

BANKRUPTCY REPORT

Bankruptcy report number 3 of the trustee of

Lehman Brothers Securities N.V.

24 November 2009

Company name	: Lehman Brothers Securities N.V. (" LBS ")
Bankruptcy reference	: E.J.F. 2/2009
Bankruptcy date	: 30 January 2009
Trustee	: Mr. M.R.B. Gorsira (the " Trustee ")
Supervisory judge	: Mrs. A.M.P. Geelhoed
Activities Company	: The objective of LBS is the structuring and issuing of derivative products linked to equity securities with the purpose to obtain a return on investment.
Turnover data	: Operating income according to the audited annual accounts 2007 (as of 30 November 2007): USD 21,895
Reporting period	: 29 July 2009 up to and including 23 November 2009
Hours spent in period under review	: 937.5
Total hours spent to date	: 1,478

Summary of key issues

- The Trustee has entered into a USD 6,500,000 facility agreement which enables him to finance the settlement of the bankruptcy of LBS;
- The Trustee is a party to the *Cross-Border Insolvency Protocol* (the "**Protocol**") and has participated in meetings with the official representatives that are also party to this Protocol (the "**Official Representatives**" or the "**Protocol-parties**") on 23 and 24 September 2009 in New York and on 15 and 16 October 2009 in Amsterdam;
- The Trustee has filed several proofs of claim in the Chapter 11 proceedings of Lehman Brothers Holdings Inc. ("**LBHI**"); and

- Neither a claims filing date nor a date for the claims admission meeting have been set.

1. General

1.1 This is the third bankruptcy report of the Trustee. The information provided in this report – especially the financial information – is still subject to further investigation. Please be advised that information may have to be substantially amended following such further investigation.

1.2 With regard to the progress of the bankruptcy, the Trustee will communicate with creditors and other interested parties via electronic mailings and the website: www.ekvandoorne.com/bankruptcylbs.

2. Lehman Brothers Securities N.V.

2.1 General

LBS was incorporated on 31 October 2003 and is a wholly-owned subsidiary of Lehman Brothers Asia Holdings Limited ("**LBAHL**"), seated in Hong Kong, which in turn is a wholly-owned subsidiary of LBHI. LBHI is incorporated in Delaware in the United States and is the holding company of the worldwide operating Lehman Brothers group (the "**Lehman Brothers Group**").

LBS had its corporate seat at E-Commerce Park, Vredenberg, Curacao, the Netherlands Antilles. Mr. Jonathan Josef Knapp is listed in the Commercial Register as the Managing Director of LBS (the "**Managing Director**").

2.2 Cause of bankruptcy

On 15 September 2008 LBHI filed a petition in the United States Bankruptcy Court for the Southern District of New York seeking relief under Chapter 11 of the United States Bankruptcy Code. The Lehman Brothers Group has subsequently closed all its subsidiaries globally. As LBS was then unable to pay its debts, LBS requested the Court of First Instance of the Netherlands Antilles, venue Curacao, that it be declared bankrupt in January 2009.

2.3 The Securities

LBS issued warrants and certificates (the "**Securities**") to institutional and private investors under various programs, such as:

- Lehman Warrant and Certificate Program;
- Warrant and Certificate Program (Germany);
- Warrant and Certificate Program (Switzerland); and
- Warrant and Certificate Program (Nordic States).

The abovementioned programs are hereinafter collectively referred to as the "**Programs**". Under the Programs a great variety of Securities with individually distinct terms and conditions were issued.

- 2.4 The Securities were linked to derivative instruments, such as the price developments of specific shares, basket of shares or commodities (the "**Underlying**"). The risks related to these derivative instruments were hedged by LBS by entering into (hedging) agreements under ISDA master agreements (the "**ISDA-agreement**") with (especially) Lehman Brothers Finance S.A. ("**LBF**"). The idea was that, by entering into these (hedging) agreements with LBF, LBS did not run any market risk of value movements with respect to the Securities. LBF as LBS' swap counterparty - and potentially also other Lehman affiliates – subsequently covered (part of) the risks they had assumed from LBS by entering into hedging agreements with external parties.
- 2.5 The Securities have all been issued under guarantee of LBHI. The proceeds of the issuances of the Securities were used to finance LBHI and its group companies.

