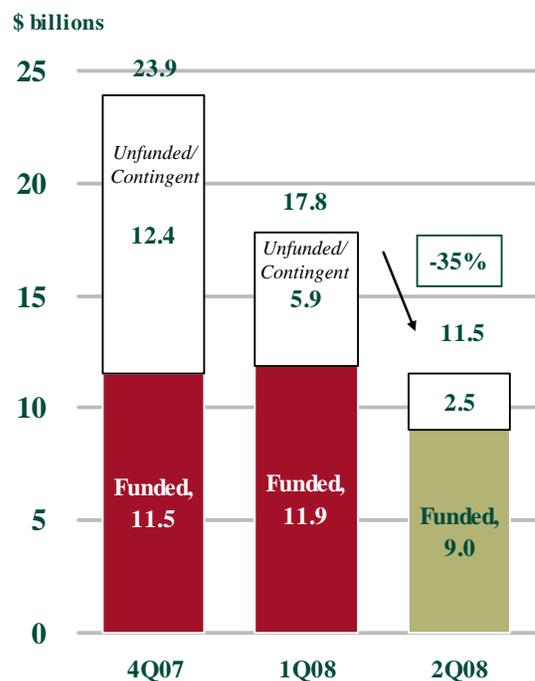


1. Proforma Q2 '08 includes \$6.0 billion capital raise on 6/9/08 and \$6.0 billion in assets

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

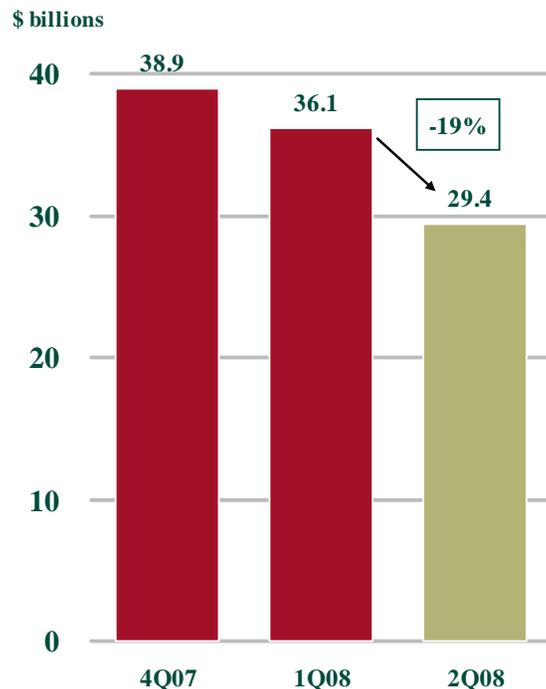
Lehman Brothers significantly reduced the Firm's key Risk positions in the Fixed Income arena

High Yield Acq Financing



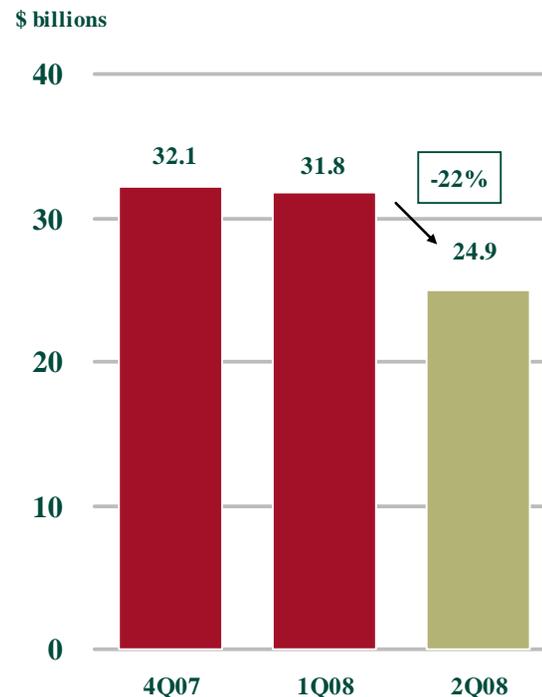
- ◆ Steady progress in selling/syndicating
- ◆ Non-traditional buyers account for 73% of sales in 2008

Commercial Mortgages



- ◆ Sales have been focused on largest exposures

Residential Mortgages



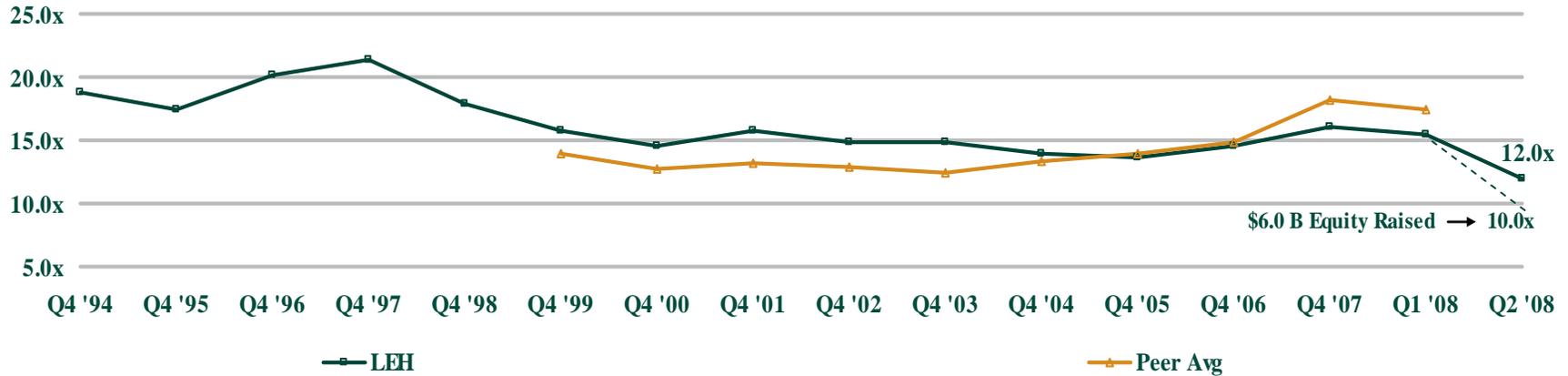
- ◆ Includes whole loans & securities in ~ 30: 70 proportion

