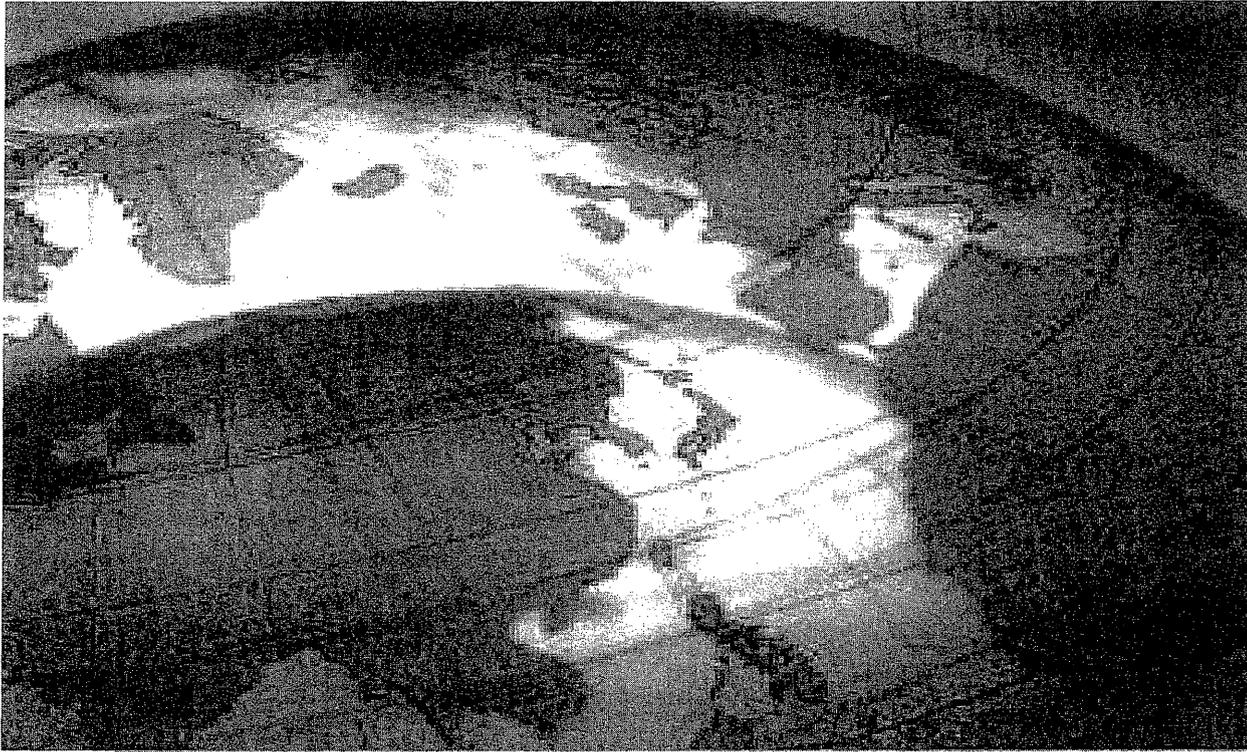


LEHMAN BROTHERS

Valuation & Control Report - Fixed Income Division

June 2008



LEHMAN BROTHERS

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I

Executive summary

Complex Derivatives Transaction Review Committee

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

- *Callable Credit Default Swap* – Lehman sold \$50 million of credit protection on Rio Tinto. The trade matures in October 2009. The premium that Lehman receives on the trade will be the greater of: 1) 105 bps per annum and 2) 105 bps per annum plus the change in the spread of the on-the-run iTraxx index. Furthermore, the counterparty can call the trade on specified dates with the first call date in October 2008. It is currently difficult to model the iTraxx component of the trade. However, the trade can be range-bounded by attributing zero value to the iTraxx component and assuming that Lehman will just be receiving premium of 105 bps per annum. The callable credit default swap can be decomposed into two parts: 1) a regular credit default swap that Lehman sold protection to the first call date and 2) a short position in a payer Bermudan-style CDS swaption from the first call date to the maturity date. Day 1 P/L has been held back.
- *Derivative Product Company (DPC) Lite Trade* – Similar to a monoline insurer, a triple-A rated DPC is allowed to sell credit protection without needing to post collateral. This allows DPC to achieve a very high leverage ratio. In a DPC-lite transaction, the credit derivative portfolio is static. Lehman bought \$1 billion of credit protection through three bespoke CDO trades with Flatrock, a DPC-lite entity. Bank of Nova Scotia entered into similar trades with Flatrock. The protections that Lehman purchased were equivalent to super senior tranches while the protections that Bank of Nova Scotia purchased were equivalent to senior tranches. However, Bank of Nova Scotia is also paying a much higher premium of 140 bps per annum compared to Lehman's premium of 20 bps per annum. Flatrock will issue \$40 million of Class A notes and \$10 million of Class B notes, of which Lehman will purchase \$19.1 million and \$2.4 million respectively. Noteholders will receive the premiums that Flatrock collects from the bespoke CDO trades less potential credit losses. The trade has a Day 1 P/L of \$10 million based on the MTM of the notes less present value of the premium that Lehman will be paying on its three bespoke CDO trades with Flatrock.
- *Minibond Trade* – In a minibond trade, a SPV issues a structured note with an embedded FTD swap. Lehman is the swap counterparty, and thus, buys protection on the FTD swap from the SPV. Furthermore, the SPV purchases a CDO note from Lehman with the principal proceeds from the structured note issuance. A valuation adjustment is taken for the possibility that the value of the CDO note is insufficient to pay Lehman on the FTD swap upon a default in the basket. As credit spreads widened, this risk became more material. As such, this valuation adjustment has increased to \$85 million as of February. Credit spreads have subsequently tightened. Therefore, this valuation adjustment will be reduced from \$85 million to \$65 million.

Executive summary

Valuation adjustments (increased by \$161mm from \$3,238mm to \$3,398mm, as detailed in section 2)

Significant changes include:

- Increase of \$95mm of counterparty valuation adjustments (\$37mm from Securitized Product Americas, \$25mm from Muni Americas, \$21mm from CDO Europe and \$12mm from CDO Americas) is attributable to: 1) increase in MTM on trades with monoline insurers and 2) increase in percentage of MTM needed to cover counterparty risk on trades with monoline insurers.
- Increase of \$31mm of spread bid / offer adjustments from CDO Europe is due to widening of bid / offer spreads.
- Increase of \$22mm of parameter uncertainty adjustments on recovery rate from CDO Europe is attributable to widening of credit spreads, particularly for monoline insurers.

Price verification projects (further details in section 3)

In recent months, the Valuation and Control group:

- Initiated price testing of Eagle Energy Partners portfolio
- Initiated price testing of heat rate options and distillates
- Increased FX skew testing coverage from 60% to 90%, submitted a total of 63 currency pairs (as well as local pairs from Europe and Asia) to outside pricing service and standardized methodology amongst global centers
- Initiated price testing of CMS spread options and CMS caps / floors
- Initiated price testing of FX cross volatilities
- Initiated output price testing with Totem on: FX FVA, FX barrier options and digital CMS options
- Initiated futures, ishares and FX forward price testing for hedge fund replication business in IRP
- Initiated price testing of inflation swaps and inflation caps

The group is currently working on the following improvements:

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

Executive summary

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

- Aggregate significant variance of \$1,174 million on the aggressive side, of which Americas is \$1,174 million on the aggressive side (re-marks of -\$559 million), Europe and Asia have no significant variances.
- There are \$524 million of aggressive significant variances attributable to Real Estate Americas. Real Estate positions are generally concentrated and/or illiquid. PCG is currently in discussions with the desk about taking markdowns prior to quarter-end.
- There are \$506 million of aggressive significant variances attributable to Securitized Product Americas. These variances are mainly attributable to residual, whole loan and prime legacy RMBS positions; the desk has taken markdowns of \$200 million, \$150 million and \$44 million respectively. PCG is comfortable with the remaining variances.

