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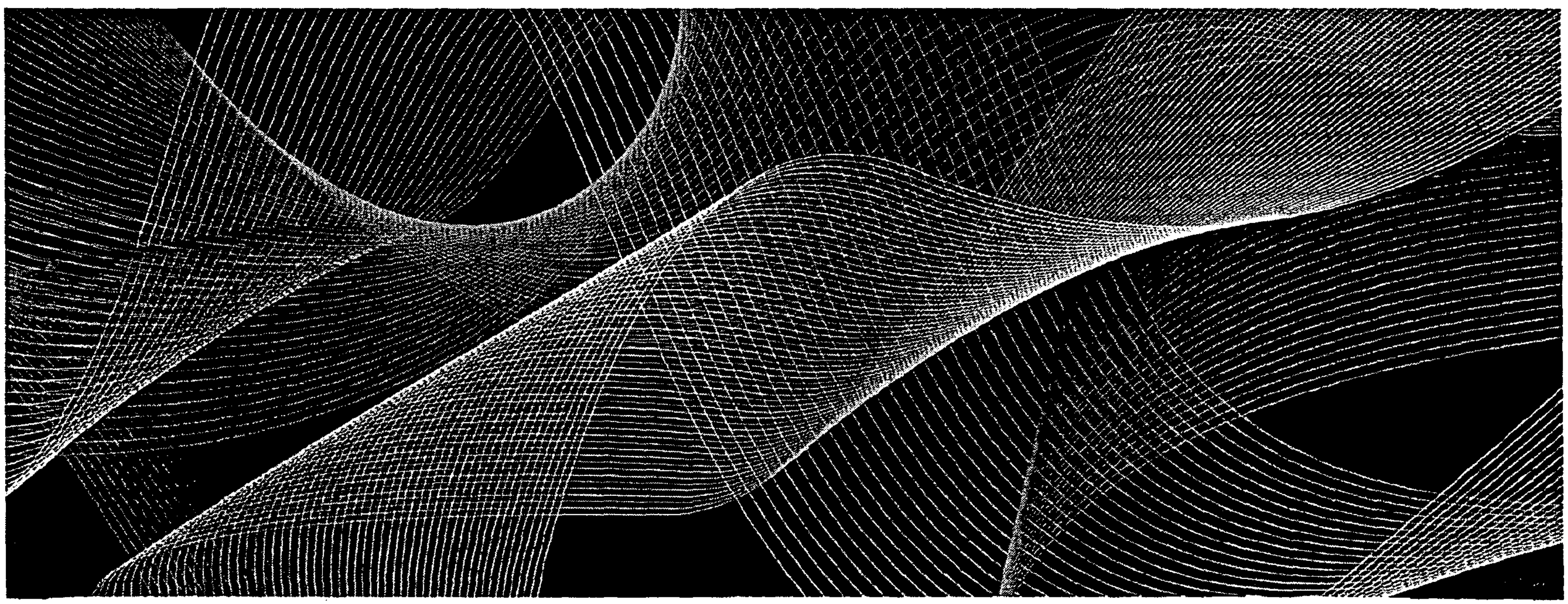
LEHMAN BROTHERS

July 22, 2008

Discussion Materials for the Board of Directors



Confidential Presentation

Table of Contents

Situational Overview

Summary of Current Situation

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Ongoing Pressure on Stock

- Green's market value and stock price have declined from their peaks of $46 billion and $85.80, respectively, in February 2007 to $12.7 billion and $18.32, respectively, currently
- Current price to book multiple of 0.56x vs. 3-year average of 1.85x and current industry average of 1.45x[1]

Positive Actions to Date

- Significant decline in leverage ratios driven by both capital offerings and balance sheet deleveraging
  - Pro forma for capital offerings, gross leverage is 20.0x and net leverage is 10.1x (vs. 31.7x gross leverage and 15.4x net leverage in the first quarter)
- Actively reduced key risk positions (CRE, residential mortgages, leverage loans and level 3 assets) in second quarter, though meaningful exposure remains
- Increased liquidity pool to $45B from $34B

Feasibility of Business Model

- Green's business model is under significant pressure
- Lower leverage and decreased flow in certain business lines will pressure future profitability metrics

