

Project Long Island

Discussion Document

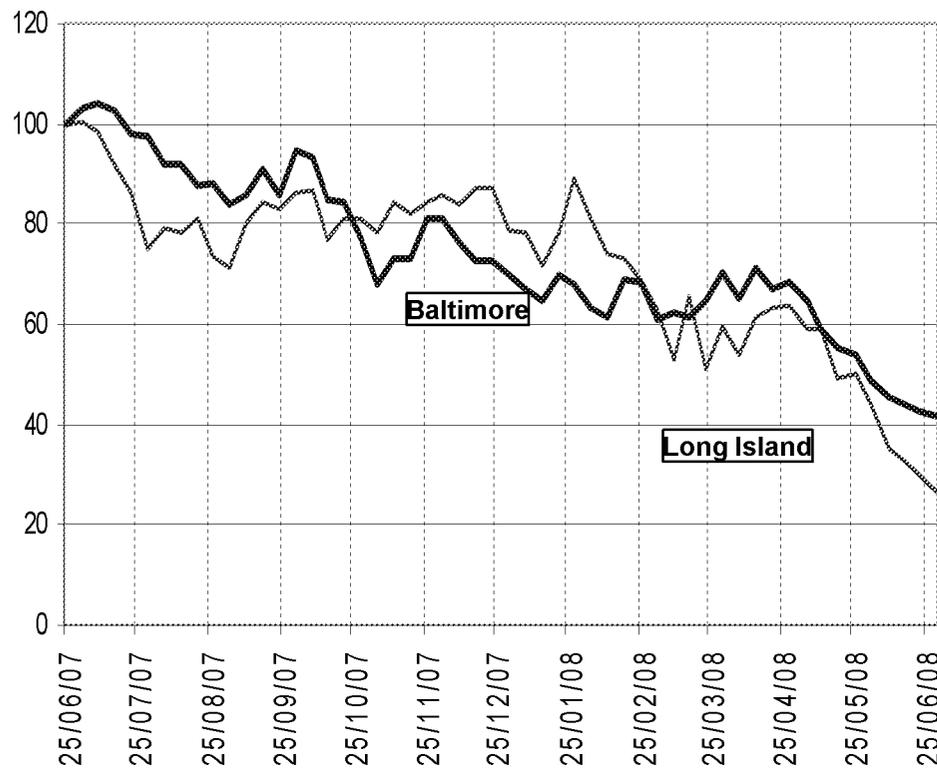
July 2008

Executive Summary

- Long Island has been a prime victim of the recent market turmoil, and consequently might be 'on the block'
- Current market value is ~£9.6bn (well below tangible book value). This analysis also considers two more aggressive scenarios given the possibility of a distressed sale:
 - Bear Stearns valuation metrics (1.12x tangible book value): £1.3bn valuation
 - 50% discount to current market value: £4.8bn valuation
- The 50% discount to market value scenario suggests:
 - Positive EP impact from the outset (~£1bn in 2009)
 - ROCE of 28% in 2009 (rising to 33% by 2011)
 - Cash EPS accretion of 18% in 2009 (increasing to 26% by 2011)
- Synergies of £1.1bn would come purely from investment banking – eliminating cost overlap and leveraging complementary business lines for cross-sell
- Strategically, Long Island would be an excellent fit for Baltimore's IBIM business
 - Generates significant US footprint for both i-banking and Wealth, accelerating existing organic plans
 - Fills in i-banking product 'white spaces' with M&A and ECM
 - Deal underpins Long Island franchise with significant balance sheet to rival dominant incumbents
 - Broadens client franchise in the US and Asia, and strengthens Hedge Fund client base through Long Island's Prime Brokerage
- The combined entity would become a global top 3 player in IBIM, and a Premier investment bank. The product capabilities in i-banking would be very compelling
- Further due diligence is needed to get comfort around their book and exposures

Long Island's absolute and relative share performance has been weaker than Baltimore's...

Baltimore and Long Island share price
Adjusted close, indexed to 12 months ago

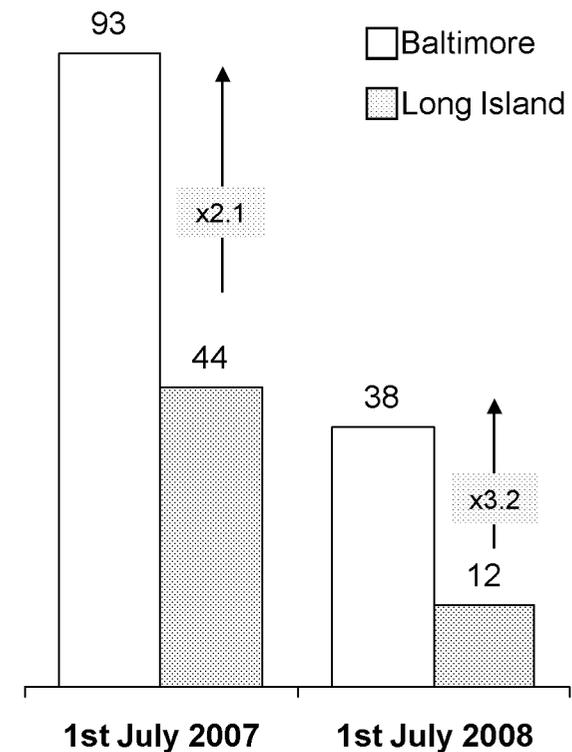


Source: Reuters

Price / Tangible Book Value (July 1)

Baltimore 1.18x
Long Island 0.83x

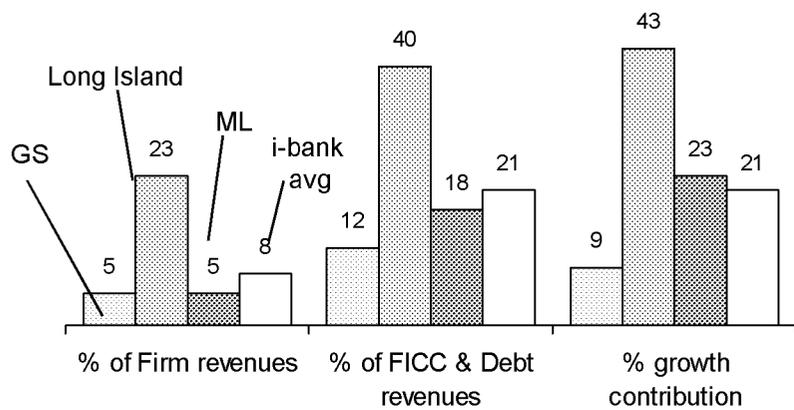
Market Cap \$bn



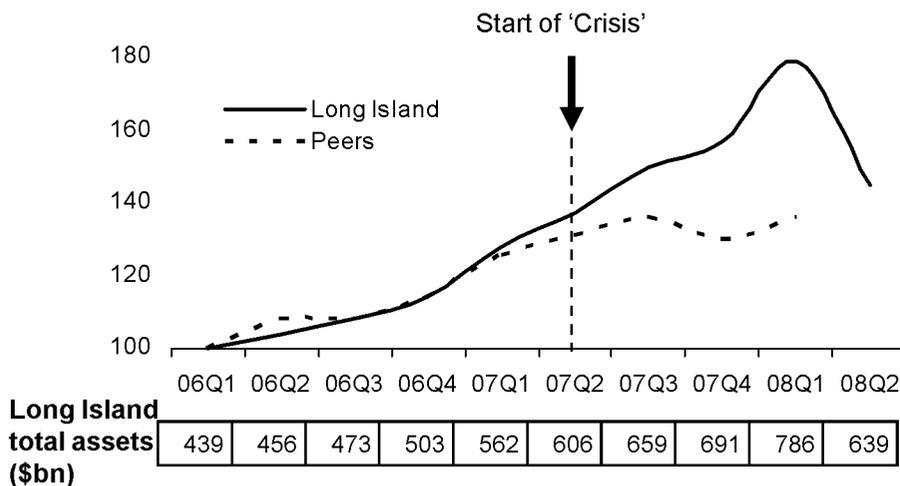
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... (At least partly) driven by Long Island's business mix and recent 'anti-cyclical' behaviour

