

# Valuation & Control Report - Fixed Income Division

August 2008

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**LEHMAN BROTHERS**

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# Executive summary

## Complex Derivatives Transaction Review Committee

This committee, consisting of Capital Market Finance, Accounting Policy and Model Validation personnel, was set up in April 2005 and meets to consider any significant derivative transactions undertaken. The committee considers whether the transactions are being booked, valued and modeled appropriately. Furthermore, the committee determines whether the proper accounting treatment is being applied. During the month, the following transactions were reviewed:

- *Parameter Uncertainty Adjustment for Recovery Risk* – For synthetic CDO trades, the aggregation of individual default probabilities within tranches causes recovery risk to behave in a non-linear fashion leading to uncertainty around the impact of recovery rate assumptions on the tranche MTM. As such, a parameter uncertainty adjustment on recovery risk has been taken for first-to-default swaps, bespoke CDO trades and off-the-run index tranches. The current methodology does not allow for the netting of recovery risk across issuers. A new methodology has been proposed that will bifurcate recovery risk between idiosyncratic risk for distressed issuers (5yr spread > 1000 bps) and systemic risk for non-distressed issuers. Furthermore, the new methodology allows for the netting of systemic risk across non-distressed issuers within the same region. This new methodology is more consistent with what is seen in the market and will reduce the parameter uncertainty adjustment by \$40 million from \$70 million to \$30 million.
- *Fund Derivative* – Lehman issued call warrants on shares of a hedge fund, Millennium USA LP. The call warrants have a notional of \$100 million, are European-style, expire on June 2012 and were issued at-the-money. At the maturity date, for each call warrant the investors will receive the final NAV per share minus the strike subject to a minimum of zero. Lehman receives upfront premium of \$25 million. The desk has taken an early termination adjustment of \$0.6 million, as well as a funding adjustment of \$3 million which is equivalent to 75 bps since shares of the hedge fund need to be purchased to delta hedge the call warrants. Furthermore, the desk has suggested to mark implied volatility at 10% which will result in a Day 1 P/L of \$5 million. PCG will discuss with the desk about the appropriate implied volatility that the call warrants should be marked at and whether additional valuation adjustments are needed.
- *Debt Service Deposit Agreement (DSDA)* – Lehman has a number of DSDA with Puerto Rico. Since Puerto Rico refinanced some of its debt, the two parties agreed to early terminate one of the DSDA and reduce the size of the others. Simultaneously, the two parties entered into a new DSDA. The new DSDA has a notional of \$9.5 billion and matures in August 2046. Based on a specified schedule, Lehman will sell commercial papers at par to Puerto Rico. The commercial papers will have tenor between one month and eight months to coincide with the payment dates of bonds issued by the Puerto Rico Sales Corporation. Typically, Lehman will pay an upfront amount to compensate Puerto Rico for purchasing the discount instruments at par. However, Puerto Rico was supposed to make a \$21 million payment to Lehman for the early termination and trade amendments. The two parties agreed to offset the two amounts resulting in no payment from either side. The trade has a Day 1 P/L of \$34 million after taking into consideration a counterparty valuation adjustment of \$3 million and a funding adjustment of \$15 million which is equivalent to 100 bps.

# Executive summary

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**Valuation adjustments** (decreased by \$910mm from \$3,303mm to \$2,393mm, as detailed in section 2)

*Significant changes include:*

- Decrease of \$1,121mm of counterparty valuation adjustments from Securitized Product Americas to offset write-offs of MTM on trades with ACA Capital.
- Increase of \$227mm of prime representation and warranty adjustments from Securitized Product Americas is attributable to higher expectations of future losses.

**Price verification projects** (further details in section 3)

*In recent months, the Valuation and Control group:*

- Initiated price testing of CMS spread options, CMS caps / floors, digital CMS options and inflation swaps / caps in Americas
- Increased FX skew testing coverage as well as initiated Totem submission of FX cross volatilities, FX FVA and FX barrier options in Americas
- Initiated price testing of heat rate options, distillates, and Eagle Energy Partners portfolio in Americas
- Enhanced price testing methodologies for ABS CDO and tranching ABX trades in Americas
- Initiated price testing of implied volatilities of fund derivative trades via cliquet options in Europe
- Increased commodity testing coverage including 60 newly traded curves in Europe
- Enhanced price testing methodology for credit options based on implied volatilities derived from Totem consensus prices in Europe
- Initiated Totem submission of housing indices as well as improved price testing methodologies for Securitized Product and Real Estate positions in Europe
- Initiated / expanded Totem submission of exotic rate products such as PRDC, FX TARN, CMS TARN, callable inverse floaters, callable CMS spreads, leveraged CMS spreads, inflation swaps and equity hybrid trades in Asia

*The group is currently working on the following improvements:*

- Enable full re-pricing of cap / floor skew positions with Totem results as well as establish price testing methodology for BMA swaptions and Bermudan options
- Continue to improve testing of mortgage derivatives and skew on mortgage options
- Establish deal review processes for exotic interest rate derivatives, fund derivatives and mortgage derivatives
- Expand Totem submission of FX exotics, such as baskets

# Executive summary

## Significant points on price verification (as detailed in section 3)

- Aggregate significant variance of \$350 million on the aggressive side, of which Americas has \$313 million, Europe has \$32 million and Asia has \$5 million.
- There are \$451 million of aggressive significant variances attributable to Real Estate Americas. Real Estate positions are generally concentrated and/or illiquid. Overall, PCG was comfortable with the assumptions used by the desk to value these positions.
- There are \$190 million of conservative significant variances attributable to Securitized Product Americas. These variances fall within PCG's stressed base case assumptions.
- There are \$72 million of aggressive significant variances attributable to Governments Americas. These variances are from debt issued by government sponsored entities and the desk has taken markdowns of \$61 million.

<b>Significant Pricing Variance - Global FID</b>			
<b>in S'000</b>			
	<b><u>Re-marked</u></b>	<b><u>Resolved</u></b>	<b><u>Total</u></b>
<b>Level 1</b>	0	0	0
<b>Level 2</b>	(71,880)	260,759	188,879
<b>Level 3</b>	0	(257,280)	(257,280)
<b>Derivatives</b>	(22,454)	(22,659)	(45,113)
<b>Consolidated Positions</b>	0	(236,556)	(236,556)
<b>Total</b>	(94,334)	(255,737)	(350,071)

### \*Definition of pricing levels:

**Level 1** : Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at measurement date.

**Level 2** : Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active. Additionally inputs other than quoted prices that are observable for the asset or liability (eg interest rate and yield curves, observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates). Inputs that are derived principally from or corroborated by other means.

**Level 3** : Unobservable inputs for the asset or liability.

# Valuation Adjustments

August 2008

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# VALUATION ADJUSTMENTS – Significant changes

Region	Product	Description	Type	Current Month	Prior Month	Change	Comment
Americas	CDO	Model Adjustments	Model	(11,771)	2,959	(14,730)	Due to market volatility, model value from base correlation model is not reflective of market value. Valuation adjustment needed to properly reflect the implied correlation skews for CDX and LCDX.
Americas	Muni	Counterparty Valuation Adjustments	Credit	108,466	91,989	16,477	Increase in percentage of MTM needed to cover counterparty risk on trades with monoline insurers.
Americas	Securitized Product	Counterparty Valuation Adjustments	Credit	399,210	1,519,719	(1,120,509)	Release of credit valuation adjustments to offset write-offs of MTM on trades with ACA Capital.
Americas	Securitized Product	Prime - Reps and Warranties	Contingent Liability	375,325	148,696	226,629	Increase is attributable to higher expectations of future losses.
Europe	CDO	Bid / Offer - Delta	Bid / Offer	150,254	137,265	12,989	Increase is due to widening of bid / offer spreads.
Europe	CDO	Contingent Liability	Contingent Liability	103,182	115,076	(11,894)	Release of valuation adjustments to offset reduction of MTM from re-booking of gap options.
Europe	CDO	Model Calibration	Model	2,004	(13,933)	15,937	Due to market volatility, model value from base correlation model is not reflective of market value. Valuation adjustment needed to properly reflect the implied correlation skews for CDX and LCDX. Valuation adjustment was increased this month to true-up the value of non-super senior tranches.
Europe	CDO	P&L Pending Deal Review	Valuation	(17,472)	16,167	(33,639)	Decrease is attributable to new deals and reduction of backlogs.
Europe	IRP	Model Fit	Model	15,744	27,546	(11,802)	Release of valuation adjustments after CMS TARN trades were transitioned to new model.
Europe	Securitized Product	Bid / Offer - Delta	Bid / Offer	29,896	656	29,240	Valuation adjustment is for potential counterparty default on CDS trades.
		Subtotal		1,154,838	2,046,140	(891,302)	
		Remaining Valuation Adjustments		1,238,239	1,256,815	(18,576)	
		<b>Total Valuation Adjustments</b>		<b>2,393,077</b>	<b>3,302,955</b>	<b>(909,878)</b>	

# VALUATION ADJUSTMENTS – Summary

Business	Total \$000	Contingent					Early		
		Model	Bid/Offer	Liabilities	Liquidity	Credit	Expense	Termination	Valuation
Liquid Market Prop	6,795	2,517	4,278	-	-	-	-	-	-
Interest Rate Products	431,083	172,832	71,134	-	37,211	12,831	-	103,188	33,887
Foreign Exchange	37,052	8,344	18,649	-	-	-	-	2,578	7,481
High Grade Credit	59,764	1,539	47,872	3,448	4,119	1,465	1,321	-	-
CDO	494,004	53,438	154,620	137,190	56,299	81,601	19,168	3,099	(11,411)
High Yield	62,739	11,370	45,270	1,000	-	-	1,507	-	3,592
Real Estate	1,150	-	1,114	-	-	-	36	-	-
Munis	120,798	999	9,093	-	-	109,177	-	-	1,529
Securitized Products	955,346	-	77,192	455,077	703	406,129	16,245	-	-
Commodities Trading	197,392	46,554	66,999	-	2,339	47,700	-	-	33,800
FID Corporate	26,954	3,838	17,175	-	1,440	-	-	4,501	-
<b>Total FID Valuation Adjustments</b>	<b>2,393,077</b>	<b>301,431</b>	<b>513,396</b>	<b>596,715</b>	<b>102,111</b>	<b>658,903</b>	<b>38,277</b>	<b>113,366</b>	<b>68,878</b>

