

Confidential Presentation to:

Standard & Poor's

Update on Risk, Liquidity and Capital
Adequacy

August 17, 2007

LEHMAN BROTHERS

Introduction

In October 2005, S&P upgraded Lehman Brothers to A+. Since then, we have continued to grow and broaden our franchise, while maintaining our hallmark expense, risk, and capital discipline. We believe that our size, diversity, and franchise indicate significant credit strength.

- ◆ In 2006 and 2007, we achieved record growth and profitability
 - Since 2005, our revenues and net income have grown by 44% and 50% respectively, with ROE increasing from 21.6% to 25.8%. The growth has been broad-based, with non-US regions and non-FID segments growing faster than the overall portfolio

- ◆ This performance was achieved despite a more challenging environment than in prior years and without compromising our commitment to the Firm's creditors
 - Reflects the power of the Firm's franchise and diversification
 - Continued on the same strategic path, building customer-oriented and diversified businesses

- ◆ Discipline in risk-taking is a major contributor to our success. It is also one of our core competencies
 - Effective risk reduction through syndication and securitization of our exposure (we are in the moving business not storage business)
 - Active hedging of positions using both traditional and innovative products
 - Reliable liquidity, sufficient to meet all of our funding obligations in all market environments
 - Comprehensive, multi-tiered risk management, capital management, and liquidity management frameworks

Agenda Overview and Key Themes

Today, we are going to cover three areas: Risk Management, Liquidity, and Equity Adequacy

1. Risk Management
 - Robust frameworks and platforms, continuously improving risk infrastructure
 - Tight risk monitoring in key areas: sub-prime and leveraged loan businesses
 - Disciplined exposure to hedge funds

2. Liquidity
 - A disciplined approach to liquidity (Funding Framework), ensuring that the Firm maintains sufficient liquidity to meet all of our funding obligations in all market environments
 - Effective use of long-term sources of funding minimizing refinancing risk
 - Three bank entities to fund real estate, corporate loans, and credit commitments
 - Access to funding conduits and significant cash surplus

3. Equity Adequacy
 - Internal risk-based economic capital model, designed to protect the Firm's ability to restructure without resorting to bankruptcy in the face of severe, prolonged crisis
 - Supplements the existing Risk Appetite, Risk Equity, and Funding Frameworks
 - Targets \$1.5B equity cushion

Developing effective approach to risks has always been on the top of the Firm's agenda. Since the Firm's IPO, we have continuously invested in risk frameworks, analytics, and infrastructure. We have also demonstrated strong discipline in abiding to the established principles and metrics, even when doing so involved significant cost. Recent strain in the capital markets has provided a rare test case to demonstrate robustness of our approach.

Confidential Presentation to:

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Lehman Brothers Risk Management

Madelyn Antoncic, Chief Risk Officer

August 17, 2007

LEHMAN BROTHERS

Agenda

Agenda

- Key Themes
- Risk Governance
 - Our Control Environment
 - Risk Philosophy
 - Committee Structures
- Risk Management Overview
 - Risk Management Function
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 - External Constituents
- Risk Analysis and Quantification
 - Risk Management Integrated Framework
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 - Risk Equity
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 - Risk Limits
- Risk Exposure
- Areas of Increased Focus
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 - High Yield and Leveraged Loans
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 - Stress Scenarios

Key Themes

Key Themes

Risk Management is one of the core competencies of the Firm and is an intrinsic component of our control system. As a result of our focus on continuously enhancing our risk capabilities, in the current challenging environment, we feel confident that our risk position is solid.

- Risk Management is at the very core of Lehman's business model
 - Conservative risk philosophy – supported by approximately 30% employee ownership
 - Effective risk governance – unwavering focus of the Executive Committee
 - Significant resources dedicated to risk management function – continuous investment in human capital, analytics, and infrastructure
 - Strong discipline, rapid feedback and anticipation, business partnership culture

- In the current challenging environment, Lehman's risk position is solid
 - All risk metrics within established limits
 - Proactive monitoring and tightening (where justified)

- In today's discussion we will cover
 - Lehman Risk Management overview – governance, organization and methodology
 - The Firm's risk exposure – current situation and stress tests
 - Areas of increased focus – our position and actions

Risk Governance

Our Control Environment

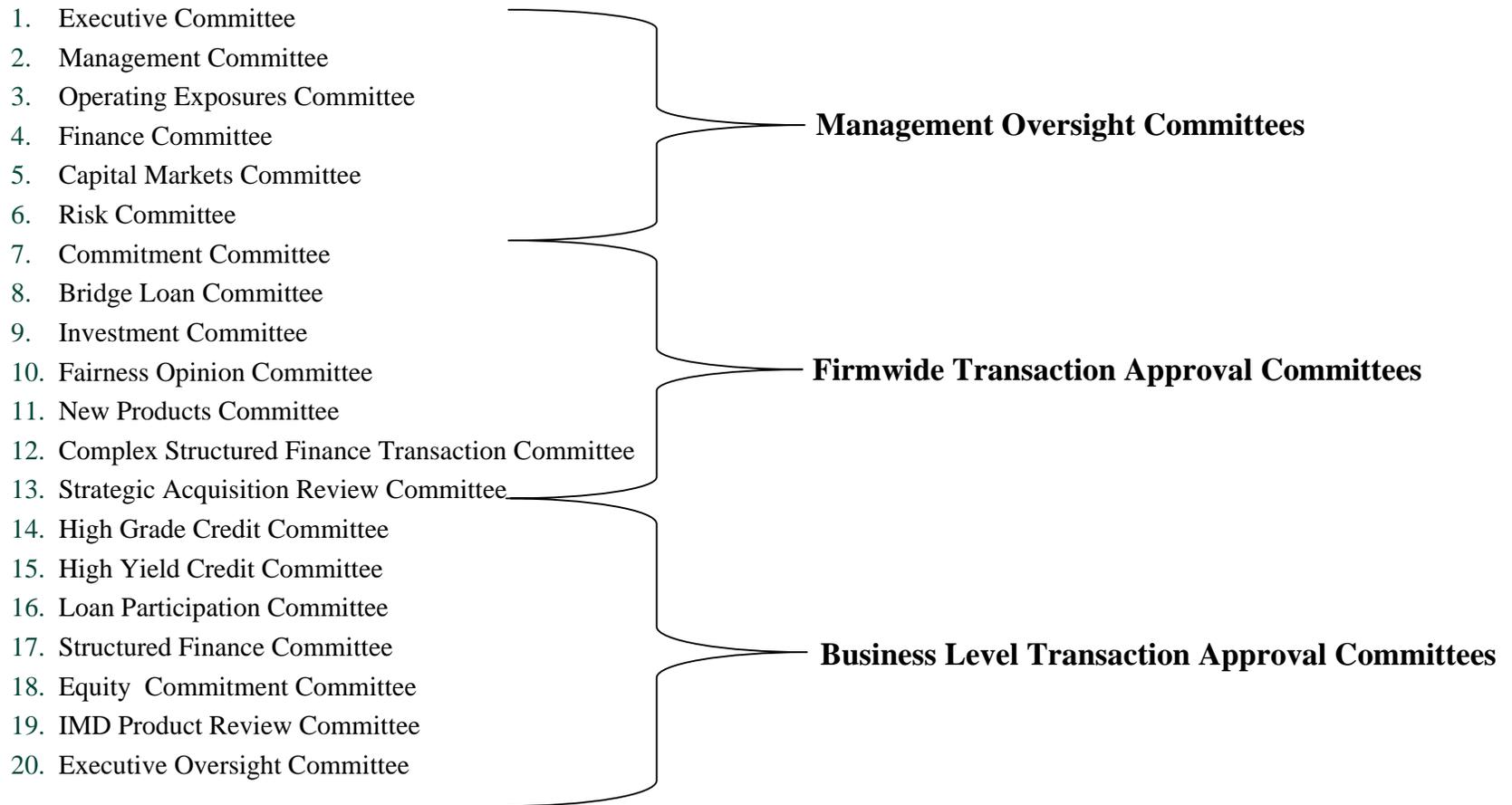
- Risk Management is one of our core competencies
- It is Multi-tiered and involves many areas of the Firm
- One key feature which differentiates us from our peers is Market risk, Credit risk and Quantitative risk are integrated
 - allows us to leverage people, analytics, systems, information flows
- Risk Management is more than measuring and reporting risk
- Our approach applies analytical rigor overlaid with sound practical judgment
- Risk Management is a partnership with the business
 - we work proactively with the business before a large trade is done to collectively determine the least risky deal structure
- Risk Management
 - develops risk policies and procedures
 - develops risk measurement methodologies
 - sets limits
 - tracks actual risk usage against limits
 - evaluates valuation models

Risk Philosophy

- Our focus is balancing risk versus return
 - We want to help ensure Lehman Brothers' risk appetite is deployed in the most efficient way
- At the end of the day nothing is fool-proof. While there is no guarantee against loss, we can minimize the probability of loss
 - We minimize market and credit risk through our client-driven franchise where we facilitate customers
 - We proactively manage risk both before and after trades are done by mitigating risk via management of the terms, outright sales or syndication, or hedging the remaining risk
 - We actively manage collateral assessment and collection where applicable
 - Risk is minimized through geographic, industry, asset class and customer diversification

Committee Structures

- Lehman has established numerous committees to oversee risk taking activities and to ensure that controls are appropriately administered and reviewed
- The key operating committees at the Firm include:



Risk Management Overview

Risk Management Function

Risk Management is Independent from Trading

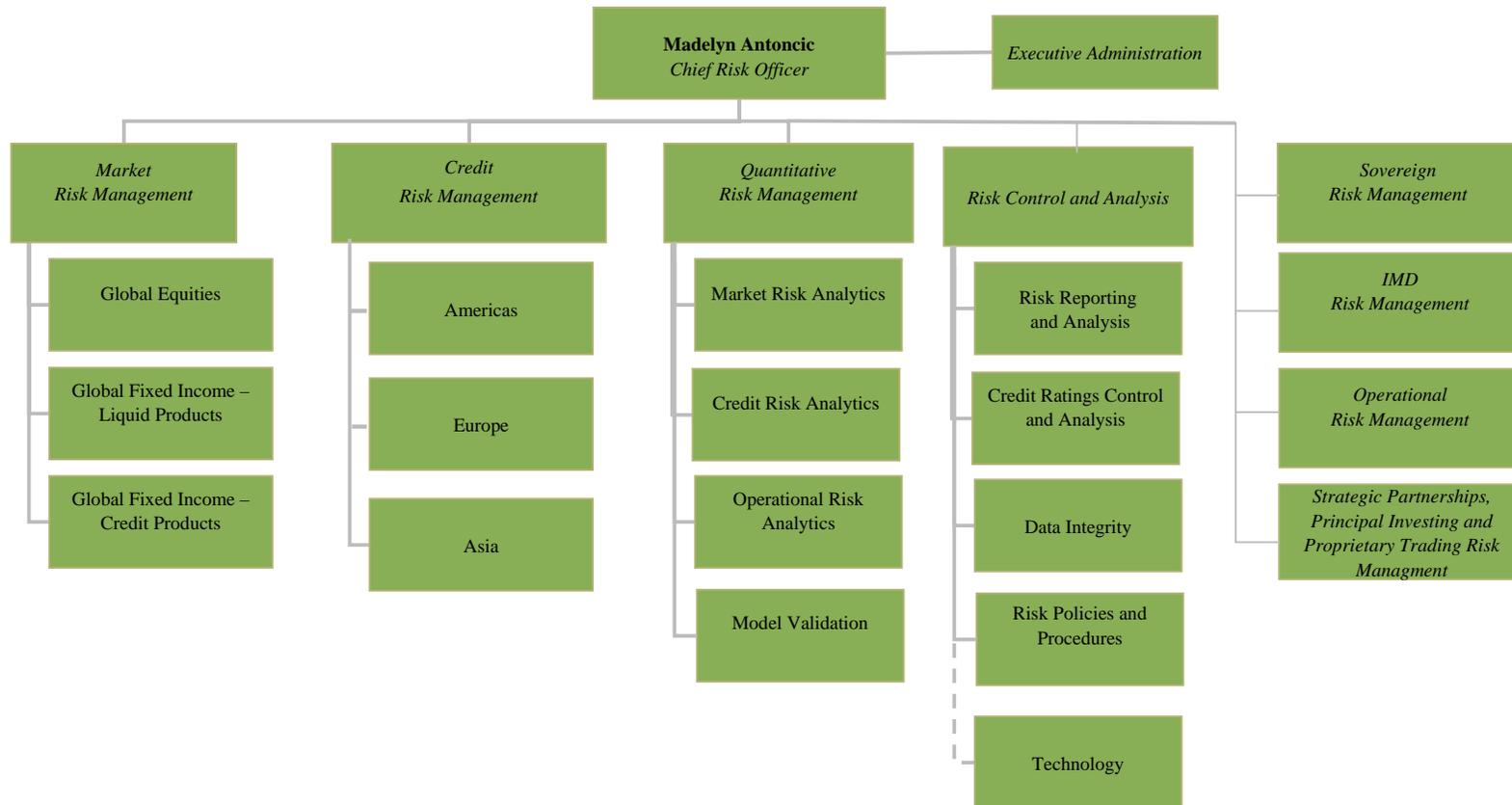
- The Global Risk Management Division is independent of the trading areas
- The Chief Risk Officer is a member of the Firm's Management Committee. She reports directly into the Executive Committee to the Head of Strategic Partnerships, Principal Investing and Risk (Dave Goldfarb) who reports to the Firm's Chairman and CEO (Dick Fuld) who reports ultimately to the Board of Directors of the Firm
- The Global Risk Management Division consists of several departments:
 - Market Risk Management
 - Credit Risk Management
 - Quantitative Risk Management
 - Operational Risk Management
 - Sovereign Risk Management
 - IMD Risk Management
 - Risk Control and Analysis
 - Proprietary Trading, Strategic Partnerships and Principal Investing Risk Management
- Outside the U.S., Risk Management is “matrixed” reporting both to global risk management managers and regional heads consistent with the trading businesses organization structure

Risk Management Function - continued

- **Market Risk Management** is responsible for ensuring all market risks are identified, understood, measured, monitored and captured by an appropriate metric. Risk managers work very closely with the trading desks in assessing risk and sit on trading floors with the desks they support
- **Credit Risk Management** is responsible for counterparty credit analysis and due diligence; assigning and maintaining internal risk ratings; credit limits for each counterparty; establishing country risk limits; preparing credit reviews; monitoring counterparty credit exposures on a current (CCE) and potential basis (MPE) including usage of credit limits
- **Quantitative Risk Management** is responsible for developing, implementing and maintaining the risk methodologies and systems used to measure market, credit and operational risks, as well as validating the pricing and valuation models used by the business units of the Firm
- **Sovereign Risk Management** is responsible for establishing a framework to assess political, economic, and social conditions and events in a foreign country that might adversely affect the Firm's interests or reputation
- **Operational Risk Management** is responsible for identifying, measuring, monitoring and reporting, control and mitigation of operational risk
- **IMD Risk Management** is responsible for risk management for the Investment Management Division including Private Investment Management, Asset Management and Private Equity
- **Risk Control and Analysis** is responsible for data integrity including data management and reconciliation; business level, Firmwide and regulatory reporting and analysis; overseeing implementation of all risk technology projects; maintaining consistent global risk policies and procedures; and credit ratings control and analysis
- **Strategic Partnerships, Principal Investing and Proprietary Trading Risk Management** is responsible for risk management for Global Trading Strategies, Global Principal Strategies, Strategic Investments including risk associated with our GP or LP interests in hedge funds as well as Lehman's share of investments in our private equity funds

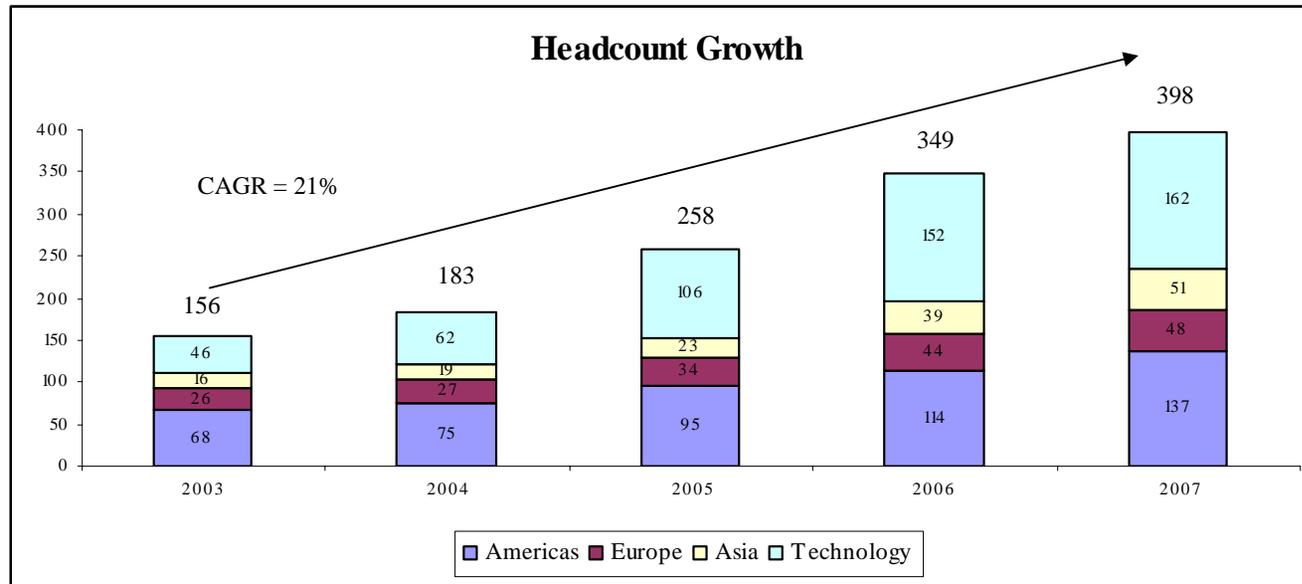
Risk Management Organization

- Risk Management is a global, integrated function under the leadership of the Chief Risk Officer, Madelyn Antoncic. The Global Risk Management Department consists of 398 professionals, with 228 risk managers and 162 technologists



Risk Management Organization - continued

- To respond to the growth of the businesses over the last several years the Risk Division, including risk technology, has grown significantly
 - Headcount has gone from 156 at the end of FY 2003, to 398 currently
- The Division has 228 risk managers (excluding admin) and 162 technologists (including off-shore consultants)



Risk Management Organization

- Excluding technologists and administrative staff, we have 228 professionals in GRMD. Our professionals are highly qualified, many having substantial relevant experience. Many are either former traders, former desk quants or have relevant business experience.

