
Credit Risk Reporting Procedures Manual

Version 1.0

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1. Executive Summary

1.1. Introduction/Objective

Credit Risk Reporting is responsible for generating exposure reports resulting from transactions conducted with counterparties in derivative and financing trading. The group prepares daily, weekly, monthly and quarterly reports for credit analysts, senior management, regulatory reporting and external reporting. In order to ensure accurate exposure reporting, the group performs daily validation of information received into the credit systems and resolves and adjusts necessary data deficiencies. The group also participates in the enhancing of risk measurement methodologies by performing user validations and informing Credit Risk Management of impending amendments. Data completeness and accuracy are also the charge of Credit Risk Reporting and is completed through a series of reconciliations with Financial Controller data used in the general ledger and the P&L process. As new trading activities and systems are developed, Credit Risk Reporting work with the Controllers, Technology, Quantitative Risk groups and Credit Risk Analysts to incorporate additional exposures into the risk measurement analyses.

1.2. Scope

The Credit Risk Reporting group (CRR) has global responsibility for implementing counterparty exposure aggregation methodologies developed by the Quantitative Risk Management group. CRR is engaged in the set up and monitoring of client accounts to ensure accurate counterparty exposure aggregation. The Counterparty Management group within CRR takes part in the set up, verification and linking of accounts and clients. The Counterparty Management group investigates and confirms the client details, such as Legal name, industry type (SIC), Investment Advisors (in case of funds), before authorizing the creation of new client records within the Firm's centralized client management system. Counterparty Management also links existing accounts, which are not associated or wrongly associated to any entity based on the account opening documents. This ensures that exposures against entities are accurately reported at counterparty, family and industry levels.

CRR monitors and reports credit exposures on a Maximum Potential Exposure (MPE) and Current Credit Exposure (CCE) basis. CCE is the current exposure net of collateral and taking into account netting agreements. MPE is the exposure profile over the lifetime of the exposure using models developed by Quantitative Risk. CRR also provides reports based on Country Risk exposure using expected loss potential as a measure and country stress values provided by the Sovereign Risk group. CRR is also charged with the monitoring and resolution of Daily Settlement Limit overages resulting for foreign exchange transactions.

CRR uses data gathered from various Lehman trading systems through a series of data feeds into the Credit Workstation (CWS) and the Potential Exposure engines (MPE). Derivative data is sourced from the Derivatives Data Warehouse (DMS) by CWS and for some portions of trades by the MPE system. Additionally, the MPE System receives feeds from HJM, Summit, Delta One and GEDS directly. Financing and Forward trade data is sourced from ITS, MTS, Global 1 and Magic's by CWS. The MPE system receives the financing and forward trade data from CWS through the VAR process. Foreign Exchange trades are received from RISC and supplemental market data is sent from MUREX to the MPE system. Collateral information comes from the margin system CAMEO. The CWS batch process begins after the receipt of all the product and margin feeds. When the batch is completed and published to CWS, the CRR team begins the preparation of daily reports by using the tables in CWS through Access databases. The access databases used to prepare the reports allows for the aggregation of large amounts of counterparty details and holds overrides that the CRR team needs to apply due to trade or operational inaccuracies that are detected when the reports are aggregated. When the reports are finalized, they are distributed to analysts or posted to CRM websites.

The CRR team in London focuses on preparing London only or LBIE specific exposure reports. Additionally, there are CRR team members in Mumbai that work with the teams in New York and London and provide support for validation and exposure aggregation. The series of reports generated by each of the groups within CRR are covered by this document.

2. Process Analysis

2.1. New Client Set Up

New Client Set Up

New client requests are submitted for set up through the Enterprise Account Management (EAM) application. The Institutional Client request is routed to one of the Credit queues for action by the respective Reporting teams. The queue is accessed in EAM and the research/validation is conducted by the Counterparty Management Group. The first research step is to ensure that the client has not already been created in the Global Account Relationship Management (GARM) application. If the client already exists in GARM, the request is rejected in EAM and sent back to the Initiator telling them to choose the existing client. The rejection includes details on the Party Ref id number and full legal name of the client. When the Initiator chooses the existing client, the account set up request goes directly to the Client Account Services (CAS) queue. CAS reviews the information submitted and approves the account set up request. The new account will flow from the CAS team queue in EAM to GARM where the new account is linked to the already established client. The flow of the new account with the existing client links are subsequently distributed to CWS within 30 minutes of the update.

When the client research in GARM results in the need to set up a new client, the Counterparty Management Group will research the new client request using public sources to validate the legal name and client details necessary for the set up since clients are created by using the legal name in the client name field. Certain sources are used to validate the corporation name and structure (e.g. Banks and Bank holding companies – Federal Reserve web site, US investment advisors – SEC website, D&B). In addition, Bloomberg is also used for mutual funds. If public sources fail to provide enough information or if the client is a hedge fund, the group will email the Initiator for additional documentation to provide to the analysts for review and guidance on the client set up. When all the research is completed, the client is created in EAM and EAM sends the new client to GARM. Within 30 minutes, the new client set up is sent from GARM to CWS.

The group does not set up any hedge funds without first contacting the hedge fund Credit team. Additional follow up with other analysts for other industries is conducted where necessary to ensure that the new client is set up correctly.

2.2. New Account Set Up

New Account Set Up

When a new account is submitted to EAM, the CAS group reviews the new account and sets up the new account. The new account is sent to GARM by EAM and GARM sends the new account to CWS. However, if the EAM is submitted for a new account and the request also requires a new client to be set up, the EAM is added to the cue of the Counterparty Management Group for new client validation. The steps for new client set up are detailed above.

2.3. Parent/Child Relationship

Parent/Child Relationship

The Counterparty Management Group also ensures the ongoing validity of the client/account linking in CWS. Name change/mergers/acquisitions requests and account linking requests (Agent/Principal links) are received from the analysts and researched and linked in GARM and flow to CWS for update. Incorrect linking of accounts is sent from the analyst to the Counterparty Management Group. The incorrect link is deleted in GARM and the corrected link is created to the appropriate client. The updates are distributed to CWS in the automated fashion. The group also receives requests from analyst regarding the re-linking of Parent/Child relationships. These updates are also done in GARM and flow to CWS.

Client Attribute Updates

Credit analysts also request updates to Industry/SIC code, Country of Domicile, Address and other client attributes that are identified as needing verification/change. The Counterparty Management Group conducts the updates in GARM and the flow to CWS is automated. There are updates conducted directly into CWS for industry or analyst assignments since the industry choices in GARM are on a much more granular level. Additionally there is only one analyst/manager associated with the major industry assignments in GARM. In order to manage the work flow/assignment process from the

analyst/manager to the general analyst in each industry group, requests for updates are sent to the Counterparty Management Group from the analyst and updates are conducted directly in CWS.

Analyst/Counterparty Relationship

The Counterparty Management Group ensures that each client is mapped to an analyst. The group supplements that automated industry/analyst mapping process in GARM by amending analyst assignments based on specific data received from the analyst teams. Additionally, the default unknown industry in GARM is mapped to the Head of Counterparty Management who reassigns the analyst/industry after researching details on the client and consulting with the analyst team. Moreover, during the course of completing excess reports or new client reports, if unknown clients are highlighted in these reports, the Counterparty Management Group will research and update the analyst mapping in CWS. The Handshake Fails report and the Material Unrated Counterparty Report also helps identify clients that need to be assigned to an analyst as missing analyst data default to the Head of Counterparty Management for update.

2.4. Agent/Principal Role

Agent/Principal Role

When new clients and account numbers are requested via the EAM application, each account number is associated to the requested client based on the role input by the initiator. All exposures will be aggregated to the client according to their assigned role. The role options for clients are either "Agent" or "Principal".

An Agent link refers to the organization, such as an Investment Advisor, that conducts transactions on behalf of another client. An Agent link request will always have an associated Principal link request. Trades are aggregated to the Principal Client level.

The Principal client is the main party to the transaction. Principal clients may be Undisclosed, Disclosed to Credit Only (DCO) or Principal. Principal refers to instances where the counterparty is disclosed to the trading desk as well as Credit. Undisclosed Principals refer to a Principal client that the Agent has not made known to Lehman. In these cases, all trades are aggregated under the Agent Client. Disclosed to Credit only refers to a Principal that the Agent has made known only to the Credit Group. These clients are shielded from view and represented as Undisclosed in all reporting outside of the Credit Group. Within the Credit systems, the exposures to DCO clients are displayed at the DCO Principal level.

2.5. Reconciliation

Reconciliation

CRR performs a series of reconciliations to ensure data completeness and accuracy for the capital calculations completed each month. Breaks are researched and followed up with Technology, Finance or Operations to resolve. Results of the reconciliations are presented to management to track progress and to gain additional resources if necessary for break resolution or system enhancements.

CWS/MPE Reconciliation

The feed trade process for CWS and the MPE system are separate. The two processes will be moved closer together in 2008 when the same DMS feed will be utilized for the derivative population. Until the current exposure and the potential exposure process utilize the exact same trade feed process, there will be a daily reconciliation process between CWS and MPE. The reconciliation process highlights any deficiencies in any of the trade populations and presents a starting point for identifying necessary feed enhancements and synchronization.

CWS/GL - Derivatives

In order to ensure a full derivative trade population in CWS for daily risk exposure management as well as eventual daily counterparty capital charge calculation, there is a daily reconciliation with the P&L systems used for the firm's books and records. Trades from CWS and the PNL systems are sent to TLM for reconciliation. TLM is a reconciliation tool owned by the Finance Division and matches the trades from the two sources and presents breaks for resolution in TLM. CRR and Finance are responsible for research, follow up and resolution of the breaks each day. Weekly management reports are produced and reviewed with Management.

CWS/GL – Financing, FX and Forwards

Work is in progress to complete additional reconciliations in TLM for products that are not covered by the Derivative reconciliation. The processes and reports will be similar to the Derivative reconciliation that is in place. Work should be completed before the end of year 2007.

