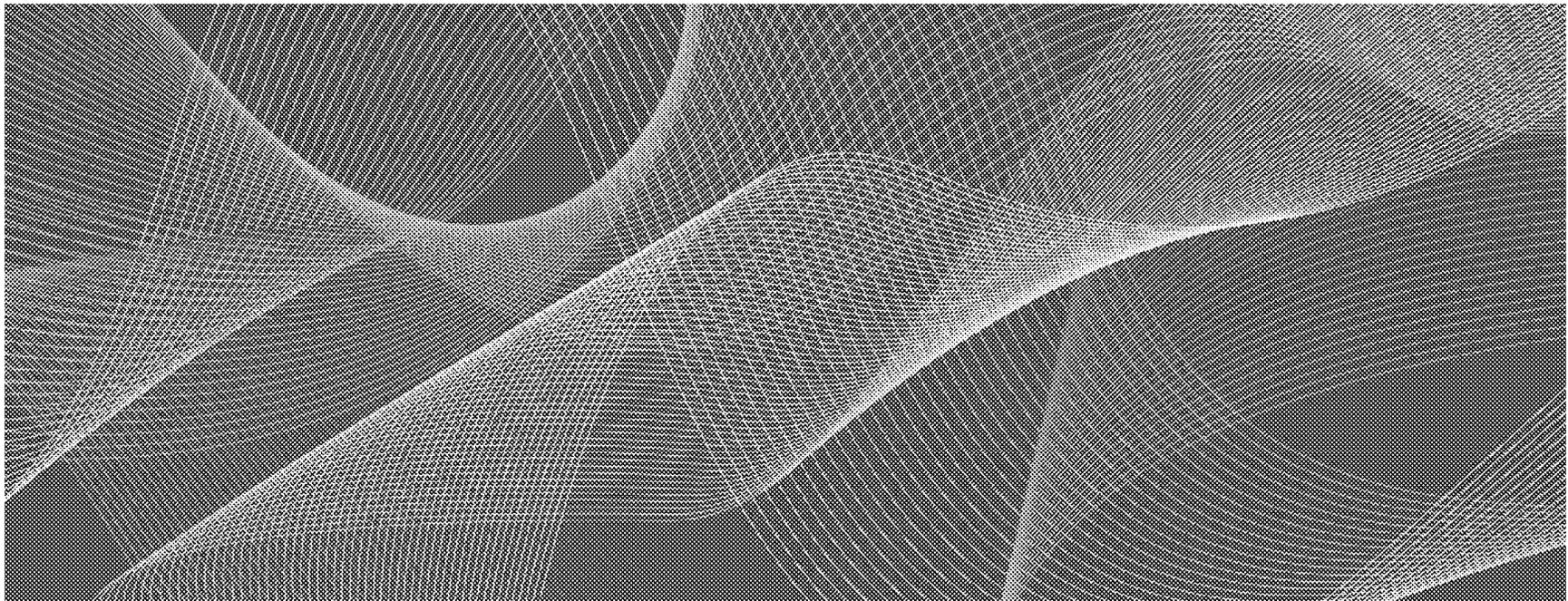


Confidential

LEHMAN BROTHERS

August 13, 2008

Moody's Investors Service Discussion of Spin-Off of CRE Portfolio



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 require detailed review by prospective buyers
- ❖ Rating agencies, creditors and counterparties have all expressed concern regarding the size and concentration of our CRE positions and its impact on our creditworthiness
- ❖ While in Q2 we sold \$8 billion of positions in and around our marks, the perceived risk of many of these positions creates concern in the market
 - Archstone and SunCal represent significant concentrations
- ❖ We are actively selling down positions, 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 constituencies, 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 CRE Entity ("SpinCo") which can manage the existing portfolio of assets in a less-pressured way to maximize the intrinsic value of the portfolio, and a "Clean" Lehman ex the CRE assets
 - The CRE entity, as a separately-listed public company, will be staffed with appropriate experts transferring from Lehman
- ❖ 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 given the strong cash flow characteristics of the portfolio
- ◆ Maintains potential upside valuation of CRE assets for Lehman's shareholders
- ◆ Focuses on capturing the intrinsic value of the CRE portfolio