Liquidity Outlook / Counterparty Risk

- Green continues to actively communicate with key counterparties
- Liquidity position remains strong and secured funding has remained essentially unchanged through July
- Should Green's stock price erode from current levels, however, the risk of losing secured funding increases

Client / Employee Risk

- Clients across all divisions beginning to do less business (or on less favorable terms) with Green because of speculation regarding Green's future
- IBD clients are hedging themselves against Green risk (e.g., key man clauses, fewer long-term mandates)
- Employee base is extremely unsettled

Discussions with Regulators / Rating Agencies

- Constructive and ongoing dialogue with regulators
- Recently downgraded one notch by Moody's (from A1 to A2) and additional downgrades are possible
- Significant negative repercussions would be associated with losing A rating

Market data as of July 21, 2008.
1. *Average of GS (1.71x), MS (1.21x) and MER (1.43x).*

Strategic Alternatives Considered

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	Rationale	Current Status
Status Quo	◆ Refrain from selling assets, exiting business lines or issuing capital at depressed valuations	◆ Not feasible in current environment due to pressure on stock price, liquidity concerns, size and business mix, and likely additional writedowns in the third and fourth quarters ◆ Strategic initiatives must be considered
Strategic Partnership	◆ Partner perceived as "smart money" would validate franchise and investment thesis ◆ Balance sheet and capital support of partner would alleviate viability concerns, mitigate valuation discount and allow for growth of business	◆ Minority stake in Green not attractive to large financial institutions ◆ Majority of likely partners have significant internal issues
Sale	◆ Combination with strategic partner could stabilize business and accelerate growth ◆ Potential to provide premium / value through synergies and through potential upside in buyer's currency	◆ Majority of likely partners have significant internal issues ◆ Major direct competitors (with the exception of Morgan Stanley) have not been considered to date
Private Buyout	◆ Allows for restructuring of business out of public equity domain ◆ Potential to provide premium for cash	◆ Financially less viable since stock price has rebounded off lows ◆ Significant equity capital required ◆ Loss of access to equity markets and possible rating agency downgrades would be harmful to a number of businesses
Financial Holding Company / Depository Funding Strategies	◆ Regulators are supportive of concept ◆ Permanent access to Fed window	◆ Lack of commercial banking activities would limit funding advantages in the near term ◆ Not pursuing due to lack of funding synergies and incremental capital and expenses required to implement
Restructuring	◆ Reducing residential and commercial mortgage exposure removes asset valuation uncertainty ◆ Pro forma capital need can be provided by sale of IMD ownership stake and common equivalent offering ◆ Sale of IMD stake unlocks value of business and would likely occur at a multiple meaningfully higher than Green's current and historical valuation	◆ In discussions with potential buyers of residential mortgage assets ◆ Analyzing transaction feasibility / financial impact of spinning off CRE assets; asset sales ongoing ◆ Analyzing execution strategy and financial impact of selling a majority ownership stake or all of IMD ◆ Analyzing possible structures for capital markets offering

Potential Strategic Partners / Buyers

Parties Contacted

Company	Discussions to Date	Status
Bank of America	◆ Senior executive discussions	◆ Potential interest; timing uncertain
Bank of China	◆ Local discussion	◆ Not inclined to pursue
BBVA	◆ Met with BBVA	◆ Focused on retail banking
Berkshire Hathaway	◆ Preliminary discussions	◆ Unwilling to proceed in current environment
BNP Paribas	◆ Met with BNP	◆ Not inclined to pursue; focused on European bank consolidation
CITIC	◆ Met with CITIC Securities and CITIC Group	◆ Studying regulatory hurdles
GE	◆ Senior executive discussions	◆ Not inclined to pursue
HSBC	◆ Met with HSBC	◆ Not inclined to pursue; focused on retail banking
KDB / Korea	◆ Multiple meetings with senior management	◆ Significant execution issues
Mitsubishi	◆ Checked interest	◆ Not inclined to pursue
Morgan Stanley	◆ Preliminary senior executive-level discussions	◆ No current dialogue
Royal Bank of Canada	◆ Met with RBC	◆ Inconsistent with current strategy
Standard Chartered	◆ Preliminary senior level discussions	◆ Inconsistent with current strategy
Sumitomo Mitsui	◆ Multiple meetings with senior management	◆ Not inclined to pursue
UBS	◆ Checked interest	◆ Current issues preclude involvement

