UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE BARCLAYS BANK PLC SECURITIES LITIGATION	Master File No. 1:09-cv-01989-PAC
	ECF Case
This Document Relates to: All Actions	

DECLARATION OF YURIJ SLYZ

I, Yurij Slyz, declare and state as follows:

1. I serve as an Executive Director in the Transaction Management group at Morgan Stanley & Co. LLC. I submit this declaration in support of the Underwriter Defendants' Motion for Summary Judgment.

2. Morgan Stanley & Co. Incorporated (n/k/a Morgan Stanley & Co. LLC) ("Morgan Stanley") served as an underwriter and senior co-manager in connection with the April 2008 offering by Barclays Bank Plc ("Barclays") of $2.5 billion of 8.125% non-cumulative callable dollar preference shares, Series 5 (the "Series 5 Offering"). At the time of the Series 5 Offering, I served as a Vice President in Morgan Stanley's Transaction Management group. The facts set forth herein are based on my personal knowledge and review of relevant information relating to Morgan Stanley's role as an underwriter in the Series 5 Offering, and are true and correct to the best of my recollection.

3. Morgan Stanley is an investment banking firm that offers financial advisory and securities brokerage services.

I. Morgan Stanley Has a Longstanding Relationship with Barclays

4. Prior to the Series 5 Offering, Morgan Stanley participated in and performed due diligence in connection with the following offerings conducted by Barclays:

- an offering of 100,000 US Dollar 6.278% non-cumulative callable preference shares of $100 each in June 2005 (the "Series 1 Offering");
- an offering of 30 million US Dollar 6.625% non-cumulative callable preference shares of $25 each in April 2006 (the "Series 2 Offering");
- an offering of 55 million US Dollar 7.1% non-cumulative callable preference shares of $25 each in September 2007 (the "Series 3 Offering"); and
- an offering of 46 million US Dollar 7.75% non-cumulative callable preference shares of $25 each in December 2007 (the "Series 4 Offering").

5. In addition to the due diligence performed in connection with the transactions listed above, Morgan Stanley conducts, and conducted at the time of the Series 5 Offering, regular and continuous due diligence on Barclays and its business. The nature of this continuous due diligence includes, for example, examining periodic and other filings made by Barclays with the SEC, monitoring media reports, market alerts and news reports relating to Barclays and reviewing credit agency reports covering Barclays. In addition, Morgan Stanley actively monitors the broader financial services industry, including financial institutions in the United Kingdom, Europe and the United States.

6. Morgan Stanley's due diligence in connection with the Series 5 Offering drew upon and was informed by its due diligence in connection with these prior offerings by Barclays and its continuous due diligence of Barclays.

7. For example, in the second half of 2007, Morgan Stanley actively monitored Barclays' exposure to sub-prime markets and related writedowns taken by

Barclays. This included, among other things, the monitoring Standard and Poor's credit rating of Barclays. Attached hereto as Exhibit 1 is a true and correct copy made and kept in the regular course of business at Morgan Stanley of a November 16, 2007 e-mail distribution received by my colleague Alexandra MacMahon noting that Standard and Poor's rating of Barclays would be unaffected by Barclays' announcement of sub-prime related writedowns and discussing Barclays' exposure to various sub-prime assets. The circulation and review of this and similar e-mail distributions is consistent with regular practice at Morgan Stanley in connection with Morgan Stanley's ongoing due diligence of securities issuers.

8. Morgan Stanley's due diligence of Barclays during this time period also included, in the context of ongoing turmoil in global financial markets, preparing and reviewing estimates of the subprime exposure and capital adequacy of Barclays and other European financial institutions. Attached hereto as Exhibit 2 is a true and correct copy made and kept in the regular course of business at Morgan Stanley of a November 21, 2007, e-mail from my colleague Alexandra MacMahon to recipients in Morgan Stanley's Debt Capital Markets group requesting updates on Morgan Stanley's debt capital markets clients relating to each client's: (i) sub-prime exposure (including CDO's and leveraged loans); (ii) total writedowns since last balance sheet date; and (iii) outstanding SIV conduits. This e-mail was circulated consistent with regular practice at Morgan Stanley in connection with Morgan Stanley's ongoing due diligence of securities issuers. Attached hereto as Exhibit 3 is a true and correct copy made and kept in the regular course of business at Morgan Stanley of a November 22, 2007 e-mail on which my colleague Alexandra MacMahon was copied which attached a document listing the sub-prime

exposure, SIV exposure and sub-prime related writedowns taken by various financial institutions in the United Kingdom and Ireland (including Barclays) as of that date. This e-mail and attached were prepared and circulated consistent with regular practice at Morgan Stanley in connection with Morgan Stanley's ongoing due diligence of securities issuers.

9. As another example, Morgan Stanley continued to monitor Standard and Poor's credit rating for Barclays early in 2008. Attached hereto as Exhibit 4 is a true and correct copy of a January 30, 2008 e-mail made and kept in the regular course of business at Morgan Stanley from my colleague Dominic Trusted attaching a Standard and Poor's rating outlook for Barclays dated January 30, 2008. This e-mail was sent consistent with regular practice at Morgan Stanley in connection with Morgan Stanley's ongoing due diligence of securities issuers.

10. As a final example, Morgan Stanley prepared a capital markets sales pitch to Barclays in April of 2008. In connection with this sales pitch, Morgan Stanley researched and presented information concerning, among other things, the capital adequacy and magnitude of sub-prime related writedowns taken by Barclays and other financial institutions. Attached hereto as Exhibit 5 is a true and correct copy made and kept in the regular course of business at Morgan Stanley of an April 4, 2008 e-mail to my colleague Alexandra MacMahon and others attaching a version of a PowerPoint prepared for a meeting with Barclays and presenting this research. This e-mail and attachment were prepared and circulated consistent with Morgan Stanley's regular practice in connection with Morgan Stanley's capital markets sales efforts.

II. Due Diligence Performed by Morgan Stanley in Connection with the Series 5 Offering

11. Citigroup Global Markets Inc. ("Citi") served as the lead underwriter in connection with the Series 5 Offering. Consistent with industry practice, Citi performed certain due diligence in connection with the Series 5 Offering on behalf of the underwriting syndicate, including Morgan Stanley. Morgan Stanley paid careful attention to the due diligence performed by Citi in connection with the Series 5 Offering and at no point had any reason to believe that the due diligence performed by Citi was inadequate, nor did it have any reason to believe that additional due diligence was necessary. In addition, Morgan Stanley independently undertook its own due diligence efforts in connection with the Series 5 Offering. These independent due diligence efforts are described below.

12. In addition to Citi, Morgan Stanley's due diligence efforts in connection with the Series 5 Offering were undertaken in collaboration with numerous other parties familiar with Barclays and its business. These other parties included Linklaters LLP ("Linklaters"), who served as designated counsel to the underwriters; Sullivan & Cromwell LLP ("S&C"), who served as United States counsel to Barclays; Clifford Chance LLP ("Clifford Chance"), who served as English counsel to Barclays; PricewaterhouseCoopers LLP ("PwC"), who served as Barclays' independent auditors; and the other members of the underwriting syndicate management team. These underwriters included Barclays Capital Securities Limited ("BCSL"), Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), UBS Securities LLC ("UBS"), Wachovia Capital Markets, LLC ("Wachovia"), RBC Dain Rauscher Incorporated ("RBC") and Banc of America Securities LLC ("Banc of America Securities").

13. Morgan Stanley assembled a team of individuals familiar with Barclays and its business to participate in the Series 5 Offering. Below are the individuals at Morgan Stanley who participated in the Series 5 Offering. The chart indicates in the columns labeled "Series 4" and "Series 3" whether each individual was also staffed on the Series 4 Offering and/or Series 3 Offering, respectively. Morgan Stanley's staffing of the Series 5 Offering with personnel that worked on these prior offerings enhanced Morgan Stanley's due diligence in connection with the Series 5 Offering, allowing Morgan Stanley to more readily build upon its prior due diligence for purposes of the Series 5 Offering.

Name	Title	Series 4	Series 3
Syndicate			
Michael Borut	Executive Director	X	X
Victoria Ortiz	Vice President		X
Global Capital Markets			
Alexandra MacMahon	Managing Director		
Dominic Trusted	Executive Director	X	X
Transaction Management (Legal/Documentation)			
Yurij Slyz	Vice President	X	
Jennifer Moreland	Managing Director	X	X

14. Morgan Stanley participated in due diligence calls held in connection with the Series 5 Offering. The due diligence calls in which Morgan Stanley participated are listed below:

- an April 3, 2008 business due diligence call with representatives of Barclays' management team (the "Business Due Diligence Call");
- an April 3, 2008 accounting due diligence call with Barclays' auditors, PwC (the "Accounting Due Diligence Call");
- an April 8, 2008 pre-pricing bring down due diligence call with representatives of Barclays' management team (the "Pre-Pricing Due Diligence Call");

- an April 11, 2008 pre-settlement bring down due diligence call with representatives of Barclays' management team (the "Pre-Settlement Due Diligence Call"); and
- an April 22, 2008, greenshoe pre-settlement bring down due diligence call with representatives of Barclays' management team (the "Greenshoe Pre-Settlement Due Diligence Call").

15. Morgan Stanley was satisfied with the responses provided on each of the due diligence calls. None of the responses provided during the course of these due diligence calls caused Morgan Stanley to believe that additional due diligence was necessary or that Barclays' public disclosures in connection with the Series 5 Offering were misleading or incomplete.

16. Morgan Stanley reviewed interim and final drafts of the prospectus supplement (including the base prospectus) filed in connection with the Series 5 Offering and any documents incorporated by reference therein.

17. Morgan Stanley reviewed and relied upon legal opinion letters provided by Linklaters, S&C and Clifford Chance to the Series 5 underwriters. These legal opinions included:

- An April 11, 2008 validity opinion provided by S&C;
- An April 11, 2008 disclosure opinion provided by S&C;
- An April 22, 2008 bring-down validity opinion letter provided by S&C;
- An April 11, 2008 disclosure opinion provided by Linklaters;
- An April 11, 2008 validity opinion provided by Linklaters;
- An April 22, 2008 bring-down validity opinion provided by Linklaters;
- An April 11, 2008 validity opinion provided by Clifford Chance;
- An April 11, 2008 tax opinion provided by Clifford Chance;
- An April 22, 2008 bring-down validity opinion provided by Clifford Chance; and

- An April 22, 2008 bring-down tax opinion provided by Clifford Chance.

18. Morgan Stanley reviewed interim and final versions of the comfort letter and bring-down comfort letter provided by PwC in connection with the Series 5 Offering. These comfort letters provided SAS 72 comfort for Barclays' unaudited financials from January 1, 2008 through April 8, 2008.

19. Morgan Stanley relied on PwC as to the accuracy of Barclays' 2007 audited financial statements, including its opinions as to the accuracy of the company's consolidated financial statements and the effectiveness of the company's internal control over financial reporting. Morgan Stanley did not believe and had no reason to believe that the audited financial statements for 2007 were inaccurate or incomplete.

20. Morgan Stanley relied on PwC with respect to the expertised portions of the Series 5 prospectus supplement, base prospectus and any documents incorporated by reference therein (the "Series 5 Offering Materials") and believed that the auditors' expertised statements were truthful and stated all material facts. With respect to non-expertised portions of the Series 5 Offering Materials and based on its extensive knowledge of Barclays and the due diligence that it performed in connection with the Series 5 Offering, Morgan Stanley believed that all other statements in the Series 5 Offering Materials were true and accurate and did not omit to state a material fact.

21. Morgan Stanley reviewed and relied upon an April 11, 2008 certification provided by Barclays' management team that stated, among other things, that Barclays' management had "carefully examined" the Series 5 Offering Materials and that they "did not include any untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein not

misleading." Morgan Stanley also reviewed and relied upon an April 22, 2008 bring-down certification provided by Barclays' management team that reaffirmed the statements made in the April 11, 2008 certification.

22. I declare under penalty of perjury that the foregoing is true and correct. Executed on October 20, 2016 at New York, New York.

Yurij Slyz

From: Oates, Paul (GCM) [Paul.Oates@morganstanley.com]
Sent: Friday, November 16, 2007 10:19:19 AM
To: dfig; figln
Subject: S&P: Barclays Bank PLC Ratings Unaffected By Writedowns
Attachments: Barclays.pdf

Barclays Bank PLC Ratings Unaffected By Writedowns
LONDON (Standard & Poor's) Nov. 16, 2007--Standard & Poor's Ratings Services said today that its ratings and outlook on Barclays Bank PLC (Barclays; AA/Stable/A-1+) were unaffected by today's announcement of writedowns on a range of assets within its investment banking division, Barclays Capital. Barclays today revealed that it had made markdowns and impairment charges totaling approximately £1.7 billion for July 2007-October 2007 in respect of various exposures to collateralized debt obligations, other subprime loans and RMBS, Structured Investment Vehicles (SIVs), and leveraged loans. These writedowns are substantial in absolute terms, but not altogether surprising given market movements in recent months. Relative to Barclays Capital's revenue base (£4.1 billion in first-half 2007), the markdowns are lower than those seen to date

Click on URL below for more details. If you are already logged in to RatingsDirect, the Research article will automatically display. If you are not currently logged in to RatingsDirect, the Login page displays. Once you login, the Research page displays.

Research Page:
https://www.ratingsdirect.com/Apps/RD/controller/Article?id=613650&from=Alert

Update Your Email Address:
https://www.ratingsdirect.com/Apps/RD/controller/AlertHome?from=Alert

----

From: MacMahon, Alexandra (GCM)
Sent: Wednesday, November 21, 2007 5:22 PM
To: dcmfig
Subject: European bank capital and funding impacts
Attachments: Bank Exposure 21-11-2007.doc; 07_08_16 ABCPs and Conduits - A Closer Look.pdf

All -

As discussed with you all this afternoon, we would like to get as detailed a handle as possible on the potential impact of recent market events on our clients' capital levels. To that end, can you please send us a list of all of your clients that have made disclosures about:

- Total exposure to sub-prime/ CDOs/ leveraged loans
- Total write downs since the last balance sheet date
- Conduit outstandings and whether they are currently on or off balance sheet

including relevant amounts wherever possible.

Attached is an initial analysis by Max and a list of European conduits which may be of use.

Secondly, can you please estimate each of your clients' funding need next year where possible.

We hope that most of you will have this info already so please can we have reponses tomorrow.

Thanks
Alex and Niko

Alexandra MacMahon - Executive Director
Morgan Stanley | Global Capital Markets
20 Bank Street | Canary Wharf | Floor 05
London, E14 4AD
Phone: +44 20 7677-5099
Mobile: +44 79909-17970
Fax: +44 20 7056-2115
Alex.MacMahon@morganstanley.com

From: Jacob, Max (GCM)
Sent: 21 November 2007 16:56
To: Giesbert, Nikolaus (GCM); MacMahon, Alexandra (GCM)

Cc: Moreland, Jennifer (GCM)
Subject: Exposure list and research

As discussed, please find attached the current version of the list with banks' exposures to sub prime, conduits and leveraged loans. Page 9 of the research report contains a list of banks and their conduit exposures.

Max

Max Jacob - Vice President
Morgan Stanley | Global Capital Markets
20 Bank Street | Canary Wharf | Floor 05
London, E14 4AD
Phone: +44 20 7677-6872
Mobile: +44 77996-56481
Fax: +44 20 7056-0710
Max.Jacob@morganstanley.com

Morgan Stanley

MORGAN STANLEY FIXED INCOME RESEARCH

Morgan Stanley & Co. International plc

Jackie Ineke
Primary Analyst
Jackie.ineke@morganstanley.com
+41 (44) 220 9246

August 16, 2007

Europe

Investment Grade Credit

European Banks

ABCPs and Conduits – A Closer Look

Replacing blind panic with analysis. The recent problems in the CP market, exacerbated by attempted liquidity draw-downs for Canadian vehicles, has brought conduits, and their ABCP funding, to the forefront of investors' minds over the past week.

All conduits and SIVs are different, whether it's underlying assets, triggers for credit enhancement, irrevocability of liquidity lines – there's a generic overview here, but you have to do the individual analysis to get comfortable. There is likely to be more panic linked to CP funding, but after the smoke clears, issuers with strong banks behind them should continue to fund, and not at prohibitive levels.

Focus on HBOS, Nationwide and Lloyds. We've looked at three large UK banks in terms of conduit sponsors. CP investors traditionally don't do a great deal of credit analysis (they've never had to); times are clearly changing, and maybe it's a naïve hope, but as more analysis is done on these conduits, investors should start to differentiate more.

Is Armageddon possible? Should all liquidity lines be drawn down, and banks ultimately have to fund conduits for billions of dollars, we believe that they have the capital capacity to take the conduits onto their books, from a regulatory perspective. Going a step further, we don't think that it's possible for large banks to be unable to fund in the CP market themselves, directly, and that the monetary authorities would have to intervene.

European Banks

ABCPs and Conduits – A Closer Look

Primary Analyst: Jackie Ineke (41 44) 220-9246

Banks to Face Liquidity Crisis? We Can't Believe it

This is what we've heard now, many times, over the past few days, namely from the 'hotter money' in the market. While we believe that Tier 1s in particular still look rich and have a good way to widen before the markets regain some semblance of normality, we are far, far away from any kind of Armageddon scenario, in our view. We are certainly far away from a liquidity crisis for banks, in our opinion. The Armageddon arguments are varied and many, but the one specifically relating to the CP market comes from two angles. First, based on fundamentals, as information leaks out about conduits having US subprime exposure (or anything at all considered toxic), CP investors will refuse to buy/roll their ABCP. The conduits would then have to draw down huge liquidity lines from their bank sponsors, who may simply not be able to raise such sums (à la IKB).

