

Summary of the Principal Terms and Effect of the

SCHEME OF ARRANGEMENT

Pursuant to Part 26 of the Companies Act 2006

to be proposed
between

LEHMAN BROTHERS INTERNATIONAL (EUROPE)
(in administration)

and its

SCHEME CREDITORS
(as to be defined in the Scheme of Arrangement)

for dealing with the return of

CUSTOMER PROPERTY HELD IN TRUST

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SECTION 1 – INTRODUCTION, BACKGROUND AND PURPOSE OF THE SCHEME

1 Purpose of this document

The purpose of this document is to provide a description of the terms of the Scheme of Arrangement (the **Scheme**) which is to be promoted by Lehman Brothers International Europe (in Administration) (**LBIE**) with regard to the return of certain property held by LBIE in trust.

The terms of the Scheme will be contained in a document (the **Scheme Document**) to be distributed to LBIE's creditors in due course together with an explanatory statement (the **Explanatory Statement**). This document is not itself the Scheme Document or the Explanatory Statement.

This document is intended to enable an interested person to understand the purpose, operation and effect of the Scheme. It contains a description of the material elements of the Scheme. This document is not a legal agreement and is not intended to create legal relations or to form the basis of any contract or agreement. In the event of any conflict between this document and the Scheme Document or the Explanatory Statement, the latter two documents will prevail.

2 Defined terms

Inevitably, the Scheme involves a number of concepts with carefully defined, precise and technical meanings. In many cases, these definitions will be set out in full in the Scheme Document. Where this document refers to those concepts, they appear as capitalised terms. Where a defined term is used for the first time in this document, it will be written in bold. Appendix 8 to this document contains the defined terms which are used in this document. Within Appendix 8, where defined terms appear in bold and italics, these are summaries of the relevant definitions which are proposed for use in the Scheme Document. Appendix 8 does not contain all definitions that will appear in the Scheme Document. Where defined terms appear in bold but not in italics within Appendix 8, these terms have the meaning given in the indicated paragraph of this document.

3 Context of the Scheme

The Scheme is being promoted by LBIE to provide the systematic procedures which will be used by LBIE for the purpose of returning certain property which LBIE holds or controls and which belongs to its customers.

The need for the Scheme arises from the insolvency of LBIE. As part of LBIE's business, it held, directly or indirectly, significant quantities of assets in trust for its customers. Where assets are held in trust, they do not form part of LBIE's general estate but instead are held by LBIE as trustee for the benefit of those persons who have claims to those assets.

There are a number of issues which have given rise to complexities affecting LBIE's ability to return property belonging to its customers. The Scheme addresses each of these issues so far as they arise between LBIE and the affected creditors. The Scheme does this by compromising certain claims of affected creditors of LBIE (**Released Claims**) and providing those creditors in return with new claims (**New Claims**) as provided for in the Scheme. The concepts of Released Claims and New Claims are explained further in 20.

As the Scheme constitutes a compromise with the affected creditors, LBIE has worked closely with its **Creditors' Committee** with a view to establishing what LBIE considers to be a reasonable, balanced and fair basis of compromise between LBIE, the affected creditors and all of its other creditors.

The Scheme is not intended to be a comprehensive solution to all matters arising from the insolvency of LBIE. It is limited to dealing with matters related to the return of certain property held in trust for customers. Other processes in the insolvency of LBIE (which may include distributions, further schemes of arrangement or court processes or determinations) will be taken forward to deal with other property and unsecured claims and these may not be fully resolved or developed at the time that the Scheme is approved or sanctioned.

Not all creditors with claims to property held by LBIE in trust are affected by the Scheme. Not all property which LBIE holds in trust or in respect of which creditors may have proprietary claims is dealt with under the Scheme. This document explains which creditors are affected and what property is dealt with within the Scheme.

4 Purpose of the Scheme

4.1 The Scheme has the following objectives:

- 4.1.1** to impose the **Bar Date** on all claims, other than **Excluded Claims**, of the **Scheme Creditors**. The persons who are Scheme Creditors are described more fully in 5. The concept of Excluded Claims is described more fully in 20.6;
- 4.1.2** to establish mechanisms to determine **Asset Claims** of Scheme Creditors. The concept of Asset Claims is described more fully in 7;
- 4.1.3** to establish mechanisms to determine the **Net Contractual Positions** of Scheme Creditors. This concept is described more fully in 9;
- 4.1.4** to establish mechanisms for retaining any **Retention Amount** in respect of Scheme Creditors. This concept is described in 11.1.1 and 37;
- 4.1.5** to make provision for the costs of managing **Trust Property** and allocating **Distributable Trust Property**;
- 4.1.6** to effect **Distributions** to Scheme Creditors efficiently and expeditiously. The concepts underlying the making of Distributions are described in 11;
- 4.1.7** to identify the information that should be taken into account by LBIE in implementing the Scheme and to determine which information, if any, may properly be disregarded;
- 4.1.8** to compromise and agree all of the claims, other than Excluded Claims, of Scheme Creditors;
- 4.1.9** to establish a mechanism to resolve certain disputes relating to the Scheme; and
- 4.1.10** to determine, quantify and crystallise the value of unsecured claims of Scheme Creditors.

4.2 In implementing the Scheme and in exercising any discretions or powers under it, LBIE will have regard to these objectives.

SECTION 2 – THE CONCEPTUAL STRUCTURE OF THE SCHEME

In order to understand which creditors are affected by the Scheme, what property falls to be dealt with under the Scheme and the approach the Scheme takes to ascertaining what is to be returned under the Scheme, the Scheme uses a number of carefully defined key concepts. These are described below.

5 Key concept 1 – Scheme Creditors and Segregated Assets

5.1 The creditors who are affected by the Scheme are called Scheme Creditors. A creditor will generally be a Scheme Creditor if it had a claim against LBIE in trust or in equity at 7.56 a.m. (London time) on 15 September 2008 (the **Time of Administration**) for or in respect of **Segregated Assets** and which was capable of being satisfied by the delivery (in whole or in part) of Segregated Assets.

5.2 Segregated Assets are any **Security** which at the Time of Administration was held on a segregated basis. That means that it was recorded as being held separately from LBIE's own Securities in both the **Books and Records** of LBIE and also at LBIE's custodian or depository (the **Intermediary**). If, in fact, the Intermediary only has a single unsegregated account for LBIE, then Securities held by the Intermediary will still be treated as being Segregated Assets up to the maximum of Scheme Creditors' Asset Claims to such Securities. Securities will be Segregated Assets if they had a trade date before the Time of Administration even if the trade actually settled after that time provided the Securities did in fact settle.

5.3 There are a number of important consequences of the definition of Scheme Creditor to note. Each of these may result in someone not being a Scheme Creditor:

5.3.1 the claim must exist as at the Time of Administration. A creditor will not be a Scheme Creditor if there were no Segregated Assets subject to its claim at that time. If the Securities did not in fact arrive at LBIE's Intermediaries because they were the subject of trades which did not settle, then they will not be Segregated Assets;

5.3.2 if all of a creditor's claims are not proprietary but are only unsecured, then it will not be a Scheme Creditor;

5.3.3 if all of the **Assets** of a creditor which were held by LBIE for a customer were delivered under a title transfer arrangement, then, as the customer has no proprietary interest in the Assets, it will not be a Scheme Creditor;

5.3.4 if all of the Assets of a creditor were **Rehypothecated Securities**, then it will not be a Scheme Creditor. The act of **Rehypothecation** (whether or not it was permitted under the agreements with the customer) will have extinguished the segregated nature of the Security;

5.3.5 if the only proprietary or trust claims of a creditor relate to money held by LBIE prior to the Time of Administration (or interest earned on such money at any time), then that creditor will not be a Scheme Creditor. The Scheme does not deal with claims in respect of or distributions of money held by LBIE prior to the Time of Administration. Such money, if it is **Client Money**, will constitute **Pre-Administration Client Money** and will be distributed outside of the Scheme in accordance with the applicable **FSA Rules** (as clarified by any directions obtained

from the **Court** on issues relating thereto). Claims for interest earned on Pre-Administration Client Money even if it is received after the Time of Administration will also not be dealt with under the Scheme. In certain circumstances, a Scheme Creditor's claim to Pre-Administration Client Money may be applied within the Scheme to reduce its net liabilities to LBIE (see 11.6 for further details);

- 5.3.6 LBIE has determined that there are certain persons who may have claims to Segregated Assets, but whose relationships with LBIE are not primarily based on their being customers under **Prime Brokerage Agreements** or **Custody Agreements**. In such cases, it would not be appropriate to make such persons subject to the Scheme as it is not intended to deal with such customers. Such designation will be made prior to the Scheme Meetings being held. To address this, LBIE may designate such persons **Excluded Creditors**. Their Segregated Assets will be **Excluded Property** and will be dealt with separately outside of the Scheme. Key concept 2 describes how this property will be excluded from the Scheme. The effect of this is that persons whose only proprietary claims are claims to Assets that are Excluded Property will not be Scheme Creditors, whether or not those Assets are Segregated Assets; and
- 5.3.7 if, prior to the **Effective Date**, a creditor has had all of its Segregated Assets returned to it, together with any **Derived Assets** relating thereto, then it will not become a Scheme Creditor under the terms of the Scheme. However, such person may be obliged under the terms of the arrangements agreed with them at the time of the return of their Segregated Assets to be bound by the Scheme by contract. LBIE intends to deal with such persons by way of bilateral agreements outside the Scheme. LBIE may, however, at its absolute discretion, allow such persons to accede to the Scheme and become **Acceding Creditors** for the purposes of obtaining the benefit of the mutual release of claims between Scheme Creditors and Acceding Creditors.
- 5.4 A person which is not a Scheme Creditor is not bound by the Scheme. If, however, it wishes to assert a claim to Trust Property, then it will need to make that claim within the Scheme and it will be dealt with within the Scheme, and if such claim is substantiated it will be a Scheme Creditor.
- 5.5 The Scheme will make it clear that there are a number of issues which might otherwise raise a concern that a person may not be a Scheme Creditor which will not of themselves disqualify them from being a Scheme Creditor. These are:
 - 5.5.1 the fact that LBIE or any other person may have claims of any nature whatsoever against that person, whether or not those claims are ascertained, capable of being reduced by any set-off, netting, withholding, combination of accounts, retention and/or any other similar operation and irrespective of the amount of such claims;
 - 5.5.2 any defect in LBIE's title affecting the Asset which is the subject of the claim;
 - 5.5.3 the fact that any other person also has a claim to the same Asset;
 - 5.5.4 the fact that a claim is disputed, uncertain, conditional, unascertained, future or contingent and regardless of whichever system of law may govern such a claim, provided such claim is of a type the courts of England would be prepared to recognise and enforce; and

5.5.5 the fact that no regard will be had to the application upon or after the Time of Administration of any provision of any contract which would or might result in a person not having a claim to Trust Property if: (i) that person had such a claim immediately prior to the Time of Administration; and (ii) that person would have had such a claim on the Effective Date but for the application of such provision.

5.6 A diagram representing the process of determining whether a person is a Scheme Creditor is attached at Appendix 1.

6 Key concept 2 – Trust Property, Excluded Property and Non-Scheme Assets

6.1 The subject matter of the Scheme is Trust Property. This comprises Segregated Assets, Derived Assets and **Recovered Assets** but does not include anything which is Excluded Property.

6.2 Trust Property is wider than Segregated Assets because it includes assets derived from such Segregated Securities.

6.3 Derived Assets are Assets received by LBIE after the Time of Administration arising out of, or derived from, any Security which was itself Trust Property at or immediately before the time of receipt. They include Assets generated from Derived Assets. They are the fruits of the Trust Property. In some cases, where the previous Trust Property has ceased to exist, they may entirely replace the previous Trust Property (which is called a **Converted Asset**).

6.4 Recovered Assets are Assets recovered from **Pre-Scheme Returned Asset Recipients**.

6.5 Excluded Property consists of **Non-Scheme Assets** and **Lien Interests**.

6.6 Non-Scheme Assets comprise anything held by LBIE other than Segregated Assets, Derived Assets and Recovered Assets and include Rehypothecated Securities, Converted Assets, Assets distributed under the Scheme (**Scheme Returned Assets**), Assets appropriated by LBIE under the Scheme (**Scheme Appropriated Assets**), Pre-Administration Client Money and **Reserved Assets**.

6.7 A Reserved Asset is an Asset which LBIE has identified from its Books and Records as being actually or potentially the subject of a claim from an Excluded Creditor. LBIE may designate the Trust Property of Excluded Creditors as Reserved Assets. Under the Scheme, Scheme Creditors release their claims (if any) against the **Released Parties** and Excluded Creditors in respect of Reserved Assets. LBIE will be responsible to Scheme Creditors should the designation of an Asset as a Reserved Asset result in fewer Securities being available for distribution under the Scheme.

6.8 A Lien Interest is any property comprising an interest in a Segregated Asset arising by way of lien or security.

7 Key concept 3 – Asset Claims made under the Scheme

7.1 All of a Scheme Creditor's proprietary claims against LBIE for the return of Trust Property will be dealt with under the Scheme. A Scheme Creditor's claims to Assets which are or should have been Trust Property (Asset Claims) form the basis of determination of its entitlement to participate in distributions of Assets under the Scheme.

7.2 Asset Claims are divided into claims for Assets held on a custody basis (a **Custody Asset Claim**) and claims for other types of Assets (a **Non-Custody Asset Claim**).

7.3 Both types of Asset Claims (other than a claim for a Derived Asset which is money) must be a claim against LBIE in trust or in equity for, or in respect of, any Assets which are Trust Property (excluding any Rehypothecated Securities) which, pursuant to a legal or equitable obligation of LBIE, LBIE held or should have held as at the Time of Administration, and which is capable of being satisfied (in whole or in part) by the delivery of such Assets and/or their Derived Assets. It should be noted that Derived Assets include monies arising from or in respect of Securities, so an Asset Claim will also include a claim for money received after the Time of Administration and which is a Derived Asset (**Money**). LBIE's obligations in respect of Asset Claims will be limited so that, unless otherwise required by law or regulation, its obligations will not exceed those under the terms of the agreement or arrangement that gave rise to such claim.

7.4 There are a number of points to note from this:

7.4.1 the claim should be based in trust or equity (other than a claim for a Derived Asset which is Money);

7.4.2 the Assets must be Trust Property; in particular, they cannot be Excluded Property;

7.4.3 the claim extends to property which LBIE should have held even if in fact it did not. However, if the reason that LBIE did not hold the Security was because it was a Rehypothecated Security, no Asset Claim can be made for it. The creditor may have an unsecured claim in respect of the failure of LBIE to redeliver equivalent securities in respect of any Rehypothecated Securities. If this is the only claim the creditor has against LBIE in respect of Assets, it will not be a Scheme Creditor at all;

7.4.4 the claim (if it is in respect of Securities) must be capable of being satisfied (in whole or in part) by the delivery of the property. This distinguishes it from a purely monetary claim. In effect, the claim must be proprietary in nature;

7.4.5 unless otherwise required by law or regulation, the obligation of LBIE in respect of the claim will not exceed its obligation under the terms of the agreement or arrangement that gives rise to such claim. LBIE is not assuming any additional liability in respect of the claim under the Scheme; and

7.4.6 it is intended that an Asset Claim be made notwithstanding any provision of any contract which would or might result in a person not having that claim if: (i) that person had such a claim immediately prior to the Time of Administration; and (ii) that person would have had such a claim on the Effective Date but for the application of such provision.

7.5 The concepts of **Custody Security** and **Non-Custody Security** are described more fully in the description of the various pools of assets provided for under the Scheme in 10.5.

7.6 A diagram representing these concepts is attached at Appendix 2.

8 Key concept 4 – Money and the treatment of Money under the Scheme

8.1 As described above, Pre-Administration Client Money and any claims in respect of it are not dealt with under the Scheme.

8.2 In relation to all other Money received by or on behalf of LBIE after the Time of Administration and which is a Derived Asset, LBIE will (subject to 8.3) account for this

Money to the Scheme Creditors as part of their claim to the Securities from which the Money was derived. This is a liability to be met by LBIE in priority to LBIE's obligations to its general unsecured creditors. In order to achieve this, each Scheme Creditor agrees that full ownership of that Money will be transferred to LBIE for the purpose of securing or otherwise covering the Scheme Creditor's obligations (whether present or future, actual or contingent or prospective, and whether under the Scheme or otherwise) to LBIE, and therefore that: (i) such Money will not be Client Money; (ii) each Scheme Creditor will not have any proprietary claim over or in respect of that Money; and (iii) LBIE will be entitled to deal with that Money as its own property.

- 8.3** If a Scheme Creditor has entered into an agreement (other than the Scheme) which has the effect that money received by LBIE after the Time of Administration is neither Client Money nor money that is otherwise held in trust, then LBIE will not be obliged to account to the Scheme Creditor for such money unless the Court has ordered LBIE to so account. This may arise because of the effect of clause 5.2 of LBIE's standard form of the International Prime Brokerage Agreement (Charge Version) and/or an equivalent provision in some other agreement or arrangement between LBIE and the Scheme Creditor. LBIE intends to seek directions from the Court on this issue but they may not be forthcoming until after the Effective Date.

9 Key concept 5 – A Scheme Creditor's contractual position

- 9.1** The Scheme compromises all claims (other than Excluded Claims excluding claims of the Scheme Creditor in respect of Reserved Assets released as described in 6.7) between LBIE and the Scheme Creditors. In order to do this, the Scheme provides a regime for ascertaining claims other than Asset Claims. The key concepts are **Financial Contract**, **Close-Out Amount** and Net Contractual Position.
- 9.2** A Financial Contract is a contract between LBIE and a Scheme Creditor entered into before 15 September 2008 (the **Administration Date**) relating to transactions or positions of a financial nature (and which is not a purely administrative or non-financial services contract), including contracts for the delivery and/or custody of Assets. It includes **Master Agreements**.
- 9.3** The Close-Out Amount is the amount payable by either LBIE or the relevant Scheme Creditor to the other as a result of termination of a Financial Contract. It is determined using the valuation methodology described below. The Close-Out Amount will be expressed in US dollars. If the Financial Contract provides for some other currency, the amount will be converted to US dollars at the **Open Contract Termination Date**.
- 9.4** The Net Contractual Position is the sum of all the Close-Out Amounts as between LBIE and a Scheme Creditor. This may be a net sum due from the Scheme Creditor to LBIE (a **Net Financial Liability**) or a net sum due from LBIE to the Scheme Creditor (a **Net Financial Claim**).
- 9.5** Any Financial Contract which has not been terminated before the date of the **Scheme Meetings** will be automatically terminated on a fixed date (the Open Contract Termination Date). Following the Scheme Meetings, any voluntary early termination right will be ineffective. Automatic termination will not prejudice any pre-existing proprietary rights or claims. A diagram representing this concept is attached as Appendix 3.

9.6 Close-Out Amounts will be determined in accordance with the applicable **Financial Contract Valuation Methodology**, in each case incorporating certain **Overriding Valuation Provisions**.

9.7 The Financial Contract Valuation Methodology will be:

9.7.1 first, in accordance with the methodology for calculating termination payments provided for in the Financial Contract (the **Contractual Valuation Methodology**);

9.7.2 secondly, in certain circumstances as agreed between LBIE and the Scheme Creditor (the **Agreed Valuation Methodology**); and

9.7.3 thirdly, if neither the Contractual Valuation Methodology nor the Agreed Valuation Methodology is applicable, then a fallback methodology (the **Fallback Valuation Methodology**).

These methodologies are described more fully in 33.

9.8 The Overriding Valuation Provisions are:

9.8.1 any Asset Claim which is the subject of a Financial Contract will be disregarded in the valuation of the Close-Out Amount. This is to avoid the same claim being counted twice;

9.8.2 for any contract automatically terminated under the Scheme, the Close-Out Amount (except to the extent that it relates to **Short Positions** and Rehypothecated Securities) will be determined as at the Open Contract Termination Date. A Short Position is an obligation of the Scheme Creditor to deliver equivalent Securities (or pay an amount equal to their value) to LBIE arising in connection with a **Short Sale**. A Short Sale is a transaction which involves a sale or other transfer for value of Securities by a Scheme Creditor where the Scheme Creditor is required to borrow such Securities from LBIE at the time of sale or transfer, and in connection with which the Scheme Creditor assumes an obligation to deliver equivalent Securities (or to pay an amount equal to their value) to LBIE at a future date;

9.8.3 the value of:

(i) any Security which is the subject of a Short Position; and

(ii) any Rehypothecated Security,

will generally be the market closing price on the last **Business Day** immediately before the Time of Administration. Any other obligation which arises after the Time of Administration will be disregarded from this calculation;

9.8.4 any term of a Financial Contract which provides that an obligation of a party is subject to a condition precedent that an event of default, failure to pay or deliver, act of insolvency, breach of contract or other similar event has not occurred and/or is not continuing with respect to the other party (any such term, a **Flawed Asset Provision**) will be disregarded in the calculation of the Close-Out Amount;

9.8.5 any term of a Financial Contract which:

(i) provides that an amount which, but for such term, would be payable by one party to the other party as a result of the termination of such Financial Contract would not be payable to such other party as a result of an event of

default, failure to pay or deliver, act of insolvency, breach of contract or other similar event having occurred with respect to such other party; or

- (ii) provides that only the party which is not subject to an event of default, failure to pay or deliver, act of insolvency, breach of contract or other similar event is entitled to receive a payment following the termination of such Financial Contract,

will be disregarded in the calculation of the Close-Out Amount;

- 9.8.6 any **Pre-Administration Client Money Claim** will be disregarded in the valuation of any Close-Out Amount;
 - 9.8.7 no interest will accrue on any unpaid liability of LBIE from the Administration Date, save to the extent that such interest would accrue under Rule 2.88 of the **Insolvency Rules**;
 - 9.8.8 no account will be taken of any obligations owing to or from third parties in the valuation of any Close-Out Amount; and
 - 9.8.9 no account will be taken of any amounts which might be, or in due course become, due from a Scheme Creditor to LBIE under Sections 238 to 245 of the **Insolvency Act** (adjustment of prior transactions), Sections 423 to 425 of the **Insolvency Act** (provisions against debt avoidance) or Sections 213 to 215 of the **Insolvency Act** (fraudulent or wrongful trading) or as a result of any misfeasance, breach of duty or breach of contract owed by the Scheme Creditor to LBIE.
- 9.9 The Net Contractual Position will be determined finally under the Scheme. A Scheme Creditor may challenge the determination under the dispute resolution mechanism (the **Dispute Resolution Mechanism**) provided for under the Scheme and described more fully in 44.
- 9.10 A series of diagrams representing these concepts is attached at Appendix 4.

10 Key concept 6 – Allocations and shortfalls

- 10.1 The Trust Property which can be distributed under the Scheme (Distributable Trust Property) must be identifiable, within the control of LBIE and not subject to any order or restriction affecting dealings in it. The quantity of Distributable Trust Property may increase over the duration of the Scheme if further Trust Property comes under LBIE's control during the course of the Scheme.
- 10.2 LBIE will allocate Distributable Trust Property to Scheme Creditors by reference to individual types of Securities (**Stock Lines**) and by reference to particular pools of Assets. This process is called **Allocation**. LBIE may deal with individual Stock Lines in whatever order it thinks appropriate.
- 10.3 There are three pools of Assets (**Asset Pools**). Distributable Trust Property can only be in one of them. The three pools are:
- 10.3.1 an **Affected Asset Pool**;
 - 10.3.2 Custody Securities and their Derived Assets; and
 - 10.3.3 Non-Custody Securities and their Derived Assets.

- 10.4** An Affected Asset Pool is further described in 13. The main Intermediary which is likely to hold **Affected Stock Lines** forming an Affected Asset Pool is **LBI**.
- 10.5** Custody Securities are those Securities which are Trust Property credited to a custody account in the Books and Records of LBIE and its Intermediary and which are capable of being the subject of a Custody Asset Claim. Non-Custody Securities are all other Securities which are Trust Property.
- 10.6** If LBIE determines that no more Distributable Trust Property of a particular Asset Pool will be identified and there are no more **Disputes** in relation to that Asset Pool, then this is a **Last Allocation**. Otherwise, the Allocation will be an interim Allocation.
- 10.7** A Scheme Creditor's entitlement to participate in an Allocation will be based on its Asset Claim. This will be determined by LBIE based on the information available to it (**Relevant Information**). The determination may be challenged by the Scheme Creditor through the Dispute Resolution Mechanism. The concept of Relevant Information is discussed more fully in 12.
- 10.8** Where a Scheme Creditor receives any Assets or value in respect of an Asset Claim, not from LBIE but directly from an Intermediary or its **Sub-Intermediary** (an **Intermediary Distribution**), then it will be required to notify LBIE and LBIE will take this into account for the purpose of determining such Scheme Creditor's outstanding Asset Claim against LBIE. An Intermediary Distribution will be valued as at the date the benefit of it is received by the Scheme Creditor.
- 10.9** No Scheme Creditor can receive an Allocation of Assets in respect of an Asset Pool greater than its Asset Claim.
- 10.10** If, at the time of the Last Allocation of an Asset Pool, the aggregate amount of the Allocations made to a Scheme Creditor is less than its Asset Claim to that Asset Pool, then that Scheme Creditor will have an **Asset Shortfall Claim** equal to the difference. An Asset Shortfall Claim will be reduced by the amount of any value attributable to an Intermediary Distribution and the **Recoverable Delivery Value**. The Asset Shortfall Claim is an unsecured claim against LBIE. The value of an Asset Shortfall Claim will be taken as at the date of the Last Allocation unless and to the extent that a Scheme Creditor's claim remains unsatisfied when all Distributions have been made to it, in which case it will be valued as at the close of business on the last Business Day before the Time of Administration. LBIE's obligation in respect of Asset Shortfall Claims will, unless otherwise required by law or regulation, not exceed its obligations under the terms of the agreement or arrangement that gave rise to the relevant Asset Claim.
- 10.11** A series of diagrams representing these concepts is attached at Appendix 5.