CWS/GL – Monthly Derivative Reconciliation

A manual reconciliation is performed each month for the over the counter derivative trade population between the data contained in CWS and the Legal Entity Controllers General Ledger balances. This reconciliation results in confirmation and sign off from Credit Risk that the over-the-counter derivative balances used in the MDNA section of the 10Q are accurate and complete. Details on the process are described in Section 6.1 and a flow chart of the process is detailed in Appendix 1.

Agency Lending Disclosure Reconciliation

The CRR team is responsible for the daily reconciliation of the information that is received from agents regarding the underlying principals that have lent securities to Lehman and the holders of the collateral that the firm has posted against the securities that are borrowed. The group utilizes the reconciliation displays presented in the Credit Risk Management site each day. The CRR team monitors the breaks and liaise with various Operations groups that are responsible for the security bookings and confirmations. The CRR team also alerts Credit Analysts of principal discrepancies that have been presented in the agent files. CRR works with the Credit Analyst teams to gain approval for new principals that are introduced by agents and to set the new clients up in GARM and the CWS.

3. Exposure Reports

3.1. Global Current Credit Exposure Snapshot

- I. **Report Submission:** Daily
- II. **Recipients:** Global Credit Risk Management
- III. **Report Purpose/Explanation:** The CCE report is a collection of CCE data for use in Current and Potential Exposure within daily and monthly reports. The report is distributed to credit risk reporting globally, and all credit risk analysts.
- IV. **Location:** The report is saved to: File Location/ outlook://Public Folders/All Public Folders/New York/Information and Exposure Management/Client Reporting/Credit Risk Reporting/CCE -Report and credit web: credit reports/Expo/Util Reports/Daily CCE Snapshot

The Current Credit Exposure Snapshot Report gives a daily close of business snapshot of various markets. The report consists of a summary describing the following: Product, Industry and Rating distributions, Top counterparty exposures in each product group, Top counterparties in each region and Top Sub Investment Grade counterparties in each region. The Top Agent CCE and Lowest MTM (pre-collateral) and Highest MTM (pre-collateral) are also detailed. Information on outstanding Margin Calls are incorporated into the report and Top counterparty names by rating, product and industry are included, along with the Highest notional outstanding.

The total CCE used in this report does not include counterparties rated iNRR. Additionally, the counterparty names detailed in the top exposures are for principal activity only.

3.2. Variance Report

- I. **Report Submission:** Daily
- II. **Recipients:** Global Credit Risk Management
- III. **Report Purpose/Explanation:** A full one month summary by product, industry and rating in maintained and tracked to provide a validation and comparison point for the most recent CCE.
- IV. **Locations:** The report is saved to: credit web: credit reports/Expo/Util Reports/Daily Variance Report

The Variance Report consists of five different tabs.

- Summary Variance Analysis Trend
- Analyst Review Top 20 CCE
- Counterparty Product Summary
- CP Data for two prior cob
- iNRR Rated CPs for present cob only

This report is used by the analysts to review significant changes in CCE that are reflected in their Top 20 view and to highlight data validation inquiries when variances are unexpected. The two day full detail by product that is maintained in the fourth tab of the spreadsheet provides a good reference point to begin inquiries related to significant exposure changes in counterparties.

3.3. Month End & Quarterly Credit Risk Profile

Month-end Current Credit Exposure

- I. **Report Submission:** Monthly
- II. **Recipients:** Global Credit Risk Management
- III. **Report Purpose/Explanation:** The Monthly CCE report is an analysis of CCE by various categories using data scrubbed by analysts. Data is also used in production of monthly SEC Report.
- IV. **Location:** Credit web: Reports / Counterparty Exposure Report

Quarterly Credit Risk Profile

- I. **Report Submission:** Quarterly.
- II. **Recipients:** Senior management.
- III. **Report Purpose/Explanation:** The Quarterly Credit Risk Profile Report is a detailed analysis of CCE using data scrubbed by analyst. Various cuts of the data are provided in the profile.
- IV. **Location:** The file location of the CRP report is Q:\Credit\Corp_crd\Exposure Reports\Credit Risk Profiles\mmddyy\month end\Profile Template_mmddyy.xls

3.4. CCE/MPE Report

- I. **Report Submission:** Daily
- II. **Recipients:** Global Credit Risk Management
- III. **Report Purpose/Explanation:** This report consolidates CCE and MPE by counterparty.
- IV. **Locations:** outlook://Public Folders/All Public Folders/New York/Information and Exposure Management/Client_Reporting/Credit Risk Reporting/CCE -Report/MPE and credit web: credit reports/Expo/Util Reports/Daily Current and Potential Exposure Report

The CCE pulled from the daily CCE report prepared by CRR and combined with the MPE by product that is returned from the simulation engines or the VaR processes. The report utilizes any MPE overrides that have been entered in the MPE Analyzer or additional overrides that are maintained by CRR in an access database. The report allows recipients to drill down into portfolio level credit and potential exposures providing a more detailed view of the portfolio composition including notional outstanding, collateral, MTM and MPE.

3.5. Chief Risk Officer Report

- I. **Report Submission:** Daily
- II. **Recipients:** The Chief Risk Officer report is sent out to senior management and the Firm's Chief Risk Officer
- III. **Report Purpose/Explanation:** Daily summary of top counterparty risks, market risk, sovereign risk exposure and DSL breaches

IV. Locations: Credit/Corp CRD/Dashboard

The chief risk officer dash board report provides a daily summary of the overall firm counterparty exposure for both CCE and MPE. Summaries by product are included as well as the top 5 investment grade and non investment grade counterparties for both CCE and MPE (principal exposure only). A listing of counterparties that have been downgraded by at least 2 notches within the last two days is included. The second tab on the report includes large exposure information from DSL and past due margin calls and large hedge fund MPE, limit and utilization. Market data for Libor swaps and Credit Spreads are part of the third tab in the report. Risk Appetite and Energy curves are on the fourth tab and Sovereign Risk top ten, Outstanding Confirmations top ten, Treasury Placements top ten and a listing of Firm Relationship Loans are included in the final tab. This summary information provides the CRO with one report that spans Credit, Market, Sovereign and DSL exposure.

3.6. Global Risk Report

- I. **Report Submission:** Weekly.
- II. **Recipients:** Global Credit Risk Management
- III. **Report Purpose/Explanation:** The Global Risk Report details the inventory positions held by Lehman and combines the CCE for any of the counterparties that relate to inventory exposure. This report is used for the Firm Wide Risk report and the European Risk Snapshot.
- IV. **Locations:** leh\fid\groups\FI_RISK_CREDIT\Credit\CORP_CRD\Risk_Reports\Global Risk Report\mmyy and Credit web: credit reports/Expo/Util Reports/Global Risk Report

Counterparty Credit Risk exposure is joined with firm inventory exposure detailed in Lehman Risk. The report includes details on internal ratings, industries and countries of the counterparties. Lehman Risk position data on High Grade Loan, Loan Hedges, High Yield Loans, High Yield Trading, High Grade Trading, Other Trading, CDO and Equity Division holdings are combined with counterparty exposure from derivative and financing trading and summed for a total exposure at the parent and client level.

3.7. Firm Wide Risk Snapshot

- I. **Report Submission:** Weekly
- II. **Recipients:** Senior Management
- III. **Report Purpose/Explanation:** The Firm wide Risk Snapshot combines credit, market and country risk into one summary report that can be used by senior management to review the risk positions each week.
- IV. **Locations:** Credit/ Firm wide Risk

The Firm Wide Risk Snapshot is completed using the Wednesday close of business data. The report includes Risk Appetite limits and usage by business unit. The VaR by business unit and Top Market Risk positions are summarized. The CCE by region and product is detailed and a summary of the top 5 investment grade and non investment grade counterparties is provided with the exposure for CCE and the changes from the prior week. The Top Sector Concentrations combine the CCE with the inventory positions summarized for the largest holdings. The Large Exposure section of the report highlight specific investment grade and non investment grade corporate positions. Emerging Market country stress values are also included in top exposures along with significant Merger Arbitrage positions and Principal Transactions. The last sections of the report focus on Loan Commitments with a subsection devoted to Real Estate Loans. The flow of the deals from conditional, to contingent, to mandated commitment to mandated final documents is delineated in the report.

3.8. Credit Valuation Adjustment

- I. **Report Submission:** Monthly
- II. **Recipients:** Chief Risk Officer, Chief Financial Officer, and external reporting.

III. Report Purpose/Explanation: Credit Valuation Adjustment (CVA) is the process of fair market valuing the Firm's portfolio of outstanding derivative transactions taking into consideration credit spread movements of Lehman Brothers and counterparties. Each month, a CVA analysis is performed for the global business activities that generate counterparty credit exposure. The CVA analysis computes the fair market value of the Firm's assets and liabilities based on Lehman Brothers and counterparty Expected exposure curves, recovery estimates & implied default probability curves from credit spreads. This analysis covers performing and non-performing counterparts as of the valuation date for each report.

IV. Locations: Credit/ Corp CRD/ Credit Risk/ Development

The CVA represents an adjustment for credit risk to the Firm's mid market valuation of counterparty transactions. Components of the CVA include: Expected Exposure, Default Probability and Recovery Rates.

The default probability is based off the internal credit rating of the counterparty. A lower credit rating, results into a higher probability of default. The Recovery Rates are based off of the internal Facility Rating.

The CVA by Legal Entity is sent to External Reporting at the end of each month and a comparison is conducted with the CVA calculated by the CRR to the CVA calculated by the CVA desk. An adjustment to the PNL is applied by External Reporting to resolve any discrepancies between the CRR calculation and the CVA desk. An analysis at the BPM level is conducted at each quarter end and present to the Chief Risk Officer for validation of the process and sign off on the methodology.

