

# Lehman Brothers Financial Products Inc.

## Operating Guidelines

## LBFP OPERATING GUIDELINES

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## **LBFP OPERATING GUIDELINES**

### **1.0 Introduction**

The following document is intended to provide operating guidelines consistent with LBFP's business activities and legal arrangements. These guidelines have been approved by LBFP's Board of Directors. Periodically, amendments or modifications may be made and approved according to the amendment procedure outlined herein. In conjunction with these guidelines, LBFP's business and operations are governed by its Operating Agreements. While these agreements are referred to herein, the agreements themselves provide additional details concerning all substantive legal and operational requirements regarding LBFP. Capitalized terms used herein shall have the meanings specified in the Schedule of Definitions.

References herein to LBSF are for convenience only. Upon expiration or termination of the Intermediation Agreement as provided in Article V of such agreement, references to LBSF shall be read to mean any party or parties for whom LBFP then acts as intermediary pursuant to the then effective intermediation agreement(s).

### **2.0 Transactions**

LBFP may enter into Qualified Transactions as intermediary at the request of LBSF Pursuant to the Intermediation Agreement, each time LBFP is requested to intermediate a Qualified Transaction, LBFP may enter into such Qualified Transaction. If LBFP enters into such Qualified Transaction, LBFP will simultaneously enter into an Offsetting Transaction with LBSF. Upon the termination, whether by default or mutual agreement, or assignment, whether to a third-party or to LBSF, of an existing Qualified Transaction, LBFP shall simultaneously terminate the corresponding Offsetting Transaction.

Prior to executing a Qualified Transaction with a Qualified Counterparty, LBFP shall be required to review and approve the counterparty and transaction qualifications, and the status of LBFP's existing business for the purpose of determining whether a Qualified Environment exists. If a Qualified Environment is deemed to exist with respect to the proposed transaction, or the proposed transaction is a Credit-Risk Reducing Transaction or a Zero Exposure Transaction, then LBFP may execute the proposed transaction (except as provided in Section 6.0 herein). If a Qualified Environment is not deemed to exist and the proposed transaction is not a Credit-Risk Reducing Transaction or a Zero Exposure Transaction, LBFP is not permitted to enter into such proposed transaction until such time as a Qualified Environment is deemed to exist with respect to such proposed transaction.

Pursuant to the Intermediation Agreement, only LBFP employees and LBFP Agents shall have the ability to bind LBFP with respect to Qualified Transactions and Offsetting Transactions; provided that while a Management Period exists, the Contingent Manager shall have the ability to bind LBFP with respect to Qualified Transactions and Offsetting Transactions.

If it is determined that LBFP entered into a transaction and (A) (i) a Qualified Environment did not exist with respect to such transaction, and (ii) such transaction was not a Credit-Risk Reducing Transaction, and (iii) such transaction was not a Zero Exposure Transaction or (B) a Collateral Cure Period existed and the transaction was not designed to reduce the Valuation Adjustment Amount, LBFP is required to unwind such transaction immediately on a best efforts basis. In the event that an LBFP Agent is deemed to have bound LBFP with respect to a transaction for which a Qualified Environment is not deemed to have existed, the LBFP Agent shall be required to compensate LBFP for the cost (together with damages) suffered by LBFP.

LBFP may only enter into Qualified Transactions at such time as the Intermediation Agreement is in effect. LBFP shall receive an intermediation fee equal to the present value of three basis points per annum with respect to the notional amount of each Offsetting Transaction entered into with LBSF. The intermediation fee is paid upfront on the second Business Day following the trade date of the Offsetting Transaction, and accrued to income over the life of the Offsetting

Transaction. In the event of an early termination of the Offsetting Transaction the remaining unaccrued intermediation fee is retained by LBFP and credited to income,

### **3.0 Hedges**

Pursuant to the Intermediation Agreement, each time LBFP enters into a Qualified Hedge, LBFP shall enter into an Offsetting Hedge with respect to such Qualified Hedge.

With respect to LBFP's portfolio, LBFP may offset the market risk of its portfolio of Qualified Transactions with Qualified Hedges as though the Offsetting Transactions and Offsetting Hedges with LBSF do not exist. For this purpose, LBFP may use Qualified Hedges to manage its portfolio using prudent market-neutral risk management techniques.

Pursuant to the Intermediation Agreement, only LBFP employees and LBFP Agents shall have the ability to bind LBFP with respect to Qualified Hedges and Offsetting Hedges; provided that while a Management Period exists, the Contingent Manager shall have the ability to bind LBFP with respect to Qualified Hedges and Offsetting Hedges.

LBFP shall be prohibited from transacting with a futures commission merchant ("FCM") with a short-term rating below P-1 by Moody's or A-1 by S&P. In the event an FCM is downgraded below P-1 by Moody's or A-1 by S&P, LBFP shall be required to transfer its existing transactions with such FCM to a new FCM meeting such rating requirements as soon as practicable within 10 Business Days

With respect to Offsetting Transactions and Hedges, LBFP shall only purchase or sell eligible instruments for no more than next-day settlement and all purchases and sales of eligible instruments shall be accompanied by a repurchase or reverse repurchase transaction, respectively, for such eligible instruments. All such repurchase or reverse repurchase transactions shall be effected with a counterparty with a short-term rating of P-1, or if such counterparty is a subsidiary, whose parent has a short-term rating of P-1, or with a counterparty which meets the eligibility requirements set forth in Exhibit L. LBFP shall only engage in futures transactions for which LBFP has sufficient liquidity to meet the liquidity requirements of such futures transactions.

### **4.0 Counterparties**

Any counterparty shall be required, at the time of entering into a Qualified Transaction or Qualified Hedge with LBFP, to be a Qualified Counterparty (except with respect to Zero Exposure Transactions).

Prior to entering into a Qualified Transaction, LBFP shall be required to apply Counterparty Group Exposure Limits to each Qualified Counterparty Group. For the purpose of applying exposure limits, LBFP shall assign each Qualified Counterparty within a Qualified Counterparty Group to one of two categories based on the status of netting in its country of domicile. Category I shall consist of Qualified Counterparties domiciled in countries where netting is applicable as specified in Exhibit A. Category II shall consist of all other Qualified Counterparties.

If the Counterparty Group Exposure for a given Qualified Counterparty Group, exceeds the applicable Counterparty Group Exposure Limit, then LBFP shall be prohibited from entering into new transactions with any Qualified Counterparty in such Qualified Counterparty Group, except Credit-Risk Reducing Transactions or Zero Exposure Transactions or transactions with respect to an Unrated Counterparty. If the Counterparty Group Exposure for such Qualified Counterparty Group no longer exceeds the applicable Counterparty Group Exposure Limit, then such transaction restrictions shall no longer apply.

Prior to entering into a Qualified Transaction, LBFP shall be required to apply Country Exposure Limits for each Qualified Country. If the Country Exposure exceeds the applicable Country Exposure Limit, then LBFP shall be prohibited from entering into new Qualified Transactions with counterparties domiciled in such country, except Credit-Risk Reducing Transactions or Zero Exposure Transactions. If the Country Exposure for such Qualified Country no longer exceeds the applicable Country Exposure Limit, then such transaction restrictions shall no longer apply.

LBFP may from time to time enter into bilateral collateral agreements with Qualified Counterparties. Collateral pledged by a Qualified Counterparty shall only offset LBFP's exposure to such Qualified Counterparty to the extent that such collateral constitutes Qualified Counterparty Collateral. LBFP shall use its best efforts to ensure that all its rights to receive collateral under such collateral agreements are fully realized.

LBFP may from time to time include in its master agreements with Qualified Counterparties, a provision which permits one or both parties to terminate the agreement in the event of a ratings downgrade of the other party. LBFP shall use its best efforts to exercise its right to terminate under such agreements as soon as practicable following the downgrade of a Qualified Counterparty to which LBFP has a positive exposure.

## **5.0 Counterparty Credit Events**

In the event that a previously Eligible Counterparty is no longer an Eligible Counterparty, LBFP shall be prohibited from entering into new transactions with such counterparty, except Credit-Risk Reducing Transactions and Zero Exposure Transactions. LBFP shall attempt, on a best efforts basis, to terminate or assign, at no net cost to LBFP, such previously Eligible Counterparty.

Pursuant to the Intermediation Agreement, in the event that the Counterparty Rating of a previously Eligible Counterparty is downgraded below the applicable Assignment Threshold Rating or a previously Approved Counterparty is no longer an Approved Counterparty, LBFP shall immediately notify LBSF and such counterparty that LBFP is exercising its right to assign all of the transactions with such counterparty to LBSF effective on the third Business Day following such notification by LBFP of such assignment to such counterparty and LBSF (the "Assignment Date").

Notwithstanding the foregoing, such assignment of a transaction to LBSF shall not occur if prior to the Assignment Date the counterparty subject to assignment notifies LBFP that such counterparty agrees to: (i) terminate, on or prior to the Assignment Date, its transactions with LBFP on a full two-way payment basis as though a Termination Event had occurred and such counterparty was the Affected Party; or (ii) assign, on or prior to the Assignment Date, its existing transactions with LBFP to a third party on terms acceptable to such counterparty, LBFP and LBSF. Any termination or assignment of transactions pursuant to clause (i) or (ii) of this paragraph shall be executed on terms that result in no net cost to LBFP when combined with the termination of the corresponding offsetting transaction. LBFP's right of automatic assignment shall terminate upon the occurrence of a Trigger Event.

Notwithstanding the foregoing, Eligible Non-Assignable Counterparties and Zero Exposure Counterparties are not subject to such automatic assignment to LBSF.

## **6.0 LBSF Collateral**

Pursuant to the Custody Agreement, on each Collateral Valuation Date, LBFP shall be notified by 12:00 noon (New York time) of the aggregate Collateral Market Value of Qualified LBSF Collateral held by the Custodian for LBFP as of the close of the previous LBFP Business Day. By 12:30 p.m. (New York time) on the Collateral Valuation Date, LBFP shall determine the aggregate Collateral Adjusted Value of Qualified LBSF Collateral and the Collateral Formula Amount as of the close of the previous LBFP Business Day. Pursuant to the LBSF Collateral Agreement, on the Collateral Valuation Date, LBFP shall notify LBSF of (i) the Collateral Formula Amount, (ii) the aggregate Collateral Adjusted Value, and (iii) the Collateral Excess, if any, or the Collateral Deficiency, if any.

Pursuant to the LBSF Collateral Agreement, if there is a Collateral Excess, LBFP shall release, at LBSF's request, an amount of Qualified LBSF Collateral with an aggregate Collateral Adjusted Value not greater than such Collateral Excess. Pursuant to the LBSF Collateral Agreement, if there is a Collateral Deficiency, LBSF shall deliver to the Custodian, by the close of business on the Collateral Posting Date, an amount of Qualified LBSF Collateral with an aggregate Collateral Adjusted Value not less than such Collateral Deficiency.

Pursuant to the LBSF Collateral Agreement, unless an amount of Qualified LBSF Collateral with an aggregate Collateral Adjusted Value equal to or greater than such Collateral Deficiency is received by the Custodian by 9:00 a.m. (New York

time) on the Business Day next succeeding the Collateral Posting Date, a Collateral Cure Period shall commence. LBFP shall immediately notify LBSF of the existence of a Collateral Cure Period. While a Collateral Cure Period exists, LBFP's business shall be limited to Qualified Hedges, which are designed to reduce the Valuation Adjustment Amount.

Pursuant to the LBSF Collateral Agreement, if an amount of Qualified LBSF Collateral with an aggregate Collateral Adjusted Value equal to or greater than such Collateral Deficiency is received by the Custodian by the close of business on the second Business Day next succeeding the Collateral Posting Date, the Collateral Cure Period shall be deemed to have ended. LBFP shall immediately notify LBSF that the Collateral Cure Period is no longer in effect. If an amount of Qualified LBSF Collateral with an aggregate Collateral Adjusted Value equal to or greater than such Collateral Deficiency is not received by the Custodian by the close of business on the second Business Day next succeeding the Collateral Posting Date, a Trigger Event shall be deemed to have occurred. On the same Business Day as a Trigger Event, the Independent Verifier shall be required to notify LBFP's Board of Directors, LBSF, the Contingent Manager, and the Rating Agencies.

### **7.0 Offsetting Hedge Collateral**

Pursuant to each Offsetting Hedge Collateral Agreement, LBSF shall deliver collateral to the extent required under such agreement as follows.

If on any Business Day, after giving effect to any payments to be made to or by LBFP on such day in respect of any transactions relating to any Identified STIR/LTIR Hedge, the Collateral Requirement exceeds the value of any Offsetting Hedge Collateral held by LBFP by Minimum Amount B or more, LBSF shall, upon notice by LBFP, deliver to LBFP sufficient Offsetting Hedge Collateral to cause the value of all Offsetting Hedge Collateral held by LBFP to be equal to the Collateral Requirement after giving effect to any payments made to or by LBFP on such day in respect of any transactions relating to any Identified STIR/LTIR Hedge.