11 Key concept 7 – Distributions and Appropriations under the Scheme

11.1 Following an Allocation to a Scheme Creditor of Distributable Trust Property and the determination of the Net Contractual Position of that Scheme Creditor, the process of determining a Distribution to that Scheme Creditor under the Scheme can begin, subject to the following conditions being satisfied:

- 11.1.1** LBIE has ascertained if there is any **Retention Claim** in respect of that Scheme Creditor, such that LBIE is required to account to a **Retention Creditor** in respect of liabilities secured on such Distributable Trust Property. A Retention Claim is a

claim in respect of liabilities that a Scheme Creditor may have to a Retention Creditor which is secured over that Scheme Creditor's Distributable Trust Property. The process of dealing with Retention Claims is described more fully in 37;

- 11.1.2 that Scheme Creditor does not have certain unascertained or unquantified **Non-Financial Contract Liabilities** to LBIE. Non-Financial Contract Liabilities are described more fully in 36; and
 - 11.1.3 the Allocation is not of a very small amount or value unless it is the final Allocation of a Stock Line.
- 11.2** LBIE will be entitled to appropriate for itself a Scheme Creditor's Allocation of Distributable Trust Property and other assets or claims for which LBIE is accountable to that Scheme Creditor, up to a value sufficient to discharge that Scheme Creditor's liabilities to LBIE. This process is called **Appropriation**. Appropriation involves a full transfer of title of the relevant Securities to LBIE or an absolute entitlement of LBIE to retain Money or any cash amounts. Any remaining Assets after the Appropriation process are then available for Distribution to that Scheme Creditor.
- 11.3** By the process of Appropriation, LBIE will appropriate **Distribution Assets** available to a Scheme Creditor to reduce its **Distribution Liabilities**. Distribution Assets consist of the relevant Allocation together with a number of other assets or claims that LBIE may be accountable to the Scheme Creditor. Distribution Liabilities comprise that Scheme Creditor's Net Financial Liability (if any) together with any amount which LBIE is required to withhold in respect of Retention Claims relating to such Scheme Creditor, such Scheme Creditor's liability for costs and any other ascertained Non-Financial Contract Liabilities. Non-Financial Contracts Liabilities and liabilities for costs are described more fully in 36 and 43.
- 11.4** Scheme Creditors may discharge their Distribution Liabilities by payment in cash to LBIE at any time. Distribution Liabilities will also be discharged if and to the extent that an Intermediary has accounted to LBIE for any asset or benefit in discharge of that Scheme Creditor's liabilities (**Intermediary Retention**).
- 11.5** The process of determining Appropriations and Distributions is set out in a series of waterfall provisions, which describe the priority of application of Distribution Assets towards the reduction of Distribution Liabilities. Each waterfall provision applies to a specific circumstance and is described more fully in 38. A Scheme Creditor may make certain elections, which could affect whether certain assets will be applied as Distribution Assets and whether certain liabilities will be applied as Distribution Liabilities in the waterfall provisions. These elections are described in 11.6 and 11.7.
- 11.6** A Scheme Creditor may elect to collateralise its Net Financial Liability with its Pre-Administration Client Money Claim (a **Collateralisation Election**). This election has the effect of collateralising an amount of the Net Financial Liability (**Collateralised Net Financial Liability**) equal to the lesser of (a) the amount of the Scheme Creditor's entitlement to Pre-Administration Client Money and (b) the Net Financial Liability. When this election is made, no Allocations of Assets can be Appropriated to reduce the Collateralised Net Financial Liability until such time as any shortfall claim for Pre-Administration Client Money in respect of that Scheme Creditor is determined. The Scheme Creditor will also not receive any distributions of Pre-Administration Client Money in the interim, which becomes the collateral that effectively collateralises the Collateralised Net Financial Liability (but the Scheme Creditor may use this collateral to reduce its Net

Financial Liability at any time). Upon the determination of any shortfall claim for Pre-Administration Client Money, such shortfall claim may be applied first as a Distribution Asset to reduce the Net Financial Liability and then the collateral amount may be applied as a Distribution Asset to reduce any remaining Net Financial Liability and any other Distribution Liabilities. If no Collateralisation Election is made, any shortfall claim for Pre-Administration Client Money is dealt with outside the Scheme and cannot be applied as a Distribution Asset in the Appropriation process.

- 11.7** A Scheme Creditor may elect to defer the Appropriation of Assets in respect of interim Allocations pending the determination of whether or not there will be an Asset Shortfall Claim in respect of that Stock Line (an **Appropriation Deferral Election**). This election gives the Scheme Creditor the benefit of receiving Distributions of interim Allocations for that Stock Line without regard to its Net Financial Liability at that time (if and to the extent that such interim Allocations are not Appropriated to reduce the **Costs Amount**, ascertained Non-Financial Contract Liabilities and any amounts required to be withheld for Retention Claims). This election can only be made on the first Allocation of that Stock Line. For the first Allocation and each subsequent Allocation of that Stock Line, the Scheme Creditor must deliver to LBIE a cash amount (**Deferral Cash Amount**) equal to the value of the Allocation (or, if less, its Net Financial Liabilities). On the Last Allocation of that Stock Line when an Asset Shortfall Claim is determined, the Asset Shortfall Claim will be applied first as a Distribution Asset to reduce the Net Financial Liability and then the total amount of Deferral Cash Amounts will be applied as a Distribution Asset to reduce any remaining Net Financial Liability and any other Distribution Liabilities. If the Scheme Creditor fails to make any payment of a Deferral Cash Amount at any time, then this election will cease to be valid and LBIE may immediately appropriate all Deferral Cash Amounts to reduce its Net Financial Liability and any other Distribution Liabilities.
- 11.8** A series of diagrams representing these concepts is attached at Appendix 6.
- 11.9** Following all Appropriations and Distributions, to the extent that there is any excess Asset Shortfall Claim or shortfall claim in Pre-Administration Client Money (if applicable) remaining, they will be ascertained unsecured claims of the relevant Scheme Creditor in the insolvency of LBIE. A Net Financial Claim will also be an ascertained unsecured claim of the relevant Scheme Creditor in the insolvency of LBIE.

12 Key concept 8 – Relevant Information

- 12.1** LBIE will only be required to have regard to Relevant Information in determining matters under the Scheme. LBIE will not be required to take into account any information which is not Relevant Information.
- 12.2** Relevant Information is:
- 12.2.1** information ascertained from the Books and Records of LBIE;
 - 12.2.2** information contained in a **Claim Form** submitted by 12.00 noon (London time) on the Bar Date;
 - 12.2.3** information contained in certain notices delivered pursuant to the Scheme;
 - 12.2.4** information made available to LBIE by Intermediaries and by LBIE's affiliates;
 - 12.2.5** information made available to LBIE by any relevant exchanges; and

12.2.6 information which may be taken into account when determining any Close-Out Amount of any Financial Contract and any value of any **Relevant Asset** in accordance with the methodologies provided in the Scheme.

12.3 LBIE may, to the extent LBIE considers it necessary or desirable, have regard to any information which is not Relevant Information for the purpose of making determinations or to any information which is not in its possession at the time of making determinations in respect of a Scheme Creditor pursuant to the Scheme.

13 Key concept 9 – Allocation of Assets held through LBI and other Affected Asset Pools

13.1 A significant element of the Trust Property was held through LBI. LBI itself is subject to insolvency proceedings under the Securities Investor Protection Act of the United States. Under this act, LBIE understands that LBI will meet Customer Claims as defined in that act with Customer Property as defined in that act. If there is insufficient Customer Property to meet all Customer Claims, then LBI will apportion the available Customer Property pro rata to the Customer Claims. In effect, this means that all claims in respect of Trust Property held by LBI will share equally in the total amount of Customer Property and therefore under the Scheme they will be treated as claims in a single Affected Asset Pool.

13.2 LBIE will endeavour to liquidate any Assets distributed by LBI to LBIE in respect of claims for Trust Property acting in a commercially reasonable manner within six months following the return of such Distributable Trust Property.

13.3 The proceeds will be allocated to Scheme Creditors with Asset Claims within the Affected Asset Pool (Affected Stock Lines).

13.4 If LBI makes a distribution of Trust Property directly to a Scheme Creditor, then LBIE will take that distribution into account as described in 10.8. LBIE will also take into account any amount retained by LBI in respect of liabilities owed by the Scheme Creditor to LBIE and which LBI has paid over to or in respect of which LBI has otherwise given value to LBIE for (an Intermediary Retention).

13.5 Similar rules will apply in the case of any other Intermediary who operates a similar regime to that of LBI.

13.6 LBIE understands that LBI will value Customer Claims as at 19 September 2008 (the date that the proceeding under the Securities Investor Protection Act of the United States was commenced against LBI). Therefore, the value of any Asset Claim made in respect of any Affected Stock Line held by LBI for the purpose of determining the Allocation in respect of such Affected Stock Line will be based on the value as at that date.

13.7 LBIE is awaiting clarification from LBI as to how it will deal with Derived Assets arising from Affected Stock Lines. LBIE will distribute under the Scheme to Scheme Creditors having an Asset Claim in respect of the underlying Affected Stock Line as Distributable Trust Property any such Derived Assets it receives.

13.8 LBIE may enter into a further protocol with LBI to address issues arising in the LBI insolvency which may affect the operation of certain process affecting distributions by LBI. Such protocol may impact upon the operation of certain procedural matters under the Scheme but LBIE will only be at liberty to agree a protocol which does not result in any material and adverse impact upon Scheme Creditors and which only has a procedural or

mechanical impact upon the operation of the Scheme. If there is any doubt as to whether a proposed protocol satisfies these tests, then LBIE may seek direction from the Court on the matter. LBI is currently preparing a draft protocol which the **Administrators** understand is intended to accord with the principles described in 13 and which is subject to further discussion between the insolvency officeholder of LBI and the Administrators.

SECTION 3 – VOTING UPON THE SCHEME

14 Valuation of claims for voting purposes

14.1 Each Scheme Creditor will be entitled to vote upon the Scheme for the greater of (i) **US\$1** and (ii) an amount equal to the lesser of:

14.1.1 its **Voting Asset Claim** (as summarised in 14.2); and

14.1.2 its **Voting Equity** (as summarised in 14.3).

14.2 The Voting Asset Claim of a Scheme Creditor will be an amount that would be the value of all its Asset Claims which it had on 30 June 2009 (the **Voting Calculation Date**) upon the assumption that the Effective Date and the Open Contract Termination Date are both 30 June 2009. The use of 30 June 2009 as the Voting Calculation Date is because this is the nearest practical date for LBIE to calculate Scheme Creditors' voting entitlements and is subject to Court approval. The Voting Asset Claim will be reduced by the value (in the case of Securities, valued as at the Voting Calculation Date) of any such Assets actually redelivered prior to the Scheme Meetings.

14.3 The Voting Equity of a Scheme Creditor will be the aggregate of:

14.3.1 its Voting Asset Claim; plus

14.3.2 the value of all claims against LBIE for redelivery of equivalent securities for Rehypothecated Securities valued as at the Voting Calculation Date; plus

14.3.3 the value of all amounts payable by LBIE to it in respect of the sale or purchase of Assets or agreements to sell or purchase Assets valued as at the Voting Calculation Date; plus

14.3.4 to the extent not comprised in any of the foregoing, the value of all amounts payable by LBIE upon termination of any transactions under Financial Contracts between it and LBIE which have been terminated or, in respect of transactions under contracts which have not been terminated by the Voting Calculation Date, the amount which would have been payable thereunder had that contract been terminated on the Voting Calculation Date; less

14.3.5 the value of all claims of LBIE against it in respect of Short Positions, the sale or purchase of Assets or agreements to sell or purchase Assets, loans of money or Assets valued as at the Voting Calculation Date; less

14.3.6 to the extent not comprised in any of the foregoing, the value of all amounts payable to LBIE upon termination of transactions under any contracts between it and LBIE which have been terminated or, in respect of transactions under contracts which have not been terminated by the date falling 30 Business Days prior to the Voting Calculation Date, the amount which would have been payable thereunder had that contract been terminated on the Voting Calculation Date.

14.4 Where any Asset or such amount is not denominated in US dollars, the value of such Asset or amount will be converted to US dollars at the exchange rate prevailing on the Voting Calculation Date.

14.5 All valuations for voting purposes will be effected in accordance with a methodology and principles to be described in the Explanatory Statement.

- 14.6** The valuation of the Voting Asset Claim and Voting Equity of a Scheme Creditor will be calculated without regard to any Money which is a Derived Asset except where such Money represents all or substantially all of the value of the Trust Property from which it arose. LBIE will have discretion on a case-by-case basis to take into account such calculations of Derived Assets where failure to do so would materially impact upon a Scheme Creditor's voting entitlement.
- 14.7** The valuation of the Voting Asset Claim and the Voting Equity will be calculated:
- 14.7.1** upon the assumption that all contractual trades have settled in accordance with their terms where such transactions relate to derivatives or financing products; and
 - 14.7.2** upon the assumption that settlement will be disregarded where such transactions relate to cash securities or collateral.
- 14.8** In calculating a Scheme Creditor's Voting Asset Claim, no account will be taken of any claim which relates to Excluded Property.
- 14.9** In calculating a Scheme Creditor's Voting Equity, no account will be taken of any liabilities which are asserted to be due to or from that Scheme Creditor to any person other than LBIE.
- 14.10** Any claim which is wholly or in part contingent or not capable of being ascertained by the Voting Calculation Date will, to that extent, be valued on a basis as agreed between LBIE and the relevant Scheme Creditor or, in the absence of agreement, at US\$1.
- 14.11** In calculating Voting Equity, no regard will be had to any provision in any contract which would prevent or restrict any claim being made by reason of the insolvency or administration of LBIE.
- 14.12** Valuation for voting purposes will not be relevant to valuation for distribution purposes under the Scheme save to the extent it constitutes Relevant Information.

15 Voting process

The process for submission of votes for the Scheme Meetings will be described in the Explanatory Statement and does not form part of the Scheme itself.

16 Classes

The matter of what classes of Scheme Creditors there may be will be considered separately.

SECTION 4 – SPECIFIC TERMS OF THE SCHEME

Part 1 – Parties

17 Parties

- 17.1 The Scheme will be made by LBIE acting through its Administrators with each and every Scheme Creditor who will be bound thereby.
- 17.2 The Scheme will be managed and administered by the **Scheme Supervisors**. The Scheme Supervisors will have the full authority to act on behalf of LBIE in all matters relating to the Scheme. Further terms regarding the Scheme Supervisors are set out in 45.
- 17.3 The Administrators will agree to be bound by the terms of the Scheme as it applies to them.
- 17.4 There will be a **Scheme Committee**. Further terms regarding the Scheme Committee are set out in 46.

18 Scheme Creditors

- 18.1 Parties bound by the Scheme will be all those persons who are Scheme Creditors (and their respective successors and assigns) as at the date of the Scheme Meeting.
- 18.2 The Scheme will not affect the terms of any agreement made between LBIE and any Scheme Creditor after the Time of Administration and prior to the Effective Date, save as provided in that agreement or as otherwise agreed between LBIE and that Scheme Creditor.

19 Right to renounce participation in the Scheme

- 19.1 Any person who would otherwise be a Scheme Creditor may, by written notice to LBIE to be received no later than 15 Business Days before the Bar Date, irrevocably elect that it will:
- 19.1.1 renounce all (and not some only) of its Asset Claims; and
 - 19.1.2 agree that all of its claims against LBIE are unsecured claims (other than any proprietary claims that Scheme Creditor has against LBIE in respect of assets held by LBIE in non-segregated accounts, excluding Money) and will be dealt with outside the Scheme.

Then, such person will not be a Scheme Creditor.

- 19.2 LBIE may elect to reject any such notice of renunciation if it considers that the effect of such notice would be to materially and adversely affect the position of LBIE's unsecured creditors. Any such rejection will be in writing and delivered not later than 10 Business Days after receipt of the notice of renunciation.

Part 2 – Compromise of Claims

20 Claims compromised by Scheme Creditors

- 20.1** Under the Scheme, all Scheme Creditors will each release all claims (save for Excluded Claims) against the Released Parties, including all claims for or in respect of:
- 20.1.1** any Asset Claim;
 - 20.1.2** any payment for or on account of any Asset which is or was at any time the subject of an Asset Claim;
 - 20.1.3** damages, indemnity or contribution in respect of any loss, cost or expense of any nature whatsoever in respect of, or in connection with, any Asset which is or was at any time the subject of an Asset Claim including consequential or economic loss;
 - 20.1.4** all liabilities for breach of contract, loss or damage, indemnity or contribution of any nature whatsoever;
 - 20.1.5** all rights to seek or enforce judgment, exercise any remedy or apply any set-off, netting, withholding, combination of accounts or retention or similar rights against LBIE in respect of any claim or liability whatsoever; and
 - 20.1.6** rights in respect of any Financial Contract,
- (the Released Claims).
- 20.2** Released Claims do not include claims against any person other than the Released Parties or Acceding Creditors. The Scheme does not purport to compromise the claims of any Scheme Creditor against any person who is not a Scheme Creditor. In particular, it does not compromise claims (if any) which a Scheme Creditor may have against Lehman Brothers Holdings Inc. as guarantor of LBIE, or LBI or against **CAPCO** or Lehman Brothers Bankhaus AG, none of which is a Released Claim.
- 20.3** Released Claims will include any claims relating to Derived Assets.
- 20.4** Released Parties means the **LBIE Released Parties** and the Scheme Creditors.
- 20.5** Scheme Creditors will not release any Excluded Claims or New Claims.
- 20.6** Excluded Claims are any claims:
- 20.6.1** for, or in respect of, Excluded Property;
 - 20.6.2** for loss or damage relating to the failure of LBIE to perform any of its obligations with regard to Excluded Property;
 - 20.6.3** for any failure by LBIE to discharge its obligations under the Scheme; or
 - 20.6.4** under a contract: (a) which is not a Financial Contract; and (b) where the Scheme Supervisors, in their absolute discretion, determine that it is not in the interests of the unsecured creditors of LBIE as a whole to have the obligations under that contract resolved under the Scheme.
- 20.7** All Scheme Creditors will have their Released Claims exchanged for the following:
- 20.7.1** the right to have their Net Contractual Position, Allocations and Distributions determined on the basis set out in the Scheme;

- 20.7.2 (without double counting) the right to have such part of the Distributable Trust Property as is Allocated to them under the Scheme delivered to them as a Distribution or Appropriated by LBIE in or towards discharge of their liabilities to LBIE and Retention Creditors as provided under the Scheme;
- 20.7.3 the right to claim as a new obligation of LBIE in accordance with the Scheme its Net Financial Claim; and
- 20.7.4 an ascertained, unsecured claim in LBIE's winding-up or any other distribution of LBIE's assets generally to its unsecured creditors (the **Ascertained Claim**) for such amount as is determined under the Scheme,

(the New Claims).

- 20.8 No Scheme Creditor will be entitled to recover more than once in respect of the same Asset or claim, whether under the Scheme or otherwise.
- 20.9 Scheme Creditors will be subject to a moratorium in respect of their Released Claims. Any recovery in breach of the moratorium will be taken into account in determining what benefits may flow to the Scheme Creditor under the Scheme and any net benefit will be a Non-Financial Contract Liability.

Scheme Creditors will authorise the Scheme Supervisors to execute a waiver of Released Claims and certain other claims relating to the Scheme.

- 20.10 In the winding-up or any distribution in administration of LBIE, which will take place outside the Scheme, LBIE may, in accordance with applicable insolvency law, be entitled to set off against a Scheme Creditor's Ascertained Claims any amounts due from that Scheme Creditor to LBIE thereby potentially reducing the value of that Scheme Creditor's Ascertained Claims.

Part 3 – Key dates under the Scheme

21 Bar Date

- 21.1 The Bar Date is the last date for submission of claims under the Scheme. Any claim submitted after the Bar Date can be disregarded by LBIE. The Bar Date will be:

- 21.1.1 31 December 2009, if the Effective Date falls on or before 31 October 2009; and

- 21.1.2 in any other case, the date falling on the last Business Day of the month in London of the second full calendar month following the Effective Date.

22 Open Contract Termination Date

This is the date that all **Open Contracts** will be automatically terminated under the Scheme. It is the last Business Day of the month in which the Effective Date occurs.

23 Effective Date

This is the date upon which a copy of the order of the Court sanctioning the Scheme is delivered to the Registrar of Companies in England and Wales. If the Effective Date does not occur before 30 June 2010, the Scheme will never become effective.

24 Termination Date

- 24.1** This is the date that the Scheme ceases to operate. It will be:
- 24.1.1** the date falling five years after the Effective Date; or
 - 24.1.2** such earlier date as the Scheme Supervisors may, in their absolute discretion, determine in the event that the objectives and purposes of the Scheme have been fulfilled; or
 - 24.1.3** such later date as the Scheme Supervisors may determine in consultation with the Scheme Committee as necessary to discharge the objectives and purposes of the Scheme.
- 24.2** On the **Termination Date**, all unclaimed and surplus Trust Property will revert absolutely to LBIE.

Part 4 – Claim Forms, information and Warranties

25 Claim Form and the Bar Date

- 25.1** As soon as practicable following the Effective Date, LBIE will:
- 25.1.1** make available a proforma Claim Form to each Scheme Creditor of whom LBIE is aware and for which it has contact details. LBIE will also make proforma Claim Forms available on LBIE's page on the website of PricewaterhouseCoopers LLP; and
 - 25.1.2** notify Scheme Creditors and place an advertisement to inform the Scheme Creditors of the Effective Date and the Bar Date, and to invite the Scheme Creditors to submit Claim Forms on or before the Bar Date in accordance with the terms of the Scheme.
- 25.2** In order for a Claim Form to be valid, it must be received by LBIE by 12.00 noon (London time) on the Bar Date. To the extent that a Scheme Creditor fails to submit a Claim Form to LBIE by that time, LBIE will calculate such Scheme Creditor's entitlements under the Scheme using the Relevant Information, if any.
- 25.3** Each Scheme Creditor will be solely responsible for its own Claim Form.
- 25.4** Where the information on a Claim Form is ambiguous, unclear or insufficient, LBIE may request in writing that the relevant Scheme Creditor provides supplementary information. In the absence of a satisfactory response to such a request within 20 Business Days of its despatch, LBIE may disregard such unclear or ambiguous information or may, acting in a commercially reasonable manner, attribute a clarificatory meaning.

26 Disclosure and confidentiality

- 26.1** Scheme Creditors waive, to the maximum extent permitted by law, any breach of confidentiality arising from the operation of the Scheme and authorise LBIE to disclose any information which LBIE is required to disclose or which LBIE considers to be necessary or desirable to enable the Scheme to be administered effectively or for the purposes of any disclosures required by law, any court or the rules of any regulatory body.

- 26.2** A Scheme Creditor may, by written notice, request that any such disclosure will have references to the identity of that Scheme Creditor deleted and LBIE will, subject to legal or regulatory requirements, comply with such request to the extent that it is **reasonably practicable** to do so and provided that LBIE considers it appropriate. LBIE will be free to disclose information to CAPCO.

27 Warranties by the Scheme Creditor

- 27.1** By submitting a Claim Form, the Scheme Creditor warrants (subject to disclosure as provided in the Scheme) to LBIE, as at the date of submission of its Claim Form, that it:

27.1.1 has a right, free from encumbrances, to make an Asset Claim in respect of an Asset;

27.1.2 has not asserted any Asset Claims, Pre-Administration Client Money Claims, Asset Shortfall Claims or Ascertained Claims that have been transferred to such Scheme Creditor after the Time of Administration;

27.1.3 is not asserting an Asset Claim in respect of any Asset previously received from a third party;

27.1.4 has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of all documents and obligations pursuant to the Scheme;

27.1.5 believes, after making due and careful enquiries, that the information contained in its Claim Form, any notices or statements to be delivered by it pursuant to the Scheme and any further information provided to LBIE in accordance with the Scheme is true, complete, accurate and not misleading;

27.1.6 is not aware, having made due and careful enquiries, of any further liabilities in respect of the Asset which may give rise to an entitlement on the part of LBIE to withhold a Retention Amount and that any previously disclosed liabilities in respect of the Asset have been fully and accurately disclosed;

27.1.7 has the ability, and is permitted pursuant to the applicable laws of the jurisdiction in which that Scheme Creditor is located and its constitutional documents and other agreements, to lawfully accept the delivery of any Distribution made by LBIE in accordance with the Scheme and to give full discharge to LBIE Released Parties for the Assets which have been delivered to such Scheme Creditor as a Distribution; and

27.1.8 is not prohibited from disclosing the information set out in the Claim Form or receiving any Distribution pursuant to the Scheme,

(each a **Warranty**).

- 27.2** Each Scheme Creditor will be deemed to repeat and give in full the Warranties on each **Delivery Date** that each such Scheme Creditor is due to be delivered a Distribution.

- 27.3** Each Scheme Creditor will be deemed to repeat and give in full the Warranty relating to information delivered by it when it provides LBIE with any such information.

- 27.4** Breach of any Warranty may give rise to a liability which may be taken into account when calculating the Non-Financial Contract Liabilities of the Scheme Creditor.

28 Incompletely Documented Agreement

- 28.1** If the relevant terms of a contract cannot be ascertained solely from LBIE's Books and Records (an **Incompletely Documented Agreement**), then LBIE will use its reasonable endeavours to ascertain the terms of such Incompletely Documented Agreement, and, if that Scheme Creditor provides Relevant Information, LBIE and the Scheme Creditor will use their reasonable endeavours to agree the terms which apply to such Incompletely Documented Agreement.
- 28.2** If no, or no further, information is available and provided by the relevant Scheme Creditor or if LBIE and the relevant Scheme Creditor are unable to agree on the terms and conditions that apply to an Incompletely Documented Agreement, then the terms and conditions of such Incompletely Documented Agreement will be determined by LBIE, based on any information it then has in its possession, as supplemented by those terms and conditions which customarily applied to substantially similar contracts which LBIE entered into with other comparable counterparties.

29 Reversal of entries for Failed Trades

Transactions for the purchase, sale or delivery of Securities which have not in fact settled (**Failed Trades**) may be represented in the Books and Records of LBIE as having settled. To address this, any such incorrect entry will be reversed, unless it is related to a **Connected Trade**, in which case it will be replaced with a new entry in LBIE's Books and Records to reflect the status of such Connected Trade without regard to the Failed Trade.

Part 5 – Management of Assets prior to Distribution

30 Corporate Events, Corporate Actions and Derived Assets

- 30.1** LBIE will deal with discretionary events occurring in relation to Securities which are Trust Property (each, a **Corporate Action**). Corporate Actions include a subscription rights issue, a tender offer, a security split, a bonus issue, an exercise of voting rights, an exercise of conversion rights, a merger, an election in relation to dividends and any other analogous or similar action.
- 30.2** If a Corporate Action arises in respect of Trust Property and the matter is either (i) of the type described in 30.7 or (ii) where a Scheme Creditor has notified LBIE in writing of an instruction regarding a Corporate Action, then LBIE will attempt to identify the identity of the relevant Security, the nature of the Corporate Action, the amounts of the relevant Security held, the identity of Scheme Creditors to which such holdings appear to be attributable and the amounts of the relevant Security attributable thereto.
- 30.3** LBIE will be under no obligation to take any steps with regard to any Corporate Action save as provided in 30.
- 30.4** Where 30.2(ii) is applicable LBIE will not take any action in relation to a Corporate Action unless:
- 30.4.1** LBIE has received clear and unambiguous instructions from a Scheme Creditor in relation to such action (**Instructions**);
 - 30.4.2** the relevant Scheme Creditor has agreed to pay a fee (the **Fee**) to LBIE;

- 30.4.3** LBIE considers that there are reasonable grounds to believe that such Scheme Creditor has a beneficial interest in the relevant amount of the Securities (the **Relevant Securities**). Any view as to this matter is without prejudice to any final determination under the Scheme as to which Scheme Creditor is ultimately interested in the Relevant Assets;
- 30.4.4** LBIE is satisfied as to the creditworthiness of the Scheme Creditor in respect of the indemnity referred to in 30.6 or otherwise satisfied that the liabilities under the indemnity are likely to be met; and
- 30.4.5** LBIE has determined that it is reasonably practicable for LBIE to effect the Instructions in the time available.
- 30.5** The Fee referred to above will be US\$3,000 (plus any applicable **VAT**). LBIE reserves the right to increase the Fee if its costs relating to the Instructions will be materially higher than US\$3,000.
- 30.6** Under the Scheme, the relevant Scheme Creditor will be required to:
- 30.6.1** indemnify LBIE and all of the LBIE Released Parties from and against any liabilities which it may incur as a result of attempting to effect the Instructions and waive any right of action it may have against LBIE Released Parties as a result of the attempting to effect the Instruction;
- 30.6.2** acknowledge and agree, amongst other things, that LBIE will be entitled to deal with any proceeds realised as a result of carrying out the Instructions (the **Realisation**) as LBIE sees fit, that by carrying out the Instructions LBIE does not accept that the relevant Scheme Creditor has any entitlement to the Realisation or the Securities, that the Fee will be payable without set-off, deduction, counterclaim or the exercise of any liens and that the LBIE Released Parties will not be responsible for any failure on the part of any person to comply with any instruction LBIE may give to them contemplated in the Instructions; and
- 30.6.3** if the Securities are held through a custodian or depository over which LBIE has no or restricted access, it may not be possible to effect the Instruction or to ascertain if the Instruction has been effected.
- 30.7** If no Instructions have been received and the relevant Corporate Action is:
- 30.7.1** the grant of tradable subscription rights to holders of the Relevant Securities, then, if not otherwise automatically sold in the relevant market, such rights will be sold; or
- 30.7.2** the grant of bonus rights to holders of the Relevant Securities which require no payment to be made, then such rights will be taken up.
- 30.8** LBIE will not be required to take any action regarding Trust Property in respect of Corporate Actions to the extent that it requires a payment to be made by LBIE.
- 30.9** If any Failed Trades are outstanding in relation to the relevant Trust Property, no action will be taken in respect of any Corporate Action unless each party to such Failed Trade gives its written consent to the proposed Corporate Action, waives any right of action against LBIE and the LBIE Released Parties arising out of, in connection with or as a result of the carrying out of the Instructions.

