

Aggregated Risks

- Risk Appetite usage is \$4.09bn (up \$40mm on week)
 - VaR usage is \$148.3mm (up \$7.0mm on week)
 - Risk increased primarily from increased correlation across divisions
- Long Equity Division delta exposure of \$2.84bn; long \$xxxbn excluding event driven trades -> potential \$142mm loss if all markets down 5%
- Total HY and HG commitments: \$38.1bn (\$13.3bn funded)
 - HY Commitments: \$27.8bn (\$11.3bn funded)
 - HG Commitments: \$10.3bn (\$2.0 funded)
- Long credit spread exposure ->\$443mm potential loss for a 10% relative, to current respective levels, widening of spreads (up \$13mm on week)

ACA Capital - Update

- ACA is a financial guarantee insurance company with three business lines: municipal bond insurance, CDO asset management and structured credit.
- Lehman's credit exposure to ACA is from four trades executed whereby Lehman has purchased CDS protection on a supersenior tranche of Lehman ABS CDO (Corona Borealis, primarily subprime mezz collateral) and three trades whereby Lehman purchased protection on synthetically created AAA tranches backed by ABX 06-1 and 06-2 BBB/BBB- tranches. The Current Credit Exposure is \$398mm and the desk has reserved 90% of the p&l.
- Based on this week's findings, we expect the company to report material net loss for Q3 and negative GAAP equity resulting from a significant (\$1bn+) MTM on their structured credit portfolio. The operating insurance company will be profitable for the quarter and its capital is still sound at AA-AAA risk based capital levels, since statutory insurance reporting does not incorporate MTM moves, but just actual losses. However, due to expected downgrades of the AAA CDO tranches that ACA has wrapped to single A or lower, the capital charges for their structured credit book will increase, which will decrease the capital at the financial guarantor level.
- S&P has thus far maintained its single A rating on the basis that loss expectations for ACA's super-senior exposures do not imply an impairment, and MTM losses do not affect liquidity since the Company is not required to post any margin unless downgraded two notches to BBB+ or below.
- Despite the negative perception on them, ACA was able to close 14 transactions in Q3, in both the ABS and corporate sectors and they continue to selectively grow their municipal bond and insurance book.

Nokia Oyj

- Lehman has been asked to provide a financing commitment to Nokia (A1) for its announced \$8.1bn acquisition of NAVTEQ Corporation. The acquisition has been approved by the Board's of both companies and is subject to customary closing conditions including regulatory approval and NAVTEQ shareholders' approval. The transaction is expected to close in 1Q'08.
- Nokia plans to finance the acquisition with a combination of 50% cash / 50% debt and has asked Lehman to commit to \$1bn (25%) of a \$4bn 364-day bridge facility. The facility is not expected to fund. Nokia intends to finance the acquisition either through repo agreements or the US CP market, with the bridge as a backstop. Nokia intends to term-out the short-term debt in the public bond market. Lehman's role as a lender will help position us for a role in the take-out financing. Citi is M&A advisor to Nokia and has already provided a bridge commitment. Nokia expects to invite four to five banks to participate.
- NAVTEQ is the top provider of digital maps used for navigation systems with 60% market share.

Cheung Kong Infrastructure

- Lehman has been asked by Cheung Kong Infrastructure to provide £1.2bn of committed financing and advise them on their acquisition of United Utilities Electricity from United Utilities PLC.
- Financing will consist of a £200mm revolver and a £1.0bn senior loan secured by CKI (rated A-). We expect to commit to 33% of the facilities (~\$815mm). The bridge is expected to fund and will be outstanding for approx. 5-6 months and will be taken out by bonds in Q4'08. The expected mark on the loan is \$1.8mm. There is no CDS on this name, but we will look to buy protection on the parent company, Hutchinson, despite the lack of parent guarantee. We will seek to sell down our exposure via silent participations or outright sales.
- Final bids and our commitments are due in mid November. The transaction is expected to close in January. DB is running the auction. Other competing banks include JPM, HSBC, and Dresdner.
- CKI is an infrastructure company in Hong Kong with a portfolio of regulated and contracted infrastructure businesses in Hong Kong, China, Australia and the UK.