If on any Business Day, after giving effect to any payments to be made to or by LBFP on such day in respect of any transactions relating to any Identified STIR/LTIR Hedge, the value of any Offsetting Hedge Collateral held by LBFP exceeds the Collateral Requirement by Minimum Amount A or more, LBFP shall promptly return to LBSF, Offsetting Hedge Collateral in an amount equal to such excess after giving effect to any payments made to or by LBFP on such day in respect of any transactions relating to any Identified STIR/LTIR Hedge.

Pursuant to each Offsetting Hedge Collateral Agreement, in the event that LBSF fails to deliver the required Offsetting Hedge Collateral, such failure shall constitute a Trigger Event following a two Business Day cure period.

### **8.0 Custodian**

LBFP shall be required to retain a Custodian. Pursuant to the Custody Agreement, the Custodian shall be required, at the time of entering into such agreement with LBFP, to have a short-term rating of at least P-1 by Moody's and A-1 by S&P.

If the short-term rating of the Custodian falls below P-1 by Moody's or A-1 by S&P, LBFP shall be required to replace the existing Custodian with a new qualified Custodian as soon as practicable within 90 Business Days.

All securities held by the Custodian on behalf of LBFP shall be held in a segregated account. All Qualified LBSF Collateral and Qualified Counterparty Collateral shall be held in the United States.

### **9.0 Contingent Manager**

LBFP shall be required at all times to retain a Contingent Manager. The Contingent Manager shall be a recognized derivatives dealer with a senior unsecured rating of at least A3 by Moody's and either a senior unsecured rating of at least A- or a short-term rating of at least A-1 by S&P. If the senior unsecured rating of the Contingent Manager falls below (i)

A3 by Moody's or (ii) A- or A-1 by S&P, LBFP shall be required to replace such Contingent Manager with a qualified Contingent Manager as soon as practicable within six months.

Provided that while a Management Period exists and the senior unsecured rating of the Contingent Manager falls below (i) A3 by Moody's or (ii) A- or A-1 by S&P, LBFP shall be required to replace such Contingent Manager with a qualified Contingent Manager as soon as practicable within three months.

### **10.0 Independent Verifier**

LBFP shall be required at all times to retain an Independent Verifier. The Independent Verifier shall be a recognized accounting firm with significant experience in derivative product matters.

The Independent Verifier shall perform the agreed-upon procedures set forth in Exhibit A to the Independent Verification Agreement and report its findings to LBFP's Board of Directors with a copy sent to the Rating Agencies on a monthly basis. Upon becoming aware of the occurrence of a Trigger Event, the Independent Verifier shall immediately notify LBFP's Board of Directors, LBSF, the Contingent Manager, and the Rating Agencies. LBFP shall cooperate fully with the Independent Verifier in order to facilitate the fulfillment of the Independent Verifier's responsibilities.

### **11.0 Services Period**

During a Services Period, the Contingent Manager shall maintain a familiarity with the business, systems and operations of LBFP and undertake all other activities it deems necessary to prepare for the provision of services during the Management Period. LBFP shall cooperate fully with the Contingent Manager in order to facilitate the fulfillment of the Contingent Manager's responsibilities.

During a Services Period, the Independent Verifier shall hold in escrow copies of transaction data and LBFP's risk management and operating systems in electronic form in order to prepare for the potential of a Management Period. During the Services Period, the Independent Verifier shall provide the Contingent Manager with information about LBFP's portfolio and with the Independent Verifier's weekly report.

### **12.0 Management Period**

Pursuant to the Contingent Management Agreement, during a Management Period, the Contingent Manager shall, subject to the oversight, direction and control by the Board of Directors, direct LBFP's employees, and in appropriate cases as expressly authorized in the Contingent Management Agreement, act directly as LBFP's agent, in accordance with the detailed policies reflected herein. Without limiting the generality of the foregoing sentence, during the Management Period the Contingent Manager shall (i) take all actions necessary or desirable to preserve the value of the LBFP Portfolio, which in the case of Qualified Transactions and Qualified Hedges shall mean that the Contingent Manager will act with the sole purpose of reducing market risks, including interest rate and foreign exchange risks. In preserving the value of the LBFP Portfolio, the Contingent Manager shall act as LBFP's agent or, in the sole discretion of the Contingent Manager, as a principal to LBFP. The Contingent Manager shall also advise LBFP as to the manner in which rights pertaining to LBFP Portfolio securities shall be exercised and (ii) provide LBFP with advice relating to the proper deployment of LBFP Qualified Capital Investments.

While a Management Period exists, the Independent Verifier shall (i) provide the Contingent Manager with all relevant systems information including transaction data and LBFP's risk management and operating systems in electronic form; (ii) verify continued compliance with LBFP's operating guidelines, and (iii) provide any other services as may be necessary to facilitate the transfer of activities to the Contingent Manager.

While a Management Period exists, LBFP shall be prohibited from entering into new transactions except for Qualified Hedges.

### 13.0 Offsetting Master Agreements Termination

Pursuant to the Offsetting Transaction Master Agreement and the Offsetting Hedge Master Agreement, the LBSF Collateral Agreement and the Offsetting Hedge Collateral Agreement shall constitute Credit Support Documents as defined in both the Offsetting Transaction Master Agreement and the Offsetting Hedge Master Agreement. As Credit Support Documents, any failure by either party to comply with or perform any obligation with respect to such Credit Support Documents constitutes an Event of Default under section 5(a)(iii) of both the Offsetting Transaction Master Agreement and the Offsetting Hedge Master Agreement following a two Business Day grace period.

Upon the occurrence of a Trigger Event, the Non-defaulting Party shall immediately notify the Defaulting Party and exercise its right to designate an Early Termination Date under section 6(a) of both the Offsetting Transaction Master Agreement and the Offsetting Hedge Master Agreement. If the Non-defaulting Party is LBFP, LBFP shall designate the Early Termination Date on a Business Day not earlier than the date that LBFP in consultation with the Contingent Manager determines that the portfolio is adequately hedged, but in no event more than 11 Business Days following the date of such Trigger Event.

The termination amount with respect to the Offsetting Transactions and Offsetting Hedges with LBSF shall be determined pursuant to section 6(e) of either or both the Offsetting Transaction Master Agreement or the Offsetting Hedge Master Agreement. Pursuant to the LBSF Collateral Agreement and the Custody Agreement, if such termination amount is payable to LBFP, LBFP shall be entitled to realize upon collateral, held by the Custodian for the benefit of LBFP, in an amount equal to the termination amount. Pursuant to the Intermediation Agreement, if such termination amount is payable to LBSF, LBFP shall be required to make such payment as soon as practicable but in no event later than 18 months following such Early Termination Date.

### 14.0 Capital

LBFP's Capital Resources shall be invested in Qualified Capital Investments. No more than 20% of LBFP's Capital Resources shall be invested in obligations (corporate debt securities or Short-Term Securities) issued or guaranteed by any one obligor. Further, no more than 20% of LBFP's Capital Resources shall be invested in Qualified Capital Investments rated A-1 by S&P. The maturity of Qualified Capital Investments shall be restricted as specified in Exhibit C. In the event that a previously Qualified Capital Investment is no longer a Qualified Capital Investment, LBFP shall liquidate, as soon as practicable, such investment and reinvest the proceeds in a Qualified Capital Investment. For the purpose of determining the market value of LBFP's Capital Resources, a previously Qualified Capital Investment will be valued at its then current market value on the first Capital Requirement Date following the date such previously Qualified Capital Investment ceased to be a Qualified Capital Investment and shall be deemed to have zero value thereafter

Commencing 12 months after entering into the first Qualified Transaction (or when the notional amount of LBFP's portfolio exceeds \$25 billion, whichever comes first), LBFP shall run the Credit Model (see Exhibit M) (a) quarterly, while (i) the short-term rating of Holdings is rated at least P-1 by Moody's and A-1 by S&P, and (ii) the rating of LBFP is rated at least Aaa by Moody's and AAA by S&P, and (iii) the Capital Requirement is less than or equal to 85% of LBFP's capital; or

(b) monthly, while (i) the short-term rating of Holdings is rated lower than P-1 by Moody's or A-1 by S&P but not lower than P-2 by Moody's or A-2 by S&P, or (ii) the rating of LBFP is rated lower than Aaa by Moody's or AAA by S&P, but not lower than Aa3 by Moody's or AA- by S&P, or (iii) the Capital Requirement is greater than 85%, but less than or equal to 95% of LBFP's capital, or

(c) weekly, while (i) the short-term rating of Holdings is rated lower than P-2 by Moody's or A-2 by S&P, or (ii) the rating of LBFP is rated lower than Aa3 by Moody's or AA- by S&P, or (iii) the Capital Requirement is greater than 95% of LBFP's capital, LBFP shall run the Credit Model weekly.

In each of the subsequent runs, the input parameters to the Credit Model will be based on then-current market conditions and LBFP's then-current portfolio as specified in Exhibit M. If the output of the Credit Model exceeds 85% of Capital

Resources, LBFP will be restricted to Qualified Hedges, Credit-Risk Reducing Transactions and Zero Exposure Transactions.

On each Capital Requirement Date, LBFP shall determine the market value of LBFP's Capital Resources and the Capital Requirement as of such Capital Requirement Date. LBFP shall use its best efforts to maintain Capital Resources at least equal to the Capital Requirement. In the event LBFP's Capital Resources are less than the Capital Requirement, LBFP shall have 30 Business Days to cure such Capital Resource deficiency. In the event LBFP's Capital Resources are less than the Capital Requirement, LBFP shall notify the Rating Agencies, on such day, of such Capital Resource deficiency and any subsequent cure. During such cure period, LBFP shall be prohibited from entering into any new transactions, except Qualified Hedges. Such cure period shall no longer exist and such restrictions shall no longer apply if LBFP runs the Credit Model during such cure period and it is determined that LBFP's Capital Resources are at least equal to the then current Capital Requirement. In the event that such Capital Resource deficiency is not cured within the 30-day cure period, LBFP shall be permanently prohibited from entering into any new transactions, except Qualified Hedges, regardless of

### **15.0 Liquidity**

Commencing 3 months after entering into the first Qualified Transaction, LBFP shall run the Liquidity Model (see Exhibit N) (a) quarterly, while (i) the short-term rating of Holdings is rated at least P- 1 by Moody's and A-1 by S&P, and (ii) the rating of LBFP is rated at least Aaa by Moody's and AAA by S&P, and (iii) the Liquidity Ratio is less than or equal to .85, or (b) monthly, while (i) the short-term rating of Holdings is rated lower than P-1 by Moody's or A-1 by S&P but not lower than P-2 by Moody's or A-2 by S&P, or (ii) the rating of LBFP is rated lower than Aaa by Moody's or AAA by S&P, but not lower than Aa3 by Moody's or AA- by S&P, or (iii) the Liquidity Ratio is greater than .85, but less than or equal to .95; or (c) weekly, while (i) the short-term rating of Holdings is rated lower than P-2 by Moody's or A-2 by S&P, or (ii) the rating of LBFP is rated lower than Aa3 by Moody's or AA- by S&P, or (iii) the Liquidity Ratio is greater than .95.

In each of the subsequent runs, the input parameters to the Liquidity Model will be based on then-current market conditions and LBFP's then-current portfolio as specified in Exhibit N

On each Liquidity Ratio Calculation Date, LBFP shall determine the value of LBFP's Liquidity Resources and the Liquidity Requirement as of the preceding Liquidity Cut-Off Date. LBFP shall use its best efforts to maintain Liquidity Resources at least equal to the Liquidity Requirement. In the event that the Liquidity Resources are less than the Liquidity Requirement, LBFP shall correct the shortfall within two Business Days of the Liquidity Ratio Calculation Date. If it fails to do so, then LBFP's trading activities shall be restricted to transactions and hedges which are designed to increase liquidity as determined by the Liquidity Model and the Independent Verifier shall be required to immediately notify LBFP's Board of Directors and the Rating Agencies after the end of the second Business Day following the Liquidity Ratio Calculation Date.

In addition to the foregoing, LBFP shall run the Daily Liquidity Model (Exhibit N) while the short-term rating of Holdings is rated lower than P-1 by Moody's or A-1 by S&P. On each Business Day, the Daily Liquidity Ratio shall be calculated as of the close of the preceding Business Day. If the Daily Liquidity Ratio exceeds 90%, LBFP shall reduce the ratio on a best efforts basis until it is less than 90%. In the event that the Daily Liquidity Resources are less than the Daily Liquidity Requirement, LBFP shall remedy the condition within two Business Days. If LBFP fails to remedy the condition within two Business Days, then LBFP's trading activities shall be restricted to liquidity enhancing trades as determined by the Daily Liquidity Model until such time as the condition has been cured.

Notwithstanding the preceding paragraph, LBFP shall not run the Daily Liquidity Model as of the dates occurring during the period beginning on the Liquidity Cut-Off Date, and ending on the Liquidity Ratio Calculation Date.

