



Lehman Brothers International
(Europe) (in administration)
25 Canada Square
London
E14 5LQ

CR-2018-003713

To: The Scheme Creditors

2 May 2018

Dear Sirs/Madams

Update regarding the proposed scheme of arrangement in relation to Lehman Brothers International (Europe) (in administration) pursuant to Part 26 of the Companies Act 2006

THIS LETTER CONCERNS MATTERS WHICH MAY AFFECT YOUR LEGAL RIGHTS AND ENTITLEMENTS AND YOU MAY THEREFORE WISH TO TAKE APPROPRIATE LEGAL ADVICE ON ITS CONTENTS.

- 1.1 Reference is made to the practice statement letter, which was circulated on 18 April 2018 by the Company to Scheme Creditors (the "**Practice Statement Letter**"). A further copy of the Practice Statement Letter is enclosed in the Schedule to this letter.
- 1.2 Capitalised terms used in this letter but not otherwise defined herein shall have the meaning given to them in Appendix 1 (*Definitions*) of the Practice Statement Letter.
- 1.3 In the Practice Statement Letter, the Company informed Scheme Creditors that three Scheme Meetings were required on the basis that Scheme Creditors fall into three separate classes.
- 1.4 Late in the evening on 25 April 2018, the Administrators were sent a letter by LBHI2's administrators indicating that Wentworth Sons Senior Claims S.à. r.l., the Subordinated Creditor and certain of the creditors that form the SCG had entered into a separate settlement agreement in parallel with the Lock-up Agreement, which provided that (amongst other things) the SCG would receive from those Wentworth parties the sum of £35 million, by way of a "consent fee" in the event that the Scheme becomes effective (the "**Arrangement**"). The Administrators had not previously been aware of the Arrangement.
- 1.5 On the evening of 29 April 2018, the Administrators received a copy of the agreement that gives effect to the Arrangement.
- 1.6 The parties to the Arrangement have described it to the Administrators as a private commercial agreement that was entered into to resolve a number of open issues

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between them through the construct of the Scheme, which the parties agreed to support. Furthermore, they have stated that the consent fee payable pursuant to the Arrangement is immaterial to the SCG's assessment of the merits of the Scheme, such that it remains possible for the SCG to consult with other Scheme Creditors for the purposes of voting on the Scheme.

- 1.7** Notwithstanding the above, the Administrators have considered the effect of the Arrangement and, having taken legal advice, have concluded that it would be appropriate for the SCG to vote at a separate Scheme Meeting from other Scheme Creditors and therefore form a separate, fourth class of creditors. In so doing, the Administrators seek to avoid: (i) an argument as to whether the consent fee results in the SCG having sufficiently dissimilar rights to other Scheme Creditors that it is impossible for them to consult together with a view to their common interest; and (ii) any delay which might be caused by a Scheme Creditor wishing to make that argument and to have the Convening Hearing adjourned to afford it further time to do so.
- 1.8** Accordingly, creditors that form the SCG who are party to the Lock-up Agreement, being Burlington Loan Management DAC, CVI GVF (Lux) Master S.à.r.l and Hutchison Investors LLC and certain of their affiliates, will vote at a single separate meeting in respect of all 8% Interest Claims, Specified Interest Claims and Higher Rate Claims that are legally held by them and will not be entitled to vote at the Scheme Meetings for other Scheme Creditors who hold 8% Interest Claims and/or Specified Interest Claims or Higher Rate Claims.
- 1.9** On the basis that the Lock-up Agreement provides for a legally binding commitment for the SCG to support the Scheme, the Administrators do not consider it necessary for separate Scheme Meetings to be held in respect of the 8% Interest Claims and Specified Interest Claims held by the SCG and Higher Rate Claims held by the SCG.
- 1.10** Where an 8% Interest Claim, Specified Interest Claim or Higher Rate Claim is legally held by a creditor that does not form part of the SCG, the legal holder of the claim will vote at the Scheme Meeting relevant to that claim with other Scheme Creditors, even if a creditor that forms part of the SCG and is a party to the Lock-up Agreement, has an interest in the claim (such as rights under a sub-participation agreement). This reflects:
- 1.10.1** that the composition of classes of Scheme Creditors is based on creditors' respective legal rights and that legal owners of claims who are not part of the SCG will not receive the consent fee;
- 1.10.2** that the Company is unable to determine the extent or existence of beneficial or contractual interests that may have been granted by the legal holder of a claim in favour of third parties; and
- 1.10.3** existing judicial authority and in this regard Scheme Creditors are referred to the judgments of Morgan J in *Zodiac Pool Solutions SAS* [2014] EWHC 2365 (Ch) and Evans-Lombe J in *Re Abbey National Plc* [2004] EWHC 2776 (Ch). The Administrators understand that the majority of the Provable Claims in which

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the SCG have an interest are legally held by a creditor that forms part of the SCG.

- 1.11** The SCG will be allocated voting rights for the purposes of the separate Scheme Meeting for the fourth class of creditors, in the manner described at paragraphs 10.15.1 to 10.15.4 of the Practice Statement Letter.
- 1.12** Based on the figures referenced in paragraph 5.8 of the Practice Statement Letter, the effect of the SCG voting at a separate Scheme Meeting in a fourth class of creditors is that:
- 1.12.1** at the Scheme Meeting for other Scheme Creditors who hold 8% Interest Claims and Specified Interest Claims, the Administrators' understanding is that 71% of Admitted Claims will be held or controlled by parties to the Lock-up Agreement; and
- 1.12.2** at the Scheme Meeting for other Scheme Creditors who hold Higher Rate Claims, the Administrators' understanding is that 75% of Admitted Claims will be held or controlled by parties to the Lock-up Agreement.
- 1.13** Scheme Creditors should note that both the Wentworth Group and the SCG have been notified of the change to the composition of classes described in this letter and neither have objected to it. The SCG has indicated that it is willing to accept the revised class composition for the reasons given in paragraph 1.7 above, without prejudice to whether the argument identified in paragraph 1.7(i) above is correct.
- 1.14** Save for the above, the content of the Practice Statement Letter, including the proposed objectives and benefits of the Scheme otherwise remain unchanged.
- 1.15** The Administrators consider that the Arrangement does not impact the ability of the members of the Wentworth Group who hold 8% Interest Claims and Specified Interest Claims, or Higher Rate Claims, to consult with (as applicable) other Scheme Creditors in relation to the rights of 8% Creditors, Specified Interest Creditors or Higher Rate Creditors, as explained in paragraph 10 of the Practice Statement Letter. This reflects that the Arrangement does not result in any payment being made to the Wentworth Group. Their rights are materially the same as the other Scheme Creditors who respectively hold either: (i) 8% Interest Claims and/or Specified Interest Claims; or (ii) Higher Rate Claims.
- 1.16** The Administrators remain of the firm view that the Scheme represents a fair and appropriate compromise that has been carefully negotiated and structured with the support of the largest creditor groups in the Administration. If the Scheme is not approved, then the Administrators consider it likely that the extant litigation to determine creditor entitlements to the Surplus will continue, resulting in significant further delay to the payment of distributions to creditors. Accordingly, the Administrators continue to recommend that all Scheme Creditors support the Scheme.

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- 1.17** In the event that you have assigned, sold or otherwise transferred your interest (or any part thereof) in your Provable Claims, you are requested to forward a copy of this letter to the person or persons to whom you have assigned, sold or otherwise transferred such interest. If you intend to assign, sell or otherwise transfer your interest (or any part thereof) in your Provable Claims, you are requested to forward a copy of this letter to the person or persons to whom you intend to assign, sell or otherwise transfer such interest.
- 1.18** If you have any questions in relation to this letter or the Scheme, please contact the Administrators via the following email address schemequeries@lbia-eu.com.

Yours faithfully



Russell Downs

Joint administrator acting as agent for and on behalf of Lehman Brothers International (Europe) (in administration) without personal liability

Schedule: Practice Statement Letter

To Scheme Creditors

18 April 2018

Dear Sirs/Madams

Proposed scheme of arrangement in relation to Lehman Brothers International (Europe) (in administration) (the “Company”) pursuant to Part 26 of the Companies Act 2006

THIS LETTER CONCERNS MATTERS WHICH MAY AFFECT YOUR LEGAL RIGHTS AND ENTITLEMENTS AND YOU MAY THEREFORE WISH TO TAKE APPROPRIATE LEGAL ADVICE ON ITS CONTENTS.

1 PURPOSE OF THIS LETTER

- 1.1 We write to you in our capacity as the Administrators of the Company.
- 1.2 Unless otherwise stated, capitalised terms used in this letter have the meaning given to them in Appendix 1 (*Definitions*) of this letter.
- 1.3 We refer to the Announcements which were published on the Website on 22 December 2017 and 29 March 2018.
- 1.4 Pursuant to the Announcements, the Administrators informed the Company’s creditors that they were preparing a proposal, to be implemented by way of a scheme of arrangement, which would provide for the full and final settlement of predominantly all litigation, disputes and claims in respect of entitlements to the Surplus, including the Waterfall II Proceedings (as to which, see further below) thereby facilitating the earlier payment of Statutory Interest due to creditors than would otherwise be possible were such litigation to continue (the “**Scheme**”).
- 1.5 The Scheme is likely also to enable the Company to pay dividends on the claim against it in respect of the Subordinated Debt (of up to 100p in the pound). If there is a surplus after payment in full of the Subordinated Debt and Statutory Interest thereon, that surplus will be distributed to the Shareholder. Any such distribution(s) to the Shareholder will be made outside of the terms of the Scheme, in accordance with the Companies Act and/or the Insolvency Act (as relevant).