LEHMAN BROTHERS

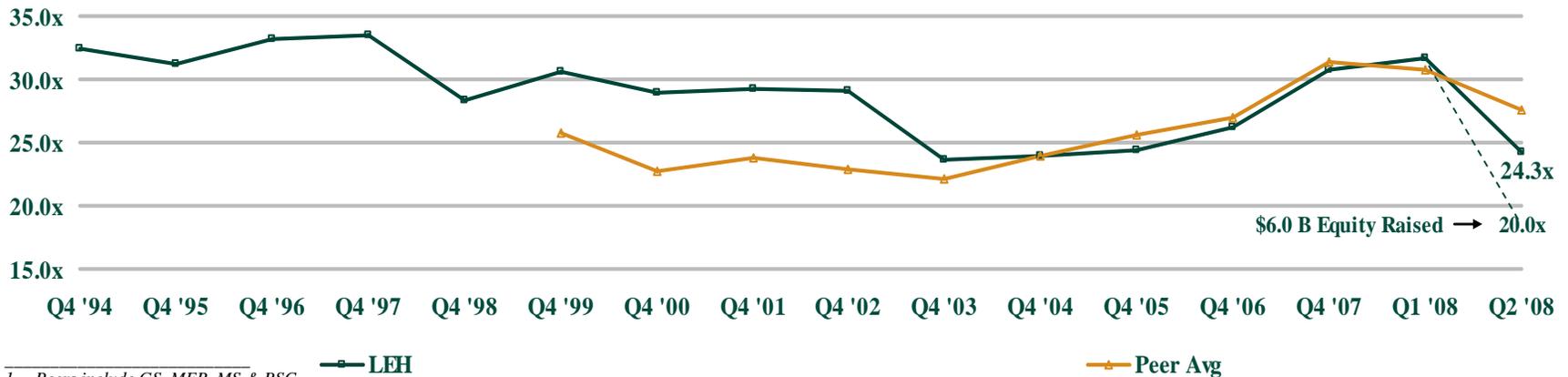
...Result in Historically Low Leverage Levels

Lehman ended Q2 '08 with the lowest leverage ratios in its history as a public company

Lehman versus Peers Net Leverage¹



Lehman versus Peers Gross Leverage^{1,2}



1. Peers include GS, MER, MS & BSC.

2. Gross Peer Average includes GS and MS for Q2 '08 and MER for Q1 '08

LEHMAN BROTHERS

Despite Loss, Lehman Is Strongly Capitalized

As a result of the combined impact of Lehman's capital raising and de-leveraging, 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 ²	Equity Adequacy Framework
<ul style="list-style-type: none"> ◆ Accounting ratio that measures the value of assets supported by \$1 of equity ◆ Does not account for different risk/liquidity characteristics of assets ◆ Heavily quoted by journalists and analysts 	<ul style="list-style-type: none"> ◆ Measures by which regulators determine whether a bank is adequately capitalized <ul style="list-style-type: none"> – Tier 1 and Total Capital Ratio ◆ Account for on- and off-balance sheet assets with different risk profiles ◆ Will begin reporting externally in Q2 '08 	<ul style="list-style-type: none"> ◆ Multi-factor model that determines the Gross Equity (Common Equity + Hybrid Equity) requirement <ul style="list-style-type: none"> – Additive charges for Trading, Counterparty, Operational, Liquidity, and Corp Assets ◆ Accounts for on and off-balance sheet assets with different risk profiles ◆ Liquidity component will be charged to businesses
<p>Q2 '08 Proforma ¹</p> <p>Net Leverage = 10.0x</p>	<p>Tier 1 Ratio = 13.3%</p> <p>Total Capital Ratio = 20.0%</p>	<p>Surplus = \$10.7 billion</p> <p>(40% of gross equity required)</p>

1. Proforma \$6.0 billion capital raise on 6/9/08 and \$6.0 billion of assets
 2. Updated for approved SEC methodology which excludes gains from debt liabilities measured at fair value

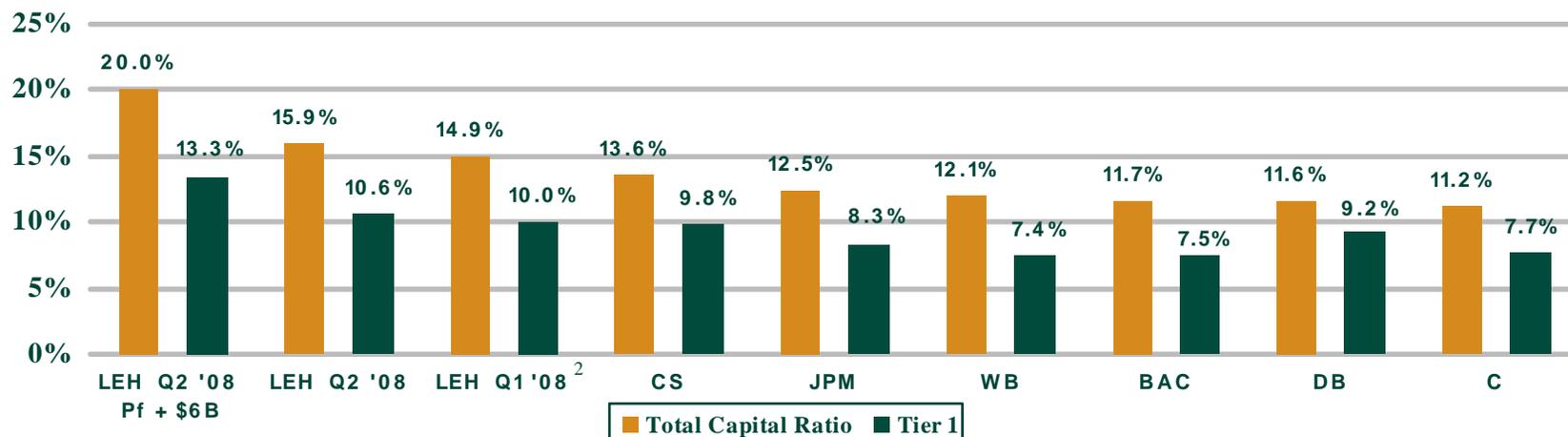
CSE Capital Ratios Strong

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 Ratios¹



1. All Banks' ratios are as of Q1 '08 per their earnings press releases
 2. Updated for approved SEC methodology which excludes gains from debt liabilities measured at fair value

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 \$6 billion capital raise, the Firm has an equity surplus of \$10.7 billion, or 40% 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	105.5	Trading	3,469
Counterparty Risk Appetite	447.8	Counterparty	940
Less Liquid Assets		Less Liquid Funding Haircuts	
<i>Less Liquid Inventory</i> ¹	146,622	<i>Less Liquid assets</i>	15,261
<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	156,919	Total	21,237
Revenue (FY 2007)	19,257	Operational	963
		Total Gross Equity Required	26,610
		Gross Equity Available ²	
		Common Equity	23,283
		Hybrids/Preferred	13,997
		Total Gross Equity	37,280
		Surplus/(Deficit)	10,670