### **16.0 Documentation Policy**

LBFP shall utilize the Qualified Counterparty Master Agreement for all Qualified Transactions. LBFP shall execute, on a best efforts basis, such Qualified Counterparty Master Agreement before entering into any Qualified Transaction. Upon the execution of a Qualified Transaction, LBFP shall send a confirmation to a Qualified Counterparty as soon as practicable but in no event later than the second Business Day after the trade date of such transaction.

All Qualified Counterparties shall be directed to sign and return the confirmation to LBFP promptly. LBFP shall be prohibited from making payments, including initial or reset, to a Qualified Counterparty until a Long-Form Confirmation for such Qualified Transaction is signed and returned to LBFP or a Qualified Counterparty Master Agreement has been executed with such Qualified Counterparty.

Notwithstanding the foregoing, LBFP may enter into Zero Exposure Transactions with Zero Exposure Counterparties without a Qualified Counterparty Master Agreement or a Long-Form Confirmation.

LBFP shall execute a repurchase/reverse repurchase (PSA) agreement and a futures (FCM) agreement before entering into any Qualified Hedge. Upon the execution of a Qualified Hedge, LBFP shall send or sign a confirmation for such Qualified Hedge as soon as practicable but in no event later than the second Business Day after the trade date of such hedge.

LBFP shall utilize the Offsetting Transaction Master Agreement and the Offsetting Hedge Master Agreement for all Offsetting Transactions and Offsetting Hedges with LBSF, respectively. Upon the execution of an Offsetting Transaction or an Offsetting Hedge, LBFP shall send a confirmation or commercially reasonable systems outputs (in the case of an Offsetting Hedge) to LBSF as soon as practicable but in no event later than the second Business Day after the trade date of such transaction.

## **17.0 Board of Directors**

LBFP's Board of Directors shall consist of up to 12 directors, of which at least two directors shall be Independent Directors.

Pursuant to LBFP's By-Laws, dividends may be declared by LBFP's Board of Directors at any regular meeting, at any special meeting, or by unanimous written consent. Dividends shall only be paid to the extent that such payment of dividends would not cause (i) LBFP's capital to fall below the Capital Requirement based on a run of the Credit Model not earlier than five Business Days prior to the dividend declaration or (ii) LBFP's Liquidity Resources to fall below the Liquidity Requirement based on a run of the Liquidity Model not earlier than five Business Days prior to the dividend declaration. Further, dividends shall be paid only from current income and retained earnings. No dividends shall be paid during the existence of a Collateral Cure Period.

## **18.0 Amendment Procedure**

The operating guidelines set forth herein may only be amended by an action of a majority of LBFP's Board. Such majority of the Board shall include a majority of the required number of Independent Directors. However, if LBFP has not received disapproval of such proposed amendment from either S&P or Moody's within ten Business Days of notification of such proposed amendment, then adoption of such amendment shall require only the consent of a majority of the members of the Board.

Notwithstanding the foregoing, if and only if (i) LBFP determines that the proposed amendment is desirable and not material to the overall operations of LBFP, and (ii) Neither S&P nor Moody's disapproves of such proposed amendment within ten Business Days of notification of such proposed amendment, then LBFP may implement such amendment and subsequently seek ratification to continue such amendment, in accordance with the procedural requirements set forth above, at the next regularly scheduled meeting of the Board.

In addition to the foregoing, LBFP will notify the Contingent Manager of all material changes to the Operating Guidelines and its consent will be required to any material amendments relating to Qualified Transactions, hedging standards, credit standards, collateral requirements, capital, systems, or other significant aspects of LBFP's business or operations. The Contingent Manager will be deemed to have consented to any such material change of which it has been notified if LBFP does not receive the Contingent Manager's disapproval within 10 days following LBFP's written notification.

### 19.0 Notices

LBFP shall notify the Rating Agencies and relevant parties of any amendments to the Operating Agreements (in the case of the Qualified Counterparty Master Agreement and the Qualified Counterparty Collateral Agreement, to the form of the agreement) in a timely manner consistent with the requirements set forth herein.

Any notice shall be sufficiently given to a party if in writing and delivered in person, sent by recorded delivery or registered post or the equivalent (with return receipt requested) or by courier or given by facsimile transmission, at the address or fax number set forth below or to such other address or fax number as shall be set forth in writing by one party to the other.

If to LBFP:                   Lehman Brothers Financial Products Inc.  
3 World Financial Center  
New York, New York 10285-1200  
Attention: President  
Telephone: 212-526-6696  
Fax: 212-526-1241

If to LBSF.                   Lehman Brothers Special Financing Inc.  
3 World Financial Center  
New York, New York 10285-0009  
Attention: Head of Interest Rate Products Trading  
Telephone: 212-526-6600  
Fax: 212-526-1241

If to Independent           Ernst & Young  
Verifier:                   787 Seventh Avenue  
New York, New York 100 19  
Attention: LBFP Manager  
Telephone: 212-773-2252  
Fax: 212-773-1126

If to Custodian:           The Chase Manhattan Bank  
4 New York Plaza  
New York, New York 10004  
Attention: Brokers & Dealers Clearance Department  
Telephone: 212-623-7219  
Fax: 212-623-5959

If to Moody's:             Moody's Investors Service  
99 Church Street, 4th floor  
New York, New York 10007  
Attention: Derivatives Monitoring Group  
Telephone: 212-553-1037  
Fax: 212-553-0355

If to S&P .....Standard & Poor's

55 Water Street  
New York NY 10041

.....Attention: Derivative Products Group  
.....Telephone: 212-438-2000  
.....Fax: 212-438-2000

## SCHEDULE OF DEFINITIONS

**"Affected Party"** has the meaning specified in the section 5(b) of the Qualified Counterparty Master Agreement, Offsetting Transaction Master Agreement, and Offsetting Hedge Master Agreement, as applicable.

**"Agency Agreement"** means the Agency Agreement between LBFP and Lehman Brothers International (Europe), dated July 19, 1994 and the Agency Agreement between LBFP and Lehman Brothers Japan Inc., dated July 19, 1994, each as amended or modified from time to time, under which each of the LBFP Agents will act as LBFP's exclusive agent during the time periods and for the geographical territories set forth therein.

**"Aggregate Concentration"** means (A) with respect to Moody's, the sum of the notional amount of all Qualified Transactions based on any Specified Approved Index divided by the sum of the notional amount of all Qualified Transactions in the portfolio and (B) with respect to S&P, the sum of the absolute value of the gross negative and the gross positive exposures of all Qualified Transactions based on any Specified Approved Index divided by the sum of the absolute value of the gross negative and the gross positive exposures of all Qualified Transactions in the portfolio. *[ratio of total non-generic index transactions to total transactions]*

**"Aggregate Exposure Amount"** means, for any Business Day, the absolute value of the negative amount, if any, equal to the sum of the Exposure Amount on such day for each of the Collateralized Offsetting Hedges. *[measure of total mark-to-market on short-term offsetting hedges]*

**"Aggregate Fixed Collateral Requirement"** means the sum of the Fixed Collateral Requirement for each of the Collateralized Offsetting Hedges. *[total amount of collateral required on short-term offsetting hedges]*

**"Approved Counterparty"** means any entity, not meeting the requirements of an Eligible Counterparty, that is (A) either (i) a Moody's Eligible Counterparty or (ii) approved by Moody's in writing and (B) either (iii) a S&P Eligible Counterparty or (iv) approved by S&P in writing.

**"Approved Currency"** means any one or combination of the currencies specified in Exhibit D.

**"Approved Index"** means any one or combination of the indices specified in Exhibit E

**"Approved Structure"** means (i) Swap Transaction, (ii) Option Transaction or (iii) Compound Transaction, and with respect to Qualified Hedges, repurchase agreements, reverse repurchase agreements, and exchange traded futures and options listed in Exhibits D & E .

**"Assignment Date"** has the meaning specified for such term in section 5.0 herein.

**"Assignment Threshold Rating"** means (A) with respect to a Moody's (i) long-term senior unsecured debt rating, counterparty rating, or long-term deposit-paying rating, Baa3; (ii) financial strength rating, Baa2; or (iii) if (A)(i) and (A)(ii) are not available, commercial paper rating or short-term rating, P-3 and (B) with respect to a S&P (i) long-term senior unsecured debt rating, financial programs rating, or certificate of deposit rating, BBB-; (ii) claims-paying ability rating, BBB; or (iii) if (B)(i) and (B)(ii) are not available, commercial paper rating or short-term rating, A-2.

**"Basic Collateral Amount"** means any applicable amount specified as such in any Offsetting Hedge Collateral Agreement.

**"Board" or "Board of Directors"** means LBFP's Board of Directors as specified in LBFP's Certificate of Incorporation, dated July 19, 1994 and Corporate records.

**"Business Day"** means any day other than a Saturday or Sunday on which banks in New York are not required or authorized by law to be closed.

**"Capital Requirement"** means an amount calculated as specified in Exhibit F.

**"Capital Requirement Date"** means each Wednesday, or if such day is not a Business Day, the next succeeding Business Day.

**"Capital Resources"** means the sum of (i) LBFP's Stockholder's Equity (Capital Stock, Additional Paid-In Capital, and Retained Earnings), as reported on its balance sheet for the month-end immediately preceding the relevant Capital Requirement Date, and (ii) the balance of LBFP's deferred intermediation fees, outstanding on the Capital Requirement Date, and reduced for income taxes at the combined federal, state and local tax rates in effect for LBFP as of the month-end immediately preceding the relevant Capital Requirement Date.

**"Collateral Adjusted Value"** means the Collateral Market Value of a security multiplied by the appropriate Collateral Discount Factor plus accrued interest.

**"Collateral Cure Period"** means the period commencing when LBFP or the Independent Verifier notifies LBSF and the Independent Verifier of the existence of a Collateral Cure Period and ending on the earlier of (i) the close of business on the second Business Day next succeeding the Collateral Posting Date, or (ii) when LBFP or the Independent Verifier notifies LBSF that the Collateral Cure Period has ceased to be in effect.

**"Collateral Deficiency"** means the amount that is equal to (A) the Collateral Formula Amount less (B) the Collateral Adjusted Value of Qualified LBSF Collateral, if greater than zero.

**"Collateral Discount Factor"** means (A) with respect to Qualified LBSF Collateral (i) 100% for Eligible Cash, and (ii) the percentage adjustment for a given type of security with a given remaining maturity, as specified in Exhibit H; (B) with respect to (i) Counterparty Collateral posted by a Qualified Counterparty domiciled in a country specified in Exhibit G (i) 100% for Eligible Cash, and (ii) the percentage adjustment for a given type of security with a given remaining maturity, as specified in Exhibit H, and (C) with respect to Qualified Counterparty Collateral posted by a Qualified Counterparty domiciled in a country not specified in Exhibit G, 0%.

**"Collateral Excess"** means the amount that is equal to (A) the Collateral Formula Amount less (B) the Collateral Adjusted Value of Qualified LBSF Collateral, if less than zero, expressed as a positive amount.

**"Collateral Formula Amount"** means the positive part if any, of the sum of (i) the Net Exposure Amount, (ii) the Spread Adjustment Amount, and (iii) the Valuation Adjustment Amount *[total amount of collateral required to cover actual and potential exposure to LBSF]*

**"Collateral Market Value"** means the fair market price of a security constituting Qualified LBSF Collateral or Qualified Counterparty Collateral, as applicable.

**"Collateral Posting Date"** means the Business Day next succeeding each Collateral Valuation Date.

**"Collateral Requirement"** means, on any Business Day, the positive amount, if any, equal to the greater of (i) the sum of the Aggregate Fixed Collateral Requirement and the Aggregate Exposure Amount and (ii) the sum of the Aggregate Fixed Collateral Requirement, the Basic Collateral Amount, the Aggregate Exposure Amount, and the net Payment Adjustment Payment Amount.

**"Collateral Valuation Date"** means each Wednesday, or if such day is not a Business Day, the next succeeding Business Day.

**"Collateralized Offsetting Hedge"** means any Offsetting Hedge entered into between LBFP and LBSF pursuant to the Offsetting Hedge Master Agreement under the form of the STIR/LTIR Confirmation.

**"Compound Transaction"** means a structure in which a specified premium or other value is paid in exchange for the right to enter into, terminate, or cash settle a Swap Transaction or an Option Transaction, or any combination thereof, on a specified date or on any date during a specified period. With respect to premium, "specified" means a stated amount or an amount determined according to a schedule.

**"Concentration Limit"** means any one of the limits for a Specified Approved Index or Indices as specified in Exhibit 1.

**"Contingent Manager"** means Dresdner Bank, AG., initially.

**"Counterparty Excess Exposure"** means, with respect to each Qualified Counterparty Group, the greater of (i) the Counterparty Group Exposure minus the Counterparty Group Exposure Limit-, or (ii) zero.

**"Counterparty Gross Exposure"** means the sum of all positive exposures under a single Qualified Counterparty Master Agreement or Qualified Hedge Agreement for a given Qualified Counterparty, less the Collateral Adjusted Value of any Qualified Counterparty Collateral posted by such Qualified Counterparty pursuant to the Qualified Counterparty Collateral Agreement as applicable. For the purpose of calculating the Counterparty Gross Exposure, the market value of any Qualified Capital Investment in a counterparty's securities shall be added to such counterparty's Counterparty Gross Exposure.

