From: Shotton, Paul <paul.shotton@lehman.com>
Sent: Thursday, December 6, 2007 6:49 PM (GMT)
To: O'Meara, Chris M (NY) <comeara@lehman.com>
Cc: Goodman, Jeffrey <jeffrey.goodman@lehman.com>; Weber, Mark <mark.weber@lehman.com>; Shotton, Paul <paul.shotton@lehman.com>
Subject: RE: VaR

Chris, further analysis by Mark & his team indicates that (more than) all of the VaR increase we have seen from Q3 to Q4 was caused by the market volatility increase. From the end of Q3 to the end of Q4, total VaR increased by about $25mm. The increase in VaR due to market volatility was about $33mm, but this is offset by a reduction of about $7.5mm as a result of position reduction.

The table below shows the decomposition of marginal impact from market vol and position change by risk types. Commodity VaR increased by $5mm, but has little impact on the total Firm VaR increase.

> VaR Equity Risk IR Risk FX Risk Total Commodity Risk
> Marginal Impact of Market Vol 3,715,820 23,444,292
> (1,082,607) 32,761,142 (31,320)
> Marginal Impact of Position Change 211,134 (5,724,739)
> 4,657,199 (7,470,567) 5,094,437
> Total Change 3,926,954 17,719,553 3,574,592
> 25,290,575 5,063,117
>
>
-----Original Message-----
From: O'Meara, Chris M (NY)
Sent: Tuesday, December 04, 2007 9:20 PM
To: Weber, Mark; Goodman, Jeffrey; Shotton, Paul
Subject: Re: VaR

Thanks, Mark. Very helpful. Would also love to get you color regarding whether it is mostly due to additional risk taking or increase in volatility in Q3. Chris

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Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Weber, Mark
To: Goodman, Jeffrey; O'Meara, Chris M (NY); Shotton, Paul
Sent: Tue Dec 04 21:16:03 2007
Subject: RE: VaR

We just ran a preliminary 10K VaR for 4Q07 and noticed the following

trends:

We notice significant increases in both the average ($96.4mm to $125.7) and quarter-end to quarter-end ($99.5mm to $125.6mm) VaR at the firm level with IR Risk being the primary driver. Within IR Risk, the respective average and QE-to-QE numbers were $68.4mm to $91.2mm, and $79.0mm to 97.6mm. Within the IR Risk category, the primary drivers of the average risk (largest first) were IR Products, CDO, Securitized Products, Real Estate, GPS, and GTS. Interestingly, the overall Equity risk did not change much (either QE-to-QE or the averages). The firm VaR ranged from $95.6mm on 9/3/07 to $156.6mm on 10/11/07.

We can arrange to get you more details in the next day. We can take November-end positions and calculate VaR using market data from August-end to help sort out contributions from position changes versus market data effects.

Mark

-----Original Message-----
From: Goodman, Jeffrey
Sent: Tuesday, December 04, 2007 8:49 PM
To: O'Meara, Chris M (NY); Shotton, Paul
Cc: Weber, Mark
Subject: Re: VaR

Would have to run the numbers to isolate what is driving what. We could run the VaR from a Q4 day that equates to the avg but cut the TS at Q3, which would isolate the impact of Q4 volatility. My guess is that a lot is from volatility vs actual increase in position risk as we were already in risk reduction mode although any HY fundings would have increased risk. The other area of real increase will be equities, where delta rose substantially when we hit our peak VaR

----- Original Message -----
From: O'Meara, Chris M (NY)
To: Shotton, Paul; Goodman, Jeffrey
Sent: Tue Dec 04 19:38:05 2007
Subject: VaR

Guys - Looks like VaR for Q4 will be about 124mm on avg, up from 96mm on avg in Q3. Up in each category of risk, plus lower diversification benefit. How would you explain the increase btw actual increase in position risk taking, vs increse in risk due to more recent mkt volatility? Thx, C

Sent from my BlackBerry Wireless Handheld