

From: Whitman, Brad [bwhitman@lehman.com].

Sent: 9/14/2008 6:15 AM.

To: McGee III, Hugh E [hmcgee@lehman.com]; Shafir, Mark G [mark.shafir@lehman.com]; Weiss, Jeffrey L [jweiss@lehman.com]; Wieseneck, Larry [lwiesene@lehman.com]; Sullivan, Tim [IBD] [tisulliv@lehman.com]; Mehta, Punit (NY) [pumehta@lehman.com].

Cc: Trock, Jason [jason.trock@lehman.com]; Surbaugh, Kelsey E [kelsey.surbaugh@lehman.com]; Morrell, Ryan J [Ryan.Morrell@lehman.com].

Bcc:

Subject: Fw: Key Assumptions.

Some interesting reading. Not much fairness analysis yet.

----- Original Message -----

From: Hara.Amdemariam@lazard.com <Hara.Amdemariam@lazard.com>

To: Weiss, Jeffrey L; Gorman, Les; Whitman, Brad; Trock, Jason; Surbaugh, Kelsey E

Cc: Gary.Parr@lazard.com <Gary.Parr@lazard.com>; David.Descoteaux@lazard.com <David.Descoteaux@lazard.com>; Arthur.Bruhmuller@lazard.com <Arthur.Bruhmuller@lazard.com>; Akiko.Ogasawara@lazard.com <Akiko.Ogasawara@lazard.com>

Sent: Sat Sep 13 22:14:30 2008

Subject: Key Assumptions

Please find attached a summary of key information/data gleaned by us today from a review of materials sent to us and discussions with you over the course of last night and today. Please let us know if you disagree with this summary of facts as we understand them. We want to make sure that we are all on the same page as we go into a Board discussion tomorrow, especially given fast changing developments. We very much appreciate your help.

(See attached file: Selected Pages 9.13.08.ppt)

Regards,

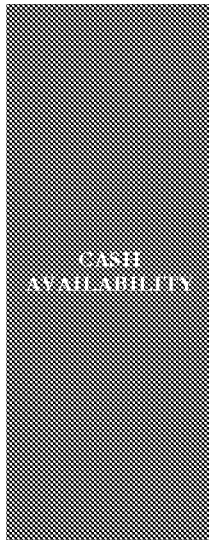
Hara H. Amdemariam
Managing Director
Lazard
30 Rockefeller Plaza
New York, NY 10020

Office: 212-632-6676
Fax: 212-830-3563
Cell: 646-331-4935

Email: hara.amdemariam@lazard.com

Situation Overview

Green has told us that its liquidity position has deteriorated significantly in the last three days and absent a sale transaction or extraordinary government intervention, Green believes it will not be able to open for business on Monday



\$32 billion of liquidity at close of business Friday – \$19 billion held as collateral, \$15 billion by JP Morgan and \$4 billion by other [clearing] banks, and \$13 billion supporting prime brokerage activities and most likely not available Monday due to “operational friction” from prime brokerage customer withdrawal/settlement activity

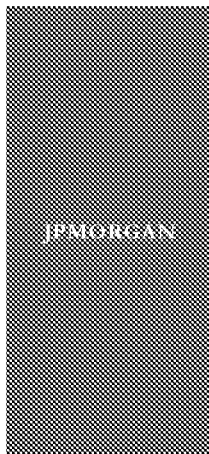
Regarding the \$19 billion of cash held as collateral, JP Morgan and other clearing banks have acted to restrict Green’s access

Not clear how much of the amounts held for prime brokerage activities will be available as a “few days” will be required to unwind the full \$13 billion

\$16 billion of the approximately \$114 billion overnight funding that matures on Monday represents Green collateral that is not eligible for the Fed Window, representing Green’s effective minimum cash shortfall on Monday

Green intends to take steps to draw down the remaining \$4.5 billion on its committed credit facilities for funding on Monday but expects their banks will not provide the funds absent a sale transaction

