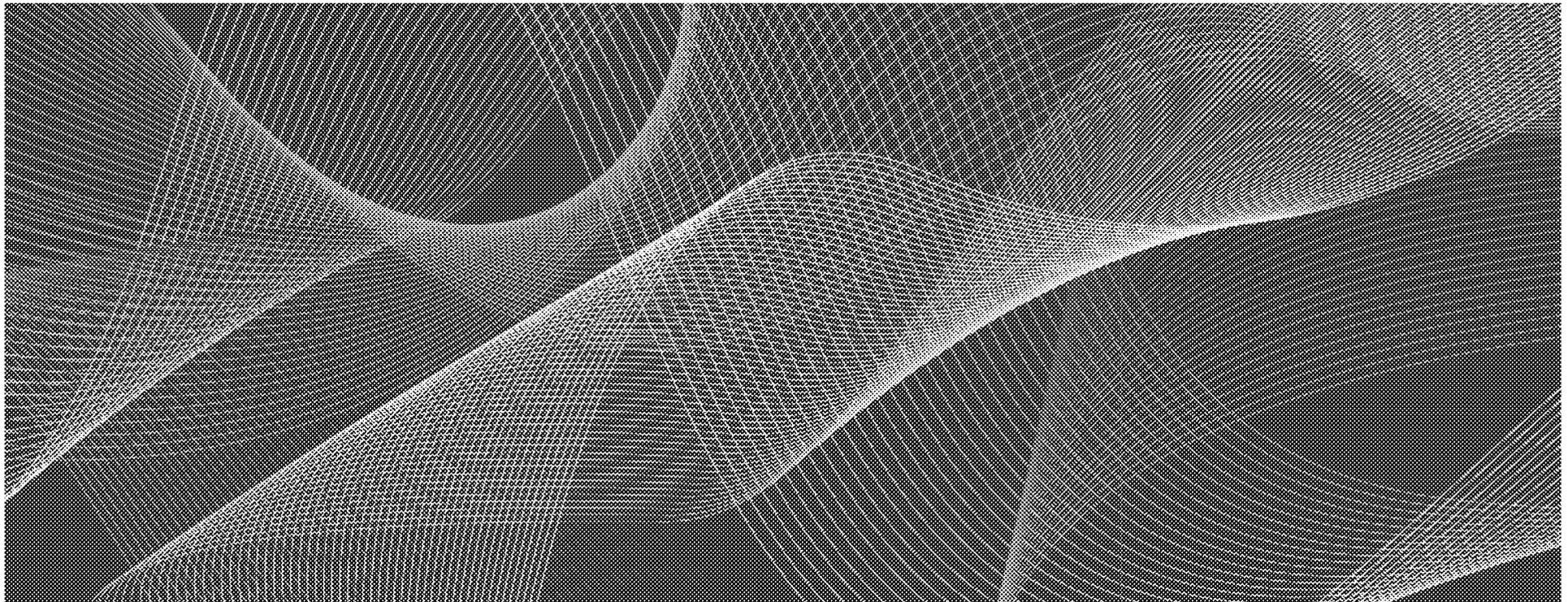


DRAFT

LEHMAN BROTHERS

August 11, 2008

Fitch Ratings Discussion of Project Green Acres



Confidential Presentation

Overview

Why Spin-Off Commercial Real Estate (CRE) Portfolio

Lehman's real estate portfolio is large and complex, comprising over 2,500 specific idiosyncratic positions which requires detailed review by prospective buyers – limiting our de-risking. The Rating agencies, creditors and counterparties have all expressed concern regarding the size and concentration of our CRE positions and its impact on our credit worthiness

- ◆ While in Q2 we sold \$8 billion of positions in and around our marks, the generally non-traded nature of many of the positions creates a basis for short sellers to drive the anxiety around Lehman
 - Archstone and SunCal represent significant concentrations which create market concerns
- ◆ We are actively selling down positions, but the pace for which we can accomplish this is limited to around \$5 billion per quarter and our stated desire to de-risk this asset class lowers our bargaining power in negotiations
- ◆ Given the pressure the Firm has been under this quarter from many constituents, we feel the need to further accelerate the de-risking in Commercial Real Estate
- ◆ The rapid disposition of such a large and complex portfolio could only be achieved at a large discount to the portfolio's intrinsic value, which would shift substantial value from our shareholders to the acquirers. Therefore, our preference is to separate Lehman into two parts: a Liquidating Trust for our CRE assets which can manage the disposition of the assets in a less-pressured way to capture the intrinsic value of the portfolio, and a "Clean" Lehman ex. the CRE assets
- ◆ As a result of this proposed separation of CRE and our significant reduction of Residential assets in Q3, we will have removed the impact of the legacy build up in Commercial and Residential and can further focus on growing our franchise and taking advantage of opportunities in the market resulting from lower competition as capacity is removed from the marketplace

