

Rating Action: Lehman Brothers Holdings Inc.

Moody's affirms Lehman's A1 rating; outlook now stable

New York, March 17, 2008 – Moody's Investors Service affirmed its A1 rating on the senior long-term debt of Lehman Brothers Holdings Inc. ("LBHI") and its principal rated operating and guaranteed subsidiaries (all referred to collectively as "Lehman"). Moody's also revised to stable from positive its outlook on the ratings of the firm.

Today's rating action recognizes that Lehman has navigated quite well to date through persistently volatile and challenging financial markets, the sharp market-wide decline in valuations across numerous asset classes, tight global liquidity conditions, and the strong head winds facing Lehman's (and other securities firms') core-earnings drivers. However, these conditions have decreased the upward pressure on Lehman's rating, and therefore a positive outlook is no longer warranted.

Moody's said that Lehman has consistently been among the top financial institutions at managing risk, including market, credit and liquidity risks. Over the years Lehman has fostered a firm-wide corporate culture that embraces risk management and management views it as a competitive advantage of the firm. Lehman's disciplined approach to risk taking and business expansion has resulted in consistent profit generation with low earnings and margin volatility.

Although Moody's expects Lehman to continue to generate acceptable levels of quarterly profitability, the firm's current exposure to commercial and residential real estate, and to a lesser degree leveraged loans, will likely pose a not-insignificant burden on profitability for at least the next several quarters. "Rising illiquidity across financial markets has resulted in asset concentrations on Lehman's balance sheet that have proven to be somewhat larger than optimal for the firm," said Moody's Senior Vice President, Blaine Frantz. Additionally, revenues from investment banking are also likely to slow this year as industry-wide M&A and underwriting backlogs have fallen due to the uncertain and volatile funding environment across equity and debt markets.

The rating agency also said that the recent events impacting numerous financial institutions and culminating with Bear Stearns liquidity problems highlight the high (and arguably unprecedented) degree of financial-system stress that has emerged over the past eight months. "Importantly, for all securities firms the events of the past week highlight the sharp increase in confidence sensitivity associated with a key component of the securities industry's funding model -repurchase or collateralized funding- irrespective of the quality of the underlying collateral," said Mr. Frantz.

The global credit crisis has broadly affected asset values and the willingness of market participants to provide financing - in some cases even on the highest quality collateral. However, we view the roll-out of the Federal Reserve's newly announced \$200 billion collateralized borrowing facility (the "Term Securities Lending Facility") as being an important step in providing at least an interim solution to this industry-wide structural liquidity issue.

Moody's noted that Lehman's liquidity management and position remain robust and are underpinned by a funding framework that is scaled to the firm's expectations for, and vetting of, reliable secured funding, it considers stress-level valuation haircuts, and it anticipates a substantial reduction in the availability of secured funding in a stress scenario. Lehman ended Q4-07 with \$34 billion of cash available to the holding company, and an additional \$63 billion of unencumbered assets at its unregulated entities. Lehman had an additional \$95.5 billion of unencumbered assets within its regulated broker and bank subsidiaries.

The rating agency said that Lehman's A1 rating reflects the firm's good product and geographic earnings diversification, which has improved materially over the past five years on steady growth in primary equities, global advisory, and investment banking. The firm has built a strong franchise in equity capital markets, including increasing its penetration in secondary cash equities and derivatives, in both the U.S. and abroad.

Lehman has also made substantial inroads in the prime brokerage business, but still lags in terms of scale and revenue contribution versus market leaders. Lehman's investment management business has also become an important earnings contributor to the firm. Given the current challenges facing several of Lehman's historically strong fixed income businesses, profits generated from outside of fixed income have helped buffer the current weakness in areas such as residential and commercial real estate and leveraged lending.

Lehman Brothers Holdings Inc. is an international investment bank and financial services firm headquartered in New York, NY with 28,600 employees and \$144.5 billion in total capital at November 30, 2007. Lehman reported pretax earnings of \$6 billion in 2007 on revenues of \$19.3 billion.

The rating outlooks on the following Lehman Brothers entities have been returned to stable:

Lehman Brothers Holdings Inc.

Lehman Brothers, Inc.

Lehman Brothers Bank, FSB

Lehman Brothers Bankhaus AG

Lehman Brothers Commercial Bank

Lehman Brothers Holdings Plc

Lehman Brothers International (Europe)

Lehman Brothers OTC Derivatives Inc.

Lehman Brothers Special Financing Inc.

Lehman Brothers Treasury Co. B.V.

Lehman Brothers Holdings Capital Trust I

Lehman Brothers Holdings Capital Trust II

Lehman Brothers Holdings Capital Trust III

Lehman Brothers Holdings Capital Trust IV

Lehman Brothers Holdings Capital Trust V

Lehman Brothers Holdings Capital Trust VI

Lehman Brothers Holdings E-Capital Trust I

Lehman Brothers UK Capital Funding LP

Lehman Brothers UK Cap.Fund. II

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