**"Counterparty Group Exposure"** means the sum of the (i) positive Counterparty Net Exposure for each Qualified Counterparty in Category I, if any, and (ii) the Counterparty Gross Exposure for each Qualified Counterparty in Category 11, if any, for all Qualified Counterparties within a Qualified Counterparty Group.

**"Counterparty Group Exposure Limit"** means the limits specified below based on Counterparty Group Ratings.

Counterparty Group Exposure Limits

		Counterparty Group Ratings	
Moody's		S&P	
Aaa		AAA	\$175 million
Aa		AA	\$ 100 million
A/P-1/P-2/Approved	A/A-1 +/A- 1 /Approved		\$ 50 million
Baa/P-3		BBB/A-2	\$ 25 million
Unrated/below Baa/P-3	Unrated/below BBB/A-2		zero

**"Counterparty Group Rating"** means for a Qualified Counterparty Group, (A) with respect to Moody's, the lowest Moody's Counterparty Rating for a Qualified Counterparty in such Qualified Counterparty Group and (B) with respect to S&P, the lowest S&P Counterparty Rating for a Qualified Counterparty in such Qualified Counterparty Group.

**"Counterparty Net Exposure"** means the sum of all positive and negative exposures under each Qualified Counterparty Master Agreement or Qualified Hedge Agreement for a given Qualified Counterparty aggregated on a gross basis, less the Collateral Adjusted Value of any Qualified Counterparty Collateral posted by such Qualified Counterparty pursuant to the Qualified Counterparty Collateral Agreement as applicable. For the purpose of calculating the Counterparty Net Exposure, the market value of any Qualified Capital Investment in a counterparty's securities shall be added to such counterparty's Counterparty Net Exposure.

**"Counterparty Rating"** means for each Qualified Counterparty, (A) with respect to Moody's, the highest of such counterparty's (i) long-term senior unsecured debt rating, (ii) counterparty rating, (iii) long-term deposit-paying rating, (iv) financial strength rating, lowered by one numeric rating modifier, (v) if (i) through (iv) are not available, commercial paper rating or short-term rating or (vi) if the Counterparty is not rated by Moody's and is rated by S&P, one subcategory below the Moody's equivalent of the rating assigned by S&P, or at the option of LBFP, the rating that is assigned by Moody's upon request for a Credit Analysis, and (B) with respect to S&P, the highest of such counterparty's (i) long-term senior unsecured debt rating, (ii) financial programs rating, (iii) certificate of deposit rating, (iv) claims-paying ability rating, lowered by one rating modifier, (v) if (i) through (iv) are not available, commercial paper rating or short-term rating or (vi) if the Counterparty is not rated by S&P and is rated by Moody's, one subcategory below the S&P equivalent of the rating assigned by Moody's, or at the option of LBFP, the rating that is assigned by S&P upon request for a Credit Analysis. A counterparty which is guaranteed will be deemed to have the Counterparty Rating of its guarantor if the guarantee is in a form acceptable to LBFP and is either:

- (i) substantially in the form in Exhibit B; or
- (ii) another guarantee or form of guarantee which is not disapproved by either S&P or Moody's within ten Business Days of presentation of such guarantee to the rating agencies.

**"Country Exposure"** means (i) for countries in which LBFP has retained a Netting Agent, the sum of Counterparty Net Exposures of all Qualified Counterparties domiciled in a Qualified Country and (ii) for countries in which LBFP has not retained a Netting Agent, the sum of positive Counterparty Net Exposures of all Qualified Counterparties domiciled in a Qualified Country.

**"Country Exposure Limit"** means the following limits based on a Qualified Country's sovereign foreign currency long-term debt rating.

Country Exposure Limits

Rating	Limit
Aa/AA	\$ 100 million
A/A	\$ 67 million
Baa/BBB	\$ 50 million
below Baa/BBB	zero

**"Credit Model"** means the LBFP computer-based model, used to determine one of the components of the Capital Requirement as specified in Exhibit M.

**"Credit-Risk Reducing Transaction"** means with respect to an existing counterparty, a transaction that when added to such counterparty's existing transactions results in a lower maximum potential exposure.

**"Custodian"** means, initially, The Chase Manhattan Bank, formerly known as Chemical Bank N.A.

**"Custody Agreement"** means the Custody Agreement, dated July 19, 1994, between LBFP and the Custodian, as such agreement may be amended or modified from time to time.

**"Daily Liquidity Model"** means the LBFP computer-based model, used to determine the Daily Liquidity Requirement as specified in Exhibit N

**"Daily Liquidity Ratio"** means the fraction resulting from dividing the Daily Liquidity Requirement by the Daily Liquidity Resources, expressed as a decimal.

**"Daily Liquidity Resources"** means the sum, expressed as a dollar amount, of the value of the items listed as Daily Liquidity Resources in Exhibit N.

**"Daily Liquidity Requirement"** means the output, expressed as a dollar amount, of the most recent run of the Daily Liquidity Model pursuant to section 15.0 herein.

**"Defaulting Party"** has the meaning specified in the Qualified Counterparty Master Agreement, Offsetting Transaction Master Agreement, and Offsetting Hedge Master Agreement.

**"Early Termination Date"** shall have the meaning specified in the Qualified Counterparty Master Agreement, Offsetting Transaction Master Agreement, and Offsetting Hedge Master Agreement. *[the date all Offsetting Transactions and Offsetting Hedges terminate following a Trigger Event]*

**"Eligible Cash"** means the legal tender of the United States, or with respect to Offsetting Hedge Collateral, all Approved Currencies.

**"Eligible Counterparty"** means any entity (A) whose (i) long-term senior unsecured debt rating, counterparty rating, or long-term deposit-paying rating, if rated by Moody's, is rated A3 or above by Moody's; (ii) financial strength rating, if rated by Moody's, is rated A2 or above by Moody's; or (iii) commercial paper rating or short-term rating, if rated by Moody's, is rated P-1 or above by Moody's, ("Moody's Eligible Counterparty") and (B) whose (i) long-term senior unsecured debt rating, financial programs rating, or certificate of deposit rating, if rated by S&P, is rated A- or above by S&P; (ii) claims-paying ability rating, if rated by S&P, is rated A or above by S&P; or (iii) commercial paper rating or short-term rating, if rated by S&P, is rated A-1 or above by S&P, ("S&P Eligible Counterparty"). Notwithstanding the foregoing, if an entity is itself unrated by either S&P or Moody's, but is supported by an arrangement satisfactory to LBFP's management such as a guarantee, a keepwell agreement, or another recognized form of credit support from an entity meeting the criteria set forth in (A)(i), (ii), and (iii) above, then LBFP may treat the unrated entity as an "Eligible Counterparty" as though it had the same rating which S&P or Moody's had assigned to the supporting entity.

**"Eligible Non-Assignable Counterparty"** means a counterparty specified in Exhibit J not subject to assignment to LBSF.

**"Exotic Product"** means, initially, index amortizing transactions. The total notional of Exotic Products shall not exceed 10% of LBFP's total portfolio notional. The total notional of any one Exotic Product shall not exceed 50% of the total Exotic Product limit, or 5% of LBFP's total portfolio notional.

**"Exposure Amount"** means, for a given Collateralized Offsetting Hedge on any Business Day, any applicable amount, positive or negative, determined in good faith by LBFP on such Business Day, equal to the aggregate, positive or negative, of fair market values of all Identified STIR/LTIR Hedges relating to such Collateralized Offsetting Hedge as of the close of business on such Business Day minus the aggregate, positive or negative, of the purchase and sale prices for such Identified STIR/LTIR Hedges, provided however, that Identified STIR/LTIR Hedges which were held by LBFP as of the close of business on the Business Day preceding the most recent Payment Date, if any, in respect of such Collateralized Offsetting Hedge will be deemed to have been purchased (in the case of a long position) or sold (in the case of a short position, as of the close of business on the Business Day preceding such Payment Date at their fair market value as determined by the Calculation Agent (as defined in the related STIR/LTIR Confirmation) for such preceding day *[measure of mark-to-market on each short-term offsetting hedge]*

**"Fixed Collateral Requirement"** means, for a given Collateralized Offsetting Hedge on any Business Day, any applicable amount specified as such in the STIR/LTIR Confirmation, provided however, that LBFP may increase the Fixed Collateral Requirement with respect to any Collateralized Offsetting Hedge where it believes that reasonable grounds for insecurity arise with respect to the performance of LBSF in respect of such Collateralized Offsetting Hedge as a result of prevailing market conditions, provided further, that LBSF may request that LBFP decrease the Fixed Collateral Requirement from the applicable amount specified in the STIR/LTIR Confirmation with respect to any Collateralized Offsetting Hedge, which request shall be granted by LBFP if such decrease would not provide LBFP with reasonable grounds for insecurity with respect to the performance of LBSF on such Collateralized Offsetting Hedge in light of prevailing market conditions. *[the amount of collateral required on each short-term offsetting hedge]*

**"Guaranteed Investment Contract"** means a contract to receive a pre-determined rate of return from an entity rated AAA by S&P and Aaa by Moody's.

**"Holdings"** means Lehman Brothers Holdings Inc

**"Identified STIR/LTIR Hedge"** has the meaning assigned to such term in the STIR/LTIR Confirmation.

**"Independent Director"** means a director who is not and has not been within the past 12 months a director, officer, employee or beneficial owner of 10% or more of the stock of any affiliate of LBFP.

**"Independent Verification Agreement"** means the Independent Verification Agreement, dated July 19, 1994, between LBFP and the Independent Verifier, as such agreement may be amended or modified from time to time.

**"Independent Verifier"** means, initially, Ernst & Young.

**"Index Concentration"** means, for each of the Specified Approved Indices, (A) with respect to Moody's, the sum of the notional amount of all Qualified Transactions based on a given Specified Approved Index divided by the sum of the notional amount of all Qualified Transactions in the portfolio and (B) with respect to S&P, the sum of the absolute value of the gross negative and the gross positive exposures of all Qualified Transactions based on such Specified Approved Index divided by the sum of the absolute value of the gross negative and the gross positive exposures of all Qualified Transactions in the portfolio. *[for each non-generic index, the ratio of transactions based on a given non-generic index to total transactions]*

**"Intermediation Agreement"** means the Intermediation Agreement, dated July 19, 1994, between LBFP and LBSF, as such agreement may be amended or modified from time to time.

**"LBFP"** means Lehman Brothers Financial Products Inc., a corporation organized under the laws of the state of Delaware.

**"LBFP Agent"** means any person authorized to bind LBFP with respect to Qualified Transactions as specified in any of the Agency Agreements.

**"LBFP Business Day"** means a Business Day commencing with the standard opening of business in Tokyo and ending with the standard closing of business in New York.

**"LBSF"** means Lehman Brothers Special Financing Inc., a corporation organized under the laws of the state of Delaware.

**"LBSF Collateral Agreement"** means the LBSF Collateral Agreement, dated July 19, 1994, between LBFP and LBSF, as such agreement may be amended or modified from time to time. *[agreement governing collateral required to cover actual and potential exposure to LBSF]*

**"Liquidity Cut-Off Date"** means the Business Day at the close of which LBFP's portfolio and market parameters for the Liquidity Requirement calculation are frozen, and Liquidity Resources are measured.

**"Liquidity Model"** means the LBFP computer-based model, used to determine the Liquidity Requirement as specified in Exhibit N.

**"Liquidity Ratio"** means the fraction resulting from dividing the Liquidity Requirement by the Liquidity Resources, expressed as a decimal

**"Liquidity Ratio Calculation Date"** means the fourth calendar day or the first Business Day thereafter, following the Liquidity Cut-Off Date.

**"Liquidity Resources"** means the sum, expressed as a dollar amount, of the value of the items listed as Liquidity Resources in Exhibit N.

**"Liquidity Requirement"** means the output, expressed as a dollar amount, of the most recent run of the Liquidity Model pursuant to section 15.0 herein.

**"Long-Form Confirmation"** means the Long-Form Confirmation between LBFP and a Qualified Counterparty, which shall be in the form set forth as an exhibit to the Intermediation Agreement.

**"Management Period"** means the period during which the short-term rating of Holdings is rated lower than P-2 by Moody's or A-2 by S&P, or following a Trigger Event.

**"Minimum Amount A"** has the meaning assigned to it in Schedule C of the Offsetting Hedge Collateral Agreement. *[threshold amount for determining movement of collateral from LBFP to LBSF for short-term offsetting hedges]*

**"Minimum Amount B"** has the meaning assigned to it in Schedule C of the Offsetting Hedge Collateral Agreement. *[threshold amount for determining movement of collateral from LBSF to LBFP for short-term offsetting hedges]*

**"Moody's"** means Moody's Investors Service Inc.

**"Moody's Eligible Counterparty"** has the meaning set forth in the definition of "Eligible Counterparty" herein.

**"Net Exposure Amount"** means an amount equal to LBFP's net exposure to LBSF based on mid-market valuation of all transactions under the Offsetting Transaction Master Agreement and the Offsetting Hedge Master Agreement.

