



*Dah Sing Financial Centre,
108 Gloucester Road,
Hong Kong*

小組委員會文件編號 SC(1)-F(DSB)2

8th November 2010

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Your Ref: CB1/HS/1/08

BY EMAIL AND BY HAND

Clerk to Subcommittee
Legislative Council Secretariat
3rd Floor, Citibank Tower
3 Garden Road, Central
Hong Kong

Attn: Miss Polly Yeung

Dear Sirs,

**Re: Subcommittee to Study Issues Arising from Lehman Brothers-related
Minibonds and Structured Financial Products (the "Subcommittee")**

I refer to your letter dated 2 November 2010 referring to the order made by the Chairman of the Subcommittee at the Subcommittee's hearing on 2 November 2010 (the "Hearing") that I provide written answers to certain questions as set out in the Appendix to your letter.

I set out below my response to those questions. Unless otherwise stated, I shall adopt the same defined terms as I have used in my witness statement dated 15 October 2010 (the "Witness Statement").

Question 1. The table in Appendix 2(b) of W44 (C) has listed the number and aggregate value of LB-related products sold by Dah Sing Bank, Limited (DSB) each year during the Relevant Period, i.e. April 2003 to 15 September 2010. Please express the aggregate value for each year from 2003 to 2008 as a percentage of the aggregate value of all structured financial products sold by DSB on a retail basis for that year in tabular form as follows:

1.1 Please see enclosed at Appendix 1.1.

Question 2. Please provide a detailed list of the financial products (including any Lehman Brothers (LB)-related structured financial products) distributed by DSB after January 2007 which were subject to the Product Acceptance Scoring mechanism.

2.1 Please see enclosed at Appendix 2.1.

Question 3. It is stated in paragraph 7.5 of W44(C) that a long form Product Approval Plan (PAP) would be prepared for any new product types. Please provide

a copy of the long form PAP which had been duly signed-off for the product type of mini principal protected notes (PPN) offered by DSB by way of private placement.

- 3.1 The relevant PAP long form with respect to mini principal protected notes offered by the Bank by way of private placement is the PAP long form dated October 2005, a copy of which was enclosed as Appendix 7(c)(ii)(Part II) of my Witness Statement.
- 3.2 The distribution method of mini principal protected notes through private placement to less than 50 investors (the 50 offer rule) was approved in the PAP short form dated July 2008.

Question 4. It is noted from the copy of "Instruction for Private Placement Notes Purchase Order – Mini PPN" that in September 2008, DSB still offered and accepted the customer's Purchase Order for LMP 0026 on 11 September 2008. Please provide the relevant documented records, if any, for

- (a) **the decision to continue accepting purchase orders of LMP 0026 on 11 September 2008, when the Investment Services Management became aware of a negative watch warning issued by Standard & Poor against LB on or about 10 September 2008, and**
- (b) **the decision not to proceed further with the sale of LMP 0026 subsequently.**
- 4.1 The Bank had offered LMP0026 to retail customers in September 2008. The offer period started on 9 September 2008 and originally expected to end on 12 September 2008. The intended issue date of the notes was 26 September 2008. In other words, the Bank had started offering for sale LMP0026 to customers since 9 September 2008 and had received orders from customers who had expressed an interest in purchasing that product.
- 4.2 When ISM became aware of a negative watch warning issued by Standard & Poor against LB on or around 10 September 2008, they notified the Head of WMT. As it was the RBD's practice to only sell structured products issued by issuers with credit rating of "A" or above and that a negative watch implied that Standard & Poor was considering to downgrade the credit rating of LB to below "A", upon discussion between ISM and the Head of WMT, they decided that RBD should stop offering for sale further LB-related structured financial products. There is no written record of the discussions between ISM and Head of WMT. Their decision was then recognised by the Head of RBD.
- 4.3 In light of the decision referred to in paragraph 4.2 above, ISM subsequently called off the sale of LMP0026 and stopped the processing of the orders previously placed by customers to purchase LMP0026. The Bank had not passed on the customer orders to the issuer of LMP0026 and hence, the Bank had not sold any LMP0026 to its customers.

Question 5. As indicated in the Short Form dated 28 April 2003 for Product Approval for Dah Sing Retail Bonds under Part I of Appendix 7(c)(ii) of W44(C), Minibond series issued by LB were quoted as an example of "Corporate bonds" issued by listed companies. In view of the complexity of Minibonds, please confirm whether DSB had, after April 2003, conducted any further analysis or study on the features and risks of Minibonds before offering subsequent series for sale; and if yes, please provide the relevant reports, documentation or minutes of meetings if such analysis/study were discussed at meetings.