Significant Pricing Variance - Global FID			
in \$'000			
	<u>Re-marked</u>	<u>Resolved</u>	<u>Total</u>
Level 1	0	0	0
Level 2	(97,365)	(179,062)	(276,427)
Level 3	(461,387)	(102,834)	(564,221)
Consolidated Positions	0	(333,288)	(333,288)
Total	(558,753)	(615,184)	(1,173,937)

*Definition of pricing levels:

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

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

Level 3 : Unobservable inputs for the asset or liability.

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II

Valuation Adjustments

June 2008



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VALUATION ADJUSTMENTS – Significant changes

Region	Product	Description	Type	Current Month	Prior Month	Change	Comment
Americas	IRP	Deal Specific	Model	56,670	45,834	10,836	Increase is attributable to new trades.
Americas	FX	Skew - FX Options	Model	12,401	2,357	10,044	Skew adjustments for FX options on the MDJY book were transferred from Asia to the Americas.
Americas	Muni	Counterparty Valuation Adjustments	Credit	99,390	74,886	24,504	Increase is mainly attributable to: 1) new counterparty valuation adjustment on trades with Bluepoint and 2) increase in percentage of MTM needed to cover counterparty risk on trades with XLCA.
Americas	CDO	Counterparty Valuation Adjustments	Credit	35,570	23,794	11,776	Increase is mainly attributable to increase in percentage of MTM needed to cover counterparty risk on trades with XLCA and Bluepoint.
Americas	Commodities	Counterparty Valuation Adjustments	Credit	63,100	45,700	17,400	Increase is due to increase in MTM of uncollateralized trades.
Americas	Securitized Products	Counterparty Valuation Adjustments	Credit	1,493,450	1,456,747	36,703	Increase is mainly attributable to: 1) increase in MTM on trades with monoline insurers and 2) increase in percentage of MTM needed to cover counterparty risk on trades with monoline insurers.
Americas	Securitized Products	Prime - Reps and Warranties	Contingent Liabilities	176,305	187,479	(11,174)	Valuation adjustment is reduced as Lehman reimburses ALS for early payment defaults.
Europe	CDO	Bid / Offer - Delta	Bid / Offer	137,992	106,747	31,245	Increase is mainly attributable to widening of bid / offer spreads.
Europe	CDO	Model Calibration	Model	4,955	(15,033)	19,988	Due to market volatility, model value from base correlation model is not reflective of market value. Valuation adjustment needed to properly reflect the implied correlation skews for CDX and LCDX. Valuation adjustment was increased this month to true-up the value of non-super senior tranches.
Europe	CDO	Counterparty Valuation Adjustments	Credit	38,001	16,799	21,202	Increase is mainly attributable to: 1) increase in MTM on trades with monoline insurers and 2) increase in percentage of MTM needed to cover counterparty risk on trades with monoline insurers.
Europe	CDO	P&L Pending Deal Review	Valuation	11,601	23,358	(11,757)	Decrease is attributable to completion of deal reviews.
Europe	CDO	Parameter Uncertainty	Liquidity	108,610	86,793	21,817	Increase in parameter uncertainty adjustment on recovery rate is attributable to widening of credit spreads, particularly for monoline insurers.
Asia	FX	Model Adjustments	Model	2,622	15,932	(13,310)	Skew adjustments for FX options on the MDJY book were transferred from Asia to the Americas.
Subtotal				2,240,667	2,071,393	169,274	
Remaining Valuation Adjustments				1,157,705	1,166,444	(8,739)	
Total Valuation Adjustments				3,398,372	3,237,837	160,535	

VALUATION ADJUSTMENTS – Summary

Business	Total \$000	Contingent					Early		Valuation
		Model	Bid/Offer	Liabilities	Liquidity	Credit	Expense	Termination	
Liquid Market Prop	7,294	679	6,615	-	-	-	-	-	-
Interest Rate Products	484,103	210,081	71,473	-	33,718	11,988	-	110,163	46,680
Foreign Exchange	37,061	6,795	18,575	-	-	-	-	4,139	7,552
High Grade Credit	56,973	1,494	45,383	3,448	3,840	1,469	1,339	-	-
CDO	598,179	72,457	142,668	145,931	121,729	73,571	24,053	3,991	13,779
High Yield	52,557	(1,800)	48,866	1,000	-	-	1,507	-	2,984
Real Estate	46	-	-	-	-	-	46	-	-
Munis	115,222	1,021	7,597	-	-	100,101	-	-	6,503
Securitized Products	1,842,725	-	53,051	273,897	742	1,500,308	14,727	-	-
Commodities Trading	176,135	23,456	63,178	-	3,001	63,100	-	-	23,400
FID Corporate	28,077	524	21,397	-	1,440	-	-	4,716	-
Total FID Valuation Adjustments	3,398,372	314,707	478,803	424,276	164,470	1,750,537	41,672	123,009	100,898

VALUATION ADJUSTMENTS – Regional matrix

America	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
Liquid Markets Prop	5,282	-	5,282	-	-	-	-	-	-
Interest Rate Products	112,677	84,535	12,114	-	9,540	6,488	-	-	-
Foreign Exchange	36,529	20,796	13,015	-	-	-	-	2,718	-
High Grade Credit	37,719	554	32,293	-	3,840	898	134	-	-
CDO	78,726	8,562	3,737	9,723	-	35,570	21,134	-	-
High Yield	40,722	(1,800)	41,522	1,000	-	-	-	-	-
Munis	115,222	1,021	7,597	-	-	100,101	-	-	6,503
Securitized Products	1,812,676	-	49,336	253,874	-	1,500,308	9,158	-	-
Commodities Trading	128,000	-	41,500	-	-	63,100	-	-	23,400
FID Corporate	6,205	-	6,205	-	-	-	-	-	-
Total America	2,373,758	113,668	212,601	264,597	13,380	1,706,465	30,426	2,718	29,903
Europe									
Capital Mkts Fund JV	111,752	8,511	5,836	-	-	-	-	97,405	-
Liquid Markets Prop	2,393	1,060	1,333	-	-	-	-	-	-
Interest Rate Products	208,550	102,409	35,673	-	17,389	500	-	12,758	39,821
Foreign Exchange	(2,751)	(16,623)	4,899	-	-	-	-	1,421	7,552
Commodities Trading	42,297	19,587	19,709	-	3,001	-	-	-	-
High Grade Credit	11,936	-	8,488	3,448	-	-	-	-	-
High Yield Credit	6,780	-	5,621	-	-	-	-	-	1,159
CDO	516,366	63,895	138,889	136,208	121,729	38,001	-	3,991	13,653
Securitized Products	24,480	-	3,715	20,023	742	-	-	-	-
FID Corporate	17,055	524	11,815	-	-	-	-	4,716	-
Total Europe	938,858	179,363	235,978	159,679	142,861	38,501	-	120,291	62,185
Asia									
Liquid Markets Prop	(381)	(381)	-	-	-	-	-	-	-
Interest Rate Products	51,124	14,626	17,850	-	6,789	5,000	-	-	6,859
High Grade Credit	7,318	940	4,602	-	-	571	1,205	-	-
CDO	3,087	-	42	-	-	-	2,919	-	126
Foreign Exchange	3,283	2,622	661	-	-	-	-	-	-
High Yield Credit	5,055	-	1,723	-	-	-	1,507	-	1,825
Real Estate	46	-	-	-	-	-	46	-	-
Securitized Products	5,569	-	-	-	-	-	5,569	-	-
Commodities Trading	5,838	3,869	1,969	-	-	-	-	-	-
FID Corporate	4,817	-	3,377	-	1,440	-	-	-	-
Total Asia	85,756	21,676	30,224	-	8,229	5,571	11,246	-	8,810
Global Total	3,398,372	314,707	478,803	424,276	164,470	1,750,537	41,672	123,009	100,898