Parties Not Contacted

- Barclays
- Credit Suisse
- Deutsche Bank
- Goldman Sachs
- JPMorgan
- Lloyds TSB
- Santander

Overview of Go Private Alternative

Transaction Rationale

- Allows for restructuring of business out of public equity domain
- Ability to manage company with less quarter by quarter oversight
- Provides additional time to work out of difficult asset exposures
- Expect that buyer would not fund equity purchase by putting incremental leverage on Green

Interest From Investors

- Inbound calls have been received from private equity firms, sovereign wealth funds and institutional investors expressing interest in a partial or full buyout

Transaction Considerations

- Over $12 billion of equity required from outside investors
  - Assumes a 100% rollover of employee shares
  - $6 billion of convertible instruments will have to be repurchased
- Significant amount of equity for any single investor; a syndicate would be required
  - Equity required could be reduced with a sale of IMD (stake or whole)
- Financially less viable today since stock price has rebounded off lows
- Likely one notch downgrade from rating agencies
- Potential loss of some liquidity providers who don't feel comfortable with lending to a private company
- Traditional regulatory hurdles with ownership over 9.9%, but private equity firms are exploring structures to address this issue
- Compensation system would need to be significantly modified

Restructuring Plan

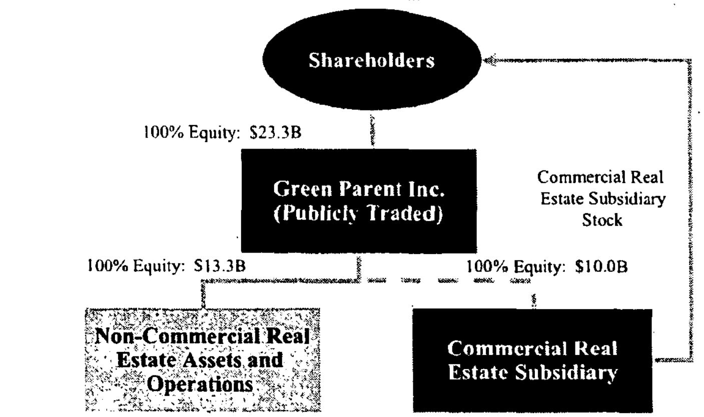
1. Explore CRE spin-off / monetization
   - Preliminary estimate is that SpinCo could require ~$[10]B of equity
2. Reduce residential mortgage exposure
   - Sell U.K. residential mortgages
   - Seek to reduce other residential mortgage exposures
3. New employee grants
4. Senior management buys $[ ]m of secondary shares post-announcement
5. Raise additional capital
   - Sell 51-100%[1] interest in Equity and Fixed Income Asset Management businesses at $[5.0]B valuation
     - Evaluate inclusion of Alternative Asset Management and Private Equity businesses, as well as minority stakes
   - Sale of new common equivalents ($[2-4] billion)[1]
     - Convertible preferred or purchase contract for common
     - Bring buyer(s) over the wall
     - Explain SpinCo, residential exposure and employee plan
6. Eliminate dividend
7. Reduce balance sheet, downsize corporate and some front office