3. Settlement bankruptcy

3.1 General comments

In the previous bankruptcy report, the Trustee mentioned that one of the main issues he was facing was lack of financing. After the required approval of the supervisory judge, in September 2009 the Trustee has entered into a USD 6,500,000 facility agreement which enables him now to finance the bankruptcy of LBS.

In respect of the settlement of the bankruptcy of LBS, the Trustee is also being assisted by an external accountant, derivative experts and banking and finance lawyers with in-depth knowledge of security programs, such as the respective Warrant and Certificate Program. With regard to the UK and US (New York) law issues, the Trustee has engaged UK and US counsel. Furthermore, the Trustee has initiated discussions with other parties, involved in the issuances of the Securities, such as the various clearing systems in Europe and the US.

4. Global Close, Financial information and Swaps

4.1 Global Close Balance Sheet

In accordance with US GAAP, the intercompany *Global Close Balance Sheet* (the "**Global Close**") of the Lehman Brothers Group entities has been finalized in January 2009. The Trustee was not actively involved in the Global Close process. The Global Close was a full accounting close in line with pre-bankruptcy Lehman reporting standards as of 12 September 2009, the last business day prior to the commencement of the Chapter 11 proceedings for

LBHI and on 15 September 2009 for LBIE. In addition to the Global Close, a provisional balance sheet of LBS was drawn up as of Monday 15 September 2008 (start of business day), which approximately equaled Friday 12 September 2008 (close of business). The cross-border insolvency principles and the Global Close will form the basis for the determination of the intercompany claims, and in a broader sense the financial position of LBS.

The Trustee is in the process of reconciling and investigating the books and records of LBS and has started analyzing the numerous securities on the balance sheet of LBS.

4.2 *Swaps*

As stated in paragraph 2.4 of this bankruptcy report, in principle, LBS covered the risks related to the derivative elements linked to the Securities by entering into swap agreements with other Lehman Brothers Group entities. As well as the ISDA-agreement with LBF, it is expected that LBS also concluded such agreements with other Lehman affiliates. Some of the ISDA-agreements, including the agreement with LBF, could have been automatically terminated upon the occurrence of certain events of default as defined in their contained clauses. The Trustee has yet to received any termination notices regarding such ISDA-agreements.

The ISDA-agreement with LBF is to be investigated in more detail. The Trustee reserves all rights in respect thereof – and therefore also in respect of the valuation of the positions outstanding under the ISDA-agreements. It is noted that the Protocol meetings address the reconciliation of the trade information obtained from several accounting sources with respect to the swap positions. Given the large number of trades that the parties entered into and the complexity of the accounts, this reconciliation process might take some time. At a later stage, parties might formulate a practical approach to come to a calculation of the outstanding positions under the various ISDA-agreements.

5. **Cross-border insolvency protocol**

5.1 *Cross-border insolvency protocol*

The Trustee is a party to the Protocol.¹ The purpose of the Protocol is to come to an efficient winding-up of the companies of the Lehman Brothers Group by facilitating the coordination between the various official representatives and the courts involved. The Protocol intends, among other issues, to provide for a consistent and measured approach to the calculation and adjudication of intercompany claims so as to avoid unnecessary intercompany litigation.

¹ <http://www.ckvandoorne.com/bankruptcylbs/cross-border.html>

5.2 *Protocol Meetings*

The Official Representatives have had their first meeting in London on 16 and 17 July 2009. The objective of the First Protocol Meeting was primarily to discuss how the Official Representatives could agree to intercompany claims through a streamlined, consistent, coordinated and transparent process that significantly reduces administrative expenses and potentially avoid years of costly litigation. The first step in this process was making the financial information, which could be derived from the various IT systems within the Lehman Brothers Group, available to the Protocol-parties. In addition, a Procedures Committee was established consisting of representatives of the various Protocol-parties. Twice a month the Procedures Committee holds conference calls to monitor the progress in the process and to address specific issues.

On 23 and 24 September 2009, LBHI organized a (financial) mini-seminar in New York explaining the internal procedures behind the Global Close for the Procedures Committee. The attending parties were provided with financial information related to their respective entities and as well as specific insight in the IT-systems that generated the financial data. The purpose of the meetings in New York was also to establish – to the extent possible – the population of intercompany trades that exist between the entities.