- 30.10** If a Corporate Action or a **Corporate Event** occurs, then, to the extent that any Derived Assets are actually received by LBIE as a result, such Derived Assets will (unless the Court otherwise orders) be accounted for as part of the Trust Property from which they are derived.
- 30.11** A Corporate Event includes a payment of a dividend, coupon, redemption amount, exchange or analogous event.

31 Undertakings by LBIE with regard to Trust Property

- 31.1** LBIE will act as fiduciary in respect of Trust Property and, consistent with that standard of care, will not:
- 31.1.1** take, or (to the extent that in its capacity as fiduciary it has power to control) permit another person to take, any action which would result in any Distributable Trust Property ceasing to be Distributable Trust Property; or
- 31.1.2** omit to take, or (to the extent that in its capacity as fiduciary it has power to control) permit another person to omit to take, any action which would prevent Trust Property from becoming Distributable Trust Property.

Save as otherwise provided under the Scheme, nothing under the Scheme will impose on LBIE any more extensive obligations than its obligations prior to the Administration Date. In any case, LBIE will not be required to take any step that would result in expense or liability to LBIE for which it considers it will not be indemnified.

- 31.2** LBIE, to the extent that it is able to do so in its capacity as trustee, will use all reasonable endeavours to gather in Trust Property and to remove any impediment on Assets being Distributable Trust Property. LBIE will not be required to transfer any asset to which it is absolutely entitled nor to expend any amount on discharging any liability unless and to the extent that it will be indemnified for the expense of so doing or where the net value of its assets will be increased as a result.
- 31.3** From the Effective Date:
- 31.3.1** LBIE will not appropriate for itself any Trust Property save in accordance with and to the extent of its rights to appropriate Assets or as otherwise permitted by the Scheme; and
- 31.3.2** LBIE will not make any calls for margin on any Scheme Creditor.

Part 6 – Asset valuations

32 Asset Valuation Methodology

- 32.1** The value of any Security or the obligation to deliver Securities will be an amount in US dollars determined by LBIE using a specified valuation methodology (the **Asset Valuation Methodology**). The value will be:
- 32.1.1** if LBIE has sold Assets of that type, the proceeds of sale; or
- 32.1.2** otherwise, the mid-market price for that Asset that (i) is reported by a recognised pricing source, (ii) failing which, is the subject of firm quotations or (iii) failing which, is the subject of indicative quotations or, if one or more bid prices and offer prices are both provided, the arithmetic mean of the bid prices and the offer prices; or

32.1.3 otherwise, the fair market value (which will be based on mid-market pricing and may be zero) for the Asset, as determined by LBIE. LBIE may take into account any Relevant Information, including, without limitation, one or more of the following types of information:

- (i) any bid or offer prices, customary bid-offer spreads and any historical trading prices in respect of Assets which are comparable as published by any exchange or quotation system or other generally recognised price source;
- (ii) market data in respect of the relevant market supplied by one or more third parties or derived from internal sources, including, without limitation, relevant rates, prices, yields, yield curves, volatilities, spreads and correlations; and
- (iii) the results of the operation of any models or other pricing methodologies, including manual or automated calculations performed by LBIE or the proprietary pricing models of, or information supplied by, one or more third parties, selected by LBIE,

provided that in all cases:

- (a) LBIE has no obligation to solicit or obtain a specific number of quotations, values or prices and may seek any number of quotations, values or prices that it considers appropriate;
- (b) LBIE may discard quotations, values or prices that it has obtained where it determines this to be appropriate in the circumstances, in particular, where LBIE believes that the discarded quotations, values or prices would have a distorting effect on any arithmetic mean;
- (c) the time as at which quotations are to be obtained will be selected by LBIE;
- (d) if only bid quotations, values or prices or only offer quotations, values or prices are made available, then LBIE may determine the mid-market value by reference to the historical or customary bid-offer spreads for the Asset or comparable Assets; and
- (e) in any event, if LBIE determines that the value that would otherwise have been determined (based on sale price or by reference to a reported price or mid-market prices based on quotes) does not represent the fair market value of the Asset, then LBIE may determine the value based on 32.1.3.

32.2 LBIE may adjust any quotation, value or price to reflect the fact that the amount of the Asset being valued is unusually large or small for such Asset in the relevant market.

32.3 LBIE's determinations, valuations and calculations of value will be performed in good faith in a commercially reasonable manner.

Part 7 – Calculation of Net Contractual Position

33 Financial Contract Valuation Methodologies

- 33.1** As described in 9.7, a Close-Out Amount in respect of each Financial Contract between LBIE and a Scheme Creditor will be determined in accordance with the applicable Financial Contract Valuation Methodology.
- 33.2** The determination of the Close-Out Amount will be made by the person described under the Scheme as the **Determining Party**. In the case where the Contractual Valuation Methodology is used, the Determining Party will generally be the party entitled or required under the relevant provisions of the Financial Contract to determine the Close-Out Amount. In the case where the Agreed Valuation Methodology or the Fallback Valuation Methodology is used, LBIE will be the Determining Party.
- 33.3** The Contractual Valuation Methodology follows the valuation provisions of the relevant Financial Contract as modified by the Overriding Valuation Provisions. Where the Determining Party is the Scheme Creditor, the determination of the Close-Out Amount will be evidenced by a statement (the **Valuation Statement**) showing the calculation in reasonable detail.
- 33.4** The Agreed Valuation Methodology applies where LBIE is the Determining Party under the **Contractual Valuation Provisions** or it is not reasonably practicable to use the Contractual Valuation Provisions. In this case, a methodology will be agreed between LBIE and the Scheme Creditor.
- 33.5** The Fallback Valuation Methodology will apply if:
- 33.5.1** a Financial Contract does not contain any Contractual Valuation Provisions;
 - 33.5.2** the relevant terms of a Financial Contract cannot be ascertained or LBIE determines it is not responsibly practicable to amend them; or
 - 33.5.3** the Agreed Valuation Methodology applies but the parties are unable to agree an Agreed Valuation Methodology.
- 33.6** The Fallback Valuation Methodology is based upon the **Mid-Market Value**; less
- 33.6.1** the **Unpaid Amounts** owing to the Scheme Creditor; plus
 - 33.6.2** the Unpaid Amounts owing to LBIE.
- 33.7** Mid-Market Value is the arithmetic mean of:
- 33.7.1** an amount, if any, that would be paid by or to LBIE in consideration for the entry into of a similar transaction to the Financial Contract; and
 - 33.7.2** an amount, if any, that would be paid by or to the Scheme Creditor for the entry into such a similar transaction,
- provided that, for the purpose of determining the Mid-Market Value, both LBIE and the Scheme Creditor will be assumed to have a prime credit quality.

- 33.8** Unpaid Amounts owing to any party means the aggregate of:
- 33.8.1** any amounts that became payable (or that would have become payable but for any Flawed Asset Provision) to such party under the terms of the Financial Contract and which remain unpaid; and
 - 33.8.2** for each obligation which was (or would have been but for any Flawed Asset Provision) required to be settled by delivery of assets (the **Unpaid Amount Deliverables**) to such party and which has not been so settled an amount equal to the value of such Unpaid Amount Deliverables.
- 33.9** A diagram representing the valuation methodologies and the rules for deciding who acts as the Determining Party is attached at Appendix 4.
- 33.10** The determination of the Net Contractual Position by LBIE in respect of a Scheme Creditor will be evidenced by a statement (the **Net Contractual Position Statement**) showing the calculation in reasonable detail.
- 33.11** LBIE may take no action to recover any Net Financial Liability save as provided for by Appropriation under the Scheme until the earlier of (i) such time as no further Distributions are capable of being made to that Scheme Creditor under the Scheme; and (ii) the Termination Date.
- 34 Interest**
- 34.1** Interest will accrue on the outstanding **Gross Uncollateralised Liability** on a daily basis at the **Applicable Rate** from the Administration Date.
- 34.2** The Gross Uncollateralised Liability of a Scheme Creditor is (i) its Net Financial Liability minus (ii) the sum of (a) its entitlement to Pre-Administration Client Money in respect of a Collateralisation Election and (b) the total amount of Deferral Cash Amounts that it has paid to LBIE in respect of an Appropriation Deferral Election.
- 34.3** The Applicable Rate means a simple rate of interest equal to the lesser of: (i) **USD-LIBOR** plus 1 per cent.; or (ii) the highest rate of interest applicable to any sum due from that Scheme Creditor to LBIE in any Financial Contract.
- 34.4** No interest will accrue on any Net Financial Claim, save to the extent provided in Rule 2.88 of the Insolvency Rules.

Part 8 – Allocation, Retention, Appropriation and Distribution of Assets

35 Allocation

- 35.1** LBIE will from time to time identify Assets that comprise Distributable Trust Property for each Asset Pool. The process of allocating identified Distributable Trust Property towards meeting the Asset Claims of a Scheme Creditor is called Allocation. LBIE will determine the Allocation of Distributable Trust Property on a Stock Line by Stock Line basis. Stock Lines will be chosen by LBIE in its absolute discretion in such order as it sees fit.
- 35.2** LBIE may make interim Allocations. If LBIE determines that it does not expect to identify any further Distributable Trust Property in respect of an Asset Pool, it will make a final Allocation.

35.3 A diagram representing this concept is attached at Appendix 5.

36 Non-Financial Contract Liabilities

Non-Financial Contract Liabilities of a Scheme Creditor are all its outstanding **Liabilities** to LBIE, whether arising under the Scheme or otherwise, but excluding its Net Financial Liability and its liability in respect of the Costs Amount and **Unfunded Retention Amount**. For the purposes of the Scheme, they will be calculated in US dollars and, if arising in another currency, converted at the rate of exchange on the day they became ascertained. This notional conversion will not prejudice LBIE's rights to take any action outside of this Scheme in respect of any Non-Financial Contract Liabilities denominated in their original currency.

37 Retention Amounts

37.1 Where LBIE is under a fiduciary obligation to account to a person (a Retention Creditor) out of Trust Property for the liabilities of a Scheme Creditor to that Retention Creditor and LBIE is aware of such fact and of a claim (the Retention Claim) of a Retention Creditor prior to making any Distribution, then LBIE will be entitled to retain from that Distribution an amount (the Retention Amount) in respect of that Retention Claim.

37.2 The Retention Amount will be the amount (if any) of the Retention Claim determined by a court (**Judgment Amount**) and/or the amount (if any) agreed between the Scheme Creditor and the Retention Creditor (**Agreed Amount**) and/or the amount (if any) alleged by the Retention Creditor to be the Retention Claim (**Alleged Amount**).

37.3 The aggregate of the Retention Amounts will be a Distribution Liability. Whenever a Distribution is made, it will be applied in accordance with the applicable waterfall provisions towards discharging any Judgment Amounts or Agreed Amounts. Distribution Assets will be Appropriated to fund a **Funded Retention Amount**, which is a notional ledger. Amounts credited to the ledger will be available for discharging Judgment Amounts and Agreed Amounts provided that there is an adequate reserve for Alleged Amounts.

37.4 All Securities retained in respect of Retention Amounts will be liquidated and the proceeds will be held in US dollars or, at LBIE's discretion, in another currency.

37.5 Upon the Termination Date, LBIE will pay to the Scheme Creditor any Retention Amounts that have not been previously paid to Retention Creditors. No interest will be paid by LBIE on any Retention Amounts.

37.6 LBIE will not be responsible to the Scheme Creditors for the application by the Retention Creditors of any payments made to them by LBIE.

37.7 Whether or not any Retention Amount is retained, each Scheme Creditor will remain obliged to the Retention Creditors and will take any Distribution made by LBIE to it subject to any equities which may exist in favour of the Retention Creditor or any other third party.

38 Appropriation and Distribution

38.1 Appropriations and Distributions will be determined in accordance with the waterfall provision that applies to each of the following circumstances:

38.1.1 an Allocation to a Scheme Creditor with a Net Financial Claim;

- 38.1.2 an interim Allocation to a Scheme Creditor with a Net Financial Liability;
 - 38.1.3 a last Allocation of an Asset for a Stock Line to a Scheme Creditor with a Net Financial Liability; and
 - 38.1.4 a last allocation of Pre-Administration Client Money to a Scheme Creditor with a Net Financial Liability (only if the Collateralisation Election is made).
- 38.2 Under each of the waterfall provisions, certain applicable Distribution Assets will be Appropriated to reduce or discharge certain applicable Distribution Liabilities of the Scheme Creditor.
- 38.3 A Scheme Creditor may make a Collateralisation Election and/or an Appropriation Deferral Election. Each such election will have certain effects on the applicability of certain Distribution Assets and/or certain Distribution Liabilities in the waterfall provisions.
- 38.4 A Scheme Creditor can reduce its Net Financial Liability and/or other Distribution Liabilities in ways other than by the exercise of LBIE of its rights to appropriate against Distribution Assets. These other ways include making a payment to LBIE or instructing LBIE to apply its collateral amount in discharge of its Collateralised Net Financial Liability (if it has made a Collateralisation Election).
- 38.5 Appropriation of Distribution Assets has specific legal effects depending on the type of Distribution Asset, such that:
- 38.5.1 for Securities, it constitutes a full title transfer to LBIE, free and clear of any encumbrances, and extinguishes any equitable interest of the relevant Scheme Creditor in such Securities;
 - 38.5.2 for any Money or any cash amounts, it constitutes an entitlement of LBIE to retain such amount absolutely for its own account without any obligation to account for it to the Scheme Creditor;
 - 38.5.3 for any Asset Shortfall Claim, it constitutes a reduction of the Ascertained Claim of the relevant Scheme Creditor; and
 - 38.5.4 for any shortfall in a Pre-Administration Client Money Claim, it constitutes a reduction of the Ascertained Claim of the relevant Scheme Creditor.
- 38.6 The reduction of Distribution Liabilities has specific legal effects, namely that it discharges the obligation of the Scheme Creditor to pay or account to LBIE such amount of liability that has been reduced.
- 38.7 The operation of the Appropriation and Distribution process and the waterfall provisions are described more fully in Appendix 6.
- 38.8 LBIE will, as soon as reasonably practicable following the determination of a Distribution or Appropriation and in any case within five Business Days of the relevant **Distribution Value Date** give a notice to the relevant Scheme Creditor (a **Distribution and Appropriation Notice**).
- 38.9 A Distribution and Appropriation Notice will contain certain information, including a list of relevant Distribution Assets and Distribution Liabilities and their **Value** as at the relevant Distribution Value Date, the amount and value of any Distribution Asset which LBIE intends to appropriate to reduce the Distribution Liabilities, the number or amount of any Distribution Asset which LBIE intends to deliver as a Distribution to such Scheme Creditor

(if any), whether an Appropriation Deferral Election (and the relevant Deferral Cash Amount) or a Collateralisation Election may be made and the Delivery Date (if any Distribution falls due to be made to the Scheme Creditor).

39 Delivery mechanics

- 39.1** The Scheme will contain delivery mechanics to effect Distributions.
- 39.2** If a Scheme Creditor fails to deliver appropriate notifications to enable delivery within 12 months of the proposed Distribution, then it will forfeit its rights to receive the Distribution.
- 39.3** If, after having made all Distributions in respect of any particular type of Asset which are required to be made under this Scheme, there remains Distributable Trust Property of that type which could still be available for delivery, then LBIE will retain such Assets.

40 No Double Counting

The Scheme does not compromise proprietary claims to assets held by LBIE which are not Trust Property. This includes assets wrongfully Rehypothecated which are still held by LBIE on an unsegregated basis. Non-Scheme Assets will be disregarded in calculating Allocations, Asset Claims and Asset Shortfall Claims. However, the monetary value of a claim in respect of a Non-Scheme Asset may be taken into account in calculating a Close-Out Amount under a Financial Contract. If this is the case and a Scheme Creditor has received a benefit in respect of the amount so claimed, then the Scheme Creditor must account to LBIE for any recovery it makes of such Non-Scheme Asset.

Part 9 – Other terms

41 Currency

The Scheme will operate in US dollars. All calculations and valuations between the Scheme Creditor and LBIE under it will be made in US dollars. If any amount is determined in currency other than US dollars, such amount will be converted to US dollars at the exchange rate on the date of valuation or when such amount falls to be determined. Where LBIE has converted Money into a different currency from that of receipt (the Initial Conversion), the claim will be converted into that different currency at the actual rate of exchange used to effect such Initial Conversion.

42 Tax

- 42.1** LBIE may withhold any Tax payable or required to be withheld or accounted for in relation to either any Appropriation, Distribution or any other payment which, as a result of the implementation and operation of the Scheme, LBIE or the Scheme Supervisors are treated as making for tax purposes.
- 42.2** LBIE and the Scheme Supervisors may also make any disclosures or reports to any Tax Authorities in respect of any matters which are the subject of, or arise as a result of the implementation and operation of, the Scheme.
- 42.3** Neither LBIE nor the Scheme Supervisors are obliged to provide any Tax certificates in respect of any dividends or other payments made or received in respect of Securities forming the basis of a Scheme Creditor's Asset Claim.

42.4 Any stamp duty, stamp duty reserve tax, transfer taxes, VAT or other Tax liabilities or costs arising out of the implementation and operation of the Scheme (including, but not limited to, any Tax costs arising from the making of the Distributions or Appropriations in cash or kind) will be borne by the Scheme Creditors.

43 Costs

43.1 LBIE will withhold for its own benefit from Distributions an amount in respect of the costs associated with the conduct and operation of the Scheme and the management of customer property (the Costs Amount). The Costs Amount is a maximum of:

43.1.1 0.75 per cent. of the value of the Asset Claims of Scheme Creditors whose Asset Claims are for Custody Securities and who do not have any Net Financial Liability; or

43.1.2 1.00 per cent. of the value of the Asset Claims of any other Scheme Creditors.

The Costs Amount will not exceed US\$2.5 million for any Scheme Creditor. If the value of the Scheme Creditor's Asset Claim is less than US\$5 million, the Costs Amount will be zero.

43.2 On the determination of the final Distribution and Appropriation to the Scheme Creditor, LBIE will pay to that Scheme Creditor the **Costs Rebate Amount**.

43.3 The Costs Rebate Amount is the excess (if any) of:

43.3.1 the Costs Amount; over

43.3.2 0.75 per cent. or 1 per cent. (as appropriate) of the sum of:

(i) the value of each Allocation to such Scheme Creditor; and

(ii) the value of any Distribution directly to that Scheme Creditor by an Intermediary (an Intermediary Distribution) or retained by that Intermediary and transferred to LBIE, in or towards satisfaction of that Scheme Creditor's Distribution Liabilities (an Intermediary Retention),

or, if it is less than a de minimis amount, zero.

44 Dispute Resolution Mechanism

44.1 The Dispute Resolution Mechanism exclusively governs the resolution of any and all disputes between LBIE and Scheme Creditors relating to certain notices issued by LBIE under the Scheme. These are:

44.1.1 a Net Contractual Position Statement;

44.1.2 a **Claim Amount Notice**;

44.1.3 a Distribution and Appropriation Notice; and

44.1.4 an **Intermediary Distribution Value Notice**.

44.2 The Dispute Resolution Mechanism does not prevent the parties from entering into a compromise, arrangement or settlement.

44.3 The following procedure will apply if a Scheme Creditor wishes to raise a Dispute:

- 44.3.1 If a Scheme Creditor wishes to raise a Dispute, it must notify LBIE in a specified form within a specified time. The notice must include reasonable details of the nature and basis of the challenge. Where appropriate, details of an agent to accept service of process in England and Wales must be included. If a Scheme Creditor fails to serve such notice within the time period specified, then the Scheme Creditor will be deemed to have accepted as final and binding the relevant notice issued by LBIE.
- 44.3.2 There will be a period of 20 Business Days during which the parties will endeavour to resolve the Dispute amicably.
- 44.3.3 If the issue cannot be resolved amicably, then the Scheme Supervisors will determine in good faith but otherwise in their absolute discretion whether the issue should be referred for determination to the **Valuation Expert**, to the **Scheme Adjudicator** or to the Court.
- 44.3.4 If the Scheme Creditor disagrees with the Scheme Supervisors' decision to have the Dispute resolved by the Valuation Expert, it may contest the decision, in which case the Scheme Supervisors will, in good faith but otherwise in their absolute discretion, refer the issue to the Scheme Adjudicator, or to the Court.
- 44.3.5 If a disputing party disagrees with the Scheme Supervisors' decision to have the issue resolved by the Scheme Adjudicator, the issue will be resolved by the Court.
- 44.3.6 No amount awarded may exceed the amount of a Scheme Creditor's claim under the Scheme.
- 44.4 The following terms apply to the Valuation Expert and Scheme Adjudicator:
 - 44.4.1 Matters relating to any valuation where there are no related questions of law to be determined will generally be referred to the Valuation Expert. He acts as an expert and not as an arbitrator.
 - 44.4.2 The Valuation Expert will be an individual who has at least five years' experience in dealing with financial products of the relevant type, be duly qualified to discharge his functions and powers under the Scheme, possess the appropriate expertise having regard to the nature of the matter and have no conflicts of interest.
 - 44.4.3 The Scheme Adjudicator will be an individual who has been appointed a Queen's Counsel for at least five years, be duly qualified to discharge his functions and powers under the Scheme, possess the appropriate expertise having regard to the nature of the matter and have no conflicts of interest. He acts as an expert and not as an arbitrator.
 - 44.4.4 The Scheme Supervisors will provide the Scheme Creditor with the names of two candidates to act as Scheme Adjudicator or Valuation Expert, from which the Scheme Creditor will choose its preferred individual.
 - 44.4.5 The Scheme Creditor will provide a deposit on account of fees of the lesser of (i) US\$50,000; and (ii) subject to a minimum of US\$25,000, 10 per cent. of the value of the Scheme Creditor's Asset Claim.
 - 44.4.6 In the case of the Valuation Expert, the parties will provide him with details of their respective valuations and assumptions behind those valuations, together with any additional documentation or information that they wish to be taken into account by

the Valuation Expert in reaching his decision. The disputing parties may (but are not obliged to) submit written representations to the Valuation Expert.

- 44.4.7** In the case of the Scheme Adjudicator, the parties will present their cases in writing to him within a prescribed period.
- 44.4.8** The Valuation Expert or Scheme Adjudicator will (subject to certain limitations as to timing) decide the information he requires and the procedure and timetable he wishes to adopt. Where a Scheme Creditor fails to respond in a timely manner to requests for information, it will be deemed to have abandoned the Dispute. The Valuation Expert or Scheme Adjudicator may require the parties to appear before him.
- 44.4.9** The Valuation Expert or Scheme Adjudicator will, in his absolute discretion, consider such matters as he thinks fit in making his determination. He will be entitled to consult with such advisers, including legal advisers and experts, and to take into account such information or evidence obtained from these sources, as he may deem appropriate.
- 44.4.10** If the Valuation Expert considers that the issue gives rise to issues of law or other matters outside his area of expertise, he will notify the parties that he no longer considers himself capable of determining the matter and the Scheme Supervisors will determine in good faith but otherwise in their absolute discretion whether the matter should be referred to the Scheme Adjudicator or to the Court.
- 44.4.11** Upon reaching a decision, the Valuation Expert or Scheme Adjudicator will inform the parties in writing of his decision. He will not be obliged to give reasons for his decision.
- 44.5** Where the Court is required to determine a Dispute, proceedings must be commenced within a prescribed period of the Dispute arising. If the Scheme Creditor fails to do so, it will be deemed to have abandoned the Dispute.
- 44.6** The following terms apply to appeals, costs, indemnities and insurance in connection with the Dispute Resolution Mechanism:
 - 44.6.1** The decision of the Valuation Expert or the Scheme Adjudicator will, insofar as the law allows, be final and binding.
 - 44.6.2** The Valuation Expert or the Scheme Adjudicator will be remunerated at such reasonable rate as may be agreed by the Scheme Supervisors and advised to the Scheme Committee, and will be reimbursed his reasonable costs and expenses.
 - 44.6.3** Any remuneration, costs, charges and expenses incurred by the Valuation Expert or the Scheme Adjudicator or by the parties themselves will be apportioned between the parties in such proportions as the Valuation Expert or Scheme Adjudicator may determine.
 - 44.6.4** If a Scheme Creditor defaults in its liability under 44.6.3, then that Scheme Creditor's share of the Valuation Expert's or Scheme Adjudicator's remuneration, costs, charges and expenses (plus any applicable VAT) will be deducted from the deposit paid by that Scheme Creditor and/or taken into account when calculating the Scheme Creditor's Distribution.

44.6.5 LBIE will provide an indemnity to the Valuation Expert or the Scheme Adjudicator. The Scheme Supervisors may obtain insurance against its liability to indemnify.

44.7 Nothing under the Scheme will prevent the Court from having jurisdiction to hear applications from LBIE, the Administrators, the Scheme Supervisors or any Scheme Creditor with respect to the operation or implementation of the Scheme, to the extent that such matters fall outside the scope of the Dispute Resolution Mechanism. However, save for those disputes that are subject to the Dispute Resolution Mechanism, LBIE reserves its right to rely on the statutory moratorium on legal proceedings.

44.8 A diagram representing the Dispute Resolution Mechanism is attached at Appendix 7.

45 Scheme Supervisors

45.1 The primary role of the Scheme Supervisors will be to make the determinations and calculations to be made by LBIE under the Scheme.

45.2 The Scheme Supervisors will be individuals qualified to act as an insolvency practitioner within the meaning of Section 390 of the Insolvency Act. The initial Scheme Supervisors will be Steven Anthony Pearson, Anthony Victor Lomas and Anthony John Kett.

45.3 The office of a Scheme Supervisor will be vacated if the office holder dies, becomes bankrupt or mentally disordered, is convicted of an indictable offence, resigns, is no longer a licensed insolvency practitioner or no longer has direct or delegated responsibility for the conduct of the affairs of LBIE. In the event of a vacancy, the remaining Scheme Supervisors, following consultation with the Scheme Committee, will forthwith appoint a replacement. If there are no Scheme Supervisors, the Administrators will, as soon as reasonably practicable, appoint a replacement. Where there is more than one Scheme Supervisor, their functions and powers may be performed and exercised jointly or severally.

45.4 In exercising their powers under the Scheme, the Scheme Supervisors will act as agents of LBIE and will be indemnified by LBIE save for any wilful default, fraud, dishonesty or negligence on the part of the Scheme Supervisors.

45.5 The Administrators will retain custody and control of all Trust Property which is under its custody and control from time to time and will make Trust Property available to LBIE, to the extent it is Distributable Trust Property, upon a Distribution of that Distributable Trust Property, to enable LBIE to implement the Scheme.

45.6 The Scheme Supervisors will have the power to manage and control the business and affairs of LBIE and to give LBIE directions in respect of Trust Property for the purposes of implementing the Scheme, together with the powers specifically conferred on them by or reasonably incidental to the Scheme in order to facilitate its implementation. They will have certain additional powers, to the extent that such powers are necessary for or reasonably incidental to the implementation of the Scheme.

45.7 No Scheme Creditor will be entitled to challenge the validity of any act done or omitted to be done in good faith by the Scheme Supervisors in pursuance of their or his functions or duties under the Scheme and the Scheme Supervisors will be liable for any loss whatsoever and howsoever arising unless such loss is attributable to their wilful default, fraud, dishonesty or negligence.

45.8 The Scheme Supervisors have agreed to carry out their roles and functions and exercise their powers as provided for under the Scheme as agents for and on behalf of LBIE and

neither they, their firm, partners, employees, agents, advisers or representatives will incur any personal liability whatsoever in respect of any of the obligations undertaken by LBIE; or in respect of any failure on the part of LBIE to observe, perform or comply with any such obligations; or under or in relation to any associated arrangements or negotiations; or under any document or assurance made pursuant to the Scheme.

