

Valuation & Control Report - Fixed Income Division

February 2008



LEHMAN BROTHERS

Where vision gets built.™

Contents

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:

- *Emerging Market Loan with FX Call Spread* – Lehman loaned ¥6 billion to Astana, a Kazakhstan quasi-sovereign entity. In addition, Lehman entered into a currency swap with Astana to convert the JPY loan into USD. Lehman also purchased a FX call spread from Astana. To compensate Lehman for not exercising its put option, Astana agreed to restructure the trade at favorable terms. The ¥6 billion loan was converted into €40 million of Eurobonds. If converted at the prevailing FX rate, Lehman would have only received €36.6 million of Eurobonds. Furthermore, the currency swap was cancelled without any payments. Due to the appreciation of JPY vis-à-vis USD, Lehman had a negative MTM in the currency swap. The FX call spread remains after the restructuring and Lehman has taken a \$1.5 million valuation adjustment for counterparty exposure. The Eurobonds are restricted and a liquidity valuation adjustment of \$4 million was taken for this restriction. Lehman recognized P/L of \$4 million due to the restructuring of the trade after taking into consideration the \$5.5 million of valuation adjustments as discussed. The trade is classified as level 2 under FAS157 since all input parameters are deemed observable.

- *Equity Collar and Put Spread* – Lehman entered into an equity collar on shares of Intesa Sanpaolo SpA, selling puts with strike of 90% of initial level and buying calls with strike of 120% of initial level. The options have notional of 38.7 million shares and expire on March 2013. In addition, Lehman entered into a put spread trade for another 19.3 million shares of Intesa Sanpaolo SpA, selling puts with strike of 90% of initial level and buying puts with strike of 80% of initial level. The put spread trade also expires on March 2013 and contains a knock-out / knock-in trigger that converts into a collar trade if the share price of Intesa Sanpaolo SpA touches specified trigger levels. The put spread is divided into 9 tranches. The trigger levels are 120% of the initial level for the first tranche and go up in increments of 7% for other tranches. If collars are knocked-in, Lehman will be short puts with strikes equaled to the trigger level and long calls with strikes equal to the trigger level plus 7%. The trade will be classified as level 2 under FAS157 since implied volatilities are observable through combination of listed options, Totem and broker quotes. The trade has Day 1 P/L of \$21.4 million. Trader's marks include implicit volatility spread, liquidity and barrier shift adjustments totaling \$5.1 million which is equivalent to 2.5 volatility points.

Executive summary

Valuation adjustments (increased by \$326mm from \$2,653mm to \$2,979mm, as detailed in section 2)

Significant changes include:

- Increase of \$152mm of Counterparty adjustments from Securitized Products Americas is mainly due to increase in MTM of CDS protection purchased from ACA Capital.
- Increase of \$63mm of Counterparty adjustments from CDO Americas is attributable to: 1) increase in MTM of CDS protection purchased from ACA Capital and XL Capital, 2) increase in percentage of counterparty adjustment for trades with ACA Capital, and 3) new counterparty adjustments for trades with Ambac.
- Increase of \$63mm of Parameter Uncertainty adjustments from CDO Europe is due to: 1) new minibond and ABS correlation trades, and 2) widening credit spreads.

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 \$139 million on the aggressive side, of which Americas is \$125 million on the aggressive side (re-marks of -\$46 million), Europe is \$15 million on the aggressive side (re-marks of -\$4 million) and Asia has no significant variances.
- There are \$47 million of aggressive significant variances attributable Securitized Products Americas. All significant variances attributable to rated bonds were re-marked. The remaining significant variances were attributable to NIM, reconstituted NIM and residual positions, and desk prices for these positions fell within PCG's stressed base case assumptions.
- There are \$44 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.
- There are \$13 million of aggressive significant variances attributable to Real Estate Americas. PCG concluded that these variances are reasonable considering that these positions are concentrated and/or illiquid.

Significant Pricing Variance - Global FID			
in \$'000			
	<u>Re-marked</u>	<u>Resolved</u>	<u>Total</u>
Level 1	0	0	0
Level 2	(49,656)	(57,039)	(106,694)
Level 3	0	(11,083)	(11,083)
Consolidated Positions	0	(21,432)	(21,432)
Total	(49,656)	(89,554)	(139,209)

*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

February 2008



LEHMAN BROTHERS

Where vision gets built.™

VALUATION ADJUSTMENTS – significant changes

Region	Product	Description	Type	Current Month	Prior Month	Change	Comment
Americas	IRP	Deal Specific	Model	29,089	42,540	(13,451)	Decrease is mainly due to: 1) curve contraction issue being resolved and 2) high strike options that had pricing issues were either unwound or hedged.
Americas	CDO	Counterparty Credit Adjustments	Credit	461,991	398,544	63,447	Increase is mainly attributable to: 1) increase in MTM on CDS protection purchased from ACA Capital and XL Capital, 2) increase in percentage of counterparty credit adjustment for trades with ACA Capital and 3) new counterparty credit adjustment for trades with Ambac.
Americas	Muni	Counterparty Credit Adjustments	Credit	59,259	71,602	(12,343)	Decrease is mainly attributable to the reduction of MTM of SAVR swaps.
Americas	Securitized Products	Counterparty Credit Adjustments	Credit	712,487	560,915	151,572	Increase is due to increase in MTM of CDS protection purchased from ACA Capital.
Americas	Securitized Products	ABS - Contingent Liability	Contingent Liabilities	0	30,000	(30,000)	Caim deal has been marked down; mark incorporates this valuation adjustment.
Europe	CDO	Contingent Liabilities	Contingent Liabilities	85,915	71,093	14,822	Increase is mainly attributable to new minibond trades.
Europe	CDO	Funding Cost	Valuation	726	12,712	(11,986)	Liability benefits resulting from issuance of structured notes were previously held back. This valuation adjustment has been released after it has been determined that valuation is consistent between Treasury and the desk.
Europe	CDO	Model Calibration	Model	68,643	13,076	55,567	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 CDX9 and LCDX9.
Europe	CDO	Model Fit	Model	(15,348)	50,303	(65,651)	Release of valuation adjustments for rho at zero strike and rho at zero maturity due to increase observability of 3-year tenor trades.
Europe	CDO	Parameter Uncertainty	Liquidity	158,163	95,548	62,615	Increase is mainly attributable to: 1) new minibond and ABS correlation trades and 2) widening credit spreads.
Europe	IRP	Model Skew	Model	47,192	26,553	20,639	For CMS spread options, the estimation of correlation skew adjustment for interest rate pairs has been changed from linear interpolation to a quadratic function as discussed in CDTR.
Asia	FX	Model Skew	Model	14,900	0	14,900	Valuation adjustment mainly relates to USD/JPY skew adjustment.
Subtotal				1,623,017	1,372,886	250,131	
Remaining Valuation Adjustments				1,355,780	1,280,048	75,731	
Total Valuation Adjustments				2,978,797	2,652,934	325,862	