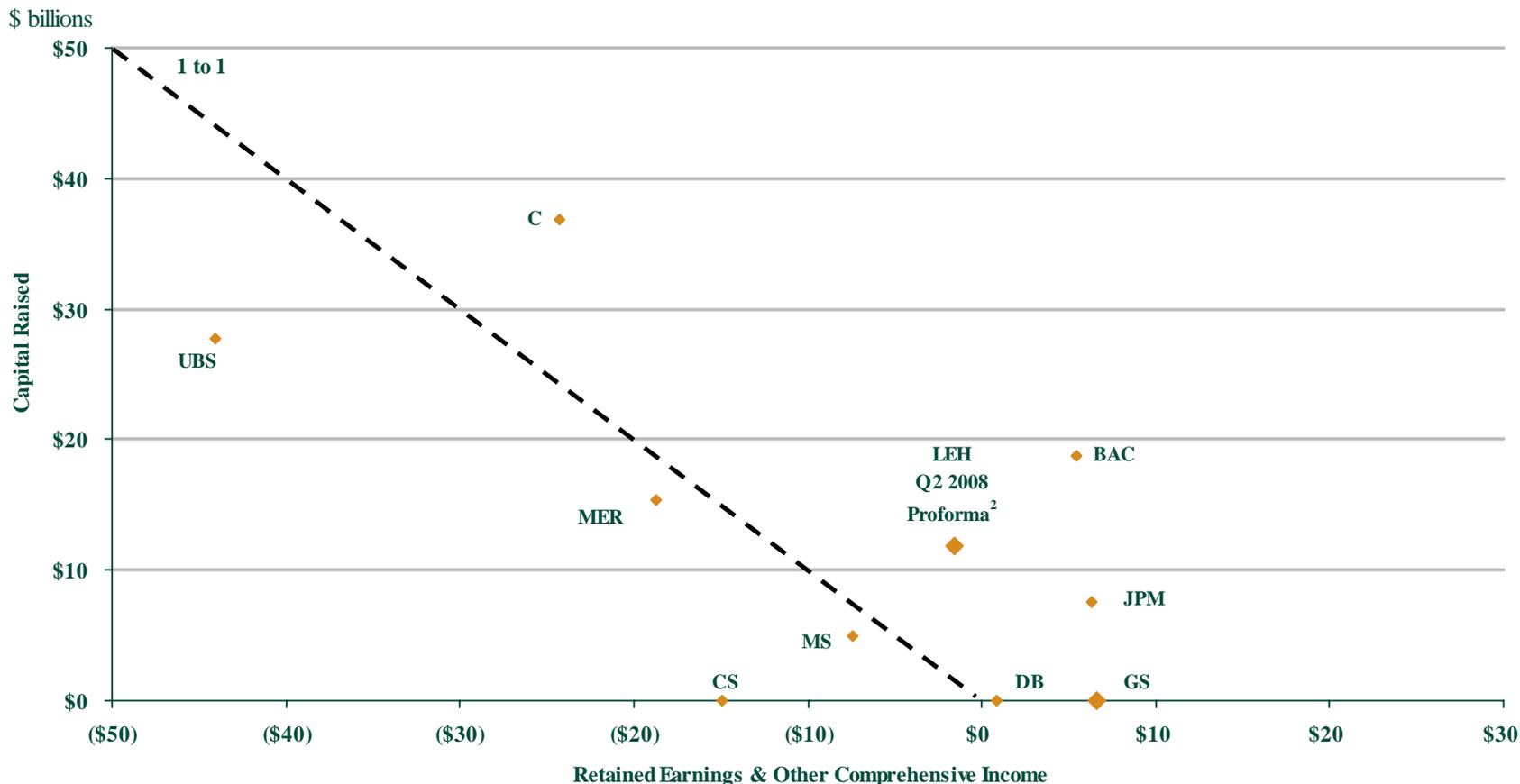
1. *Less Liquid Assets includes commitments*

2. *Gross Equity includes Proforma \$6B capital raise on 6/9/08*

Capital Raising More than Enough to Offset Lower Earnings

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

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



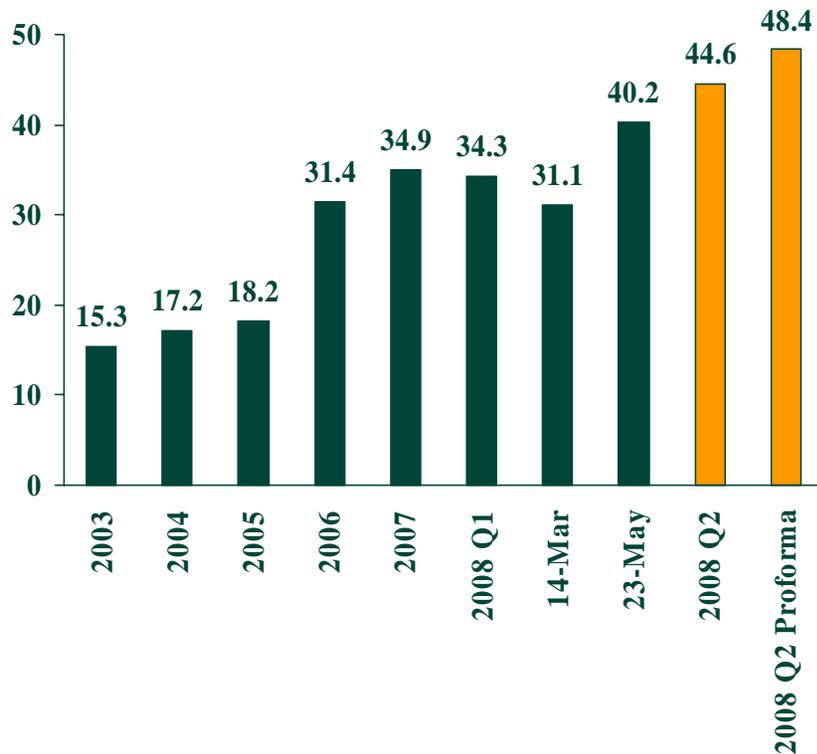
1. Includes equity capital raised through 5/30/08 for peers
 2. Includes \$6.0 billion capital raise on 6/9/08

Liquidity

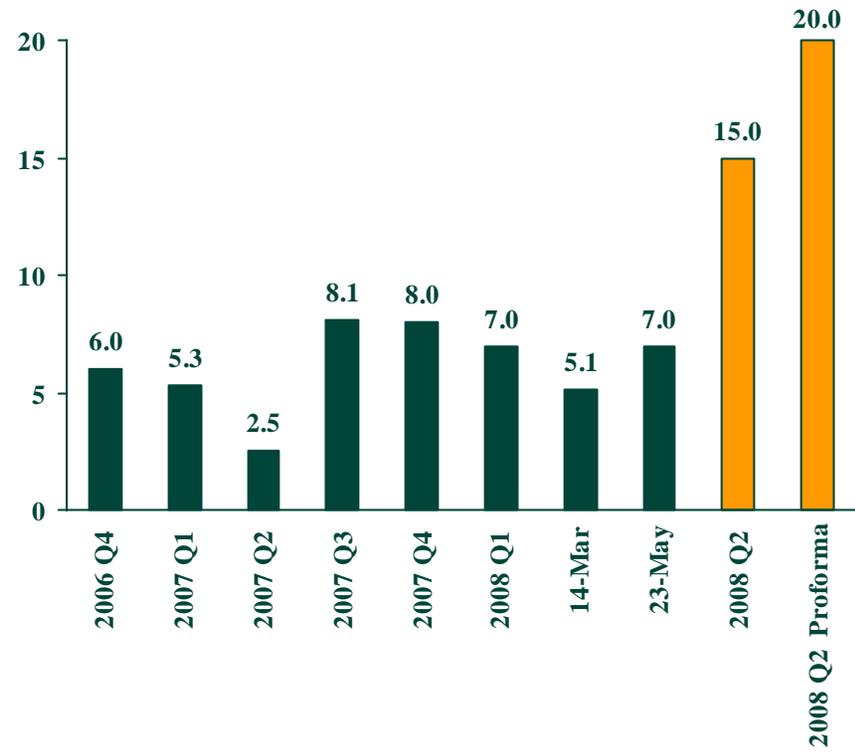
Building A “Liquidity Fortress”