- 5.1 The PAP dated 28 April 2003 referred to and approved the distribution of special structured bonds by the Bank to retail customers.
- 5.2 In accordance with the Bank's general practice during the Relevant Period, once a new product type had been approved by senior management through the PAP for distribution by RBD, PDMD (which consist of ISM and WMT) would then become responsible for identifying, sourcing and assessing individual products which fell within the approved product type for sale to retail customers. No further PAPs were necessary.
- 5.3 In practice, members of ISM and WMT would conduct assessment on the product features and risks based on their experience and expertise. During the Relevant Period, our Head of ISM and Head of WMT both had over 10 years of experience in the banking industry and were CFAs.
- 5.3 Since 2007, the Bank introduced formal, quantitative product assessment mechanisms prior to the distribution of investment products by RBD, namely the "Product Acceptance Scoring System" and the "Risk Assessment Table". Assessments under the "Product Acceptance Scoring System" and the "Risk Assessment Table" were conducted by ISM and WMT on Minibonds Series 34, 35 and 36, which took into account, amongst other things, their structure, terms and associated risks.
- 5.4 Whilst there were discussions amongst members of ISM and WMT during the assessment process, those discussions were not documented.

Question 6. According to page 9 of the Long Form dated 12 October 2005 for Product Approval for Callable Range Accrual Equity Linked Note Through Private Placement under Part II of Appendix 7(c)(ii) of W44(C), the Product Development and Marketing Department of DSB raised concern about the "risk of mis-selling if the bank's frontline sales do not understand the product". Please explain the measures taken by DSB to mitigate this risk, together with documented records (if any), such as training materials.

- 6.1 Prior to 2005, the Bank already had in place measures to mitigate the risk of mis-selling by: (1) establishing relevant policies and procedures, (2) conducting training to sales staff, (3) mandating the use of a set of forms during the selling

process and (4) conducting regular monitoring and supervision on the selling process.

- 6.2 In particular, following the PAP approval for the distribution of investment products to retail customers through private placement in October 2005, the Bank has made various enhancements to the relevant policies and procedures, including:
- (a) establishing procedures for the sale of private placement products and revising the Branch Operations Guidelines for Bonds/Notes Services and the relevant forms used during the selling process accordingly;
 - (b) introduction of the Wealth Management System and implementation of the Branch Operations Manual for Wealth Management System which sets out the procedures to guide the sales staff in conducting customer risk assessment and the introduction of products to customers in accordance with their investment needs.
 - (c) enhancement of the Suitability Checking Guidelines to set out the guidelines to be followed so that the appropriate suitability checking procedures would be followed by sales staff at the point of sale.
- 6.3 A copy of the above policies and procedures were enclosed as Appendices 31(i) to 31(iii) of my Witness Statement.
- 6.4 Furthermore, as explained in paragraphs 23.1 to 23.13 of my Witness Statement, sales staff were required to attend (i) compulsory new joiners training upon joining the division, and (ii) on-going meetings / training sessions. The relevant training materials are enclosed at Appendix 6.4.

Question 7. In respect of product type assessment, please provide a copy of documented record, if any, on the assessment of any LB-related product which was ultimately not approved by DSB for sale.

- 7.1 During the Relevant Period, product type assessment was conducted through the PAP.
- 7.2 As a matter of general practice, discussion among various departments of the new products took place before the new products were presented for the PAP and general consensus would have been reached in principle among different departments on the distribution of a new product before it was formally introduced to the senior management through the PAP. As such, new products would generally not be rejected during the PAP. However, various departments and senior management may provide their comments on the new product (for example, reminding the relevant business department of the risks associated with the distribution of the new product) during the PAP.

- 7.3 Since January 2007, the Bank has put in place the "Product Acceptance Scoring System" to assist the Bank in evaluating individual investment products to be distributed by way of a public offering in a systematic manner with an aim to provide the most appropriate and quality investment to our customers.

Question 8. It is noted from page 3 of the Short Form dated July 2008 for New Product Approval for "Callable Range Accrual Equity Linked Notes Through Private Placement – "50 Offer Rule"" under Part III of Appendix 7(c)(ii) of W44(C) that the Head of Group Risk of DSB suggested that sales staff should be comprehensively trained on doing the suitability assessment for the product in question, and requested the Branch Management Department of the bank to submit a training report to the Legal and Compliance Division. Please provide a copy of the aforesaid "training report", if any.

