

## Long Island key exposures – key due diligence findings

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### Key exposures

- In the previous report to the Board, we estimated a total of \$7.5bn in further write-downs to Long Island assets based on a high level analysis of the risks of the valuation of key assets
  - The largest components of this estimate were a further 15% write-down of L.I.'s commercial mortgage portfolio and Real Estate held for sale (\$5bn) and a 5-10% write-down of their RMBS assets (\$2bn)
- Based upon due diligence undertaken in the last 24 hours, this estimate of the further immediate write-downs to L.I.'s book has increased significantly to \$23bn - \$27bn, the largest components being:
  - \$16bn write-down to the \$32bn exposure to Commercial Real Estate and Real Estate held for sale
  - \$3-5bn trading write-downs, primarily relating to RMBS
  - \$4-6bn relating to Private Equity and alternative investment portfolio
  - Analysis on Leveraged & Corporate Lending and Muni portfolios are still in progress and excluded from current write-down estimate
- These revisions are based upon:
  - Bringing L.I. marks in line with Baltimore's valuation policies
  - Review of risk reports and reserving policies
  - For the most material segments (e.g. CMBS) this estimate is based on an asset-by-asset basis, while elsewhere, where markets are highly illiquid, these are conservative top-down estimates

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### Own credit and derivative counterparty risk

- In the previous report to the Board, we estimated a total of \$1.8bn of reversal in own credit gains based upon spreads returning to Q1 08 levels (~205bps)
- Based upon further analysis, we believe a range of \$1.8-2.4bn is more appropriate given that spreads may trend more towards Baltimore's current spreads (135-150bps)
- In addition, we estimate \$1.4-2.0bn of additional write-downs based on derivatives counterparty exposures
  - Based on re-running L.I. data through Baltimore models (spreads move from 77-135bps)

### Further due diligence

- Due diligence is ongoing to quantify risk of potential write-downs in a number of other areas:
  - Deferred tax
  - Pension
  - Golden parachute