The other angle is more broad and technical in nature, but linked to the first – scare stories like IKB simply widen spreads on all CP, no matter what the conduit is and what's in it, or who is providing the liquidity line, and liquidity dries up across the board. ABCPs cannot be financed and, once again, liquidity lines are drawn, but this time for all bank liquidity providers. Banks coming into the market to refinance these lines exacerbate the whole CP funding problem, and banks themselves have to fund at very expensive levels, if they can at all. This could be worsened by banks' own exposure to other conduits' ABCPs, which they may try to sell in the market at the same time. We get to a liquidity crisis for banks.

While in this panicked market we can appreciate the train of thought here, we'd make the following points. Certainly, this first scenario could well happen, and should happen, as investors look more closely into these conduits. However, for the second scenario, **we simply do not believe that the CP market can 'shut down' for more than a number of days.** The reason for this is not specifically that banks desperately need to access this market for funding – many don't have CP programmes (certainly less in Europe than the US, where CP is far more important) – it's the knock-on effects. We saw this recently in the interbank market, where the overnight rate spiked and central banks provided liquidity to bring the rates down towards official policy rates. This may be a naïve view, but we believe that a market-wide paralysis in CP would morph into a policy problem for central banks, as banks themselves are forced more into the interbank market, as they can't get funds elsewhere. (We assume that the MTN market – and, less so, CDs – would also be impacted by a CP crisis, and potentially be blocked too for banks). Central banks would have to act to improve the situation very quickly. Thus, a market-wide panic would be short-lived, in our view.

Expecting the Market to Get Worse Before Getting Better

Certainly, we do think that things are likely to get worse before they get better, particularly as we're expecting more European banks to come clean on their subprime exposures, but we don't believe that Armageddon is where we're heading. We believe we're heading towards monetary authority intervention when and if CP problems spill into the interbank market. In our view, at least for as long as this market turbulence lasts, we're heading towards greater differentiation in where ABCPs trade, and for idiosyncratic problems in that market, not a complete lock-out for all names. The consequences of a closure of the market simply cannot be tolerated by financial, and more importantly in terms of solving the problem, by monetary authorities. Idiosyncratic problems may well be focused on those SIVs and conduits who aren't sponsored by strong banks, particularly if underlying asset quality is not the best, in our view. When any general market panic dies down again, however, we would expect any vehicle with excellent asset quality to be able to achieve good funding levels.

As an aside here, we believe that the likelihood that a liquidity provider 'walks away' from a vehicle is extremely low. As we discuss later, this is a problem for Canada, rather than Europe and the US, where there are no 'subjective' tests for provision of liquidity (but some clear objective ones). Certainly, for banks who sponsor vehicles and provide liquidity lines, they are likely to also provide credit enhancement, so again (and reputational issues aside for now), they may already have a lot of 'sunk costs' in the vehicle in the form of credit enhancement, again suggesting that they'd be unlikely to just walk away at that point. If CP investors get confident in Europe that sponsor bank liquidity providers won't renege on those lines, they should be happier buying the CP. For the three banks we review here, we believe that this is certainly the case.

In this note, we discuss some of the background to the current problems, and then take you through the basics of SIVs and conduits, finishing with comments on three UK bank sponsors of conduits. We expect to produce more research on the different conduits and their liquidity providers in the near future. As a taster for where we'll have to focus our attention, Exhibit 1 highlights the largest global liquidity providers. In future notes, we will try and drill down to who's providing liquidity to the independent SIVs – coming back to our point that in a panicked market, these may come under the closest scrutiny.

Exhibit 1

15 Largest Global Liquidity Providers (as of March 31, 2007)

Provider name	US$ million
ABN Amro	103,075
Citibank	90,798
Bank of America	84,637
JPMorgan Chase	73,342
Morgan Stanley	64,764
Wachovia	51,282
Barclays	49,866
Deutsche Bank	42,594
Bank of Scotland	42,121
Rabobank	41,669
Societe Generale	38,450
Lloyds TSB	32,583
Royal Bank of Scotland	32,269
WestLB	30,390
Fortis	29,201

Source: S&P, US$ ABCP Market Statistics, June 21, 2007

Background Triggers: IKB and Canada

The first problems in ABCP conduits were highlighted to the market by IKB and its conduit, Rhineland Funding. In brief, when Rhineland Funding was unable to fund due to concerns over its asset quality, it tried to draw down the liquidity facilities supplied by IKB. However, IKB was unable to provide the funding and KfW subsequently agreed to supply €8 billion of funding to IKB. As panic spread through the CP market for other German names, and due to French investors having stepped away from the market after a variety of French funds reported problems, it all led to the closure of the market last Thursday. The market subsequently re-opened, but naturally at wider levels.

Problems in ABCP conduits spread further earlier this week with DBRS reporting that it had received confirmations in Canada that certain ABCP issuers had delivered requests for funding from liquidity facilities, and that some providers had refused these requests.

Conduits & SIVs – What They Are, How They Work

Do note that the information supplied in the following sections on ABCP conduits and SIVs is generic. While we attempt to highlight common characteristics in this note, we cannot over-emphasise that for a detailed understanding, each conduit should be considered on a case-by-case basis.

Types of ABCP Programme

ABCP conduits are special purpose vehicles that invest in highly rated assets and are established to finance third-party assets. They can be split into the following sub-groups:

- **Credit arbitrage programmes** – This is the classic borrow short, buy long structure that invests in highly rated securities.
- **Multi-seller programmes** – These are generally designed to fund client transactions, and include un-rated pools of receivables. The rating agencies evaluate new asset additions on a case-by-case basis.
- **Hybrids** – These are a mix of a credit arbitrage and multi-seller programmes.
- **Single-seller** – These are not common in Europe; the ABCP only includes originations from one source, normally the sponsor.
- **SIVs** – A SIV is the most sophisticated form of ABCP conduit and includes different types of liabilities and a wider range of investments, and has different liquidity requirements.

There are also other types of conduits that have recently grown in prominence; these include CDO-type programmes and repo conduits. However, for the European banking sector, the five classifications above are the most prevalent.

Market Size

As at end-May 2007, Moody's estimated that there was US$510.9 billion ABCP outstanding from sponsors within the EMEA region[1]. Please see Exhibit 3 at the end of the report for a breakdown of the largest ABCP issuers in Europe. As we can see from the table, the vast majority of these conduits are sponsored by banks. Moody's also estimates that SIVs have US$395 billion[2] of assets outstanding.

[1]Moody's Investor Service: *EMEA ABCP Market Summary*, August 3, 2007

[2]Moody's Investor Service: *SIVs: An Oasis of Calm in the Sub-prime Maelstrom*, July 20, 2007.

Differentiating SIVs and Other Conduits

Although SIVs are a form of ABCP conduit, the market generally differentiates ABCP conduits and SIVs and, as such, we compare and contrast them below.

Investments

ABCP conduits that finance securities typically invest in AAA structured finance tranches (RMBS, CMBS, CLO, CDO, credit card ABS, etc.); investments may be wrapped and commonly include super senior tranches. Any investments rated below AAA or the pre-defined level typically require some form of credit enhancement – for example, letters of credit or any other third-party guarantee. This may be pool-specific – i.e., to enhance the investment to the pre-determined ratings levels (e.g., over-collateralisation for pools of receivables); or programme-wide – i.e., to cover any losses in the transaction (e.g., letter of credit).

This is in contrast to SIVs that generally hold a mix of structured finance investments and financial debt, predominately LT2 bank debt. SIVs' investment portfolios are subject to strict rating limits imposed by the rating agencies, but can readily hold investments in the range from AAA to A. Below this rating range, assets may incur an additional capital charge or have to be sold. Any losses would be absorbed by reserves and, beyond this, the capital note holders.

Until very recently, due to the benign credit environment, spreads over Libor that the ABCP conduits and SIVs earned had been tightening for a number of years. On average, one could have typically expected ABCP conduits to earn around 15bp over Libor and SIVs to earn around 30bp over Libor on their asset portfolios.

Funding

ABCP conduits are funded by highly rated commercial paper with a weighted average life ('WAL') of liabilities of around 30-60 days. This is predominately ECP and USCP. SIVs' funding is generally a mix of highly rated CP and AAA/Aaa rated medium-term notes with an overall WAL of generally up to one year. SIVs also issue lower-rated/unrated capital notes that, in a liquidation scenario, rank junior to CP and MTNs. These capital notes are normally levered up to around 15 times.

Prior to the recent spread widening, ABCP conduits and SIVs could fund themselves at around Libor flat for CP and Libor plus a couple of basis points for longer-term MTN funding.

Liquidity Facilities

Due to their exposure to the short-term funding markets and as a requirement to obtain their high debt ratings, both ABCP conduits and SIVs are required to have back-up forms of liquidity.

ABCP conduits typically have committed liquidity facilities from a highly rated bank equivalent to 100% or even 102% of their asset portfolio. The conduit sponsor commonly solely supplies these facilities. These facilities are available to fund non-defaulted assets (credit enhancement covers defaulted assets).

This contrasts with SIVs, who will typically have 5-10% of their asset portfolio covered by committed liquidity facilities from a group of highly rated banks. The rating agencies generally require SIVs to maintain sufficient liquidity to cover five days' maximum net cash outflow over the coming year. While SIVs commonly have other forms of liquidity including breakable deposits and committed repo facilities, they also rely on the ability to sell assets for funding if they cannot access the financial markets.

A topical issue that we have seen in Canada concerns the irrevocability of liquidity lines. In Canada, a conduit must prove 'market disruption' to be able to draw down on a liquidity line, and recently both Conventree and Silverstone have had requests for liquidity declined by their liquidity providers. In Europe, we cannot say that liquidity lines are irrevocable, as they can be cancelled under specific circumstances defined in the contracts (for example, if credit enhancement falls below a specified level or if the conduit declares bankruptcy). However, we understand that generally in Europe, liquidity lines for both conduits and SIVs do not contain subjective tests like the Canadian 'market disruption' scenario. Therefore, we believe that European liquidity lines are more robust than in Canada.

A final point is that where the bank exclusively sponsors a conduit, we find it unlikely that the bank would renege on its liquidity lines to its conduit. First, as it could well have put in a significant amount of credit enhancement before liquidity lines are drawn anyway and, second, walking away could possibly have a very negative impact on their own funding.

Programme Support

ABCP programmes are either fully supported or partially supported. For a fully supported programme, the repayment of the ABCP is dependent upon a financial guarantee (for example, a letter of credit or other third-party guarantee). In this circumstance, the credit rating of the conduit is dependent upon the credit rating of the institution providing the financial guarantee.

In a partially supported programme, the ABCP effectively takes the default risk for the duration of its investment to the extent that any credit defaults are not covered by credit enhancement. Do note that failure to provide sufficient credit enhancement would constitute a wind-down event for a conduit. As such, even in a partially supported ABCP conduit, the ABCP investor is only exposed to sudden default risk.

In Europe, a majority of conduits are partially supported.

Triggers

ABCP conduits can have rating-based triggers, i.e., any rating downgrade below a pre-defined level will typically require some form of credit enhancement from the issuer or market value-based triggers (that is, if an asset falls below a certain price, it must be replaced). For multi-seller programmes, other triggers may include those related to default rates, delinquency rates and excess spread.

Wind-down triggers typically include the bankruptcy of the issuer, failure to maintain required credit enhancement, non-compliance with the investment policy for a period of 10 days or a downgrade of the ABCP notes below a specified level.

SIVs will also having rating triggers similar to the ABCP conduits, with any downgrades below a defined level resulting in a forced sale or an additional capital charge. As with ABCP conduits, SIVs' market value triggers are bespoke and therefore it is very hard for us to know what SIV market value triggers are in place. Simply, depending on the breach, operations may be restricted ('defeasance') or the fund may be forced to wind down ('enforcement').

Accounting Treatment

Under IFRS, there is no single answer as to how ABCP conduits should be accounted for and whether they should be held on or off balance sheet. Generally, it is necessary to have recourse to the provisions of Sic 12 on the consolidation of SPVs under IFRS and consider control, risks, rewards and benefits.

In the event of consolidation, the assets can be held at fair value (as either available for sale or held for trading) or held to maturity in accordance with the bank's stated accounting policies. Whether the ABCP conduit is held on or off balance sheet, under Basel II the liquidity facility provider will be required to hold regulatory capital against the facility that they provide but not against the assets in the ABCP conduit.

SIVs are generally structured off-shore, commonly in the Cayman Islands or Jersey for tax purposes. They are specifically structured so as to not be consolidated by their sponsor. As with ABCP conduits, any banks that provide liquidity facilities will need to put regulatory capital against these facilities.

Who Has the Ultimate Credit Risk?

For an ABCP conduit, this will typically be the conduit sponsor. This will occur via one of two mechanisms. First, via credit enhancement as assets deteriorate, or second, via liquidity facilities. Further, in the event of forced sale or replacement of an asset, we believe that the sponsor would generally deal at par, thus accepting any decline in market value.

The main circumstance where the ABCP investor themselves would take the credit risk is in the event of a sudden default in a partially supported fund that occurred while their ABCP investment was outstanding. This would mean that the investor had to recover their investment from the assets rather than the sponsor. **Overall, an ABCP investor has no market risk and generally only has default risk for the duration of their investment.**

SIVs are different as their capital notes rank junior to their CP and MTNs, and so these instruments bear the credit risk in the event of losses. Any losses in excess of the value of capital notes would be borne by CP and MTN note holders.

Immediate Impacts

Given the recent lack of liquidity in the CP markets, we believe that it has been harder and more expensive for both ABCP conduits and SIVs to refinance maturing funding. Depending upon the duration of the current illiquidity and volatility in the CP markets, we see the following problems:

- The immediate impact is a reduction in the spread income that ABCP conduits and SIVs earn. This is due to a higher cost of funding.
- If ABCP conduits and SIVs are required to draw down on their committed liquidity facilities, then this effectively shifts the problem to their liquidity provider, who is consequently required to seek financing in the markets.
- If SIVs are shut out of the CP markets for a period of weeks, they may be forced to start selling assets for funding purposes. In this case, they may choose to sell financial debt as, in the present market, it is possible that they will achieve bids closer to par than for structured finance securities. Moody's estimates that SIVs have around £170 billion of financial debt under management and, due to rating agency restrictions, we believe that it is mainly LT2 debt. Therefore, if this situation were to arise, this technical factor could negatively influence the performance of LT2 over the coming weeks. However, it is important to bear in mind that much of this will be dollar-denominated and, further, SIVs also have regular redemptions from their security holdings, particularly ABS, and so this will mitigate the level of forced selling required to a certain extent.

- In the medium term and in the worst-case scenario where the sponsor bank was required to fully fund the ABCP conduit, this would be tantamount to the bank buying the conduit back. This would require the bank to raise funding equivalent to the size of the conduit. Further, it would require the bank to put regulatory capital against the entire portfolio. At present, we view this occurring on a large scale as a remote possibility as we believe that banks would take steps to prevent this it, e.g., replacing assets or over-collateralisation. **Ultimately, the underlying asset quality or perception of asset quality ought to be a key factor in determining whether this will occur.**

While SIVs may be at more risk than ABCP conduits due to their smaller amount of liquidity facilities, **we feel that the ABCP conduits have a greater potential to directly impact European banks as their bank sponsors ultimately assume the conduit's credit risk from the underlying portfolio** via credit enhancement and liquidity facilities. Therefore, this note will focus on banks with ABCP conduits. Saying this, we are certain that a number of European banks do provide liquidity facilities to 'independent' SIVs, and would naturally be impacted if those SIVs were shut out of the market. We will return to this topic.

Asset Quality Ought to Be Key

Fundamentally, we believe that asset quality is the key to understanding the banks' risk from their ABCP conduits. We base this view on the following factors: First, in the short term, the market's perception of the conduit's asset quality will determine whether the conduit can fund in the ABCP markets. If it cannot fund, this will negatively impact the bank as it will be required to source funding as liquidity facilities are drawn down in what are presently very illiquid and volatile markets. Second, in the medium term, if the conduit's investments do turn bad, the sponsoring bank will absorb credit losses in the conduit.

Overall, we believe that the key short-term risk to a bank is liquidity, i.e., having to fund large sums as liquidity facilities are drawn down. This could well be affected by general market panic. Longer term, we believe that the performance of the asset portfolio is critical and we concur with the view of our interest rate strategists, who believe that until market participants get sufficient information about where the losses lie, the funding markets will remain volatile and weak (see *What Happened, Why and What Next?* August 9, 2007). This concurs with our view that ultimately asset quality (whether perceived or real) is critical. However, this is a fundamental approach to conduits and banks' lines to them; in the short term, panic may prevail, with the consequences as we discussed on page 2.

Names Under the Spotlight

Once again, it is important to highlight that due to the limited disclosures made by banks, the majority of our information here has been obtained directly from investor relations.

HBOS plc (Aa1/AA/AA+) has only £150 million of sub-prime exposure, of which £93 million is in its Grampian conduit. HBOS's £150 million exposure is all AAA rated and relates to pre-2006 vintages. In relation to its mortgage business, HBOS has no direct exposure to US sub-prime and, in the UK, only 2% of its portfolio can be classified as 'light near prime'. Further, HBOS has no CDO or sub-prime exposure via its insurance or investment divisions. **In total, HBOS's sub-prime exposure represents less than 0.1% of total assets.**

HBOS sponsors two conduits. Grampian Funding Limited, which is an £18 billion credit arbitrage conduit, has £93 million of direct-sub-prime exposure (via ABS) and a further £403 million of exposure via ABS CDOs, which contain some sub-prime bonds; however all these positions are AAA rated and 35% of them are wrapped by a AAA rated mono-line. The entire Grampian portfolio is rated AAA by S&P and 99.9% Aaa by Moody's.

