

FID Balance Sheet Management



April, 2007

LEHMAN BROTHERS

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FID Balance Sheet History

FID Core	2005	2006				2007		▲%
	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4	Qtr1	Qtr2	
Net Balance Sheet	131	141	150	151	171	187	192	47%
Net B/S Limit	131	144	154	155	168	175	192	47%
Variance vs. Limit	(0.4)	(3.1)	(3.8)	(3.7)	3.2	12.4	0.0	
Revenue	1,722	2,219	2,328	1,927	1,910	2,011	1,919	11%
RROA	5.3%	6.3%	6.2%	5.1%	4.5%	4.6%	4.0%	-24%
VAR Usage	28.8	32.2	26.4	39.1	34.6	49.9	40.0	39%

- ◆ Net Balance Sheet limit has grown by 47% (61bn) since Q4'05
- ◆ Quarterly Revenue has grown by 11%
- ◆ RROA has decreased by 24%
- ◆ Accounting changes have grown "Dead Balance Sheet" to 21.2bn and continues to put pressure on the balance sheet limit
- ◆ FID has missed it's net balance sheet target 11 out of the last 15 months

Balance Sheet Policy

Policy:

- ◆ Balance Sheet limits will be allocated by business POD and by region
- ◆ Penalty Charge of 5mm per billion on net balance sheet overages (Monthly) applicable at a regional POD level
- ◆ Incentive gain of 2.5mm per billion for businesses/regions that are below their net targets
- ◆ Limit will be tradable within FID business
- ◆ +/- 500mm 'materiality' provision, 500mm increments for charge/incentives
- ◆ Transaction driven exceptions to this policy must be approved by Mike Gelband and Gerry Reilly
- ◆ Effective starting May Month End

FID Q2 Balance Sheet Limit

(in Smm's)	Q4 '06 Net Assets				RROA '06	Q1 '07 Net Assets				RROA '1Q07	Q2 '07 Limit		Projected RROA '2Q07	Current B/S as of 3/30/07
	Limit	Actuals as of 11/30/06	Variance (vs.Limit)			Limit	Actuals as of 2/28/07	Variance (vs. Limit)			Gross	Net		
BUSINESS UNIT														
Liquid Markets	43,400	42,407	(993)	4.5%	43,600	41,840	(1,760)	4.1%	90,500	41,200	4.7%	70,835		
Credit	25,775	26,839	1,064	9.0%	32,575	31,547	(1,028)	11.9%	39,600	33,000	8.9%	32,361		
Real Estate	35,500	33,536	(1,964)	7.0%	36,500	39,209	2,709	5.4%	45,000	45,000	4.5%	43,949		
Securitized Products	52,500	52,117	(383)	4.4%	52,500	61,241	8,741	2.3%	67,000	60,000	2.2%	77,086		
Municipals	3,800	7,501	3,701	21.3%	6,800	7,987	1,187	5.0%	8,000	7,000	4.7%	10,104		
FID Corporate	3,000	5,916	2,916	N/A	3,066	5,579	2,513	N/A	13,695	6,000	N/A	5,385		
TOTAL FID	167,800	171,025	3,225	5.3%	175,041	187,404	12,363	4.6%	263,795	192,200	4.0%	239,721		
Americas	119,410	125,932	6,522	3.5%	121,176	134,488	13,312	3.9%	188,580	133,000	3.6%	176,412		
Europe	31,965	30,865	(1,100)	5.2%	35,439	35,626	187	4.6%	46,920	39,200	4.6%	42,026		
Asia	16,425	14,227	(2,198)	5.3%	18,425	17,289	(1,136)	5.7%	28,295	20,000	5.0%	21,284		
TOTAL FID with Prime Services	170,500	174,332	3,832		178,041	191,732	13,691		344,270	195,200				