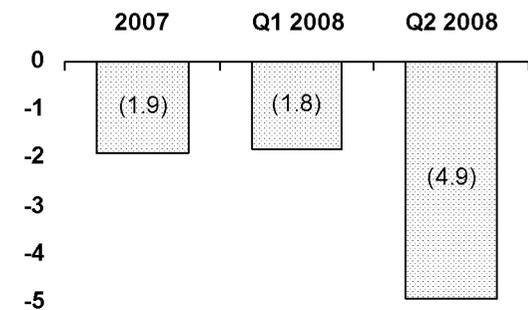
Business is heavily driven by securitization/mortgages
Contribution measured over 04-06 period



Aggressive asset growth during the crisis now pared back
Total assets (06Q1 = 100)



Net MTM adjustments & writedowns \$bn



MTM adjustments

	2007	Q1 2008	Q2 2008
Residential Mort.	1.3	0.8	2.0
Other ABS	0.2	0.1	0.4
Comm. Mort & RE inv.	0.9	1.0	1.3
Acquisition Fin.	0.4	0.5	0.4
Own credit gain	-0.9	-0.6	-0.4

Other losses

PI / PE losses			-0.5
Addnl hedging losses ¹			-0.7

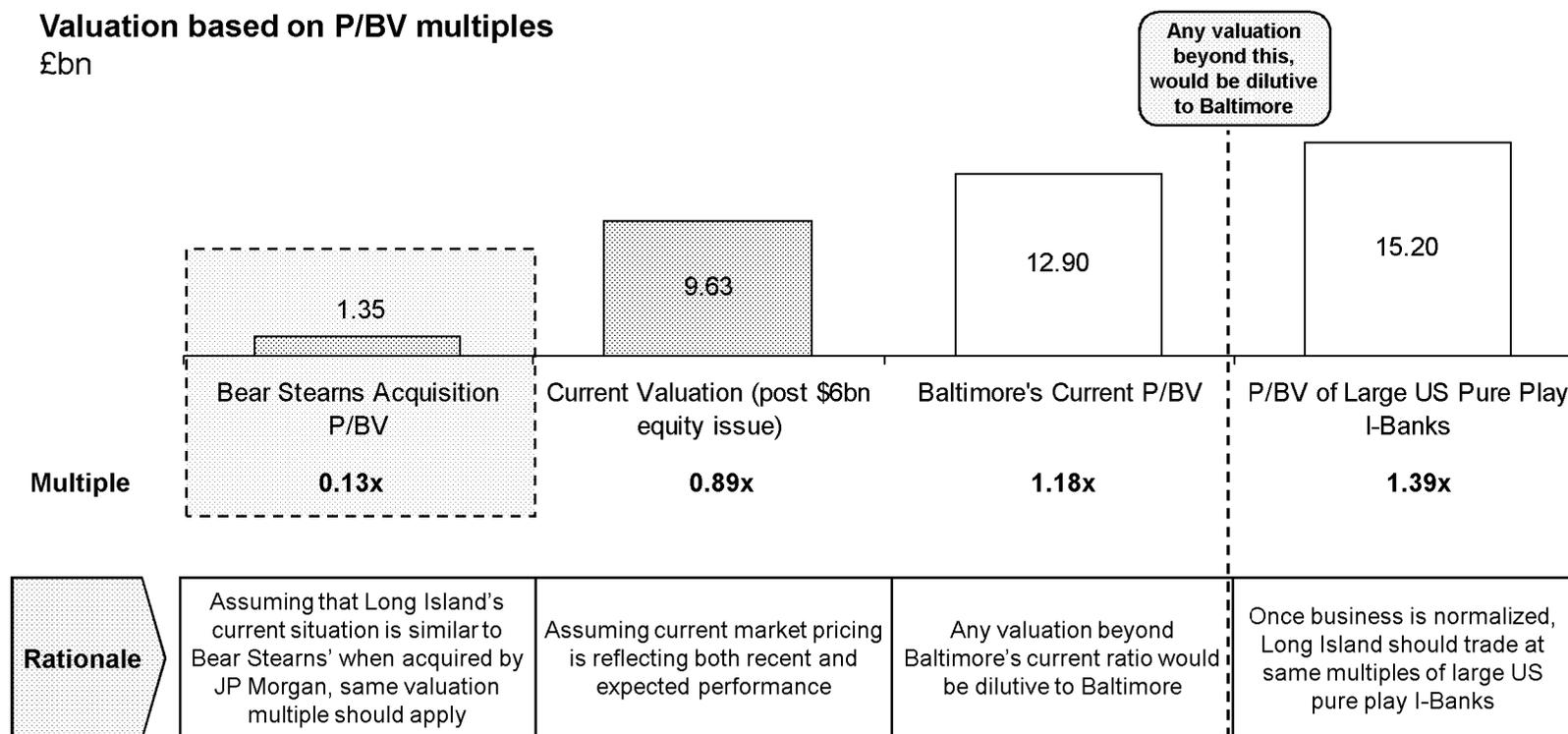
Total	1.9	1.8	4.9
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Source: Morgan Stanley Research, Company Information 4

¹ - Credit / rates hedging basis shift

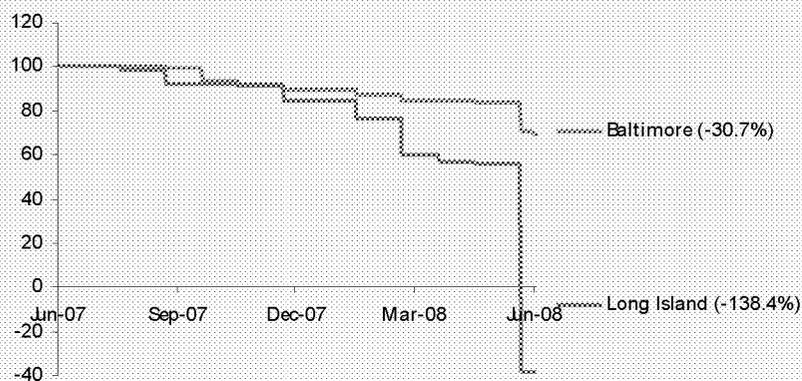
As a consequence, there may be opportunity to acquire Long Island at substantial discount to current valuation