- 1 Chief Risk Officer
- 4 Executive Administration (Regional Heads/CAO)
- 40 Market Risk Management
 - 3 Strategic Partnership, Principal Investing and Proprietary Trading Risk Management
- 87 Credit Risk Management
- 46 Quantitative Risk Management
 - 9 Operational Risk Management
 - 5 Sovereign Risk Management
 - 5 IMD Risk Management
- 28 Risk Control and Analysis
 - 8 Admin
- 162 Technology (including off-shore consultants)

	Global (CRO/ Exec Admin)	Market Risk	Principal Investing	Credit Risk	Quantitative Risk	Operational Risk	Sovereign Risk	IMD Risk	Risk Control and Analytics	Total
PhD	40%	23%	0%	3%	59%	11%	0%	0%	4%	19%
Masters	20%	60%	100%	34%	35%	45%	100%	80%	29%	42%
Bachelors	20%	17%	0%	62%	6%	33%	0%	0%	64%	37%
Other	20%	0%	0%	1%	0%	11%	0%	20%	3%	2%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Percentage of former traders, desk quants and business	60%	38%	33%	22%	20%	22%	40%	20%	4%	23%

External Constituents

Relationship with Regulators

- The Firm enjoys an excellent relationship with its regulators
- Many senior members of the Firm's Compliance group have either worked at, or with those who work at, the regulatory agencies. Members of the GRMD and the Compliance department also participate in numerous industry associations and sub-committees together with representatives from the regulatory agencies. This has allowed the Firm to develop a good working relationship with the various regulatory bodies
- Representatives of Finance and Risk meet monthly with the SEC (division of Market Regulation) to discuss the Firm's risk metrics and financial performance. This began as a voluntary meeting agreed to in order to help the SEC develop a better understanding of the Firm and is now part of the CSE process
- The Firm was approved by the Securities and Exchange Commission as a Consolidated Supervised Entity (CSE) in November 2005. Accordingly, the Firm uses risk-based internal models for purposes of calculating market and credit risk component of the regulatory capital charge
- The Firm is in the process of seeking FSA approval to use these same internal models in the calculation of regulatory capital charges for activity booked through UK-regulated entities, most notably LBIE
- The Firm has indicated to the FSA that we will file our AMA (Advanced Measurement Approach) waiver in 2008 under Basle II. This waiver will enable the Firm to use our internal Operational Risk model to calculate the operational risk component of capital. We will also be applying for CAD II model approval
- In addition, the NYSE, the CBOT, the OTS (for Lehman Brothers Bank) and the FSA in Europe and Asia and the BaFin in Germany conduct annual examinations

Risk Analysis and Quantification

Risk Management Integrated Framework

The Three Core Functions of Risk Management are

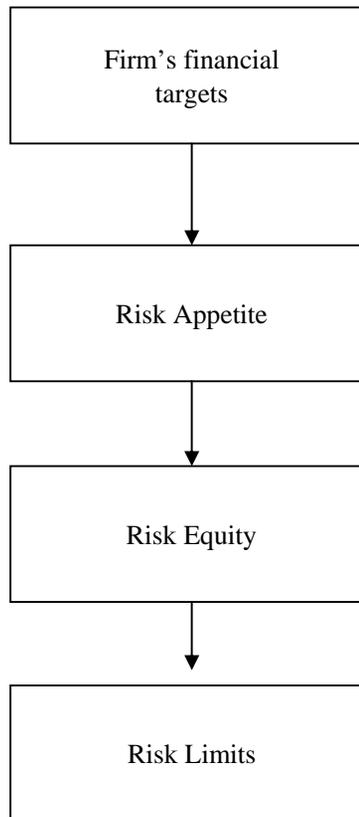
1. Understanding and identifying all risks
2. Ensuring that appropriate limits are in place for all transactions and products
3. Protecting the Firm against “catastrophic” loss



1. Have metrics to measure the risk for all products
2. Define a “Risk Appetite”
3. Have the ability to measure and monitor “tail risk”

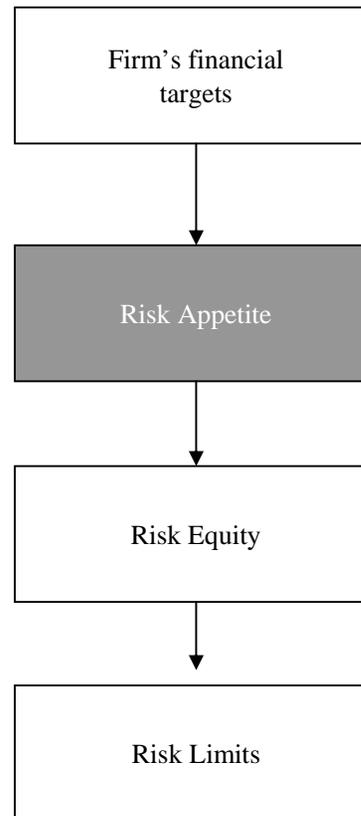
Risk Management Integrated Framework

- Multi-tiered
- Integrated Risk Framework



Risk Management Integrated Framework

- Multi-tiered
- Integrated Risk Framework



Risk Management Integrated Framework

Risk Appetite

- The risk appetite represents the quantity the Firm is "prepared to lose" in a year from market, event and counterparty credit risk
- The risk appetite framework begins with the Firm's financial targets and is designed to balance risk and return:
 - our aim is to deploy enough risk in our businesses to maximize returns
 - while limiting risk to ensure we meet our financial targets
- Significant factors driving risk appetite include:
 - base revenue assumptions
 - an estimate of the loss of revenues from non-risk taking activities
 - a minimum acceptable ROE
 - compensation adequacy

Risk Management Integrated Framework

Risk Appetite

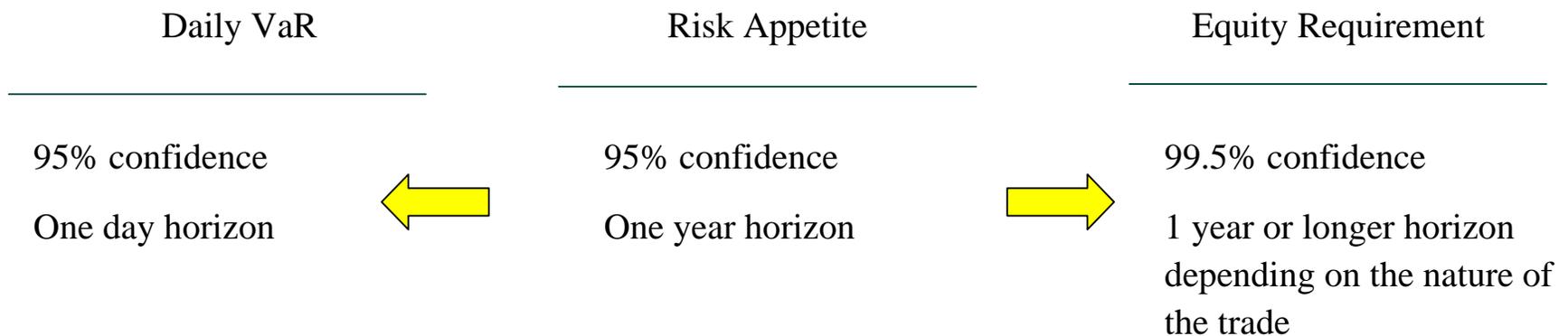
- We start with our financial targets
- We take into account a potential simultaneous slowdown in customer flow and banking activities (origination/advisory) which would negatively impact our financial targets since revenue shortfalls can also come from non-risk taking activities
- Then we subject ourselves to two constraints:
 - maintaining a minimally acceptable annual ROE
 - ensuring compensation adequacy including maintaining sufficient headcount to protect the franchise for the long-term

Risk Management Integrated Framework

Risk Appetite – the center of our approach to risk.

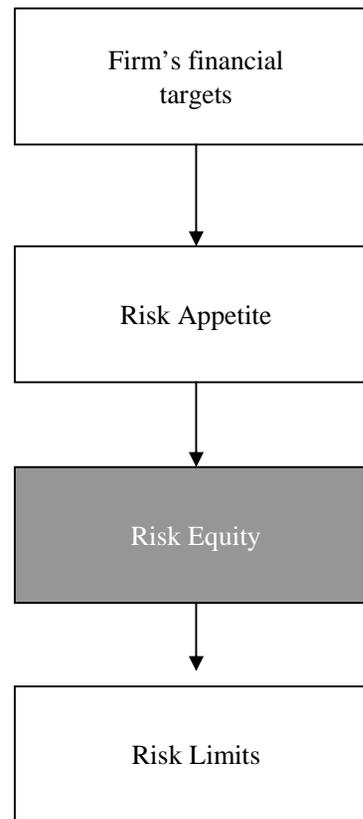
The risk appetite represents the quantity the Firm is "prepared to lose" in a year from market, event and counterparty credit risk. It is defined and measured at a 95 percent level of confidence.

Confidence Interval and Time Horizons



Risk Management Integrated Framework

- Multi-tiered
- Integrated Risk Framework

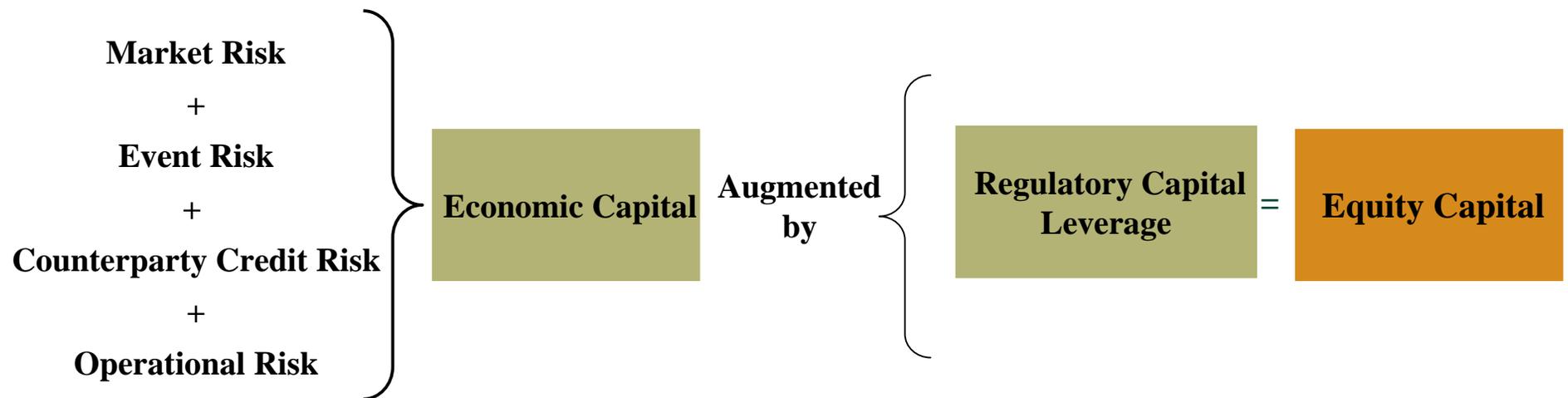


Risk Management Integrated Framework

Risk Equity

- The equity capital the Firm requires is the economic capital required to protect the Firm against market, event, counterparty credit and operational risks augmented by capital requirements due to external constraints
 - To the extent leverage or regulatory equity is an overriding constraint for the Firm, businesses are charged incremental equity on top of their economic (risk) equity

Equity Capital: Economic Capital and Regulatory Capital



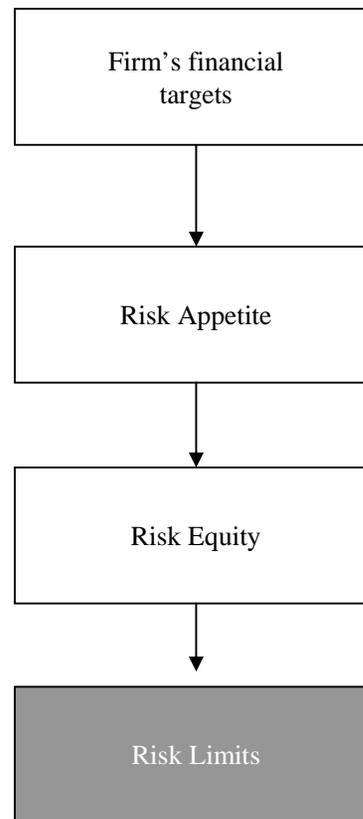
Risk Management Integrated Framework

Risk Appetite Usage

- Risk appetite usage is measured on a globally consolidated basis and reported on a daily basis against our risk appetite limit
- Risk appetite usage is composed of
 - Market Risk
 - Measures the potential mark-to-market loss on all positions from adverse market moves
 - We use historical simulations which are “walk-backs” through time to determine what would have been the P&L impact on today’s portfolio if we relived each day over the past four years. We weight the data giving more weight to recent market moves while at the same time giving less weight to market moves further back in time.
 - This approach allows us to avoid making assumptions about distributions, about diversification, about relative risk factor weightings
 - In order to determine the reasonableness of the market risk measures, we do back-testing, comparing the market risk generated for the portfolio using the historical simulation approach to its actual trading P&L
 - Event Risk
 - Measures stress and “gap risks” which go beyond potential market risk losses. We measure these risks using statistically measurable stress analyses which capture losses associated with
 - Downgrades for high grade and defaults for High Yield loans, bonds and convertibles
 - Defaults for sub-prime mortgage loans
 - Property value losses on real estate
 - Dividend risk for equity derivatives
 - Deal break risk for merger arbitrage positions
 - Gap risk for fund derivatives
 - Counterparty Credit Risk
 - Measures the potential loss the Firm can suffer due to non-performance of our counterparties on forward settlements, financing and derivative transactions

Risk Management Integrated Framework

- Multi-tiered
- Integrated Risk Framework



Risk Management Integrated Framework

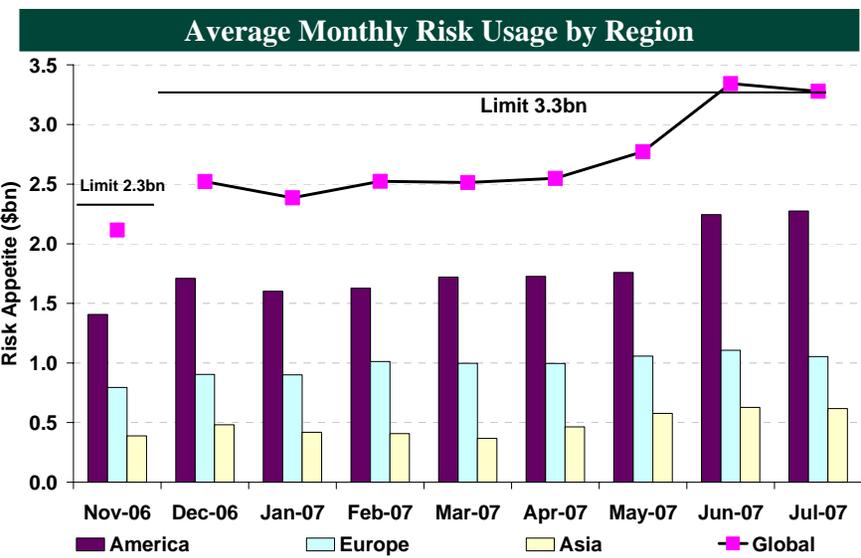
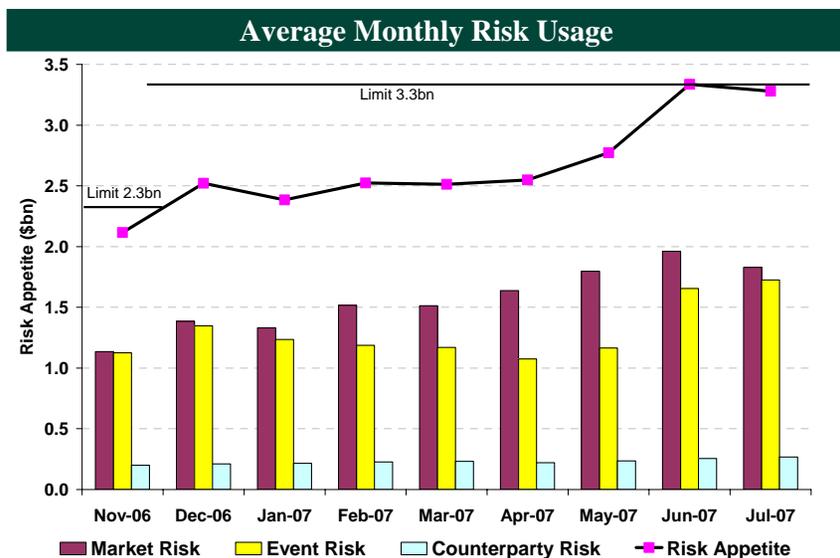
Risk Limits

- The overall philosophy of our Firm is that we have a zero tolerance level for ignoring limits and internal processes
- Disciplinary actions for limit breaches include compensation adjustment or terminations
- The Chief Risk Officer has the authority to approve exceptions. The Global Heads of Market Risk and Credit Risk will make recommendations
- Risk Appetite Limits
 - The overall risk appetite limit is recommended by the Chief Risk officer and approved by the Executive Committee and the Board on an annual basis and is reviewed quarterly for requisite changes
 - Limits are cascaded down to divisions, businesses and regions. Trading desk heads further allocate limits to individual desks
 - Limits are monitored daily
- Credit Limits
 - All counterparties with credit exposure are given internal ratings
 - Every Hedge Fund counterparty requires a limit
 - The largest counterparties by industry, region and product are reviewed on a quarterly basis
 - All counterparties rated below “A” are formally reviewed on an annual basis

Risk Exposure

Risk Appetite Usage – Firm

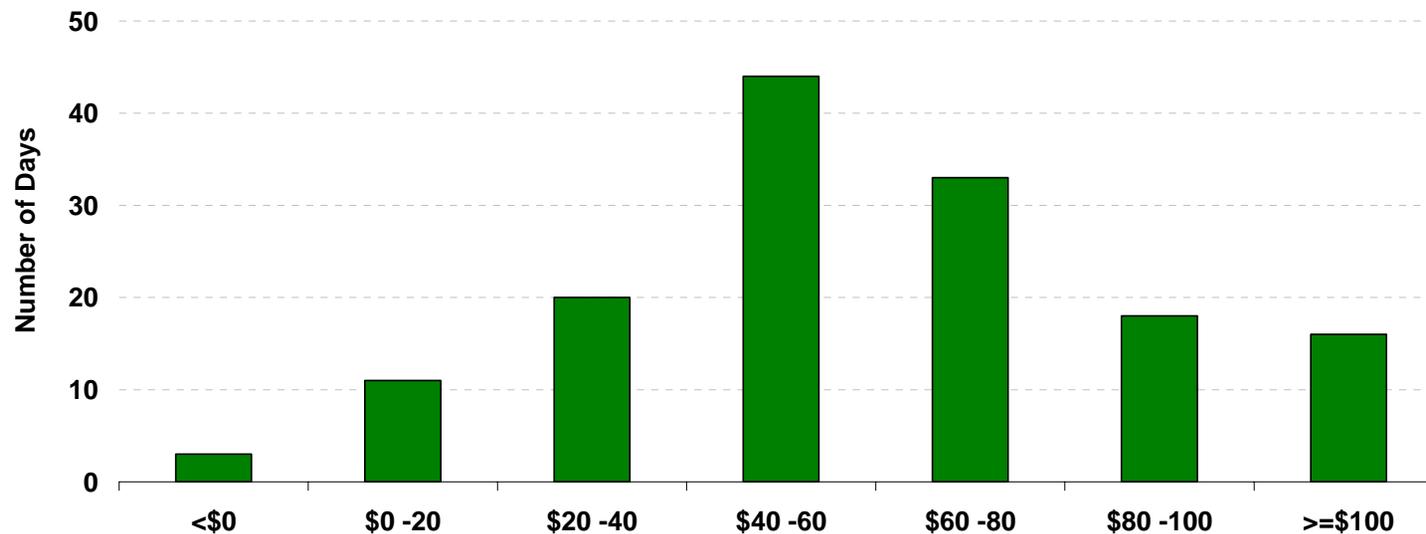
- Risk appetite usage is composed of market risk, event risk and counterparty credit risk and is calculated daily both on a global, consolidated basis, and at regional, divisional, and line-of-business levels
- Risk Appetite usage is monitored on a daily basis against the limits
- Our franchise is highly diversified due to our product and business mix, as well as our international presence
- Given the growth in the Firm’s revenue generating ability and capital base, in the Spring of 2006 at our strategic offsite the Firm made the decision to increase our risk profile and utilize more of our risk appetite capacity.
 - Consistent with the increase in the limit, average Risk Appetite usage rose from \$2.12 billion in November 2006 to \$3.28 billion in July 2007
 - Risk Appetite increased in all regions as we have expanded our geographic presence



Trading Revenues

- From December 2004 through May 2007, we had sixteen (16) days of trading losses at the Firm level. The largest losses in financial years 2005, 2006, and 2007 were \$16m, \$59m, and \$57m respectively. The number of negative P&L days has significantly decreased over this three year period from 8 to 3
- Over the same period, the average daily trading revenue has increased from \$42m in 2005 to \$60m in 2007. The number of days with greater than \$75mm in revenue has increased from 19 to 34
- The bulk of the large gains were from sales of real estate positions which, under current accounting rules, have to be valued at the lower-of-cost-or-market. Because we are not on mark-to-market for these positions, appreciation is not recognized until we sell the property. However, impairments are recognized as they occur over time
- The significant mean and gains in our trading revenue distribution reflects the growth in our strong franchise

Daily Trading Revenue Distribution (December 2006 through June 2007 - \$millions)



Counterparty Credit Risk

- We continue to be prudent in our approach to counterparty credit risk
 - We have a very low tolerance for delays on receiving collateral, where applicable
 - We give very close scrutiny to the value of customer collateral posted against margin loans
- We have a very high quality credit portfolio
- 97.8% of our counterparty exposure is in investment grade names

Credit Exposure Trend by Rating

(US\$ million)

	Ratings					Percentages				
	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07
AAA	5,506	5,097	5,312	6,771	6,967	20.5%	21.3%	20.6%	23.8%	21.7%
AA	11,930	10,469	10,487	10,506	14,464	44.5%	43.7%	40.8%	36.9%	45.1%
A	6,987	6,140	6,873	8,063	7,443	26.1%	25.7%	26.7%	28.3%	23.2%
BBB	2,010	1,658	2,348	2,231	2,520	7.5%	6.9%	9.1%	7.8%	7.8%
BB	308	421	559	690	461	1.1%	1.8%	2.2%	2.4%	1.4%
B or Lower	81	138	161	243	241	0.3%	0.6%	0.6%	0.8%	0.8%
Total	26,822	23,923	25,740	28,504	32,096	100.0%	100.0%	100.0%	100.0%	100.0%

	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07
Investment Grade	98.6%	97.6%	97.2%	96.8%	97.8%
Below Investment Grade	1.4%	2.4%	2.8%	3.2%	2.2%
	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Does not include money market deposits.

Counterparty Credit Risk

- The bulk of our exposure is to banks and other financial institutions
- Hedge Fund exposure represents less than 1% of our total portfolio

Current Credit Exposure Trend by Sector

(US\$ million)

	Sector					Percentages				
	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07
Banks	11,977	9,926	8,855	8,898	9,521	44.7%	41.5%	34.4%	31.2%	29.7%
Other Financial	5,223	5,152	5,517	7,095	9,445	19.5%	21.5%	21.4%	24.9%	29.4%
Municipal Issuer	1,327	1,618	2,272	2,094	1,868	4.9%	6.8%	8.8%	7.4%	5.8%
Insurance	1,313	1,109	1,316	1,856	1,300	4.9%	4.6%	5.1%	6.5%	4.1%
Government Entity	3,465	2,863	3,239	3,690	4,951	12.9%	12.0%	12.6%	13.0%	15.4%
Broker/Dealer	1,248	1,061	1,148	1,402	1,396	4.6%	4.4%	4.5%	4.9%	4.3%
Industrial Services	1,034	1,060	1,415	1,247	1,890	3.9%	4.4%	5.5%	4.4%	5.9%
Pension Retirement Fund	1,057	823	1,577	1,834	1,533	3.9%	3.4%	6.1%	6.4%	4.8%
Hedge Fund	163	298	389	378	172	0.6%	1.3%	1.5%	1.3%	0.5%
High Net Worth Individuals	15	13	12	10	20	0.1%	0.1%	0.1%	0.0%	0.1%
Total	26,822	23,923	25,740	28,504	32,096	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Does not include money market deposits.