Advantages Of Spin-Off

Real Estate Company

- ◆ Eliminates the need for rapid sales
- ◆ Maintains potential upside valuation of CRE assets for Lehman's shareholders
- ◆ Focuses on capturing the intrinsic value of the CRE portfolio
- ◆ Avoids MTM accounting

"Clean" Lehman

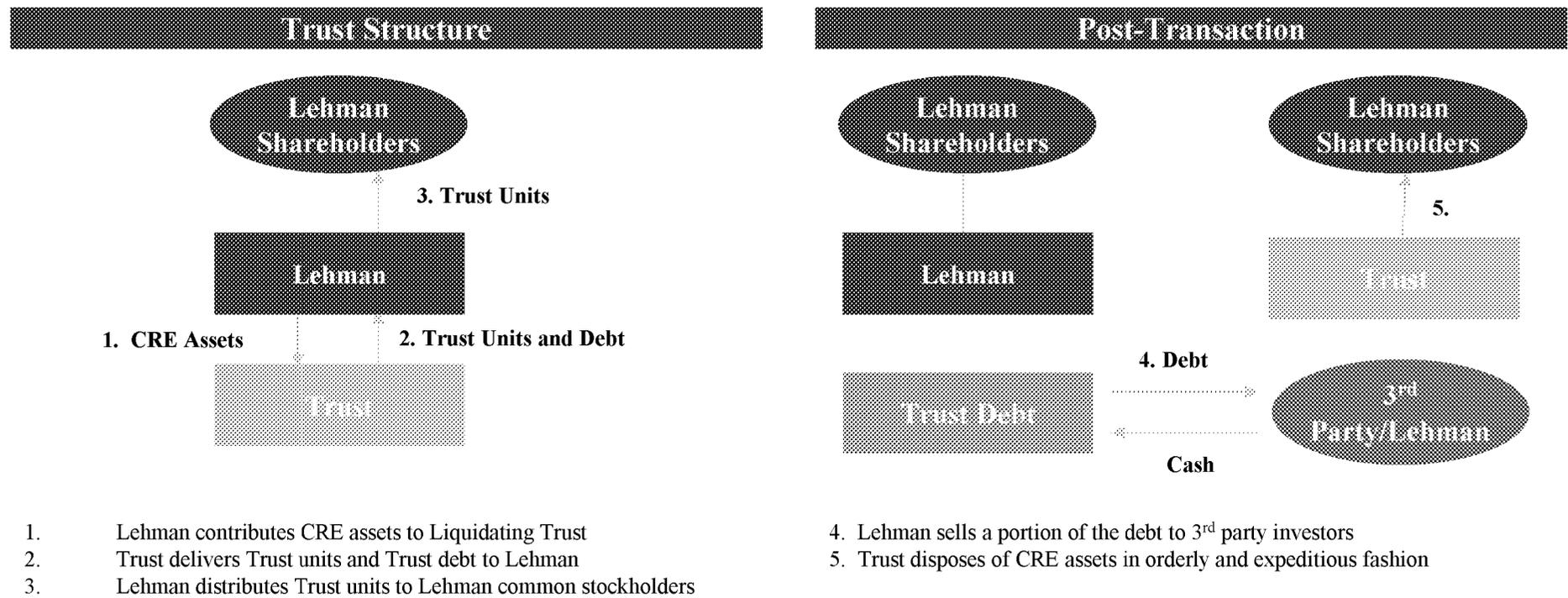
- ◆ Removes essentially all remaining CRE exposure and overhang of Real Estate underperformance on near-term earnings
- ◆ Eliminates largest potential source of future writedowns
- ◆ Increases earnings stability as results will reflect Lehman's core operations going forward
- ◆ Increases ease of raising capital for "Clean" Lehman relative to current combination
- ◆ Focuses employees on growing the core franchise without legacy assets affecting results or creditworthiness
- ◆ Increases counterparty and market confidence
- ◆ Reduces Risk-weighted assets as well as capital requirements
- ◆ Eliminates endless media, analyst and market comments and speculation on Lehman's long-term viability
- ◆ Reduces risk of rating action if the Real Estate market deteriorates

Overview of the Transaction

How “SpinCo” Will Work: Liquidating Trust

While we considered spinning off our CRE assets into an operating company that would continue to actively participate in the Real Estate market, our preference is to distribute these CRE assets to our shareholders as a Liquidating Trust