Valuation based on P/BV multiples
£bn



After a loss in 2008, analysts expect Long Island financial performance to bounce back strongly in 2009

Significant 08 downgrades vs Baltimore⁽¹⁾



Forecast recovery in Long Island revenues and AP⁽²⁾

\$m	% YoY Gr		Year ending Nov 30			
	2004-2007	2008E-2010E	2007A	2008E	2009E	2010E
Revenues						
Investment banking	21.3%	(3.7%)	3,903	3,237	3,123	3,491
Capital markets	16.8%	(1.6%)	12,257	2,182	10,426	11,669
Investment management	22.3%	10.4%	3,097	3,540	3,773	4,168
Net Revenues	18.5%	0.1%	19,257	8,959	17,322	19,328
PBT						
Group PBT	19.6%	(2.9%)	6,013	(2,874)	4,552	5,502
Attributable profit						
Analyst forecast for AP	21.6%	(3.6%)	4,125	(2,076)	3,045	3,700
Base Case AP ⁽³⁾		(5.5%)	4,125	(1,425)	3,345	3,782

Wide spread of 2009 Long Island forecasts

Long Island	2008E	2009E	2010E
Low (\$)	(4.84)	1.80	3.22
High (\$)	(2.10)	5.30	5.19
High as % of low	143%	294%	161%
Median (\$)	(3.16)	3.93	4.75
YoY growth	nm	nm	20.9%
Implied P/E	-6.3x	5.0x	4.2x
Baltimore			
Low (£)	0.38	0.33	0.46
High (£)	0.56	0.61	0.66
High as % of low	146%	183%	142%
Median (£)	0.49	0.56	0.59
YoY growth	-28.4%	13.6%	19.7%
Implied P/E	5.9x	5.2x	4.9x

- Morgan Stanley predicts Long Island incremental pre-tax writedowns in 2008 of \$2.5bn (to date Long Island has taken pre-tax writedowns of \$15.8bn)⁽²⁾
 - Baseline forecast assumes \$2bn of further writedowns in 2008
- MS forecasts capital markets revenue in 2009 to grow by a factor of 5x year-on-year, to a figure equivalent to 85% of the 2007 revenue
- All analysts forecast a return to profitability in 2009 but there is a large variance of opinion on scale, ranging from \$1.7bn to \$4.5bn

(1) Indexed, data for LTM, latest data for 30.06.2008

(2) Based on Morgan Stanley forecasts, 30.06.2008

(3) 2007 figures is actual data; 2008 – 2010E numbers are \$ based forecasts from BarCap

(4) Source: Datastream, analysts reports

Long Island – Sensitivities to earnings effects to different prices paid

2011 ROCE					2011 EPS accretion / (dilution)				
		Price Range					Price Range		
P/ TBV		0.13	0.45	0.89	P/ TBV		0.13	0.45	0.89
Share Price (\$)		3.04	10.54	20.96	Share Price (\$)		3.04	10.54	20.96
Premium / (discount)		(86%)	(50%)	0%	Premium / (discount)		(86%)	(50%)	0%
Haircut to Forecasted Long Island EPS	0%	54.9%	32.8%	21.1%	Haircut to Forecasted Long Island EPS	0%	43.1%	25.5%	7.2%
	(25%)	44.8%	26.8%	17.2%		(25%)	34.0%	17.5%	0.4%
	(50%)	34.6%	20.7%	13.3%		(50%)	24.9%	9.5%	(6.5%)

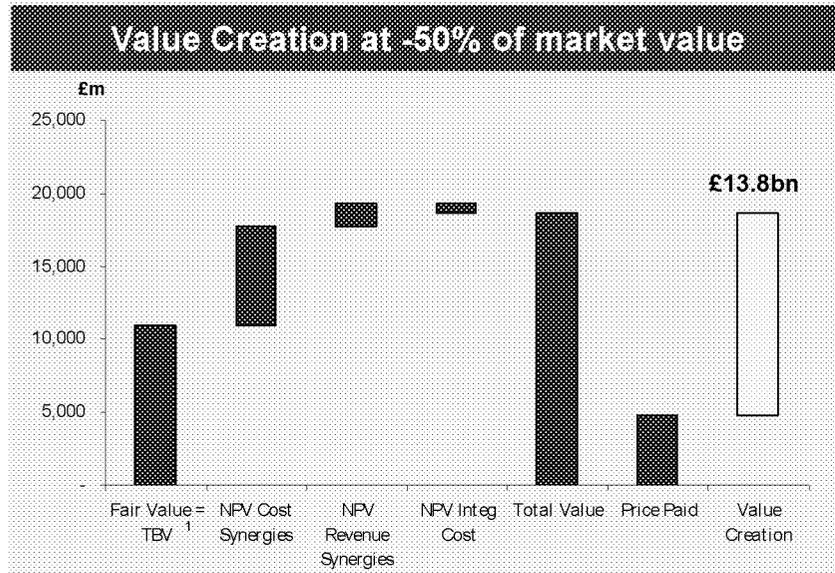
↑
Bear Stearns
0.13x P/TBV

Proforma Tier 1 Equity Ratio				
		Price Range		
P/ TBV		0.13	0.45	0.89
Share Price (\$)		3.04	10.54	20.96
Premium / (discount)		(86%)	(50%)	0%
Writedown to TBV (\$bn)		18,653	11,788	2,256
Proforma Equity Tier 1 Ratio (2009)		5.26%	5.92%	6.84%

- The earning effects are robust even at market and with a haircut to Long Island EPS forecasts
- A reduced price for Long Island would presumably be associated with further writedowns to book value, which would impact our capital ratios

Notes: Negative goodwill has not been included in equity for the ROCE or equity Tier 1 ratio calculations. If this were to be included the ROCE figures would be 21.0%, 17.1% and 13.2% for EPS discounts of 0%, 25% and 50% respectively

The financial metrics are attractive and our capital ratios improve in a stock-funded deal if there are no further writedowns



Synergies

	Bear Stearns	Mid	Market
Scenario	(86%)	(50%)	0%
Offer share price (\$)	2.93	10.48	20.96
Total consideration (\$m)	2,685	9,588	19,177
Total consideration (£m)	1,348	4,815	9,630
NPV of synergies - net of integration charges (£m)	7,704	7,704	7,704
Acquiror ownership of Combined Entity	94.1 %	82.5 %	70.5 %
Value created for Acquiror shareholders	7,251	6,358	5,428
% Synergies Paid Away	6%	17%	30%
Value created as % of synergies	94%	83%	70%
Pre-tax cost synergies p.a. (£m)	850		
Pre-tax revenue synergies p.a. (£m)	200		
Total run-rate synergies (£m)	1,050		

