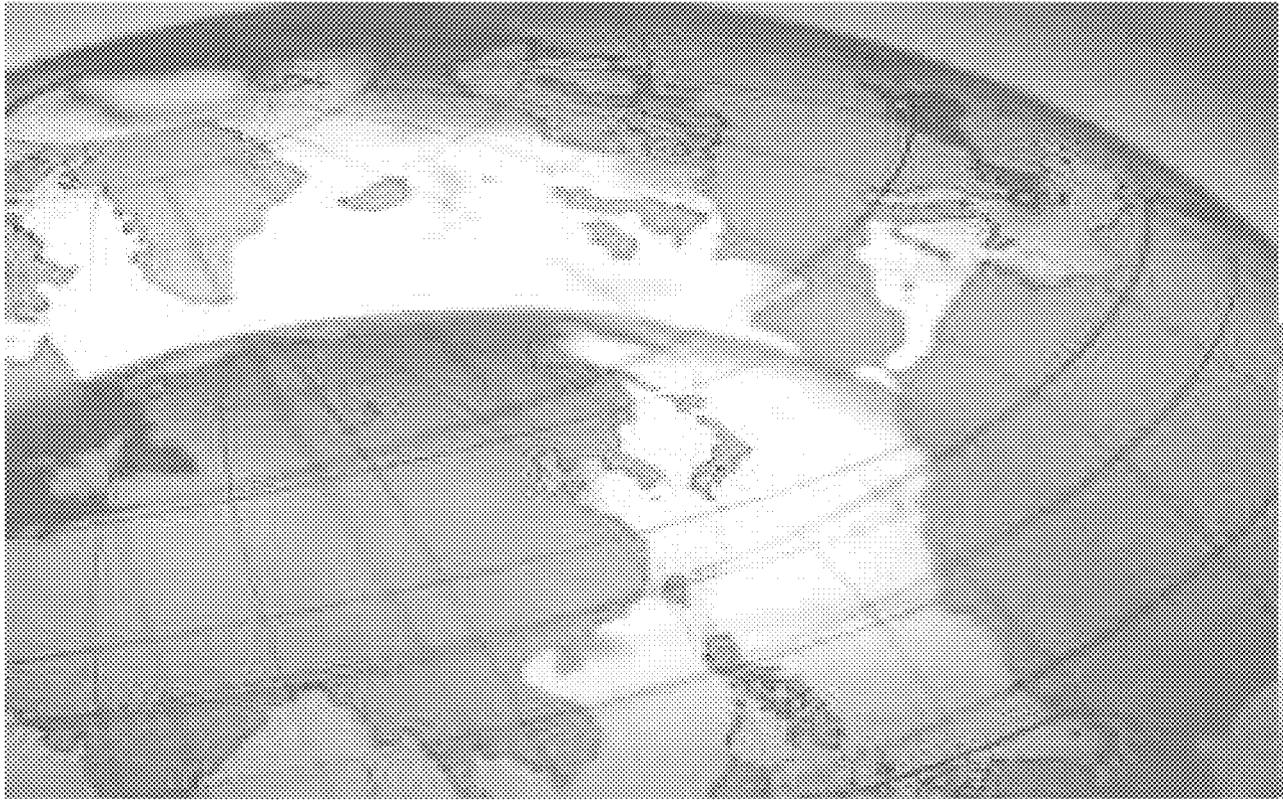


# Valuation & Control Report - Fixed Income Division

May 2008

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**LEHMAN BROTHERS**

*Where vision gets built.™*

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI\_SEC07940\_2962683

# Contents

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I.	Executive Summary		3 – 5
II.	Valuation Adjustments		6
	Significant Changes	7	
	Summary	8	
	Regional Matrix	9	
	Americas	10 – 11	
	Europe	12 – 13	
	Asia	14 – 15	
	Monthly Changes	16 – 17	
III.	Pricing Report		18
	Explanation of Significant Variances	19 – 23	
	Coverage	24 – 25	
	Projects	26 – 28	

# 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:

- *CDO* – Lehman is planning to setup Facility Co., a SPV, to buy €2.1 billion of CDO notes: €1.3 billion from Lehman and €0.9 billion from a third party SPV. Facility Co. obtains funding through €0.7 billion of first loss credit enhancement from Lehman and €1.4 billion of loan facility from Lender Co., another SPV. Lender Co. will issue €1.4 billion of convertible debt: 72% to Lehman and 28% to HSH. If Lender Co. incurs losses, HSH is allowed to write-off 100% of the losses for tax purposes even though it only owns 28% of the SPV. Since HSH has a corporate tax rate of 28%, it will have a tax benefit of 28% for losses incurred by Lender Co. to fully offset any economic losses in its investment in Lender Co. If Lehman can consolidate both Facility Co. and Lender Co., Lehman will only need to recognize assets of €0.9 billion for the CDO notes issued by a third party SPV and liabilities of €0.4 billion for the 28% ownership of Lender Co. by HSH. The trade will be classified as level 2 under FAS157 since the CDO portfolio can be benchmarked to CDX and iTraxx. The following open items are outstanding: 1) complete the review of FIN46 analysis, 2) determine whether a funding adjustment is required, 3) determine whether a valuation adjustment is required for the potential loss of tax write-offs for losses in Lender Co., and 4) determine what is the appropriate regulatory capital charge.
- *N<sup>th</sup> to Default (NTD) swaps* – NTD swaps are all referenced to corporate baskets. Lehman has been marking correlations of NTD baskets based on equity pair-wise correlations. Currently, the market is trading NTD swaps based on flat correlations. The change from equity pair-wise correlations to flat correlations will result in a P/L release of \$5 million. Until further research is conducted, NTD swaps will remain as level 3 under FAS157.
- *Prepaid Gas Purchase Agreement* – Municipalities can use proceeds from issuing tax-exempt bonds to prepay their purchase of natural gas. Lehman underwrote \$709 million of municipal bonds issued by the City of Tallahassee (30-yr trade) and the Municipal Gas Authority of Georgia (20-yr trade). Under the prepaid gas purchase agreement, the municipalities delivered the net proceeds from the bond issuance of \$681 million to Lehman. In exchange, Lehman will physically deliver natural gas to the municipalities over the life of the trade. Essentially, the desk is paying interest of 7.38% on the cash balance based on the value of the natural gas that will be delivered to the municipalities. On the other hand, Treasury is paying the desk LIBOR plus 325 bps on the cash balance. The initial cash balance is \$681 million and will be amortized down over the life of the trade. The trade is mainly a funding trade and has a Day 1 P/L of \$36 million.

# Executive summary

## **Valuation adjustments** (decreased by \$32mm from \$3,270mm to \$3,238mm, as detailed in section 2)

### *Significant changes include:*

- Decrease of \$145mm of contingent liability adjustments from Securitized Product Americas is due to settlement of claims with Peloton.
- Increase of \$109mm of counterparty valuation adjustments from Securitized Product Americas is attributable to: 1) increase in MTM on trades with ACA and XLCA and 2) increase in percentage of MTM needed to cover counterparty risk on trades with XLCA.
- Decrease of \$53mm of counterparty valuation adjustments from Muni Americas is due to change in calculation methodology after discussion with Credit Risk.
- Increase of \$44mm of prime representation and warranty adjustments from Securitized Product Americas is attributable to higher expectations of future losses.

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

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

- Initiated price testing of portfolio of Eagle Energy Partners
- 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 \$419 million on the aggressive side, of which Americas is \$387 million on the aggressive side (re-marks of -\$208 million), Europe is \$32 million on the aggressive side (re-marks of -\$32 million) and Asia has no significant variances.
- There are \$205 million of aggressive significant variances attributable to Real Estate Americas. These positions has already been re-marked or PCG has concluded that these variances are reasonable considering that they are concentrated and/or illiquid.
- There are \$146 million of aggressive significant variances attributable to Securitized Product Americas. These variances are mainly attributable to whole loan and residual positions; the desk has taken markdowns of \$78 million and \$20 million, respectively.
- There are \$40 million of aggressive significant variances attributable to High Yield Americas. These variances have been resolved through: 1) re-marking, 2) PCG substantiating desk mark through trading activities or broker quotes, 3) PCG performing post monthend testing and variance was within threshold, 4) PCG concluding that variance is due to size of position held or 5) PCG concluding that variance was due to lack of liquidity and/or volatile market conditions.