VALUATION ADJUSTMENTS – summary

Business	Total \$000	Contingent					Early		Valuation
		Model	Bid/Offer	Liabilities	Liquidity	Credit	Expense	Termination	
Liquid Market Prop	8,816	737	8,079	-	-	-	-	-	-
Interest Rate Products	464,881	207,316	72,890	-	32,406	16,530	-	108,091	27,648
Foreign Exchange	49,006	12,696	18,367	-	-	-	-	6,682	11,261
High Grade Credit	71,139	3,014	58,314	3,577	3,940	1,345	1,004	(55)	-
CDO	1,044,880	123,181	154,850	113,439	171,201	461,991	9,719	4,483	6,016
High Yield	61,894	(2,000)	56,396	1,000	-	-	3,392	-	3,106
Real Estate	66	-	-	-	-	-	66	-	-
Munis	71,174	1,247	8,853	-	-	59,970	-	-	1,104
Securitized Products	1,086,615	-	38,592	301,593	-	721,105	25,325	-	-
Commodities Trading	94,100	14,344	44,948	-	8,308	9,100	-	-	17,400
FID Corporate	26,226	525	20,607	-	-	-	-	5,094	-
Total FID Valuation Adjustments	2,978,797	361,060	481,896	419,609	215,855	1,270,041	39,506	124,295	66,535

LEHMAN BROTHERS

VALUATION ADJUSTMENTS – Regional matrix

America	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
Liquid Markets Prop	6,746	-	6,746	-	-	-	-	-	-
Interest Rate Products	94,065	59,814	14,410	-	8,811	11,030	-	-	-
Foreign Exchange	29,289	12,095	12,876	-	-	-	-	4,318	-
High Grade Credit CDO	48,650	1,556	42,081	-	3,940	932	141	-	-
High Yield	512,827	27,773	4,086	9,723	-	461,991	9,254	-	-
Munis	49,992	(2,000)	50,992	1,000	-	-	-	-	-
Securitized Products	71,174	1,247	8,853	-	-	59,970	-	-	1,104
Commodities Trading	1,066,186	-	38,592	283,428	-	721,857	22,309	-	-
FID Corporate	50,600	-	25,100	-	-	8,100	-	-	17,400
	6,205	-	6,205	-	-	-	-	-	-
Total America	1,935,734	100,485	209,941	294,151	12,751	1,263,880	31,704	4,318	18,504
Europe									
Capital Mkts Fund JV	108,875	9,373	6,398	-	-	-	-	93,104	-
Liquid Mkts Prop	2,070	737	1,333	-	-	-	-	-	-
Interest Rate Products	204,648	108,985	37,007	-	16,921	500	-	14,987	26,248
Foreign Exchange	2,293	(14,299)	2,967	-	-	-	-	2,364	11,261
Commodities Trading	41,839	13,944	18,587	-	8,308	1,000	-	-	-
High Grade Credit	13,271	-	9,694	3,577	-	-	-	-	-
High Yield Credit	5,716	-	4,132	-	-	-	-	-	1,584
CDO	531,392	95,408	150,694	103,716	171,201	-	-	4,483	5,890
Securitized Products	18,165	-	-	18,165	-	-	-	-	-
FID Corporate	16,644	525	11,025	-	-	-	-	5,094	-
Total Europe	944,913	214,673	241,837	125,458	196,430	1,500	-	120,032	44,983
Asia									
Interest Rate Products	57,293	29,144	15,075	-	6,674	5,000	-	-	1,400
High Grade Credit CDO	9,218	1,458	6,539	-	-	413	863	(55)	-
Foreign Exchange	661	-	70	-	-	-	465	-	126
High Yield Credit	17,424	14,900	2,524	-	-	-	-	-	-
Real Estate	6,186	-	1,272	-	-	-	3,392	-	1,522
Securitized Products	66	-	-	-	-	-	66	-	-
Commodities Trading	2,264	-	-	-	-	(752)	3,016	-	-
FID Corporate	1,661	400	1,261	-	-	-	-	-	-
	3,377	-	3,377	-	-	-	-	-	-
Total Asia	98,150	45,902	30,118	-	6,674	4,661	7,802	(55)	3,048
Global Total	2,978,797	361,060	481,896	419,609	215,855	1,270,041	39,506	124,295	66,535

LEHMAN BROTHERS

VALUATION ADJUSTMENTS – Americas

America - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
LIQUID MARKETS PROP	6,746	0	6,746	0	0	0	0	0	0
Bid/Offer Adjustment	5,931		5,931						
FX Prop Bid/Offer Adjustment	815		815						
FID DERIVATIVES	94,065	59,814	14,410	0	8,811	11,030	0	0	0
Liquidity Adjustment	8,811				8,811				
Option Model Adjustment	30,725	30,725							
CVA	11,030					11,030			
Spread Bid/Offer	7,616		7,616						
Volatility Bid/Offer	6,794		6,794						
Deal Specific	29,089	29,089							
FOREIGN EXCHANGE	29,289	12,095	12,876	0	0	0	0	4,318	0
Bid/Offer	12,876		12,876						
FX Deal Specific - Model	9,807	9,807							
FX Deal Specific - Early Termination Adjustment	4,318							4,318	
Skew - Local Markets	1,143	1,143							
Skew - FX Options	1,145	1,145							
HIGH GRADE CREDIT	48,650	1,556	42,081	0	3,940	932	141	0	0
Bid/Offer Credit US	28,636		28,636						
Other Adjustment (Model)	1,009	1,002					7		
Bid Offer Latin	2,769		2,769						
Other Adjustment - Latin	11,230	554	10,676						
Deal Specific Adjustment (Liquidity) - Latin	4,074				3,940		134		
Credit Adjustment - Enron	932					932			
CDOs	512,827	27,773	4,086	9,723	0	461,991	9,254	0	0
Expense Adjustment	9,254						9,254		
Contingent Liability	9,723			9,723					
Counterparty Adjustment - ACA / XL	461,991					461,991			
Volatility Adjustment	721		721						
Bid / Offer	3,365		3,365						
Model Adjustment	27,773	27,773							

