Investor Presentation Outline

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Market Environment and Impetus for Action

- During the past quarter, market concerns about continued deterioration of commercial real estate and residential mortgage assets have exacerbated concerns about the Lehman Brothers franchise. This negative sentiment has adversely affected our share price and credit spreads and has created a significant distraction for our clients, counterparties and employees.
- We have responded aggressively to these concerns by continuing to reduce our exposure to these asset classes and buttressing our capital and liquidity positions.
  - In Q3, we reduced our residential mortgage exposure by [$9.5B] through a combination of asset sales and write downs and reduced our exposure to UK mortgages by almost two-thirds [$6B]. We also significantly reduced our commercial real estate exposure by [$6B] during the quarter.
  - These reductions are in addition to the $16.1B reduction we experienced in Q2 and effectively eliminate any material exposure we have to the residential mortgage sector.
  - At the same time, we focused on maintaining a strong liquidity and capital position, ending the quarter [$128B] in long term debt, a [$38B] liquidity pool at the holding company, a [$ B] cash capital surplus and a strong secured funding position.
- Notwithstanding these actions, significant market pressure persists due to our remaining legacy position in the commercial real estate sector.
  - Lehman currently trades at a substantial discount to book value; this implies a $6.9B post-tax loss, or a $10.0B pre-tax loss, even after the earnings from our core business.
  - This implied writedown substantially underestimates the value of our commercial portfolio and creates significant pressure to sell assets in a difficult market.
- As a result, we believe it necessary to separate our legacy commercial real estate assets from the core Lehman Brothers franchise to eliminate this overhang the and potential for a downward spiral due to ongoing market concerns.

SpinCo Concept and Rationale

- Over the next few months, Lehman Brothers will spin off substantially all our commercial real estate assets into an independent, publicly traded company. We believe this is the best approach for maximizing the value of these assets and the overall value of the Lehman Brothers franchise.
  - To implement this separation in the most attractive way for shareholders, we are planning to spin off our commercial real estate assets into a separately-capitalized liquidation trust.
    - This entity will be managed independently from Lehman Brothers and sheltered from the pressure of our mark-to-market environment. As a result, it will have the flexibility to manage these assets in a way that maximizes shareholder value.
  - The SpinCo portfolio will be highly diversified by geography and property type and will include the vast majority of Lehman's 2,600 commercial real estate positions.

- These positions have strong cash flow characteristics with more than [6x] interest coverage on total cash flow.
- SpinCo will be conservatively capitalized to eliminate the risk of further losses at Leh.
  - It will have [30%] equity against the already marked positions. This will provide significant protection to Lehman's debt position in the entity. This represents materially lower leverage than comparable publicly traded real estate companies.
- Overall, this structure will maximize value to Lehman's shareholders
  - Post spin, Clean Lehman will have [$] in book equity per share. At a 1.25x price-to-book multiple, this is worth [$]
  - SpinCo will have [$] in book value per share.
  - So, at an [$] issue price, investors will receive shares worth [$]

Profile of Clean Lehman

- Post SpinCo, the remaining "Clean Lehman" will be well positioned for success. It will have the capital, balance sheet, and producer footprint to support its global client franchise and to earn attractive, risk-adjusted returns across the cycle.
  - Clean Lehman will be a pure-play, global investment bank focused on serving clients across each of our businesses. By focusing on agency businesses and de-emphasizing principal activities, we will be able to increase wallet share and market share, and earn mid-teens ROE across the cycle.
    - Clean Lehman has the capacity to earn $16.6B in net revenues [including IMD] and generate a low-teens ROE over the coming year.
    - Delivering these returns, would require ~$285B in net assets and $24B in leveragable equity. This would require us to raise [$4-5B] in new equity – to be confirmed, depending on SpinCo equity required].
    - The implied 12x leverage ratio is consistent with maintaining an A rating and is the lowest leverage ratio we have had since Lehman became a public company in 1994.
  - Earning $16.6B in revenues is well within the capabilities of our existing franchise and does not require material improvements in the market environment, significant share gains or new investment. Moreover, does it not require us to execute successfully in each of our businesses. Instead, requires us to earn [below cycle-average ROAs] by executing against well-defined business plans in each of our businesses.
    - [One page on each division, outlining expected market environment by product, Lehman target revenues, source of Lehman "edge" by product]
    - The loss of our real estate and securitized products businesses do not materially affect our ability to achieve this revenue, since we have already made the transition away from these businesses. In 2007, when we earned a record $19.3B in revenues, these businesses contributed essentially $0 in net revenue to the Firm.
  - Clean Lehman will have a significantly lower risk profile than the current entity.