VALUATION ADJUSTMENTS – Americas

America - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
LIQUID MARKETS PROP	5,282	0	5,282	0	0	0	0	0	0
Bid/Offer Adjustment	4,708		4,708						
FX Prop Bid/Offer Adjustment	574		574						
FID DERIVATIVES	112,677	84,535	12,114	0	9,540	6,488	0	0	0
Liquidity Adjustment	9,540				9,540				
Option Model Adjustment	27,865	27,865							
CVA	6,488					6,488			
Spread Bid/Offer	6,193		6,193						
Volatility Bid/Offer	5,921		5,921						
Deal Specific	56,670	56,670							
FOREIGN EXCHANGE	36,529	20,796	13,015	0	0	0	0	2,718	0
Bid/Offer	13,015		13,015						
FX Deal Specific - Model	6,790	6,790							
FX Deal Specific - Early Termination Adjustment	2,718							2,718	
Skew - Local Markets	1,605	1,605							
Skew - FX Options	12,401	12,401							
HIGH GRADE CREDIT	37,719	554	32,293	0	3,840	898	134	0	0
Bid/Offer - Credit US	23,216		23,216						
Credit Adjustment - Enron	898					898			
Bid Offer Latin	2,158		2,158						
Other Adjustments - Latin	8,978	554	6,919		1,505				
Deal Specific Adjustments - Latin	2,469				2,335		134		
CDOs	78,726	8,562	3,737	9,723	0	35,570	21,134	0	0
Expense Adjustment	21,134						21,134		
Contingent Liability	9,723			9,723					
Counterparty Valuation Adjustment	35,570					35,570			
Volatility Adjustment	171		171						
Bid / Offer - Delta	3,566		3,566						
Model Adjustment	8,562	8,562							

VALUATION ADJUSTMENTS – Americas

America - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
HIGH YIELD	40,722	(1,800)	41,522	1,000	0	0	0	0	0
Tax Indemnity Adjustment ANC (Fid Corp Loans)	1,000			1,000					
CDS Bid Offer (FID Corp Loans)	9,193		9,193						
Bid/Offer - SCT/Bonds/Distressed	32,329		32,329						
Model	(1,800)	(1,800)							
MUNIS	115,222	1,021	7,597	0	0	100,101	0	0	6,503
CDS Model Adjustment	696	696							
Counterparty Credit Adjustment	99,390					99,390			
New Business Timing Items for deals not closed	5,526								5,526
Derivatives Bid/Offer	7,597		7,597						
Libor Discounting / MMD Rate Lock valuation adj	325	325							
DSRF Put Valuation Adjustment	977								977
Cornell DSRF Credit Reserve	711					711			
SEURITIZED PRODUCTS	1,812,676	0	49,336	253,874	0	1,500,308	9,158	0	0
SCOR - Counterparty Credit Adjustment (trigger event)	2,500					2,500			
CAT - Beazley Deal Adjustment (trigger event)	2,402			2,402					
PFG - Contingent Liabilities/Referral Fees	2,123			2,123					
ABS - Bid / Offer Adjustment	34,218		34,218						
ABS - Counterparty Credit Adjustment	1,493,450					1,493,450			
Non Prime - Home Express (MGIC insurance)	17,042			17,042					
Non Prime - Reps and Warranties	28,003			28,003					
Non Prime - FHA/VA recourse risk	11,864			11,864					
Non Prime - Deal expenses/Due diligence	2,181						2,181		
Prime - Deal expenses/Due diligence	6,856						6,856		
Other - Deal expenses/Due diligence	121						121		
Non Resi - SBA Servicing Liabilities	6,862			6,862					
Loan loss adjustment	350			350					
Agency Remics/Strips - Non economic residuals	1,942			1,942					
Non Prime - Bid / Offer Adjustment	8,384		8,384						
Prime - Bid / Offer Adjustment	6,734		6,734						
Prime - Reps and Warranties	176,305			176,305					
Mandatory Auction Adjustment	6,981			6,981					
PFR Credit Adjustment	4,358					4,358			
COMMODITIES TRADING	128,000	0	41,500	0	0	63,100	0	0	23,400
Bid / Offer	41,500		41,500						
Deal Specific	23,400								23,400
Counterparty Credit Adjustment	63,100					63,100			
FID CORPORATE	6,205	0	6,205	0	0	0	0	0	0
CDO/SCT - Bid / Offer (range bounding)	6,205		6,205						
FID AMERICA TOTAL VALUATION ADJS	2,373,758	113,668	212,601	264,597	13,380	1,706,465	30,426	2,718	29,903

VALUATION ADJUSTMENTS – Europe

Europe - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
FID DERIVATIVES	208,550	102,409	35,673	0	17,389	500	0	12,758	39,821
Bid-offer : Correlation	28,197		28,197						
Bid-offer : Delta	5,255		5,255						
Bid-offer : Vega	1,932		1,932						
Contractual Early Termination Valuation Adjustment	12,758							12,758	
Counterparty Credit	500					500			
Funding Cost	39,596								39,596
Model : Approximation	2,660	2,660							
Model : Barrier shift	11,602	11,602							
Model : Calibration	2,094	2,094							
Model : Fit	33,488	33,488							
Model : Skew	39,641	39,641							
Model : Unapproved model	12,924	12,924							
Parameter Uncertainty	17,389				17,389				
Deal Specific - To be re-categorised (Gov't)	225								225
Bid-offer : Delta (Gov't)	289		289						
COMMODITIES TRADING	42,297	19,587	19,709	0	3,001	0	0	0	0
Parameter Uncertainty	3,001				3,001				
Bid-offer : Correlation	3,774		3,774						
Bid-offer : Delta	14,676		14,676						
Bid-offer : Vega	1,259		1,259						
Model : Skew	3,706	3,706							
Model : Unapproved model	15,881	15,881							
CAPITAL MARKETS FUND DERIVATIVES JV	111,752	8,511	5,836	0	0	0	0	97,405	0
Bid-offer : Vega	5,836		5,836						
Contractual Early Termination Valuation Adjustment	97,405							97,405	
Model : Skew	8,511	8,511							
CDO	516,366	63,895	138,889	136,208	121,729	38,001	0	3,991	13,653
Bid-offer : Delta	137,992		137,992						
Bid-offer : Vega	897		897						
Contingent Deal	22,063			22,063					
Contingent Liability	114,145			114,145					
Counterparty Valuation Adjustment	38,001					38,001			
Funding Cost	2,052								2,052
Model : Approximation	29,233	29,233							
Contractual Early Termination Valuation Adjustment	642							642	
Model : Calibration	4,955	4,955							
Model : Fit	28,856	28,856							
Model : Skew	851	851							
Non-Contractual Early Termination Valuation Adjustment	3,349							3,349	
Parameter Uncertainty	108,610				108,610				
P&L pending deal review	11,601								11,601
Liquidity Concentration	13,119				13,119				