- ◆ Trust expected to be viable in 3-5 months vs. 6-9 months needed for Operating Company
- ◆ Trust will dispose of CRE Assets in an orderly and expeditious fashion and distribute proceeds to Lehman shareholders after debt service and principal repayments to the trust shareholders



Liquidating Trust Capital Structure

We continue to sell down our CRE portfolio and intend to continue to do so until the Liquidation Trust separation. We estimate the Trust will have \$25-\$30 B of assets, with ~70% leverage – which is consistent with what the market will accept. We plan to distribute some or all of the senior debt to 3rd party investors

Capital Structure: Approximate Value Ranges

(in \$ billions)

Assets

	Debt	Mezz	Equity	Total
America	7 - 8	2 - 3	4 - 5	13 - 16
Europe	4 - 5	~1 - 2	~1 - 2	6 - 8
Asia	2 - 3	~1 - 2	~1 - 2	4 - 6
	\$15 - \$16	~\$4 - \$6	~\$6 - \$9	~\$25 - \$30

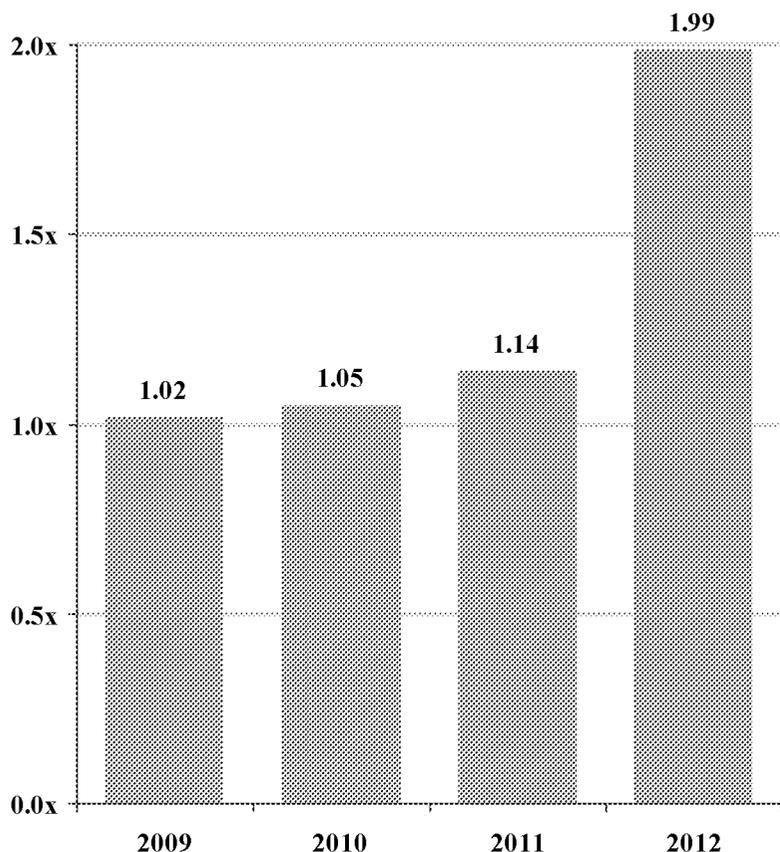
Expected Debt Financing

<u>@ 70%</u>	<u>@ 75%</u>
\$17 - \$21	\$19 - \$23

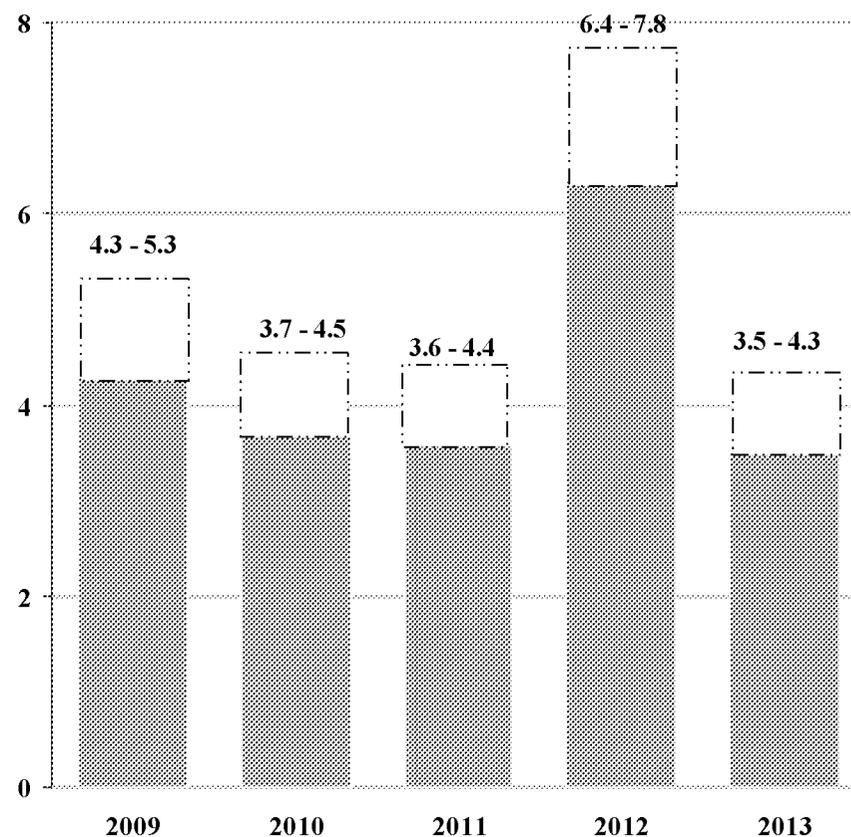
Cash Flow Characteristics

Interest coverage trends higher in each period and significant FCF exists throughout to repay debt

Net Cash Pay Interest Coverage (x)



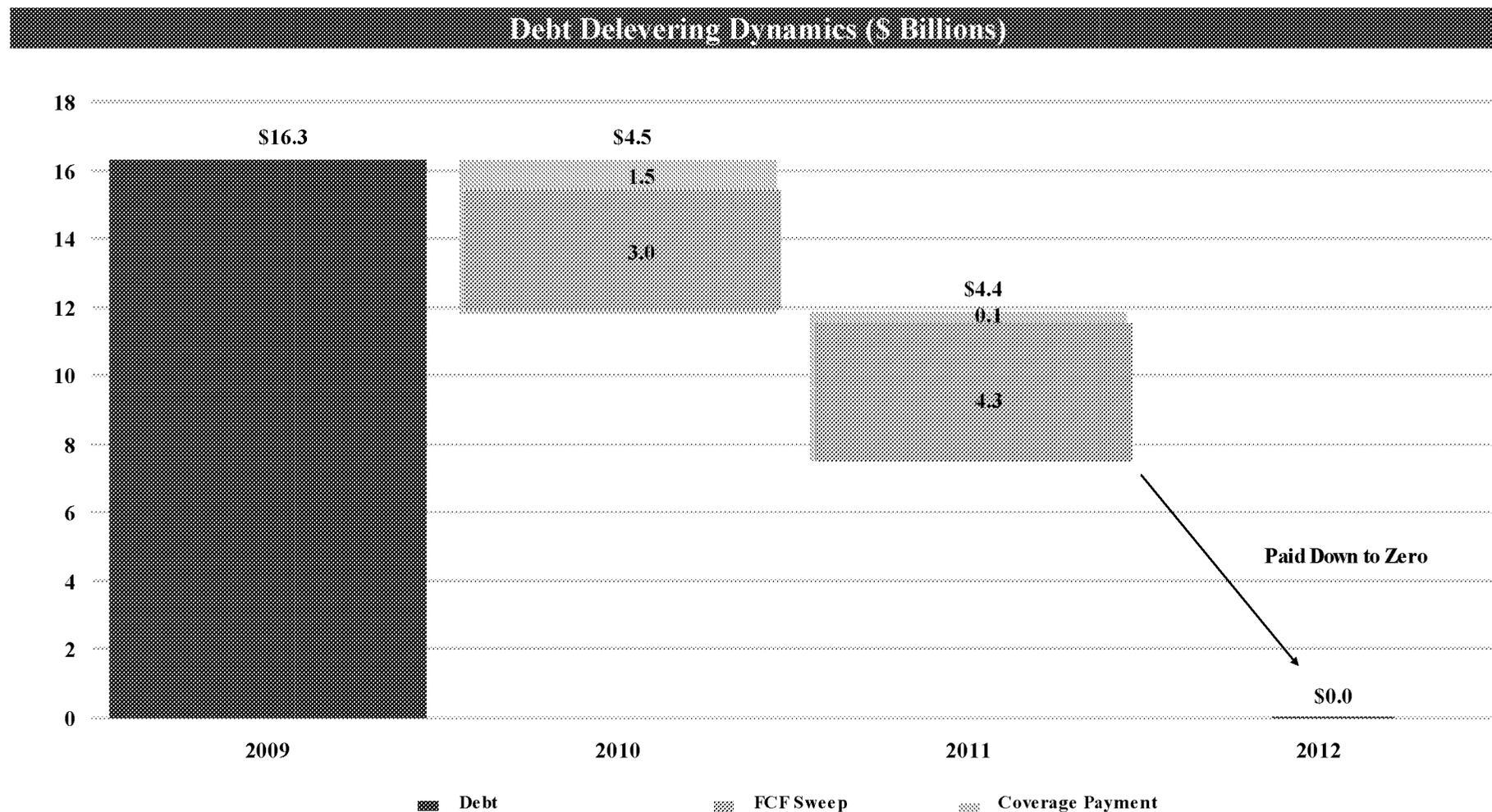
Cash Flow From Assets – Cash Int Exp¹ (\$ Billions)