LEHMAN BROTHERS

VALUATION ADJUSTMENTS – Americas

America - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
HIGH YIELD	49,992	(2,000)	50,992	1,000	0	0	0	0	0
Tax Indemnity Adjustment (ANC)	1,000			1,000					
CDS Bid Offer (FID Corp Loans)	13,596		13,596						
Bid/Offer - SCT/Bonds/Distressed	37,396		37,396						
Model	(2,000)	(2,000)							
MUNIS	71,174	1,247	8,853	0	0	59,970	0	0	1,104
CDS Model Adjustment	696	696							
Counterparty Credit Adjustment	59,259					59,259			
New Business Timing Items for deals not closed	0								0
Derivatives Bid/Offer	8,853		8,853						
Libor Discounting / MMD Rate Lock valuation adj	551	551							
DSRF Put Valuation Adjustment	1,104								1,104
Cornell DSRF Credit Reserve	711					711			
SEURITIZED PRODUCTS	1,066,186	0	38,592	283,428	0	721,857	22,309	0	0
SCOR - Counterparty Credit Adjustment (trigger event)	2,500					2,500			
CAT- Beazley Deal Adjustment (trigger event)	2,387					2,387			
PFG - Deal expenses/Due Diligence	350						350		
PFG - Contingent Liabilities/Referral Fees	11,581			11,581					
ABS - Bid / Offer Adjustment	30,955		30,955						
ABS - Counterparty Credit Adjustment	712,487					712,487			
ABS - Deal Expenses/Due Dilligence	0						0		
Non Prime - Home Express (MGIC insurance)	17,042			17,042					
Non Prime - Reps and Warranties	74,720			74,720					
Non Prime - FHA/VA recourse risk	11,864			11,864					
Non Prime - Deal expenses/Due diligence	10,496						10,496		
Prime - Deal expenses/Due diligence	10,658						10,658		
Other - Deal expenses/Due diligence	805						805		
ABS - Contingent Liability	0			0					
Loan loss adjustment	1,637			1,637					
Agency Remics/Strips - Non economic residuals	678			678					
Non Prime - Bid / Offer Adjustment	7,597		7,597						
Prime - Bid / Offer Adjustment	40		40						
Prime - Reps and Warranties	159,811			159,811					
Mandatory Auction Adjustment	1,981			1,981					
PFR Credit Adjustment	4,483					4,483			
Non Prime -Reps and warranties on scratch and dent securitizations	4,114			4,114					
COMMODITIES TRADING	50,600	0	25,100	0	0	8,100	0	0	17,400
Bid / Offer	25,100		25,100						
Deal Specific	17,400								17,400
Credit - Right Way Risk	2,900					2,900			
CVA	5,200					5,200			
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	1,935,734	100,485	209,941	294,151	12,751	1,263,880	31,704	4,318	18,504

LEHMAN BROTHERS

VALUATION ADJUSTMENTS – Europe

Europe - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
FID DERIVATIVES	204,648	108,985	37,007	0	16,921	500	0	14,987	26,248
Bid-offer : Correlation	27,162		27,162						
Bid-offer : Delta	7,562		7,562						
Bid-offer : Vega	1,865		1,865						
Contractual Early Termination Valuation Adjustment	14,987							14,987	
Counterparty Credit	500					500			
Funding Cost	26,031								26,031
Model : Approximation	2,424	2,424							
Model : Barrier shift	13,290	13,290							
Model : Calibration	2,252	2,252							
Model : Fit	36,221	36,221							
Model : Skew	47,192	47,192							
Model : Unapproved model	7,606	7,606							
Non-Contractual Early Termination Valuation Adjustment	0							0	
Parameter Uncertainty	16,921				16,921				
Deal Specific - To be re-categorised (Gov't)	217								217
Bid-offer : Delta (Gov't)	418		418						
COMMODITIES TRADING	41,839	13,944	18,587	0	8,308	1,000	0	0	0
Parameter Uncertainty	8,308				8,308				
Bid-offer : Delta	18,587		18,587						
Contingent Deal	0			0					
Counterparty Credit	1,000					1,000			
Model : Skew	3,725	3,725							
Model : Unapproved model	10,219	10,219							
CAPITAL MARKETS FUND DERIVATIVES JV	108,875	9,373	6,398	0	0	0	0	93,104	0
Bid-offer : Vega	6,398		6,398						
Contractual Early Termination Valuation Adjustment	93,104							93,104	
Model : Skew	9,373	9,373							
Parameter Uncertainty	0				0				
CDO	531,392	95,408	150,694	103,716	171,201	0	0	4,483	5,890
Bid-offer : Delta	150,589		150,589						
Bid-offer : Vega	105		105						
Contingent Deal	17,801			17,801					
Contingent Liability	85,915			85,915					
Counterparty Credit	0					0			
Funding Cost	726								726
Model : Approximation	34,293	34,293							
Contractual Early Termination Valuation Adjustment	417							417	
Model : Calibration	68,643	68,643							
Model : Fit	(15,348)	(15,348)							
Model : Numerical Approximation	0	0							
Model : Skew	820	820							
Model : Unapproved model	7,000	7,000							
Non-Contractual Early Termination Valuation Adjustment	4,066							4,066	
Parameter Uncertainty	158,163				158,163				
P&L pending deal review	5,164								5,164
Deal Specific - To be re-categorised	0								0
Liquidity : Concentration	13,038				13,038				

LEHMAN BROTHERS

VALUATION ADJUSTMENTS – Europe

Europe - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
HIGH GRADE CREDIT	13,271	0	9,694	3,577	0	0	0	0	0
Bid-offer : Delta	9,694		9,694						
Contingent Liability	3,577			3,577					
Deal Specific - To be re-categorised	0								0
HIGH YIELD CREDIT	5,716	0	4,132	0	0	0	0	0	1,584
Bid-offer : Delta	2,008		2,008						
Deal Specific - To be re-categorised	534								534
Bid-offer : Delta (FID Corp Loans)	772		772						
Bid-offer : Delta (High Yield EEMEA)	1,352		1,352						
Deal Specific - To be re-categorised (High Yield EEMEA)	1,050								1,050
LIQUID MARKETS PROP	2,070	737	1,333	0	0	0	0	0	0
Bid-offer : Delta	1,333		1,333						
Model : Skew	737	737							
FX	2,293	(14,299)	2,967	0	0	0	0	2,364	11,261
Bid-offer : Delta	2,967		2,967						
Model : Skew	(14,299)	(14,299)							
Non-Contractual Early Termination Valuation Adjustment	2,364							2,364	
Deal Specific - To be re-categorised	3,780								3,780
Deal Specific - To be re-categorised (FX EEMEA)	7,481								7,481
SEURITIZED PRODUCTS	18,165	0	0	18,165	0	0	0	0	0
Contingent Liability	18,165			18,165					
FID Corporate	16,644	525	11,025	0	0	0	0	5,094	0
Bid-offer : Vega	11,025		11,025						
Contractual Early Termination Valuation Adjustment	5,094							5,094	
Model : Skew	525	525							
FID EUROPE TOTAL VALUATION ADJS	944,913	214,673	241,837	125,458	196,430	1,500	0	120,032	44,983