VALUATION ADJUSTMENTS – Europe

Europe - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
HIGH GRADE CREDIT	11,936	0	8,488	3,448	0	0	0	0	0
Bid-offer : Delta	8,488		8,488						
Contingent Liability	3,448			3,448					
HIGH YIELD CREDIT	6,780	0	5,621	0	0	0	0	0	1,159
Bid-offer : Delta	2,389		2,389						
Deal Specific - To be re-categorised	418								418
Bid-offer : Delta (FID Corp Loans)	1,412		1,412						
Bid-offer : Delta (High Yield EEMEA)	1,820		1,820						
Deal Specific - To be re-categorised (High Yield EEMEA)	741								741
LIQUID MARKETS PROP	2,393	1,060	1,333	0	0	0	0	0	0
Bid-offer : Delta	1,333		1,333						
Model : Skew	1,060	1,060							
FX	(2,751)	(16,623)	4,899	0	0	0	0	1,421	7,552
Bid-offer : Delta	365		365						
Bid-offer : Vega	4,534		4,534						
Model : Skew	(16,623)	(16,623)							
Non-Contractual Early Termination Valuation Adjustment	1,421							1,421	
Deal Specific - To be re-categorised (FX EEMEA)	7,552								7,552
SEURITIZED PRODUCTS	24,480	0	3,715	20,023	742	0	0	0	0
Contingent Liability	20,023			20,023					
Bid-offer : Delta	3,715		3,715						
Parameter Uncertainty	742				742				
FID Corporate	17,055	524	11,815	0	0	0	0	4,716	0
Bid-offer	11,815		11,815						
Contractual Early Termination Valuation Adjustment	4,716							4,716	
Model : Skew	524	524							
FID EUROPE TOTAL VALUATION ADJS	938,858	179,363	235,978	159,679	142,861	38,501	0	120,291	62,185

VALUATION ADJUSTMENTS – Asia

Asia - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
LIQUID MARKETS PROP	(381)	(381)	0	0	0	0	0	0	0
Model	(381)	(381)							
FID DERIVATIVES	51,124	14,626	17,850	0	6,789	5,000	0	0	6,859
Bid/Offer	17,850		17,850						
Model Adjustment	14,626	14,626							
Liquidity Adjustment	6,789				6,789				
Credit Adjustment	5,000					5,000			
CMT Proxy Marking Adjustment	4,282								4,282
Exotics Price Testing Adjustment	2,577								2,577
HIGH GRADE CREDIT	7,318	940	4,602	0	0	571	1,205	0	0
Documentation adjustments	688						688		
Bid/Offer	4,601		4,601						
Corr and Vol - CMDS	940	940							
Early Termination Adjustment	0							0	
Adjustment against claim for Enron Deal Specific	400					400			
	689		1			171	517		
CDO	3,087	0	42	0	0	0	2,919	0	126
Belle Haven II PPN \$6.3m equity tranche	126								126
Documentation and legal fee adjustments	2,919						2,919		
Bid/Offer Adjustments	42		42						
FX	3,283	2,622	661	0	0	0	0	0	0
Bid / Offer Adjustment	661		661						
Model Adjustment	2,622	2,622							

VALUATION ADJUSTMENTS – Asia

Asia - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
HIGH YIELD	5,055	0	1,723	0	0	0	1,507	0	1,825
Expense Adjustments	1,507						1,507		
Bid/Offer Adjustment	1,723		1,723						
Deal Specific Adjustment	1,825								1,825
REAL ESTATE	46	0	0	0	0	0	46	0	0
Expense Adjustment	46						46		
SECURITIZED PRODUCTS	5,569	0	0	0	0	0	5,569	0	0
Expense Adjustment	3,440						3,440		
Adjustment for Receivable of GTFS's Buyer and Legal Expenses	2,129						2,129		
Commodities Trading	5,838	3,869	1,969	0	0	0	0	0	0
Bid / Offer Adjustment	1,969		1,969						
Model Adjustment	3,869	3,869							
FID CORP	4,817	0	3,377	0	1,440	0	0	0	0
Bid / Offer	41		41						
Liquidity	1,440				1,440				
Range-bounding Adjustment	3,336		3,336						
FID ASIA TOTAL VALUATION ADJS	85,756	21,676	30,224	0	8,229	5,571	11,246	0	8,810

VALUATION ADJUSTMENTS – Monthly changes

Business	Total	Contingent					Early		Valuation
		Model	Bid/Offer	Liabilities	Liquidity	Credit	Expense	Termination	
Liquid Market Prop	(463)	(173)	(671)	-	381	-	-	-	-
Interest Rate Products	(1,734)	4,957	(4,798)	-	1,033	(566)	-	(1,778)	(582)
Foreign Exchange	(5,720)	(5,855)	173	-	-	-	-	566	(604)
High Grade Credit	1,750	12	720	(129)	1,199	124	(176)	-	-
CDO	93,410	15,691	31,785	(65)	21,824	32,978	2,451	64	(11,318)
High Yield	(6,200)	(1,800)	(3,068)	-	-	-	(82)	-	(1,250)
Real Estate	(17)	-	-	-	-	-	(17)	-	-
Munis	19,960	71	(1,072)	-	-	24,504	-	-	(3,543)
Securitized Products	34,585	-	(1,114)	2,559	12	34,176	(1,048)	-	-
Commodities Trading	24,752	4,521	5,614	-	(2,483)	17,400	-	-	(300)
FID Corporate	212	-	246	-	-	-	-	(34)	-
Total FID Adjustments	160,535	17,424	27,815	2,365	21,966	108,616	1,128	(1,182)	(17,597)

VALUATION ADJUSTMENTS – Monthly changes

	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
America									
Liquid Markets Prop	(671)	-	(671)	-	-	-	-	-	-
Interest Rate Products	9,725	10,864	(1,193)	-	620	(566)	-	-	-
Foreign Exchange	12,272	10,478	1,147	-	-	-	-	647	-
High Grade Credit	1,065	12	(112)	-	1,199	(34)	-	-	-
CDO	9,494	(2,136)	(143)	-	-	11,776	(3)	-	-
High Yield Credit	(4,315)	(1,800)	(2,515)	-	-	-	-	-	-
Munis	19,960	71	(1,072)	-	-	24,504	-	-	(3,543)
Securitized Products	33,595	-	(2,023)	2,417	-	34,176	(975)	-	-
Commodities Trading	24,200	(1,700)	8,800	-	-	17,400	-	-	(300)
FID Corporate	-	-	-	-	-	-	-	-	-
Total America	105,325	15,789	2,218	2,417	1,819	87,256	(978)	647	(3,843)
Europe									
Capital Mkts Fund JV	3,312	107	1,897	-	-	-	-	1,308	-
Liquid Markets Prop	208	208	-	-	-	-	-	-	-
Interest Rate Products	(18,431)	(7,623)	(7,448)	-	228	-	-	(3,086)	(502)
Foreign Exchange	(3,708)	(3,023)	-	-	-	-	-	(81)	(604)
Commodities Trading	(2,902)	3,720	(4,139)	-	(2,483)	-	-	-	-
High Grade Credit	(304)	-	(175)	(129)	-	-	-	-	-
High Yield Credit	(1,660)	-	(457)	-	-	-	-	-	(1,203)
CDO	81,462	17,827	31,928	(65)	21,824	21,202	-	64	(11,318)
Securitized Products	1,063	-	909	142	12	-	-	-	-
FID Corporate	212	-	246	-	-	-	-	(34)	-
Total Europe	59,252	11,216	22,761	(52)	19,581	21,202	-	(1,829)	(13,627)
Asia									
Liquid Markets Prop	-	(381)	-	-	381	-	-	-	-
Interest Rate Products	3,660	1,609	1,946	-	185	-	-	-	(80)
High Grade Credit	989	-	1,007	-	-	158	(176)	-	-
CDO	2,454	-	-	-	-	-	2,454	-	-
Foreign Exchange	(14,284)	(13,310)	(974)	-	-	-	-	-	-
High Yield Credit	(225)	-	(96)	-	-	-	(82)	-	(47)
Real Estate	(17)	-	-	-	-	-	(17)	-	-
Securitized Products	(73)	-	-	-	-	-	(73)	-	-
Commodities Trading	3,454	2,501	953	-	-	-	-	-	-
FID Corporate	-	-	-	-	-	-	-	-	-
Total Asia	(4,042)	(9,581)	2,836	-	566	158	2,106	-	(127)
Global Total	160,535	17,424	27,815	2,365	21,966	108,616	1,128	(1,182)	(17,597)