Financial Effects

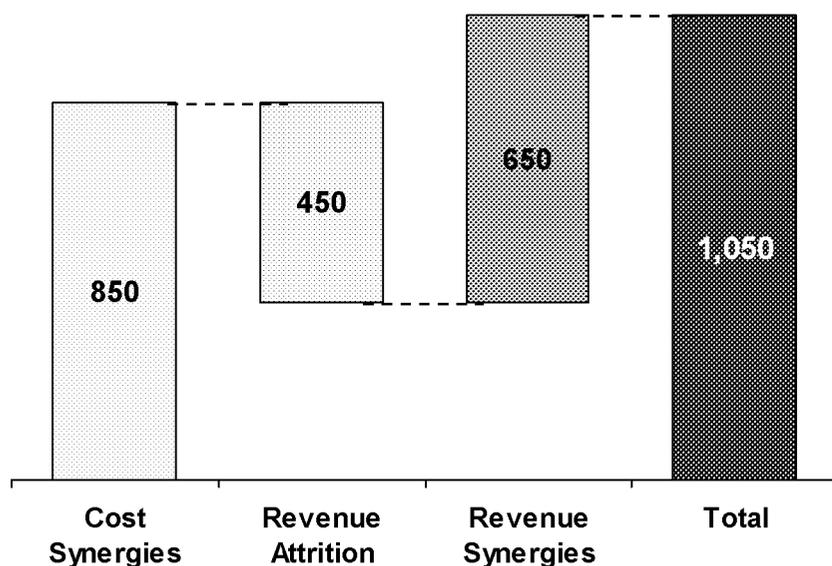
Scenario	Bear Stearns	Mid	Market
Current Target share price (\$)	(86%) 20.96	(50%) 20.96	0% 20.96
Offer share price (\$)	2.93	10.48	20.96
Acquisition price for 100% stake (\$m)	2,685	9,588	19,177
P/ E 2008E	-1.3x	-4.6x	-9.2x
P/ E 2009E	0.6x	2.2x	4.5x
P/ E 2010E	0.6x	2.1x	4.1x
P/ E 2011E	0.5x	1.9x	3.7x
FINANCIAL IMPACT ANALYSIS			
EP impact (£m) - post-integration charges			
2009	1,284	942	466
2010	1,859	1,561	1,146
2011	2,166	1,916	1,569
EP Breakeven year	2009	2009	2009
ROCE (%) - post-integration charges			
2009	70.0%	27.9%	15.2%
2010	58.0%	33.6%	21.2%
2011	45.7%	32.9%	23.7%
Cash EPS impact (%) - pre-integration charges			
2009	34.2%	17.6%	0.3%
2010	42.8%	25.1%	6.7%
2011	43.4%	25.6%	7.2%
Reported EPS impact (%) - post-integration charges			
2009	25.5%	9.9%	(6.2%)
2010	38.9%	21.7%	3.8%
2011	44.6%	26.7%	8.1%
Equity Tier 1 Ratio			
		Baltimore Standalone	
2009		5.97%	7.19%
2010		5.91%	7.30%
2011		5.94%	7.57%
Leverage Ratio			
2009	1.78%	2.12%	2.11%
2010	1.80%	2.20%	2.17%
2011	1.83%	2.30%	2.24%

(1) Fair Value equal to Tangible Book Value, the difference between the price paid and fair value is negative goodwill of £2.1bn which when added to the capitalised synergies equals value creation; Assumptions: Baltimore share price £2.85, Long Island Shareprice \$20.96 as at close 01/07/08 (datastream); \$/£ FX spot rate 1.9614 01/07/08 (datastream); integration costs of £1.1bn (65% yr1, 35% yr2); Cost Synergies of £850m (50% yr1, 100% yr2); Net Revenue Synergies £200m (50% yr1, 100% yr2); Earnings forecasts for Long Island from Bancap; Baltimore forecasts from IR Consensus as at 30/06/08; Cost of Capital 10.5%; Long Island effective tax rate 32.1% as per interim report 08; Long Island leverage ratio of 2.9% at point of acquisition; All ratios assume that negative goodwill is accounted for as an additional £1.1bn of capital. The negative goodwill has been treated as a reserve adjustment and so has not been included within Reported EPS. Proforma for recent \$4bn capital issuance and assumed that the \$6bn convertible preferred stocks convert on change of control into 146m shares. Further dilution of 72m shares is also included from non-amortised RSUs. Long island assumed to have an average 30% RWA weighted

...assuming an estimated £1.1bn of net investment banking synergies

SEE APPENDIX FOR DETAILED BACK-UP ON ESTIMATES

2010f Synergies
(£m)



2010f Investment Banking Cost:Income

Baltimore standalone	65%
Long Island standalone	75%
Combined	66%

- Implementation costs = £1,100m
- Cost synergies represent 7.5% of 2010f combined cost base
- Revenue synergies (net of attrition) represent 1.2% of 2010f combined revenue base

Investment Banking Synergy Assumptions

Net Revenue Synergies

- Revenue attrition due to product and client overlaps
- Revenue synergies driven by cross sale into corporates (£150m) as well as leveraging product opportunities in prime brokerage (£100m), advisory (£200m) and commodities (£200m)
- Net revenue synergies lower than identified in prior experience due to higher product overlap and Long Island's smaller corporate franchise

Cost Synergies

- Based on % cost savings identified in prior experiences and a 2010 target combined C:I equivalent to Baltimore (this equates cost savings on 15.0% of Long Island's cost base)
- Areas of opportunity expected to be:
 - Streamline overlap in front offices in UK, US, Europe and Asia, in particular IBD/Sales and FICC
 - Combination of back and middle offices
 - Leverage "best in class" operational efficiency
 - Migrate activities onto a single platform

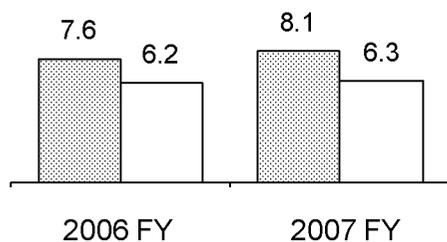
Implementation Costs

- Based on the implementation cost as a % of the cost synergies identified in prior experiences (this equates to implementation costs of 125% of cost synergies)

Overall, Long Island's activities overlap with Baltimore's IBIM business and are very similar in size...

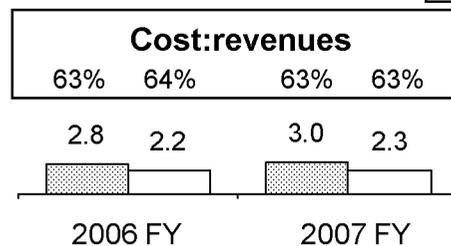
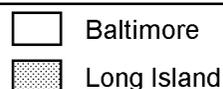
I-banking revenues