Counterparty Credit Risk

- 88.0% of our exposure is in the U.S., Canada and western Europe

Current Credit Exposure Trend by Region

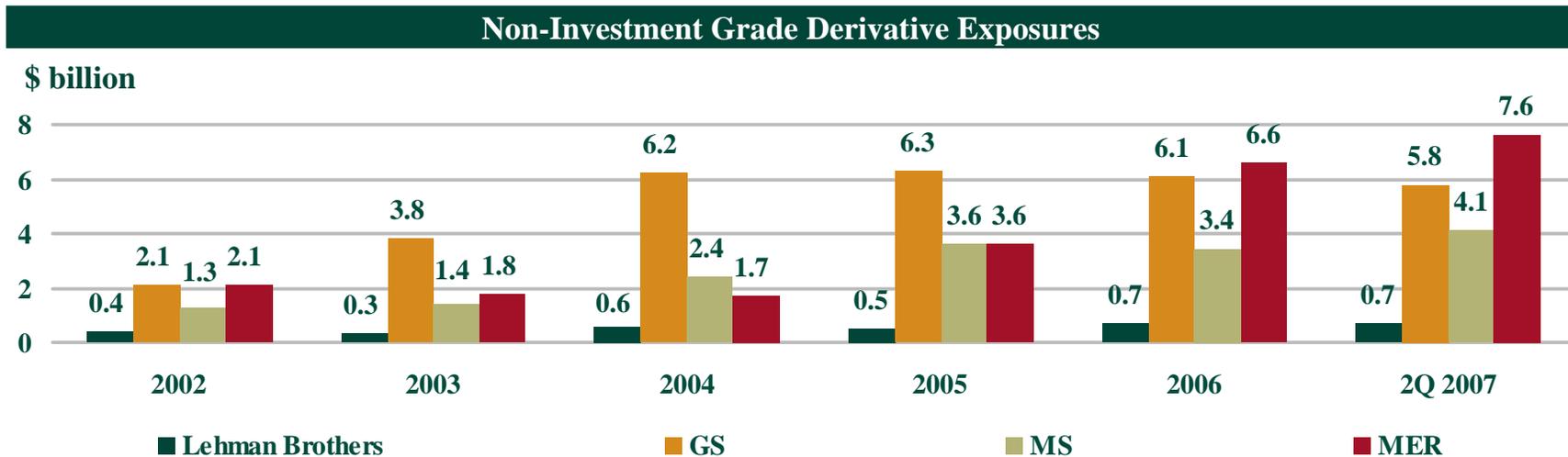
(US\$ million)

	Region					Percentages				
	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07
Western Europe Region	15,205	14,024	14,154	16,234	18,011	56.7%	58.6%	55.0%	57.0%	56.1%
USA / Canada	9,482	8,136	9,166	9,293	10,225	35.4%	34.0%	35.6%	32.6%	31.9%
Japan	663	503	496	750	771	2.5%	2.1%	1.9%	2.6%	2.4%
Latin America Region	654	730	869	1,241	1,561	2.4%	3.1%	3.4%	4.4%	4.8%
Mid-East / Africa Region	213	90	230	252	452	0.8%	0.4%	0.9%	0.9%	1.4%
Central & Eastern Europe Central Asia	30	22	36	40	27	0.1%	0.1%	0.1%	0.1%	0.1%
Non-Japan Asia Region	575	418	789	694	1,049	2.1%	1.7%	3.1%	2.4%	3.3%
Total	26,822	23,923	25,740	28,504	32,096	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Does not include money market deposits.

Non-Investment Grade Derivatives Exposure

- Lehman Brothers has continually had the lowest non-investment grade derivative exposure in absolute terms and as a percentage of total tangible equity as it relates to peers



Non-Investment Grade Derivative Exposure as % Total Tangible Equity

	2002	2003	2004	2005	2006	2Q 2007
Lehman Brothers	4%	3%	5%	3%	4%	3%
GS	15%	23%	28%	25%	19%	15%
MS	6%	5%	8%	12%	9%	10%
MER	10%	7%	6%	11%	17%	19%

Stress Testing

- Stress tests and scenario analyses are performed regularly to evaluate the potential P&L impact on the Firm's portfolio of abnormal yet plausible market conditions
 - Analyses of movements in interest rates, stock prices, FX, volatility, etc., are run over a wide range of possible scenarios to determine the impact on the current portfolio of these extreme instantaneous shocks
 - These analyses are conservative because they do not allow for re-hedging or selling down a position either actively or through the automatic execution of existing stop-losses
- Our stress tests are run regularly on a suite of scenarios, including:
 - Re-runs of historical episodes of extreme market moves, for example:
 - 9/11 terrorist attacks
 - Russia default contagion and LTCM
 - November 2001 volatile bond market
 - October 1987 stock market crash
 - Hypothetical scenarios due to shocks that have some probability of occurrence and are driven by macro fundamental shifts, for example:
 - Liquidity Crunch due to central banks globally raising rates to reduce excess liquidity and investors reducing their riskier bets in high yielding assets
 - Dollar declines due to the current account deficit
 - Oil price increase leading to cost-push inflation causing yield curve steepening
 - Other ad-hoc hypothetical scenarios
- We subject both our trading and counterparty portfolio to stress tests

Stress Tests

Risk Exposure

- Stress tests indicate the worst revenue impact on trading portfolio of about \$1.9 billion, a reduction from the \$2.3bn in June 2007

Revenue Impact on Trading Portfolio (\$ Millions)

Portfolio Date	Bull Steepening	Bull Flattening	Bear Flattening	Bear Steepening	EMG Crisis	Rating / Default & HF Risk	HY / LBO / Default Risk	Equity Crash (1987)	Parallel Move Down	Parallel Move Up	Black Monday	Oil Supply Crisis	Liquidity Crunch	
	Fixed Income	(256)	(379)	150	(136)	(345)	(482)	(568)	(327)	(573)	191	(323)	81	(96)
	Equities	36	40	221	(73)	218	(73)	54	200	50	149	279	4	(87)
	Global Trading Strategies	(474)	144	341	(193)	(541)	(220)	(499)	(1,187)	(483)	340	(778)	(536)	(364)
	Investment Management	(291)	64	186	(215)	(275)	(98)	(304)	(571)	(292)	187	(388)	(312)	(239)
07/31/07	Global Principal Strategies	(70)	7	(22)	(167)	(161)	(166)	(125)	51	(62)	(23)	(4)	(21)	(150)
	Prime Services	2	13	(17)	(11)	1	2	(1)	(4)	4	(10)	6	(22)	
	Investment Banking	(7)	2	5	(3)	(7)	(1)	(8)	(20)	(7)	5	(13)	(9)	(5)
	Non-Core	(1)		1	(1)	(2)	0	(2)	(4)	(1)	1	(3)	(2)	(1)
	Firm Total	(1,061)	(108)	865	(799)	(1,111)	(1,040)	(1,452)	(1,862)	(1,365)	842	(1,230)	(788)	(964)
06/29/07	Firm Total	(1,235)	274	1,012	(1,026)	(1,691)	(1,313)	(2,115)	(2,288)	(1,559)	1,053	(1,516)	(910)	(1,379)

Note: These represent revenue losses associated with instantaneous market moves that in actuality occurred over two-week periods. These analyses are conservative because they do not allow for re-hedging or selling down a position either actively or through the automatic execution of existing stop-losses.

Areas of Increased Focus

Subprime

LEHMAN BROTHERS

Subprime Exposure

Areas of Increased Focus

Tight Oversight

- Dedicated risk manager onsite for residential Americas origination platform and three market risk managers who cover the mortgage and ABS trading desks
- Monthly risk review process
- Extensive risk reporting, scorecards, and tools
- Stress testing on a regular basis
- All warehouse lines are collateralized and margined on a daily basis, with collateral having to satisfy specific requirements as to quality and aging. Pricing of the collateral is done by Lehman
 - Commitments as of 7/31 were \$2.6bn (\$1.1bn funded), down from \$5.7bn (\$1.9bn funded) in July 2006. Losses incurred from defaulted borrowers was approximately \$20mm
- The Firm has a process for monitoring exposure to Representations and Warranties (R&W) fraud along with Early Payment Defaults (EPD)
 - This is part of our R&W claim acceptance process. Our probability based EPD model score is used in decision to underwrite loans and help determine what additional compensating factors required to underwrite the loan

Risk Exposure

- Risk Appetite calculation includes event risk that stresses sub-prime residuals (actual cash positions and whole loans implied positions) by assuming an approximately 23% loss on current market values
 - 7/31 Event Risk was \$127mm
- Monthly global Firmwide stress tests consist of 13 different scenarios, several of which include significant spread widening in the mortgage sector
 - The three worst case scenarios indicate potential losses ranging from \$120mm to \$248mm for the US Structured Products business. This includes the benefit of short positions in ABS trading desk

High Yield and Leveraged Loans

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High Yield and Leveraged Loans

Tight Oversight

- Risk Management has always included risk associated with the pipeline on a probability weighted basis in risk appetite usage to ensure we are picking up risk in the event a sponsor we are backing wins the asset and Lehman wins the financing mandate
- In addition, risk management performs comprehensive scenario and stress analysis on HY commitments. Risk management works with finance and treasury to ensure the Firm has adequate capital and liquidity to support the business
- The Firm has an effective hedging strategy
 - Approximately 50% of the high-grade and 20% of the high-yield exposure in the inventory loans portfolio is spread risk hedged
- Risk Management's integrated Risk Appetite Framework incorporates all trading and loan/commitment exposures including commitments in the pipeline. We capture mark-to-market risk or spread risk in Risk Appetite for all loans and forward pipeline. In addition, default risk is considered as an "add-on" to ensure prudent risk management practice

Risk Exposure

- The Firm has a comprehensive risk framework for commitments including mandated, signed letters, contingent commitments and conditional/potential deals. The internal proprietary model calculates potential losses in a variety of market conditions including "closed", "normal", and "friendly" markets based on historical spread and default statistics in a probability framework, consistent with Firm's Risk Appetite framework. The analysis provides the Firm the tool to estimate the marginal Risk Appetite usage and detect early warning signs based on deal and portfolio size, leverage, quality, capital structure, deal probability and syndication strategy
- Risk management works closely with the trading desks establish structured transactions to mitigate risk

Hedge Funds

LEHMAN BROTHERS

Hedge Funds

The Firm is engaged in a number of activities involving hedge funds

- Institutional flow trading in both Fixed Income and Equities
 - Cash and derivative products
 - Derivatives
 - Foreign exchange
 - Financing and securities lending
 - Futures
- Prime Brokerage
 - Lehman has a robust prime brokerage offering and receives consistent industry recognition for the quality of our product and the excellence of our service levels
- Principal Investments in hedge fund managers
 - Strategic majority stakes include:
 - Libertyview: 100% (multi-strategy hedge fund manager)
 - Lehman Brothers Alternative Investment Management (“LBAIM”): 100% (fund-of-funds)
 - Strategic minority stakes include:
 - GLG: 18% stake (European multi-strategy hedge fund complex with \$17bn of AUM)
 - Ospraie: 20% stake (US-based multi strategy manager with \$6.0bn of AUM)
 - Marble Bar: 20% stake (European manager with \$3.5bn of AUM)
 - Spinnaker: 20% stake (European manager with \$6.0bn of AUM)
 - DE Shaw: 20% stake (US-based multi-strategy manager with \$34bn of AUM)

Comprehensive Credit Risk Framework

Lehman has a comprehensive framework for ensuring tight controls around hedge fund risk. The main components of this framework are:

- **Client Selection and Screening:** Background checks are performed on all new accounts. Salespersons have broad “Know Your Customer” responsibility and are accountable for ensuring suitability of the client’s trading activity
- **Credit Due Diligence:** Within Credit Risk Management (“CRM”), we have dedicated teams of specialists organized by region and industry who perform due diligence and assess the credit quality of proposed counterparties
- **Ratings:** CRM employs a rigorous credit rating framework to assess the relative riskiness of our counterparties
- **Limits:** CRM sets credit limits to constrain aggregate exposure concentrations to any individual counterparty or group of related counterparties
- **Documentation and Margin:** We require master documentation with all clients providing for, among other protections, the ability to net exposure across transactions. We also require collateral and structure margin requirements to substantially mitigate our risk. Collateral is our first line of defense. Virtually all of our activity with hedge funds is margined, with liquid collateral covering marked-to-market exposure and, to varying degrees, potential future exposure
- **Exposure Monitoring:** On a daily basis we calculate exposure against limits and aggregate exposure across all activity with each individual counterparty and across related counterparties using sophisticated modeling of portfolio volatility, stress-test methodologies as well as concentration and liquidity analysis
- **Credit Monitoring:** We perform ongoing credit monitoring on active counterparties, including monthly performance tracking, meetings with the client and formal annual reviews

Hedge Funds Exposure

Areas of Increased Focus

Despite recent volatility and widely reported problems incurred by a number of funds, we have not experienced any recent credit losses from hedge funds. This is not to say that we don't take risk, but rather our controls are designed to ensure that the risk is substantially reduced through our tight controls, especially those relating to the taking and monitoring of collateral

- As at May 31, 2007, total Current Credit Exposure (“CCE”) to hedge funds was \$172 million, or 0.5% of \$32 billion in total CCE across the Firm. This small exposure is a function of the fact that we are well collateralized
- Examples of recent hedge fund failures where Lehman had exposure but did not incur losses:
 - Amaranth (Sep 2006): the fund avoided default selling its troubled energy portfolio to Citadel and rapidly unwinding other positions. The fund did not default to Lehman and our derivatives positions were unwound successfully
 - Bear Stearns Asset Management (June 2007): two funds with leveraged exposure to the sub-prime market suspended redemptions and subsequently defaulted on margin calls. Lehman had financing and derivatives exposures to the fund and had sufficient collateral across the positions to avoid a credit loss and successfully unwound our exposures
 - Basis Capital Management (July 2007): Australian hedge fund manager with two funds that had leveraged exposure to the sub-prime market. Funds suspended redemptions and failed on margin calls after liquidity drain from asset write-downs. Lehman had financing exposure to the funds but had sufficient collateral protection to avoid a credit loss and successfully unwound our subprime exposure. We are currently financing CLOs and EM bonds with more than sufficient collateral to protect against a loss
 - Sowood Capital Management (July 2007): Multi-strategy hedge fund founded by ex-Harvard managers with \$3.5bn of capital across two funds. Funds incurred losses and narrowly avoided default by selling most of its portfolio to Citadel. The fund met all margin calls and did not default to Lehman. We had financing and derivatives positions with Sowood that were either unwound or assigned to Citadel

Conclusion

Conclusion

- We have a strong culture of Risk Management throughout the Firm
- Our franchise is to facilitate clients
- We have developed a very robust and comprehensive framework for thinking about and managing all forms of risk
 - Our powerful risk and equity allocation tools help guide the Firm in its overall management and decision making
- We are prudent toward our approach to credit risk which has resulted in a very high quality and well diversified credit portfolio
 - We have very low tolerance for delays on receiving collateral, where applicable
 - We give close scrutiny to the value of customer collateral posted against margin loans
- Our approach is to mitigate risk through various hedging strategies, and follow a model of credit facilitation where we act as a conduit between our clients and the capital markets, rather than as the ultimate holder of the risk
- Our overall Risk Management philosophy of conservatism and prudence has been an important factor in our improving credit spreads, ratings and credit worthiness

Confidential Presentation to:

Standard & Poor's

Liquidity & Funding Overview

August 17, 2007

LEHMAN BROTHERS

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- III. Reliable Secured Funding Model
- IV. Cash Capital
- V. The Lehman Banks
- VI. Contingent Liquidity Risk
- VII. Contingency Funding Plan

LEHMAN BROTHERS

Executive Summary

- ◆ Lehman Brothers has a very conservative approach to funding built on the experience of the liquidity contraction in 1998:
 - No reliance on short term debt. We have zero reliance on CP issuance, and only issue short term debt for structured customer driven transactions
 - Secured funding is limited to asset classes where there is a deep pool of counterparties who understand the assets
 - Internal banks are utilized to fund certain illiquid asset classes through alternative sources to Lehman Brothers Holdings – primarily insured deposits
 - Where we commit to providing liquidity to clients we prefund and allocate the costs directly to the business
 - Centralization of funding and close communication and transparency with the business users of liquidity

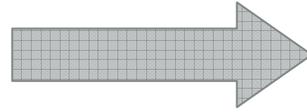
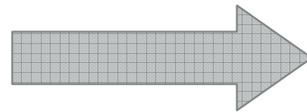
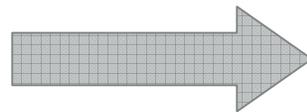
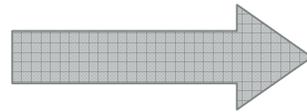
The Funding Framework

Core Principles of Capital & Liquidity Management

Our capital & liquidity management is based on four principles.

Liquidity Strategy Principle

- ◆ We must remain in a constant state of liquidity readiness
- ◆ We should not rely on asset sales or increases in unsecured borrowings or funding efficiencies in a liquidity crisis
- ◆ We should not overestimate the availability of secured financing in a liquidity crisis
- ◆ Legal entity structure constrains liquidity flows which should be explicitly accounted for in liquidity planning



Implication To Funding Framework

- ◆ Maintain a **large cash position** in the Holding Chain, sufficient to absorb the impact of a very severe liquidity event
- ◆ **Do not plan on reducing balance sheet for liquidity reasons** in a liquidity event (although may do so for risk reasons)
- ◆ Establish '**Reliable Secured Funding**' levels by asset category by counterparty
- ◆ Separate Cash Capital Model for each **regulated entity** and the Holding Chain; treat all excess cash in restricted entities as 'trapped'

Liquidity Pool

Liquidity Pool

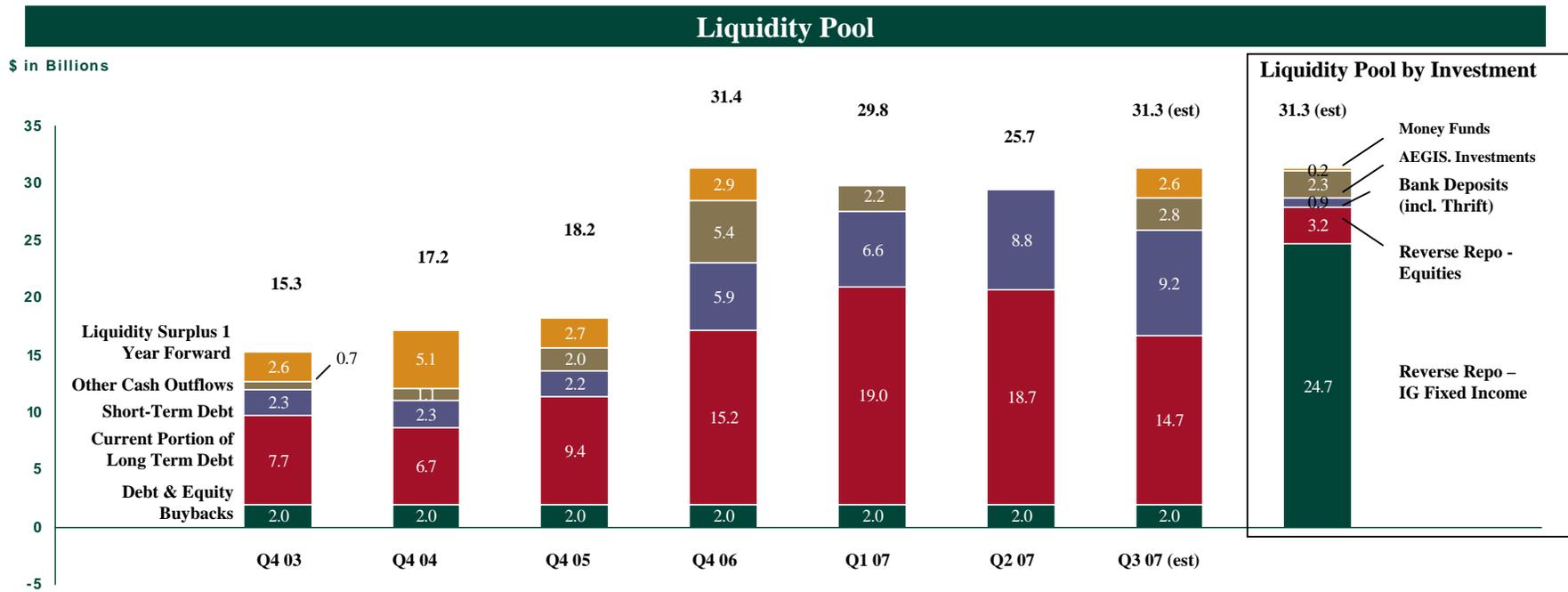
Maintaining A Large Liquidity Pool Is Required To Cover All Expected Cash Outflows Within One Year

- ◆ Because most of the unsecured debt is issued out of Holdings, the most important liquidity pool is that of Holdings and its unregulated Subsidiaries (“the Holding Company Chain”). Our policy is to maintain a liquidity pool that covers, in stressed liquidity environment, all expected cash outflows for one year (Maximum Cumulative Outflow – ‘MCO’). These projected outflows are re-assessed weekly and as they change we adjust the size requirement for the liquidity pool. Examples of such outflows include:
 - The repayment of all unsecured debt of Holdings and its unregulated Subsidiaries maturing within twelve months. We assume that, in a stressed liquidity environment, we will have no access to the unsecured debt market for a full year;
 - The drawdown of commitments to extend credit made by the Holdings Chain is based on an analysis of the probability of such drawdown and the unused funding capacity of special funding vehicles set up to mitigate contingent liquidity risk;
 - The widening of market haircuts due to stress market conditions;
 - Additional collateralization of derivative contracts and other secured funding arrangements by the Holdings Chain to counterparties that would be required in the event of a rating downgrade; and
 - Funding of debt and equity repurchases as we manage our equity base. This would include the equity buybacks required to offset the dilutive effect of our employee incentive plans.