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# VALUATION ADJUSTMENTS – Regional matrix

America	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
Liquid Markets Prop	2,945	-	2,945	-	-	-	-	-	-
Interest Rate Products	110,300	82,833	10,969	-	9,789	6,709	-	-	-
Foreign Exchange	30,289	15,102	13,528	-	-	-	-	1,659	-
High Grade Credit	39,728	599	33,978	-	4,119	898	134	-	-
CDO	63,339	(11,771)	3,736	9,723	-	42,895	18,756	-	-
High Yield	49,632	11,370	37,262	1,000	-	-	-	-	-
Real Estate	1,114	-	1,114	-	-	-	-	-	-
Munis	120,798	999	9,093	-	-	109,177	-	-	1,529
Securitized Products	902,404	-	47,296	436,522	-	406,129	12,457	-	-
Commodities Trading	144,200	21,000	41,700	-	-	47,700	-	-	33,800
FID Corporate	6,205	-	6,205	-	-	-	-	-	-
<b>Total America</b>	<b>1,470,954</b>	<b>120,132</b>	<b>207,826</b>	<b>447,245</b>	<b>13,908</b>	<b>613,508</b>	<b>31,347</b>	<b>1,659</b>	<b>35,329</b>
<b>Europe</b>									
Capital Mkts Fund JV	111,615	7,948	12,711	-	-	-	-	90,956	-
Liquid Markets Prop	3,850	2,517	1,333	-	-	-	-	-	-
Interest Rate Products	161,182	67,739	31,153	-	21,783	1,122	-	12,232	27,153
Foreign Exchange	2,651	(10,451)	4,702	-	-	-	-	919	7,481
Commodities Trading	43,561	19,659	21,563	-	2,339	-	-	-	-
High Grade Credit	10,928	-	7,480	3,448	-	-	-	-	-
High Yield Credit	7,562	-	6,436	-	-	-	-	-	1,126
CDO	426,831	65,933	150,842	127,467	56,299	38,706	-	3,099	(15,515)
Securitized Products	49,154	-	29,896	18,555	703	-	-	-	-
FID Corporate	15,932	502	10,929	-	-	-	-	4,501	-
<b>Total Europe</b>	<b>833,266</b>	<b>153,847</b>	<b>277,045</b>	<b>149,470</b>	<b>81,124</b>	<b>39,828</b>	<b>-</b>	<b>111,707</b>	<b>20,245</b>
<b>Asia</b>									
Liquid Markets Prop	-	-	-	-	-	-	-	-	-
Interest Rate Products	47,986	14,312	16,301	-	5,639	5,000	-	-	6,734
High Grade Credit	9,108	940	6,414	-	-	567	1,187	-	-
CDO	3,834	(724)	42	-	-	-	412	-	4,104
Foreign Exchange	4,112	3,693	419	-	-	-	-	-	-
High Yield Credit	5,545	-	1,572	-	-	-	1,507	-	2,466
Real Estate	36	-	-	-	-	-	36	-	-
Securitized Products	3,788	-	-	-	-	-	3,788	-	-
Commodities Trading	9,631	5,895	3,736	-	-	-	-	-	-
FID Corporate	4,817	3,336	41	-	1,440	-	-	-	-
<b>Total Asia</b>	<b>88,857</b>	<b>27,452</b>	<b>28,525</b>	<b>-</b>	<b>7,079</b>	<b>5,567</b>	<b>6,930</b>	<b>-</b>	<b>13,304</b>
<b>Global Total</b>	<b>2,393,077</b>	<b>301,431</b>	<b>513,396</b>	<b>596,715</b>	<b>102,111</b>	<b>658,903</b>	<b>38,277</b>	<b>113,366</b>	<b>68,878</b>

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# VALUATION ADJUSTMENTS – Americas

America - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>LIQUID MARKETS PROP</b>	<b>2,945</b>	<b>0</b>	<b>2,945</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid/Offer Adjustment	2,382		2,382						
FX Prop Bid/Offer Adjustment	563		563						
<b>FID DERIVATIVES</b>	<b>110,300</b>	<b>82,833</b>	<b>10,969</b>	<b>0</b>	<b>9,789</b>	<b>6,709</b>	<b>0</b>	<b>0</b>	<b>0</b>
Liquidity Adjustment	9,789				9,789				
Option Model Adjustment	27,413	27,413							
CVA	6,709					6,709			
Spread Bid/Offer	5,201		5,201						
Volatility Bid/Offer	5,768		5,768						
Deal Specific	55,420	55,420							
<b>FOREIGN EXCHANGE</b>	<b>30,289</b>	<b>15,102</b>	<b>13,528</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,659</b>	<b>0</b>
Bid/Offer	13,528		13,528						
FX Deal Specific - Model	5,450	5,450							
FX Deal Specific - Early Termination Adjustment	1,659							1,659	
Skew - Local Markets	(1,276)	(1,276)							
Skew - FX Options	10,928	10,928							
<b>HIGH GRADE CREDIT</b>	<b>39,728</b>	<b>599</b>	<b>33,978</b>	<b>0</b>	<b>4,119</b>	<b>898</b>	<b>134</b>	<b>0</b>	<b>0</b>
Bid/Offer Credit US	25,273		25,273						
Credit Adjustment - Enron	898					898			
Other Adjustments	45	45							
Bid Offer Latin	1,931		1,931						
Deal Specific Adjustments - Latin	2,469					2,335	134		
Other Adjustments - Latin	9,112	554	6,774			1,784			
<b>CDOs</b>	<b>63,339</b>	<b>(11,771)</b>	<b>3,736</b>	<b>9,723</b>	<b>0</b>	<b>42,895</b>	<b>18,756</b>	<b>0</b>	<b>0</b>
Expense Adjustment	18,756						18,756		
Contingent Liability	9,723			9,723					
Counterparty Valuation Adjustment	42,895					42,895			
Bid / Offer	3,736		3,736						
Model Adjustment	(11,771)	(11,771)							

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# VALUATION ADJUSTMENTS – Americas

America - Valuation Adj	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>HIGH YIELD</b>	<b>49,632</b>	<b>11,370</b>	<b>37,262</b>	<b>1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid/Offer - SCT/Bonds/Distressed	25,612		25,612						
Model	9,732	9,732							
Tax Indemnity Adjustment ANC (Fid Corp Loans)	1,000			1,000					
Model	1,638	1,638							
CDS Bid Offer (FID Corp Loans)	11,650		11,650						
<b>REAL ESTATE</b>	<b>1,114</b>	<b>0</b>	<b>1,114</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid / Offer - CMBX	1,114		1,114						
<b>MUNIS</b>	<b>120,798</b>	<b>999</b>	<b>9,093</b>	<b>0</b>	<b>0</b>	<b>109,177</b>	<b>0</b>	<b>0</b>	<b>1,529</b>
CDS Model Adjustment	696	696							
Counterparty Credit Adjustment	108,466					108,466			
New Business Timing Items for deals not closed	560								560
Derivatives Bid/Offer	9,093		9,093						
Libor Discounting / MMD Rate Lock valuation adj	303	303							
DSRF Put Valuation Adjustment	969								969
Cornell DSRF Credit Reserve	711					711			
<b>SEURITIZED PRODUCTS</b>	<b>902,404</b>	<b>0</b>	<b>47,296</b>	<b>436,522</b>	<b>0</b>	<b>406,129</b>	<b>12,457</b>	<b>0</b>	<b>0</b>
SCOR - Counterparty Credit Adjustment (trigger event)	2,500					2,500			
CAT- Beazley Deal Adjustment (trigger event)	1,874			1,874					
PFG - Contingent Liabilities/Referral Fees	4,928			4,928					
ABS - Bid / Offer Adjustment	31,587		31,587						
ABS - Counterparty Credit Adjustment	399,210					399,210			
Non Prime - Home Express (MGIC insurance)	17,042			17,042					
Non Prime - Reps and Warranties	19,012			19,012					
Non Prime - FHA/VA recourse risk	11,864			11,864					
Non Prime - Deal expenses/Due diligence	6,340						6,340		
Prime - Deal expenses/Due diligence	5,860						5,860		
Other - Deal expenses/Due diligence	257						257		
Non Resi - SBA Servicing Liabilities	6,257			6,257					
Loan loss adjustment	220			220					
Agency Remics/Strips - Non economic residuals	0			0					
Non Prime - Bid / Offer Adjustment	9,137		9,137						
Prime - Bid / Offer Adjustment	6,572		6,572						
Prime - Reps and Warranties	375,325			375,325					
PFR Credit Adjustment	4,419					4,419			
<b>COMMODITIES TRADING</b>	<b>144,200</b>	<b>21,000</b>	<b>41,700</b>	<b>0</b>	<b>0</b>	<b>47,700</b>	<b>0</b>	<b>0</b>	<b>33,800</b>
Bid / Offer	41,700		41,700						
Deal Specific	33,800								33,800
Counterparty Credit Adjustment	47,700					47,700			
Model Adjustment	19,000	19,000							
Model - Skew	2,000	2,000							
<b>FID CORPORATE</b>	<b>6,205</b>	<b>0</b>	<b>6,205</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
CDO/SCT - Bid / Offer (range bounding)	6,205		6,205						
<b>FID AMERICA TOTAL VALUATION ADJs</b>	<b>1,470,954</b>	<b>120,132</b>	<b>207,826</b>	<b>447,245</b>	<b>13,908</b>	<b>613,508</b>	<b>31,347</b>	<b>1,659</b>	<b>35,329</b>

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# VALUATION ADJUSTMENTS – Europe

