

# FID Balance Sheet Management



*April, 2007*

LEHMAN BROTHERS

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# FID Balance Sheet History

FID Core	2005	2006				2007		▲%
	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4	Qtr1	Qtr2	
Net Balance Sheet	131	141	150	151	171	187	192	47%
Net B/S Limit	131	144	154	155	168	175	192	47%
Variance vs. Limit	(0.4)	(3.1)	(3.8)	(3.7)	3.2	12.4	0.0	
Revenue	1,722	2,219	2,328	1,927	1,910	2,011	1,919	11%
RROA	5.3%	6.3%	6.2%	5.1%	4.5%	4.6%	4.0%	-24%
VAR Usage	28.8	32.2	26.4	39.1	34.6	49.9	40.0	39%

- ◆ Net Balance Sheet limit has grown by 47% (61bn) since Q4'05
- ◆ Quarterly Revenue has grown by 11%
- ◆ RROA has decreased by 24%
- ◆ Accounting changes have grown "Dead Balance Sheet" to 21.2bn and continues to put pressure on the balance sheet limit
- ◆ FID has missed it's net balance sheet target 11 out of the last 15 months

# Balance Sheet Policy

## Policy:

- ◆ Balance Sheet limits will be allocated by business POD and by region
- ◆ Penalty Charge of 5mm per billion on net balance sheet overages (Monthly) applicable at a regional POD level
- ◆ Incentive gain of 2.5mm per billion for businesses/regions that are below their net targets
- ◆ Limit will be tradable within FID business
- ◆ +/- 500mm 'materiality' provision, 500mm increments for charge/incentives
- ◆ Transaction driven exceptions to this policy must be approved by Mike Gelband and Gerry Reilly
- ◆ Effective starting May Month End

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# FID Q2 Balance Sheet Limit

(in \$mm's)	Q4 '06 Net Assets		Variance (vs. Limit)	RROA '06	Q1 '07 Net Assets		Variance (vs. Limit)	RROA '1Q07	Q2 '07 Limit		Projected RROA '2Q07	Current B/S as of 3/30/07
	Limit	Actuals as of 11/30/06			Limit	Actuals as of 2/28/07			Gross	Net		
<b>BUSINESS UNIT</b>												
Liquid Markets	43,400	42,407	(993)	4.5%	43,600	41,840	(1,760)	4.1%	90,500	41,200	4.7%	70,835
Credit	25,775	26,839	1,064	9.0%	32,575	31,547	(1,028)	11.9%	39,600	33,000	8.9%	32,361
Real Estate	35,500	33,536	(1,964)	7.0%	36,500	39,209	2,709	5.4%	45,000	45,000	4.5%	43,949
Securitized Products	52,500	52,117	(383)	4.4%	52,500	61,241	8,741	2.3%	67,000	60,000	2.2%	77,086
Municipals	3,800	7,501	3,701	21.3%	6,800	7,987	1,187	5.0%	8,000	7,000	4.7%	10,104
FID Corporate	3,000	5,916	2,916	N/A	3,066	5,579	2,513	N/A	13,695	6,000	N/A	5,385
<b>TOTAL FID</b>	<b>167,800</b>	<b>171,025</b>	<b>3,225</b>	<b>5.3%</b>	<b>175,041</b>	<b>187,404</b>	<b>12,363</b>	<b>4.6%</b>	<b>263,795</b>	<b>192,200</b>	<b>4.0%</b>	<b>239,721</b>
Americas	119,410	125,932	6,522	3.5%	121,176	134,488	13,312	3.9%	188,580	133,000	3.6%	176,412
Europe	31,965	30,865	(1,100)	5.2%	35,439	35,626	187	4.6%	46,920	39,200	4.6%	42,026
Asia	16,425	14,227	(2,198)	5.3%	18,425	17,289	(1,136)	5.7%	28,295	20,000	5.0%	21,284
<b>TOTAL FID with Prime Services</b>	<b>170,500</b>	<b>174,332</b>	<b>3,832</b>		<b>178,041</b>	<b>191,732</b>	<b>13,691</b>		<b>344,270</b>	<b>195,200</b>		

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# Odd Lot Policy

February  
in millions

**Region**

TOTAL BALANCE SHEET			
	NET ASSETS	ODD LOTS	CONCENTRATION
Americas	134,488	10,964	8.15%
Europe	35,626	2,015	5.66%
Asia	17,289	1,990	11.51%
Global	187,404	14,969	7.99%

AGED BALANCE SHEET			
	NET ASSETS	ODD LOTS	CONCENTRATION
Americas	14,710	3,361	22.85%
Europe	1,824	385	21.13%
Asia	6,430	858	13.35%
Global	22,963	4,605	20.05%