- ◆ The liquidity of the Restricted subsidiaries is separately managed to comply with their applicable liquidity and capital requirements and to minimize dependence on the Holdings Chain.

Liquidity Risk Mitigation: Liquidity Pool

Liquidity Pool at the end of Q3 is projected to be at \$31.3 billion with Cash Capital and MCO surplus of \$5.2 billion and \$2.6 billion respectively



\$25.7 billion in Q2 07 excludes pending settlements

Liquidity Pool

The Liquidity Pool Is Managed Conservatively

- ◆ The liquidity pool is invested in two types of investments: external and internal.
 - External investments are primarily comprised of bank deposits, money market funds and, to a lesser extent, short-term money market instruments such as money market preferreds. External investments are counted in the liquidity pool at their market value.
 - Internal investments are primarily comprised of unencumbered investment grade-type collateral. Internal investments are counted in the liquidity pool at their pledge value (since Treasury does not own this collateral). To be eligible, this collateral must meet two criteria:
 - There must be a deep, liquid and reliable funding market for this collateral in all market environments (hence our requirement that the collateral be “investment grade” quality).
 - The cash raised by financing the collateral can be “upstreamed” to the Holding Company in all market environments. For example, in the case of unencumbered collateral owned by LBI, our U.S. broker dealer, Treasury reverses this collateral into LBHI through a triparty repo agreement.
 - Examples of unencumbered liquid collateral include U.S. and European government and agency obligations, investment grade securities and index equities.
- ◆ The vast majority of our investments are done on an overnight basis. Some investments can be done for longer periods of time as long as there exists a mechanism to unwind the transaction within a short amount of time (typically less than a week) – money market preferreds are an example of such “longer” term investments.

Unencumbered collateral

Lehman has over \$56 billion of unencumbered collateral in unregulated entities

- ◆ Lehman has over \$56 billion of unencumbered collateral that could be used to raise incremental financing if required
- ◆ The largest asset class is Commercial Wholeloans for which the Firm already has a number of bilateral facilities that are used for financing, 79% of Commercial Wholeloans are first lien
- ◆ For each of the asset classes Commercial Wholeloans, High Yield Loans and Real Estate Inventory, the Top 50 assets represent about 70% of their total

Unencumbered Collateral MV (\$mm)	US UNREGULATED ENTITIES	NON-US UNREGULATED ENTITIES	GLOBAL UNREGULATED TOTAL
CDO/CLO	1,730	1,641	3,371
COMMERCIAL WHOLE LOANS			-
- US 1st Lien	5,604	-	5,604
- US 2nd Lien & Other	4,534	-	4,534
- Europe 1st Lien	-	10,491	10,491
- Europe 2nd Lien & Other	-	515	515
- Japan 1st Lien	-	3,034	3,034
- Japan 2nd Lien & Other	-	5	5
CONVERTIBLES	-	60	60
CORPORATE BONDS	-	347	347
EQUITY	-	1,954	1,954
FUND UNITS	-	79	79
CORPORATE LOANS	3,929	3,250	7,178
PREFERRED	-	392	392
PRIVATE LABELS	694	-	694
REAL ESTATE INVENTORY	6,401	5,702	12,102
RESIDENTIAL WHOLELOANS	-	5,278	5,278
SOVEREIGNS	-	82	82
WHOLELOAN - OTHER	771	-	771
Total	23,662	32,828	56,490

Reliable Secured Funding Model

Reliable Secured Funding Model

Secured Funding Represents The Majority Of the Firm's Funding; The Reliable Secured Funding Model Sets Strict Rules To Mitigate Liquidity Risk Of Secured Funding

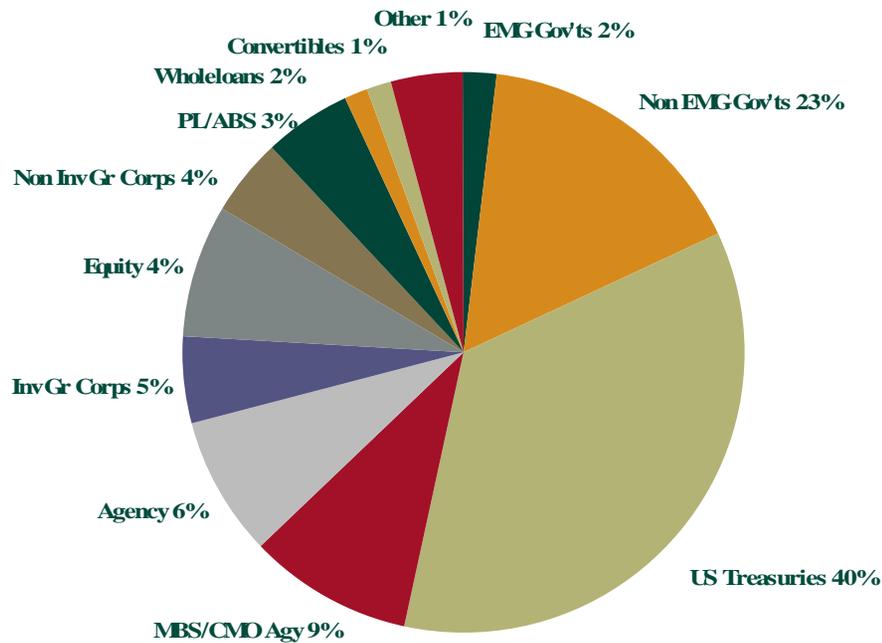
- ◆ Because the majority of our balance sheet is liquid, we, like the rest of the industry, fund most of our assets on a secured basis – primarily using the deep, liquid and well established triparty repo market.
 - Because of the intrinsic value of the collateral pledged and of the conservative haircuts used by market participants, secured funding is seen as safer and more reliable than unsecured funding.
 - Additionally, the triparty repo market adds another layer of safety from a counterpart's perspective as our collateral is held at a third party bank (JPMorganChase in our case) and is valued by this third party bank.
- ◆ However, in a stressed liquidity scenario, secured funding is faced with two liquidity risks
 - Haircut widening, i.e., the risk that counterparts may require wider haircuts to fund collateral
 - Loss of secured funding capacity if counterparts stopped / reduced their funding of Lehman collateral
- ◆ To mitigate these risks, we have established the Reliable Secured Funding Model, which establishes a set of rules:
 - Balance sheet does not have to be shrunk for liquidity reasons (although it may be shrunk for other risk reasons)
 - The first three months of a secured liquidity event are the most critical and have to be carefully modeled out. After three months, it is assumed that the market returns to “normal” or that it permanently adjusts to new conditions.
 - It conservatively assesses a stressed haircut level and quantitatively measures the funding requirement if haircuts widened to this level. This amount is included in the short-term (0-1 year) funding requirement of the Firm.
 - Stressed haircuts are estimated based on discussions with market participants – both inside and outside of Lehman.
 - For each asset class, we perform a detailed reliability assessment of each counterpart. This assessment seeks to ascertain:
 - Depth and breadth of the relationship between Lehman and the counterpart
 - Whether counterpart is “comfortable” with the asset class and “comfortable” taking possession of the assets if necessary

Secured Financing Trades

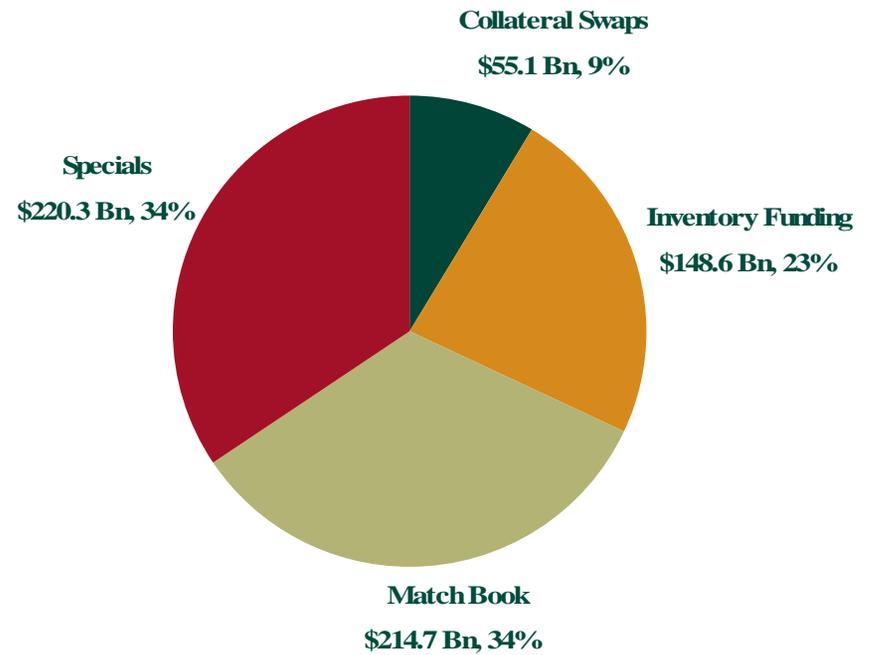
Region

Region	Principal	Percentage
Americas	\$442.5 Billion	69%
Europe	\$150.8 Billion	24%
Asia	\$45.4 Billion	7%
Total	\$638.7 Billion	100%

Collateral Type



Financing Deal Type



1. Secured Funding trade dimensions are based on global repo transactions settled as of July 31st, 2007.

Secured Funding Volumes and Top Counterparties

Inventory is funded with a wide number of counterparties, all of whom are regularly reviewed for suitability for the asset class they are funding

Secured Funding Volumes

Collateral Allocated Summary	Principal (\$Bn)	Avg Tenor (Days)
Asset Backs - Investment Grade	8.2	10
Asset Backs - Non-Investment Grade	1.9	54
C1 - Investment Grade Convertibles	2.1	41
C2 - Non-Investment Grade Convertibles	5.1	76
Corporates - Investment Grade	15.2	12
Corporates - Non-Investment Grade	12.8	19
E1 - Major Index Equities	0.0	180
Equities	22.0	18
Fund Units	3.6	28
G1 - Investment Grade Governments	0.1	9
G2 - Non Investment Grade Governments	0.2	7
Government Agency	12.8	1
Lehman Paper	0.3	5
Agency	27.2	13
Money Markets (A1)	1.6	1
Money Markets (A2, A3, Other)	0.4	33
Muni	2.4	1
Other	3.1	21
Preferreds	2.1	24
Private Labels - High Yield	1.6	38
Private Labels - Investment Grade	12.0	18
Sovereigns - Locals	0.2	10
Treasuries	4.4	1
Warrants	0.0	180
Wholeloan Commercial	6.5	95
Wholeloan Residential	2.8	39
Grand Total	148.6	21

Top 25 Counterparties

Counterparty Group	Principal (\$Bn)	Avg Tenor (Days)
STATE STREET	15.0	16
JP MORGAN CHASE	13.8	6
BANK OF NEW YORK	11.7	1
FIDELITY	8.2	51
DRESDNER	8.2	24
RBC	5.6	13
BARCLAYS	5.5	53
NORTHERN	5.3	3
IXIS	5.0	4
CALYON	3.5	2
DANSKE BANK	3.0	12
RACERS	2.9	180
ING	2.8	3
RABOBANK	2.7	8
ABN AMRO	2.6	81
AEGIS	2.4	1
DWIGHT A.M.	2.2	41
R & A	2.1	1
DEXIA	2.0	24
Key Bank	1.9	1
WESTLB	1.9	2
MELLON	1.7	13
CSFB	1.6	1
LANDESBANK	1.4	3
SWEDBANK	1.4	3
Other (150 Counterparties)	34.3	22
Grand Total	148.6	21

1. The above refers to Inventory Funding (Triparty) trades settled as of July 31st, 2007

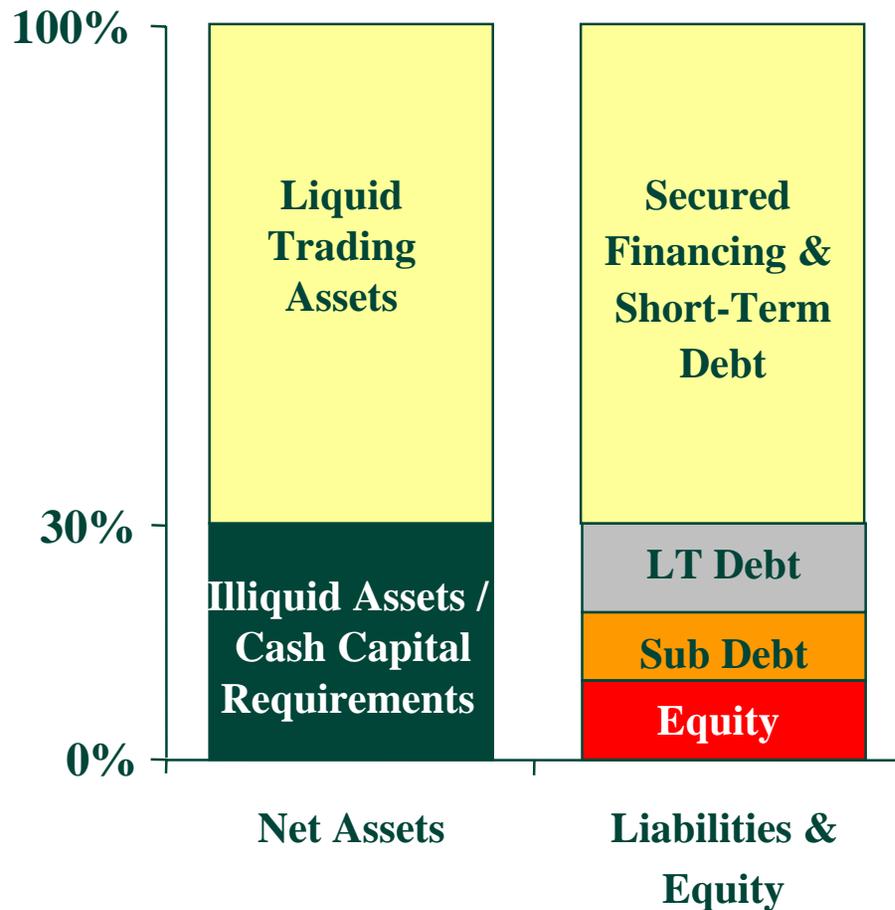
Cash Capital

Cash Capital Uses

There Are Five Major Uses Of Cash Capital

- ◆ Illiquid positions, which are completely funded with cash capital. We determine whether a position is illiquid by looking at its fundability in a stress liquidity event.
 - For example, loans and commercial mortgages are fundable on a secured basis in a normal liquidity environment. However, we conservatively assess that such secured funding is not reliable in a stress liquidity environment (because of difficulties pricing and/or disposition of assets). As a result, we fund these asset classes with cash capital sources.
 - This “fundability” assessment is done by asset class and by region.
- ◆ Haircuts on funding liquid positions on a secured basis. We see the haircut (i.e., the difference between market and pledge values) as a cash capital use.
 - Haircuts are conservatively estimated and regularly reviewed based on actual Lehman funding experience.
- ◆ Illiquid assets due to operational friction – i.e.,
 - Unencumbered (boxed) positions are funded entirely with cash capital based on an assessment that boxed positions are the result of unavoidable operational friction (e.g., securities in transit between depots) and based on our philosophy that we cannot improve operational effectiveness during a time of crisis. This assessment is also supported by the fact that businesses are charged a “punitive” cost of funding (cash capital rate vs. secured funding rate) for unencumbered positions, which creates a significant incentive for the business to fund these positions on a secured basis.
 - Cash at banks, which is not managed as part of a liquidity pool, is also presumed to be “illiquid” in the sense that it cannot be used to meet a payment due to some operational friction (e.g., it is used in an escrow account).
- ◆ Excess of regulatory capital requirement over cash capital requirement. To the extent that a regulated entity such as LBI has a regulatory capital requirement in excess of its “unregulated” cash capital requirements, this excess is funded with cash capital.
- ◆ Prefunding used to mitigate contingent liquidity risk

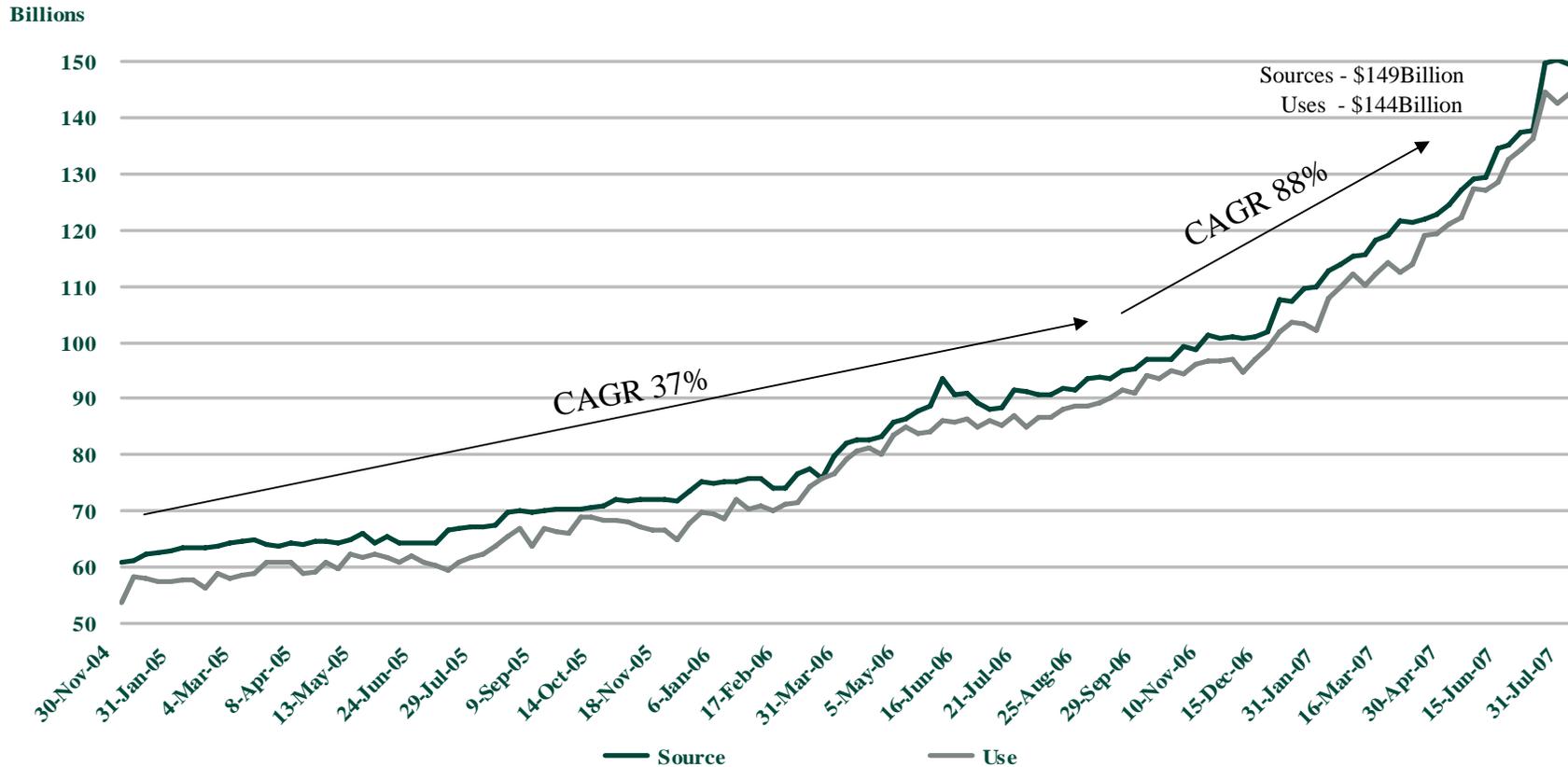
Cash Capital Requirements



- ◆ Liquid Trading Assets are predominantly financed through secured repo financing
- ◆ Illiquid portion of Assets (Cash Capital requirements) are financed with long term sources of funding (>1yr) :
 - Equity: Meet target Leverage Ratios and acceptable ROE
 - Sub Debt: Meet Target new CSE Capital Ratios
 - Long Term Debt