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- 1.6** A scheme of arrangement of the kind proposed by the Company (acting by the Administrators) is a compromise or arrangement provided for under Part 26 of the Companies Act which will take effect between a company and its creditors (or any class of them) and become binding on all the creditors to whom it applies if: (i) it is agreed to by a majority in number representing 75% in value of the creditors (or each class of creditors) present and voting either in person or by proxy at each meeting ordered to be summoned by the High Court; and (ii) the High Court subsequently sanctions the Scheme.
- 1.7** In accordance with the Practice Statement in relation to schemes of arrangement proposed under the Companies Act between a company and its creditors, this letter is to inform you of:
- 1.7.1** the Administrators' decision to cause the Company to propose the Scheme;
- 1.7.2** the objectives the Scheme is designed to achieve; and
- 1.7.3** the composition of the meetings of the Scheme Creditors that the Company intends to invite the High Court to convene for the purposes of voting on the Scheme.
- 1.8** This letter is addressed to "**Scheme Creditors**", being legal or natural persons who have Provable Claims (including, for the avoidance of doubt, any Admitted Claim whether unpaid or paid in full or in part), including the Subordinated Creditor.
- 1.9** This letter has been sent to those persons who the Administrators believe are or may be Scheme Creditors (provided the Administrators are in possession of their contact details). This letter has also been made publicly available on the Website.
- 1.10** In the event that you have assigned, sold or otherwise transferred your interest (or any part thereof) in your Provable Claims, you are requested to forward a copy of this letter to the person or persons to whom you have assigned, sold or otherwise transferred such interest. If you intend to assign, sell or otherwise transfer your interest (or any part thereof) in your Provable Claims, you are requested to forward a copy of this letter to the person or persons to whom you intend to assign, sell or otherwise transfer such interest.
- 1.11** If you have not proved in the Administration and believe you have a Provable Claim, you must submit a proof of debt in respect of such Provable Claim as soon as possible, and on the assumption that the Scheme becomes effective, prior to the bar date (as explained in paragraph 7.14 below).
- 1.12** If you have not proved in the Administration and do not believe that you have a Provable Claim, you do not need to take any further action, however you will not be entitled to receive any dividends in the Administration or any distributions made pursuant to the Scheme and you will be prevented from proving for any Provable Claim after the Scheme becomes effective (as further explained below).

2 BACKGROUND TO THE ADMINISTRATION AND THE SURPLUS

- 2.1** Prior to its administration in 2008, the Company was the main European broker-dealer in the Lehman Brothers group of companies, which provided investment banking

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services to clients (including corporate customers, institutions, governments, hedge funds and private clients) on a global basis.

- 2.2** On 15 September 2008, on an application of its directors, the Company was placed into administration. On 15 September 2008, Anthony Victor Lomas and Steven Anthony Pearson, on 2 November 2011, Russell Downs and on 22 March 2013, Julian Guy Parr, were appointed as joint administrators of the Company pursuant to orders of the High Court.
- 2.3** On 2 December 2009, the Administrators obtained from the High Court an order to convert the Administration into a distributing administration. A first interim dividend was paid on or around 30 November 2012.
- 2.4** Following the initial dividend payment, the estimated financial outcome published in the Administrators' six-monthly progress report to creditors, dated 12 April 2013, showed, for the first time, an indicative outcome in the Administration whereby there could be a surplus after payment in full of the proved claims of unsecured creditors. This reflected the ongoing progress in the Administration to secure improved realisations against forecast recoveries and (where appropriate) to settle claims, particularly relating to the Company's affiliates, at amounts well below the levels claimed in proofs of debt. The Company also noted the gradual rise in the price quoted in respect of the trading of claims in the Administration, which by this stage had reached a price of around par.
- 2.5** On 14 February 2013 the Administrators issued the Waterfall I Proceedings to determine certain issues that had been identified relating to creditors' entitlements to any surplus. Further proceedings, namely the Waterfall II Proceedings, were issued in June 2014 in respect of further questions that arose as regards such entitlements.
- 2.6** By way of three further interim dividends paid on or around 28 June 2013, 29 November 2013 and 30 April 2014 (and related "catch-up" dividends), an aggregate amount of £12.35 billion has now been returned to the Company's unsecured creditors, such that the principal amount of all Admitted Claims has been paid in full (save for where payment cannot be made on account of a creditor's failure to provide required information in which case a relevant reserve has been made) and a significant surplus remains.
- 2.7** A small number of Provable Claims that have been lodged in the Administration are still to be finally determined and so provision will be included for them in the Adequate Reserves. The holders of these claims will be entitled to vote in relation to the Scheme as described in paragraphs 10.15.3 and 10.15.4 below.
- 2.8** There is the possibility of new Provable Claims being lodged in the Administration between the date of this letter and the Effective Date. The Administrators are unable to provide further comment at this stage as to the possible impact that any such claims might have on the timing, and quantum, of the anticipated payments to be made under the Scheme.

3 THE WATERFALL PROCEEDINGS

Waterfall I Proceedings

3.1 The Waterfall I Proceedings sought to determine a number of questions, including issues relating to the ranking and payment of the Subordinated Debt and possible Contributory Claims (i.e. claims against the Shareholder). Having proceeded through the High Court and the Court of Appeal, the Waterfall I Proceedings were subject to a decision of the Supreme Court in May 2017 which considered (among other issues):

3.1.1 whether creditors with Provable Claims which were denominated in a foreign currency, but who had received payment of the principal amount of such claims in sterling, could have a non-provable “**Currency Conversion Claim**” against the Company, owing to a decline in the value of sterling as against the foreign currency between: (i) the date of administration (and conversion of the foreign currency claim into sterling pursuant to Rule 2.86 of the Insolvency Rules 1986); and (ii) the date of that payment. The Supreme Court determined that Currency Conversion Claims do not exist and consequently foreign currency creditors cannot claim for such currency losses; and

3.1.2 the impact of the Company being put into liquidation on claims to Statutory Interest that would otherwise be payable from the Surplus. The Supreme Court held that, if the Company moved from administration into liquidation, any claim to Statutory Interest arising in the Administration out of such claims which is not paid prior to the commencement of the liquidation, would not be payable or provable after the commencement of the liquidation (the “**Lacuna Issue**”).

3.2 Following the Supreme Court decision, the Waterfall I Proceedings are concluded and no further rights of appeal can be exercised in respect of the issues in those proceedings, including those summarised above.

Waterfall II Proceedings - Tranche A

3.3 Tranche A of the Waterfall II Proceedings primarily deals with issues surrounding the calculation of Statutory Interest to be paid from the Surplus, and provides further guidance as to the proper distribution of the Surplus. Issues forming part of Tranche A include:

3.3.1 how dividends paid in the Administration are to be applied in respect of debts proved against the Company. In October 2017, the Court of Appeal upheld the High Court’s decision that dividends paid in the Administration are first applied to paying down the principal amount of a creditor’s Provable Claim. Both courts rejected the argument, based on a case known as *Bower v Marris*, that Statutory Interest entitlements should be calculated on the basis that dividend payments are to be treated as being applied first to Statutory Interest on Provable Claims, and then to the principal amounts of Provable Claims;

3.3.2 where the relevant interest rate to be applied is a compounding rate, the treatment of accrued Statutory Interest following the payment in full of the principal amount of a creditor’s Provable Claim. The Court of Appeal upheld the High Court’s decision that Statutory Interest does not continue to compound following the payment of the final dividend; and

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3.3.3 the date from which Statutory Interest on admitted future and contingent claims is calculated. The High Court held that (among other things): (i) Statutory Interest is calculated on admitted contingent debts from the date of Administration; and (ii) the same principle applies to admitted future debts. Finding (i), relating to contingent debts, was appealed, however the Court of Appeal upheld the High Court's decision that the correct date from which Statutory Interest is calculated is the date of Administration.

3.4 Applications to appeal the above decisions to the Supreme Court have been brought by certain parties to Tranche A. Permission to appeal has been refused by the Court of Appeal, and applications for permission to appeal have subsequently been made directly to the Supreme Court. On 11 January 2018, the Supreme Court agreed to defer its decisions in relation to the outstanding applications for permission to appeal, so as to facilitate the implementation of the Scheme. If the Scheme becomes effective, the applications for permission to appeal will be permanently withdrawn. If the Scheme does not become effective, the Supreme Court will proceed with making its decisions in respect of the applications for permission to appeal.

Waterfall II Proceedings – Tranche B

3.5 Tranche B of the Waterfall II Proceedings deals with the construction and effect of agreements made between the Company and a large number of its creditors after the date of Administration, specifically matters concerning the effect of release clauses in those agreements.

3.6 Certain of the issues in Tranche B were appealed to the Court of Appeal. However, the appeals in respect of those issues fell away as a result of the Supreme Court decision in the Waterfall I Proceedings and no parties to Tranche B are seeking any longer to pursue these issues.

Waterfall II Proceedings – Tranche C

3.7 Tranche C of the Waterfall II Proceedings deals with the construction of English and New York law ISDA Master Agreements and certain German master agreements, which may give rise to an entitlement to Statutory Interest on debts owed by the Company at a rate higher than 8% simple per annum.

3.8 As regards the ISDA Master Agreements, the High Court was asked to construe the definition of "Default Rate", being a "*rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum*". The High Court held, among other things: (i) that the relevant payee for the purposes of the certification was the original counterparty not any assignee; (ii) that a cost of funding could not include a cost of equity funding; and (iii) that a certification was conclusive unless it was made irrationally or in bad faith, contained a manifest error or was not in compliance with the findings of the High Court in relation to "cost of funding".

3.9 As regards the German master agreements, the High Court determined that a creditor could not make a claim for further damages for delayed payment of close-out amounts and that, in any event, such sums would not constitute a rate applicable to the debt

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apart from the Administration (and thus could not give rise to a rate higher than a simple rate of 8% per annum).

- 3.10** Following the first instance decision of the High Court, parties to the litigation appealed several of the ISDA Master Agreement issues, including the decision that cost of funding does not include any cost of equity funding, but excluding the decision regarding the identity of the relevant payee and the grounds for challenging a certification. The Court of Appeal hearing is currently scheduled for July 2018. The findings in relation to the German master agreements are not being appealed. If the Scheme becomes effective, steps will be taken to withdraw the appeal in Tranche C. If the Scheme does not become effective, the Court of Appeal hearing in respect of Tranche C will proceed.
- 3.11** Initially, the proceedings also raised a set of issues concerning the AFB/FBF French Master Agreements and the AFTB/AFTI French Master Agreements. However: (i) the parties reached an agreed position on 11 September 2015 in relation to the AFB/FBF French Master Agreements ahead of the hearing and thus this set of issues was withdrawn from the application; and (ii) the issues relating to the AFTB/AFTI French Master Agreements were also withdrawn as they were considered *de minimis* to the application.

Waterfall III Proceedings

- 3.12** The Waterfall III Proceedings addressed certain questions concerning Contributory Claims and other affiliate issues. These proceedings were commenced on 25 April 2016 further to an application issued by the Administrators.
- 3.13** A commercial settlement among the parties to the Waterfall III Proceedings was reached several months in advance of the date scheduled for trial and the High Court gave directions on 1 August 2017 in relation to the parties' entry into that settlement. The settlement became effective on 6 September 2017 and the Waterfall III Proceedings were finally dismissed by an order of the High Court sealed on 20 December 2017.