1. Size of sales dependent on amount of equity hole created by residential mortgage, CRE and other losses.

CRE Spin-off Description and Considerations

Green spins off its Commercial Real Estate assets to Green shareholders

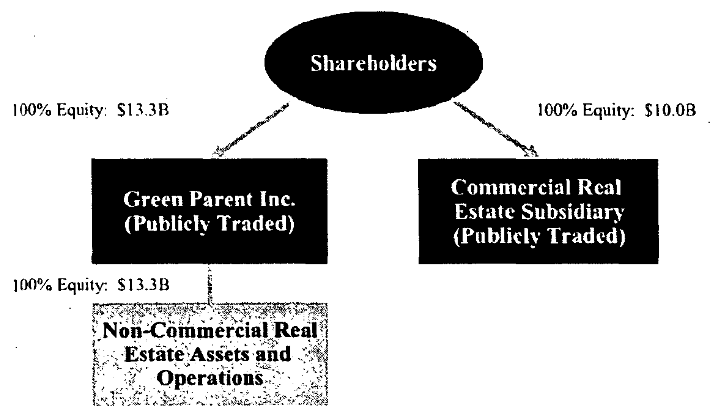
Transaction



Description

- Green separates the operations of its Commercial Real Estate business to be spun off into a new subsidiary
- Green distributes its entire interest in the subsidiary as a special dividend to its existing shareholders on a pro rata basis
  - One share of CRE SpinCo for each share of Green (for example)
- Following spin-off, the Commercial Real Estate subsidiary is an independent, publicly traded entity
- Spin-off, as currently contemplated, would be tax-free to Green and its shareholders

Post-Transaction



Considerations

- Identification of appropriate assets and management team
- Capital structure and leverage of spun entity appropriate to deconsolidate assets
  - Financial terms need to be "at market," with "substantive" third party participation
  - Achievability of financing in market today
- Timing (likely 3 to 6 months to distribution)
  - Could announce intention once comfortable with feasibility
- Rating agency review of pro forma Green and SpinCo
- Pro forma trading of Green and SpinCo

Investment Management Division Overview

IMD Businesses - $277bn in AUM

- **Neuberger Berman (Equities Business) – $120bn in AUM**
  - High fee, high growth business with 30 investment teams, 107 portfolio managers, and 97 research analysts
  - ~80% of Equities AUM in top quintile separate accounts or 5 star mutual funds
- **Lehman Brothers Asset Management (Fixed Income) – $112bn in AUM**
  - Institutional oriented fixed income manager with strong client relationships
- **High Net Worth**
  - 370 investment representatives focused on HNW wealth management

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- **Alternative Asset Management – $14bn in AUM**
  - $5bn in Fund of Hedge Funds; $9bn in single manager strategies
- **Private Equity – $26bn in AUM**
  - Highly diversified business across 7 asset classes
  - Significant new capital raised across the platform in last 18 months
- **Minority Stakes**
  - Minority investments in 3 industry leading hedge funds (D.E. Shaw, Ospraie and Spinnaker Capital)

Preliminary Valuation

- Preliminary valuation for Equities and Fixed Income of $[5.0]bn
  - Excludes other IMD businesses, but evaluating whether inclusion would be value enhancing
  - Equates to ~[15]x 2009 earnings and ~[2.2]% of AUM

Preliminary Summary Timeline

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Strategic Alternatives Considered

Action

Commercial Real Estate
- Asset evaluation and selection
- Finalize indicative capital structure and discuss with E&Y and SEC accountants
- ***Make go / no-go decision regarding transaction feasibility***

If decide to pursue CRE spin-off:
- Green, S&C and E&Y formally review transaction with SEC
- Meeting with Rating Agencies to discuss proposed transaction
- Comfort with expected Form 10 financial reporting and indicative capital structure
- Begin to take steps necessary to execute spin-off

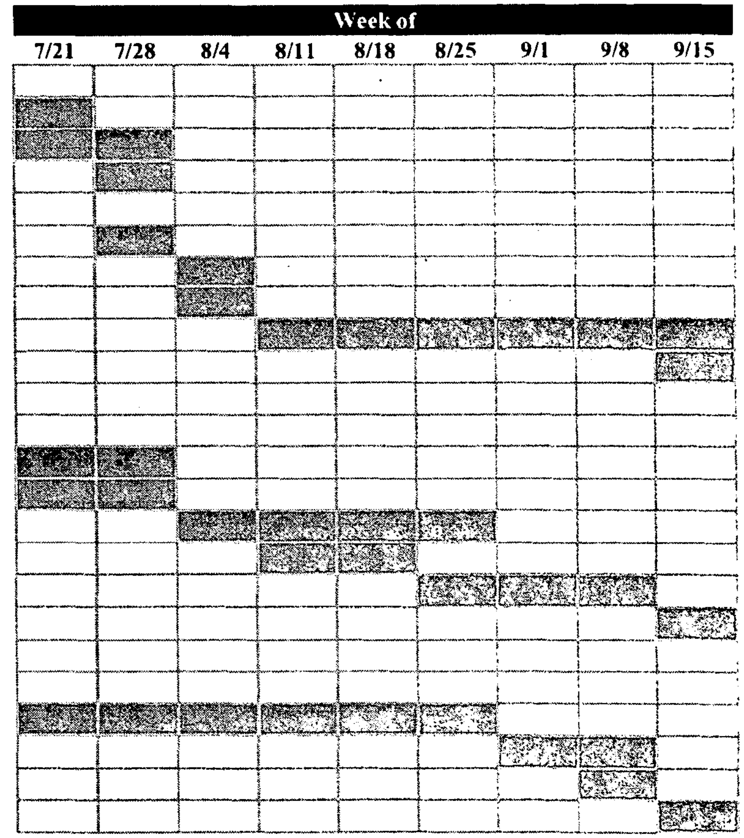
Announce Plans to Spin-off CRE (distribution likely in 3-6 months)