On 15 and 16 October 2009 the Protocol-parties had the Second Protocol Meeting in Amsterdam, which followed up on the “mini-seminar”. Principles relating to the valuation of the intercompany positions (trading and non-trading) were also discussed. The next meeting of the Protocol-parties is scheduled for January 2010 in New York and it is expected that this meeting will focus on the legal aspects related to the valuation of intercompany claims.

6. **Debtors**

6.1 *Lehman Brothers Holdings Inc.*

As discussed in the second bankruptcy report under paragraph 7.2 the bar date for filing intercompany claims against LBHI and its affiliated debtors in the Chapter 11 proceedings for the Official Representatives was 2 November 2009.

The Trustee filed the proofs of claim against LBHI and its affiliated debtors, including, but not limited to, proofs of claim with respect to any intercompany loan agreement and proofs of claim in relation to positions under any ISDA-agreement, including, but not limited to, the ISDA-agreement with LBF. At this stage it is not required to substantiate each filed proof of claim with a specific amount.

In addition the Trustee filed a proof of claim with LBHI in relation to the Unanimous Written Consent of the Executive Committee of the (LBHI's) Board of Directors of 9 June 2005 (the "**Board Resolution Guarantee**"). By filing this proof of claim the Trustee has asserted claims LBS may have in relation to this Board Resolution Guarantee.

Below is an overview of the claims filed by LBS in the various US proceedings. The Trustee notes that all claims filed may be amended at a later stage.

Debtor	Claim Description	Amount
Lehman Brothers Holdings Inc.	LBT Notes	USD 11,286,793.00
Lehman Brothers Holdings Inc.	Swap Guarantee	USD 100,589,377.71
Lehman Brothers Holdings Inc.	Board Resolution Guarantee	USD 272,026,097.82
Lehman Brothers Holdings Inc.	Derivatives	-
Lehman Brothers Commercial Corporation	Derivatives	USD 1,203,462.00
Lehman Brothers OTC Derivatives	Derivatives	-
Lehman Brothers Special Financing Inc.	Intercompany Receivable	USD 74,628,511.67
Lehman Brothers Special Financing Inc.	Derivatives	-
Lehman Brothers Holdings Inc.	Intercompany Loan/Advances	USD 6,050,451,467.79
East Dover Limited	Catch all	
CES Aviation IX LLC	Catch all	
CES Aviation V LLC	Catch all	
CES Aviation LLC	Catch all	
Lehman Scottish Finance L.P.	Catch all	
Lehman Brothers Financial Products Inc.	Catch all	
Lehman Brothers Commercial Corporation	Catch all	
Lehman Commercial Paper Inc.	Catch all	
Lehman Brothers Derivatives Products Inc.	Catch all	
Lehman Brothers OTC Derivatives	Catch all	
Lehman Brothers Special Financing Inc.	Catch all	
Lehman Brothers Commodity Services Inc.	Catch all	
PAMI Statler Arms LLC	Catch all	
LB 745 LLC	Catch all	
Lehman Brothers Holdings Inc.	Catch all	
LB 2080 Kalakaua Owners LLC	Catch all	
LB Rose Ranch LLC	Catch all	
Structured Asset Securities Corporation	Catch all	
BNC Mortgage LLC	Catch all	
Luxembourg Residential Properties Loan Finance S.a.r.l.	Catch all	

The total claim the Trustee has filed with LBHI amounts to USD 6,333,764,358.00. Please note that the amounts (as included in the above overview) can not be added up in order to calculate a total amount, as the individual amount can at least consist of more than one individual claim, which individual claim can also have been claimed under more than one guarantee and/or otherwise. In principle, all the proofs of claim with their addenda submitted by the Trustee will be available on LBHI's website (www.lehman-docket.com) in the coming weeks.

7. Valuation principles

7.1 *General*

The Securities that have been issued from LBS are complex, both from a legal and financial perspective. Various legal issues must be resolved before any calculation of the value of the claims arising from the Securities can be made. The principles and views expressed in this chapter may be subject to change and are therefore presented without prejudice.

In this report, the Trustee addresses the valuation of claims under the Programs and not the valuation of any claims under the guarantee granted by LBHI to the Security Holders.

7.2 *Valuation of claims*

The starting point for the valuation of claims arising from the Securities remains the terms and conditions of the Pricing Supplement (also known as the "**Final Terms**") under which they were issued. These consist of the underlying contracts to each Security and specify the amounts that are payable to the Security Holders under such terms (the "**Settlement Amount**") and when such amounts are due and payable.

