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Lehman Brothers Emil Cornejo e-mail to Janet Birney re JP Morgan Agenda

Emil Cornejo

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Meeting Purpose:

Lehman ("LEH") would like to update us on their upcoming 3Q results which they will announce September 17th. We expect they will have further significant asset write-downs primarily originating from their commercial and residential real estate related assets. Their 3Q results will likely also come with announcements regarding the actions they will be taking to shore-up their balance sheet, bolster capital (beyond the $12Bn in equity/hybrid equity they have raised so far this year), and to operate successfully in the coming quarters in the new market environment. Major themes in the press - (i) potential capital injection by Korea Development Bank (KDB) or other sovereign wealth fund; (ii) sale of all or part of their Investment Management Division (Neuberger Berman included) valued at between $7-10Bn; (iii) sale of real estate assets or formation of a bad bank/good bank with a private equity sponsor/s may be touched on during this discussion.

There is a strong desire at LEH to have open and frank dialogue with JPM at all levels of our organizations. I, Lowitt and C. O'Meara, would like to have more frequent contact with B. Zubrow and other members of our senior management. This meeting is partially meant to foster this dialogue. As LEH's primary operating services provider, LEH management want to ensure that we are fully briefed on their strategy and challenges as they need our support to operate their business.

In addition to getting a 3Q update, we want to review the following items:

(1) Tri-party repo ("TPR")

Accomplishments

-At 100% investor margin: have $8Bn in additional margin to cover price/liquidity risk ($5Bn CLOs [primarily corporate loan CLOs] and $3Bn conduit CP);

Next Steps (JPM's responsibility)

-Introduce intra-day margining calculation (mid-September)

-Tag and stop unwind of term repos (timing TBD)

Potential Discussion Topics

-Lehman believes we are over collateralized against the intraday risks -
wants to go to intraday margining as they believe this will allow them
to take back some margin.

(2) Pricing & collateral choice for coverage of liquidity/price risk in
TPR

Next Steps (JPM's responsibility)
- Hire 3rd party pricing service to price the CLOs placed as margin
- Review the pricing with Lehman

Potential Discussions Topics
- Likely do not agree on value and may need to substitute collateral
  (intrinsic vs. liquidation value);
- Will 3rd party pricing necessitate the need for Lehman to further mark
  the assets we hold as margin;
- These assets are part of LEH's liquidity pool (classified as ABS,
corporates, CMOs), despite their less than cash liquidity profile

(3) Securing of $2Bn intraday for UK collateral management business

Accomplishments
- Explained the rationale and need to secure the intraday risk associated
  with the collateral management business we provide Lehman in the UK

Next Steps (JPM's responsibility)
- Determine whether margin held in the US for TPR is eligible to also be
  used for securing the UK collateral management business
- Discuss operational and legal points that will allow this business to
  be secured

Potential Discussion Topics:
- Lehman would very much like to use a portion or all of their margin
  held in the US for collateral for their UK collateral management
  business

Key Ongoing Risk Management & Securities Services Product Structure
Agenda Items
* Determine pricing and collateral composition for TPR margin (end
  September);
* Share intraday margin for TPR transparently through the dealers'
clearance system (mid to late September)
* Secure UK collateral management intraday exposure - determine
  whether US TPR margin can be used in whole or in part, whether
  additional collateral is required (mid-November or earlier);
* Determine whether JPM can face one LEH entity going forward for
  FX/derivatives and whether historical trades can be reorganized under
the same entity (before December);

* Complete LBHI guarantee review (end September / mid October)