
Lehman Brothers International (Europe) – In Administration

Joint Administrators' fourteenth
progress report, for the period from 15
March 2015 to 14 September 2015

12 October 2015

Important notice

Following payment of the fourth interim dividend to Senior creditors on 30 April 2014, a Surplus arises in the Administration and rights to payment from that Surplus are currently being determined through the Waterfall I and II court proceedings.

The precise amount of Surplus funds that will be available in due course remains uncertain, and due to commercial sensitivity, confidentiality and/or legal privilege, we are unable to provide detailed commentary on certain issues which will impact this.

We reserve all rights concerning the relevance and calculation of all claims against the LBIE estate that might eventually share in the Surplus. No conclusion should be drawn or inferred from this report as to the way in which such claims will eventually be assessed or the allocation of the illustrative Surplus entitlements.

The Administrators' primary role in the Waterfall I and II court proceedings is to provide guidance and leadership to the process, whilst ensuring the court is aware of all relevant matters. No inference should be taken or assumed from the matters included in this report as to a view, conclusion or belief held by the Administrators with regard to the Waterfall proceedings.

We caution creditors against using data in this report as a basis for estimating the value of their claims or their likely eventual entitlement to payment from the Surplus. LBIE, the Administrators, their firm, its members, partners and staff and advisers accept no liability to any party for any reliance placed upon this report.

LBIE also expressly reserves all of its rights against third parties on all matters and no conclusion should be drawn by third parties as to LBIE's position or legal arguments on any such matters from references made in this report.

Whilst amounts included in this report are primarily stated in sterling, certain elements of LBIE's assets continue to be denominated in currencies other than sterling.

Unless it is clear otherwise, the figures within the report are rounded to the nearest £10 million, consistent with previous reports.

This report includes various defined terms as set out in the updated glossary of terms in Appendix H.

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Section 1:

Purpose of the Administrators' report

Introduction

This report has been prepared by the Administrators of Lehman Brothers International (Europe) under Rule 2.47(3) of the Insolvency Rules.

This is the fourteenth such formal update to unsecured creditors and it provides details of progress made in the 6-month period 15 March 2015 to 14 September 2015. The statutory receipts and payments accounts for the same period are attached at Appendix A.

The format of the report has been modified and simplified to reflect the changing priorities of the Administration.

Wherever possible, again we have sought not to duplicate information disclosed to creditors in previous updates and reports. Copies of previous progress reports and other important announcements can be found at www.pwc.co.uk/lehman.

We will host a 1-hour webinar on 28 October 2015, giving creditors an opportunity to hear a summary of the current circumstances of the Administration and to participate in a question and answer session. Details of the webinar will be posted on the above LBIE website.

Objective of the Administration

The Administrators continue to pursue the statutory objective and specific aims as set out in previous reports, which are summarised at Appendix G.

Creditors' Committee

We continue to meet with the Committee to review progress and consult on major issues by way of physical meetings, telepresence or audio conference calls.

We remain grateful to the members of the Committee for their continuing efforts in support of the Administration.

During the period, Lehman Brothers Asia Holdings Limited was replaced by Lehman Brothers Commercial Corporation Asia Limited as a Committee member. Both of these companies are under the control of KPMG partners in Hong Kong, acting in their capacity as joint liquidators, and as a result the individuals representing these companies at LBIE Committee meetings are expected to be unchanged.

Details of the Committee members are listed in Appendix G.

Future report and updates

The next formal progress report to creditors will be in 6 months' time.

In the interim, we will provide ad hoc updates in the event of any material developments concerning entitlements to the Surplus or other significant matters, through the LBIE website or by other means as appropriate.

Signed:



AV Lomas

Joint Administrator
Lehman Brothers International (Europe)
In Administration

Section 2:

Executive summary

Introduction

Over the past 6 months, very significant inroads have been made into resolving previously unagreed claims and collecting remaining debts owed to LBIE. There are now only 9 non-Affiliate debtors in litigation, 12 Affiliate debtors expected to generate further recoveries into LBIE, 6 Senior creditors whose claims are being contested by LBIE and 24 Senior creditors whose claims otherwise remain unagreed at this stage. A number of post-Administration indemnities remain to run-off through a combination of the elapse of time and certain positive actions being taken by the Administrators in due course, and agreement remains to be reached with UK and overseas tax authorities to finalise outstanding matters before the Administration will eventually be able to be closed. Various other matters continued to be resolved by the Administrators in the period and the operational and organisational structure of LBIE continued to be simplified and downsized.

There are two material unresolved claims outside of litigation:

- the BarCap claim at c.\$928m, for which our interaction with the counterparty had been restricted pending resolution of its litigation with LBI. These proceedings were settled in the period with the result that BarCap is now able to pursue recovery of the acquired LBI CME claim against LBIE. There are uncertainties as to how this claim will be pursued by BarCap and ultimately determined. One of the complicating factors is that LBI has already paid \$777m to BarCap in respect of this claim, as a consequence of its own settlement with BarCap. A number of unique and complex other issues combine to make it uncertain what the final impact of the BarCap claim will be on the LBIE estate. Accordingly, UK court directions may be required if LBIE cannot reach a consensual resolution with BarCap. Further details are provided at Appendix D; and
- a claim from LBL, one of LBIE's two Shareholders and a pre-Administration provider of operational services. LBL's original Proof of Debt was c.£360m but LBL revised this, after the period end, reflecting further claims made in its own insolvency process. The quantum of the various component parts of the revised proof have yet to be agreed and the claim is expected to be impacted by various aspects of the Waterfall proceedings, which have yet to run their full course. In this report, we assume that no payment will be made by LBIE to either of its two unlimited liability Shareholders, at least until Post-Administration Interest and non-provable claims of other creditors are paid in full.

The aggregate benefit of continuing Administration activities is expected to be the generation of an Administration Surplus of between c.£6.2bn and c.£7.7bn, for eventual distribution between creditors, variously as payment of

Post-Administration Interest, Currency Conversion Claims and any other non-provable claims, the Subordinated Debt claim and other Shareholder claims.

The Surplus will be generated after payment in full of Senior creditor claims (c.£12.1bn paid to date) and after return in full of Client Assets and post-Administration Client Money and payment of other creditor settlements (c.£23.5bn paid to date).

In parallel with continuing to resolve debtor and creditor claims over the past six months, LBIE has progressed the Waterfall court proceedings, seeking the courts' directions with regard to a series of Surplus entitlement issues. The Waterfall I issues are primarily the area of dispute between LBIE and its two unlimited liability Shareholders, and the Waterfall II issues are the subject of a dispute between a group of creditors that has Senior claims only (the Senior Creditor Group) and a joint venture, Wentworth, that has a combination of Senior claims and the claim to the Subordinated Debt. In summary, in Waterfall II the Senior Creditor Group argues to maximise the value and priority of Post-Administration Interest and CCCs, the effect of which would be to reduce or remove the prospect of payment of any Shareholder claims, and Wentworth argues the opposite.

The Waterfall I issues relate primarily to the priority ranking of the Subordinated Debt, contribution obligations of the unlimited liability Shareholders and the existence of CCCs, and were the first series of questions to be put to the court. The UK Appeal Court judgment received in the period substantially upheld the judgment at first instance and the various respondents are currently seeking leave to appeal the matter further to the UK Supreme Court. The second series of questions related to the Surplus are being heard in the Waterfall II proceedings, which have been divided into three separate tranches. Judgments relating to tranches A and B were received in the period and preparations have been made for tranche C, which is scheduled to be heard in November 2015. It seems likely that the majority, if not all, of the tranche A and B judgments will be appealed to the UK Appeal Court in due course.

The Administrators have continued to encourage the respondents to explore a consensual solution to the dispute, in order to accelerate the return of the Surplus to all creditors and to reduce the ongoing costs of the estate. The alternative of pursuing the Waterfall court proceedings through to eventual conclusion in the UK Supreme Court could materially delay closure of the Administration, adversely impacting the cost and efficiency of the Administration process and the net present value of the total Surplus that is eventually returned to creditors.

Whilst it is possible that the UK Supreme Court hearing of a Waterfall I appeal, if allowed, could take place sometime in 2016, it seems highly unlikely that similar hearings of Waterfall II appeals, if requested and allowed, could take place before 2017, if not later. In the meantime, the Surplus funds continue to be invested in low yielding, short-dated UK government securities.

The major issues to progress in the next reporting period are:

- the Waterfall I and II UK court proceedings;
- the status and treatment of the BarCap and LBL claims;
- ongoing litigation relating to a small number of disputed House receivables or Senior claims; and
- issuing and dealing with matters arising from unsecured claim certificates which will be distributed to counterparties.

The Trust Estate returns and claims agreement are close to a conclusion with substantially all outstanding issues, excluding the above matters, now resolved.

