

From: Hughson, Paul A <phughson@lehman.com>
Sent: Tuesday, May 23, 2006 12:37 PM (GMT)
To: Pearson, Thomas <tpearson@lehman.com>; Gabbay, Mark <mgabbay@lehman.com>
Cc: Barsanti, Anthony <abarsant@lehman.com>; Walsh, Mark <mawalsh@lehman.com>
Subject: Risk Appetite

Tom and Mark- Mark Walsh asked that Anthony and I spend a few minutes with Ken Umezaki regarding risk appetite on a global basis; focusing on our current usage, global limits and how the roll out of certain products (such as bridge equity) might affect our usage going forward- and how Ken and Mike look at the return profiles of investments the business wants to make that may put us over our limits- As you probably know the current limits, which were announced in the beginning of May raised our global limit from \$500mm to \$600mm- US is \$475mm, Europe is \$175 and Asia is \$200. We had asked for \$750mm on a global basis. To give this some context, FID's global increase in risk appetite for 2006 was \$100mm. Currently the US and Europe are around 60% of capacity and Asia is at 97% of capacity- The big consumer of risk appetite in the US is bridge equity and the current privatization trend should utilize the capacity in reasonably short order- although it will fluctuate fairly broadly- in Europe it seems as though the opportunity is almost the reverse, with bridge equity being utilized as a bridge to some public or quasi-public markets exit. It seems to me, and you guys would have a better handle on this than I would, that the core business lines in Asia (including the npl business) are bigger consumers of risk appetite on a daily basis than in the US and Europe and any introduction of new business lines , such as bridge equity will only serve to strain the system-

Given that backdrop we asked Ken for 2 things- 1) more risk appetite-particularly for the Asian business and 2) what the ramifications were for being over the targets-

With regard to more risk appetite, given the fact that Hyung is under his Asian regional limits, Ken is going to talk to Hyung and Mike about reallocating more risk appetite to real estate. On the second point, FID is basically running at less than 60% of its risk appetite capacity-so there is excess capacity in the system for trades where a) Mike Gelband is notified(he is the appointed gatekeeper for regulatory oversight purposes) and b) the trade has a greater than 20% ROE-if those two conditions are satisfied, at current FID risk levels, overages can be tolerated.

Paul Hughson
Managing Director
Lehman Brothers
399 Park Avenue, 8thFloor

New York, NY 10022
Ph: 212-526-5911
Fax: 646-758-4341
Email: phughson@lehman.com