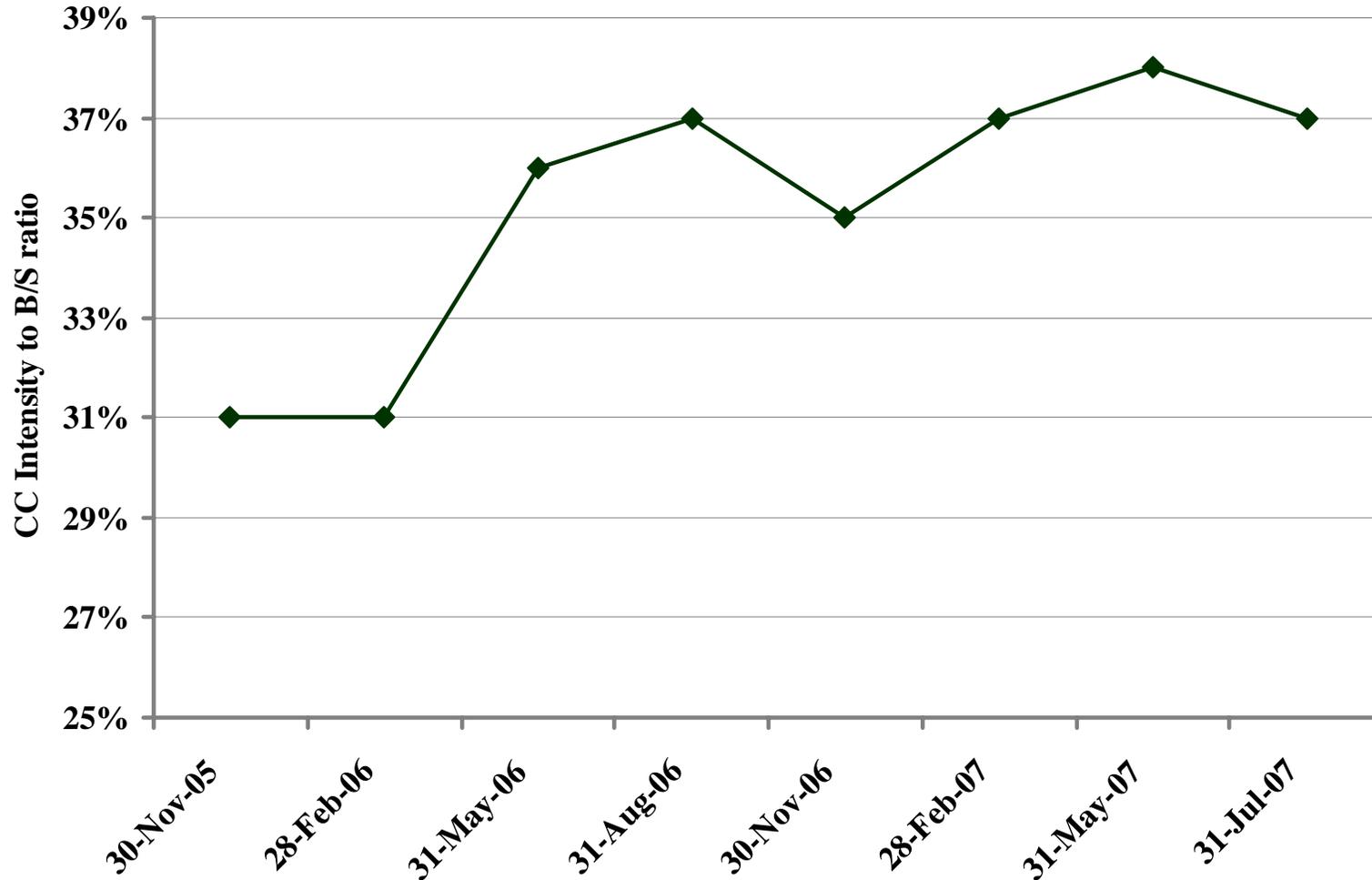
Holdings & Regulated Chain - Cash Capital Sources and Uses

Both cash capital sources and uses are tracked each week. The rate of growth has increased in 2007 reflecting conservative funding of the balance sheet as growth has been greater in illiquid assets



Cash Capital Intensity Trend

The high level of cash capital reflects the conservative assessment of asset "fundability." Assets are funded with cash capital unless a deep and reliable pool of secured funding exists



Cash Capital by Asset Category as of July 31, 2007

\$ Billions

Asset Category	100% Assets	Haircuts	Box Req	Margin/ Chaining/OTC Req	Equity/ Subdebt	Prefunding for Loan Commitments	Other Requirements	Reg Entity Trapped Cash Capital	TOTAL
Less Liquid Assets	86,500								86,500
Non Trading Assets	19,339								19,339
Liquid Assets		8,541	7,825						16,366
Margin, Chaining & OTC Requirements				9,614					9,614
Equity/Subdebt for Self-funded Legal Entities					4,405				4,405
Prefunding for Loan Commitments						3,581			3,581
Other Requirements							3,236		3,236
Trapped Cash Capital in Regulated Entities								1,182	1,182
TOTAL	105,839	8,541	7,825	9,614	4,405	3,581	3,236	1,182	144,224
% of Total Cash Capital Usage	73%	6%	5%	7%	3%	2%	2%	1%	100%

◆ 73% of Cash Capital uses consist of assets that are entirely funded with long term capital (i.e. less liquid assets and non-trading assets)

◆ We conservatively apply \$7.8 billion of Cash Capital usage against liquid assets in the box under the assumption that we cannot repo them out in a stress environment

◆ At the end of July, \$1.2 billion of Cash Cap sources were used for the excess of regulatory capital requirement over cash capital requirements

Cash Capital Sources

Cash Capital Sources Are Equity And Liabilities With Remaining Life Greater Than One Year

- ◆ There are five major sources of cash capital.
 - Long-term debt with remaining life greater than one year
 - The major challenge in managing long-term debt is to minimize the refinancing risk by spreading the maturities of long-term debt
 - The limits for the amount maturing over any three, six and twelve month horizon at 12.5%, 17.5% and 30% of the outstanding long-term debt. These limits were set based on Treasury's and Lehman syndicate desk's conservative assessment of the market's short-term appetite for Lehman debt.
 - Any amount of long-term debt above these limits is not included as a cash capital source.
 - Additionally, we diversify our debt holder base by issuing across different markets (U.S., U.K., Continental Europe and Japan) and at different points of the yield curve (from 2-3 years to 30 years).
 - Common equity
 - Hybrid equity, including perpetual preferred and trust preferred securities. We view hybrid equity primarily as a source of equity ("capital") and secondarily as a source of cash capital.
 - Secured and unsecured bilateral bank structures with remaining life greater than one year. These facilities are either committed or uncommitted (if they are uncommitted, they are fully drawn) and provide low cost funding diversity to Lehman Brothers. These facilities are typically structured as evergreen structures: for example, a 15-12-15 month facility (initial life: 15 months; reset date: 12 months from maturity date; reset period: 15 months). To prevent negative signaling, we structure these transactions so that the maturity date is automatically extended unless the bank decides to terminate the transaction (at which point we still receive funding from that bank for at least a year). Because the extension is automatic, it loses its negative signaling characteristic.
 - Additionally, we also have two syndicated committed facilities which are drawn from time to time and provide additional funding flexibility to Lehman Brothers

Sizing Equity and Total Capital

Over the past 8 and a half years, 1998 through Q3 2007, Lehman has more than tripled its equity (from \$5.4bn to \$21.9bn) and quintupled its total capital (from \$27.1bn to \$143.0bn).

Total Long-Term Capital⁽¹⁾

\$ billions

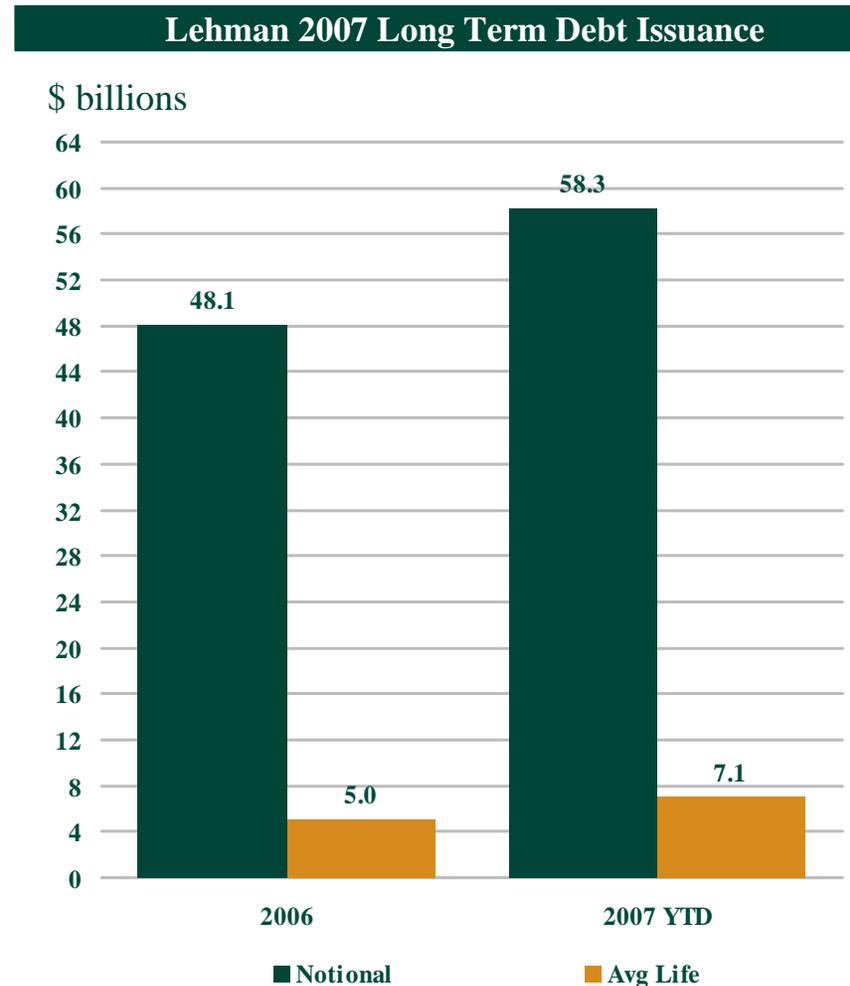


(1) Total long-term capital includes long-term borrowings (excluding any borrowings with remaining maturities within one year of the financial statement date) and total stockholders' equity and, at November 30, 2003 and prior year ends, preferred securities subject to mandatory redemption. We believe total long-term capital is useful to investors as a measure of our financial strength.

Debt Issuance - 2006 vs 2007

In 2007 we have issued \$58.3 billion of debt

- ◆ We have issued almost 1.2 times the amount in the first 8 months of 2007 versus 2006 (\$58.3 billion vs \$48.1 billion)
- ◆ Our large issuance in the 1st quarter has allowed us to obtain relatively cheaper funding in comparison to the current levels in the market
- ◆ We took advantage of the significant demand to extend duration. The average maturity of our 2007 issuances is 7.1 years versus 5.0 in 2006

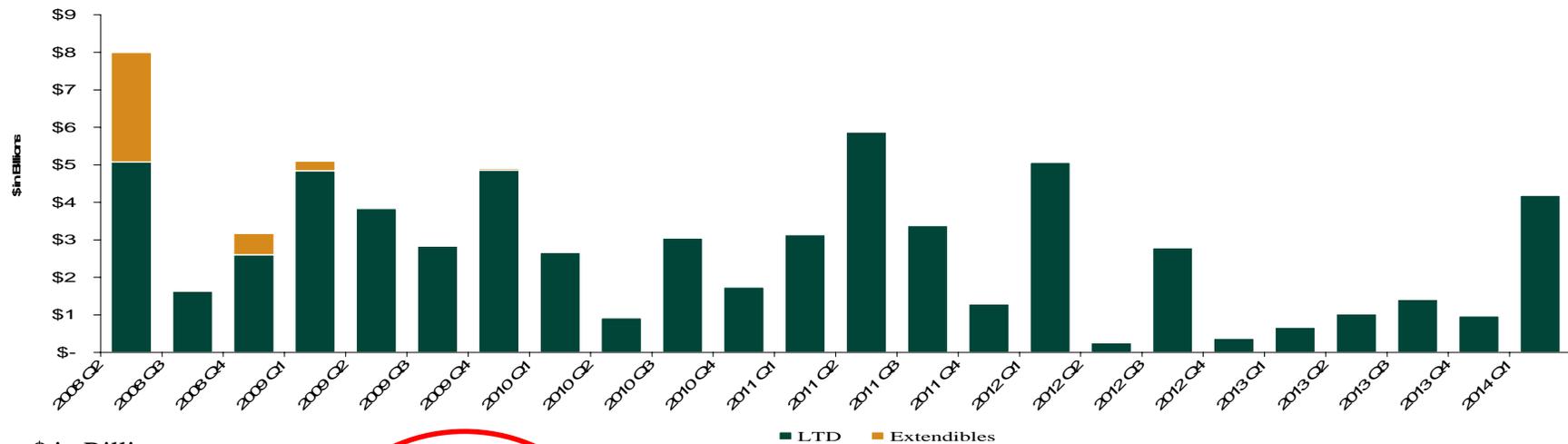


Minimizing Re-Financing Risk

- ◆ Our short term debt remains low and lower than our peers
- ◆ Our maturity profile is well distributed
- ◆ No 3 month, 6 month or 12 month period has excessive levels of maturities.

Maturing Long Term Debt

Quarterly Maturity Limit: 12.5% of Total Debt Outstanding



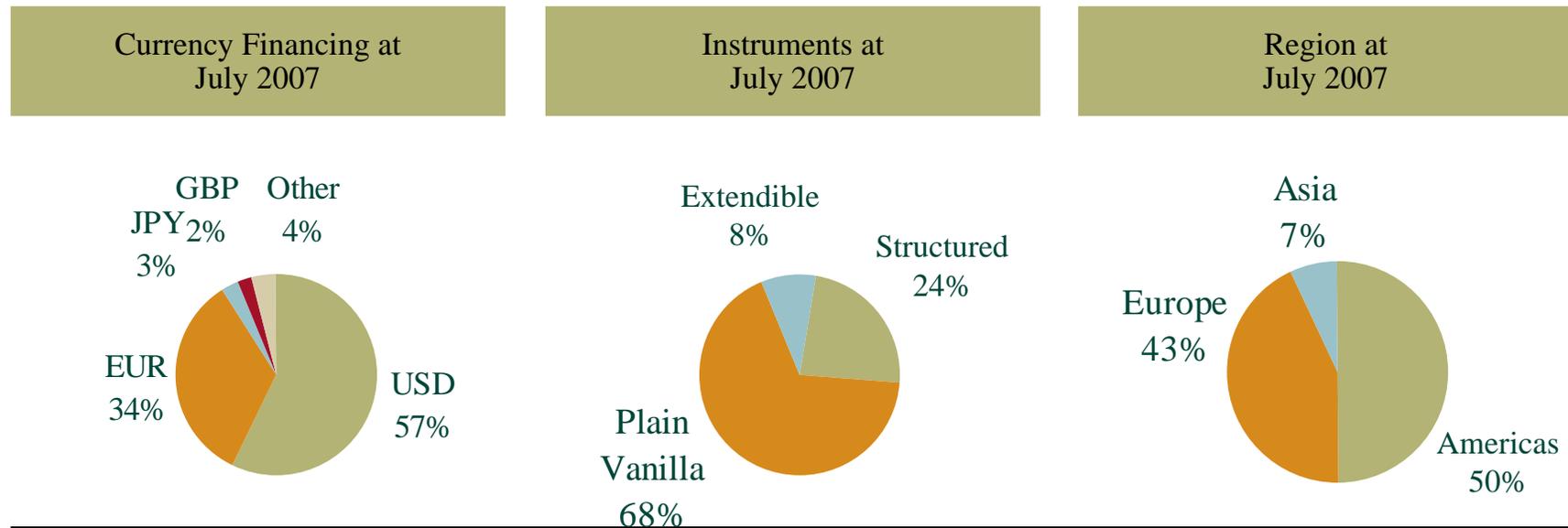
\$ in Billions

Maturity Bucket	Limits		Actual		Capacity	Period with Largest Refinancing
3 months	12.5%	\$11.3	9%	\$7.9	\$3.4	01/03/2008 - 31/05/2008
6 months	17.5%	\$15.9	14%	\$9.9	\$6	01/11/2008 - 30/04/2009
12 months	30%	\$27.2	23%	\$17.8	\$9.4	01/03/2008 - 28/02/2009

Debt Issuance - Funding Diversification

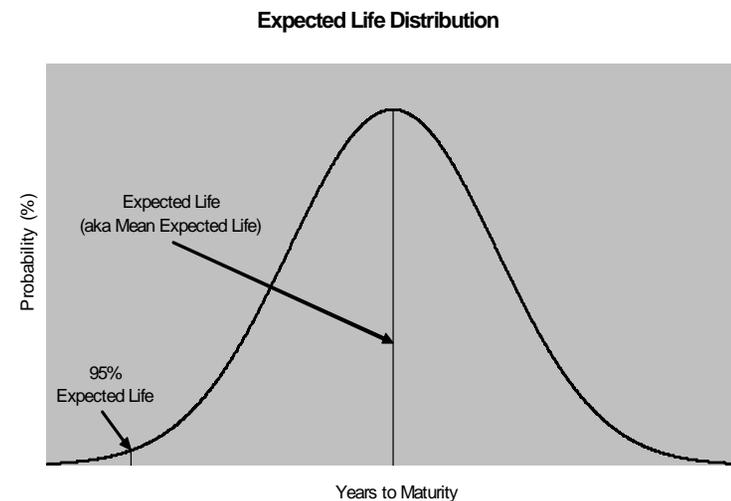
Issuance is diversified by currency, instrument, and geographic investor base

- ◆ **Currency Sources:** Our currency base is diversified but we are always looking to diversify more. As at July 2007, 43% of our long-term debt was issued in currencies other than USD
- ◆ **Funding Instruments:** In addition to plain vanilla debt, we diversified our funding base by issuing structured notes and extendibles
- ◆ **Investor Base:** Lehman diversified its issuances geographically to broaden the debtholder base. As of July 2007, 50% of Lehman Brothers' long-term debt portfolio was issued in Europe and Asia



Stability of Structured Notes as a Source of Cash Capital

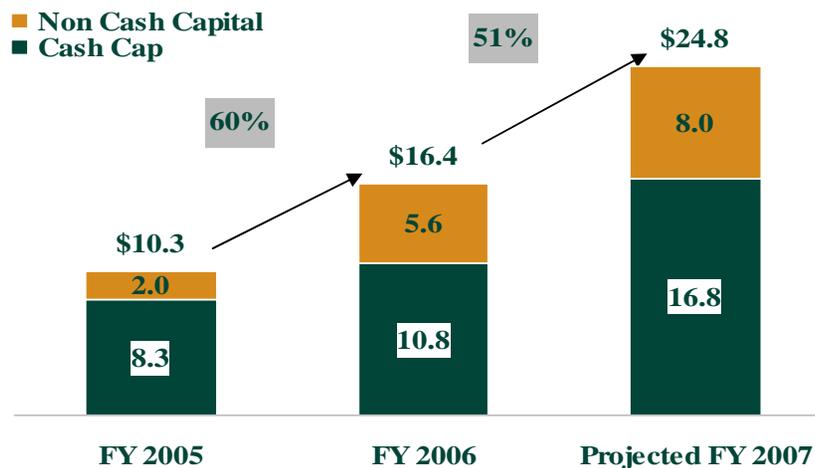
- ◆ Structured notes provide a highly diversified and stable source of cash capital to Treasury
- ◆ These programs are driven by private placement reverse inquires and therefore do not cannibalize our traditional vanilla debt investor base
- ◆ A significant portion of these structured notes have early termination clauses that potentially result in a loss of Treasury liquidity prior to contractual maturity
 - Pricing models calculate the expected life of these notes by taking into account the underlying risks of these notes such as the potential of default for credit linked notes and reaching various thresholds for equity, foreign exchange, and interest rate linked notes
 - In this context, the term *expected life* refers to the mean of the distribution (as shown in the graph below) and should be interpreted as the average or “mean” length of time until the note is expected terminate and is a probabilistic measure of reliability of those notes as a funding source
- ◆ Treasury adds a significant level of conservatism to this “mean” expected life by offering funding levels based on a **95% haircut expected life** (left tail of the distribution as shown in the graph)
 - This extra level of conservatism is added as Treasury relies on these funds as a core source of liquidity to finance business needs no matter the economic environment