Odd Lot Policy

February
in millions

Region	TOTAL BALANCE SHEET			AGED BALANCE SHEET		
	NET ASSETS	ODD LOTS	CONCENTRATION	NET ASSETS	ODD LOTS	CONCENTRATION
Americas	134,488	10,964	8.15%	14,710	3,361	22.85%
Europe	35,626	2,015	5.66%	1,824	385	21.13%
Asia	17,289	1,990	11.51%	6,430	858	13.35%
Global	187,404	14,969	7.99%	22,963	4,605	20.05%

in mm's

POD	Total Odd Lots	Aged Inventory	Current Penalty Charge	Revised Penalty Charges (2x)	Revised Penalty Charges (4x)
SECURITIZED PRODUCTS	4,607	1,704	(1.8)	(3.5)	(7.0)
REAL ESTATE	2,272	780	(1.5)	(3.0)	(5.9)
LIQUID MARKETS	4,229	1,011	(0.8)	(1.6)	(3.1)
CREDIT	2,931	586	(0.2)	(0.5)	(0.9)
MUNICIPALS	268	141	(0.1)	(0.2)	(0.3)
FID CORPORATE	661	383	0.0	0.0	0.0
TOTAL FID	14,969	4,605	(4.3)	(8.7)	(17.3)

Policy:

- Starting for June month end each businesses balance sheet limits will be reduced by an amount equal to 1/2 their odd lot balance sheet (May's odd lot balance sheet number will be used to calculate the reduction). This will be repeated for August month-end. The limit reduction will be based on the total odd lot balance sheet
- Starting for June month-end balance sheet, double the aging charges for odd lot positions (will be reflected in July's P&L). Starting for August month-end 4x penalty charges. The penalty charges will be based on aged odd lots



Appendix

Americas - FID Q2 Balance Sheet Limit

(in \$mm's) BUSINESS UNIT	Q4 '06 Net Assets		Variance (vs.Limit)	Q1 '07 Net Assets		Variance (vs.Limit)	Q2 '07 Limit	
	Limit	Actuals as of 11/30/06		Limit	Actuals as of 2/28/07		Gross	Net
Liquid Markets	27,900	27,419	(481)	27,600	25,568	(2,032)	59,200	23,500
Credit	15,675	17,627	1,952	18,275	19,378	1,103	22,575	18,000
Real Estate	22,800	22,079	(721)	22,700	24,135	1,435	29,075	29,000
Securitized Products	45,000	45,600	600	43,325	53,554	10,229	57,125	50,000
Municipals	3,800	7,501	3,701	6,800	7,987	1,187	8,000	7,000
FID Corporate	2,410	4,123	1,713	2,476	3,866	1,390	12,605	5,500
TOTAL FID	119,410	125,932	6,522	121,176	134,488	13,312	188,580	133,000
TOTAL FID with Prime Services	121,660	128,872	7,212	123,726	138,542	14,816	245,805	135,500

Europe - FID Q2 Balance Sheet Limit

(in \$mm's)	Q4 '06 Net Assets			Variance (vs. Target)	Q1 '07 Net Assets			Variance (vs. Target)	Q2 '07 Limit		
	Limit	Actuals as of 11/30/06			Limit	Actuals as of 2/28/07			Gross	Net	
BUSINESS UNIT											
Liquid Markets	9,150	9,395	245	9,650	10,443	793	15,750	10,700			
Credit	5,750	6,040	290	9,899	8,151	(1,749)	11,955	10,500			
Real Estate	7,300	7,158	(142)	8,125	9,404	1,279	10,250	10,000			
Securitized Products	7,175	5,393	(1,782)	7,175	5,947	(1,228)	7,875	7,500			
Municipals	-	-	-	-	-	-	-	-	-		
FID Corporate	590	1,754	1,164	590	1,681	1,091	1,090	500			
TOTAL FID	31,965	30,865	(1,100)	35,439	35,626	187	46,920	39,200			
TOTAL FID with Prime Services	32,415	31,232	(1,183)	35,889	35,901	11	63,170	39,700			