- 8.1 Generally, comments made by senior management during the PAP would be followed up by the relevant department.
- 8.2 In light of the comments made by the Head of Group Risk, BMD had organised specific training to sales staff on the product features of Mini-PPNs and the procedures with respect to the selling of those products prior to and around the time at the distribution of the first Mini-PPN (that is, LMP0008) in August 2008:
- (a) trainings held in July and August 2008, during which the features and risks of Mini-PPNs (with particular reference to one of the term sheets of the Mini-PPNs) as well as procedures with respect to the distribution of the Mini-PPNs were discussed.
 - (b) additional training sessions held from time to time as necessary to selective staff to further discuss issues which may have been covered at previous meetings.
- 8.3 A sample copy of the training materials used at the training sessions referred to in paragraphs 8.2 (a) to (b) above are enclosed as Appendix 8.3.
- 8.4 Since BMD had already addressed the comments made by the Head of Group Risk through the offering of additional training to sales staff, no training report was submitted to LCD.

Question 9. Please advise the measures, if any, taken by DSB in response to the concerns/suggestions raised by the Head of Group Risk of the bank, as written in paragraphs 1 to 4 on page 3 of the Short Form dated July 2008 for New Product Approval for "Callable Range Accrual Equity Linked Notes Through Private Placement – "50 Offer Rule" . Please also provide the relevant documented records, if any.

- 9.1 The relevant departments had reviewed and considered the comments made by the Head of Group Risk.

9.2 The following measures were taken by the relevant departments to address the Head of Group Risk's comment:

- (a) If a retail customer had indicated an interest in purchasing private placement products, sales staff was required to inquire into whether customer had previous experience in trading equity-linked notes / equity-linked deposits. If customer did not possess relevant experience, sales staff should inform that customer that the Bank could not accept his/her purchase request for private placement products. Please refer to the Branch Operations Guidelines for Bonds/Notes Services enclosed as Appendix 31(i) of my Witness Statement;
- (b) the minimum subscription amount for LB-related Mini-PPNs was at least US\$25,000 (or approximately HK\$195,000) with an average minimum subscription amount of approximately HK\$220,000;
- (c) guidelines for conducting customer risk profiling were set out in the Branch Operations Manual and the Suitability Checking Guidelines set out additional suitability checking required for (i) vulnerable customers (being customers who are over the age of 65, visually impaired, or illiterate) and (ii) customers who would like to invest in products that do not match their investment experience / risk profiles, or where there was a mismatch in terms of the customers' liquidity requirements and the period of commitment / tenor with respect to the investment product in question. Please refer to the General Guidelines of Suitability Checking for Investment Services enclosed as Appendix 31(iii) of my Witness Statement;
- (d) training was provided to our sales staff on their knowledge of the features and risks of Mini-PPNs as well as the policies and procedures governing the selling process as explained in paragraph 8.2 above; and

Question 10. In the face of market volatilities since early 2008, such as the financial difficulties of Bear Stearns Company, Inc in March 2008, the advice issued by HKMA in early 2008 and LB's worsening credit and financial position since June/July 2008, please advise whether DSB had conducted any internal discussion, reviews or assessment of these events and their impact on the bank and its customers; and if yes, please provide the relevant documented records, if any.

10.1 The Bank was aware of the market volatilities in 2008, and our business divisions were in broad terms more conservative with regard to asset growth. As part of a more defensive strategy, the Bank generally slowed down its lending and other credit related activities, and sought to increase its deposit base and holdings of cash/other liquid assets so as to be able to provide a good service to its customers

and to prepare for any needs that they might have in terms of their own cash and deposit positions. With regard to the above, please see the Bank's Management Committee Minutes attached at Appendix 10.1.

