

# LEHMAN EXPOSURE SUMMARY

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TRC Group: Lehman Brothers Holdings Inc                      CBID: SLBH

## OBJECTIVES

- 1) Identify exposure “mitigating actions” that may implemented by HSBC in case of progressive credit deterioration of Lehman Brothers, as opposed to immediate collapse/default. This implies a “controlled and managed” exit from Lehman Brothers in order to:
  - Holistically protect the HSBC organization’s interests, thereby limiting total losses.
  - Avoid crystallizing committed credit and/or precipitate a collapse of the regulated businesses or subsidiaries of Lehman Brothers.
  - Avoid market signaling or externally transparent actions (to extent possible) that could precipitate the exit of other creditors, counterparties &/or clients thereby undermining the franchise and potentially crystallizing our losses on hard to exit/mitigate exposure, as well as lender liability and reputational considerations.
- 2) Quantify the reduction in exposure and improvement in security that may be achieved from such “mitigating actions”.

## BACKGROUND

- The July 7, 2008 insight report of global exposure for Lehman serves as basis data point for the assumptions and recommendations arrived at in this exercise.
- To the extent possible (driven by MIS available), our analysis is segmented along the following functional HSBC business lines: CIB, GTB, Global Markets and Private Banking/Asset Management.
- It is assumed that HSBC business lines may not share the same interests, nor would be driven by same concerns in taking actions that could adversely affect other Group exposures or entities.

Global Facilities (USDm)	Present	Usage
Cat A (Direct)	796.9	
of which Secured	0	-
of which Committed	(100.0)	None
Of which FNII	(30.0)	27.7
Indirect Cat A (Fronting Guarantees/GTR)	137.4	137.4
Cat B	2,519	
Total Cat S	8,638	
of which TSL	(2,931)	
Of which PSL	(1,366)	
of which Crest secured	(2,205)	
of which CREST unsecured	(1,136)	
of which HBUS day loan PSL	(1,000)	
<b>TOTAL GLOBAL LIMITS</b>	<b>12,091.3</b>	

## SCOPE

1. Identify exposure or limits that would be considered at greatest risk of loss due to structural subordination (i.e., extended to holding company), tenor, lack of security, nature of obligor/counterparty (i.e., unregulated subsidiary), legal domicile and underlying nature of transactions.

2. Identify hard limits granted by HSBC private banking and asset management units as are associated with less economic and market sensitivity to the Group, thus less knock-on effect to other exposures is implied.
3. Entertain appropriate **immediate** hedging actions inclusive NII positions (portfolio holdings), if management believes the company is in imminent or immediate threat of collapse. The following portfolio positions are held by HSBC Trinkhaus under its \$30m NII.

	CBID	ISIN	maturity	market value (USD)
Lehman Brothers Holdings Inc	EFHC	XS0189741001	MTN, due in 2011	13.467.733,65
Lehman Brothers Holdings Inc	EFHC	XS0224346592	MTN, due in 2009	14.235.557,00
				27.703.290,65

## **FACILITY PROFILE**

**See attached spreadsheet for Cat A Details**

## **SUMMARY & RECOMMENDATIONS**

- Cat A exposure has been reviewed and transactional or non-relationship sensitive facilities reduced or cancelled where feasible, with limited disruption to transactional activity and transparency to client. This review has resulted in about \$20m of Cat A reductions, mostly in NII product category. The majority of remaining global Cat A is extended to primary regulated broker-dealer subsidiaries, which are considered the most creditworthy in the enterprise. No further reductions are recommended.
- Cat B exposure has been reviewed in context of current utilization and recent changes to exposure methodologies. As a result, HBUS reduced its Cat B limits by about \$285m, which was reallocated in part to cover excesses at other HSBC units.
- As relates to OTC derivatives or long-dated traded markets activities, FIG has prioritized or aligned credit allocation with the support of local GTB service initiatives as well as channeling Cat B to counterparties documented pursuant to a CSA.
- A documentation prioritization list, specifically relating to pending or desired CSAs has been shared with our counterparts at Lehman. FIG commits to periodic chasers or follow-up with Lehman to ensure prompt execution of CSAs for credit risk mitigation and exposure management purposes.

## **GTB SERVICES/PRODUCTS PROVIDED**

### Payments & Cash Management (PCM)

HSBL BKH	Overdraft
HSBL HKH	Overdraft re HKD Clearing
MMBI MNY	Payment Settlement Limit (day loans)
	Liquidity Products (\$1bn MMCA deposit)
MDBK MIL	Payment Settlement Limit, Overdraft re GBP Clearing & CREST settlement

### Custody & Clearing (CNC)

Lehman Brothers International (Europe)	Bangkok, Mumbai, Hong Kong, Manila, Lebanon, Kazakhstan, UAE, Vietnam
Lehman Brothers Investments Pte Ltd	Bangkok

## **DOCUMENTATION STATUS**

1. HBAP - Lehman Brothers Special Financing Inc.: Amendment to the ISDA and CSA to include additional HBAP offices - file closed as per request of counterparty Tokyo office
2. HBAP - LBIE: ISDA and CSA signed, waiting for executed guarantee from Lehman Brothers Holding Inc. before docs can be finalised. Original guarantee was delivered June 16<sup>th</sup> and ISDA/CSA is now effective.
3. HBEU - LBIE: Draft CSA based on HBAP / LBIE docs sent to Lehman for review. CSA executed.
4. HBAP - Lehman Brothers Commercial Corporation Asia Ltd: Draft ISDA and CSA being discussed with Lehman. Outstanding issue re HBAP's status as a "Professional Investor / regulated entity". No progress, still waiting for counterparty to respond. have follow up with counterparty
5. HBAP (Bangkok) - Lehman Brothers Finance Asia Pte Ltd: Draft doc prepared, will be sent out once relationship responds re various business sign-offs. file closed, counterparty not responding to RM requests.
6. HBAP - Lehman Brother Bankhaus AG : negotiations of ISDA and CSA nearing completion.
7. HBAP - Lehman Brothers Finance SA: CSA - awaiting internal approvals to accept counterparty changes to CSA parameters.
- 8. HSBC Bank Chile - Lehman Brothers Special Financing Inc - approached counterparty to commencenegotiations. No response, have followed up with contact**
9. HSBC Mexico - Lehman Brothers Special Financing Inc.: ISDA & CSA under negotiation.

## Appendices

### TYPE OF FACILITIES:

FNII	Line for holding Bonds/Debt instruments used by Treasury (investment) and/or Markets (customer market making, hedging & underwriting)
FB/S/FLU	Fluctuation Risk Limit (contingent market risk) for trading securities in the cash markets (usually DVP settled)
FFEX	FX
FSWP	Swaps (interest rate and currency)
FTSL	Treasury Settlement Limit (FX, Metals, non-DVP instruments) –spot to 1 week tenor of risk
FPSL	GTB payment settlement limit - intraday tenor of risk
FCTB	Used by CCF to identify as an XPR (Crisped) line
FOPT	Options (contingent market risk)
FRPO	Repos (reverse & repurchases)

FSBL      Stock Borrowing and Lending