Structured Note Issuance Growth

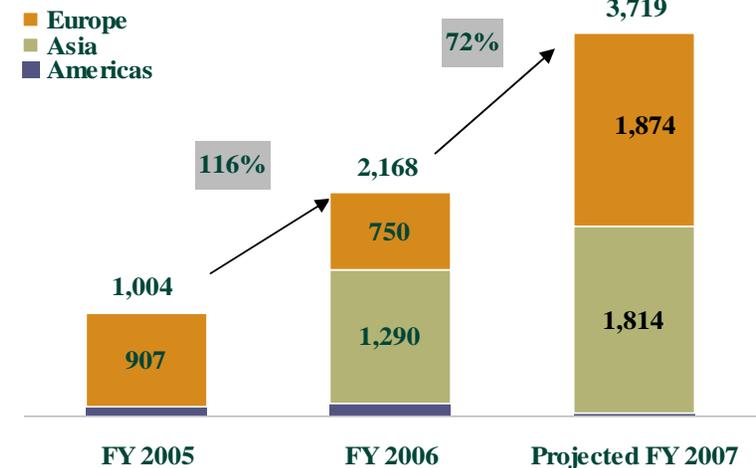
- ◆ Structured notes are an important diversification to our funding sources. The growth has been supported by improved analytical and support capabilities. Our conservative assumption around the life of the structures has been evidenced by actual life significantly exceeding modeled life.
- ◆ As of July 31 fiscal year-to-date, the Firm issued **\$18.3 billion** structured notes:
 - **67% (\$12.3 billion)** cash capital notes with a 95% haircut expected life greater than 1 year
 - **33% (\$6.0 billion)** non-cash capital (\$4.5 billion LTD with expected life < 1 year and \$1.5 billion STD)

STN Issuance Growth in Notional (in Billions\$)



Note Type	FY 2005		FY 2006		Projected FY 2007	
	Bn\$	%	Bn\$	%	Bn\$	%
Equity Linked	4.6	44%	10.4	63%	18.1	73%
IR Linked	2.1	20%	0.2	1%	2.6	11%
Credit Linked	0.7	7%	3.0	18%	1.8	7%
FX Linked	0.2	2%	1.7	10%	0.9	4%
Other	2.7	26%	1.2	7%	1.4	6%

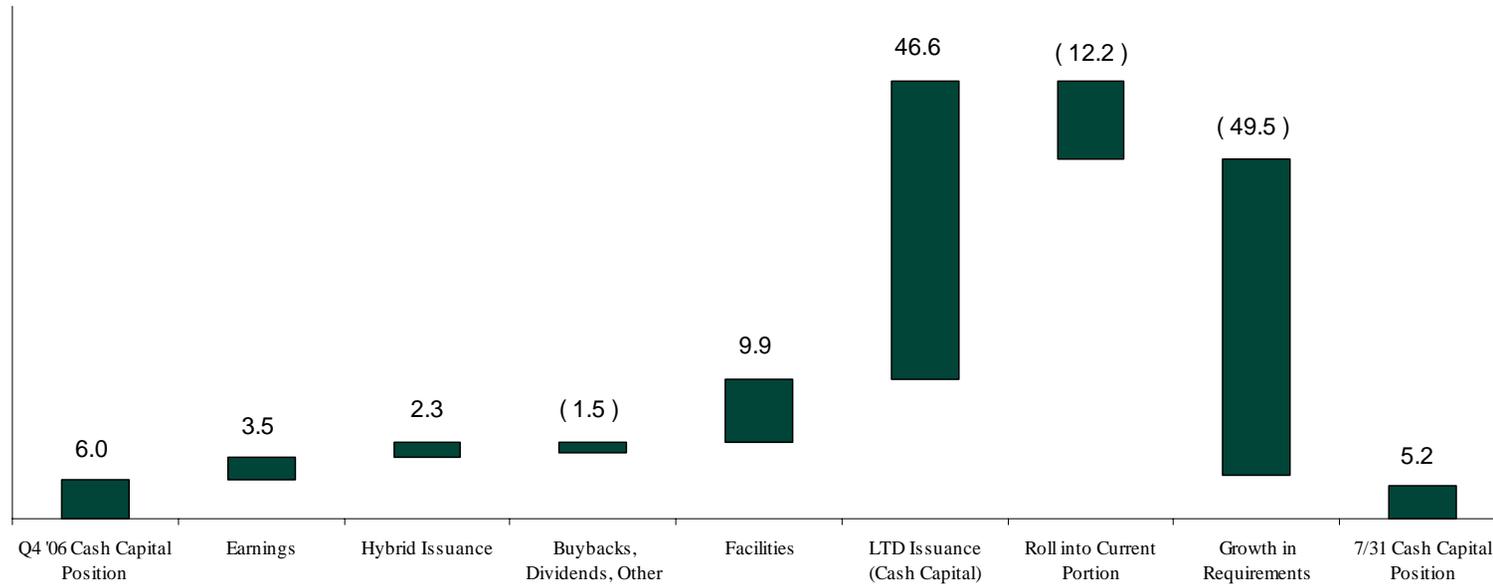
STN Issuance Growth in Volume (# of Notes)



Region	FY 2005		FY 2006		Projected FY 2007	
	Bn\$	%	Bn\$	%	Bn\$	%
Europe	7.9	77%	9.4	57%	18.4	74%
Asia	0.0	0%	4.5	27%	5.4	22%
Americas	2.3	23%	2.6	16%	0.9	4%

YTD Cash Capital Roll Forward

The growth in requirements has driven issuance, with maturing cash capital a relatively small amount reflecting the long term of debt



FY 2007 Actual Issuance			
	Volume	1M Libor Spread	Expected Life
Vanilla	28.7	18.3	3.9
Structured Subordinated	12.3	8.1	4.5
Hybrids	5.5	75.1	16.1
Hybrids	2.3	79.1	5.0
Total Cash Cap	48.9		
Non-Cash Cap	4.5	-24	0.3
Total Issuance	52.9	21	5.1
Cash Cap Usage	49.5		
Roll In	12.2		
Total Requirements	61.7		

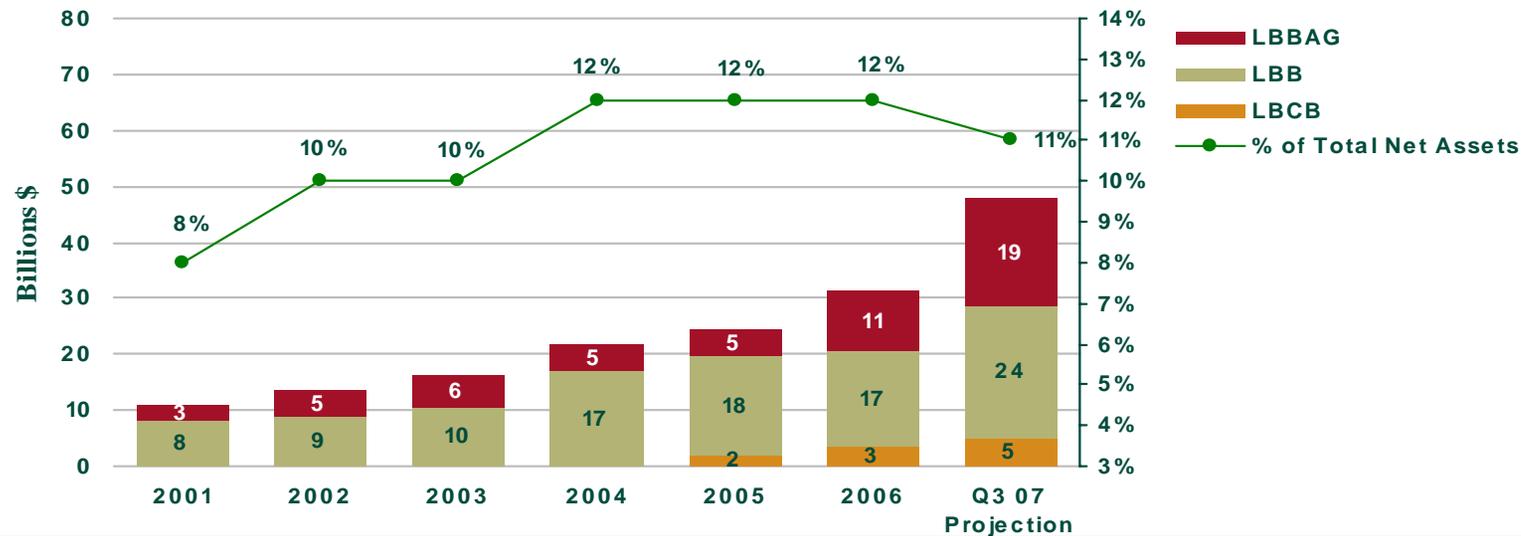
- ◆ The Firm has increased our cash capital sources to match the increase in business requirements
- ◆ We expect our cash capital position to be at the same level at the end of the 3rd quarter as 7/31

Lehman Banks

Lehman's Bank Entities

- ◆ Lehman Brothers owns 3 banking entities: Lehman Brothers Bank, a U.S.-based thrift institution, Lehman Brothers Commercial Bank, a U.S.-based industrial bank, and Lehman Brothers Bankhaus, a German Bank.
- ◆ These regulated bank entities operate in a deposit-protected environment and are able to source low-cost unsecured funds that are primarily term deposits.
- ◆ These banks are generally insulated from a Company-specific or market liquidity event, thereby providing a reliable funding source for our mortgage products and selected loan assets and increasing our funding diversification.
- ◆ These entities primarily fund less liquid assets which are otherwise funded by long term debt or reliable secured financing.
- ◆ As these businesses have grown, we continue to utilize these entities more effectively to support a larger percentage of the Firm's total assets (increased from 8% to 11%).

Banking Entities - Total Assets and % of Total Firm Net Assets



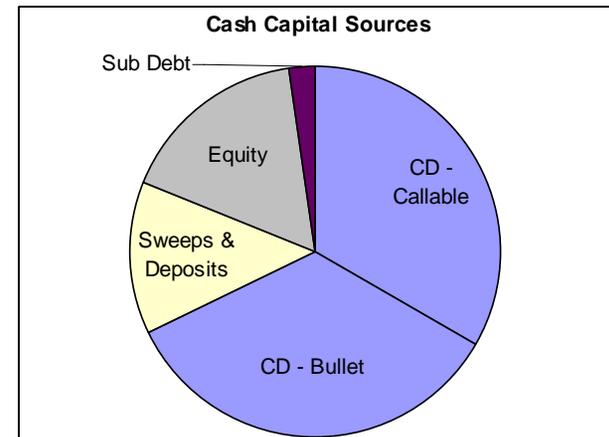
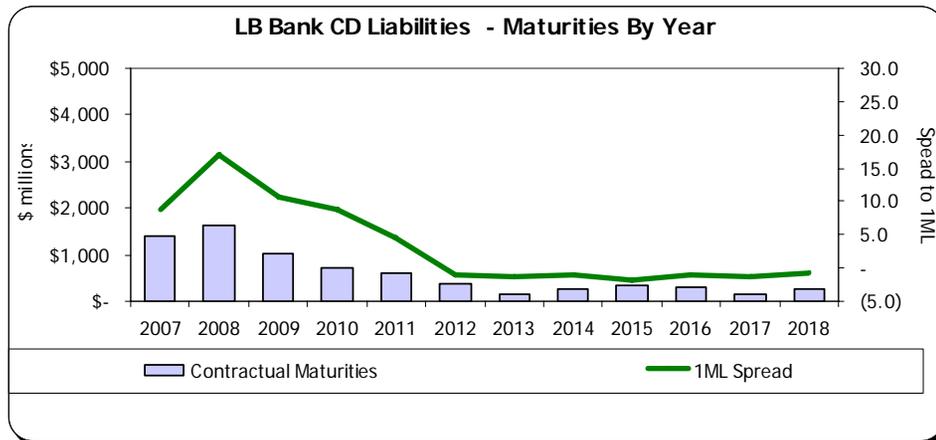
Lehman Brothers Bank, FSB

- ◆ Lehman's preferred means of funding our US residential mortgage business, Lehman Brothers Bank is a U.S. based thrift institution which was acquired in July 1999. It is able to source low-cost unsecured funds (primarily term deposits) and its deposits are insured by the Federal Deposit Insurance Corporation¹.
- ◆ As of June 2007, Lehman Brothers Bank had a total balance sheet of \$20.4 billion, of which US residential mortgages comprised \$14.0 billion (\$12.3 certified and \$1.7 non-certified). The remainder of its assets are comprised mainly of US commercial mortgages, warehouse lines and corporate loans.
- ◆ Funding flexibility is provided by a secured credit line from Federal Home Loan Bank-Pittsburgh. This line is drawn to \$3.8 billion on average when used, but borrowing capacity has reached as high as \$20 billion.
- ◆ A weekly Cash Capital and pipeline report is produced to manage its liabilities. This report is reviewed and discussed during LBB's monthly ALCO meeting, the Firm's weekly Finance Committee meeting, and the Firm's monthly ALCO process.

1) FDIC deposits insured up to \$100k per client.

Lehman Brothers Bank, Funding Sources

- ◆ Lehman Brothers Bank issues into an extremely deep brokered CD market to obtain a large component of its liabilities. As of June 2007, \$9.4 billion of its \$20.4 billion in total sources were derived from CDs, of which:
 - \$4.8 billion (51%) are in the form of bullets and \$4.6 billion (49%) are callable at Lehman’s discretion
 - The average contractual term is 7.5 years
 - Average contractual remaining life is 5.5 years, with an expected average remaining life of 3.4 years
 - We calculate cash capital at the Bank level differently than the Holdings Company to reflect the higher level of reliability of CD funding due to the FDIC insurance
 - \$6.7 billion has greater than 1 year until maturity, to which 100% cash capital value is attributed
 - \$2.7 billion has less than 1 year until maturity, to which 80% cash capital value is attributed
 - All is sourced through a network of 13 brokers, with no significant concentration with any broker
- ◆ Additionally, Lehman Brothers Bank has \$2.2 billion sourced from its entity sweep programs, customer deposits and escrow deposits¹, to which 80% cash capital value is attributed.
- ◆ As of June 2007, Lehman Brothers Bank had \$2.1 billion in equity.



1) This is comprised of “sticky” customer deposits through our Private Investment Management network and from the Mortgage business

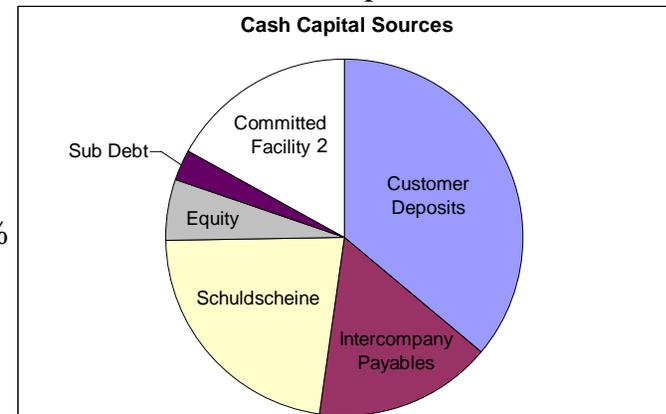
Lehman Brothers Bankhaus AG

- ◆ Lehman's preferred means of funding our European residential mortgage business and global loan commitments, Lehman Brothers Bankhaus is a regulated German Bank which participates in the German Depositors Protection Fund, which insures deposits from non-bank customers¹. The bank was founded in 1989.
- ◆ As of June 2007, Lehman Brothers Bankhaus had a total balance sheet of \$16.3 billion, of which residential mortgages, commercial real estate and corporate loans comprised \$9.7 billion.
- ◆ Used as an active repo counterpart for the Firm's broker/dealer entities, with \$6.1 billion of reverse repo outstanding as of June 2007.
- ◆ Benefits from flexible funding through money market facilities and also has a \$2.5 billion 3 year committed unsecured cash capital facility provided by a syndicate of relationship banks.
- ◆ A weekly Cash Capital and pipeline report is produced to manage its liabilities. This report is reviewed and discussed during the Firm's weekly Finance Committee meeting.

1) Non-bank deposits insured up to €200m per client/legal entity.

Lehman Brothers Bankhaus, Funding Sources

- ◆ We monitor cash capital in Bankhaus in the same way as the Holding Company. A 60% average cash capital value is attributed to Customer Deposits with terms less than a year to reflect their reliability due to the GDPF protection. As of June 2007, \$8.7 billion of its \$16.3 billion in total sources were derived from Customer Deposits, of which:
 - \$4.3 billion (50%) had a term of 91 to 364 days, to which 80% cash capital is attributed
 - \$2.4 billion (28%) had a term of 31 to 90 days, to which 50% cash capital is attributed
 - \$1.8 billion (21%) had a term of less than 31 days, to which 25% cash capital is attributed
 - 85% of deposits are from non-bank entities, of which 94% are fully guaranteed by the GDPF
 - The average cost is a 1.5 basis point spread over 1 week LIBOR
- ◆ As of June 2007, \$3.4 billion of its \$16.3 billion in total sources were derived from Schuldscheine and EMTNs :
 - \$2.7 billion (80%) were Plain Vanilla
 - \$0.4 billion (10%) were Equity Linked
 - \$0.1 billion (3%) were Interest Rate Structured
 - The average cost is a 20 basis point spread over 1 month LIBOR
- ◆ The \$2.5 billion 3.5 year committed unsecured facility is 100%² cash capital until it has less than a year to maturity.
- ◆ Additionally, Lehman Brothers Bankhaus has \$2.4 billion of Intercompany Payables and \$1.2 billion of Equity & Subordinated Debt, to which a 100% cash capital value is attributed.

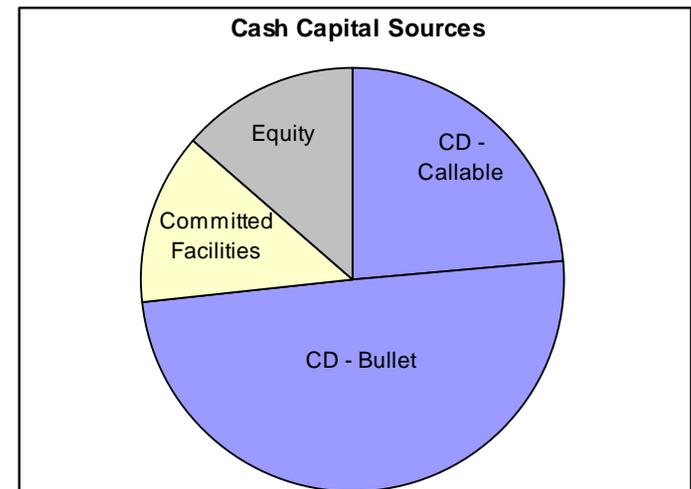
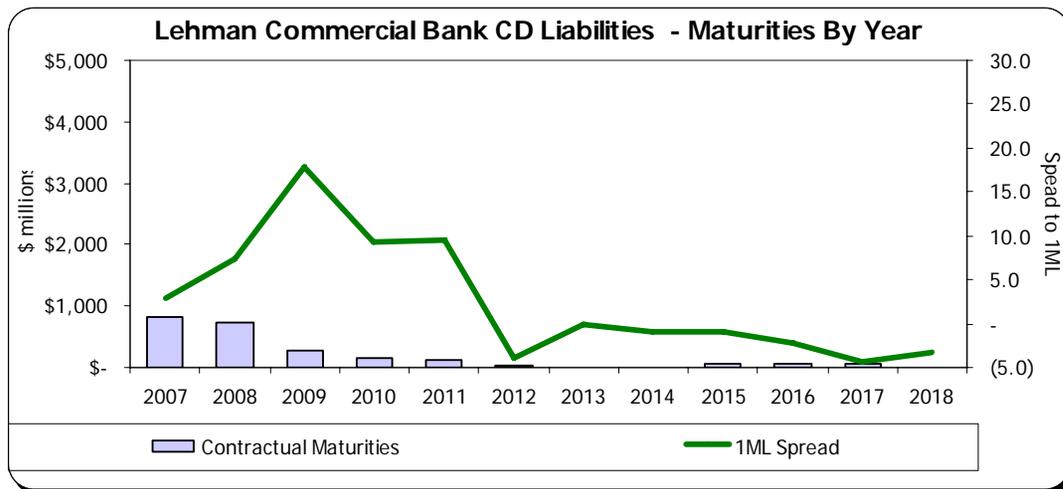


Lehman Brothers Commercial Bank

- ◆ Lehman Brothers Commercial Bank (LBCB) is a Utah chartered industrial bank which is able to source low-cost unsecured funds (primarily term deposits) and whose deposits are insured by the Federal Deposit Insurance Corporation.
- ◆ As of June 2007, Lehman Brothers Commercial Bank had a total balance sheet of \$3.5 billion.
- ◆ Lehman Brothers Commercial Bank was created in August 2005 to compliment Lehman Brothers Bank and Lehman Brothers Bankhaus as a reliable, low-cost funding platform via FDIC-insured deposits. It currently funds mainly commercial real estate, loan commitments, warehouse lines and municipal derivative receivables.
- ◆ Funding flexibility is provided by committed unsecured credit facilities from Nordea (\$300 million) and Bank of Montreal (\$150 million). Federal Home Loan Bank-Seattle extends a secured credit line which can be drawn up to 40% of LBCB's total assets (approximately \$1.3 billion).
- ◆ LBCB also has the ability to borrow secured from the Fed Discount Window by pledging corporate loans at a 75% loan-to-value.
- ◆ A weekly Cash Capital and pipeline report is produced to manage its liabilities. This report is reviewed and discussed during the Firm's weekly Finance Committee meeting, and the Firm's ALCO process.