<b>Significant Pricing Variance - Global FID</b>			
<b>in \$'000</b>			
	<b><u>Re-marked</u></b>	<b><u>Resolved</u></b>	<b><u>Total</u></b>
<b>Level 1</b>	0	0	0
<b>Level 2</b>	(119,139)	(91,461)	(210,600)
<b>Level 3</b>	(93,989)	(21,399)	(115,388)
<b>Consolidated Positions</b>	(26,360)	(66,805)	(93,165)
<b>Total</b>	(239,488)	(179,665)	(419,153)

\*Definition of pricing levels:

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

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

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

# Valuation Adjustments

May 2008

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# VALUATION ADJUSTMENTS – significant changes

Region	Product	Description	Type	Current Month	Prior Month	Change	Comment
Americas	IRP	Deal Specific	Model	45,834	32,211	13,623	Increase is due to new trades.
Americas	Muni	Counterparty Valuation Adjustments	Credit	74,886	127,830	(52,944)	Decrease is due to change in methodology for calculating CVA for XLCA and release of CVA for Berkshire Hathaway after discussion with Credit Risk.
Americas	Commodity	Counterparty Valuation Adjustments	Credit	45,700	34,600	11,100	Increase is due to increase in MTM of trades.
Americas	Securitized Products	ABS Bid / Offer	Bid / Offer	35,763	25,760	10,003	Established bid / offer adjustments for CDS on ABS. In the past, the bid / offer adjustments were embedded in the marks.
Americas	Securitized Products	Counterparty Valuation Adjustments	Credit	1,456,747	1,347,790	108,957	Increase is mainly attributable to: 1) increase in MTM on trades with ACA and XLCA and 2) increase in percentage of MTM needed to cover counterparty risk on trades with XLCA.
Americas	Securitized Products	Contingent Liabilities	Contingent Liabilities	0	144,529	(144,529)	Release of valuation adjustments due to settlement of claims with Peloton.
Americas	Securitized Products	Prime - Reps and Warranties	Contingent Liabilities	187,479	143,419	44,060	Increase is attributable to higher expectations of future losses.
Europe	CDO	Contingent Liabilities	Contingent Liabilities	114,452	101,625	12,827	Increase is mainly attributable to new deals.
Europe	CDO	Model Calibration	Model	(15,033)	(4,206)	(10,827)	Due to market volatility, model value from base correlation model does not reflect market value. Valuation adjustment needed to properly reflect the implied correlation skews on CDX and LCDX. Valuation adjustment was reduced this month to true-up the value of non-super senior tranches.
Europe	CDO	Model Fit	Model	30,105	19,748	10,357	Due to market volatility, model value from base correlation model does not reflect market value. Valuation adjustment needed to properly reflect the implied correlation skews on CDX and LCDX. Valuation adjustment was increased this month to true-up the value of super senior tranche.
Europe	CDO	P&L Pending Deal Review	Valuation	23,358	47,842	(24,484)	Decrease is attributable to completion of deal reviews.
Europe	CDO	Parameter Uncertainty	Liquidity	86,793	146,415	(59,622)	Reduction of liquidity adjustments for NTD correlation exposures due to: 1) change from equity pair-wise correlations to flat correlations and 2) transfer of remaining NTD correlation adjustments from liquidity to bid/offer.
Subtotal				2,086,084	2,167,563	(81,479)	
Remaining Valuation Adjustments				1,151,753	1,102,371	49,382	
<b>Total Valuation Adjustments</b>				<b>3,237,837</b>	<b>3,269,934</b>	<b>(32,097)</b>	

# VALUATION ADJUSTMENTS – summary

Business	Total \$000	Contingent					Early		
		Model	Bid/Offer	Liabilities	Liquidity	Credit	Expense	Termination	Valuation
Liquid Market Prop	7,757	852	7,286	-	(381)	-	-	-	-
Interest Rate Products	485,837	205,124	76,271	-	32,685	12,554	-	111,941	47,262
Foreign Exchange	42,781	12,650	18,402	-	-	-	-	3,573	8,156
High Grade Credit	55,223	1,482	44,663	3,577	2,641	1,345	1,515	-	-
CDO	504,769	56,766	110,883	145,996	99,905	40,593	21,602	3,927	25,097
High Yield	58,757	-	51,934	1,000	-	-	1,589	-	4,234
Real Estate	63	-	-	-	-	-	63	-	-
Munis	95,262	950	8,669	-	-	75,597	-	-	10,046
Securitized Products	1,808,140	-	54,165	271,338	730	1,466,132	15,775	-	-
Commodities Trading	151,383	18,935	57,564	-	5,484	45,700	-	-	23,700
FID Corporate	27,865	524	21,151	-	1,440	-	-	4,750	-
<b>Total FID Valuation Adjustments</b>	<b>3,237,837</b>	<b>297,283</b>	<b>450,988</b>	<b>421,911</b>	<b>142,504</b>	<b>1,641,921</b>	<b>40,544</b>	<b>124,191</b>	<b>118,495</b>

# VALUATION ADJUSTMENTS – Regional matrix

America	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
Liquid Markets Prop	5,953	-	5,953	-	-	-	-	-	-
Interest Rate Products	102,952	73,671	13,307	-	8,920	7,054	-	-	-
Foreign Exchange	24,257	10,318	11,868	-	-	-	-	2,071	-
High Grade Credit	36,654	542	32,405	-	2,641	932	134	-	-
CDO	69,232	10,698	3,880	9,723	-	23,794	21,137	-	-
High Yield	45,037	-	44,037	1,000	-	-	-	-	-
Munis	95,262	950	8,669	-	-	75,597	-	-	10,046
Securitized Products	1,779,081	-	51,359	251,457	-	1,466,132	10,133	-	-
Commodities Trading	103,800	1,700	32,700	-	-	45,700	-	-	23,700
FID Corporate	6,205	-	6,205	-	-	-	-	-	-
<b>Total America</b>	<b>2,268,433</b>	<b>97,879</b>	<b>210,383</b>	<b>262,180</b>	<b>11,561</b>	<b>1,619,209</b>	<b>31,404</b>	<b>2,071</b>	<b>33,746</b>
<b>Europe</b>									
Capital Mkts Fund JV	108,440	8,404	3,939	-	-	-	-	96,097	-
Liquid Markets Prop	2,185	852	1,333	-	-	-	-	-	-
Interest Rate Products	226,981	110,032	43,121	-	17,161	500	-	15,844	40,323
Foreign Exchange	957	(13,600)	4,899	-	-	-	-	1,502	8,156
Commodities Trading	45,199	15,867	23,848	-	5,484	-	-	-	-
High Grade Credit	12,240	-	8,663	3,577	-	-	-	-	-
High Yield Credit	8,440	-	6,078	-	-	-	-	-	2,362
CDO	434,904	46,068	106,961	136,273	99,905	16,799	-	3,927	24,971
Securitized Products	23,417	-	2,806	19,881	730	-	-	-	-
FID Corporate	16,843	524	11,569	-	-	-	-	4,750	-
<b>Total Europe</b>	<b>879,606</b>	<b>168,147</b>	<b>213,217</b>	<b>159,731</b>	<b>123,280</b>	<b>17,299</b>	<b>-</b>	<b>122,120</b>	<b>75,812</b>
<b>Asia</b>									
Liquid Markets Prop	(381)	-	-	-	(381)	-	-	-	-
Interest Rate Products	47,464	13,017	15,904	-	6,604	5,000	-	-	6,939
High Grade Credit	6,329	940	3,595	-	-	413	1,381	-	-
CDO	633	-	42	-	-	-	465	-	126
Foreign Exchange	17,567	15,932	1,635	-	-	-	-	-	-
High Yield Credit	5,280	-	1,819	-	-	-	1,589	-	1,872
Real Estate	63	-	-	-	-	-	63	-	-
Securitized Products	5,642	-	-	-	-	-	5,642	-	-
Commodities Trading	2,384	1,368	1,016	-	-	-	-	-	-
FID Corporate	4,817	-	3,377	-	1,440	-	-	-	-
<b>Total Asia</b>	<b>89,798</b>	<b>31,257</b>	<b>27,388</b>	<b>-</b>	<b>7,663</b>	<b>5,413</b>	<b>9,140</b>	<b>-</b>	<b>8,937</b>
<b>Global Total</b>	<b>3,237,837</b>	<b>297,283</b>	<b>450,988</b>	<b>421,911</b>	<b>142,504</b>	<b>1,641,921</b>	<b>40,544</b>	<b>124,191</b>	<b>118,495</b>