£bn, post provisions



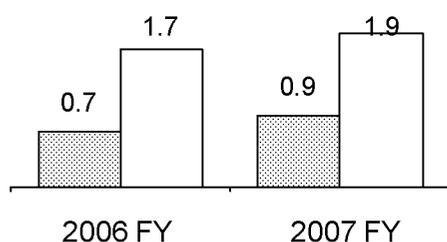
I-banking PBT

£bn



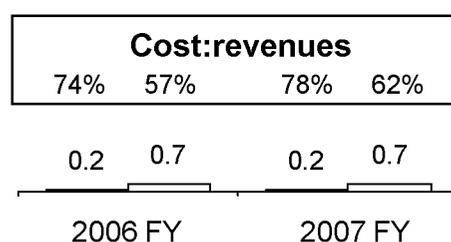
Asset management revenues

£bn, post provisions



Asset management PBT*

£bn



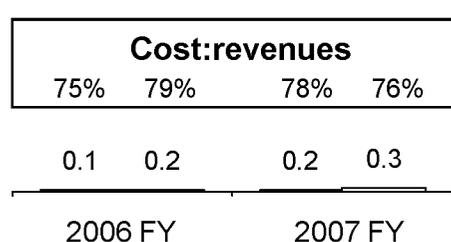
Wealth revenues

£bn, post provisions



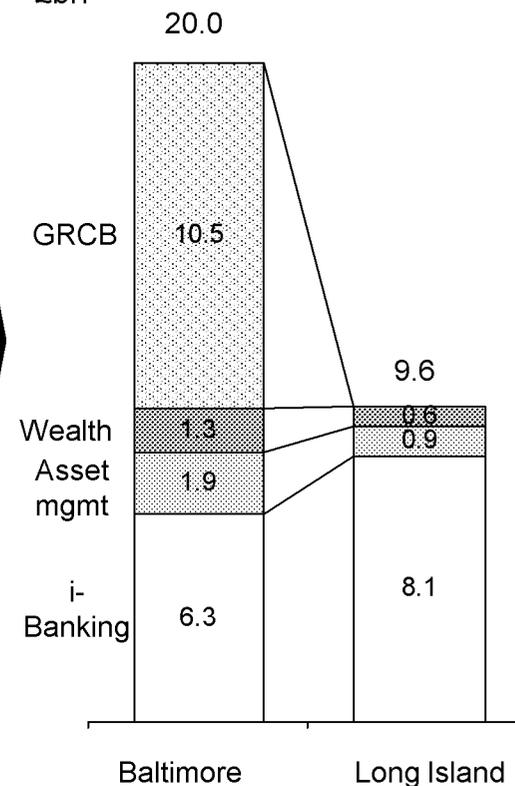
Wealth PBT*

£bn



2007 Revenues in comparable businesses

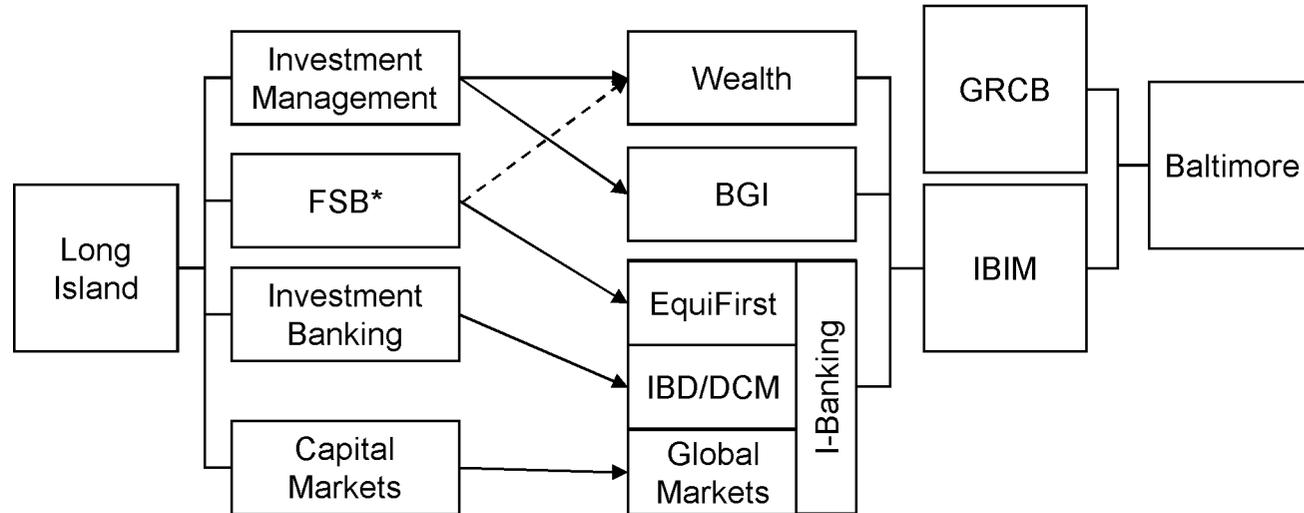
£bn



* Long Island PBT split based on Investment management revenue split
Source: Company financial reports

...and their organisational set-up is similar to Baltimore's, making integration relatively straightforward

Integration appears reasonably straight forward from a business perspective...



...As well as from a footprint perspective

	Long Island	Baltimore IBIM	
Global Headquarters	New York	San Francisco London	Relatively easy integration process along business lines, some Long Island activities in New York may have to move to San Francisco
Regional Headquarters	London	New York	
Asia Headquarters	Tokyo	Hong Kong & Singapore	Possibly more challenging as no current overlap (though Baltimore also has Tokyo office)

* Thrift subsidiary, focused on mortgages – but also with online transaction banking platform which could be used to enhance Stockbrokers offering

But distinct differences in geographic and product capabilities would generate compelling benefits

		Baltimore			Long Island		
		Americas	EMEA	Asia	Americas	EMEA	Asia
Baltimore's IBIM gaps	M&A	x	✓	✓	✓✓	--- (12)	--- (13)
	ECM	x	x	x	✓✓	✓	---
	Wealth Management	x	✓	✓	✓	---	---
Baltimore's IBIM strengths	Investment Banking - Debt	✓	✓✓✓	✓	✓✓	✓	---
	Capital Markets – FICC + Eq. linked	✓	✓✓	✓	✓✓	✓	---
	Asset Management	✓✓✓	✓✓✓	✓✓✓	✓	✓	✓

- ### Key Benefits
- 1 Add significant new global product capabilities
 - 2 Fulfill the strategic aim of building Wealth in the Americas
 - 3 Become a Top 5 player in the Americas in existing Capital Markets businesses
 - 4 Ratify and solidify our leadership position in EMEA in existing Capital Markets businesses
 - 5 Powerful combination of balance sheet with advisory capabilities will be a key advantage in gaining client business globally

✓✓✓ Top 3 player
 ✓✓ Top 5 player
 ✓ Top 10 player
 --- Outside Top 10
 ✗ No Capabilities

Americas Capital Markets rankings clearly demonstrate potential to enhance Baltimore's IB market position

Americas Market Position

	Commodities	EM	FI Rates	Securitized Products*	FI Credit*	Prime Services	FX
Top 3	MS	Citi	Goldman	CS	Goldman	Goldman	JPM
	Goldman	CS	JPM	Long Island	Long Island	MS	Citi
	Baltimore	UBS	BofA	JPM	JPM	JPM (Bear)	BofA
5	Merrill	JPM	Long Island	Deutsche	MS	Long Island	Deutsche
	JPM	Deutsche	MS	BofA	BofA	CS	MS
		#7 - Baltimore	#6 - Baltimore	#6 - Baltimore	#7 - Baltimore	#9 - Baltimore	#7 - Baltimore

	CMBS	IG Bonds	IG Loans	HY Bonds	Lev Loans	Equities
Top 3	Goldman	Citi	JPM	JPM	JPM	Goldman
	JPM	JPM	Citi	CS	BofA	MS
	BofA	Goldman	RBS	Citi	Citi	BofA
5	MS	Long Island	Wachovia	BofA	CS	Citi
	CS	MS	BNP	ML	DB	Long Island
	#17 - Baltimore	#10 - Baltimore	#9 - Baltimore	#15 - Baltimore	#17 - Baltimore	#13 - Baltimore

* - Excluding writedowns/losses in 2007; 'normalized' years

Source: Business heads and COOs, Coalition, Strategy & Planning Americas analysis

The combination would immediately create a £20bn IBIM franchise...