46 Scheme Committee

- 46.1** On the Effective Date, the Scheme Supervisors will appoint the Scheme Committee, which will consist of not less than three and not more than five persons (referred to in the Scheme as **Committee Members**), each of whom will be creditors of LBIE, of which at least a majority must be Scheme Creditors, and each of whom has indicated that it is willing to act as a Committee Member. The Scheme Committee will represent the interests of Scheme Creditors and the unsecured creditors of LBIE.
- 46.2** Each member of the Scheme Committee which is a body corporate or a partnership may, by notice in writing to the Scheme Committee and the Scheme Supervisors, appoint a director, senior executive, partner or professional adviser as its nominated representative to represent it. There will be provision for alternates.
- 46.3** If any person ceases to be a member of the Scheme Committee, replacements may be nominated by the Scheme Supervisors and approved by the remaining Committee Members.
- 46.4** The Scheme Committee may, with the agreement of the Scheme Supervisors, resolve by a majority to appoint any eligible person that is a creditor of LBIE to be a Committee Member, either to fill a vacancy or as an additional Committee Member.
- 46.5** The Scheme Committee may, with the agreement of the Scheme Supervisors, resolve by a majority to remove any member of the Scheme Committee from office.
- 46.6** A person will immediately cease to be a member of the Scheme Committee if he ceases to be, or is found never to have been, a creditor of LBIE or a Scheme Creditor, as the case may be; if he resigns; (in the case of an individual) if he dies or becomes bankrupt, mentally disordered or becomes disqualified from acting as a director under the laws of England and Wales; if he fails to attend three consecutive meetings of the Scheme Committee unless the Scheme Committee resolves that he continue in office; or if he is removed from office.
- 46.7** The Scheme will set out procedural rules governing the conduct of the Scheme Committee. Each member of the Scheme Committee will have one vote and, except as otherwise provided under the Scheme, matters arising at a meeting will be decided by a majority of votes cast at the meeting.
- 46.8** The Scheme Committee will meet as necessary and at least once in each six-month period for the purpose of receiving a report from the Scheme Supervisors on the progress of the Scheme. The Scheme Committee will hold such further meetings as it will consider desirable for the purpose of performing its functions under the Scheme.
- 46.9** The Scheme Supervisors will provide to the Scheme Committee: (i) periodic reports of their progress on a six-monthly basis; and (ii) all comments (including written comments and summaries of oral comments) received from the **FSA** in relation to the Scheme as soon as reasonably practicable following receipt by the Scheme Supervisors.

- 46.10** The Scheme Supervisors will consult the Scheme Committee in relation to any proposed change to or replacement of any of the persons acting as Scheme Supervisors, and the Scheme Supervisors may (but will not be obliged to) seek the views of the Scheme Committee in respect of any other matters of conduct of the Scheme.
- 46.11** The Scheme Committee will have such other powers and functions as are expressly provided to be performed by it under the Scheme.
- 46.12** Each member of the Scheme Committee will use all reasonable endeavours to avoid conflicts of interests in performing its duties under the Scheme.
- 46.13** Each Committee Member will preserve the confidentiality of all information concerning LBIE and the operation of the Scheme obtained in its capacity as a Committee Member, and will use such information only for the purpose of performing its responsibilities and functions under the Scheme, unless in each case it has obtained the prior written approval of the Scheme Supervisors or it has obtained such information in any other capacity, or unless the law or any regulatory authority requires otherwise.
- 46.14** No Scheme Creditor will be entitled to challenge the validity of any act done or omitted to be done in good faith and with due care by any member of the Scheme Committee, in accordance with and to implement the terms of the Scheme or the exercise by any such person in good faith and with due care of any power conferred upon it or him for the purposes of the Scheme, if exercised in accordance with and to implement the terms of the Scheme, and no such person will be liable for any loss unless such loss is attributable to its or his own wilful default, fraud, dishonesty or negligence.
- 46.15** Each member of the Scheme Committee will be entitled to an indemnity from LBIE absent wilful default, fraud, dishonesty or negligence. LBIE may purchase and maintain insurance against any liability in respect of which it would be obliged to indemnify a Committee Member.
- 46.16** Each member of the Scheme Committee will be entitled to be reimbursed by LBIE for their reasonable expenses of attending meetings of the Scheme Committee, provided that such meetings are held in London or in such other place as the Scheme Supervisors may from time to time agree.
- 46.17** The Scheme will provide a procedure for reconstituting the Scheme Committee if it has too few or no members.

47 Scheme Creditors to co-operate

The Scheme Creditors will co-operate with and render such assistance to the Scheme Supervisors and LBIE as they may reasonably require and will provide such assistance as the Scheme Supervisors and LBIE may reasonably require in connection with gathering in any Trust Property, removing any impediments upon assets being Distributable Trust Property or enforcing obligations owed to LBIE.

48 Modifications

The Scheme Committee will have the power, on behalf of all Scheme Creditors, to approve minor or procedural modifications to the operation of the Scheme proposed by the Scheme Supervisors for the purposes of better achieving the objectives of the Scheme and which

do not adversely affect the rights of Scheme Creditors. The Scheme Supervisors will inform the Scheme Creditors of any modification.

49 Conflict

49.1 In the event of a conflict or inconsistency between the provisions of the Scheme, the 2006 Act, the Insolvency Act, the Insolvency Rules or the FSA Rules, for the purposes of the Scheme, and to the extent such acts and/or rules permit, the terms of the Scheme will prevail.

49.2 If LBIE is wound up (a **Liquidation Event**), the Scheme will not terminate and will continue in full force and effect. In the event of any inconsistency between the terms of the Scheme and the Insolvency Act or the Insolvency Rules as they apply to LBIE following a Liquidation Event, for the purposes of the Scheme, the terms of the Scheme will prevail.

50 Act in good faith

All actions and determinations by LBIE, the Scheme Supervisors or the Scheme Committee under the Scheme will be made in good faith. Subject to any applicable provision of the Insolvency Act, no Scheme Creditor will be entitled to challenge the validity of any act done or omitted to be done in good faith by LBIE and it will not be liable for any loss whatsoever and howsoever arising unless such loss is attributable to wilful default, fraud, dishonesty or negligence.

51 Modification of foreign law contracts

Where the Scheme purports to modify any contract which is governed by a law other than English law, the modification will be effective to the maximum extent permitted under the proper law of the contract and the parties will use all reasonable endeavours to make such modifications effective to the fullest extent possible under such governing law.

52 Notices

52.1 The Scheme will contain terms regarding the giving of notices and communications made under it.

52.2 The Scheme will also provide for the operation of electronic notices through a Scheme Creditor internet portal which will be a secure electronic mode of communication and which will include an electronic mail facility.

53 General notifications and advertisements

53.1 The Scheme Supervisors and LBIE may also, in their absolute discretion, publish any information in respect of the Scheme and any other notice, communication or document required to be or capable of being given or sent under the Scheme on LBIE's page on the website of PricewaterhouseCoopers LLP.

53.2 Any advertisements by LBIE in respect of the Scheme will be placed in at least the following website and newspapers:

53.2.1 LBIE's page on the PricewaterhouseCoopers LLP website
(http://www.pwc.co.uk/eng/issues/lehman_updates.html);

53.2.2 the *Financial Times* (United Kingdom and international editions); and

53.2.3 *The Wall Street Journal* (European and US editions).

54 Third-party rights

Nothing under the Scheme will give any person any enforceable third-party rights under the Contracts (Rights of Third Parties) Act 1999.

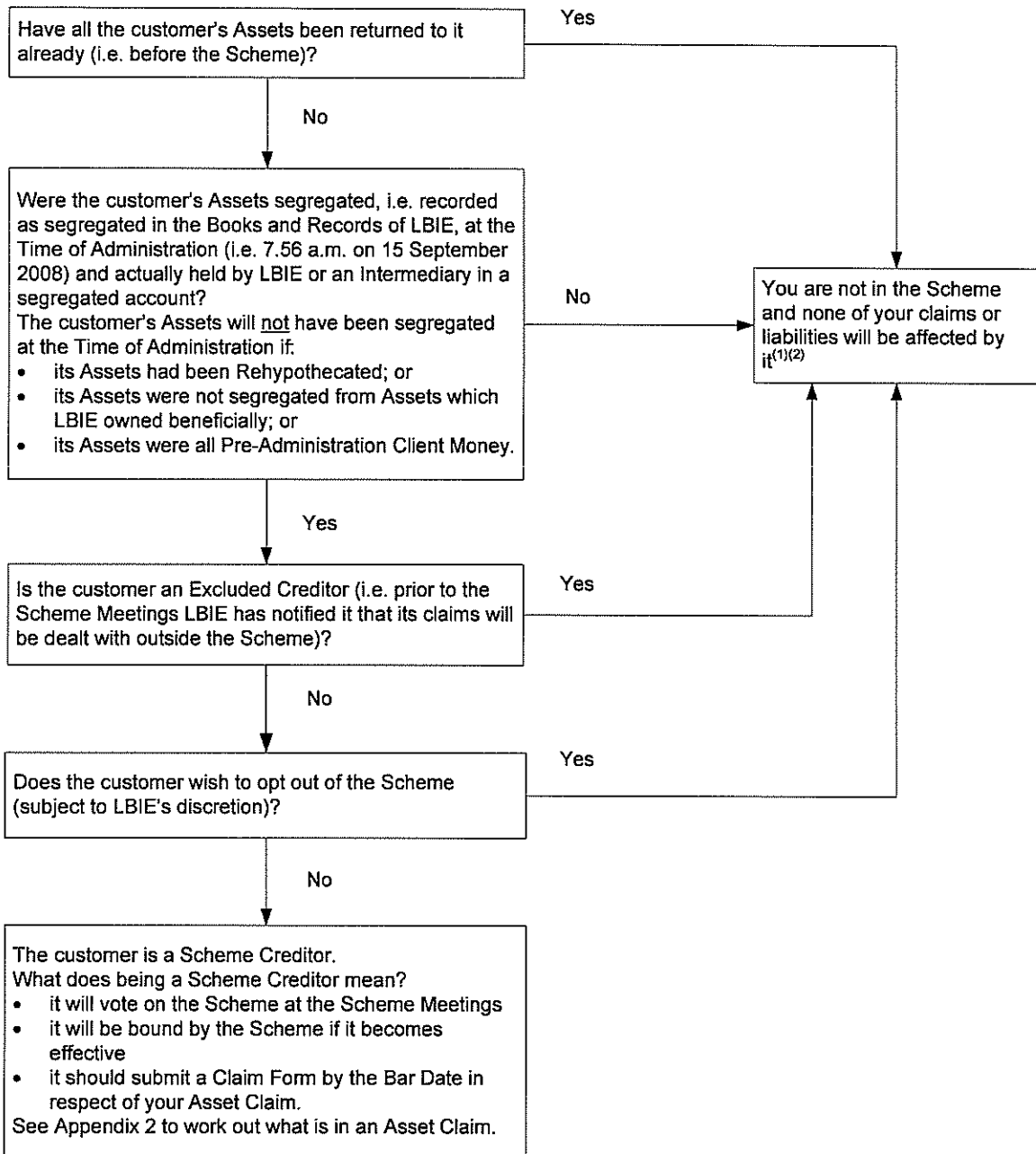
55 Governing law and jurisdiction

The Scheme will be governed by, and construed in accordance with, English law and the parties will be subject to the exclusive jurisdiction of the courts of England in respect of the Scheme. The Scheme Supervisors will retain the right to bring proceedings elsewhere, and may seek to have the Scheme recognised in other jurisdictions.

56 No assignment

If a Scheme Creditor acquires another Scheme Creditor's Distribution Assets and/or Distribution Liabilities, LBIE will not set-off, collateralise or otherwise apply the acquired Distribution Assets and/or Distribution Liabilities against the purchasing, Scheme Creditor's own Distribution Assets and/or Distribution Liabilities. In such case, LBIE will treat the purchasing Scheme Creditor as having separate positions with it. However, Distribution Assets and/or Distribution Liabilities acquired from the same selling Scheme Creditor by a purchasing Scheme Creditor may be set-off, collateralised or otherwise applied against each other.

Appendix 1 Is the customer a Scheme Creditor?

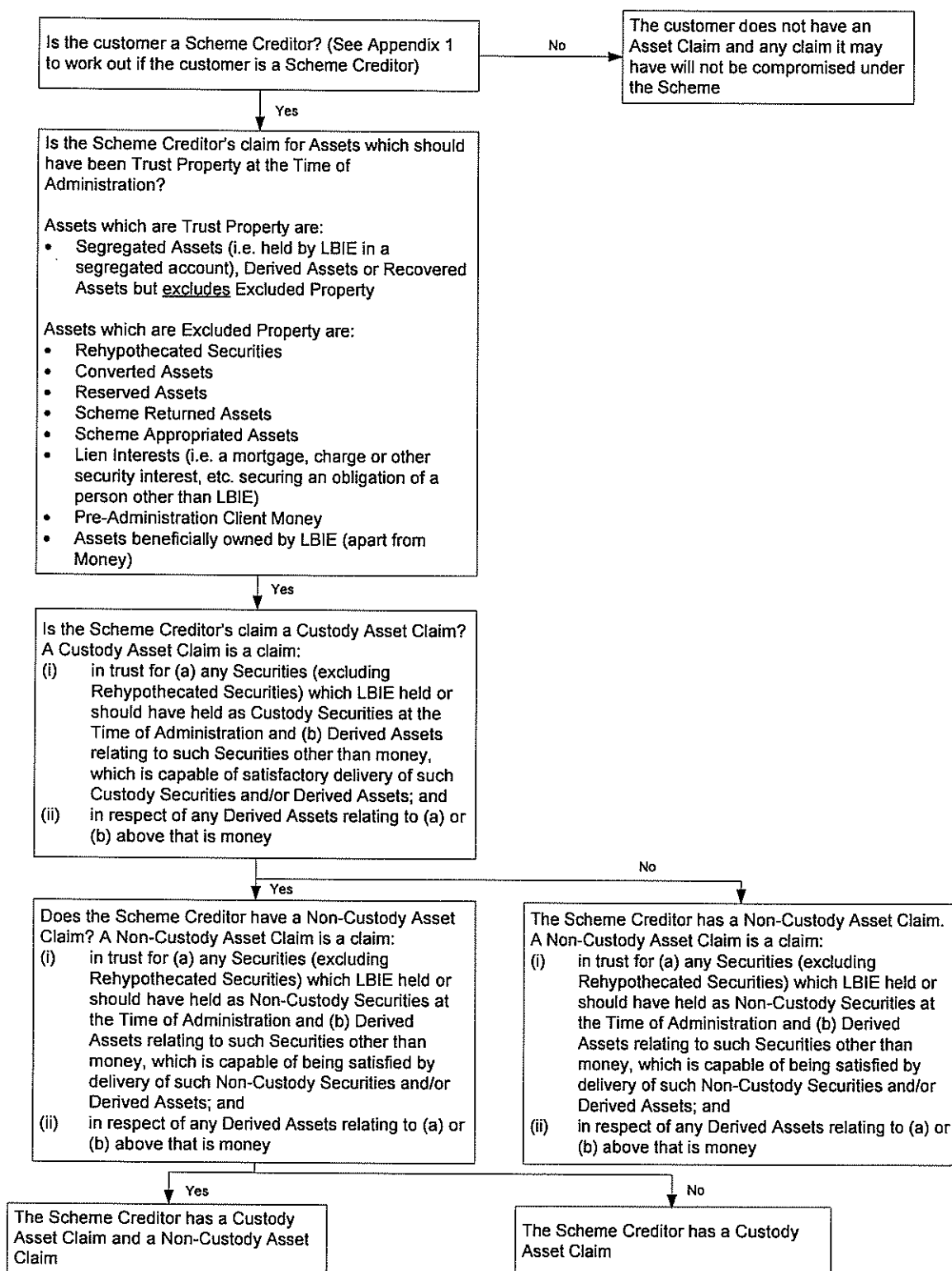


- (1) If all the customer's assets have been returned to it already and, but for this, it would have been a Scheme Creditor, it can bind itself to the mutual releases contained in the Scheme by entering into a bilateral agreement with LBIE which LBIE will provide to it on request. It will remain bound by any undertakings that it has previously given to LBIE.
- (2) If LBIE has returned all a customer's assets to it but has not yet returned to it any Derived Assets LBIE received on those assets, it may still be a Scheme Creditor – please continue to follow the flowchart.

(This diagram is produced for illustration purposes only, does not include all contemplated scenarios, and does not represent the relevant provisions of the Scheme in full)

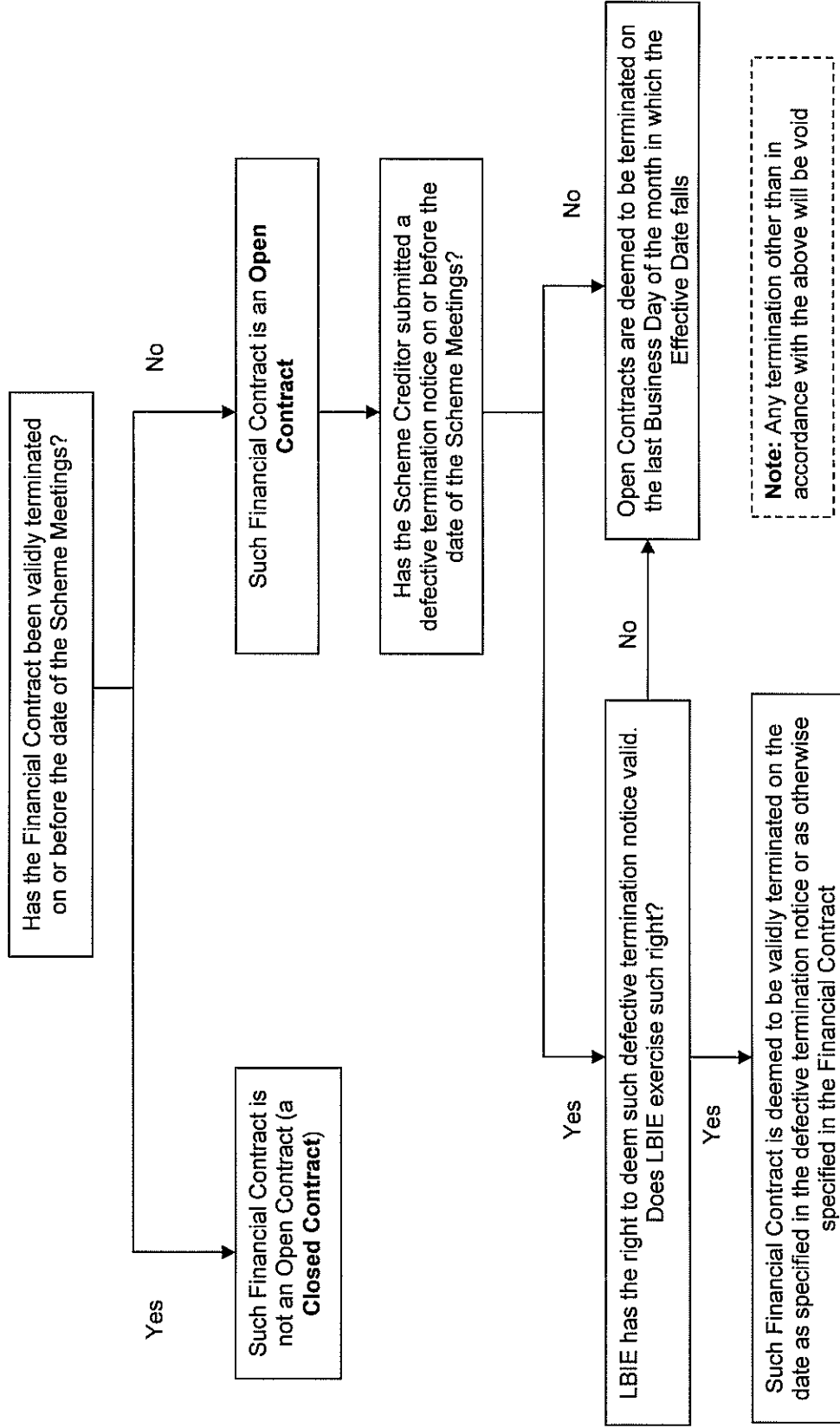
Appendix 2

What is the Scheme Creditor's Asset Claim?



(This diagram is produced for illustration purposes only, does not include all contemplated scenarios, and does not represent the relevant provisions of the Scheme in full)

Appendix 3 Termination of Financial Contracts



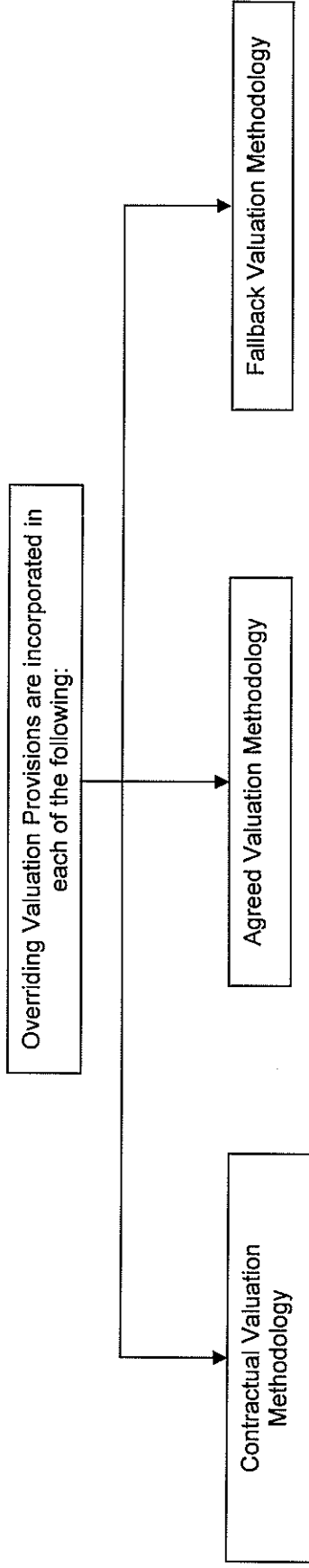
(This diagram is produced for illustration purposes only, does not include all contemplated scenarios, and does not represent the relevant provisions of the Scheme in full)

Appendix 4

1 Determination of Close-Out Amount and Valuation Methodologies

There will be one Close-Out Amount for each Financial Contract.

The Close-Out Amount in respect of each Financial Contract will be determined by the relevant Determining Party in accordance with the applicable Financial Contract Valuation Methodology. There are three alternative Financial Contract Valuation Methodologies. The Overriding Valuation Provisions form part of each Financial Contract Valuation Methodology.

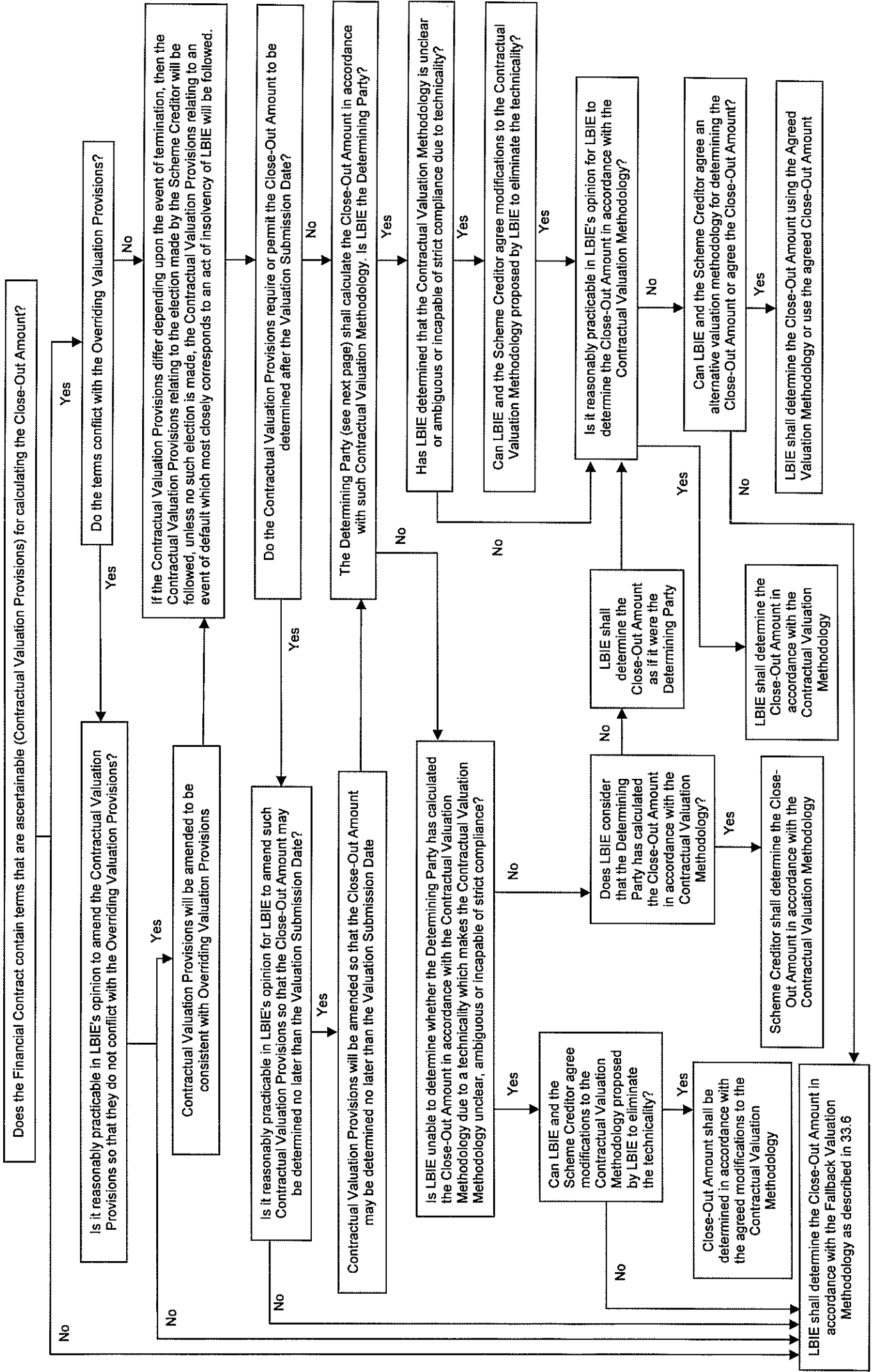


The Determining Party:

- for the Contractual Valuation Methodology, will be the party as determined on page 46; and
- for the Agreed Valuation Methodology and the Fallback Valuation Methodology, will be LBIE.