3.9. Risk Appetite/Risk Equity Report

- I. **Report Submission:** Monthly
- II. **Recipients:** Risk Appetite results are reviewed by Senior Risk, Finance and Business Managers for risk monitoring the strategic decision making purposes; the distribution includes the Firm's Chief Risk Officer and Chief Financial Officer. The output of this model is used as a basis for key business investment and planning decisions by the Firm's Senior Management.
- III. **Report Purpose/Explanation:** The Firm's Risk Appetite model calculates the 95th percentile internal economic capital and the risk equity calculates the 99.5 percentile internal economic capital required to support the business over a one year holding period model inputs included counterparty credit risk, market risk and event risk. The credit risk capital input to this model is based on the same potential exposure models used to generate regulatory capital. System and process enhancements will allow for a more frequent cycle in the future.
- IV. **Locations: Credit/ Corp CRD/ Capital/ RA**

Adjusted Credit Risk Results are summarized at a firm level for each division with emerging markets and hedge funds separated from all other risk. Comments on the significant changes are also included. A summary by region follows the division breakout for the three regions of Americas, Euro and Asia. Next the report allocates the BPM 0 by region. Finally, the report allocates by BPM Level 1 as defined in Pathfinder.

The 99.5% RE is the first tab and the 95th percentile RA is the second tab. There is a summary for Prime Services business unit and POD Summaries that provide detail for both the 99.5th percentile and the 95th percentile comparisons.

3.10. Regulatory Reports

3.10.1. SEC

- I. **Report Submission:** Monthly
- II. **Recipients:** Credit Analysts and senior credit risk management
- III. **Report Purpose/Explanation:** Credit Analysts provide comment and the report is used in the monthly meeting with the SEC by senior credit risk management

- IV. **Locations:** \\leh\fid\groups\FI_RISK_CREDIT\Credit\CORP_CRD\Exposure Reports\Credit Risk Profiles\mmyyyy\Month End

Each month senior management meets with the SEC to provide updates on Risk Management and Capital. CRR prepares a report package that is used by Credit Risk Management to review portfolio exposures with the SEC team. The first sections of the report provide comparison data from the previous month for CCE and MPE by rating, industry and product. The exposures reported in this package do not include Money Line/Money Funds. Subsequent portions of the report focus on the top principal exposures by CCE and MPE and provide top investment grade and non investment grades counterparties. Additionally, there are listings for top hedge funds and energy counterparties.

3.10.2. Consolidated Supervisory Entity

- I. **Report Submission:** Monthly
- II. **Recipients:** Regulatory Reporting and the SEC
- III. **Report Purpose/Explanation:** CSE schedules are prepared for LBHI and LBI
- IV. **Locations:** \\leh\fid\groups\FI_RISK_CREDIT\Credit\CORP_CRD\CreditRisk\Capital\yyyyymm\CSE Schedules and LehmanRisk: Capital Charge

The Consolidated Supervisory Entity consists of two monthly reports: The LBHI monthly report and LBI monthly report. (All values are expressed in millions on the reports)

Lehman Brothers Holding Inc.

R1 - 15 Largest Current Exposures (Including Commitments) By Counterparty (cob). The report includes: Counterparty Name, Country, Industry, Internal Credit Rating, Derivative Current Exposure, Loan Funded Exposure, and Total Current Exposure.

R2 – 10 Largest Commitments by Counterparty (cob). The report includes: Counterparty Name, Country, Industry, Committed Notional and Drawn Notional.

R3 – 15 Largest Maximum Potential Exposures by Counterparty (cob). The report includes: Counterparty Name, Country, Industry, Internal Credit Rating, Receivable, Payable, Net Replacement Value, Current Credit Exposure and Maximum Potential Exposure.

R4 - Geographic Distribution of LBHI Exposure for 10 Largest Countries (cob). The report includes: Country, Credit Rating, Receivable, Payable, Net Replacement Value and Current Credit Exposure.

Lehman Brothers Inc.

R2 – Portfolio Summary of OTC Derivatives Exposures By Internal Credit Rating (cob). The report includes: Credit Rating, Current Net Exposure, Net Replacement Value, Receivable, Payable and Aggregate Potential Exposure.

R3- Credit Concentration Report for Fifteen Largest Current Net Exposures in Derivatives (cob). The report includes Counterparty Name, Credit Rating, Receivable, Payable, Current Net Exposure, Total Credit Exposure and Aggregated Maximum Potential Exposure.

R4 – Geographic Distribution of OTC Derivatives Exposures for Ten Largest Countries (cob). The report includes: Country, Credit Rating, Current Net Exposure, Net Replacement Value, Receivable and Payable.

R5 – Portfolio Summary of OTC Derivatives Exposures by Industry (cob). The report includes: Industry Segment, Current Net Exposure, Net Replacement Value, Receivable, Payable and Aggregated Potential Exposure.

3.10.3. Regulatory Capital Report

- I. **Report Submission:** Monthly
- II. **Recipients:** Regulatory Controllers
- III. **Report Purpose/Explanation:** Basel II capital calculations for counterparty credit risk charges
- IV. **Locations:** \\leh\fid\groups\FI_RISK_CREDIT\Credit\CORP_CRD\CreditRisk\Capital

The Regulatory Capital Report consists of two files:

- **Regulatory Capital Lehman Brothers Holding Incorporated (LBHI)**
 - a. Exposure Pivot

- i. LBHI EAD Summary by RATING
- ii. LBHI CP EXPOSURE CHANGE SUMMARY by RATING

The two Exposure Pivot tables are broken down by Internal Credit Rating, Fixed Income Derivatives / Foreign Exchange /Credit Risk Derivatives, Finance /FORWARD Trades, Equity Derivatives, Credit Swaps, Money Funds /Money Lines, Non Performing, and Grand Total.

b. Cap Calc

The Cap Calc tab is broken down by Product Type, Client Code, EM Id, Counterparty, ICR, Industry, Legal Entity, Client Role, Product Family, CCE Exposure, RAW EAD, EAD, LGD, PD, R, b, M factor, K, RF, Risk Weight Assets, Factor, RF, CP Exposure Charge, Order, and IFR.

c. Assumptions

The assumptions tab provides the Risk Weight Calculations which is a function of the following factors:

Probability of Default: based on internal credit rating and values provided by Credit Risk Control

Loss Given Default; (1-Recovery Rate) based on internal facility rating provided by the credit analysts

Maturity Factor: Calculated with 99 potential exposure profiles

d. Current Month

- i. LBHI EAD Summary by RATING
- ii. LBHI CP EXPOSURE CHANGE SUMMARY by RATING

The Current Month tab is similar to the Exposure Pivot table. The current month tab is broken down by Internal Credit Rating, FID/FX/CRD, FIN/FORWARDS, EQD, PCS, MF/ML, Non Perf, and Grand Total.

e. Previous Month

- i. LBHI EAD Summary by RATING
- ii. LBHI CP EXPOSURE CHANGE SUMMARY by RATING

The Previous Month tab is similar to the Current Month table. The previous month tab is broken down by Internal Credit Rating, FID/FX/CRD, FIN/FORWARDS, EQD, PCS, MF/ML, Non Perf, and Grand Total.

f. Current - Previous Compare

The Current – Previous Compare tab follows the same format. The Current – Previous tab is broken down by Internal Credit Rating, FID/FX/CRD, FIN/FORWARDS, EQD, PCS, MF/ML, Non Perf, and Grand Total. Additionally, the values stressed are the difference between the current month and previous month values.

g. Comments

The comments summarize all counterparties that have a dramatic negative change in product value. The comments describe the product change from previous cob to present and the client's legal name.

- **Regulatory Capital Lehman Brothers Inc.**

The Regulatory Capital Lehman Brothers Inc. format is similar to the Regulatory Capital Lehman Brothers Holding Incorporated.

3.11. LBIE Capital Report

- I. Report Submission:** Monthly (to move to daily by end of 2007)
- II. Recipients:** The LBIE Capital report is submitted to the LBIE Regulatory Reporting team for incorporation into the full LBIE Capital return integrating with Large Exposures, Market and Operational Risk.
- III. Report Purpose Explanation:**
The LBIE Capital report has been designed to present LBIE Internal Model Method generated exposures with the application of F-IRB risk weights to the Regulatory Reporting team. This report provides counterparty credit risk capital charge for LBIE and LBKR, components of the charge including EAD, RWA, Capital Requirement (K) as well as client static data to accompany the exposure information.
- IV. Location:** G:\CORP_CRE.01\European Credit Risk Reporting\LBIE Capital

The LBIE capital report filters exposures the firm is running in the LBIE entity including FID, FX, CRD, financing, cash forwards, money market and non performing,. It currently excludes Equity Derivtiave exposures as these are covered outside of the Internal Model Method of exposure generation.

3.12. Stress Capital Reporting

- I. **Report Submission:** Monthly
- II. **Recipients:** Available to Global Credit Risk Management
- III. **Report Purpose/Explanation:** Stress testing and scenario analysis are key elements of a robust risk management practice. They provide complementary information to statistical measures of risk such as MPE and EE, allowing the assessment of specific scenarios and extreme events such as LTCM or 9/11 on the Firm's risk profile. By using an appropriate suite of stress events and scenarios, senior management and risk management personnel can better assess the risks facing a given business or sector, allowing them to identify risk concentrations and plan mitigating action. The Firm considers both the market and credit risks resulting from such events. A portfolio of Market Risk scenarios is used to evaluate the vulnerability of the firm to extreme market events.
- IV. **Location:** The report is saved to: File Location/ Leh\Eu\Fin\Groups\Fin\M.P.E London\Top Risk Europe\Stress\Stress Capital and Exposure

Lehman Brothers Credit Risk stress testing is a framework to identify, measure and report the impact of specific stress scenarios on the credit risk profile and capital of the Firm and its component legal entities. Specifically it has the capability to provide stressed exposure and credit rating analysis at the following levels:

Current Assumptions: Using 2 PD downgrade, excluding intercompany accounts and prime brokerage.