4 THE LACUNA APPLICATION

- 4.1** The Lacuna Application arose out of the Supreme Court's finding on the Lacuna Issue in the Waterfall I Proceedings (see paragraph 3.1.2 above). On 24 October 2017, the Subordinated Creditor wrote to the Administrators, purportedly pursuant to paragraph 56(1) of Schedule B1 of the Insolvency Act, to seek a creditors' decision to bring about the termination of the Administration and the commencement of a liquidation (the "**Paragraph 56(1) Request**"). In response, the Administrators:
- 4.1.1** made clear that they would not accede to the Paragraph 56(1) Request without first seeking directions from the High Court;
 - 4.1.2** stated that they consider there to be significant legal questions which arise in respect of the Paragraph 56(1) Request; and
 - 4.1.3** invited an immediate withdrawal of the Paragraph 56(1) Request and, if the withdrawal was not forthcoming, indicated that they would seek the High Court's directions.

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- 4.2** The Paragraph 56(1) Request was not withdrawn, and so on 28 November 2017 the Administrators issued the Lacuna Application, which sought direction from the High Court including as to whether, taking into account all the circumstances, the Administrators are obliged to comply with the Paragraph 56(1) Request or whether the High Court should direct the Administrators not to seek a decision of the Company's creditors.
- 4.3** The Lacuna Application was stayed pursuant to an order of the High Court dated 12 January 2018, in order to facilitate the implementation of the Scheme. If the Scheme becomes effective, the Lacuna Application will be discontinued. If the Scheme does not become effective, the stay will be lifted, and the Lacuna Application will proceed before the High Court.

5 BACKGROUND TO THE SCHEME

- 5.1** The Administrators have maintained for some time that the interests of creditors as a whole would be best served by the resolution of the issues relating to entitlements to the Surplus on consensual terms rather than through the continuation of litigation, which significantly increases costs in the Administration and results in substantial delay as regards the making of material distributions.
- 5.2** Between 2014 and 2017, the Administrators therefore put forward a number of resolution initiatives that would have expedited the determination of creditor entitlements to the Surplus and allowed for distributions in respect of Statutory Interest to be made. Such proposals were not implemented as they failed to receive the requisite support from the Company's creditors that were essential to their success.

Background to the Term Sheet and Lock-up Agreement

- 5.3** As referred to above, in May 2017 the Supreme Court handed down its judgment in the Waterfall I Proceedings, which eliminated any possibility of Currency Conversion Claims. Further, in September 2017 a commercial settlement of the Waterfall III Proceedings became effective and in October 2017, the Court of Appeal's judgment in respect of Tranche A confirmed (among other things) that neither the rule in *Bower v Marris* nor the continued compounding of Statutory Interest entitlements after the payment of a final dividend in respect of a Provable Claim applied.
- 5.4** Notwithstanding these developments:
- 5.4.1** the appeal of Tranche C remained undecided;
 - 5.4.2** there remained the possibility of the applicability of the rule in *Bower v Marris* and the continued compounding of Statutory Interest entitlements after the payment in full of the principal amount of a Provable Claim being considered by the Supreme Court;
 - 5.4.3** the Lacuna Application had been commenced; and
 - 5.4.4** in September 2017 the Subordinated Creditor began steps to seek to challenge the Administrators' decision to admit the largest Admitted Claim in the administration (the "**Olivant Application**").

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- 5.5** If the Waterfall II Proceedings, the Lacuna Application and the Olivant Application run their course, it is likely that they would not be fully and finally determined until 2020 at the earliest (taking into account potential appeals). This would have significant cost implications for the Administration and would result in further delay as regards the ability of the Administrators to make material distributions from the Surplus.
- 5.6** Accordingly, in the latter half of 2017, the Administrators took the view that it was appropriate and in the interests of the creditors generally to explore again with the Company's largest creditors, namely the SCG and the Wentworth Group, whether they were open to seeking to agree the terms of a consensual resolution of the above issues, given that at this stage the Administrators had received significant guidance from the Courts in respect of the Waterfall Proceedings.
- 5.7** The SCG consists of a number of creditors who hold Admitted Claims that rank *pari passu* with all other ordinary unsecured claims. The Wentworth Group consists of a number of creditors, including: (i) the holders of Admitted Claims that rank *pari passu* with all other ordinary unsecured claims; and (ii) the Subordinated Creditor, whose principal claim in respect of the Subordinated Debt is valued at £1.24 billion (excluding any potential pre-administration interest entitlement thereon).
- 5.8** The SCG and the Subordinated Creditor are the principal participants (together with York Global Finance BDH LLC and Goldman Sachs International) in the Waterfall II Proceedings. The Administrators' understanding is that the SCG holds or controls c.40% of all Admitted Claims (consisting of: (i) 45% of all 8% Interest Claims and Specified Interest Claims; and (ii) 33% of all Higher Rate Claims) by value and the Wentworth Group collectively holds or controls c.38% of all Admitted Claims (consisting of: (i) 32% of all 8% Interest Claims and Specified Interest Claims; and (ii) 49% of all Higher Rate Claims) by value. Accordingly, each of the SCG and the Wentworth Group is in a position to block any attempted consensual resolution, whether through a scheme of arrangement or otherwise, and it is therefore imperative to ensure that any proposal to be put to the Company's creditors to resolve the remaining disputes and uncertainties has the confirmed support of both of these creditor groups.
- 5.9** In the course of negotiations that were facilitated by the Administrators, the Wentworth Group stated that they would only support a proposal if that proposal provided for the Subordinated Creditor to have rights to influence the determination of matters likely to impact its ultimate recovery in respect of the Subordinated Debt, such as consultation rights regarding the adjudication of certifications in respect of Higher Rate Claims and the approval of the Administrators' remuneration.
- 5.10** Likewise, the SCG stated that they would only support a proposal that achieved a full distribution of Statutory Interest in accordance with current decisions of the Courts, without any discount to account for a relatively earlier distribution of Statutory Interest (relative to the alternative timescale highlighted at paragraph 5.5 above) and/or any risk arising from the Lacuna Issue.
- 5.11** Terms were ultimately agreed among the Administrators, the SCG and the Wentworth Group. Such terms are set out in a term sheet (the "**Term Sheet**") that was scheduled to a Lock-up Agreement that became effective on 22 December 2017 (the "**Lock-up Agreement**").

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- 5.12** Pursuant to the terms of the Lock-up Agreement: (i) the proposed terms of the Scheme could not be disclosed to Scheme Creditors not party to the Lock-up Agreement (other than to the extent disclosed in the Announcements) prior to the date of this letter; and (ii) the Lock-up Agreement and Term Sheet cannot be disclosed to Scheme Creditors without the consent of the SCG and the Wentworth Group.
- 5.13** The Lock-up Agreement sets out an ambitious timetable for implementing the Scheme and contains legally binding commitments from the SCG and the Wentworth Group to (among other things):
- 5.13.1** take all reasonable steps (and procure that their affiliates take all reasonable steps) to support the implementation of the Scheme (provided that it is not unduly burdensome to such party or materially inconsistent with the Term Sheet), including voting to approve the Scheme;
 - 5.13.2** refrain from taking actions which would reasonably be expected to impede or prevent the implementation of the Scheme; and
 - 5.13.3** accept (and procure that their affiliates accept) the Settlement Payment Option (as to which, see paragraph 7.1.3(i) below) in respect of all of their Higher Rate Claims.
- 5.14** In addition, pursuant to the Lock-up Agreement, the Company, the SCG and the Wentworth Group agreed to stay Tranche A, the Lacuna Application and the Olivant Application, in order to facilitate the implementation of the Scheme.
- 5.15** Such commitments and obligations will no longer have binding effect in the event that the Lock-up Agreement is terminated in accordance with its terms, including automatic termination on 30 June 2018 (or such later date as may be agreed in writing between the original parties to the Lock-up Agreement).
- 5.16** No fees, payments (other than the payments to be made pursuant to the terms of the Scheme) or other inducements have been, or will be, paid or otherwise made by the Company to the SCG or the Wentworth Group pursuant to the terms of the Lock-up Agreement or the Scheme.
- 5.17** In light of the position agreed with the SCG and the Wentworth Group, the Administrators considered (and continue to consider) it appropriate to propose a scheme of arrangement reflecting the terms agreed.
- 5.18** The Administrators are recommending that all Scheme Creditors support the Scheme on the basis that they: (i) are satisfied with the fairness and appropriateness of the Scheme, including the rights afforded to the Subordinated Creditor (as described in paragraph 5.9 above), which rights reflect the fact that the Subordinated Creditor is the creditor most likely to be affected by the matters over which it has influence under the terms of the Scheme; and (ii) consider that the Scheme represents a fair outcome for all Scheme Creditors.

6 PURPOSE OF THE SCHEME

- 6.1** The primary purpose of the Scheme is to provide a framework for the consensual determination of creditor entitlements to the Surplus, so as to facilitate an expedited

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payment to creditors in respect of their Statutory Interest entitlements. This will be effected by:

- 6.1.1 bringing to an end:
 - (i) the Waterfall II Proceedings;
 - (ii) the Lacuna Application (thereby avoiding the Lacuna Issue arising); and
 - (iii) the Olivant Application;
- 6.1.2 barring challenges by Scheme Creditors to the quantum or validity of any Admitted Claim that was admitted by a specified date shortly before the Scheme Meetings;
- 6.1.3 providing a process for the certification of Higher Rate Claims, having regard to the principles set out in the Waterfall Judgments, and resolution of any issues arising with a certification, by means of an independent expert adjudicator;
- 6.1.4 releasing the Company from any further claims (with the exception of Retained Claims) that may be brought by Scheme Creditors, through the introduction of a bar date that takes effect immediately upon the Effective Date; and
- 6.1.5 providing a framework for the making of payments to Scheme Creditors in respect of Scheme Creditors' entitlements to Statutory Interest as set out in the Scheme.