Lehman Brothers Commercial Bank, Funding Sources

- ◆ Lehman Brothers Commercial Bank obtains funding via the brokered CD market. As of June 2007, it had \$2.8 billion of brokered CDs outstanding of which \$1.9 billion (68%) are bullet and \$900 million are callable (32%).
 - The average contractual term is 5.4 years
 - The average contractual remaining life is 4.5 years with an expected average remaining life of 3 years.
 - We calculate cash capital at the Commercial Bank level differently than the Holding Company. This is to reflect the higher level of reliability of CD funding due to the FDIC insurance
 - \$1.5 billion (54%) has greater than 1 year until maturity, to which 100% cash capital value is attributed
 - \$1.3 billion (46%) has less than 1 year until maturity, to which 80% cash capital value is attributed



- ◆ The \$450 million in committed facilities (Nordea & BMO) are 100% cash capital until less than a year to maturity.
- ◆ As of June 2007, Lehman Brothers Commercial Bank had \$475 million in equity.

Contingent Liquidity Risk

Contingent Liquidity Risk Management

- ◆ Contingent liquidity risk arises when the Firm faces potential liquidity outflows, which are typically from unfunded loan commitments, liquidity facilities extended to conduits, or collateral outflows due to a downgrade
- ◆ Treasury has a comprehensive set of policy tools to mitigate the contingent liquidity risk of the Firm:
 - Designate high grade loan revolvers to Aegis, a prefunded conduit with funding capacity of \$2.4 billion
 - Designate acquisition loans to LLF, a \$7.5 billion affiliate which can fund non investment grade loans
 - Designate remaining loan commitments to the extent possible to one of the Firm’s bank entities given their access to the insured deposit market
 - Prefund to a 95% confidence level all unfunded loan commitments outside these conduits, liquidity facilities to conduits, as well as prefund 100% of the collateral outflows due to a one notch long term Lehman downgrade

in billions

Contingent Uses of Liquidity Q2 2007	Actual Commitment	Expected Funding at 95% confidence level	
Unfunded high grade loan commitments	19.6	3.9	based on downgrade probabilities by ratings and industry
Unfunded high yield loan commitments	10.6	2.4	based on historical draw data
Liquidity Facilities to Conduits	2.9	2.9	based on 1 notch downgrade
Contingent Collateral on Downgrade	0.9	0.9	based on 1 notch downgrade
Contingent Acquisition Facilities	50.9	9.7	covered in depth in following slides
Total Uses	84.9	19.8	
Sources of Liquidity Q2 2007			
Contingent Uses Prefunding in Holdings		3.6	
Contingent Uses Capacity (LBB, LBCB, Bankhaus)		8.3	
Aegis Finance		2.4	
LLF		7.5	
Lehman Committed Facilities		5.3	
Minimum Cash Capital Surplus		2.0	
Total Sources		29.1	

Contingent Liabilities – High Grade Corporate Loans

In the normal course of its business, the Firm makes loan commitments to clients.

- ◆ \$19.6 billion in commitments as of May 2007
 - Revolving secured credit lines primarily used as CP backstop, with average exposure of just over \$100 million
 - Primarily undrawn but are expected to be fully funded if the borrower is downgraded since they may be unable to access the capital markets
- ◆ Liquidity risk mitigation strategy
 - Designate commitments to Aegis Finance, a Lehman-sponsored prefunded conduit with a \$6 billion designation capacity and a funding capacity of \$2.4 billion
 - Aegis Finance issues one year-extendible SLN rated A-1+/P-1 and invests the proceeds in short-dated high quality instruments which can be liquidated at short notice to fund any loan draws in the conduit
 - Aegis is fronted by Lloyds TSB and offers another layer of protection in the sense that Aegis Finance is not perceived by the market to be Lehman exposure
 - Designate remaining contingents to the extent possible to one of the Firm's bank entities:
 - Lehman Brothers Bank - loan to one borrower limit of \$250 million
 - Lehman Brothers Commercial Bank - loan to one borrower limit of \$125 million
 - Lehman Brothers Bankhaus - loan to one borrower limit of \$265 million
- ◆ Prefund a percentage of all contingent high grade loans (even those in banks) by Monte Carlo simulation based on:
 - Probabilities of short-term ratings being downgrade by one notch, taken from a historical transition matrix
 - Correlations of downgrade probabilities based on credit default spreads
 - Pre-funding Level: 95% CI level from the simulation results

Contingent Liabilities – High Yield Corporate Loans

The Firm also extends loan commitments to its high yield clients

- ◆ \$10.6 billion in contingent commitments as of May 2007
 - Revolving lines of credit usually used for working capital purposes
 - Diversified undrawn portfolio

- ◆ Liquidity risk mitigation strategy
 - Designate these contingent commitments to the extent possible to one of the Firm’s bank entities that can fund high yield positions: Lehman Brothers Commercial Bank and Lehman Brothers Bankhaus. LBCB has a loan to one borrower limit of \$125 million and Bankhaus \$265 million

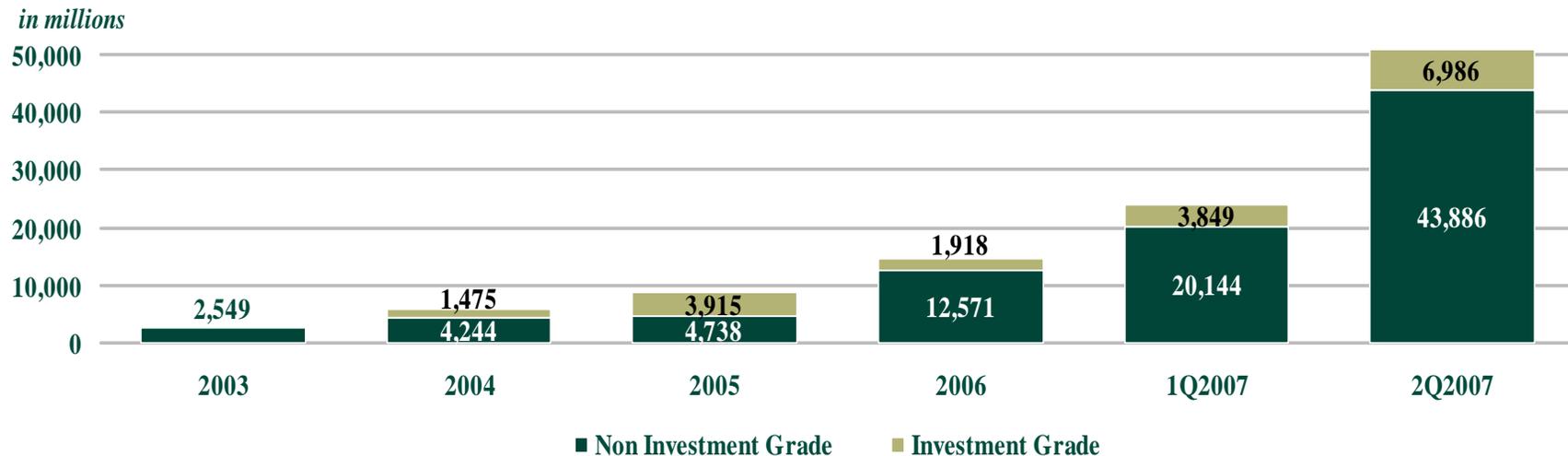
 - Prefund 20% of all high yield unfunded revolvers – probability of funding based on historical draws including a large buffer. This recognizes the working capital versus liquidity backstop nature of these facilities.

 - The Firm is also in the final stages of establishing a \$2 billion conduit to fund its high yield revolvers to complement the Aegis conduit.

 - We have been monitoring all our contingent loan commitments and the current credit tightening has not led to a significant amount of draws – has stayed at run rate

Contingent Acquisition Facilities

- ◆ With the growth in LBO activity globally we have seen a significant increase in loan commitments to support sponsors. The Q2 number includes \$9.8 billion for the Archstone-Smith acquisition which is our contingent commitment after syndication to Barclays and Bank of America and our equity stake.
- ◆ There are a number of commitments where our expected allocation is much lower than the headline reported number (for example, the Allison Transmission - commitment \$4.4 billion, funded \$1.15 billion; Endemol Holdings - commitment \$3.8 billion, funded \$0.3 billion)



Contingent Acquisition Facilities

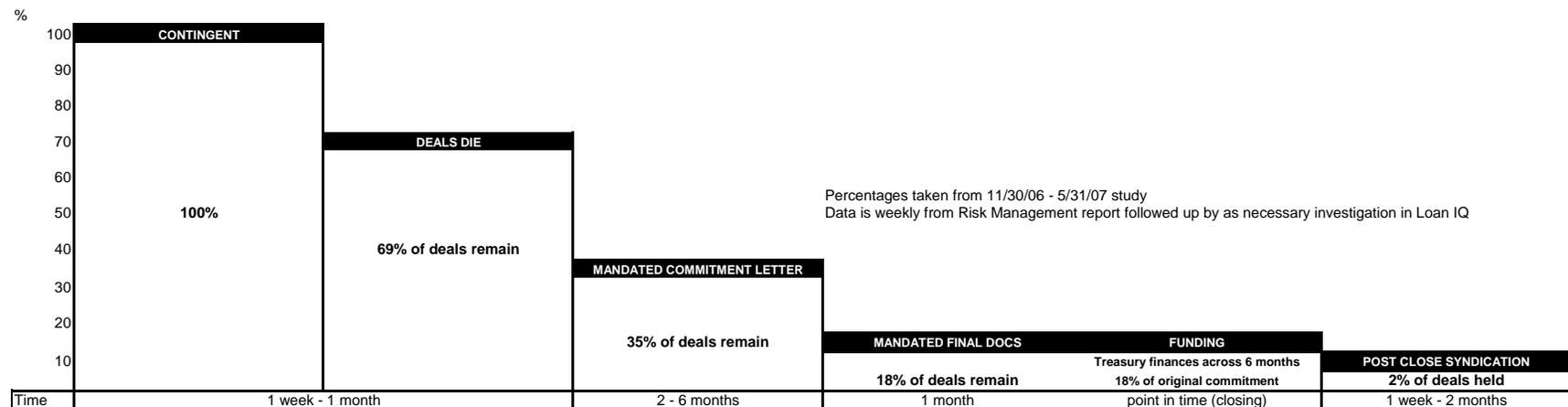
The size of the commitments overstate the Firm's liquidity risk

- ◆ Loans cannot be drawn before the transaction closes
- ◆ The acquisition may never happen
- ◆ If the sponsor completes the acquisition, the deal sponsor may have commitments for a multiple of the financing it requires and the Firm will usually get a percent allocation of the actual commitment, i.e. other bookrunners are added
- ◆ The sponsor advises the Firm of its expected allocation prior to the Firm signing a commitment letter, this is reported in Risk Management's weekly report
- ◆ There is usually at least one month lead time between Lehman knowing that it will have to fund a deal and the deal being funded, this is the period when syndication takes place
- ◆ Most credit risk is to be distributed to investors through loan syndication prior to closing
- ◆ The majority of facilities have clauses that would allow the Firm to revise pricing and structure if the deal is not syndicating well
- ◆ A large percentage of these deals do not get completed and/or do not result in a draw on the facility
 - **\$14.7 billion of Lehman acquisition facilities as of Nov 30, 2006 required \$2.6 billion (18%) of funding requirement on closing across the first half of 2007; no deals from this population remain contingent**
 - **\$50.8 billion of acquisition facilities as of May 31 required \$2.2 billion of through the end of July**
 - When these loans fund they do not all fund at the same time

Reduction of Liquidity Risk

Liquidity risk is reduced at every stage

- ◆ Liquidity risk is continually reduced throughout the process:
 - Deals die
 - The sponsor reduces our allocation of the deal down from 100%
 - We syndicate the loan to investors, cash can be received in before or after the loan closes
 - Treasury provided funding for 18% of the original Contingent Acquisition Facilities reported
- ◆ Of the \$14.7 billion of Contingent Acquisition Facilities reported at 11/30/06, just \$2.6 billion of funding was required



- Lehman signs commitment letter and is legally committed to 100% of the financing
- Sponsor is likely to have 100% commitments from a number of financiers
- Lehman holds an expectation of how much we will be expected to finance at this point from conversations with the sponsor
- Deals die or we receive mandate to finance
- Client has won asset and Lehman gets mandate to finance a part or all of the deal
- Lehman's portion is reduced from 100% to mandated level
- Multiple investment banks are brought in as bookrunners. We can be either the Lead, a joint bookrunner or take a small part in the deal.
- We now have a Credit Agreement with the sponsor
- The syndication process takes place: Lehman goes on roadshow, takes orders and allocates portions
- The deal closes and cash is received from syndication investors
- **Funding required from Treasury - this is funded with long term debt (cash capital) with no presumption of syndication**
- Cash is received in after the deal closes from syndication investors
- This is for European deals and deals that we are the Lead Manager
- Lehman maintains a small final hold

11/30/06 to 5/31/07 Data study

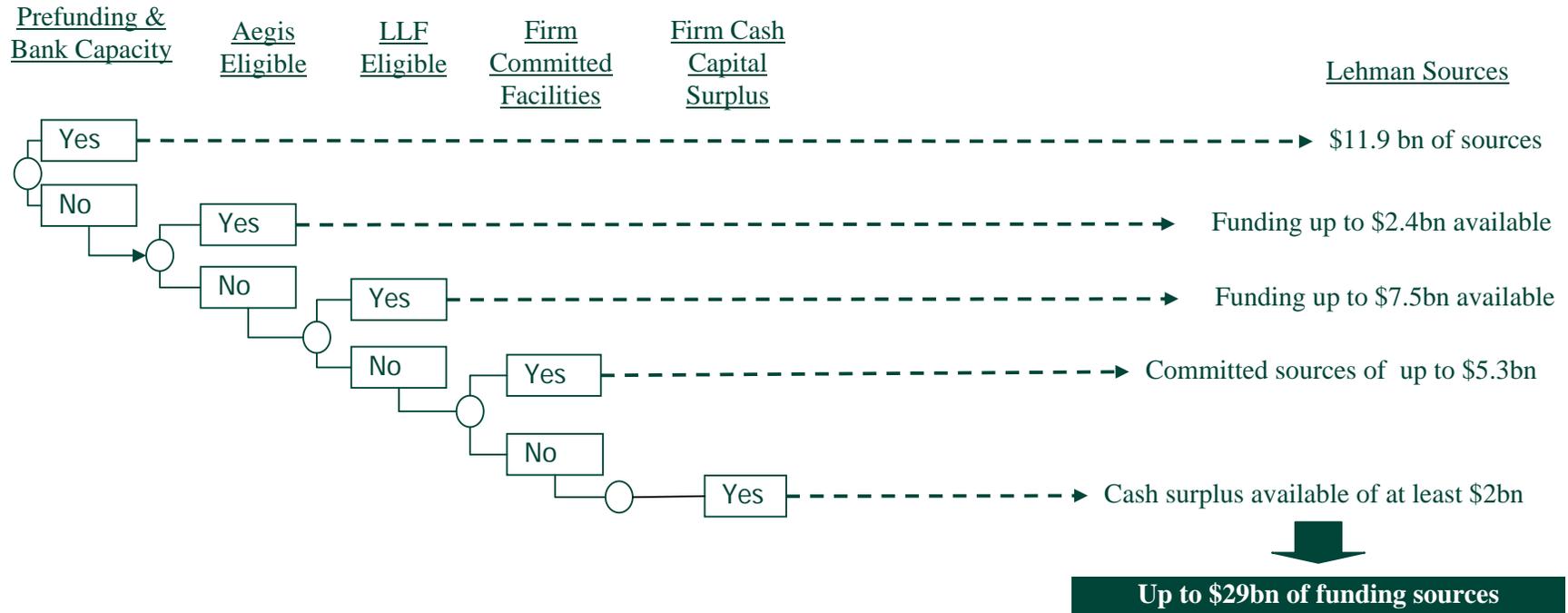
\$14.7 billion of Contingent Acquisition Facilities required \$2.6 billion of funding

Lead Deal Manager	Region	High Yield	Letters 11/30/2006 (\$MM)	Lehman underwriting (\$MM)	Lehman funding requirement (\$MM)	Facility drew	Jul-06 and earlier	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	
Y	Americas	Univision Communications	1,175	870	55	Y	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	CLOSED			
	Europe	Lekkerland-TobaccoLand GmbH/Permira	1,480	0	0	N		CONTINGENT	CONTINGENT	CONTINGENT	CONTINGENT	CONTINGENT	DIED					
	Americas	Yankee Candle Company	845	504	504	Y		CONTINGENT	CONTINGENT	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	CLOSED			
	Europe	BorsodChem Rt / First Chemical	504	516	384	Y		CONTINGENT	MANDATED	MANDATED	MANDATED	CLOSED						
	Americas	Freescall Semiconductor	832	340	1	Y			CONTINGENT	MANDATED	MANDATED	CLOSED						
	Europe	Herbst Gaming	438	413	95	Y			CONTINGENT	CONTINGENT	MANDATED	CLOSED						
	Americas	BlueStone Television	195	195	0	Y				CONTINGENT	MANDATED	CLOSED						
	Americas	Pilgrim's Pride Corporation	315	315	0	N				CONTINGENT	CONTINGENT	CLOSED						
	Americas	Brickman Group	400	400	400	Y				CONTINGENT	MANDATED	MANDATED	CLOSED					
	Americas	Audio Visual Services Corp	325	189	189	Y				CONTINGENT	CONTINGENT	CONTINGENT	CONTINGENT	CONTINGENT	CLOSED			
	Americas	Raytheon Aircraft Company	2,900	230	45	Y				CONTINGENT								
	Americas	Tenaska Power Fund	181	181	0	Y						CLOSED		MANDATED	MANDATED	CLOSED		
	Europe	Dockwise Transportation N.V.	300	280	280	Y					CONTINGENT	CONTINGENT	CLOSED					
	Europe	KION/ Linde Material Handling Group	868	481	481	Y					CONTINGENT							
	Americas	DLF Limited	300	0	0	N					CONTINGENT	CONTINGENT	DIED					
	Americas	Mirador / Mirant	950	0	0	N					CONTINGENT	CONTINGENT	DIED					
	Americas	Pacific Oil & Gas (Jambir Merang) Limited	185	0	0	N					CONTINGENT	CONTINGENT	MANDATED	MANDATED	DIED			
Americas	United Surgical Partners International	573	211	15	Y					CONTINGENT	CONTINGENT	MANDATED	MANDATED	MANDATED	MANDATED	CLOSED		
			12,766	5,125	2,449													
High Grade																		
Europe	Catlin Group	250	200	200	Y					CONTINGENT	MANDATED	CLOSED						
Europe	E.ON	1,668	0	0	N	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	MANDATED	DIED		
			1,918	200	200													
Funding requirement by month												480	1,361	693	100	15		
TOTAL			14,683	5,325	2,649													

- ◆ 15 of 17 deals on which Lehman was mandated, closed
- ◆ There was \$14.7 billion of Contingent Acquisition Facilities as at November 30, 2007, all of which had closed by May 31
- ◆ \$4.9 billion (31%) of deals did not happen or were not funded because the other bidder won or the sponsor we would finance failed to complete the deal
- ◆ Joint book runners were added to some of the deals, reducing Lehman's commitments by \$4.8 billion
- ◆ \$2.4 billion of underwritten loans were syndicated and the cash was received prior to closing
- ◆ The total funding requirement for the period was \$2.6 billion or 18% of the Contingent Acquisition Facilities we had at November 30, \$2.5 billion of this in Q1
- ◆ Where deals did fund, we provided cash for 27% of our original commitment (\$2.6 billion of \$9.8 billion)
- ◆ We had to front money for syndication clients in the Yankee Candle and Brickman deals where we were lead manager, we acted as agent and received 34% of the money we had provided for financing back within one week, 62% back within two weeks and 83% back within 4 weeks, the investors – pension funds, insurance companies, hedge funds – are contractually obligated to pay us back, therefore Lehman's exposure is settlement risk for cash we will receive, not credit risk to the borrowing company
- ◆ European deals, such as Kion and Borsod, fund before they are syndicated, we received 65% of the money we had provided for financing back within two months and 85% back within five months

Contingent Liabilities Financing Sources

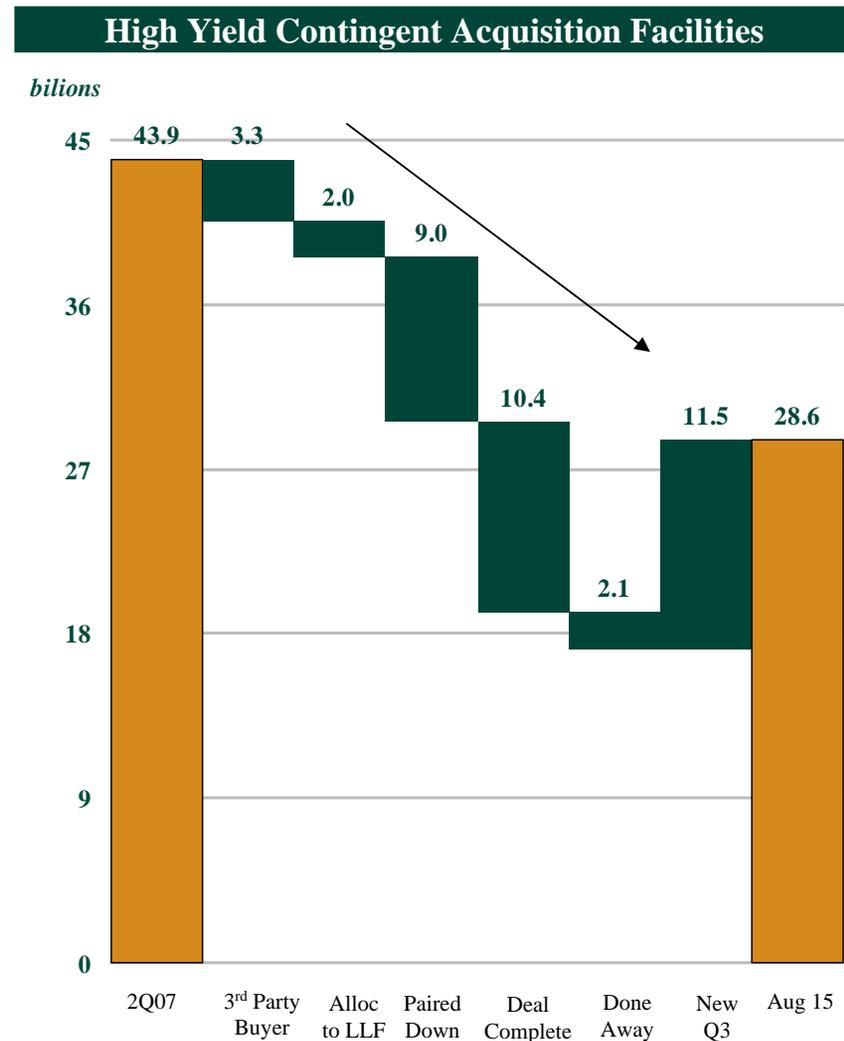
Lehman has a number of sources to mitigate liquidity risk



- ◆ Have \$5.4 billion set aside in the 9-12 month bucket of the MCO model earmarked for short term debt and the current portion of long term debt
- ◆ And have \$56 billion of unencumbered collateral that can be used to raise incremental financing

Forecast Liquidity

- ◆ At the end of July we reported a cash capital surplus of \$5.2 billion. This includes loan funding and syndication.
- ◆ We forecast at the end of Q3 to have a surplus of \$5.7 billion. This includes funding \$6.4 billion of loans in August and syndicating and transferring to one of our banks \$3.5 billion
- ◆ We forecast a worst case cash capital surplus of \$2.0 billion at year end



Contingency Funding Plan

Contingency Funding Plan

The Contingency Funding Plan (CFP) Is A Detailed Action Plan To Be Activated In A Liquidity Event

- ◆ The Contingency Funding Plan (CFP) includes the following components:
 - Creates an executable plan for a comprehensive response to extreme liquidity events by geographical region, functional area, and business
 - Defines roles and responsibilities within the management framework to execute the plan
 - Provides key contact points within and outside the firm for decision making and implementation
 - Identifies key resources within the firm, including senior management, information, and operational support that need to be mobilized to implement the plan
 - Incorporates a comprehensive communication strategy to consolidate feedback to senior management and creditor institutions.