1. Cash flow from assets – G&A – Interest Expense = Free Cash Flow available for sweep based on a range of \$25-\$30 B of assets with advance rates of 70-75%

Debt Delevering

The debt rapidly and fully delevers in 4 years after applying the free cash flow sweep



1. Debt delevering based on deal size of \$30 B, with initial leverage of \$21.7B (~70% advance rate)

Strong Capital Structure vs. Peers

SpinCo's assets will be approximately 2x the size of iStar, yet is capitalized with a lower level of leverage

Capital Composition: SpinCo vs. Peers

	SpinCo	iStar	CapitalSource	RAIT Financial Trust
(\$ in millions)				
Total Assets	\$25,000 - \$30,000	\$15,619	\$18,031	\$10,152
Total Debt	19,000 - 22,000	12,240	15,047	8,587
Debt / Assets (Loan to Value)	70% - 73%	78%	83%	85%
Interest Coverage Ratio	1.2x	1.4x		
Ratings	BB-	BBB		
Market Capitalization	\$4,303 ⁽¹⁾	\$995	\$3,006	\$424

¹ Based on 0.5x P/B Multiple

Lehman Will Initially Provide Senior Financing

The equity cushion is expected to be \$6-\$9 billion, given \$25-30 billion of assets transferred into SpinCo. Additionally, capital or subordinated financing may be raised from 3rd parties

- ◆ 25-35% subordination below senior financing, which can fully absorb aggressive haircuts ¹
- ◆ Stress tests conducted for FIN 46 measurement suggest only 2% probability of losses on senior financing over the life of the financing
- ◆ Senior financing likely to be tranching to facilitate third party financing and to ensure ECB funding eligible for proportion of financing (currently European CMBS securities are largely eligible through qualifying bank)
 - Financing to be priced at levels seen for similar types of structures (L+[150-300] bps depending on seniority)
- ◆ Lehman will maximize promotion of financing through its own banks
- ◆ Lehman will actively seek to syndicate funding

1. Haircuts on the Debt, Mezz, and Equity asset classes of 10%, 20%, and 50%, respectively results in an equity loss of \$5.3 - \$6.7 B at Q4 '08

Alternatives Considered

While confident we can set up the Liquidation Trust as a separate entity in 3-5 months, we could effect similar risk transference with a securitization to shareholders

- ◆ CRE assets would be sold into a securitization structure, the equity then transferred to current shareholders with the mezz sold to external investors
- ◆ However, it stays on balance sheet and would be consolidated
- ◆ Won't get the benefit of clear separation

SpinCo – Implementing Solution

- ◆ Meeting the SEC on Tuesday, August 11th to get sign-off on the transaction and agree on the timing

- ◆ Accounting issues around true sale and off-balance sheet treatment are essentially all resolved

- ◆ Financing of debt in capital structure
 - Seller financing is likely, but exploring external financing sources
 - Potential ECB funding of certain assets

- ◆ Board selection and management structure

- ◆ Timing
 - Goal is Q4 '08 (or early Q1 '09)