"Clean" Lehman

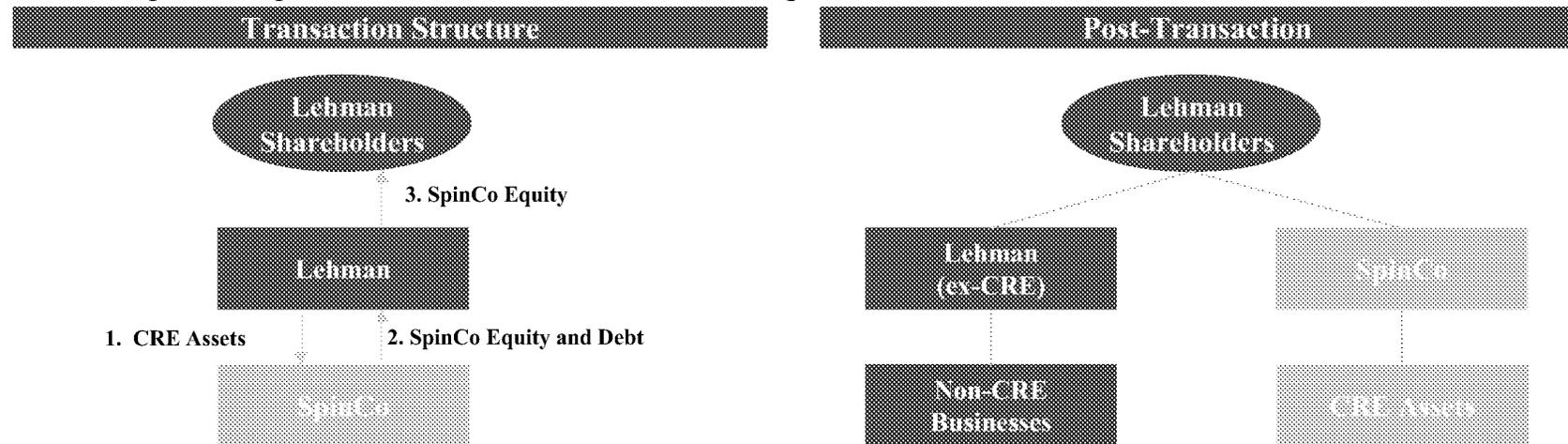
- ◆ Removes essentially all remaining CRE exposure and overhang of Real Estate underperformance on near-term earnings
- ◆ Eliminates largest potential source of future writedowns
- ◆ Increases earnings stability as results will reflect Lehman's core operations going forward
- ◆ Easier to raise capital 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
- ◆ Reduces risk of rating action if the Real Estate market deteriorates further

Overview of the Transaction

How SpinCo Will Work

Lehman will contribute commercial real estate assets into a new entity, SpinCo, whose equity will then be distributed to Lehman shareholders, creating a standalone company

- ◆ Lehman will initially provide necessary debt financing to SpinCo
 - It is expected that SpinCo will obtain external debt financing from other sources at a later point
- ◆ SpinCo will be independently managed on a portfolio basis to maximize the return to shareholders
 - Rather than forced selling (potentially at a discount to the portfolio’s value) SpinCo management will have the flexibility to sell assets or hold them until maturity – whichever alternative offers a greater return to shareholders
- ◆ We expect this split to create immediate value for existing shareholders



1. Lehman contributes CRE assets to SpinCo
2. Lehman receives SpinCo equity and debt
3. Lehman distributes SpinCo equity to Lehman Shareholders

- ◆ Lehman Shareholders own equity in both Lehman (ex-CRE) and SpinCo
- ◆ SpinCo will manage the CRE assets to maximize the return to its shareholders

SpinCo Capital Structure

We continue to sell down our CRE portfolio and intend to sell assets until SpinCo's separation. We estimate SpinCo will have up to \$33.7 bn of assets, with a lesser number likely due to additional asset sales as well as other factors. We plan to distribute a portion of the senior debt to 3rd party investors