- ◆ It was last activated in the aftermath of September 11, 2001 as a precautionary measure.
 - We did not have a liquidity event on September 11, 2001. On the other hand, we were very long cash and were able to provide liquidity to European banks that had trouble funding their dollar positions. The plan was activated primarily because of the state of disarray of the secured funding markets.

Contingency Funding Plan

A Comprehensive Contingency Funding Plan (“CFP”) Is A Valuable Tool To Manage Liquidity Risk, Avoid Potential Insolvency, And Communicate Effectively To The Firm’s Stakeholders During A Funding Crisis.

- ◆ The CFP projects potential funds erosion in a crisis situation, and forces analysis and management outside of traditional functional levels.
- ◆ While the main focus of the plan is to provide tools to manage and generate liquidity, it also highlights the importance of communication, both internally and externally, and the ability of the Firm to quickly mobilize resources and information to optimize reaction to a crisis. The plan directs the firm to address any weaknesses that exist by clearly defining what actions need to be carried out, who is responsible for these actions and what outcome should be expected.
- ◆ The initial 24 hours after the start of a crisis are expected to be critical. During this period Treasury must assess the impact that the crisis catalyst, if one exists, has on the Firm’s liquidity position and planning. The key tasks required for Treasury have therefore been identified as:
 - Preparing cash projections for LBHI (Global) funding chain
 - Estimating funding requirements for material legal entities
 - Determining maximum pledge value of Firm’s unencumbered collateral
 - Identifying major gaps in liquidity and considering how to close them
 - Comparing actual market conditions to MCO assumptions/estimations
 - Strategic placement of the Firm’s funded liquidity position to re-enforce the Firm’s strong liquidity position based on counterpart and sales force feedback
 - Evaluating FX line availability
 - Monitoring margin activity
 - Evaluating inter-company payables and possible distributions
 - Reviewing Prime broker activity
 - Communication of the consolidated markets reaction
 - Review of operational friction .i.e. fails

Confidential Presentation to:

Standard & Poor's

Equity Adequacy

August 17, 2007

LEHMAN BROTHERS

Overview

- ◆ Establishing the “optimal” amount of Equity Capital is essential for successful growth of the Firm
 - Meeting regulatory requirements; Establishing confidence with counterparties, creditors, and rating agencies; Supporting sustainable growth; Delivering adequate return to equity investors

 - ◆ It is commonly agreed that equity capital should be sized based on risk-driven, Basel II-compliant measures. Yet industry-wide accepted approach is yet to emerge
 - Regulators (SEC) provide guidance, but revisions are frequent and some components still controversial
 - Rating agencies working on CSE-compliant models, yet so far none has gained industry-wide acceptance

 - ◆ We have developed an internal Equity Adequacy Framework
 - Risk-based, accounts for different types of risk
 - Designed to protect the Firm’s ability to restructure without resorting to bankruptcy in the face of severe, prolonged crisis
 - Supplements the existing Risk Appetite, Risk Equity, and Funding Frameworks.
 - Protects senior unsecured creditors, thus is consistent with key principles of credit rating

 - ◆ We believe that the Equity Adequacy Framework is both fundamentally robust and practical
 - Appropriately conservative
 - Testing of the model indicated its close alignment with the CSE model
 - Relatively transparent and easy to implement on both Firm-wide and business levels, as well as across firms

 - ◆ Application of the model to Lehman indicates adequate capitalization of the Firm
 - In recent quarters, the Firm’s risk-bearing capacity has been utilized more fully, however within established boundaries
-

The Role of Equity Adequacy Framework

Along with Risk Appetite, Risk Equity and Funding frameworks, the Equity Adequacy Framework is designed to protect the Firm against adverse events. It is the Firm's ultimate line of defense against extreme and prolonged crisis, preserving its ability to reorganize and restructure without resorting to bankruptcy.

Multi-tiered Defense Structure

Severity and duration of adverse event	Line of defense / Components	Function / Protected stakeholders
Severe but limited duration	Risk Appetite Framework <ul style="list-style-type: none"> Earning power Diversification Flexible cost structure 	<ul style="list-style-type: none"> Ensures minimal acceptable level of earnings Maintains the Firm's ability to recover while continuing to meet its obligations, including paying common dividends
Severe and extended duration	Risk Equity Framework <ul style="list-style-type: none"> Common Equity 	<ul style="list-style-type: none"> Ensures the Firm's ability to meet all financial obligations in distressed environment without restructuring
Severe and long-term	Equity Adequacy Framework <ul style="list-style-type: none"> Common equity Hybrid equity 	<ul style="list-style-type: none"> Ensures the Firm's assets, even in case of liquidation following extended crisis, are sufficient to meet its obligations to counterparties and lenders Protects long-term senior unsecured lenders

Severe but limited duration	Funding Framework <ul style="list-style-type: none"> Liquidity pool Reliable funding 	<ul style="list-style-type: none"> Ensures the Firm's ability to meet all financial obligations without relying on asset sales for one year and with no access to debt markets Protects secured and short-term unsecured lenders

Focus on Lehman-Specific Events

The focus of the Equity Adequacy Framework is on a Lehman-specific event, rather than systemic meltdown. Our Liquidity Framework ensures that we have sufficient time (one year) to arrange for disposition of assets or restructuring of liabilities. We assume that during this period, liquidation or financing of financial assets is possible, albeit at reduced valuations.

Scenario

A major loss stemming from events linked to either Lehman or/and one of its major counterparties.

Damage is large-scale and enduring (over one year), necessitating sale of assets and/or restructuring of liabilities. The Firm's rating is severely impaired (below IG)

Overall economic environment is unfavorable, resulting in severe losses on trading positions, however financial markets are functioning



Implications

Tangible assets can be liquidated or refinanced, albeit at significantly reduced valuations.

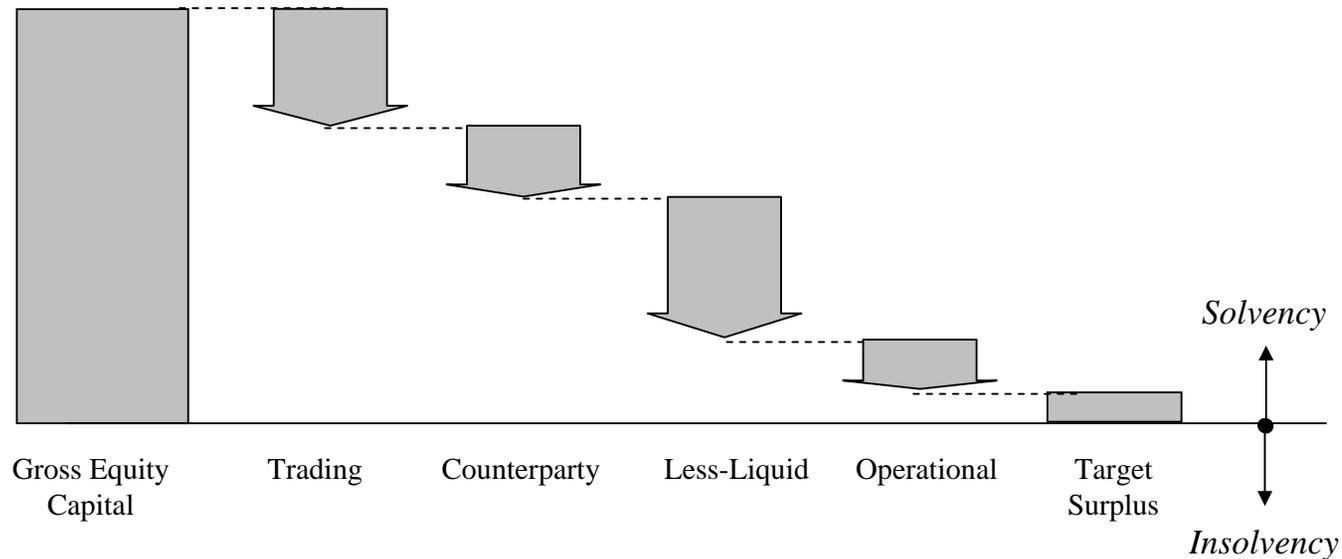
The value of intangible assets is materially impaired or lost

“Separable” assets can be sold (at reduced valuations) allowing some recovery of Goodwill

The Model

To protect our senior unsecured creditors -- thus enabling restructuring outside of bankruptcy -- the Firm's Available Equity capital should be sufficient to absorb the losses caused by the crisis and to support refinancing or liquidation without support of unsecured creditors. To be conservative, we assume that the requirements are additive and include substantial reserve requirement.

Equity Compression in Crisis



$$\underbrace{\left\{ \begin{array}{l} \text{Common} \\ \text{Equity} \end{array} \right\} + \left\{ \begin{array}{l} \text{Hybrid} \\ \text{Equity} \end{array} \right\}}_{\text{Available Equity}} - \underbrace{\left\{ \text{Trading} + \text{Counterparty} + \text{Less-Liquid} + \text{Operational} + \text{Target Surplus} \right\}}_{\text{Required Equity}} \geq 0$$

Parameters of Model

Component	Includes	Approach
Trading	<ul style="list-style-type: none"> Market Risk Credit Risk 	<ul style="list-style-type: none"> VaR-driven Reflects maximum loss over 1 year holding period with 99.97% confidence level
Counterparty	<ul style="list-style-type: none"> Financing and derivative exposure 	<ul style="list-style-type: none"> Maximum Potential Exposure (Probability of default and expected recovery in default)
Less Liquid	<ul style="list-style-type: none"> Haircut on Funding of Illiquid assets Haircut on Funding of Fixed assets Devaluation or loss of intangible assets 	<p>Triangulated based on</p> <ul style="list-style-type: none"> Estimated discount in fire sale Haircut for non-recourse financing Equity requirement in CDO structure <p>Estimated by marking to market, then taking same haircuts as on illiquid assets</p> <p>Estimated by marking “Separable” assets to market, then taking same haircuts as on Corporate Investments</p>
Operational	<ul style="list-style-type: none"> Operational loss Litigation loss 	<ul style="list-style-type: none"> Percent of revenues (5%)
Target Surplus	<ul style="list-style-type: none"> Protection against unexpected Reserve for tactical opportunities 	<ul style="list-style-type: none"> \$1.5 billion

Equity Requirements for Illiquid Assets

Estimating equity requirements (funding haircuts) for illiquid assets is difficult, particularly since the nature of the crisis is unknown. We use available market data on bank financing and observations of fire sales.

- ◆ The liquidation or financing value of assets (and, therefore, the equity charge) depends on several factors
 - Asset type and quality
 - Asset size relative to market liquidity
 - The nature of the crisis

- ◆ A representative sample of the baseline requirements is shown below

Capital charges (baseline sample)

<u>Asset class</u>	<u>Charge</u>	<u>Asset class</u>	<u>Charge</u>
Non-IG Contingent Commitments ¹	27%	Uncollateralized Spec-grade Derivatives	40%
HY Lending Commitments ²	27%	Private Equity	
HY Loans/HY Bonds	27%	Venture Capital	40%
Real Estate PTG		Merchant Banking	40%
Senior Debt (assumed IG)	5%	Fund of Funds	25%
Mezzanine (assumed NIG)	27%	Asset Management Seed	25%
Equity	40%	Minority Stake	40%
Distressed Loans (assumed NIG)	27%	Corporate Investments	40%
Non-IG Retained Interest	40%		

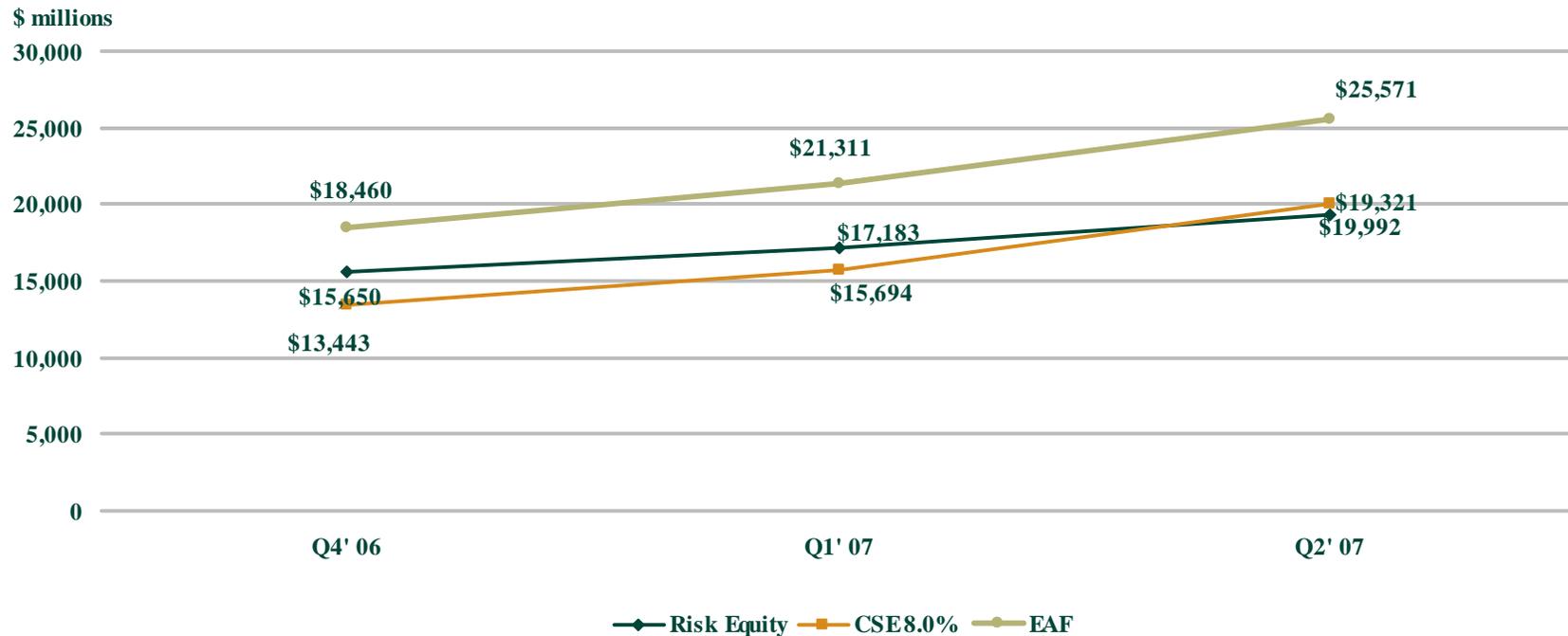
1 In a stress environment 36% of Commitments expected to be funded

2 In a stress environment 30% of Commitments expected to be funded

Comparing the Models

Comparison of Equity Adequacy Framework (EAF), CSE, and Risk Equity Models indicates close alignment between EAF and CSE. The difference between absolute requirements of the two models is driven by the fact that Tier 1 equity is, by definition, lower than Gross Equity.

Equity Capital Requirements by Model



Standards of Capital Adequacy

We remain adequately capitalized by all three key standards we apply: CSE, Risk Equity, and Economic Capital. Our 8% target for CSE adequacy is significantly higher than the regulatory “well capitalized” standard.

Capital Adequacy Metrics

<u>Equity Adequacy Framework</u>	<u>Q4' 06</u>	<u>Q1' 07¹</u>	<u>Q2' 07</u>	<u>Q3' 07 - F</u>	<u>Q4' 07 - F</u>
Requirements	18,460	21,311	25,571	26,243	26,980
Target Surplus	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Gross Equity	21,929	24,518	26,001	26,803	27,874
Surplus/(Deficit) Before Target Surplus	4,969	4,707	1,930	2,060	2,394
Target Surplus	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Surplus/(Deficit) in Excess of Target Surplus	3,469	3,207	430	560	894
<u>Risk Equity</u>	<u>Q4' 06</u>	<u>Q1' 07</u>	<u>Q2' 07</u>		
Requirements	15,650	17,183	19,321		
Common Equity	18,096	18,910	20,034		
Surplus/(Deficit)	2,446	1,727	713		
<u>CSE @ 8%</u>	<u>Q4' 06</u>	<u>Q1' 07¹</u>	<u>Q2' 07</u>		
Requirements	13,443	15,694	19,992		
Tier 1 Capital	16,015	18,488	20,377		
Surplus/(Deficit)	2,572	2,794	385		

1. Includes MCAPS issuance for \$1.5 Billion

Equity Adequacy Trend

The Model indicates adequate equity capitalization of the Firm. Over the recent quarters, surplus has decreased, driven by more efficient use of the Firm's risk-bearing capacity. Projections indicate increased equity surplus in Q3 and Q4.

Equity Surplus / (Deficit)

<i>Variables in \$mm</i>					
Performance data	Q4' 06	Q1' 07¹	Q2' 07	Q3' 07 - F	Q4' 07 - F
VaR 95% 1 day	53	73	87	95	101
Counterparty Risk Appetite	246	275	287	314	333
Less Liquid Assets	44,561	56,887	76,556	71,370	73,419
Revenue	17,583	18,168	19,270	20,790	20,600
PP&E	3,269	3,398	3,519	3,644	3,774
GW&I	3,362	3,531	3,652	4,061	4,049
DTA	2,670	2,722	2,774	2,826	2,878
<i>Variables in \$mm</i>					
Equity Required	Q4' 06	Q1' 07¹	Q2' 07²	Q3' 07 - F	Q4' 07 - F
Trading	1,740	2,401	2,861	3,134	3,318
Counterparty	516	578	602	660	699
Less Liquid Funding Haircuts					
<i>Less Liquid assets</i>	8,529	10,305	13,749	13,551	13,940
<i>Fixed assets</i>	2,697	2,811	2,923	2,937	3,042
<i>Goodwill</i>	462	631	752	1,161	1,149
<i>DTA</i>	2,136	2,178	2,219	2,261	2,303
Total	13,824	15,925	19,644	19,910	20,434
Operational	879	908	964	1,040	1,030
Total Gross Equity Required Before Target Surp	16,960	19,811	24,071	24,743	25,480
Target Surplus	1,500	1,500	1,500	1,500	1,500
Total Gross Equity Required	18,460	21,311	25,571	26,243	26,980
Equity Available					
<i>Common Equity</i>	18,096	18,910	20,034	20,817	21,888
<i>Hybrids</i>	3,833	5,608	5,967	5,986	5,986
Total Gross Equity	21,929	24,518	26,001	26,803	27,874
Surplus/(Deficit) Before Target Surplus	4,969	4,707	1,930	2,060	2,394
Target Surplus	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Surplus in Excess of Target Surplus	3,469	3,207	430	560	894

1. Includes MCAPS issuance for \$1.5 Billion