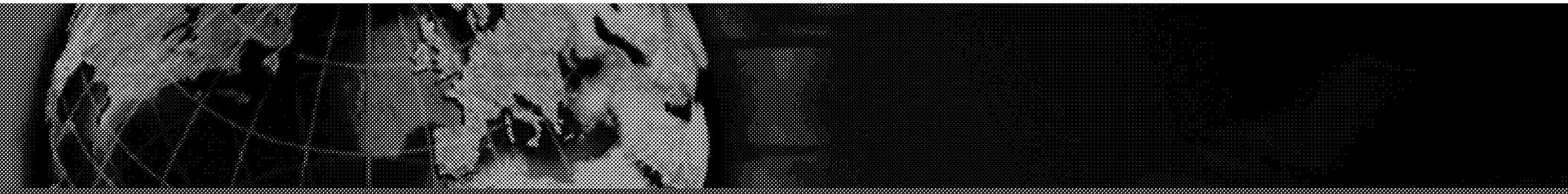
in mm's

POD	Total Odd Lots	Aged Inventory	Current Penalty Charge	Revised Penalty Charges (2x)	Revised Penalty Charges (4x)
SECURITIZED PRODUCTS	4,607	1,704	(1.8)	(3.5)	(7.0)
REAL ESTATE	2,272	780	(1.5)	(3.0)	(5.9)
LIQUID MARKETS	4,229	1,011	(0.8)	(1.6)	(3.1)
CREDIT	2,931	586	(0.2)	(0.5)	(0.9)
MUNICIPALS	268	141	(0.1)	(0.2)	(0.3)
FID CORPORATE	661	383	0.0	0.0	0.0
<b>TOTAL FID</b>	<b>14,969</b>	<b>4,605</b>	<b>(4.3)</b>	<b>(8.7)</b>	<b>(17.3)</b>

## Policy:

- Starting for June month end each businesses balance sheet limits will be reduced by an amount equal to 1/2 their odd lot balance sheet (May's odd lot balance sheet number will be used to calculate the reduction). This will be repeated for August month-end. The limit reduction will be based on the total odd lot balance sheet
- Starting for June month-end balance sheet, double the aging charges for odd lot positions (will be reflected in July's P&L). Starting for August month-end 4x penalty charges. The penalty charges will be based on aged odd lots

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# Appendix

# Americas - FID Q2 Balance Sheet Limit

(in \$mm's)	Q4 '06 Net Assets		Variance (vs.Limit)	Q1 '07 Net Assets		Variance (vs.Limit)	Q2 '07 Limit	
	Limit	Actuals as of 11/30/06		Limit	Actuals as of 2/28/07		Gross	Net
<b>BUSINESS UNIT</b>								
Liquid Markets	27,900	27,419	(481)	27,600	25,568	(2,032)	59,200	23,500
Credit	15,675	17,627	1,952	18,275	19,378	1,103	22,575	18,000
Real Estate	22,800	22,079	(721)	22,700	24,135	1,435	29,075	29,000
Securitized Products	45,000	45,600	600	43,325	53,554	10,229	57,125	50,000
Municipals	3,800	7,501	3,701	6,800	7,987	1,187	8,000	7,000
FID Corporate	2,410	4,123	1,713	2,476	3,866	1,390	12,605	5,500
<b>TOTAL FID</b>	<b>119,410</b>	<b>125,932</b>	<b>6,522</b>	<b>121,176</b>	<b>134,488</b>	<b>13,312</b>	<b>188,580</b>	<b>133,000</b>
<b>TOTAL FID with Prime Services</b>	<b>121,660</b>	<b>128,872</b>	<b>7,212</b>	<b>123,726</b>	<b>138,542</b>	<b>14,816</b>	<b>245,805</b>	<b>135,500</b>

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# Europe - FID Q2 Balance Sheet Limit

(in \$mm's)	Q4 '06 Net Assets			Q1 '07 Net Assets			Q2 '07 Limit	
	Limit	Actuals as of 11/30/06	Variance (vs. Target)	Limit	Actuals as of 2/28/07	Variance (vs. Target)	Gross	Net
<b>BUSINESS UNIT</b>								
Liquid Markets	9,150	9,395	245	9,650	10,443	793	15,750	10,700
Credit	5,750	6,040	290	9,899	8,151	(1,749)	11,955	10,500
Real Estate	7,300	7,158	(142)	8,125	9,404	1,279	10,250	10,000
Securitized Products	7,175	5,393	(1,782)	7,175	5,947	(1,228)	7,875	7,500
Municipals	-	-	-	-	-	-	-	-
FID Corporate	590	1,754	1,164	590	1,681	1,091	1,090	500
<b>TOTAL FID</b>	<b>31,965</b>	<b>30,865</b>	<b>(1,100)</b>	<b>35,439</b>	<b>35,626</b>	<b>187</b>	<b>46,920</b>	<b>39,200</b>
<b>TOTAL FID with Prime Services</b>	<b>32,415</b>	<b>31,232</b>	<b>(1,183)</b>	<b>35,889</b>	<b>35,901</b>	<b>11</b>	<b>63,170</b>	<b>39,700</b>