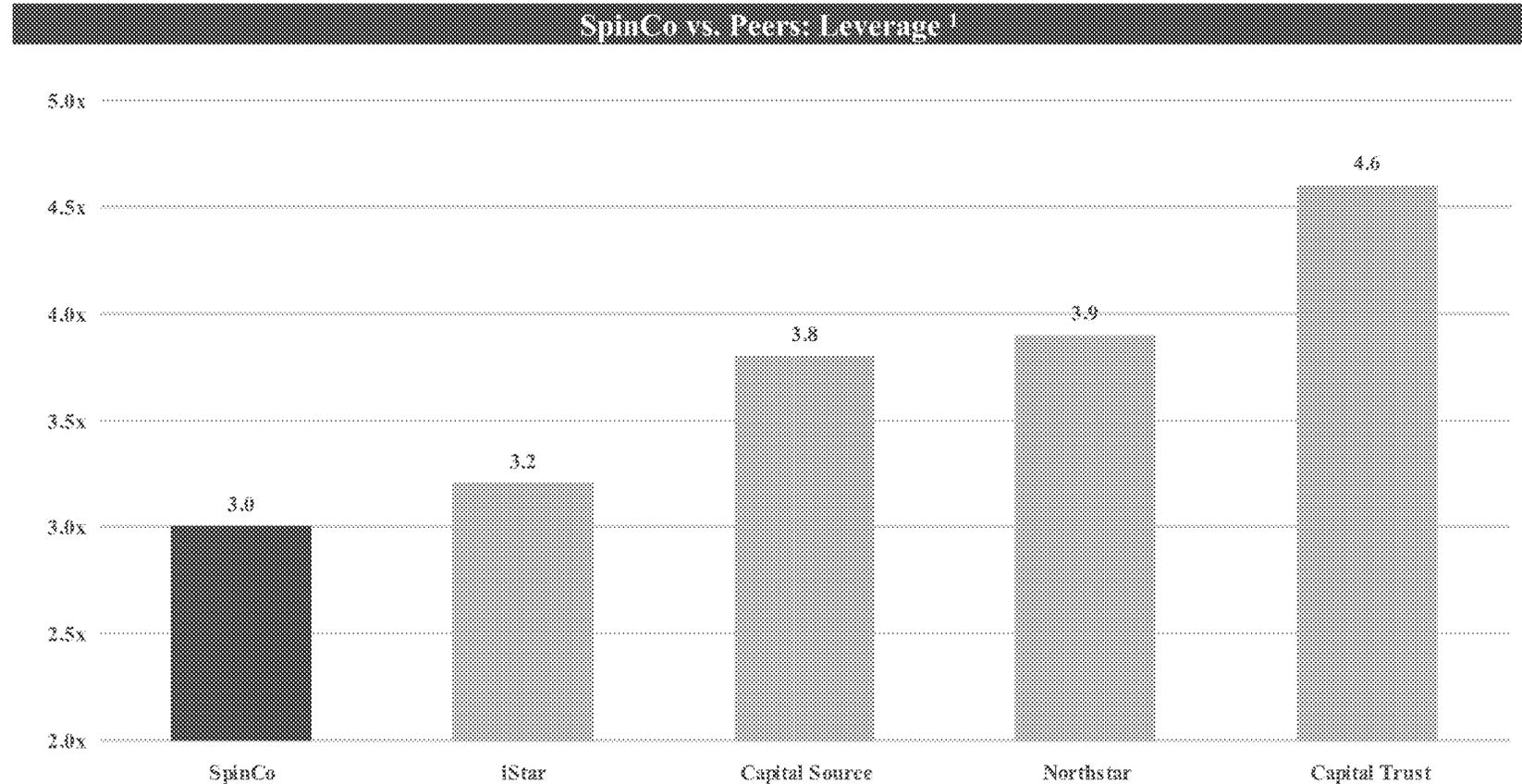
Approximate Capital Structure of SpinCo

(in \$ billions)

| Assets (maximum) | | Leverage Detail | |
|------------------|------------------|-----------------|------------------------|
| | Positions | | @ 75% adv. Rate |
| Debt | \$19.4 | Debt | \$25.3 |
| Mezz | 5.2 | Required Equity | 8.4 |
| Equity | 9.1 | Total | \$33.7 |
| Total | \$33.7 | | |

Strong Capital Structure vs. Peers

SpinCo is initially projected to have the lowest leverage amongst its peers, with an even more conservative targeted debt / equity ratio of 1x by 2012

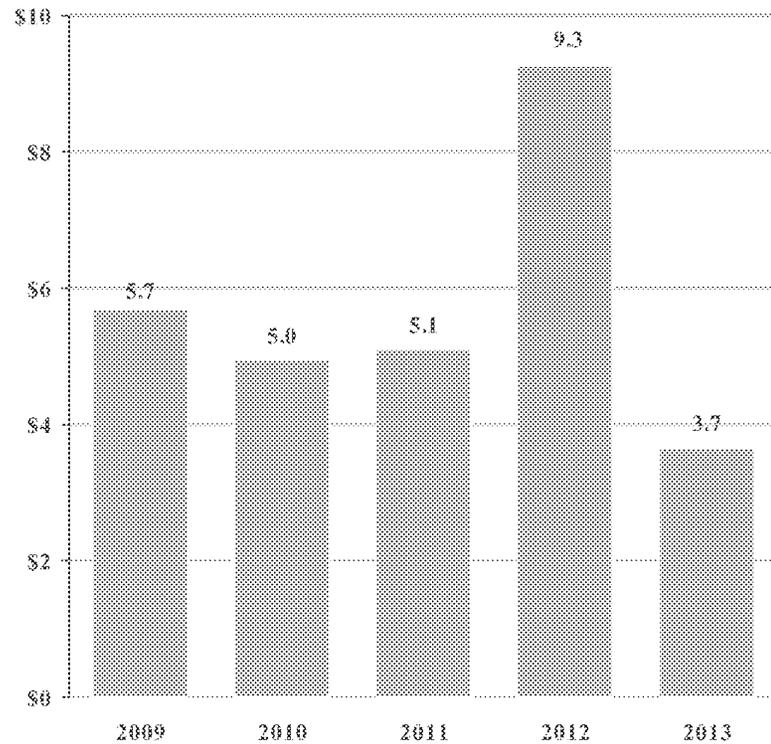


Source: SNL Financial and Factset as of August 5, 2008. Financial data as of or for the quarter ended June 30, 2008, unless otherwise noted.
 1. Leverage defined as Debt / Equity. iStar Leverage defined as book debt divided by sum of book equity, accumulated depreciation / depletion and loan loss reserves.