Indicative financial outcome (Section 3)

The indicative Low and High case Surplus outcomes have increased by c.£160m and c.£130m respectively, since our previous report. The principal improvements relate to Senior creditor claim reserve releases and improved House receivables recoveries, offset in part by the revised treatment of the BarCap claim following BarCap's settlement with LBI in the period.

Pending resolution of the Waterfall court applications, the indicative financial outcome assumes both nil recoveries from LBIE's contribution claims against its Shareholders and nil Shareholders' claims against LBIE.

Illustrative Surplus entitlements outcome (Section 4)

For the first time, an illustrative Surplus entitlements outcome is provided to creditors and is included at page 14 in this report largely based on the Waterfall judgments handed down to date on the assumption that these are upheld on any subsequent appeal.

Two different scenarios are assumed:

- the first is described as a 'base case' and assumes that no Senior creditor is entitled to Post-Administration Interest in excess of the judgment rate; and
- the second is described as a 'high cost of funding case' and assumes certain Senior creditors are entitled to Post-Administration Interest based on scenario 6 contained in the annex to the Administrators' witness statement dated 20 August 2015, which can be found on the LBIE website.

The 'base case' scenario indicates that a surplus of c.£0.7bn would remain after payment of Post-Administration Interest and CCCs in full. The 'high cost of funding case' scenario indicates a shortfall of c.£0.7bn, before recoveries from any contribution claim that might be made against unlimited liability Shareholders.

Significant developments in the reporting period

Surplus entitlements and related court process

In order to help prepare for the eventual calculation of individual creditors' rights to payment from the Surplus, we plan to issue iterations of unsecured claim certificates to each creditor, setting out the relevant characteristics of their claim.

The Senior creditor population includes a significant number of counterparties with relatively low admitted claim values. In order to reduce the total population and the associated workload, subject to appropriate tax authority approvals being received, the Administrators hope to be able to present a proposal to Senior creditors with an admitted claim value of below £2m for a full compromise of all outstanding Surplus claims in return for immediate payment of Post-Administration Interest at a rate of 8% simple p.a.

During the reporting period, the UK Appeal Court handed down judgment on the Waterfall I Appeal (14 May 2015), which upheld the majority of judgments at first instance. All the matters in the judgment are subject to leave to appeal requests to the UK Supreme Court.

The 4-day UK High Court hearing of the Waterfall II tranche B matters (the effect of release clauses in post-Administration contracts) commenced on 18 May 2015 and the judgments on this, together with the earlier Waterfall II tranche A hearing (insolvency law matters), were handed down on 31 July 2015, providing determinations on 14 principal matters, including that:

- entitlements to Post-Administration Interest are to be calculated on the basis that dividend payments are allocated first to debt principal and not Post-Administration Interest (*Bower v Marris*);
- Post-Administration Interest accrues from the date of Administration for all claims, including contingent and future claims; and
- the CRA and CDD post-Administration contracts do not have the effect of releasing claims for Post-Administration Interest or Currency Conversion Claims.

Some or all of the issues determined in Waterfall II tranches A and B are likely to be subject to applications for permission to appeal to the UK Appeal Court. Creditors should be aware that although the court's judgments were handed down on 31 July 2015, court orders have not yet been made. When making such orders, the UK High Court will decide whether to grant permission to appeal. If such permission is refused, the parties will have a period of 21 days in which to apply to the UK Appeal Court for permission to appeal.

We continue to encourage the respondents to explore settlement of the Waterfall proceedings through an alternative, consensual agreement but consider this unlikely, at least prior to (1) receipt of the tranche C judgment in the Waterfall II Application and (2) receipt of the UK Supreme Court's response to the respondents' application for leave to appeal the Waterfall I Appeal court judgment. We are hopeful that on receipt of those two decisions the respondents might re-evaluate their likely prospects for successful appeals and they may then want to explore the scope for compromise of the various matters that are currently being contested. The Administrators' role at that time would be to ensure that any such compromise would be for the benefit of all creditors.

House receivables

In the period, c.£130m has been recovered, predominantly funded from Omnibus Trust distributions. In addition, further funds from the Seoul branch liquidation were received, together with additional MCF, LBHK, and LBSF realisations.

Future Street recoveries are largely dependent upon further overseas branch recoveries (since the period end, the remaining surplus funds of c.£170m were successfully recovered from the Seoul branch) or recovery of debts that are subject to legal proceedings. The largest debt that is subject to litigation, AGR, was subject to an exchange of expert valuation reports in the period as part of the US court process.

Future Affiliate recoveries are dependent upon further distributions from insolvent Affiliate estates, in particular MCF.

Remaining Client Assets claimant debtors are mainly litigation-related.

Future costs of the Administration

Future Administration costs are estimated at c.£480m in both the indicative High and Low case outcomes based upon an assessment as at 1 July 2015, of which c.£40m had already been paid as at 14 September 2015. The outcomes are based on identical assumptions, in particular that the Waterfall proceedings will involve an extended appeal process.

The downward revision to estimated costs by c.£10m predominantly relates to lower than forecast legal costs in the 6 months to 30 June 2015, following settlement of certain counterparty litigation.

We continue to caution that the cost estimates remain subject to significant uncertainties regarding assumed outcomes and timings and no account has been taken in the indicative financial outcome of any cost order that might be made against LBIE in the Waterfall proceedings in due course.

Priority claims

Priority claims include the potential liability for certain indemnities that have been given by LBIE post-Administration, and other potential claims (including tax) that could crystallise in certain circumstances. In the period, movements largely related to planned payments made to the Pension Fund and to certain counterparties under settlement agreements. In the High case outcome, we continue to assume that all indemnities will terminate without liability and that the majority of the tax provisions will be released.

Senior creditors

Monthly 'catch-up' dividends of c.£130m were paid in the period on eligible admitted claims.

Admitted claims have increased in number by a net 15 to 2,838, with the total admitted claim value increasing by c.£80m to c.£12.27bn.

A further 37 claims (Proofs of Debt totalling c.£430m) were either withdrawn or rejected in full in the period.

This progress has facilitated a release of reserves of c.£310m and c.£80m on a Low case and High case outcome respectively. These releases were predominantly associated with damages-related claims.

30 claims remain (Proofs of Debt totalling c.£680m). Of these, the unresolved BarCap claim (Proof of Debt value of c.£520m (c.\$928m)) and 6 claims that are the subject of legal proceedings (Proofs of Debt totalling c.£150m), represent in excess of 98% of pending claims by value.

Trust Estate

Further progress has been made towards closure of LBIE's Trust Estate.

Omnibus Trust

A final distribution of c.\$360m at a rate of 4.349% of Best Claim value was paid on 25 June 2015. In addition, final True-up and Catch-up distributions of c.\$220m were paid.

Cumulatively, c.\$9,280m of gross distributions have been paid (cumulative rate of 110.349% on total Best Claim value). Following final resolution of all eligible claims, the estate was closed with effect from 25 June 2015, although final tax reporting will continue into 2016.

Other Client Assets

Of the 59 Client Assets lines remaining at 14 March 2015, 52 have been resolved by return of assets, waiver/abandonment or other close-out methods during the period. The remaining lines by value (c.£30m) largely relate to German debtors which are the subject of litigation.

Our resolution of the remaining low value but complex assets has meant that no UK High Court application is now required to close the Client Assets estate.

Detailed closing statements are being prepared and this exercise is expected to be completed by the end of 2015.

Client Money

The status of the unresolved 105 CME claimants is as follows:

- 3 claims of nominal value relate to House debtor counterparties currently in litigation; and
- 102 claims (c.\$7m) relate to non-engaging counterparties in respect of which a UK High Court application for directions has been prepared.

The status of the BarCap CME claim will need to be dealt with as part of the resolution of BarCap's overall position, and this will continue to block the final resolution of the pre-Administration Client Money estate. If BarCap decides to pursue a CME claim, instead of a Senior claim, LBIE may need to seek UK High Court directions in order to determine the status and quantum of BarCap's claim (see Appendix D for more detail). As a result, the timescale for closure of the pre-Administration Client Money estate remains uncertain.

Section 3:

Indicative financial outcome

Introduction

An updated summary of the indicative Low and High case financial outcome scenarios for Senior creditors is set out below. This should be read in conjunction with the assumptions set out overleaf.

Low and High case movements in the period

The indicative Low and High case Surplus outcomes are c.£6.17bn and c.£7.72bn, with increases of c.£160m and c.£130m, respectively, since our previous report. The principal changes in the outcomes in the period are:

- **Senior claims improvement:** Low case - c.£310m/High case - c.£80m of claim reserve releases, predominantly due to withdrawals and rejections or admittances at amounts below Proof of Debt value; and
- **House receivables improvement:** Low case - c.£240m/High case - c.£120m of improved recoveries, mainly from overseas branches, MCF and from the release of tax reserves in the period on Omnibus Trust assigned claims; offset by
- **BarCap claim reassessment:** Low case - an assumed CME claim being pursued and ultimately determined at c.£380m (previously nil), reducing the net Client Money benefit to the House. High case - an assumed unsecured claim at c.£80m (previously nil). In both cases, the \$777m payment from LBI to BarCap is taken into account.