Europe - Valuation Adj	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>FID DERIVATIVES</b>	<b>161,182</b>	<b>67,739</b>	<b>31,153</b>	<b>0</b>	<b>21,783</b>	<b>1,122</b>	<b>0</b>	<b>12,232</b>	<b>27,153</b>
Bid-offer : Correlation	19,618		19,618						
Bid-offer : Delta	9,723		9,723						
Bid-offer : Vega	1,812		1,812						
Contractual Early Termination Valuation Adjustment	12,232							12,232	
Counterparty Credit	1,122					1,122			
Funding Cost	27,153								27,153
Model : Approximation		3,438							
Model : Barrier shift	11,725	11,725							
Model : Calibration	1,377	1,377							
Model : Fit	15,744	15,744							
Model : Skew	22,775	22,775							
Model : Unapproved model	12,680	12,680							
Parameter Uncertainty	21,783				21,783				
<b>COMMODITIES TRADING</b>	<b>43,561</b>	<b>19,659</b>	<b>21,563</b>	<b>0</b>	<b>2,339</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Parameter Uncertainty	2,339				2,339				
Bid-offer : Correlation	4,524		4,524						
Bid-offer : Delta	15,788		15,788						
Bid-offer : Vega	1,251		1,251						
Model : Skew	4,464	4,464							
Model : Unapproved model	15,195	15,195							
<b>CAPITAL MARKETS FUND DERIVATIVES JV</b>	<b>111,615</b>	<b>7,948</b>	<b>12,711</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>90,956</b>	<b>0</b>
Bid-offer : Vega	12,711		12,711						
Contractual Early Termination Valuation Adjustment	90,956							90,956	
Model : Skew	7,948	7,948							
<b>CDO</b>	<b>426,831</b>	<b>65,933</b>	<b>150,842</b>	<b>127,467</b>	<b>56,299</b>	<b>38,706</b>	<b>0</b>	<b>3,099</b>	<b>(15,515)</b>
Bid-offer : Delta	150,254		150,254						
Bid-offer : Vega	588		588						
Contingent Deal	24,285			24,285					
Contingent Liability	103,182			103,182					
Counterparty Valuation Adjustment	38,706					38,706			
Funding Cost	1,957								1,957
Model : Approximation	25,884	25,884							
Contractual Early Termination Valuation Adjustment	414							414	
Model : Calibration	2,004	2,004							
Model : Fit	37,250	37,250							
Model : Skew	795	795							
Non-Contractual Early Termination Valuation Adjustment	2,685							2,685	
Parameter Uncertainty	43,210				43,210				
P&L pending deal review	(17,472)								(17,472)
Liquidity : Concentration	13,089				13,089				

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# VALUATION ADJUSTMENTS – Europe

Europe - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>HIGH GRADE CREDIT</b>	<b>10,928</b>	<b>0</b>	<b>7,480</b>	<b>3,448</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid-offer : Delta	7,480		7,480						
Contingent Liability	3,448			3,448					
<b>HIGH YIELD CREDIT</b>	<b>7,562</b>	<b>0</b>	<b>6,436</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,126</b>
Bid-offer : Delta	2,354		2,354						
Deal Specific - To be re-categorised	418								418
Bid-offer : Delta (FID Corp Loans)	1,376		1,376						
Bid-offer : Delta (High Yield EEMEA)	2,706		2,706						
Deal Specific - To be re-categorised (High Yield EEMEA)	708								708
<b>LIQUID MARKETS PROP</b>	<b>3,850</b>	<b>2,517</b>	<b>1,333</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid-offer : Delta	1,333		1,333						
Model : Skew	2,517	2,517							
<b>FX</b>	<b>2,651</b>	<b>(10,451)</b>	<b>4,702</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>919</b>	<b>7,481</b>
Bid-offer : Vega	4,702		4,702						
Model : Skew	(10,451)	(10,451)							
Non-Contractual Early Termination Valuation Adjustment	919							919	
Deal Specific - To be re-categorised (FX EEMEA)	7,481								7,481
<b>SEURITIZED PRODUCTS</b>	<b>49,154</b>	<b>0</b>	<b>29,896</b>	<b>18,555</b>	<b>703</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Contingent Liability	18,555			18,555					
Bid-offer : Delta	29,896		29,896						
Parameter Uncertainty	703				703				
<b>FID Corporate</b>	<b>15,932</b>	<b>502</b>	<b>10,929</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,501</b>	<b>0</b>
Bid-offer	10,929		10,929						
Contractual Early Termination Valuation Adjustment	4,501							4,501	
Model : Skew	502	502							
<b>FID EUROPE TOTAL VALUATION ADJS</b>	<b>833,266</b>	<b>153,847</b>	<b>277,045</b>	<b>149,470</b>	<b>81,124</b>	<b>39,828</b>	<b>0</b>	<b>111,707</b>	<b>20,245</b>

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# VALUATION ADJUSTMENTS – Asia

Asia - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>FID DERIVATIVES</b>	<b>47,986</b>	<b>14,312</b>	<b>16,301</b>	<b>0</b>	<b>5,639</b>	<b>5,000</b>	<b>0</b>	<b>0</b>	<b>6,734</b>
Bid/Offer	16,301		16,301						
Model Adjustment	14,312	14,312							
Liquidity Adjustment	5,639				5,639				
Credit Adjustment	5,000					5,000			
CMT Proxy Marking Adjustment	4,157								4,157
Exotics Price Testing Adjustment	2,577								2,577
<b>HIGH GRADE CREDIT</b>	<b>9,108</b>	<b>940</b>	<b>6,414</b>	<b>0</b>	<b>0</b>	<b>567</b>	<b>1,187</b>	<b>0</b>	<b>0</b>
Documentation adjustments	686						686		
Bid/Offer	6,412		6,412						
Corr and Vol - CMDS	940	940							
Early Termination Adjustment	0							0	
Adjustment against claim for Enron	400					400			
Deal Specific	670		2			167	501		
<b>CDO</b>	<b>3,834</b>	<b>(724)</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>412</b>	<b>0</b>	<b>4,104</b>
Deal Specific	4,104								4,104
Documentation and legal fee adjustments	412						412		
Model - Skew	(724)	(724)							
Bid/Offer Adjustments	42		42						
<b>FX</b>	<b>4,112</b>	<b>3,693</b>	<b>419</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid / Offer Adjustment	419		419						
Model Adjustment	3,693	3,693							

# VALUATION ADJUSTMENTS – Asia

Asia - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>HIGH YIELD</b>	<b>5,545</b>	<b>0</b>	<b>1,572</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,507</b>	<b>0</b>	<b>2,466</b>
Expense Adjustments	1,507						1,507		
Bid/Offer Adjustment	1,572		1,572						
Deal Specific Adjustment	2,466								2,466
<b>REAL ESTATE</b>	<b>36</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>36</b>	<b>0</b>	<b>0</b>
Expense Adjustment	36						36		
<b>SECURITIZED PRODUCTS</b>	<b>3,788</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,788</b>	<b>0</b>	<b>0</b>
Expense Adjustment	2,493						2,493		
Adjustment for Receivable of GTFS's Buyer and Legal Expenses	1,295						1,295		
<b>Commodities Trading</b>	<b>9,631</b>	<b>5,895</b>	<b>3,736</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid / Offer Adjustment	3,736		3,736						
Model Adjustment	5,895	5,895							
<b>FID CORP</b>	<b>4,817</b>	<b>3,336</b>	<b>41</b>	<b>0</b>	<b>1,440</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid / Offer	41		41						
Liquidity	1,440				1,440				
Range-bounding Adjustment	3,336	3,336							
<b>FID ASIA TOTAL VALUATION ADJs</b>	<b>88,857</b>	<b>27,452</b>	<b>28,525</b>	<b>0</b>	<b>7,079</b>	<b>5,567</b>	<b>6,930</b>	<b>0</b>	<b>13,304</b>

# VALUATION ADJUSTMENTS – Monthly changes

Business	Total	Contingent					Early		Valuation
		Model	Bid/Offer	Liabilities	Liquidity	Credit	Expense	Termination	
Liquid Market Prop	144	1,440	(1,296)	-	-	-	-	-	-
Interest Rate Products	(38,529)	(41,132)	5,267	-	3,975	189	-	(5,587)	(1,241)
Foreign Exchange	(3,747)	(3,106)	805	-	-	-	-	(1,446)	-
High Grade Credit	(782)	6	1,944	-	279	(4)	(7)	(3,000)	-
CDO	(28,549)	(3,379)	12,955	(9,536)	(3,110)	8,917	(4,028)	(176)	(30,192)
High Yield	223	1,924	(1,727)	-	-	-	70	-	(44)
Real Estate	(491)	-	(481)	-	-	-	(10)	-	-
Munis	9,145	23	1,998	-	-	16,477	-	-	(9,353)
Securitized Products	(868,917)	-	27,700	221,087	703	(1,120,234)	1,827	-	-
Commodities Trading	22,455	6,453	2,028	-	(226)	6,800	-	-	7,400
FID Corporate	(830)	3,314	(3,986)	-	-	-	-	(158)	-
<b>Total FID Adjustments</b>	<b>(909,878)</b>	<b>(34,457)</b>	<b>45,207</b>	<b>211,551</b>	<b>1,621</b>	<b>(1,087,855)</b>	<b>(2,148)</b>	<b>(10,367)</b>	<b>(33,430)</b>