1. Setting a user defined threshold for the incremental Capital to determine the top scenarios and representing it in the following way:
 - Product Analysis
 - Rating Analysis
 - Sector Analysis
 - Top 5 Investment Grade Counterparties
 - Top 5 Sub-Investment Grade Counterparties
2. Sector Specific Analysis: Focuses on one sector e.g. Hedge Funds and compare the impact using PD stress of -1 to -4.
3. Top 5 Counterparty exposures assuming next margin call is not made.
4. Wrong Way Risk:
 - Top 3 scenarios by Sector
 - Top 3 scenarios by Region
5. Combined market and credit risk stressed capital

Report production schedule

- Monthly credit and market stress reporting to European Head of Credit and European Head of Risk
- Quarterly credit stress reporting to CRMC
- Quarterly credit/market stress reporting to ERC
- Formal scenario ratification is performed quarterly
- Reports should be circulated to credit analysts as part of the monthly review process.
- Prior to distribution reports be signed off by specific individuals within European Credit Risk – either European Head of Credit Risk Analytics or Credit Risk Reporting)

3.13. European Risk Snapshot

- I **Report Submission:** Weekly
- II **Recipients:** European Risk committee and relevant managers within Risk Management and Finance.

III Report Purpose/Explanation: This report provides a summary level of key European credit and market risk exposures to facilitate the review of material risk exposures, position concentrations and risk taking activities.

IV Location: Report is saved in: [outlook:/Public Folders/All Public Folders/London/CorpCred/Credit Risk Reporting/European Credit and Market Risk Snapshot](#)

Historical versions are saved in: \\Leh\Eu\Fin\Groups\Fin\M.P.E London\Top Risk Europe\European Market and Credit Risk Managed

Credit Risk Snapshot

The Credit Risk section provides a business snapshot of CCE, MPE and inventory exposures. The report consists of:

- I. **Counterparty Credit Risk Exposures:** The data comes from the Global CCE and MPE report and is filtered for European risk and consists of the following sections:
 - Regional Analysis showing CCE for Asia, Europe and USA
 - European CCE by client role.
 - European CCE by Products.
 - European CCE by Internal Credit Rating.
 - Top 5 European Investment and Sub-Investment grade counterparties by CCE
 - Top 10 European Investment and Sub-Investment grade counterparties by MPE
- II. **Top Sector Concentrations:** The data comes from the Global Risk Report and reports all European CCE and Inventory positions by sector.

Market Risk Snapshot

The Market Risk section provides a snapshot of market risk running within the European desks.

- III. **Risk Appetite and Value at Risk (VaR):** The data comes from Market Risk and reports the European Fixed Income and Equity Risk Appetite and Value at Risk.
- IV. **Top Equities Market Risk:** The data comes from Market Risk and reports Top European Equity Positions (\$mm).
- V. **Top Fixed Income Market Risk:** This data is accessed from the Europe FID Risk section within 'Lehman Risk' and is updated on a daily basis. It shows the following:
 - Interest Rate Risk in EUR, GBP and USD.
 - Credit Spread Value.
 - Foreign Exchange Risk in EUR, GBP, JPY and CHF.
- VI. **Top Issuer Concentrations:** This data comes from Europe FID Risk within 'Lehman Risk' and reports the Top European Issuer Concentrations. The data is broken down to show the Positions (\$mm) of the Issuers in their respective Industry.
- VII. **Commitments:** This data comes from Market Risk and originates from the Pipeline Report. It consists of the following sections:
 - Expected share of Real Estate and Structured Finance Commitments.
 - Expected share of Corporate High Grade and High Yield Commitments.
 - The Report also details any weekly changes in the Commitments.

Hedge Fund and EMG

- I. **Hedge Fund MPE:** This data comes from Market Risk and reports the Largest 10 Hedge Funds by MPE, combined with a Weekly change and Product Breakdown.

- II. **Emerging Market:** This data comes from Europe FID Risk within ‘Lehman Risk’ under the ‘EMG Credit’ tab and ‘FX Europe’ tab and consists of the following areas:
- Market Risk (FI) of the Emerging Market Issuers by ‘Credit’ Position and ‘Foreign Exchange’ Position.
 - Top 10 Emerging Country Exposures based on ‘Estimated Loss Potential’.

3.14. LBIE Risk Report

- I. **Report Submission:** Weekly
- II. **Recipients:** The LBIE Snapshot is presented to the weekly European Risk Committee allowing the monitoring of market and credit risk exposures the Firm is running in the LBIE entity (including branches e.g. LBKR – the Korean branch of LBIE). The report is also circulated to relevant managers within Risk Management and Finance. Additionally it is presented to the FSA on a monthly basis.
- III. **Report Purpose Explanation:**
This report provides a summary level view of key LBIE credit and market risk limits and exposures. The LBIE Snapshot reports market risk VaR by business unit, top inventory exposures, top credit risk exposures by current, potential and total exposure. It also presents exposure concentrations by sector, region and business line. LBIE’s capital base is included for reference.
- IV. **Data Source:** The global CCE MPE Report, reference 3.4.

The LBIE snapshot filters exposures the firm is running in the LBIE entity. The report excludes certain product groups and industry types. More specifically, it excludes Hedge Funds, Intercompany Country, LSPV & Central Government Departments from industries and Money L/F exposures from products.

The report contains concentrations by industry sector, credit regions and top exposures on a MPE, CCE and Total Risk basis cut by rating grade.

- IV. **Location:** <G:\M.P.E London\Top Risk Europe\LBIE>

4. Country Risk Report

4.1. Country Risk/Sovereign Risk Report

- I. **Report Submission:** Daily
- II. **Recipients:** Sovereign Risk Team, EMG Credit Risk Team and selected management
- III. **Report Purpose/Explanation:** The Country Risk Report summarizes the risk that a country will not be able to honor its financial commitments. When a country defaults it can harm the performance of all other financial instruments in that country as well as other countries.

IV. **Locations:**

The Country Risk Report is stored in various locations.

1. Q:\Credit\COMMON\Country Risk\Reports\Reports 2007. The report is saved in this location twice. One file is a full version and the other file is a short version with deleted regional worksheets.
2. Q:\Credit\Sovereign Risk\RiskReports\2007.
3. Q:\Credit\Home Page Reports. The file always replaces the “Current Country Risk Profile” file within that folder area.

Sovereign Risk Management is responsible for monitoring the Firm’s risk to crisis events and substantial market shocks in emerging market and select developed market countries and regions. The Firm is subject to country risk as a result of major market fluctuations and to four primary types of risk events: default; convertibility risk; currency devaluation; and nationalization of assets. CRR provides reports to monitor the risk related to country risk or the markets reaction to these possible events. Sovereign Risk Management works closely with Market Risk Management and CRR to determine country risk exposures and appetite.

The Country Risk Framework measures and controls the Firm's combined market and credit risk arising from a crisis in a given country or region. Under the framework, the Firm has the capability to monitor exposure to any emerging market or select developed country, as it deems necessary.

The Country Risk Report consists of fourteen individual sections.

- Cover
 - a. Consists of the main distributions list, extended distribution list, and primary contacts. Since this report is generated on a daily basis the date is always updated to the close of business date
- Country Summary I
 - a. Describes all of the regions and countries Lehman Brothers Internal Credit rating, S&P rating, and Moody's rating. Followed by the Current Country Stress, Previous Country Stress, Change CS, CS Recommended Threshold, Country Regional Contagion, Regional Contagion
- Country Summary II
 - a. This view displays exposure on all long and short positions for external and local markets. This data includes exposure in our bond, and derivative populations for external and local positions. Local positions also include long and short FX exposure. For informational purposes we also provide Non-EMG investment grade/non investment grade counter party exposure for both external and local positions.
- Product Summary Global
 - a. Consists of the Country, Data, Default Swaps, FI Finance, FI Finance Local Ccy Repo, FI Options, FX, Inventory, Total Return Swaps, and Grand Total.
- Product Asia
- Product Europe
- Product Latin
- Product Middle East
- Equity Report
 - a. Contains the Country and Business Line. The Business Line consists of Cash, Convertibles, Equity Strategies, Event Driven, Portfolio, Volatility, Volatility Flow, and Total. Those categories are further divided into three products: Delta, Gamma, and Vega.
- Non-Correlated Exposure
 - a. Contains information regarding the Regions, Countries, and Product Group. The Product Group consists of FI Financing, Derivatives
- External Markets ARF
- Local Market ARF
- Country Tiers Previous Year
- Risk Measurement Key

Definitions:

VaR- variance at risk 95% confidence interval, 1 day holding period, 4 yrs historical simulation (\$M)

Positive equals a loss, Negative equals a gain

Risk Appetite- 95% confidence interval, 1 year holding period, 4 yrs historical simulation (\$M)

VoDo - Value on Default

VoDMR- Value on Default, Market Recovery

Delta- FX Delta

Gamma- Change in DELTA for 1% change in underlying (\$M)

Vega - P&L for a 1% change in yield volatility [from 14% to 15%] (\$M)

Theta - Time value for holding position to Maturity

EQ Delta - Net Equity exposure (\$M)

EQ Gamma - Change in DELTA for 1% change in underlying (\$M)

MPE - Market Potential Exposure, Positive equals a loss, Negative equals a gain

PME – Past Margin Exposure, Positive equals a loss, Negative equals a gain

4.2. Indian Risk Report

- I. **Report Submission:** Weekly
- II. **Recipients:** India Risk Management
- III. **Report Purpose/Explanation:** The CRR generates a small portion of the India Risk report. Three of the pages of the report are generated by CRR in NY and sent to the CRR team in Mumbai
- IV. **Locations:** Q:\Credit\COMMON\Country Risk\Reports\IndiaReport_2007

CRR creates the following pages of the entire Indian Risk Report

- Summary
- CCE and
- CR Business

The India Summary page provides an outline of India Market Risk Summary (Asia), India Credit Risk CCE, and India Country Risk Product Summary (Global). Lastly the summary page provides information regarding the CS Current Exposure for India for the close of business date, Global Trading Strategy (MTM, CS Equivalent, and Total India Country Risk CS Current Exposure including Risk Arb), Equities.