Impact on Lehman Brothers

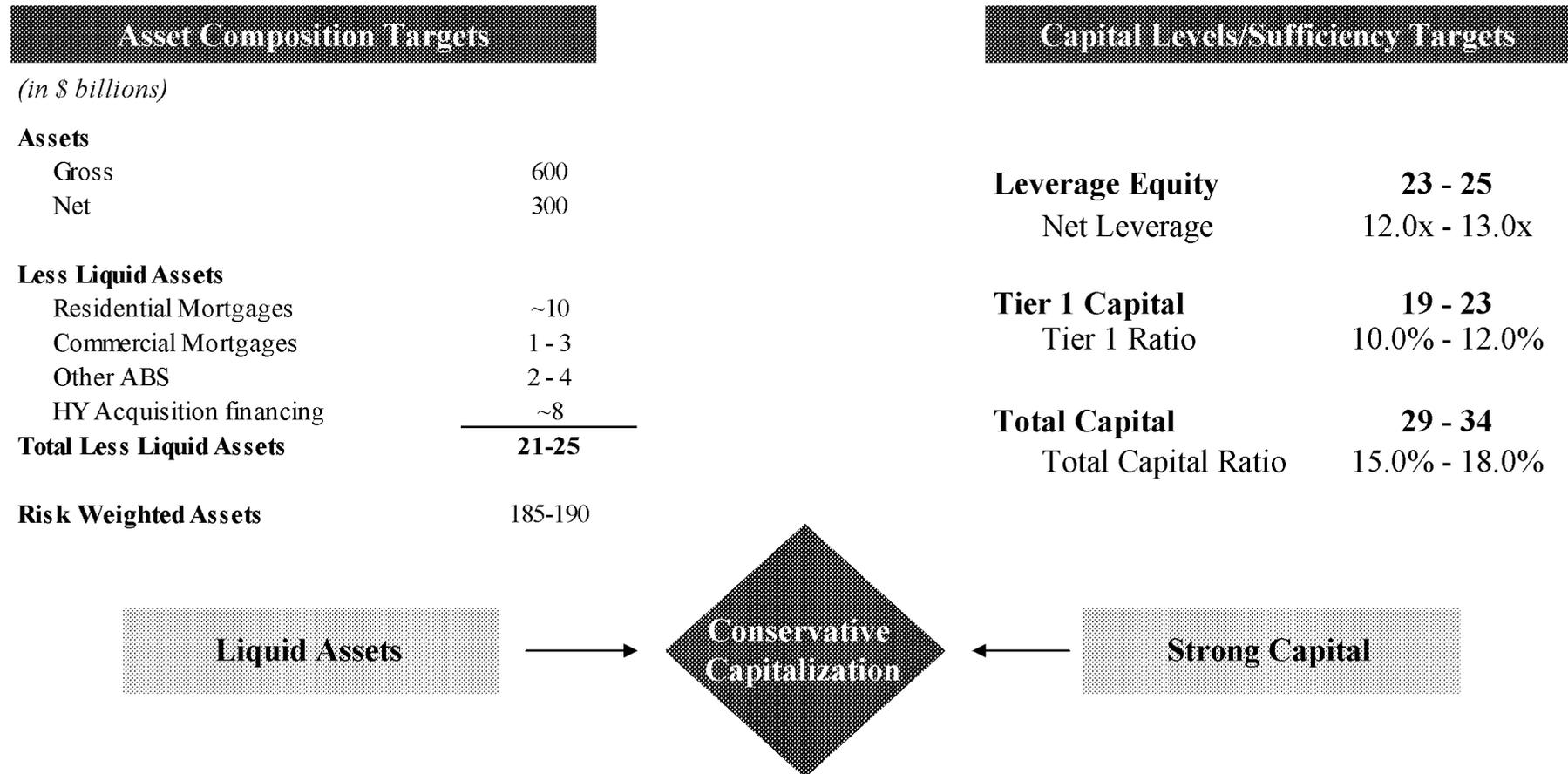
Capital Ratios Are Strong

Lehman's Capital Ratios have strengthened with deleveraging and capital raising

<i>(in \$ billions)</i>	<u>Q4 '07</u>	<u>Q1 '08</u>	<u>Q2 '08</u>	<u>Q3 '08 (Est)</u>
<u>Balance Sheet</u>				
Gross Assets	691	786	639	620-650
Net Assets	373	397	328	320-340
<u>Less Liquid Assets</u>				
Residential Mortgages	32	32	25	12
Commercial Mortgages	39	36	29	26
Real estate for sale	13	13	10	9
Other ABS	6	7	7	4
HY Acquisition financing	24	18	12	8
<i>Total Less Liquid Assets</i>	114	106	83	59
<u>Risk Weighted Assets</u>		226	217	200-210
<u>Leverage</u>				
Net Leverage	16.1x	15.4x	12.1x	10.5x - 11.5x
Gross Leverage	30.7x	31.7x	24.3x	20.5x - 21.5x
<u>Equity Measures</u>				
Tier 1 Ratio		10.4%	10.7%	12% - 13%
Total Capital Ratio		15.6%	16.1%	18% - 20%

“Clean Co” Capital Requirement

Post Spin-off, Lehman’s asset composition will be more liquid while its capital position is targeted to remain extremely strong



Capital Ratios Are In Targeted Ranges Post Spin-off

Based on the target ranges post spin-off, Lehman should achieved its capital adequacy goals while approaching its internal target limiting non-traditional capital to ~ 35% of permanent capital by Q4'09

Considerations

◆ Share of Capital in Hybrids

- Through the elimination of dividends and buybacks, and the improvement of earnings, our common to total rate over 2009 will increase from 52-56% to 61-65%

◆ Equity raise for “Clean Co” will be sufficient to generate this target structure

◆ Goodwill

- We do not reduce permanent capital by goodwill, as the majority of it is attributable to IMD, which can be sold separately