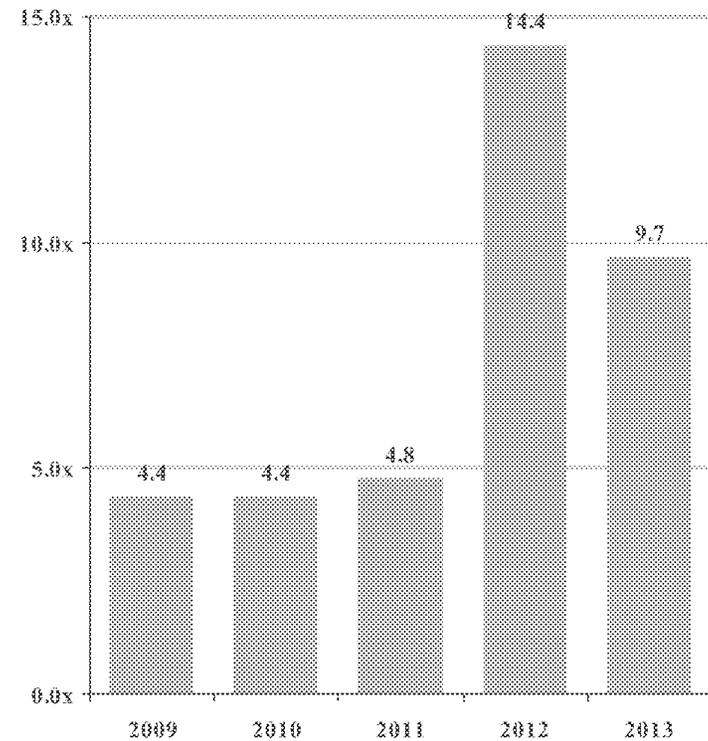
Cash Flow Characteristics of SpinCo

Significant free cash flow is generated to repay debt. Cash flow coverage, even with conservative assumptions on contractual repayments and on future commitment outflows, is significant

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



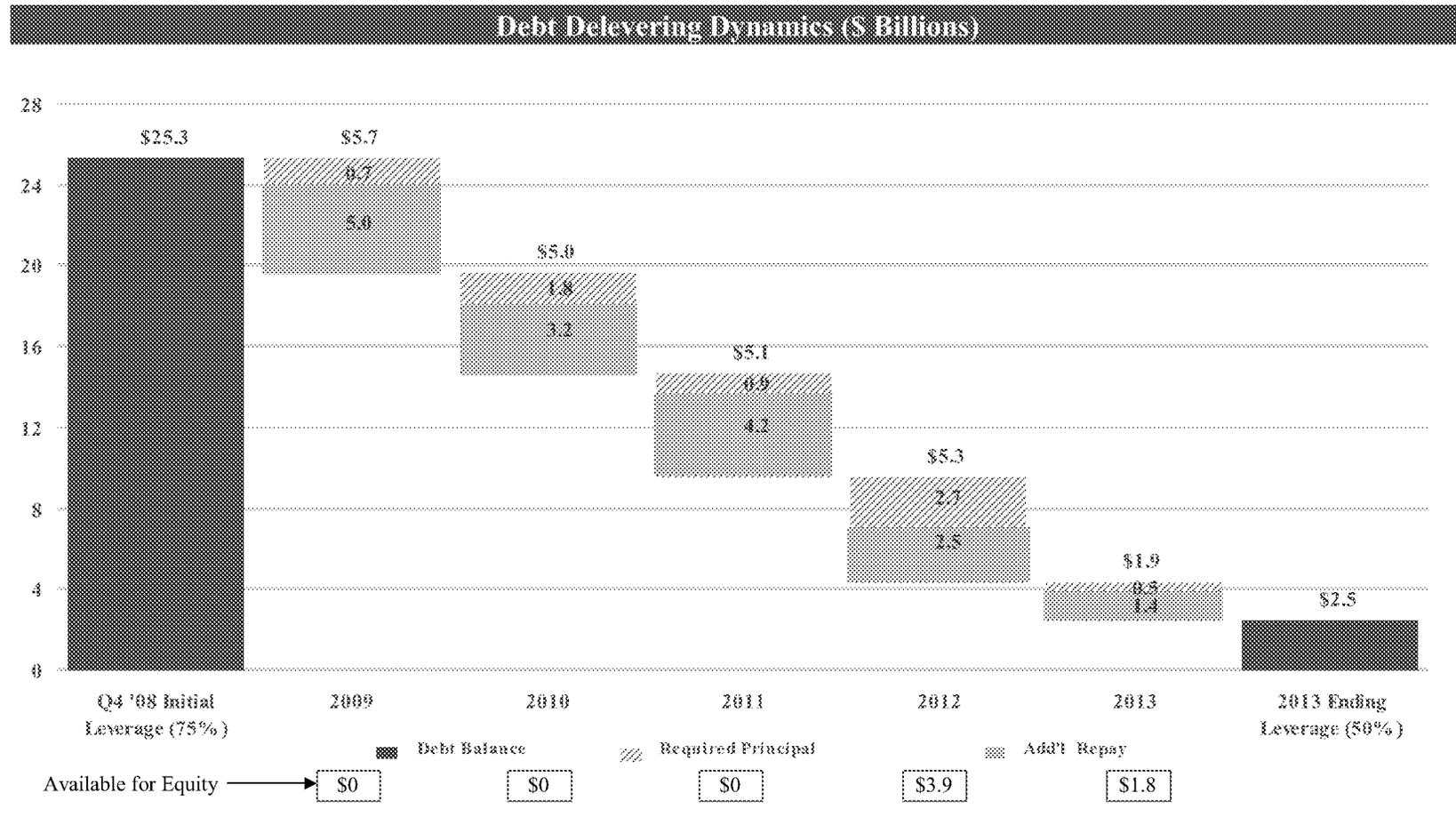
Net Cash Pay Interest Coverage² (x)