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# Asia - FID Q2 Balance Sheet Limit

(in \$mm's)	Q4 '06 Net Assets			Variance (vs. Target)	Q1 '07 Net Assets			Variance (vs. Target)	Q2 '07 Limit	
	Limit	Actuals as of 11/30/06			Limit	Actuals as of 2/28/07			Gross	Net
<b>BUSINESS UNIT</b>										
Liquid Markets	6,350	5,594	(756)	6,350	5,828	(522)	15,550	7,000		
Credit	4,350	3,173	(1,177)	4,400	4,018	(382)	5,070	4,500		
Real Estate	5,400	4,298	(1,102)	5,675	5,670	(5)	5,675	6,000		
Securitized Products	325	1,124	799	2,000	1,740	(260)	2,000	2,500		
Municipals	-	-	-	-	-	-	-	-		
FID Corporate	-	39	39	-	32	32	-	-		
<b>TOTAL FID</b>	<b>16,425</b>	<b>14,227</b>	<b>(2,198)</b>	<b>18,425</b>	<b>17,289</b>	<b>(1,136)</b>	<b>28,295</b>	<b>20,000</b>		
<b>TOTAL FID with Prime Services</b>	<b>16,425</b>	<b>14,228</b>	<b>(2,197)</b>	<b>18,425</b>	<b>17,289</b>	<b>(1,136)</b>	<b>35,295</b>	<b>20,000</b>		

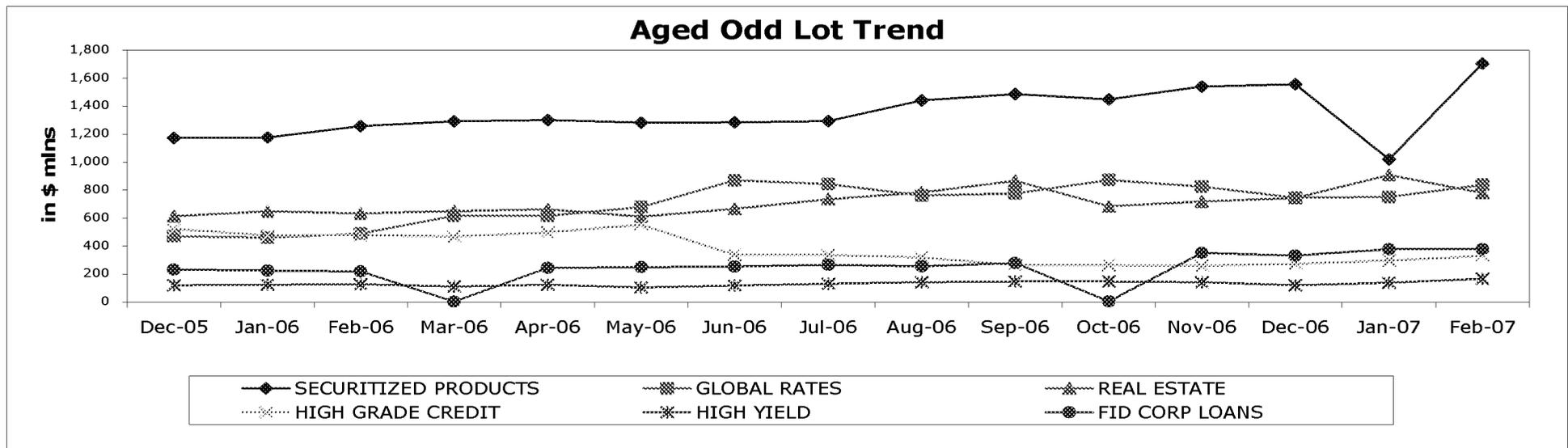
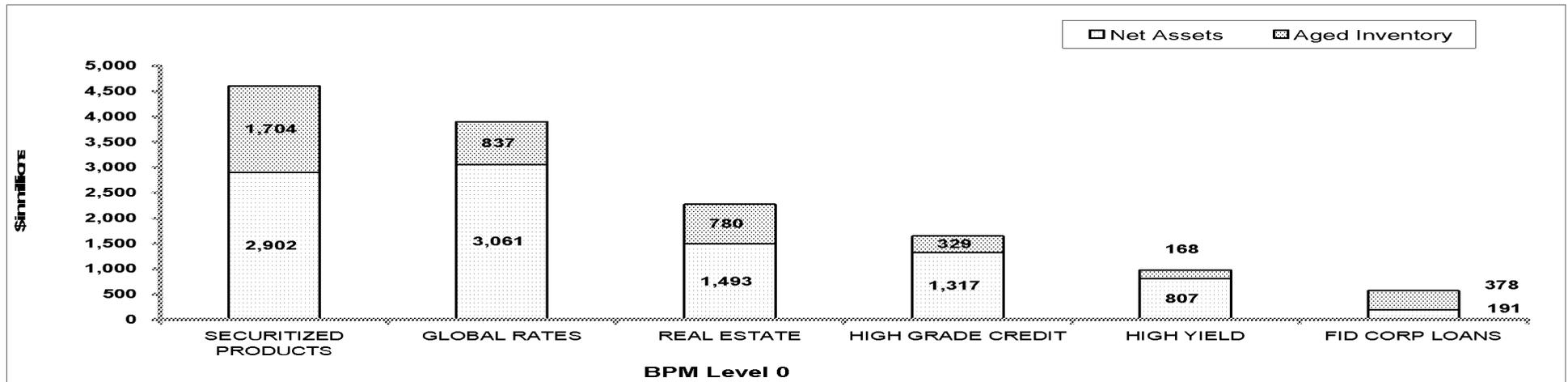
# Odd Lot Definitions - By BPM