India Credit Risk CCE is generated as of the date, followed by a client code, counterparty, product family, product ground, legal entity, and collateral, MTM Exposure, Buy Notional, Sell Notional, Notional, and Legal Country.

India Country Risk by Business (Global) is the last page of the report that CRR generates which describes various business levels, data, inventory, FX, default swaps, FI Finance and FI Options. A sum of each business level category is also divided into concentrations and deal CS.

4.3. Daily Dashboard Report

- I. **Report Submission:** Daily
- II. **Recipients:** Sovereign Risk Americas; EMG Credit Team
- III. **Report Purpose/Explanation:** The Daily Dashboard reports the Top 10 Investment Grade Exposures and the Top 10 Sub- Investment Grade Exposures. Each exposure lists the country, ICR (internal credit rating), S&P rating, Moody's rating, Current Country Stress, Previous Country Stress, Change Country Stress and Percentage Change for each country. Two countries, India and Korea have Country Stress values that are equal to the Risk Arb value. The Risk Arb portion for India and Korea are suppressed in the Country Risk Report (CRR) which is sent to the full distribution list. India and Korea country stress values are updated individually.
- IV. **Locations:** Q:\Credit\COMMON\Country Risk\Reports\Daily Dashboard 2007

The Daily Dashboard report is also included in the Chief Risk Officer Report. A snapshot of the daily dashboard top 10 and bottom 10 investment grade exposures are included in the CRO report.

5. Excess & Limit Management Reports

5.1. Daily Excess Report

- I. **Report Submission:** Daily
- II. **Recipients:** Global Credit Risk Management
- III. **Report Purpose/Explanation:** Notional excess for financing, forwards and FX limits
- IV. **Location:** Credit, Corp_CRD\Excess Reports

The Daily Excess Report shows accounts that have exceeded their allotted limit. This report is used by analysts to determine whether to provide accounts with higher limits or discontinue trading activity. There are two parts of the Daily Excess Report. The second tab of the report provides details on the accounts exhibiting excess. The first tab of the report groups the accounts by the analyst covering the accounts with excesses.

Headings

- i. Analyst
- ii. Location Code
- iii. Product Family
- iv. Product Group
- v. Product Sub Group
- vi. Legal Entity
- vii. Limit Group
- viii. Client Name
- ix. Client Role
- x. Internal Rating
- xi. Industry
- xii. Limit Type
- xiii. Notional Limit
- xiv. Total Notional Outstanding
- xv. Excess Notional Limit
- xvi. Excess Notional Outstanding
- xvii. Over Limit %
- xviii. Excess
- xix. Maturity
- xx. Legal Residence
- xxi. AUM
- xxii. Age

5.2. MPE Excesses

Report Submission: Weekly

Recipients: London Credit Analysts

Location: G:\CORP_CRE.01\European Credit Risk Reporting\Excess Reports\2007 Excess Reports

- **Report Purpose/Explanation:** The MPE Excess Report shows Counterparties that have insufficient Credit Limits to cover the current MPE excess. The report details the MPE for each time bucket and the corresponding Credit Limit. Each time bucket that displays an MPE greater than its Limit is highlighted in a different colour. Each Counterparty has a brief comment outlining whether a Credit Limit Increase is being 'Investigated', is 'Pending' or has been 'Proposed'

The report is set out with the following headings;

- Analyst
- Counterparty

- Internal Credit Rating
- Legal Entity
- Product Group
- Maximum Potential Exposure
- Limit
- Age
- Comments

5.3. Global Overdue Report

- I. **Report Submission:** Monthly
- II. **Recipients:** Credit Risk Management.
- III. **Report Purpose Explanation:** The Overdue Reviews and the Rating Refresh reports show all counterparties, which are overdue for a review or a rating refresh, respectively. Both reports consist of three parts, the summary tables, trend analysis and the analyst breakdown. The summary tables present the count of counterparties with material exposure, which are due for a review or a rating refresh. The tables are at an analyst level grouped by region. The trend analysis section shows counts of overdue reports and rating refreshes monthly from Jan 2006 to present. It also includes trends on sums of current and potential exposures for all counterparties due for a Review or a Rating refresh. Finally, the analyst breakdown provides the data set, which consists of analyst names, location codes, counterparty names, ratings, industry names, last review and next review dates, current and potential exposures as well as an overdue and a materiality flag.

Data Source: CWS

Filters: The report excludes Personal Holding Companies and High Net Worth individuals rated iB- as these are auto rated under the HNWI policy.
- IV **Location:** [..\Outstanding Review Reports\Global](#)

5.4. DSL Report

- I. **Report Submission:** Daily
- II. **Recipients:** Global Credit Risk Management
- III. **Report Purpose/Explanation:** Provides details of settlement limit excesses for the next five days
- IV. **Location:** **Credit/DSL Excess Report**

Overview: This report is a daily summary of counterparty FX trade exposure. This report determines FX trade settlement violations. Counterparties are given DSL limits. These DSL limits are allowances that certain counterparties can not surpass. This report contains counterparties who have exceeded this DSL limit, and the amount they have exceeded this limit. This DSL report is used as a tool in order to develop strategies in order to combat complications as a result of DSL excess.

Headings:

- Analyst Name: Name of credit analyst who covers the client
- CLS: Shows whether transactions are cleared through CLS clearing house *as indicated by a "Y" for Yes or "N" for No*
- ICR: Internal Credit Rating: A credit rating assigned to a counterpart by the credit analyst who covers the client
- Industry: Indicates what sector of business this client is in
- Legal Entity: Indicates which Lehman entity the counterpart is trading against (LBI, LBCC, LBIE, LBSF etc)
- Product Group: Indicates which product the client is trading - Forex and Fider indicate foreign exchange trading
- Limit Excess: Indicates which limit is in violation - for our purposes this limit is always the DSL limit
- DSL Limit: The amount that a client is allowed to settle on an unsecured basis with us on any given day.

- DSL1 Settlement: This column represents the total FX settlement amount that a client may have today (if spreadsheet is dated for close of business the day before)
- DSL2 Settlement: This column represents the total FX settlement amount that a client may have tomorrow
- DSL3 Settlement: This column represents the total FX settlement amount that a client may have 2 days from now
- DSL4 Settlement: This column represents the total FX settlement amount that a client may have 3 days from now
- DSL5 Settlement: This column represents the total FX settlement amount that a client may have 4 days from now
- Credit Reporting Comments: Gives a brief description of the status of a particular transaction.
- Analyst Response: This column offers credit analysts a place to respond to our comments for resolving the settlement excess.
- Analyst Comments: This column offers credit analysts a place to add general comments regarding the settlement violation.

5.5. MBSF Limit Report

- V. **Report Submission:** Monthly
- VI. **Recipients:** Responsible Credit Analyst and Regulatory Controllers
- VII. **Report Purpose/Explanation:** Summarizes the MBSF limits and uses 4% of CCE to measure against the limit
- VIII. **Locations:** \\leh\fid\groups\FI_RISK_CREDIT\Credit\CORP_CRD\Exposure Reports\Mortgage Backed Securities\TBA NYSE Rule 431

The MBSF Limit report is created for Regulatory Controller use. There must be a capital allotment for any counterparty that exceeds their MBSF limit in the amount of the limit excess. MBSF limits are set in notional values by the Credit Analysts. The Regulatory Control group uses 4% of the CCE to measure against the notional limit that is set by the Credit Analysts. Any excess is expected to be reserved for in capital.

5.6. IA Report

- I. **Report Submission:** Weekly
- II. **Recipient:** Credit Risk Management Americas; Credit Risk Management Europe
- III. **Report Purpose/Explanation:** The IA report shows account exposures. The report organizes the accounts by Total Notional, Product, and Disclosed exposure.
- IV. **Location:** Q:\Credit\CORP_CRD\Excess Reports\2007 IA Reports\ "*current month*"

Default limits for product groups are set up for underlying principals by the CWS process in accordance with the IA Policy. Limits for the principals are calculated with reference to the Assets under Management and the internal rating of the IA agent. The IA report monitors the notional exposures versus the default limits generated for the principals. The report provides details for the analysts to use to update limits and serves as a base for undisclosed principal information.

5.7. New Client Report

- I. **Report Submission:** Weekly
- II. **Recipients:** Global Credit Risk Management
- III. **Report Purpose/Explanation:** Alerts the Analysts of new clients that are assigned to them.
- IV. **File Location:** Credit/ Common/ CLU/ Unmatched

The New Client Report is run against the CWS Clients database via an Access Query. The report is produced weekly and lists all Clients that have been created over the past week. It includes the basic client information along with analyst, ICR, SIC Code, Account Number (if trading) as well as the Name of the Agent, if there is one. The report is sent out to all Credit Analysts globally.

5.8. Unmatched Client Report

- I. **Report Submission:** Daily
- II. **Recipients:** India Credit Risk
- III. **Report Purpose/Explanation:** Contains a listing of unmatched accounts (no links). Helps India Credit Risk Reporting create account links for these accounts to enable trades to be made for that principal. This report of unmatched accounts is arranged by MTM
- IV. **File Location:** Q:\Credit\COMMON\CLU\Dailly Accounts\Unmatched list\ "current year" Unmatched List's

The Unmatched Report is created via a download from the CWS Exposures page each day. The report notes all Finance, FX, Cash Forward and Derivative account numbers that have open trades but do not have an association to a Client either in an Agent or Principal capacity. These account numbers are then researched and a link to a Client is made in GARM. The majority of the account numbers that appear on this report are account numbers that were opened prior to the EAM account opening processes or are not part of the EAM workflow, which now require the Client to be identified prior to opening the account number. When an account number that is not associated to a Client begins to trade, the account will be captured on this report.