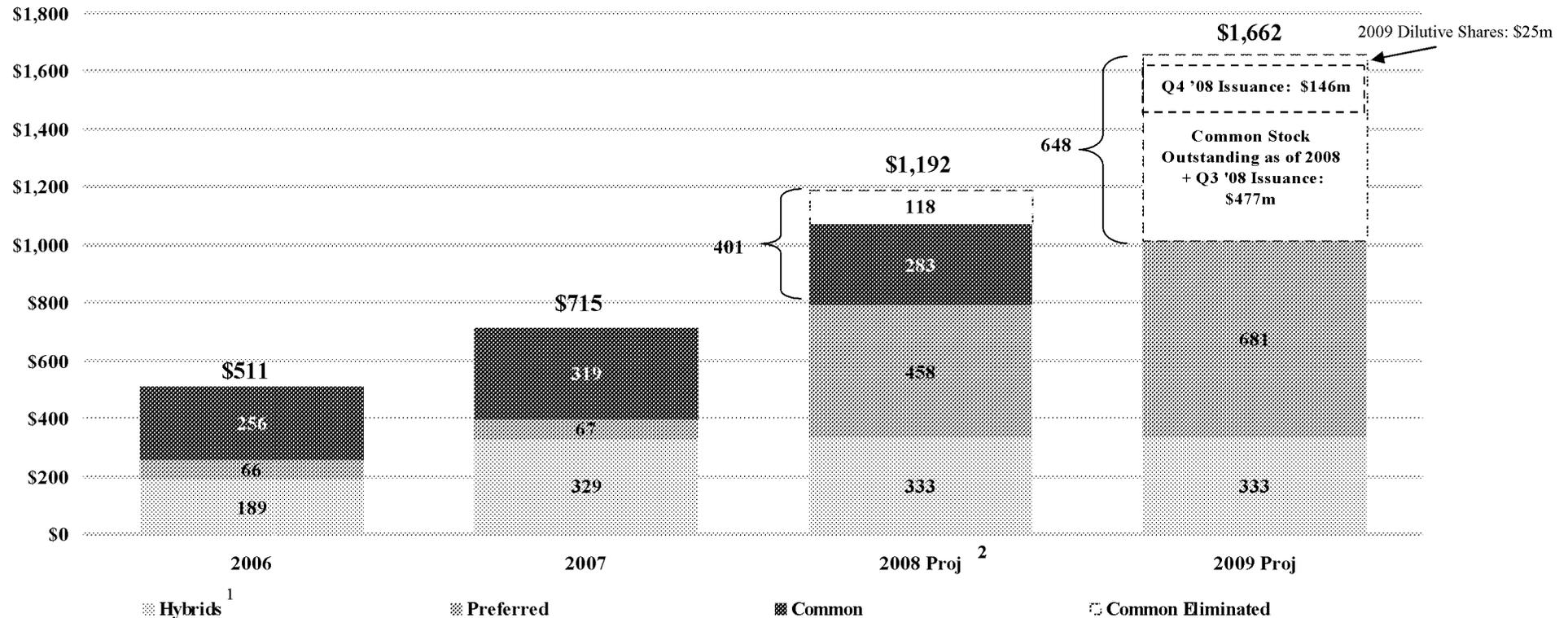
<i>(in \$ billions)</i>	Target Range	Q4 '08	<u>Target</u> <u>Met?</u>	Q4 '09
Common		15-18		19-22
Preferred		9		8
Stockholders' Equity		24-27		27-30
Junior Subdebt		5		4
Permanent Capital		29-32		31-34
Goodwill		(4)		(4)
Leverage Capital	23-25	25-28	✓	27-30
Net B/S		300		325
Net Leverage	12.0x-13.0x	10.7x - 12.0x	✓	10.8x-12.0x
Tier 1	19-23	22-25	✓	25-27
Tier 1 Ratio	10%-12%	12%-13%	✓	12%-13%
Total Capital	29-34	33-38	✓	38-41
Total Capital Ratio	15%-18%	18%-20%	✓	18%-20%
Permanent Capital Mix				
% Common	65%	52% - 56%	x	61%-65%

Reliance On Hybrids Will Not Cause Any Difficulties

By locking in low-cost, and in some cases tax-deductible securities, Lehman has solidified the strength of its capital structure

- ◆ Eliminating Lehman's quarterly common dividend payment will save \$118 million of cash in Q4 '08 and an additional \$648 million in FY '09, which means that Lehman's FY '09 dividend payments will be lower than FY '08

Dividend Outflows (in \$ millions)



Lehman's "Ask" From [Fitch/Moody's/S&P]

As Lehman continues to improve and refine the spin-off structure of our Commercial Real Estate portfolio, we want to include [Fitch/Moody's/S&P] in the process as we develop a structure that has the most positive impact on Lehman's creditworthiness going forward