Summary

Page	House Estate at 14 September 2015	Notes	Low £m	High £m	Difference £m
19	Cash deposits and government bonds		6,430	6,430	-
19/22	Add back: interim dividends paid and accrued to date		12,270	12,270	-
	Total cash in hand and returned to date		18,700	18,700	-
	Projected future movements				
10	Net Client Money benefit to the House Estate	1	570	990	420
10	House receivables	2	490	1,000	510
11	House securities	3	30	40	10
11	Future estimated costs	4	(480)	(480)	-
12	Priority claims [^]	5	(710)	(140)	570
	Total future cash expected to be recovered		(100)	1,410	1,510
	Funds available for Senior creditors		18,600	20,110	1,510
13	Senior creditors	6	(12,430)	(12,390)	40
	Surplus before Post-Administration Interest, non-provable claims, the Subordinated Debt and Shareholder claims		6,170	7,720	1,550

[^] Amounts included in priority claims do not rank for Post-Administration Interest.

Assumptions

The assumptions underlying the indicative future cash recoveries and payments and the resolution of pending Senior creditors are set out overleaf.

The background to, and basis for, the reassessment of the BarCap claim in the period is set out at Appendix D.

Note 1 - Net Client Money benefit to the House Estate

	Low \$m	High \$m	
Pre-Administration Client Money estate			
Projected Client Money available to distribute¹			
Funds held at 14 September 2015	1,430	1,430	
LBHI/LBB future recoveries ²	60	120	
	1,490	1,550	
Less future third party distributions			
Potential BarCap CME ³	(590)	-	
Future distributions of retained CME claims ⁴ and estimated funds to be paid to the UK High Court ⁵	(10)	(10)	
	(600)	(10)	
Projected future distributions to the House Estate (\$m)⁶	890	1,540	
	(£m)⁶	570	990

1. It is assumed that the Administrators will not be required to trace and recover assets from the House Estate for the benefit of the Client Money pool.
2. This represents the combined potential future dividends on LBIE's LBHI guarantee claim of c.\$1.01bn and LBB unsecured claim of c.€400m.
3. See Appendix D for assumptions regarding the potential BarCap CME claim.
4. Future final distributions to 15 claimants with retained CME at a rate of 51.8% of total CME claims of c.\$11m.
5. Includes 102 non-engaging counterparties with CME of c.\$7m and 3 counterparties subject to overseas court proceedings.
6. During the period, we continued our hedging strategy dealing with the US dollar to sterling currency risks related to the expected future distributions to the House Estate.

Note 2 - House receivables

House Estate receivables as at 14 September 2015, referred to below, are indicative only and significant matters remain unresolved, predominantly relating to litigation, which may materially impact this estimate.

	Rec'd in period £m	Indicative future recoveries	
		Low £m	High £m
House receivables			
Litigation			
AGR	-	-	310
Others	-	-	50
	-	-	360
Branches			
LBIE Seoul	10	170	170
LBIE Zurich	-	30	40
	10	200	210
Other Street receivables	10	-	-
Affiliates			
MCF	20	220	280
LBHK	10	10	50
Other Affiliates	10	20	40
	40	250	370
Client Assets claimants			
Omnibus Trust appropriations/assignments	70	40	40
In litigation	-	-	20
	70	40	60
Receivables at 14 September 2015	130	490	1,000

AGR litigation

Following the exchange of initial expert reports on 27 March 2015 as previously reported, further rebuttal expert reports were exchanged on 24 June 2015. LBIE's expert's view of the valuation issues has not changed in light of AGR's expert reports. Subsequent depositions of each of AGR's 3 experts and LBIE's 4 experts were completed in July and August 2015.

Summary judgment motions, if any, are to be filed by the November 2015 deadline and are likely to be heard in spring 2016. If any motions which are filed are denied, a trial date will be set thereafter.

The indicative Low case outcome assumes nil recovery from AGR and the indicative High case outcome assumes c.£310m, which represents full recovery of the LBIE expert's valuation of c.\$500m (net of unpaid premiums). No account is taken of AGR credit risk and accordingly no credit value adjustment is reflected, should that be relevant in due course. Post the credit value adjustment, a value in excess of c.\$200m (c.£130m) would be appropriate, in the view of LBIE's expert.

Creditors are reminded that the eventual sum recovered could be anywhere within the indicated range.

Others in litigation

There are currently 6 ongoing Street debtor litigation actions (excluding AGR) that are subject to UK, US, Greek or Korean court jurisdiction. Further details are provided at Appendix C.

LBIE Seoul Branch

A further c.£10m of branch surplus funds was returned to LBIE in the period. All outstanding matters were finalised during the period which enabled the liquidators to complete the liquidation proceedings on 14 September 2015. Following closure of the branch, the remaining branch surplus funds of c.£170m have now been successfully repatriated to LBIE.

LBIE Zurich Branch

The local liquidators completed the liquidation process of the branch in August 2015 and have submitted final accounts to FINMA for approval. FINMA's approval process is ongoing and upon completion the liquidators will then transfer surplus funds held to FINMA. Prior to onward repatriation of the remaining branch surplus funds to LBIE, FINMA will publish a notice of its intention to remit the funds, providing a 20-day period for any unresolved creditors of the branch (if any) to object.

MCF

The improvement in expected future recoveries reflects the updated indicative financial information provided by the administrators of MCF in their recent 6-monthly progress report. The administrators of MCF now estimate additional recoveries of c.£250m to c.£300m, in the next 2 to 4 years, from the run-off of the portfolio of mortgage-related assets in its solvent subsidiaries.

LBHK

The potential recoveries are mainly dependent upon resolution of a competing claim from one of LBIE's clients which LBIE expects to resolve shortly.

Other Affiliates

Expected future recoveries relate to assumed distributions from LBSF and other insolvent Affiliate estates.

Client Assets claimants

Omnibus Trust distribution monies relating to an assigned claim to the House are currently held as post-Administration Client Money, pending transfer to the House Estate following receipt of appropriate final clearances.

The indicative High case outcome also assumes:

- recovery of debts that are subject to litigation in a German court; and
- partial recovery of a US withholding tax reserve in respect of distributions from the Omnibus Trust on assigned claims.

Note 3 - House securities

	Book value £m	Low £m	High £m
Securities			
Available for sale	30	20	30
Subject to litigation in Korea	10	10	10
House securities at 14 September 2015	40	30	40

The small number of remaining available for sale securities have security-specific issues which will take time to resolve and realise value. The majority of remaining value relates to a holding subject to an annual buyback auction initiated by the issuer. The next tender will be in November 2015.

Details of movements in the period are provided at Appendix B.

Note 4 - Future estimated costs

	Low £m	High £m
Summary costs		
Future estimated costs at 1 January 2015	(620)	(620)
In the period		
Costs incurred in 6 months to 30 June 2015	100	100
Movements in creditors and accruals	30	30
Costs paid in 6 months to 30 June 2015	130	130
Reduction in legal and other costs	10	10
Future estimated costs at 1 July 2015	(480)	(480)

On a calendar year basis, we prepare a detailed annual cost budget and a long-term forecast of the costs to complete the Administration. These forecasts are reviewed and updated at 6-monthly intervals and are referred to below. Commentary set out below relates to these 6-monthly intervals, notwithstanding that actual receipts and payments included at Appendix A refer to the 6-month period ended 14 September 2015.

Costs paid in the 3-month period to 14 September 2015 were c.£40m.

Significant uncertainties remain regarding the Waterfall proceedings, other counterparty litigation and the outcomes and timings of other matters, which will materially affect future Administration costs. For this reason, the same cost assumptions have been made for the High and Low case outcomes.

The key assumptions underlying the costs estimate are that:

- planned reductions in operational support functions and infrastructure, including office floor space at Canary Wharf, will be completed by the end of 2015;
- the core ongoing activities of the Administration will enter their 'tail state' by early 2016, and the Administration and any other related processes will be completed by the end of 2020;
- litigation required to resolve disputed receivables and creditor claims will require full-term legal processes, through to an initial trial, and include a cost contingency for unforeseen delays and potential appeals;
- a full-term court appeal process will be required to settle the Surplus entitlement matter (Waterfall I and II) culminating in the UK Supreme Court;
- codification of the eventual UK Supreme Court judgments into the Surplus entitlement claims agreement process will be complex and time-consuming (as distinct from a negotiated, consensual and simplified solution to the Surplus entitlement question enabling early and rapid payment of Surplus entitlement claims); and
- Waterfall respondents' costs are not borne by the House Estate.

Note 5 - Priority claims

Priority claimants include the potential liability for a range of indemnities given post-Administration and other potential claims (including tax provisions) that could crystallise in certain circumstances, thereby ranking for payment in priority to Senior creditors. The movements in the period are summarised below.