6. Reconciliation & Disclosure

6.1. Monthly OTC Derivative Reconciliation (See Appendix fig.1)

- I. **Report Submission:** Monthly
- II. **Recipients:** External Reporting and Financial Reporting
- III. **Report Purpose/Explanation:** Derivative Disclosure 10Q
- IV. **Location:** Credit/ Corp CRD/ Exposure Reports/ Credit Risk Profile/ Month End

At each month end the Credit Reporting Group provides files of all derivative trades in CWS by Legal Entity to each Controller responsible for the legal entity. The aggregate counterparty exposure is also provided to each Legal Entity Controller and to the Consolidations Group. A reconciliation of the CWS trade population is conducted by the Controllers and issues are noted back to Credit Reporting to help resolve any trade population, market value differences or netting aggregation variations. All definitional differences that result from accounting convention of OTC Derivatives versus the Credit Risk definition of derivatives are itemized on the reconciliation report. Any adjustments to missing or incorrect valuations that either the Credit Department or the Finance Controllers agree to update will be noted in the columns prior to the final agreed OTC derivative balance that will be used for the MD&A Disclosure. When the Finance defined OTC Derivative balances are completely reconciled, the Credit Risk Reporting group applies the resulting trade population through the maturity buckets process that presents positive mark to market trades in specified maturity buckets that are used in the disclosure in the MD&A. Credit Risk Reporting also receives a file of counterparty identified Repo 105 balances in order to provide the ICRs to External Reporting. The final process is for the reserve balances to be applied to the maturity buckets and this information is prorated by External Reporting based on the maturity demands that resulted from the OTC derivative trades. The final profile is reviewed by Credit Risk Reporting and variance comments are prepared for any changes over 10% from the prior quarter. The results of the maturity breakout and the variance analysis are presented to the Chief Risk Officer for sign off and validation prior to the release to External Reporting for inclusion in the MD&A. Any updates to the definition of OTC derivatives will be included in this document going forward and all divergence in accounting definitions and credit risk definitions will be highlighted for control and reconciliation.

Reconciliation Spreadsheet Columns

- I. Legal Entity Controllers
 - *Balance Sheet* – Amount booked to the balance sheet using Hyperion account ranges 11083 and 11025 at the close of each month. The Consolidations group is responsible for population.
 - *Passed G/L Adjusted (PAJE)* – known GL adjustments due to errors in GL, post month end book closing. Requires a written proposed journal adjustment entry (PAJE) sent from the Controller to Consolidations to be accepted to this column.

- Revised GL balance after PAJE – Balance Sheet plus any PAJE adjustments.
- Security Collateral – Controllers do not book any security collateral within counterparty transactions. At month end, Controllers uses a Cameo extraction for the security collateral values held by their counterparties in each Legal entity.
- Cross Product Collateral Net Down – LBIE only. Due to the lack of any technological feed of CMNAs, Credit Risk makes manual adjustments for these agreements each day using the LBIE daily Cross Margin Netting report received from the Derivative Margin Department. LBIE Controller at month end removes the overstated exposures.
- Exchange traded and LCH – Since this disclosure is for OTC derivative only, any exchange traded and clearing house positions must be removed from the Hyperion values.
- Triparty collateral – Collateral housed at Custodians where balances are not captured by Hyperion at month end. The exposure generated by the missing collateral balances is removed at month end.
- OTC Derivative exposure per Balance Sheet – Net of all the balance sheet adjustments post PAJE adjustments.

II. Credit Risk Reporting

- OTC Derivatives Exposure per CWS – Credit Risk Exposure after the month end sign off for overrides and analyst adjustments.
- Over Pledged Collateral – Exposure generated by the Credit System on collateral pledged to a counterparty where the MTM is either a receivable or where the MTM is a payable that is less than the pledged collateral.
- CP Netting – Adjustments made to the Credit values based on definitional differences in aggregation logic in CWS versus FASB rules.
- SPV vs. Inter company – Adjustment made to the Credit values based on definitional differences between a special purpose vehicle counterparty being designated as intercom any according to Accounting Policy rule FIN 46R.
- Equity Warrants – Credit adjustment based on the inability of the Credit System to identify and extract equity warrant positions from the inventory position feeds.
- CWS Adjustments Other – Includes incorrect Credit Valuation adjustments (non recurring – MTM timing, trade population breaks)
- Portfolio Valuation – Credit and Reserve values that through Portfolio Valuation models are applied to the derivatives on the balance sheet at month end.
- Repos reclassified as derivatives – Repo 105 or Repo 108 – LBIE only. Repos from all three regions that are reclassified as derivatives on the balance sheet based on the SFAS 140 rule for derivatives.
- Adjusted OTC Derivative Exposure per Credit – Net of all adjustments following the month end sign off values. This total is used to allocate the derivatives into maturity buckets for the 10K/10Q OTC Derivative Disclosure.

Difference between CWS and GL - Difference between OTC Credit Exposures per Balance Sheet minus the Adjusted OTC Derivative per Credit.

Unrecognized

- MTM Timing 11025 – Product Control adjustments made on a top line (ledger) basis without trade or counterparty detail for support of an adjustment. Credit Department cannot adjust since there is no counterparty, product or maturity detail.
- MTM Break CWS vs GL - Individual breaks on a trade in a given counterparty that results in an overall exposure variation between Credit and the GL. Unresolved differences in the valuation for the counterparty are posted to this column.
- Trade Population Difference - Individual trade breaks where a trade id or trade leg does not exist in either the GL or CWS that results in an overall exposure variation between Credit and the GL. Unresolved differences in the valuation for the counterparty are posted to this column.
- Counterparty Netting Difference – Variations in aggregation logic between Credit and the GL. Examples (different account ranges for FX, different usage of entity master agreements)
- SPV related issues – Any breaks on Special Purpose Vehicles in a given Legal entity not related to FIN 46R.
- FX Fails Bank Rec from Treasury – Balances received from bank statements post month that cannot be attributed to a counterparty but can be attributed to a Legal entity.
- Unexplained – Any further values that could not be resolved or reconciled between Credit and Controllers.

- Net – Copy of Difference between CWS and GL – Balance used by Consolidations to calculate the threshold given by external reporting upon completion of the reconciliation.

Credit Risk versus OTC Derivative Disclosure Definition Differences

- Derivatives in Balance Sheet – Anything booked in Hyperion in the 11083 or 11025 account ranges.
- Derivatives in CWS – Product Family equal to Equity Derivatives, FID/CDS, Forex and Commodities and Other (Cash Forwards)
- Mortgage Backed Forwards – Credit assumes netting for all Mortgage Backed Forwards. In particular, all member counterparties of the MBSCC are assumed to be able to net based on the rules of the exchange. FASB rule 133 defines that only counterparties with signed MSFTAs can be netted. This difference in definition results in significantly divergent balances for MBSfs between the Disclosure results and the Credit Department exposure.
- Over Pledged Collateral – 10K/10Q disclosure rules state that only assets are to be disclosed on any derivative position. Since the over pledged collateral is not viewed as an asset receivable, these balances are not included in the OTC Derivative balance for the OTC Derivative Disclosure. This difference results in potential large divergence in with the Credit Department exposure.
- Repo 105 - For Financial reporting, a repo should be re-characterized from a secured financing transaction to a sale of inventory and a forward to repurchase securities, provided certain criteria in SFAS 140 are met. The Controllers group manages the definition and reclass and provides the listing to Credit Risk.

6.2. Maturity Buckets

- I. **Report Submission:** Quarterly
- II. **Recipients:** External Reporting, Financial Reporting, and Senior Credit Management
- III. **Report Purpose/Explanation:** Prepared after the Derivative Disclosure if finalized and provides details for the maturity distribution in the 10Q
- IV. **Location:** Corp_CRD\Exposure Reports\Credit Risk Profile

MATURITY BAND- QUARTERLY REPORTING

The Maturity Analysis is calculated for OTC Derivatives: FID/CDS, Equity Derivatives, Forex & Commodities, Other. The balances include result from the reconciliation and contain all the Credit Approved Adjustments. These Maturity Bucket results are then used to pro-rate the Credit Reserve Portfolio Evaluation Adjustments which is added to the Repo 105 values to complete the 10Q/K reported Net Credit Exposure values.

For Product Families: FID/CDS, Equity Derivatives and Others

The access queries in Q:\Credit\ Corp_Crd\Exposure Reports\Credit Risk Profiles\maturity lines\maturity1.mdb run trade detail for those FID/CDS and Equity Derivatives counterparties from the Final CCE report that have (+) CCE, and then they allocate the positive trades only as percent of total positive trades so that the maturity breakout is calculated as portion of total CCE

Ex. ABN AMRO BANK NV has 100mm CCE, with 4 trades as follows:

25mm	<1Y	allocated to <1Y bucket as $(25/200)*100 = 12.5mm$
175mm	1-5Y	allocated to 1-5Y bucket as $(175/200)*100 = 87.5mm$
(75mm)	>10Y	not included (-) trade
(25mm)	5-10Y	not included (-) trade

The Final Report is displayed below by rating and then by product.

ASSETS

Ratings	Years to Maturity				Total
	<1 Yr	1-5 Yrs	5-10 Yrs	>10 Yrs	
AAA					
AA					
A					
BBB					
BB					
B & <B					
Not Rated					
Total					

OTC Derivative Contracts	Years to Maturity				Total
	<1 Yr	1-5 Yrs	5-10 Yrs	>10 Yrs	
<i>Interest rate, currency and credit default swaps and options</i>					
<i>Foreign exchange forward contracts and options</i>					
<i>Other fixed income securities contracts</i>					
<i>Equity Contracts</i>					
Total					

The Finalized data is sent to External Reporting for inclusion in 10Q/K to overlay the pro-rates values of the Credit Reserve Portfolio Adjustments as well as the Repo 105 breakout.