- ◆ We ended the quarter with a record liquidity pool of approximately \$45 billion and a record cash capital surplus of \$15 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

Liquidity Pool (\$ billions)



Cash Capital Surplus (\$ billions)



Strengthening Long Term Capital Position

- ◆ During Q2 '08, Lehman 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 \$27 billion on May 30 – 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 ¹ Repo Book Metrics

	29-Feb	4-Mar	14-Mar	2-Apr	22-May	30-May	3/14 - 5/30 Change
Repo Book (\$Billions)							
Excess collateral		Not Available			12.8	11.4	
Firm and customer collateral					98.9	93.9	
Allocated Collateral	116.4	114.0	115.3	108.3	111.7	105.3	-9%
Overfunding	9.2	14.6	12.7	18.0	17.1	15.7	23%
Repo Capacity	125.6	128.6	128.0	126.3	128.8	121.0	-5%
Excess Repo Capacity	9.2	14.6	12.7	18.0	29.9	27.0	N/A
Avg Tenor (days)							
Grand Total	22	22	24	25	33	35	46%
<i>Central Bank Eligible Collateral</i>					26	30	
<i>Non Central Bank Eligible Collateral</i>					38	38	
% <=1 wk	58%	58%	57%	52%	46%	54%	-3%

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

- ◆ 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)					
Total	(15.5)	8.3	(7.2)	(10.1)	6.2	(3.8)
Mitigation strategy						
Overfunding repo book	2.7			LBIE excess liquidity pool	3.8	
Bankhaus funding	4.5					
Total	7.2					
"Dry powder" : Overfunding repo book	~10					

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	Operational	Other	LBHI Liquidity Pool			Other Details
	Maturities	Issued	Balance	O/S (EOD)	in/(out)flows Balance	effectiveness 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)						
Total	(16.0)	12.6	(3.4)		(1.3)	2.6	3.7	31.1	32.7	1.6	

Lessons From Bear Stearns Liquidity Event

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

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

Liquidity Stress Scenario Assumptions

Loss of Secured Funding

Repos	% Rolled	% Lost
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

Loss of Unsecured Funding

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

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

Stress Liquidity Scenario: Overall Impact

	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 ⁽¹⁾	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)
Unsecured Funding													
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)
Total Net Loss Unsecured Funding	(1.6)	(4.0)	3.5	(1.7)	(2.0)	(0.3)	(0.3)	(0.6)	(0.6)	(2.5)	(2.4)	(1.3)	(13.8)
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

	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
Lost Capacity													
LBJ													
E3 - Non-Major Index Equities (<\$5)	-	-	-	-	-	0.2	-	-	-	-	-	0.2	0.4
	-	-	-	-	-	0.2	-	-	-	-	-	0.2	0.4
LBIE													
Asset Backs - Investment Grade	0.2	-	-	-	-	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
LBI													
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
Total Lost Capacity	23.6	0.9	0.7	1.6	2.1	2.7	0.2	-	2.9	0.4	1.7	2.0	38.8
Mitigants and other stress elements													
LBIE													
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
LBI													
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
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)

Overview of Q2 '08 Results

Breaking Down A Challenging Q2 '08

Although the Firm suffered 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 \$665 million decline in principal investing, largely from a valuation reduction of GLG