Priority claims	Low £m	High £m
Reported as at 14 March 2015	(760)	(230)
Movements in the period		
Pension Fund liability	60	60
Settlement payments net of new settlements ¹	40	40
New indemnities net of expired indemnities	(40)	-
Other	(10)	(10)
Total movements	50	90
Priority claims at 14 September 2015	(710)	(140)
Comprising		
Tax provisions	(310)	(70)
Post-Administration indemnities	(280)	-
Pension Fund liability	(60)	(60)
Other reserves	(60)	(10)
Priority claims at 14 September 2015	(710)	(140)

- Payments in the period to Affiliate and non-Affiliate claimants under settlement agreements (i.e. paid as an expense and not treated as a Senior claim) were c.£80m, of which c.£40m related to settlement agreements agreed since 14 March 2015.

Tax provisions

LBIE had business activities in a number of legal jurisdictions, requiring the Administrators to work with those different taxation authorities towards finalising LBIE's local tax affairs. The High case outcome assumes that discussions with those authorities will result in the majority of tax concerns not crystallising, whilst the Low case outcome recognises that there is at least the theoretical possibility that they will.

Post-Administration indemnities

These primarily relate to indemnities to providers of IT, valuation and property services to LBIE, post-Administration, as well as indemnities to facilitate the release of assets to LBIE from third parties, branches and Affiliates.

The indemnities will cease upon expiry of:

- a fixed term from commencement (typically 2 to 3 years); or
- the fixed run-off period specified in the contract (with a range of limitation periods of 3 months to 5 years from the date of cessation of services); or
- the relevant limitation period applicable under the governing law of the contract.

Pension Fund liability

As previously reported, LBIE has agreed, as part of a settlement agreement, to make available funding to the Pension Fund to enable it to provide the defined benefits promised to its members. At 14 March 2015, a reserve of £120m had been held for this liability.

The purchase of a bulk annuity policy with a third party insurance company in the period included an initial contribution payment of c.£90m by LBIE, offset by interest rate hedge gains and bond income, resulting in a net movement of c.£60m in the period. A Pension Fund residual liability of up to c.£60m remains to be settled in due course. The Administrators continue to expect that the value of total contributions that LBIE will ultimately make to the bulk annuity provider, net of related interest rate hedge gains and associated bond income, will total less than £120m.

Other reserves

In the Low case outcome, other reserves relate to a range of issues including adverse litigation cost exposure (excluding respondents' costs, if any, in the Waterfall proceedings).

Note 6 - Senior creditors

Claims received from Shareholders are excluded from the Senior creditors analysis. The majority of pending unsecured claims are subject to litigation, and their eventual outcome may materially impact the estimates below.

Senior creditors	Admitted to date ¹	Pending ²		Indicative outcome ³	
	£m	Low £m	High £m	Low £m	High £m
Non-Affiliate creditors	(11,080)	(150)	(120)	(11,230)	(11,200)
Affiliate creditors	(1,160)	(10)	-	(1,170)	(1,160)
SCSO settled claims	(30)	-	-	(30)	(30)
Total	(12,270)	(160)	(120)	(12,430)	(12,390)

- Admitted to date includes claims agreed by Claims Determination Deeds and partial admittance letters where in certain cases legal challenge has been initiated by creditors on the balance of their Proof of Debt. The balance is included as a pending claim.
- Proofs of Debt relating to pending claims total c.£680m.
- The indicative outcome includes the total value of the claims admitted to date and the indicative Low/High case value of pending claims.

Assumptions

For all compliant Proofs of Debt received by the Administrators where the claim has not yet been admitted, withdrawn or rejected (with the rejection appeal period having passed), we continue to make an appropriate reserve.

Low case outcome

The indicative Low case outcome makes provision for pending claims at Proof of Debt value, except for:

- nil value for the BarCap claim, as it is assumed to be withdrawn in favour of a CME claim (see Appendix D);
- a specific value assessment in respect of 2 claims in litigation (a net c.£10m value reduction) and 1 Affiliate claim; and
- no value for a c.£2m claim settled as an expense payment shortly after the period end.

High case outcome

The indicative High case outcome assumes for pending claims:

- c.£80m for the BarCap claim, being the Proof of Debt value less the payment made directly by LBI to BarCap (\$777m). Further details are provided at Appendix D;
- no reserve for litigation claims except for 2 claims for which specific value assessments have been applied (c.£30m in total);
- a specific assessment for a claim with a Proof of Debt value of c.£5m;

- c.£4m in aggregate for 5 claims with individual Proof of Debt values between £1m and £3m, based upon an assumed average settlement rate of 50% of the Proof of Debt value;
- no value for a c.£2m claim (settled as an expense payment shortly after the period end) and 1 Affiliate claim; and
- a nominal value for 15 claims with individual Proof of Debt values below £1m, based upon an assumed average settlement rate at the Proof of Debt value.

Pending claims status

Non-Affiliate creditors

29 creditors have submitted Proofs of Debt totalling c.£680m in response to which, due to specific legal, commercial and/or valuation issues, LBIE has yet to admit, reject or agree withdrawal.

The unresolved claims comprise:

- BarCap (Proof of Debt of c.£520m) – see Appendix D;
- 6 claims that are subject to litigation either in the UK or US (combined Proofs of Debt value of c.£150m). Further details are provided at Appendix C;
- 13 claims at various stages of settlement negotiation with Proofs of Debt totalling c.£10m; and
- 9 claims of nominal value where CME offers have been made or rejection notices have been unable to be served, where counterparties are currently unresponsive. Accordingly, these types of claim are likely to require an application to the UK High Court in order to finalise them.

In the period, 6 proceedings were settled with 5 appeals against full and partial rejection notices being withdrawn from the UK High Court. This follows settlements to partially admit or provide expense payments, in certain cases, at values substantially lower than the Proofs of Debt value.

Further detail of progress in resolving Senior claims in the period is provided at Appendix B.

Section 4:

Illustrative Surplus entitlements outcome and related court process

Introduction

Creditors should take note that their individual entitlement to share in the Surplus is likely to depend upon a combination of factors, including the following:

- the final outcome of the Waterfall I and II court proceedings or of consensual settlement discussions between the Administrators and the Waterfall respondents, in the event that such discussions were to take place in due course;
- their unsecured claim certificate;
- the terms of any agreements with LBIE that were entered into by the creditor post-Administration; and
- the timing of unsecured dividend payments made to them.

Although LBIE currently has the benefit of the Waterfall I Appeal and Waterfall II tranche A and B judgments, at the date of this report it remains possible that any or all of these judgments will be appealed. Furthermore, the Waterfall II tranche C issues will not be heard in the UK High Court until 9 November 2015. As a result, there remains significant uncertainty as to how entitlements to the Surplus will eventually be determined. Notwithstanding this, given that the judgments that have been handed down to date represent the best indication that LBIE currently has of how entitlements should be determined, the Administrators set out below two different illustrations of how the Surplus may be allocated eventually, with the assumed cost of funding being different in each.

Illustrative Surplus entitlements outcome

Using a set of high-level, simplifying assumptions, **for illustrative purposes only**, we have made a 'base case' calculation of how, eventually, the Surplus may be allocated between different categories of claimant. The simplifying assumptions we have used include the following:

- any appeals to the Waterfall I Appeal judgment and to the Waterfall II tranches A and B UK High Court judgments will be unsuccessful;
- Post-Administration Interest is restricted to 8% simple p.a. with no creditor able to claim a contractual cost of funding rate at an amount in excess of that;
- contractual interest accrues on CCCs as set out in the Waterfall II tranche A judgment and is not released by the CRA or CDDs (a point which may require further clarification from the court following the Waterfall II tranche B judgment);
- Senior claims are c.£12.4bn with no new Senior claims submitted to LBIE post 14 September 2015;

- LBIE's creditor claim disaggregation will not be disputed by creditors; and
- the eventual Surplus value will be c.£7.3bn (updated High case outcome of c.£7.7bn discounted by 5%).

This set of simplifying assumptions would result in:

- a) aggregate Post-Administration Interest claims of c.£5.0bn against the Administration Surplus; followed by
- b) c.£1.3bn of CCCs plus c.£0.3bn of related non-provable contractual interest (subject to any clarification noted above); leaving
- c) c.£0.7bn available to pay a dividend against Shareholder (LBHI2 and LBL) Senior claims and the Subordinated Debt claim. In these circumstances, for illustrative purposes, we assume that LBIE would not pursue a contribution claim against its Shareholders.

A variant to this 'base case' illustrative Surplus entitlements outcome has been calculated to reflect that the Waterfall II tranche C hearing has yet to take place and those proceedings could produce a judgment that enables certain Senior creditors to claim Post-Administration Interest at a higher rate than 8% simple p.a. This variant is referred to as the 'high cost of funding case' and, **for illustrative purposes only**, applies scenario 6 in the annex to the Administrators' witness statement dated 20 August 2015 to determine the cost of funding apart from the Administration. In such circumstances, c.£2.0bn of the claim population might be entitled to claim at a rate in the range of 7% - 20% compound p.a.