HBOS provides a 100% liquidity facility for the total portfolio. Furthermore, it provides US$1,200 million of credit enhancement; it is our understanding that this credit enhancement is not presently required by the ratings agencies but has been included as an additional structural support. HBOS also sponsors a second US$6 billion conduit called Landale Funding Ltd, which is a multi-seller conduit. Landale's assets are mainly exposed to the UK and have no exposure to either US sub-prime or CDOs.

We understand that Grampian has been able to continually fund in the ABCP markets and that there has been no requirement to draw down any liquidity facilities or provide any additional credit enhancement. Overall, we believe that HBOS has very limited exposure to sub-prime.

Following our previous report, we provide further details on **Nationwide Building Society (Aa2/A+/AA).** In line with our understanding, Nationwide has no direct exposure to the US sub-prime market. Nationwide holds one AAA tranche of a CDO with exposure to US RMBS with an approximate value of £50 million, and all the underlying assets are AAA rated prime RMBS with a weighted average life of 2.1 years.

Nationwide also has a US$3.1 billion ABCP conduit called Cobbler Funding Limited. As at the end of July 2007, it had no exposure to US sub-prime. In terms of US RMBS exposure, 12.2% of its portfolio is described as Prime Alt-A. However, the FICO scores on all these tranches are in excess of 700 and LTVs do not exceed 80%. Further, approximately 20% of these investments are wrapped by a AAA mono-line insurer and many of the investments relate to super senior tranches. Finally, all the investments contained in Cobbler are presently rated AAA/Aaa. **Overall, Nationwide has no exposure to US sub-prime, and its exposure to Prime Alt-A appears to be conservative.**

We return to **Lloyds TSB Bank plc (Aaa/AA/AA+)** with details of its ABCP conduit after having included it in *Dipping a Toe in*, August 2, 2007. Lloyds has a US$25.5 billion hybrid commercial bank conduit called Cancara Asset Securitization Limited. Lloyds tells us that across the group (including Cancara) it has circa £50 million total exposure to the US sub-prime market and that it has no exposure to CDO of ABS within Cancara, and on balance sheet exposure is 'de minimis'. Overall, the credit arbitrage part (approximately two-thirds) of the Cancara fund is all Aaa rated and the multi-seller part (around one-third) of Cancara is well-diversified. The multi-seller part of the portfolio includes exposures to credit cards, trade receivables, car loans and leases, residential mortgages loans, consumer loans, etc.

Please note that HBOS, Lloyds and Nationwide are the sole providers of liquidity to their ABCP conduits. However, this is not always the case – for example, IKB is not the sole liquidity provider to Rhineland Funding. Grampian, Cancara and Cobbler are also all partially supported funds.

For the three ABCP conduits above, the credit enhancement provided is based on ratings rather than market values. Credit enhancement is dynamically calculated and driven by rating agency requirements – for example, a conduit can only hold a certain number of securities at a specified rating level before credit enhancement is required. This is how credit enhancement protects ABCP investors – as downgrades occur in a portfolio, increasing amounts of credit enhancement are required to be posted. If the credit enhancement is not posted, then the conduit is precluded from issuing further ABCP and effectively puts the conduit into 'wind-down'.

Market View

The market has been very turbulent over the last week or so. The initial reaction was that there was virtually no issuance in the ECP market. Following this, ECP spreads widened, with financials CP moving out from levels of Libor-4bp to Libor+2bp. ABCP paper moved out even wider from a level of Libor flat to Libor+20bp. In the US, CP has moved out by about 5bp for the best-quality issuers and about 20bp for the weaker-quality issuers. The refinancing term of some issuance has also been shortened to a certain extent – for example, 3-month CP being refinanced with 1-month CP. We understand that CP buyers are being opportunistic, i.e., they are willing to pick some extra spread in the higher-quality issuers.

The exhibits on the following two pages give an overview of the characteristics of conduits and then the actual size of European conduits' outstanding ABCP.

We acknowledge the contribution of Lee Street to this report.

Exhibit 2

Overview of Conduit Characteristics

Fully versus Partially Supported Programmes

- In a fully supported programme, repayment of the ABCP is dependent on a financial guarantee: a letter-of-credit, surety bond, credit agreement or some other form of third-party guarantee. The credit rating is primarily determined by reference to the credit rating of the institution providing the financial guarantee, not by cash flows from the underlying assets
- In a partially supported programme, repayment of the ABCP is dependent on the cash flow from the asset pool. It is with these programmes that structural elements, such as liquidity and credit enhancement, are important for investor protection

Major Conduit Participants

- ***Sponsor:*** The entity, often a bank, that establishes the ABCP programme. Sellers of assets into the asset pool are often clients of the sponsor
- ***SPE:*** Also called the Conduit, the SPV or the Issuer. The SPE is generally a specially created, limited purpose corporation owned by an independent third party – unaffiliated with the ABCP programme's sponsor. The SPE purchases the asset pool from one or more sellers and issues ABCP to fund these purchases
- ***Administration:*** Day-to-day management of the SPE's activities. Administration may be provided by the SPE's sponsor or a third-party administrator

Liquidity

- Covers mismatches between collections on the assets in the pool and maturities of ABCP notes
- Sponsors may provide the liquidity for their own programmes, or the liquidity may be syndicated
- Generally, a liquidity bank should be rated at least A-1/P-1
- If a liquidity bank is downgraded, the bank is replaced and the liquidity facility is drawn
- Typically covers only non-defaulted receivables and 100% of face amount of CP or 102% of asset purchase limits
- Forms of liquidity include programme level, pool-specific or some combination, as well as asset-purchase agreements

Credit Enhancement

- Covers investors if the proceeds from asset collections and the liquidity facilities are insufficient to repay ABCP
  - *Pool-specific enhancement*: Every transaction which is sold into the portfolio is enhanced to a AA or A level.
    - Forms can include overcollateralisation and mono-line insurance wrapper
  - *Programme-wide credit enhancement* to cover any losses in any of the transactions in the portfolio
    - Forms include cash collateral, LOC, surety bond, loan commitment, total rate of return swap

Source: Morgan Stanley

Exhibit 3

EMEA ABCP Outstanding (European Conduits Only), US$ Billion

Programme totals

Conduit	Sponsor	ABCP
Grampian Funding Limited	HBOS	35.41
Scaldis Capital Limited	Fortis Bank	26.48
Ebury Finance Limited	BSN Holdings Limited	23.65
Chesham Finance Limited	BSN Holdings Limited	23.50
Solitaire Funding Limited	HSBC	23.20
Cancara Asset Securitisation	Lloyds TSB	22.83
Amstel Funding Corporation	ABN Amro	20.05
Rhineland Funding Capital Corporation	IKB Deutsche Industriebank	18.37
Ormond Quay Funding PLC	Landesbank Sachsen Girozentrale	18.11
Simba Funding Corp	ING Bank	16.66
Thams Asset Global Securitisation No.1 Inc	Royal Bank of Scotland	13.85
Atlantis Funding Corporation	Rabobank	13.71
Chariot Funding Limited, Chariot Funding LLC	JP Morgan Chase Bank	12.31
Anglesea Funding	Northcross Capital Management Limited	11.78
Tulip Funding Corporation	ABN Amro	10.95
Mane Funding Corporation	ING Bank	10.01
Ebbets Funding*	Hudson Castle Group	9.85
LMA SA	Calyon	9.74
Curzon Funding Limited	AIG Financial Products	9.47
Kaiserplatz Funding Limited	Commerzbank	9.45
Lake Constance Funding Limited	Landesbank Baden-Württemberg	9.00
North Sea Funding Limited	ABN Amro	8.90
Regency Markets No.1 LLC	HSBC	8.49
Compass Securitisation Limited	WestLB	8.45
Silver Tower Funding Limited	Dresdner Bank	7.94
Rheinmain Securitisation Limited	Deutsche Bank	7.78
Berkely Square Finance	Stanfield Global Strategies, LLC	7.63
Rheingold Securitsation Limited	Deutsche Bank	7.60
Giro Lion Funding Limited	Bayerische Landesbank	7.37
Antalis SA	Societe Generale	7.08
EastFleet Finance	MBIA Asset Management UK Limited	7.02
Poseidon Funding Limited	HSH Nordbank	6.87
Cantabric Financing PLC	BSCH	6.73
Landale Funding Limited, Landale Funding LLC	HBOS	6.35
Mont Blanc Capital Corporation	ING Bank	5.00
Picaros Funding PLC	KBC Bank	4.98
Erasmus Capital Corporation	Rabobank	4.83
Coral Capital Limited	DZ Bank	4.02
Atomium Funding Corporation	KBC Financial Products	3.23
Direct Funding	Ixis CIB	3.21
CentreStar Capital No.1	National Australia Bank	3.08
Halkin Finance Limited	BSN Holdings Limited	3.01
Matchpoint Finance plc and Matchpoint Master Trust	BNP Paribas	2.85
Polonius Inc	Den Danske	2.49
Arabella Funding Limited	HypoVereinsbank	2.33
Tempo Finance Limited	Rabobank	2.26
Check Point Charlie	Bankgesellschaft Berlin	2.19
Albis Capital Corporation	Glencore	2.00
Salome Funding Limited	HypoVereinsbank	1.98
Opusalpha Funding Limited	Helaba	1.87
Eureka Securitisation Inc	Citibank	1.87
Thesee Ltd	BNP Paribas	1.85
Eliopee Ltd	BNP Paribas	1.82
Romulus Funding Corp	Banca Intesa	1.44
Synthesis Funding Limited	Nedbank	1.26
Elixir Funding Limited	Natexis Banques Populaires	1.25
Old Court Funding plc, Old Court Funding LLC	Cambridge Place Investment Management	1.09
Quasar Securitisation Company NV	KBC Bank	0.95
Securitised Instantly Repackaged Perpetuals	Credit Foncier de France	0.61
European Sovereign Funding	Calyon	0.57
Albion Capital Corporation	Mitsubishi UFJ Securities International	0.50
Asset Backed Arbitraged Securities (Proprietary) Limited	Absa Bank Limited	0.48
Viking Asset Securitisation Limited	Unibank	0.45
Grayston Conduit 1 (Proprietary) Limited Series 1	Investec Bank	0.26
General Funding Ltd.	Titrisation et Finance Internationale	0.24
Grayston Conduit 1 (Proprietary) Limited Series 5	Investec Bank	0.15
Grayston Conduit 1 (Proprietary) Limited Series 4	Investec Bank	0.14
Grayston Conduit 1 (Proprietary) Limited Series 2	Investec Bank	0.12
Bills Securitisation Limited	Deutsche Bank	0.07
AYT 4 Grandes Prestamos	Caja De Ahorro	0.00

Sponsor totals

Sponsor	ABCP
BSN Holdings Limited	50.16
HBOS	41.76
ABN Amro	39.89
HSBC	31.69
ING Bank	31.67
Fortis Bank	26.48
Lloyds TSB	22.83
Rabobank	20.80
IKB Deutsche Industriebank	18.37
Landesbank Sachsen Girozentrale	18.11
Deutsche Bank	15.45
Royal Bank of Scotland	13.85
JP Morgan Chase Bank	12.31
Northcross Capital Management Limited	11.78
Calyon	10.31
Hudson Castle Group	9.85
AIG Financial Products	9.47
Commerzbank	9.45
Landesbank Baden-Württemberg	9.00
WestLB	8.45
Dresdner Bank	7.94
Stanfield Global Strategies, LLC	7.63
Bayerische Landesbank	7.37
Societe Generale	7.08
MBIA Asset Management UK Limited	7.02
HSH Nordbank	6.87
BSCH	6.73
BNP Paribas	6.51
KBC Bank	5.93
HypoVereinsbank	4.31
DZ Bank	4.02
KBC Financial Products	3.23
Ixis CIB	3.21
National Australia Bank	3.08
Den Danske	2.49
Bankgesellschaft Berlin	2.19
Glencore	2.00
Helaba	1.87
Citibank	1.87
Banca Intesa	1.44
Nedbank	1.26
Natexis Banques Populaires	1.25
Cambridge Place Investment Management	1.09
Investec Bank	0.67
Credit Foncier de France	0.61
Mitsubishi UFJ Securities International	0.50
Absa Bank Limited	0.48
Unibank	0.45
Titrisation et Finance Internationale	0.24
Caja De Ahorro	0.00
ANZ Banking Group	0.00

Source: Moody's Investors Service; *data as of April 2007

Credit Products Rating Distribution Table

(as of August 03, 2007)

	Coverage Universe		Investment Banking Clients (IBC)		
Rating	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight	74	36%	47	33%	64%
Equal-weight	81	39%	62	43%	77%
Underweight	51	25%	35	24%	69%
Total	206		144		

Coverage includes all companies that we currently rate. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Ratings Definitions

Overweight (O) Over the next 6 months, the fixed income instrument's total return is expected to exceed the average total return of the relevant benchmark, as described in this report, on a risk adjusted basis.

Equal-weight (E) Over the next 6 months, the fixed income instrument's total return is expected to be in line with the average total return of the relevant benchmark, as described in this report, on a risk adjusted basis.

Underweight (U) Over the next 6 months, the fixed income instrument's total return is expected to be below the average total return of the relevant benchmark, as described in this report, on a risk adjusted basis.

More volatile (V) The analyst anticipates that this fixed income instrument is likely to experience significant price or spread volatility in the short term.

Important Disclosures on Subject Companies

The information and opinions in this report were prepared by Morgan Stanley & Co. Incorporated and/or one or more of its affiliates (collectively, "Morgan Stanley") and the research analyst(s) named on page one of this report.

Issuer Name: HBOS
Fixed Income Research 12-Month History
Issue Type: EUR LT2 19NC14s
Current Rating: Equal-weight --as of 01/03/2007
Issue Type: EUR LT2 30NC25s
Current Rating: Overweight --as of 01/03/2007
Issue Type: EUR T1 11s
Current Rating: Underweight --as of 01/03/2007
Issue Type: EUR T1 16s
Current Rating: Overweight --as of 01/03/2007
Issue Type: EUR UT2 11s
Current Rating: Overweight --as of 01/03/2007
Issue Type: EUR UT2 15s
Current Rating: Overweight --as of 01/03/2007
Issue Type: STR T1 15s/18s
Current Rating: Equal-weight --as of 12/21/2006
Issue Type: STR T1 19s
Current Rating: Equal-weight --as of 02/22/2007
Previous Rating: --as of 12/21/2006 --Overweight
Issue Type: STR UT2 19s/22s/25s
Current Rating: Equal-weight --as of 02/22/2007
Previous Rating: --as of 12/21/2006 --Overweight
Previous Rating: --as of 09/01/2006 --Suspended

Issuer Name: Nationwide Building Society
Fixed Income Research 12-Month History
Issue Type: STR T1 26s
Current Rating: Equal-weight --as of 12/21/2006
Previous Rating: --as of 09/01/2006 --Suspended

Issuer Name: Lloyds TSB
Fixed Income Research 12-Month History
Issue Type: EUR T1 13s
Current Rating: Equal-weight --as of 01/03/2007
Issue Type: EUR T1 17s
Current Rating: Overweight --as of 02/21/2007
Previous Rating: --as of 01/03/2007 --Equal-weight
Issue Type: STR LT2 14s/15s
Current Rating: Underweight --as of 12/21/2006
Previous Rating: --as of 09/01/2006 --Suspended
Issue Type: STR T1 15s Non-Step
Current Rating: Underweight --as of 02/22/2007
Previous Rating: --as of 12/21/2006 --Equal-weight
Previous Rating: --as of 09/01/2006 --Suspended
Issue Type: STR T1 15s Step
Current Rating: Overweight --as of 12/21/2006
Issue Type: STR UT2 16s/19s/32s
Current Rating: Overweight --as of 12/21/2006
Previous Rating: --as of 09/01/2006 --Suspended

As of June 29, 2007, Morgan Stanley held a net long or short position of US$1 million or more of the debt securities of the following issuers covered in this report (including where guarantor of the securities): HBOS, Nationwide Building Society, Lloyds TSB.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of HBOS, Nationwide Building Society.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from HBOS, Nationwide Building Society, Lloyds TSB.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from HBOS, Nationwide Building Society, Lloyds TSB.

Morgan Stanley policy prohibits research analysts from investing in securities/instruments in their MSCI sub industry. Analysts may nevertheless own such securities/instruments to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

Morgan Stanley is involved in many businesses that may relate to companies or instruments mentioned in this report. These businesses include market making, providing liquidity and specialized trading, risk arbitrage and other proprietary trading, fund management, investment services and investment banking. Morgan Stanley trades as principal in the securities/instruments (or related derivatives) that are the subject of this report. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report.

Other Important Disclosures

The securities/instruments discussed in this report may not be suitable for all investors. This report has been prepared and issued by Morgan Stanley primarily for distribution to market professionals and institutional investor clients. Recipients who are not market professionals or institutional investor clients of Morgan Stanley should seek independent financial advice prior to making any investment decision based on this report or for any necessary explanation of its contents. This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. You should consider this report as only a single factor in making an investment decision.

Morgan Stanley fixed income research analysts, including those principally responsible for the preparation of this research report, receive compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Analysts' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

This report is not an offer to buy or sell any security/instrument or to participate in any trading strategy. In addition to any holdings disclosed in the section entitled "Important Disclosures on Subject Companies," Morgan Stanley and/or its employees not involved in the preparation of this report may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned in this report, and may trade them in ways different from those discussed in this report. Derivatives may be issued by Morgan Stanley or associated persons.

Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change.

