From: Luzcando, Cindy (Exchange)
Sent: Friday, January 11, 2008 4:26 PM
To: Alix, Michael (Exchange); Farber, Jeff - Controllers (Exchange); Steppacher, Chip (Exchange); Ahluwalia, Kanwardeep (Exchange); Kay, Scott (Exchange); Mcgovern, Brendan (Exchange); Chen, Dan (Exchange); Bell, James (Exchange)
Cc: Zhang, Harry (Exchange); Quaderi, Adnan (Exchange); O'kelly, Patrick (Exchange); Li, Jack (Exchange); Bullaro, Vincent (Exchange); Luxton, Stephen (Exchange); Gejke, Cecilia (Exchange); Chan, William (Exchange); Healy, John (Exchange); Wong, Helen (Exchange); Martone, Brian (Exchange); Sullivan, Colleen - Controllers (Exchange)
Subject: Quarterly Update Presentation to the SEC -1/17/08

Importance: High

Attachments: SECQtrlyUpdate4Q07.ppt
Good afternoon,

Please find attached the latest draft of the Quarterly Price Verification presentation we will be giving to the SEC on 1/17/08. I've included the quarter's pricing adjustments as a result of the price verification work as well as any changes in pricing reserves over the quarter. Can you please review the attached and let me know if have any edits.

Thanks and regards,
Cindy
2-7579

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BEAR STEARNS

January 17, 2008

Bear Stearns Price Verification Quarterly Update

Chip Steppacher
Cindy Luzcando

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Purpose of Meeting

- November 2007 Price Verification Results
  - Major Markdowns – 4th Quarter '07
  - Other Price Adjustments – 4th Quarter '07
  - Changes to Major Pricing Reserves
  - Summary of Price Verification Results
  - Scope of Coverage Summary

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Major Markdowns – 4th Quarter '07

Mortgage Department Markdowns – 4th Quarter' 07

	$MM
Residential Whole Loans:	
Domestic	(120.3)
International	0.0
	(120.3)
Residential MBS:	
Domestic	(1,619.4)
International	(41.8)
	(1,661.2)
Commercial Whole Loans:	
Domestic	(132.5)
International	(95.7)
	(228.2)
CBO/CDO Related:	
Domestic	(1,107.6)
International	(64.6)
	(1,172.2)
Other:	
International	(3.6)
Total	(3,185.4)
Hedge P&L	1,291.1
P&L Net of Hedge	(1,894.4)

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Other Price Adjustments- 4th Quarter '07

September'07

- *Credit Trading NY Cash -* A net exposure led the Desk to remark the DARP book for a loss of $553m which brought marks in line with external pricing sources.
- *NY Fixed Income Derivatives-* In response to Risk's analysis, the Desk remarked the correlations relevant to digital options significantly closer to Markit, taking a net $1mm loss.

October '07

- None

November '07

- *Credit Trading VOX-* At year end the Desk in agreement with Risk and BUC took a positive $10mm adjustment into the 2007 P&L. This was based on the difference in equity and junior mezzanine tranche prices observed in the market by the Desk vis a vis our model prices and supported by the positive$43mm bespoke position in those tranches and the positive overall model bias.
- *Credit Trading Structured* – The Desk in agreement with Risk and BUC took a $10mm P&L adjustment for 2007. Similarly to the VOX book, the adjustment was driven by differences in equity and junior mezzanine tranche prices observed in the market by the Desk vis a vis our model prices and supported by the positive $83mm bespoke position in those tranches and the positive overall model bias.

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Other Price Adjustments- 4th Quarter '07

November '07

- *Principal Strategies Europe* – At quarter end there was $1.6mm exposure on long $6.1mm short $5.6mm vega variance swaps. An exposure of $900m came from short $2.4mm vega Dec 08 SPX variance swaps in the Index-Index strategy. The desk calculates adjustments to bring theoretical system prices in line with observed market levels. However, in this case the volatility surface was updated by New York after the figure was calculated resulting in a 40bp difference.

- SEP Europe - A $1.4mm exposure in the Exotics portfolio resulted from valuation differences on long $4mm vega FX options held back-to-back with the FX desk. The difference results from SEP not pricing the FX options with skew due to system limitations.