Asia - FID Q2 Balance Sheet Limit

(in \$mm's)								
BUSINESS UNIT	Q4 '06 Net Assets		Variance (vs. Target)	Q1 '07 Net Assets			Q2 '07 Limit	
	Limit	Actuals as of 11/30/06		Limit	Actuals as of 2/28/07	Variance (vs. Target)	Gross	Net
Liquid Markets	6,350	5,594	(756)	6,350	5,828	(522)	15,550	7,000
Credit	4,350	3,173	(1,177)	4,400	4,018	(382)	5,070	4,500
Real Estate	5,400	4,298	(1,102)	5,675	5,670	(5)	5,675	6,000
Securitized Products	325	1,124	799	2,000	1,740	(260)	2,000	2,500
Municipals	-	-	-	-	-	-	-	-
FID Corporate	-	39	39	-	32	32	-	-
TOTAL FID	16,425	14,227	(2,198)	18,425	17,289	(1,136)	28,295	20,000
TOTAL FID with Prime Services	16,425	14,228	(2,197)	18,425	17,289	(1,136)	35,295	20,000

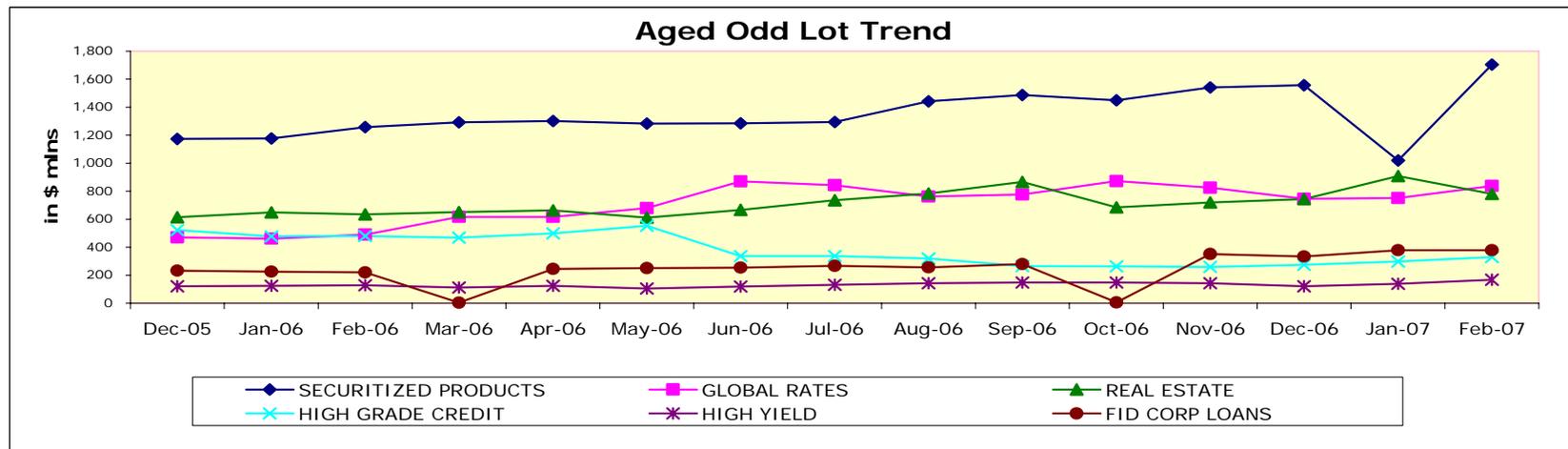
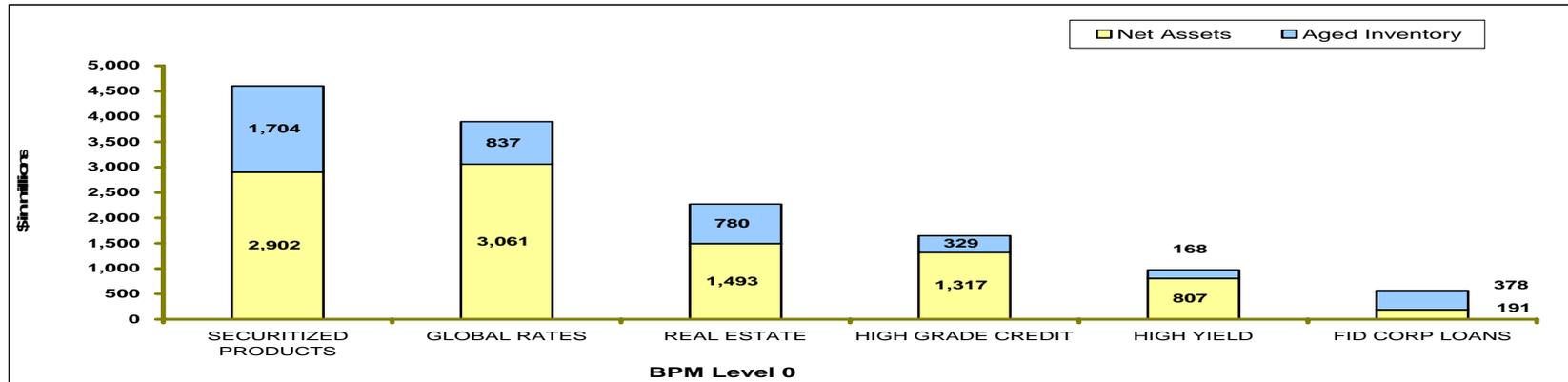
Odd Lot Definitions - By BPM