With the exception of information regarding Morgan Stanley, reports prepared by Morgan Stanley Equity Research personnel are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

The value of and income from investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized.

This report may include research based on technical analysis. Technical analysis is generally based on the study of trading volumes and price movements in an attempt to identify and project price trends. Technical analysis does not consider the fundamentals of the underlying issuer or instrument and may offer an investment opinion that conflicts with other research generated by Morgan Stanley. Investors may consider technical research as one input in formulating an investment opinion. Additional inputs should include, but are not limited to, a review of the fundamentals of the underlying issuer/security/instrument.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. This publication may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have queries concerning this publication, please contact our Hong Kong sales representatives.

The Americas	Europe	Japan	Asia/Pacific
1585 Broadway	25 Cabot Square, Canary Wharf	4-20-3 Ebisu, Shibuya-ku	Three Exchange Square
New York, NY 10036-8293	London E14 4QA	Tokyo 150-6008	Central
United States	United Kingdom	Japan	Hong Kong
Tel: +1 (1)212 761 4000	Tel: +44 (0)20 7425 8000	Tel: +81 (0)3 5424 5000	Tel: +852 2848 5200

Bank	Date	Subprime	Conduit	LBO
Germany				
Bayerische Hypo-und Vereinsbank	19- Sep		€15 bn of total exposure to conduits and SIVs representing 4.2% of the adjusted assets (S&P)	
	23-Oct		*Salome Funding Limited* *Arabella Funding Limited*	
Bayerische Landesbank	23-Oct		*Giro Lion Funding Limited*	
	19-Nov		€16 bn of total exposure to conduits and SIVs representing 4.5% of the adjusted assets (S&P)	
BayernLB	3-Sep	€1.9 bn exposure 80% AAA 20% AA	Three conduits off balance sheet with total investments of €16 bn	
Commerzbank	30-Jul	€1.2 bn subprime exposure		
	19-Sep		€9 bn of total exposure to conduits and SIVs representing 1.4% of the adjusted assets (S&P)	
	23-Oct		*Kasierplatz Funding Limited*	
	6-Nov	€291 mm write-down on the €1.2 bn of exposure to CDO/ RMBS		
Deutsche Bank	3-Sep	No more subprime exposure US mortgage exposure is largely hedged	€32 bn conduits sponsored Almost all conduits fully consolidated No sub prime in Deutsche Bank conduits	€29 bn of commitments for financial sponsor transaction €750 MM equity bridges
	23-Oct		*Rheingold Securitization Limited*	

			Rheinmain Securitization Limited	
	1-Nov			€3.17 bn of write-downs stemming from the loan crisis
Dresdner Bank	19-Sep		€15 bn of total exposure to conduits and SIVs representing 3.1% of the adjusted assets (S&P)	
	23-Oct		*Silver Tower Funding Limited*	
	09-Nov		Reports €575 mm of write-downs related to the subprime crisis; more write-downs but to a smaller extent are expected in 4Q	
DZ Bank	19-Sep		€4 bn of total exposure to conduits and SIVs representing 0.9% of the adjusted assets (S&P)	
	23-Oct		*Coral Capital Limited*	
Helaba	9-Aug	No subprime exposure	€1.5bn exposure through Opus Alpha platform of which €1.3bn corporate exposure and €200mm high quality ABS	
HSH Nordbank AG	19-Sep	€1.8 bn of direct subprime mortgage exposure constituting 21.8% of Tier 1 Capital or 1% of adjusted assets (S&P)	€9 bn of total exposure to conduits and SIVs representing 4.5% of the adjusted assets (S&P)	
HSH Nordbank AG	23-Oct		*Poseidon Funding Limited*	
Hypo Real Estate	7-Nov	Write-downs of €4 mm subprime exposure	ABCP conduits and SIVs are not a concern and pose no risks for the group	
IKB Deutsche Industriebank	23-Aug		Exposure to ABCP conduits equal to 28.1% of assets (Fitch)	
	23-Oct		*Rhineland Capital Corporation*	

Landesbank Baden-Wuerttemberg	23-Oct		*Lake Constance Funding Limited*
Landesbank Hessen-Theuringen Girozentrale	19-Sep		€3 bn of total exposure to conduits and SIVs representing 1.5% of the adjusted assets (S&P)
	23-Oct		*Opusalpha Funding Limited*
LBBW	28-Aug	Minimal investment in subprime which is all AAA-rated or insured by AAA-rated companies	
	19-Sep		LBBW and SachsenLB together have €32 bn of total exposure to conduits and SIVs representing 1.6% of the adjusted assets (S&P)
NordLB	22-Aug	No direct exposure to subprime	
SachsenLB	23-Aug		Exposure to ABCP conduits equal to 31.2% of assets (Fitch)
	23 Oct		*Ormond Quay Funding Limited*
WestLB	19-Sep	€1.3 bn of direct subprime mortgage exposure constituting 17.3% of Tier 1 Capital or 0.4% of adjusted assets (S&P)	€34 bn of total exposure to conduits and SIVs representing 11.8% of the adjusted assets (S&P)
	23-Oct		*Compass Securitization Limited*

France

BNP	23-Oct		*Eliopée Ltd*
			Matchpoint Finance plc
			Matchpoint Master Trust
			Thésée Ltd
	08-Nov	Total impact limited to only	

		€301 mm of which €186 mm for revenue and €115 mm for risk costs; net profit rises 21% to €2.027 bn		
	09-Nov	US subprime exposure is below €100 mm (including warehousing, structured repos and CDOs)	€9 bn exposure to conduits (mostly in Europe) and no SIVs	€3.7 bn of LBO underwriting and €6.3 bn of total exposure (69% in Europe); write-down amounts to €198 mm as of end-September
Calyon	23-Oct		*European Sovereign Funding* *LMA SA.*	
	15 Nov	Previously disclosed €250 mm loss in its US proprietary trading division in the three months to the end of September Now announces additional €546 mm write-downs related to asset-backed securities and CDOs		
CA SA				
Dexia	3-Aug	Total net insured exposure $4.2bn representing 1.1% of FSA's total net par outstanding	FSA has not participated in ABS CDO market and insures only two ABS CDOs. Total net par exposure is $372.8mm	
Crédit Foncier de France	23-Oct		*Securitized Instantly Repackaged Perpetuals*	
Fortis	23-Oct		*Scaldis Capital Limited*	
Natixis	23-Oct		*Elixir Funding Limited* *Direct Funding*	
SocGen	10-Sep	Expect losses of less than €200mm if broader industry loss was $200bn	Sponsor of six conduits worth €18.5bn at the end of July and to which SocGen had agreed to supply up to €28.8bn if necessary	

			Stated that conduits were still able to finance their activities via the market If consolidated, Tier 1 ratio would fall by 40bps
	23-Oct		*Antalis SA*
	6-Nov	Expects negligible impact in the context of asset-management unit TCW; but TCW had $57bn of MBS as of 30 June so that a mere 10% write-down would cut SocGen's equity by 18%	
	8-Nov	Forecast a potential writedown of up to €200 mm ($290 mm) on US residential mortgage-related trading positions and in its quarterly results statement, is adopting a "worse-case forward-looking scenario that resulted in a €230 mm writedown in valuation of those positions	

Netherlands

ABN	23-Aug		Cited as the largest global liquidity provider at $103.1 bn at end Mar-2007; however this constitutes only 6.9% of assets or 16.9% of their liquid assets and marketable securities (Fitch)
	23-Oct		*Amstel Funding Corporation* *Tulip Funding Corporation* *North Sea Funding Limited*
ING	23-Oct		*Mane Funding Corporation*

	08-Nov		*Mont Blanc Capital Corporation* *Simba Funding Corp* No material impairments on its €3.1 bn portfolio of subprime assets; net profit rises 47% to €2.31 bn	
KBC			*Atomium Funding Corporation* *Quasar Securitization Company NV*	
Rabobank	23-Oct		*Picaros Funding plc* *Tempo Finance Limited* *Erasmus Capital Corporation* *Atlantis Funding Corporation*	
SNS				

Italy

Intesa SanPaolo		No direct sub prime activity, exposure to US RMBS CDOs is minimal, although no detailed figures are provided	Sponsor of one vehicle (Romulus) with €1.5bn of assets which are already fully consolidated; no exposure to sub prime	
	23-Oct		*Romulus Funding Corp*	
MPS				
Unicredit		Total on-balance sheet exposure of US$420mm through RMBS and CDO with sub prime collateral No increase of exposure through Capitalia acquisition Off-balance sheet exposure through $800mm Bufco conduit, but only fraction is	Total exposure to 6 conduits of which one with minor sub prime Three customer vehicles with total assets of €3.3bn; Unicredit guaranteed liquidity; if consolidated, would represent 1% of RWAs Credit arbitrage conduits: Bufco $800mm and Maximilian	As of July 5th, underwritten portfolio of around €5bn and holding of €6.2bn

		sub prime	€800mm; Unicredit provides liquidity lines which have not been drawn yet (22 Aug) TRR conduit with $17.5bn of assets; Have not gratned liquidity but is committed if required to do so; total return swap which is hedged out Total €17.7bn of assets which are estimated to be equal to €7.3bn RWA	
Banco Popolare		No direct exposure to subprime customers and only €1.7 mm exposure to subprime mortgages within the group's investments in financial products (MS Research)		

U.K & Ireland

Alliance & Leicester				
Bank of Ireland	15-Nov	No exposure	No exposure	
Barclays	31 Aug		Provides $1.6 bn in financing to Cairn High Grade Funding I which will be used to redeem maturing CP ; Cairn High Grade Funding had already previously drawn $442 mm in backup liquidity lines Two other SIV-lites arranged by BarCap, Mainsail II and Golden Key were forced to start selling assets after they were unable to raise funding	
	15 Nov	Barclays announces write-down of £1.3 bn on credit related securities tied to the		Additional £400 mm of write-downs related to leverage loans

		subprime mortgage crisis		are announced
HBOS	22-Aug	2.7% of Grampian conduit sub prime (£93mm seasoned RMBS and about£400mm CDOs)	*Landale Funding Limited, Landale Funding LLC* *Grampian Funding Limited* S36.1bn Grampian exposure will be funded; gradual impact on capital If HBOS were to fund the entire asset base, S&P estimates that RWA would increase by almost £14bn and Tier 1 ratio would fall by about 40bps	
HSBC	23-Oct		*Regency Markets No.1 LLC* *Solitaire Funding Limited*	
	9-Nov	HSBC only has $2.1 bn provisions against the US$45 bn mortgage services business (4.6% of book); with market expectations increasing toward 30% for 2005 and 2006 vintages this provision looks much too light (MS Research) HSBC is also the largest subprime lender in the world with S171 bn in total subprime loans and a shift toward 2002 provision levels would entail a rise in bad debt from S6.7 bn in 2006 to S12.6 bn in 2008; this is tampered to some extent however by the fact that HSBC has very little CDO exposure unlike many other big investment banks (MS Research)	HSBC has around $30 bn of senior debt for conduits and $43 bn senior debt for SIVs; these assets are performing well although there is some risk that this may change (MS Research)	
	15-Nov	HSBC announces higher than		

		expected $3.4 bn writedowns of which US700 mm is related to US mortgages; this is $1.4 bn higher than would have been expected if first half trends had continued		
Investec Bank	23-Oct		*Grayston Conduit 1 (Proprietary) Limited Series 1* *Grayston Conduit 1 (Proprietary) Limited Series 2. Grayston Conduit 1 (Proprietary) Limited Series 3* *Grayston Conduit 1 (Proprietary) Limited Series 4*	
Lloyds TSB	23-Oct		*Cancara Asset Securitization*	
RBS	23-Oct		*Thames Asset Global Securitization No.1, Inc*	

Switzerland

UBS	1-Oct	Announced substantial losses in holding of securities related to US sub prime which are a prime cause for negative revenues in fixed income of CHF4bn in Q3 Current net value of US$19 bn	No material exposure to conduits	Limited expose to leverage lending with commitments of US$13bn; write-down has resulted in limited Q3 loss
UBS	6-Nov	Writes down CHF 4 bn (3.4 bn) in securities mainly in subprime holdings and swings to net loss of CHF 727.9 mm for 3Q		
Credit Suisse	2-Nov	CHF 1.1 bn in write-downs related to residential mortgages and CDOs (calculated from a total write-down of CHF 2.2		CHF 1.1 bn of leveraged loans

	bn)	

Nordic Region

Danske Bank	26-Sep	Credits to SIVS and conduits total DKr 61 bn ($11.53 bn) with DKr 14 bn having already been drawn upon
	23-Oct	*Polonius Inc*
Nordea Bank	23-Oct	*Viking Asset Securitization Limited*

Note:

1. List of conduits taken from the Moody's Report on 23 October 2007. EMEA ABCP Market Exposure to US Residential Mortgages

From: Price, Ruth (GCM) [Ruth.H.Price@morganstanley.com]
Sent: Thursday, November 22, 2007 4:55:19 PM
To: Jacob, Max (GCM)
CC: MacMahon, Alexandra (GCM); Giesbert, Nikolaus (GCM)
Subject: UK and Ireland Bank Exposure 21-11-2007 v2
Attachments: UK and Ireland Bank Exposure 21-11-2007 v2.doc

Max,

Please find attached the UK / Irish exposures as declared so far.

The first table is relatively simplified, whilst the second provides more detail.

Please let me know if you need any more information or clarification.

Thanks,

Ruth

Ruth Price
Morgan Stanley | Global Capital Markets
20 Bank Street | Canary Wharf | Floor 5
London, E14 4QA
Phone: +44 20 7677-7741
Mobile: +44 78248-65982
Fax: +44 20 7056-6674
Ruth.H.Price@morganstanley.com

Bank	Date	Subprime Exposure	Conduits / SIVs	LBO / Trading Position Writedowns
U.K & Ireland				
Alliance & Leicester	4-Sep	£175m (aggregate exposure to CDOs containing US sub-prime mortgage assets. £55m of which are on balance sheet)	£390m (investments in a number of SIVs in the form of mezzanine and capital notes) £770m (off-balance sheet conduit facility; CDOs in the conduit including any US sub-prime exposure amount to £120m, which forms part of the £175m total quoted sub-prime exposure)	
Allied Irish Banks		US$238m (US subprime mortgages as asset-backed securities) US$149m (US subprime mortgages as 'whole loans')		
Bank of Ireland	14-Nov Interim Results	none	€85m (SIVs) €50m (CDOs)	
Barclays	15 Nov Trading Statement	£1.3bn (writedown on credit related securities tied to the subprime mortgage crisis)	£19.0bn (exposure to its own conduits through undrawn backstop liquidity facilities at 31st October 2007; on balance sheet) $1.6 bn (31 Aug: financing to Cairn High Grade Funding I used to redeem maturing CP; Cairn High Grade Funding had already previously drawn $442 mm in backup liquidity lines)	£400m (Additional write-downs related to leverage loans) £7.3bn (At 31st October 2007: exposure from unsold underwriting positions) Less than £20m (exposure to equity bridges) Barclays have written down the carrying value of the exposures by £190m
Bradford & Bingley		none		

HBOS		£150m (sub-prime exposure, of which £93m is in Grampian)	Grampian: $36.1bn (currently being funded by HBOS) £93m (direct-sub-prime exposure (via ABS)) £403m (exposure via ABS CDOs, which contain some sub-prime bonds) Landale Funding Ltd US$6 billion conduit Assets are mainly exposed to the UK and have no exposure to either US sub-prime or CDOs	
HSBC	14-Nov Trading Statement	$171 bn (total subprime loans) (MS Research) $3.4 bn (total loan impairment allowances held against US non-prime real estate lending)	Conduits: (on balance sheet) Regency Markets No.1 LLC - US$8.49bn ABCP outstanding at April 2007; Solitaire Funding Limited - US$23.30bn ABCP outstanding at April 2007 Bryant Park, Regency and Abingdon Square SIVs: (off-balance sheet) Cullinan Finance (US$35bn capital); Asscher Finance (US$7.4bn)	US$750m (write-downs of securities, including wholesale-purchased subprime residential mortgages and structured credit trading positions held on balance sheet, and US$175 million (net of fees) in respect of non-syndicated committed facilities in the leveraged acquisition finance business)
Lloyds TSB	23-Oct	circa £50 million (exposure to the US sub-prime market - including Cancara)	US$2.5bn hybrid commercial bank conduit, Cancara Asset Securitisation Limited (off balance sheet) US$22.83bn ACBCP outstanding as at April 2007 from Cancara	
Nationwide		None	Cobbler Funding Limited: US$3.1 billion ABCP conduit (on balance sheet) £167m (capital notes in seven bank-sponsored SIVs) with a £35m impairment in the P&L account to reflect the reduction in market	£50 million (tranche of a CDO with exposure to US RMBS) Within the £4bn investment book: £413m CLO £100m CDO

			prices	£270m US prime RMBS £178m US prime Alt A £136m mark-to-market movements in the treasury portfolio have been taken through reserves
RBS		Not disclosed	RBS sponsor Thames Asset Global Securitization - which had US$13.85bn ACBCP outstanding as at April 2007	Not disclosed
Standard Chartered		no direct exposure to US subprime Indirect exposure appears to be very low and arises largely via small exposures held by Whistlejacket	Whistlejacket Capital - SIV managed by Stanadard Chartered - Total capital of US$18bn No committed funding lines to Whistlejacket	