7 KEY TERMS OF THE SCHEME

7.1 The Scheme will provide for a payment (subject to any relevant deductions in respect of UK withholding tax) of Statutory Interest in one of the following ways:

- 7.1.1 creditors with 8% Interest Claims will receive payment of Statutory Interest calculated at a simple rate of 8% per annum on such 8% Interest Claims in satisfaction of their Statutory Interest entitlement. Such payment will be calculated in respect of the period(s) from the date of Administration to the date(s) when the principal amount(s) of each 8% Interest Claim was paid in full and will reflect any reduction to that principal amount as a result of any interim dividends having been received by the relevant creditor;
- 7.1.2 creditors with Specified Interest Claims (i.e. claims that derive from Specified Interest Contracts, being contracts which stipulate a Specified Interest Rate which would give rise to an amount of Statutory Interest that is greater than the Statutory Minimum) will receive a payment of Statutory Interest calculated by reference to the Specified Interest Rate stated in their Specified Interest Contract(s). Such payment will be calculated in respect of the period(s) from the date of Administration to the date(s) when the principal amount(s) of each Specified Interest Claim was paid in full and will reflect any reduction to that principal amount as a result of any interim dividends having been received by the relevant creditor; and
- 7.1.3 creditors with Higher Rate Claims (i.e. claims that derive from one of the specified types of contract under which there may be an entitlement to an

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amount of Statutory Interest higher than the Statutory Minimum, being ISDA Master Agreements, AFB/FBF French Master Agreements and AFTB/AFTI French Master Agreements) will elect either to:

- (i) receive:
 - (a) a payment of Statutory Interest equal to the Statutory Minimum (on the same terms as the payment in respect of 8% Interest Claims, referred to in paragraph 7.1.1 above) in satisfaction of their Statutory Interest entitlement; and
 - (b) an additional settlement payment equal to 2.5% of the value of their admitted Higher Rate Claims in consideration for not exercising their right to certify for an amount of Statutory Interest higher than the Statutory Minimum,

(together the “**Settlement Payment Option**”); or
- (ii) submit a certification that sets out the amount of Statutory Interest that they assert is payable in respect of their Higher Rate Claims (the “**Certification Option**”). Where a creditor elects for the Certification Option, it will receive a payment in satisfaction of its Statutory Interest entitlement equal to:
 - (a) the amount of Statutory Interest specified in its certification, where such amount is agreed to by the Company or where (in the absence of such agreement) the creditor’s certification is upheld by the Adjudicator pursuant to the Dispute Resolution Procedure in the Scheme;
 - (b) an amount of Statutory Interest counteroffered by the Company (either in consultation with, or in certain circumstances an amount recommended by, the Subordinated Creditor) where such amount is agreed to by the relevant creditor or where (in the absence of such an agreement) the Adjudicator approves the counteroffer pursuant to the Dispute Resolution Procedure;
 - (c) the Statutory Minimum, where its certification is rejected by the Company and such rejection is upheld by the Adjudicator pursuant to the Dispute Resolution Procedure; or
 - (d) in certain very limited circumstances (i.e. where the Adjudicator concludes there has been a mathematical or numeric error), the corrected amount of Statutory Interest calculated by the Adjudicator.

7.2 For the purposes of calculating the amount of Statutory Interest payable under the Certification Option (or to a Specified Interest Creditor), if the applicable contract provides for a compound rate of interest, interest shall continue to compound in accordance with the contractual rate until the payment of a final dividend in respect of the applicable claim (the “**Compounding Principle**”).

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- 7.3** In no case will a Higher Rate Creditor receive less than the Statutory Minimum (subject to any applicable cost deductions).
- 7.4** Payments to: (i) 8% Creditors; (ii) Specified Interest Creditors; and (iii) Higher Rate Creditors that elect for the Settlement Payment Option, are to be made within 20 Business Days of the Company determining that it has sufficient funds to make such payments. Payments to Higher Rate Creditors who elect for the Certification Option are expected to be made within 20 Business Days of the applicable amount of Statutory Interest having been determined (provided that the Company has determined that it has sufficient funds to make such payments).
- 7.5** The Administrators' statutory duty to perform their functions as quickly and efficiently as is reasonably practicable will apply to the Company's obligation to determine the funds available for distributions to Scheme Creditors and the Company/Administrators will take steps to identify the Adequate Reserves to be held for unagreed claims and/or adjudicate upon such claims.
- 7.6** Payments to Scheme Creditors are likely to be made at a later date in respect of claims that are yet to be admitted or where the Scheme Creditor has submitted a challenge to the Company's view of the allocation and composition of their Admitted Claims as between 8% Interest Claims, Specified Interest Claims and Higher Rate Claims prior to the Effective Date.
- 7.7** A creditor who elects for the Certification Option will in no circumstances receive the 2.5% settlement payment described at paragraph 7.1.3(i)(b) above.
- 7.8** If a Higher Rate Creditor does not elect for either the Settlement Payment Option or the Certification Option within the deadline specified in the Scheme Documentation, it will be deemed to have elected to take the Settlement Payment Option and will be paid accordingly.
- 7.9** Higher Rate Creditors will be required to make the same election (i.e. for either the Settlement Payment Option or the Certification Option) in respect of all the Higher Rate Claims for which they control the voting rights. For the avoidance of doubt, where Higher Rate Creditors elect for the Certification Option, different rates/amounts may be certified in respect of their different Higher Rate Claims and each Certification will be adjudicated upon separately.
- 7.10** Where a Higher Rate Creditor wishes to challenge the Company's decision in relation to its certification, it can elect for the matter to be resolved by an independent, suitably qualified Adjudicator (who will act as an expert, not an arbitrator for these purposes). In respect of each dispute, the Company shall (subject to appropriate conflicts checks having been performed) use reasonable endeavours to appoint one of the following as Adjudicator: (i) Sir Bernard Rix; (ii) Michael Brindle QC; or (iii) Tim Howe QC. In making his/her decision, save where there has been a mathematical or numeric error (in which case the Adjudicator may, following consultation with the Higher Rate Creditor and the Company, correct such error and amend the rate or amount referenced in the relevant party's case accordingly), the Adjudicator will be obliged either to:
- 7.10.1** uphold the rate/amount stated in the Higher Rate Creditor's certification; or

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7.10.2 uphold the rate/amount put forward by the Company/Subordinated Creditor (i.e. the Statutory Minimum or a counteroffer).

The Adjudicator cannot conduct his/her own factual investigations or, save in the limited circumstances identified above, interpose his/her own rate or amount of Statutory Interest.

7.11 In reaching his/her decision, the Adjudicator will consider, without an oral hearing, the material put before him/her by the parties (including submissions on the relevant law), and will also have regard to certain “Relevant Principles” including: (i) those set out by the Judge in the Tranche C judgment as regards ISDA Master Agreements; (ii) the AFB/FBF Agreed Position in relation to AFB/FBF French Master Agreements; (iii) the principles set out by the Judge in Tranche A as regards claims in respect of Statutory Interest generally; and (iv) the Compounding Principle. The Adjudicator will only be permitted to depart from the Higher Rate Creditor’s certification where he/she is satisfied on the balance of probabilities that the certification has been made in bad faith, irrationally, or other than in accordance with the Relevant Principles, or that it contains a mathematical or numeric error, and the burden of proof will be on the Company to establish this.

7.12 The Adjudicator’s decision will determine the Statutory Interest payable by the Company in respect of the adjudicated claim. The decision will be final and binding on the Company, the Administrators, the appellant Higher Rate Creditor, all other Scheme Creditors and the Shareholder, and there will be no right of appeal against the Adjudicator’s decision (whether to the Courts or otherwise).

7.13 The Scheme will also (among other things) provide for:

7.13.1 the Waterfall II Proceedings, the Lacuna Application and the Olivant Application to be brought to an end;

7.13.2 the creation of the bar date, as described in paragraph 7.14 below, and the related release by all Scheme Creditors of all their claims against the Company (with the exception of Retained Claims);

7.13.3 the release by all Scheme Creditors of any right to bring actions or disputes in the future in respect of: (i) their Admitted Claims; and (ii) the Admitted Claims of any other Scheme Creditor (where such claims were admitted by a specified date shortly before the Scheme Meetings);

7.13.4 the waiver and release by all Scheme Creditors of claims arising from or in connection with the subject matter of any of the Waterfall Proceedings, the Lacuna Application and the Olivant Application, including any right to seek to put the Company into liquidation;

7.13.5 the release by all Scheme Creditors of any right to appeal any first instance decision (other than in respect of the Excluded Proceedings) in any jurisdiction of any court of competent jurisdiction which relates to an exercise of the Administrators’ functions after the Effective Date, including an application to the High Court for directions by the Administrators or an appeal to the High Court by a creditor against the Administrators’ decision in relation to a proof of debt;

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- 7.13.6** the full release by all Scheme Creditors of any right to request or require a future liquidator of the Company (in the unlikely event that one is appointed) to make a Contributory Claim;
- 7.13.7** if sufficient funds remain after Statutory Interest has been paid in full (or fully reserved for), a distribution in respect of the Subordinated Debt;
- 7.13.8** an acknowledgement by all Scheme Creditors that the Company's payment obligations under the Scheme shall be no greater than an amount equal to the value of the Surplus from time to time; and
- 7.13.9** the disbandment of the Company's existing Creditors' Committee and its replacement with an oversight body that represents the Subordinated Creditor (whose recovery is dependent on the actions to be taken by the Administrators in respect of matters that are not addressed by the Scheme (for example, in respect of Retained Claims)) and one other unsecured creditor (with a claim outstanding), that is not connected to the Subordinated Creditor, if such a creditor wishes to be appointed to the oversight body; and
- 7.13.10** a mechanism for the admittance and payment of the Subordinated Debt once prior ranking claims have either been fully paid or fully provided for.
- 7.14** Any party wishing to participate in the distribution of the Surplus in respect of any claims that have not been admitted, proved or notified to the Company or any party wishing to challenge the composition of its admitted or proved claims, as set out in its UCC4, will have to:

 - 7.14.1** prove for any Provable Claim;
 - 7.14.2** notify the Company of any: (i) Non-Provable Claim; (ii) Expense Claim; or (iii) UCC Challenge; or
 - 7.14.3** notify the Company (and the relevant person against whom such claim is being brought) of any Administration Claim,

prior to the bar date, which will be the Effective Date.
- 7.15** Given the length of time since the commencement of the Administration and the high-profile nature of the Administration, the Administrators consider the imposition of the bar date to be reasonable in the circumstances. Given the fact that creditors with Admitted Claims have been notified of the Administrators' view of the allocation and composition of their Admitted Claims as between 8% Interest Claims, Specified Interest Claims and Higher Rate Claims on numerous occasions, the Administrators also consider it reasonable that after the bar date those creditors should not be able to challenge the Administrators' view of such allocation and composition.
- 7.16** The Scheme will not impact Retained Claims, save that (other than in respect of Excluded Proceedings) Scheme Creditors will release any right to appeal any first instance decision in respect of such Retained Claims (as described in paragraph 7.13.5 above). The Administrators will maintain Adequate Reserves for, among other things, the Retained Claims.