LEHMAN BROTHERS

VALUATION ADJUSTMENTS – Asia

Asia - Valuation Adj	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
FID DERIVATIVES	57,293	29,144	15,075	0	6,674	5,000	0	0	1,400
Bid/Offer	15,075		15,075						
Model Adjustment	29,144	29,144							
Liquidity Adjustment	6,674				6,674				
Credit Adjustment	5,000					5,000			
Exotics Price Testing Adjustment	1,400								1,400
HIGH GRADE CREDIT	9,218	1,458	6,539	0	0	413	863	(55)	0
Documentation adjustments	680						680		
Basket Correlation Adjustment	0	0							
Bid/Offer	6,539		6,539						
Corr and Vol - CMDS	940	940							
Early Termination Adjustment	(55)							(55)	
Adjustment against claim for Enron	413					413			
Deal Specific	183						183		
CMCDS - Model	518	518							
VideoCon	0				0				
CDO	661	0	70	0	0	0	465	0	126
Belle Haven II PPN \$6.3m equity tranche	126								126
Documentation and legal fee adjustments	465						465		
Bid/Offer Adjustments	70		70						
FX	17,424	14,900	2,524	0	0	0	0	0	0
Bid / Offer Adjustment	2,524		2,524						
Model Adjustment	14,900	14,900							
HIGH YIELD	6,186	0	1,272	0	0	0	3,392	0	1,522
Expense Adjustments	3,392						3,392		
Bid/Offer Adjustment	1,272		1,272						
Deal Specific Adjustment	1,522								1,522

LEHMAN BROTHERS

VALUATION ADJUSTMENTS – Asia

Asia - Valuation Adjs	Total	Model	Bid/Offer	Contingent Liabilities	Liquidity	Credit	Expense	Early Termination	Valuation
REAL ESTATE	66	0	0	0	0	0	66	0	0
Deal Specific Adjustment	0						0		
Expense Adjustment	66						66		
SECURITIZED PRODUCTS	2,264	0	0	0	0	(752)	3,016	0	0
Expense Adjustment	2,209						2,209		
Credit Adjustment	(752)					(752)			
Solid Loan Income Adjustment	0								0
Adjustment for Receivable of GTFS's Buyer and Legal Expenses	807						807		
Commodities Trading	1,661	400	1,261	0	0	0	0	0	0
Bid / Offer Adjustment	1,261		1,261						
Model Adjustment	400	400							
FID CORP	3,377	0	3,377	0	0	0	0	0	0
Bid / Offer	41		41						
PRDC - Model Adjustment	0	0							
Range-bounding Adjustment	3,336		3,336						
FID ASIA TOTAL VALUATION ADJs	98,150	45,902	30,118	0	6,674	4,661	7,802	(55)	3,048

VALUATION ADJUSTMENTS – monthly changes

Business	Total	Contingent					Early		Valuation
		Model	Bid/Offer	Liabilities	Liquidity	Credit	Expense	Termination	
Liquid Market Prop	183	737	(554)	-	-	-	-	-	-
Interest Rate Products	8,343	9,854	(3,755)	-	(1,388)	(1,040)	-	92	4,580
Foreign Exchange	29,459	(4,323)	23,154	-	-	-	-	6,348	4,280
High Grade Credit	2,852	1,030	2,110	(303)	130	(111)	(4)	-	-
CDO	159,767	(1,740)	31,217	15,395	64,084	63,447	416	(66)	(12,986)
High Yield	8,993	-	9,623	-	-	-	(2,168)	-	1,538
Real Estate	-	-	-	-	-	-	-	-	-
Munis	(12,689)	98	2,264	-	-	(12,343)	-	-	(2,708)
Securitized Products	115,159	-	(7)	(34,503)	-	152,147	(2,478)	-	-
Commodities Trading	13,847	1,976	2,369	-	2,502	3,100	-	-	3,900
FID Corporate	(52)	-	(1)	-	-	-	-	(51)	-
Total FID Adjustments	325,862	7,632	66,420	(19,411)	65,328	205,200	(4,234)	6,323	(1,396)

VALUATION ADJUSTMENTS – monthly changes

				Contingent				Early	
America	Total	Model	Bid/Offer	Liabilities	Liquidity	Credit	Expense	Termination	Valuation
Liquid Markets Prop	(554)	-	(554)	-	-	-	-	-	-
Interest Rate Products	(5,784)	(8,419)	2,710	-	(1,258)	1,183	-	-	-
Foreign Exchange	(2,086)	(6,251)	72	-	-	-	-	4,093	-
High Grade Credit	(960)	1,023	(1,996)	-	130	(111)	(6)	-	-
CDO	70,533	8,422	(1,232)	(150)	-	63,447	46	-	-
High Yield Credit	10,187	-	10,187	-	-	-	-	-	-
Real Estate	-	-	-	-	-	-	-	-	-
Munis	(12,689)	98	2,264	-	-	(12,343)	-	-	(2,708)
Securitized Products	115,637	-	(7)	(34,541)	-	152,033	(1,848)	-	-
Commodities Trading	5,300	-	(700)	-	-	2,100	-	-	3,900
FID Corporate	-	-	-	-	-	-	-	-	-
Total America	179,584	(5,127)	10,744	(34,691)	(1,128)	206,309	(1,808)	4,093	1,192
Europe									
Capital Mkts Fund JV	(5,542)	(5,173)	(5,971)	-	-	-	-	5,602	-
Liquid Markets Prop	737	737	-	-	-	-	-	-	-
Interest Rate Products	18,984	22,189	(1,015)	-	(360)	500	-	(5,510)	3,180
Foreign Exchange	14,140	8,401	(796)	-	-	-	-	2,255	4,280
Commodities Trading	7,899	1,576	2,821	-	2,502	1,000	-	-	-
High Grade Credit	1,349	-	1,652	(303)	-	-	-	-	-
High Yield Credit	696	-	680	-	-	-	-	-	16
CDO	88,851	(10,162)	32,436	15,545	64,084	-	-	(66)	(12,986)
Securitized Products	38	-	-	38	-	-	-	-	-
FID Corporate	(52)	-	(1)	-	-	-	-	(51)	-
Total Europe	127,100	17,568	29,806	15,280	66,226	1,500	-	2,230	(5,510)
Asia									
Interest Rate Products	685	1,257	521	-	230	(2,723)	-	-	1,400
High Grade Credit	2,463	7	2,454	-	-	-	2	-	-
CDO	383	-	13	-	-	-	370	-	-
Foreign Exchange	17,405	14,900	2,505	-	-	-	-	-	-
High Yield Credit	(1,890)	-	(1,244)	-	-	-	(2,168)	-	1,522
Real Estate	-	-	-	-	-	-	-	-	-
Securitized Products	(516)	-	-	-	-	114	(630)	-	-
Commodities Trading	648	400	248	-	-	-	-	-	-
FID Corporate	-	-	-	-	-	-	-	-	-
Total Asia	19,178	16,564	4,497	-	230	(2,609)	(2,426)	-	2,922
Global Total	325,862	29,005	45,047	(19,411)	65,328	205,200	(4,234)	6,323	(1,396)