1. $Net\ Cash\ Flow\ from\ Assets - G\&A - Cash\ Interest\ Expense = Free\ Cash\ Flow\ available\ for\ sweep$
 2. $Net\ Cash\ Pay\ Interest\ Coverage = (Cash\ Interest\ Income + Principal - Future\ Contribution) / Cash\ Interest\ Expense$

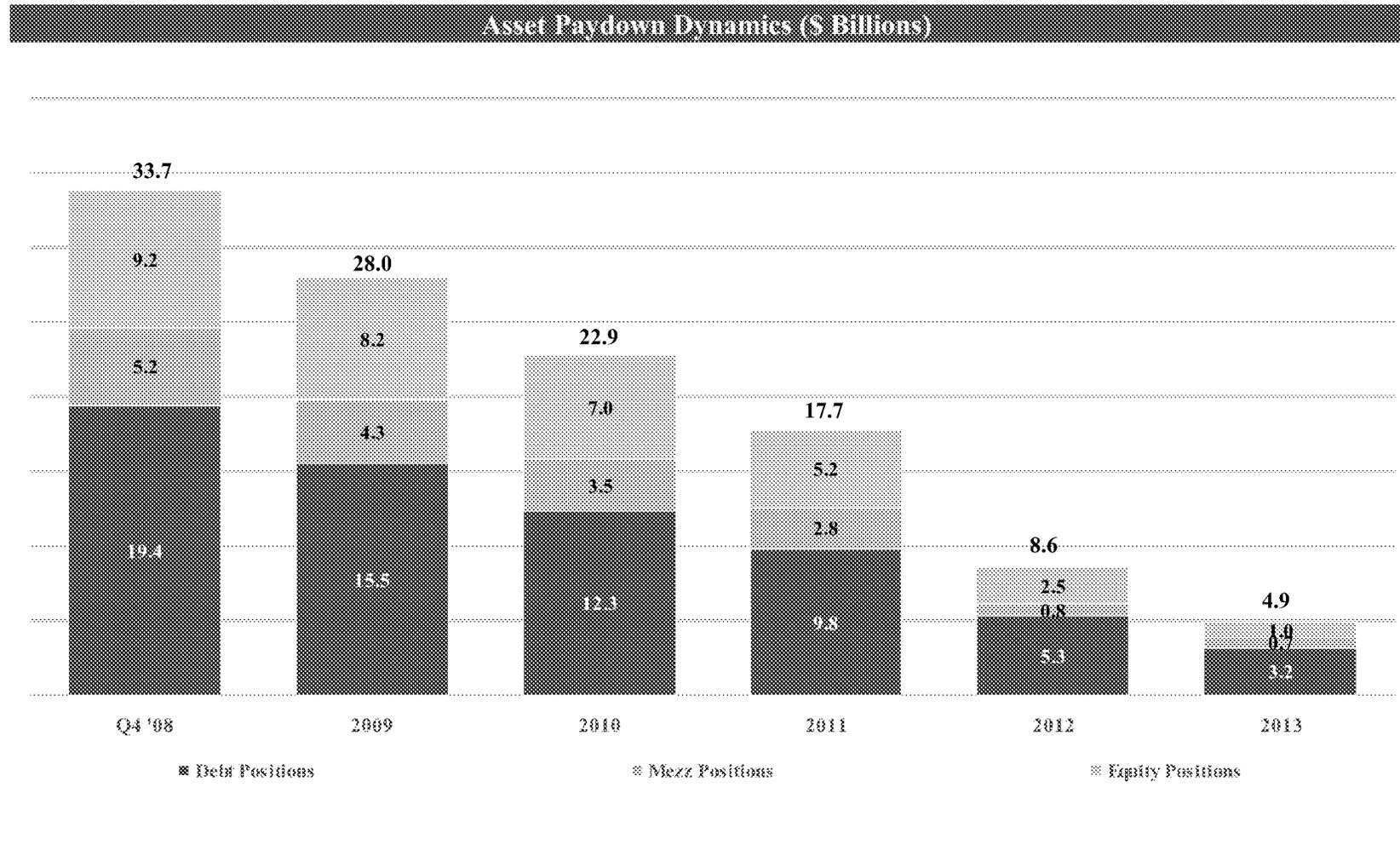
SpinCo Delevers Over Time

SpinCo delevers from 3x Debt / Equity to 1x Debt / Equity by 2012



SpinCo Expected Asset Paydowns

Asset balances at the end of 2013 are expected to be \$4.9 bn, a reduction of 85% from the initial balance of \$33.7 bn