- Our balance sheet will include a substantially smaller proportion of Level 3 and less liquid assets and will have substantially greater asset velocity.
  - At the end of Q2, we reported $41B in Level 3 assets accounting for almost 17% of total Firm net assets.
  - $24B (59%) of these Level 3 assets were concentrated in our securitized products and commercial real estate businesses.
  - Absent these businesses, only 7% of our net assets would have been Level 3.
- We will be able to fund these assets with our existing cash capital, and by continuing to scale our multiple bank entities. We will have [limited] reliance on repo funding for assets other than gov'ts, agencies, and exchange traded equities.

– More generally, our operating model for increasing shareholder value will be one focused on maximizing risk-adjusted returns. To do this we will:

- Be more disciplined around demanding appropriate risk-adjusted returns from our assets, charging higher funding costs for less liquid and less hedgeable risks.
- More aggressively leverage third party balance capital to earn fees from the assets we originate, particularly in real estate, residential mortgages and high yield.
- Adhere to strict budgets around the total amount of less liquid assets we are willing to hold in our portfolio as a whole.

– Operating as Clean Lehman will require us reshape the profile of our franchise by:

- Significantly reallocating our balance sheet, away from Commercial Real Estate and securitized products and towards high growth areas like Commodities, FX and EMG
- Selectively eliminating headcount, focusing disproportionately on those businesses in secular decline and on non-core corporate functions.
- Substantially reducing our NPE expense to from our $4B run rate to $3.6B. This reduction is achievable based on our historical experience and a series of specific, well-defined saves.
  - $3.6B is less than the $3.8B NPE expense we incurred in 2007, when earned $19.3B in revenue and had a substantially larger employee footprint (28,500 vs 21,600 in Clean Lehman).
  - We have identified $235M in savings from identified headcount reductions, $83M from divesting SpinCo, and $75M from identified efficiency gains.

– Operating as Clean Lehman will also require us to retain our best talent.

- We will be able to do so by reducing non-core headcount to compensate our best people competitively.

Investor Presentation Outline

The Path to Creating Clean Lehman

- Creating Clean Lehman has required us to take a number of steps which have negatively affected our financial performance during this quarter, but which have repositioned the franchise for future success.
  - During the quarter, we will report a $3.3B net loss. This was driven primarily by the $5.0B net writedown we incurred in those asset classes where we executed significant bulk sales to reduce our exposures during the quarter. These include:
    - $3.4B net writedown in residential mortgages, driven by [$10B] asset disposition
    - $1.5B net writedown in commercial real estate, driven by $6B asset sales
    - This $4.9B aggregate writedown was offset by $700M in debt revaluation gains.
  - Excluding the effect of these one-time marks, our run rate revenues for the quarter were $3.4B.
    - This run rate is down ~20% from the $4.2B we reported in Q2
    - But it is down only 12% when adjusted for the seasonal Q2-Q3 decline revenues that we have averaged as a firm for the past ten years.
  - Our performance for the quarter was also affected by one-time charges for severance associated with our targeted headcount reductions, and from the sale of non-core assets.
    - During the quarter we incurred [$ M] in severance costs and RSU acceleration associated with resizing our workforce to the current market opportunity.
    - We also incurred shut down costs due to selling/closing several non-core businesses (e.g., Campus Door, Small Business Finance)
  - Taken together with SpinCo, these actions have enabled us to substantially reshape the franchise into a leaner entity, more focused on our core client activity.
- Notwithstanding these one-time charges, the core of our client franchise remains strong.
  - Client revenues in our capital markets businesses remain above the 2007 average [to be confirmed], and we have maintained our top ranked position in the 2008 U.S. Fixed Income Greenwich survey
  - Client revenues in our Investment Banking and Investment Management businesses also remain strong [to be confirmed] as we have continued to gain share and win major client mandates.

Target Capital Raise and Choice of Instrument

- Implementing the restructuring plan to create Clean Lehman will require us to raise [$5B] in new equity capital which we are planning to raise this quarter prior to the launch of SpinCo.
- By raising this new equity prior to the spin, we will enable new shareholders to maximize their returns by participating in both the upside revaluation of Clean Lehman and the residual value of the SpinCo portfolio.
- [Donini/Wieseneck to provide detail on instrument and transaction economics to investor]