

PURPOSE

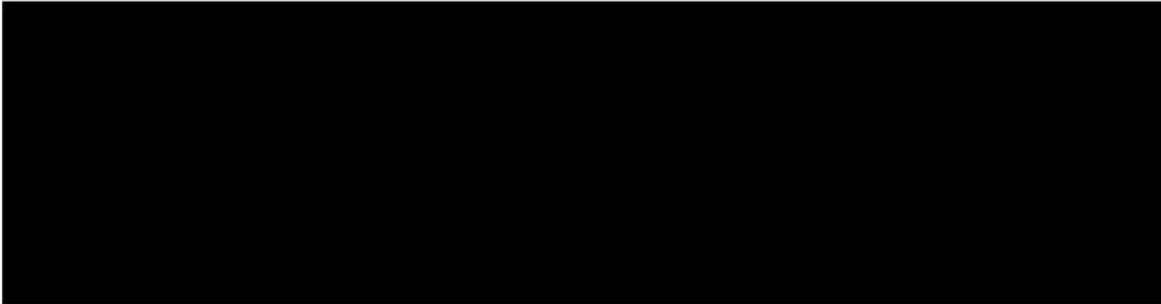
- [REDACTED]
- 1. Covert reduction of exposure (ie: client and market assumes business as usual and GTB revenues protected).
- 2. Further substantial risk reduction by agreeing measures with client which whilst difficult, will be in line with recent discussions and should not materially impact their or our business.
- 3. Achieve even more by selective unilateral withdrawal from certain markets, products and services. This will damage business but will not be terminal.
- 4. Withdraw from the provision of all Limit intensive business areas. Assumes effective exit.
- [REDACTED] we estimate what will be achievable i) by the end of this week, ii) in one month and iii) in three months.
- We assume we are firmly on Amber alert and are establishing clear and robust global procedures for exposure management to be invoked on migration to Red. These include, inter alia :
 - constitution of Global Default Working Group,
 - detailed template showing procedure, contact details and responsibilities by region,
 - methodology and responsibilities for managing controlled settlement,
- Insolvency law for the Sector is complex and we recommend seeking outside counsel opinion in major jurisdictions.

SUMMARY

- Flexibility under Option 1 is already largely exhausted.
- Option 2 offers good potential for short term reduction [REDACTED]
- Option 3 will be more difficult. It will involve, for example withdrawal from Markets such as India. This will take more time but should still enable further short term limit reductions.
- Option 4 will involve giving notice on major payments and securities clearing contracts in UK and Asia. This is likely to take 3 – 9 months to implement. In the interim, credit risk can be further reduced by demanding collateral to cover PSL and manual referrals. On an ongoing basis, this increases operational, reputational and litigation risks.
- In addition to all the above, further material reductions in exposure can be achieved through
 - Stopping all non cash, non core Treasury sites dealing without CSA/collateral even in non CSA jurisdictions (Turkey, India, Taiwan),
 - Further aggressive negotiation on bi-lateral tear ups,

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- Selective hedging,
- Disposal of Bond holdings.



KEY ISSUES AND PRINCIPLES

- Where we are established Securities Custodian &/or Payments Clearer, notwithstanding any contractual obligations, it will take some months to find an alternative provider.
- We need to ensure any action does not undermine their ability to conduct operations which may result in liability
- Any failure is likely to be orchestrated/overseen/co-coordinated by global Regulators. A priority is likely to be maintaining the integrity of the global payments and settlement system.

Cat A

- [REDACTED] relates to outstanding LoC's out of HBUS and HBAP to the Regulated Broker Dealer. These have tenor of up to 6m and support core margin requirements with Exchanges and major custodians for stock lending.
- Many are underpinned by specific customer trades and are self liquidating and low risk. However, others cover prop trades and are thus higher risk. [REDACTED]
- We propose immediate cancellation. No new drawings and existing LC's will run off.
- The majority of remaining Cat A lending is to various regulated subsidiaries, primarily in Asia and Europe, which are used for end of day balancing supporting Clearing mandates. Withdrawal of these would be very visible, would hurt operations and in some cases, may result in liability.
- [REDACTED] relates to Fronting bank risk in respect of LC's issued by Trade Finance to back syndicated loans. These are to Unregulated OpCo's. Issuance is out of our control and we are unable to reduce.