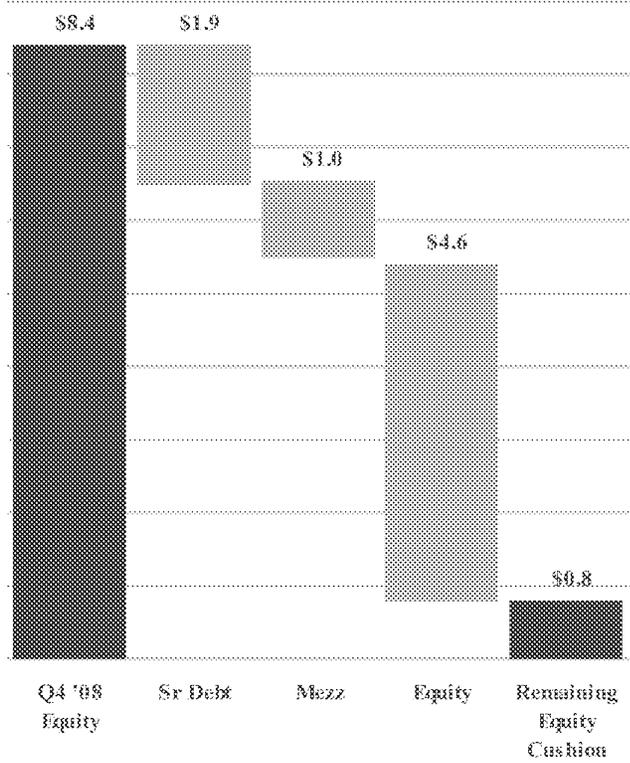


Senior Financing Well Protected by Capital Structure

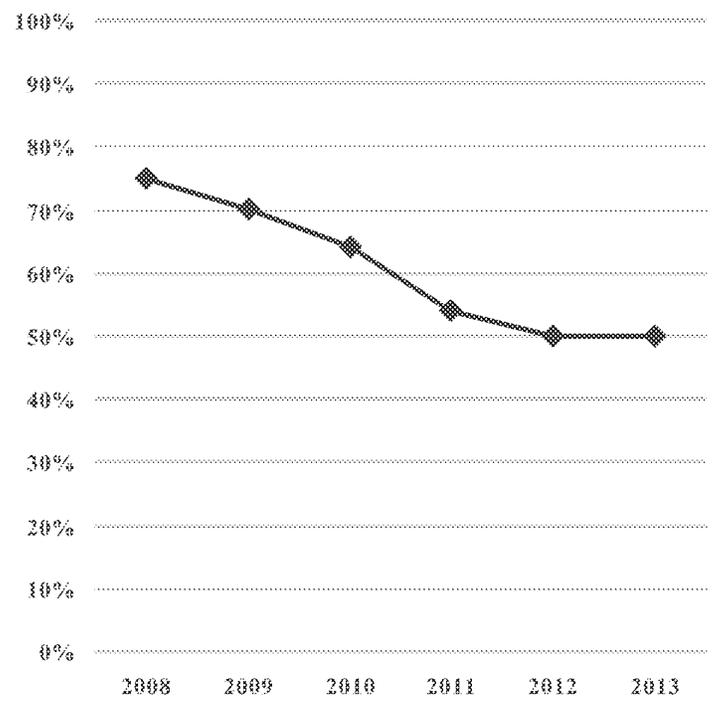
The equity requirement is expected to be approximately \$8.4 bn, using a base case of \$33.7 bn of assets transferred into SpinCo

- ◆ This 25% subordination in senior financing is enough to fully absorb significant losses under highly conservative economic scenarios
 - Even assuming significant losses on equity assets (50%), mezz (20%) and senior (10%) in Q4 '08, SpinCo's senior debtholders still retain significant protection
 - Rapid paydown of senior debt adds even more protection for senior debtholders over time
- ◆ Preliminary stress tests conducted for FIN 46 measurement suggest only 2% probability of losses on senior financing over the life of the financing

Stress Case: Equity Loss Absorption (\$ Billions)