BPM Specific Odd Lot Definitions

<u>BPM</u>	<u>Market Value under</u>
• IRP	<10mm
• Mortgage Trading	<5mm
• High Grade	<5mm
• Real Estate	<5mm
• High Yield	<3mm
• Munis	<3mm
• Structured Finance	<3mm
• CDO	<5mm

Aged Odd Lot Inventory by Business

- Of the 5 businesses with the largest odd lot balance sheet, all of them have aged concentrations of greater than 17% as of Feb 28th



Aged Odd Lot Inventory by Region

in mmn's

POD	Region	Total Odd Lots	Aged Inventory	Current Penalty Charge	Revised Penalty Charges (2x)	Revised Penalty Charges (4x)
SECURITIZED PRODUCTS	AMERICAS	4,474	1,695	(1.8)	(3.5)	(7.0)
	EUROPE	117	9	(0.0)	(0.0)	(0.0)
	ASIA	16	0	0.0	0.0	0.0
SECURITIZED PRODUCTS		4,607	1,704	(1.8)	(3.5)	(7.0)
REAL ESTATE	AMERICAS	1,170	539	(0.3)	(0.5)	(1.0)
	EUROPE	149	3	0.0	0.0	0.0
	ASIA	953	238	(1.2)	(2.4)	(4.9)
REAL ESTATE		2,272	780	(1.5)	(3.0)	(5.9)
LIQUID MARKETS	AMERICAS	2,407	328	(0.1)	(0.2)	(0.5)
	EUROPE	1,141	243	(0.2)	(0.3)	(0.6)
	ASIA	682	440	(0.5)	(1.0)	(2.0)
LIQUID MARKETS		4,229	1,011	(0.8)	(1.6)	(3.1)
CREDIT	AMERICAS	2,102	330	(0.2)	(0.4)	(0.7)
	EUROPE	491	76	(0.0)	(0.0)	(0.1)
	ASIA	338	180	(0.0)	(0.0)	(0.1)
CREDIT		2,931	586	(0.2)	(0.5)	(0.9)
MUNICIPALS		268	141	(0.1)	(0.2)	(0.3)
FID CORPORATE	AMERICAS	544	328	0.0	0.0	0.0
	EUROPE	118	55	0.0	0.0	0.0
FID CORPORATE		661	383	0.0	0.0	0.0
TOTAL FID		14,969	4,605	(4.3)	(8.7)	(17.3)