LEHMAN BROTHERS

Pricing Report

February 2008



LEHMAN BROTHERS

Where vision gets built.™

PRICING REPORT – explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
Americas								
Bank Loans	FORD MOTOR COMPANY (12/15/06)	2	MV	665,000	(4,429)		(4,429)	Variance is due to size of position held. Actual variance is 0.7%.
Bank Loans	COX CDS	2	PV01	46	(1,338)		(1,338)	Retested in March and variance was below threshold.
Cash CDO	CRONA 2007-1A A1A CORONA BOREA	3	MV	410,000	(5,069)		(5,069)	ABS CDO market has been extremely illiquid and volatile. External mark is based on generic super senior mezzanine ABS CDO from UBS as of 12/31/07. An event of default was triggered in Feb and desk is marking to expected liquidation value. Actual variance is 1.2%. PCG is monitoring the EOD situation.
Cash CDO	CEAGO 2007-1A A1 CEAGO ABD CDO	3	MV	538,118	(4,878)		(4,878)	ABS CDO market has been extremely illiquid and volatile. PCG benchmarked to ABX market. Position was hedge 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. Furthermore, desk provided analysis to support mark as of 1/31. The desk analysis has a one-month lag due to the remittance reports having a one-month lag.
Cash CDO	CEAGO 2007-1A A2 CEAGO ABD CDO	3	MV	30,467	8,867		8,867	ABS CDO market has been extremely illiquid and volatile. PCG price is based on IO value. Calculation is very sensitive to assumption on expected life remaining. Desk mark appears reasonable.
Cash CDO	CEAGO 2007-1A B CEAGO ABD CDO	3	MV	7,271	2,152		2,152	ABS CDO market has been extremely illiquid and volatile. PCG price is based on IO value. Calculation is very sensitive to assumption on expected life remaining. Desk mark appears reasonable.
Cash CDO	CEAGO 2007-1A C CEAGO ABD CDO	3	MV	3,413	2,037		2,037	ABS CDO market has been extremely illiquid and volatile. PCG price is based on IO value. Calculation is very sensitive to assumption on expected life remaining. Desk mark appears reasonable.
Cash CDO	ABFC 2006-OPT3 M5 ASSET BACKED	2	MV	2,300	(1,255)		(1,255)	PCG is currently in discussion with the desk to resolve this variance. This is a distressed subprime position.
Cash CDO	MLMI 2006-FF1 B3 MERRILL LYNCH	2	MV	3,017	(1,782)		(1,782)	PCG is currently in discussion with the desk to resolve this variance. This is a distressed subprime position.
Cash CDO	RASC 2005-KS11 M3 RESIDENTIAL	2	MV	5,319	(1,530)		(1,530)	PCG is currently in discussion with the desk to resolve this variance. This is a distressed subprime position.
Cash CDO	SASC 2007-WF1 M5 STRUCTURED AS	2	MV	3,088	(1,499)		(1,499)	PCG is currently in discussion with the desk to resolve this variance. This is a distressed subprime position.
Cash CDO	FMIC 2005-2 M9 FIELDSTONE MORT	2	MV	2,167,620	(1,403)		(1,403)	PCG is currently in discussion with the desk to resolve this variance. This is a distressed subprime position.
Cash CDO	CDX_IG_1212	2	PV01	3,525	(1,853)		(1,853)	Variance is due to size of position held. Actual variance is 0.5 bp.
Cash CDO	RDN	2	PV01	28	526		526	PCG substantiated desk mark with trading activities.
FX	FX volatility	2	Vol + 1%	(2,862)	(4,438)	(4,438)		Current threshold for Global FX Options book is \$750K. Initial variance of \$4,438K is above threshold. Therefore, a price testing adjustment of \$3,688K was taken.
High Grade	ALTRIA GROUP 364-DAY BRIDGE	2	MV	898,200	(2,401)		(2,401)	Variance is due to size of position held. Actual variance is 0.3%.
High Grade	CME GROUP INC./REVOLVER EURO	2	MV	387,500	(1,647)		(1,647)	Variance is due to size of position held. Actual variance is 0.4%.
High Grade	FREDDIE MAC 8.375% NON-CUMULATIVE	2	MV	(556,662)	(1,083)		(1,083)	Variance is due to size of position held. Actual variance is 0.2%.
High Grade	PRINCIPAL FINL GROUP INC 6.518	2	MV	41,025	(1,040)	(1,040)		Remarkd.
High Grade	RBS CAPITAL TRUST I	2	MV	14,692	(966)	(966)		Remarkd.

PRICING REPORT – explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Remarkd \$'000	Resolved \$'000	Resolution
High Grade	WHITE MOUNTAINS (6/19/07)/5-YR	2	MV	56,494	775		775	Variance is due to size of position held. Actual variance is 1.4%.
High Grade	***ROYAL CARIBBEAN CRUISES LTD	2	MV	11,107	(678)	(678)		Remarkd.
High Grade	BANK AMERICA CORP SUB NOTE R/M	2	MV	110,227	569		569	Variance is due to size of position held. Actual variance is 0.5%.
High Grade	HSBC BANK PLC FRN PERP	2	MV	42,895	527		527	Variance is due to size of position held. Actual variance is 1.2%.
High Grade	CDX_IG_0612	2	PV01	7,579	3,308		3,308	Variance is due to size of position held. Actual variance is 0.4 bp.
High Grade	BLC	2	PV01	697	(2,851)		(2,851)	PCG substantiated desk mark with broker quote.
High Grade	CDX_IG_1210	2	PV01	892	2,720		2,720	Variance is due to size of position held. Actual variance is 3.0 bp.
High Grade	GM	2	PV01	190	(2,336)	(2,336)		Remarkd.
High Grade	CCR	2	PV01	127	(2,110)		(2,110)	PCG substantiated desk mark with trading activities.
High Grade	RRD	2	PV01	50	(1,354)		(1,354)	Retested post monthend and variance was within threshold.
High Grade	CTL	2	PV01	414	(1,249)		(1,249)	Retested post monthend and variance was within threshold.
High Grade	CTX	2	PV01	372	(1,206)	(1,206)		Remarkd.
High Grade	F	2	PV01	867	(1,105)	(1,105)		Remarkd.
High Grade	SFI	2	PV01	320	(1,074)		(1,074)	PCG substantiated desk mark with trading activities.
High Yield	HD SUPPLY INC	2	MV	737,500	(6,333)		(6,333)	Independent spread (above 3-month LIBOR) is benchmarked from 02/29/08 B/CCC+ Consumer- cyclical USD average 3-5 yr index. Highly distressed name in a distressed sector. Actual variance is 0.9%.
High Yield	HD SUPPLY INC	2	MV	328,250	5,113		5,113	Independent spread (above 3-month LIBOR) is benchmarked from 02/29/08 B/CCC+ Consumer- cyclical USD average 3-5 yr index. Highly distressed name in a distressed sector. Actual variance is 1.6%.
High Yield	HD SUPPLY (8/30/07)/USD REVOLV	2	MV	146,250	(2,250)		(2,250)	Variance is due to size of position held. Actual variance is 1.5%.
High Yield	TXU ENERGY (10/10/07) CITI/REV	2	MV	360,311	(3,134)		(3,134)	Variance is due to size of position held. Actual variance is 0.9%.
High Yield	TXU ENERGY (10/10/07) CITI/DEP	2	MV	140,625	3,125		3,125	Variance is due to size of position held. Actual variance is 2.2%.
High Yield	TXU ENERGY (10/10/07) CITI/DEL	2	MV	466,375	2,998		2,998	Variance is due to size of position held. Actual variance is 0.6%.
High Yield	CDW CORPORATION/TERM LOAN LIBO	2	MV	249,317	(2,817)		(2,817)	Variance is due to size of position held. Actual variance is 1.1%.
High Yield	CDW CORPORATION/TERM LOAN LIBO	2	MV	221,250	(2,500)		(2,500)	Variance is due to size of position held. Actual variance is 1.1%.
High Yield	CDW \$1.040BN SR.BRIDGE 10-12-0	2	MV	135,525	(2,145)		(2,145)	Variance is due to size of position held. Actual variance is 1.6%.
High Yield	DANA HOLDING TL(1/31/08)/TERM	2	MV	101,200	(2,200)	(2,200)		Remarkd.

