

Project H – Preliminary Term Sheet for Proposed Investment and the Strategic Relationship

The following is a non-binding, indicative summary of terms and conditions to be used for discussion purposes only. It does not constitute an agreement, offer, solicitation of an offer or a commitment by either party. It is not meant to be all-inclusive of the terms and conditions that may be required if the parties were to enter into an agreement.

Issuer	A publicly traded H following the tax-free spin-off (the “ <u>Spin-off</u> ”) of substantially all of its commercial real estate business into a new publicly traded unconsolidated company (“ <u>Spinco</u> ”) on terms reasonably satisfactory to Purchaser (including as to the assets and liabilities transferred to Spinco and retained by H). H, following the consummation of the Spin-off, is referred to as the “ <u>Company</u> ” in this term sheet.
Purchaser	A newly-formed [Delaware limited partnership] ¹ (the “ <u>Purchaser</u> ”) controlled by K.
Investment	\$6 billion in newly issued shares of common stock of the Company (the “ <u>Shares</u> ”).
Purchase Price	The purchase price (the “ <u>Purchase Price</u> ”) per Share will be equal to 1.25 times the per share pro forma book value of the Company as of immediately following consummation of the Spin-off (calculated on a fully-diluted basis), after giving effect to all aspects of the transaction including the acceleration of the Company’s outstanding vested and unvested RSUs, any new employee equity grants made or committed to be made in connection with the Investment or the Spin-off (whether or not vested or exercisable), any costs and expenses incurred by the Company or its subsidiaries related to the Investment or the Spin-off, and the fair market value of any Spinco Notes held by the Company. The pro forma book value of the Company as of the Closing, the book value of the Company’s (a) Residential Mortgages shall be effectively written down to \$ _____, (b) High Yield and Real Estate-Related Corporate Debt shall be effectively written down to \$ _____, and (c) Equity Portfolio shall be effectively written down to \$ _____.
Signing & Announcement Date	Signing of binding agreement (but contemplating a supplemental agreement with additional details)] on September [10], 2008 (at or prior to H’s announcement of Q3 2008 results) (“ <u>Signing</u> ”).
Escrow	Upon receipt of Korean governmental and regulatory approval and material U.S. governmental and regulatory approval, Purchaser will

¹ Structure to be determined.

deposit an amount equal to 5% of the Purchase Price into escrow on agreed terms, with such escrow being the Company's sole remedy for any material breach by Purchaser.

Closing Date As soon as practicable after the satisfaction or waiver of the closing conditions (the "Closing"). Anticipated to be Q1 2009.

Closing Conditions Customary closing conditions, including:

- Consummation of the Spin-off (including receipt of a customary opinion of counsel regarding tax-free treatment) and receipt by the Company of \$[20 billion] Spinco Notes with terms such that their fair market value as of the Closing is equal to 100% of their principal amount;
- Receipt of the Company's shareholder approval to the issuance of the Shares to Purchaser (including an increase in the number of authorized shares and approval under NYSE rules) (the "Shareholder Approval");
- Receipt of all applicable Korean, U.S. and other governmental and regulatory approvals (including bank regulatory and antitrust approvals or clearances);
- Receipt (including by Purchaser) of a satisfactory solvency opinion with respect to Spinco;
- Customary bring-down of representations and warranties; and
- No material adverse effect (appropriately defined) on the Company between Signing and Closing.

Right to Acquire Alternative Security In the event that the Company fails to obtain the Shareholder Approval, the Purchaser shall have the right, but not the obligation, to require the Company to consummate the Spin-off and to acquire from the Company at the Closing following such consummation, shares of contingent mandatory convertible preferred stock, which shall be on terms and conditions at least as favorable to Purchaser as of those included in the preferred securities issued in connection with the WaMu and NatCity recapitalizations.

Deal Protection Company to pay Purchaser:

(a) A fee of 1% of the proposed investment (plus reimbursement of reasonable out-of-pocket expenses) if Shareholder Approval is not obtained; and

(b) A fee of 4% of the proposed investment (plus reimbursement of

reasonable out-of-pocket expenses) if (x) the Company's Board of Directors withdraws its recommendation to stockholders, or (y) Shareholder Approval is not obtained and (in the case of this subclause (y) only) within 12 months thereafter an Alternative Transaction (to be defined) is consummated or agreed to by the Company (any amount payable under this clause (b) to be reduced by any amount previously paid pursuant to clause (a)).