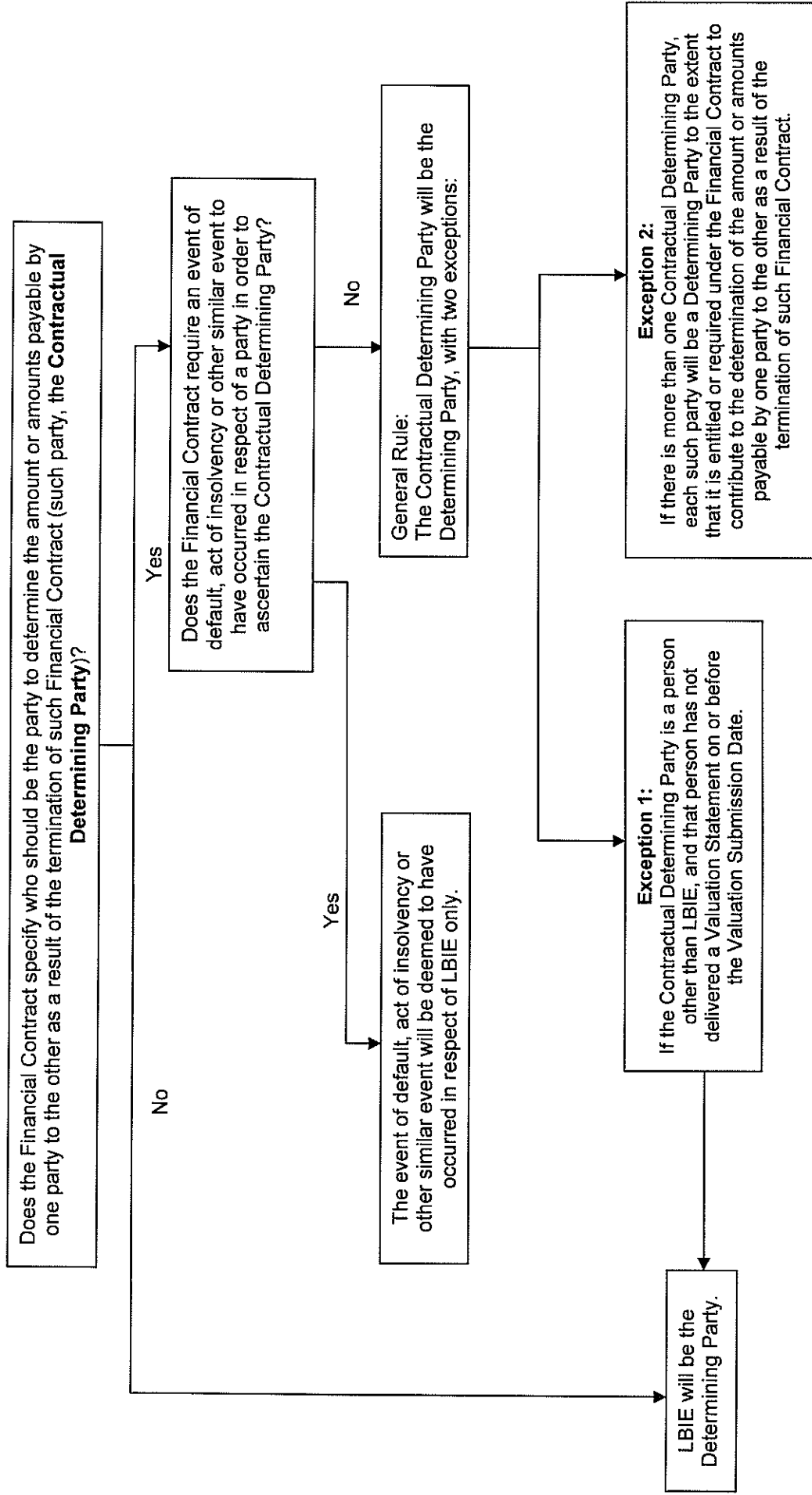
(This diagram is produced for illustration purposes only, does not include all contemplated scenarios, and does not represent the relevant provisions of the Scheme in full)

2A Financial Contract Valuation Methodologies



(This diagram is produced for illustration purposes only, does not include all contemplated scenarios, and does not represent the relevant provisions of the Scheme in full)

2B Determining Party under Contractual Valuation Methodology



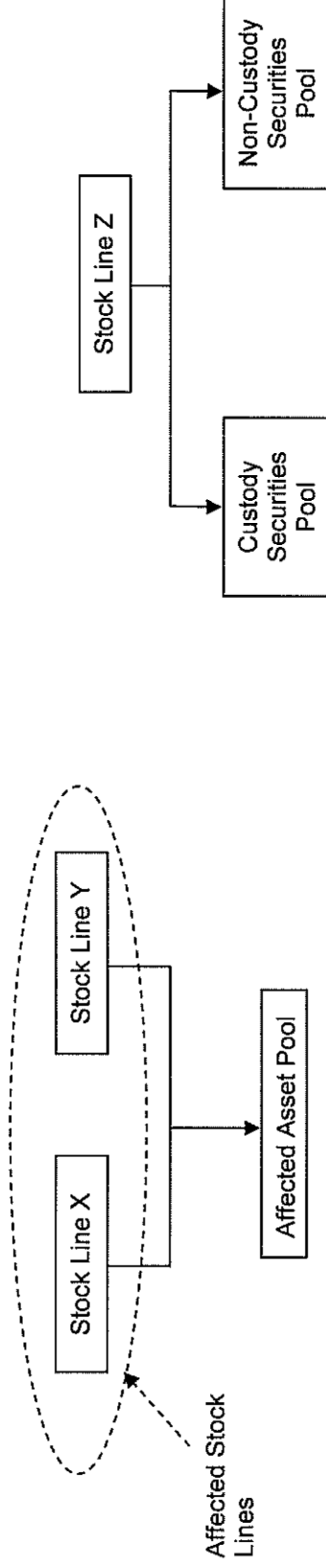
(This diagram is produced for illustration purposes only, does not include all contemplated scenarios, and does not represent the relevant provisions of the Scheme in full)

Appendix 5
Allocation of Assets

1 Asset Pool

LBIE will determine the Allocation of Distributable Trust Property on a Stock Line-by-Stock Line basis. Stock Lines will be chosen by LBIE in its absolute discretion in such order as it sees fit.

All Distributable Trust Property of each Stock Line will fall into one of three pools, and each Asset Pool will be Allocated, Appropriated and Distributed independently.



Affected Stock Lines / Affected Asset Pool

If an Intermediary is required by any applicable law to return Trust Property comprising more than one Stock Line (each, an Affected Stock Line) to LBIE or to LBIE on behalf of the Scheme Creditors on the basis that the aggregate of any shortfall of such Trust Property will be borne by all Scheme Creditors having an Asset Claim to any of the Affected Stock Lines pro rata to their relevant Asset Claims as determined by, or on behalf of, such Intermediary, then all Distributable Trust Property in the Affected Stock Lines that are returned to LBIE by that Intermediary on such basis will constitute an Affected Asset Pool.

Custody Securities Pool

Distributable Trust Property which comprises Custody Securities that does not fall into an Affected Asset Pool falls into the **Custody Securities Pool**.

Non-Custody Securities Pool

Distributable Trust Property which comprises Non-Custody Securities that does not fall into an Affected Asset Pool falls into the **Non-Custody Securities Pool**.

(This diagram is produced for illustration purposes only, does not include all contemplated scenarios, and does not represent the relevant provisions of the Scheme in full)

2 Individual Asset Claim and Provisional Allocation Percentage

Individual Claim Amount

LBIE will determine the amount of Assets in an Asset Pool which are the subject of the Asset Claim of each **Asset Pool Scheme Creditor (its Individual Claim Amount)** before making any Allocation of Assets in respect of that Asset Pool to such Asset Pool Scheme Creditor.

As soon as reasonably practicable after determining each Individual Claim Amount, LBIE will send a Claim Amount Notice to each Asset Pool Scheme Creditor specifying its Individual Claim Amount in respect of the relevant Asset Pool.

Intermediary Distribution Value

As soon as reasonably practicable after LBIE receives an Intermediary Distribution Value Notice from an Asset Pool Scheme Creditor, LBIE will: (i) determine the Value of each Intermediary Distribution as at the date on which such Intermediary Distribution was received by the Scheme Creditor (**Intermediary Distribution Value**); and (ii) send an Intermediary Distribution Value Notice to such Asset Pool Scheme Creditor notifying it of the Intermediary Distribution Value as determined by LBIE.

Potential Disputes on Individual Claim Amount or the Intermediary Distribution Value

A Scheme Creditor may dispute with LBIE on its Individual Claim Amount or the Intermediary Distribution Value in accordance with the Dispute Resolution Mechanism, provided that:

its Dispute must be notified to LBIE by the 30th calendar day after the date on which LBIE has given an Individual Claim Amount Notice or Intermediary Distribution Value Notice; and

its Dispute must specify the amount of Assets which a Scheme Creditor alleges to be the subject of its Asset Claim with respect to the relevant Asset Pool (**Alleged Individual Claim Amount**) or the amount which a Scheme Creditor alleges to be the Value of the Intermediary Distribution as at the date on which such Intermediary Distribution was received by the Scheme Creditor (**Alleged Intermediary Distribution Value**) (as applicable).

In determining a Dispute: (i) the maximum amount that may be awarded to a Scheme Creditor in respect of its Individual Claim Amount will be no more than the Alleged Individual Claim Amount claimed by the Scheme Creditor in the relevant dispute notice; and (ii) the minimum amount that may be ascribed to a Scheme Creditor in respect of an Intermediary Distribution Value will be no less than the Alleged Intermediary Distribution Value claimed by the Scheme Creditor in the relevant Dispute Notice.

Suspension of Allocation for the Disputing Asset Pool Scheme Creditor

Any determination by LBIE to make an Allocation with respect to an Asset Pool will not apply to an Asset Pool Scheme Creditor until the Dispute over its Individual Claim Amount or its Intermediary Distribution Value is resolved.

3 Provisional Allocation Percentage

Determination of Provisional Allocation Percentage

Provisional Allocation Percentage of each Asset Pool Scheme Creditor

$$\text{Provisional Allocation Percentage} = 100\% \times \frac{\text{Individual Claim Value}}{\text{Total Claim Value}}$$

Where:

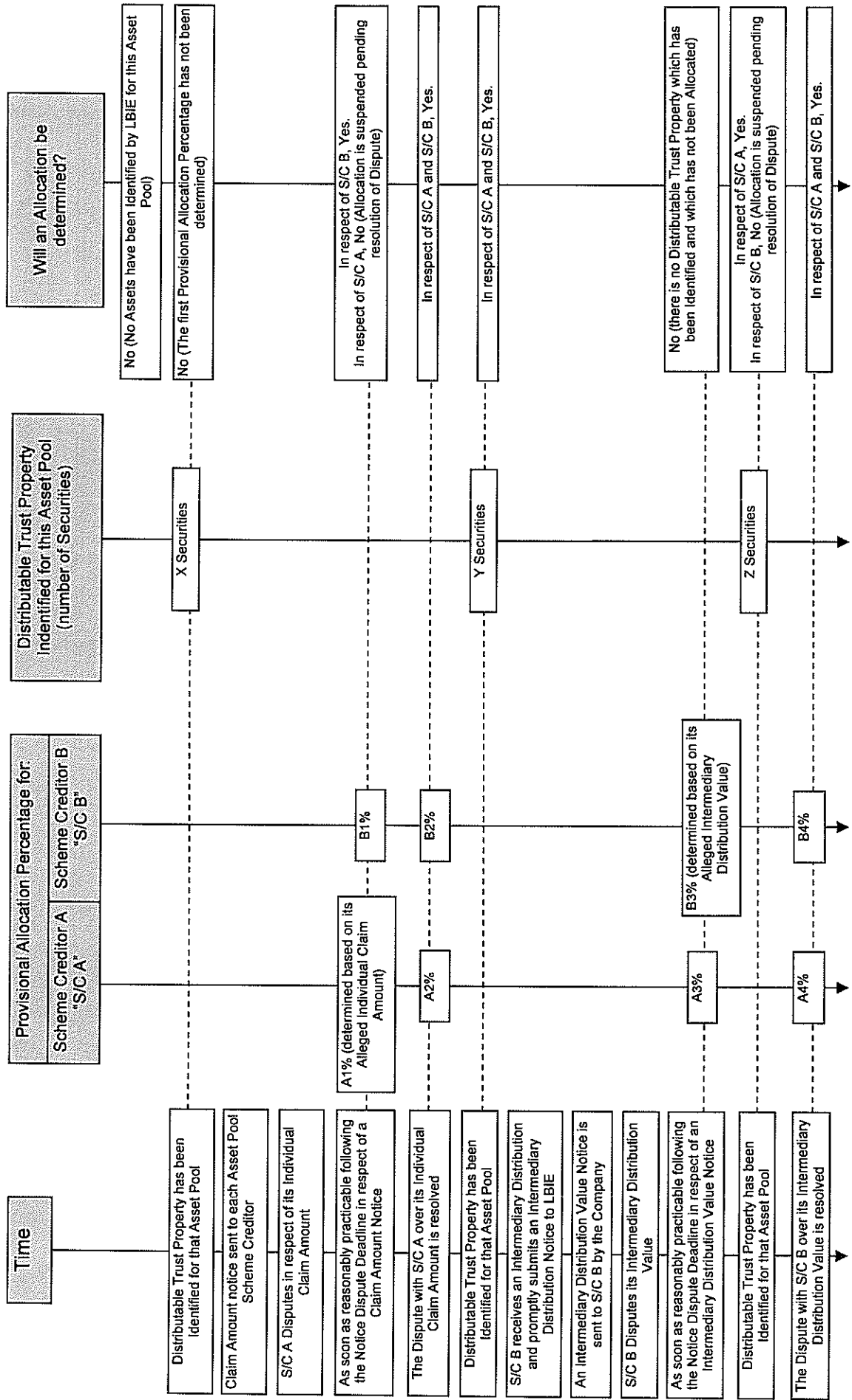
Individual Claim Value means, in respect of each Asset Pool Scheme Creditor at any time, an amount equal to the bigger of:

- (i) zero; and
- (ii) an amount equal to:
 - (a) the sum of the Value, as at the Provisional Valuation Date, of each Asset that is included in its Individual Claim Amount; less
 - (b) the sum of any Intermediary Distribution Value; less
 - (c) any Recoverable Delivery Value.

Total Claim Value means, at any time, the sum of the Individual Claim Values of each of the Asset Pool Scheme Creditors at such time as determined by LBIE, except that the Individual Claim Value of each Scheme Creditor who is disputing its Individual Claim Amount or the Intermediary Distribution Value will be calculated by reference to their respective Alleged Individual Claim Amount and/or Alleged Intermediary Distribution Value (as applicable).

Provisional Valuation Date means the Bar Date, unless the Provisional Allocation Percentage relates to an Affected Asset Pool, in which case, the date as determined by LBIE as the date on which the relevant Intermediary valued, or was required to value, the Assets of the relevant Affected Stock Lines for the purpose of determining the pro rata shortfall to be borne by each Scheme Creditor of such Affected Asset Pool.

4 Illustration of when an Allocation will be determined (Allocation Date)



(This diagram is produced for illustration purposes only, does not include all contemplated scenarios, and does not represent the relevant provisions of the Scheme in full)

5 Determination of Allocation Amount

Where none of the Asset Pool Scheme Creditors has received any Intermediary Distribution or has made a successful claim against the Distributable Trust Property in the relevant Asset Pool in breach of the moratorium, LBIE will Allocate an amount of Distributable Trust Property (an **Allocation Amount**) to each Asset Pool Scheme Creditor as soon as reasonably practicable after each Allocation Date as determined by LBIE in accordance with the following formula:

For each Allocation Date_(t):

$$\text{Allocation Amount} = \left(\text{Provisional Allocation Percentage}_{(t)} \times \text{Securities Identified}_{(t)} \right) - \text{Previous Allocation}_{(t)}$$

Where:

- (i) Provisional Allocation Percentage_(t) means the most recently determined Provisional Allocation Percentage of such Asset Pool Scheme Creditor;
- (ii) Securities Identified_(t) means the total amount of any Distributable Trust Property which has been identified by LBIE as belonging to this Asset Pool; and
- (iii) Previous Allocation_(t) means the total amount of all the Assets of such Asset Pool which has been previously Allocated to such Asset Pool Scheme Creditor

The Scheme will provide for appropriate adjustments to be made to the Allocation Amounts for each Asset Pool Scheme Creditor where an Asset Pool Scheme Creditor has received an Intermediary Distribution or has made a successful claim against the Distributable Trust Property in the relevant Asset Pool in breach of the moratorium.

6 Asset Shortfall Claim

LBIE will determine the Asset Shortfall Claim for each Asset Pool Scheme Creditor as soon as reasonably practicable after making the Last Allocation from an Asset Pool.

The Asset Shortfall Claim for each Asset Pool Scheme Creditor of an Asset Pool is equal to:

- (i) its Individual Claim Amount; less
- (ii) the aggregate of all its Allocations with respect to that Asset Pool.

An Asset Shortfall Claim will also be reduced by the amount of any value attributable to an Intermediary Distribution and the Recoverable Delivery Value.

Appendix 6 Distribution and Appropriation

1 Distribution Assets and Distribution Liabilities

Generally, LBIE will appropriate Distribution Assets available to a Scheme Creditor to reduce the Distribution Liabilities applicable to such Scheme Creditor, subject to the general rules set out below and the specific circumstance (each specific circumstance is illustrated by a waterfall. See section 5).

Certain Distribution Assets cannot be used to reduce certain Distribution Liabilities. Whether a certain Distribution Asset can be used to reduce a certain Distribution Liability will depend on the specific circumstance, including whether certain elections are made by the Scheme Creditor.

Distribution Assets		Distribution Liabilities	
Type A	Type B	Type A	Type B
<ul style="list-style-type: none"> • Allocations of Assets (Asset Allocation) • Collateral Allocations* • Deferral Cash Amounts* • Collateral Amount* 	<ul style="list-style-type: none"> • Asset Shortfall Claim • any shortfall claim for Pre-Administration Client Money (Pre-Administration Money Shortfall Claim)* 	<ul style="list-style-type: none"> • Costs Amount • Ascertained Non-Financial Contract Liabilities • Unfunded Retention Amount 	<ul style="list-style-type: none"> • Uncollateralised Net Financial Liability • Collateralised Net Financial Liability*

* denotes items that only become a Distribution Asset or Distribution Liability if certain elections are made. See section 2.

General Rules

- (i) Type A Distribution Assets may be used to reduce Type A or Type B Distribution Liabilities.
- (ii) Type B Distribution Assets can only be used to reduce Type B Distribution Liabilities, i.e. Asset Shortfall Claim and Pre-Administration Money Shortfall Claim can only be applied to reduce Net Financial Liability and not any of the other Distribution Liabilities.

2 Elections by the Scheme Creditor

A Scheme Creditor may make one or both of the following two elections, which will have certain effects on the Distribution and Appropriation in respect of such Scheme Creditor. The two elections are Collateralisation Election and Appropriation Deferral Election.

3 Collateralisation Election

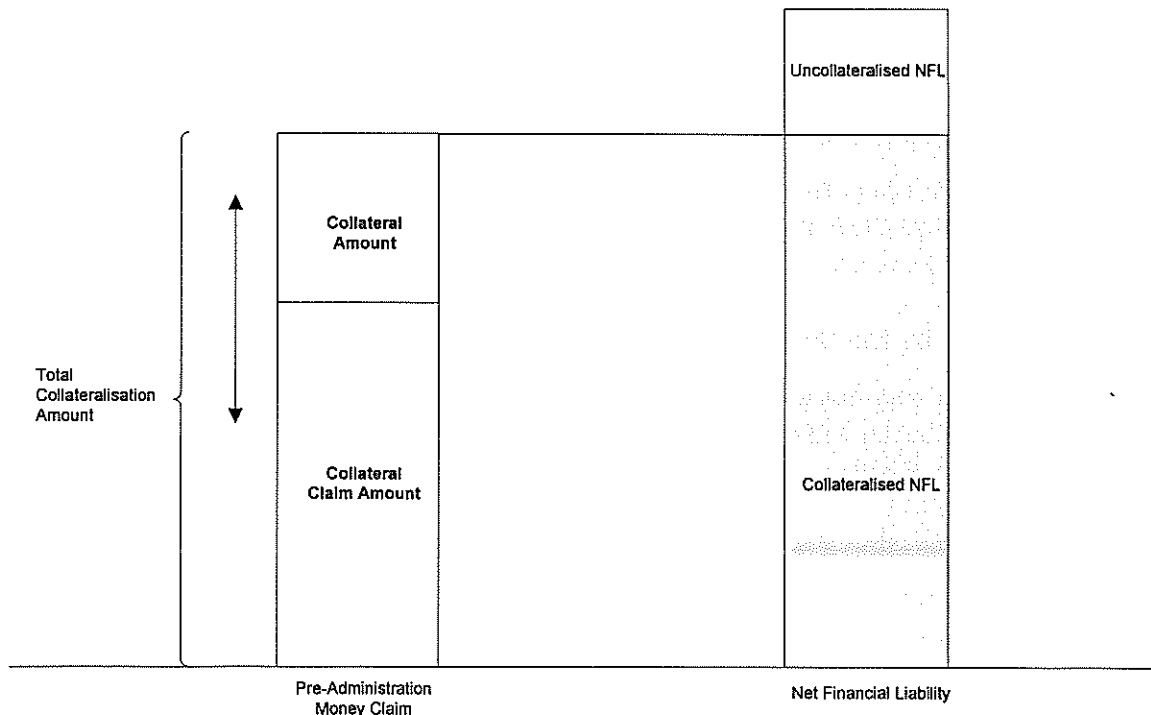
A Collateralisation Election relates to a Scheme Creditor's Pre-Administration Client Money Claim. Such Pre-Administration Client Money Claim is an amount determined by LBIE in its absolute discretion at the time such election is made or such higher amount as is subsequently agreed between LBIE and the Scheme Creditor or subsequently determined by a competent court. A Scheme Creditor's Pre-Administration Money Claim should not include any shortfall claims for Pre-Administration Client Money for which LBIE is not legally liable.

A Collateralisation Election has the effect of collateralising the Net Financial Liability to an amount equal to the lesser of (i) the Total Collateralisation Amount (as described below) and (ii) a Scheme Creditor's Net Financial Liability. Once collateralised, such portion of Net Financial Liability will become the Collateralised Net Financial Liability. Any portion of Net Financial Liability that is not covered by collateralisation is the Uncollateralised Net Financial Liability. If a Scheme Creditor has not made a Collateralisation Election, then all of its Net Financial Liability will be Uncollateralised Net Financial Liability.

When a Collateralisation Election is made, the Scheme Creditor will not receive any interim distributions of Pre-Administration Client Money but such interim distributions will increase the Collateral Amount (as described below) and have the effect of collateralising the Net Financial Liability (there is one exceptional circumstance when the Scheme Creditor may receive an amount equal to a distribution of Pre-Administration Client Money, which is a Collateral Allocation (as described below)). By collateralising the Net Financial Liability, no Asset Allocations can be Appropriated to reduce such Collateralised Net Financial Liability. Asset Allocations may only be Appropriated to reduce Uncollateralised Net Financial Liability (if any) and other Distribution Liabilities such as Costs Amount, Ascertained Non-Financial Contract Liabilities and Unfunded Retention Amount.

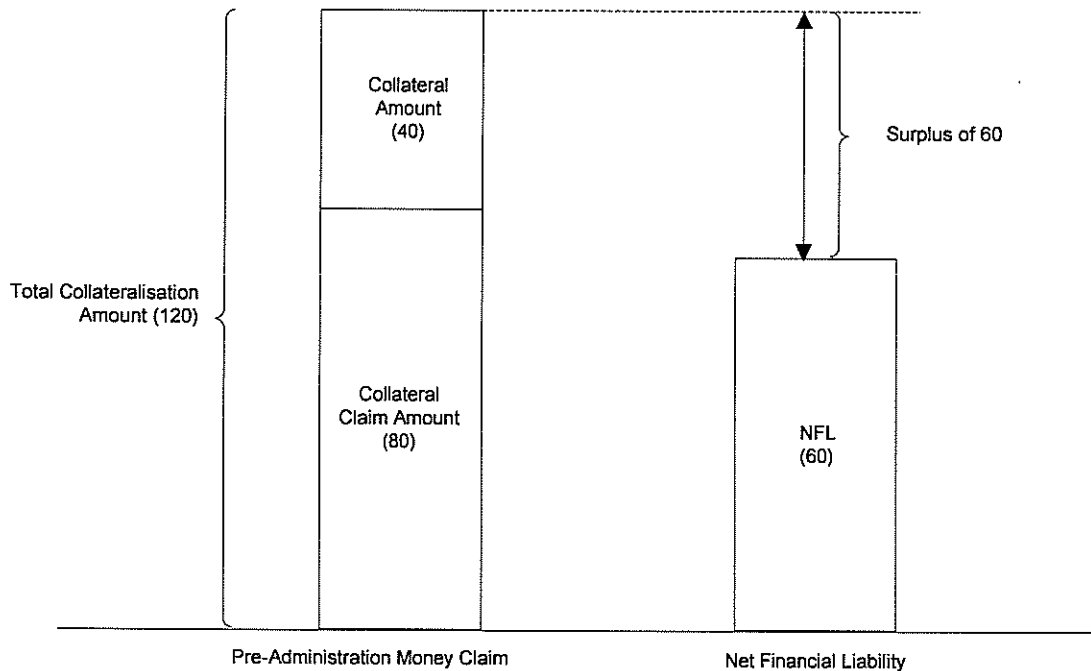
When a Collateralisation Election is made, a notional ledger will be established to record the Total Collateralisation Amount, comprised of the Collateral Claim Amount (which is the amount of any unsatisfied Pre-Administration Client Money Claim from time to time) and the Collateral Amount (which is the aggregate amount of any interim distributions of Pre-Administration Client Money from time to time). Over time, any interim distributions of Pre-Administration Client Money will increase the Collateral Amount and correspondingly reduce the Collateral Claim Amount. The concept of the Total Collateralisation Amount collateralising Net Financial Liability is represented in diagram 6.1 below.

Diagram 6.1 – Total Collateralisation Amount



There is one exceptional circumstance when a Scheme Creditor may receive an amount equal to an interim distribution of Pre-Administration Client Money. If at any time, the Total Collateralisation Amount exceeds the Net Financial Liability, then an amount equal to the lesser of (i) the surplus of Total Collateralisation Amount over the NFL and (ii) the Collateral Amount will be deemed to be an allocation (a Collateral Allocation) to such Scheme Creditor and the Collateral Amount shall be correspondingly reduced. A Collateral Allocation will be an interim Allocation and may be Appropriated to reduce the Scheme Creditor's Distribution Liabilities under Waterfall 2a in section 5. The concept of a Collateral Allocation is illustrated in diagram 6.2 below.

Diagram 6.2 – Collateral Allocation



The lesser of (i) the surplus of Collateralised Amount over NFL (i.e. 60) and (ii) the Collateral Amount (i.e. 40) is a Collateral Allocation to the Scheme Creditor. In this example, the Collateral Allocation is 40.

The main benefit of Collateralisation Election is that when the Pre-Administration Money Shortfall Claim (i.e. the shortfall claim in the distribution of Pre-Administration Client Money for which LBIE is legally liable) is determined, the Collateral Claim Amount will be equal to such Pre-Administration Money Shortfall Claim and then applied as a Distribution Asset to first reduce the NFL of the Scheme Creditor before any other Distribution Asset is applied to reduce the NFL (see Waterfall 4 in section 5).

4 Appropriation Deferral Election

Appropriation Deferral Election relates to all of a Scheme Creditor's Allocations of a specific Asset Pool. An Appropriation Deferral Election has the effect of deferring the exercise of LBIE's rights to appropriate interim Asset Allocations towards the reduction of Net Financial Liability, so the Scheme Creditor may receive Distributions of interim Asset Allocations for a particular Asset Pool without regard to its Net Financial Liability at that time. This allows the Scheme Creditor to first apply any Asset Shortfall Claim for that Asset Pool, once determined, towards the reduction of Net Financial Liability before any Asset Allocation is Appropriated to reduce the Net Financial Liability (see Waterfall 3a which shows what happens upon an interim Asset Allocation and Waterfall 3b which shows what happens upon a final Asset Allocation). Please note that interim Asset

Allocations may still be Appropriated by LBIE to reduce other Distribution Liabilities, such as Costs Amount, any ascertained Non-Financial Contract Liabilities (**Ascertained NFCL**) and Unfunded Retention Amount.

If an Appropriation Deferral Election is made, each time an Asset Allocation has been determined to it with respect of that Asset Pool, the Scheme Creditor must pay a Deferral Cash Amount (equal to the Value of the Asset Allocation). The aggregate amount of all Deferral Cash Amount paid by the Scheme Creditor for an Asset Pool will be the **Total Deferral Cash Amount**, which is applied as a Distribution Asset in Waterfall 3b, upon the final Asset Allocation (see Waterfall 3b).

