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LEHMAN BROTHERS

Real Estate Price Verification

Confidential Presentation

Executive Summary – Real Estate Price Verification

- Price Verification is performed on a monthly basis
- Generally, third party pricing inputs are used where available
- The principal book (PTG) is price verified using a NPV approach with a significant emphasis on the credit qualities of each collateral. Our models use:
  - Property level information provided by a third party servicers (Trimont & PCCP). Information received includes position attributes, collateral valuation and current update commentary.
  - Discount rates are derived from third party publications (Institutional Investors' Real Estate Finance & Investments)
  - Product Control also reviews IRR models developed for each position by Trimont for reasonableness
- Bridge equity generally marked to target investor yields for the specific investment. Product Control reviews / discusses the reasonableness of the valuation assumptions.
- The commercial book is price verified using internal models based on spreads obtained from third party publications giving special emphasis to recent sales, circles and bids on notes of similar attributes (LTV, property type, location, etc).
- Product Control holds regular discussions with the business senior management to discuss pricing variances that exceed our established thresholds. Based on the results of the price verification review, PC recommends/ suggests mark adjustments. Those positions are either remarked or adequate justification or support is provided by the business to support the existing mark.

US Commercial– Pricing Summary

$ in millions	As of 5/31/08 Legal Balance	Mark	Market Value	Carrying Yield	Pricing Variance	Pricing Commentary
US Commercial						
Fixed Rate:						
First Lien	419	90.6	379	6.9%	-	Significant exposure is a 61% LTV, $319mn senior loan on GM building marked at 95.7, or a yield of 6.7%. Sold all of $500mn placed into a Q208 securitization.
B-Notes / Mezz	1,021	88.5	904	8.6%	(26)	Approximately 31% of portfolio has price flex; remainder of booked marked based on comparable spread levels from recent syndication/ sales activity. Sold $947mn during Q208
Floating Rate:						
Archstone	526	99.0	521	5.6%	-	Full Price flex on debt, i.e., any loss will be absorbed by bridge equity. 450 DM assumed on mezz in pricing bridge equity yield.
First Lien	3,434	94.9	3,260	6.6%	(12)	Marked based on spreads derived or implied from recent syndication / sales activity on senior loans as well as b-notes / mezz notes. Sold $545mn during Q208
B-Notes / Mezz (excl. Archstone)	3,516	91.9	3,230	9.4%	(32)	Price verified based on comparable spread levels on recent syndication / sales activity. Sold $742mn during Q208.
IO Strip	831	0.0	0			Floating rate IO's marked at zero due to the lack of prepayment protection and short duration.
CMBS:						
AAA	232	80.6	187	7.5%	-	Price verified using third party pricing sources and recent trading activity. Sold $1bn of all tranches of securities during Q208.
AA	65	84.0	55	8.8%	-	Same as above
A	150	66.7	100	12.5%	-	Same as above
BBB	377	59.2	223	16.3%	-	Same as above
NIG	28	88.0	24	11.7%	-	Same as above
IO's	28,283	1.1	319	10.9%	-	Same as above
Bridge Equity:						
Archstone	2,142	75.1	1,609	19.2%	-	Priced to a target investor yield of approx. 15% assuming (i) term loan B is syndicated @ 90, (ii) asset level mezz debt syndicated @ a spread of 450, (iii) exit cap rates increased by 50 bps, and (iv) rent growth assumption reduced by 100 bps.
Others (excl. Archstone)	1,613	87.1	1,405	10 - 20%		Priced to target investor yields varrying from 10% on a well cash flowing stabilized industrial portfolio to low 20% on office portfolio.
Term Loans / LOCs:						
Archstone	2,395	98.5	2,359	6.2%	-	Full price flex. Pricing assumptions incorporated in bridge equity (i.e., term loan A to be repaid from asset sales and term loan B to be syndicated @ 90).
SunCal	1,944	75.6	1,470	15.0%*	-	Priced to a target investor yield of 15% (except for Marblehead and Pacific Point, which are at 12% to account for their superior location & demographics compared to the rest of the portfolio). Cash flow and other projections (lot absorption, construction costs, and sale price) obtained either from third party vendors hired by LB or third party industry publications
Others (excl. SunCal & Archstone)	876	96.0	841	8.3%	-	Based on bank debt trading market of similar credits
Corporate Debt	626	100.0	626	3.7%	-	Seller financed trades originated in May 08 at market spreads.
Total US Commercial	*48,475*		*17,511*		*(70)*	