# VALUATION ADJUSTMENTS – Americas

America - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>LIQUID MARKETS PROP</b>	<b>5,953</b>	<b>0</b>	<b>5,953</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid/Offer Adjustment	5,251		5,251						
FX Prop Bid/Offer Adjustment	702		702						
<b>FID DERIVATIVES</b>	<b>102,952</b>	<b>73,671</b>	<b>13,307</b>	<b>0</b>	<b>8,920</b>	<b>7,054</b>	<b>0</b>	<b>0</b>	<b>0</b>
Liquidity Adjustment	8,920				8,920				
Option Model Adjustment	27,837	27,837							
CVA	7,054					7,054			
Spread Bid/Offer	7,165		7,165						
Volatility Bid/Offer	6,142		6,142						
Deal Specific	45,834	45,834							
<b>FOREIGN EXCHANGE</b>	<b>24,257</b>	<b>10,318</b>	<b>11,868</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,071</b>	<b>0</b>
Bid/Offer	11,868		11,868						
FX Deal Specific - Model	6,790	6,790							
FX Deal Specific - Early Termination Adjustment	2,071							2,071	
Skew - Local Markets	1,171	1,171							
Skew - FX Options	2,357	2,357							
<b>HIGH GRADE CREDIT</b>	<b>36,654</b>	<b>542</b>	<b>32,405</b>	<b>0</b>	<b>2,641</b>	<b>932</b>	<b>134</b>	<b>0</b>	<b>0</b>
Bid/Offer Credit US	21,612		21,612						
Other Adjustment (Model)	(12)	(12)							
Bid Offer Latin	2,527		2,527						
Other Adjustment - Latin	8,820	554	8,266						
Deal Specific Adjustment (Liquidity) - Latin	2,775				2,641		134		
Credit Adjustment - Enron	932					932			
<b>CDOs</b>	<b>69,232</b>	<b>10,698</b>	<b>3,880</b>	<b>9,723</b>	<b>0</b>	<b>23,794</b>	<b>21,137</b>	<b>0</b>	<b>0</b>
Expense Adjustment	21,137						21,137		
Contingent Liability	9,723			9,723					
Counterparty Valuation Adjustment	23,794					23,794			
Volatility Adjustment	140		140						
Bid / Offer	3,740		3,740						
Model Adjustment	10,698	10,698							

# VALUATION ADJUSTMENTS – Americas

America - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>HIGH YIELD</b>	<b>45,037</b>	<b>0</b>	<b>44,037</b>	<b>1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Tax Indemnity Adjustment ANC (Fid Corp Loans)	1,000			1,000					
CDS Bid Offer (FID Corp Loans)	10,757		10,757						
Bid/Offer - SCT/Bonds/Distressed	33,280		33,280						
Model	0	0							
<b>MUNIS</b>	<b>95,262</b>	<b>950</b>	<b>8,669</b>	<b>0</b>	<b>0</b>	<b>75,597</b>	<b>0</b>	<b>0</b>	<b>10,046</b>
CDS Model Adjustment	696	696							
Counterparty Credit Adjustment	74,886					74,886			9,077
New Business Timing Items for deals not closed	9,077								
Derivatives Bid/Offer	8,669		8,669						
Libor Discounting / MMD Rate Lock valuation adj	254	254							
DSRF Put Valuation Adjustment	969								969
Cornell DSRF Credit Reserve	711					711			
<b>SEURITIZED PRODUCTS</b>	<b>1,779,081</b>	<b>0</b>	<b>51,359</b>	<b>251,457</b>	<b>0</b>	<b>1,466,132</b>	<b>10,133</b>	<b>0</b>	<b>0</b>
SCOR - Counterparty Credit Adjustment (trigger event)	2,500					2,500			
CAT- Beazley Deal Adjustment (trigger event)	2,402					2,402			
PFG - Deal expenses/Due Diligence	0						0		
PFG - Contingent Liabilities/Referral Fees	2,337			2,337					
ABS - Bid / Offer Adjustment	35,763		35,763						
ABS - Counterparty Credit Adjustment	1,456,747					1,456,747			
Non Prime - Home Express (MGIC insurance)	17,042			17,042					
Non Prime - Reps and Warranties	28,890			28,890					
Non Prime - FHA/VA recourse risk	11,864			11,864					
Non Prime - Deal expenses/Due diligence	2,585						2,585		
Prime - Deal expenses/Due diligence	7,490						7,490		
Other - Deal expenses/Due diligence	58						58		
ABS - Contingent Liability	0			0					
Loan loss adjustment	296			296					
Agency Remics/Strips - Non economic residuals	1,568			1,568					
Non Prime - Bid / Offer Adjustment	8,338		8,338						
Prime - Bid / Offer Adjustment	7,258		7,258						
Prime - Reps and Warranties	187,479			187,479					
Mandatory Auction Adjustment	1,981			1,981					
FFR Credit Adjustment	4,483					4,483			
<b>COMMODITIES TRADING</b>	<b>103,800</b>	<b>1,700</b>	<b>32,700</b>	<b>0</b>	<b>0</b>	<b>45,700</b>	<b>0</b>	<b>0</b>	<b>23,700</b>
Bid / Offer	32,700		32,700						
Deal Specific	23,700								23,700
Model	1,700	1,700							
Counterparty Credit Adjustment	45,700					45,700			
<b>FID CORPORATE</b>	<b>6,205</b>	<b>0</b>	<b>6,205</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
CDO/SCT - Bid / Offer (range bounding)	6,205		6,205						
<b>FID AMERICA TOTAL VALUATION ADJS</b>	<b>2,268,433</b>	<b>97,879</b>	<b>210,383</b>	<b>262,180</b>	<b>11,561</b>	<b>1,619,209</b>	<b>31,404</b>	<b>2,071</b>	<b>33,746</b>

# VALUATION ADJUSTMENTS – Europe

Europe - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>FID DERIVATIVES</b>	<b>226,981</b>	<b>110,032</b>	<b>43,121</b>	<b>0</b>	<b>17,161</b>	<b>500</b>	<b>0</b>	<b>15,844</b>	<b>40,323</b>
Bid-offer : Correlation	33,347		33,347						
Bid-offer : Delta	7,540		7,540						
Bid-offer : Vega	1,906		1,906						
Contractual Early Termination Valuation Adjustment	15,844							15,844	
Counterparty Credit	500					500			
Funding Cost	40,101								40,101
Model : Approximation	4,046	4,046							
Model : Barrier shift	12,153	12,153							
Model : Calibration	2,285	2,285							
Model : Fit	35,454	35,454							
Model : Skew	39,871	39,871							
Model : Unapproved model	16,223	16,223							
Parameter Uncertainty	17,161				17,161				
Deal Specific - To be re-categorised (Gov't)	222								222
Bid-offer : Delta (Gov't)	328		328						
<b>COMMODITIES TRADING</b>	<b>45,199</b>	<b>15,867</b>	<b>23,848</b>	<b>0</b>	<b>5,484</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Parameter Uncertainty	5,484				5,484				
Bid-offer : Correlation	3,524		3,524						
Bid-offer : Delta	19,193		19,193						
Bid-offer : Vega	1,131		1,131						
Model : Skew	3,464	3,464							
Model : Unapproved model	12,403	12,403							
<b>CAPITAL MARKETS FUND DERIVATIVES JV</b>	<b>108,440</b>	<b>8,404</b>	<b>3,939</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>96,097</b>	<b>0</b>
Bid-offer : Vega	3,939		3,939						
Contractual Early Termination Valuation Adjustment	96,097							96,097	
Model : Skew	8,404	8,404							
<b>CDO</b>	<b>434,904</b>	<b>46,068</b>	<b>106,961</b>	<b>136,273</b>	<b>99,905</b>	<b>16,799</b>	<b>0</b>	<b>3,927</b>	<b>24,971</b>
Bid-offer : Delta	106,747		106,747						
Bid-offer : Vega	214		214						
Contingent Deal	21,821			21,821					
Contingent Liability	114,452			114,452					
Counterparty Valuation Adjustment	16,799					16,799			
Funding Cost	2,033								2,033
Model : Approximation	30,157	30,157							
Contractual Early Termination Valuation Adjustment	427							427	
Model : Calibration	(15,033)	(15,033)							
Model : Fit	30,105	30,105							
Model : Skew	839	839							
Non-Contractual Early Termination Valuation Adjustment	3,500							3,500	
Parameter Uncertainty	86,793				86,793				
P&L pending deal review	23,358								23,358
Deal Specific - To be re-categorised	(420)								(420)
Liquidity : Concentration	13,112				13,112				