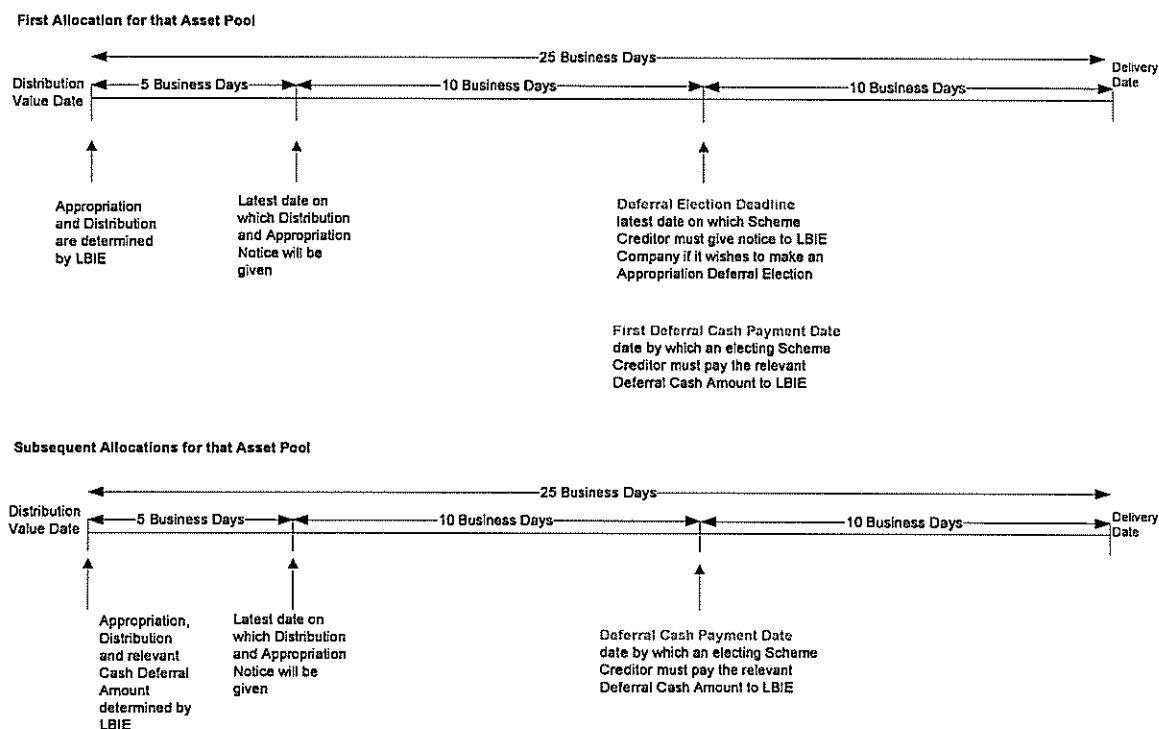
Conditions

The following conditions must be satisfied to make a valid Appropriation Deferral Election:

- (i) A Scheme Creditor must make such election at the time when LBIE notifies the Scheme Creditor of its first Allocation in respect of that Asset Pool (i.e. at the outset when an Asset Pool is first being Allocated and a first Distribution to such Scheme Creditor is determined).
- (iii) The first Allocation to such Scheme Creditor has not resulted in the determination of an Asset Shortfall Claim for that Asset Pool.

The timing for making an Appropriation Deferral Election and paying the Deferral Cash Amount is illustrated in diagram 6.3 below.

Diagram 6.3 – Timing for Appropriation Deferral Election



5 Distribution and Appropriation Waterfalls

The diagrams below are only included for the purpose of illustrating how the waterfalls would operate given a certain set of facts and they do not cover every case that may apply to or result from such waterfall. Whether all Distribution Assets will be Appropriated and whether any Distribution will fall due to be made to a Scheme Creditor depends on the facts of each case, which is specific to each Scheme Creditor.

Waterfall 1 – Allocation to a Scheme Creditor with a Net Financial Claim

Facts

Scheme Creditor has a Net Financial Claim against LBIE (so the Scheme Creditor does not have a Net Financial Liability). LBIE determines an Asset Allocation to such Scheme Creditor.

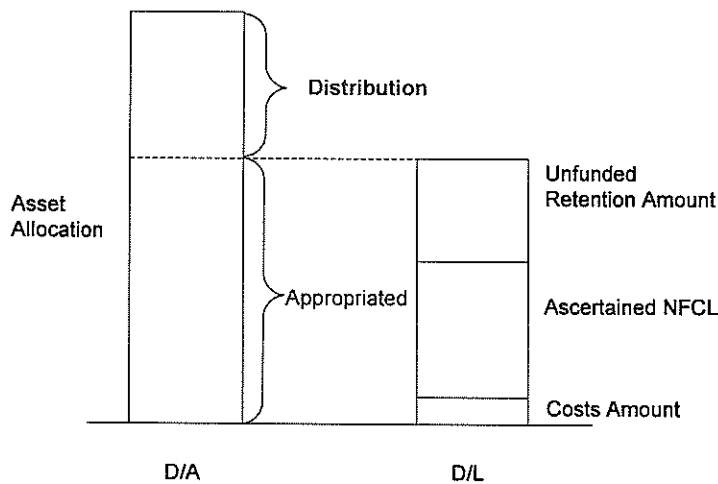
Applicable Distribution Asset	Applicable Distribution Liabilities
<ul style="list-style-type: none"> Asset Allocation <p><i>Valued as at the Distribution Value Date</i></p>	<ul style="list-style-type: none"> Costs Amount Ascertained Non-Financial Contract Liabilities (if any) Unfunded Retention Amount (if any) <p><i>each of the above, Valued as at the Distribution Value Date</i></p>

Analysis and Examples

Asset Allocations will be Appropriated to reduce first, Costs Amount, secondly, Ascertained Non-Financial Contract Liabilities and thirdly, Unfunded Retention Amount in that order.

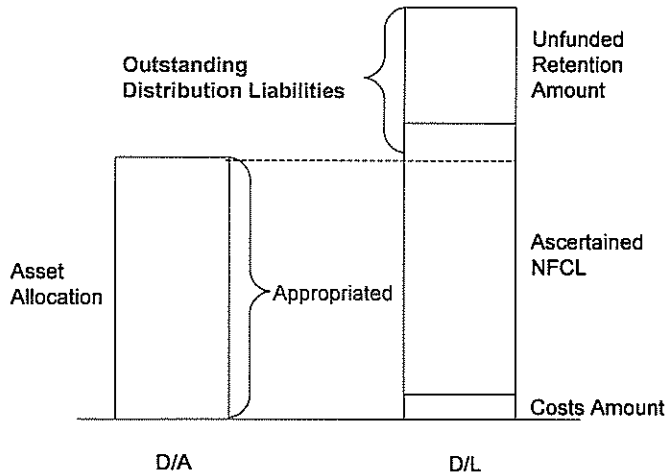
If Asset Allocation > Distribution Liabilities, then any remaining Asset Allocation will be a Distribution to the Scheme Creditor. All Distribution Liabilities will be discharged and reduced to zero. See diagram 6.4.1 below which illustrates an example.

Diagram 6.4.1 – Allocation to Scheme Creditor with a Net Financial Claim (Case 1)



If Asset Allocation < Distribution Liabilities, then no Distribution will be made to the Scheme Creditor. Each Distribution Liability that is not reduced by the Asset Allocation will remain unsatisfied. See diagram 6.4.2 below which illustrates an example. In that example, all of the Costs Amount and part of the Ascertained NFCL is discharged. The remaining portion of the Ascertained NFCL and the Unfunded Retention Amount in full remain unsatisfied.

Diagram 6.4.2 – Allocation to Scheme Creditor with a Net Financial Claim (Case 2)



The Scheme Creditor will have an Ascertained Claim for an amount equal to the Net Financial Claim. In addition, the Scheme Creditor will have an Ascertained Claim for an amount equal to its Asset Shortfall Claim (if any).

Waterfall 2a – Interim Asset Allocation to a Scheme Creditor with a Net Financial Liability

Facts

A Scheme Creditor has a Net Financial Liability to LBIE. LBIE determines an interim Asset Allocation to such Scheme Creditor. The Scheme Creditor has not made a Collateralisation Election, so all of its Net Financial Liability is Uncollateralised Net Financial Liability. The Scheme Creditor has not made an Appropriation Deferral Election, so an interim Asset Allocation can be Appropriated to reduce its Uncollateralised Net Financial Liability (as shown by Uncollateralised Net Financial Liability being an Applicable Distribution Liability in this circumstance).

Applicable Distribution Asset	Applicable Distribution Liabilities
<ul style="list-style-type: none"> Asset Allocation¹ <p><i>Valued as at the Distribution Value Date</i></p>	<ul style="list-style-type: none"> Costs Amount Uncollateralised Net Financial Liability Ascertained Non-Financial Contract Liabilities Unfunded Retention Amount <p><i>each of the above, Valued as at the Distribution Value Date</i></p>

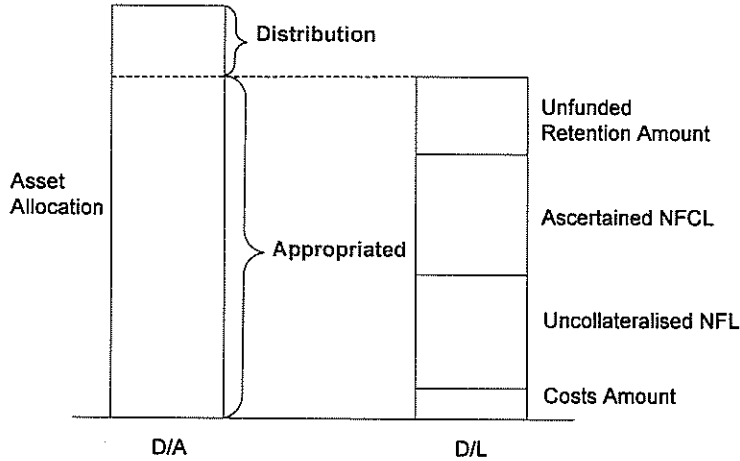
Analysis and Examples

Asset Allocations will be Appropriated to reduce first, Costs Amount, secondly, Uncollateralised Net Financial Liability, thirdly, Ascertained Non-Financial Contract Liabilities and fourthly, Unfunded Retention Amount in that order.

¹ In the circumstance that there is a surplus Collateralised Amount over NFL, then any amount equal to the lesser of that surplus amount and the Collateral Amount will be a Collateral Allocation of Pre-Administration Client Money to the Scheme Creditor and this Waterfall 2a applies (the Uncollateralised NFL will be zero in that scenario and all references to Asset Allocation will be a reference to Collateral Allocation).

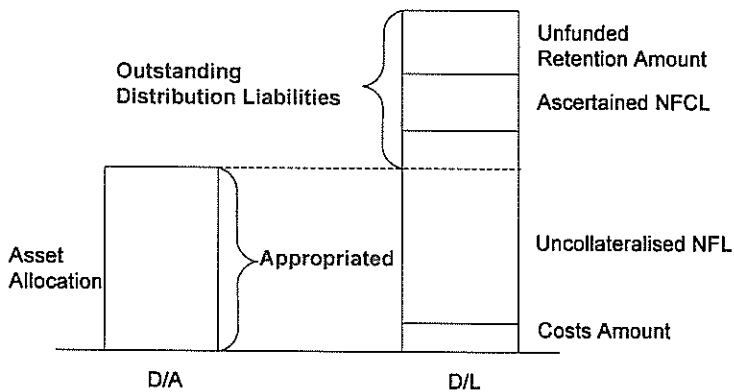
If Asset Allocation > Distribution Liabilities, then any remaining Asset Allocation will be a Distribution to the Scheme Creditor. Distribution Liabilities are reduced to zero. See diagram 6.5.1 below which illustrates an example.

Diagram 6.5.1 – Interim Asset Allocation to Scheme Creditor with NFL (Case 1)



If Asset Allocation < Distribution Liabilities, then no Distribution will be made to the Scheme Creditor. Each Distribution Liability that is not reduced by the Asset Allocation will remain unsatisfied. See diagram 6.5.2 below which illustrates an example. In that example, all of the Costs Amount and part of the Uncollateralised Net Financial Liability is discharged. The remaining portion of the Uncollateralised Net Financial Liability, the Ascertained Non-Financial Contract Liabilities in full and the Unfunded Retention Amount in full remain unsatisfied.

Diagram 6.5.2 – Interim Asset Allocation to Scheme Creditor with NFL (Case 2)



Waterfall 2b – Last Asset Allocation to Scheme Creditor with a Net Financial Liability

Facts

A Scheme Creditor has a Net Financial Liability to LBIE. LBIE makes a last Allocation of Asset in respect of an Asset Pool to this Scheme Creditor. The Scheme Creditor has not made a Collateralisation Election, so all of its Net Financial Liability is Uncollateralised Net Financial Liability. The Scheme Creditor has not made an Appropriation Deferral Election, but nevertheless any Asset Shortfall Claim for that Asset Pool can be applied as a Distribution Asset to reduce Uncollateralised Net Financial Liability.

Asset Shortfall Claim can only be Appropriated to reduce Uncollateralised Net Financial Liability and not any other Distribution Liability.

Applicable Distribution Asset		Applicable Distribution Liabilities	
Type A	Type B	Type A	Type B
<ul style="list-style-type: none"> Asset Allocation <i>Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> Asset Shortfall Claim <i>Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> Costs Amount Ascertained Non-Financial Contract Liabilities Unfunded Retention Amount <i>each of the above, Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> Uncollateralised Net Financial Liability <i>Valued as at the Distribution Value Date</i>

Analysis and Examples

Asset Shortfall Claim will be Appropriated to reduce Uncollateralised NFL. If Asset Shortfall Claim > Uncollateralised NFL, then any remaining Asset Shortfall Claim (Valued as at the close of business on the last Business Day before the Time of Administration) will be an Ascertained Claim of the Scheme Creditor. If Asset Shortfall Claim < Uncollateralised NFL, then the Asset Shortfall Claim will be Appropriated in full.

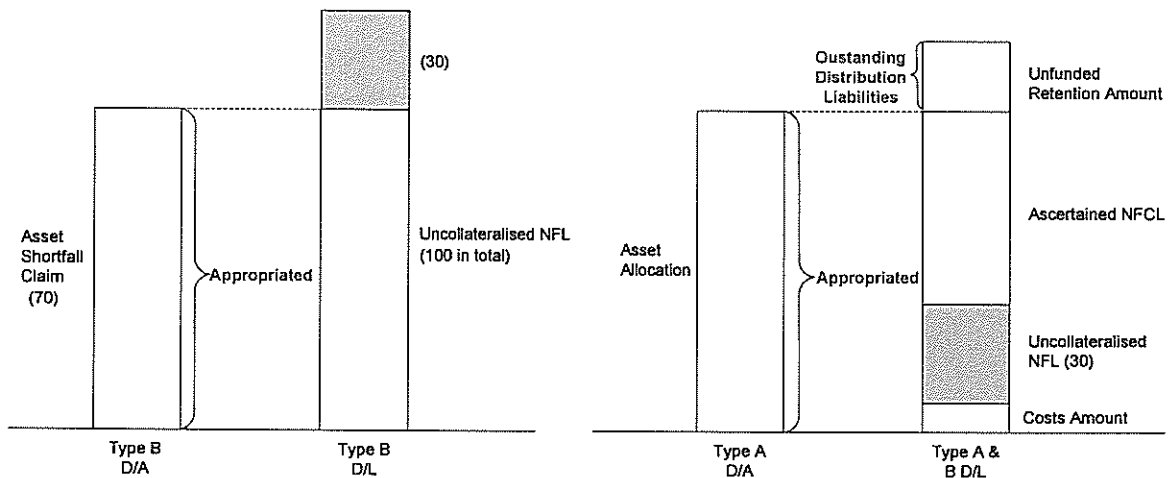
Asset Allocation will be Appropriated to reduce first, Costs Amount, secondly, Uncollateralised Net Financial Liability (any left after being reduced by Asset Shortfall Claim), thirdly, Ascertained Non-Financial Contract Liabilities, and fourthly, Unfunded Retention Amount in that order.

If Asset Allocation > Distribution Liabilities, then any remaining Asset Allocation will be a Distribution to the Scheme Creditor. Distribution Liabilities are reduced to zero.

If Asset Allocation < Distribution Liabilities, then no Distribution will be made to the Scheme Creditor. Each Distribution Liability that is not reduced by the Asset Allocation will remain unsatisfied.

Diagram 6.6 illustrates an example. In that example, the Asset Shortfall Claim with a Value of 70 discharged a portion of the Uncollateralised NFL equal to 70. The portion of the Uncollateralised NFL equal to 30 is then discharged in full by Appropriation of the Asset Allocation. The Asset Allocation also discharges in full the Costs Amount and the Ascertained NFCL, leaving the Unfunded Retention Amount as an unsatisfied Distribution Liability.

Diagram 6.6 – Last Asset Allocation to Scheme Creditor with NFL



Waterfall 3a – Interim Asset Allocation to Scheme Creditor with a Net Financial Liability and Appropriation Deferral Election

Facts

A Scheme Creditor has a Net Financial Liability to LBIE. LBIE determines an interim Asset Allocation to such Scheme Creditor. The Scheme Creditor has not made a Collateralisation Election, so all of its Net Financial Liability is Uncollateralised Net Financial Liability.

The Scheme Creditor has made an Appropriation Deferral Election for this Asset Pool, so an interim Asset Allocation cannot be Appropriated to reduce its Uncollateralised Net Financial Liability (this is evident from Uncollateralised Net Financial Liability not being an Applicable Distribution Liability in this circumstance). The effect is that the Uncollateralised Net Financial Liability of the Scheme Creditor is disregarded for the purpose of determining a Distribution of such interim Asset Allocation (resulting in the Applicable Distribution Liabilities being broadly the same as if the Scheme Creditor does not have any Net Financial Liability to LBIE, see Waterfall 1).

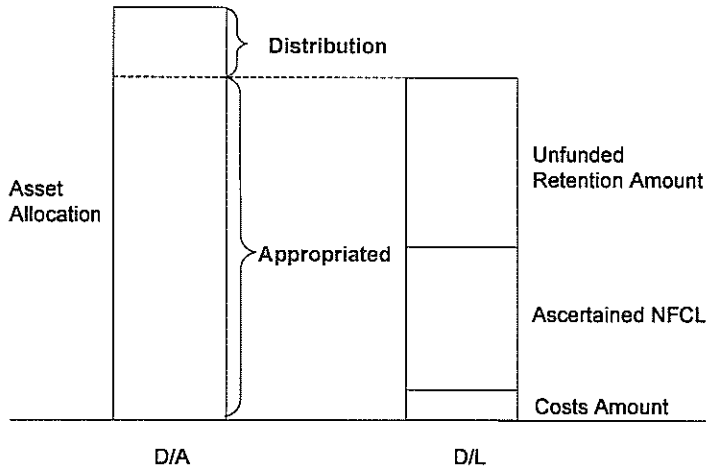
Applicable Distribution Asset	Applicable Distribution Liabilities
<ul style="list-style-type: none"> Asset Allocation <p><i>Valued as at the Distribution Value Date</i></p>	<ul style="list-style-type: none"> Costs Amount Ascertained Non-Financial Contract Liabilities Unfunded Retention Amount <p><i>each of the above, Valued as at the Distribution Value Date</i></p>

Analysis and Examples

Asset Allocation will be used to reduce first, Costs Amount, secondly, Ascertained Non-Financial Contract Liabilities and thirdly, Unfunded Retention Amount in that order.

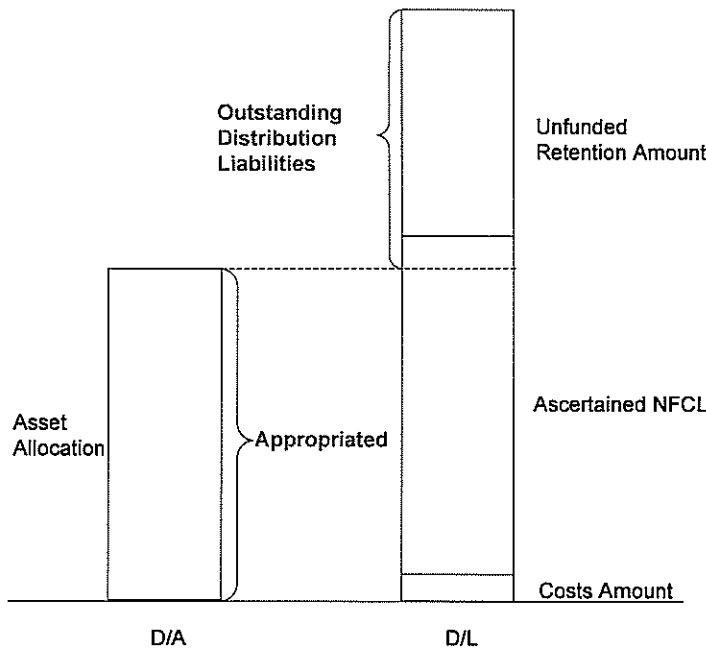
If Asset Allocation > Distribution Liabilities, then any remaining Asset Allocation will be a Distribution to the Scheme Creditor. Distribution Liabilities are reduced to zero. See diagram 6.7.1 below which illustrates an example.

Diagram 6.7.1 – Interim Allocation to Scheme Creditor with NFL (Appropriation Deferral Election) (Case 1)



If Asset Allocation < Distribution Liabilities, then no Distribution will be made to the Scheme Creditor. Each Distribution Liability that is not reduced by the Asset Allocation will remain unsatisfied. See diagram 6.7.2 below which illustrates an example. In that example, all of the Costs Amount and part of the Ascertained NFCL is discharged. The remaining portion of the Ascertained NFCL and Unfunded Retention Amount remains unsatisfied.

Diagram 6.7.2 – Interim Allocation to Scheme Creditor with NFL (Appropriation Deferral Election) (Case 2)



Waterfall 3b – Last Asset Allocation to Scheme Creditor with a Net Financial Liability and Appropriation Deferral Election

Facts

A Scheme Creditor has a Net Financial Liability to LBIE. LBIE makes a Last Allocation of Asset in respect of an Asset Pool to this Scheme Creditor. The Scheme Creditor has not made a

Collateralisation Election, so all of its Net Financial Liability is Uncollateralised Net Financial Liability.

The Scheme Creditor has made an Appropriation Deferral Election for this Asset Pool. Upon the last Asset Allocation of that Asset Pool and upon determination of an Asset Shortfall Claim, the Asset Shortfall Claim and the last Asset Allocation can be Appropriated to reduce the Uncollateralised Net Financial Liability (this is shown by the Uncollateralised Net Financial Liability being an Applicable Distribution Liability in this circumstance). In addition, the Total Deferral Cash Amount paid by the Scheme Creditor for that Asset Pool will now be applied as a Distribution Asset to reduce Distribution Liabilities.

As mentioned above, Asset Shortfall Claim can only be Appropriated to reduce Uncollateralised Net Financial Liability and not any other Distribution Liabilities.

Applicable Distribution Asset		Applicable Distribution Liabilities	
Type A	Type B	Type A	Type B
<ul style="list-style-type: none"> • Total Deferral Cash Amount • Asset Allocation <i>Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> • Asset Shortfall Claim <i>Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> • Costs Amount • Ascertained Non-Financial Contract Liabilities • Unfunded Retention Amount <i>each of the above, Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> • Uncollateralised Net Financial Liability <i>Valued as at the Distribution Value Date</i>

Analysis and Examples

Asset Shortfall Claim will be Appropriated to reduce Uncollateralised NFL. If Asset Shortfall Claim > Uncollateralised NFL, then Uncollateralised NFL will be discharged in full and any remaining Asset Shortfall Claim (Valued as at the close of business on the last Business Day before the Time of Administration) will be an Ascertained Claim of the Scheme Creditor. If Asset Shortfall Claim < Uncollateralised NFL, then the Asset Shortfall Claim will be Appropriated in full.

Type A Distribution Assets (first apply Total Deferral Cash Amount, then apply Asset Allocation) will be Appropriated to reduce first, Costs Amount, secondly, Net Financial Liability (to the extent there is any after being first reduced by Asset Shortfall Claim), thirdly, Ascertained Non-Financial Contract Liabilities and fourthly, Unfunded Retention Amount in that order.

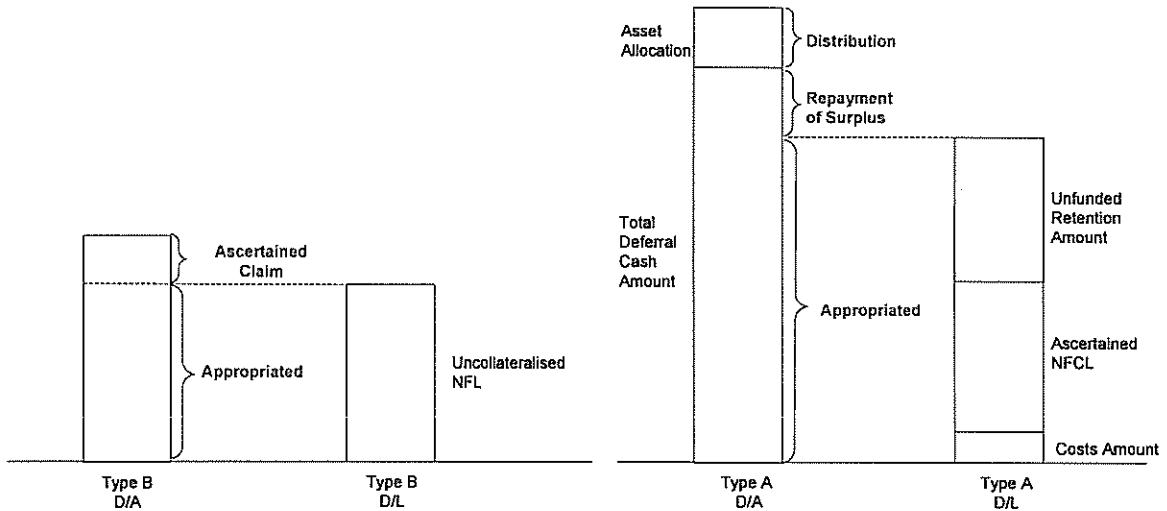
If Type A Distribution Assets > Distribution Liabilities, then all Distribution Liabilities will be discharged. Any remaining Asset Allocation will be a Distribution to the Scheme Creditor and any Total Deferral Cash Amount will be paid back to the Scheme Creditor.

If Type A Distribution Assets < Distribution Liabilities, then no Distribution will be made to the Scheme Creditor. Each Distribution Liability that is not reduced by the Asset Allocation will remain unsatisfied.

In the example illustrated by diagram 6.8.1 below, the Asset Shortfall Claim fully discharges the Uncollateralised NFL and any remaining Asset Shortfall Claim is an Ascertained Claim to the

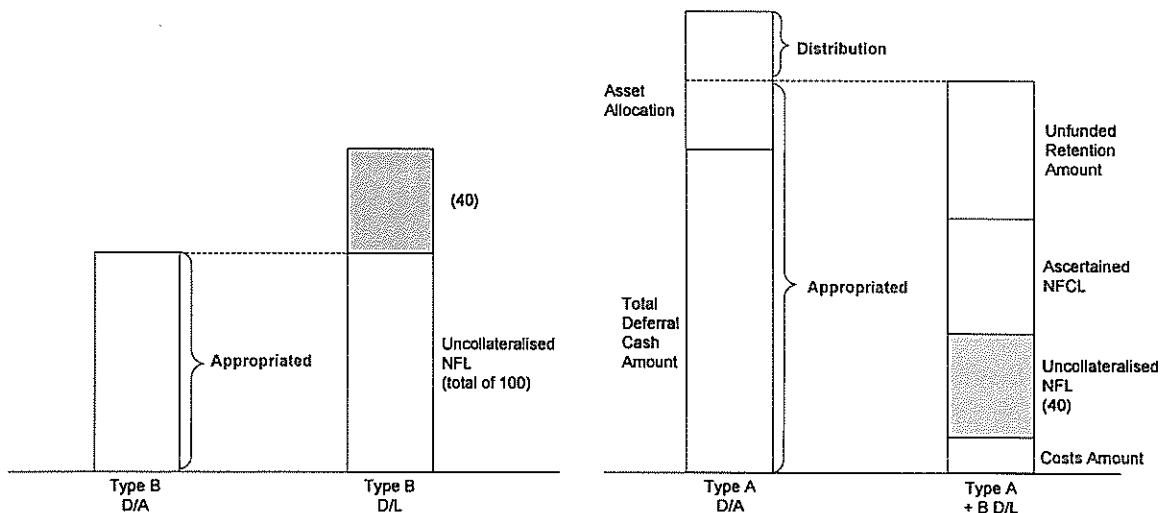
Scheme Creditor. A portion of the Total Deferral Cash Amount is Appropriated to discharge the Type A Distribution Liabilities in full. The remaining Total Deferral Cash Amount is paid back to the Scheme Creditor and the last Asset Allocation is a Distribution to the Scheme Creditor.