**"Netting Agent"** means an entity which has agreed to make and receive payments in currencies within countries after the imposition of foreign exchange controls

**"Non-defaulting Party"** has the meaning specified in the both the Offsetting Transaction Master Agreement and the Offsetting Hedge Master Agreement.

**"Offsetting Hedge"** means a transaction consisting of an Approved Structure between LBFP and LBSF, pursuant to the Offsetting Hedge Master Agreement.

**"Offsetting Hedge Collateral"** means (i) Eligible Cash or (ii) U.S. Government Security.

**"Offsetting Hedge Collateral Agreement"** means collectively and individually, the Offsetting Hedge Collateral Agreement (U.S. Dollars), dated July 19, 1994, between LBFP and LBSF, and each of any other Offsetting Collateral Agreements LBFP and LBSF may enter into from time to time with respect to obligations under the Offsetting Hedge Master Agreement that are denominated in currencies other than U.S. dollars, as each such agreement may be amended or modified from time to time.

**"Offsetting Hedge Master Agreement"** means the Offsetting Hedge Master Agreement, dated July 19, 1994, between LBFP and LBSF, as such agreement may be amended or modified from time to time.

**"Offsetting Transaction"** means a transaction consisting of an Approved Structure between LBFP and LBSF, pursuant to the Offsetting Transaction Master Agreement.

**"Offsetting Transaction Master Agreement"** means the Offsetting Transaction Master Agreement, dated July 19, 1994, between LBFP and LBSF, as such agreement may be amended or modified from time to time.

**"Operating Agreements"** means the Administration Agreement, Agency Agreements, Contingent Management Agreement, Custody Agreement, Independent Verification Agreement, Intermediation Agreement, LBSF Collateral Agreement, Offsetting Hedge Collateral Agreement, Offsetting Hedge Master Agreement, Offsetting Transaction Master Agreement, Operating Guidelines, Operating Procedures, Qualified Counterparty Collateral Agreement, and Qualified Counterparty Master Agreement.

**"Option Transaction"** means an option in which a specified premium or other value is paid for the right to receive one of or any combination of specified payments denominated in an Approved Currency, determined by reference to the level of an Approved Index and/or an Approved Currency above or below a specified level on a specified date, dates or on any date during a specified period, as applied to a specified notional amount. With respect to premium, payment and notional amount, "specified" means a stated amount or an amount determined according to a formula or schedule

**"Qualified Capital Investment"** means (i) Eligible Cash, (ii) U.S. Government Security, (iii) debt issued by an agency or an instrumentality of the U.S. Government rated AAA by S&P and Aaa by Moody's, (iv) corporate debt security rated AAA by S&P and Aaa by Moody's, (v) Short-Term Security, or (vi) Reverse Repurchase Agreement; provided however, that IO's, PO's, mortgage-backed securities, and swap transactions (as defined in the Bankruptcy Code) are not Qualified Capital Investments.

**"Qualified Counterparty"** means (i) Eligible Counterparty, (ii) Approved Counterparty, (iii) Unrated Counterparty or (iv) Eligible Non-Assignable Counterparty; provided, however, that an existing counterparty with a Counterparty Rating lower than the minimum rating required for an Eligible Counterparty but higher than the Assignment Threshold Rating, shall be considered a Qualified Counterparty for the purpose of calculating exposures, but not for the purpose of entering into new transactions.

**"Qualified Counterparty Collateral"** means (i) Eligible Cash, (ii) U.S. Government Security, (iii) debt issued by an agency or an instrumentality of the U.S. Government rated AAA by S&P and Aaa by Moody's, or (iv) Short-Term Security, pledged by a Qualified Counterparty,

**"Qualified Counterparty Collateral Agreement"** means the collateral agreement between LBFP and a Qualified Counterparty as applicable.

**"Qualified Counterparty Group"** means one or more Qualified Counterparties, whose rating or ratings are derived from, dependent on, or guaranteed by a member of such Qualified Counterparty Group.

**"Qualified Counterparty Master Agreement"** means the Qualified Counterparty Master Agreement between LBFP and a Qualified Counterparty, which shall be in the form set forth as an exhibit to the Intermediation Agreement or such other form which is approved by S&P and reviewed by Moody's from time to time.

**"Qualified Country"** means a country whose sovereign foreign currency long-term debt is rated at least A- by S&P and A3 by Moody's.

**"Qualified Environment"** means, with respect to a proposed transaction, that (i) the proposed transaction is a Qualified Transaction, (ii) the proposed counterparty to such transaction is a Qualified Counterparty, (iii) the Counterparty Group Exposure for a given Qualified Counterparty Group, does not exceed the applicable Counterparty Group Exposure Limit, or with respect to a proposed off-market transaction, the Counterparty Group Exposure for a given Qualified Counterparty Group, would not exceed the applicable Counterparty Group Exposure Limit with the inclusion of such proposed off market transaction, provided that an Unrated Counterparty need not meet the conditions of this clause (iii), (iv) the status of any documentation with such Qualified Counterparty is in compliance with LBFP's documentation policy as specified in Section 15.0 herein, (v) the Country Exposure does not exceed the applicable Country Exposure Limit, or with respect to a proposed off-market transaction, the Country Exposure would not exceed the applicable Country Exposure Limit with the inclusion of such proposed off-market transaction, (vi) if such proposed transaction involves a Specified Approved Index, (a) the Index Concentration is not in excess of the applicable Concentration Limit for such Specified Approved Index, or with respect to a proposed off-market transaction, the Index Concentration would not exceed the applicable

Concentration Limit for such Specified Approved Index with the inclusion of such proposed off-market transaction and (b) the Aggregate Concentration is not in excess of the Concentration Limit for the Aggregate Specified Approved Indices, or with respect to a proposed off-market transaction, the Aggregate Concentration would not exceed the applicable Concentration Limit for the Aggregate Specified Approved Indices with the inclusion of such proposed off-market transaction (vii) a deficiency with respect to capital does not exist, and (viii) a Collateral Cure Period is not in existence.

**"Qualified Hedge"** means a transaction consisting of an Approved Structure between LBFP and a Qualified Counterparty pursuant to a Qualified Hedge Agreement.

**"Qualified Hedge Agreement"** means an Agreement between LBFP and a Qualified Counterparty under which LBFP enters into a Qualified Hedge.

**"Qualified LBSF Collateral"** means a (i) Eligible Cash, (ii) U.S. Government Security, or (iii) Short-Term Security, pledged by LBSF.

**"Qualified Transaction"** means a transaction consisting of an Approved Structure between LBFP and a Qualified Counterparty, or such other transactions which are approved by S&P and reviewed by Moody's from time to time. The maximum permitted tenor of transactions denominated in U.S. Dollars, Japanese Yen, Deutschemarks, and Canadian Dollars is 30 years. The maximum permitted tenor for transactions denominated in any other Approved Currency is 20 years. Transactions with tenors over 10 years are limited to 20% of notional as a percent of total notional. Transactions with tenors over 20 years are limited to 10% of notional as a percent of total notional.

**"Rating Agencies"** means Moody's and S&P.

**"Reverse Repurchase Agreement"** means an agreement in which LBFP purchases (i) U.S. Government Securities, (ii) bankers' acceptances, or (iii) certificate of deposits, and agrees to the future resale of such securities with the seller. The term of such agreement shall not exceed 180 days. The seller shall be (A) either (i) rated P-1 by Moody's or (ii) approved by Moody's in writing and (B) either (i) rated at least A-1 by S&P or (ii) approved by S&P in writing.

**"S&P"** means Standard & Poor's Corporation.

**"S&P Eligible Counterparty"** has the meaning set forth in the definition of "Eligible Counterparty" herein.

**"Services Period"** means the period during which the short-term rating of Holdings is rated at least P-2 by Moody's and A-2 by S&P.

**"Short-Term Security"** means a bankers' acceptance, certificate of deposit, commercial paper, demand or time deposit, eurodollar deposit, or next day federal funds issued or sold by a depository institution or trust company (A) either (i) rated P-1 by Moody's or (ii) not disapproved by Moody's within ten Business Days of notification to Moody's requesting approval of such entity and (B) either (i) rated at least A-1 by S&P or (ii) approved by S&P in writing; provided, however, that no obligations of Lehman Brothers or any of its affiliates shall constitute a Short-Term Security.

**"Specified Approved Index"** means any one of the indices specified in Exhibit E.

**"Spread Adjustment Amount"** means an amount calculated as specified in Exhibit K

**"STIR/LTIR Confirmation"** means the form of the STIR/LTIR Confirmation attached as Exhibit G to the Offsetting Hedge Master Agreement. [*confirmation for short-term offsetting hedge*]

**"Swap Transaction"** means a swap in which one or any combination of specified payments are made or exchanged which are denominated in an Approved Currency and determined by reference to the level of an Approved Index on a

specified date or dates, as applied to a specified notional amount. With respect to payment and notional amount, "specified" means a stated amount or an amount determined according to a formula or schedule.

**"Termination Event"** has the meaning specified in the section 5(b) of the Qualified Counterparty Master Agreement, Offsetting Transaction Master Agreement, and Offsetting Hedge Master Agreement, as applicable.

**"Trigger Event"** means an Event of Default as defined in both the Offsetting Transaction Master Agreement or the Offsetting Hedge Master Agreement.

**"Unrated Counterparty"** means any entity, not meeting the requirements of an Eligible Counterparty, that is (A) either (i) a Moody's Eligible Counterparty or (ii) not rated by Moody's and (B) either (i) a S&P Eligible Counterparty or (ii) not rated by S&P.

**"U.S. Government Security"** means a security issued by the U.S. Government.

**"Valuation Adjustment Amount"** means an amount calculated as specified in Exhibit L.

**"Zero Exposure Counterparty"** means a counterparty with which LBFP intends to execute only Zero Exposure Transactions. Zero Exposure Counterparties are not subject to the eligibility requirements for a Qualified Counterparty.

**"Zero Exposure Transaction"** means an Option Transaction in which a counterparty pays LBFP a specified upfront premium or other value for the right to receive from LBFP one of or any combination of specified payments denominated in an Approved Currency, determined by reference to the level of an Approved Index and/or an Approved Currency above or below a specified level on a specified date, dates or on any date during a specified period, as applied to a specified notional amount. With respect to premium, payment and notional, "specified" means a stated amount or an amount determined according to a formula or schedule.

**Exhibit A**

**QUALIFIED COUNTRIES  
WHERE NETTING APPLIES**

Australia  
Cayman Islands  
France  
Ireland  
Switzerland  
United States  
United Kingdom



(e) Guarantor further agrees that this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time, payment, or any part thereof, of any obligation or interest thereon is rescinded or must otherwise be restored by Party A upon an Event of Default as set forth in Section 5 (a) (vii) of the Agreement affecting Party B or Guarantor.

(f) Guarantor hereby waives (i) promptness, diligence, presentment, demand of payment, protest, order and, except as set forth in paragraph (a) hereof, notice of any kind in connection with the Agreement and this Guarantee, or (ii) any requirement that Party A exhaust any right to take any action against Party B or any other person prior to or contemporaneously with proceeding to exercise any right against Guarantor under this Guarantee.

In the event that Guarantor is required by any applicable law, rule or regulation to make any deduction or withholding for or on account of any Tax (as defined in Section 14 of the Agreement, except that the reference therein to the "Agreement" shall be deemed to mean the "Guarantee" for purposes of this Guarantee) from any payment to be made under this Guarantee, Guarantor shall be subject to the provisions of Section 2 (d) of the Agreement to the same extent as "X" (as defined therein); provided, however, that Guarantor shall be required to treat as an "Indemnifiable Tax" (as defined under Section 14 of the Agreement, except that the reference therein to the "Agreement" shall be deemed to mean the "Guarantee" for purposes of this Guarantee) for such purpose any Tax that is not an "Indemnifiable Tax" if such Tax would have constituted an "Indemnifiable Tax" had the payment in respect of which the Tax is imposed been made by Party B rather than Guarantor

Guarantor makes the same representations to and agreements with Party A as those made by Party B pursuant to Sections 3 and 4 of the Agreement, at the times set forth therein, except that references therein to "the party" will be deemed to be references to the "the Guarantor" and references therein to "the Agreement" will be deemed to be references to "the Guarantee." Section 13 of the Agreement is incorporated by reference in this Guarantee except that references therein to "the Agreement" will be deemed to be references to "the Guarantee."

This Guarantee shall be governed by and construed in accordance with the laws of the State of New York, without reference to choice of law doctrine. All capitalized terms not defined in this Guarantee are defined in the Agreement.