# VALUATION ADJUSTMENTS – Europe

Europe - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>HIGH GRADE CREDIT</b>	<b>12,240</b>	<b>0</b>	<b>8,663</b>	<b>3,577</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid-offer : Delta	8,663		8,663						
Contingent Liability	3,577			3,577					
<b>HIGH YIELD CREDIT</b>	<b>8,440</b>	<b>0</b>	<b>6,078</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,362</b>
Bid-offer : Delta	1,830		1,830						
Deal Specific - To be re-categorised	1,312								1,312
Bid-offer : Delta (FID Corp Loans)	1,347		1,347						
Bid-offer : Delta (High Yield EEMEA)	2,901		2,901						
Deal Specific - To be re-categorised (High Yield EEMEA)	1,050								1,050
<b>LIQUID MARKETS PROP</b>	<b>2,185</b>	<b>852</b>	<b>1,333</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid-offer : Delta	1,333		1,333						
Model : Skew	852	852							
<b>FX</b>	<b>957</b>	<b>(13,600)</b>	<b>4,899</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,502</b>	<b>8,156</b>
Bid-offer : Delta	365		365						
Bid-offer : Vega	4,534		4,534						
Model : Skew	(13,600)	(13,600)							
Non-Contractual Early Termination Valuation Adjustment	1,502							1,502	
Deal Specific - To be re-categorised	0								0
Deal Specific - To be re-categorised (FX EEMEA)	8,156								8,156
<b>SEURITIZED PRODUCTS</b>	<b>23,417</b>	<b>0</b>	<b>2,806</b>	<b>19,881</b>	<b>730</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Contingent Liability	19,881			19,881					
Bid-offer : Delta	2,806		2,806						
Parameter Uncertainty	730				730				
<b>FID Corporate</b>	<b>16,843</b>	<b>524</b>	<b>11,569</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,750</b>	<b>0</b>
Bid-offer	11,569		11,569						
Contractual Early Termination Valuation Adjustment	4,750							4,750	
Model : Skew	524	524							
<b>FID EUROPE TOTAL VALUATION ADJs</b>	<b>879,606</b>	<b>168,147</b>	<b>213,217</b>	<b>159,731</b>	<b>123,280</b>	<b>17,299</b>	<b>0</b>	<b>122,120</b>	<b>75,812</b>

# VALUATION ADJUSTMENTS – Asia

Asia - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>LIQUID MARKETS PROP</b>	<b>(381)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(381)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Liquidity	(381)				(381)				
<b>FID DERIVATIVES</b>	<b>47,464</b>	<b>13,017</b>	<b>15,904</b>	<b>0</b>	<b>6,604</b>	<b>5,000</b>	<b>0</b>	<b>0</b>	<b>6,939</b>
Bid/Offer	15,904		15,904						
Model Adjustment	13,017	13,017							
Liquidity Adjustment	6,604				6,604				
Credit Adjustment	5,000					5,000			
CMT Proxy Marking Adjustment	4,362								4,362
Exotics Price Testing Adjustment	2,577								2,577
<b>HIGH GRADE CREDIT</b>	<b>6,329</b>	<b>940</b>	<b>3,595</b>	<b>0</b>	<b>0</b>	<b>413</b>	<b>1,381</b>	<b>0</b>	<b>0</b>
Documentation adjustments	688						688		
Bid/Offer	3,595		3,595						
Corr and Vol - CMDS	940	940							
Early Termination Adjustment	0							0	
Adjustment against claim for Enron	413					413			
Deal Specific	693						693		
<b>CDO</b>	<b>633</b>	<b>0</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>465</b>	<b>0</b>	<b>126</b>
Belle Haven II PPN \$6.3m equity tranche	126								126
Documentation and legal fee adjustments	465						465		
Bid/Offer Adjustments	42		42						
<b>FX</b>	<b>17,567</b>	<b>15,932</b>	<b>1,635</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid / Offer Adjustment	1,635		1,635						
Model Adjustment	15,932	15,932							

# VALUATION ADJUSTMENTS – Asia

Asia - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
<b>HIGH YIELD</b>	<b>5,280</b>	<b>0</b>	<b>1,819</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,589</b>	<b>0</b>	<b>1,872</b>
Expense Adjustments	1,589						1,589		
Bid/Offer Adjustment	1,819		1,819						
Deal Specific Adjustment	1,872								1,872
<b>REAL ESTATE</b>	<b>63</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>63</b>	<b>0</b>	<b>0</b>
Expense Adjustment	63						63		
<b>SECURITIZED PRODUCTS</b>	<b>5,642</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,642</b>	<b>0</b>	<b>0</b>
Expense Adjustment	3,553						3,553		
Adjustment for Receivable of GTFS's Buyer and Legal Expenses	2,089						2,089		
<b>Commodities Trading</b>	<b>2,384</b>	<b>1,368</b>	<b>1,016</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid / Offer Adjustment	1,016		1,016						
Model Adjustment	1,368	1,368							
<b>FID CORP</b>	<b>4,817</b>	<b>0</b>	<b>3,377</b>	<b>0</b>	<b>1,440</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bid / Offer	41		41						
Liquidity	1,440				1,440				
Range-bounding Adjustment	3,336		3,336						
<b>FID ASIA TOTAL VALUATION ADJs</b>	<b>89,798</b>	<b>31,257</b>	<b>27,388</b>	<b>0</b>	<b>7,663</b>	<b>5,413</b>	<b>9,140</b>	<b>0</b>	<b>8,937</b>

# VALUATION ADJUSTMENTS – monthly changes

Business	Total	Contingent					Early		Valuation
		Model	Bid/Offer	Liabilities	Liquidity	Credit	Expense	Termination	
Liquid Market Prop	(147)	236	(2)	-	(381)	-	-	-	-
Interest Rate Products	14,312	5,749	4,561	-	(485)	(1,642)	-	31	6,098
Foreign Exchange	9,816	10,105	(1,291)	-	-	-	-	327	675
High Grade Credit	(10,013)	(18)	(8,826)	-	(1,209)	-	(15)	55	-
CDO	(54,430)	(2,618)	8,460	15,176	(58,560)	5,945	2,396	(405)	(24,824)
High Yield	(7,226)	-	(7,042)	-	-	-	(140)	-	(44)
Real Estate	-	-	-	-	-	-	-	-	-
Munis	(45,131)	(40)	1,455	-	-	(52,944)	-	-	6,398
Securitized Products	29,631	-	19,417	(100,508)	730	108,957	1,035	-	-
Commodities Trading	28,993	2,341	14,953	-	(3,601)	11,100	-	-	4,200
FID Corporate	2,098	-	693	-	1,440	-	-	(35)	-
<b>Total FID Adjustments</b>	<b>(32,097)</b>	<b>15,755</b>	<b>32,378</b>	<b>(85,332)</b>	<b>(62,066)</b>	<b>71,416</b>	<b>3,276</b>	<b>(27)</b>	<b>(7,497)</b>