LEHMAN BROTHERS

Pricing Report

June 2008



LEHMAN BROTHERS

Where vision gets built.sm

PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
<i>Americas</i>								
IRP - Governments	Egypt Government Bonds	2	MV	682,829	(15,643)		(15,643)	PCG is in discussion with desk regarding this variance. Actual variance is 2.3%.
IRP - Governments	Agencies - Subordinated Debt	2	MV	180,558	(42,359)	(42,359)		Some of the positions have been sold; the others were remarked.
Commodities	Power Delta - ERCOT	2	PV01	N/A	(21,981)	(21,981)		Remarkd.
High Grade	STAPLES BRIDGE 04-01-08/REVOLV	2	MV	764,302	(2,264)		(2,264)	Variance is due to size of position held. Actual variance is 0.3%.
High Grade	CLP HOLDINGS LLC (1/2/08)/TERM	2	MV	210,906	1,594		1,594	Variance is due to size of position held. Actual variance is 0.8%.
High Grade	ALCOA INC. (1/31/08)/REVOLVER	2	MV	497,500	910		910	Variance is due to size of position held. Actual variance is 0.2%.
High Grade	WHITE MOUNTAINS (6/19/07)/5-YR	2	MV	28,031	639		639	Variance is due to size of position held. Actual variance is 2.3%.
High Grade	LEHMAN BROTHERS HOLDINGS INC	2	MV	34,084	(522)	(522)		Remarkd.
High Grade	PEMEX PROJ FDG MASTER TR	2	MV	39,609	(512)		(512)	Variance is due to size of position held. Actual variance is 1.3%.
High Grade	TRANSOCEAN 2 YR TERM LOAN	2	MV	54,533	504		504	Variance is due to size of position held. Actual variance is 0.9%.
High Grade	MAN GROUP FINANCE BRIDGE	2	MV	49,500	500		500	Variance is due to size of position held. Actual variance is 1.0%.
High Grade	S	2	PV01	617	(2,200)		(2,200)	Re-tested in July and variance was within threshold.
High Grade	CIT	2	PV01	258	(1,433)		(1,433)	PCG substantiated desk mark with trading activities.
High Grade	SFI	2	PV01	192	(1,178)		(1,178)	PCG substantiated desk mark with trading activities.
High Grade	PHM	2	PV01	337	(1,114)		(1,114)	Pulte Homes is a volatile name. Desk marked within 2 standard deviations away from Totem mean.
High Grade	LEN	2	PV01	322	(947)		(947)	Lennar is a volatile name trading at wide spreads. Desk marked within 1.5 standard deviations away from Totem mean.
High Grade	L	2	PV01	248	(909)		(909)	Desk mark is within bid/offer spreads.
High Grade	CCR	2	PV01	531	(859)		(859)	Countrywide is a volatile name. Desk marked approximately 1 standard deviation away from Totem mean.
High Grade	CDX_IG_0613	2	PV01	3,731	(1,683)		(1,683)	Variance is due to size of position held. Actual variance is 0.5 bp.
High Grade	CDX_IG_0612	2	PV01	2,316	1,354		1,354	Variance is due to size of position held. Actual variance is 0.6 bp.
High Grade	CDX_IG_0611	2	PV01	1,232	1,022		1,022	Variance is due to size of position held. Actual variance is 0.8 bp.

PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
High Yield	HD SUPPLY (8/30/07)/USD REVOLV	2	MV	76,200	(1,305)		(1,305)	Variance is due to size of position held. Actual variance is 1.7%.
High Yield	HD SUPPLY (8/30/07)/USD REVOLV	2	MV	71,438	(1,223)		(1,223)	Variance is due to size of position held. Actual variance is 1.7%.
High Yield	HD SUPPLY (8/30/07)/USD REVOLV	2	MV	49,772	(852)		(852)	Variance is due to size of position held. Actual variance is 1.7%.
High Yield	HD SUPPLY (8/30/07)/CAD REVOLV	2	MV	39,763	(681)		(681)	Variance is due to size of position held. Actual variance is 1.7%.
High Yield	US INVESTIGATION SERVICES	2	MV	50,895	1,202		1,202	Variance is due to size of position held. Actual variance is 2.4%.
High Yield	FIRST DATA CORP (9/24/07-CS)	2	MV	202,942	1,153		1,153	Variance is due to size of position held. Actual variance is 0.6%.
High Yield	TRIBUNE COMPANY (6/04/07) 8 BI	2	MV	96,958	(1,116)		(1,116)	Variance is due to size of position held. Actual variance is 1.2%.
High Yield	METAVANTE CORP.	2	MV	27,600	946		946	Variance is due to size of position held. Actual variance is 3.4%.
High Yield	INTERGEN N.V. \$1.5BN 07-31-07	2	MV	26,121	845		845	Variance is due to size of position held. Actual variance is 3.2%.
High Yield	LKQ CORPORATION 10/12/07/USD	2	MV	14,325	(712)	(712)		Remarkd.
High Yield	HTN	2	PV01	81	(7,613)		(7,613)	Illiquid name with recurring monthly variance. Trader provided support to substantiate its mark by referencing to Riverdeep first lien loan CDS (HTN was recently acquired by Riverdeep) since HTN bonds (deliverable for HTN CDS) are pari-passu with Riverdeep first lien loans.
High Yield	PRM	2	PV01	73	(7,224)		(7,224)	External data is unreliable. PCG will follow-up.
High Yield	SBGI	2	PV01	69	(3,394)		(3,394)	PCG is in discussion with desk regarding this variance.
High Yield	THC	2	PV01	225	(2,726)		(2,726)	PCG is currently developing new tolerance thresholds. Variance is within proposed tolerance thresholds.
High Yield	MGM	2	PV01	281	(2,709)		(2,709)	PCG is currently developing new tolerance thresholds. Variance is within proposed tolerance thresholds.
High Yield	KBH	2	PV01	91	(2,708)		(2,708)	PCG is currently developing new tolerance thresholds. Variance is within proposed tolerance thresholds.
High Yield	HCA	2	PV01	410	(2,412)		(2,412)	Desk mark is within bid/offer spread.
High Yield	NCX	2	PV01	171	(2,323)	(2,323)		Remarkd.
High Yield	CDX_HY_100_0610_X5	2	PV01	332	(5,315)		(5,315)	Re-tested in July and variance was within threshold.
High Yield	CDX_HY_100_S9_1210_X1	2	PV01	556	(3,488)		(3,488)	PCG substantiated desk mark with trading activities.

PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Marked \$'000	Resolved \$'000	Resolution
Bank Loans	GENERAL ELECT CAPITAL CORP	2	MV	612,500	(6,404)		(6,404)	Variance is due to size of position held. Actual variance is 1.0%.
Bank Loans	OZ MANAGEMENT 7/2/07/TERM LOAN	2	MV	201,875	(3,657)		(3,657)	Variance is due to size of position held. Actual variance is 1.8%.
Bank Loans	GMAC LLC [6-4-08]/SENIOR SECUR	2	MV	394,529	3,282		3,282	Variance is due to size of position held. Actual variance is 0.8%.
Bank Loans	GECC 5YR 5/14/07 - LCPIA	2	MV	162,825	(2,919)		(2,919)	Variance is due to size of position held. Actual variance is 1.8%.
Bank Loans	GENERAL ELECT CAPITAL CORP	2	MV	245,000	(2,562)		(2,562)	Variance is due to size of position held. Actual variance is 1.0%.
Bank Loans	MAN GROUP FINANCE RC (6/15/07)	2	MV	71,250	2,024		2,024	Variance is due to size of position held. Actual variance is 2.8%.
Bank Loans	GENWORTH FINANCIAL INC A&R 5YR	2	MV	66,850	(1,921)		(1,921)	Variance is due to size of position held. Actual variance is 2.9%.
Bank Loans	BEST BUY CO (9/19/07)/5YR MULT	2	MV	173,250	1,913		1,913	Variance is due to size of position held. Actual variance is 1.1%.
Bank Loans	EPKO/TERM LOAN A-1 EURO	2	MV	60,421	(1,783)		(1,783)	Variance is due to size of position held. Actual variance is 3.0%.
Bank Loans	SLM CORP 5YR 2BN 10/20/05	2	MV	91,000	(1,877)		(1,877)	Variance is due to size of position held. Actual variance is 2.1%.
Bank Loans	TXU ENERGY (10/10/07) CITI/REV	2	MV	272,311	(1,751)		(1,751)	Variance is due to size of position held. Actual variance is 0.6%.
CDO	CARLYLE LOAN INVESTMENT LTD	2	MV	74,420	(677)		(677)	Variance is due to size of position held. Actual variance is 0.9%.
CDO	NEWS AMERICA HOLDINGS-CORP	2	MV	38,923	669		669	Variance is due to size of position held. Actual variance is 1.7%.
Emerging Market	VENZ	2	PV01	823	(774)		(774)	Desk mark is within bid / offer spread.
Emerging Market	ARGENT	2	PV01	610	(583)		(583)	External price may be unreliable. PCG performed alternative procedure and was comfortable with desk mark.
Muni - Cash	NORTHERN CALIF GAS AUTH NO 1	2	MV	67,374	(3,855)		(3,855)	There were no prior trades in May or June. This is an illiquid FRN position. Actual variance is 5.7%.
Muni - Cash	MICHIGAN ST UNIV REVS GEN-SER	2	MV	7,400	627		627	This is an illiquid FRN position and desk has marked conservatively to external price.
Muni - Cash	MASSACHUSETTS ST G/O SER A CON	2	MV	20,000	804		804	This is an illiquid FRN position and desk has marked conservatively to external price.
Muni - Cash	ALLEGHENY CNTY PA HOSP DEV AUT	2	MV	7,200	1,113		1,113	This is an illiquid FRN position and desk has marked conservatively to external price.
Muni - Cash	ALLEGHENY CNTY PA HOSP DEV AUT	2	MV	7,200	1,113		1,113	This is an illiquid FRN position and desk has marked conservatively to external price.
Muni - Cash	ALLIANCE ARPT AUTH INC TEX SPL	2	MV	14,500	(1,581)	(1,581)		Marked.

PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
Muni - Cash	HILLSBOROUGH CNTY FLA AVIATION	2	MV	1,339	(857)		(857)	Delta Airline bonds. The \$5mm notional Hillsborough County position is part of the total outstanding of \$8mm bonds related to a maintenance facility which the lease has already been rejected by the courts. This is a work-out situation and the desk has marked the position to 25 but will re-value when further information becomes available. PCG agrees with desk valuation.
Muni - Cash	CHICAGO ILL G/O BRD ED-SCH REF	2	MV	11,943	(765)		(765)	Entire position has been sold.
Muni - Cash	MINNEAPOLIS ST PAUL MINN HSG (AMT)	2	MV	40,011	502		502	Bonds are priced to average life and IDC is pricing to maturity, and thus, ignoring the quicker prepayment of this structure. Desk also disagrees with IDC's valuations on similar bonds. The desk is in discussion with IDC to explain how these bonds should be valued.
Muni - Cash	MICHIGAN TOB SETTLEMENT FIN AU	2	MV	8,464	645		645	PCG substantiated desk mark with trading activity.
Muni - Cash	GARDEN ST PRESERVATION TR N J	2	MV	45,344	712		712	Variance is due to size of position held. Actual variance is 1.6%.
Muni - Cash	PUERTO RICO COMWLTH INFRASTRUC	2	MV	24,600	1,295		1,295	There has been no recent trading activity. PCG is comfortable with conservative mark since position is illiquid.
Muni - Cash	Harris County Health Facilities Dev. Corp. St Lukes	2	MV	12,476	1,354		1,354	External pricing service prices these bonds to maturity. Front office marks to the par call date. Front office pricing methodology is consistent with "price-to-worst" convention practiced in the market.
Securitized Product	Reconstituted NIMs	3	MV	64,676	5,235		5,235	Desk prices fall within PCG's stressed base case assumptions.
Securitized Product	Residuals	3	MV	944,971	(293,542)	(293,542)		Desk has taken \$200 million of markdowns.
Securitized Product	NIMs	3	MV	62,041	480		480	Desk prices fall within PCG's stressed base case assumptions.
Securitized Product	PRIME - Legacy RMBS Positions	2	MV	404,047	(27,886)	(27,886)		Remarkd.
Securitized Product	PRIME - Legacy RMBS Positions	3	MV	220,523	(15,845)	(15,845)		Remarkd.
Securitized Product	Whole Loans	3	MV	610,063	(152,000)	(152,000)		Desk has taken \$150 million of markdowns.
Securitized Product	CEAGO 2007-1A A1 CEAGO ABD CDO	3	MV	837,385	(26,842)		(26,842)	ABS CDO market has been extremely illiquid and volatile. PCG derived price based on value of underlying securities. Position was hedged by purchasing CDS protection from XL Capital. Positive variance from the CDS has been netted with negative variance from cash position to generate net negative variance balance. Actual variance is 3.2%.
Securitized Product	CEAGO 2007-1A A2 CEAGO ABD CDO	3	MV	76,167	404		404	ABS CDO market has been extremely illiquid and volatile. PCG price is based on IO value. Calculation is very sensitive to assumption on IO tenor (i.e., timing of defaults). Desk mark appears reasonable.
Securitized Product	CEAGO 2007-1A B CEAGO ABD CDO	3	MV	20,773	823		823	ABS CDO market has been extremely illiquid and volatile. PCG price is based on IO value. Calculation is very sensitive to assumption on IO tenor (i.e., timing of defaults). Desk mark appears reasonable.
Securitized Product	CEAGO 2007-1A C CEAGO ABD CDO	3	MV	11,376	2,155		2,155	ABS CDO market has been extremely illiquid and volatile. PCG price is based on IO value. Calculation is very sensitive to assumption on IO tenor (i.e., timing of defaults). Desk mark appears reasonable.
Securitized Product	CEAGO 2007-1A D CEAGO ABD CDO	3	MV	2,473	616		616	ABS CDO market has been extremely illiquid and volatile. PCG price is based on IO value. Calculation is very sensitive to assumption on IO tenor (i.e., timing of defaults). Desk mark appears reasonable.
Securitized Product	BALLYROCK ABS CDO LTD FRN 2047 (Class C)	3	MV	27,500	(743)		(743)	ABS CDO market has been extremely illiquid and volatile. PCG price is based on IO value. Calculation is very sensitive to assumption on IO tenor (i.e., timing of defaults). Desk mark appears reasonable.
Securitized Product	BALLYROCK ABS CDO LTD FRN 2047 (Class D)	3	MV	19,053	1,646		1,646	ABS CDO market has been extremely illiquid and volatile. PCG price is based on IO value. Calculation is very sensitive to assumption on IO tenor (i.e., timing of defaults). Desk mark appears reasonable.

PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
Real Estate	Lyon Portfolio	2	MV	11,846	(5,898)		(5,898)	Multifamily assets in CA. Current spread appears appropriate for this type of property & leverage. Debt service coverage ratio (DSCR) is approximately 1.10. In discussion with desk for a potential markdown.
Real Estate	25 Broad	2	MV	349,914	(26,158)		(26,158)	Refinancing of a condo conversion project located at 25 Broad Street in NYC. In the process of selling the condo units. Approx. \$3.7mm markdown taken in Nov due to the softening of condo market. The loan is priced as rental. There is a personal guarantee for the value differential between condo and rental. In discussion with desk for a potential markdown.
Real Estate	Calwest	2	MV	117,182	(30,021)		(30,021)	The loan is secured by a portfolio of 97 industrial properties known as CalWest portfolio. \$8.35mm markdown taken in Jan'08. In discussion with desk for a potential markdown.
Real Estate	Grand Prix	2	MV	346,949	(8,384)		(8,384)	As of July'08, Ashford is looking for L+800 all cash on the \$247mm senior portion. Lehman target spread is approx. 400 bps. In discussion with desk for a potential markdown.
Real Estate	Project Trois Bridge Mezz	C	MV	298602.172.9	(9,534)		(9,534)	Senior loans have been securitized and some of the other positions were sold at discount margin (DM) of 700 bps with loan-to-value ratio (LTV) of approximately 70% on 5/3. In discussion with desk for a potential markdown.
Real Estate	Nashville Portfolio	C	MV	27,534	(7,729)		(7,729)	Consists of 5 multifamily properties containing 1,593 units located in Tennessee. Current occupancy is at 90.15%. Based on discussion with business, current desk spread appears appropriate for this type of property/leverage. Carlyle is currently looking to repay the mezz portion. In discussion with desk for a potential markdown.
Real Estate	Teachers Senior Loan	C	MV	48,639	(16,738)		(16,738)	This portfolio consists of two Class B office buildings in Southfield, Michigan: Travelers I and II. Occupancy as of February 29, 2008 is 67% at Travelers I and 0% at Travelers II. Lehman owns 100% of Travelers I and II. Per discussion with the business, Kojanian might buy us out. In discussion with desk for a potential markdown.
Real Estate	Petrini Bakersfield	C	MV	34,341	(24,341)		(24,341)	Petrini Bakersfield is 1810 acres of land located in Southwest Bakersfield, CA. The business plan is to entitle and bulk sale 6,087 lots in paper and finished lot condition. In addition to the residential lots, there will be 94 acres of commercial property and 109 acres of multi-family property. Based on most recent review, position was marked down \$20mm in May-'08. In discussion with desk for a potential markdown.
Real Estate	Indiantown	3	MV	17,809	(11,248)		(11,248)	Indiantown Quillen DRI is a 2,250 unit residential development site in Indiantown, Martin County, Florida. The final DRI, Development Order, Rezoning and Master Site Plan approval for 2,250 residential units and 150,000 sf of commercial space to be built on the property is currently on hold. Business plan is under change. Based on most recent review, position was marked down \$30mm in May-'08. In discussion with desk for a potential markdown.
Real Estate	Boulder Sprngs	3	MV	41,895	(10,550)		(10,550)	The site for the Project is a 658-acre vacant land parcel located in the unincorporated portion of the County of Riverside, CA. Project is still in the entitlement process. Developer has decided to upgrade the lots from paper lots to engineered lots which increase cost and extend delivery time. However, this also allows additional time for the softness in the market to dissipate and increase the buyer pool. Based on most recent review of this deal, related mezz debt was totally written off. In discussion with desk for a potential markdown.
Real Estate	North Peak	C	MV	18,584	(9,864)		(9,864)	The property is a partially entitled 1,200 home site community in the city of Lake Elsinore, Riverside County, CA. Lehman foreclosed on the property and currently in the process of disposing the asset through auction sale. Based upon the business's review of the California land market, this position was marked down by \$8mm in February 2008. In discussion with desk for a potential markdown.

PRICING REPORT – Explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
Real Estate	LB ONE 11 PLAZA LLC	C	MV	11,810	(10,703)		(10,703)	The property is a 255,477 square foot class B office building located in downtown Phoenix, Arizona. Property is currently 39% occupied and has been slow leasing up. Per Trimont, downtown market is solid. In discussion with desk for a potential markdown.
Real Estate	Middle Mountain	C	MV	30,336	(14,836)		(14,836)	Middle Mountain is 196 acres of raw land located 20 miles north of Phoenix Central Business District. The site has final site plan approval and will ultimately be developed into 35 single-family lots, 211 residential condominium lots, 512 apartments, and 110,000 sq. ft. of retail space. The Maricopa County trustee sale is scheduled for 9/30 and the Pinal County trustee sale is scheduled for 10/3. PCG will continue to monitor.
Real Estate	Ridge Crossing	C	MV	28,329	(18,331)		(18,331)	Ridge Crossing Apartments is located in Hoover submarket of Birmingham in Jefferson County, AL. The property is a garden style apartment complex and is a class A product. The property's total net rentable area is 797,492 sf which is situated on 86 acres. Occupancy at the subject for April 2008 was 94%. In discussion with desk for a potential markdown.
Real Estate	Nashville Portfolio	C	MV	13,601	(13,601)		(13,601)	Consists of 5 multifamily properties containing 1,593 units located in Tennessee. Current occupancy is at 90.15%. Per discussions with the business, Lehman is currently in negotiations with an interested party to sell the position at par. In discussion with desk for a potential markdown.
Real Estate	Orlando Asset	C	MV	148,819	(33,319)		(33,319)	La Palazza at MetroWest is a 510-unit that was developed as an apartment community in Orlando, FL within the prestigious Hunter's Creek PUD. The property is 95.1% leased up as of 6/23/08. An unsolicited offer of \$115.5mm was received for the position. In discussion with desk for a potential markdown.
Real Estate	West Bay	C	MV	65,419	(45,297)		(45,297)	Property consists of a 1,233 unit residential development located in Estero, FL. Currently, Lehman is working towards selling the units. Units are being repriced due to current market conditions. Awaiting IRR model from Trimont. In discussion with desk for a potential markdown.
Real Estate	NWP	C	MV	11,970	(11,970)		(11,970)	Property is located in Rosemont, Illinois and consists of two Class B office properties and a single story retail concourse totaling 328,444 SF. As of 3/31/08, the overall occupancy is at 49.96%. Per the sponsor, space is being shown by Jones Lang LaSalle regularly to potential tenants. In discussion with desk for a potential markdown.
Real Estate	Colonial Grand	3	MV	37,036	(9,036)		(9,036)	The Project consists of the conversion of an existing 376-unit Class B+ apartment complex located in Bradenton, FL. Foreclosure filed in Manatee Circuit Court on 2/7/08. Property is 80% leased which are short term 7 month leases. In discussion with desk for a potential markdown.
Real Estate	Prestige	3	MV	56,750	(27,670)		(27,670)	Collateral consists of 11 multifamily assets located across six markets in Florida. Business plan is to perform capital improvements and improve occupancy. Capital calls for 2008 are projected to be \$1mm over budget due to unforeseen repairs. Operations on a portfolio level have exceeded expectations in 2008. In discussion with desk for a potential markdown.
Real Estate	Greenwich	C	MV	200,141	(66,029)		(66,029)	Greenwich Place is a 266-unit multi-family development located in Greenwich, Connecticut. This property consists of 22.01 acres of land with thirty-four buildings and supporting amenities. Strong leasing activity. Signed 13 leases in past 2 months. Greenwich Oaks is a 130-unit multi-family development located in Greenwich, Connecticut. This property consists of 35.52 acres of land with twenty buildings and supporting amenities. Occupancy is 38% with leasing efforts beginning in early 2009. Greenwich Oaks will begin construction in late August. In discussion with desk for a potential markdown.
Real Estate	Miscellaneous	2	MV	N/A	(33,425)		(33,425)	Other significant variances.
Real Estate	Miscellaneous	3	MV	N/A	(28,103)		(28,103)	Other significant variances.
Real Estate	Miscellaneous	C	MV	N/A	(50,998)		(50,998)	Other significant variances.
				(1,173,937)	(558,753)		(615,184)	
Total Significant Variances				(1,173,937)	(558,753)		(615,184)	