- SEP Europe – An adjustment was taken to account for a $1.4mm exposure on S&P500 variance swaps and a number of minor FX volatilities that were incorrectly entered as zero in Atlas.

- *Distressed Europe-* A total amount of EU 4.1mm was marked down at year end for an equity position and warrants. The equity position was marked down based on a break-up valuation method which haircut the company's balance sheet. The warrant position was marked down based on a lower enterprise value that includes low 2007 and 2008 EBITDA multiples.

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Changes to Major Pricing Reserves- 4th Quarter '07

- *NY Fixed Income Derivatives* – The pricing reserve decreased from $5mm to $2.5mm given the decrease in exposure on volatility skew differences on Markit European options.
- *SEP America* – The $3mm reserve in August was decreased to $2mm at year end given the consistent SPX exposure based on Totem indications, size of the portfolio and recent volatility in the markets.
- *Credit Trading London* – The $3mm pricing reserve for the perpetual book was released in September due to various position markdowns throughout the quarter, an increase in pricing transparency and cushions in other FRN books.
- *Credit Trading NY Cash* –An exposure of $4.2mm, down from $4.2mm in August, for the Structured Hedging book at quarter end led to a decrease in reserve of $1.5mm to $5mm. The Structured book continues to see negative pricing results as challenging credit markets remain. The $1mm reserve for high grade bonds was released as well.
- *Credit Trading High Grade and High Yield Flow* – The $10mm reserve for high yield swaps was reduced to $4mm for 4Q07 given the decrease in exposure to $3.4mm from $6.5mm The remaining exposure was due to high yield swaps and off the run indices where there are large positions with small spread differences.

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Credit Trading London – the ICAP exposure of $6.9mm in Aug was reduced to $1.7mm in Sept and $1.6mm in Oct with no position in November given the position markdowns that occurred throughout the quarter. Position markdowns were not noted in the memo.

Credit Trading NY Cash – For Structured hedging- Given the sparse pricing and liquidity concerns for the market, Risk continues to explore the use of other analytical tools that may provide additional results.

NY FID Derivatives – exposure was $15mm for sept and oct but decreased to $5mm in Nov. Reserve was $12mm for Sept and Oct.

Credit Trading High Grade and High Yield Flow- $6mm was for TOR indices and $4mm was for HY swaps. The HY swaps reserves was released in Sept.

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Changes to Major Pricing Reserves- 4th Quarter '07

- ***Credit Trading VOX*** – There is no pricing reserve at quarter end, a decrease of $10mm from August.

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Credit Trading Vox – reserve was released in Sept

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Summary of Price Verification Results

SUMMARY OF PRICE VERIFICATION RESULTS
(all $ amounts in 000's)
For Month End November 30, 2007
As of 1/10/08

WHITEBOOK	PRODUCT	NET (EXPOSURE)/ CUSHION From XPOS	PRICING RESERVES	NET EXPOSURE/ CUSHION AFTER RESERVES	ISSUE HIGHLIGHTS
MORTGAGE-BACKED SECURITIES	AGENCY CMO'S	$ 8,851	$ -	$ 8,851	
MORTGAGE-BACKED SECURITIES	NON-AGENCY CMO'S	$ 7,549	$ -	$ 7,549	
MORTGAGE-BACKED SECURITIES	ARMS	$ (49,893)	$ -	$ (49,893)	
MORTGAGE-BACKED SECURITIES	ABS	$ (3,419)	$ -	$ (3,419)	
MORTGAGE-BACKED SECURITIES	CBO DESK	$ (7,395)	$ -	$ (7,395)	
MORTGAGE-BACKED SECURITIES	COMMERCIAL SECURITIZATION	$ 2,121	$ -	$ 2,121	
MORTGAGE-BACKED SECURITIES	EMC DESK	$ 2,449	$ -	$ 2,449	
MORTGAGE-BACKED SECURITIES	INTERNATIONAL SECURITIZATION	$ (9,035)	$ -	$ (9,035)	
MORTGAGE-BACKED SECURITIES	PASS THROUGH DESK	$ 30	$ -	$ 30	
MORTGAGE-BACKED SECURITIES	SPECIAL SITUATION/OTHER	$ 16,523	$ -	$ 16,523	
MORTGAGE-BACKED SECURITIES TOTAL		$ (32,219)	$ -	$ (32,219)	
MORTGAGES-UNSECURITIZED		$ 1,306	$ -	$ 1,306	
CASH EQUITY WHITEBOOKS	Equities	$ 526	$ -	$ 526	
INTEREST RELATED WHITEBOOKS	FX, GBS, FI Investments	$ (1,524)	$ -	$ (1,524)	
CREDIT RELATED WHITEBOOKS	EM (Incl EM FX), MUNI (excl MUNI DERIV), FINA	$ 2,339	$ -	$ 2,339	
OTHER WHITEBOOKS		$ 93	$ -	$ 93	
SWAPS FOR ALL WHITEBOOKS UTILIZING XPOS		$ -	$ -	$ -	
TOTAL WHITEBOOKS UTILIZING XPOS		$ (29,480)	$ -	$ (29,480)	

