

From: Mauerstein, Michael [CMB-GBKG] [mm09211@imcnam.ssmb.com]  
Sent: Friday, August 29, 2008 2:38 PM  
To: Foskett, Christopher M [CMB-GBKG]  
Subject: Email #2

Michael Mauerstein  
Managing Director  
Financial Institutions - Broker Dealers  
388 Greenwich - 24 Floor  
212 816-3431

----- Original Message -----

From: Galant, Paul S [CMB-GTS]  
To: Olivo, Jerry [CMB-GTS]; Mauerstein, Michael [CMB-GBKG]; Lukas, Katherine [CMB-GTS]; Fontana, Thomas [CMB-RISK]  
Cc: Obermaier, Thomas [CMB-GTS]; Havens, John [CMB-CORP]; Leach, Brian [CCC]  
Sent: Fri Aug 29 12:22:20 2008  
Subject: Re: Lehmann Comfort Deposit

Team,

Our number one and only concern as it relates to Lehman and some of the other monoline i-banks is credit / operational risk mitigation. These are not the names that we should be focused on growing core deposits with at this time. We need to reduce the exposure that we have to them and to seek perfectable security collateral in the face of operating exposure.

Tom Obermaier has the lead on this strategy and is working on it. His plane lands at 1:10pm today and we will discuss where things stand.

Overnight deposits that can be yanked at anytime by the client count for nothing as it relates to collateral / security interest.

The key sentence in Michael's email is: "- We are working to agree on a portfolio of securities that Lehman will pledge as collateral in place of leaving a cash deposit.". We need this done asap. I would like to get a firm date by which this will be executed.

Regards,

Paul

----- Original Message -----

From: Olivo, Jerry [CMB-GTS]  
To: Mauerstein, Michael [CMB-GBKG]; Lukas, Katherine [CMB-GTS]; Fontana, Thomas [CMB-RISK]  
Cc: Obermaier, Thomas [CMB-GTS]; Galant, Paul S [CMB-GTS]  
Sent: Fri Aug 29 11:00:34 2008  
Subject: RE: Lehmann Comfort Deposit

Mike,

I am aware of and understand all of this - though their asking for the deposit back does have distinct impacts on clearing capacity. Net, it is a GTS deposit and should be reflected as such. As I indicated, one of the outcomes of the move will be an enhanced price on the deposit for the client. The point is that if all aspects of this are managed from one coordinated point of contact we will have a more satisfied client and an accurate representation of their business activity with us.

Regards,

Jerry

-----Original Message-----

From: Mauerstein, Michael [CMB-GBKG]  
Sent: Friday, August 29, 2008 11:31 AM  
To: Lukas, Katherine [CMB-GTS]; Fontana, Thomas [CMB-RISK]; Olivo, Jerry [CMB-GTS]  
Subject: Re: Lehmann Comfort Deposit

Jerry:

I appreciate that GTS would like this deposit, and it makes sense. However, you should understand that:

- The deposit is just that, an overnight deposit that Lehman can ask to be returned at any time.
- The deposit is not "collateral" although we consider that we have a right of offset under NYS law.
- We are working to agree on a portfolio of securities that Lehman will pledge as collateral in place of leaving a cash deposit.
- For as long as they keep their deposit at Citi, Lehman wants it overnight and has declined any discussion of term, regardless that we have proposed offering a higher interest rate for a term deposit.

More broadly, we should keep in mind that Lehman's ODs are infrequent and result from operational "fails" and as such we do not equate ODs with other forms of working capital funding. Also note that some of their fails are the result of Citi problems. We work cooperatively to minimize ODs and limit claims against each for ODs that result from errors.

Lehman pays a huge amount of fees to GTS and we should keep this in mind when repricing. You should be aware that Lehman has been instrumental in this week nominating Citi as clearing agent (GTS) for the London Stock Exchange's Baikal trading platform for the UK, Ireland, Euronext, Italy, Germany, Nordic. We expect to see \$5-\$7.5 million annual revenues from this once up and running next year.

Michael Mauerstein  
Managing Director  
Financial Institutions - Broker Dealers  
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212 816-3431

----- Original Message -----

From: Lukas, Katherine [CMB-GTS]  
To: Mauerstein, Michael [CMB-GBKG]; Fontana, Thomas [CMB-RISK]  
Sent: Fri Aug 29 10:38:38 2008  
Subject: FW: Lehmann Comfort Deposit

FYI - Wanted to make you aware of these internal discussions. We were approached by Marcia Saunders who was tasked by Paul to try and get this deposit with GTS.

-----Original Message-----

From: Olivo, Jerry [CMB-GTS]  
Sent: Friday, August 29, 2008 8:13 AM  
To: Weiner, Elyse [CMB-GTS]; Saunders, Marcia C [CMB-GTS]; Blackburn, Robert [CMB-GTSB]; Lukas, Katherine [CMB-GTS]; Miranda, Laura [CMB-GTS]  
Subject: FW: Lehmann Comfort Deposit

Let's see what happens.

-----Original Message-----

From: Olivo, Jerry [CMB-GTS]  
Sent: Friday, August 29, 2008 8:11 AM  
To: Bere, Scott [CMB-FICC]; Hewett Jr, Edward A [CMB-FICC]  
Cc: Obermaier, Thomas [CMB-GTS]; Omori, Shigeo [CCC-CFO]  
Subject: Lehmann Comfort Deposit

Scott/Ed,

We would like to migrate this deposit into the GTS book. My understanding is that it currently is booked via Ed's desk on an overnight basis. If that's not the case pls direct me as appropriate.

The move is desired for a few reasons. Primarily, it's a GTS/Credit imposed requirement to continue providing intraday and o/n limits connected to a variety of cash and securities clearing activities, so it's felt that it's most appropriately reflected on the GTS balance sheet.

Additionally, we are discussing a number of bal sheet/price related topics with Lehmann and want to bring the management of all those aspects under the GTS roof. On the one hand, Lehmann continues to express displeasure over the rate (EFF-12.5, I believe) being paid on the o/n deposit. They have indicated that others are providing Fed flat. Further, I'm told that they are actively reducing their intraday credit needs via improved operational processes with an eye toward ultimately reducing the size of their limits and this deposit. As we'd like to retain the balance as long as possible, we don't want to encourage them to target these reduction efforts first with Citi.

Secondly, we are about to approach them to increase overnight overdraft rates where current pricing is insufficient given the change in their condition. We'd like to approach them with an overall proposal toward the objectives noted above. As part of this approach we will also attempt to have Lehmann commit some portion of the comfort deposit to term maturities. The client discussions are expected to take place next week.

We envision that the deposit will be shifted to the GTS Desk (Laura Miranda) so that it may continue to be properly controlled. Toward that end, we'd appreciate understanding the current process and look to replicate as much as possible since we will be largely utilizing the same systems, etc.

Please let me know your thoughts as we'll look to complete the process over the next week.

Thanks,

Jerry