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## CONFIDENTIAL MEMORANDUM

**To:** Skip McGee, Larry Wieseneck

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**CC:** Jesse Bhattal

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**FROM:** Kunho Cho

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**DATE:** May 29, 2008

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**SUBJECT:** **Opportunity Briefing and Key Issues for Investment by Korea Inc. Consortium in Lehman Brothers**

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### Opportunity

- \$5 B capital injection into LB by consortium of leading Korean financial institutions
- Combined with broad reaching strategic cooperation (e.g. asset sourcing, knowledge transfer)

### Background

- Kunho Cho rec'd call from Hana Financial Group Chairman Seung-yu Kim (SYK) on 5/16
  - SYK is close personal advisor to new Korean President Myung-bak Lee
- Jesse Bhattal / Kunho Cho (KHC) met on 5/26 with SYK and Chan-keun Lee (Head of Hana Investment Banking and Securities)
  - Discussed potential \$5 B investment in LB by "Korea Inc." consortium (KI)
  - Multiple goals including financial return on investment and modernization of Korean investment banking industry
  - Korea Development Bank (KDB) likely lead investor; transaction facilitated by pending appointment of ex-LB Korea head ES Min (ESM) as governor of KDB (expected 6/2); KHC had previously discussed opportunity with ESM
- Critical to secure support of three major government officials
  - Chairman of Financial Services Commission (Dr. Jun Kwang-woo) already strongly supportive after briefing on 5/24 by KHC and ESM
  - SYK also confirming support from President and Finance Minister

### Transaction scope – Investment

- **Investors:** KI consortium envisioned to include 4 leading Korean financial institutions

Institution	Potential Role	Target Investment
Korea Development Bank	Consortium front, lead investor	\$2 B
Hana Financial Group (HFG)	Secondary lead, financial advisor	\$1 B
Korea Investment Corporation (KIC)	Investor	\$1 B
Korea Nat'l Pension System (KNPS)	Investor	\$1 B

- KDB and HFG are leads; potential to replace KIC and KNPS with other investors (e.g. top banks) if unavailable due to recent sr. mgmt. changes (currently no CEOs in place)
- **Exclusivity:** KI is requesting exclusive discussions
  - Would impact discussions with other potential partners (e.g. SMFG)
  - Should consider existing dialogues as fallback, but give (and communicate) precedence to KI
- **Board / Management:** KI requested board seat *and* management participation in LB; advised that board seat-only would be acceptable, i.e., no direct management participation

- **Instrument:** Potentially combination of common equity and hybrid
  - LB prefers common equity; ESM agrees due to increased visibility and impact
- **Strategic cooperation:** Opportunities for both LB and KI members
  - *Asset Origination:* LB to originate flow globally for consortium (e.g. KDB B/S build)
  - *PE:* LB to provide first look / co-investment rights on deal flow
  - *Asset JV:* move portion of LB's global RE and other illiquid assets into JV vehicle; on KDB B/S, but first loss to LB
  - *Korea IB / Cap Mkts JV:* Under umbrella of KDB Holdings (*tbd*), transform combined LB Korea-KDB into leading, modern Korean investment bank
  - Further, LB to provide training, staff secondment, etc. for KI members

### **Key Considerations (for discussion in kickoff meeting)**

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- Legal and regulatory issues review (Tom Russo)
  - Ownership of leading US institution by foreign sovereign / semi-sovereign institutions
- Deal structure, choice of instruments, pricing mechanism, etc. (Larry Wieseneck)
  - Common vs. preferred vs. converts
  - Market average (30-day, 10-day, etc), Q2 results-based or other pricing mechanism
- Lehman overview presentation and initial DD materials (Ian Lowitt)
- Further DD scope and process (KI)

### **Timeline**

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- Aggressive timeline to achieve consensus before Q2 announcement

<b>Timeline Item</b>	<b>Target Date</b>
Kickoff meeting	6/2 (Monday)
Sign LOI	6/3 (Tuesday)
Begin DD in NY	6/4 (Wednesday)
KI to complete DD report	6/9 (Monday)
Sign agreement in principle	6/12 (Thursday)

### **Potential Phase II**

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- ESM would like to examine possibility of executing a take-private transaction in the future, and would like LB's initial view (possibly in kickoff meeting)
- Target ownership structure (indicative):
  - KI: 51%
  - LB employees: 31%
  - Other financial /strategic investors: 18%
- Rationale:
  - Avoid share price volatility to focus exclusively on building business
  - Eliminate MTM to increase acceptability to Korean gov't (KIC – MER example)
- Target exit through re-IPO in ~2012
- Need to consider effects of public vs. private status on LB growth trajectory
  - B/S and liquidity position
  - Governance and regulations