Diagram 6.8.1 – Last Allocation to Scheme Creditor with NFL (Appropriation Deferral Election) – Case 1



In the example illustrated by diagram 6.8.2 below, the Asset Shortfall Claim is Appropriated in full but is only sufficient to discharge a portion of the Uncollateralised NFL equal to 60. Uncollateralised NFL of 40 remains outstanding. The Total Deferral Cash Amount is then applied as a Distribution Asset and Appropriated to discharge Costs Amount, such remaining Uncollateralised NFL of 40 and Ascertain NFCL in full. The Asset Allocation is then applied as the next Distribution Asset and Appropriated to discharge Unfunded Retention Amount in full. A portion of the remaining Asset Allocation is a Distribution to the Scheme Creditor.

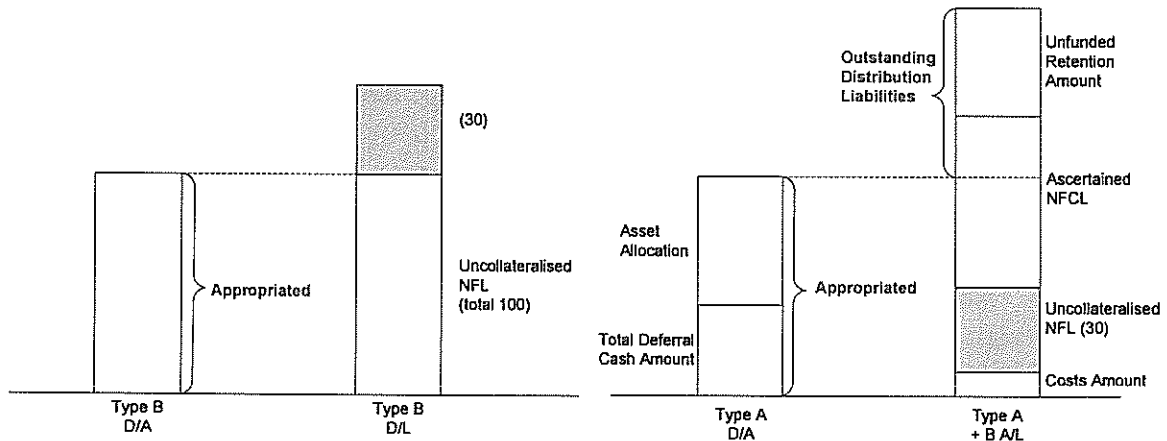
Diagram 6.8.2 – Last Allocation to Scheme Creditor with NFL (Appropriation Deferral Election) – Case 2



In the example illustrated by diagram 6.8.3 below, the Asset Shortfall Claim is Appropriated in full but is only sufficient to discharge a portion of the Uncollateralised NFL equal to 70. Uncollateralised NFL of 30 remains outstanding. The Total Deferral Cash Amount is then applied as a Distribution Asset and is only sufficient to discharge Costs Amount and a portion of the

Uncollateralised NFL. Asset Allocation is then applied as the next Distribution Asset and is only sufficient to discharge the remaining Uncollateralised NFL and a portion of the Ascertained NFCL. The remaining Ascertained NFCL and Unfunded Retention Amount in full remains outstanding Distribution Liabilities.

Diagram 6.8.3 – Last Allocation to Scheme Creditor with NFL (Appropriation Deferral Election) – Case 3



Waterfall 4 – Last distribution of Pre-Administration Client Money to Scheme Creditor with a Net Financial Liability and Collateralisation Election

Facts

A Scheme Creditor has a Net Financial Liability to LBIE. The Scheme Creditor has made a Collateralisation Election (so its Net Financial Liability will comprise of a collateralised portion and an uncollateralised portion). LBIE determines the Pre-Administration Money Shortfall Claim of that Scheme Creditor.

This Waterfall 4 applies in a very limited circumstance, i.e. when LBIE determines the Pre-Administration Money Shortfall Claim of a Scheme Creditor who has made the Collateralisation Election. This determination can happen at any time, whether before or after the last Asset Allocation of a particular Asset Pool. This waterfall deals solely with such Pre-Administration Money Shortfall Claim and the related Collateral Amount and is not affected by any Asset Allocation or an Appropriation Deferral Election for any particular Asset Pool.

As mentioned above, Pre-Administration Money Shortfall Claim can only be Appropriated to reduce Net Financial Liability and not any other Distribution Liabilities.

Applicable Distribution Asset		Applicable Distribution Liabilities	
Type A	Type B	Type A	Type B
<ul style="list-style-type: none"> Collateral Amount <i>Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> Pre-Administration Money Shortfall Claim <i>Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> Costs Amount Ascertained Non-Financial Contract Liabilities Unfunded Retention Amount <i>each of the above, Valued as at the</i>	<ul style="list-style-type: none"> Uncollateralised Net Financial Liability Collateralised Net Financial Liability <i>Valued as at the Distribution Value Date</i>

Applicable Distribution Asset		Applicable Distribution Liabilities	
Type A	Type B	Type A	Type B
		<i>Distribution Value</i>	
		<i>Date</i>	

Analysis and Examples

Pre-Administration Money Shortfall Claim will be Appropriated to reduce first, Uncollateralised NFL and secondly, Collateralised Net Financial Liability.

If Pre-Administration Money Shortfall Claim > Type B Distribution Liabilities, then all Type B Distribution Liabilities will be discharged in full. Any remaining Pre-Administration Money Shortfall Claim will be an Ascertained Claim to the Scheme Creditor. If Pre-Administration Money Shortfall Claim < the Type B Distribution Liabilities, then the Pre-Administration Money Shortfall Claim will be Appropriated in full. Each Type B Distribution Liability that is not reduced by the Pre-Administration Money Shortfall Claim will remain unsatisfied.

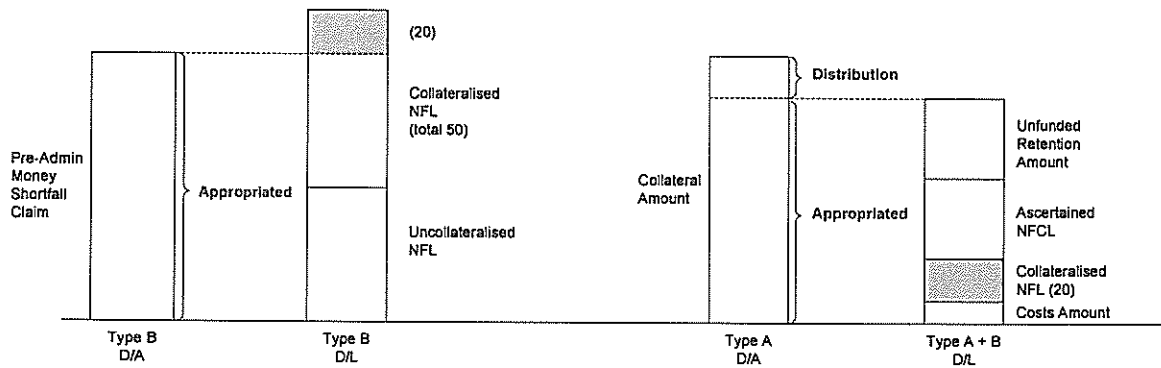
Type A Distribution Assets (first apply Collateral Amount, then apply Pre-Administration Money Allocation) will be Appropriated to reduce first, Costs Amount, secondly, Uncollateralised Net Financial Liability (to the extent there is any after being reduced by Pre-Administration Money Shortfall Claim), thirdly, Collateralised Net Financial Liability (to the extent there is any after being reduced by Pre-Administration Money Shortfall Claim), fourthly, Ascertained Non-Financial Contract Liabilities and fifthly, Unfunded Retention Amount in that order.

If Type A Distribution Assets > Distribution Liabilities, then the Distribution Liabilities will be discharged in full. Any remaining Pre-Administration Money Allocation will be distributed to the Scheme Creditor and any remaining Collateral Amount will be paid back to the Scheme Creditor.

If Type A Distribution Assets < Distribution Liabilities, then the Type A Distribution Assets will be Appropriated in full. Each Distribution Liability that is not reduced by the Type A Distribution Assets will remain unsatisfied.

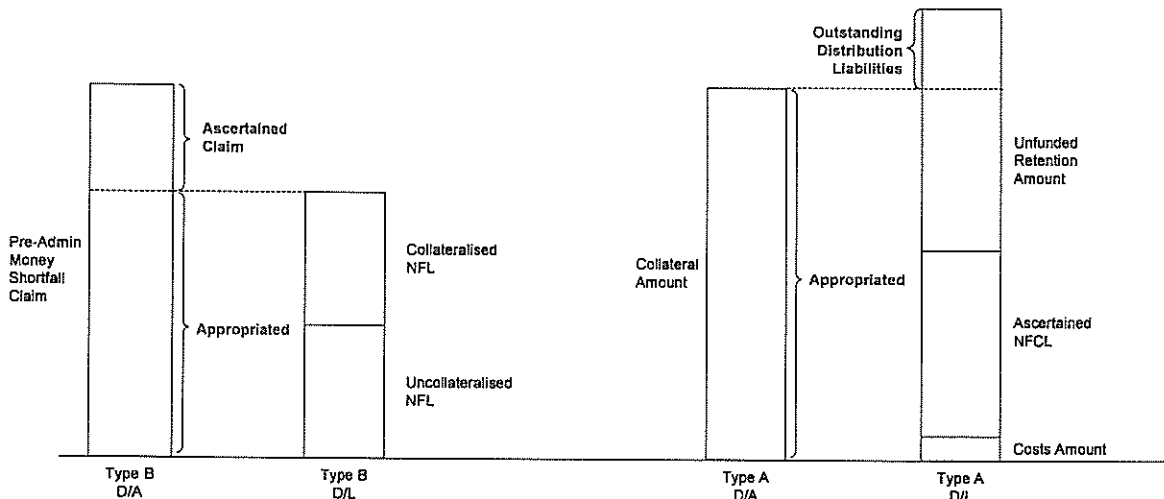
In the example illustrated by diagram 6.9.1 below, the Pre-Administration Money Shortfall Claim is Appropriated in full to discharge Uncollateralised NFL and a portion of the Collateralised NFL. Then, the Collateral Amount is applied as a Distribution Asset and discharges in full Costs Amount, the remaining portion of the Collateralised NFL equal to 20, Ascertained NFCL and the Unfunded Retention Amount. The remaining portion of the Collateral Amount is a Distribution to the Scheme Creditor.

Diagram 6.9.1 – Last distribution of Pre-Administration Client Money to Scheme Creditor with NFL (Collateralisation Election) – Case 1



In the example illustrated by diagram 6.9.2 below, the Pre-Administration Money Shortfall Claim fully discharges the Net Financial Liability (Collateralised and Uncollateralised). The remaining Pre-Administration Money Shortfall Claim is an Ascertained Claim to the Scheme Creditor. The Collateral Amount is then applied as Distribution Asset to reduce the Type A Distribution Liabilities. The Collateral Amount is Appropriated in full and is only sufficient to discharge the Costs Amount, the Ascertained NFCL and a portion of the Unfunded Retention Amount. The remaining portion of the Unfunded Retention Amount remains an outstanding Distribution Liability.

Diagram 6.9.2 – Last distribution of Pre-Administration Client Money to Scheme Creditor with NFL (Collateralisation Election) – Case 2



Waterfall 5a – Interim Asset Allocation to Scheme Creditor with a Net Financial Liability, Appropriation Deferral Election and Collateralisation Election

Facts

A Scheme Creditor has a Net Financial Liability to LBIE. LBIE determines an interim Asset Allocation to such Scheme Creditor. The Scheme Creditor has made a Collateralisation Election, so its Net Financial Liability comprises a collateralised portion and an uncollateralised portion.

The Scheme Creditor has also made an Appropriation Deferral Election, so an interim Asset Allocation cannot be Appropriated to reduce its Net Financial Liability (collateralised and uncollateralised portion). This is evident from Net Financial Liability not being an Applicable Distribution Liability in this circumstance. The effect is that the Net Financial Liability of the Scheme Creditor is disregarded for the purpose of determining a Distribution of such interim Asset

Allocation (resulting in the Applicable Distribution Liabilities being broadly the same as if the Scheme Creditor does not have any Net Financial Liability to LBIE, see Waterfall 1).

Applicable Distribution Asset	Applicable Distribution Liabilities
<ul style="list-style-type: none"> • Asset Allocation <p><i>Valued as at the Distribution Value Date</i></p>	<ul style="list-style-type: none"> • Costs Amount • Ascertained Non-Financial Contract Liabilities • Unfunded Retention Amount <p><i>each of the above, Valued as at the Distribution Value Date</i></p>

Analysis and Examples

Allocation will be used to reduce first, Costs Amount, secondly, Ascertained Non-Financial Contract Liabilities and thirdly, Unfunded Retention Amount in that order.

If Allocation > Distribution Liabilities, then Distribution Liabilities will be discharged in full. Any remaining Allocation will be a Distribution to the Scheme Creditor (see diagram 6.4.1 under Waterfall 1).

If Allocation < Distribution Liabilities, then the Allocation will be Appropriated in full. Each Distribution Liability that is not reduced by the Allocation will remain unsatisfied (see diagram 6.4.2 under Waterfall 1).

Waterfall 5b – Last Asset Allocation to Scheme Creditor with a Net Financial Liability, Appropriation Deferral Election and Collateralisation Election

Facts

A Scheme Creditor has a Net Financial Liability to LBIE. LBIE determines a Last Asset Allocation in respect of an Asset Pool to this Scheme Creditor. The Scheme Creditor has made a Collateralisation Election (so the Net Financial Liability comprises a collateralised portion and an uncollateralised portion).

The Scheme Creditor has also made an Appropriation Deferral Election for this Asset Pool. Upon the last Asset Allocation of that Asset Pool and upon determination of an Asset Shortfall Claim, the Asset Shortfall Claim and the last Asset Allocation can be Appropriated to reduce the Uncollateralised Net Financial Liability. This is shown by the Uncollateralised Net Financial Liability being an Applicable Distribution Liability in this circumstance but the Collateralised Net Financial Liability will not be an Applicable Distribution Liability by virtue of the Collateralisation Election (the Collateralised Net Financial Liability is only an Applicable Distribution Liability upon the last distribution of Pre-Administration Client Money, see Waterfall 4). In addition, the Total Deferral Cash Amount paid by the Scheme Creditor for that Asset Pool will now be applied as a Distribution Asset to reduce Distribution Liabilities.

As mentioned above, Asset Shortfall Claim can only be Appropriated to reduce Uncollateralised Net Financial Liability and not any other Distribution Liabilities.

Applicable Distribution Asset		Applicable Distribution Liabilities	
Type A	Type B	Type A	Type B
<ul style="list-style-type: none"> • Total Deferral Cash Amount • Asset Allocation <i>Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> • Asset Shortfall Claim <i>Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> • Costs Amount • Ascertained Non-Financial Contract Liabilities • Unfunded Retention Amount <i>each of the above, Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> • Uncollateralised Net Financial Liability <i>Valued as at the Distribution Value Date</i>

Analysis and Examples

See the analysis and diagrams 6.8.1, 6.8.2 and 6.8.3 illustrated under Waterfall 3b.

Waterfall 5c – Last distribution of Pre-Administration Client Money to a Scheme Creditor with a Net Financial Liability, Appropriation Deferral Election and Collateralisation Election

Facts

A Scheme Creditor has a Net Financial Liability to LBIE. LBIE determines the Pre-Administration Money Shortfall Claim of that Scheme Creditor. The Scheme Creditor has made an Appropriation Deferral Election and a Collateralisation Election.

This Waterfall 5c is essentially the same as Waterfall 4 and applies in a very limited circumstance, i.e. when LBIE determines the Pre-Administration Money Shortfall Claim of a Scheme Creditor who has made the Collateralisation Election. This determination can happen at any time, whether before or after the last Asset Allocation of a particular Asset Pool. This waterfall deals solely with such Pre-Administration Money Shortfall Claim and the related Collateral Amount and is not affected by any Asset Allocation or the Appropriation Deferral Election for any particular Asset Pool.

As mentioned above, Pre-Administration Money Shortfall Claim can only be Appropriated to reduce Net Financial Liability and not any other Distribution Liabilities.

Applicable Distribution Asset		Applicable Distribution Liabilities	
Type A	Type B	Type A	Type B
<ul style="list-style-type: none"> • Collateral Amount <i>Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> • Pre-Administration Money Shortfall Claim <i>Valued as at the Distribution Value Date</i>	<ul style="list-style-type: none"> • Costs Amount • Ascertained Non-Financial Contract Liabilities • Unfunded Retention Amount <i>each of the above,</i>	<ul style="list-style-type: none"> • Uncollateralised Net Financial Liability • Collateralised Net Financial Liability <i>Valued as at the Distribution Value Date</i>

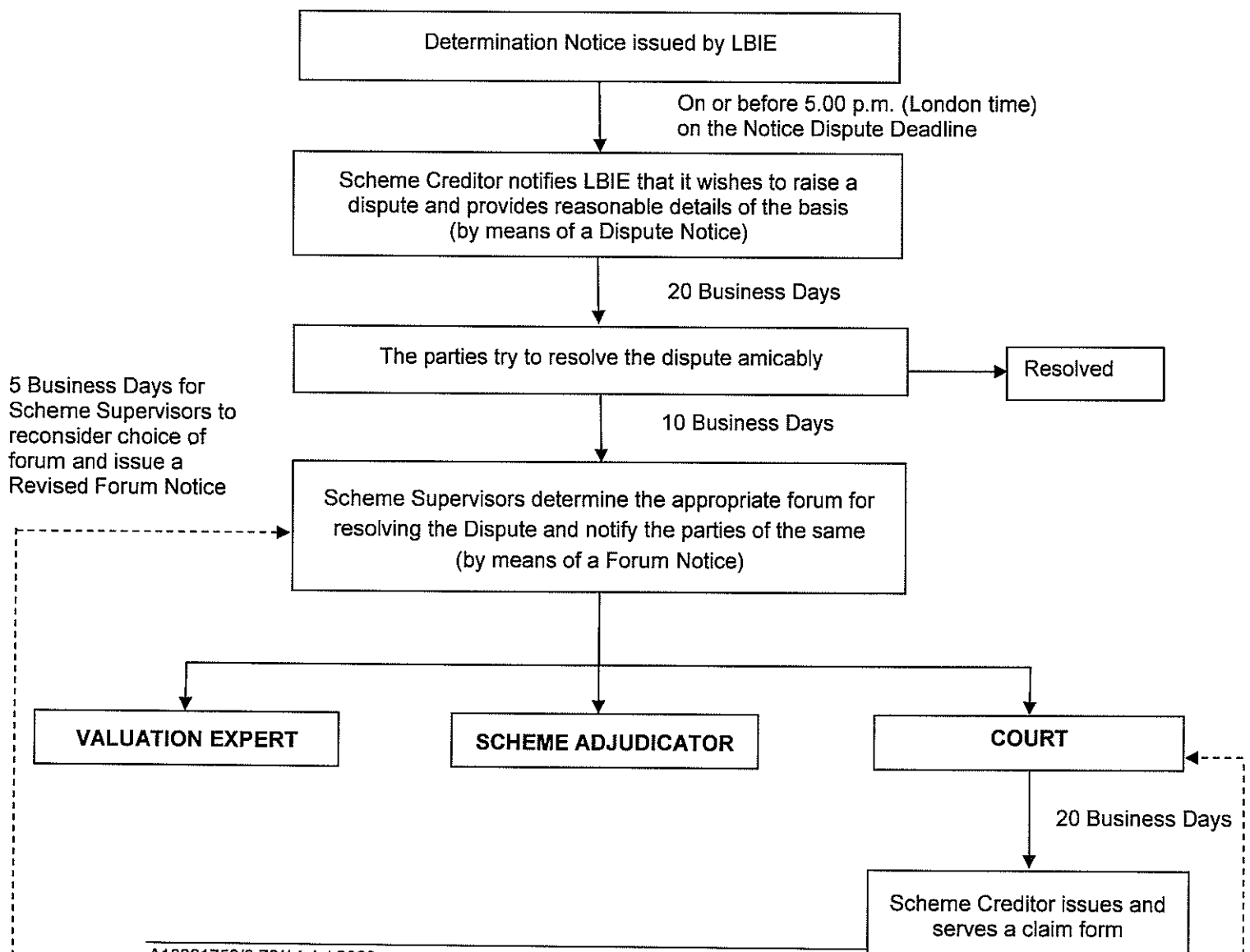
Applicable Distribution Asset		Applicable Distribution Liabilities	
Type A	Type B	Type A	Type B
		<i>Valued as at the Distribution Value Date</i>	

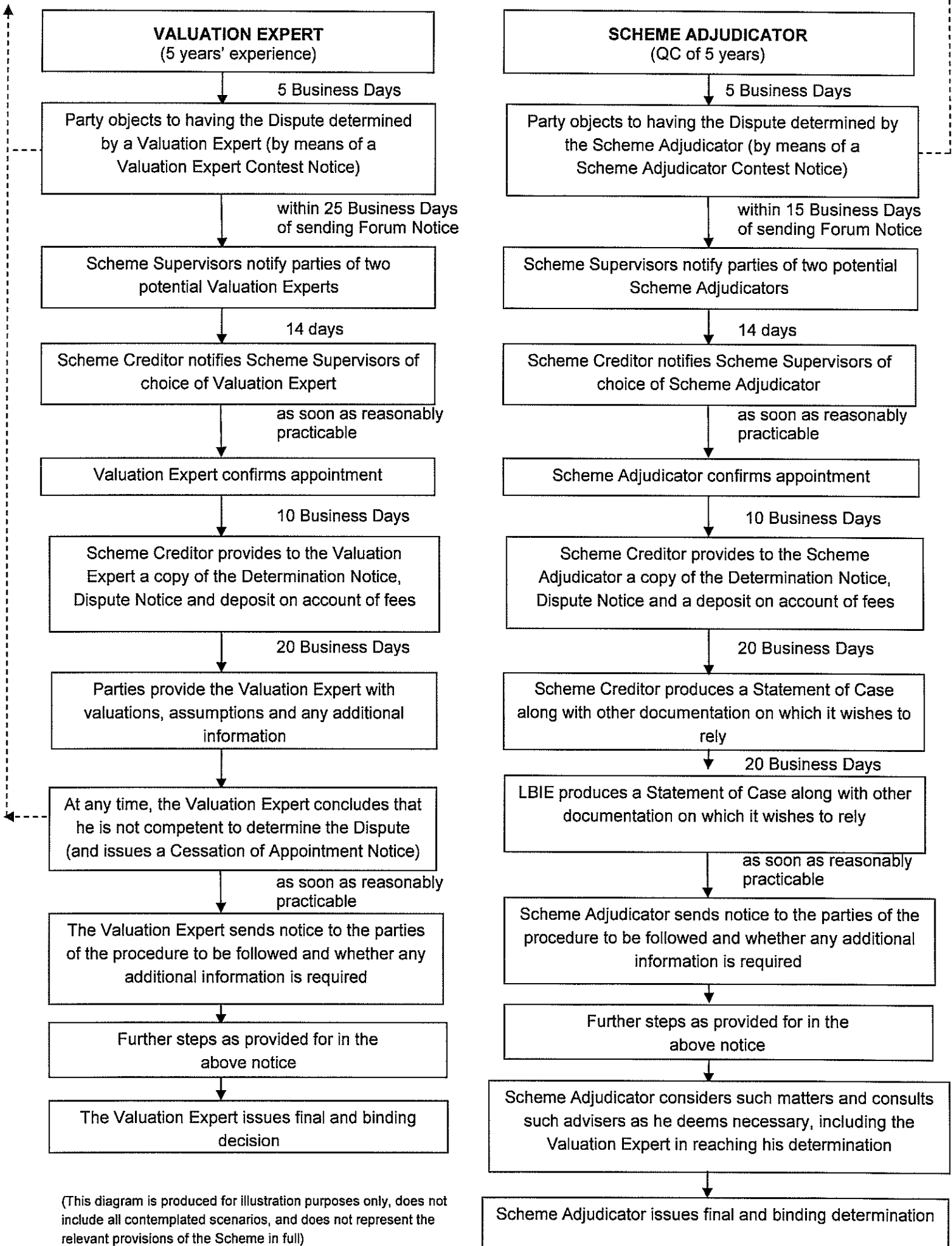
Analysis and Examples

See the analysis and diagrams 6.9.1 and 6.9.2 illustrated under Waterfall 4.

Appendix 7 Dispute Resolution

- 1 The Dispute Resolution Mechanism provides a procedure for resolving Disputes between LBIE and a Scheme Creditor arising out of any Determination Notice issued by LBIE to a Scheme Creditor (a Dispute).
- 2 Each of the following is a Determination Notice:
 - a Net Contractual Position Statement;
 - a Claim Amount Notice;
 - a Distribution and Appropriation Notice; and
 - an Intermediary Distribution Value Notice.
- 3 The Dispute Resolution Mechanism does not prevent LBIE from entering into a compromise, arrangement or settlement with a Scheme Creditor in relation to a Dispute.
- 4 The following procedure applies for resolving a Dispute:





Appendix 8 Definitions

Definitions used in this document are given below. Where they are given in bold and italics, they summarise the definitions which are proposed for use in the Scheme Document. In all other cases, they refer to the appropriate parts of this document.

