LBHI DIRECTOR COMPENSATION: RATIONALE

OVERVIEW:

Lehman Brothers Holdings Inc. ("LBHI"), as parent, controls 23 former Lehman Brothers debtor entities (collectively, the "Debtors"). At their emergence in March 2012 from the largest bankruptcy in corporate history, the Debtors' holdings included a broad array of portfolio assets – including large portfolios of real estate assets, private-equity investments, derivatives contracts, loans, public securities, and other investments – comprising several thousand unique investment assets in total. In addition, the Debtors are currently involved in many active litigation processes, and in the assessment of thousands of open claims to be reviewed, processed, disputed or allowed. LBHI's plan of reorganization ("POR") estimates that total distributions to unsecured creditors from the Debtors' highly fragmented assets will exceed $50 billion.

The orderly liquidation of LBHI is being overseen by a new board of directors (the "Board"), which was recruited and selected by major creditors of Lehman. These creditors, organized as a Director Selection Committee ("DSC"), conducted a lengthy search and interview process seeking to identify directors ("Directors") who could optimize the liquidation process at the Debtors. Announced in early December 2011, the Directors were selected by the DSC based on their deep expertise and practical experience in functional areas which closely fit the Debtors' asset mix and monetization goals. As described more fully below, the Directors were also recruited based on their strong fit with a non-traditional, "active" board model envisioned by the DSC -- in which Directors would collaborate closely with management on the formulation and execution of monetization strategies, claims resolution, expense reduction, and other LBHI priorities.

The Board's compensation structure has two principal components: (i) annual director fees and, in accordance with the Board's active mandate, (ii) the Director Incentive Compensation Plan.

ANNUAL DIRECTOR FEES:

Base director fees in the first year of the Board's service (i.e., 2012) will be $350,000 per director, with the chairman's base fee set at $525,000. Reflecting the Board's intensive preparation and active collaboration with management prior to the effective date, the Board will earn base fees dating from the initiation of its pre-effective work on December 8, 2011. The Board will review its base fees annually, and currently expects base fees to be set at similar levels in its second and third years of service. Following the third year, based on the then-projected frequency of board meetings, committee meetings, and conference calls, the Board expects to reduce its base fees.

DIRECTOR INCENTIVE COMPENSATION PLAN:

The attached term sheet outlines the essential terms of the Director Incentive Compensation Plan (the "ICP"), established for Directors serving on the Board as of the POR's effective date.

The ICP's structure tightly aligns the Board's incentives with the key priorities of the creditors of the Debtors. In developing the structure of the ICP, the Board: (i) reviewed in detail the diverse portfolio

assets, inbound and outbound claims, litigation activities, operating costs and other factors relevant to the Debtors; (ii) consulted with management and other stakeholders regarding the principal opportunities and challenges facing the Debtors in pursuing their strategic goals; and (iii) sought input from major stakeholders to help define the appropriate value-added role for the Board in working with management to optimize outcomes.

Informed by this process, the LBHI Directors are operating with an "active board" model – working closely with management to enhance the ultimate outcomes for creditors in those areas which can most benefit from additional Director focus. To structure its ongoing collaborative work with management, the Board has formed eight committees, of which six are dedicated to key LBHI execution areas. Through this approach, the Board has built and expects to continue to deepen its familiarity with the assets and issues at the Debtors, and to leverage this deeper knowledge to contribute more broadly and intensively than many boards typically attempt to do. In this sense, the Board intends to operate more like a "private equity" board of directors, both in its depth of focus and its close collaboration with management across priority value-creation areas.

LBHI's asset portfolio and claims universe is unusually fragmented and complex – encompassing several thousand individual, case-specific situations, each with unique risks and opportunities. Given this diverse mix of assets and claims, an "active board" approach at LBHI will require a higher level of focus, time commitment, and engagement from the Directors than would a similar approach at less complex enterprises. The combination of LBHI's diverse asset/claims profile with the Board's active, value-added orientation provides important context for the ICP.

Specifically, the ICP is designed to align the incentive compensation of LBHI's Directors with the actual results achieved in the three areas which are most critical for creditors:

- Value Maximization
- Speed of Distributions
- Claims Resolution

As the attached term sheet describes in more detail, the ICP's structure motivates Directors to pursue exceptional results in each of these areas, while prudently balancing the range of tradeoffs that might occur among priorities (e.g., between value maximization and speed).

The ICP's treatment of its three core objectives is summarized below:

- Value Maximization: The ICP measures "value" based on the actual value (net of operating costs) distributed by all Debtors to all unsecured creditors. The ICP contains a scaled participation percentage for the Board, which increases (based on certain thresholds) as the actual value distributed to unsecured creditors increases. The ICP's value thresholds and participation rates are strongly skewed to reward the achievement of incremental distributions above the level estimated in the POR.

- Speed of Distributions: The POR contemplates that total distributions to creditors will be completed over an extended period (exceeding three years). To emphasize speed in making distributions, the ICP contains certain timing-related adjustments, placing greater weight (through premiums) on value distributed in the first three years after the effective date, and lesser weight (through discounts) on value distributed in later years. In addition, to encourage speed in meeting and exceeding the POR's estimated level of total distributions, once the total estimated POR value has been distributed to unsecured creditors the ICP establishes a different premium/discount schedule for distributions made after the POR's estimated value has been distributed.

- Claims Resolution: To encourage reduction of invalid third party unsecured claims, the ICP increases the participation of Directors if the claims are ultimately reduced below the final allowed-claims levels estimated in the POR ($299.8 billion) and penalizes the participation of Directors if such claims exceed that benchmark. This provision is intended to promote the Board's active focus to achieve reductions in invalid claims beyond POR estimates, and allow for transparent measurement of actual results (minimizing potential non-economic or accounting-related adjustments that may affect other claims categories).

Consistent with the extended period for value realization/distribution contemplated in the POR, the ICP anticipates 6 years of director service (subject to annual re-election by the Plan Trust). Given the focus and time commitment expected in the early years of the Board's service, the ICP will vest in stages over 3 years, but will make no payments to Directors until after the third year. Starting in the fourth year, Directors will receive annual advance payments which (assuming continuous service for the full six years) will correspond to an advance rate of approximately $167,000 per year of service. Total incentive compensation earned by Directors will be calculated in Year 7 and distributed to Directors at that time, after deducting the amount of any advance payments already made. To the extent that total advance payments exceed total incentive compensation earned, Directors are required to repay any excess advances to LBHI. Finally, to encourage sustained commitment to optimizing results over the full six-year period, the ICP also includes a straight-line declining penalty provision that haircuts a Director's participation in future distributions by 50% if a Director voluntarily leaves at the beginning of year four, 30% at the beginning of year five, and 10% at the beginning of year six .

ICP REVIEW:

This compensation structure (annual fees and ICP) was developed in consultation with Aon Hewitt, a nationally recognized benefits-consulting firm, which provided input regarding specific compensation features, as well as its opinion confirming the reasonableness of the overall compensation approach and the amounts potentially payable under the structure. In addition, this compensation structure reflects input from major stakeholders.