

From: Pellerani, Carlo <carlo.pellerani@lehman.com>
Sent: Wednesday, August 27, 2008 1:25 PM
To: Guy BRIDGE/HBEU/HSBC@HSBC
Cc: Rees, Huw <hrees@lehman.com>; Tonucci, Paolo <paolo.tonucci@lehman.com>; Nicholas J TAYLOR/HBUS/HSBC@HSBC02; Joseph Travaglione/HBUS/HSBC@HSBC02; Martin NICHOLSON/HBEU/HSBC@HSBC; Patricia GOMES/IBH CIB/HBAP/HSBC@HSBC; Christine COE/HBEU/HSBC@HSBC
Subject: RE: Collateral to Support Clearing/Settlement Business

As discussed with Nick:

- We will be making the deposits you are requesting on Friday. We will assume that as long as we place these in the name of the two entities below you are fine with account or currency choice.
- We would like to understand what this is meant to cover as it seems to include secured exposures which I had understood you were not concerned with.
- We would appreciate working together in determining:
 - + How to reduce the exposure and hence the deposit. We need a detailed understanding what credit lines are needed and which ones not (from the discussions in the past few days it is a bit unclear to us what each line you have really does for us)
 - + Creating an internal process at HSBC where intraday exposures in Asia, Europe and the US are not additive (because you are not exposed to all at the same time).
 - + What options are there to become more efficient in our utilisation of your Crest facilities.
- We will review legal agreement once you provide. For this to be feasible will need to limit right of offset to the specific exposure that is covering (rather than broad based)
- Yes, Greg Ito is the right contact in Asia.

Regards

Carlo

-----Original Message-----

From: guybridge@hsbc.com [mailto:guybridge@hsbc.com]
Sent: 27 August 2008 17:54
To: Pellerani, Carlo
Cc: Rees, Huw; Tonucci, Paolo; nicholastaylor@hsbc.com; joseph.travaglione@us.hsbc.com; martinnicholson@hsbc.com; patriciagomes@hsbc.com.hk; christine.coe@hsbc.com
Subject: Collateral to Support Clearing/Settlement Business
Sensitivity: Private

Carlo

Further to my call this afternoon with Huw I confirm the following which was discussed;

HSBC requests that Lehman's place sufficient cash on existing accounts with us in USD or GBP to cover the following settlement limits prior to this weekend,

To be placed in name of Lehman Brothers Inc in Hong Kong USD 145 million
To be placed in name of Lehman Brothers International (Europe) Limited in UK USD 800 million

This is required to ensure we can continue to provide the support for your clearing/settlement business as principal Bankers in these regions. There will be additional requests and we will look to put in place formal Cash Deeds as appropriate. Settlement limits in India and elsewhere will be included at that time.

2. The contact for Asia that Patricia can liase with is I understand Greg Ito (based in Tokyo) and I await his relevant contact details so they can discuss arrangements tomorrow.

3. The transfer of your Indian Futures and Options clearing back in house is acknowledged.

4. We are looking into the legal position as to whether your loan to HSBC Finance can be cancelled as the Agent is aware.

5. At this stage we are not seeking to impact any trading business which will continue under existing arrangements.

6. We feel it is imperative to protect your position that your operations staff are quite clearly given an appropriate message so they do not request additional facilities without referral first within your area.

I look forward to your reply as soon as possible in addition to your comments with regard to other settlement limits as requested last week. If you have any questions please call.

regards

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