

Lehman acquisition accounting
Interim 2009 update
[DRAFT]

As at 30 June 2009, the initial accounting for the September 2008 acquisition remains provisional and disclosure to that effect will be included in the interim financial statements (see appendix). However, this position will be revisited before the initial accounting is finalised (22 September 2009 at the latest). The justification for this approach is outlined below.

Assets not yet received

Assets that were included on the acquisition balance sheet but not received are summarised below in the table below:

	31 Dec 2008	30 June 2009
	\$m	\$m
Customer and prop collateral on exchange traded derivatives	514	532
Margin against OCC positions	991	931
Unencumbered assets – Lists A and B1	707	677
15c3 receivable or equivalent securities	769	769
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Total	2,981	2,909
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The movements in these balances between the two dates are principally due to changes in foreign exchange rates and the fair value of the underlying securities, although a balance sheet reclassification also reduced the customer margin balance by \$19m. Of the remaining net \$53m decrease, \$12m was recognised in 2009 P&L, \$41m in the AFS reserve. Were we to revise our initial accounting in September (as opposed to declaring it closed and recognising any fair value adjustments in current period P&L), these entries would be reversed and instead reflected in 2008 comparatives as a reduction in negative goodwill.

At 30 June 2009, the PIM customer balance sheet includes an amount of \$743m receivable from the conversion/Omni account and \$388m receivable from LBI in relation to securities that Barclays has delivered to customers. Whilst this receivable is also due from the Lehman estate, further movements in this balance will not impact on the acquisition accounting. [NB: In early July, \$250m of the \$743m conversion/Omni exposure was realised in cash]

In addition to the items identified above, Barclays is entitled to receive further assets that were not recognised in the acquisition balance sheet. At the time the 2008 accounts were approved, there was insufficient certainty around the identity, quantum and status of these assets to support recognition.

As at 30 June, the continued non-recognition of these assets creates an effective provision against the uncertainty of recovering acquired assets that have not yet been received. The eventual transfer to Barclays of acquired assets not yet received is a subject of discussion with the trustees of the relevant Lehman estates and SIPA. In addition, there may be practical difficulties in the recovery of collateral balances held at Lehman affiliates in some jurisdictions (included in the table below).

These unrecognised assets are summarised in the table below:

	\$m
Prop collateral at Lehman affiliates	267
Customer collateral at Lehman affiliates	193
Unencumbered assets – Lists B2 and C	162
Principal and interest on Lists A and B1	63
OCC margin (proceeds of drawn Letters of Credit)	80
Total	765

This effective provision is reduced by (i) an amount of \$71m being the additional provision that should have been recognised against OCC positions acquired (as included in the 2008 SUD); and (ii) \$55m in principal and interest on inventory received in September 2008, that may have been foregone as a part of the agreement with JP Morgan in mid-December 2008. This results in an effective provision of \$639m, i.e. an effective provisioning level of 17.4% against assets not yet received.

Employee compensation

Under the Asset Purchase Agreement, Barclays took on an obligation to make certain bonus, severance and other compensation-related payments to legacy-Lehman employees. This obligation has now largely been discharged and amounts still to be paid have been identified. No adjustment to the initial accounting is anticipated in relation to employee compensation.

Cure payments

Under the Asset Purchase Agreement, Barclays became obliged to pay Court-approved cure amounts to suppliers whose contracts it decided to accept. A provision of \$224m was included in the acquisition balance sheet to represent this obligation. As at 29 May 2009, the actual cure spend was \$223.7m with a further \$2m expected. On this basis, no adjustment to the initial accounting is anticipated in relation to cure payments.

Gary Romain
23 July 2009

Appendix – Disclosure to be included in interim financial statements

The current version is included below:

“The initial accounting for the acquisition of the North American businesses of Lehman Brothers remains provisional. If material revisions to fair values result from the conclusion of the acquisition process, they will be recognised as an adjustment to the initial accounting up until the date the initial accounting is determined to be complete. Any such adjustments must be effected within 12 months of the acquisition date 22 September 2008 and would result in a restatement of the 2008 income statement and balance sheet. Any revisions that occur after the initial accounting is complete would be reflected in current period profit and loss.

Approximately £2.2bn of the assets acquired as part of the acquisition had not been received by 30 June 2009. This amount is largely comprised of (i) margin and collateral attributable to the acquired businesses; and (ii) cash and securities receivable under the terms of the acquisition. Approximately £1.8bn of these assets were recognised as part of the initial accounting for the acquisition and are included in the balance sheet as at 30 June 2009. In addition, in connection with the Group’s acquisition of Lehman’s Private Investment Management (PIM) business, it has chosen to make available to former PIM customers certain cash balances and securities that remain to be transferred to them by the LBI Trustee. This has resulted in the recognition of a receivable from the LBI bankruptcy estate of approximately £700m as at 30 June 2009. The recovery of these assets is the subject of continuing discussions with the relevant bankruptcy estates and trustees.”