Nomination of Directors

Immediately following the Closing, the Company shall cause two nominees of Purchaser to be appointed as members of the Company's Board of Directors (the "Purchaser Nominees") by increasing the number of members from 11 to 13, and Purchaser shall be entitled to have the Purchaser Nominees nominated at any stockholder meeting.

During the Standstill Period, other than the Purchaser Nominees (and provided such Purchaser Nominees are nominated), Purchaser agrees that it shall not make nominations for the Board of Directors.

Approval Rights

At any time after the Signing and continuing following the Closing, the Company will not take any of the following actions without Purchaser's prior approval:

- any amendment of the certificate of incorporation or by-laws of the Company;
- any enactment, modification, waiver or termination of a "poison pill" shareholder rights plan or waiver of Section 203 of the DGCL;
- any expansion of the size of the Board of Directors above 13 members;
- any merger, recapitalization or other form of business combination, except for acquisitions below an agreed threshold;
- any acquisition or divestiture of assets, other than in the ordinary course of business;
- any liquidation, bankruptcy or similar events involving the Company or any of its material subsidiaries;
- any issuance of or sale of capital stock of the Company or its material subsidiaries, or any options, warrants or other rights convertible into or exercisable for, such capital stock, other than issuances by the Company below agreed thresholds for (x) small acquisitions and (y) employee compensation;
- any share repurchases and redemptions (other than the repurchase of

Shares to offset dilution due to employee stock plans);

- any dividend or distribution in respect of Shares (other than *pro rata* cash dividends consistent with past practice, including with respect to the amount of such dividend);
- the appointment of, or the execution or renewal (including any decision not to give notice of non-renewal) of any employment or similar agreement with CEO or other senior executive officers;
- any new or amendment to any stock option or similar plan for the benefit of employees;
- any action that reasonably could be expected to result in adverse regulatory consequences to Purchaser or its affiliates;
- any material change to the Company's accounting policies;
- incurring any indebtedness in an aggregate amount exceeding an agreed threshold; or
- entering into any strategic joint venture or partnership agreement, in each case, that would be material to the Company.

**Transaction
Committee**

From and after the Closing, the Company shall establish a committee of the Board of Directors (the "Transaction Committee") to evaluate and make recommendations to the Board of Directors with respect to any proposed acquisition by the Company involving total consideration of more than \$[•] or any acquisition (including by way of merger, recapitalization or other business combination) of the Company or a majority of the outstanding common stock of the Company or any of its material subsidiaries.

The Transaction Committee shall consist of two Purchaser Nominees, two additional independent Directors, and the CEO, who shall be a non-voting member. The Transaction Committee shall be authorized to retain advisors to evaluate proposed transactions.

Standstill

Until the earlier of (a) the third anniversary of the Closing and (b) any person or group acquiring beneficial ownership of 20% or more of the outstanding Shares, (c) the Board's failure to approve any third party offer to acquire, by merger or otherwise, all outstanding Shares made to all stockholders on the same terms and conditions (unless the Board first requests Purchaser's position as to such offer and Purchaser, within 10 business days, advises that it opposes such offer (a "Qualified Offer") and (d) any material breach by the Company of any of Purchaser's governance rights or material agreements with Purchaser (such period,

the “Standstill Period”), Purchaser and its affiliates will not acquire, offer or propose to acquire any additional Shares if such acquisition would result in Purchaser having beneficial ownership of 50% or more of the outstanding Shares.

Notwithstanding the foregoing, at any time after the Closing, Purchaser may acquire, offer to acquire, by merger or otherwise, all of the outstanding Shares not owned by Purchaser pursuant to a transaction that is subject to either (a) the approval of a majority of the Company’s independent directors or (b) the approval by holders of, or tender of, a majority of the Shares not owned by Purchaser.