* Pac Point and Marblehead carried @ 12% yield

US PTG – Pricing Summary

$ in millions	Legal Balance	Mark	Market Value	Carrying Yield	Pricing Variance	Pricing Commentary
	As of 5.31.08					
US PTG						
First Lien	4,999	89.4	4,471	N/A	(83)	Pricing based on collateral valuation provided by third party servicers and spreads from third party publications.
Second / Mezz	2,452	54.5	1,336	N/A	(2)	Same as above
Equity / REO	4,318	67.6	2,919	N/A	(52)	Same as above
Total US PTG	*11,768*		*8,726*		*(137)*	

US Real Estate – Q208 Sales Summary

Commercial - Real Estate US
(in millions)

	Q2 2008						
	Balance	**MV**	**Mark**	**Sales Notional**	**Sales MV**	**Avg Px**	**Coverage**
Senior	11,810	10,674	90.4	1,724	1,593	92.4	100%
Mezz	5,267	4,591	87.2	1,423	1,280	89.9	100%
Equity	6,459	4,484	69.4				100%
NPL	322	198	61.4				100%
Securities Bonds	851	589	69.2	1,806	1,645	91.1	100%
Securities IOs	28,283	319	1.1	1,170	16	1.4	
US Commercial & REHFS & PTG	52,992	20,854	39.4				
Senior	3,330	3,245	97.4	207	195	94.3	100%
Mezz	523	474	89.7				100%
FinanceTrading	397	397	100.0				100%
Revolver	402	392	97.4				100%
Corporate Debt	4,653	4,508	97.0				
Corporate Equity	2,223	1,659	74.6				100%
Total	59,868	27,021		5,160	4,713	91.3	

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Significant Exposures

Position Name	Notional	Mark	LB Basis	Comment
Archstone				
Senior Debt (Floating Rate)	36	99	36	Full price flex; LB to make 1% irrespective of exit price
Mezz Debt	490	99	485	Full price flex; LB to make 1% irrespective of exit price
Term Loan	1,964	99	1,941	Full price flex; LB to make 1% irrespective of exit price; $115mn unfunded commitment
Development Loan	193	95	183	Full price flex; LB to make 1% irrespective of exit price
Revolver	237	99	235	Full price flex; LB to make 1% irrespective of exit price; $130mn unfunded commitment
Bridge Equity	2,389	75	1,801	Mark assumes Term Loan B is exit at 90, mezz spreads widened from 275 to 450, exit cap rates increased by 50 bps and rent growth assumptions reduced by about 100 bps; includes Private Equity's $246mn GP equity interest. Entire position marked to a target investor yield of approx. 15%.
	5,310	*88*	*4,680*	
Suncal	1,944	76	1,470	Positions marked to a target unlevered yield of 15% (except for Pacific Point and Marblehead which are carried at 12%); third party market data used in projecting lot selling prices and absorption timing. Pricing inputs are updated quarterly by business and reviewed by Product Control.
Beacon III (Mezz)	552	92	508	$477mn floating, $75mn fixed; Pricing based on inputs from sales, bids, and circles. Carried at WA DM of 1133.
237 Park Ave (Mezz)	534	86	462	$309mn floating, $225mn fixed; $255mn of b-note sold at a yield of 8.4% (S+413); Marks on remainining positions deemed appropriate (carried at WA DM of 656)
Hilton				
Senior Debt (Floating Rate)	739	92	683	Pricing based on a recent sale of $1.3 bn senior debt to GE at Libor + 298 bps; current weighted average DM of 373
Mezz Debt	464	92	429	
	1,203	*92*	*1,112*	
Coeur Defense				
CMBS Bonds	527	99	520	$110mn bridge equity held by Private Equity which is marked at par; GREG bridge equity marked to a target investor yield of 15%.
Bridge Equity	619	90	557	
	1,146	*94*	1,077	
Rosslyn				
Bridge Equity	310	89	276	Marked to a target investor yield of 16.5% with no promote or asset management fee or bridge equity carry.
	310	*89*	276	
Prologis				
Mezz Debt	317	99	313	$437mn of senior loan has been refinanced; additional $395mn of commitments from 3rd party lenders closed as of 7/16/08.
Bridge Equity	574	79	456	Marked to a target investor yield of 10% with no promote or asset management fee or bridge equity carry.
	892	*86*	770	
EOP Austin				
Mezz Debt	287	98	279.8	Full price flex
Term Loan	112	100	111.96	Full price flex
Bridge Equity	148	83	123	Marked to a target investor yield of 22% with no promote or asset management fee or bridge equity carry.
	547	*94*	514	
Total	**9,348**	**89**	**8,323**	
Global RE			**49,349**	
%			17%	