The outcome resulting from these adjustments would be:

- a) aggregate Post-Administration Interest claims of c.£6.0bn ranking as a priority claimant against the Administration Surplus; followed by
- b) c.£1.3bn of CCCs plus c.£0.7bn of related contractual interest (subject to any clarification noted above); giving rise to
- c) a shortfall of c.£0.7bn, before payment of any dividend against Shareholder (LBHI2 and LBL) Senior claims and the Subordinated Debt claim. In these circumstances, for illustrative purposes, we assume that LBIE would pursue a contribution claim against its Shareholders. In light of the net recoveries already achieved in the relevant insolvent estates, any recovery in respect of a contribution claim is likely to be significant.

We have provided the above two example outcomes for illustrative purposes only. The Administrators express no view as to the likelihood of either outcome materialising in due course and caution against creditors assuming that these two illustrative outcomes represent the limits of the full range of potential outcomes.

Shareholder claims

The above outcomes are shown before the impact of the Shareholder Senior claims of LBL and LBHI2 and the Subordinated Debt claim.

LBL has previously submitted a Proof of Debt for c.£360m. This claim has not yet been adjudicated, but LBIE considers it to be overstated, as the value of the claim was not expected to exceed c.£100m. LBIE itself filed a protective contribution claim Proof of Debt of £10bn in LBL's estate ahead of LBL's first interim dividend. The quantum of this claim was considered to be a prudent calculation of LBL's potential exposure as a joint and several unlimited liability Shareholder of LBIE. On 23 September 2015, LBL advised LBIE that it wished to 'recharge' LBIE for this potential claim, together with a claim related to its former Canary Wharf offices, and LBL has filed a revised Proof of Debt accordingly.

LBHI2's Subordinated Debt claim and certain other claims against LBIE have been assigned to Wentworth.

Certification of unsecured claims

In order that the Administrators are eventually able to agree Post-Administration Interest claims and Currency Conversion Claims, for certain Senior claims it will be necessary to disaggregate the admitted unsecured claim amount. To enable this, the Administrators have begun an unsecured claims certification process.

The Administrators are working with certain of the respondents to the Waterfall II court process towards agreement on the approach to be adopted for claims admitted under a CDD. The draft proposal currently being discussed would operate such that:

- where the Administrators and the creditor have previously agreed which of the creditor's underlying claims are admitted, then that agreement prevails;
- in the absence of any previous agreement, the admitted claim is to be disaggregated based on the claims the Administrators did admit and the value attributed to them. This disaggregation is to be determined by reference to all relevant information available to the Administrators at the time of the agreement of the claim, including the Administrators' own records and working papers; and
- where this is not possible then the admitted claim is to be disaggregated pro rata by reference to the creditor's Proof of Debt.

LBIE intends to provide each creditor with an unsecured claim certificate setting out the components of their claim.

Progressive versions of the certificate may be issued over time. A first certificate, likely to be issued in October 2015, will contain details from the Administrators' records of the admitted claim including:

- the split of claim by component e.g. master agreement;
- the currency used to calculate each element of the claim;
- the reference date for each component e.g. termination date of master agreement;
- the value and timing of dividend payments made to the creditor; and
- set-off of debit balances, if any, owed by the counterparty.

Of the c.2,000 Senior creditor population requiring certification, c.1,600 relate to counterparties with single agreements and c.400 relate to counterparties with multiple agreements, set-off or other complex issues.

In the period, significant effort has been made to capture and collate data, establish an audit process and design and develop systems ready for certificate delivery.

Final settlement offer - small admitted claims

The Senior creditor population includes a significant number of relatively low value admitted claims. Building on soundings taken from a sample of relevant claimants, to reduce the population and associated workload at a limited cost, the Administrators intend to present a final settlement proposal to some 1,300 Senior creditors each with an admitted claim value of below £2m, subject to appropriate tax authority approvals being received.

The offer will be for a complete compromise of an individual creditor's claim against the Surplus in return for the payment on a specified date of Post-Administration Interest at the rate of 8% simple p.a. from the date of Administration.

Development of a consensual solution

We continue to liaise with the Waterfall II respondents both in the conduct of the court proceedings and by means of periodic meetings. The majority view amongst these respondents appears to be that they have limited appetite to engage in consensual solution discussions at this stage, at least pending the Waterfall II tranche C hearing and receipt of the court's judgment. Accordingly, we currently have no expectations of substantive discussions taking place until spring 2016, at the earliest, although we will continue our interactions with the Waterfall respondents in order to keep the matter under review.

Waterfall court proceedings

Readers should refer to the full judgments and should not rely on the summaries herein. The judgments are available on the LBIE website.

At the time of writing, some or all of the above decisions in the judgments relating to Waterfall II tranche A and B matters are likely to be subject to appeal to the UK Appeal Court in due course. In addition, some or all of the decisions in the Waterfall I Appeal court judgment might be appealed to the UK Supreme Court in due course.

Since March 2015, the respondents in respect of Waterfall II tranche C matters (cost of funding and foreign law issues) have continued to file position papers and expert reports. Skeleton arguments are scheduled to be filed in October 2015 and a 7 to 10-day UK High Court hearing is scheduled to commence on 9 November 2015.

Waterfall I Appeal

The UK Appeal Court handed down judgment on 14 May 2015. The judgment is summarised as follows:

UK High Court prior judgment (single judge)	UK Appeal Court judgment (3 judges)
Subordinated Debt ranks below Post-Administration Interest and non-provable claims	Upheld
Subordinated Debt can prove only after payment in full of Post-Administration Interest and non-provable claims	Overturned: can prove on a contingent basis, such proof to be valued at zero pending payment in full of Post-Administration Interest and non-provable claims
CCCs exist and rank below Post-Administration Interest and pari passu with other non-provable claims	Upheld (1 judge dissenting)
Post-Administration Interest unpaid in an administration cannot be paid in a subsequent liquidation, and a creditor only has a non-provable claim in respect of post-administration contractual interest	Overturned: Post-Administration Interest accrued but unpaid in an administration is payable from the Surplus in liquidator's hands
Shareholders' contribution claims liability extends to Post-Administration Interest and non-provable claims	Upheld
LBIE may prove in the respective estates of its Shareholders in respect of contributory claims	Upheld
The contributory rule does not apply – LBIE cannot refuse to admit Shareholders' proofs on the basis of the contributory rule	Upheld
Contingent contributory claims can be set off against Shareholders' proofs	Upheld

All the issues in the Waterfall I Application are subject to applications for leave to appeal to the UK Supreme Court. LBIE has objected to the applications by LBHI2 and LBHI for permission to appeal in respect of the ranking of the Subordinated Debt. A decision in respect of the applications for leave to appeal is expected in autumn 2015.

Waterfall II Application

The 4-day UK High Court hearing of the tranche B matters (the effect of release clauses in post-Administration contracts) was held in the week commencing 18 May 2015. The judgments of the UK High Court on the earlier tranche A hearing (insolvency law matters) and the tranche B hearing, were handed down on 31 July 2015. Those judgments are summarised as follows:

Matter	UK High Court judgment
Tranche A – insolvency law matters	
Applicability of the rule in <i>Bower vs Marris</i> – whether Post-Administration Interest is to be calculated on the basis of a notional attribution of dividend payments first to interest and only then to principal	The rule in <i>Bower v Marris</i> is not applicable: Post-Administration Interest is not to be calculated on the basis of a notional allocation of dividends to interest first
Whether compensation is payable for delay in payment of Post-Administration Interest	Rule 2.88 provides a complete code for the payment of Post-Administration Interest on proved debts: there is no scope for a claim for further interest on a provable claim (and see note 1 below)
Availability of a foreign judgment rate of interest under Rule 2.88(9) of the Insolvency Rules under contracts governed by foreign law	Foreign judgment rate of interest is only available where a judgment was actually obtained pre-Administration
Applicable date for commencement of Post-Administration Interest on all debts including contingent debts and future debts	Date of Administration
Whether CCC calculation is to take into account Post-Administration Interest paid	Post-Administration Interest is not to be taken into account
Tranche B – post-Administration contract releases	
Do either the CRA or CDD contracts have the effect of releasing any CCC as a matter of construction	No
Do either the CRA or CDD contracts have the effect of releasing claims for Post-Administration Interest as a matter of construction	No
Does the CRA create or give rise to any CCC	No
Whether the Court would direct the Administrators not to enforce releases of CCCs if, as a matter of construction, releases were effective	Court would direct Administrators not to enforce such releases: under the principle in <i>Ex parte James</i> and Para. 74 of Schedule B1 of the Insolvency Act

- In respect of the matter of whether compensation is payable for delays in payment, the judgment stated that where a creditor has a non-provable claim (e.g. a CCC) that arises from a contract that itself contains an entitlement to interest on unpaid debts, then this unpaid interest forms part of its non-provable claim. The Administrators understand that Wentworth plans to argue that the tranche B judgment contains comments which cause such unpaid interest to be waived.