<i>2006 Act</i>	the Companies Act 2006
Acceding Creditor	is summarised in 5.3.7
<i>Administration Date</i>	15 September 2008
Administrators	the administrators of LBIE
Affected Asset Pool	is summarised in 13
Affected Stock Line	is summarised in 13.3
<i>Agreed Amount</i>	if not represented by a Judgment Amount, all amounts agreed between the relevant Scheme Creditor and a Retention Creditor as being liabilities of the Scheme Creditor due and owing to such Retention Creditor which are secured by Trust Property
Agreed Valuation Methodology	is summarised in 33.4
<i>Alleged Amount</i>	all amounts as alleged by a Retention Creditor to be the total liabilities of the Scheme Creditor due and owing to such Retention Creditor which are secured by Trust Property which, at such time, have not been (i) agreed between the relevant Scheme Creditor and the Retention Creditor; or (ii) determined by a competent court whose rulings are binding upon LBIE and which are not then subject to appeal
<i>Allocation</i>	an allocation of Distributable Trust Property by LBIE by identifying it in the Books and Records of LBIE as belonging to a particular Stock Line and Asset Pool and being available in due course for Appropriation or Distribution in relation to the Asset Claim of a particular Asset Pool Scheme Creditor for the purpose of determining: (i) the Appropriation and/or Distribution of such Distributable Trust Property to LBIE or, as the case may be, such Scheme Creditor; and (ii) the Asset Shortfall Claim of such Scheme Creditor in relation to such Distributable Trust Property, each in accordance with the provisions of the Scheme and Allocate and Allocated will be construed accordingly
Applicable Rate	is summarised in 34.3
Appropriation	is summarised in 11.2 and Appropriate and Appropriated will be construed accordingly
<i>Appropriation Deferral Election</i>	an election by a Scheme Creditor to defer the exercise of

	LBIE's rights to appropriate an Asset Allocation of a particular Asset Pool to reduce its Net Financial Liability until its Asset Shortfall Claim for that Asset Pool has been determined
<i>Ascertained Claim</i>	an ascertained, unsecured claim in the winding-up of LBIE or any distribution of LBIE's assets generally to its unsecured creditors
<i>Asset</i>	any Security or Money
<i>Asset Claim</i>	a Non-Custody Asset Claim or a Custody Asset Claim
<i>Asset Pool</i>	is summarised in 10.3
<i>Asset Pool Scheme Creditor</i>	with respect to each Asset Pool, the Scheme Creditor who has an Asset Claim with respect to any Assets in such Asset Pool and references to an Asset Pool Scheme Creditor are to that Scheme Creditor in that capacity only and not generally in its capacity as a Scheme Creditor
<i>Asset Shortfall Claim</i>	is summarised in 10.10
<i>Asset Valuation Methodology</i>	is summarised in 32
<i>Bar Date</i>	is summarised in 21
<i>Books and Records</i>	books, records or other information in any form including paper, electronically stored data, magnetic media, film and microfilm
<i>Business Day</i>	<ul style="list-style-type: none"> (i) a day (other than a Saturday or Sunday) on which banks are open for general business in London and New York; (ii) in the case of an obligation to be performed in a country other than the United Kingdom or the United States of America, a day on which banks are open for general business in such country; (iii) in the case of the determination of an event or circumstance required to be calculated by reference to a day in any country other than the United Kingdom or the United States of America, a day on which banks are open for general business in such country; or (iv) in the case of any country, a day on which banks are open for general business in such country
<i>CAPCO</i>	Customer Asset Protection Company, an insurance company licensed by the state of Vermont, USA
<i>CASS Rules</i>	the rules set out in Chapters 7 and 7A of the FSA's Client Assets Sourcebook (as amended)
<i>Claim Amount Notice</i>	a notice to each Asset Pool Scheme Creditor specifying its Individual Claim Amount in respect of the relevant

	Asset Pool
<i>Claim Form</i>	the notice in writing given by a Scheme Creditor to LBIE of its claim in respect of Assets and contractual position with LBIE and signed by it or a person authorised on its behalf in the prescribed form
<i>Client Money</i>	client money as defined in the FSA Rules
<i>Close-Out Amount</i>	in respect of a Financial Contract and each Scheme Creditor that is a party to it: (i) a single amount payable by either one of LBIE or the relevant Scheme Creditor to the other as a result of termination of such Financial Contract as determined in accordance with the provisions of the Scheme; or (ii) the aggregate of each Close-Out Component in accordance with the provisions of the Scheme
<i>Close-Out Component</i>	each amount payable by one party to the other as a result of the termination of a Financial Contract
<i>Collateralisation Election</i>	an election by a Scheme Creditor to collateralise its Net Financial Liability with its Pre-Administration Client Money Claim and its Pre-Administration Client Money distributions
<i>Collateralised Net Financial Liability</i>	at any time, the portion of such Scheme Creditor's Net Financial Liability equal to the lesser of: (a) the Total Collateralisation Amount at that time; and (b) its Net Financial Liability
<i>Committee Members</i>	the members of the Scheme Committee appointed by the Scheme Supervisors in accordance with the Scheme
<i>Connected Trade</i>	<ul style="list-style-type: none"> (i) any transaction between LBIE and a Scheme Creditor relating to a Financial Contract that was entered into contemporaneously with, and/or is directly or indirectly linked to, a Failed Trade, which was scheduled to settle on or before the Administration Date and has actually settled; or (ii) any transaction between LBIE and a Scheme Creditor relating to a Financial Contract that was entered into contemporaneously with, and/or is directly or indirectly linked to, a Failed Trade, which was scheduled to settle after the Administration Date
<i>Contractual Valuation Methodology</i>	is summarised in 9.7.1
<i>Contractual Valuation Provisions</i>	in respect of each Financial Contract, Contractual Valuation Provisions will be any terms in such Financial Contract which provide for the calculation of an amount or amounts payable by one party to the other as a result of the termination of such Financial Contract

Converted Asset	any Asset which has, after the Time of Administration, been exchanged or replaced (including without limitation as a result of any Corporate Action or Corporate Event in respect of such Asset), realised, disposed of or appropriated or which has matured
Corporate Action	a subscription rights issue, a tender offer (such as a takeover offer, exchange offer or other similar offer or proposal) which may be of a security for a security, cash, any other securities or assets, or any combination of these, a scheme of arrangement pursuant to Part 26 of the 2006 Act, a security subdivision/security split, a reverse security split, a bonus issue or a bonus rights issue, an exercise of voting rights, an exercise of conversion rights in relation to convertible bonds/warrants, a capital reorganisation, a merger, an election in relation to dividends (whether for cash or securities), and any other analogous or similar action
Corporate Event	<ul style="list-style-type: none"> (i) payment of a dividend; (ii) payment of a coupon; (iii) payment of a redemption amount; (iv) an exchange of a security for a security, of a security for cash, of a security for any other securities or assets, or a security for any combination of these; and (v) any other analogous or similar event, <p>in each case where the relevant event would not qualify as a Corporate Action</p>
Costs Amount	is summarised in 43.1
Costs Rebate Amount	is summarised in 43.3
Court	the High Court of Justice in England and Wales
Creditors' Committee	the committee of creditors of LBIE constituted under paragraph 57 of Schedule B1 of the Insolvency Act
CUSIP number	the Committee on Uniform Security Identification Procedures number
Custody Agreement	any agreement, whether written, oral or otherwise, between LBIE and any person for the provision of custodial services in respect of cash, Securities or other assets by LBIE to such person, including, for the avoidance of doubt, custody arrangements evidenced by the maintenance of a custody account for a person on LBIE's Books and Records within a range of account codes typically used by LBIE for custody services
Custody Asset Claim	<p>a claim against LBIE:</p> <ul style="list-style-type: none"> (i) in trust or in equity in respect of (a) any Securities

(excluding any Rehypothecated Securities) which were recorded in the Books and Records of LBIE at the Time of Administration as Securities which, pursuant to a legal or equitable obligation of LBIE, LBIE held or should have held as Custody Securities and (b) Derived Assets relating to such Securities other than money, and in each case (a) and (b), which is capable of being satisfied (in whole or in part) by the delivery of such Custody Securities and/or their Derived Assets; and

- (ii) in respect of any Derived Assets relating to (a) or (b) above that is money

Custody Security

a Security which is Trust Property credited to a custody account of a Scheme Creditor with LBIE and, where held by an Intermediary and designated as being held for LBIE's customers, is expressed to be so held for the benefit of LBIE's custody customers and which is not in an Affected Asset Pool

Deferral Cash Amount

a payment to LBIE by a Scheme Creditor of a cash amount equal to the lesser of: (i) the Value of the relevant Allocation as at such Distribution Value Date; and (ii) the Net Financial Liability of the Scheme Creditor as at such Distribution Value Date

Delivery Date

in relation to any Distribution that LBIE is due to make to a Scheme Creditor by delivery in accordance with the Scheme, the latest day on which LBIE must give instructions for settlement of such Distribution

Derived Asset

any Asset received by LBIE after the Time of Administration arising out of or derived from any Security (but also including interest on money that was originally derived from a Security) which was itself Trust Property at or immediately before the time that that other Asset was received, including:

- (i) any Security or money which an Intermediary delivers to LBIE in lieu of a Segregated Asset held by such Intermediary, as required by, or otherwise permitted under, the applicable law of that Intermediary;
- (ii) any sale proceeds of any Security comprising (i) above realised by LBIE in accordance with the provisions of the Scheme; and
- (iii) any proceeds or consideration received in exchange, replacement, realisation, disposal, appropriation or maturity of any Converted Asset, and, when used in relation to a particular Security, any Asset that is so derived from that Security

Determining Party	is summarised in 33.2
<i>Dispute</i>	a dispute in relation to any of the notices issued by LBIE and set out in 44.1
Dispute Resolution Mechanism	the procedures for resolving Disputes as described in 44
<i>Distributable Trust Property</i>	at any time, any Trust Property which fulfils each of the following criteria at such time: <ul style="list-style-type: none"> (i) it has been sufficiently identified and located by LBIE to enable LBIE to identify it in accordance with the provisions of the Scheme; (ii) it is within the direct custody or control of LBIE or any Intermediary through which LBIE has indirect custody or control of the Asset and which is willing and able to act in accordance with a direction from LBIE in respect of such Trust Property; and (iii) it is not subject to any order or restriction of any competent court or authority which would prevent or interfere with the operation of the Scheme in respect of such Trust Property, provided that: <ul style="list-style-type: none"> (a) Trust Property which does not fulfil each of the criteria above at any time may subsequently become Distributable Trust Property at such time as it fulfils each of the criteria above and for as long as it continues to fulfil each of the criteria above; and (b) conversely, Trust Property which has at any time fulfilled each of the criteria above may cease to be Distributable Trust Property at any time that it ceases to fulfil each of the criteria above
<i>Distribution</i>	any distribution of any Distribution Asset to a Scheme Creditor determined and delivered to that Scheme Creditor in accordance with the provisions of the Scheme and Distribute and Distributed will be construed accordingly
Distribution and Appropriation Notice	is summarised in 38.8
Distribution Assets	is summarised in 11.3
Distribution Liabilities	is summarised in 11.3
<i>Distribution Value Date</i>	the day on which LBIE determines Distributions and Appropriations using the Value of the relevant Distribution Assets and Distribution Liabilities and which falls on the 25th Business Day prior to the date on which LBIE intended to make a Distribution of such Distribution

	Assets by delivery in accordance with the Scheme, regardless of whether any such Distribution Assets would actually fall due for delivery to a Scheme Creditor or be Appropriated in full by LBIE
<i>Effective Date</i>	the date upon which a copy of the order of the Court sanctioning the Scheme under Section 899 of the 2006 Act will have been delivered to the Registrar of Companies in England and Wales
<i>Equity of Redemption</i>	has the meaning given to it under English law and, in relation to security given under a legal system other than English law, any proprietary interest in an Asset that confers rights that are equivalent to an equity of redemption under English law
<i>Excluded Claims</i>	is summarised in 20.6
<i>Excluded Creditors</i>	is summarised in 5.3.6
<i>Excluded Property</i>	is summarised in 6.5
<i>Explanatory Statement</i>	the statement to be prepared (and the appendices thereto) explaining the effect of the Scheme in compliance with Section 897 of the 2006 Act
<i>Failed Trade</i>	any transaction for the purchase, sale or delivery of any Security which has actually failed to settle
<i>Fallback Valuation Methodology</i>	is summarised in 33.6
<i>Fee</i>	is summarised in 30.4.2 and 30.5
<i>Financial Contract</i>	any bilateral or multi-lateral contract entered into before the Administration Date (whether evidenced in writing or not) relating to one or more transactions or positions of a financial nature (and which is not a purely administrative or services contract), including contracts for the delivery and/or custody of Assets, entered into between a Scheme Creditor and LBIE. For the avoidance of doubt, Master Agreements are Financial Contracts and each Master Agreement, together with the transactions entered into under it, will be treated as a single Financial Contract
<i>Financial Contract Valuation Methodology</i>	is summarised in 9.7
<i>Financial Instrument</i>	any financial instrument, including, without limitation, any share, instrument creating or acknowledging indebtedness, instrument creating or acknowledging entitlements to investments, warrant and unit in a collective investment scheme, that is capable of being credited to an account of LBIE with an Intermediary, excluding money
<i>Flawed Asset Provision</i>	is summarised in 9.8.4

FSA	the Financial Services Authority of the United Kingdom
FSA Rules	the FSMA and the FSA Handbook
Funded Retention Amount	an amount equal to a portion of the Retention Amount which LBIE has accounted for by Appropriation.
Gross Uncollateralised Liability	an amount, subject to a minimum of zero, equal to: (i) the Net Financial Liability of a Scheme Creditor minus; (ii) the sum of (a) its Total Collateralisation Amount (as depicted in diagram 6.1 of Appendix 6) and (b) all of its total Deferral Cash Amounts
Incompletely Documented Agreement	any contract, agreement or arrangement between LBIE and a Scheme Creditor in respect of which it is not possible to ascertain solely from the Books and Records of LBIE the terms applicable to that contract, agreement or arrangement
Individual Claim Amount	the amount of Assets in an Asset Pool which are the subject of the Asset Claim of each Asset Pool Scheme Creditor, as determined by LBIE in accordance with the Scheme
Insolvency Act	the Insolvency Act 1986
Insolvency Rules	the Insolvency Rules 1986
Instructions	clear and unambiguous instructions received by LBIE from a Scheme Creditor in relation to a Corporate Action
Intermediary	a custodian, clearing system, depository, nominee or other person who holds assets (including, for the avoidance of doubt, rights in respect of Assets) on behalf of or to the order of LBIE, and which has a direct contractual or fiduciary relationship with LBIE in relation to those assets
Intermediary Distribution	any asset or benefit received by a Scheme Creditor from an Intermediary or its Sub-Intermediary (other than from LBIE), by way of delivery of Security, payment of cash, set-off or otherwise equivalent to Appropriation or Distribution under this Scheme, in or towards satisfaction of an Asset Claim of that Scheme Creditor, as determined by LBIE
Intermediary Distribution Value Notice	a notice sent by LBIE to a Scheme Creditor who has notified LBIE that it has received an Intermediary Distribution, informing that Scheme Creditor of the Value of that Intermediary Distribution for the purposes of the Scheme
Intermediary Retention	any asset or benefit which an Intermediary or its Sub-Intermediary has (i) withheld from an Intermediary Distribution to a Scheme Creditor and (ii) transferred to LBIE by way of delivery of Security, payment of cash, set-

	off or otherwise equivalent to Appropriation or Distribution under the Scheme, in or towards the satisfaction of that Scheme Creditor's Distribution Liabilities
ISIN	International Securities Identification Number
Judgment Amount	all amounts determined by a competent court, whose rulings are binding upon LBIE and which are not then subject to appeal, as being liabilities of the Scheme Creditor due and owing to a Retention Creditor which are secured by Trust Property
Last Allocation	in respect of an Asset Pool, the Allocation to the relevant Asset Pool Scheme Creditor(s) of an Asset in the relevant Asset Pool: <ul style="list-style-type: none"> (i) after LBIE has determined in its absolute discretion that it does not expect to identify any further Assets in respect of that Asset Pool; and (ii) where: <ul style="list-style-type: none"> (a) none of the relevant Asset Pool Scheme Creditors disputes its Individual Claim Amount; or (b) all relevant Disputes by the relevant Asset Pool Scheme Creditors have been resolved
LBI	Lehman Brothers Inc.
LBIE Released Parties	LBIE, the Scheme Supervisors, the Administrators, and their firms, members, agents, partners or employees
Liabilities	all liabilities, duties and obligations of every description, whether deriving from contract, common law, case law, legal provisions, statute or otherwise, whether present or future, actual or contingent, ascertained or unascertained or disputed and whether owed or incurred severally or jointly or as principal or surety and " Liability " means any one of them
Lien Interest	any equitable interest of a person as beneficiary (a Lien Claimant) in an identified or identifiable Asset where such underlying Asset is held by LBIE (or by another person on behalf of LBIE) upon or subject to a trust (or equivalent arrangement under a legal system outside England) created under or pursuant to an express agreement and where such trust or arrangement is identified as being of security for the obligations of a Scheme Creditor or another person (other than LBIE) to the Lien Claimant
Liquidation Event	either an order by the Court to compulsorily wind up LBIE or the commencement of a creditors' voluntary winding

	up in respect of LBIE (both pursuant to the Insolvency Act and the Insolvency Rules)
<i>Master Agreement</i>	an agreement which provides a set of common terms and conditions for one or more transactions entered into under it, which together form a single agreement
<i>Mid-Market Value</i>	is summarised in 33.7
<i>Money</i>	Post-Administration Client Money or Post-Administration Money
<i>Net Contractual Position</i>	is summarised in 9.4
<i>Net Contractual Position Statement</i>	a statement provided to a Scheme Creditor which shows the Net Contractual Position and the Close-Out Amount for each Financial Contract in respect of that Scheme Creditor
<i>Net Financial Claim</i>	a Net Contractual Position in respect of a Scheme Creditor expressed as a positive number, which represents an amount due and owing by LBIE to that Scheme Creditor and constitutes an ascertained unsecured claim of that Scheme Creditor in the winding-up of LBIE or any distribution of LBIE's assets to its unsecured creditors
<i>Net Financial Liability</i>	a Net Contractual Position in respect of a Scheme Creditor expressed as a negative number, which represents an amount due and owing by that Scheme Creditor to LBIE and constitutes a debt payable from that Scheme Creditor to LBIE
<i>New Claims</i>	are summarised in 20.7
<i>Non-Custody Asset Claim</i>	a claim against LBIE: <ul style="list-style-type: none"> (i) in trust or in equity in respect of (a) any Securities (other than for any Rehypothecated Securities) which were recorded in the Books and Records of LBIE as at the Time of Administration as Securities which, pursuant to a legal or equitable obligation of LBIE, LBIE held or should have held as Non-Custody Securities and (b) Derived Assets relating to such Securities other than money, and in each case (a) and (b), which is capable of being satisfied (in whole or in part) by the delivery of such Non-Custody Securities and/or their Derived Assets; and (ii) in respect of any Derived Assets relating to (a) or (b) above that is money
<i>Non-Custody Security</i>	any Security which is Trust Property, but not a Custody Security
<i>Non-Financial Contract Liabilities</i>	is summarised in 36

Non-Scheme Assets	is summarised in 6.6
Open Contract	any Financial Contract that has not been terminated on or before the date of the Scheme Meetings
Open Contract Termination Date	if the Effective Date falls on the last Business Day of a month, the Effective Date; otherwise, the last Business Day of the month in which the Effective Date falls
Overriding Valuation Provisions	are summarised in 9.8
Pledgor	in relation to any security arrangement, the party over whose assets the security has been created
Post-Administration Client Money	any Client Money which is received by LBIE after the Time of Administration, but for the avoidance of doubt will not include Pre-Administration Client Money or claims for or in respect of Pre-Administration Client Money
Post-Administration Money	any money which: <ul style="list-style-type: none"> (i) is received by LBIE in respect of a Scheme Creditor after the Time of Administration; and (ii) is not: <ul style="list-style-type: none"> (a) Client Money because of the effect of a provision of the Scheme; or (b) Client Money (or money that is otherwise held in trust) because of the effect of a provision of any other agreement or arrangement (whenever entered into) between LBIE and the Scheme Creditor and/or the exemption at CASS Rule 7.2 3R in the CASS Rules, but which is of a type that the Court has ordered LBIE to account to the Scheme Creditor in full
Pre-Administration Client Money	any Client Money which was received by or on behalf of LBIE prior to the Time of Administration and any money earned or arising at any time in respect thereof, whether before or after the Time of Administration
Pre-Administration Client Money Claim	any unsatisfied entitlement of a Scheme Creditor against LBIE as at a Distribution Value Date to a distribution of Pre-Administration Client Money from the pool of Client Money created pursuant to CASS Rule 7.9.6R (as in force at the Time of Administration), as determined by LBIE in its absolute discretion or such higher amount that may be agreed between LBIE and that Scheme Creditor or determined by a competent court
Pre-Scheme Returned Asset	any Security which has been distributed, transferred or delivered by LBIE to a person after the Time of Administration but prior to the Effective Date, in respect

	of which such person has an obligation to redeliver to LBIE such Security or assets equivalent to such Security and proceeds of any conversion and/or derived assets of such Security or assets equivalent to such Security, whether in full or in part, which obligation includes an indemnity to LBIE that compensates LBIE, in whole or in part, for the consequences of any failure to make such a redelivery
<i>Pre-Scheme Returned Asset Recipient</i>	a person which has an obligation to redeliver a Pre-Scheme Returned Asset
<i>Prime Brokerage Agreement</i>	any agreement, whether written, oral or otherwise, between LBIE and any person for the provision of prime brokerage services or margin lending services by LBIE to such person including, for the avoidance of doubt, cash margin trading arrangements evidenced by the maintenance of a margin account for a person on LBIE's Books and Records within a range of account codes typically used by LBIE for such services
Realisation	is summarised in 30.6.2
<i>reasonably practicable</i>	in determining whether any action is reasonably practicable for the purposes of the Scheme, regard will be had to: <ul style="list-style-type: none"> (i) the fact that LBIE is in administration; (ii) the fact that LBIE is not operating as an investment bank; (iii) the actual limitations on access to Books and Records and other resources; (iv) the materiality of the likely impact of such action of LBIE's aim to control costs and to deal with matters arising under the Scheme expeditiously; and (v) any other matters of order or more general application
Recoverable Delivery Value	the value delivered to or realised by a Scheme Creditor in respect of Distributable Trust Property awarded to it in breach of the moratorium effected under the Scheme
<i>Recovered Asset</i>	any Asset received by LBIE at any time from a Pre-Scheme Returned Asset Recipient to satisfy its redelivery obligation to LBIE in respect of any Pre-Scheme Returned Asset
<i>Rehypothesize</i>	to appropriate an asset (including money) that is subject to a security arrangement pursuant to which the Pledgor of that asset has an Equity of Redemption in respect of that asset, in such a manner as to eliminate that Equity of Redemption and replace it with a contractual obligation to

	redeliver equivalent assets or pay an amount of equivalent value and Rehypothecation and Rehypothecated will be construed accordingly
<i>Rehypothecated Securities</i>	as at the Time of Administration, any Security which was Rehypothecated by LBIE, including any Security which was appropriated by LBIE so as to cease being a Segregated Asset, whether or not LBIE was entitled to do so
Released Claims	is summarised in 20.1
<i>Released Parties</i>	in respect of a Scheme Creditor, the LBIE Released Parties together with all other Scheme Creditors
Relevant Asset	an Asset being valued as at the relevant asset valuation date under the Scheme for the purpose of the Asset Valuation Methodology
Relevant Information	is summarised in 12.2
Relevant Securities	is summarised in 30.4.3
Reserved Asset	is summarised in 6.7
<i>Reset Date</i>	the last Business Day in London of every third month following the Effective Date
Retention Amount	is summarised in 37
Retention Claim	is summarised in 11.1.1
<i>Retention Creditor</i>	on any date, any person which has notified LBIE of a Retention Claim or is otherwise determined by LBIE based on Relevant Information to have a Retention Claim as at such date
<i>Scheme Adjudicator</i>	such person as may be appointed as Scheme Adjudicator in accordance with the Scheme
<i>Scheme Appropriated Asset</i>	at any time, any Asset which has been Appropriated by LBIE prior to such time pursuant to the Scheme
Scheme Committee	is summarised in 46
Scheme Creditor	is summarised in 5
Scheme Document	the document that sets out the terms of the Scheme to be promoted by LBIE
<i>Scheme Meetings</i>	the separate meetings of the relevant classes of Scheme Creditors convened by the order of the Court pursuant to Section 896 of the 2006 Act for the purpose of considering and, if thought appropriate, approving the Scheme, including any adjournment thereof
<i>Scheme Returned Asset</i>	at any time, any Asset which has been delivered by LBIE as a Distribution to a Scheme Creditor prior to such time
Scheme Supervisors	initially Steven Anthony Pearson, Anthony Victor Lomas

and Anthony John Kett, each an insolvency practitioner and each of PricewaterhouseCoopers LLP

Security

any Financial Instrument or any right in respect of any Financial Instrument against a custodian, clearing system, depository, nominee or other person who holds assets (including, for the avoidance of doubt, rights in respect of assets) on behalf of or to the order of a person which holds such Financial Instrument

Segregated Assets

any Security which was recorded in the Books and Records of LBIE (as at the Time of Administration) as being held in a segregated manner for customers of LBIE (other than Excluded Creditors) separately from other Securities held by LBIE which are available to the unsecured creditors of LBIE and which was:

- (i) held in physical form by LBIE and segregated from other Securities held in physical form by LBIE which are not credited to an account of a customer of LBIE; or
 - (a) held in physical form by an Intermediary for LBIE's customers and segregated from other Securities held in physical form by such Intermediary which are not credited to an account of a customer of such Intermediary; or
 - (b) if not held in physical form by an Intermediary:
 - I. credited to an account designated in the Books and Records of the Intermediary as an account in the name of LBIE, but being held by LBIE for the benefit of its customers; or
 - II. where the Intermediary does not designate any account recorded in its Books and Records as being for LBIE's customers, credited to an account in the name of LBIE

Short Position

is summarised in 9.8.2

Short Sale

is summarised in 9.8.2

Stock Line

a group of fungible Securities, often identified by a unique ISIN or CUSIP number and, in relation to the Asset of an Asset Pool, includes all Derived Assets of such a group of fungible Securities

Sub-Intermediary

in respect of each Intermediary, a custodian, clearing system, depository, nominee or other person who holds assets (including rights in respect of assets) on behalf of

	or to the order of such Intermediary, and which has a direct or indirect contractual or fiduciary relationship with the Intermediary in relation to those assets
Tax	all forms of taxation, whether levied by reference to income, profits, gains, net wealth, asset values, turnover, added value or otherwise and will further include payments in respect of or on account of such forms of taxation, in each case whether of the United Kingdom or elsewhere in the world whenever imposed and whether chargeable directly or primarily against or attributable directly or primarily to LBIE, a Scheme Creditor or any other person
Tax Authority	any taxing or other authority competent to impose any liability in respect of Tax, or responsible for the administration and/or collection of Tax or enforcement of any law in relation to Tax
Termination Date	is summarised in 24.1
Time of Administration	7.56 a.m., London time, on 15 September 2008
Trust Property	at any time, any Asset which fulfils the following criteria at such time: <ul style="list-style-type: none"> (i) it is a Segregated Asset, a Derived Asset or a Recovered Asset; and (ii) it is not Excluded Property
Unfunded Retention Amount	an amount equal to a portion of the Retention Amount which LBIE has not accounted for by Appropriation
Unpaid Amount	is summarised in 33.8
Unpaid Amount Deliverables	is summarised in 33.8.2
USD-LIBOR	on any Reset Date, the London Inter-Bank Offered Rate for deposits in US dollars for a designated maturity of three months which appears on the Telerate Page 3750 as of 11.00 a.m. London time, on the day which is two London Business Days prior to such Reset Date and if such rate does not appear on the Telerate Page 3750, then the rate for such Reset Date will be determined on the basis of the arithmetic mean of the rates at which deposits in US dollars are offered by at least three major banks in the London interbank market to prime banks in the London interbank market for a designated maturity of three months commencing on that Reset Date and in a representative amount of a reasonable size, as determined by LBIE
Valuation Expert	an independent valuation expert appointed pursuant to the Scheme
Valuation Statement	in respect of each Financial Contract, one or more

statements that, when taken together, show in reasonable detail the calculation of the relevant Close-Out Amount or Close-Out Components for such Financial Contract, such statement(s) may be contained within any other notice or document which the Scheme Creditor may send to LBIE in accordance with this Scheme, including, for the avoidance of doubt, any supplementary information provided by the Scheme Creditor in accordance with the Scheme

Valuation Submission Date

the Bar Date, unless LBIE has:

- (i) amended the Contractual Valuation Provisions of a Financial Contract; or
- (ii) determined to treat a Financial Contract as two separate Financial Contracts,

in which case the Valuation Submission Date in relation to such Financial Contract will be the day falling 20 Business Days after LBIE has notified the relevant Scheme Creditor of the relevant amendments

Value

unless otherwise specifically provided in the Scheme:

- (i) in respect of any Financial Contract, the Close-Out Amount of such Financial Contract as determined in accordance with the applicable Financial Contract Valuation Methodology; and
- (ii) in respect of any Relevant Asset, the value of such Relevant Asset as determined in accordance with the Asset Valuation Methodology

VAT

within the European Union, such tax as may be levied in accordance with (but subject to derogations from) the Directive 2006/112/EC and outside the European Union any tax levied by reference to added value or sales

Voting Asset Claim

is summarised in 14.2

Voting Calculation Date

30 June 2009, subject to Court approval

Voting Equity

is summarised in 14.3

Warranty

is summarised in 27