- ◆ As we value [Fitch/Moody's/S&P] as a key partner, we want to use you as a "sounding board" and seek specific feedback regarding the spin-off and its impact on Lehman's overall risk profile

- ◆ We are also interested in learning of any concerns or sensitivities that [Fitch/Moody's/S&P] may have regarding the transaction and its structure so that we can address them as we continue to develop the spin-off over the next several months

- ◆ We are particularly interested in hearing [Fitch's/Moody's/S&P's] views regarding the credit rating implications for Lehman Brothers post-transaction:
 - Are Lehman's post-transaction credit ratings consistent with its current [A+/A2/A] credit rating?
 - Would the transaction be enough to move Lehman's outlook from Negative to Stable?
 - If either of these answers is no, what is required to get an affirmative response?

- ◆ We look forward to working with [Fitch/Moody's/S&P] going forward as we implement the spin-off of our Commercial Real Estate assets

Appendices

Quotes From The Rating Agencies

The largest overhang on our credit is the size and concentration of our Commercial Real Estate (CRE) positions

Quotes from the Rating Agencies:

- ◆ Ratings could be lowered further if Lehman were to incur substantial losses either as the result of depressed business conditions or sizeable write-downs. (S&P, June, 2008)
- ◆ Despite these notable risk reductions, Lehman's mortgage exposures and concentrations remain high and have weighed heavily on the firm's operating results and market confidence. (Moody's, July, 2008)
- ◆ Lehman must continue to lower its real estate exposures and demonstrate that it can generate consistent and sustainable profitability (Moody's, July, 2008)
- ◆ Significant residential and commercial real estate concentrations remain a risk management challenge and continue to pose downside risk to the firm (Moody's, June, 2008)
- ◆ Despite asset sales, Lehman's exposure to higher risk asset categories as a percent of Fitch core capital is higher than peers. (Fitch, June, 2008)
- ◆ Fitch believes Lehman will continue to sell riskier assets and reduce its overall risk in specific asset that such sales may remove the most attractive assets, leaving a concentrated level of least desirable or more problematic assets on the balance sheet (Fitch, June, 2008)

Commercial Real Estate Disclosure At Q2 '08

Commercial Mortgage and Real Estate-Related Investments (in Billions)

	At May 31, 2008			May 31, 2008		At May 31, 2008				
	Americas	Europe	Asia	Number of Positions	Average Position Value ⁽¹⁾	WALTV ⁽²⁾	WAM ⁽³⁾	WALA ⁽⁴⁾	Fixed	Float
Whole loans										
Senior	\$ 10.7	\$ 4.7	\$ 4.1	875	\$ 22.2	76 %	34	18	9 %	91 %
Mezzanine	4.6	0.7	0.6	299	19.8	78 %	26	13	15 %	85 %
NPLs ⁽⁵⁾	0.2	—	1.7	327	5.8					
Equity	4.5	1.5	1.2	670	10.7					
Securities	0.9	3.8	0.6	371	14.2	<u>Inv. Grade</u>	<u>Non-Inv. Grade</u>	<u>AA or Better</u>		
						94 %	6 %	77 %		
Total	\$ 20.9	\$ 10.7	\$ 8.2	2,542	\$ 15.7					

1. In millions.

2. WALTV is weighted average loan to value at origination.

3. WAM is weighted average number of months remaining to fully extended maturity.

4. WALA is weighted average loan age in months.

5. NPLs are loans purchased as non-performing loans.

Capital Position: Raised 11.9 Billion in 2008

\$1.9 B Preferred Stock

- ◆ Issued in February 2008
- ◆ Non-Cumulative Dividends at 7.95%, Perpetual
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital

\$4.0 B Convertible Preferred Stock

- ◆ Issued in April 2008
- ◆ Non-Cumulative Dividends at 7.25%, Perpetual
Initial Conversion Rate 20.0509 per share, equivalent to \$49.87 strike per share
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital
- ◆ More than three times over subscribed

\$4.0 B Common Equity

- ◆ Issued in June 2008
- ◆ 143 million shares of common stock
- ◆ Public Offering price \$28 per share
- ◆ Included as CSE Equivalent Tier 1 Capital

\$2.0 B Convertible Preferred Stock

- ◆ Issued in June 2008
- ◆ Non-Cumulative Mandatory Convertible Dividends at 8.75%
- ◆ Initial Conversion Rate between 30.2663 and 35.7142 per share at \$33.04 - \$28.00
- ◆ Deeply Subordinated and senior only to Common Equity
- ◆ Included as CSE Equivalent Tier 1 Capital