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Sent: Friday, May 16, 2008 7:34 PM (GMT)
To: O'Meara, Chris M (NY) <comeara@lehman.com>
Cc: Kelly, Martin <martin.kelly@lehman.com>
Subject: Matched book/Daily balance sheet
Attach: Reverse Repo Analysis.xls

Chris:

With respect to the questions you asked me yesterday, generally: (i) size of LEH's matched book compared to traditional banks; and (ii) daily balance sheet management at LEH compared to traditional banks. The information provided below is for your information and is based upon comparison of LEH to Citigroup/J.P.MorganChase as well as conversations I had with individuals at those two entities.

(i) Size of LEH's matched book compared to traditional banks size of LEH's matched book compared to traditional banks

<<Reverse Repo Analysis.xls>>

The attached compares LEH's disclosed matched book at a consolidated level and a broker-dealer level to that disclosed by Citigroup and J.P.MorganChase at a consolidated level and a broker-dealer level. Because balance sheet captioning may not be consistent across the three benchmark entities, this analysis contemplates full inclusion of securities purchased/securities borrowed and securities sold/securities loaned/secured financings. These may not be purely reflective of the "matched book;" however, this is probably cleaner for comparison purposes than attempting to apply a metric of reduction.

The analysis is pretty definitive that of the three benchmark entities, LEH has the largest matched book in terms of real numbers and also as a percentage of assets/liabilities. The same is true at a broker-dealer level.

(ii) Daily balance sheet management at LEH compared to traditional banks

I spoke to colleagues at Citigroup and at J.P. MorganChase with respect to daily balance sheet levels/volumes as compared to month-end/quarter-end balance sheet levels/volumes. I spoke to these colleagues to get a sense of levels/volumes on a daily basis; however, I did not explicitly put forth the question with respect to whether a daily balance sheet is managed to Federal reserve ratio standards. The substance of those conversations were:

- * Both C and J use two daily balance sheets: one that is trade date +1 and one that is trade date +2. The former is for management purposes; the second is to mirror GAAP-like balance sheet.
- * To get to the GAAP-like balance sheet, both C and J run a netting engine for CUSIP/parent/cash-collateral. The management balance sheet excludes this run through an engine.
- * Certainly from C, I got the sense that Federal Reserve ratio standards were computed/monitored on the daily balance sheet.

The other item that came to mind was also the fact that C and J likely do not do Repo 105 and Repo 108 which are UK-based specific transactions on opinions received by LEH from Linklaters. This would be another

reason why LEH's daily balance sheet is larger intra-month than at month-end.

I think this gives you the basis of what you asked me yesterday. Happy to discuss.