Bank	Date	Subprime	Conduits / SIVs	LBO / Trading Position Writedowns
U.K & Ireland				
Alliance & Leicester	4-Sep	• A&L's aggregate on and off balance sheet exposure to CDOs containing US sub-prime mortgage assets is £175m, with 99% rated AAA; £55m of these CDOs are on balance sheet	• A&L invest in a number of SIVs in the form of mezzanine and capital notes. None of these account for more than 15% of the total investment of around £390m; over 90% of these positions are in SIVs established before 2006 and they have no investments in 'SIV-lites' • A&L's off-balance sheet conduit facility currently totals around £770m. This is invested in a diversified range of underlying assets, including CDOs and CLOs, all of which are AAA rated. CDOs	•

			in the conduit including any US sub-prime exposure amount to £120m, which forms part of the £175m total quoted sub-prime exposure	
Allied Irish Banks		• AIB have reported that they hold US$238m of US subprime mortgages as asset-backed securities and US$149m of US subprime mortgages as 'whole loans'	•	•
Bank of Ireland	14-Nov Interim Results	• No exposure	• Bank of Ireland reported it had €85m of SIVs and €50m of CDOs, compared with total assets of approx. €200bn	•
Barclays	31 Aug	•	• Provides $1.6 bn in financing to Cairn High Grade Funding I which will be used to redeem maturing CP ; Cairn High Grade Funding had already previously drawn $442 mm in backup liquidity lines • Two other SIV-lites arranged by BarCap, Mainsail II and Golden Key were forced to start selling assets after they were unable to raise funding	•
	15 Nov Trading Statement	• Barclays announces write-down of £1.3bn on credit related securities tied to the subprime mortgage crisis • Barclays involvement in the US sub-prime sector comprises liquidity facilities to CDOs now held as ABS CDO Super Senior exposure; and other exposures consisting of warehouse lines provided to third-party originators, whole loan purchases, and ABS and CDO trading positions	• Barclays exposure to its own conduits through undrawn backstop liquidity facilities was £19.0bn as at 31st October 2007. The vehicles are fully funded through CP issuance. All are fully consolidated on the balance sheet on an available-for-sale basis at fair value	• Additional write-downs of £400m related to leverage loans were announced • At 31st October 2007, Barclays Capital had £7.3bn in exposure from unsold underwriting positions, and less than £20m exposure to equity bridges. Barclays have written down the carrying value of the exposures by £190m, which after fees of £130m produced a provision of £60m
Bradford & Bingley		• Has no US subprime mortgages directly on their books	•	•

HBOS		• Has only £150m of sub-prime exposure, of which £93m is in Grampian. • In the UK, only 2% of its portfolio cal be classified as 'near light prime'	• HBOS sponsors two conduits. • Grampian has £93 m of direct-sub-prime exposure (via ABS) and a further £403 million of exposure via ABS CDOs, which contain some sub-prime bonds • This equates to 2.7% of the Grampian; it is all AAA rated and relates to pre-2006 vintages • The $36.1bn Grampian exposure is currently being funded by HBOS • HBOS also sponsors a second US$6 billion conduit called Landale Funding Ltd • Landale's assets are mainly exposed to the UK and have no exposure to either US sub-prime or CDOs • If HBOS were to fund the entire asset base, S&P estimates that RWA would increase by almost £14bn and Tier 1 ratio would fall by about 40bps	•
HSBC	9-Nov MS Research	• HSBC is the largest subprime lender in the world with $171 bn in total subprime loans and a shift toward 2002 provision levels would entail a rise in bad debt from $6.7 bn in 2006 to $12.6 bn in 2008; this is tampered to some extent however by the fact that HSBC has very little CDO exposure unlike many other big investment banks	• Conduits: Regency Markets No.1 LLC - US$8.49bn ABCP outstanding at April 2007; Solitaire Funding Limited - US$23.30bn ABCP outstanding at April 2007 • SIVs: Cullinan Finance (US$35bn capital); Asscher Finance (US$7.4bn)	•
	14-Nov Trading Statement	• HSBC announced $3.4 bn writedowns of which US$700m is related to US mortgages • At 30 September 2007, total loan impairment allowances held against	• The Group's principal sponsored conduits are Solitaire, Bryant Park, Regency and Abington Square, which are on-balance sheet under IFRS, and are funding satisfactorily with no impairment of	• HSBC announced pre-tax write-downs of US$750 million on securities, including wholesale-purchased subprime residential mortgages and structured credit trading positions held

		US non-prime real estate lending were US$3.4 billion compared with US$2.6 billion at the end of June 2007. Loan impairment allowances held against the Mortgage Services book rose by US$0.3 billion to US$2.4 billion while loan impairment allowances held against real estate loans in the branch-based business were US$0.5 billion higher at US$1.0 billion • Within CIBM, wholesale-purchased sub-prime residential mortgages in the US not yet securitised amounted to approximately US$2 billion at the end of the quarter. • The Group has very little direct exposure to US sub-prime mortgage-backed CDOs	assets. • The two off-balance sheet SIVs managed by HSBC, Cullinan and Asscher, also currently have requisite funding arrangements in place	on balance sheet, and US$175 million (net of fees) in respect of non-syndicated committed facilities in the leveraged acquisition finance business. Of these write-downs, some US$600 million arose in CIBM in New York
Lloyds TSB	23-Oct	• Across the group (including Cancara) it has circa £50 million exposure to the US sub-prime market and that it has no exposure to CDOs of ABS within Cancara, and on balance sheet exposure is 'de minimis'	• Has a US$2.5bn hybrid commercial bank conduit, Cancara Asset Securitisation Limited. • Lloyds is the sole provider of liquidity to its conduit • Cancara had US$22.83bn ACBCP outstanding as at April 2007	•
Nationwide		• As at end of July 2007 it had no exposure to US sub-prime	• Has a US$3.1 billion ABCP conduit, Cobbler Funding Limited • Nationwide has always treated the conduit as on balance sheet for accounting purposes • During the first half of this year, the conduit's external funding has largely been refinanced by replacing maturing funding with direct investment by the society • At the end of October, outstanding	• Holds one tranche of a CDO with exposure to US RMBS with an approximate value of £50 million • Within the £4bn investment book, it has £413m CLO, £100m CDO, £270m US prime RMBS and £178m US prime Alt A • Other mark-to-market movements in the treasury portfolio of £136m have been taken through reserves - this reserve is excluded from capital. As a result the total mark-to-market

			commercial paper remaining to be refinanced by the Group amounted to \$0.1bn. • Nationwide is the sole provider of liquidity to its conduit • At the end of September, Nationwide had investments in seven SIV bank-sponsored capital notes of £167m (representing 0.7% of their Treasury portfolio) • It has taken a £35m impairment in the P&L account to reflect the reduction in market prices (21%) • Since 30 September Nationwide have redeemed two of their SIV investments with a combined value of £34.2m, by exchanging their capital notes for direct ownership of the corresponding underlying assets around 0.7% of their £23.8bn par value	adjustment and SIV losses on the treasury assets represent
RBS		• RBS has not disclosed its subprime exposure • Fitch suggests that RBS has both direct and indirect exposure to the US subprime mortgage sector of a moderate and manageable size in a group context. • RBS does not originate subprime mortgage assets	• RBS sponsor Thames Asset Global Securitization - which had US\$13.85bn ACBCP outstanding as at April 2007	• Big unknown: possible writedowns in the investment banking unit it bought from ABN Amro. ABN was the fourth-biggest issuer of collateralized debt obligations in the first half
Standard Chartered		• Has no direct exposure to the US subprime mortgage market • Indirect exposure appears to be very low and arises largely via small exposures held by Whistlejacket. Whistlejacket invests mainly in highly-rated bank paper and ABS	• SIV managed by Stanadard Chartered - Whistlejacket Capital - Total capital of US\$18bn • Standard Chartered does not have any committed funding lines to Whistlejacket	•

		debt		

From: Trusted, Dominic (GCM)
Sent: Wednesday, January 30, 2008 3:56 PM
To: Chalmers, William (IBD)
Subject: FW: S&P: Outlooks revised on various European banks
Attachments: Barclays.pdf

Dominic Trusted - Executive Director
Morgan Stanley | Global Capital Markets
20 Bank Street | Canary Wharf | Floor 05
London, E14 4AD
Phone: +44 20 7677-8308
Mobile: +44 77698-87455
Fax: +44 20 7056-0875
Dominic.Trusted@morganstanley.com

From: Oates, Paul (GCM)
Sent: 30 January 2008 15:52
To: dfig; figln; figgermany
Subject: S&P: Outlooks revised on various European banks

Company specific releases attached

Paul

Paul Oates - Vice President
Morgan Stanley | Global Capital Markets
20 Bank Street | Canary Wharf | Floor 05
London, E14 4AD
Phone: +44 20 7677-2623
Mobile: +44 79808-72314
Fax: +44 20 7056-3102
Paul.Oates@morganstanley.com

From: Oates, Paul (GCM)
Sent: 30 January 2008 15:05
To: dfig; figln
Subject: S&P: Outlooks revised on various European banks

Importance: High

Press release attached. Not as bad as first thought. Only 7 banks affcctcd

Paul Oates - Vice President
Morgan Stanley | Global Capital Markets
20 Bank Street | Canary Wharf | Floor 05
London, E14 4AD
Phone: +44 20 7677-2623
Mobilc: +44 79808-72314
Fax: +44 20 7056-3102
Paul.Oates@morganstanley.com

STANDARD
&POOR'S

RATINGSDIRECT®

January 30, 2008

Summary:
Barclays Bank PLC

Primary Credit Analyst:
Nick Hill, London (44) 20-7176-7216; nick_hill@standardandpoors.com

Secondary Credit Analyst:
Claire Curtin, London (44) 20-7176-7032; claire_curtin@standardandpoors.com

Table Of Contents

Summary:
Barclays Bank PLC

Credit Rating: AA/Negative/A-1+

Rationale

The ratings on U.K.-based Barclays Bank PLC (Barclays) reflect its strong earnings and returns, good market positions, increased diversification, solid funding base, and highly developed risk-management framework. The ratings also reflect increased earnings volatility and potential for further markdowns in its investment bank; its relatively weak, although improving, capitalization; its significant exposure to U.K. unsecured personal debt; and its large defined-benefit pension scheme.

Barclays has a range of strongly profitable businesses across multiple product lines, including retail banking and business banking in the U.K. and abroad, investment banking, and asset management. Growth has generally been rapid, and until mid-2007 heavily driven by wholesale banking toward which Barclays' business profile has been shifting. Since that time, the investment bank--like many others--has been pressured by markdowns on structured assets and leveraged loans, and we expect this to result in a weaker, but still profitable, second half. Domestic retail growth has been lower than for many banks in recent years, but seems to be responding to various management initiatives.

Diversification, both by business line and geography, has been increasing, and about 50% of group profits now come from outside the U.K. In part, this has come through the organic growth of global product lines including investment banking and asset management, but also through acquisitions, notably in South Africa and Spain. This has helped sustain a good overall performance during difficult recent trading conditions.

Standard & Poor's Ratings Services regards Barclays as having a broad and effective system of risk management with a relatively advanced approach to economic capital, but we judge the group's risk appetite to be high. We consider Barclays' liquidity position to be strong thanks to a large and diversified deposit base, and that Barclays has navigated the recent tight money market conditions well.

Barclays' loan impairment charge in its U.K. unsecured lending and credit card business has leveled off in 2007 following the large increases in previous years, and its mortgage book has a low risk profile. Nevertheless, Barclays remains exposed to further changes in the U.K. economic climate.

We regard Barclays' capitalization as weaker than some similarly rated peers, notwithstanding some recent improvement. Barclays is shareholder focused and has used hybrid capital rather than ordinary shares to fund much of its recent expansion and is now engaged in a share buyback following its 2007 capital injections from Temasek and China Development Bank.

Outlook

The negative outlook on Barclays reflects our view that profitability could come under pressure in 2008 if economic and capital market conditions deteriorate rapidly. This would likely affect the evolution of impairment losses in the commercial banking divisions, with particular regard to real estate lending, and could lead to a sharp upturn in losses on large corporate leveraged lending. Revenues in investment banking may also suffer from further write-downs, reduced private equity realizations, and lower debt issuance activity in such an environment. A negative rating action could follow if profitability declines materially, if there were evidence of a material failure in risk controls, or if Barclays does not meet its capital targets, although we do not currently regard such events as the most likely scenario. The outlook could return to stable if Barclays continues to show resilience though a challenging environment. A positive rating action is considered unlikely in the current environment, and would require a major improvement in capitalization beyond expectations, but a tight capital policy is likely to act as a rating constraint.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

From: Rodrigues, Renato (IBD) [Renato.Rodrigues@morganstanley.com]
Sent: Friday, April 04, 2008 11:22:01 AM
To: Parekh, Shyam (GCM); Grindley, Ben (GCM); Moreland, Jennifer (GCM); Skeet, Dominic (GCM); Volker-Albert, Christine (GCM); Michelena, Ander (IBD); MacMahon, Alexandra (GCM)
CC: Chalmers, William (IBD); Smith, Alex (IBD)
Subject: Barclays
Attachments: Barclays Discussion Materials (April 2008) v1.1.ppt

Dear All,

Ahead of the call today at 14:00 please find attached a skeleton version of the pack.

Regards,
Renato

Renato Rodrigues
Morgan Stanley | Investment Banking Division
20 Bank Street | Canary Wharf | Floor 05
London, E14 4AD
Phone: +44 20 7425-7178
Mobile: +44 77172-71986
Fax: +44 20 7056-0366
Renato.Rodrigues@morganstanley.com

BARCLAYS

Discussion Materials

April 2008

Morgan Stanley

DRAFT

BARCLAYS

Table of Contents

Morgan Stanley

DRAFT

BARCLAYS

Section 1

Update on Capital Markets Developments

Morgan Stanley

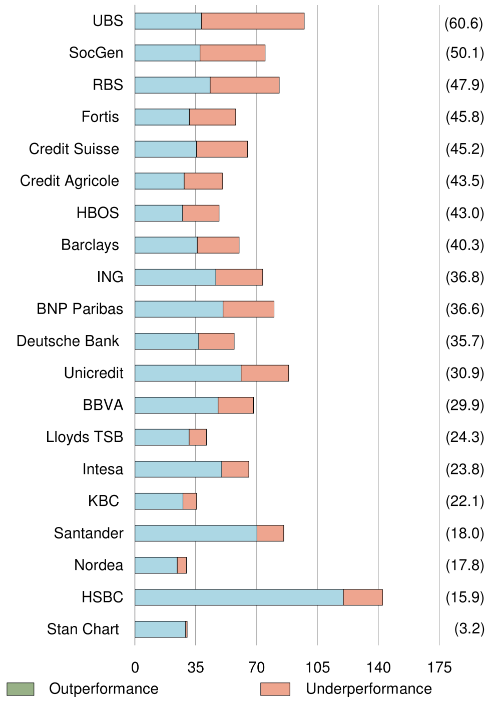
DRAFT

Update on Capital Markets Developments

Top European Banks Performance Since 30 June

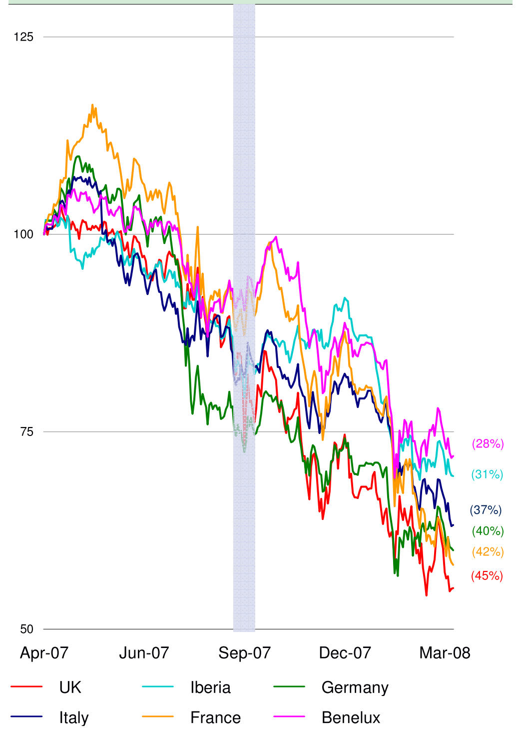
- **European and US banking performance significantly impacted by continuing problems in the credit markets**
  - **Worst hit banks are those with capital markets exposure, high loan/deposit ratios and/or mortgage exposure**

Top 20 Western European Banks
Market Cap (€ Bn) — Performance, %



Source FactSet as at 10 March 2008

Share Price Performance (1)
Since April 2007, Rebased to 100



Source FactSet as at 10 March 2008

BARCLAYS

Update on Capital Markets Developments

Write-Offs to Date

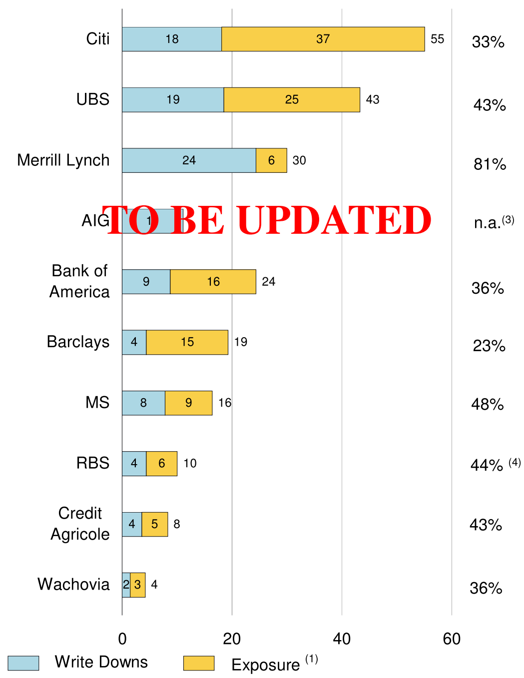
- **The write-offs have been significant, resulting in substantial capital issuance**
  - **There are still some large exposures**
  - **Beyond this, secondary effects are just starting**