# VALUATION ADJUSTMENTS – Monthly changes

	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>America</b>									
Liquid Markets Prop	(1,296)	-	(1,296)	-	-	-	-	-	-
Interest Rate Products	(11,948)	(11,672)	(29)	-	(436)	189	-	-	-
Foreign Exchange	(3,362)	(2,840)	889	-	-	-	-	(1,411)	-
High Grade Credit	1,730	6	1,445	-	279	-	-	-	-
CDO	(9,895)	(14,730)	308	-	-	6,502	(1,975)	-	-
High Yield Credit	(1,201)	1,924	(3,125)	-	-	-	-	-	-
Real Estate	(481)	-	(481)	-	-	-	-	-	-
Munis	9,145	23	1,998	-	-	16,477	-	-	(9,353)
Securitized Products	(897,658)	-	(1,540)	220,635	-	(1,120,234)	3,481	-	-
Commodities Trading	20,800	6,400	200	-	-	6,800	-	-	7,400
FID Corporate	-	-	-	-	-	-	-	-	-
<b>Total America</b>	<b>(894,166)</b>	<b>(20,889)</b>	<b>(1,631)</b>	<b>220,635</b>	<b>(157)</b>	<b>(1,090,266)</b>	<b>1,506</b>	<b>(1,411)</b>	<b>(1,953)</b>
<b>Europe</b>									
Capital Mkts Fund JV	109	(453)	5,693	-	-	-	-	(5,131)	-
Liquid Markets Prop	1,059	1,059	-	-	-	-	-	-	-
Interest Rate Products	(25,234)	(28,733)	781	-	4,290	-	-	(456)	(1,116)
Foreign Exchange	(329)	(96)	(198)	-	-	-	-	(35)	-
Commodities Trading	146	(573)	945	-	(226)	-	-	-	-
High Grade Credit	(700)	-	(700)	-	-	-	-	-	-
High Yield Credit	1,499	-	1,526	-	-	-	-	-	(27)
CDO	(19,401)	12,075	12,647	(9,536)	(3,110)	2,415	-	(176)	(33,716)
Securitized Products	30,395	-	29,240	452	703	-	-	-	-
FID Corporate	(830)	(22)	(650)	-	-	-	-	(158)	-
<b>Total Europe</b>	<b>(13,286)</b>	<b>(16,743)</b>	<b>49,284</b>	<b>(9,084)</b>	<b>1,657</b>	<b>2,415</b>	<b>-</b>	<b>(5,956)</b>	<b>(34,859)</b>
<b>Asia</b>									
Liquid Markets Prop	381	381	-	-	-	-	-	-	-
Interest Rate Products	(1,456)	(274)	(1,178)	-	121	-	-	-	(125)
High Grade Credit	(1,812)	-	1,199	-	-	(4)	(7)	(3,000)	-
CDO	747	(724)	-	-	-	-	(2,053)	-	3,524
Foreign Exchange	(56)	(170)	114	-	-	-	-	-	-
High Yield Credit	(75)	-	(128)	-	-	-	70	-	(17)
Real Estate	(10)	-	-	-	-	-	(10)	-	-
Securitized Products	(1,654)	-	-	-	-	-	(1,654)	-	-
Commodities Trading	1,509	626	883	-	-	-	-	-	-
FID Corporate	-	3,336	(3,336)	-	-	-	-	-	-
<b>Total Asia</b>	<b>(2,426)</b>	<b>3,175</b>	<b>(2,446)</b>	<b>-</b>	<b>121</b>	<b>(4)</b>	<b>(3,654)</b>	<b>(3,000)</b>	<b>3,382</b>
<b>Global Total</b>	<b>(909,878)</b>	<b>(34,457)</b>	<b>45,207</b>	<b>211,551</b>	<b>1,621</b>	<b>(1,087,855)</b>	<b>(2,148)</b>	<b>(10,367)</b>	<b>(33,430)</b>

LEHMAN BROTHERS

# Pricing Report

August 2008

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**LEHMAN BROTHERS**

*Where vision gets built.™*

# PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Marked \$'000	Resolved \$'000	Resolution
<b>Americas</b>								
High Grade	ALCOA INC. (1/31/08)REVOLVER	2	MV	497,500	2,500		2,500	Variance is due to size of position held. Actual variance is 0.5%.
High Grade	ALCOA INC. (1/31/08)REVOLVER	2	MV	248,750	1,250		1,250	Variance is due to size of position held. Actual variance is 0.5%.
High Grade	ALCOA INC. (1/31/08)REVOLVER	2	MV	248,750	1,250		1,250	Variance is due to size of position held. Actual variance is 0.5%.
High Grade	ALTRIA GROUP 364-DAY BRIDGE	2	MV	997,500	2,500		2,500	Variance is due to size of position held. Actual variance is 0.3%.
High Grade	STAPLES BRIDGE 04-01-08/REVOLVER	2	MV	415,382	1,285		1,285	Variance is due to size of position held. Actual variance is 0.3%.
High Grade	STAPLES BRIDGE 04-01-08/REVOLVER	2	MV	348,921	1,079		1,079	Variance is due to size of position held. Actual variance is 0.3%.
High Grade	TIME WARNER CABLE INC.	2	MV	267,717	(1,077)		(1,077)	Variance is due to size of position held. Actual variance is 0.4%.
High Grade	LEHMAN BROTHERS HOLDINGS INC	2	MV	175,930	938		938	Variance is due to size of position held. Actual variance is 0.5%.
High Grade	LEHMAN BROTHERS HOLDINGS INC	2	MV	47,803	(607)		(607)	Variance is due to size of position held. Actual variance is 1.3%.
High Grade	C/P FENWAY FUNDING LLC 3(C)(7)	2	MV	3,000,509	700		700	Variance is due to size of position held. Actual variance is 0.02%.
High Grade	IACI	D	CS01	977	(1,107)		(1,107)	PCG is in discussion with desk regarding this variance.
High Grade	S	D	CS01	(8,903)	(1,050)		(1,050)	Desk mark is within bid / offer.
High Grade	CIT	D	CS01	(5,605)	(769)		(769)	Variance is attributable to no-restructuring curve. PCG substantiated desk mark by benchmarking to modified-restructuring curve.
High Grade	PHM	D	CS01	(2,038)	(926)		(926)	Variance is attributable to no-restructuring curve. Desk mark is within acceptable standard deviations away from Markit mean.
Bank Loans	TXU ENERGY (10/10/07) CITI	2	MV	272,311	2,757		2,757	Variance is due to size of position held. Actual variance is 1.0%.
Bank Loans	SEARS HOLDINGS CORP. (3/24/05)	2	MV	196,840	2,684		2,684	Variance is due to size of position held. Actual variance is 1.4%.
Bank Loans	BLACKROCK, INC. (8/22/07)	2	MV	137,200	(2,613)		(2,613)	Variance is due to size of position held. Actual variance is 1.9%.
Bank Loans	FORD MOTOR COMPANY (12/15/06)	2	MV	592,000	2,504		2,504	Variance is due to size of position held. Actual variance is 0.4%.
Bank Loans	COMCAST A&R RC(1/30/08)	2	MV	192,300	2,379		2,379	Variance is due to size of position held. Actual variance is 1.2%.
Bank Loans	ONCOR (TXU) ELT DEL CO (10/10/07)	2	MV	167,578	2,369		2,369	Variance is due to size of position held. Actual variance is 1.4%.
Bank Loans	XL CAPITAL (6/21/07)	2	MV	128,250	2,250		2,250	Variance is due to size of position held. Actual variance is 1.8%.
Bank Loans	SLM CORP 5 YR 2BN 10/20/06 (BOA)	2	MV	113,520	(2,190)		(2,190)	Variance is due to size of position held. Actual variance is 1.9%.
Bank Loans	APOLLO MANAGEMENT HOLDINGS, L.P. 4-20-07	2	MV	85,682	(2,134)		(2,134)	Variance is due to size of position held. Actual variance is 2.5%.

# PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Marked \$'000	Resolved \$'000	Resolution
High Yield	TRIBUNE COMPANY (6/04/07)	2	MV	86,871	(1,675)		(1,675)	Variance is due to size of position held. Actual variance is 1.9%.
High Yield	TRIBUNE COMPANY (6/04/07)	2	MV	44,422	(857)		(857)	Variance is due to size of position held. Actual variance is 1.9%.
High Yield	FIRST DATA CORP (9/24/07-CS)	2	MV	202,942	1,538		1,538	Variance is due to size of position held. Actual variance is 0.8%.
High Yield	FAIRPOINT COMMUNICATIONS	2	MV	60,164	(1,389)		(1,389)	Variance is due to size of position held. Actual variance is 2.3%.
High Yield	HD SUPPLY (8/30/07)/USD REVOLVER	2	MV	49,772	1,242		1,242	Variance is due to size of position held. Actual variance is 2.5%.
High Yield	HD SUPPLY (8/30/07)/CAD REVOLVER	2	MV	39,763	992		992	Variance is due to size of position held. Actual variance is 2.5%.
High Yield	TXU ENERGY (10/10/07)	2	MV	57,813	(1,212)		(1,212)	Variance is due to size of position held. Actual variance is 2.1%.
High Yield	VERTRUE INCORPORATED 2ND LIEN	2	MV	43,368	1,203		1,203	Variance is due to size of position held. Actual variance is 2.8%.
High Yield	DHS DRILLING COMPANY/TERM	2	MV	74,250	750		750	Variance is due to size of position held. Actual variance is 1.0%.
High Yield	ARINC 1ST LIEN(10/25/07)	2	MV	81,669	715		715	Variance is due to size of position held. Actual variance is 0.9%.
High Yield	TXU_E	D	CS01	37	(1,395)		(1,395)	PCG is in discussion with the desk regarding this variance.
High Yield	HCA	D	CS01	43	(1,240)		(1,240)	Desk marked within bid / offer.
High Yield	NCX	D	CS01	20	(1,003)		(1,003)	PCG substantiated desk mark with trading activities around month-end.
Emerging Markets	BRAZIL	D	CS01	(3)	(576)		(576)	Actual variance is between 2 and 4 bps at any point in the curve.
Muni - Cash	HILLSBOROUGH CNTY FLA AVIATION	2	MV	1,340	(1,072)		(1,072)	Delta Airline bonds. The \$5mm notional Hillsborough County position is part of the total outstanding of \$8mm bonds related to a maintenance facility which the lease has already been rejected by the courts. This is a work-out situation and the desk has negotiated a settlement with Delta that is consistent with the current mark.
Muni - Cash	CALIFORNIA ST (AMT)	2	MV	39,592	(797)		(797)	PCG substantiated desk mark with trading activities.
Muni - Cash	CALIFORNIA STATEWIDE CMNTYS DE	2	MV	13,400	913		913	This is an illiquid FRN position and desk has marked conservatively to external price.
Muni - Cash	CALIFORNIA STATEWIDE CMNTYS DE	2	MV	28,140	1,917		1,917	This is an illiquid FRN position and desk has marked conservatively to external price.
Muni - Cash	OAKLAND CNTY MICH CTFS PARTN M	2	MV	41,205	(506)		(506)	Variance is due to size of position held. Actual variance is 1.2%.
Muni - Cash	NORTHERN CALIF GAS AUTH NO 1 G	2	MV	60,282	1,799		1,799	This is an illiquid FRN position and desk has marked conservatively to external price.
Muni - Cash	NEW YORK CITY N Y INDL DEV AGY	2	MV	60,119	640		640	Variance is due to size of position held. Actual variance is 1.1%.
Muni - Cash	NEW YORK CITY N Y INDL DEV AGY	2	MV	95,643	1,351		1,351	Variance is due to size of position held. Actual variance is 1.4%.
Muni - Cash	PUERTO RICO COMWLTH INFRASTRUC	2	MV	24,339	1,281		1,281	This is an illiquid bond position and desk has marked conservatively to external price.
Muni - Cash	ALLIANCE ARPT AUTH INC TEX SPL	2	MV	13,630	3,102		3,102	PCG substantiated desk mark with trading activities.

# PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
IRP - Governments	Agencies	2	MV	634,985	(71,880)	(71,880)		Desk has taken a markdown of \$61 million.
Securitized Product	Reconstituted NIMs	3	MV	49,763	4,389		4,389	Desk prices fall within PCG's stressed base case assumptions.
Securitized Product	Residuals	3	MV	234,731	(14,399)		(14,399)	Desk prices fall within PCG's stressed base case assumptions.
Securitized Product	CEAGO 2007-1A A1	3	MV	362,804	(33,146)		(33,146)	ABS CDO market has been extremely illiquid and volatile. PCG derived price based on value of underlying securities. Position was hedged by purchasing CDS protection from XLCA. Positive variance from the CDS has been netted with negative variance from cash position to generate net negative variance balance. PCG discussed variance with the desk and concluded that variance is reasonable given current market conditions.
Securitized Product	Servicing Rights	2	MV	1,678,000	149,000		149,000	Desk prices fall within PCG's stressed base case assumptions.
Securitized Product	CDS on ABS	2	MV	3,603,000	79,000		79,000	Desk prices fall within PCG's stressed base case assumptions.
Securitized Product	CDS on CDO	2	MV	1,019,000	5,000		5,000	Desk prices fall within PCG's stressed base case assumptions.
Real Estate	Exhibition City DEV Jr Mezz	3	MV	76,815	(76,815)		(76,815)	The property is a 111-acre parcel of land to be developed into a showroom facility in Las Vegas, Nevada. Trimont is valuing the land below the purchase price and below the December 2007 appraised value per acre. Current mark deemed appropriate.
Real Estate	Greenwich Oaks Acquisition LLC	C	MV	83,231	(26,338)		(26,338)	Greenwich Oaks, is a 130-unit multi-family development at 219 Weaver Street in the Glenville section of Greenwich, Connecticut. This property consists of 35.52 acres of land improved with twenty buildings and supporting amenities. Occupancy is 38%. Leasing effort will begin early 2009 Greenwich Oaks will begin construction in late August, trailing behind Greenwich Place construction by 3 months. Exterior is 95% completed and the remaining 5% is mostly gutter and minor punch work. The Trimont current value does not capture the value of the lease up scenario. The full IRR model reflects a NPV very near the basis.
Real Estate	Greenwich Place Acquisition LLC	C	MV	121,312	(25,717)		(25,717)	Greenwich Place, is a 266-unit multi-family development located along the east side of Western Junior Highway, just south of West Putnam Avenue, in the Byram section of Greenwich, Connecticut. This property consists of 22.01 acres of land improved with thirty four buildings and supporting amenities. Strong leasing activity. Signed 13 leases in past few months. The Trimont current value does not capture the value of the lease up scenario. The full IRR model reflects a NPV very near the basis.
Real Estate	Bickman Ranch	C	MV	23,050	(23,050)		(23,050)	The project site consists of 1,947 acres of undeveloped land, located in West Placer County, CA. The site has been designated to become a master planned community, with 1,887 residential home lots, retail shops, parks, and a golf course. No lots have been sold in the entire project. Sunca deal; position marked to a 15% target investor IRR.
Real Estate	LB Ridge Crossing LLC	3	MV	28,329	(18,331)		(18,331)	Ridge Crossing Apartments is located in Hoover submarket of Birmingham in Jefferson County, AL. The property is a garden style apartment complex and is a class A product. The property's total net rentable area is 797,492 sf, which is situated on 86 acres. Occupancy at the subject for June 2008 was 92%. Renovations are being completed. Leasing activity at the property has been strong. Current value provided by servicer is based on a direct cap of 6% on current in place NOI and doesn't consider lease-up potential & rent increases. Based on DCF methodology the pricing variance is diminished.

# PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Marked \$'000	Resolved \$'000	Resolution
Real Estate	LB Maingate Hotel Inc	C	MV	32,215	(16,797)		(16,797)	The property was built as a 567-room hotel in 1985. It is located approximately 1 mile west of the entrance of Walt Disney World. The Certificate of Occupancy is expected to be obtained on floors 4 and 5 by October 1, 2008. In-place value shown by Trimont reflects slower absorption and lower pricing than the LB model.
Real Estate	WSG Prism West Palm Beach	3	MV	20,790	(13,967)		(13,967)	Prism consists of 3.02 acres of land in West Palm Beach, FL. Borrower is currently in negotiations with the town over the development plan. WSG has entered into discussions with Epicure Market and Winn Dixie Stores both of which have showed interest in the site. A verbal agreement has been made by Epicure under which they would consider the placement of a store on the site. Based on recent discussion with the business, position should have been marked down.
Real Estate	LB BELL ROAD (NASHVILLE) PORTF	3	MV	13,601	(13,601)		(13,601)	Consists of 5 multifamily properties containing 1,593 units located in Tennessee. Current occupancy is at 85.15%. Sponsor is currently in the process of renovating units and expects rent increases once completed. Current value provided by the servicer is based on a direct cap of in place NOI and doesn't consider lease-up potential and rent increases. Based on DCF methodology the pricing variance is diminished.
Real Estate	DELTA COVE SENIOR WHOLE LOAN	C	MV	130,516	(13,586)		(13,586)	The property consists of a 310-acre water-front residential master-planned community, which will consist of 494 waterfront detached residential lots, 96 condominium units located in Bethel Island, California. Levy has been breached and installation of docks were finished by the 3-31 deadline. Sunecal has furnished a new budget which shows cost increases in excess of \$20MM which is under review. Protective advances have been made to fund costs. Based on valuation review completed in May-08, position was marked down by \$67mm and related equity position with a basis of \$17mm was completely written off in May-08. Based on discussions with the business, position is appropriately marked.
Real Estate	LB SOUTH BEACH LLC	3	MV	70,603	(13,389)		(13,389)	Remaining collateral consists of 77 hotel condo units in Miami, FL. Currently in negotiations with Gencom for a potential purchase. Related debt position has a partially offsetting gain. This position was marked down by \$5mm in August 2008. Currently receiving offers above \$70mm.
Real Estate	NORTH PEAK	C	MV	18,584	(12,275)		(12,275)	Lehman foreclosed on the property and is currently in the process of disposing the asset through auction sale. Based upon the business's review of the California land market, this position was marked down by \$8mm in February 2008.
Real Estate	INDIANTOWN WHOLE LOAN	3	MV	17,926	(11,691)		(11,691)	Indiantown Quillen DRI is a 2,250 lot residential development site in Indiantown, Martin County, Florida. Indiantown is located in southwest Martin County just north of the Palm Beach County line. The final DRI, Development Order, Rezoning, and Master Site Plan approval for 2,250 residential units and 150,000sf of commercial space to be built on the property is currently on hold. Business plan is under change. Based on most recent review, position was marked down \$30mm in May-08.

# PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
Real Estate	WHITWORTH ESTATES SENIOR WHOLE	3	MV	21,012	(10,582)		(10,582)	Whitworth Estates is 154 acres of raw land located in Delray Beach, Florida, which is fully entitled, allowing for 380 single family home sites. The business plan is to hold the property for two years while the surrounding area is built out and the housing market stabilizes. The county expects to have the right-of-way granted before the end of 2008 and will continue to extend the permit to build Phase I until access is granted. Lehman is currently in negotiations with the Borrower for a Deed in Lieu transaction. Based on discussions with the business, position is marked appropriately.
Real Estate	LB BP RESIDENTIAL 1A LLC	3	MV	13,005	(9,584)		(9,584)	The property will be developed into a 193 unit residential building with 22,000 sf of retail space in the Square 701 DC tax block of the Ballpark District in Washington, DC. Due to a recent covenant with the District, 8% of the units will be affordable housing. Excavation work is 95% complete, and Monumnet is looking to secure financing to build out the project. Valuation assumes current market rents but due to the project's location, directly across the street from the Washington Nationals ballpark and the revitalization that is occurring, it is expected that rents will lead the market. Given the project is in an early stage of development a remark at this time would be premature.
Real Estate	LB NORCO LAND LLC-CRV V	3	MV	14,990	(8,799)		(8,799)	The partnership acquired a 425-acre parcel of land. Per Trimont the highest and best use for this land is industrial use. Lehman is re-evaluating the value of the asset as an industrial parcel. If it concludes that Trimont's valuation is accurate, Lehman will address the carrying value
Real Estate	Miscellaneous	3	MV	N/A	(37,366)		(37,366)	Other significant variances.
Real Estate	Miscellaneous	C	MV	N/A	(118,793)		(118,793)	Other significant variances.
					(313,024)	(71,880)	(241,144)	

## Europe

Firm Relationship Loans	Carlsberg	D	MV	94,926	1,413		1,413	Variance is due to size of position held. Actual variance is 1.5%.
Firm Relationship Loans	NIBC	D	MV	147,232	1,109		1,109	Volatile and illiquid position with actual variance of 0.8%.
Firm Relationship Loans	Vodafone	D	MV	375,000	1,375		1,375	Variance is due to size of position held. Actual variance is 0.4%.
Firm Relationship Loans	Man Group	D	MV	70,000	1,127		1,127	Illiquid position with actual variance os 1.6%.

# PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
High Yield	PHS	D	MV	82,488	(2,378)	(2,378)		Remarkd.
High Yield	Merlin Loan	D	MV	93,183	(1,181)		(1,181)	Variance is due to size of position held. Actual variance is 1.3%.
High Yield	Gala	D	MV	25,106	(1,079)		(1,079)	Actual variance is 4.3%.
High Yield	Imperial	D	MV	973,655	(3,843)		(3,843)	Variance is due to size of position held. Actual variance is 0.4%.
High Yield	Misys	D	MV	205,000	(2,563)		(2,563)	Variance is due to size of position held. Actual variance is 1.3%.
High Yield	THALIA CLO/SACHER	D	MV	63,845	2,820		2,820	PCG is in discussion with desk regarding this variance.
High Yield	GATE GOURMET INTERNASHR NPV CH F Ord U	D	MV	12,870	(2,574)		(2,574)	PCG is in discussion with desk regarding this variance.
Bespoke Correlation	SNR Financials	D	Correl + 1%	(8,761)	(5,437)		(5,437)	PCG price tested to last trade and has requested broker quotes.
Bespoke Correlation	Global Financials	D	Correl + 1%	(4,982)	7,608		7,608	PCG price tested to Totem and has requested broker quotes.
Bespoke Correlation	Global Diversified	D	Correl + 1%	(483)	1,634		1,634	PCG price tested to Totem and has requested broker quotes.
Bespoke Correlation	WM	D	REC01	321	(2,405)		(2,405)	PCG has requested broker quotes.
Bespoke Correlation	PMI	D	REC01	367	(2,182)		(2,182)	PCG has requested broker quotes.
Bespoke Correlation	CDX4 5Y	D	INDEX01	(1,363)	(4,086)		(4,086)	Off-the-run index with actual variance of 3.0 bps.
Bespoke Correlation	CDX4 7Y	D	INDEX01	814	2,577		2,577	Off-the-run index with actual variance of 3.2 bps.
Bespoke Correlation	CDX7 7Y	D	INDEX01	(596)	(1,192)		(1,192)	Off-the-run index with actual variance of 2.0 bps.
Bespoke Correlation	MER	D	CS01	(50)	(1,773)		(1,773)	Merrill, along with other financial firms, has been a volatile name.
Bespoke Correlation	C	D	CS01	6	(1,472)		(1,472)	Citicorp, along with other financial firms, has been a volatile name.
CDO Management	CDX_HY_100_S10_0613	D	INDEX01	(27)	(600)		(600)	High yield index has been volatile.
IRP	IR Vol of vol	D	Vol + 1%	(2,341)	(9,500)	(9,500)		Business has taken aggregate markdowns of \$25 million.
IRP	IR vol correlation	D	Vol + 1%	(3,504)	(9,604)	(9,604)		Business has taken aggregate markdowns of \$25 million.
					(32,206)	(21,482)	(10,724)	
<b>Asia</b>								
High Grade	ICICI	2	MV	60,876	665		665	Variance is due to size of position held. Actual variance is 1.1%.
High Grade	GRNCH	2	MV	19,352	(663)		(663)	Illiquid position with actual variance of 3.4%.
High Grade	PHILIP	D	CS01	55	(940)		(940)	Illiquid position with actual variance of 17 bps.
IRP	JPY Interest Rate Curve	D	PV01	27,454	(1,298)		(1,298)	Variance is due to curve construction differences. Lehman curve is based on FRA (floating rate agreements) up to the 6-month point while Totem uses deposit rates.
IRP	FX Vega	D	Vol + 1%	43,881	(972)	(972)		Remarkd.
FX	FX options	D	Vol + 1%	6,251	(1,633)		(1,633)	PCG will discuss variance with the desk.
					(4,842)	(972)	(3,870)	
<b>Total Significant Variances</b>					<b>(350,071)</b>	<b>(94,334)</b>	<b>(255,737)</b>	

LEHMAN BROTHERS

# PRICING REPORT – Cash Products Coverage

\$'000 Exposures	Level 1		Level 2		Level 3	
	MV	Coverage	MV	Coverage	MV	Coverage
<b>CASH PRODUCTS</b>						
Listed interest rate futures	36,559,816	100%	0		0	
Listed government bond futures	11,428,021	100%	0		0	
Commodity futures	21,254	100%	0		0	
Listed interest rate options	13,930	100%	0		0	
Listed bond options	2,339	100%	0		0	
Stocks and stock indices	180,702	77%	149,335	94%	6,623	0%
Listed stock & index futures	(118,056)	98%	0		0	
Listed stock & index options	19,071	97%	0		0	
Government bonds	(9,327,162)	99%	2,851,832	99%	0	
Inflation indexed bonds	0		0		0	
Corporate bonds	0		5,664,632	90%	183,427	91%
Convertible bonds	0		181,540	74%	345,852	83%
Money market instruments	0		5,280,873	100%	0	
RMBS bonds	0		0		0	
RMBS loans	0		3,749,268	96%	1,652,037	91%
Residuals	0		0		626,934	37%
CMBS bonds	0		9,654,778	34%	252,650	100%
CMBS loans	0		12,015,484	100%	2,559,654	100%
ABS bonds	0		8,706,193	98%	2,113,494	98%
CDS on ABS	0		(3,691,257)	100%	0	
HG business loans	0		1,276,621	100%	0	
Loans - secondary	0		8,203,469	89%	710,932	71%
Loans - in syndication	0		29,351,099	87%	476,748	100%
Firm relationship loans	0		5,805,958	96%	0	
Cash CDOs	0		561,078	99%	293,188	99%
Principal transactions	0		1,560,000	0%	12,181,046	98%
Private equity investments	0		0		1,864,287	52%
Non-performing loan portfolios	0		0		2,433,842	63%
Structured Notes	0		0		0	
Agency CMO bond	0		12,401,065	98%	0	
Pass throughs	0		1,990,736	100%	0	
Servicing rights	0		1,677,708	100%	0	
Preferreds	0		534,315	5%	0	
Muni bonds	0		4,751,896	97%	0	
Ascots	0		0		0	
Fund units	0		168,758	100%	0	
Warrants	0		381	100%	0	
Prime	0		2,429,866	100%	209,975	100%
Non prime	0		856,778	100%	40,178	100%
NIM	0		0		88,388	100%
<b>TOTALS</b>	<b>38,779,915</b>		<b>116,132,406</b>		<b>26,039,253</b>	

LEHMAN BROTHERS

# PRICING REPORT – Derivative Products Coverage

DERIVATIVE PRODUCTS				DERIVATIVE PRODUCTS			
\$'000							
<b>RATES PARAMETERS</b>	<b>RISK MEASURE</b>	<b>NET EXPOSURE</b>	<b>COVERAGE</b>	<b>HYBRIDS PARAMETERS</b>	<b>RISK MEASURE</b>	<b>NET EXPOSURE</b>	<b>COVERAGE</b>
Interest rate delta	PV01	12,576	100%	IR v FX correlation	Correl + 1%	0	
Inflation delta	PV01	(3,571)	97%	IR v commodity correlation	Correl + 1%	0	
Interest rate volatility - ATM	Vol + 1%	16,882	99%	IR v equity correlation	Correl + 1%	0	
Interest rate volatility - vol of vol (eps)	Vol + 1%	1,894	100%	Credit v inflation correlation	Correl + 10%	0	
Interest rate volatility - ir vol correlation (rho)	Vol + 1%	(3,504)	100%	Equity v FX correlation	Correl + 10%	0	
IR v IR correlation	Correl + 1%	0		Inflation v equity correlation	Correl + 1%	0	
IR v inflation correlation	Correl + 1%	0		Commodity v equity correlation	Correl + 1%	0	
Inflation volatility - ATM	Vol + 1%	0		FX v commodity correlation	Corr + 10%	0	
Inflation volatility - skew	Vol + 1%	0		Property derivatives	PV01	106	97%
CMS correlation - ATM	Correl + 10%	0		LBT index trades	Duration	0	
CMS correlation - skew	Correl + 10%	0		Balance guaranteed swaps - interest rate risk	PV01	0	
Basis swaps	PV01	2,536	99%	Balance guaranteed swaps - prepayment risk	Prep01	0	
<b>CREDIT PARAMETERS</b>	<b>RISK MEASURE</b>	<b>NET EXPOSURE</b>	<b>COVERAGE</b>	Balance guaranteed swaps - default risk	Def01	0	
Credit spreads	CS01	(10,151)	80%	BMA trades - interest rate risk	PV01	(18)	100%
Index spreads	INDO01	45,827	54%	Credit v equity correlation	Correl + 10%	0	
Tranche spreads	TR01	(7,740)	95%	Credit v inflation correlation	Correl + 10%	0	
NTD basket correlation	Correl + 1%	0	0%	Credit v interest rate correlation	Correl + 10%	0	
Recovery rates	Recovery + 1%	13,537	83%	<b>COMMODITY PARAMETERS</b>	<b>RISK MEASURE</b>	<b>NET EXPOSURE</b>	<b>COVERAGE</b>
Credit volatility	Vol + 1%	77	93%	Metals - delta	PV01	(2)	100%
Corporate bond option delta	PV01	1,672	100%	Metals - ATM volatility	Vol + 1%	(1,075)	97%
Corporate bond option volatility	Vol + 1%	8,974	93%	Metals - skew	Vol + 1%	0	
Loan CDS	MV	0		Oil - delta	PV01	193	98%
CPPI volatility	Vol + 1%	0		Oil - ATM volatility	Vol + 1%	(1,736)	98%
CPPI NAV	MV	0		Oil - skew	Vol + 1%	173	100%
CPPI jump rates	MV	0		Emissions - delta	PV01	(1,229)	100%
<b>EQUITY PARAMETERS</b>	<b>RISK MEASURE</b>	<b>NET EXPOSURE</b>	<b>COVERAGE</b>	Emissions - ATM volatility	Vol + 1%	(220)	95%
Single stock volatility	Vol + 1%	0		Emissions - skew	Vol + 1%	0	
Stock index volatility	Vol + 1%	0		Power - delta	PV01	2,546	96%
Dividend rho	D Rho	0		Power - ATM volatility	Vol + 1%	0	
Equity v equity correlation	Correl + 10%	1	100%	Power - skew	Vol + 1%	(1,728)	80%
Equity delta	Pos delta	0		Natural gas - delta	PV01	(23,223)	100%
<b>FUNDS PARAMETERS</b>	<b>RISK MEASURE</b>	<b>NET EXPOSURE</b>	<b>COVERAGE</b>	Natural gas - ATM volatility	Vol + 1%	0	
Fund volatility	Vol + 1%	(3,207)	100%	Natural gas - skew	Vol + 1%	6,124	100%
Fund vol of vol	Vol + 1%	(129)	100%	Refined products - delta	PV01	0	
IR v Fund NAV correlation	Correl + 20%	(3,191)	100%	Refined products - ATM volatility	Vol + 1%	0	
Fund vol v NAV correlation	Correl + 20%	823	100%	Refined products - skew	Vol + 1%	0	
Fund options NAV	Delta +/- 5%	114	100%	Softs - delta	PV01	48,860	89%
<b>FX PARAMETERS</b>	<b>RISK MEASURE</b>	<b>NET EXPOSURE</b>	<b>COVERAGE</b>	Softs - ATM volatility	Vol + 1%	(103)	86%
FX delta	MV	(20,191)	89%	Softs - skew	Vol + 1%	0	
FX forwards	PV01	2,778	100%	Commodity indices - delta	PV01	2,659	67%
FX volatility - ATM	Vol + 1%	603	87%	Commodity indices - ATM volatility	Vol + 1%	0	
FX volatility - skew	Vol + 1%	9,089	77%	Commodity indices - skew	Vol + 1%	0	
FX barriers	PV01	0		Commodity vs commodity correlation	Correl + 10%	0	
FX v FX correlation	Corr + 10%	0		Coal - delta	PV01	19	100%
				Coal - ATM volatility	Vol + 1%	0	
				Coal - skew	Vol + 1%	0	
				Uranium - delta	PV01	53	100%
				<b>OTHER PARAMETERS</b>	<b>RISK MEASURE</b>	<b>NET EXPOSURE</b>	<b>COVERAGE</b>
				Alltax swaps	PV01	1,904	100%
				Asset swaps	PV01	0	
				Mortgage volatility	MV	506,870	65%