Appendices

Appendix A:

Receipts and payments: cumulative and 6 months to 14 September 2015

House Estate receipts and payments: cumulative and 6 months to 14 September 2015

House Estate	Notes	Cumulative - 15 September 2008 to 14 March 2015 (GBP equivalent) £m	Period - 6 months to 14 September 2015 (GBP equivalent) £m	Cumulative - 15 September 2008 to 14 September 2015 (GBP equivalent) £m
Receipts				
Counterparties	1	11,870	116	11,986
Depot securities	2	10,064	44	10,108
Other receipts	3	3,105	131	3,236
Total receipts for the period/to date		25,039	291	25,330
Payments				
Pension Fund settlement	4	-	(87)	(87)
Dividends paid	5	(12,018)	(129)	(12,147)
Administrators' remuneration	6	(921)	(38)	(959)
Affiliate settlements	7	(979)	(41)	(1,020)
Payroll and employee costs	8	(590)	(13)	(603)
Legal and professional costs	9	(343)	(21)	(364)
Other payments	10	(3,334)	(127)	(3,461)
Total payments for the period/to date		(18,185)	(456)	(18,641)
Net movement in the period/to date		6,854	(165)	6,689
Foreign exchange translation differences [^]		(135)	(1)	(136)
Total balances	11	6,719	(166)	6,553
Less: Funds held subject to potential third party claims	12	(177)	58	(119)
Total House Estate cash deposits and government bonds		6,542[~]	(108)	6,434[#]

[^] At this stage in the Administration, material receipts and payments in foreign currencies are converted to sterling as soon as practicable after receipt. Where currency sums are held for a short period, small translation differences can arise.

[~] Balances held in foreign currencies at 14 March 2015 were c.\$68m, c.€1m and various other currencies c.£4m (equivalent).

[#] Balances held in foreign currencies at 14 September 2015 were c.\$1m and various other currencies c.£2m (equivalent).

Notes to House Estate receipts and payments account

General

Foreign currency transactions are reported in sterling at the rate prevailing on the relevant transaction date.

The transactions within the LBIE estate in the period:

- are reported on a cash receipts and payments basis in accordance with the Insolvency Act and Insolvency Rules; and
- were completed in accounts established and controlled by the Administrators.

Separate bank accounts are held for realisations from the House Estate and the Trust Estate.

1. Counterparties

Receipts in the period comprise:

- c.£67m of House debtor appropriations and House assignments from the Omnibus Trust estate;
- c.£31m of distributions from debtor Affiliates, principally a fourth distribution from MCF of c.£18m, c.£7m of LBSF distributions and c.£4m of further LBB distributions transferred from pre-Administration Client Money;
- c.£15m related to House third party debtors, principally c.£9m of Seoul branch recoveries; and
- c.£3m of Client Assets claimant debtor receipts.

2. Depot securities – sales and related income

Net realisations of c.£44m relate to the disposal or redemption of securities and derived income from depot holdings, including c.£24m of securities recovered from LBHK subject to forward sale contracts, c.£5m of derived income relating to securities held at LBHK and c.£1m of bond income related to the Pension Fund hedge. The realisations are net of the c.£7m purchase cost of securities from the Omnibus Trust estate (see note 1 on page 26).

3. Other receipts

Other receipts comprise:

- c.£58m of recovered or redirected funds which were paid by third parties into House accounts (see note 10);
- c.£22m of realised gain on the interest rate hedge, used to manage the Pension Fund deficit valuation risk between the settlement agreement date and completion date;
- c.£21m of realised net gains in the period on forward contracts used to hedge the foreign exchange exposure on potential future US dollar and euro denominated pre-Administration Client Money recoveries into House.

These gains are currently offset by similar foreign exchange losses on the sterling equivalent of estimated future pre-Administration Client Money recoveries included in the indicative financial outcome;

- c.£13m of bank and bond interest received;
- c.£9m of VAT repayments received from HMRC and overseas tax reclaims;
- c.£4m of funds transferred under certain client agreements from the post-Administration Client Money pool to LBIE's nominee, who under a separate agreement onward transferred the funds to the House account (see note 10); and
- c.£4m of other realisations.

4. Pension Fund settlement

In April 2015, the Pension Fund trustees entered into a bulk annuity policy with a third party insurance company. As part of these arrangements, to date, LBIE has paid c.£87m, in part funded by interest rate hedge realised gains and related bond income.

5. Dividends paid

c.£129m of unsecured 'catch-up' dividends were paid in the period as further claims were admitted or blockers to prior distributions were resolved, bringing cumulative dividends paid to 14 September 2015 to c.£12.1bn.

There will continue to be a 'catch-up' dividend payment programme for eligible Senior claims that have not yet received distributions.

6. Administrators' remuneration and expenses

Payment deferral terms, as agreed with the Committee and referred to on page 36 of this report, account for differences between costs incurred and payments made in the period.

Out-of-pocket expenses of c.£1m were paid in the period.

7. Affiliate settlements

Payments relate to Affiliate settlements and asset return agreements.

8. Payroll and employee costs

Payments relate to salary and benefits for UK-based employees and third party contractors. This includes employee-related costs incurred on behalf of Affiliates, which are recovered by LBIE and included as other realisations.

9. Legal and professional costs

Legal and other advisers' costs relate to advice given, and to court proceedings and litigation conducted, in numerous jurisdictions by a number of professional firms in connection with a range of issues across the Administration.

10. Other payments

Other payments comprise:

- c.£58m repayment of recovered or redirected funds which were paid by third parties into House accounts (see note 3);
- c.£42m of claim settlements with third parties;
- c.£13m of VAT paid on invoices;
- c.£8m of occupancy and infrastructure costs;
- c.£4m of distributions to clients to give value for their Client Money under their client agreements as part of the Client Money return scheme (see note 3); and
- c.£2m of other net sundry payments and reclassifications.

11. Investment profile

Current investment strategy

For immediate liquidity requirements, LBIE invests in short-term money market deposits. For other requirements, investments are made in short-dated government securities.

Total balances

House Estate	GBP equivalent £m
Short-dated government bonds ¹	6,271
Short-term deposits ²	218
Long-dated government bonds	39
Interest-bearing accounts	25
Total	6,553

1. Average rate of return on bonds yet to mature (net of fund manager fees) on sterling of 0.48%.
2. Average rate of return for 6 months ending 14 September 2015 on sterling of 0.37%.

Cash management and investment policies

Subject to meeting regulatory requirements, the continuing objectives of the policies are to provide:

- security for Administration funds;
- liquidity as required by the Administration; and
- appropriate returns (positive yield net of fees).

The primary objective continues to be ensuring the security of Administration funds. To meet this objective, a comprehensive counterparty credit risk policy is in place with clear limits on counterparties, instruments, amounts and duration. Compliance with policy is measured on at least a daily basis using live indicators, and any breaches arising from market movements are reported immediately to the Administrators.

The cash is managed by a team of treasury professionals which meets with the Administrators on a regular basis.

Instruments used in the period

- interest-bearing accounts;
- short-term deposits/notice accounts; and
- government and quasi-government bonds.

Policy for interest-bearing accounts and short-term deposits/notice accounts

Permitted banks must meet 5 key criteria:

- be headquartered in a sovereign state where the average long-term ratings from S&P, Moody's and Fitch are in the top 4 available tiers (AAA to AA-);
- be headquartered in a sovereign state within the top 3 tiers of the S&P banking industry country risk assessment;
- have a blended average long-term rating from S&P, Moody's and Fitch within the top 4 available tiers (AA- to A-);
- be a Prudential Regulation Authority or European Banking Authority approved counterparty; and
- have 5-year credit default swap prices, bond yields, equity volatility, capital buffers and financial ratios below a specified (prudent) threshold.

The counterparties are ranked in 3 tiers (1-3) based on their risk score (1 being least risky). To ensure diversification, counterparty limits are based on the tier to which they belong:

- 20% of funds under management with any single tier 1 bank;
- 17.5% of funds under management with any single tier 2 bank; and
- 15% of funds under management with any single tier 3 bank.

Short-term deposits/notice accounts are placed for a maximum duration of 12 weeks with tier 1 banks, 8 weeks with tier 2 banks and 4 weeks with tier 3 banks.

Policy for government bonds

Eligible investments for the bond portfolios are short-dated government debt issued by the UK and quasi-government debt securities benefiting from an explicit, unconditional and irrevocable guarantee from the UK government.

The bond portfolio is managed on a day-to-day basis by an independent fund manager.

In addition, long-dated government bonds are held to hedge against the interest rate and inflation risks associated with the remaining Pension Fund obligations (see page 12).