- 10.2 Regarding the advice from HKMA which was communicated to our Legal and Compliance Division in January 2008, the recommendation was to the effect that credit linked notes without full principal protection be classified in our risk rating system under the highest risk category. Our Legal and Compliance Division then advised ISM of such recommendation, with the result that we stepped up our risk rating of credit linked notes (including Minibonds Series 35 and 36) to level "4" (our highest risk rating for investment products under our classification system) such that those customers who had the lowest risk tolerance level in our risk profiling system could not purchase these products.
- 10.3 During 2007/2008, and in the years prior to 2007/2008 when market conditions were generally very benign, our Treasury business did not hold any proprietary positions in securities issued by Bear Stearns or LB, and hence the Bank did not have any outstanding position with Bear Stearns when it was acquired by JP Morgan Chase in March 2008 and with LB when it filed for bankruptcy in September 2008. There was therefore no direct impact to the Bank at the time of these respective events. Within Dah Sing Financial Group (the "**Group**"), our key business divisions (i.e. Treasury business, Commercial Banking business, Retail Banking business and Insurance businesses) operated as independent business divisions of the Group with each headed by an Executive Director, such that no business division would typically have oversight responsibilities over the day-to-day business operations of another division. RBD was not required to and would not typically consult another business division on investment products (under an approved product type) arranged/issued by third parties prior to distribution by RBD. Against the background of operational independence of the Group's key business divisions, we note that our insurance businesses held proprietary positions in debt securities issued by LB during 2008 and hence suffered losses when LB filed for bankruptcy in September 2008.

Question 11. Following the lowering of the long-term credit rating of LB from A+ to A by Standard & Poor in June 2008, please confirm whether DSB had made any official decision that the sale of LB-related products could continue despite the downgrading; if yes, please provide the documented records, if any, of the decision.

- 11.1 During the Relevant Period, it was the general practice of the Bank's RBD that the product issuer of individual structured financial products offered by the Bank to customers should have a single "A" or better credit rating by Standard & Poor or Moody's.
- 11.2 The Head of RBD, ISM and WMT were aware of the downgrade of LB by Standard & Poor in June 2008. However, as LB had still maintained an "A" rating despite the downgrade, following its general practice at the time, RBD had

not stopped the sale of LB-related products. No specific record was kept in this regard.

Question 12. The attached written questions 2 to 7 raised by Hon LEUNG Kwok-hung at the hearing.

12a In Appendix 7(c)(iii), the Acceptance Scoring System (published in January 2007) of your Bank still listed CLNs as one of the examples and rated its risk level as level 2 (p. 3). It was stated in paragraphs 18.3 and 18.4 of the Witness Statement that, the Minibond Series 34 was of level 3, and CLNs were only raised to risk level 4 in January 2008. However, the SFC has already sent a set of guidance to intermediaries early in December 2003, titled "Advice to Investors on Structured Notes"¹, supplemented with diagrams, in order to give investors explanations on structured products such as CLNs and ELNs, including their structures, how they work and their risks. It can be seen that the product has a complex structure and bear high risks, yet your Bank was not aware of the high risks of CLNs and ELNs until the end of 2007, could it be an indication that your Bank was negligent in its duty?

12a.1 No. The Bank understood the structure and risks associated with CLNs and ELNs.

12a.2 The "Advice to Investors on Structured Notes" published by the SFC in December 2003 was an advice issued by the SFC to provide investors with general information on the typical structure and the different types of risks associated with ELNs and CLNs.

12a.3 The Bank has rated non-principal protected ELNs in category 4 (our highest risk category) in its risk rating system. With regard to CLN, the Bank initially rated CLNs in category 3 (being the second highest risk) and subsequently raised it to category 4.

12b From all the documents you submitted, none of them mentioned collateral risk and swap counterparty risk. I would like to know whether you were unaware of or neglecting this risk. If there are relevant documents analysing the conditions and possible consequences of these risks during due diligence, please present them.

12b.1 The Bank was aware of and understood collateral risk and swap counterparty risk. Product risks, including collateral risk and swap counterparty risk, were amongst the factors considered during our product assessment process.

12b.2 In relation to collateral risk, at the time, the LB-related structured financial products which were offered to the public were mostly secured by CDOs with AAA rating, which were, at that time, high quality and reliable collateral. Indeed,

¹ See SFC Website: <http://www.hksfc.org.hk> December 2003

according to credit rating agencies, from 1984 to 2008, AAA CDOs had never defaulted, therefore it was a reliable and high quality collateral at the time.

12c According to paragraphs 20.1 and 20.2 of the Witness Statement, your Bank expressed that it would no longer perform any risk assessment for Lehman Brothers-related products already sold, but would follow-up on the issuer credit ratings. Does your Bank only consider credit rating while monitoring issuers? If other factors are included, please name them. According to Appendix 2(b)(ii), LB's financial condition could be affected by many factors, and credit rating was only one of the items (p. 22-25). Did your bank assess the issuer according to these items? Please present such document(s) if you did and, the reasons for that if you did not.