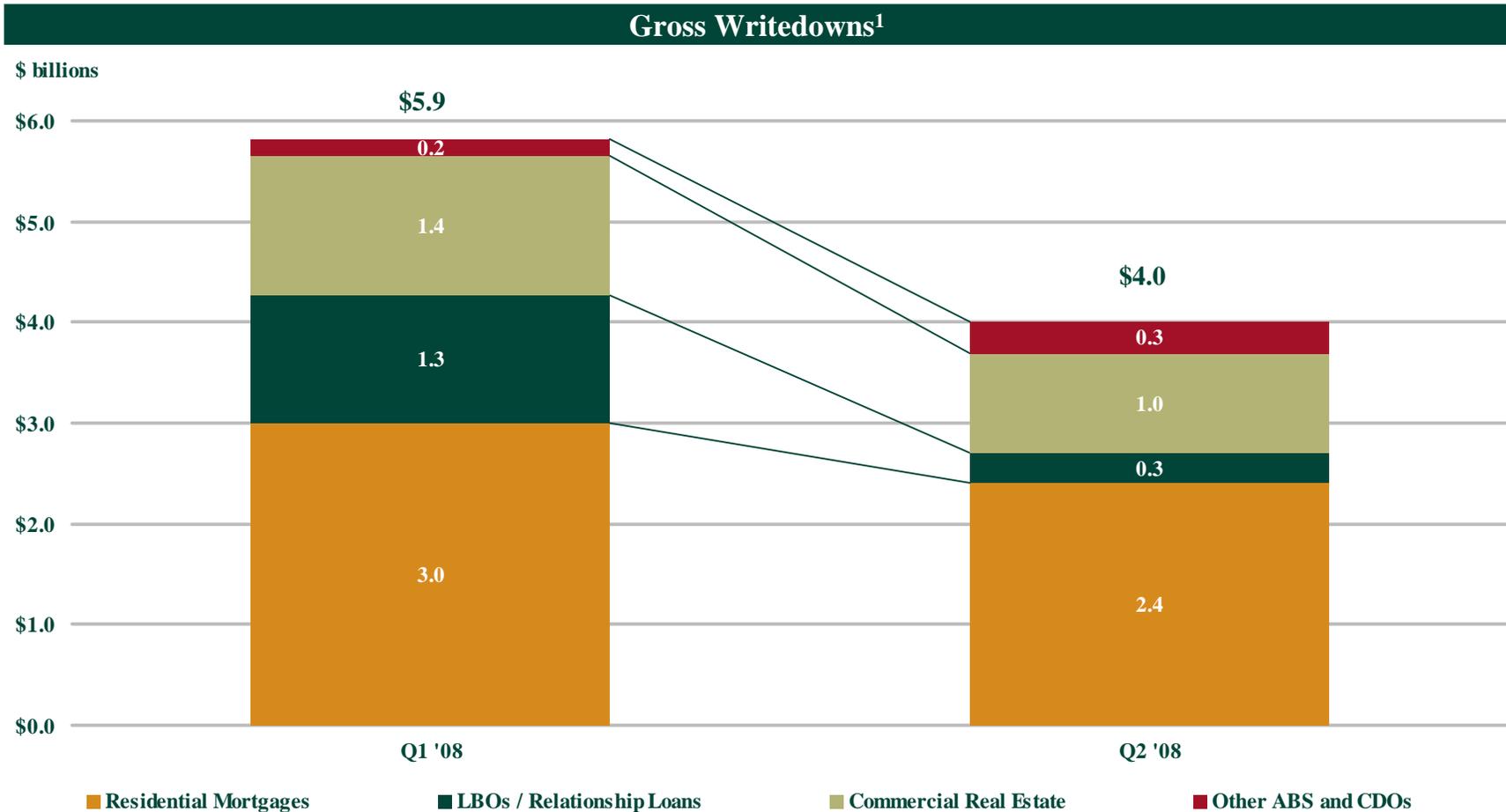
Net Revenues Trend

<i>\$ millions</i>	<i>Actual</i> Q3 2007	<i>Actual</i> Q4 2007	<i>Actual</i> Q1 2008	<i>Actual</i> Q2 2008	<i>Quarterized</i> May 2008	QoQ <u>Δ</u>	Q1 '08 to Q2 '08 <u>Variance</u>
Revenue Run Rate	5,261	4,386	4,731	4,361	7,051	(369)	-8%
FID	1,887	1,545	2,041	1,978	4,303	(63)	-3%
Equities	1,541	1,263	1,026	749	826	(277)	-27%
IBD	1,071	831	867	858	1,134	(9)	-1%
IMD	762	746	797	777	787	(20)	-3%
Gross Writedowns	(3,500)	(3,192)	(5,853)	(3,945)	(6,162)	1,908	N/M
Hedges ¹	2,746	2,362	3,805	91	1,382	(3,714)	-98%
Net Writedowns	(754)	(830)	(2,048)	(3,854)	(4,779)	(1,806)	88%
Defensive Trading	-	-	668	(667)	(318)	(1,335)	-200%
Short Credit	-	-	668	(400)	(318)	(1,068)	-160%
Long Interest Rate	-	-	-	(267)	-	(267)	
Principal Investing	(199)	835	156	(509)	(183)	(665)	-426%
Total Net Revenues	4,308	4,391	3,507	(668)	1,770	(4,175)	-119%

1. Gains 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

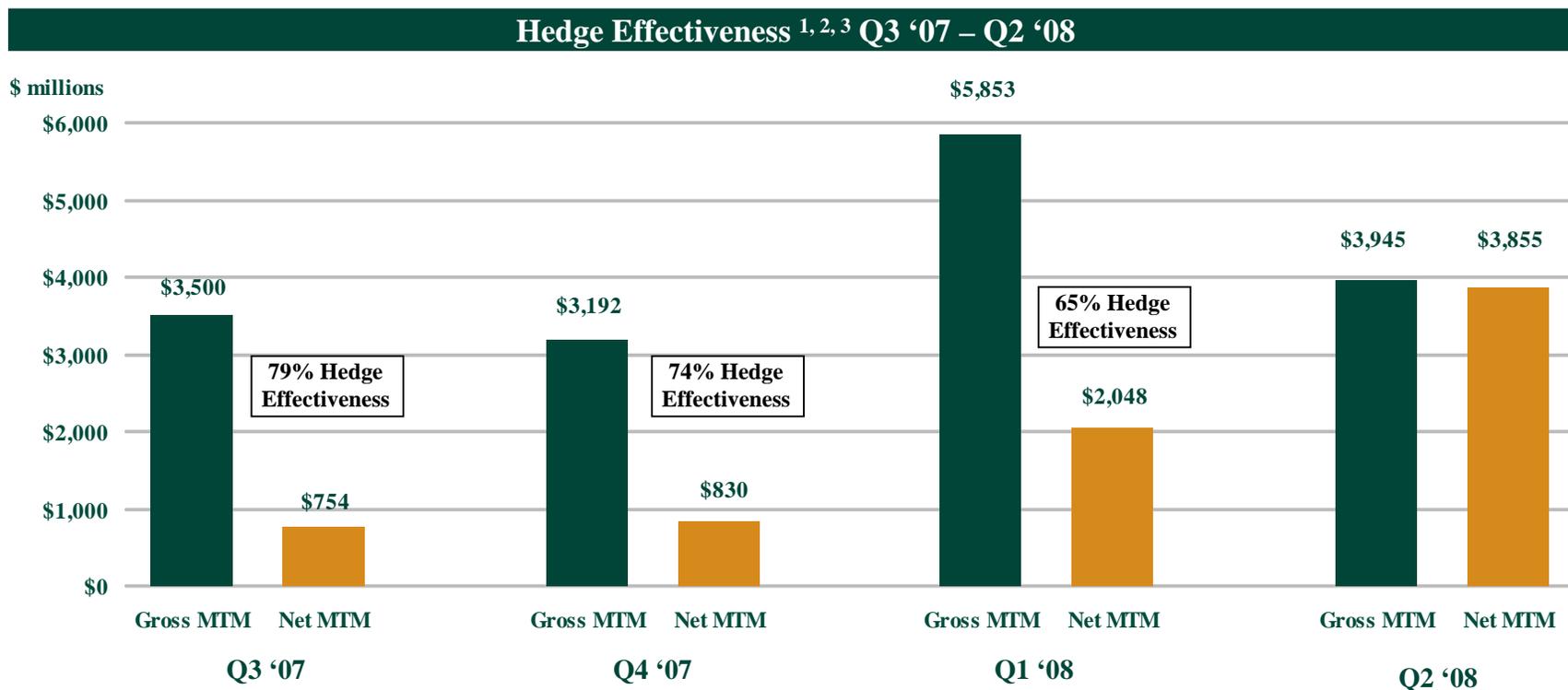


1. Gross MTM includes market adjustments on Firm Relationship Loans (FRLs) and Loan Holds (-\$547mm for Q1 '08 and -\$15mm for Q2 '08)

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 reported 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 \$(1.1) billion versus the \$(3.9) billion



1. Includes the impact of credit spreads on the valuation of Lehman's structured debt

2. Gross MTM in 2008 includes market adjustments on Firm Relationship Loans (FRLs) and Loan Holds (-\$547mm for Q1 '08 and -\$15mm for Q2 '08)

3. Net MTM in 2008 includes market adjustments on Firm Relationship Loans (FRLs) and Loan Holds (-\$185mm for Q1 '08 and -\$220mm for Q2 '08)

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

	<u>Values</u>		<u>Quarterly Volume Traded (\$mm)</u>			<u>Values</u>		<u>Quarterly Volume Traded (\$mm)</u>	
	<u>Q1 '08</u>	<u>Current</u>	<u>Q1 '08</u>	<u>Q2 '08</u>		<u>Q1 '08</u>	<u>Current</u>	<u>Q1 '08</u>	<u>Q2 '08</u>
<u>Prime Securities</u>			543	6,892	<u>Non - Prime</u>			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 ¹	27.4	26.1			≤ BB ¹	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 Markdowns	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 Rossllyn 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	<u>\$15,907</u>	<u>\$3,239</u>	<u>\$677</u>	<u>\$192</u>	<u>\$12,182</u>	<u>\$15,172</u>	<u>(\$2,990)</u>	
Sub-Total Next 10					<u>\$3,794</u>			
Total Top 20					<u>\$15,976</u>			