## BPM Specific Odd Lot Definitions

<u>BPM</u>	<u>Market Value under</u>
• IRP	<10mm
• Mortgage Trading	<5mm
• High Grade	<5mm
• Real Estate	<5mm
• High Yield	<3mm
• Munis	<3mm
• Structured Finance	<3mm
• CDO	<5mm

# Aged Odd Lot Inventory by Business

- Of the 5 businesses with the largest odd lot balance sheet, all of them have aged concentrations of greater than 17% as of Feb 28th



# Aged Odd Lot Inventory by Region

in mmn's

POD	Region	Total Odd Lots	Aged Inventory	Current Penalty Charge	Revised Penalty Charges (2x)	Revised Penalty Charges (4x)
SECURITIZED PRODUCTS	AMERICAS	4,474	1,695	(1.8)	(3.5)	(7.0)
	EUROPE	117	9	(0.0)	(0.0)	(0.0)
	ASIA	16	0	0.0	0.0	0.0
<b>SECURITIZED PRODUCTS</b>		<b>4,607</b>	<b>1,704</b>	<b>(1.8)</b>	<b>(3.5)</b>	<b>(7.0)</b>
REAL ESTATE	AMERICAS	1,170	539	(0.3)	(0.5)	(1.0)
	EUROPE	149	3	0.0	0.0	0.0
	ASIA	953	238	(1.2)	(2.4)	(4.9)
<b>REAL ESTATE</b>		<b>2,272</b>	<b>780</b>	<b>(1.5)</b>	<b>(3.0)</b>	<b>(5.9)</b>
LIQUID MARKETS	AMERICAS	2,407	328	(0.1)	(0.2)	(0.5)
	EUROPE	1,141	243	(0.2)	(0.3)	(0.6)
	ASIA	682	440	(0.5)	(1.0)	(2.0)
<b>LIQUID MARKETS</b>		<b>4,229</b>	<b>1,011</b>	<b>(0.8)</b>	<b>(1.6)</b>	<b>(3.1)</b>
CREDIT	AMERICAS	2,102	330	(0.2)	(0.4)	(0.7)
	EUROPE	491	76	(0.0)	(0.0)	(0.1)
	ASIA	338	180	(0.0)	(0.0)	(0.1)
<b>CREDIT</b>		<b>2,931</b>	<b>586</b>	<b>(0.2)</b>	<b>(0.5)</b>	<b>(0.9)</b>
<b>MUNICIPALS</b>		<b>268</b>	<b>141</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.3)</b>
FID CORPORATE	AMERICAS	544	328	0.0	0.0	0.0
	EUROPE	118	55	0.0	0.0	0.0
<b>FID CORPORATE</b>		<b>661</b>	<b>383</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>TOTAL FID</b>		<b>14,969</b>	<b>4,605</b>	<b>(4.3)</b>	<b>(8.7)</b>	<b>(17.3)</b>