Investment Management Division [1]
- Prepare marketing materials
- Contact potential investors and sign NDA's
- Investor due diligence and management discussions / presentations
- Receive bid letters and select potential investors to continue in process
- Negotiate key terms and agreements

Announce Sale of IMD

Capital Raise
- Determine appropriate structure and draft term sheet
- Contact potential investors and sign NDA's
- Negotiate terms with investors

Announce / Execute Capital Raise



1. *Timeline represents accelerated limited auction process. May conduct parallel process for one or two entities that have high likelihood of delivering comprehensive solve for Green.*

Game Plan

Overall Approach

Approach

- Solve for appropriate bottom-of-the-cycle returns
- Size financial leverage to maintain A rating
- Headcount reductions to maintain compensation flexibility
- Targeted business reductions
- Corporate re-sizing consistent with new business mix and smaller Lehman

Headcount Evolution

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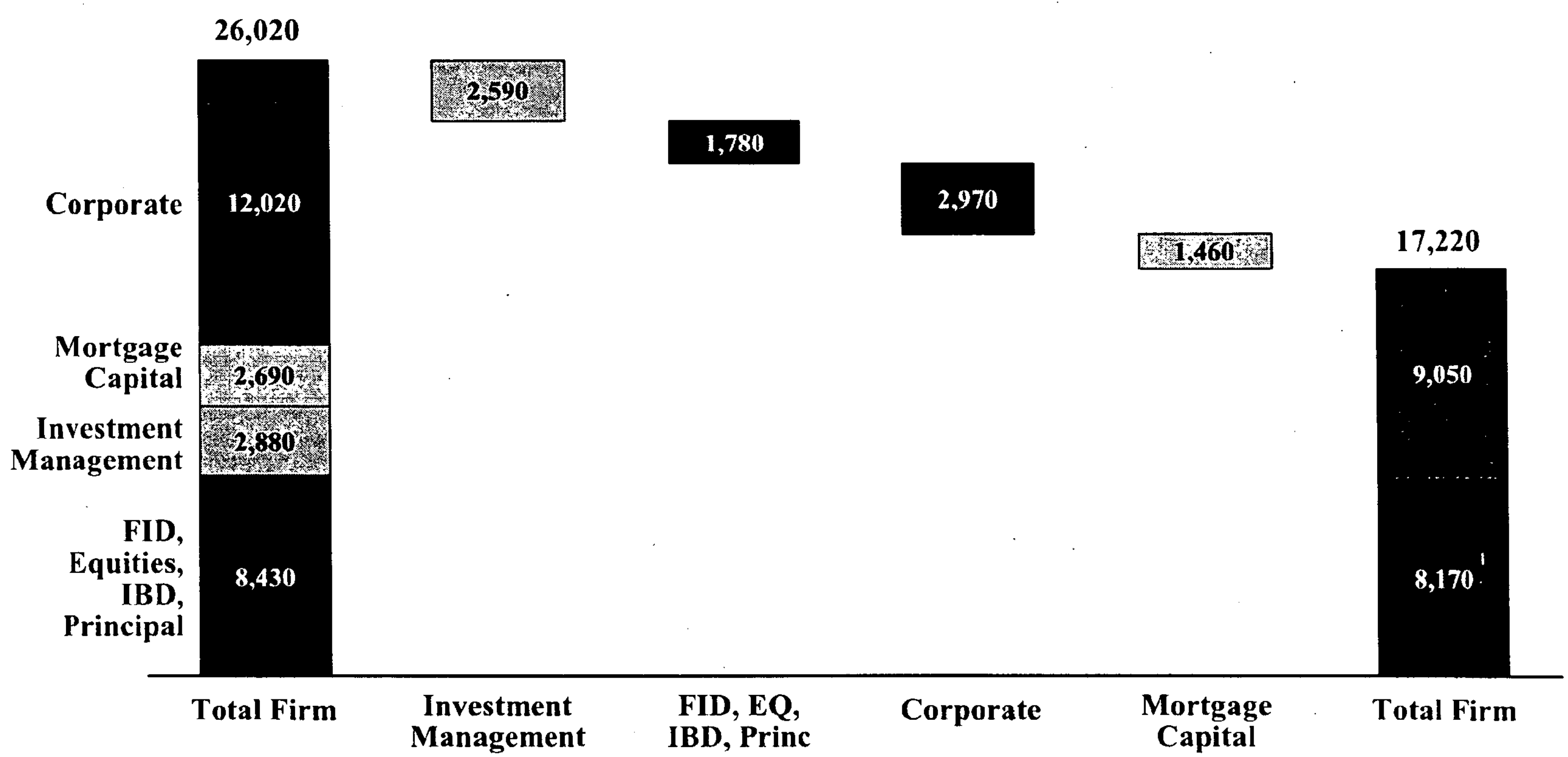
By Division