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BEAR STEARNS

Summary of Price Verification Results

SUMMARY OF PRICE VERIFICATION RESULTS
(all $ amounts in 000's)
For Month End November 30, 2007
As of 1/10/08

WHITEBOOK		NET (EXPOSURE)/ CUSHION From Memo	PRICING RESERVES	NET EXPOSURE/ CUSHION AFTER RESERVES	ISSUE HIGHLIGHTS
CREDIT TRADING	STRUCTURED	$ 32,224	$ -	$ 32,224	**Structured-** $10mm reserve was released this month and was taken in as P&L (p. 1-30)
CREDIT TRADING	FLOW AND CASH	$ (3,973)	$ 9,000	$ 5,027	**NY Cash-** $16.5mm reserve from last month decreased to $4mm due to less unfavorable results. The reserve is held for HY swaps (p. 31-32)
CREDIT TRADING	VOX CAPITAL	$ 19,000	$ -	$ 19,000	**VoX** - $10mm reserve was released and was taken as P&L (p. 35-57)
STRUCTURED EQUITY PRODUCTS		$ 5,248	$ 2,000	$ 7,248	
INTEREST RATE DERIVATIVES		$ (9,722)	$ 2,500	$ (7,222)	
DISTRESSED		$ 9,376		$ 9,376	**Distressed Europe -** EU 4.1mm was marked down for equity and warrant positions (p. 131-132)
LEVERAGE FINANCE		$ 700		$ 700	
TOTAL WHITEBOOKS NOT UTILIZING XPOS		$ 52,853	$ 13,500	$ 66,353	
GRAND TOTAL		$ 23,373	$ 13,500	$ 36,873	

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Scope of Coverage Summary

SCOPE OF COVERAGE REPORT
(all $ amounts in 000's)