Realised Write-Downs by Listed Banks/Brokers
US$ Bn

ABS and CDO/Subprime	120
LBO	10
Conduits/SIVs	10
Monoline Hedges	10
CMBS	2
Total	**152**

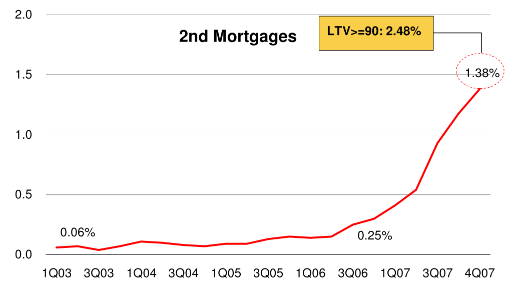
Source Broker Research

US Sub-prime/CDO Exposure and Write-Downs
Major Banks ($ Bn) **Implied Losses %**



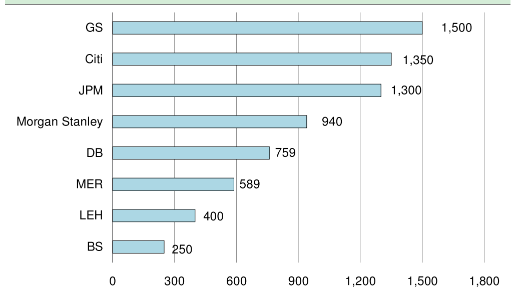
Source Broker Reports

Next Asset Classes: HELOC / 2nd Mortgages
%



Source Broker Research

LBO Write-downs - Selected Banks and Brokers
Announced Write-Downs (US$ MM)



Source Broker Research

Notes
1. Exposures as of 3Q07 except for Barclays and RBS (2007A)
2. Raised or announced
3. AIG has a $11.1 Bn sub-prime related loss on account of marking its portfolio to market; no disclosure on sub-prime related exposures
4. Includes ABN AMRO

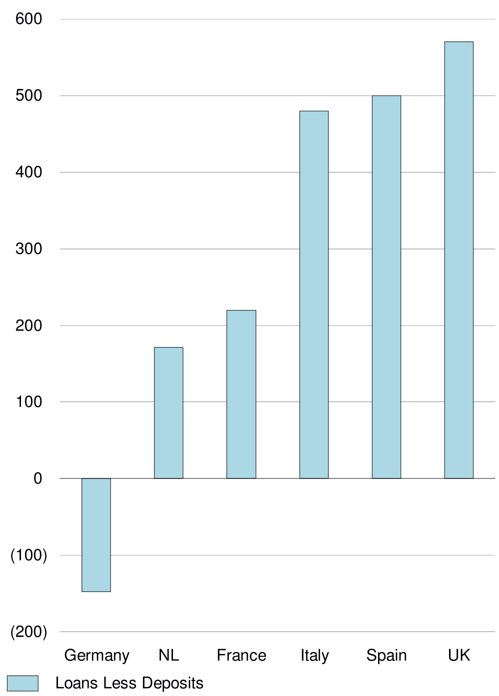
BARCLAYS

Update on Capital Markets Developments

Liquidity and Pricing

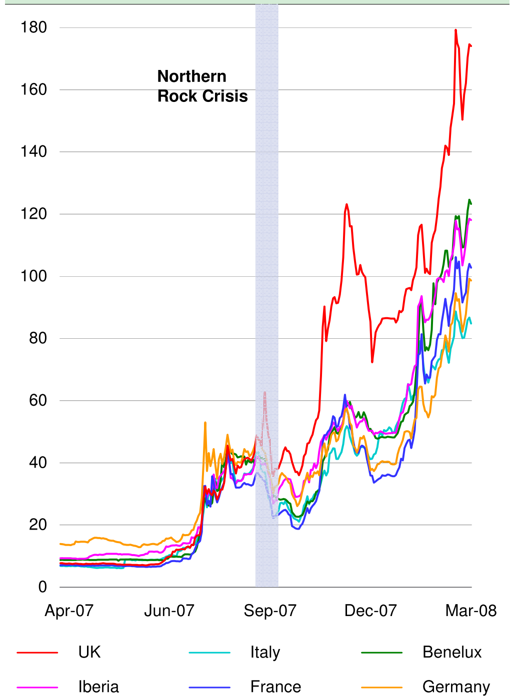
- The sub-prime developments have caused a much more widespread liquidity crisis, initially via the withdrawal of the marginal buyer, ultimately receding into the interbank market and money markets
  - Evidenced by dramatic CDS widening and equity market falls

UK, Spain and Italy Are Most Exposed to Evaporation of Wholesale Funding (£ Bn)



Source Datastream, Morgan Stanley Research. Based on 2006 data

Country Based CDS Spread Evolution (YTD) [(1)]
Since April 2007, Bps



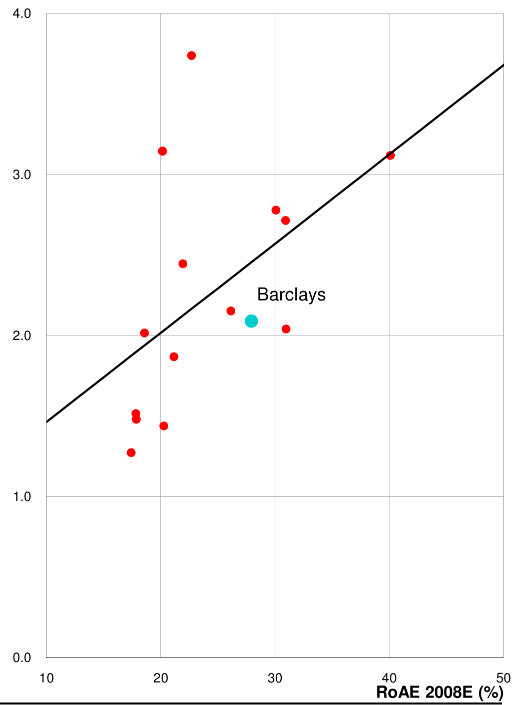
Source Markit as at 10 March 2008

Note
1. Average of major banks in each respective country

Valuation Implications

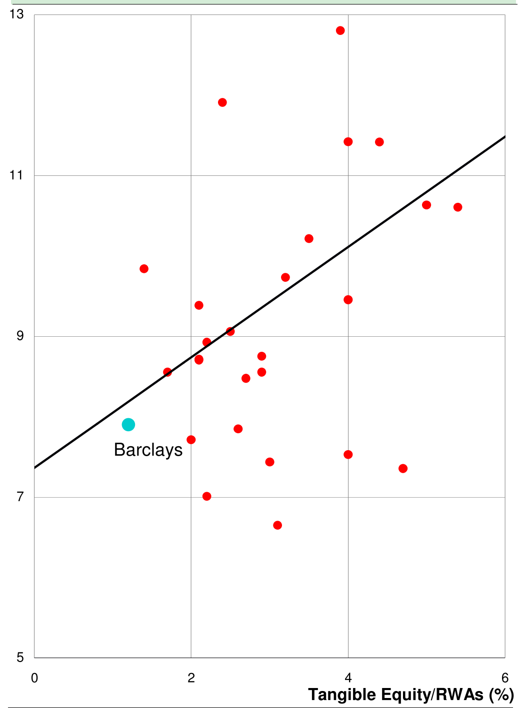
- As earnings have become more uncertain
  - Valuations have fallen dramatically
  - Increased focus on tangible equity as the reference point

Top 20 European Banks: P/TBV vs. RoAE [(1)]
P/TBV 2008E (x)



Source FactSet and Modelware as at December 11, 2007

Selected European Banks: P/E vs. Tang. Eq./RWA
P/E 2008E (x)



Source FactSet and Modelware as at December 11, 2007

DRAFT

BARCLAYS

Update on Capital Markets Developments

Is Thinking Shifting?

Themes from The Morgan Stanley Banks Conference 2008

- **Morgan Stanley is this week holding its annual Banks Conference, with nearly 1,000 investors attending**
- **Financials have rallied sharply in the last 2 weeks**
  - **US banks up 11.2% (1)**
  - **European banks up 16.4% (1)**
- **Mood in the market seems to have changed from three months ago**
- **Underlying 'drivers'**
  - **Fed PDCF: Mar 16**
  - **Fed 75 bps cut: Mar 18**
  - **JP/BS deal: Mar 16 (renegotiated on Mar 24)**
  - **Unwind of macro trades (24/3 and 31/3)**
  - **UBS and Lehman capital raising: Apr 1**

Fed Cutting Off Tail Risks

- Hedge funds covering shorts and reappraising the situation
- Macro funds unwinding 'long commodities / short (European) financials

Banks Perceived As More Realistic

- Investors and Management views more in line
  - E.g. Deutsche, BNP and Soc Gen now saying this is the most challenging environment for some time
  - Management refocusing their priorities to: keeping liquidity, managing losses appropriately, and maintaining a high capital ratio (instead of growing or protecting earnings)

'Mark-to-Market' Pressure Waning

- Investors see banks moving closer to investors' views of appropriate marks (cf. UBS)
- But gap remains significant for some European banks
- 80% of investors expect a dozen or so European banks to need capital

Rally To Continue

- For hedge funds short financials or long funds underweight financials, the current sharp rally has been costly
- As such, the risk rally can continue for a bit further given how underweight most investors are

Note
1. Based on the performance of the KBW bank Index for US and the MSCI European Banks index for European banks

Is Thinking Shifting? (Cont'd)

Peer Group Performance

- [ ]

Share Price Graph since Bear Stearns Announcement

BARCLAYS

Case Study: UBS Rights Issue

Investor Feedback

- **Market reaction to UBS rights issue has been surprisingly positive**
  - **Viewed as opening a 'new chapter' for UBS**
  - **Valuation focus has shifted back to P/E rather than P/TBV**
- **UBS closed at CHF 32.4 up 12.27% on the day of announcement**
- **Note also market reaction to Lehman convertible, also announced at the same day (see Appendix)**

Capital Raising

- Largely expected, but still seen as a positive
- Large size also has been well received

Opening A 'New Chapter'

- Separation of problem assets into new workout vehicle (cf. precedents[(1)])
- Organizational changes & strategic refocusing (especially the Investment Bank)

Disclosure/ Communication

- Management successfully delivered message about wanting to 'put a line' under its challenges
- Greater transparency on exposures (ahead of right issue in May)

Confidence on Capital Position

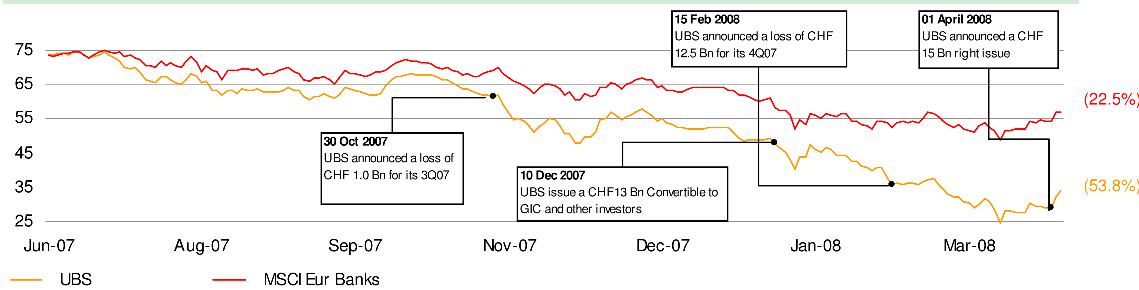
- Size of write-downs also seen as drawing a line under the issue
- Underwriting commitment by banks also seen as implicit confirmation
- Active risk management (e.g. sales and hedging as well as write-downs) also positively received

Result: 'Mentality Shift Back' to P/E Valuation

- Write-downs plus capital raising means investors willing to re-focus on underlying earnings power and franchise value of UBS
- For the first time in some months investors willing to look at P/E instead of P/TBV

UBS Share Price Development

UBS vs MSCI EU Banks (€)



Source Bloomberg

Note
1. UBS, Northern Rock, WestLB, Wells Fargo, Dresdner Bank, Midland Bank/ Crocker, Mellon Bank/ Grant Street National Bank, Nordbanken/ Securum

DRAFT

Update on Capital Markets Developments

Case Study: Lehman Brothers Convertible

- **On 01 April 2008, Lehman accessed the market with a $4.0 Bn convertible bond issue**

Investor Feedback

- Stock has been trading on fears related to liquidity and capital more than EPS
- Dilution is a "small price to pay" to improve perception issues regarding capital and liquidity
- Capital infusion is a relief in anticipation of further write-downs
- Alleviates the need for urgent deleveraging
- New equity should alleviate concerns – helps convey message that Management will take proactive measures
- Allows investors to re-focus on earnings power/ franchise potential

Source Broker Reports

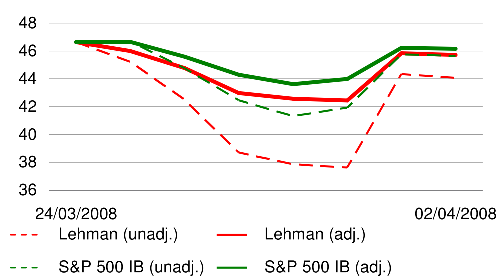
Lehman Convertible

Size	$4.0 Bn
Structure	Non-cumulative perpetual convertible preferred stock
Maturity	Perpetual
Call Protection	Non-Call 5, Provisional Call Life @ 130%
Yield	7.25%
Conv. Premium	32.5%

Share Performance

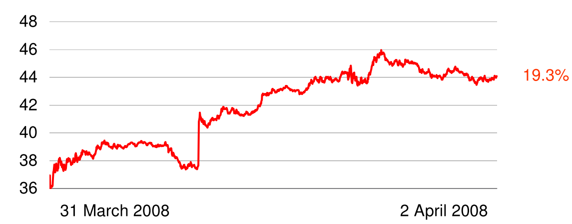
	24/03-31/03	31/03-02/04
Lehman		
Unadjusted	(19%)	17%
Beta-Adjusted	(9%)	8%
S&P 500 IB & Broker		
Unadjusted	(10%)	9%
Beta-Adjusted	(6%)	5%

Share Performance
Rebased to Lehman



Source Bloomberg

Share Performance
Lehman Intraday Day Graph



Source Bloomberg

DRAFT

BARCLAYS

Section 2

Perceptions of Barclays

Morgan Stanley

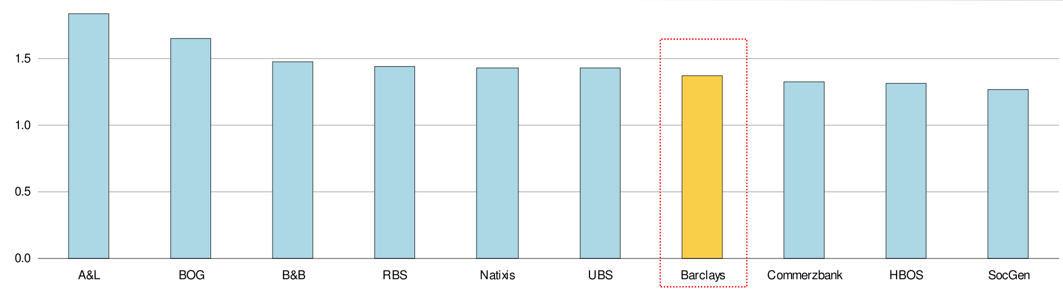
BARCLAYS

Perceptions of Barclays

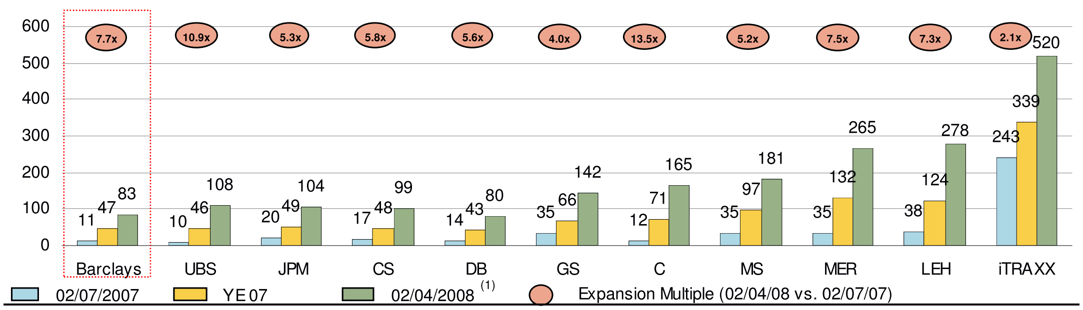
Markets Highly Sensitive

- **There is a 'disconnect' between the way equity and debt markets are treating Barclays**

Highest 'Beta' Bank Stocks (2)
(average multiplier)



Broker CDS Spreads
5 Yr Senior CDS, bps



Source Bloomberg

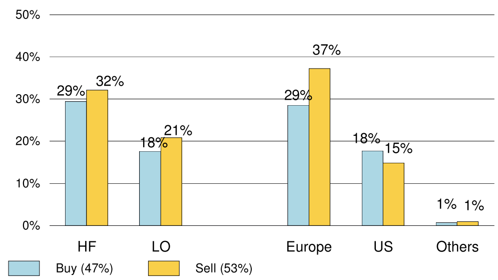
Note
1. Based on 14/03/08 for GS, MS, MER and Leh as no later data available
2. 'Beta' calculated as the relative performance to the DJs Banks Index since September 2007 on the days where the market performance was lower than -2%