% Reduction	*90%*	*21%*	*25%*	*54%*	*34%*

1. Includes 1,230 from mortgage servicing

2009 Income Statement

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$Billions

	2007	2009		
	Actual Revenue	Pre Divestiture	Impact of Divestiture	Post Divestiture
Fixed Income	$6.0	$6.4	($0.2)	$6.2
Equities	$6.1	$5.3	($0.3)	$5.1
Investment Management	$2.6	$2.4	($2.4)	$0.0
Investment Banking	$2.4	$2.0		$2.0
Principal	$0.7	$0.5		$0.5
Treasury / Other	$1.5	$0.0		$0.0
Net Revenue	**$19.3**	**$16.6**	**($2.8)**	**$13.8**
Compensation	9.5			6.8
Non-Personnel Expenses	3.8			3.0
Pretax Income	6.0			4.0
Net Income	4.2			2.8
Preferred Dividends	0.1			0.7
Net Income to Common	**4.1**			**2.1**
Return on Equity	**20.8%**			**14.7%**

Net Asset Evolution

Net Assets ($B)

	Q2 2008	Year end 2009
Fixed Income		
Real Estate	58	6
Residential Mortgages	57	10
Interest Rate Products	38	75
Credit Products	31	35
Commod, FX, Muni, Other	26	46
Total Fixed Income	**211**	**172**
Equities		
Volatility	23	24
Prime Services	26	30
Liquid Markets, Other	12	13
Total Equities	**62**	**67**
Investment Management	**10**	**2**
Investment Banking	**10**	**10**
Principal	**10**	**10**
Treasury / Other	**27**	**18**
Total Firm	**328**	**279**
Net Leverage Ratio	**12.1x**	**12.0x**

Net Asset Funding

$Billions

	Q2 2008	Year End 2009
Equity	$26	$25
Long Term Debt	112	94
Bank Deposits	44	62
Payables	62	53
Acct. Gross-up / Non-recourse Financing	20	0
Short Term Debt and Current Portion	24	17
Repos	40	28
Total	**$328**	**$279**

Risks

Key Issues

- Receptivity of market to Spinco and effect of Spinco loan on "clean" Lehman
- Ability to raise amount of new equity required to eliminate market concerns
- Ability to execute operating plan
  - Credibility of marks on remaining residential mortgages, and subsequent asset performance
  - Achieve productivity gains (fewer people and less balance sheet)
  - Reduce non-personnel expenses, especially brokerage and clearance
- Potential adverse stakeholder reaction
- Implementation of headcount reductions
  - Minimize client attrition
  - Maintain employee focus and morale
  - Retain talent