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	CDX_HY_100_S8_0614_X1	2	PV01	719	(6,399)	(6,399)		Remarkd.
High Yield	CDX_HY_100_S8_0610_X1	2	PV01	591	(5,817)		(5,817)	PCG substantiated desk mark with trading activities.
High Yield	CDX_HY_100_S9_1212_X1	2	PV01	2,790	(2,527)		(2,527)	Variance is due to size of position held. Actual variance is 0.9 bp.
High Yield	LVLT	2	PV01	72	(4,527)		(4,527)	Actual variance is 63 bps. Level 3 Communications is trading at very wide bid / offer spread. For example, on 3/21 5-yr bid/offer spread was 317 bps (bid of 1457 bps and offer of 1774 bps).
High Yield	SIX	2	PV01	54	(4,521)		(4,521)	Actual variance is 84 bps. Six Flags is trading at very wide bid / offer spread. For example, on 3/20 5-yr bid/offer spread was 1189 bps (bid of 3087 bps and offer of 4276 bps).
High Yield	TOY	2	PV01	192	(2,322)		(2,322)	Retested post monthend and variance was within threshold.
High Yield	MCCC	2	PV01	113	(2,226)		(2,226)	Retested post monthend and variance was within threshold.
High Yield	THC	2	PV01	203	(2,169)	(2,169)		Remarkd.
High Yield	TSG	2	PV01	268	(1,930)	(1,930)		Remarkd.
High Yield	PKD	2	PV01	67	(1,887)	(1,887)		Remarkd.
Emerging Market	PDVSA CDS	2	PV01	172	(572)	(572)		Remarkd.
Securitized Products	SASC 2006-S2 M2	2	MV	34,779	(3,071)	(3,071)		Remarkd.
Securitized Products	LSSCO 2007-1 M9	2	MV	4,346	(2,801)	(2,801)		Remarkd.
Securitized Products	LSSCO 2007-1 M8	2	MV	3,615	(2,062)	(2,062)		Remarkd.
Securitized Products	LSSCO 2007-1 M7	2	MV	3,681	(1,987)	(1,987)		Remarkd.
Securitized Products	LSSCO 2007-1 M6	2	MV	6,336	(1,071)	(1,071)		Remarkd.
Securitized Products	LXS 2007-16NM5-II	2	MV	12,732	(1,937)	(1,937)		Remarkd.
Securitized Products	LXS 2007-16NM6-II	2	MV	9,548	(1,074)	(1,074)		Remarkd.
Securitized Products	LXS 07-15N M4-I	2	MV	8,609	(861)	(861)		Remarkd.
Securitized Products	LXS 2007-14H M5	2	MV	8,590	(593)	(593)		Remarkd.
Securitized Products	LXS 2007-10H1-M5	2	MV	7,670	(848)	(848)		Remarkd.
Securitized Products	LXS 2007-17H M7	2	MV	5,631	(563)	(563)		Remarkd.
Securitized Products	LXS 2007-18N M7	2	MV	3,269	(644)	(644)		Remarkd.
Securitized Products	SARM07-6 M6	2	MV	3,457	(1,430)	(1,430)		Remarkd.

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	96,942	(3,390)		(3,390)	Desk prices fall within PCG's stressed base case assumptions.
Securitized Products	Residuals	3	MV	1,106,318	(16,602)		(16,602)	Desk prices fall within PCG's stressed base case assumptions.
Securitized Products	NIMs	3	MV	111,810	(7,778)		(7,778)	Desk prices fall within PCG's stressed base case assumptions.
Muni - Cash	City of Becker, Minnesota	2	MV	58,635	(1,979)		(1,979)	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 3.4%.
Muni - Cash	City of Becker, Minnesota	2	MV	58,746	(793)		(793)	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 1.3%.
Muni - Cash	City of Becker, Minnesota	2	MV	58,746	(793)		(793)	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 1.3%.
Muni - Cash	Connecticut Single Family Housing (AMT)	2	MV	33,960	(1,438)		(1,438)	Bonds are priced to average life and IDC is pricing to maturity, thus ignoring the quicker prepayment of this structure.
Muni - Cash	Connecticut Housing (AMT)	2	MV	17,930	1,209		1,209	Bonds marked to a spread consistent with similar discount housing trades. No prior trades in Feb/Jan.
Muni - Cash	ATLANTA GA ARPT REV (AMT)	2	MV	31,621	(1,036)		(1,036)	PCG substantiated desk mark with trading activities.
Muni - Cash	ILLINOIS ST TOLL HWY AUTH TOLL	2	MV	63,811	(1,022)		(1,022)	PCG substantiated desk mark with trading activities.
Muni - Cash	COLO HSG FIN AUTH SINGLE (AMT)	2	MV	11,555	(966)		(966)	Bonds are priced to average life and IDC is pricing to maturity, thus ignoring the quicker prepayment of this structure.
Muni - Cash	COLO HSG FIN AUTH SINGLE (AMT)	2	MV	11,555	(966)		(966)	Bonds are priced to average life and IDC is pricing to maturity, thus ignoring the quicker prepayment of this structure.
Muni - Cash	OAKLAND CNTY MICH CTFS PARTN M	2	MV	42,825	(760)		(760)	These AAA rated G/O bonds are marked by the desk to the call date. Variance is due to the size of position held. Actual variance is 1.8%.
Muni - Cash	CALIFORNIA HSG FIN AGY REV (AMT)	2	MV	13,854	(759)		(759)	Bonds are priced to average life and IDC is pricing to maturity, thus ignoring the quicker prepayment of this structure.
Muni - Cash	CALIFORNIA ST VETERANS GO BDS	2	MV	20,263	708		708	There is a lack of liquidity for high Yield housing bonds. Actual variance is 3.5%.
Muni - Cash	SAN FRANCISCO CALIF CITY & CNT	2	MV	63,158	1,526		1,526	MBIA insured bond - IDC not considering state of insurers. No prior trades in Feb. Actual variance is 2.4%. Spreads also widened in Feb and therefore PC is comfortable with the desk's conservative mark.
Muni - Cash	City of Arlington, Texas	2	MV	26,341	(666)		(666)	Marked to average life (11/28/11) and IDC prices to 29-yr maturity. Desk owns majority of bonds and are also subject to special mandatory redemption from funds deposited in the "Surplus Debt Redemption Account" beginning 2/15/11. Funds for this redemption will come from sales tax, hotel taxes and other various taxes and fees from the City of Arlington TX Cowboys Complex. Average life calc is based on growth scenario that is evaluated periodically by desk.
Muni - Cash	GEORGIA POWER	2	MV	38,004	718		718	Variance is due to size of position held. Actual variance is 1.9%.
Muni - Cash	Harris County Health Facilities Dev. Corp. St Lukes	2	MV	12,475	1,021		1,021	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 - Cash	PUERTO RICO COMWLTH INFRASTRUC	2	MV	24,600	1,295		1,295	There was no prior trade activity in Feb/Jan. Traders mark is conservative relative to IDC. Actual variance is 5.3%. PC is comfortable with desk valuation due to current market conditions.