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7.17 The Scheme will not impact any trust entitlement to the Company's client money estate. However, any unsecured claim arising from an entitlement to the Company's client money estate (such as an unsecured shortfall claim) will be released by the Scheme, unless such claim has been proved for prior to the Effective Date.

7.18 The Scheme will not compromise the Shareholder Retained Rights, save that no Equity Distributions will be made ahead of Statutory Interest and the Subordinated Debt.

8 CHAPTER 15 RECOGNITION

The Company intends to seek recognition of the Scheme as a foreign proceeding under Chapter 15 of the US Bankruptcy Code and will seek permanent relief in the US Bankruptcy Court (or other appropriate forum) enjoining Scheme Creditors from commencing or continuing any action or proceeding against the Company that is inconsistent with the Scheme in the United States. The effectiveness of the Scheme will not however be conditional on receipt of Chapter 15 recognition.

9 SCHEME CREDITORS WILL BE AFFECTED BY THE SCHEME

9.1 From the Effective Date, Scheme Creditors, Storm (who has agreed to be bound by the Scheme by signing a deed of undertaking), the Administrators and the Company will be bound by the terms of the Scheme.

9.2 The detailed terms of the Scheme will be summarised in the Explanatory Statement and set out in the Scheme Document.

10 COMPOSITION OF CLASSES OF SCHEME CREDITORS

10.1 The Practice Statement requires any company proposing to implement a scheme of arrangement to notify those affected by it: (i) that a scheme is being promoted; (ii) as to the purpose that the scheme is designed to achieve; (iii) as to the meetings of creditors the company believes are required for the purposes of voting on the scheme; and (iv) as to the constitution of those meetings. Points (i) and (ii) have been covered in the previous sections of this letter.

10.2 For the Scheme to become effective in accordance with its terms:

10.2.1 it must be approved by a majority in number representing 75% in value of the relevant Scheme Creditors present and voting (in person or by proxy) at each class meeting of the relevant Scheme Creditors convened for the purpose of considering the Scheme;

10.2.2 it must be sanctioned by the High Court; and

10.2.3 the Court Order must be delivered to the Registrar of Companies.

10.3 Under the Practice Statement, it is the responsibility of the applicant to determine whether more than one meeting of creditors is required by a scheme, and if so, to ensure that those meetings are properly constituted by a class of creditors so that each meeting consists of creditors whose rights against the company are not so dissimilar as to make it impossible for them to consult together with a view to their common interest.

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10.4 The Administrators have considered the present rights of each of the Scheme Creditors and the way in which those rights will be compromised by the Scheme and, having taken legal advice, have determined that three Scheme Meetings are required because Scheme Creditors fall into three separate classes. These classes are:

10.4.1 creditors who hold 8% Interest Claims (the “**8% Creditors**”) and/or Specified Interest Claims (the “**Specified Interest Creditors**”);

10.4.2 creditors who hold Higher Rate Claims (the “**Higher Rate Creditors**”); and

10.4.3 the Subordinated Creditor in relation to the Subordinated Debt.

Scheme Creditors who hold: (i) 8% Interest Claims and/or Specified Interest Claims; and (ii) Higher Rate Claims will be able to vote in respect of their 8% Interest Claims and/or Specified Interest Claims at the meeting convened for 8% Creditors and Specified Interest Creditors and in respect of their Higher Rate Claims at the meeting convened for Higher Rate Creditors. Certain affiliates of the Subordinated Creditor are Scheme Creditors and will vote at the meetings applicable to their claims.

10.5 For 8% Creditors and Specified Interest Creditors, the Scheme will (among other things):

10.5.1 provide the following key benefits:

- (i) payment in respect of Statutory Interest on Admitted Claims at a much earlier date than would likely be the case but for the Scheme;
- (ii) avoidance of the risk of their Statutory Interest entitlements becoming worthless in the event that they are not paid prior to the Company going into liquidation (as a result of the Lacuna Issue described at paragraph 3.1.2 above);
- (iii) certainty that Statutory Interest on Provable Claims will be calculated from the date of the commencement of the Administration (even as regards contingent claims);
- (iv) avoidance of the risk of the quantum or validity of their Admitted Claims being challenged by other Scheme Creditors after the Effective Date (provided such claim was admitted by a specified date shortly before the Scheme Meetings); and
- (v) reduced risk of there being insufficient funds to make a full payment of Statutory Interest at the Statutory Minimum on Admitted Claims, as a result of the settlement of Tranche C on terms that mean that Higher Rate Creditors cannot apply an equity cost of funding when certifying their cost of funding for the purposes of establishing the amount of Statutory Interest applicable to their Higher Rate Claims; but

10.5.2 result in the withdrawal of the application for permission to appeal the Court of Appeal judgment in Tranche A to the Supreme Court which, if allowed, could lead to (among other things) the Supreme Court concluding that:

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- (i) Statutory Interest should be calculated and paid in accordance with the rule in *Bower v Marris* (as described in paragraph 3.3.1 above); and
- (ii) Statutory Interest should continue to compound following the final dividend payment in respect of a Provable Claim.

10.6 For Higher Rate Creditors, the Scheme will:

10.6.1 provide the benefits referred to in paragraphs 10.5.1(i) to 10.5.1(iv) above together with the right to elect for either the Settlement Payment Option or the Certification Option which, respectively, could result in: (i) payment of a greater amount than they would receive but for the Scheme; and (ii) the ability to certify a cost of funding to be applied to the calculation of their Statutory Interest entitlement having regard to the principles set out by the High Court in Tranche C (which principles provide limited grounds for challenge by the Company to a cost of funding certification), in an expedient and cost-efficient manner that avoids the need for further prolonged litigation to clarify the guiding principles relevant to contractual interest entitlements and avoids the possibility of further litigation to determine an applicable cost of funding in respect of any particular claim once such further guiding principles are directed by the Courts; but

10.6.2 give rise to the potential disadvantages referred to in paragraph 10.5.2 above, together with the following additional potential disadvantages:

- (i) the loss of the chance that a higher court might overturn the High Court judgment in respect of Tranche C in some respects which might result in Higher Rate Creditors being able to claim a greater amount of Statutory Interest; and
- (ii) the loss of the right to have any dispute regarding a certified amount of Statutory Interest determined by the Courts, as all such disputes will be determined by the Adjudicator in accordance with the Dispute Resolution Procedure.

10.7 For all Scheme Creditors, the release described in paragraph 7.13.5 above:

10.7.1 has the advantage of reducing the costs incurred in relation to, and expediting the resolution of, any issues arising from time to time in the Administration; but

10.7.2 results in the loss of the right to appeal any first instance decision (other than in respect of the Excluded Proceedings) in any jurisdiction of any court of competent jurisdiction which relates to the exercise of the Administrators' functions after the Effective Date.

10.8 In the Administrators' opinion:

10.8.1 Higher Rate Creditors cannot consult with 8% Creditors and Specified Interest Creditors as regards the matters referred to in paragraph 10.6 above, on the basis that their rights and the way in which they will be compromised by the Scheme are sufficiently dissimilar as to make it impossible for them to consult together with a view to their common interest; and

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- 10.8.2** the Subordinated Creditor cannot consult with 8% Creditors, Specified Interest Creditors and Higher Rate Creditors as to the matters referred to in paragraphs 10.5 and 10.6 above, on the basis that their rights and the way in which they will be compromised by the Scheme are sufficiently dissimilar as to make it impossible for them to consult together with a view to their common interest.
- 10.9** In light of the above, the Administrators, having taken legal advice, consider that:
- 10.9.1** the Subordinated Creditor must vote in a class of its own;
- 10.9.2** (i) 8% Creditors and Specified Interest Creditors; and (ii) Higher Rate Creditors must vote in separately constituted classes for the purposes of the Scheme; but
- 10.9.3** as between themselves, the rights of the 8% Creditors and Specified Interest Creditors and the manner in which they are compromised by the Scheme are not so dissimilar as to make it impossible for them to consult together with a view to their common interest; and
- 10.9.4** as between themselves, the rights of the Higher Rate Creditors and the manner in which they are compromised by the Scheme are not so dissimilar as to make it impossible for them to consult together with a view to their common interest.
- 10.10** The conclusion referred to in paragraph 10.9.3 above reflects that 8% Creditors and Specified Interest Creditors each have materially the same rights to Statutory Interest and if the Scheme becomes effective, those rights will be compromised in materially the same way, irrespective of the fact that some 8% Creditors and Specified Interest Creditors may also be Higher Rate Creditors and/or have Provable Claims derived from different types of agreement.
- 10.11** The conclusion referred to in paragraph 10.9.4 above reflects that:
- 10.11.1** Higher Rate Creditors all have claims derived from contracts that might give rise to an entitlement to an amount of Statutory Interest greater than the Statutory Minimum;
- 10.11.2** the Statutory Interest entitlements of Higher Rate Creditors are yet to be determined by the Company; and
- 10.11.3** if the Scheme becomes effective, all Higher Rate Creditors will have the right either to:
- (i) certify for an amount of Statutory Interest applicable to their Higher Rate Claims which, unless accepted by the Company, in consultation with the Subordinated Creditor, will be referred to the Adjudicator in accordance with the Dispute Resolution Procedure; or
 - (ii) accept a payment calculated at a simple rate of 8% per annum in satisfaction of their Statutory Interest entitlement together with a settlement payment equal to 2.5% of the value of their Admitted Claims in consideration for their agreement not to elect to certify.
- 10.12** In short, the rights of Higher Rate Creditors are materially the same and will be compromised in materially the same way under the Scheme.