Cat S

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- Payments Settlement presents the largest uncovered gross exposure. Of this CREST, is the largest constituent. [REDACTED]
[REDACTED] We proposed advising immediate withdrawal saving in excess of [REDACTED]
- All future CREST to be settled on a collateralized basis. This is secured against Equities and Gilts. In conjunction with TMR, it has been agreed to impose stricter haircuts across the board.

Cat B

- The majority of Cat B is for OTC derivatives. Any action to reduce lines with OTC counterparties will be highly transparent to the market as much is conducted via interdealer brokers or electronic platforms.
- Most term Cat B is covered by CSA (or collateralised viz Equity Finance/Repo). However, certain non CSA jurisdictions (India and Turkey) and the Private Bank continue to trade thus using significant credit capacity. We propose all non cash dealing without CSA is suspended in these jurisdictions, with the exception of India which will be done in conjunction with full market exists only
- Note certain Cat B lines are currently in excess (mainly HBEU) and monitored weekly by CRM/CRF
- Collateral valuations are likely to be severely challenged when many counterparties are selling.

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Insolvency issues

- Applicable law varies by geography and whether or not the entity is regulated.
- We propose seeking outside counsel advice for all key jurisdictions.
- In the USA, the relevant bankruptcy law is primarily Chapter 7 (outright liquidation) and Chapter 11 (protection and reorganization).
- Regulated OpCo's (SEC) are not able to file for Chapter 11.
- They can file for Chapter 7 but only after regulators have transferred all customer positions, in an orderly manner, to solvent securities companies.
- Unregulated entities (TopCo and OpCo's) are subject to Chapter 7 and Chapter 11.
- Exposure to unregulated OpCo's is generally guaranteed by the Top Co.
- In the event of a TopCo default, the unregulated operating companies (specifically the OTC entities) would likely file for bankruptcy protection.

DETAILED ACTION PLANS

- The following provides an Action Plan and Spreadsheets showing granular details of all Cat A and Cat S exposure [REDACTED]
- They show counterparty, region, product, amount (gross and net of hedge/collateral).
- We also show if the counterparty is a TopCo, a regulated OpCo or an unregulated OpCo and if the facility is underpinning GTB business.
- We rank order all facilities into 3 Categories for Risk of Loss - High, Medium, Low.

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RISK MITIGATION ACTION PLAN



Option 1

One week

- Reduce UK uncommitted MMK from \$150m to \$50m. This is used for end of day balancing. All utilizations in excess of this to be referred to Global FIG, CRE.
- Reduction to USD5m (from \$20m) Kazak OD lines. We are local Clearer but volumes are low.
- Cancellation of USD1bn Day Loan (already in train)
- 10% reduction in aggregate other TSL USD293m
- No further flexibility

One Month

- Investigate with Trade Services the appropriateness of assuming Fronting bank risk for loans originated by other institutions. \$139m of Fronting risk.

Option 2

One week

- Advise withdrawal of USD295m (out of \$300m) LoC facility in HBUS. W.e.f 1 Aug. No new drawings will be allowed. However, existing exposure (fully drawn) will take up to 6 months to run off. Maturity schedule to be obtained.
- Advise USD90m reduction (out of USD113m) in LoC Margin facility out of HK. Low utilisation.
- Cancel USD1.1bn Unsecured CREST Settlement facility
- Cancel TSL limits in Uruguay and Panama (non core).
- Rigorously investigate all Cat B excesses (HBEU) and ensure risk modeling assumptions are robust.
- Consider hedging or sale of bond investments. \$27m NI in TuB. Investigate MTM loss.

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One month

- Pursue bi-lateral tear ups,
- Implement revised haircuts for Collateralised CREST facilities.