Assuming a 2 notch downgrade by [Moody’s or S&P], Green would be required to post an additional \$2 billion of cash collateral



Largest of Green’s clearing banks, requested additional \$5 billion of cash collateral on Friday, September 11, increasing JPM collateral to \$15 billion

A few months ago, JPM required no collateral

JPM can ask for additional collateral in any amount as desired with failure to provide collateral potentially causing an event of default

JPMorgan CEO indicated to Green CEO Thursday evening September 11, that Green needed to announce a sale transaction by market open Monday September 15 or JPM would immediately discontinue doing business with Green and effectively “put Green out of business”

Based on discussions with Citi, Green believes Citi would take similar action

Note: Confidential - Based on information provided by Green. Subject to confirmation by Green

Situation Overview (cont'd)

RATING AGENCIES

Green expects Moody's ratings downgrade of at least 2 notches if no sale is announced by Monday, September 15 and considers a larger downgrade "likely" given the current situation

Even with extraordinary Fed support that would allow Green to open on Monday absent a sale transaction, Green expects the ratings agencies will downgrade

Assuming the execution of its restructuring plan (REI spin, IMD partial sale, Blackrock U.K. residential asset sale and \$3+ billion capital raise), Green expected the ratings agencies, based on discussions before the week of 9/8, to maintain ratings with the capital raise highlighted as the agencies primary concern

The subsequent decline in Green's stock price and the rating agencies' perception of diminishing market confidence in Green has altered the agencies' view

PROJECTIONS

Financial forecasts provided recently to the rating agencies for 2009 assumed:

Successful execution of its restructuring plan; continuation of wholesale and other funding access for Green; Green ratings stability; and customer/client confidence in Green franchise

In light of the above assumptions and current circumstances, Green believes any previous financial forecasts are no longer relevant

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Schedule of Secured Funding Maturities

(\$ in billions)

On Monday, 9/15/08, Management estimates that Green will require cash or other liquidity of approximately \$16 billion to finance collateral that is not eligible for Federal Reserve or other Central Bank funding (assuming no change in haircuts).

An additional \$11 billion of funding for non-eligible collateral will be needed within the next 2-14 days

	OVERNIGHT / OPEN	2 - 14 DAYS	> 14 DAYS	TOTAL
"Liquid" Collateral (a)	\$89.1	\$14.3	\$17.5	\$121.0
"Less Liquid" Collateral (b)				
PDCF/Fed Eligible	\$6.3	\$0.7	\$4.6	\$11.5
ECB or Other Central Bank Eligible	2.0	1.5	15.0	18.6
Non-Eligible	16.0	10.7	19.7	46.4
Sub-total	\$24.3	\$12.9	\$39.3	\$76.5
Total Secured Funding	\$113.5	\$27.2	\$56.9	\$197.5

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(a) Includes Treasuries, G10 Governments, Agencies, Agency MBS and Agency CMOs.

(b) Includes Asset Backed Securities, Bank Loans, CMO Private Label, Commercial Paper, Corporates, Equity, International, Money Market, Municipals, Whole Loan and Other.

Schedule of Liquidity By Investments and Ability to Monetize

(\$ in billions)

Management has indicated that Green has very limited liquidity for Monday, 9/15/08, as its operating banks have severely restricted Green's access to its cash and cash flows from its prime brokerage activities (boxed assets) will take several days to materialize. Low "ability to monetize" liquidity has grown from \$14 billion to \$30 billion since Monday, 9/8/08