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) ¹

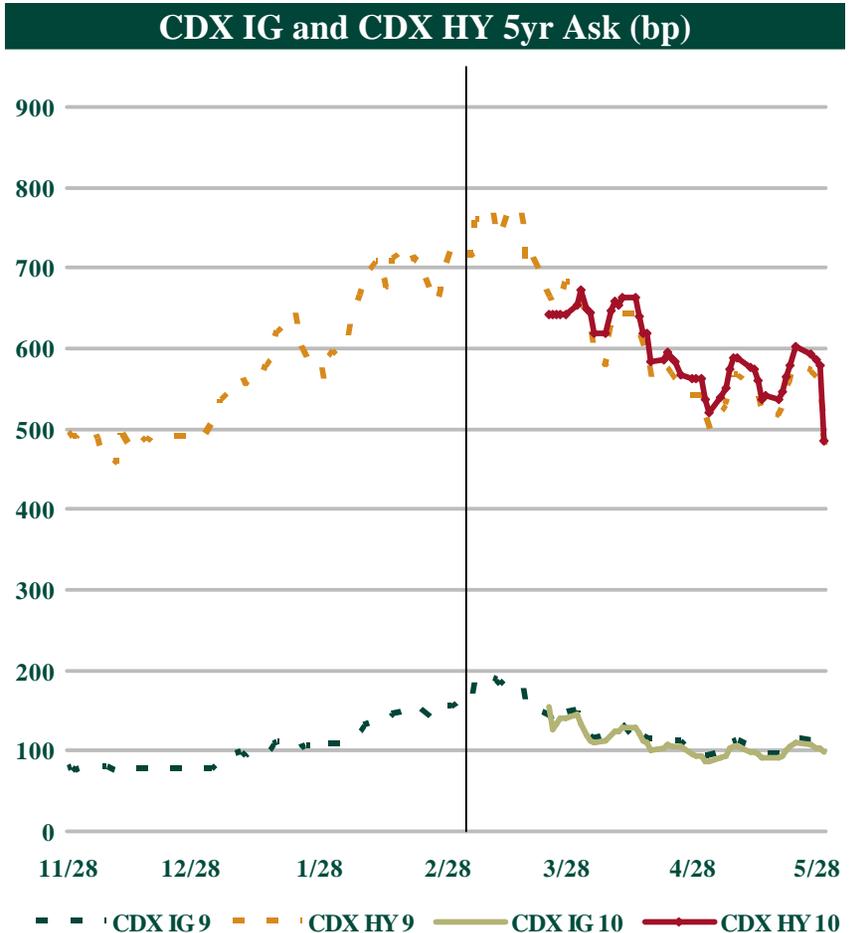
<u>Deal Name</u>	<u>February 29, 2008</u>			<u>Q2 Activity</u>		<u>May 21, 2008</u>		
	<u>Notional</u>	<u>MV</u>	<u>Avg Current Mark</u>	<u>Sales / Dispositons</u>	<u>Avg Sales Price</u>	<u>Notional</u>	<u>MV</u>	<u>Avg Current Mark</u>
Alliance Data	1,309	1,289	98.5	1,309	-	-	-	-
CDW	1,226	1,063	86.7	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
Total	20,637	18,982	92.0	5,864		14,773	13,207	89.4

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 100 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

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.

- ◆ 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

Revenue Run Rate Solid in Q2 '08

Lehman's revenue run rate was down less than 10% relative to Q1 '08 and is consistent with Q4 '07 results

- ◆ 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>Actual</i> <u>Q2 2008</u>
<u>Revenue Run Rate</u>						
FID	1.9	2.2	1.9	1.5	2.0	2.0
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
Total	4.5	5.5	5.3	4.4	4.7	4.4

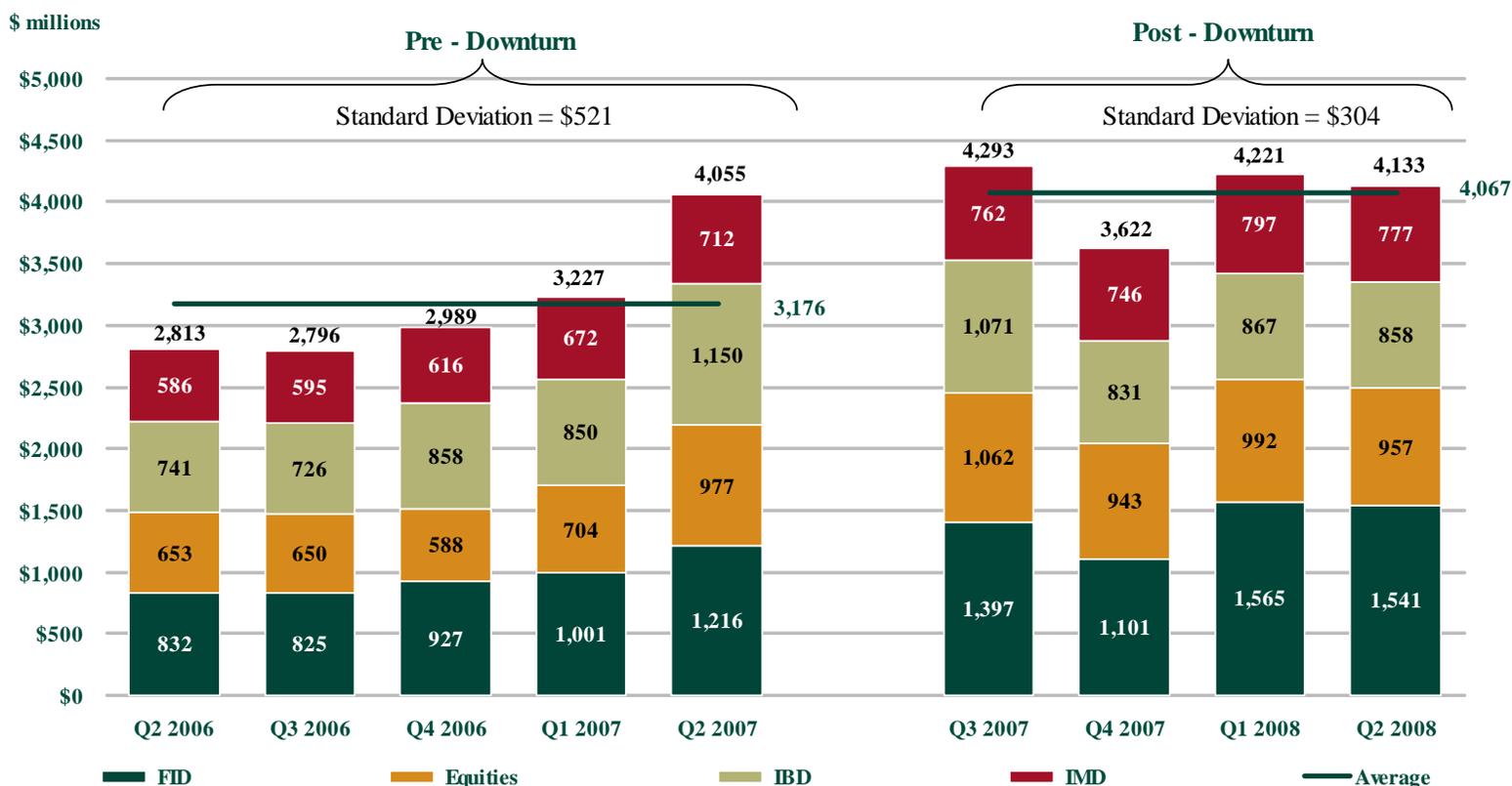
1. We utilize sales credits as a proxy for client revenues in Fixed Income and Equities

Core Sales Credits Are Strong...