Any notice hereunder will be sufficiently given in accordance with the provisions for notices under the Agreement and will be effective as set forth therein. All notices hereunder shall be delivered to the Guarantor, at [address] (Telex No: Answerback: ) with a copy to Party B, at [address] (Telex No Answerback:

IN WITNESS WHEREOF, Guarantor has caused this Guarantee to be executed in its corporate name by its duly authorized officer as of the date of the Agreement

[Guarantor]  
By:  
Name:  
Title:

**Exhibit C**

**MATURITY RESTRICTIONS  
ON INVESTED CAPITAL**

Remaining Maturity	Percent of Total Capital (cumulative)
30 days or less	15 %
180 days or less	25 %
1 year or less	70 %
5 years or less	100%

**Exhibit D**

**APPROVED CURRENCIES**

An "Approved Currency" includes one or any combination of the following:

Australian Dollar	The Euro	Portuguese Escudo
Austrian Schilling	Finnish Markka	Spanish Peseta
Belgian Franc	French Franc	Swedish Krona
Canadian Dollar	German Mark	Swiss Franc
Danish Krone	Italian Lira	U.K. Sterling
Dutch Guilder	Japanese Yen	U.S. Dollar
European Currency Unit	New Zealand Dollar	

**Exhibit E**

**APPROVED INDICES**

An "Approved Index" includes one or any combination of the following

(a.) any fixed rate or rates

any rate based on the market price, yield, total rate of return, or any combination thereof of one or any combination of debt securities. Individual debt securities or a portfolio of debt securities include only those issued by or backed by the full faith and credit of a sovereign government, the official currency of which is listed under Approved Currencies above or those issued by or guaranteed by a supranational rated by the Rating Agencies.

(b.) proprietary indices as follows (but only if the applicable trade confirmation provides for a substitute index in the event that the initial index ceases to exist)

- Lehman Brothers Aggregate Bond Index
- Lehman Brothers Government/Corporate Bond Index
- Lehman Brothers Government Bond Index
- Lehman Brothers Corporate Bond Index
- Lehman Brothers MBS Index

(c.) any of the following quoted rates:

Australia (Australian Dollar)	London Interbank Rates Bank Bills
Austria (Austrian Schilling)	London Interbank Rates
Belgium (Belgian Franc)	London Interbank Rates Brussels Interbank Rates Constant Maturity Swap (CMS)
Canada (Canadian Dollar)	London Interbank Rates Bank Acceptances
Denmark (Danish Krone)	London Interbank Rates Copenhagen Interbank Rates Constant Maturity Swap (CMS)
European Currency Unit (ECU)	London Interbank Rates
European Monetary Union (EUR)	London Interbank Rates Euro Interbank Rates Constant Maturity Swap (CMS) Constant Maturity Treasury Rate
Finland (Finnish Markka)	London Interbank Rates Helsinki Interbank Rates Constant Maturity Swap (CMS)
France (French Franc)	London Interbank Rates Paris Interbank Rates Constant Maturity Swap (CMS) CMT (le taux de l'échéance constante, Tec-10)
Germany (Deutsche Mark)	London Interbank Rates Frankfurt Interbank Rates Constant Maturity Swap (CMS)
Italy (Italian Lira)	London Interbank Rates Milan Interbank Rates Constant Maturity Swap (CMS)

Japan (Japanese Yen)	London Interbank Rates Constant Maturity Swap (CMS) Constant Maturity Treasury (CMT)
Netherlands (Dutch Guilder)	London Interbank Rates Amsterdam Interbank Rates Constant Maturity Swap (CMS)
New Zealand (New Zealand Dollar)	London Interbank Rates Bank Bills
Portugal (Portuguese Escudo)	London Interbank Rates Constant Maturity Swap (CMS)
Spain (Spanish Peseta)	London Interbank Rates Madrid Interbank Rates Constant Maturity Swap (CMS)
Sweden (Swedish Krona)	London Interbank Rates Stockholm Interbank Rates Constant Maturity Swap (CMS)
Switzerland (Swiss Franc)	London Interbank Rates Constant Maturity Swap (CMS)
United Kingdom (Sterling)	London Interbank Rates Constant Maturity Swap (CMS)
United States (U.S. Dollar)	London Interbank Rates COFI, JJ Kenny, PSA (BMA), Variable Rate Debt Obligations (VRDO) Constant Maturity Treasuries (CMT) Constant Maturity Swap (CMS) Commercial Paper (30, 90, 180 days) Federal Funds Prime U.S. Treasury Obligations U.S. Gov't Agency Discount Note Rates U.S. Gov't TIPS

(d.) any of the following instruments, which may also be the subject of futures and options trading on U.S. and non-U.S. exchanges:

CBOT	U.S. T-Note U.S. T-Bond
CME	
Interest Rate:	Eurodollar Libor Fed Funds U.S. T-Bills U.S. Agency Notes Euroyen Euroyen Libor JGB Futures
Currency:	Australian Dollar British Pound Canadian Dollar Deutschemark Euro

	French Franc Japanese Yen New Zealand Dollar Swiss Franc
EUREX	Euribor Euro Bobl Euro Schatz Euro Bund
LIFFE	Bond & Interest Rate: Long Gilt German Government Bond JGB Euribor Euro Libor Euroswiss Euroyen Sterling
MSE	CAD\$ Bank Acceptance Canadian Dollar
MATIF	ECU Bond Pibor French National Bond
SOFFEX	Swiss Gov't Bond Euroswiss Swiss Franc
SFE	AUS\$ Bank Bills Australian T-Bond Australian Dollar
NEFF	MD30R Spanish National Bond
SIMEX	Eurodollar Euroyen
TSE	Japanese Gov't Bond
TIFFE	Euroyen
EUREX	Euribor Euroyen

**Exhibit F**

**CAPITAL REQUIREMENT**

**Calculation**

The Capital Requirement is calculated as the greatest of

(A) the sum of

(1) the greater of

- (a) the output, expressed as a dollar amount, of the most recent run of the Credit Model or;
- (b) the greatest of:
  - (i) 100% of the two largest Aa Counterparty Group or Country Exposures or;
  - (ii) 100% of the three largest A/Approved/P-1/P-2 Counterparty Group or Country Exposures or;
  - (iii) 100% of the four largest Baa/P-3 Counterparty Group or Country Exposures or;
  - (iv) 100% of all Ba or lower/Unrated Counterparty Group or Country Exposures;

and

(2) \$35 MM

or

(B) \$100MM

**EXHIBIT G**

**COUNTRIES WHERE QUALIFIED COUNTERPARTY  
COLLATERAL HAS VALUE**

United States

**Exhibit H**

**COLLATERAL DISCOUNT FACTORS**

US Government Security

REMAINING MATURITY

next day	1 yr	1-3 yrs	3-7 yrs	7-30 yrs
100.00%	95%	90%	85%	80%

Short-Term Security

REMAINING MATURITY

next day	12-30 days	31-90 days	91-180 days
100%	95%	90%	85%

U.S. Government Agency Securities (FNMA, FHLMC, GNMA) & Unsecured Corporate Debt Obligations<sup>1</sup>

REMAINING MATURITY

next day	<= 1 year	1-5 years	5-15 years
100%	85%	75%	70%

With respect to Qualified LBSF Collateral and Qualified Counterparty Collateral, securities rated A- 1 (i) will have a discount factor of 62.5%, (ii) will be limited to 20% of the collateral held, and (iii) the securities of any single A-1 issuer will not comprise more than 3 3 % of the total A-1 pool.

U.S. Government Agency Securities GNMA<sup>2</sup>, FNMA<sup>3</sup>, FHLMC<sup>4</sup> (Secured Certificates) - 71.4%

<sup>1</sup>

- 1 - Eligible securities are direct issuance corporate debt that is neither callable nor exchangeable.
- 2 - Eligible securities mature in 15 years or less, and pay interest periodically.
- 3 - The trustee has a first perfected security interest in the collateral.
- 4 - The collateral is free and clear of claims of third parties.
- 5 - The collateral is registered in the name of the trustee.

<sup>2</sup> Assumptions for GNMA Certificates:

- 1 - Certificates are guaranteed by GNMA for the full and timely payment of principal and interest. They also evidence fractional undivided interests in pools of level payment, fixed, variable, or adjustable rate, fully amortizing mortgage loans that are secured by first liens on one-to four family residences.
- 2 - The trustee has a first perfected security interest in the collateral.
- 3 - The collateral is free and clear of claims of third parties.
- 4 - The collateral is registered in the name of the trustee. If collateral is registered in the name of the pledgor and valuation is monthly (or less frequent) with a one-month cure, the collateral level is boosted to compensate for prepayment risk by dividing by 0.95.

*Note For GJWMA certificates backed by pools of graduated payment mortgages, levels are 20 points higher.*

<sup>3</sup> Assumptions for FNMA Certificates:

## Exhibit I

- 
- 1 - Certificates guaranteed by FNMA for the full and timely payment of principal and interest. They also evidence proportional undivided interests in pools of level payment, fixed, variable, or adjustable rate, fully amortizing mortgage loans that are secured by first liens on one-to four family residences.
  - 2 - The trustee has a first perfected security interest in the collateral.
  - 3 - The collateral is free and clear of claims of third parties.
  - 4 - The collateral is registered in the name of the trustee. If collateral is registered in the name of the pledgor and valuation is monthly (or less frequent) with a one-month cure, the collateral level is boosted to compensate for prepayment risk by dividing by 0.95.

*Note:*

- *Qualifying "large pool " FHLMC participation certificates are acceptable as eligible collateral at the same collateral levels established by FHLMC certificates, The eligible fixed-rate programs include FHLMC Multi-lender Swaps and FHLMC Giant certificates. Eligible F71LMC Giant programs exclude 10 (interest only) and PO (principal-only) stripped securities. Eligible adjustable-rate mortgage (ARM) programs include FHLMC weighted average coupon (WAC) ARM certificates.*
- *Multi-class REMICS issued by FHLMC are acceptable as eligible collateral at the collateral levels established for*

<sup>4</sup> Assumptions for FHLMC Certificates:

- 1 . Certificates guaranteed by FHLMC for the timely payment of interest and ultimate payment of principal. They also evidence proportional undivided interest in or participation interests in pools of level payment, fixed, variable or adjustable rate, fully amortizing mortgage loans secured by first liens on one to four family residences. In the case of multifamily Plan B FHLMC certificates, pools are of fixed rate, fully amortizing mortgage loans secured by first liens on properties containing five or more units and designed primarily for residential use.
2. The trustee has a first perfected security interest in the collateral.
3. The collateral is free and clear of claims of third parties.
4. The collateral is registered in the name of the trustee. If collateral is registered in the name of the pledgor and valuation is monthly (or less frequent) with a one-month cure, the collateral level is boosted to compensate for prepayment risk by dividing by 0.95.

*Note:*

- *Qualifying "large pool " FHLMC participation certificates are acceptable as eligible collateral at the same collateral levels established by FHLMC certificates, The eligible fixed-rate programs include FHLMC Multi-lender Swaps and FHLMC Giant certificates. Eligible F71LMC Giant programs exclude 10 (interest only) and PO (principal-only) stripped securities. Eligible adjustable-rate mortgage (ARM) programs include FHLMC weighted average coupon (WAC) ARM certificates.*
- *Multi-class REMICS issued by FHLMC are acceptable as eligible collateral at the collateral levels established for collateralized mortgage obligations (CMOs)*

**CONCENTRATION LIMITS  
ON SPECIFIED APPROVED INDICES**

SPECIFIED APPROVED INDICES	% LIMIT OF PORTFOLIO
COFI	10%
Federal Funds	10%
JJ Kenny	10%
LB Proprietary Indices	10%
Prime	10%
PSA	10%
U.S.Gov't Agency Discount Note Rates	10%
CAD LIBOR	10%
NZD LIBOR	10%
Aggregate Specified Approved Indices	25 %

**Exhibit J****Eligible Non-Assignable Counterparties**

<b>Counterparties</b>	<b>Moody's Investors Service Long-Term Rating or Equivalent</b>	<b>Standard &amp; Poor's Long-Term Rating or Equivalent</b>
<u>Australia</u>		
Australian Wheat Board	A a 2	AA
Commonwealth Bank of Australia	A a 2	AA
New South Wales Treasury Corp	A a 2	AA
R & I Bank of Western Australia	A a 2	AA
State Bank of New South Wales	A a 2	AA
<u>Austria</u>		
Asfinag	A a a	--
Austria, Republic of	A a a	AAA
Oesterrelchische Kontrollbank AG	A a a	AAA
Oesterreichische Kommunalkredit AG	A a a	--
Oesterreichische Postsparkasse	A a a	
<u>Belgium</u>		
Belgium, Kingdom of	A a 1	AA+
<u>Canada</u>		
Export Development Corp	A a a	AA+
Ontario, Province of	A a 2	AA
Ontario Hydro	A a 2	AA
Petro-Canada Ltd	A a a	AA+
Quebec, Province of	A a 3	A+
<u>Denmark</u>		
Denmark, Kingdom of	A a 1	AA+
<u>Finland</u>		
Finnish Export Credit Ltd	Aa2	AA
<u>France</u>		
CEPME	A a a	--
Caisse Nationale des Autoroutes	A a a	AAA
Caisse des Depots et Consignations	A a a	AAA
Caisse National des Telecom	A a a	A-1+*
Electricite de France	A a a	AAA
France Telecom	-	AAA
Gaz de France	A a a	AAA
SNCF	A a a	--
<u>Norway</u>		
Exportfinans A/S	A a 1	AAA
Norway, Kingdom of	A a 1	AAA
<u>Sweden</u>		
Swedish Export Credit Corp	A a 1	AA+

Sweden, Kingdom of	A a 1	AA+
<u>United States</u>		
Federal Home Loan Banks	A a a	AAA
Federal Home Loan Mortgage Corp	A a a	AAA
Federal National Mortgage Assoc	Aaa	AAA
Resolution Funding Corp	A a a	AAA
Student Loan Marketing Assoc	A a a	AAA
Tennessee Valley Authority	A a a	AAA
<u>Supra Nationals</u>		
Asian Development Bank	A a a	AAA
Eurofima	A a a	AAA
European Bank for Reconstruction and Development (EBRD)	A a a	AAA
European Investment Bank (EIB)	A a a	AAA
I B R D (The World Bank)	A a a	AAA
Nordic Investment Bank	A a a	AAA
<u>Other</u>		
Deutsche Bank AG	A a a	AAA
General Electric Credit Corporation	A a a	AAA

\* Short-term rating (no long-term rating available)

Source: Moody's Corporate Credit Reports  
Standard & Poor's Creditwire

**Exhibit K**

**SPREAD ADJUSTMENT AMOUNT**

**Calculation**

The Spread Adjustment Amount is calculated as the sum of the present value of the applicable spread adjustment factor (based on the table below) multiplied by the notional amount of each Offsetting Transaction.