6.3. Analyst Call Report

- I. **Report Submission:** Quarterly
- II. **Recipients:** Senior Risk Managers and then to External Reporting.
- III. **Report Purpose/Explanation:** Press release file at the end of a quarter to reflect the firm wide exposure for CFO. This report is due the first Wednesday of every quarter. Subset of this data is found in final month end CCE report, but does not include INRR counterparties and product line
- IV. **Location:** Corp_CRD\Exposure Reports\Credit Risk Profile

- Headings

Total Credit Exposures

- a. *Total Credit Exposures (net collateral):* CCE final value – in data tab of analyst call file excluded MFML & INRR
- b. *Investment Grade:* Rating used to classify investment grades. These different rating titles are: IA, IAAA, IBBB, IBBB-, IBBB+
- c. *Non-Investment grade:* Rating used to classify non-investment grades. These different rating titles are: DORM, IBB, IBB+, ICCB, ID and (blank)
- d. *Non-investment grade % of total:* Ratings =D13/GETPIVOTDATA ("CCE Exposure", \$A\$3), =non investment total/ CCE grand total from pivot table in ratings tab\
- e. *# of counterparties:* CP Count, RANGE WHERE CTPY HAS CCE.INCLUDING ZERO - ZEROS HAVE Zeros.
- f. *# of Investment grade counterparties:* Cp Count, FILTER GRADE COLUMN ONLY W/INV and GRADE AND COUNT INCLUDING ZERO
- g. *# of non-investment grade counterparties:* CP COUNT, FILTER GRADE COLUMN W/NON INV GRADE & BLANKS & COUNT
- h. Single largest current credit exp (non-invt grade): CP COUNT, TAKE TOP CTPY'S CCE EXPOSURE

Hedge Fund Counterparty Exposure

- a. Total credit exposure on MTM basis: HF DATA ONLY, MTM - GREATER THAN 0
- b. Total collateral (primarily cash and US Gov't: HF DATA ONLY GREATER THAN ZERO AND COLL - GREATER THAN zero
- c. Total current credit exposure: HF DATA ONLY, TAKE OFF FILTERS AND JUST TAKE THE TOTAL
- d. # of counterparties: HF COUNT, COUNT COUNTERPARTY NAME –INCLUDING ZERO
- e. Largest single current credit exposure: HF COUNT, TAKE TOP CTPY'S CCE EXPOSURE

Emerging Market Counterparty Exposure (1)

- a. Total credit exposure on MTM basis: HF DATA ONLY, MTM - GREATER THAN 0
- b. Total collateral (primarily cash and US Gov't: HF DATA ONLY RESULT OF MTM - GREATER THAN Zero
- c. Total current credit exposure: HF DATA ONLY, TAKE OFF FILTERS AND JUST TAKE the total.

6.4. Liquidity Funding Report

- I. **Report Submission:** Monthly
- II. **Recipients:** Treasury Department
- III. **Report Purpose:** Calculates how much more collateral would have to be pledged if Lehman’s rating would be decreased incrementally. There are two tabs: Final View - AAA and Final View -<AAA
- IV. **Location:** \\leh\fid\groups\FI_RISK_CREDIT\Credit\CORP_CRD\Risk_Reports\Liquidity Funding

Final View - AAA shows the impact of a one, two or three-notch downgrade on our AAA entities LBFP and LBDP. These entities are independently capitalized.

Final View - < AAA shows the impact of a one, two or three-notch downgrade on our non-AAA legal entities.

These results do not incorporate potential collateral requirements for those CDO structures with special collateralization language outside of the ISDA agreement.

Scenario Analysis

Scenario	Termination Event	Sliding Scale – Unsecured	Sliding Scale – Minimum Call
1	No	Yes	No
2	No	No	Yes
3	No	Yes	Yes
4	Yes	Yes	Yes
5	Yes	No	No
6	Yes	Yes	No
7	Yes	No	Yes
9999	No	No	No

Breakdown for the equations used for each scenario in the scenario tab:

Scenario 1: If the unsecured amount at each notch downgrade is equal to -1 then there is no impact on the portfolio (equals 0 at each notch), otherwise if the MTM minus the variance collateral is under threshold (which means the sum of the unsecured amount at each notch downgrade plus the leman minimum call amount) than there is

no impact or the cell is equal to 0, else the impact at each notch downgrade is equal to the sum of the unsecured amount plus the MTM, subtracting the variance collateral.

- Scenario 2: If the Current minimum call amount is equal to -1, there is no impact (equals 0 at each notch), otherwise if the MTM minus the variance collateral is under threshold (which means the sum of the unsecured amount at each notch downgrade plus the leman minimum call amount) than there is no impact or the cell is equal to 0, else if the MTM – Variance crosses the threshold then the impact is the amount MTM – variance collateral is over the Lehman unsecured amount t at each notch downgrade.
- Scenario 3: If both the Unsecured amount and the Current Minimum call amount are equal to -1 then there is no impact, but if the MTM minus the variance collateral is under threshold there is also no impact, if it is greater than the threshold then the impact at each notch downgrade is equal to the sum of the Unsecured amount plus the MTM less the variance collateral at each notch downgrade.
- Scenario 4: If there is no Moody's Rating for the termination event then there is no impact (equal to 0) otherwise if Lehman is downgraded by 1 notch and Lehman Moody's rating falls below the Moody's rating specified by the termination event then take the net payable ($\min(0, \text{mtm} - \text{variance collateral})$) as the 1 notch funding impact. If the Lehman Moody's Rating for the corresponding Rating Number on the rating map tab plus 10 at each downgrade (a Rating Number value of a 1 notch downgrade) remains equal or above the termination event rating the use the logic in Scenario 3 to calculate the value of each notch downgrade. [If both the Unsecured amount and the Current Minimum call amount are equal to -1 then there is no impact, but if the MTM minus the variance collateral is under threshold (in this case: unsecured after 1 notch downgrade + minimum call after 1 notch downgrade) there is also no impact, if it is greater than the threshold then the impact at each notch downgrade is equal to the sum of the Unsecured amount plus the MTM less the variance collateral at each notch downgrade.]
- Scenario 5: If the Moody's Rating for the termination event is blank then there is no impact to the portfolio at each notch downgrade, else if the Lehman Moody's Rating for the corresponding Rating Number on the rating map tab plus 10 at each downgrade (a Rating Number value of a 1 notch downgrade) remains equal or above the termination event rating the use the logic of the minimum of no impact or the difference between the MTM and variance collateral else if it is below, then there is no impact at all.
- Scenario 6: If there is no Moody's Rating for the termination event then there is no impact (equal to 0) otherwise if Lehman is downgraded by 1 notch and Lehman Moody's rating falls below the Moody's rating specified by the termination event then take the net payable ($\min(0, \text{mtm} - \text{variance collateral})$) as the 1 notch funding impact. If the Lehman Moody's Rating for the corresponding Rating Number on the rating map tab plus 10 at each downgrade (a Rating Number value of a 1 notch downgrade) remains equal or above the termination event rating the use the logic in Scenario 2 to calculate the value of each notch downgrade. [If the Current minimum call amount is equal to -1, there is no impact (equals 0 at each notch), otherwise if the MTM minus the variance collateral is under threshold (which means the sum of the unsecured amount at each notch downgrade plus the leman minimum call amount) than there is no impact or the cell is equal to 0, else if the MTM – Variance crosses the threshold then the impact is the amount MTM – variance collateral is over the Lehman unsecured amount t at each notch downgrade.]
- Scenario 7: If there is no Moody's Rating for the termination event then there is no impact (equal to 0) otherwise if Lehman is downgraded by 1 notch and Lehman Moody's rating falls below the Moody's rating specified by the termination event then take the net payable ($\min(0, \text{mtm} - \text{variance collateral})$) as the 1 notch funding impact. If the Lehman Moody's Rating for the corresponding Rating Number on the rating map tab plus 10 at each downgrade (a Rating Number value of a 1 notch downgrade) remains equal or above the termination event rating the use the logic in Scenario 1 to calculate the value of each notch downgrade. [If the unsecured amount at each notch downgrade is question to -1 then there is no impact on the portfolio (equals 0 at each notch), otherwise if the MTM minus the variance collateral is under threshold (which means the sum of the unsecured amount at each notch downgrade plus the leman minimum call amount) than there is no impact or the cell is equal to 0, else the impact at each notch downgrade is equal to the sum of the unsecured amount plus the MTM, subtracting the variance collateral.]

Scenario 9999: A no-impact situation where it is automatically set to 0 for all notches at this scenario as there is no termination event or either sliding scale for the unsecured amount or minimum call amount provision in the agreement.

Headings:

- a. (Column K) Upfront Amount: initial collateral
- b. (Column L) Variance Amount: Collateral required when market moves
- c. (Column M) Current Funding Impact: Current day impact based upon scenario. The amount of collateral that should be pledged at the current day of the submitted report.
- d. (Column N) One Notch Funding Impact: The amount of additional collateral that will be required if rating is down graded one notch.
- e. (Column O) Two Notch Funding Impact: The amount of additional collateral that will be required if rating is down graded two notches.
- f. (Column P) Three Notch Funding Impact: The amount of additional collateral that will be required if rating is down graded three notches.

6.5. LOTC Daily Capital Report

- I. **Report Submission:** Daily
- II. **Recipients:** Report for LOTC controllers Legal Entity, Product, Credit Risk, Regulatory Reporting
- III. **Report Purpose/Explanation:** Report Exposures for EQ/DERIV trades that are in the legal entity "LOTC" – calculate charges based on CCE and ICR. A daily capital calculation for all exposures above threshold established by net capital held.
- IV. **File Location:** \\leh\fid\groups\FI_RISK_CREDIT\Credit\CORP_CRD\Exposure Reports\BrokerDealer Lite

A daily Credit Charge is calculated for LOTC the regulated OTC Derivative legal entity summing the Concentration Component Charge for each counterparty and the Concentration Component Charge if a counterparty exceeds the Net Capital is provided periodically by the LOTC Legal Entity Controller. The net capital is used as the base to determine concentration and to calculate the capital charge for concentrated positions in equity derivative trades booked to LOTC. The results are provided to the Controllers at the end of each day.