12c.1 Generally speaking, when assessing an issuer, RBD would take into account not only its credit ratings but also other criteria such as the issuer's registration status with regulators, the issuer's expertise and market experience. Having said that, credit ratings were the primary information considered by RBD in assessing a product issuer. As the credit ratings of product issuers during the Relevant Period were publicly available information, no separate record was kept.

12d According to paragraphs 2.3 and 10.1 of the Witness Statement, the last Lehman Minibonds that your Bank sold was Series 36. Other banks (e.g. BOC) had stated that they would stop selling Series 36 because of the market conditions at that time. Yet your Bank had still been selling LB-related financial products until August 2008. Your explanation was that Lehman's credit rating was still "A" until then. However, numerous review articles could already be found in the Internet during March 2008², pointing out that Standard and Poor's might lower LB's credit rating. LB's share price in March dropped 49%³ when compared with that of January. In June, LB announced that there would be a US 280 million loss in the second quarter⁴. Do you think that your Bank was negligent in its duty by maintaining to act strictly by the book and to look at credit rating only during such a volatile market and with constant negative news on LB?

12d.1 No. Whilst the Bank was aware during 2008 that general financial market conditions were volatile, and LB's credit rating was changed during June 2008 by S&P, a Grade-A credit rating was maintained by LB.

12d.2 This meant, according to the ratings agencies' definitions, that LB was still considered very much in "investment grade" with relatively low risks for investors. In particular, a credit rating of "A" by S&P meant that the probability of default by the issuer within 1 year is around 0.08% and that LB's financial

² See <http://www.forbes.com/feed/afx/2008/03/21/afx4802412.html>, see also "In re. Lehman Brothers Holding INC., (debtors)", Report of Anton R. Valukas, Examiner, US Bankruptcy Court, Southern District of New York, Vol. 1 of 9, section I, p. 5, March 11 2010

³ Ibid. p. 11

⁴ Ibid. p. 10

commitment on repaying its long term debt was still considered to be strong by S&P.

- 12d.3 In addition, the change to LB's credit rating by S&P took place at the same time as when Merrill Lynch's and Morgan Stanley's credit ratings were also similarly downgraded, such that there was no indication that LB was in any way in particularly dire and unique financial difficulties. Indeed, S&P commented in July 2008 that Lehman's "A" credit rating "continues to reflect the company's credit fundamentals, which include a solid liquidity and funding profile.
- 12d.4 Historically, credit ratings on corporations have provided value to the market by taking an intermediate- to long-term perspective primarily based on fundamental credit analysis. In the equity markets, however, a corporation's share price volatility may reflect the short-term market sentiment driven by momentum trades (e.g. on a set of quarterly earnings). If credit ratings merely reflected market sentiment (e.g. stock or CDS prices), they would not provide such independent analysis and value to the marketplace.
- 12d.5 Furthermore, whilst there were rumors about LB circulating in the market at the time, as was the case with a number of other financial institutions, it was generally not possible to verify with any certainty the substance of such market rumors.
- 12d.6 Against this background as regards mixed market rumors and credit ratings, the Bank's RBD adopted the general practice at the time of only selling structured products issued by an entity with a Standard & Poor or Moody's credit rating of "A" or above.
- 12d.7 The Bank appreciates that there are now issues raised as to the reliance on credit ratings issued by credit agencies. To that end, it is easy to suggest, in hindsight, that RBD should have considered further after June 2008 whether LB-related structured financial products should continue to have been sold, rather than relying significantly on credit ratings analyses at the time. Nonetheless, despite the changes in LB's credit rating in June 2008, there was nothing then which suggested that LB was facing imminent collapse, such as to have consequential impact on LB-related structured products. Indeed, LB's collapse on 15 September 2008 was unprecedented and not reasonably foreseeable in any way, whether by us or by the financial markets generally. Indeed, Standard and Poor itself concluded that "the downfall of Lehman reflected escalating fears that led to a loss of confidence – ultimately becoming a real threat to Lehman's viability in a way that fundamental credit analysis could not have interpreted".
- 12e **Will your Bank consider to fully compensate the customers who bought the Minibonds and ELNs due to your Bank's misconceptions, especially the customers of the early series?**

12e.1 The Bank is always responsive to customer's complaint. The Bank recognises that it is important to treat each complainant fairly in the process and that the Bank would make a fair and reasonable decision when settling with the complainant. With that in mind, the Bank has amicably settled most of the complaints with customers. As of today, the Bank has already settled 98% of its LB-related complaint cases. As to those unsettled cases, the Bank continues to maintain active contact with the outstanding complainants and continues to use its best efforts in trying to resolve these cases through the enhanced complaint handling procedures and mediation.