PRICING REPORT – Coverage

Exposures:	Risk Measure	Level 1				Level 2				Level 3			
		MV	Coverage	Risk Based	Coverage	MV	Coverage	Risk Based	Coverage	MV	Coverage	Risk Based	Coverage
(i) Interest rate													
Government Bonds & Bond Indexed Cash Products	MV	(5,266,707)	99%			691,592	92%						
Listed Government Bond Options	MV	16,811	100%										
Money market & MM index cash products	MV	30,223	100%			8,112,038	100%						
Listed Interest Rate Futures	MV	(11,192,916)	100%										
Listed Interest Rate Options	MV	38,591	100%										
Interest rates	PV01							16,530	100%			(1,589)	100%
Asset Swaps	PV01												
IR ATM volatility	Vol + 1%							6,847	92%			(820)	100%
IR volatility skew: IR vol correlation	Vol + 1%							(3,803)					
IR volatility skew: vol of vol	Vol + 1%							(3,026)	54%				
IR FX correlation	Correl + 1%												
IR IR correlation	Correl + 1%												
OTC Bond Option Price	MV					4,807	100%						
OTC Bond Option Volatility	Vol + 1%							28,456	100%				
Inflation Bonds	MV												
Inflation Swaps & Options Delta	PV01							(286)	99%				
Inflation Option Volatility	Vol + 1%												
		(16,373,998)				8,808,437							
(ii) Credit													
Corporate Bonds	MV					7,349,815	82%			165,135	99%		
Corporate Bond Options : Price	MV					(5,031)	100%						
Corporate Bond Options : Volatility	Vol + 1%							4,543	0%				
Warrants	MV					830							
Credit Spreads : Single Name	CS01							(13,843)	79%				
Credit Spreads : Bespoke	CS01												
Index Spreads : Indices	IND01							(2,429)	97%				
Index Spreads : Index Tranches	IND01							(2,325)	98%				
Index Spreads : Bespoke	IND01							1,842	99%				
Index Spreads : Index Tranches	REF01							2	17%				
Index Spreads : Bespoke	REF01							1					
Tranche Spreads : Index Tranches	TR01							(83)	99%				
Tranche Spreads : Bespoke	TR01							18	99%				
Bond collateral : CDO SPE transactions	MV												
State Guaranteed Corporate Bonds	MV												
Recovery rates	Recovery + 1%							(513)	96%				
Credit volatility	Vol + 1%							68	99%			1	69%
Third party CDOs	MV					693,568	99%			283,398	97%		
Bespoke Correlation	CORR01											(5,409)	77%
ABCDs	MV					802	100%			(4,054,888)	100%		
						8,039,985				(3,606,355)			
(iii) Equity													
Stock & Stock Index Cash Products	MV	(1,650,323)	90%			156,478	92%			1,359,793	65%		
Stock & Stock Index Listed Futures	MV	(53,653)	95%										
Stock & Stock Index Listed Options	MV	31,884	97%										
Stock & Stock Index Volatility	Vol + 1%												
Equity correlation	Correl + 10%											1	100%
Dividend rates	D Rho												
Convertible Bonds	MV					599,784	80%						
Ascots	MV												
Equity swaps	Pos Delta												
		(1,672,092)				756,262				1,359,793			
(iv) Fund													
Fund units	MV					245,426	100%						
Fund volatility	Vol + 1%												
Fund vol of vol	Vol + 1%												
IR Fund NAV correlation	Correl + 20%												
Fund vol NAV correlation	Correl + 20%												
Fund options	Delta +/- 5%							2,349	100%				
						245,426							

PRICING REPORT – Coverage

Exposures:	Risk Measure	Level 1				Level 2				Level 3			
		MV	Coverage	Risk Based	Coverage	MV	Coverage	Risk Based	Coverage	MV	Coverage	Risk Based	Coverage
(v) Mortgage													
Agency CMO / bond	MV					12,406,979	100%						
MBS bonds	MV					5,851,424	100%			1,110,258	100%		
Pass-throughs	MV					945,739	100%						
Residuals	MV									1,518,668	62%		
Servicing rights	MV					1,528,504	100%						
Whole loans residential	MV					4,888,494	100%			2,703,036	89%		
Mortgage volatility	MV					613,777	65%						
						26,234,916				5,331,962			
(vi) Real Estate													
Whole loans commercial	MV					14,629,316	100%			3,057,000	100%		
CMBS	MV					8,418,277	33%			243,856	100%		
Property Derivatives	MV												
						23,047,592				3,300,856			
(vii) FX Options													
FX Delta	MV	(267,131)	100%			(260,352)	100%						
FX volatility	Vol + 1%							7,177	98%				
FX Vol skew	Vol + 1%							(5,078)	99%				
FX / FX correlation	Corr + 10%												
		(267,131)				(260,352)							
(viii) Hybrid & Other													
ABS bonds	MV					9,914,491	69%			6,150,348	97%		
Loans	MV					44,620,995	87%			4,458,723	66%		
Principal transactions*	MV									10,006,256	84%		
Preferreds	MV					578,786	16%						
Altax swaps	PV01											(1,895)	100%
Muni bonds	MV					9,047,417	98%						
						64,161,689				20,615,327			
(ix) Commodities													
Base Metals - OTC Delta	PV01			653	100%			(551)	100%				
Base Metals - OTC Volatility	Vol + 1%							1,651	100%			(1,231)	100%
Coal - OTC Delta	PV01							68	41%				
Crude Oil - OTC Delta	PV01			3,360	100%			(2,287)	100%				
Crude Oil - OTC Volatility	Vol + 1%							408	99%				
Emissions - OTC Delta	PV01			(1,536)	100%			457	99%				
Emissions - OTC Volatility	Vol + 1%							(35)	100%				
Natural Gas - OTC Delta	PV01			1,569	100%			(19,189)	100%			(4,541)	100%
Natural Gas - OTC Volatility	Vol + 1%							8,699	100%				
Power - OTC Delta	PV01			1,031	100%			1,860	97%				
Power - OTC Volatility	Vol + 1%							(1,719)	72%				
Precious Metals - OTC Delta	PV01			(43)	100%			464	99%			(707)	99%
Precious Metals - OTC Volatility	Vol + 1%							106	100%				
Refined Products - OTC Delta	PV01												
Refined Products - OTC Volatility	Vol + 1%												
Softs - OTC Delta	PV01			284,474	69%			155,007	92%			(367,494)	74%
Softs - OTC Volatility	Vol + 1%							(974)	87%			652	82%
Commodity Indices - Delta	PV01							1,407	89%			(1,400)	89%
Commodity Indices - Volatility	Vol + 1%							(512)	100%			(841)	100%
Commodity Correlation	MV												
Overall Totals		(18,313,222)				131,033,955				27,001,583			

* Principal Transactions exposure excludes \$4.6 billion of consolidated PTG positions from Real Estate Americas that are subject to Lower of Cost or Market.

PRICING REPORT – Projects

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

PRICING REPORT – Projects

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

PRICING REPORT – Projects

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

PRICING REPORT – projects

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