Proforma financials, pre-synergies (GBP millions)

	2006	2007	2008f	2009f	2010f
Baltimore IBIM					
Income	9,092	10,332	10,532	11,780	13,198
Impairment	(44)	(853)	(1,562)	(758)	(510)
Net Income	9,048	9,479	8,970	11,022	12,688
Operating Expenses	(5,873)	(6,138)	(6,130)	(7,113)	(8,198)
JVs	-	35	20	20	20
PBT	3,175	3,376	2,860	3,930	4,511
Cost:Net Income	65%	65%	68%	65%	65%
Long Island					
Income (estimated)	9,553	10,573	9,264	9,721	10,405
Impairment	-	(950)	(4,226)	(626)	(402)
Net Income	9,553	9,624	5,039	9,096	10,003
Operating Expenses	(6,345)	(6,619)	(6,088)	(6,633)	(7,218)
JVs	-	-	-	-	-
PBT	3,208	3,005	(1,050)	2,463	2,785
Cost:Net Income	66%	69%	121%	73%	72%
Combined					
Income	18,645	20,905	19,796	21,501	23,603
Impairment	(44)	(1,803)	(5,788)	(1,384)	(912)
Net Income	18,601	19,103	14,008	20,118	22,691
Operating Expenses	(12,218)	(12,757)	(12,218)	(13,745)	(15,415)
JVs	-	35	20	20	20
PBT	6,383	6,381	1,810	6,393	7,296
Cost:Net Income	66%	67%	87%	68%	68%

...and with full synergies achieved by 2010, the IBIM business would generate £24bn income and £8bn PBT

Proforma financials, post- investment banking synergies
(GBP millions)

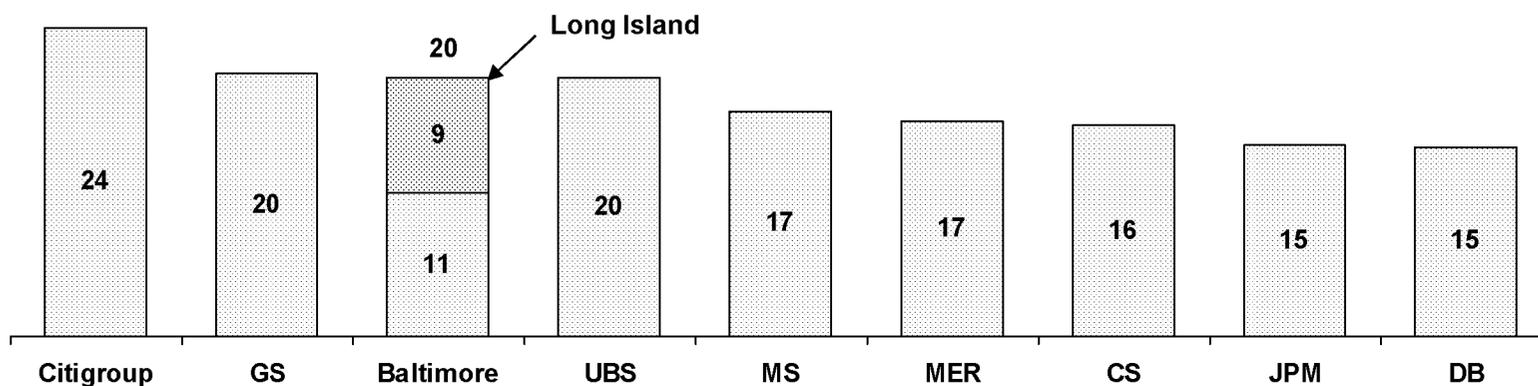
Combined	2009 Estimate				2010 Estimate			
	<i>Pre-Syn</i>	<i>Net Synergies</i>	<i>Impl Costs</i>	<i>Post-Syn</i>	<i>Pre-Syn</i>	<i>Net Synergies</i>	<i>Impl Costs</i>	<i>Post-Syn</i>
Income	21,501	100		21,601	23,603	200		23,803
Impairment	(1,384)			(1,384)	(912)			(912)
Net Income	20,118	100		20,218	22,691	200		22,891
Operating Expenses	(13,745)	425	(715)	(14,035)	(15,415)	850	(385)	(14,950)
JVs	20			20	20			20
PBT	6,393	525	(715)	6,203	7,296	1,050	(385)	7,961
Cost:Net Income	68%			69%	68%			65%

Key Timing Assumptions

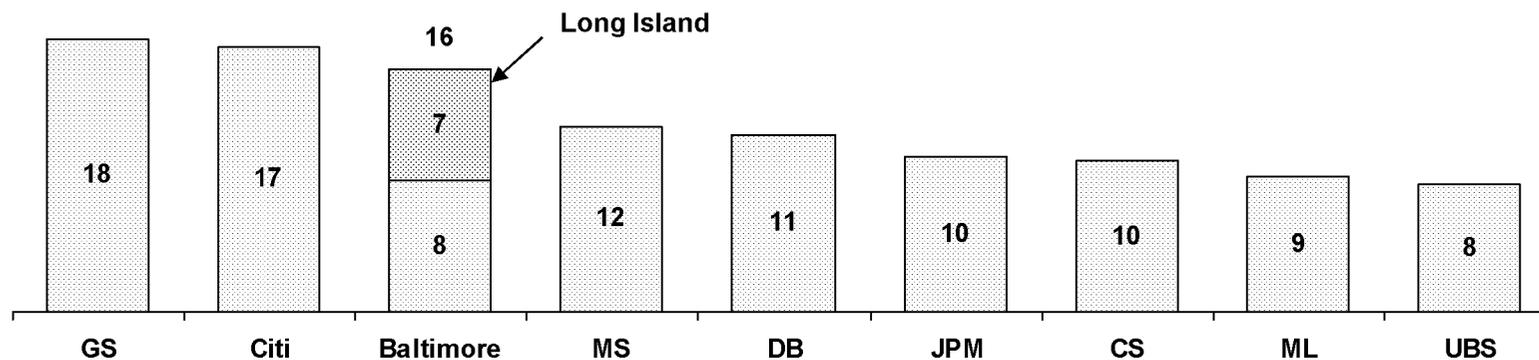
- 50% of revenue and cost synergies achieved in year 1 (2009)
- 100% of revenue and cost synergies achieved in year 2 (2010)
- Total implementation costs of £1.1bn incurred 65% in year 1 (2009), 35% in year 2 (2010)

The acquisition would make Baltimore a top 3 IBIM and investment banking player...