# PRICING REPORT – Projects

Business Line	Product	Contact Person	Location	Team	Risk of Measurement	Proposed Solution	Screen Enhancement / Additional FX S's	Due Date	Comments	Mitigation / Comments
IRP	Caps	Yong Huang	NY	Need to assess cap vols skew p/l impact	H	Currently using MarkIt, however we are not calculating/reporting any p/l impact of using independent volatilities.	Y	3Q08	Working with IT to perform full re-pricing of the entire portfolio	
IRP	Caps and Swaptions	Yong Huang	NY	For cap and swaption volatility skew testing, need to switch to new model that the desk recently implemented.	H	Working with Quant Research and desk to revise calibration for new model.	N	3Q08	Able to test European swaption with new model. Working on threshold.	
IRP	Exotics	Yong Huang	NY	Deal review processes are not in place for exotics	M	Establish deal review processes for exotics	N	3Q08		
IRP	Exotics	Yong Huang	NY	Need to expand both IRP and FX exotics submission and price testing	M	Expand Totem usage.	N	3Q08		
IRP	Options	Yong Huang	NY	Need to develop better methodology for the price testing of Bermudan and American options	M	Need to utilize Totem to test Bermudan options	Y	3Q08	Submitted to Totem the pricing of Bermudan options. Working on price testing methodology. Need to clarify model issues.	
IRP	General	Yong Huang	NY	Need to expand overall price testing coverage	M	Expand broker coverage	N	3Q08	Expanding broker coverage will be a continual process	
IRP	General	Yong Huang	NY	Need to improve the monitoring of variances	M	Implement variance time series tracking	N	3Q08		
FX	Options	Yong Huang	NY	Skew testing for FX trades that are greater than 2 years - testing 63 pairs right now	M	Need automation on manual testing.	Y	3Q08	Need IT improvements & increase number of currency pairs tested.	
FX	Baskets	Yong Huang	NY	Need to expand all correlation parameters (including currency pairs)	M	Need to utilize Totem to test correlation inputs	N	3Q08	Already established price testing on 50% of currency pairs; continue to expand coverage.	
Commodities	Eagle	Yong Huang	NY	Eagle price testing starts late in the month due to lack of resource for coverage	M	Will visit Houston to get to know key stake holders. NY team has conducted several PT on the portfolio, made new progress each time but still not complete due to lack of resources. As India team is trained up, certain LB price testing will be shifted in a controlled fashion to direct more and more NY resources to develop price testing on Eagle's portfolio.	Y		Currently price and position are sent by Eagle via email spreadsheet, hard to interpret. Once PC complete the position integration into Kinetix, will include Eagle in the normal process. In the interim, will work to get better position information out of Eagle's portfolio.	
Commodities	Exotics	Yong Huang	NY	Heat rate and other structure transaction testing; no third party quotes available currently	M	Continue working with Totem and 10x, develop and implement methodology to soft test heat rate deals, sensitivity analysis, monthly reconciliation b/t model and actual performance, historical correlation analysis, etc	N			
Commodities	Basket	Yong Huang	London	Basket correlation testing: UK currently does not have a robust methodology	M	NY will work with UK to understand the Totem process, desk process and develop methodology and potentially take over the testing to NY	N			
Commodities	General	Yong Huang	NY	Asia price testing is currently handled by product control in Singapore, no dedicated local resource responsible	M	NY valuation control will take over entire Asia price testing from product control in Singapore	N			
Commodities	General	Yong Huang	NY	Price shape tracking: Price shape needs to be monitored	M	Develop and maintain tracking mechanism	N			
Commodities	General	Yong Huang	NY	Skew surface tracking: Skew surface needs to be monitored	M	Develop and maintain tracking mechanism	N			
Commodities	General	Yong Huang	NY	Structured portfolio is price tested with greeks as given, alternative procedure can be set up to test the the sensitivity of inputs on greeks output	M	Develop and implement methodology in NY once more routine price testing gets transferred to India	N			
Commodities	General	Yong Huang	NY	Key risk locations are not tested with ideal frequency due to resource constraint	M	Educate India team to carry out ad hoc price verification on key risk locations	N			
Commodities	General	Yong Huang	NY	10x data is not used sufficiently in price testing due to lack to resource before	M	Resource constrain in NY prevent us from fully utilize 10x data. As India team get trained up, will utilize more on 10x return	N			
Commodities	General	Yong Huang	NY	Currently not involved in NPC items in UK	M	Coordinate with UK to get on European NPC agenda.	N			

# PRICING REPORT – Projects

Business Line	Product	Contact Person	Region/Market	Issue	Risk of Misstatement (H/M/L)	Proposed Solution	Status/Implementation Required	Due Date	Comments	Mitigating Controls (if any)
Securitized Products	CDX and Corp CDS	Joe Sapia	NY	Positions are not being price tested	H	A work flow for CDX and Corp CDS price testing is being developed. The SP positions should be included in the price testing that is performed by the Credit Valuations Team	N	TBD		
Securitized Products	Prime Whole Loans	Joe Sapia	NY	Need to implement model to value whole loans based on discounted cash flows	L	Continue to test the SPIRE model.	N	08/31/08		We currently still have sales activities that we price test to.
Securitized Products	Derivatives	Joe Sapia	NY	Automate the delivery of consensus pricing to MarkIt and Fitch.	L	RAMP data automaton project completed with Mortgage Analytics team. The project should further enhance our existing relationship with MarkIt for a stronger partnership in derivative pricing. Successfully delivered the daily automation feed from RAMP to MarkIt's server.	N	07/31/08		
Securitized Products	Mortgage Servicing Rights	Joe Sapia	NY	Prices not reflecting slower CPR in the market.	H	MSR valuation models used in RAMP were updated to reflect slower prepayment speeds as experienced in the market.	Y	TBD		
Securitized Products	Non Cash Flow Positions	Joe Sapia	NY	Appropriate price testing method needs to be developed.	M	NCF positions will continue to be researched.	N	Ongoing		
Securitized Products	All	Joe Sapia	NY	Eliminate manual file preparation	M	Automation of Ramp synthetics file	N	08/31/08		
Securitized Products	All	Joe Sapia	NY	Preparing FAS157 data is inefficient.	H	Automation of the FAS157 template is being developed in order to reduce the time needed to prepare the data.	N	08/31/08		
Credit	CDO	Scott Goswami	Global	Global Deal Review backlog is 250 trades	H	4 out of 5 staff hired in India. Training is ongoing. 2008 headcount under discussion	N	Ongoing	Backlog reduced to 164 trades by 31-May-08 (Q2)	10% of P&L held back against incomplete reviews
Credit	CDS	Scott Goswami	NY	CDS price testing dbase creates artificial variances and is extremely inefficient to use	H	IT headcount approved and in place. Project plan yet to be completed and approved	Y	TBD	All fixes for cds to be completed by 31-Jul-08. Ongoing development to expand the dbase functionality to all credit parameters to be completed by Nov-08	
Credit	CDS on ABS	Scott Goswami	NY	CDS on ABS is not price tested	H	Should be tested by ABS Val team as they have a better knowledge base and expertise	N	TBD		
Credit	Equities and ABS	Scott Goswami	NY	Products such as equities and ABS are tested by GCP Val team.	L	Identify products and discuss outsourcing with other teams	N	3Q08		
Credit	General	Scott Goswami	NY	Global Valuation reporting to be created for Management review	M	Create reports and distribute to Desk heads	N	3Q08		
Credit	General	Scott Goswami	NY	Price testing policy documents need to be unified across products and regions	L	One detailed PV policy should be written and approved by PC and the Desk. Should include thresholds, categorization of variances and data, escalation procedures, etc	N	3Q08		
Credit	General	Scott Goswami	NY	Control to be put in place to monitor stale marks	L	Begin monitoring the CDS tool. Look into creating a bond tool which monitors spreads	Y	TBD	CDS Resolved. Reports sent out monthly. Bonds yet to be addressed	
Credit	General	Scott Goswami	NY	Inadequate control in place to enforce "one firm one mark" policy	L		Y	TBD		
Credit	General	Scott Goswami	NY	Valuation reports are completed after day 20 of the month. This limits exposure, relevance, and our ability to resolve issues. It also reduces time for value added projects.	H	Evaluate requirements, build a price testing database, stream line inefficiencies and redundancies, prioritize components of PV, train staff, and hire new staff	Y	TBD		
Credit	General	Scott Goswami	NY	Ensure all valid and reliable pricing sources are utilized.	M	Research the quality of current and new data sources. Incorporate into testing and categorize. Build a database to compile data efficiently	Y	3Q08		
Credit	General	Scott Goswami	NY	Incorporation of recent trade prices into price testing work is extremely cumbersome and performed on a best effort basis when variances are large	M	Automated source to capture and incorporate into the price picking methodology	Y	TBD		
Credit	General	Scott Goswami	NY	Insufficient time spent on HG cash testing. Val risk has increased substantially over the last few months. (SIV's, Auction Rate Sec, prefers, etc)	M	New staff to be hired and trained	N	TBD		