# VALUATION ADJUSTMENTS – monthly changes

America	Total	Model	Bid/Offer	Liabilities	Liquidity	Credit	Expense	Termination	Valuation
Liquid Markets Prop	(2)	-	(2)	-	-	-	-	-	-
Interest Rate Products	9,578	9,878	1,651	-	(309)	(1,642)	-	-	-
Foreign Exchange	(1,815)	(1,341)	(904)	-	-	-	-	430	-
High Grade Credit	(10,871)	(18)	(9,644)	-	(1,209)	-	-	-	-
CDO	8,352	(39)	(125)	-	-	6,120	2,396	-	-
High Yield Credit	(6,935)	-	(6,935)	-	-	-	-	-	-
Real Estate	-	-	-	-	-	-	-	-	-
Munis	(45,131)	(40)	1,455	-	-	(52,944)	-	-	6,398
Securitized Products	23,625	-	16,611	(102,199)	-	108,957	256	-	-
Commodities Trading	22,900	-	7,600	-	-	11,100	-	-	4,200
FID Corporate	-	-	-	-	-	-	-	-	-
<b>Total America</b>	<b>(299)</b>	<b>8,440</b>	<b>9,707</b>	<b>(102,199)</b>	<b>(1,518)</b>	<b>71,591</b>	<b>2,652</b>	<b>430</b>	<b>10,598</b>
<b>Europe</b>									
Capital Mkts Fund JV	(3,106)	(1,114)	(2,557)	-	-	-	-	565	-
Liquid Markets Prop	236	236	-	-	-	-	-	-	-
Interest Rate Products	9,981	(1,456)	7,000	-	(1,181)	-	-	(534)	6,152
Foreign Exchange	11,594	11,350	(328)	-	-	-	-	(103)	675
Commodities Trading	6,093	2,341	7,353	-	(3,601)	-	-	-	-
High Grade Credit	1,658	-	1,658	-	-	-	-	-	-
High Yield Credit	(46)	-	(46)	-	-	-	-	-	-
CDO	(62,782)	(2,579)	8,585	15,176	(58,560)	(175)	-	(405)	(24,824)
Securitized Products	5,227	-	2,806	1,691	730	-	-	-	-
FID Corporate	658	-	693	-	-	-	-	(35)	-
<b>Total Europe</b>	<b>(30,487)</b>	<b>8,778</b>	<b>25,164</b>	<b>16,867</b>	<b>(62,612)</b>	<b>(175)</b>	<b>-</b>	<b>(512)</b>	<b>(17,997)</b>
<b>Asia</b>									
Liquid Markets Prop	(381)	-	-	-	(381)	-	-	-	-
Interest Rate Products	(2,141)	(1,559)	(1,533)	-	1,005	-	-	-	(54)
High Grade Credit	(800)	-	(840)	-	-	-	(15)	55	-
CDO	-	-	-	-	-	-	-	-	-
Foreign Exchange	37	96	(59)	-	-	-	-	-	-
High Yield Credit	(245)	-	(61)	-	-	-	(140)	-	(44)
Real Estate	-	-	-	-	-	-	-	-	-
Securitized Products	779	-	-	-	-	-	779	-	-
Commodities Trading	-	-	-	-	-	-	-	-	-
FID Corporate	1,440	-	-	-	1,440	-	-	-	-
<b>Total Asia</b>	<b>(1,311)</b>	<b>(1,463)</b>	<b>(2,493)</b>	<b>-</b>	<b>2,064</b>	<b>-</b>	<b>624</b>	<b>55</b>	<b>(98)</b>
<b>Global Total</b>	<b>(32,097)</b>	<b>15,755</b>	<b>32,378</b>	<b>(85,332)</b>	<b>(62,066)</b>	<b>71,416</b>	<b>3,276</b>	<b>(27)</b>	<b>(7,497)</b>

# Pricing Report

May 2008



LEHMAN BROTHERS

*Where vision gets built.™*

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI\_SEC07940\_2962700

# PRICING REPORT – explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
<b>Americas</b>								
Bank Loans	FORD MOTOR COMPANY (12/15/06)	2	MV	288,000	3,960		3,960	Variance is due to size of position held. Actual variance is 1.4%.
Bank Loans	FORD MOTOR COMPANY (12/15/06)	2	MV	200,000	2,750		2,750	Variance is due to size of position held. Actual variance is 1.4%.
Bank Loans	FORD MOTOR COMPANY (12/15/06)	2	MV	112,000	1,540		1,540	Variance is due to size of position held. Actual variance is 1.4%.
Bank Loans	SL GREEN A&R (6/28/07)4 YR	2	MV	52,250	(1,448)		(1,448)	Variance is due to size of position held. Actual variance is 2.8%.
Bank Loans	GMAC 364-DAY (6/11/07)364-DAY	2	MV	48,500	1,398		1,398	Variance is due to size of position held. Actual variance is 2.9%.
Bank Loans	SLM CORP 5YR 2BN 10/20/05	2	MV	91,500	(1,390)		(1,390)	Variance is due to size of position held. Actual variance is 1.5%.
Bank Loans	EBAY INC. (11/7/06)5 YEAR	2	MV	157,040	1,347		1,347	Variance is due to size of position held. Actual variance is 0.9%.
Bank Loans	TRW AUTOMOTIVE INC(5-09-07)	2	MV	44,760	1,309		1,309	Variance is due to size of position held. Actual variance is 2.9%.
Bank Loans	COMCAST A&R RC(1/30/08)5 YEAR	2	MV	178,525	1,259		1,259	Variance is due to size of position held. Actual variance is 0.7%.
Bank Loans	GENERAL ELECT CAPITAL CORP	2	MV	614,375	(1,133)		(1,133)	Variance is due to size of position held. Actual variance is 0.2%.
Bank Loans	XL CAPITAL (6/21/07)/LC TRANCH	2	MV	84,825	1,089		1,089	Variance is due to size of position held. Actual variance is 1.3%.
Cash CDO	GOLDENTREE LOAN OPPORTUNITIES	2	MV	6,600	588		588	PCG substantiated desk mark with trade activity.
Cash CDO	PUTNAM CBO 1 LTD 8.310% 200906	2	MV	6,718	(1,894)	(1,894)		Remarkd.
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	WHITE MOUNTAINS (6/19/07)5-YR	2	MV	28,175	513		513	Variance is due to size of position held. Actual variance is 1.8%.
High Grade	S	2	PV01	615	(2,376)		(2,376)	Desk marked within bid/offer.
High Grade	F	2	PV01	150	(1,413)		(1,413)	Retested in June and variance was within threshold.
High Grade	WM	2	PV01	408	1,103		1,103	Desk marked within bid/offer.
High Grade	RDN	2	PV01	271	(1,007)		(1,007)	Desk marked within bid/offer.
High Grade	CCR	2	PV01	519	922		922	Countrywide Financial is a volatile name trading at wide spreads. As such, PCG agrees with the conservative mark.
High Grade	TOL	2	PV01	375	(916)		(916)	Retested in June and variance was within threshold.
High Grade	CEMEX	2	PV01	282	(899)		(899)	Variance is attributable to 2yr and 6yr points. Desk marked 6yr point within bid/offer. PCG is in discussion with desk over variance at 2yr point.
High Grade	SFI	2	PV01	203	(886)		(886)	iStar Financial is a volatile name trading at wide spreads. Actual variance is 4.4 bps on gross exposure.
High Grade	EQ	2	PV01	547	(857)		(857)	Desk marked within bid/offer.
High Grade	CDX_JG_1212	2	PV01	7,318	1,108		1,108	Variance is due to size of position held. Actual variance is 0.2 bp.
High Grade	CDX_JG_0613	2	PV01	2,609	851		851	Variance is due to size of position held. Actual variance is 0.3 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)/REVOLVER	2	MV	82,300	9,140	9,140		This variance is mostly offset by variances from other HD Supply credit facilities. Desk remarked post month end.
High Yield	HD SUPPLY (8/30/07)/USD REVOLVER	2	MV	129,600	(4,536)	(4,536)		This variance is mostly offset by variances from other HD Supply credit facilities. Desk remarked post month end.
High Yield	HD SUPPLY (8/30/07)/USD REVOLVER	2	MV	76,800	(2,688)	(2,688)		This variance is mostly offset by variances from other HD Supply credit facilities. Desk remarked post month end.
High Yield	HD SUPPLY (8/30/07)/USD REVOLVER	2	MV	50,164	(1,756)	(1,756)		This variance is mostly offset by variances from other HD Supply credit facilities. Desk remarked post month end.
High Yield	HD SUPPLY (8/30/07)/CAD REVOLVER	2	MV	40,076	(1,403)	(1,403)		This variance is mostly offset by variances from other HD Supply credit facilities. Desk remarked post month end.
High Yield	PQ CORPORATION 1ST LIEN	2	MV	151,161	3,150		3,150	Variance is due to size of position held. Actual variance is 2.1%.
High Yield	PQ CORPORATION 1ST LIEN	2	MV	89,799	1,871		1,871	Variance is due to size of position held. Actual variance is 2.1%.
High Yield	PQ CORPORATION 1ST LIEN	2	MV	60,000	1,420		1,420	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	(5,526)		(5,526)	Variance is due to size of position held. Actual variance is 2.7%.
High Yield	HMH PUBLISHING FIRST LIEN	2	MV	129,000	(2,910)		(2,910)	Variance is due to size of position held. Actual variance is 2.3%.
High Yield	PRM	2	PV01	65	(8,612)		(8,612)	PCG is in discussion with desk regarding this variance. PCG will follow-up if variance persists. Primedia is a very illiquid name.
High Yield	HTN	2	PV01	82	(6,366)		(6,366)	PCG substantiated desk mark with trade activity.
High Yield	SBGI	2	PV01	77	(4,909)		(4,909)	PCG is in discussion with desk regarding this variance. PCG will follow-up if variance persists. Totem price may not be reliable as there were only 3 contributors.
High Yield	THC	2	PV01	259	(1,866)		(1,866)	Tenet Healthcare is a volatile name trading at wide spreads. Desk marked within 2 standard deviations away from Totem mean.
High Yield	NCX	2	PV01	263	(1,865)		(1,865)	Retested in June and variance was within threshold.
High Yield	MCCC	2	PV01	198	(1,826)		(1,826)	Desk marked within bid/offer.
High Yield	CDX_HY_100_S9_1210_X1	2	PV01	668	(9,762)	(9,762)		Remarkd.
High Yield	CDX_HY_100_S9_1212_X1	2	PV01	1,421	2,149		2,149	Variance is due to size of position held. Actual variance is 1.5 bps.
High Yield	CDX_HY_B_S6_0611	2	PV01	124	(2,091)		(2,091)	This index is off-the-run and very illiquid. Actual variance is 16.8 bps.
High Yield	CDX_HY_100_S10_0613	2	PV01	726	(2,077)		(2,077)	Variance is due to size of position held. Actual variance is 2.9 bps.
Emerging Market	VENZ	2	PV01	800	(1,163)		(1,163)	Desk marked within bid/offer.
Emerging Market	ARGENT	2	PV01	649	(989)		(989)	Desk marked within bid/offer.