12. Funds held subject to potential third party claims

House Estate	£m
Reserve for unpaid dividends	119
Total	119

**Post-Administration Client Money receipts and payments:
cumulative and 6 months to 14 September 2015**

Post-Administration Client Money	Notes	Cumulative - 15 September 2008 to 14 March 2015 (USD equivalent) \$m	Period - 6 months to 14 September 2015 (USD equivalent) \$m	Cumulative - 15 September 2008 to 14 September 2015 (USD equivalent) \$m
Receipts				
Transfer from Omnibus Trust	1	-	59	59
Affiliate-related	2	712	3	715
Other receipts	3	6,973	4	6,977
Total receipts for the period/to date		7,685	66	7,751
Payments				
Affiliate settlements	4	(1,359)	(99)	(1,458)
Transfers to the House	5	(2,687)	(4)	(2,691)
Transfers to clients direct	6	(2,073)	(5)	(2,078)
Transfers to clients via LBIE's nominee	7	(778)	(5)	(783)
Other payments		(615)	(1)	(616)
Total payments for the period/to date		(7,512)	(114)	(7,626)
Net movement in the period/to date		173	(48)	125
Foreign exchange translation differences^		42	-	42
Total balances	8	215	(48)	167[#]
Comprising				
Segregated Affiliate post-Administration Client Money balance	9	195	(97)	98
Other third party post-Administration Client Money balance	10	20	49	69
Total balances		215	(48)	167

^ The translation differences largely arise from translating other currencies into US dollars for reporting purposes.

~ Balances held in currencies other than US dollars at 14 March 2015 were c.€14m, c.£1m and various other currencies c.\$17m (equivalent).

Balances held in currencies other than US dollars at 14 September 2015 were c.€9m and various other currencies c.\$1m (equivalent).

Notes to post-Administration Client Money receipts and payments account

1. Transfer from Omnibus Trust

Pending court and other relevant confirmations relating to an Omnibus Trust claim assigned to the House, all distributions relating to it were transferred to post-Administration Client Money in June 2015. Once all confirmations are received, a transfer of the funds to the House will be made.

2. Affiliate-related

Derived income from securities received directly into the segregated Affiliate accounts.

3. Other receipts

Amounts relating to sales, redemptions, coupons, dividends and investment income.

4. Affiliate settlements

Affiliate settlements mainly comprise:

- c.\$61m return of funds to LBF under the terms of a third party unsecured claim settlement;
- c.\$24m return of funds to clients of LBHK; and
- c.\$14m return of funds to LBSF under the terms of a third party unsecured claim settlement.

5. Transfers to the House

Transfers to the House related to derived income previously segregated for potential claims of clients of Affiliates, cost contributions payable to the House or funds now determined not to be post-Administration Client Money following investigation.

6. Transfers to clients direct

Return of post-Administration Client Money direct to clients, including debtor appropriations to the House.

7. Transfers to clients via LBIE's nominee

Return of post-Administration Client Money via LBIE's nominee, where funds are transferred to the House Estate for onward distribution to clients, net of amounts retained by the House in respect of fees payable, debtor appropriations and releases following a waiver of client rights in consideration for an unsecured claim into the House.

8. Investment profile

Total balances

Post-Administration Client Money	USD equivalent \$m
Short-term deposits	150
Interest-bearing accounts	17
Total	167

Cash management and investment policies for client funds

The Client Money cash management policies for short-term deposits and interest-bearing accounts are based on those used for the House Estate, modified to comply with the additional Client Money regulatory requirements.

Client Money is not eligible for investment in government bonds and can be placed on money market deposits for a maximum duration of 30 days.

9. Segregated Affiliate balances

Following significant returns in the period (note 4), the remaining funds that are held largely comprise LBF-related balances pending resolution (c.\$91m), together with income received on securities belonging to clients of LBHK.

10. Other third party balances

Following returns of c.\$14m to House and clients in the period, remaining funds mainly comprise:

- c.\$59m of Omnibus Trust-related funds (note 1) expected to be transferred to the House; and
- c.\$10m relating to clients subject to debt recovery litigation in Germany.

**Pre-Administration Client Money receipts and payments:
cumulative and 6 months to 14 September 2015**

Pre-Administration Client Money	Notes	Cumulative - 15 September 2008 to 14 March 2015 (USD equivalent) \$m	Period - 6 months to 14 September 2015 (USD equivalent) \$m	Cumulative - 15 September 2008 to 14 September 2015 (USD equivalent) \$m
Receipts				
Client Money pool recoveries	1	2,084	62	2,146
Funds received for the House	2	63	6	69
Interest		8	1	9
Total receipts for the period/to date		2,155	69	2,224
Payments				
Client Money interim distribution		(675)	-	(675)
Funds paid to the House	2	(62)	(6)	(68)
Legal costs		(10)	-	(10)
Total payments for the period/to date		(747)	(6)	(753)
Net movement in the period/to date		1,408	63	1,471
Foreign exchange translation differences [^]		(64)	26	(38)
Total balances	3	1,344[~]	89	1,433[#]

[^] The cumulative translation differences principally arise from translating other currencies into US dollars for reporting purposes.

[~] Balances held in currencies other than US dollars at 14 March 2015 were c.€322m and c.£140m.

[#] Balances held in currencies other than US dollars at 14 September 2015 were c.£372m and c.€32m. In the period, the euro balance held at 14 March 2015 was used to settle a hedge relating to euro to sterling currency risk.

Notes

1. Client Money pool recoveries

Receipts in the period largely comprised:

- c.\$26m as a seventh distribution from LBHI in respect of LBIE's guarantee claim; and
- c.\$36m as a sixth distribution from LBB on LBIE's unsecured claim.

2. Funds received for/paid to the House

Distributions from LBB in euros, received into the pre-Administration Client Money bank account in the period, included distributions relating to the House unsecured claim against LBB. Accordingly, these funds were then paid to the House bank account.

3. Investment profile

Pre-Administration Client Money	USD equivalent \$m
Short-term deposits	1,394
Interest-bearing accounts	39
Total	1,433

Omnibus Trust receipts and payments: cumulative and 6 months to 14 September 2015

Omnibus Trust	Notes	Cumulative - 15 September 2008 to 14 March 2015 (USD equivalent) \$m	Period - 6 months to 14 September 2015 (USD equivalent) \$m	Cumulative - 15 September 2008 to 14 September 2015 (USD equivalent) \$m
Receipts				
Cash transferred from LBI		4,815	-	4,815
Sale of equity securities returned by LBI	1	4,006	1	4,007
Sale of fixed income securities returned by LBI	1	696	10	706
Transfers and other receipts		61	1	62
Interest		3	-	3
Total receipts for the period/to date		9,581	12	9,593
Payments				
Distributions to beneficiaries		(6,269)	(443)	(6,712)
House debtor appropriations		(2,348)	(14)	(2,362)
House-assigned claims		(209)	(151)	(360)
US withholding tax	2	(104)	77	(27)
Fees recovered		(69)	-	(69)
Total distributions for the period/to date	3	(8,999)	(531)	(9,530)
Transfers and other costs		(61)	(1)	(62)
Costs relating to disposal of securities		(1)	-	(1)
Total payments for the period/to date		(9,061)	(532)	(9,593)
Total balances	4	520	(520)	-

Notes

1. Sale of equity securities and fixed income securities returned by LBI

Realisations in the period relate to the disposal or redemption of remaining securities and derived income from the securities. Certain illiquid securities were sold to the House at a fair value to facilitate closure of the estate. Two traded securities were sold at a market value of c.\$1m, with a third thinly-traded overseas security being sold for c.\$10m with the price agreed reflecting a liquidity discount. c.50% of the latter holdings have subsequently been sold to third parties at prices in line with this valuation.

2. US withholding tax

In the period, c.\$77m of tax was recovered from the IRS net of c.\$11m of tax paid on interim and Catch-up distributions, c.\$5m of tax paid on True-up distributions and c.\$1m of tax paid on bilateral settlements. \$10m remains on deposit with the IRS related to US source income in assignment transactions which settled in 2014. Discussions are ongoing between the IRS and the House. Final tax reporting will continue into 2016.

3. Total distributions for the period/to date

Total gross distributions of c.\$608m paid on 25 June 2015 comprised a final gross interim distribution of c.\$365m at a rate of 4.349%, a third gross True-up distribution of released withholding tax reserves (c.\$135m), a fourth gross Catch-up distribution (c.\$82m) and bilateral settlements to eligible consenting beneficiaries (c.\$26m). Reported total distributions for the period of c.\$531m are net of the c.\$77m tax recoveries (see note 2 above).

The House-assigned claims distributions in the period included c.\$59m relating to a claim assignment pending court and other relevant confirmations. Accordingly, funds were transferred to the post-Administration Client Money account pending receipt of the appropriate consents and once all are received, transfer of funds to the House will be made.