2009 consensus revenue forecasts – IBIM revenues only
£bn



2009 consensus revenue forecasts – IB revenues only
£bn



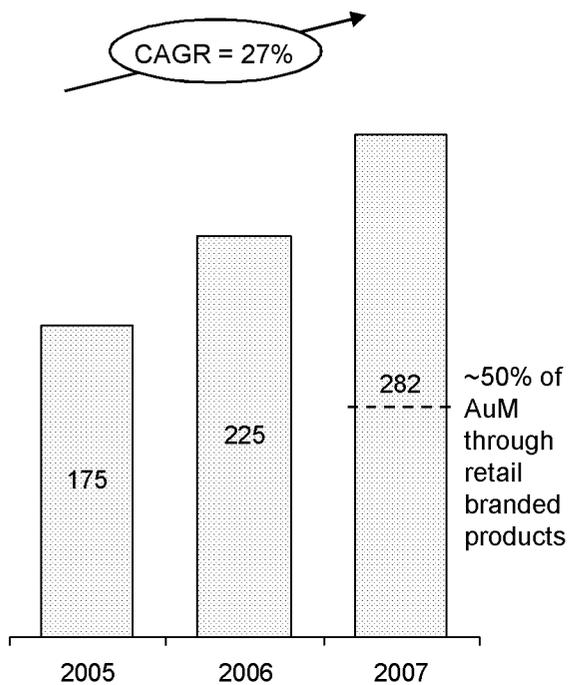
...with excellent capability across the investment banking product set

Market Positions (2007)

		Market Positions (2007)
Primary	Primary Equity	<ul style="list-style-type: none"> Long Island: #9 in global ECM revenues (#6 in US) Long Island is #9 in global IPOs (#1 in US)
	Primary Debt	<ul style="list-style-type: none"> Baltimore #7 in global All Debt – addition of L.I. moves us to #1 with 10.8% Baltimore #3 in Intl. Bonds – addition of L.I. moves us to clear #1 with 10.9% share Baltimore #10 in USD Intl. Bonds – addition of L.I. moves us to #1 with 12.1% share
	M&A Advisory	<ul style="list-style-type: none"> Long Island: Top 9 global player (Top 5 in US) Accelerates Baltimore's recent investments in EM advisory services
Secondary	Equities	<ul style="list-style-type: none"> Long Island: Top 5 player in the US, minor player outside US Baltimore: Top 10 equity derivatives player globally
	Fixed Income	<ul style="list-style-type: none"> Long Island: Top 10 player globally, Top 5 in the US Baltimore: Top 5 global player – addition of L.I. would create a Top 3 player in the US
	FX	<ul style="list-style-type: none"> Long Island: Top 11 player globally and in North America Baltimore: Top 5 player globally and in North America - addition of L.I. would push us into Top 3
	Commods	<ul style="list-style-type: none"> Long Island: Second tier player Baltimore: Top 3 player – L.I. would add little
	EM	<ul style="list-style-type: none"> Neither Long Island nor Baltimore are top tier players in EM Combination of both would create at least a Top 10 player

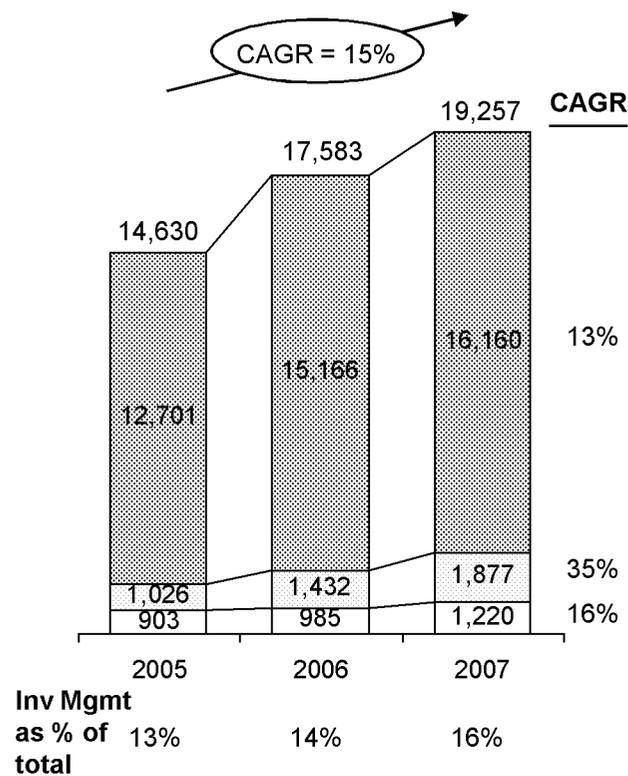
Long Island's Investment Management business is a small part of the overall firm...

Investment management AuM
\$ billion



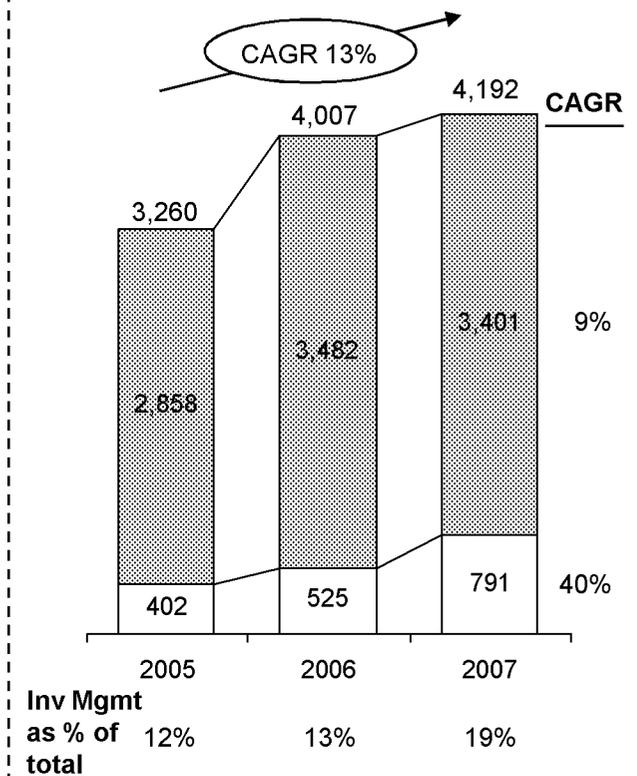
Net revenues
\$ million

Legend:
 I-Banking (hatched)
 Asset Mgmt (white)
 Private Inv Mgmt (white)



Profit before tax
\$ million

Legend:
 I-Banking (hatched)
 Inv Mgmt (white)



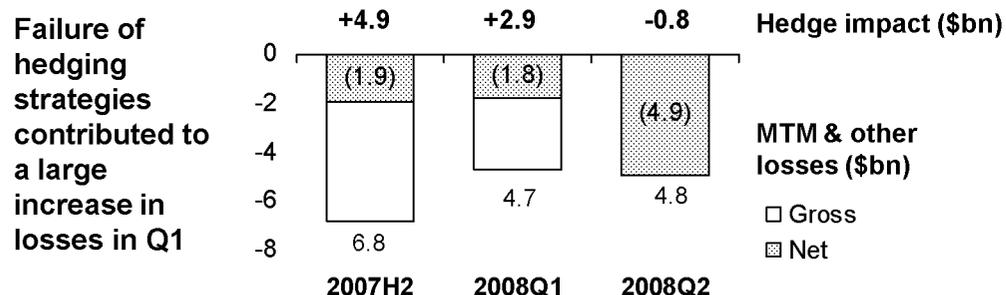
Source: Company reporting, Strategy and Planning Americas analysis