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- 10.13** Accordingly, it is proposed that separate Scheme Meetings, one for each of the: (i) 8% Creditors and Specified Interest Creditors; (ii) Higher Rate Creditors; and (iii) the Subordinated Creditor be convened for the purposes of considering and, if the Scheme Creditors think fit, approving the Scheme.
- 10.14** As set out above, in order for the Scheme to become effective, it must be approved by a majority in number representing not less than 75% in value of the Scheme Creditors voting at each of the Scheme Meetings.
- 10.15** Subject to paragraph 10.17 below, Scheme Creditors will be allocated voting rights in respect of the Scheme calculated by the Administrators as follows:
- 10.15.1** in respect of admitted 8% Interest Claims and Higher Rate Claims, by applying a simple rate of 8% per annum to the value of such claims, calculated for the period(s) from the date of Administration to the date(s) when the principal amount(s) of each claim was paid in full and reflecting the reduction to that principal amount as a result of any interim dividends received by the relevant creditor;
- 10.15.2** in respect of admitted Specified Interest Claims, by applying the Specified Interest Rate stipulated in the relevant Specified Interest Contracts to the value of such claims, calculated for the period(s) from the date of Administration to the date(s) when the principal amount(s) of each Specified Interest Claim was paid in full and reflecting the reduction to that principal amount as a result of any interim dividends received by the relevant creditor;
- 10.15.3** in respect of 8% Interest Claims and Higher Rate Claims which are Undetermined Provable Claims, by applying a simple rate of 8% per annum to the estimated value of such claims (determined by the Administrators in their absolute discretion), calculated for the period from the date of Administration to the date of the Scheme Meetings, save that where the estimated value of the claim is £1, the voting rights ascribed to that Undetermined Provable Claim will be £1 only;
- 10.15.4** in respect of Specified Interest Claims which are Undetermined Provable Claims, by applying the relevant Specified Interest Rate to the estimated value of such claims (determined by the Administrators in their absolute discretion), calculated for the period from the date of Administration to the date of the Scheme Meetings, save that where the estimated value of the claim is £1, the voting rights ascribed to that Undetermined Provable Claim will be £1 only; and
- 10.15.5** in respect of the Subordinated Debt, in accordance with the principal amount of such claim.
- 10.16** Scheme Creditors' voting rights will not reflect the value of: (i) the principal amount of their Provable Claims; (ii) their Expense Claims; and (iii) their Non-Provable Claims. This reflects that such claims are either fully released by the Scheme if not asserted prior to the bar date or unaffected if they are Retained Claims and, if they have been admitted, that the principal amount of such claims will have been paid.
- 10.17** Where Higher Rate Creditors consider that they are entitled to Statutory Interest in excess of the Statutory Minimum, they will be able to request voting rights greater than

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those calculated by applying a simple rate of 8% per annum by notifying the Company of the rate(s) of interest that they consider to apply to their Higher Rate Claims and the amount of interest derived from such rate(s), having regard to the Relevant Principles. The chairman of the Scheme Meeting for Higher Rate Creditors shall have absolute discretion as to whether to allow a Higher Rate Creditor to vote in the amount stated in any such request at the relevant Scheme Meeting, or at such other level as the chairman considers appropriate. Any such determination by the chairman of a Higher Rate Creditor's voting rights will in no way be determinative or binding on that Higher Rate Creditor, the Company or the Subordinated Creditor as regards the adjudication of any certification submitted by that Higher Rate Creditor (or any other Scheme Creditor) if it elects for the Certification Option. For the avoidance of doubt, any Higher Rate Creditor who submits such a request for greater voting rights will remain entitled to elect either for the Settlement Payment Option or the Certification Option in respect of its Higher Rate Claims. Further information in respect of voting rights will be provided in the Explanatory Statement.

10.18 Storm (which has agreed its Statutory Interest entitlement with the Company) will not be a Scheme Creditor and will not therefore vote at any of the Scheme Meetings. Storm has however agreed to be bound by the Scheme by signing a deed of undertaking to this effect.

10.19 Similarly, the Shareholder (in its capacity as shareholder of the Company) will not be a Scheme Creditor but will consent to the Scheme and, on and from the Effective Date, will undertake certain obligations in connection with the Scheme by signing a deed of undertaking to this effect.

11 CORRESPONDENCE RELATING TO THE COMPOSITION OF SCHEME CLASSES

11.1 Since publishing the Announcements, the Company has received correspondence from two Scheme Creditors relating or potentially relating to class composition.

11.2 In January 2018, a Scheme Creditor wrote to the Administrators to query whether: (i) those with ISDA Master Agreements should be in a different class from other Higher Rate Creditors; (ii) those with English law ISDA Master Agreements should be in a different class from those with New York law ISDA Master Agreements; (iii) the SCG and the Wentworth Group should form a separate class as a result of their commitment to support the Scheme; and (iv) financial institutions subject to regulatory capital requirements should form a separate class from other Higher Rate Creditors.

11.3 The Administrators have considered the points raised and, with the benefit of legal advice, concluded that the rights of all Higher Rate Creditors to Statutory Interest are being compromised in materially the same way under the Scheme, regardless of the terms of the contract to which the Higher Rate Creditors are a party. Each Higher Rate Creditor (whether a financial institution or otherwise and whether a creditor under an ISDA Master Agreement or otherwise (whether governed by English law or New York law)) has a claim derived from a financial contract that might give rise to an entitlement to Statutory Interest calculated at a rate greater than 8% simple per annum and, if the Scheme becomes effective, all Higher Rate Creditors will have the right to elect either to: (i) certify for their rate and amount of Statutory Interest; or (ii) accept a payment in

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respect of Statutory Interest calculated at 8% simple per annum together with a settlement payment equal to 2.5% of the value of their Admitted Claims (as further explained in paragraph 7.1.3 above).

- 11.4** All Higher Rate Creditors will have to consider the advantages and potential disadvantages of the Scheme identified in paragraph 10.6 above, including whether they:
- 11.4.1** support a scheme of arrangement which: (i) quantifies entitlements to Statutory Interest in accordance with the law as it stands; (ii) gives them the right to make the election described in paragraph 11.3 above; and (iii) provides for any dispute as to their entitlement to Statutory Interest to be resolved through the Dispute Resolution Procedure; or
 - 11.4.2** would prefer for their Statutory Interest entitlement to be paid only once the outstanding litigation has run its course and finally determined how Statutory Interest is to be quantified, with recourse to the Courts in the event that the certification of their entitlement to Statutory Interest is rejected.
- 11.5** Any differences in the existing contractual rights of the Higher Rate Creditors are, in the context of their consideration of the merits of the Scheme, immaterial. They do not make it impossible for the Higher Rate Creditors to consult together with a view to their common interest. In fact, there is far more that unites the Higher Rate Creditors than divides them.
- 11.6** Class composition focuses on differences in rights rather than differences in interests. Accordingly, the fact that the SCG and the Wentworth Group have committed to supporting the Scheme is not a factor which affects the analysis on classes. It is common, before schemes of arrangement are proposed, for the company proposing the scheme to ensure that it has sufficient support for the scheme to become effective. There is much sense in securing such support in advance of the scheme meeting(s) and avoiding the waste of expenditure which would flow from promoting a scheme which does not achieve the requisite support from the scheme creditors. This point is well established in the authorities and it is clear that the mere entry into the Lock-up Agreement does not cause the parties to the Lock-up Agreement to form a separate class.
- 11.7** In a subsequent letter dated 13 April 2018 the same Scheme Creditor also queried whether some or all of the members of the SCG should form a separate class on the basis that the ultimate economic interest in the challenge of the proof of the debt which is the subject of the Olivant Application (which will be brought to an end if the Scheme is approved) is held by a Scheme Creditor who is a member of the SCG. The Administrators have considered this point and, with the benefit of legal advice, have concluded that the conclusion of the Olivant Application increases certainty for all Scheme Creditors and is intertwined with the release provided for in paragraph 7.13.3 above which, as set out in paragraphs 10.5.1(iv) and 10.6 above, applies equally to each Scheme Creditor.
- 11.8** In February 2018 a second Scheme Creditor wrote to the Administrators to query whether the proposed settlement payment of 2.5% discriminates against creditors on the basis it does not take account of the characteristics of the underlying claim such as

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the time for which the principal amount of the debt was outstanding with the consequence that it disadvantages those creditors whose claims were outstanding for longer. It is unclear whether this complaint is considered by such Scheme Creditor to give rise to a class issue.

- 11.9** The Administrators have considered the impact of this point on class composition and, with the benefit of legal advice, have concluded that the rights of all Higher Rate Creditors to Statutory Interest are being compromised in materially the same way. If a Higher Rate Creditor considers that it is entitled to Statutory Interest in excess of the Statutory Minimum (on the basis of the law as it stands), it can elect to certify its contractual interest entitlement (and if it is correct in that assessment, the Scheme will recognise and give effect to its higher entitlement). If the Higher Rate Creditor considers its interests are better served by electing for the Settlement Payment Option, it will receive the settlement payment referred to in paragraph 7.1.3(i)(b) above, in consideration for giving up its right to certify for a higher amount of Statutory Interest and not putting the Company to the time and trouble of considering its certification. The length of time for which Statutory Interest is payable is not relevant, or is largely irrelevant, to the Higher Rate Creditor's decision making as to the election it will make.
- 11.10** The Administrators have considered the present rights of each of the Scheme Creditors, the queries raised by the two Scheme Creditors referred to above, and the way in which those rights will be compromised by the Scheme and, having taken legal advice, have determined that the Scheme Creditors fall into the three separate classes set out in paragraph 10.4 above.

12 JURISDICTION ISSUES

- 12.1** This paragraph 12 summarises the basis on which the Administrators consider that the High Court has jurisdiction to sanction the Scheme taking into account Chapter II of Regulation (EU) No. 1215/2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the "**Recast Judgments Regulation**").
- 12.2** There is an issue as to whether (and, if so, how) the High Court's jurisdiction to sanction the Scheme is affected by the Recast Judgments Regulation.
- 12.3** The Recast Judgments Regulation applies in "*civil and commercial matters*" and Chapter II deals with jurisdiction. The basic rule underlying Chapter II is that any person domiciled in an EU Member State must be "*sued*" in the courts of that Member State.
- 12.4** The Administrators are advised that it has never been conclusively determined whether Chapter II of the Recast Judgments Regulation applies to some or all schemes of arrangement, although the matter has been considered in a number of cases. Rather, in order to avoid resolving issues related to this question, in previous schemes of arrangement the Courts have adopted two assumptions: (i) that the Recast Judgments Regulation applies to schemes of arrangement; and (ii) that scheme creditors should be treated as being "*sued*" by the scheme company for the purposes of Chapter II of the Recast Judgments Regulation. If, on the basis of these assumptions, the High Court would nevertheless have jurisdiction to sanction the scheme under the provisions

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of Chapter II, then it is unnecessary for the High Court to determine whether the assumptions are correct.