Preemptive Rights/Anti-dilution Option

From and after the Closing, the Purchaser shall have the right to retain its proportionate ownership level through preemptive and similar rights.

Transfers

Purchaser will not be permitted to sell or otherwise transfer any Shares until 18 months after the Closing, except to affiliates and subject to certain customary exceptions.

Thereafter, until the third anniversary of the Closing, Purchaser only sell or otherwise transfer its Shares (a) in a public offering or pursuant to Rule 144 or (b) in a private sale, provide that to Purchaser’s knowledge, the purchaser would not as a result thereof acquire ownership of five percent or more of the outstanding Shares.

At any time after the Closing, however, Purchaser may sell Shares pursuant to a Qualified Offer, regardless of whether or not such Qualified Offer is approved or recommended by the Board of Directors.

In approving the current transaction, the Board of Directors shall waive the application of Section 203 of the DGCL to the extent it would otherwise apply to the Purchaser, the General Partner or any equity holders of Purchaser or to any person (x) to which Purchaser sells 15% or more of the outstanding Shares in connection with any transfer permitted hereby or (y) that becomes an affiliate of Purchaser.

No Other Commitments

Other than as set forth herein, the Company shall not have any right to compel Purchaser and its investors to provide capital or otherwise support the Company.

Employment Agreements

The Company shall enter into employment agreements (which shall become effective at the Closing) with CEO and other specified senior executive officers for a three-year initial term (with a 12-months renewal period), on terms (including Performance Targets) to be approved in advance by Purchaser.

Performance Targets	<p>[For Discussion] The employment agreements with the CEO and other specified senior executives officers shall specify the performance targets relating to the Company in terms of (a) Stock Price and (b) ROE, each of which shall be measured on a quarterly basis commencing in the first quarter following the first anniversary of the Closing (each, a “<u>Performance Target</u>”).</p> <p>In the event that either of the Performance Targets falls below the corresponding average of its Peer Group for the corresponding period (each, a “<u>Performance Target Default</u>”) and there occurs a Performance Target Default for any two consecutive quarters, such employment agreements will terminate automatically, unless the Company’s Board of Directors unanimously approves an extension of an employment agreement.</p> <p>“<u>Peer Group</u>” means Goldman Sachs, Merrill Lynch, Morgan Stanley and JPMorgan.</p>
New Equity Compensation Arrangement	The Company will adopt a new equity compensation arrangement for senior executives prior to the Investment based on recommendations of a compensation consultant acceptable to the Purchaser.
Registration Rights	Customary registration rights.
Representations, Warranties and Covenants	Customary representations and warranties (to survive for 18 months after Closing) and covenants (including appropriate access to information).
Indemnification	Customary indemnification provisions.
Expenses	Out-of-pocket expenses of Purchaser to be paid by the Company.
No Shop	At any time after the Signing, the Company will be prohibited from soliciting third party bids or alternative transactions and required to terminate any existing discussions with respect thereto, subject to customary exceptions based on the fiduciary duties of the Companies Board of Directors to evaluate, respond to or negotiate unsolicited third party bids.
Strategic Relationship	<ul style="list-style-type: none"> • The Company will designate Seoul as its Asia-Pacific Co-Headquarters; • Purchaser or a designated Korean financial institution (the “Korean Financial Institution”) and the Company will create multi-product cooperation arrangements including investment banking, capital markets and advisory services; • The Company will provide the Korean Financial Institution

access to Company-originated and managed alternative investment opportunities for direct investment by the Korean Financial Institution or distribution to its clients, such as hedge funds, private equity, bespoke co-investments and infrastructure investment opportunities;

- The Company will offer the opportunity for the Korean Financial Institution to participate in portfolios of agreed upon lending commitments and a joint venture (with terms to be negotiated) to provide leverage financing;
- The Company will provide the Korean Financial Institution with access to the Company's global management, processes, infrastructure and expertise, such as through access to technology, training, secondments/internships, co-investment opportunities, referrals and advisory services; and
- The Company will establish a separate "Korea Desk" in its major offices (including New York and London offices) to serve bridge and liaison functions between the Company and the Korean Financial Institution.