	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep
By Investments:					
Deposits/MMF	\$29.2	\$27.6	\$17.2	\$14.7	\$14.0
Boxed Inventory in LBHI	\$4.0	\$4.0	\$4.0	\$4.0	\$3.2
Boxed Inventory in LBI	5.3	3.4	5.6	4.6	4.7
Boxed Inventory in LBIE	2.4	4.7	10.0	10.8	10.6
Other	0.8	0.9	0.8	0.0	0.0
Sub-total	\$12.5	\$13.0	\$20.4	\$19.3	\$18.5
Reportable Liquidity	\$41.7	\$40.6	\$37.6	\$34.0	\$32.5
Outstanding CP Balance	\$4.5	\$3.9	\$2.4	\$2.6	\$2.3
By Ability to Monetize:					
High					
Deposits/MMF/Other	\$22.4	\$20.4	\$8.0	\$6.3	\$0.9
Boxed Assets	4.5	4.2	1.3	0.8	0.6
Sub-total	\$26.9	\$24.7	\$9.4	\$7.0	\$1.4
Medium					
CLO/MMF	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9
Low					
CLO/Deposits/MMF/Other	\$10.7	\$11.1	\$13.0	\$11.5	\$15.4
Boxed Assets	3.2	3.8	14.3	14.6	14.7
Sub-total	\$13.9	\$15.0	\$27.3	\$26.0	\$30.1
Reportable Liquidity	\$41.7	\$40.6	\$37.6	\$34.0	\$32.5

vs. \$16 billion likely funding gap on 9/15/08

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Sale/Strategic Investment Process

Lazard understands Green has contacted approximately 30 strategic, private equity and sovereign wealth institutions over the last three months about a potential investment in or acquisition of Green. Most of the discussions were premised on a separation of Green’s commercial real estate assets. Lazard was not asked to solicit interest for Green

ACTIVE CURRENT DISCUSSIONS	RECENT INBOUND INQUIRIES	DUE DILIGENCE RECENTLY PERFORMED; PARTY NOT INTERESTED	EXPLORATORY DISCUSSIONS; PARTY NOT INTERESTED
■ Bank of America ■ Barclays	■ CITIC ■ Nomura	■ Korea Inc. (KDB, Hana, Korea Investment) ■ Investment Corporation of Dubai ■ MetLife ■ KKR	■ Berkshire Hathaway ■ CITIC ■ Morgan Stanley ■ TPG ■ Warburg Pincus

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Sale/Strategic Investment Process (cont'd)

NO INTEREST

- | | | | |
|-----------------|------------------------|--------------------------|---------------------|
| ■ Bank of China | ■ Royal Bank of Canada | ■ ADIA | ■ Kuwait Industries |
| ■ BNP Paribas | ■ Societe Generale | ■ Carlyle | ■ Mubadala |
| ■ Deutsche Bank | ■ Standard Chartered | ■ China Investment Corp. | ■ QIA |
| ■ HSBC | ■ Sumitomo Mitsui | ■ KIA | |
| ■ Mitsubishi | ■ UBS | | |

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Current Transaction Alternatives

- **Based on direction provided to Green by the Treasury on Saturday, the Company is focused on the following form of transaction**
 - Payment of \$3 billion in stock to Green Holdings, Inc. (“Holdings”) to buy all of the broker/dealers and businesses of Holdings. Holdings will contain \$41 billion of commercial real estate assets and \$10.5 billion of private equity GP stakes, LP stakes in Green funds, hedge fund GP stakes, illiquid principal investments of Green, in exchange for all remaining Green assets
 - Buyer will guarantee \$140 billion of debt of Holdings
 - “Wall Street institutions” to provide \$35 billion of debt financing to Holdings on terms to be determined
 - Holdings will use proceeds to repay part of the \$140 billion of debt guaranteed by buyer
 - Equity capitalization of Holdings to consist of existing Green preferred equity of approx. \$9 billion as well as common equity of \$10 billion
 - Green shareholders remain shareholders of Holdings
- **Only one alternative structure has been proposed by the government**
 - Government allows all counter party firms in derivative contracts to settle at “fire-sale prices” the derivative contracts with Green in order to protect the financial system
 - Green, then would be forced to file for bankruptcy
 - Green has characterized such a scenario as “value destroying”
- **Federal government has not offered any support to Green beyond the existing Fed Window as a standalone company**

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CASH
AVAILABILITY

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