- 12.5** The Administrators will invite the High Court to adopt the same practice in respect of the Scheme, so that the applicability of the Recast Judgments Regulation is assumed but not determined. In order to establish jurisdiction under Chapter II, the Administrators will rely on Article 8, which has been relied upon in a large number of previous schemes or arrangements and provides that “*A person domiciled in a Member State may ... be sued ... (1) where he is one of a number of defendants, in the courts for the place where any one of them is domiciled, provided the claims are so closely connected that it is expedient to hear and determine them together to avoid the risk of irreconcilable judgments resulting from separate proceedings*”.
- 12.6** The Administrators will contend that, given at least one Scheme Creditor is domiciled in England (and in fact, around 40 Scheme Creditors are in fact so domiciled), the High Court has jurisdiction to sanction the Scheme under Article 8.
- 12.7** The application of Article 8 is subject to two potential exceptions:
- 12.7.1** some of the Scheme Creditors (representing a very small proportion of the overall Scheme liabilities by value) are former employees of the Company domiciled outside the UK in other EU Member States (the “**Relevant Employees**”). This raises a question as to whether Article 22(1) of the Recast Judgments Regulation prevents the Relevant Employees from being included in the Scheme, given that the Scheme seeks to compromise any liability of the Company under their contracts of employment; and
- 12.7.2** some of the finance documents governing the scheme liabilities contain exclusive jurisdiction provisions in favour of the courts of another EU Member State. This raises a question as to whether Article 25(1) of the Recast Judgments Regulation prevents such creditors (the “**Relevant Jurisdiction Clause Creditors**”) from being included in the Scheme, given that the Scheme seeks to compromise the Company’s liabilities under the relevant finance documents.
- 12.8** Article 8 does not confer jurisdiction on the High Court to sanction the Scheme *vis-à-vis* the Relevant Employees or the Relevant Jurisdiction Clause Creditors.
- 12.9** In response to this issue, the Administrators will rely on Article 26(1) of the Recast Judgments Regulation, which provides that “*a court of a Member State before which a defendant enters an appearance shall have jurisdiction*”. The Administrators will contend that Article 26(1) confers jurisdiction on the High Court to sanction the Scheme *vis-à-vis* any Relevant Employees or Relevant Jurisdiction Clause Creditors who have lodged a proof of debt in the Company’s administration. This is because, as a matter of law, any Scheme Creditor who has lodged a proof of debt has submitted to the jurisdiction of the English Courts (see *Rubin v Eurofinance SA* [2013] 1 AC 236 at [165]-[167]), and has thereby “*entered an appearance*” within the meaning of Article 26(1).
- 12.10** Relevant Employees or Relevant Jurisdiction Clause Creditors who have not lodged a proof of debt in the Company’s administration (or otherwise submitted to the jurisdiction

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of the English Courts in relation to the administration) will fall outside the definition of “Scheme Creditor”, and will not be bound by the Scheme. The Administrators consider that it is unlikely that there are any, or any substantial, creditors falling within those categories who have failed to submit a proof of debt in the Administration.

12.11 For all of these reasons, the Administrators consider that the High Court has jurisdiction to sanction the Scheme under Chapter II of the Recast Judgments Regulation (on the assumption that it applies).

12.12 As noted above, the Scheme will not compromise Scheme Creditors’ proprietary rights or trust entitlements, including claims against the Company’s client money estate.

13 CONDITIONS TO THE EFFECTIVENESS OF THE SCHEME

The Scheme will become effective following the Court Order being delivered to the Registrar of Companies, which is intended to take place as soon as possible after the Sanction Hearing, if the High Court exercises its discretion to sanction the Scheme pursuant to section 899 of the Companies Act.

14 THE CONVENING HEARING

14.1 The Administrators intend to apply to the High Court at a court hearing in the Companies Court, Royal Courts of Justice, Rolls Building, 7 Fetter Lane, London EC4 1NL (the “**Convening Hearing**”) to be held on 9 May 2018, for an order granting the Company certain directions in relation to the Scheme, including permission to convene the Scheme Meetings for the purpose of considering and, if thought fit, approving the Scheme. The precise time of the Convening Hearing will be published on the Website as soon as it has been finally fixed by the High Court. Any change to the date of the Convening Hearing (or any other change to the Scheme timetable as envisaged in this paragraph 14) will also be published on the Website as soon as possible.

14.2 This letter is intended to provide Scheme Creditors with sufficient information regarding the Scheme and the proposals for convening the Scheme Meetings that, should they wish to raise any issues that relate to the jurisdiction of the High Court to sanction the Scheme, or argue that the proposals outlined above for convening the Scheme Meetings are inappropriate, or to raise any other issue in relation to the constitution of the Scheme Meetings or which might otherwise affect the conduct of the Scheme Meetings, they may attend and be represented before the High Court at the Convening Hearing.

14.3 Scheme Creditors should be aware that under the terms of the Practice Statement, the High Court has indicated that issues which arise as to the constitution of the Scheme Meetings or which otherwise affect the conduct of those meetings or which affect the jurisdiction of the High Court to sanction a scheme of arrangement (“**Creditor Issues**”) should be raised at the Convening Hearing. If Scheme Creditors do not raise these issues at the Convening Hearing, whilst they will still be able to appear and raise objections at the later court hearing to sanction the Scheme (the “**Sanction Hearing**”), the High Court at the Sanction Hearing would expect those Scheme Creditors to provide good reasons to explain why they did not previously raise any Creditor Issues.

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Scheme Creditors should therefore raise any Creditor Issues at the Convening Hearing.

14.4 Following the Convening Hearing, provided the High Court has given its permission for the Company to convene the Scheme Meetings, the Company will notify Scheme Creditors in accordance with the directions of the High Court of the time, date and venue of the Scheme Meetings, set out how Scheme Creditors may vote at the Scheme Meetings and provide further details of the terms of the Scheme. The Scheme Meetings are anticipated to be held around the end of May or early June 2018.

14.5 Scheme Creditors will have the opportunity to raise objections at the Sanction Hearing at which the High Court will decide whether to exercise its discretion to sanction the Scheme (assuming that the Scheme is approved at the Scheme Meetings by the requisite majorities). The Sanction Hearing is anticipated to be held on or around 13 June 2018.

IMPORTANT: If any Scheme Creditor has comments regarding the convening of the meetings of Scheme Creditors as outlined above, to the extent that such disagreement relates to the constitution of the Scheme Meetings or any other matters that otherwise affect the conduct of the Scheme Meetings or which they consider should be raised with the High Court, they should in the first instance as soon as possible contact the Administrators via the following email address schemequeries@lbia-eu.com.

15 NEXT STEPS

15.1 In addition to this letter, as soon as possible after the Convening Hearing (provided that the High Court grants the Company permission to convene meetings of its Scheme Creditors for the purpose of considering and, if thought fit, approving the Scheme) Scheme Creditors will be provided with (amongst other things) the following important documents:

15.1.1 the notice convening the Scheme Meetings;

15.1.2 the Explanatory Statement; and

15.1.3 the Scheme Document,

(together, the “**Scheme Documentation**”).

15.2 As already explained above, the Administrators maintain that the interests of creditors as a whole would be best served by the resolution of the issues relating to entitlements to the Surplus on consensual terms, that allow for an expedited payment in full and final settlement of Scheme Creditors’ entitlements to Statutory Interest. The Scheme represents a means of achieving such a consensual resolution, which has the support of the requisite majority of Scheme Creditors for its approval (subject to any late claims arising).

15.3 For this reason, the Administrators recommend that all Scheme Creditors support the Scheme.

15.4 If you have any questions in relation to this letter or the Scheme, please contact the Administrators via the following email address schemequeries@lbia-eu.com.

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Yours faithfully

A handwritten signature in blue ink, appearing to be 'R. Downs', with a small dot at the end.

Russell Downs

Joint administrator acting as agent for and on behalf of Lehman Brothers International (Europe) (in administration) without personal liability

Appendix 1: Definitions

Defined Term	Meaning
8% Creditors	Has the meaning given to it in paragraph 10.4.1
8% Interest Claim	A Provable Claim other than a Higher Rate Claim, Specified Interest Claim or the Subordinated Debt
8% Interest Rate	A simple rate of interest at 8% per annum calculated in accordance with the Relevant Principles (as described in paragraph 7.11)
Adequate Reserves	Amounts considered by the Administrators (in their sole discretion) to be necessary to reserve for in respect of Retained Claims and any other matters that the Administrators consider it necessary to reserve for in accordance with their statutory duties
Adjudicator	The independent adjudicator appointed to determine the amount of Statutory Interest a Higher Rate Creditor is entitled to in respect of its Higher Rate Claims which are referred to the Dispute Resolution Procedure
Administration	The administration of the Company under the order of the High Court
Administrators	Anthony Victor Lomas, Steven Anthony Pearson, Russell Downs and Julian Guy Parr, each a partner of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT, and any other person who is appointed as an administrator of the Company, each acting as agent only for and on behalf of the Company and without personal liability
Administration Claim	Any claim, pursuant to the Insolvency Act or otherwise, against the Administrators (or certain other released parties) where such claim arises from actions taken by any such person prior to the Effective Date
Admitted Claim	Any ordinary unsecured claim against the Company (whether in respect of unpaid principal, interest or otherwise) which is or has been admitted by the Administrators in accordance with Rule 14.7 of the Insolvency Rules or has been admitted in accordance with Rule 2.77 of the Insolvency Rules 1986
AFB/FBF French Master Agreements	The AFB Master Agreement for Foreign Exchange and Derivatives Transactions (1994) (AFB) and the FBF Master Agreement Relating to Transactions on Forward Financial Instruments (2001) (FBF), and in each case, associated long form confirmations
AFTB/AFTI French	The AFTB Master Agreement for Repurchase Transactions with

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Defined Term	Meaning
Master Agreements	Delivery of Securities (1994) (AFTB) and the AFTI Master Agreement for Loans of Securities (1997) (AFTI)
AFB/FBF Agreed Position	The agreed position in respect of issues concerning the Euro-denominated claims arising under AFB/FBF French Master Agreements, as published on the Website on 14 September 2015
Announcements	The announcements made by the Administrators in respect of the Scheme
<i>Bower v Marris</i>	<i>Bower v Marris</i> (1841) 41 ER 525
Business Day	A day which is not a Saturday, Sunday or a public holiday in London or New York
Certification Option	Has the meaning given to it in paragraph 7.1.3(ii)
Companies Act	The Companies Act 2006
Company	Lehman Brothers International (Europe) (in administration)
Compounding Principle	Has the meaning given to it in paragraph 7.2
Contributory Claims	Claims against the Shareholder pursuant to section 74 or section 165 of the Insolvency Act
Convening Hearing	Has the meaning given to it in paragraph 14.1
Courts	The High Court, Court of Appeal and Supreme Court
Court of Appeal	The Court of Appeal of England and Wales
Court Order	The order of the High Court sanctioning the Scheme
Creditor Issues	Has the meaning given to it in paragraph 14.3
Creditors' Committee	The Company's committee of creditors, which currently consists of Lehman Brothers Holdings Inc, Ramius LLC and Lehman Brothers Commercial Corporation Asia Limited
Currency Conversion Claim	Has the meaning given to it in paragraph 3.1.1
Dispute Resolution Procedure	An out of court dispute resolution procedure to be used for determining the amount of Statutory Interest a Higher Rate Creditor is entitled to in respect of its Higher Rate Claims where the Company has rejected that Higher Rate Creditor's certified amount of Statutory Interest
Effective Date	The date on which the Scheme becomes effective in accordance with its terms
Equity Distribution	Any distribution (including a distribution in specie) or dividends paid, or return of capital (whether ordinary or preferred) made, by the Company or any office holder appointed in respect of it, to the