SIV Update

- Cheyne Finance Plc and Rhinebridge Plc (sponsored by IKB) both defaulted on over \$7bn of CP debt last week after suffering significant MTM losses on their assets, particularly CDOs. Receivers are working with Cheyne to restructure the SIV or sell assets, which they believe may be sufficient to repay \$6.6bn of debt. Rhinebridge has \$791mm of debt and assets worth about \$100mm less than their debt outstanding
 - Lehman has no exposure to Rhinebridge and de minimus exposure to Cheyne
- AHMSA Restructuring Loan**
- Lehman has been asked by Altos Hornos de Mexico, S.A. de C.V. (AHMSA) to provide committed debt financing in support of AHMSA's exit from bankruptcy. AHMSA is the largest fully integrated steel producer in Mexico. The company declared bankruptcy in May 1999.
 - D.E. Shaw, Black River and Ashmore are existing creditors who will convert \$500mm of their debt holdings into 22.75% of the reorganized company's equity. The exit date is expected in April '08.
 - In order to exit bankruptcy, AHMSA needs to have committed financing in place. As such, Lehman is being asked to provide a commitment within the next month. Lehman is competing against CS on the financing, although we are working to provide a joint commitment. Lehman commitment to include Business and Market MACs as well as other funding conditions.
 - Financing package is a \$1.0bn bridge loan, to be taken out by \$1.0bn senior notes. We will attempt to reduce our exposure by syndicating the bridge commitment and also pre-selling the bonds by funding into escrow prior to the exit.

Philip Morris International

- Philip Morris International Inc. (PMI) is establishing \$6.0bn of new multi-currency credit facilities in preparation for its contemplated spin-off from Altria Group. Lehman is currently serving as joint financial advisor to Altria on the contemplated spin-off.
- Altria Group has asked Lehman and five other banks (Citi, CS, DB, JPM, and GS) to each commit \$1 billion to the new facilities, which will later be reduced to approximately \$650-750mm upon broader syndication. Commitments were due on 10/12.
- The \$6.0bn of multi-currency facilities will consist of a €1.5bn 364-day facility, a \$1bn 3-year revolving credit facility and a \$3bn 5-year revolving credit facility. Lehman's initial pro rata commitment will be €250mm, \$167mm and \$500mm to the 364-day facility, 3-year revolving credit facility and 5-year revolving credit facility, respectively.
- PMI, based in Lausanne, Switzerland, is the world's leading tobacco company and held a 15.4% share of the international cigarette market in 2006.

FNMA 30yr 6.5% Mortgage Position

- The mortgage trading desk had recently accumulated a \$35.5 bn long Oct settlement/short Nov settlement roll position. The dollar roll market is a financing trade similar to a repo where the price of the roll varies between cost of carry (normal market) to a maximum of fail cost and is driven by both prepayment view and market demand for the particular security.
- The desk chose not to roll \$29bn and instead to take actual delivery of the securities. Initially, we had \$4bn fail to deliver to us, which was reduced to \$100mm by 10/19. The benefit of fails to us is approximately \$2.5mm. The desk will also try to monetize the value in specified pools that were delivered to us and which trade better than TBAs. So far we have sold \$1.5bn of these to date.
- The repo/funding desk is involved in the transaction and expect the overnight funding rate for delivered mortgage pools to be in 4.8%-4.9% range. The delivered pool will continue to general carry income as long as agency mortgage funding rate does not go above 5.2% for extended period of time. The market risks of the delivered pools are largely hedged with the short positions in Nov settlement.
- The desk intends to deliver the mortgage pools received into November TBA settlement cycle to bring down balance sheet usage.