LTV Trend

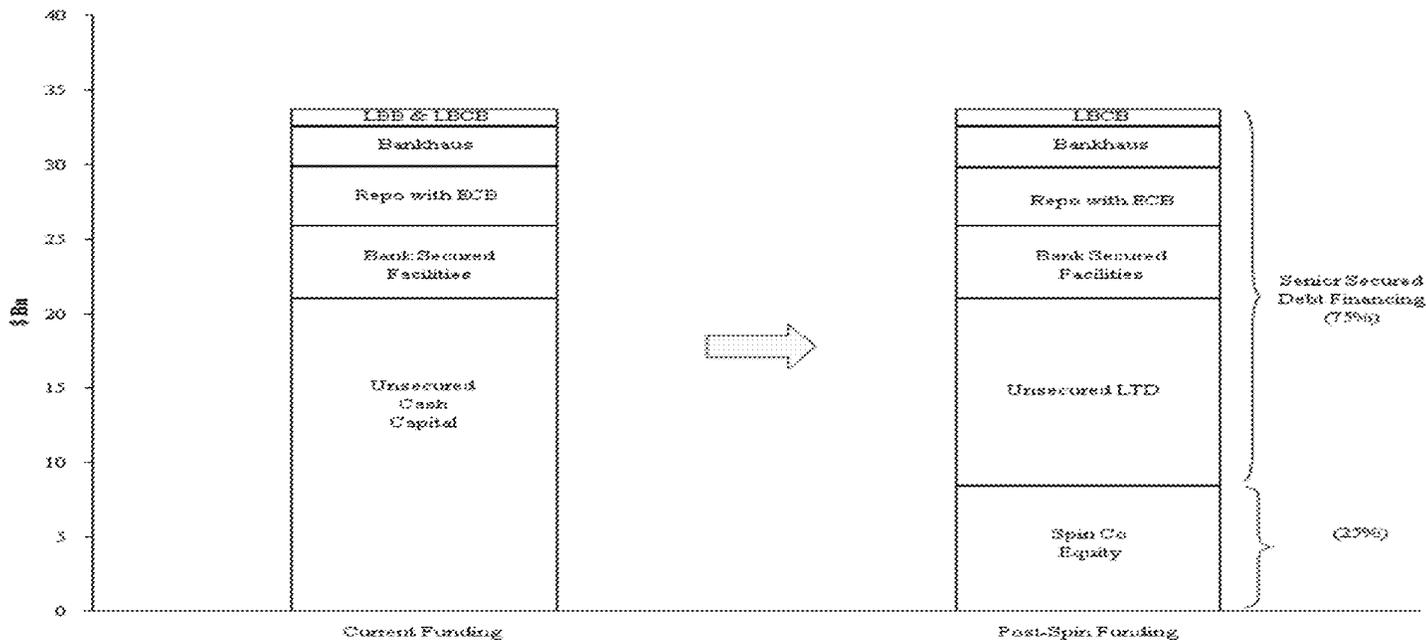


Senior Financing Funding Considerations

Lehman will provide initial senior funding, but expects to syndicate the exposure

- ◆ The senior secured financing, initially expected to be provided by LBHI, is liquidity neutral because all of the current funding sources are expected to remain in place
- ◆ Senior financing priced at market levels of L+[150-350] and will be syndicated to 3rd parties
- ◆ This financing is likely to be tranching to facilitate third party financing and to ensure ECB funding eligibility for proportion of financing (currently European CMBS securities are largely eligible through qualifying bank)

Funding SpinCo Assets



Alternatives Considered

While confident we can set up the SpinCo as a separate entity in 3-5 months, we could implement similar risk transference with a securitization

- ◆ CRE assets would be sold into a securitization structure, the equity then transferred to current shareholders with the debt tranches 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

- ◆ Met the SEC on Tuesday, August 12th to get sign-off on the transaction and agree on the timing
 - Discussions went well and the SEC is supportive of the transaction

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

- ◆ Senior secured financing will be syndicated once SpinCo is announced
 - Senior debt secured against assets
 - Secured structures already in place can continue
 - ECB financing will continue as securities maintained
 - LBCB and Bankhaus are able to continue providing financing against assets

