

Shotton, Paul

From: O'Meara, Chris M (NY)
Sent: Friday, January 04, 2008 9:07 AM
To: Shotton, Paul; Goodman, Jeffrey
Subject: FW: Revised Risk Appetite Limit

Importance: High

Attachments: Detailed Risk Appetite 101007.xls

Let's discuss today. Thx, C

From: Azerad, Robert
Sent: Friday, January 04, 2008 7:24 AM
To: O'Meara, Chris M (NY)
Subject: FW: Revised Risk Appetite Limit
Importance: High

Chris

Here it is. It obviously needs to be updated with 2008 revenues. Do you want me to use \$23.0 billion per the November budget presentations (which look very aggressive at this point - something in the \$21-22 billion range looks more realistic)?

Robert

From: Azerad, Robert
Sent: Wednesday, October 10, 2007 3:00 PM
To: O'Meara, Chris M (NY)
Cc: Callan, Erin; Grieb, Edward; Ng, Michelle
Subject: Revised Risk Appetite Limit
Importance: High

Chris

Based on today's discussion, I revised the risk appetite limit looking at the next twelve months (2007 Q4-2008 Q3, 2007 Q4 based on our projections, 2008 Q1-Q3 based on preliminary budget, which, because of our stance of new initiatives, should be seen as a "baseline" budget) and changing the performance target from 10% ROE to 10% ROTE. The risk appetite limit under these assumptions is \$4.0 billion.

Additionally, I calculated the quarterly impact based on different C&B ratio and tax rate assumptions. Net income during the "crisis" is at best break even and at worse showing a \$600 million loss.

This is obviously a quick analysis, which would require further work and refinements, if you are interested in pursuing this idea further.

Regards,

Robert

PS: If you want to rethink the risk appetite framework, I would suggest looking at the following issues

- 1) Changing the horizon from one year to one quarter
- 2) Retesting the downturn scenario assumptions using last summer as the starting point for modeling
- 3) Rethinking Principal Investing: what is PI's earnings generating capacity (alternatively, is RA supposed to losses or reduction from current revenue levels?)
- 4) Fixing the Equity - Risk Appetite relationship (the more equity Lehman has, the lower the risk appetite limit is). This last issue may require a significant amount of rework