The summary of the results used to obtain the charge are provided at the top of the report as follows:

- i. Tentative Net Capital: Calculated by the controller amount of Net Capital.
- ii. Affiliate Exposure: Submission of inter-company charges if there is exposure to an intercompany
- iii. I/C REC Balance: Daily intercompany balance provided by regulatory reporting each day.
- iv. Adjusted Tentative Net Capital: Affiliate Exposure minus the Affiliate Exposure and the IC REC Balance.
- v. Daily Concentration Threshold: 25% of Adjusted Tentative Net Capital.
- vi. Total CCE: Summation of Daily CCE for all counterparties.
- vii. Counterparty Component: Summation of Counterparty Component calculated charge based upon current credit exposure and there dependent ICR (Internal Credit Rating) and the corresponding ICR counter party charge supplied by controller found on the summary tables tab.
- viii. Concentration Component: secondary charge (Summation of column Q) calculated if counterparty has CCE greater than concentration threshold. This value is calculated by multiplying the concentration charge by the amount a client is above the concentration threshold.

The sum of vii and viii are the total charge for that day for the entity LOTC which is based on the following regulatory rules outlines by the NYSE:

The net replacement value in the account of the counterparty (including the effect of legally enforceable netting agreements and the application of liquid collateral) multiplied by 8%, and further multiplied by the counterparty factor. The counterparty factors are:

- (i) 20% for counterparties with ratings for senior unsecured long-term debt or commercial paper in the two highest rating categories by a nationally recognized statistical rating organization
- (ii) 50% for counterparties with ratings for senior unsecured long-term debt in the third and fourth highest ratings categories
- (iii) 100% for counterparties with ratings for senior unsecured long-term debt below the four highest rating categories

Tentative Net Capital is provided periodically by the LOTC Legal Entity Controller. The net capital is used as the base to determine concentration and to calculate the capital charge for concentrated positions in equity derivative trades booked to LOTC. A concentration charge where the net replacement value in the account of any one counterparty exceeds 25% of the OTC derivatives dealer's tentative net capital, calculated as follows:

For counterparties with ratings for senior unsecured long-term debt or commercial paper in the two highest rating, 5% of the amount of the net replacement value in excess of 25% of the OTC derivatives dealer's tentative net capital and for counterparties with ratings for senior unsecured long-term debt in the third and fourth highest rating categories, 20% of the amount of the net replacement value in excess of 25% of the OTC derivatives dealer's tentative net capital for counterparties with ratings for senior unsecured long-term debt below the four highest rating categories, 50% of the amount of the net replacement value in excess of 25% of the OTC derivatives dealer's tentative net capital.

6.6. TIC D Report

- I. **Report Submission:** quarterly (using calendar year)
- II. **Recipients:** Report is sent to regulatory team and then is forwarded to the FED.
- III. **Report Purpose/Explanation:** This report provides a breakout of our current credit exposure by contract type for our derivatives as well as a break out of the net settlements over span of quarter by contract. This report includes inter-company transactions. This report is conducted for all US entities for their foreign clients. The purpose of this report is to gather timely and reliable information on the levels of, and changes in, US international portfolio capital positions due to cross-border holdings of derivatives and on net settlement payments resulting from transaction derivatives. This information is needed for the preparation of the U.S. Balance of Payments Accounts, the U.S. international Investment Position, and the formulation of the U.S. international financial and monetary policies. Aggregate data will be made available in the Treasury Bulletin's web site
- IV. **Location:** Credit\CORP_CRD\exposure reports\credit risk profiles

<http://fms.treas.gov/bulletin.com>

- Headings
 - a. Row Definitions for Rows 1-7
 - i. Single-currency Interest (Row 1) Single Currency Rate Contracts: Derivative contracts with foreign-resident counterparties whose predominant risk comes from cash flows that are determined by the referencing interest rates, but do not involve the exchange of currencies, (e.g., cross currency swaps and currency options) commodity, credit, or equity risk, Single-currency interest rate contracts include single currency interest rate swaps, basis swaps, and forward rate agreements.
 - Forwards (Row 1.a) Report contracts with foreign-resident counterparties that represent agreements delayed delivery of financial instruments in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield.
 - Swaps (Row 1.b) Report contracts with foreign-resident counterparties in which two parties agree to exchange payment streams based on a specified notional amount for a specified period. Forward starting contracts should be reported as swaps.

- Options (Row 1.c) Report contracts with foreign-resident counterparties that convey either a right or an obligation, to buy or sell a financial instrument at a specified future date.
 - ii. Foreign Exchange Contracts (Row 2) Report all derivatives contracts with foreign- resident counterparties whose predominant risk is the purchase and sale of two or more currencies in the foreign forward market by type of instrument. Foreign exchange contracts include cross-country interest rate swaps where there is an exchange of principal and forward foreign exchange contracts (usually settling three or more business days from trade date). Exclude spot contracts. However, the amount recorded in the Net Settlements column should be the aggregate amount o the actual cash settlements under the terms of the contracts. In the case where reporters reclassify a foreign exchange forward or another derivative contract as a spot contract, the report should include net settlement that occurs for internal purposes, plus net settlement of the spot contract.
 - Forwards (Row 2.a) Report contracts with foreign-resident counterparties that represent agreements for the delayed delivery of currency, which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date.
 - Swaps (Row 2.b) Report contracts with foreign-resident counterparties in which two parties agree to exchange currencies based upon a specific notional amount for a specified period. Forward starting swap contracts should be reported as swaps.
 - Options (Row 2.c) Report contracts with foreign-resident counterparties that convey either a right or an obligation to buy or sell a currency at a specified price by a specified future date.
 - iii. Other Contracts (Row 3) All derivative contracts with foreign-resident counterparties other than single currency interest rate contracts (reported in row 1), foreign exchange contracts (reported in row 2), and exchange-traded contracts (reported in rows 4-6). Include credit derivatives, and commodity-linked derivatives that are not traded on an organized exchange.
 - iv. Own Derivatives Contracts on Foreign Exchanges (Row 5) Fair values and net settlements of all derivative contracts, including options, of the reporter's U.S. customers (that is, contracts where the reporter is acting as a broker for the U.S. resident) on exchanges located outside the United States. Include all exchanges (e.g., security and electronic trade) where derivatives are traded.
 - v. Foreign Counterparty Derivative Contracts on U.S. Exchanges (Row 6) Fair values and net settlements of all derivative contracts, including options, of the reporting entities non-U.S. reporting customers (that is, contracts where the reporter is acting as a broker for the non-U.S. resident) on all exchanges (e.g., security and electronic exchanges) located in the U.S.. (Include in this row all contracts traded on U.S. exchanges on behalf of the reporter's foreign affiliates, subsidiaries and branches).
- b. Grand Total (Row 7) the amount in Row 7 is the sum of all the figures in column 1-6.
 - i. Memorandum Row Definitions
 - Contracts With Foreign Offices (Row M.1) Fair value of all derivative contracts included in the Grand Total (Row 7) that are with the reporters own foreign offices (e.g., branches and subsidiaries), including any foreign parent and any non-U.S. branch. Depository institutions and bank holding companies owned by foreign banks should exclude contracts with affiliate banks and non-banking offices of the reporter's parent, even though these contracts are reported in rows 1-3. No net settlement data is reported in this row.
 - Contracts with Foreign Official Institutions (Row M.2) Fair values of all derivative and net settlements included in the grand total (row 7) that are with foreign official institutions are:
 - Treasuries, including ministries of finance, or corresponding departments f national governments; central banks, including all departments thereof; stabilizing fund, including official exchange controls offices or government exchange authorities, and diplomatic and consular establishments and other departments and agencies of national governments.

- International and regional organizations
 - Banks, corporations, or other agencies (including development banks and other institutions that are majority-owned by central governments) that are fiscal agents of national governments and perform acts similar to that of the treasury, central bank, stabilization fund, or exchange authority.
 - Contracts of U.S. Depository Institutions (Row M.3) Fair values of all derivative contracts of U.S. depository institutions with foreigners. Mo net settlement data is reported in this row. U.S. depository institutions include:
 - Commercial Banks
 - United States branches and agencies of foreign banks
 - Trust companies that conduct commercial banking business
 - Industrial banks, private or unincorporated banks.
 - New York State Article XII corporations
 - Mutual or stock savings banks, building or savings and loan associations, cooperative banks, credit unions, homestead associations, and other similar depository institutions
 - Non-depository and limited purpose trust companies
 - Non-bank banks
- i. Column E: Gross Negative. Summation
 - ii. Column D: Net Settlement by contract type.
 - iii. M1: Inter company headers by same headers.
 - iv. M2: Contracts with foreign institutions – foreign clients with industry type equal to government entity.
 - v. M3: US with foreign

7. Glossary

Definitions

Effective EPE	average effective EE during the first year of future exposure
Alpha (α):	1.4 for CCR internal model generated exposures and 1.0 for cash balances or receivables that are not internally modelled
	Calibration to convert loan equivalent EAD to non loan equivalents
EAD	$\alpha \times$ effective expected exposures (EPE) as calculated by PE models
PD	ICRs are mapped to modified Moody's historical default probabilities with a 3 basis point floor for corporate counterparts
LGD	for LBHI and LBI – Internal Facility Rating provided by the credit analysts
LGD	for LBIE - Senior unsecured facilities use a 45% value, senior subordinated facilities use a 75% value and non performing facilities use a 100% value.
Maturity (M)	CCR internal model exposure value which is defined as the effective EE over the full counterparty portfolio over the effective EE over the 1 st year. This is capped at 5.
RW (K)	a function of PD, LGD and M
RWA	EAD*RW
Cp Charge	RWA*8%

8. Appendix

Appendix 1 – CWS/GL OTC monthly reconciliation