Recent Trading in Barclays

Summary of Morgan Stanley Flows

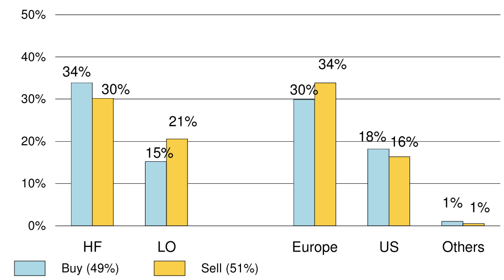
- Hedge fund trading has accounted for the majority of the majority of Morgan Stanley flows in Barclays
- Morgan Stanley has registered a balance split between buyers and sellers
  - No major change in trading flows trends after the earnings announcement in mid-February
- The large majority of Barclays shares have been traded by European investors
  - However, over 30% of the trading flows originate from the US

MS Trading Flows in Barclays
Last 60 days Before Earnings Announcement[1]



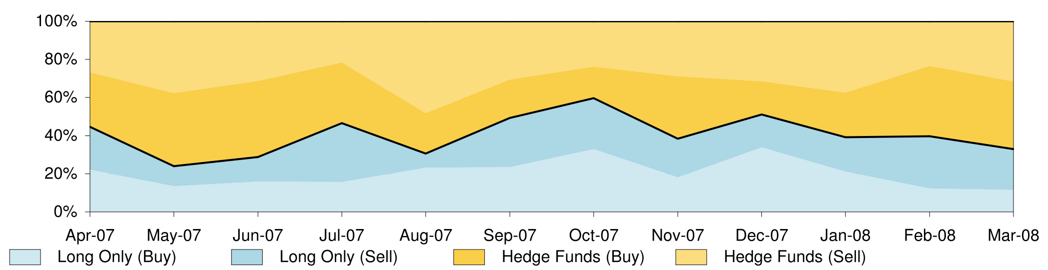
Source Morgan Stanley Proprietary Trading System

MS Trading Flows in Barclays
Since Earning Announcement Date[1]



Source Morgan Stanley Proprietary Trading System

Hedge Funds vs. Long Only
Last Twelve Months



Source Morgan Stanley Proprietary Trading System

Note
1. 19th February 2008

Investor Perception

Investor Views

General Comments

- Stock has been active short with the hedge funds (esp. financials specialists) looking for "next shoe to drop" in financials. Some signs CHF30-32 was seen as level to cover shorts (or even go long) - but Bear Stearns news has brought new round of capitulation
- Immediate concern (i.e. in last few days) is a 'run' on the investment bank à la Bear Stearns. Although on paper a very different situation from Bear Stearns or Lehman, the perception of 'counterparty risk' is high, hence the fears that customers lose confidence in the IB
- Stock is now pricing in further write-downs as well as dilution from a rights issue (as well as GIC convertible reset). New level at which shorts would look to cover is probably CHF20-22
  - That said, many long only funds are reluctant to get involved at present.
  - Also, valuation still not seen as cheap relative to tangible book value (post further expected losses)

DUMMY

Assets Sales & Capital

- Selling mortgage assets to de-risk the bank would probably be seen as a positive, even if it means raising capital
- If mortgage assets sold, investors would probably accept Tier 1 ratio below 10% (subject to rating agency response)
- That said, investors have mixed views about hiving off mortgage assets at this stage given these depressed valuations
- Asset sales seen as difficult (excluding "crown jewels" like WM, Swiss Retail)
  - PW: Few US banks in a position to buy
  - IB: Bear Stearns situation highlights difficulties

BARCLAYS

Perceptions of Barclays

Broker Views

Perception of Disclosure, Write-Downs and Capital

- **UBS communication challenged by uncertainty**
  - **Uncertainty about size of additional write-downs**
  - **Uncertainty about RWA development**
- **Uncertainty is leading to 'wild speculation' about capital shortfalls with most brokers assuming no dividends for 2008 and potential further capital raising**

DUMMY

Disclosure

- « Fear of further writedowns is pervasive and poor disclosure has only added to the problem. Swiss bank UBS, in spite of a strong capital position and a raft of profitable businesses, is the highest profile victim of such distrust. Even minor prejudices gain significance in a panic sell-off. »
  Breaking Views, 18 March 2008
- « Our concern with UBS is that new problems continue to crop up; a stop to negative newsflow would help. »
  Morgan Stanley, 06 March 2008
- « We admit that we are disappointed with risk exposure management and the ongoing dripping of new disclosures. »
  JP Morgan, 25 February 2008

Capital/ Dividend

« In our previous analysis we estimated that UBS had a potential US$13.2 billion write-down and a capital base which could absorb US$10.5 billion of write-downs with a dividend and US$ 16 billion without a dividend. Using the more pessimistic assumptions outlined previously, a further capital raising looks like a realistic possibility in 2008..»
Merrill Lynch, 6 March 2008

« We are now revising our scenarios and expect CHF15 - 25 in incremental losses, as it appears UBS management are looking to take losses upfront to help give clarity on the capital ratios, meaning UBS would have neither profits nor cash dividends in 2008. This said, we have little visibility, and we think UBS has other books which will become at risk (e.g. European mortgages).»
Morgan Stanley, 6 March 2008

« Assuming UBS would take all write-downs in 1Q 08, we estimate UBS Tier I would reach 9.5% and rebuild to 11.5% by year end. Although we assume rating agencies will be supportive of drastic fire sale of problem assets leading to a short-term Tier I ratio of below 10%, we have cut our DPS for UBS to zero for 2008E.»
JPMorgan, 5 March 2008

« UBS remains adequately capitalized up to a writedown of 25% on the assets in the bad bank, equivalent to a loss of between SFR19bn and SFR23bn. Assuming that in the event of a small capital shortfall, the 2008e dividend could be waived (or paid in scrip, as with the 2007 dividend), we do not see the question of a second capital injection arising unless losses reached 33% of the current written-down face value of the U$77bn at-risk portfolio, which would be equivalent to a SFr 30bn loss..»
Credit Suisse, 3 March 2008

« We acknowledge limited visibility on the size of UBS's write-downs for 1Q08 and note that if it is more sizeable than our forecast, further capital raising measures are likely. »
KBW, 11 March 2008

BARCLAYS

Perceptions of Barclays

Case Study: Fortis

Market Feedback to Enhanced Disclosure

- **In some ways, Fortis has faced challenges in the last few months that are not dissimilar to UBS**
  - **Concerns about asset portfolio (€50 Bn of structured credit assets, including €5 Bn of subprime CDOs)**
  - **Weakened capital position due to last year's €24 Bn ABN deal plus subprime writedowns**
  - **Limited disclosure on Structured Credit assets led to fears of a 'black hole'**
  - **Stock traded with 'high downside beta,' much like UBS today**
- **Fortis gave a detailed presentation on 7 Mar outlining its Structured Credit portfolio, which eliminated a good deal of the uncertainty and triggered a 4% rally on the day**

GSAM
(Credit)

"The presentation is fantastic in terms of clarity, level of information and exposures"
"Fortis has set a new standard for the industry…We will only invest in banks that has provided this level of information"
"We see disclosure as extremely important and welcome Fortis approach"

GSAM (Credit)

Research Analyst Views

"Fortis management reassured on the three key issues: the structured credit portfolio (full disclosure), the capital position (no need to raise capital) and ABN integration (smooth enough). The low valuation is unwarranted, in our view."

"Full disclosure (probably the best we have seen so far from a European institution) on its €48 Bn structured credit portfolio; our main reading of the 20 pages and over half an hour spent on the subject is that we should not expect further major write-downs, unless the credit market deteriorates in a very material way from here.

Lehman Brothers

"Fortis provided welcome new disclosure on structured credit exposures. Overall the details were reassuring, with generally decent vintage and tranche profiles, and high attachment points, such that further impairments are likely to be limited. Marks taken on ABS CDOs are at the conservative end of the range among peers with similar exposures."
"The company went further than any others that we cover, to disclose details of this portfolio."

Citigroup

"Fortis's 4Q results should give investors comfort for two reasons
First, the company gave a detailed disclosure of its much-feared structured credit portfolio, and it took an impairment on this portfolio that was more aggressive than expected.
Secondly, the bank announced a 'look through' core Tier 1 ratio of 5.4%, which was ahead of expectations "Combined, these events should be enough to take Fortis off the critical list for capital resuscitation; a severe stress test of the structured credit portfolio (€1.9 Bn additional impairments) implies a core tier 1 ratio of 4.9%, which we think would not trigger a capital increase."
"Our view on the stock, though, is that the vastly improved disclosure will lead to improved investor perception."

Merrill Lynch

"Fortis had previously given virtually no disclosure regarding its €50 Bn structured credit portfolio. Friday's detailed disclosure is welcome and finally gives some clarity… Enhanced disclosure on the €48 Bn structured product portfolio revealed a mix broadly in line with expectations. Importantly, there were no significant new areas of concern and this comes as a relief… Disclosure confirmed that the portfolio, while large relative to market cap, is of relatively good quality. Moreover, there were no additional impairments outside of subprime. Overall, the portfolio has a duration of four years and Fortis is limiting subsequent reinvestment."
"Fortis has relatively high exposure to risky assets. This leaves the group potentially vulnerable to further credit deterioration and is compounded by the tight capital position. Economic newsflow is therefore likely to remain the key driver"

Bear Stearns

Source Broker Reports

Asset Exposures: Disclosure To Date

- 10 December 2007: UBS announced that it might record a net loss for full-year 2007
  - This was based on information available and valuations made up to the end of November
  - Concurrently, UBS announced a comprehensive capital improvement program for approval at the extraordinary general meeting of 27 February 2008
    - Proposal to replace the 2007 cash dividend with a stock dividend, i.e. a bonus issue of new shares
    - Issuance of a mandatory convertible note to which two long-term financial investors have agreed to subscribe
- 30 January 2008: UBS announced results estimates for both fourth quarter and full-year 2007
  - Losses and write-downs experienced on positions related to the US mortgage market resulted in a Group net loss attributable to shareholders of CHF 4,384 MM for full-year 2007
  - The Group's net attributable loss for fourth quarter 2007 was CHF 12,451 MM. Severe losses of USD 13.7 Bn (CHF 15.6 Bn) were recorded on positions related to the US residential mortgage market for fourth quarter
- 27 February 2008: At the Extraordinary General Meeting, the shareholders of UBS AG approved the proposed capital measures
- 18 March 2008: UBS published its Annual Report early
  - Total balance sheet was managed down 8.5% since Q3 to CHF 2.3 tr and within this repos down 15% to CHF 377 Bn on asset side

DUMMY

BARCLAYS

Barclays Asset Exposures: Overview

- **Barclays' exposure to assets under scrutiny by the market reached £36.5 Bn as of Dec 2007**
  - **Net write-downs and charges for 2007 amounted to £1.8 Bn**

Barclays Exposures

	31 December 2007 £ MM	Net Writedowns and Charges £ MM	As a %
ABS CDO Super Senior			
High Grade	4,869		
Mezzanine	1,149		
Exposure Before Hedging	6,018		
Hedges	(1,347)		
Net ABS CDO Super Senior	**4,671**	**(1,412)**	**23**
Other Exposures			
Whole Loans-Subprime	3,205		
Other Direct and Indirect Subprime Exposures	1,832		
Total Other US Subprime	*5,037*		
Alt-A	4,916		
Monoline Insurers	1,335		
Commercial Mortgages	12,399		
Of Which—Commercial Real Estate	*11,103*		
Total Other Exposures	**23,687**	**(823)**	**3**
SIV Lite Liquidity Facilities	152		
SIVs	590		
Total SIVs	**742**		
Leveraged Finance	**7,368**	**(188)** [1]	**2**
Revaluation of Own Debt		**658**	
Total Exposures	**36,468**		
Total Charges		**(1,765)**	

Source Company Data and Broker estimates

Note
1. £188 MM of leveraged finance charges includes £130 MM of unrecognised fees

DRAFT

Perceptions of Barclays

Asset Exposures: Peer Comparison

From '60,000' Feet

- **Barclays' ABS and real-estate exposures are a source of investors concern**
  - **due to size of positions and expectations of write-downs**
- **NB: Analysis is based on explicit disclosed numbers to date**

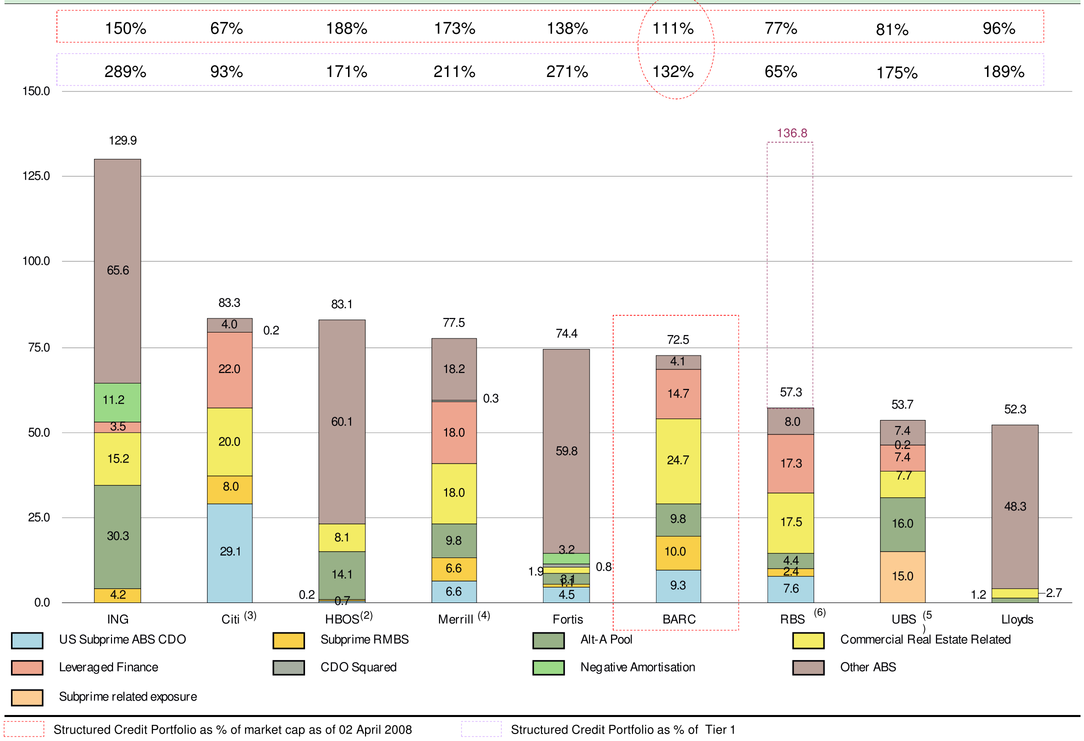
Expected Further Write downs

(€ bn)	Total
UBS	11,247
Barclays	4,875
HBOS	2,897
RBS	2,810
Credit Suisse	2,520
Dexia	1,921
Société Générale	1,502
Deutsche Bank	1,255
HSBC	1,224

Source FPK

Disclosed Structured Credit (Net Exposure) (1)

$ Bn



Notes

1. Net exposures disclosed as of 02 April 2008, including monoline exposures
2. Includes £18.6 Bn of Grampian assets
3. Excludes unfunded LBO commitments of $21 Bn, and prime exposure of $213 Bn
4. Excludes $28 Bn of prime exposure
5. Excludes $3.9 Bn of unfunded LBO commitments
6. Portfolio disclosure in 4Q07 results presentation. On its annual report, RBS has disclosed a total Structured Credit portfolio of £68.3 Bn, without giving details of its composition
7. Includes subprime CDOs and sub-prime RMBS when split is not provided (UBS in 1 April 2008 report)

Morgan Stanley

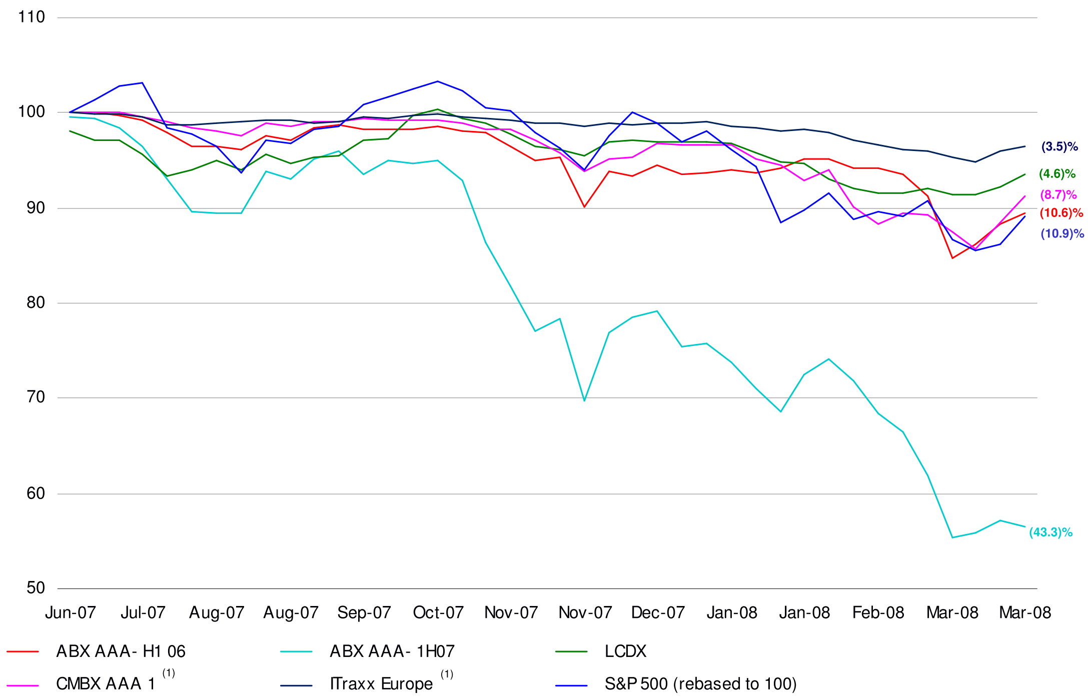
BARCLAYS

Perceptions of Barclays

Structured Credit Market Development

- Although conditions have improved recently, in Q2008 ABS markets were heavily ‘disrupted’, with low liquidity and wide bid ask spreads
  - Even previously ‘safe’ assets traded down
  - Peloton liquidation (plus other hedge funds deleveraging)
  - AIG write-downs
  - Synthetic Structured Credit “unwind” hedging
  - Fear of contagion spreading from subprime to other assets (Alt-A, CRE, consumer credit, etc…)
- Recent improvement ‘liquidity driven’ due to Fed support
  - but still considerable ‘fear’ in US regarding asset quality issues
  - rally has been modest
  - actual turnover has not improved substantially

