



Single Transaction Limit Policy

Proposed Improvements

Fixed Income Business Strategy

September 2007

LEHMAN BROTHERS

Single Transaction Limit

Current Policy Highlights

- Single Exposure Max Quarterly Loss at \$250mm
- Scenario based stress matrix based **extreme 99.5% percentile tail risk incorporating systemic risk and default risk**
- Major factors contributing to risk calculation: Company's debt rating, **capital structure of the transaction**, time to closing, business MAC and market MAC, **flex and put bond**
- Maximum **notional** per transaction capped at 1.8bln for unsecured and 3.0bln secured

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Policy Weaknesses

- Has been perceived by bankers to be too restrictive
- Because there have been many exceptions it has been treated as more of a guideline than a policy
- STL hasn't been included in the bankers memo and so it hasn't been contemplated in the commitment committee process
- **Among the YTD transactions**, there are 24 transactions which are over the recommended STL by a total of almost \$10bln

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Summary Improvements

- Current limits will be increased slightly in addition to softening risk factors: net effect will be halving the amount of risk projected in a transaction. **As a result, the risk factors are in line systemic market movement in the 98 and 02 scenarios**
- Back-testing of improved risk factors has been tied-out between Risk Mgmt and the High Yield Business
- Categories for closing transaction needs to contemplate more granular closings: <2mos, 2-6mos, >6mos
- Stress scenario will be attached to bankers memo going forward with an explicit policy recommendation

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