PRICING REPORT – explanation of significant variances

Business	Exposure Type	Level	Risk Measure	Exposure Size \$'000	Initial Variance \$'000	Marked \$'000	Resolved \$'000	Resolution
Muni - Cash	NEW YORK CITY N Y INDL DEV AGY	2	MV	36,095	1,652		1,652	Actual variance is 4.6%. Desk mark is conservative relative to IDC. PC is comfortable with desk valuation due to current market conditions.
Muni - Cash	NEW YORK CITY N Y INDL DEV AGY	2	MV	92,993	1,818		1,818	Variance is due to size of position held. Actual variance is 2.0%.
Muni - Cash	NEW YORK CITY N Y INDL DEV AGY	2	MV	58,566	2,198		2,198	Actual variance is 3.8%. Desk mark is conservative relative to IDC. PC is comfortable with desk valuation due to current market conditions.
Muni - Cash	MASSACHUSETTS ST	2	MV	23,100	2,477		2,477	Actual variance is 10.7%. Desk marked conservatively due to current market conditions. PCG will discuss with desk if variance persists.
Muni - Cash	NEW JERSEY ST TRANSN TR FD AUT	2	MV	41,391	5,015		5,015	Prior trades in Feb ranged from 25.90 to 34.24. The trader's mark of 26.17 is within this range.
Muni - Derivatives	PERALTA CALIF CMNTY COLLEGE	2	MV	8,880	660		660	Peralta private placement and re-structuring bonds are not rated and not quoted by a broker. PC performs alternative valuation procedures by marking it to the level where taxable securities of similar credit are traded (libor + 100bps). PC discussed the variance with the desk and will continue to monitor this security going forward.
Real Estate	Large Loan (floating rate) Securitized	2	MV	1,963,048	(2,542)		(2,542)	Variance is due to size of portfolio. Actual variance is 0.1%.
Real Estate	LB Spring Creek Investors LLC	3	MV	8,117	(8,117)		(8,117)	Spring Creek is a 1,180-unit garden-style apartment community in Sandy Springs, GA. Currently undergoing renovations and leasing. Continue to monitor.
Real Estate	LB Lecraw Portfolio LLC	3	MV	14,780	(5,938)		(5,938)	Portfolio acquired for repositioning. Stronger tenant requirements are being put into place at the properties. Currently 81% occupied. Continue to monitor occupancy levels.
Real Estate	LB NC Portfolio Holding LLC	3	MV	1,281	8,392		8,392	The portfolio consists of six Class B, garden style apartment properties located in the Silicon Valley in Northern California. As part of the sale and payoff of a different venture with the same sponsor our equity was paid down with the excess proceeds. All properties will continue forward as operating multi-family properties with the intent of improving occupancy and increasing rents. Continue to monitor.
Real Estate	Miscellaneous	2	N/A	N/A	(2,556)		(2,556)	Other significant items.
Real Estate	Miscellaneous	3	N/A	N/A	19,242		19,242	Other significant items.
Real Estate	Miscellaneous (Consolidated Positions)	N/A	N/A	N/A	(21,432)		(21,432)	Other significant items.
					(124,675)	(45,868)	(78,807)	

Europe

HG FRLs	DEUTSCHE TELECOM	2	MV	910,710	(5,108)		(5,108)	Variance is due to size of position held. Actual variance is 0.6%
HG FRLs	TELECOM ITALIA	2	MV	192,767	(3,697)		(3,697)	Variance is due to size of position held. Actual variance is 1.4%
HG FRLs	LANXESS	2	MV	139,642	(1,942)		(1,942)	Variance is due to size of position held. Actual variance is 1.4%
High Yield	Formula 1	2	MV	59,386	(2,585)	(2,585)		Desk took aggregate mark downs of \$24 million.
High Yield	Dako	2	MV	37,559	(2,629)	(2,629)		Desk took aggregate mark downs of \$24 million.
High Yield	Borsodchem	2	MV	52,436	(2,028)	(2,028)		Desk took aggregate mark downs of \$24 million.
High Yield	Kion	2	MV	49,192	5,819	5,819		Desk took aggregate mark downs of \$24 million.
High Yield	Merlin	2	MV	160,329	(4,810)	(4,810)		Desk took aggregate mark downs of \$24 million.
High Yield	PHS	2	MV	250,100	2,446	2,446		Desk took aggregate mark downs of \$24 million.
					(14,534)	(3,787)	(10,747)	
Total Significant Variances					(139,209)	(49,656)	(89,554)	