3 months and beyond

- Achieve phased reduction of USD295m in HBUS LoC facility.

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Option 3

- Advise withdrawal from support and securities clearing contract and any trading activity in India. This will liberate :
 - USD560m of TSL and USD50m of PSL
 - USD182m of Cat B
 - USD55m of Cat A.
- Advise withdrawal from Kazak which will liberate remaining \$5m Cat A and \$100m of TSL.

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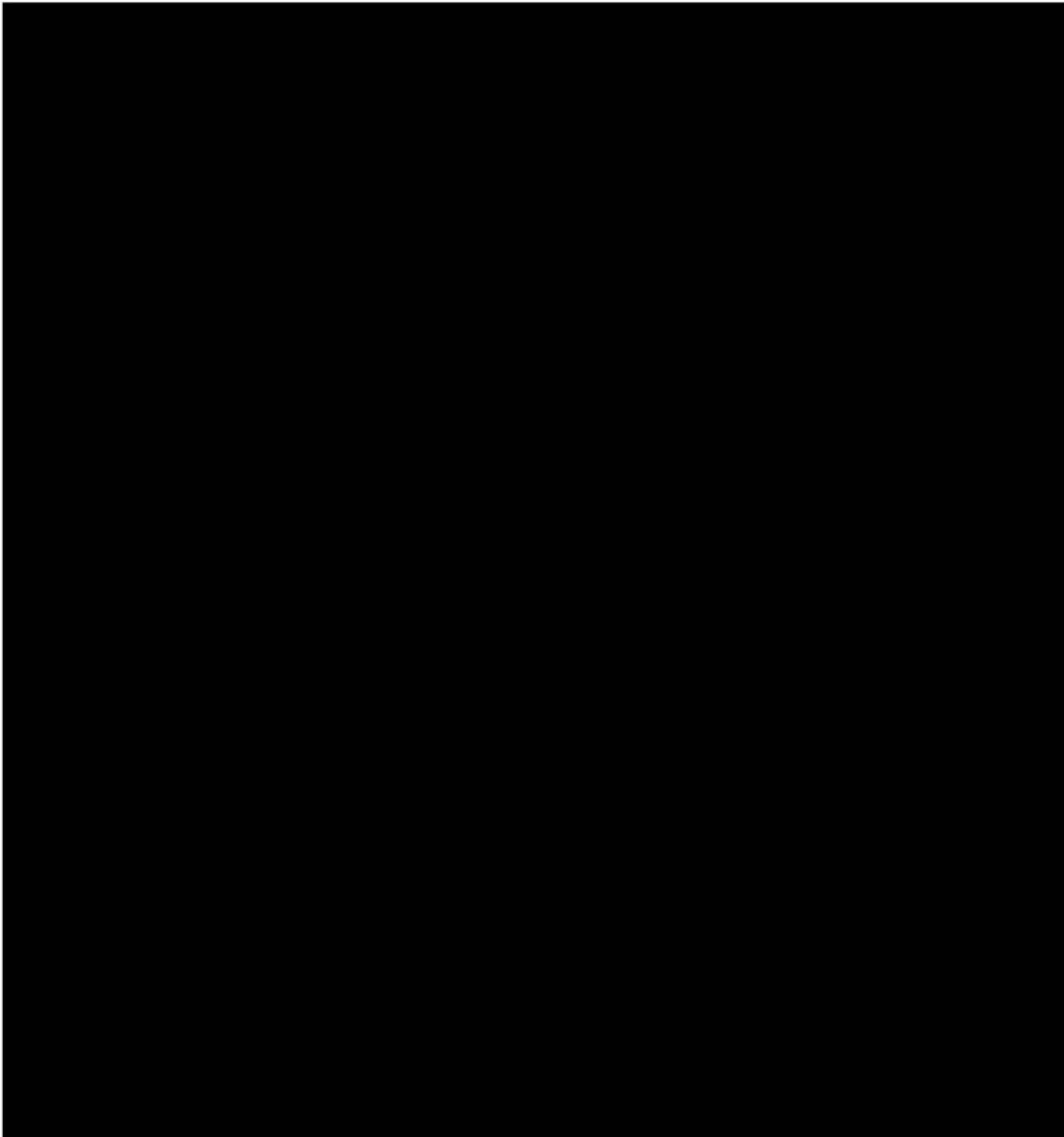
Option 4

- Advise now of need to find new Clearers in UK, HK and Thailand.
- Ask for Collateral for Settlement
- Immediate incremental limit reduction of \$130m in Cat A and \$3.5bn in PSL
- Should be out in 6 to 12 months.