# 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	NORTHERN CALIF GAS AUTH NO 1	2	MV	67,374	(4,058)		(4,058)	There were no prior trades in May and one small trade in April. This is an illiquid FRN position. Actual variance is 6.0%. PCG will discuss with desk if variance persists.
Muni - Cash	MICHIGAN ST UNIV REVS	2	MV	7,400	601		601	This is an illiquid FRN position and desk has marked conservatively to external price.
Muni - Cash	TEXAS MUN GAS ACQUISITION & SU	2	MV	28,275	632		632	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	735		735	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	1,086		1,086	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	1,086		1,086	This is an illiquid FRN position and desk has marked conservatively to external price.
Muni - Cash	COLORADO HSG & FIN AUTH (AMT)	2	MV	4,793	(731)		(731)	The desk marks all 5yr planned amortization class notes at spread of 210 bps. PCG agrees with desk price based on internal fair value model.
Muni - Cash	FLORIDA HSG FIN CORP REV (AMT)	2	MV	48,332	(608)		(608)	The desk marks all 5yr planned amortization class notes at spread of 210 bps. PCG agrees with desk price based on internal fair value model.
Muni - Cash	TENNESSEE HSG DEV AGY (AMT)	2	MV	34,598	(501)		(501)	The desk marks all 5yr PAC bonds to +210 spread to average life, compared to IDC with a higher spread. PC agrees with desk price based on internal fair value models.
Muni - Cash	NEW YORK CITY N Y INDL DEV AGY	2	MV	101,379	(878)		(878)	PCG substantiated desk mark with trading activities.
Muni - Cash	ALLIANCE ARPT AUTH INC TEX SPL	2	MV	16,542	(690)		(690)	PCG substantiated desk mark with trading activities.
Muni - Cash	Texas Single Family Housing (AMT)	2	MV	17,315	(594)		(594)	Bonds are priced to average life and IDC is pricing to maturity, and thus, ignoring the quicker prepayment of this structure. Bonds are being partially called in a monthly basis. 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	HILLSBOROUGH CNTY FLA AVIATION	2	MV	1,339	(539)		(539)	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. PC agrees with desk valuation.
Muni - Cash	City of Becker, Minnesota	2	MV	58,297	(513)		(513)	There are 3 positions with notional of \$50mm for each. The desk marked all 3 positions at similar prices. IDC has two positions priced the same and one different due to maturity difference. These bonds usually trade at similar levels, and thus, the market does not factor the maturity difference. As such, PCG agrees with the desk price. Actual variance is 0.9%.
Muni - Cash	LOUISIANA PUB FACS AUTH REV	2	MV	20,604	503		503	Variance is due to size of position held. Actual variance is 2.4%.
Muni - Cash	LOUISIANA PUB FACS AUTH HOSP R	2	MV	14,619	608		608	These are non-rated hospital bonds. Sector is still very weak and desk has marked conservatively.
Muni - Cash	PUERTO RICO COMWLTH HWY & TRAN	2	MV	20,700	(542)		(542)	No prior trades in May and one trade in April. This is an illiquid FRN position. Actual variance is 2.6%.
Muni - Cash	PUERTO RICO COMWLTH INFRASTRUC	2	MV	24,600	1,295		1,295	There has been no recent prior trading activity. This is an illiquid position and desk has marked conservatively to external price.
Muni - Cash	Harris County Health Facilities Dev. Corp. St Lukes	2	MV	12,476	1,590		1,590	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.
Muni - Derivatives	PERALTA CALIF CMNTY COLLEGE	2	MV	8,880	918		918	Peralta private placement and re-structuring bonds are not rated and not quoted by a broker. PCG performs alternative valuation procedures by marking it to the level where taxable securities of similar credit are traded (libor + 100bps).

# PRICING REPORT – explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
Securitized Products	Reconstituted NIMs	3	MV	73,976	1,440		1,440	Desk prices fall within PCG's stressed base case assumptions.
Securitized Products	Residuals	3	MV	996,043	(33,245)	(33,245)		Desk marked down by \$20mm.
Securitized Products	NIMs	3	MV	144,408	(3,061)		(3,061)	Desk prices fall within PCG's stressed base case assumptions.
Securitized Products	Whole Loan Portfolio	2	MV	4,590,799	(74,382)	(74,382)		Desk took aggregate mark downs of \$78mm on whole loans (level 2 and 3).
Securitized Products	Whole Loan Portfolio	3	MV	1,806,664	(36,927)	(36,927)		Desk took aggregate mark downs of \$78mm on whole loans (level 2 and 3).
Real Estate	Lyon Portfolio	2	MV	12,132	(6,207)		(6,207)	Multifamily assets in CA. Current spread is deemed appropriate for this type of property & leverage. Debt service coverage ratio (DSCR) is approximately 1.10. No markdown suggested.
Real Estate	25 Broad	2	MV	343,171	(1,719)		(1,719)	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-07 due to a softening of condo market. The loan is priced as rental. There is a personal guarantee for the value differential between condo and rental. Currently, property is being marketed and Swig has expressed interest as of May 08. No markdown suggested.
Real Estate	Calwest	2	MV	117,182	(31,908)		(31,908)	The loan is secured by a portfolio of 97 industrial properties known as CalWest Portfolio. \$8.35mm markdown taken in Jan08. Based on discussion with desk, current spread of 543 bps is deemed appropriate for this type of industrial property portfolio and loan-to-value ratio (LTV). No markdown suggested.
Real Estate	Bethany Phoenix	2	MV	33,180	(11,057)		(11,057)	The property has a DSCR of 1.17. The current mark implies a spread of 770 bps and is deemed appropriate for this type of asset/leverage. No markdown suggested.
Real Estate	Nashville Portfolio	2	MV	27,873	(8,251)		(8,251)	The property has a DSCR of 1.25 and occupancy of 95%. Based on discussion with the desk, current spread is deemed appropriate for this type of property/leverage. Carlyle is currently looking to repay this mezz portion. No mark down suggested at this time.
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 desk, Kojanian might buy us out. No markdown suggested.
Real Estate	Petrini Bakersfield	C	MV	34,341	(26,360)	(26,360)		Petrini Bakersfield is 1,810 acres of land located in Southwest Bakersfield, CA. Based on most recent review, position was marked down \$20mm in May-08. No additional markdowns suggested at this time.
Real Estate	Indiantown	3	MV	17,691	(12,834)	(12,834)		Indiantown Quillen DRI is a 2,250 lot residential development site in Indiantown, Martin County, Florida. Based on most recent review, position was marked down \$30mm in May-08. No additional markdowns suggested at this time.
Real Estate	Boulder Springs	3	MV	41,895	(10,983)	(10,983)		The site for the Project is a 658-acre vacant land parcel located in the unincorporated portion of the Riverside County, CA. Based on most recent review of this deal, related mezz debt was totally written off. No additional markdowns suggested at this time.
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 has foreclosed on the property and is currently in the process of disposing the asset through auction sale. This position was marked down by \$8mm in February 2008. PCG is in discussion with the desk about IRR model and valuation of position. No markdown is suggested at this time.
Real Estate	LB ONE 11 PLAZA LLC	C	MV	11,100	(10,578)		(10,578)	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. The downtown market is considered solid. No markdown suggested.
Real Estate	Miscellaneous	2	MV	N/A	(9,116)		(9,116)	Other significant variances.
Real Estate	Miscellaneous	3	MV	N/A	(19,778)		(19,778)	Other significant variances.
Real Estate	Miscellaneous	C	MV	N/A	(29,625)		(29,625)	Other significant variances.
					(387,293)	(207,628)	(179,665)	