In order to formulate valuation principles, an understanding of the point in time when such become due and payable is important.

According to the applicable Final Terms of the Securities and the law that applies to such Final Terms, as a general principle, the Securities do not automatically become due and payable as a result of the Chapter 11 procedure of LBHI or LBS' bankruptcy. Furthermore, Netherlands Antilles insolvency law does not contain any rule pursuant to which the Securities (automatically) become due and payable as a result of LBS' bankruptcy. In principle, the Securities become due and payable on the Settlement Dates, also defined as the Redemption Dates (i.e. when such products have matured). However, due to the intrinsic nature of structured products such as the Securities, numerous exceptions exist which have a

fundamental bearing on their valuation and add an additional layer of complexity to this process. These exceptions are described below.

The majority of the Securities contained "triggering events" whose effects would cause an early settlement or redemption of the Security involved. Market tools such as *triggers*, *strikes* and *barriers*, to name some of the most frequently employed, were linked to the market fluctuations of the Underlying. In the event that the value of the Underlying, taken as a collective or merely individually within a basket, infringed upon such thresholds, settlement or redemption would then occur. Any valuation therefore requires both an examination of the terms and conditions of the Final Terms as well as the pricing history of each Underlying during the lifetime of the respective Security.

7.3 *Netherlands Antilles valuation principles*

Under the Netherlands Antilles Bankruptcy Decree 1931 (the "**Bankruptcy Decree**"), creditors must file their claims with the Trustee in order to be entitled to a distribution out of the bankruptcy proceeds on the basis of the admitted claim. To determine the amount of the admissible claims, and as a consequence, of a distribution, the value of the claims must be admitted. In principle the value of the claims to be filed with the Trustee will be determined on the basis of the valuation principles as set out in the Bankruptcy Decree. In that respect especially three articles are important:

Article 124 (to the extent relevant, informal translation)

Interest accruing after the bankruptcy order may not be admitted unless secured by a pledge or mortgage. [...]

Article 126 (informal translation)

1. *A claim with an uncertain due date or which entitles the creditor to periodic payments shall be admitted for its value at the date of the bankruptcy order.*
2. *All claims which become payable within one year after the date of the commencement of the bankruptcy order shall be considered due and payable at that time. All claims which become payable one year thereafter shall be admitted for their value one year from the date of the commencement of the bankruptcy.*
3. *Only the time and method of the installment payments, a profit opportunity, where applicable, and, if the claim bears interest, the agreed interest rate shall be taken into account for the calculation.*

Article 128 (informal translation)

Claims having an indeterminate or uncertain value or whose value is not expressed in Curacao currency or not expressed in money at all, shall be admitted for their estimated value in Curacao currency.

The Trustee will hopefully be able to discuss the effects on the valuation principles under the Bankruptcy Decree in respect of the valuation of claims based on the Securities in the next bankruptcy report in more detail.

8. Improper management

The Trustee will further investigate the manner in which the Managing Director has fulfilled his duties.

9. Fraudulent acts in respect of creditors

The Trustee will further investigate whether fraudulent acts (*paulianus handelen*) have been committed.

10. Miscellaneous

- 10.1 As the timing, the Trustee notes that the winding-up of the bankruptcy of LBS largely depends on the completion of the Chapter 11 proceedings of LBHI.
- 10.2 This third bankruptcy report (as well as every subsequent bankruptcy report) will be available on www.ekvandoorne.com/bankruptcylbs. The bankruptcy reports are also available for inspection at the Court of First Instance of the Netherlands Antilles, venue Curacao.
- 10.3 All creditors, including but not limited to the Security Holders, who believe that they have a claim against LBS, are requested to submit those claims in writing, with documents supporting such claim, to:

VanEps Kunneman VanDoorne
Attn. Robert F. van Beemen
Julianaplein 22
P.O. Box 504, Curacao
Netherlands Antilles

or by e-mail to:

bankruptcy_lbs@ekvandoorne.com or beemen@ekvandoorne.com

11. Plan of action

- i) Continuing the retrieval and analysis of the Program, legal, financial and trade documentation;
- ii) Investigating the ISDA-agreements and outstanding swap positions, including, but not limited to, the swap positions with LBF; and
- iii) Assuming the valuation principles that need to be applied in respect of claims based on the Securities.