<b>Transaction Category</b>	<b>Spread Adjustment</b>
	(bps p.a.)
Swap Transactions, (interest rate swaps)	2
Swap Transactions, (cross currency swaps)	5
Option Transactions	3
Compound Transactions	4

**Exhibit L****VALUATION ADJUSTMENT AMOUNT****Calculation**

The Valuation Adjustment Amount is calculated using the maximum of three volatility forecasts, as follows:

$$3 * \text{Max} (\sigma_a, \sigma_b, \sigma_c) * \sqrt{20}$$

where-  $\sigma_a$  = volatility forecast from 15 day window  
 $\sigma_b$  = volatility forecast from 50 day window  
 $\sigma_c$  = volatility forecast from 100 day window

Volatility forecast shall be defined, with respect to 15, 50 or 100 days, as the historical volatility of the Adjusted P&L calculated over the immediate past 15, 50 or 100 days, respectively.

$$\sigma_a = \sqrt{\sum \frac{x_{(t-i)}^2}{N-1}}$$

$$\sigma_a, \sigma_b = \sqrt{\sum \frac{(x_{(t-i)} - \bar{x})^2}{N-1}}$$

where,  $X_{(t-i)}$  = adj. P&L at (t-i).  
 N = sample size.

The Adjusted P&L is calculated, as follows:

$$\text{Adj P\&L}(t-i) = \text{P\&L}(t-i) * \max(1, (N(t) / N(t-i)))$$

where: Adj P&L(t-i) = Adjusted P&L at time (t-i)

P&L(t-i,) =  $\Delta$ MTM  $\pm$  cashflows at time (t-),  $\pm$  Non market specific deal adjustments at time (t-)

N(t) = Notional outstanding at time t

N(t-i) = Notional outstanding at time (t-i)

## Exhibit M

### CREDIT MODEL

#### Introduction

This exhibit is divided into three sections. The first section describes the general features of the Credit Model. The second section describes the portfolio and statistical inputs in the initial capital calculation, and the third section describes the portfolio and statistical inputs in the subsequent capital calculations.

#### 1. Components of the Credit Model

**Portfolio:** For the initial capital calculation, one portfolio is defined and allocated across all counterparties as described in section II of this exhibit. For subsequent capital calculations, LBFP's actual portfolio plus additional transactions representing portfolio growth are input into the Credit Model as described in section III of this exhibit.

**Market Path Generator-** The underlying model generates a set of market perturbations for the following month based on yield curves, exchange rates, basis spreads, and cap and swaption implied volatilities. The perturbations are repeated monthly for all 10 years of the simulation. This defines one 'market path'. In order to improve the efficiency of estimates, an antithetic method of incorporating the mirror-image path is utilized. Including the antithetic paths, 400 market paths are generated.

**Default Path Generator-** A ratings transition module assigns each counterparty a rating status for the current month. The transitions are generated each period by drawing from independent uniform distributions for each counterparty. A counterparty's rating may transit to another rating as well as to default. Defaulting counterparties are identified in a given path over 10 years. This defines one 'default path'. 250 default paths are generated

**Operating Path Generator:** To achieve computational efficiency, independent market paths and default paths are convolved to create 100,000 separate paired 'operating path' combinations,

**Valuation:** Upon the occurrence of a default in an operating path, the defaulting counterparty's portfolio is valued at the new market level for that month. For all transactions, interest rate and basis spread changes affect valuation. For options, implied volatility changes, and for non-dollar instruments, exchange rate changes, are additional factors in valuation.

**Terminations:** For counterparties with whom LBFP has a ratings based termination provision, the model will terminate all transactions with such counterparty if the counterparty's rating transits below its termination rating before defaulting. Counterparties terminated on this basis remain in the Credit Model simulation path to determine whether they would have defaulted in the following two years. If the counterparty defaults in the following two years the credit loss is calculated as 100% of the positive mark-to-market at the time of termination. If the counterparty does not default in the following two years, the credit loss equals zero.

**Default Treatment:** In the event of a counterparty default, the loss to LBFP is calculated either the gross or net exposure depending on whether netting rules apply in such counterparty's country of domicile. If LBFP has a positive exposure to the counterparty at the time of default, and the positive exposure is less than the Counterparty Group exposure Limit and the collateral posting threshold in the collateral agreement, the loss is calculated as the entire amount of the exposure. If LBFP has a positive exposure to the counterparty at the time of default and the positive exposure is larger than the greater of the Counterparty Group Exposure Limit and the collateral posting threshold in the collateral agreement, the loss is calculated as the amount equal to (i) the greater of the Counterparty Group Exposure Limit and the collateral posting threshold plus (ii) three times the absolute value of the amount equal to the change in the counterparty's mark-to-market over the one month preceding the assumed default. If LBFP has a negative exposure to the counterparty at the time of default, the loss is zero. All credit losses will be discounted using a discount rate equal to the minimum point on the U.S. dollar yield curve.

**Capital Calculation:** Credit losses are accumulated for each operating path over the ten year horizon. For each path, the net loss is calculated as the cumulative credit losses over the ten year period less an assumed level of capital. If cumulative losses do not exceed capital on a given path, the net loss is zero. The loss fraction for each path is defined as the ratio of the net loss to the total net payables subsequent to exhaustion of capital. The loss fraction is averaged over all the operating paths of the simulation to give an expected loss fraction.

The objective is to calculate the level of capital necessary to support credit risk at the Aaa level for LBFP. By repeating the simulation and recording expected loss fractions at various levels of capital, the level of capital which results in an expected loss fraction of 0.002% is calculated.

**Modeling Stochastic Interest Rates and Exchange Rates**

The model is:

$$dX_i/X_i = \mu_i dt + \sigma_i dz_i$$

where:  $X_i(t)$  = interest rate or exchange rate variable  $i$  at period  $t$ ,  
 $i = 1$  to  $n$   
 $\mu_i$  = drift factor  
 $\sigma_i$  = monthly standard deviation of  $dX_i/X_i$  = annual volatility/ $\sqrt{12}$   
 $n = 3 * \#$  of currencies in portfolio - 1

and  $E(dz_i dz_j) = \rho_{ij} dt$

where:  $\rho_{ij}$  = instantaneous correlation between  $dz_i$  and  $dz_j$

This is equivalent to using a process of  $d \ln X_i = \mu_i dt - 1/2 \sigma_i^2 dt + \sigma_i dz_i$  with the specified correlations/variances as inputs. The correction of  $- 1/2 \sigma_i^2 dt$  is applied to result in a zero drift for  $X_i$ , which implies  $dX_i/X_i = \mu_i dt + \sigma_i dz_i$ . The means of the distributions of each variable at forward dates in the simulation are thereby ensured to be their initial values.

The drift factors for each of the interest rates are determined from the forward rate curve implicit in the term structures, as follows:

$$\mu_i (t-1) = \ln (f_i/X_i(t-1))$$

where:  $f_i = 1$  - month forward short or long rate at period  $t- 1$ .

Beyond the long interest rates, the forward rates are assumed to be level. For exchange rates, the drift is determined by applying the differential between the two relevant initial term structures as follows

$$\mu_i (t-1) = \{r_f(t-1) - r(t-1)\} / 12$$

where:  $r_f(t-1)$  = 1 - month spot rate in foreign currency at time  $t-1$ .  
 $r(t-1)$  = 1 - month spot rate in USD at time  $t-1$ .  
 (the factor 12 adjusts for the monthly frequency used in the model)

The model is implemented as follows:

Start with the given initial yield curve and spot exchange rates (the  $X_i$ 's).

A path consists of a sampling of these variables from a joint lognormal distribution (with a specified correlation matrix), in monthly intervals. The correlated variables are generated by draws from independent normal distributions as described below.

Define the following for the various  $X_i$ 's:

$$q_{i1} = \rho_{i1} \sigma_{i1} \quad [1]$$

$$q_{im} = (\rho_{im} \sigma_i \sigma_m - \sum_{l=1 \text{ to } m-1} q_{il} q_{ml}) / q_{mm} \quad [2]$$

$$q_{ii} = \sqrt{(\sigma_i^2 - \sum_{k=1 \text{ to } m-1} q_{ik}^2)} \quad [3]$$

Paths are created as follows from independent normal draws  $\varepsilon_j$ 's:

$$\ln[X_i(t) / X_i(t-1)] = \sum_{j=1 \text{ to } i} q_{ij} \varepsilon_j + \mu_i - (1/2) \sigma_i^2 \quad \text{for } i = 1 \text{ to } n \quad [4]$$

The above calculations generate the  $X_i$ 's consistent with the given input correlation and variance data.

The following discussion describes specifically how the values of the variables are determined on a given path:

#### *Variable $X_1$*

First consider the variable  $X_1$ . Its initial value  $X_1(1)$  is known. The objective is to calculate its value  $X_1(2)$  at the next period, a month later, on one path.

Sample from a unit normal distribution with zero mean. Let this number be  $\varepsilon_1$ . Then the value of  $X_1(2)$  for month 2 is calculated as

$$X_1(2) = X_1(1) \exp\{\mu_1 - (1/2) \sigma_1^2 + \sigma_1 \varepsilon_1\}$$

#### *Variable $X_2$*

Sample again from a unit normal distribution with zero mean. Let this number be  $\varepsilon_2$ . From equation [1], first calculate  $q_{21} = \rho_{21} \sigma_2$ . From equation [3] calculate  $q_{22} = \sqrt{(\sigma_2^2 - q_{21}^2)}$ .

Then the value of  $X_2$  for the next month is calculated from equation [4] as:

$$X_2(2) = X_2(1) \exp\{\mu_2 - (1/2) \sigma_2^2 + \sigma_2 \varepsilon_2\}$$

For the remaining variables  $X_3, X_4, \dots, X_n$  the procedure is similar. Equations [1], [2], and [3] in combination with equation [4] sequentially give these values.

### **Modeling Stochastic Basis Spreads**

The different basis instruments (i.e., Fed Funds, Prime, CMT, T-bills, JJKenny, CP, etc.) are input into the credit model. The model assumes that each basis instrument is characterized by a constant spread over LIBOR (independent of its maturity) at a given date. Further, the spread is assumed to be lognormally distributed over time, except for CP, where a normal distribution is assumed.

Let a basis instrument be described by  $B$ , its spread to LIBOR.

If the spread is assumed to be lognormally distributed with (monthly) volatility  $\sigma_B$ , then,

$$dB/B = \sigma_B dz_B$$

If  $B_i(1)$  is the initial spread of the instrument, the spread at the end of the period is:

$$B_i(2) = B_i(1) \exp\{-(1/2) \sigma_B^2 + \sigma_B \varepsilon_B\}$$

If the distribution is normal (i.e., CP spreads), then

$$dB = \sigma_B dz_B$$

In this case, if  $B_i(1)$  is the initial spread of the instrument, the spread at the end of the period is:

$$B_i(2) = B_i(1) + \sigma_B \varepsilon_B$$

Note that for estimating  $\sigma_B$  from historical data, the lognormal and normal assumptions have their appropriate calculations.

### Modeling Stochastic Implied Volatilities

**Caps:** Implied forward volatilities on caps are assumed to be lognormally distributed. The standard deviation of each implied forward volatility is calculated from available historical time series data on caps of various maturities. These calculations show that the derived standard deviations of implied forward volatilities are relatively stable across maturity. To simplify the procedure, the calculated standard deviations of implied forward volatilities are averaged to give a single number across the entire volatility term structure. This single number captures the uncertainty inherent in the implied forward volatility curve of caps. This derived parameter is used in the simulation to produce perturbations (parallel log shifts) on cap implied forward volatilities from the initial implied forward volatility curve.