# PRICING REPORT – explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
<i>Europe</i>								
IRP Derivatives	Inflation delta	2	PV01	5,213	(6,733)	(6,733)		Remarkd.
IRP Derivatives	FX vols (ATM)	2	Vol + 1%	709	(1,127)	(1,127)		Remarkd.
Real Estate	CMBS Win XII	2	MV	484,375	(16,000)	(16,000)		Remarkd.
Real Estate	CMBS Win XIV	2	MV	1,078,125	(8,000)	(8,000)		Remarkd.
					(31,860)	(31,860)	0	
<b>Total Significant Variances</b>					<b>(419,153)</b>	<b>(239,488)</b>	<b>(179,665)</b>	

# PRICING REPORT – coverage

S'000	Risk Measure	Level 1				Level 2				Level 3			
		MV	Coverage	Risk Based	Coverage	MV	Coverage	Risk Based	Coverage	MV	Coverage	Risk Based	Coverage
<b>Exposures:</b>													
<b>(i) Interest rate</b>													
Government Bonds & Bond Indexed Cash Products	MV	(13,741,806)	99%			402,571	94%						
Listed Government Bond Options	MV	(3,910)	100%										
Money market & MM index cash products	MV	27,681	100%			3,158,306	100%						
Listed Interest Rate Futures	MV	16,008,042	100%										
Listed Interest Rate Options	MV	263,209	100%										
Interest rates	PV01							4,113	100%		(1,817)	100%	
Asset Swaps	PV01												
IR ATM volatility	Vol + 1%							21,878	53%		(866)	100%	
IR volatility skew: IR vol correlation	Vol + 1%							(3,202)					
IR volatility skew: vol of vol	Vol + 1%							(4,177)	62%				
IR FX correlation	Correl + 1%												
IR IR correlation	Correl + 1%												
OTC Bond Option Price	MV					11,165	100%						
OTC Bond Option Volatility	Vol + 1%							9,257	100%				
Inflation Bonds	MV												
Inflation Swaps & Options Delta	PV01							2,513	99%				
Inflation Option Volatility	Vol + 1%												
		<b>2,553,216</b>				<b>3,572,043</b>							
<b>(ii) Credit</b>													
Corporate Bonds	MV					7,239,403	85%			296,815	62%		
Corporate Bond Options : Price	MV												
Corporate Bond Options : Volatility	Vol + 1%							4,541	0%				
Warrants	MV					830							
Credit Spreads : Single Name	CS01							(12,269)	70%		(998)	100%	
Credit Spreads : Bespoke	CS01												
Index Spreads : Indices	IND01							(6,468)	97%				
Index Spreads : Index Tranches	IND01							0	97%				
Index Spreads : Bespoke	IND01							2	99%				
Index Spreads Index Tranches	REF01							(3,063)	98%				
Index Spreads Bespoke	REF01							11,407	99%				
Tranche Spreads : Index Tranches	TR01							117	98%				
Tranche Spreads : Bespoke	TR01							123	98%				
Bond collateral : CDO SPE transactions	MV												
State Guaranteed Corporate Bonds	MV												
Recovery rates	Recovery + 1%							4,860	97%				
Credit volatility	Vol + 1%							96	96%				
Third party CDOs	MV					744,393	98%			225,925	91%		
Bespoke Correlation	Correl + 10%												
ABCDS	MV					(3,989,476)	99%						
						<b>3,995,150</b>				<b>522,740</b>			
<b>(iii) Equity</b>													
Stock & Stock Index Cash Products	MV	(756,855)	92%			172,037	88%			1,435,093	64%		
Stock & Stock Index Listed Futures	MV	(459,475)	100%										
Stock & Stock Index Listed Options	MV	18,335	100%										
Stock & Stock Index Volatility	Vol + 1%												
Equity correlation	Correl + 10%										1	100%	
Dividend rates	D Rho												
Convertible Bonds	MV					618,661	75%						
Ascots	MV												
Equity swaps	Pos Delta												
		<b>(1,197,996)</b>				<b>790,698</b>				<b>1,435,093</b>			
<b>(iv) Fund</b>													
Fund units	MV					177,272	100%						
Fund volatility	Vol + 1%										(3,206)	100%	
Fund vol of vol	Vol + 1%										(190)	100%	
IR Fund NAV correlation	Correl + 20%										(2,677)	100%	
Fund vol NAV correlation	Correl + 20%										796	100%	
Fund options	Delta +/- 5%							2,423	100%				
						<b>177,272</b>							

# PRICING REPORT – coverage

S' 000	Risk Measure	Level 1				Level 2				Level 3			
		MV	Coverage	Risk Based	Coverage	MV	Coverage	Risk Based	Coverage	MV	Coverage	Risk Based	Coverage
<b>Exposures:</b>													
<b>(v) Mortgage</b>													
Agency CMO / bond	MV					10,086,285	100%						
MBS bonds	MV					6,568,967	100%			568,546	100%		
Pass-throughs	MV					390,006	100%						
Residuals	MV									1,580,195	63%		
Servicing rights	MV					1,678,411	100%						
Whole loans residential	MV					4,590,799	100%			3,284,624	89%		
Mortgage volatility	MV					621,901	65%						
						<b>23,936,369</b>				<b>5,433,364</b>			
<b>(vi) Real Estate</b>													
Whole loans commercial	MV					15,362,715	100%			3,112,513	100%		
CMBS	MV					17,593,791	99%			246,639	100%		
Property Derivatives	MV												
						<b>32,956,507</b>				<b>3,359,152</b>			
<b>(vii) FX Options</b>													
FX Delta	MV	(278,282)	100%			(503,863)	100%						
FX volatility	Vol + 1%							9,827	98%				
FX Vol skew	Vol + 1%							(6,465)	99%				
FX / FX correlation	Corr + 10%												
		<b>(278,282)</b>				<b>(503,863)</b>							
<b>(viii) Hybrid &amp; Other</b>													
ABS bonds	MV					12,149,047	98%			4,138,885	90%		
Loans	MV					54,296,541	87%			4,054,849	84%		
Principal transactions*	MV									10,058,976	94%		
Preferreds	MV					713,186	11%						
Alltax swaps	PV01											(1,991)	100%
Muni bonds	MV					8,286,296	98%						
						<b>75,445,069</b>				<b>18,252,710</b>			
<b>(ix) Commodities</b>													
Base Metals - Listed Futures & Options	MV												
Base Metals - OTC Delta	PV01			(82)	100%			120	100%			(17)	100%
Base Metals - OTC Volatility	Vol + 1%							388	100%			(419)	100%
Coal - OTC Delta	PV01							10	100%				
Crude Oil - OTC Delta	PV01			2,520	99%			(1,659)	97%				
Crude Oil - OTC Volatility	Vol + 1%							1,826	100%				
Emissions - Listed Futures & Options	MV												
Emissions - OTC Delta	PV01			(382)	100%			135	100%				
Emissions - OTC Volatility	Vol + 1%							4	37%				
Natural Gas - Listed Futures & Options	MV												
Natural Gas - OTC Delta	PV01			14,664	100%			(20,819)	100%			(1,497)	100%
Natural Gas - OTC Volatility	Vol + 1%							6,028	100%				
Power - Listed Futures & Options	MV												
Power - OTC Delta	PV01			306	100%			1,458	98%				
Power - OTC Volatility	Vol + 1%							(901)	74%				
Precious Metals - Listed Futures & Options	MV												
Precious Metals - OTC Delta	PV01			235	100%			144	99%			(265)	99%
Precious Metals - OTC Volatility	Vol + 1%												
Refined Products - Listed Futures & Options	MV												
Refined Products - OTC Delta	PV01												
Refined Products - OTC Volatility	Vol + 1%												
Softs - Listed Futures & Options	MV												
Softs - OTC Delta	PV01			93,043	97%			41,408	95%			(111,377)	91%
Softs - OTC Volatility	Vol + 1%							269	72%			9	81%
Commodity Indices - Delta	PV01							435	75%			(736)	86%
Commodity Indices - Volatility	Vol + 1%							(513)	92%			(312)	40%
Commodity Correlation	MV												
<b>Overall Totals</b>		<b>1,076,939</b>				<b>140,369,244</b>				<b>29,003,060</b>			