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

- ◆ Lehman's sales credits in Q2 '08 were strong, down only 2% from Q1 levels, and up 2% year-over-year
- ◆ Credit markets sales credits are particularly strong, up 14% year-over-year

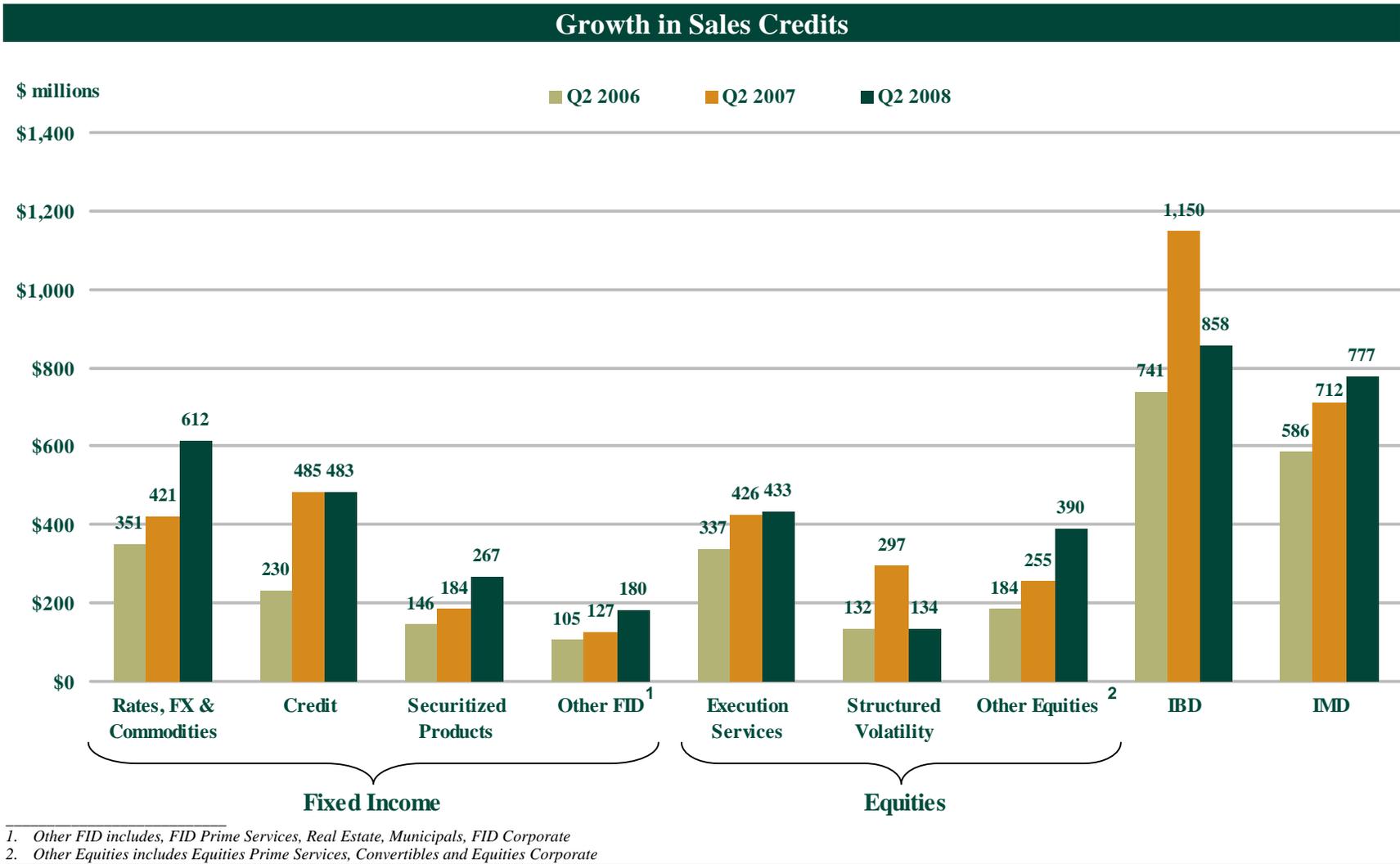
Sales Credits¹



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...

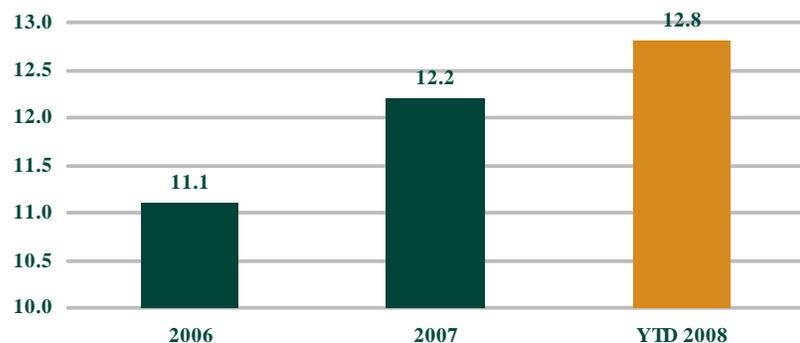
Sales credits are robust across all of Lehman's segments



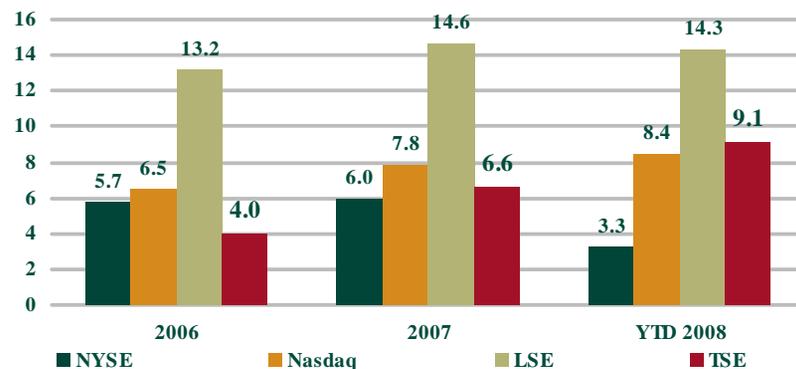
Lehman Is Gaining Market Share in A Weak Market...

