

From: Guy BRIDGE
Sent: Monday, September 1, 2008 10:33 AM
To: Nicholas J TAYLOR
Cc: Joseph Travaglione; Martin NICHOLSON; Patricia GOMES; Christine COE
Subject: Milan - Update 01-09-08

Collateral - We have received GBP 435 m today value tomorrow. They advised they were not getting best rate 5 bps off market. In view of this I am keen to move to an account base asap as is more secure and we can perhaps guarantee a better rate. They do not wish to place for a term wishing to have access to withdraw. If we leave on MMK basis in short term we may need to advise BSM to refer to GFIG first if they change amounts in our books but there would be issues on transparency by doing this.

I and Dave Webber ran through the CREST workings again with Carlo and 5 colleagues to help his understanding this AM. They will go away and analyse the quantum on unsecured limit they may have used in the past - no MI exist for this we can access particularly and they know what FOP transfers they make which we were advised is small. They feel they need a certain Unsecured limit in Crest to smooth the operations but need to see at what level and will revert. It was noted they would need to place additional collateral to support this in addition to the GBP400m for PSL. It was felt as they are placing GBP\$435 m collateral held in our books- 35m of this could be marked in CREST as Unsecured limit against Part ID 483 their equity Cap asap. Please confirm in order.

Milan will are also checking PSL usage but Stirling confirmed need. Whilst it was mentioned by CP they could look to move clearing and thus reduce this GB highlight this was fine but we would not normally undertake CREST settlement business without Clearing so this would also have to be replaced.

{We will also need to agree what the exact procedures will be to increase any CREST limit in case of need. i.e on provide of an e-mail from them detail the flows yet to settle within what timeframe etc. }

They would like HSBC to consider taking c GBP 150 m of DBV OTHER trades direct so this improves their flexibility in CREST and headroom - I doubt we would wish to do this. - I asked the desk to comment conceptually they might do at a price but we would have to agree the counterparty. (Largest FTSE OTHER DBV we have at present is with Credit Swiss L+35bps). GB to revert to MILAN.

They want to know if they can borrow USD against the GBP deposit with us as end of day not required by us. I will have to look at options here, operational it may be difficult but I suppose HBUS could take a view so they can use the collateral in US day. An alternative is that we take deposit in USD and see if we can place in our Liquidity funds, another that we guarantee a competitive rate of return. GB To revert to MILAN.

Initial comments on the Cash Deed were minimal but we are to send a new doc

which will enable set off against multiple entities (reason not sent last week was in interest on execution as is easier on single entity name). Still aim to get this concluded this week and cash on separate accounts. We have conf call between Legal and Asia tomorrow pm.

rgds Guy

note, Chris by virtue of the content of these discussions Dave has been made an insider.

Guy BRIDGE
Director | Global Financial Institutions Group
Level 19, 8 Canada Square, London, E14 5HQ,

Phone +44 20 799 12979
Email guybridge@hsbc.com