For Month End November 30, 2007

As of 1/10/08

WHITEBOOK	PRODUCT	NET (EXPOSURE)/ CUSHION FROM XPOS	% LMV VERIFIED	LMV	Unverified LMV Aged >3 month	% SMV VERIFIED	SMV	Unverified SMV Aged >3 months	COMMENTS
MORTGAGE-BACKED SECURITIES	AGENCY CMO'S	$ 8,851	100%	$ 34,606,405	$ 23	100%	$ (30,176,287)	$ (0)	
MORTGAGE-BACKED SECURITIES	NON-AGENCY CMO'S	$ 7,549	93%	$ 7,082,690	$ 2,280	100%	$ (3,192,355)	$ -	Monthly unverified LMV are made up of various non agency NIMS, residuals IOs and subs (incl CDO accumulation book) remain unverified
MORTGAGE-BACKED SECURITIES	ARMS	$ (49,893)	72%	$ 6,210,348	$ 45,683	100%	$ (3,725,301)	$ (0)	Monthly unverified LMV are made up Non agency ARM positions remain unverified across various NIMs, residuals, subs, Ios and AA products
MORTGAGE-BACKED SECURITIES	ABS	$ (3,419)	79%	$ 2,428,735	$ 0	100%	$ (113,729)	$ -	
MORTGAGE-BACKED SECURITIES	CBO DESK	$ (7,395)	68%	$ 1,014,474	$ 94,651	100%	$ (635)	$ -	Monthly unverified is spread across several accumulation books which are revalued when and if they become 180 days aged.
MORTGAGE-BACKED SECURITIES	COMMERCIAL SECURITIZATION	$ 2,121	96%	$ 1,513,812	$ 0	100%	$ (212,712)	$ -	
MORTGAGE-BACKED SECURITIES	EMC DESK	$ 2,449	67%	$ 279,650	$ 10,859	100%	$ (56,414)	$ -	Monthly unverified LMV is due to various EMC positions spread across several portfolios.
MORTGAGE-BACKED SECURITIES	INTERNATIONAL SECURITIZATION	$ (9,035)	96%	$ 1,721,993	$ -	100%	$ (32,161)	$ -	
MORTGAGE-BACKED SECURITIES	PASS THROUGH DESK	$ 30	100%	$ 19,431,177	$ 0	100%	$ (18,887,666)	$ -	
MORTGAGE-BACKED SECURITIES	SPECIAL SITUATION/OTHER	$ 16,523	0%	$ 12,633,046	$ 213,873	0%	$ (33,743,574)	$ (1)	
MORTGAGE-BACKED SECURITIES TOTAL		$ (32,219)	96%	$ 86,922,329	367,379	100%	$ (90,140,833)	(1)	
MORTGAGES-UNSECURITIZED		$ 1,305	18%	$ 23,357,885	$ 11,890,508	90%	$ (707,681)	$ (34,066)	Comfort with the unverifieds come from model reviews, turn over, monthly reviews of non performin static loan pools, analysis of aged loans and daily review of large P/L items. Risk reviewed the arb for loans priced to securitization levels to gain additional comfort.
CASH EQUITY WHITEBOOKS	Equities	$ 526	100%	$ 2,317,387	$ 103	100%	$ (1,409,880)	$ (12)	
INTEREST RELATED WHITEBOOKS	FX, GBS, FI Investments	$ (1,524)	100%	$ 72,263,128	$ 110	100%	$ (69,794,342)	$ -	
CREDIT RELATED WHITEBOOKS	EM, MUNI, FINA	$ 2,339	100%	$ 31,933,976	$ 40	100%	$ (24,505,805)	$ -	
OTHER WHITEBOOKS		$ 93	100%	$ 14,433	$ 0	100%	$ (24,753)	$ (96)	
SWAPS FOR ALL WHITEBOOKS UTILIZING XPOS		$ -	100%	$ 157,320,699	$ -	100%	$ (153,982,438)	$ -	
TOTAL WHITEBOOKS UTILIZING XPOS(*)		$ (29,480)	94%	$ 374,129,837	$ 12,258,139	100%	$ (340,565,732)	$ (34,175)	

WHITEBOOK	PRODUCT	NET EXPOSURE/ CUSHION	% LMV VERIFIED	LMV	Unverified LMV Aged >3 months	% SMV VERIFIED	SMV	Unverified SMV Aged >3 months**	COMMENTS
CREDIT TRADING	STRUCTURED	$ 32,224	99%	$ 20,257,783	$ -	100%	$ (19,062,407)	$ -	
CREDIT TRADING	FLOW AND CASH	$ 5,027	100%	$ 40,743,801	$ -	100%	$ (33,610,938)	$ -	
CREDIT TRADING	VOX CAPITAL	$ 19,000	100%	$ 14,744,000	$ -	100%	$ (14,657,000)	$ -	
STRUCTURED EQUITY PRODUCTS		$ 7,248	97%	$ 241,376,819	$ -	97%	$ (231,066,989)	$ -	
INTEREST RATE DERIVATIVES		$ (7,222)	100%	$ 108,626,761	$ -	100%	$ (199,803,460)	$ -	
DISTRESSED		$ 9,376	97%	$ 1,695,819	$ -	100%	$ (403,000)	$ -	
LEVERAGE FINANCE		$ 700	100%	$ 7,416,399	$ -	100%	$ (1,434,000)	$ -	
TOTAL WHITEBOOKS NOT UTILIZING XPOS		$ 66,353	98%	$ 434,861,382	$ -	99%	$ (500,087,794)	$ -	
GRAND TOTAL		$ 36,873	96%	$ 808,991,219	$ 12,258,139	99%	$ (840,653,526)	$ (34,175)	

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