

From: McGarvey, Michael [mmcgarve@lehman.com].

Sent: 1/30/2008 8:46 AM.

To: Kelly, Martin [martin.kelly@lehman.com]; Bernard, Clement [clement.bernard@lehman.com]; Bismal, Anuraj [abismal@lehman.com].

Cc: Lee, Matthew [matthew.lee@lehman.com]; Stabenow, Sigrid M [sstabeno@lehman.com].

Bcc:

Subject: RE: January 2008 Balance Sheet Projection as of January 25, 2008.

Martin,

As of the 28th, Rates had 113.6bn of net assets. Right now our quarter end forecast is at ~3bn over target so we should reduce net assets by 68bn.

Thanks,  
Mike

---

> From: Kelly, Martin  
> Sent: Wednesday, January 30, 2008 12:12 AM  
> To: McGarvey, Michael; Bernard, Clement; Bismal, Anuraj  
> Cc: Lee, Matthew; Stabenow, Sigrid M  
> Subject: RE: January 2008 Balance Sheet Projection as of January  
> 25, 2008

> Mike - what are current total assets for Rates? And using the below,  
> this will reduce by approx \$60b by qtr end?

---

> From: McGarvey, Michael  
> Sent: Tuesday, January 29, 2008 3:32 PM  
> To: Bernard, Clement; Bismal, Anuraj  
> Cc: Lee, Matthew; Kelly, Martin; Stabenow, Sigrid M  
> Subject: RE: January 2008 Balance Sheet Projection as of January  
> 25, 2008

> Anuraj,

> Global Rate's current balance sheet usage is necessary in  
> order to take advantage of a number of opportunities in a highly  
> volatile rate market. None of the assets making up the current coverage  
> are illiquid. They are mainly comprised of US treasuries and agencies,  
> Euro and Gilt government bonds, agency passthru and JBG's.  
> As of the 25th, Rates has made 583mm in revenue or 74% of  
> it's full year budget. Along with High Grade Credit, Rates is  
> basically carrying the FID division. Given the situation in Real  
> Estate and Mortgages as well as the overall capital picture of the  
> firm this has been an extremely important revenue stream because Rates  
> uses a comparably small amount of capital relative to other  
> businesses.  
> For quarter end balance sheet Rates America's and Asia are  
> projecting to make target while Europe has a ~3bn overage they are  
> working on solving. Please let me know if you have any questions.

> -Here is a list of some of the major balance sheet items that should  
> clean up by February month end.

> \* 25bn of settled pools (vs. TBA's) to be exited on February 12th

> \* 10bn of specified agency mortgage pools to be substantially

> reduced by Q1

- > \* 17bn of additional repo 105. We are working on at least getting
- > back to our Q4 usage of 27bn. This will be ramped up in increments
- > over the next few weeks
- > \* 3bn of short term rate securities that will not be on b/s on
- > 2/28
- > \* 5bn of excess JBG's in yen Governments
- > \* 3bn of non Hoffman basis strategy related treasuries
- > \* 2bn of Coupon Flow US treasuries
- > \* 1.5bn of US derivative cash hedges that should be off b/s by Q1

> Thanks,  
> Mike

---

> From: Bernard, Clement  
> Sent: Tuesday, January 29, 2008 1:31 PM  
> To: Bismal, Anuraj; McGarvey, Michael  
> Cc: Lee, Matthew; Kelly, Martin  
> Subject: RE: January 2008 Balance Sheet Projection as of January  
> 25, 2008

> The big spike in Rates is due to some specific transaction long agency  
> short TBA that should settle before the end of the quarter. Overall we  
> have a problem of \$ 15 that we are talking the business to. We are  
> taking action to reduce that overage.

> Mike add anything you feel I have missed

---

> From: Bismal, Anuraj  
> Sent: Tuesday, January 29, 2008 8:17 AM  
> To: McGarvey, Michael; Bernard, Clement  
> Cc: Lee, Matthew; Kelly, Martin  
> Subject: FW: January 2008 Balance Sheet Projection as of January  
> 25, 2008

> Mike,

> I thought I would check with you that the large balance sheet in Rates  
> is due to this being a great revenue opportunity rather than these  
> assets being hard to unwind.

> I am wondering if there would be any difficult in getting balance  
> sheet down for Q1.

> Thanks  
> Anuraj

---

> From: Chang, Alan  
> Sent: Monday, January 28, 2008 10:52 PM  
> To: Global Balance Sheet Projection  
> Subject: January 2008 Balance Sheet Projection as of January 25,  
> 2008

> The Net Leverage increased 1.8 from 17.5 to 19.3.

> Two main drivers:

> FID Core - Global Rates BPM (+34.5B)  
> \* Primarily driven by Pass-Thru desk - higher net balance sheet  
> due to TBA carry trades.  
>  
> FID Prime Service - Liquid Markets Financing (+9.3B)  
> \* Due to increased fails which we are expecting to remain on the  
> balance sheet through month end.  
>  
>  
>  
> Target Projection vs  
> Jan-08 Jan-08 Target  
> Gross Leverage 32.4 36.5  
> 4.1  
> Net Leverage 17.1 19.3  
> 2.2  
>  
>  
> GROSS NET  
>  
> Region Target Projection Over/(Under)  
> Region Target Projection Over/(Under)  
> Americas 506.5 566.7 60.1  
> Americas 263.8 304.7  
> 40.9  
> Europe 167.5 195.7 28.2  
> Europe 97.9 104.8  
> 6.9  
> Asia 74.5 80.9  
> 6.4 Asia 45.7 50.3  
> 4.7  
> TOTAL 748.6 843.3 94.7  
> TOTAL 407.3 459.8  
> 52.4  
>  
> << OLE Object: Picture (Metafile) >>  
>  
>  
>  
> << File: January 2008 Projection as of 1.25.08.zip >>  
>  
>  
> ALAN C. CHANG  
> Global Balance Sheet Group  
> Lehman Brothers  
> Phone: (212) 320-6952  
> Fax: (646) 834-0674  
>  
>  
>  
>  
>