- ◆ Board selection and management structure to be finalized

- ◆ Timing
 - Goal is Dec. '08 to Jan. '09

Impact on Lehman Brothers

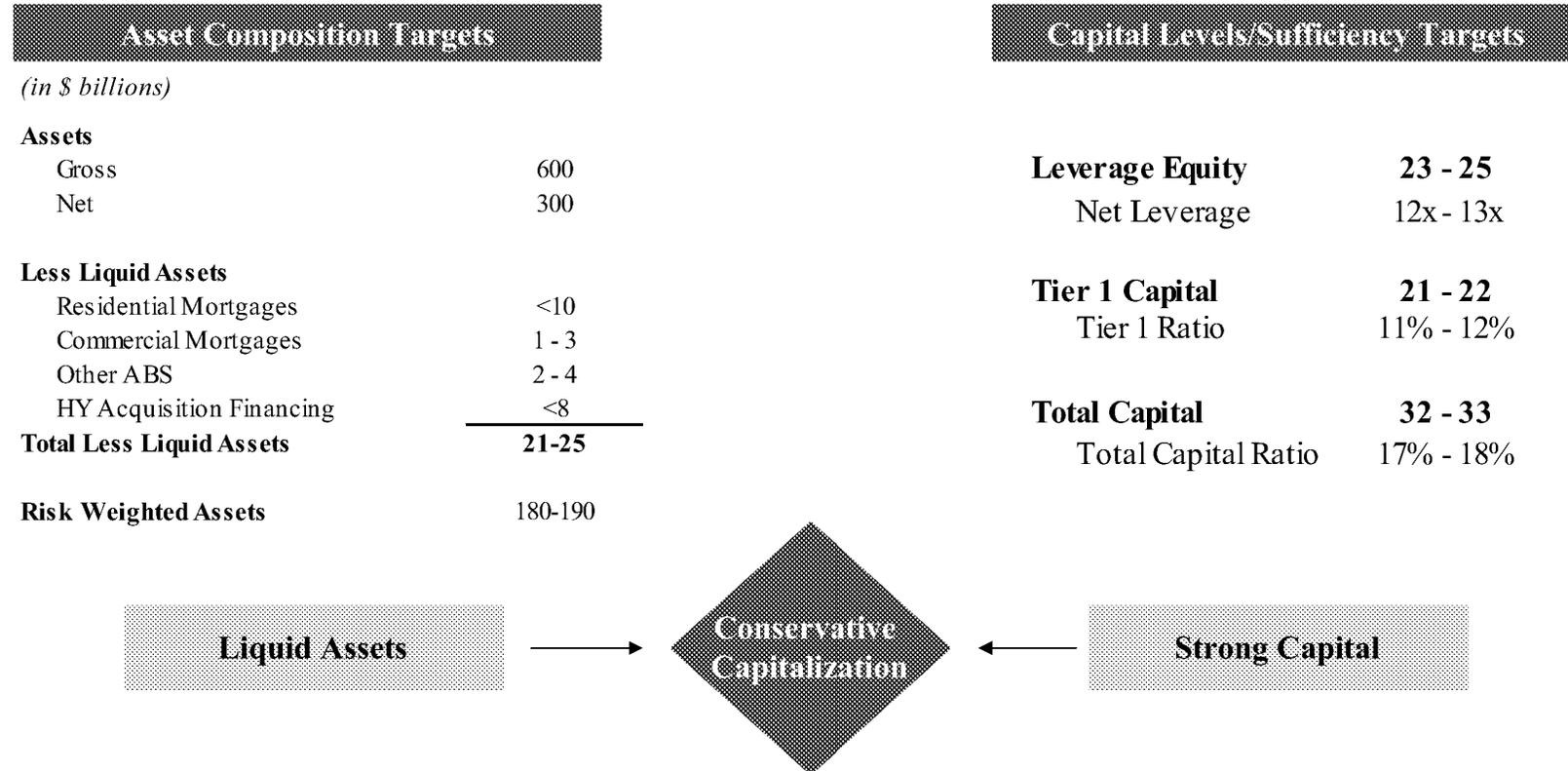
Capital Ratios Are Strong

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 |
| <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% | 12.0% - 13.0% |
| Total Capital Ratio | | 15.6% | 16.1% | 18.0% - 20.0% |

“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 achieve its capital adequacy goals while approaching its internal target limiting non-traditional capital to ~ 35% of permanent capital by Q4 '09

| <i>Base Case Scenario</i> (in \$ billions) | Target Range | Q4 '08 | Q4 '09 |
|---|---------------------|---------------|---------------|
| Common | | 15 | 18 |
| Preferred | | 9 | 8 |
| Stockholders' Equity | | 24 | 26 |
| Junior Subdebt | | 5 | 4 |
| Permanent Capital | | 29 | 30 |
| Goodwill | | (4) | (4) |
| Leverage Capital | 23-25 | 25 | 26 |
| Net B/S | 300 | 300 | 325 |
| Net Leverage | 12x - 13x | 12x | 13x |
| RWA's | 185-190 | 184 | 195 |
| Tier 1 | 21 - 22 | 22 | 24 |
| Tier 1 Ratio | 11% - 12% | 12% | 12% |
| Total Capital | 32 - 33 | 33 | 35 |
| Total Capital Ratio | 17% - 18% | 18% | 18% |
| Permanent Capital Mix | | | |
| % Common | 65% | 52% | 60% |

Issues

- ◆ Improvement in earnings combined with the suspension of stock repurchases and Lehman's common dividend (if necessary) would help to improve the common to total ratio from 52% to 65% in 2009
 - Dividend suspensions would result in capital preservation of \$750mm while net equity from the employee stock compensation would result in an additional \$1.6 bn
- ◆ Equity raise for "Clean Co" will be sized to generate target structure
- ◆ Goodwill
 - We do not reduce permanent capital by goodwill, as the majority of it is attributable to IMD, which can be sold at well above goodwill value as validated by the market

Feedback Sought from Moody's

As Lehman continues to refine the spin-off structure of our Commercial Real Estate portfolio, we want to include feedback in the process to develop a structure that has the most positive impact on Lehman's creditworthiness going forward

- ◆ Specifically, we are interested in your views on how creditors will likely view this transaction and how Lehman can best communicate the reorganization to the marketplace
- ◆ We are also interested in learning of any concerns or sensitivities that you 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 few weeks
- ◆ We are particularly interested in understanding the credit ratings implications for Lehman Brothers post-transaction:
 - Is Lehman post-transaction consistent with our credit rating?
 - Would the transaction move Lehman's outlook from Negative to Stable?
 - What modifications would strengthen Lehman's rating outlook?

Appendices

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