Let a cap forward volatility be described by  $S(I)$  where  $I$  refers to the current period; if the volatility is assumed to be lognormally distributed with (monthly) standard deviation  $\sigma$ , then,

$$dS/S = \sigma dz$$

Note that  $\sigma$  and  $dz$  are both assumed to be independent of the forward maturity term. If  $S(1)$  is the initial spread of the instrument, the spread at the end of the period is:

$$S(2) = S(1) \exp\{-(1/2) \sigma^2 + \sigma \varepsilon\}$$

In other words, the forward volatility curve has a parallel shift in percentage terms every period.

**Swaptions:** Swaption implied volatilities are characterized by 2 variables: the option maturity and the underlying maturity. Historical time series data of these implied volatilities in different buckets are used in computing the standard deviations of implied volatilities. Again, the data in the various buckets are averaged to a single standard deviation of implied volatility measure  $\sigma$  (across all swaptions). This measure is used in the simulation to produce perturbations over the initially specified implied volatility profile.

Let  $S(1)$  be the implied volatility of a swaption in period 1. As in the case of caps, the period 2 volatility will be:

$$S(2) = S(1) \exp\{-(1/2) \sigma^2 + \sigma \varepsilon\}$$

In other words, the volatility surface defined across a matrix of option and underlying maturities is assumed to experience parallel log shifts from one period to another.

### Specific Details in the Term Structure Implementation

Since no mean reversion is induced in the simple lognormal model, rates may go up or down to arbitrarily high or low levels. The same could be true for the slope of the zero curve. Steeply inverted zero curves may lead to negative forward rates, but these low probability events are filtered out with appropriate checks in the software, without material effect on the nature of the distribution modeled. In order to avoid computational difficulties (such as division by zeros, etc.), rates are limited to a maximum of 100%, and a minimum of 0.5%. Basis rates are assumed not to fall below 0.1% at any maturity. Implied volatilities are subject to a maximum of 100%.

### Option Valuation Models

The Credit Model incorporates valuation models for caps and swaptions that are currently used at Lehman Brothers and are standard for the industry.

**Caps:** At-the-money caps for different maturities are traded based on flat implied volatilities to the underlying maturities. From the prices of caps of different maturities, using a Black model, forward volatilities for each caplet can be computed. In other words, from the available flat volatilities, which are market traded parameters, forward volatilities can be extracted. In turn, these forward volatilities are used to price an existing book of caps using the same Black model. Note that forward volatilities for existing book maturities are interpolated from current market data.

**Swaptions-** Swaptions are valued based on the standard Black model (applied to coupon rates), in combination with a duration multiplier of the underlying security. As the option maturities and underlying maturities are both variables, the respective at-the-money market prices determine an implied volatility matrix for the grid.

### Capital Calculations

During the first 12 months of LBFP's operation, a simplified framework of identical portfolios and a fixed number of counterparties was used. For subsequent runs of the model, the approach has been to accommodate LBFP's actual portfolio. This approach uses a combination of LBFP's current portfolio and projected portfolio growth through the next run of the model, based on realized portfolio data.

### Actual Portfolio Data

The actual portfolio will be described using the major determinants of value. Small valuation effects such as payment frequency, day-count convention, and compounding will be ignored as secondary effects. The following table contains a list of variables that will be used in determining the value of each instrument

**Table 3: Input Parameters for Actual Portfolio**

Description	Interest Rate Swap	Cross Currency Swap	Basis Swap	Cap/Floor	Swaption
Notional Amount	X	X	X	X	X

Currency	X	X	X	X	X
Start Date	X	X	X	X	X
End Date	X	X	X	X	X
Floating Rate Index	X	X	X	X	X
Next Payment Amount	X	X	X	X	
Fixed Rates	X	X	X		X
Fixed Spreads	X	X	X		X
Right to Pay/Receive	X	X	X		X
Bought/Sold				X	X
Strike Rates				X	
Cash Settle/Exercise					X
Option Maturity					X
FX Final Exchange Amount		X			

### Portfolio Growth

In addition to the actual portfolio data utilized in subsequent runs of the Credit Model, a shadow portfolio of counterparties and transactions is created to account for potential portfolio growth between runs of the Credit Model.

*Counterparties:* The counterparties in the shadow portfolio are replications of all new counterparties and/or existing counterparties which have entered into transactions in the period of time preceding the Credit Model run date equal to the period of time until the next run of the Credit Model

*Transactions:* The transactions in the shadow portfolio are replications of the transactions added to the portfolio in such time period. The number of transactions is assumed to be twice the number of transactions entered into in such time period. Transactions in the shadow portfolio are priced at par and the original term of the transactions are assumed.

The resulting shadow portfolio is added to LBFP's then current portfolio and used as the input for subsequent Credit Model runs.

## Exhibit N

### LIQUIDITY MODEL

#### Introduction

This exhibit is divided into three sections. The first section describes the general features of the Liquidity Model. The second section describes the calculation of the Liquidity Requirement, the Liquidity Resources, and the Liquidity Ratio. The third section describes modifications made to LBFP's liquidity management components to facilitate a daily liquidity management discipline.

#### 1. Components of the Liquidity Model

**Portfolio:** LBFP's actual portfolio is used for each run of the Liquidity Model.

**Market Path Generator:** The underlying model as described in Exhibit M generates a set of market perturbations for the following day based on yield curves, exchange rates, basis spreads, and cap and swaption implied volatilities. The perturbations are repeated daily for all six months of the simulation. This defines one 'market path'. In order to improve the efficiency of estimates, an antithetic method of incorporating the mirrorimage path is utilized. Including the antithetic paths, 400 market paths are generated.

**Default Path Generator:** A ratings transition module assigns each counterparty a rating status for the current day. The transitions are generated each day by drawing from independent uniform distributions for each counterparty. A counterparty's rating may transit to another rating as well as to default. Defaulting counterparties are identified in a given path over the six month period. This defines one 'default path'. 250 default paths are generated.

**Operating Path Generator-** To achieve computational efficiency, independent market paths and default paths are convolved to create 100,000 separate paired 'operating path' combinations.

**Transaction Valuation and Cashflows:** Each counterparty's portfolio is valued at the new market level for that day. Additionally, the daily cashflows for each counterparty's portfolio are generated.

**Hedge Valuation and Cashflows:** The daily mark-to-market change of the transaction portfolio is used to approximate the daily variation margin flows.

**Initial Margin Replacement:** All initial margins are assumed to be lost and need replacement. In order to determine the dollar amount of the initial margin, the absolute value of maturity weighted notionals of (long-short) positions is used.

For example, a long \$ 100MM 3-year swap and a short \$100MM 2-year swap are treated as a net long \$100MM 1-year swap. Therefore, the hedge is a strip of 4 Eurodollar contracts of \$100MM notional each. Swaps with maturities over 4 years are hedged with Treasuries using the same methodology.

For options and swaptions, LBFP will use information provided by its risk management systems to calculate its initial margin requirements.

Once the volume of hedges is known, the initial margin dollar amounts are calculated based on 15 basis points per Eurodollar contract and 200 basis points per 5 year equivalent U.S. treasury securities.

**Termination Payment to LBSF:** The then-current mark-to-market of the portfolio is calculated. A negative exposure to LBSF results in a termination payment to LBSF while a positive exposure to LBSF results in a payment (realization of

collateral) to LBFP. If a payment to LBSF is required, the payment is made on the last day of the six month period. If a payment to LBFP is required, the payment is made on the first day of the six month period. The amount of the termination payment/receipt is equal to (i) if the long-term rating of Holdings is at least A3 by Moody's, 25% of termination payable/receivable, (ii) if the long-term rating of Holdings is rated lower than A3, but at least Baa3 by S&P, 50% of termination payable/receivable, or (iii) if the long-term rating of Holdings is lower than Baa3 by Moody's, 100% of termination payable/receivable.

**Termination Payments to Defaulting Counterparties:** When a counterparty defaults, all transactions with the counterparty are terminated. If LBFP is exposed to the defaulted counterparty, all future receivables from the counterparty are assumed to be lost. If LBFP owes the defaulted counterparty, a termination payment is made immediately.

**Potential Termination Payments to Counterparties:** Certain counterparties may have a mutual termination clause (based on the other party's rating) in their documentation with LBFP. For such counterparties, the mark-to-market of all transactions with such counterparty is calculated. A negative exposure to the counterparty results in a potential termination payment to the counterparty while a positive exposure to the counterparty results in a potential payment to LBFP. If a payment to the counterparty could be required, the payment is assumed to be required and made on the last day of the six month period. If a payment to LBFP could be required, the payment is assumed not to be made and LBFP is given no credit for the potential receipt. The amount of the termination payment is assumed to be equal to (i) if LBFP's rating is one, two or three rating levels above the termination rating, 100% of the termination payable, (ii) if LBFP's rating is four rating levels above the termination rating, 75% of the termination payable, (iii) if LBFP's rating is five rating levels above the termination rating, 50% of the termination payable, (iv) if LBFP's rating is six rating levels above the termination rating, 25% of the termination payable, (v) if LBFP's rating is seven rating levels above the termination rating, 15% of the termination payable, (vi) if LBFP's rating is eight rating levels above the termination rating, 10% of the termination payable, (vii) if LBFP's rating is nine rating levels above the termination rating, 5% of the termination payable, and (viii) if LBFP's rating is ten or more rating levels above the termination rating, 0% of the termination payable,

**Net collateral postings to counterparties:** Certain counterparties may have two-way collateral agreements with LBFP. For such counterparties, the amount of collateral to be posted to or by counterparties is calculated for each day of the liquidity analysis based on the counterparty's mark to market and the threshold for posting collateral. The amount of collateral required to be posted each day to counterparties is netted against the amount of collateral required to be posted to LBFP by counterparties. On each day of the liquidity analysis, the sum for all counterparties of this net amount, is added to the days cashflows.

## 2. Liquidity Requirement, Liquidity Resources, and Liquidity Ratio

The following items represent the significant cashflows of LBFP assuming a Trigger Event has occurred.

- (i) On-going payments on LBFP's portfolio of transactions
- (ii) Variation margin flows on LBFP's portfolio of hedges
- (iii) Potential replacement of initial margins on futures contracts
- (iv) Termination payment/receipt to or from LBSF
- (v) Counterparty defaults where they are owed money by LBFP
- (vi) Potential termination payments to counterparties (for counterparties with a termination clause)
- (vii) Net collateral postings to counterparties (for counterparties with a two-way collateral agreement)

On each operating path, the Liquidity Model calculates the daily net cashflow. The daily net cashflows are accumulated for each operating path over the six month period. If liquidity is positive for the entire path, its value is treated as zero. If liquidity is not positive for the entire path, the maximum negative liquidity is recorded. A cumulative maximum negative liquidity distribution is computed from all of the operating paths. The Liquidity Requirement is calculated as the amount of liquidity sufficient to cover the maximum negative liquidity at 99.9th percentile of the cumulative distribution.

Liquidity Resources are defined as the sum of (i) the market value of LBFP's capital discounted by the greater of 10% or \$20 million, (ii) the Collateral Adjusted Value of Qualified LBSF Collateral, (iii) the amount of received, but unaccrued intermediation fees, and (iv) 20% of the value of LBFP's customer swap receivables. The value of LBFP's customer swap receivables shall be calculated by netting all transaction mark to market values for each customer, identifying those customer portfolios which result in a positive value (i.e., a receivable for LBFP), and finally by aggregating those customer portfolios which result in a positive value.

The Liquidity Ratio -is defined as the Liquidity Requirement divided by the Liquidity Resources, expressed in decimal form.

### **3. Daily Liquidity Model, Daily Liquidity Requirement, Daily Liquidity Resources, and Daily Liquidity Ratio**

The Liquidity Model, outlined in section I and 11 above, is simplified to allow LBFP to perform a Daily Liquidity Calculation. The simplifying modifications made to the Liquidity Model are:

- The simulation period shall be shortened from six months simulated in the Liquidity Model, to one month in the Daily Liquidity Model.
- The list of "significant cashflows of LBFP assuming a Trigger Event has occurred" (detailed in section H. above) shall exclude the effect of termination payments to LBSF.
- The value of Daily Liquidity Resources shall be determined in the same manner as described in the definition of Liquidity Resources in section 2 above, excluding component (iv); i.e., Daily Liquidity Resources will not include 20% of the value of LBFP's customer swap receivables

The Daily Liquidity Requirement is calculated as the amount sufficient to cover the maximum cumulative negative liquidity (calculated as outlined in section 11, apart from the above mentioned simplifications) at 99.9 percentile of the distribution.

The Daily Liquidity Ratio is defined as the Daily Liquidity Requirement divided by the Daily Liquidity Resources, expressed in decimal form.