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	(30,197,505)	100%			840,522	89%						
Listed Government Bond Options	MV	(213,868)	100%										
Money market & MM index cash products	MV	32,746	100%			2,906,397	100%						
Listed Interest Rate Futures	MV	37,897,863	100%										
Listed Interest Rate Options	MV	(107,074)	100%										
Interest rates	PV01							3,441	100%		(2,552)	100%	
Asset Swaps	PV01												
IR ATM volatility	Vol + 1%							16,043	100%		(942)	100%	
IR volatility skew: IR vol correlation	Vol + 1%							(1,392)	91%				
IR volatility skew: vol of vol	Vol + 1%							(2,382)	75%				
IR FX correlation	Correl + 1%										101	73%	
IR IR correlation	Correl + 1%												
OTC Bond Option Price	MV					14,098	100%						
OTC Bond Option Volatility	Vol + 1%							83,541					
Inflation Bonds	MV												
Inflation Swaps & Options Delta	PV01							1,381	98%				
Inflation Option Volatility	Vol + 1%												
		7,412,162				3,761,018							
(ii) Credit													
Corporate Bonds	MV					9,794,014	86%			573,900	29%		
Corporate Bond Options : Price	MV												
Corporate Bond Options : Volatility	Vol + 1%							(9,249)	95%				
Warrants	MV					1,851							
Credit Spreads : Single Name	CS01							(7,325)	82%		(862)	100%	
Credit Spreads : Bespoke	CS01												
Index Spreads : Indices	IND01							(1,171)	98%				
Index Spreads : Index Tranches	IND01							6	99%				
Index Spreads : Bespoke	IND01							3	99%				
Index Spreads : Index Tranches	REF01							1,723	98%				
Index Spreads : Bespoke	REF01							252	99%				
Tranche Spreads : Index Tranches	TR01							(581)	98%				
Tranche Spreads : Bespoke	TR01							169	98%				
Bond collateral : CDO SPE transactions	MV												
State Guaranteed Corporate Bonds	MV												
Recovery rates	Recovery + 1%							1,761	93%		128	92%	
Credit volatility	Vol + 1%							176	100%				
Third party CDOs	MV					860,356	74%			1,239,320	81%		
Bespoke Correlation	Correl + 10%							897	74%				
ABCDS	MV					(3,705,611)	99%						
						6,950,610				1,813,220			
(iii) Equity													
Stock & Stock Index Cash Products	MV	(139,227)	95%			186,210	85%			1,707,495	70%		
Stock & Stock Index Listed Futures	MV	(167,706)	100%										
Stock & Stock Index Listed Options	MV	54,026	99%										
Stock & Stock Index Volatility	Vol + 1%							134	100%				
Equity correlation	Correl + 10%												
Dividend rates	D Rho												
Convertible Bonds	MV					657,945	99%						
Ascots	MV												
Equity swaps	Pos Delta												
		(252,906)				844,155				1,707,495			
(iv) Fund													
Fund units	MV					962,383	100%						
Fund volatility	Vol + 1%										(4,875)	100%	
Fund vol of vol	Vol + 1%										(199)	100%	
IR Fund NAV correlation	Correl + 20%										(4,332)	100%	
Fund vol NAV correlation	Correl + 20%										773	100%	
						962,383							

PRICING REPORT – coverage

\$'000	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					13,320,517	100%						
MBS bonds	MV					7,403,167	100%			1,445,274	100%		
Pass-throughs	MV					996,798	100%						
Residuals	MV									1,301,849	76%		
Servicing rights	MV					1,681,733	100%						
Whole loans residential	MV					9,454,045	94%			4,045,364	100%		
Mortgage volatility	MV					664,152	64%						
						33,520,412				6,792,487			
(vi) Real Estate													
Whole loans commercial	MV					20,928,211	100%			2,698,861	100%		
CMBS	MV					9,967,084	99%			250,495	100%		
Property Derivatives	MV												
						30,895,296				2,949,356			
(vii) FX Options													
FX Delta	MV	(3,864,240)	100%			(807,669)	100%						
FX volatility	Vol + 1%							99%	95%				
FX Vol skew	Vol + 1%							5,754	97%				
FX / FX correlation	Corr + 10%												
		(3,864,240)				(807,669)							
(viii) Hybrid & Other													
ABS bonds	MV					14,151,735	67%			1,524,588	100%		
Loans	MV					55,350,550	92%			3,553,552	87%		
Principal transactions*	MV									10,416,134	95%		
Preferreds	MV					566,650	52%						
Alltax swaps	PV01											(2,309)	100%
Muni bonds	MV					12,946,352	91%						
						83,015,287				15,494,274			
(ix) Commodities													
Base Metals - Listed Futures & Options	MV												
Base Metals - OTC Delta	PV01			(78)	100%			319	92%			(18)	
Base Metals - OTC Volatility	Vol + 1%							280	98%			(289)	98%
Coal - OTC Delta	PV01							54	100%				
Crude Oil - OTC Delta	PV01			(2,297)	100%			12,448	99%				
Crude Oil - OTC Volatility	Vol + 1%							(479)	100%				
Emissions - Listed Futures & Options	MV												
Emissions - OTC Delta	PV01			198	100%			(268)	100%				
Emissions - OTC Volatility	Vol + 1%							187	93%				
Natural Gas - Listed Futures & Options	MV												
Natural Gas - OTC Delta	PV01			18,125	100%			(52,547)	100%			(1,423)	100%
Natural Gas - OTC Volatility	Vol + 1%							(449)	99%				
Power - Listed Futures & Options	MV												
Power - OTC Delta	PV01			281	99%			13,430	98%				
Power - OTC Volatility	Vol + 1%							573	63%				
Precious Metals - Listed Futures & Options	MV												
Precious Metals - OTC Delta	PV01			183	91%			138	75%			(144)	50%
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			44,066	96%			24,790	85%			(39,407)	71%
Softs - OTC Volatility	Vol + 1%							(243)	81%			98	79%
Commodity Indices - Delta	PV01							1,387	84%			(1,490)	100%
Commodity Indices - Volatility	Vol + 1%							(737)	76%			(150)	65%
Commodity Correlation	MV									(61,567)	30%		
										(61,567)			
Overall Totals		3,295,016				159,141,490				28,695,266			

* Principal Transactions exposure excludes \$4.7 billion of consolidated PTG positions from Real Estate Americas that are subject to Lower of Cost or Market.

LEHMAN BROTHERS

PRICING REPORT – projects

Business Line	Products	Contact Person	Region/Trading Zone	Issue	Risk of Measurement Error	Proposed Solution	Valuation Management Required (Y/N)	Due Date	Comments	Valuation Controls (Y/N)
IRP	Caps	Alice Zhang	NY	Need to assess cap vols skew p/l impact	H	Currently using Market, 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 Kinexis, 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 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			
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	Joe Sapia	NY	Not price tested.	L	Develop methodology	N	TBD	Exposure is immaterial with reserves being held out in Prime desk.	
Structured Finance	PPG Conduits	Joe Sapia	NY	Not price tested	H	Develop methodology	N	TBD	Off-balance sheet positions	

PRICING REPORT – projects

Business Unit	Product	Control Person	Region/Market	Issue	Risk of Measurement Error	Proposed Solution	SIVB Measurement Method (Y/N)	Due Date	Comments	Additional Comments
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

Product Line	Structure	Analyst/Project	Region/Market	Issue	Risk of Management Impact	Required Actions	Lehman Requirement (Y/N)	Due Date	Comments	Acting Chairman of Staff
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		