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Defined Term	Meaning
	Shareholder, in accordance with the Insolvency Act, the Insolvency Rules, and/or, if applicable, the Companies Act
Excluded Proceedings	Certain legal proceedings to which the Company is party as at the date of this letter, that will not be settled as a consequence of the Scheme
Expense Claims	Claims relating to all expenses, disbursements, remuneration and other costs and liabilities incurred in the Administration including but not limited to those set out in paragraphs (a) to (j) at Rule 3.51(2) of the Insolvency Rules and including all debts and liabilities referred to in paragraphs 99(4) and 99(5) of Schedule B1 to the Insolvency Act
Explanatory Statement	A statement given in accordance with section 897 of the Companies Act explaining (among other things) the effect of the compromise or arrangement proposed by the Scheme
High Court	The High Court of Justice in England and Wales
Higher Rate Claims	Provable Claims that are derived from any of the following types of agreement: (i) ISDA Master Agreements; (ii) AFB/FBF French Master Agreements; and (iii) AFTB/AFTI French Master Agreements
Higher Rate Creditors	Has the meaning given to it in paragraph 10.4.2
Insolvency Act	The Insolvency Act 1986
Insolvency Rules	The Insolvency (England & Wales) Rules 2016
ISDA Master Agreement	ISDA Master Agreements (1992 and 2002 versions) and long form confirmations
Lacuna Application	The application issued on 28 November 2017 by the Administrators, with the Subordinated Creditor as respondent, seeking directions in relation to the Paragraph 56(1) Request
Lacuna Issue	Has the meaning given to it in paragraph 3.1.2
LBHI2	LB Holdings Intermediate 2 Limited (in administration), a company incorporated in England and Wales with registered number 05957878 whose registered address is 7 More London Riverside, London SE1 2RT
LBL	Lehman Brothers Limited (in administration), a company incorporated in England and Wales with registered number 00846922 whose registered address is 7 More London Riverside, London SE1 2RT
Lock-up Agreement	Has the meaning given to it in paragraph 5.11

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Defined Term	Meaning
Non-Provable Claims	Claims which are not provable in the Administration of the Company, which are not Expense Claims, but that are payable in the Administration of the Company from the Surplus after the payment of Statutory Interest and before the payment of the Subordinated Debt
Olivant Application	Has the meaning given to it in paragraph 5.4.4
Paragraph 56(1) Request	Has the meaning given to it in paragraph 4.1
Practice Statement	Practice Statement issued by the High Court on 15 April 2002 which provides non-statutory guidelines on the best practice to be followed by a company proposing to enter into a scheme of arrangement with its creditors under Part 26 of the Companies Act
Preferential Debts	Has the meaning given to that term in section 386 of the Insolvency Act
Provable Claim	A claim provable in the Administration, in accordance with Rule 14.2 of the Insolvency Rules
Recast Judgments Regulation	Has the meaning given to it in paragraph 12.1
Registrar of Companies	Registrar of Companies (England and Wales)
Relevant Employees	Has the meaning given to it in paragraph 12.7.1
Relevant Jurisdiction Clause Creditors	Has the meaning given to it in paragraph 12.7.2
Retained Claims	<ul style="list-style-type: none"> (i) Any Undetermined Provable Claims (but excluding for the avoidance of doubt the basis on which any entitlement, right or interest to or in Statutory Interest is to be calculated in respect of such claims); (ii) a Scheme Creditor's proprietary claim or trust entitlement to client money held by the Company (but excluding any Provable Claim arising from or in connection with a client money entitlement); (iii) any Non-Provable Claim, Expense Claim, UCC Challenge and Administration Claim, the details of which have been notified to the Company (and in respect of Administration Claims only, the relevant person against whom such claim is being brought) prior to the Effective Date; (iv) Excluded Proceedings; and (v) any Expense Claims: (a) that arise after or shortly before

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Defined Term	Meaning
	the Effective Date; or (b) relating to contracts that continue to be performed as at the Effective Date
Sanction Hearing	Has the meaning given to it in paragraph 14.3
SCG	The "Senior Creditor Group", consisting of (among others) Burlington Loan Management Limited, CVI GVF (Lux) Master S.à r. l and Hutchinson Investors LLC
Scheme	Has the meaning given to it in paragraph 1.4
Scheme Creditors	Has the meaning given to it in paragraph 1.8
Scheme Document	The document setting out the terms of the Scheme
Scheme Documentation	Has the meaning given to it in paragraph 15.1
Scheme Meetings	Meetings of the Scheme Creditors to be convened for the purposes of considering and, if the Scheme Creditors think fit, approving the Scheme
Settlement Payment Option	Has the meaning given to it in paragraph 7.1.3(i)
Shareholder	LBHI2
Shareholder Retained Rights	The entitlements of the Shareholder: <ul style="list-style-type: none"> (i) to receive any Equity Distribution; (ii) to exercise set-off, defend or make a counterclaim in respect of any Contributory Claim; and (iii) to claim for costs arising out of future litigation in respect of the foregoing
Specified Interest Claim	A Provable Claim (or the component part thereof) that is derived from a Specified Interest Contract
Specified Interest Contract	A contract (other than one of the specified types of contract that give rise to Higher Rate Claims) which stipulates a Specified Interest Rate which, when applied to the balance outstanding from time to time under such contract, would give rise to an amount of Statutory Interest that is greater than the Statutory Minimum
Specified Interest Creditors	Has the meaning given to it in paragraph 10.4.1
Specified Interest Rate	A specified fixed or floating rate whether such rate is applied on a simple or compound basis as stipulated in a contract
Statutory Interest	Any statutory interest payable by the Company pursuant to Rule 14.23 of the Insolvency Rules
Statutory Minimum	Statutory Interest calculated at the 8% Interest Rate

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Defined Term	Meaning
Storm	Storm Funding Limited (in administration), a company incorporated in England and Wales with registered number 02682306 whose registered address is 7 More London Riverside, London SE1 2RT
Subordinated Creditor	Wentworth Sons Sub-Debt S.à r.l., a private limited liability company (" <i>société à responsabilité limitée</i> ") incorporated and existing under the laws of the Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies' Register under number B 179. 340, whose registered office is 6 Rue Eugène Ruppert, L 2453 Luxembourg, Grand Duchy of Luxembourg
Subordinated Debt	The subordinated liabilities arising pursuant to three intercompany loan agreements entered into between the Company and the Shareholder, each dated 1 November 2006, and which have been assigned by the Shareholder to the Subordinated Creditor
Supreme Court	The Supreme Court of the United Kingdom
Surplus	The Company's assets remaining after the provision for or payment in full of Expense Claims, Preferential Debts and Admitted Claims and before the payment of Statutory Interest, Non-Provable Claims, the Subordinated Debt and Equity Distributions, but excluding any Contributory Claim
Term Sheet	Has the meaning given to it in paragraph 5.11
Tranche A	"Tranche A" of the Waterfall II Proceedings
Tranche B	"Tranche B" of the Waterfall II Proceedings
Tranche C	"Tranche C" of the Waterfall II Proceedings
UCC Challenge	A challenge in writing by a Scheme Creditor of the allocation or composition of its Admitted Claims between any combination of 8% Interest Claim(s), Specified Interest Claim(s) and/or Higher Rate Claim(s) set out in its UCC4 (or as otherwise communicated to it in writing by the Company)
UCC4	A certificate provided by the Company to a Scheme Creditor on or around the date of the Explanatory Statement setting out, among other things, the disaggregation of such Scheme Creditor's Admitted Claim(s) between 8% Interest Claim(s), Specified Interest Claim(s) and/or Higher Rate Claim(s) (as relevant)
Undetermined Provable Claims	Provable Claims in respect of which a proof of debt has been submitted in accordance with Rules 14.3 and 14.4. of the Insolvency Rules prior to the Effective Date, where such proof is, as at the Effective Date, still to be finally adjudicated upon by the Administrators, was adjudicated upon 21 days or less prior to the Effective Date, or is the subject of an extant appeal to the High

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Defined Term	Meaning
	Court pursuant to Rule 14.8 of the Insolvency Rules
US Bankruptcy Code	Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq.
US Bankruptcy Court	The United States Bankruptcy Court for the Southern District of New York or other court of competent jurisdiction presiding over any case filed under Chapter 15 of the US Bankruptcy Code seeking, among other things, recognition of this Scheme as a foreign main proceeding and enforcement of the Court Order in the United States
Waterfall I Proceedings	A joint application by the Administrators, and the administrators of each of LBL and LBHI2, dated 14 February 2013, seeking a determination on Statutory Interest priority, Contributory Claims and other issues relating to the Company and its shareholders, heard by the High Court, the Court of Appeal and the Supreme Court
Waterfall II Proceedings	An application dated 12 June 2014 seeking determination on further issues that impact the rights of creditors to payment from the Surplus, split into Tranche A and Tranche B (with case citation, in respect of the Court of Appeal decision, [2017] EWCA Civ 1462), and Tranche C (with case citation, in respect of the first instance decision, [2016] EWHC 2417 (Ch))
Waterfall III Proceedings	An application dated 25 April 2016 by the Administrators to address certain questions concerning Contributory Claims and other affiliate issues
Waterfall Judgments	Together, the most recent (as at the date of this letter) judgments of the Courts in the Waterfall Proceedings
Waterfall Proceedings	Together, the Waterfall I Proceedings, the Waterfall II Proceedings and the Waterfall III Proceedings
Website	https://www.pwc.co.uk/services/business-recovery/administrations/lehman.html
Wentworth Group	The Wentworth group, consisting of (among others) Wentworth Sons Senior Claims S.à r.l., the Subordinated Creditor, Lehman Brothers Holdings Inc, certain entities managed or controlled by King Street Capital Management, L.P. and certain entities managed or controlled by Elliott Management Corporation