\* 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	Projects	Current Owner	Region/Residual Team	Reason/Current Team	Est. of Measurement (H/M/L)	Equipment Software	Current Enhancement (Y/N)	Due Date	Equipment	Valuation Control (Y/N)
IRP	Caps	Alice Zhang	NY	Need to assess cap vols skew p/l impact	H	Currently using Markt, however we are not calculating/reporting any p/l impact of using independent volatilities.	Y	2Q08	Working with IT to perform full re-pricing of the entire portfolio	
IRP	Caps and Swaptions	Alice Zhang	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	2Q08	Able to test European swaption with new model. Working on threshold.	
IRP	Exotics	Alice Zhang	NY	Deal review processes are not in place for exotics	M	Establish deal review processes for exotics	N	2Q08		
IRP	Exotics	Alice Zhang	NY	Need to expand both IRP and FX exotics submission and price testing	M	Expand Totem usage.	N	2Q08		
IRP	Options	Alice Zhang	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	2Q08	Submitted to Totem the pricing of Bermudan options. Working on price testing methodology. Need to clarify model issues.	
IRP	General	Alice Zhang	NY	Need to expand overall price testing coverage	M	Expand broker coverage	N	2Q08	Expanding broker coverage will be a continual process	
IRP	General	Alice Zhang	NY	Need to improve the monitoring of variances	M	Implement variance time series tracking	N	2Q08		
FX	Options	Alice Zhang	NY	Skew testing for FX trades that are greater than 2 years - testing 63 pairs right now	M	Need automation on manual testing.	Y	2Q08	Need IT improvements & increase number of currency pairs tested.	
FX	Baskets	Alice Zhang	NY	Need to expand all correlation parameters (including currency pairs)	M	Need to utilize Totem to test correlation inputs	N	2Q08	Already established price testing on 50% of currency pairs; continue to expand coverage.	
Energy	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 Kinectix, will include Eagle in the normal process. In the interim, will work to get better position information out of Eagle's portfolio.	
Energy	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			
Energy	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			
Energy	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			
Energy	General	Yong Huang	NY	Price shape tracking: Price shape needs to be monitored	M	Develop and maintain tracking mechanism	N			
Energy	General	Yong Huang	NY	Skew surface tracking: Skew surface needs to be monitored	M	Develop and maintain tracking mechanism	N			
Energy	General	Yong Huang	NY	Structured portfolio is price tested with grecks as given, alternative procedure can be set up to test the the sensitivity of inputs on grecks output	M	Develop and implement methodology in NY once more routine price testing gets transferred to India	N			
Energy	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			
Energy	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			
Energy	General	Yong Huang	NY	Currently not involved in NPC items in UK	M	Coordinate with UK to get on European NPC agenda.	N			
Mortgages	Non-Economic Residuals	Joc Sapia	NY	Not price tested.	L	Develop methodology	N	TBD	Exposure is immaterial with reserves being held out in Prime desk.	
Structured Finance	PFG Conduits	Joc Sapia	NY	Not price tested	H	Develop methodology	N	TBD	Off-balance sheet positions	

# PRICING REPORT – projects

Business Line	Products	Contact Person	Region/ Holding	Issues	Risk of Measurement (Y/N/L)	Proposed Solution	Month End/Measurement Required (Y/N)	Due Date	Comments	Additional Comments (if any)
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	1Q08		
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		
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	2Q08		
Credit	General	Scott Goswami	NY	Global Valuation reporting to be created for Management review	M	Create reports and distribute to Desk heads	N	2Q08		
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	2Q08		
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	2Q08		
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		
Real Estate	Derivatives (Duration Neutral Swaps)	Abe Kebede	NY	Not price tested	L	Obtain Population and develop pricing methodology	Y	2Q08	Product control working with front office, middle office and technology teams on developing a model	Middle office currently maintaining spreadsheets to calculate pmts
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.	
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	2Q/3Q08	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.	
Commodities	Exotic Commodity Trades	Rob Honeyball	London	Exotics outside of Kinetics are not price tested	M	Integration of models into Kinetics via Flexdeal and model approval process.	Y	2Q08		
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	2Q08		
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	2Q08		

# PRICING REPORT – projects

Business Line	Product	Contact Person	Region/Timezone	Project Name	Risk of Misstatement (H/M/L)	Proposed Solution	Material Enhancement Required (Y/N)	Due Date	Comments	Valuation / Current Policy
Credit	NTD Baskets	Tony Ellis	London	NTD Correlation risk untested	M	Benchmarking to Totem consensus data	Y	2Q08	Totem Consensus data received but not used in price testing	Hold an uncertainty reserve against this risk
Credit	CDO Tranchelets	Tony Ellis	London	Tranchelet risk not fully tested	L	Analysis vs Totem consensus data	N	2Q08	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	2Q08	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	2Q08		Basic price testing shows conservative variance, good coverage
Credit	Derivatives on CLOs/CDOs	Tony Ellis	London	Coverage/Methodology to be improved	M		N	2Q08		
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	Richard Holmes	London	Loan CDS not price tested	L	Need to follow up.	N	TBD		
Securitized Products	Residuals	Richard Holmes	London	Residuals policy to be developed	L	In development	N	TBD		
Securitized Products	Non Performing Loans	Richard Holmes	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	Richard Holmes	London	Some structured trades booked at transaction price and cash accounted.		Spread lock trades do not have available curves. Need to follow up.		TBD		
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	2Q08	Completed for CTE, Vanilla Rates completed but not yet rolled out due to resource limitations in the line, other products TBD	
All	All	All	London	Ongoing (i.e. post model review) calibration controls to be developed (global project)	M	Develop methodology	Y	TBD		
All	All	All	London	Need to assess significance of exposure where Markit offer service but we don't subscribe - e.g. CMA, inflation exposures	L	Research Lehman products as well as what Markit offers. CMS now subscribed to CDS and CDO. ABS in future, not yet subscribed on Markit.	N	TBD		
All	All	All	London	Need to ensure that all significant factors relevant to valuation are identified and covered	M	Credit perceives no issues	N	N/A		
All	All	All	London	Need to develop full repricing methodology	M	Credit : Develop methodology IRP. Rates repricing being built in Optmodel Commodities: Develop Policy	Y	TBD	Credit: Not yet key priority in credit Commodities: To be included in the revamp of the policies generally by end of 1Q08	
All	All	All	London	Alternative procedures to justify acceptance of marks on untested exposures need to be more precise.				TBD	Being assessed through VCO review of PT templates	
All	All	All	London	Model reserve assessment to be completed in many areas	M	Work in Progress	Y	TBD		
All	All	All	London	FAS157 level 1, 2 and 3 classification of asset types to be concluded and embedded in price testing templates (global project)		Tagging process ongoing, correct assignment of exposures to levels in PT templates needs proper line manager review		TBD		
Credit	High Yield (CBs, Bonds, Private Equity, Warrants, Loans)	Sharad Kochar/ 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)	Sharad Kochar/ 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	Sharad Kochar/ 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		