... and would likely have limited fit with Baltimore's investment management businesses

Business	Product / Service offering	Fit with Baltimore
Private Investment Management	<ul style="list-style-type: none"> • Portfolio advice and asset management • Wealth planning and trust services • Corporate and executive services • Business transaction and succession planning 	<ul style="list-style-type: none"> • Based on limited information, appears strong <ul style="list-style-type: none"> ➢ ~500 private bankers ➢ Targets (U)HNW clients ➢ Fulfills strategic aim of building wealth business in the US ➢ Provides distribution channel for I-banking products ➢ Combine with Baltimore Wealth
Private Equity	<ul style="list-style-type: none"> • Merchant banking • Venture Capital • Real estate • Credit related investments • Infrastructure • Private fund investments 	<ul style="list-style-type: none"> • Based on limited information, appears strong <ul style="list-style-type: none"> ➢ Extends European mid-market franchise to the US ➢ Integrate into Baltimore's I-bank
Long Island Asset Management (incl. retail brand)	<ul style="list-style-type: none"> • Mutual funds • Closed-end funds • Managed accounts • Subadvisory capabilities • Corporate cash management • Equities and fixed income instruments • Equities and fixed income managed products • Long/Short and Structured products • Directed share program 	<ul style="list-style-type: none"> • Unlikely <ul style="list-style-type: none"> ➢ The overall business will not fit with Baltimore's investment methodology (especially retail focused products) ➢ Possible carve out of selected products to integrate into Baltimore's asset management (e.g. alt. investment capabilities)

In light of recent writedowns, risk management warrants further investigation

- Long Island did not actively reduce real estate exposures prior to 2008Q2, but reduced exposure to illiquid assets by 21% this quarter
 - “we’re generally comfortable with continuing to have a larger position [in residential] reflecting purchases & sales during the quarter” – Erin Callan (former CFO) – Q1 Earnings call
- Risk management credibility has been stretched following Q1 losses and net negative effect of hedging strategies
 - Upbeat Q1 statements followed by \$2bn residential net loss in Q2
 - “we’ve just done just a fantastic job in hedging... we are very well hedged... we would consider ourselves at this point net short in the residential asset class” - Erin Callan – Q1 Earnings call
 - Net \$0.8bn hedging loss in Q1 (\$0.1bn illiquid, \$0.7bn credit / rates)
 - Repeated capital raisings of \$4bn in March and \$6bn in June give little confidence that management have control over losses
 - “at the end of March we did not have the visibility on the loss that we ultimately suffered in the quarter” - Erin Callan – Q2 Earnings call
- Broker estimates suggest a range of \$1-5bn for 2008H2 write-downs from remaining illiquid assets, focusing on
 - \$40bn CRE book (inc. \$7bn equity & \$6bn mezz)
 - Archstone (\$1.8bn) & SunCal (\$1.6bn) exposures
 - \$12bn US Alt-A / sub-prime



Progress has (belatedly) been made to decrease exposure to illiquid assets...

	Exposure (\$bn)			QoQ change (%)	
	07Q4	08Q1	08Q2	Q1 Δ	Q2 Δ
Residential mort.	32.1	31.8	24.9	-1%	-22%
Other ABS	6.2	6.5	6.5	5%	0%
Commercial mort.	38.9	36.1	29.4	-7%	-19%
Real Estate inv.	12.8	12.9	10.4	1%	-19%
Acquisition Fin. (HY)	23.9	17.8	11.5	-26%	-35%
Total	113.9	105.1	82.7	-8%	-21%

...but further writedowns are expected and could have a material impact on valuation

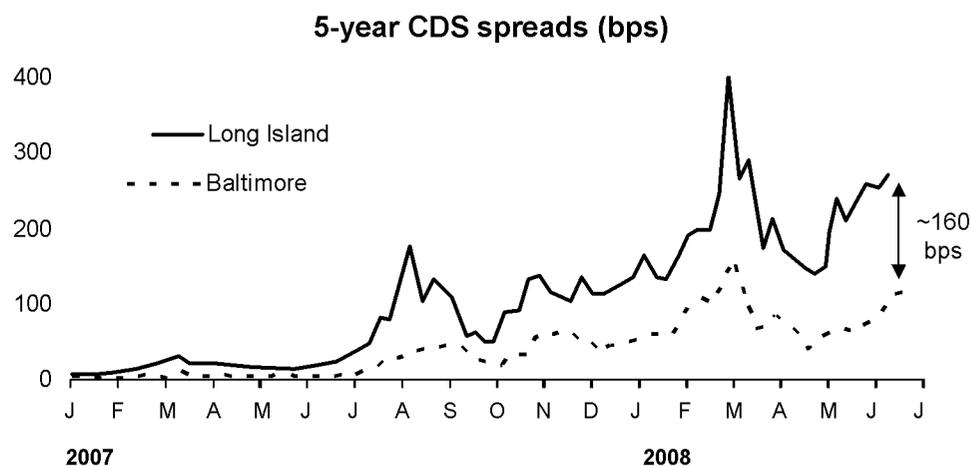
(\$bn)	Bear	Base	Bull	w/d range
Res. Mortgages	(1.80)	(0.58)	(0.29)	1-7%
Other ABS	(0.23)	(0.07)	(0.04)	1-4%
CMBS / RE inv	(2.80)	(1.35)	(0.67)	2-7%
Acquisition Fin.	(0.60)	(0.45)	(0.23)	2-5%
Total	(5.42)	(2.45)	(1.23)	
Post-tax	(3.59)	(1.63)	(0.81)	
BV impact	(\$5.12)	(\$2.31)	(\$1.16)	

Source: Morgan Stanley, S&P analysis

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Certain issues need further investigation as conversations progress

- Long Island Risk Management capabilities and reliability of write-down forecasts
With total assets of \$639bn, of which over \$80bn have exposure to dangerous asset classes, even a small error of several % could threaten our equity base. What conditions can we get from regulators/Fed to mitigate this danger?
- Capital requirements for joint entity
Might be less of an issue if Long Island turns out to be better capitalised than us (hard to know as their Tier 1 equity not disclosed)
- Talent retention strategy given Long Island's compensation structure
High proportion of deferred compensation might crystallise – or key staff walk as their equity stakes become worthless at 'firesale price'
- Treatment of Long Island own credit unwind of ~\$2 bn
Credit spreads for Baltimore (or joint entity) will be tighter than those for Long Island – which could lead to an exceptional charge of [>\$1bn] as the entities merge (see graph below)
- Potential of tax structuring around projected Long Island 2008 loss of \$2bn
- Regulatory issues around disclosure of internal information in UK-US cross-border merger
Will we need to disclose internal plans that needed to be shared as part of due diligence?
- Timing via our current capital raising
Final 'backstop' date for current round is 6 August – can we transact prior to that?
- Dividend for joint entity and implications on cash flow
Current dividend yield at 11% probably needs to be rebased for enlarged entity – what is the right level, and what will investor reaction be?
- Client franchise protection
Given experience with Bear/JPM, what steps need to be taken to



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Source: Reuters BARCR5EA and LEH5UA