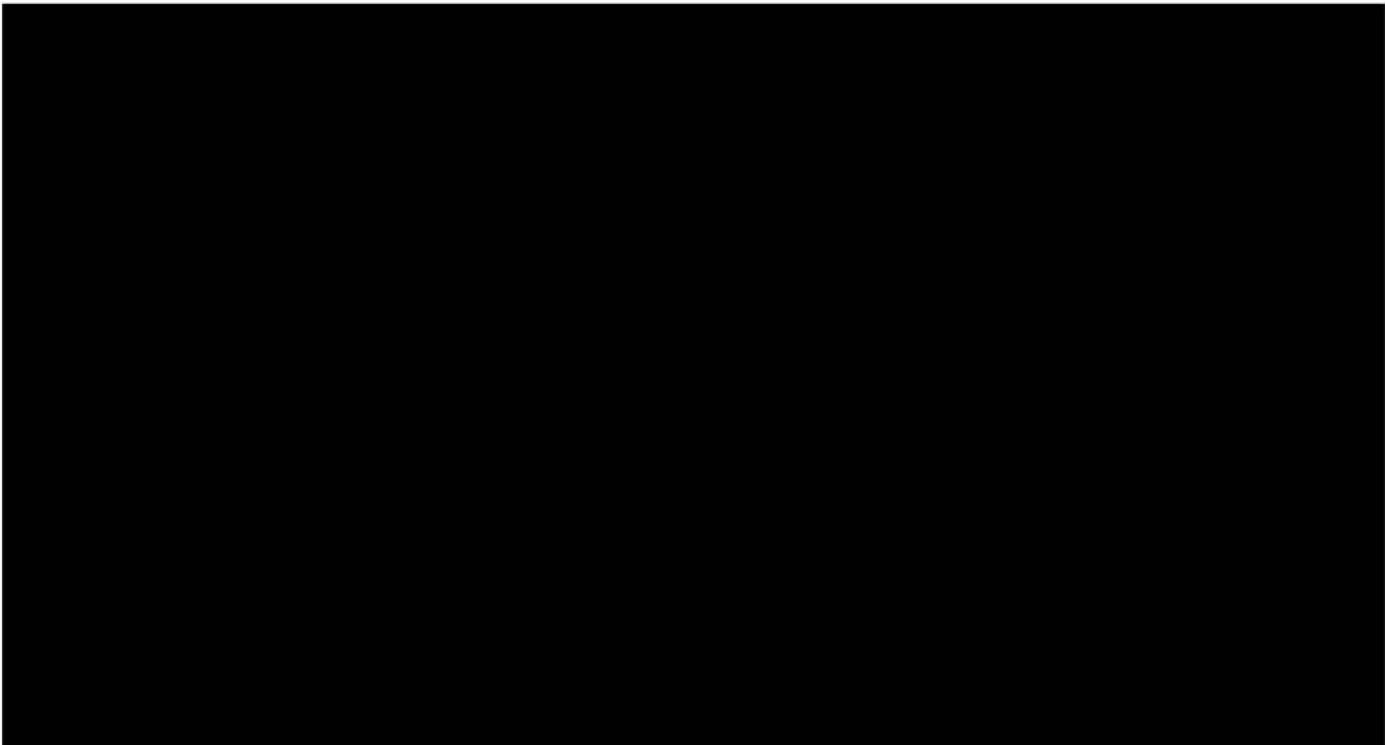
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