Structured Credit Market Development
Price Indexes



Source Morgan Stanley Research

Note
1. Morgan Stanley calculation assuming 30 June 2007 as the initial start point of the index; assumes an average duration of 7.5 for the CMBX AAA index and of 4 for Itraxx Europe

BARCLAYS

Perceptions of Barclays

Capital Position

- [ ]

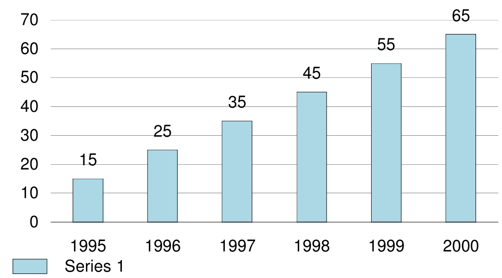
Comment

- Sub 1
  - Sub 2
    - sub 3
      - sub 4

Source Source text goes here

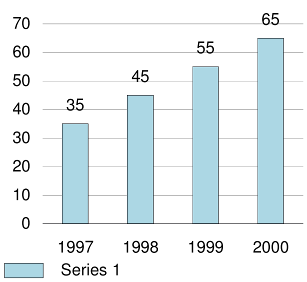
Tangible Equity / RWA

Peer Group



Source Source text goes here

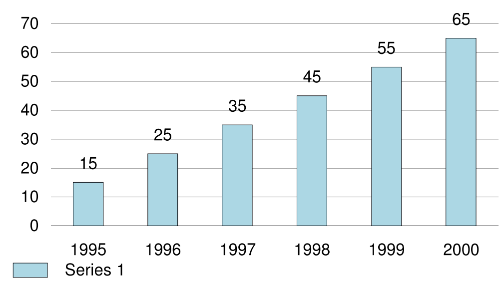
Peer Group ATE



Source Source text goes here

Equity / Tangible Assets

Peer Group



Source Source text goes here

BARCLAYS

Strategic Flexibility

- [ ]

[LTSB Presentation]

- Sub 1
  - Sub 2
    - sub 3
      - sub 4

Source Source text goes here

Self Financing Growth - Additional Loan Impairments (2)

	2007E	2008E	2009E	2010E
Current Provisions/Customer Loans (%)		0.77%	0.74%	0.74%
Worst Case Scenario				
Provisions/Customer Loans (%)		1.25%	1.25%	1.25%
Earnings Impact (£ MM)		(1,162)	(1,352)	(1,486)
Incremental Retained Earnings (£ MM)		1,076	1,180	1,377
Target ET 1 Ratio (%)		5.3%	5.3%	5.3%
Max. Organic RWA Growth (£ Bn)		20.5	22.5	26.2
RWAs (£ Bn)	353.9	374.4	396.8	423.1
Max. Organic RWA Growth (%)		5.8%	6.0%	6.6%

M&A – “Spare Capital”

- [ ]

Source Source text goes here

DRAFT

BARCLAYS

Impact of Capital Issuance

- [ ]

Advantages and Concerns

Advantages

- [ ]
  - Sub 2
    - sub 3
      - sub 4

Concerns

- [ ]
  - Sub 2
    - sub 3
      - sub 4

Source Source text goes here

Brokers' Perceptions on Capital

[ ]

[ ]

[ ]

[ ]

[ ]

Source Broker Reports

DRAFT

BARCLAYS

Section 3

Alternative Strategies

Morgan Stanley

DRAFT

• [ ]

Alternative Strategies

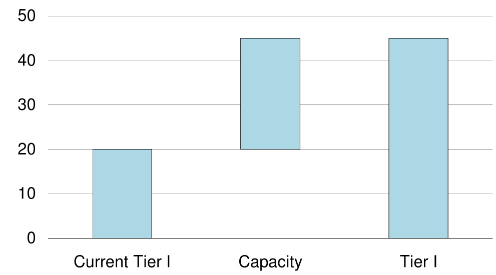
Convertible Option

Considerations

- Price
- IR
- Dilution
- Rating
- Timing
- Strength / Perception

Source Source text goes here

Capacity for Capital



Source Source text goes here

Considerations

- Capacity
- Ratings
- Regulatory

Source Source text goes here

DRAFT

BARCLAYS

Convertible Structure

- [ ]

Right-click for options

BARCLAYS

Alternative Strategies

Common Equity Options

- [ ]

Rights

- Sub 1
  - Sub 2
    - sub 3
      - sub 4

Placing

- Sub 1
  - Sub 2
    - sub 3
      - sub 4

Potential Combined Solution

- [ ]

Structure

- Sub 1
  - Sub 2
    - sub 3
      - sub 4

Pros and Cons

- Sub 1
  - Sub 2
    - sub 3
      - sub 4

BARCLAYS

Tactical Alternatives

- [ ]

- Issue Now

- Issue Post Crisis

- Don't Issue

BARCLAYS

Appendix A

Additional Materials

Morgan Stanley

BARCLAYS

Additional Materials

Selected Comparables

Comparables Trading Statistics

28-Mar-08	Mkt Cap	P / E		P / TBV			RoTE (%)		Tier 1 Ratio
	US$ Bn	2008E	2009E	2007A	2008E	2009E	2008E	2009E	2007A (%)
Swiss Banks									
Mountain	**55**	**9.0x**	**7.6x**	**2.64x**	**2.21x**	**1.82x**	**26.4**	**27.5**	**8.8**
Credit Suisse	59	6.8x	6.2x	1.69x	1.66x	1.43x	24.6	24.7	11.4
Bank Julius Baer	16	12.7x	11.0x	NM	NM	NM	NM	NM	12.9
European Banks									
HSBC	194	12.1x	10.2x	2.19x	2.07x	1.95x	17.6	19.7	9.3
Banco Santander	125	8.6x	7.9x	1.70x	1.64x	1.46x	19.4	19.7	7.7
BNP Paribas	92	7.8x	7.1x	1.66x	1.48x	1.32x	20.2	19.6	7.3
Unicredito	90	7.4x	6.2x	1.74x	1.55x	1.38x	22.8	22.7	6.5
RBS	68	6.2x	6.2x	1.91x	1.67x	1.46x	28.5	25.0	7.3
Deutsche Bank	60	7.4x	7.4x	1.42x	1.34x	1.26x	18.5	17.6	8.6
Barclays	59	6.9x	7.2x	1.84x	1.63x	1.45x	25.3	21.4	7.6
Societe Generale	59	8.4x	6.0x	1.46x	1.29x	1.14x	16.3	20.2	8.3
Mean		8.1x	7.3x	1.74x	1.58x	1.43x	21.1	20.7	7.8
Median		7.6x	7.1x	1.72x	1.59x	1.41x	19.8	19.9	7.6
US Investment Banks									
JPMorgan Chase	144	13.4x	10.5x	2.06x	1.87x	1.73x	14.6	17.1	8.4
Goldman Sachs	64	11.0x	9.2x	1.79x	1.53x	1.30x	16.7	17.7	NA
Morgan Stanley	49	8.0x	6.7x	1.57x	1.34x	1.20x	18.1	18.9	NA
Merrill Lynch	37	8.0x	7.2x	1.75x	1.63x	1.40x	12.4	20.9	NA
Mean		10.1x	8.4x	1.79x	1.59x	1.41x	15.4x	18.7x	8.4x
Median		9.5x	8.2x	1.77x	1.58x	1.35x	15.6x	18.3x	8.4x

BARCLAYS

Additional Materials

Alt-A

'Outside In' Assessment by Brokers

- **With $9.8 Bn Net Alt-A exposure, Barclays has a considerable Alt-A portfolio (though not as much as UBS, ING, or HBOS)**

Peers ALT-A Disclosures

	ING	Fortis	UBS	HBOS	Barclays	RBS	Merrill	Deutsche Bank
Net Exposure ($ Bn)	41.4	3.0	26.6	14.1	9.8	4.4	2.7	0.8
Mark	97%		86%		95%	96%	94%	
CE	12%	11%		30%				
LTV	71	72%		77%	81%			
FICO	723	715		708				
Pre 2006 Vintage	42%	43%						
% AAA Rating	99%	98%	>80%	100%				Mainly AAA
% Investment Grade	100%				>96% [1]	85%		
% First Cash Flows		88%						
Redemption factor		71%						

Source Company data

Note

1- 96% of Barclays Alt-A assets are AA or higher rating

Morgan Stanley

BARCLAYS

Additional Materials

Barclays Portfolio Marks

‘Outside In’ Assessment by Brokers

- **Research analysts expect further write-downs to filter through in 2008**
- **Market is not giving full credit even to ‘good’ assets that will be held to maturity**

We Believe That Barclays Capital Could Have to Take Additional Impairments of £400 MM

Summary of Barclays Exposure—December 2007 (£ MM)

(£ MM)	Exposures 31-Dec-07	Est. Writedown 2007	Writedown %	Estimated total losses	Estimated MTM	W’off Period	Addl. Provns p.a.	Commentary
ABS CDO								
High Grade	4,869							
Mezzanine	1,149							
Exposure Prehedging	6,018							
Hedges	(1,347)							79% RMBS collateral 2005 or earlier
Net ABS CDO Super Senior	4,671	1,412	23.2	33	595			72% loss level protection
Other US Subprime								
Whole Loans	3,205							
Other Direct and Indirect	1,832							
Other US Subprime	5,037	423	7.7	16	451	4 Years	113	£2.8 Bn Equifirst loans avg. LTV 80%
Alt-A	4,916	50	1.0	5	198			
Monoline Insurers	1,335							
Commercial Mortgages	12,399	350	2.7	11	1,052	7 Years	150	54% US: 46% Europe
Direct Loan	11,103							33% originated during 2H07
CMBS	1,296							
Drawn Leverage Loans	7,368	60	0.8	6	386	3 Years	129	
Total	**35,726**	**2,295**	**6.0**		**2,682**		**392**	

Source Company data, Goldman Sachs Research estimates

Credit Market Writedowns

Barclays (£ MM)	Dec-07 Price Writedown	2007 Writedowns Revenue	2007 Writedowns Impairment	2007 Writedowns Total	Dec-07 Post Writedown	Writedown %	2008E Cumulative Writedowns Revenue	2008E Cumulative Writedowns Impairment	2008E Cumulative Writedowns Total	%
ABS CDO (Net of Hedging)	**6,083**	**(690)**	**(722)**	**(1,412)**	**4,671**	**(23)**	**(892)**	**(933)**	**(1,825)**	**(30)**
Other US Subprime [(1)]	–	–	–	–	5,037	–	–	–	–	–
Alt A	–	–	–	–	4,916	–	–	–	–	–
Monoline Insurers	–	–	–	–	1,335	–	–	–	–	–
Commercial Mortgages	–	–	–	–	12,399	–	–	–	–	–
SIVs and SIV Lites	–	–	–	–	742	–	–	–	–	–
Other Structured Credit	**25,252**	**(763)**	**(68)**	**(823)**	**24,429**	**(3)**	**(1,639)**	**(129)**	**(1,768)**	**(7)**
Leveraged Loans	7,296	0	(58)	(58)	7,238	(1)	0	(219)	(219)	(3)
Credit Market Positions	**38,631**	**(1,453)**	**(840)**	**(2,293)**	**36,338**	**(6)**	**(2,531)**	**(1,281)**	**(3,811)**	**(10)**
Annual Movement	–	(1,453)	(840)	(2,293)	–	–	(1,078)	(441)	(1,518)	–

Source Company reports and Citi Investment Research

Note
1. Whole loan and trading positions

BARCLAYS

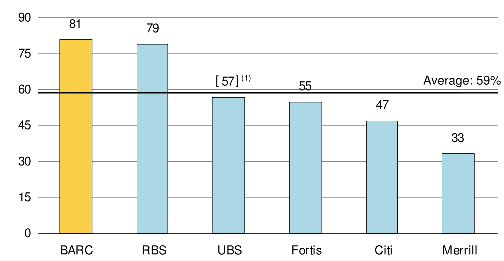
Additional Materials

Peer Comparison: Marks Applied by Peers

US ABS CDOs

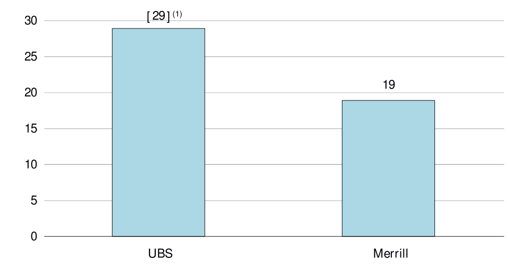
- Structured Finance exposures have in parts been marked down considerably by peers
- Average marks applied by peers
  - US Subprime ABS CDOs
    - HG: 64%
    - Mezz: 50%
    - Overall: 59%
- NB: UBS marks not updated for 1 April write-downs

US Subprime ABS CDO Portfolio
Net as % of Gross Exposure



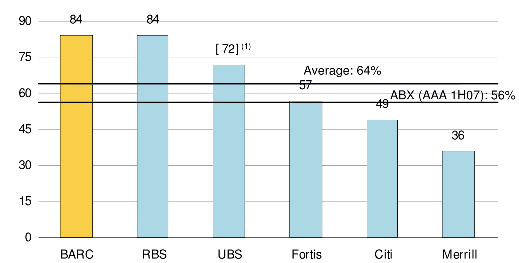
Source Company Reports

US CDO Squared Portfolio
Net as % of Gross Exposure



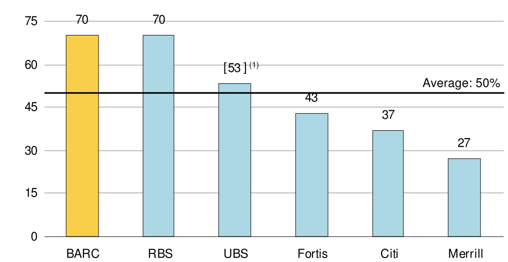
Source Company Reports

US Subprime ABS CDO Portfolio
Net as % of Gross Exposure



Source Company Reports

US Subprime Meszzanine ABS CDO Portfolio
Net as % of Gross Exposure



Source Company reports

Note
1. On March 1, UBS disclose an additional CHF 19 Bn write-downs; as of April 2, UBS has not give any indications of the new marks apply per asset class

BARCLAYS

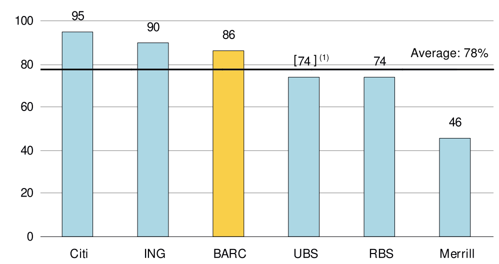
Additional Materials

Peer Comparison: Marks Applied by Peers (cont'd)

Other ABS Assets

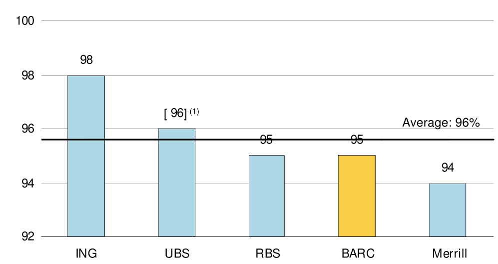
- Direct subprime and Alt-A exposures are also marked below par
  - Suprime RMBS: 78%
  - Alt-A: 96%
- NB: UBS marks not updated for 1 April write-downs

Subprime RMBS Portfolio
Net as % of Gross Exposure



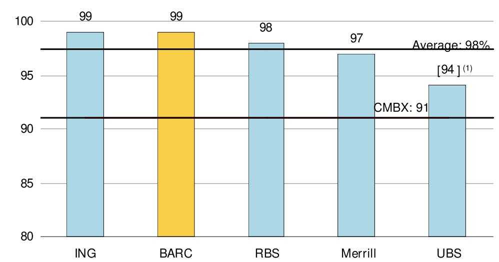
Source Company Reports

Alt-A Portfolio
Net as % of Gross Exposure



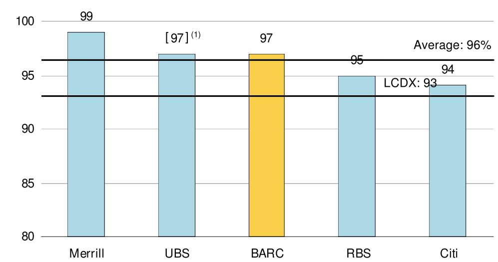
Source Company Reports

CRE Related Loan Exposures
Net as % of Gross Exposure



Source Company Reports

Leveraged Finance
Net as % of Gross Exposure



Source Company reports

Morgan Stanley

Note
1. On March 1, UBS disclose an additional CHF 19 Bn write-downs; as of April 2, UBS has not give any indications of the new marks apply per asset class