12(f) Your Bank stated that Product due diligence had been carried out for all LB-related structured financial products sold in each series, including reviewing the risks involved in a particular product. To understand the risks of a product, the assets and liabilities consisted in the product have to be analysed.

a. Please fill in the following table to show that your Bank had really carried out risk analysis on the product, using the most popular Lehman Minibond Series 36 as an example:

Liabilities of Lehman Minibond Series 36

Credit Default Swaps, i.e. CDS. (please list)		Reference entities (please specify)	Maximum amount required of LB Minibonds Series 36 to pay when related entities default	% represented by the above amount in the total assets of LB Minibonds Series 36	How much should be paid to counterparties if the liability of this CDS is pre-maturely cancelled now?
	CDS1				
	CDS2				
	CDS3				
	CDS4				
	CDS5				
	CDS6				
	CDS7				
Other liabilities such					

as options (please list, if any)					
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Assets of LB Minibonds Series 36

	Name	Percentage of present value to purchase price
Collateralized Debt Obligations (CDOs) and other assets		

- b. If you do not have the above information, as a distributor who is responsible for carrying out product due diligence, do you have the right to get accessed to these information? The reasons for not having the information if you do have the right; and whether you believe that the information should be disclosed to enhance transparency of collateral risk and counterparty risk for the protection of investors, if you do not have such right.
- c. The specific contents of the collaterals would still be unknown to the investors when they purchase Minibonds/notes, while the issuers only had to assure the rating was "AAA" on the day of purchase. Nevertheless, credit ratings of collateral could fall. The contents of the collaterals have a vital importance, as Collateralized Debt Obligations (CDOs, with high risk and complex structure) and CDS (equivalent to issuing an insurance policy with risks covered) can be involved. You believe that to protect the investors, your Bank should disclose these to the dealers or purchasers when the issuer purchased the collaterals, and that your Bank will show its commitment to the clients by putting forward the question to related organisations if your Bank does not have sufficient information. Will you have such commitment?

12(f).1 Information in relation to the reference entities and collateral of Minibonds Series 36 were disclosed in the relevant issue prospectus and marketing materials, which were prepared by the issuer and authorised by the SFC.

12(f).2 As set out in the issue prospectus and marketing materials, Minibonds Series 36 were credit-linked to the following seven reference entities:

- (i) CLP Power Hong Kong Limited;
- (ii) CNOOC Limited;
- (iii) DBS Bank Ltd;
- (iv) HSBC Bank Plc;
- (v) Hutchison Whampoa Limited;

(vi) MTR Corporation Limited; and

(vii) Standard Chartered Bank.

12(f).3 According to the issue prospectus, if a credit event (as defined in the issue prospectus) happens to any of the 7 reference entities, the issuer would redeem the notes in an amount equal to the credit event redemption amount and the issuer would not pay interest for any part of the interest period during which the credit event happened or any subsequent period. The manner in which the credit event redemption amount is calculated is set out in the issue prospectus, which is dependent upon the circumstances in which the credit event occurs.

12(f).4 The collateral for Minibonds Series 36 consists of synthetic collateralised debt obligation notes. According to the issue prospectus, irrespective of its composition, the CDO collateral must meet the following criteria as at the date of purchase:

- (i) be rated AAA by Standard and Poor's and/or AAA by Fitch, Inc., Fitch Ratings, Ltd. and their subsidiaries and any successor or successors thereto (Fitch) and/or Aaa by Moody's;
- (ii) not be subject to any negative Credit Watch of Standard and Poor's, negative Rating Watch of Fitch or review for possible downgrade on Moody's Watchlist;
- (iii) have a maximum maturity not later than the maturity date of the notes;
- (iv) be acceptable to Lehman Brothers Special Financing Inc. as a funding source for the issuer's obligations under the swap arrangements; and
- (v) the CDO will not be an asset-backed securities CDO. The CDO will not be linked to asset-backed or mortgage-backed securities.

12(f).5 As regards the current value of the collateral, we understand that the estimated amount is currently being assessed by the relevant trustee. The Bank does not currently have such information.

Yours faithfully,



Wong Hon Hing, Derek
Managing Director and Chief Executive
Dah Sing Bank, Limited