We continue to increase our market share in all corners of Origination¹ and Trading², highlighting the strength of our client franchise in difficult markets

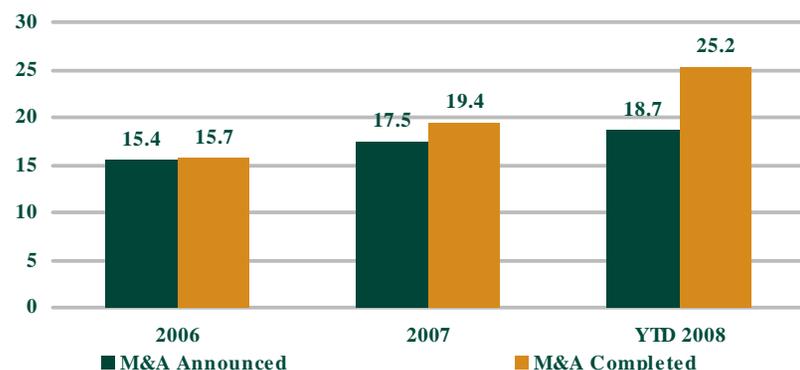
Fixed Income Trading Volume (%)



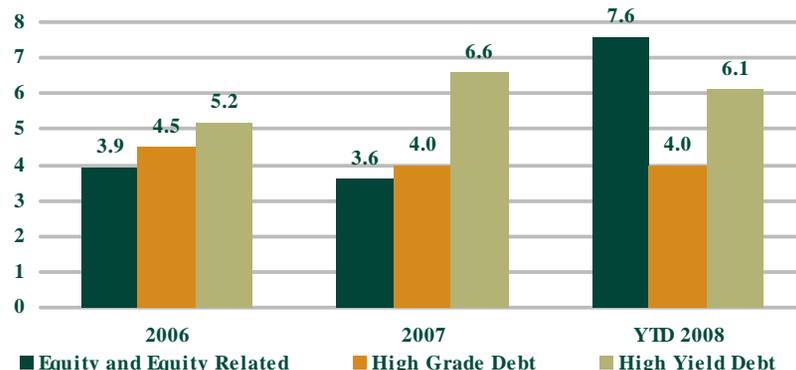
Equity Trading Volume (%)



M&A (%)



IBD Capital Markets (%)



1. Thomson Financial; all data is calendar year, YTD is through June 12, 2008

2. Fixed Income - Federal Reserve; all data is fiscal year, YTD is through June 4, 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

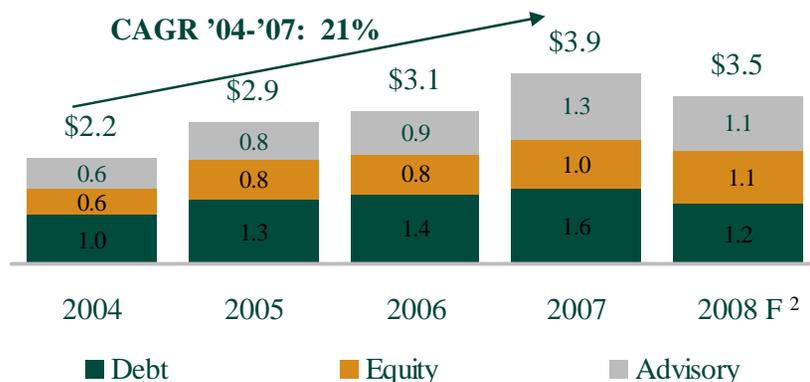
Investment Banking Market Share ¹

Global	2006	2007	YTD 08
M&A Announced	15.4%	17.5%	18.7%
M&A Completed	15.7%	19.4%	25.2%
Equity & Equity Related	3.9%	3.6%	7.6%
High Grade Debt	4.5%	4.0%	4.0%
High Yield Debt	5.2%	6.6%	6.1%

Franchise Momentum ¹

- ◆ Leadership in strategic M&A and financial sector restructuring
 - \$5.2 billion equity and convertible preferred issuance for FNMA
 - \$7.0 billion equity and convertible issuance for Washington Mutual
 - As well as issuances for CIT, MBIA and regional banks
- ◆ #4 Globally and # 1 in Asia (ex-Japan) announced M&A
- ◆ Advised on 2 of the top 10 announced M&A as well as 3 of the top 5 completed M&A
 - \$113.0 billion Phillip Morris Int'l spin-off ^{3,4}
 - \$28.1 billion acquisition of Alltel by Verizon Wireless ³
 - \$21.5 billion acquisition of Imperial by Altadis ⁴
 - \$18.6 billion acquisition of Scottish & Newcastle by Heineken NV and Carlsberg A/S ⁴
- ◆ Increased focus on corporate derivatives (14% and 13% of IBD revenues in FY'07 and 1H'08, respectively)

Investment Banking Revenues



1. Market share based on year-to-date Thomson data as of June 12, 2008
 2. 2008 data actual through May and annualized thereafter
 3. Announced M&A deals
 4. Completed M&A deals

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	Actual	Current	Last	Current vs. Last		
	Q3 '07 - Q1 '08	Q2 '08	12 Months Q3 '07 - Q2 '08	12 Months Q3 '06 - Q2 '07	Variance	Morgan Stanley 9 Months Q3 '07 - Q1 '08	Merrill Lynch 9 Months Q3 '07 - Q1 '08
Capital Markets:							
Fixed Income	\$2,183	(\$2,975)	(\$792)	\$8,200	-110%		
Equities	4,661	601	5,262	4,778	10%		
Total	\$6,844	(\$2,374)	\$4,470	12,978	-66%		
Investment Banking:							
Global Finance	1,626	618	2,245	2,609	-14%		
Advisory Services	1,143	240	1,382	975	42%		
Total	\$2,769	\$858	\$3,627	3,584	1%		
Investment Management¹:							
Asset Management	1,609	496	2,105	1,593	32%		
Private Investment Management	983	352	1,335	1,115	20%		
Total	\$2,592	\$848	\$3,440	2,708	27%		
Total Net Revenues	\$12,205	(\$668)	\$11,537	\$19,271	-40%	\$15,830	(\$5,398)
Compensation and Benefits	6,129	2,325	8,454	9,501	-11%	10,854	10,453
Non-personnel Expenses	2,978	1,094	4,072	3,335	22%	6,301	6,399
Total Expenses	9,107	3,419	12,526	12,836	-2%	17,155	16,852
Pre-tax Income / (Loss)	3,098	(4,087)	(989)	6,435	-115%	(1,325)	(22,250)
Taxes	836	(1,313)	(477)	2,095	-123%	(761)	(7,379)
Net Income	\$2,261	(\$2,774)	(\$513)	\$4,340	-112%	(\$494)	(\$14,036)
ROE	14%	-60%	-3%	24%			

1. Includes investments in minority stakes

LEHMAN BROTHERS

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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

	<u>December 1, 2007</u>	<u>Estimated Resizing</u>	<u>% Δ Headcount</u>	<u>% Δ Compensation</u>
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 ¹	3,181	3,060	-4%	-5%
Total Business (excl. Mortgage Capital)	12,620	11,799	-7%	-5%
Corporate	11,467	11,049	-4%	-3%
Total Business + Corporate	24,087	22,848	-5%	-5%
Mortgage Capital	4,416	458	-90%	-90%
Total Firm	28,503	23,306	-18%	-8%

1. Includes Principal Investments

Conclusion

- ◆ Q2 2008 was 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 were smaller than previous quarters and traded volumes suggest that support levels were 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