# PRICING REPORT – Projects

Business Line	Product	Contract / Issuer	Region / Rating	Issue	Risk of Measurement (M/N/L)	Proposed Solution	System Enhancement Required (Y/N)	Due Date	Comments	Mitigating Controls (if any)
Real Estate	Derivatives (Duration Neutral Swaps / TRS)	Abe Kebede	NY	Cleaning up unexplained reserves from year-end	M	Performing weekly testing and reconciliations; working with middle office to resolve trade booking issues	Y	2Q/3Q08	Product control working with front office, middle office and technology teams; Using Ramp as a calculation engine for daily MTM and P&L calculations	
Real Estate	Floating Rate Large Loans & Junior Notes	Abe Kebede	NY	Floating rate securitization market is inactive; No deal in the market since Dec-07. Spreads published in third party publications are stale; Pricing becoming extremely challenging	M	Working with Front Office to obtain market color on deals that are currently in the market for syndication / sale.	N	Ongoing	Product control is having continuous discussions with Front Office going through deals in more detail and trying to obtain market color by using recent syndications, bids, offers and any other market information.	Significant amount of asset sales in Q208 provided some market color and it was used in completing our Q2 reviews
Real Estate	PTG	Abe Kebede	NY	Valuation methodology with Servicer for development-type assets outdated.	M	Discussions started with Front Office Asset Management and Risk Management to implement changes	N	3Q/4Q08	Current valuation methodology for land and development projects is based on cap * 105%, which was a conservative or prudent approach in an up-market. Given current market conditions, this approach may not be appropriate.	Trimont (our main servicer) is developing IRR models and walking away from cap * 105% methodology
Commodities	Basket	Rob Honeyball	London	We do not have greeks for correlation and therefore are unable to quantify a price testing variance	M	Need to source greeks. Requires tech and quant work.	Y	To be scheduled		
Commodities	Basket	Rob Honeyball	London	We do not have greeks for correlation and therefore are unable to accurately reserve against this.	M	Need to source greeks. Requires tech and quant work.	Y	To be scheduled		
Commodities	Options	Rob Honeyball	London	We cannot see skew positions in Kinetix and therefore cannot assess untested population	M	Need to source greeks. Requires tech and quant work.	Y	To be scheduled		
Commodities	Options	Rob Honeyball	London	We cannot see skew positions in Kinetix and therefore where we do believe risk to be significant and do try to test the process is horribly manual, time consuming and error prone.	M	Need to source greeks. Requires tech and quant work. Additionally some work to automate the submission / testing process can be done to free up resource.	Y	To be scheduled		
Commodities	Correlation	Rob Honeyball	London	Correlation time-series is flat (e.g Dec 8 correlation = Dec 10 correlation for each pair). That is not appropriate in some instances.	M	Need to source greeks so we can assess risk and reserve accordingly.	Y	To be scheduled		
Commodities	Exotic Commodity Trades	Rob Honeyball	London	Exotics outside of Kinetix are not price tested	M	Integration of models into Kinetix via Flexdeal and model approval process.	Y	Ongoing		
Commodities	Commodity Options and Baskets	Rob Honeyball	London	Do not have the ability to effectively price test correlation and volatility surfaces due to the number of curves.	M	Currently developing IT solution to automate the process of submitting curves to consensus survey.	Y	To be scheduled		
Commodities	Commodity Options and Baskets	Rob Honeyball	London	Untested inventories on: 1) illiquid or long-dated positions, 2) index atm volatilities and 3) agricultural atm volatilities	L	Currently, methodology is slowly being developed for each product. Need to add headcount to expedite the process.	N	Ongoing as markets develop and new underliers are added.		
Credit	CDO Tranchelets	Tony Ellis	London	Tranchelet risk not fully tested	L	Analysis vs Totem consensus data	N	3Q08	Totem Consensus data received but not used in price testing	
Credit	PO Liquid Tranches	Tony Ellis	London	PO levels not fully tested	M	Participate in Proposed Totem service	N	3Q08	Current price testing done on a risk basis. Good as proxy but price basis preferable	Currently tested on risk basis
Credit	Credit Swaptions	Tony Ellis	London	Only make a basic submission to Totem / limited results	L	Staff Training and meetings with Totem to understand their pricing process	N	3Q08	Complete submission made for Jun-08 service. Expected completion in Q3 08	Basic price testing shows conservative variance, good coverage
Credit	Derivatives on CLOs/CDOS	Tony Ellis	London	Coverage/Methodology to be improved	M		N	3Q08		
Credit	Super Senior CDO Tranches	Tony Ellis	London	Super senior levels not fully tested	M			TBD		
Credit	CLO/CDO Residuals	Tony Ellis	London	Coverage/Methodology to be improved	M			TBD		
Credit	High Yield	Tony Ellis	London	Loan CDS not price tested	L	Need to follow up.	N	TBD	Working on getting external data from both FitchSolutions and MarkIt.	

# PRICING REPORT – projects

Business Line	Products	Contact Person	Region/raising Issue	Issue	Risk of Misstatement (H/M/L)	Proposed Solution	System Enhancement Required (Y/N)	Due Date	Comments	MITing Controls (if any)
Securitized Products	Residuals	Tony Ellis	London	Residuals policy to be developed	L	In development	N	TBD		
Securitized Products	Non Performing Loans	Tony Ellis	London	Income recognition policy to be developed. Limited price testing done.		To send income recognition policy for review.		TBD	This is written - can send for review	
Securitized Products	Structured Finance	Tony Ellis	London	Some structured trades booked at transaction price and cash accounted.		Spread lock trades do not have available curves. Need to follow up.		TBD		
Securitized Products	CDS on ABS	Tony Ellis	London	CDS on ABS is not price tested	H		TBD	3Q08	Working on getting external data from both FitchSolutions and MarkIt	
IRP	Fund Derivatives	Tony Ellis	London	Gap Option Volatility untested	H	Based on historical vols and index cliquet options. Possible Totem service to be set up	N	3Q08		
All	All	All	London	Proof of price testing population completeness and integrity needed in many areas	M	Developed standardized template which has now been put into production	N	3Q08	Completed for CTE, Vanilla Rates completed but not yet rolled out due to resource limitations in the line, other products TBD	
All	All	All	London	Ongoing (i.e. post model review) calibration controls to be developed (global project)	M	Develop methodology	Y	TBD		
All	All	All	London	Need to assess significance of exposure where MarkIt offer service but we don't subscribe - e.g. CMA, inflation exposures	L	Research Lehman products as well as what MarkIt offers. CMS now subscribed to CDS and CDO. ABS in future, not yet subscribed on MarkIt.	N	TBD		
All	All	All	London	Need to ensure that all significant factors relevant to valuation are identified and covered	M	Credit perceives no issues	N	N/A		
All	All	All	London	Need to develop full repricing methodology	M	Credit : Develop methodology IRP: Rates repricing being built in Optmodel Commodities: Develop Policy	Y	TBD	Credit: Not yet key priority in credit Commodities: To be included in the revamp of the policies generally by end of 1Q08	
All	All	All	London	Alternative procedures to justify acceptance of marks on untested exposures need to be more precise.				TBD	Being assessed through VCO review of PT templates	
All	All	All	London	Model reserve assessment to be completed in many areas	M	Work in Progress	Y	TBD		
All	All	All	London	FAS157 level 1, 2 and 3 classification of asset types to be concluded and embedded in price testing templates (global project)		Tagging process ongoing, correct assignment of exposures to levels in PT templates needs proper line manager review		TBD		
Credit	High Yield (CBs, Bonds, Private Equity, Warrants, Loans)	Atul Sethi / Jose Galvan	Tokyo	Coverage/Methodology to be improved. Most of the positions are in emerging market and privately placed with no publicly available market information. It is difficult to find comparable benchmarks.	H	Since Q3, we have started to have formal detailed discussion with desk on all material positions. The discussion is around actual financial performance of the investee vis-a-vis expected performance, performance of credit indices, IPO plans (if any) and refinancing. We are interviewing for a Credit Valuation role and the new person would focus on the valuation of credit portfolio.	N	TBD		
Credit	High Yield (CBs, Bonds, Private Equity, Warrants, Loans)	Atul Sethi / Jose Galvan	Tokyo	Valuation reports are completed after day 20 of the month. This limits exposure, relevance, and our ability to resolve issues.	H	Evaluate requirements, stream line inefficiencies and redundancies, prioritize components of PV and hire new staff		TBD		
Credit	Distressed Assets/ NPLs	Atul Sethi / Jose Galvan	Tokyo	Coverage/Methodology to be improved.	H	To have the new dedicated credit valuation resource to look at valuation of NPLs and other distressed assets. To do formal independent valuation analysis based on realised and expected cashflows.		TBD		