In total, c.\$9,283m (cumulative rate of 110.349%) of gross distributions have been paid on total Best Claim values of c.\$8,412m and bilateral settlements of c.\$247m have been paid. These distributions, together with confirmation of waiver or settlement of/reserve for claims outside of the Omnibus Trust (in total c.\$8m of Best Claim values), facilitated final resolution of all eligible claims.

4. Closure of the Omnibus Trust estate

The estate was closed with effect from 25 June 2015.

Appendix B:

Supplemental schedules

House securities

Remaining House securities and depot-related asset recoveries as at 14 September 2015 are summarised below.

House securities	Book value Mar 15 £m	Sales/ redemptions £m	Other ¹ £m	Book value Sep 15 £m	Indicative future recoveries ²	
					Low £m	High £m
Available for sale ³	50	(20)	10	40	30	40
Assets recovered from LBHK	20	(20)	-	-	-	-
Total	70	(40)	10	40	30	40

1. Includes purchase of securities from the Omnibus Trust (see page 26) and pricing adjustments.
2. The indicative future recoveries for 'available for sale' assets represent an expected outcome following adjustments for potentially illiquid assets.
3. Includes c.£10m of securities subject to litigation in Korea.

Affiliate securities and cash ring-fencing

Assets held in the House and Trust Estates, which are still subject to Affiliate claims at 14 September 2015, are set out below.

Affiliate ring-fencing	Securities £m	Cash £m	Total £m
Reported as at 14 March 2015	10	130	140
In the period			
Returns to Affiliates ¹	(10)	(60)	(70)
Pricing and foreign exchange adjustments	-	(10)	(10)
Movements in the period	(10)	(70)	(80)
Ring-fenced assets at 14 September 2015²	-	60	60

1. Mainly returns to LBF and LBHK.
2. Remaining assets are predominantly LBF-related, together with residual assets relating to LBHK.

Claims resolution: movements in the 6 months to 14 September 2015

In past reports, due to certain Affiliate Proofs of Debt being very materially overstated and not formally revised prior to settlement, the detailed claims resolution movement table has excluded Affiliate claims. For consistency, we maintain this convention with the key movements on non-Affiliate Senior creditors set out below.

	Admitted ^{1,2}			Pending-non-litigation ³			Pending-in litigation/ BarCap ⁴		Total		
	No. of deeds	Proof of Debt £m	Admitted value £m	No. of PODs	Proof of Debt £m	LBIE view £m	No.	Proof of Debt £m	No. of deeds/ PODs	Proof of Debt £m	Admitted value/ LBIE view £m
Non-Affiliate Senior creditors											
Non-Affiliate Senior creditors as at 14 March 2015	1,890	(15,140)	(11,000)	69	(190)	(30)	13	(1,040)	1,972	(16,370)	(11,030)
Rejections in full/withdrawals	(3)	-	-	(31)	140	-	(2)	210	(36)	350	-
Admitted claims in period	24	(90)	(80)	(19)	30	20	(4)	160	1	100	(60)
Claims reclassified	(1)	-	-	(3)	10	10	-	-	(4)	10	10
New claims submitted	4	-	-	6	-	-	-	-	10	-	-
Non-Affiliate Senior creditors at 14 September 2015	1,914	(15,230)	(11,080)	22	(10)	-	7	(670)	1,943	(15,910)	(11,080)

1. The admitted population excludes 851 creditors (c.£30m aggregate value) that have accepted the SCSO. Due to the immaterial value of the claim amounts, in the period, 9 creditors decided to retract their SCSO deeds thereby withdrawing their claims against the estate. The SCSO distribution payments in respect of these immaterial value claims have never been processed by the creditors and therefore have been cancelled.
2. c.\$1.5bn of non-Affiliate Client Money claims has been waived or assigned to LBIE's nominee, Laurifer, in exchange for admission as an unsecured claim.
3. The pending population excludes 50 claims (in aggregate c.£11m) as at 14 March 2015 and 51 claims (in aggregate c.£11m) as at 14 September 2015 where CME offers have been made but counterparties have been unresponsive. Accordingly, the claims are likely to be included in an application to the UK High Court to finalise the Client Money estate.
4. Although the US litigation between BarCap and LBI related to this claim has now been resolved, the possibility continues that aspects of the claim will eventually need to be resolved by the UK courts.

Withdrawals and rejections

Work on seeking consensual withdrawals of invalid claims or, if necessary, formally rejecting such claims has continued in the period, during which 36 non-Affiliate claims (excluding SCSO claims) have been withdrawn or rejected as follows:

- 30 claims were withdrawn, including 3 previously admitted claims (Proofs of Debt totalling c.£140m);
- 1 further claim that had been subject to a discontinued appeal to a full rejection notice was withdrawn (Proof of Debt of c.£120m); and
- 5 claims were fully rejected (Proofs of Debt totalling c.£90m), including 1 that had been subject to a discontinued appeal (Proof of Debt of c.£90m).

In addition, 1 Affiliate claim (Proof of Debt of c.£80m), not included in the above summary, was also withdrawn.

Accordingly, as at 14 September 2015, for Affiliate and non-Affiliate (non-SCSO) Senior claims, a total of 543 had been withdrawn (Proofs of Debt totalling c.£1.37bn) and a total of 243 had been rejected in full (Proofs of Debt totalling c.£560m).

Claims admittance

In the period, 28 non-Affiliate deeds with an aggregate value of c.£80m were admitted. This admitted value was, in aggregate, c.£10m less than the associated submitted Proof of Debt values. In particular:

- 4 claims previously in litigation were resolved, resulting in 5 separate deeds being admitted totalling c.£60m (revised Proofs of Debt totalling c.£60m net of value reductions of c.£100m agreed with claimants in the period);
- 19 claims totalling c.£20m were admitted, resulting in a release of reserves totalling c.£10m; and
- 4 new claims of insignificant value were admitted, at their Proof of Debt value.

Appendix C:

Litigation summary

The following litigation is a matter of public record in the relevant legal jurisdiction noted below.

Debtor litigation

Counterparty	Claim (principal)	Type	Commenced	Court	Court reference
AG Financial Products Inc.	\$500m	Street	Nov. 2011	Supreme Court of the State of New York	653284/2011
SAAD Trading, Contracting and Financial Services Company	\$125m	Street	Jun. 2015	Supreme Court of the State of New York	652319/2015
Kumho Industrial Co. Limited	KRW129bn	Street	Jul. 2015	Seoul Central District Court	
DZ Bank AG Deutsche Zentral-Genossenschaftsbank & The Bank of New York Mellon	€31m	Street	Jul. 2014	UK High Court	2014-835
Dietmar Hopp Stiftung GmbH	€26m	Trust	Aug. 2010	German Supreme Court	BGH XI ZR 9/14
DH Besitzgesellschaft AG & Co KG					
JP Morgan Chase Bank NA & Raiffeisen Bank International AG	€18m	Street	Feb. 2015	UK High Court	2015-688
ExxonMobil Financial Services BV	\$14m	Street	Aug. 2014	UK High Court	2014-1006
Athens Medical Centre SA	€10m	Street	Mar. 2011	Multi-Member Court of First Instance of Athens	53089/2011

Senior creditor litigation

Counterparty	POD £m	Type	Commenced	Court	Court reference
SAAD Investment Company Ltd	77	Other - rejection appeal	Jan. 2014	UK High Court	7942 of 2008
DZ Bank AG Deutsche Zentral - Genossenschaftsbank	31	Debtor	Jul. 2014	UK High Court	2014-835
Raiffeisen Bank International AG	16	Debtor	Feb. 2015	UK High Court	2015-688
AG Financial Products Inc.	16	Debtor	Nov. 2011	Supreme Court of the State of New York	653284/2011
ExxonMobil Financial Services BV	5	Debtor	Aug. 2014	UK High Court	2014-1006
Employee	3	Other - rejection appeal	Dec. 2014	UK High Court	7942 of 2008

Appendix D:

BarCap claim

Introduction

In order to protect its potential claims against LBIE whilst its litigation with LBI was ongoing, at different points in time BarCap had (1) submitted an unsecured claim Proof of Debt of c.\$928m and (2) asserted a pre-Administration Client Money claim for all cash balances which were or should have been held by LBIE as Client Money (but with no value specified).

US litigation and settlement terms

The US courts had previously determined that BarCap acquired LBI's CME in accordance with the terms of a sale and purchase agreement entered into with LBI in September 2008, and LBI had challenged this finding.

In the period, LBI lost its remaining legal challenges against BarCap in both the US Bankruptcy Court and US Supreme Court.

LBI and BarCap announced a settlement agreement on 5 June 2015 which included the following terms:

- LBI to pay BarCap c.\$1.3bn, including the \$777m dedicated LBIE reserve/indemnity; and
- LBI to support BarCap in collection of all remaining recoveries (including any amounts owed by LBIE).

The US Bankruptcy Court approved the settlement terms on 29 June 2015 and LBI subsequently paid the settlement on 2 July 2015 to BarCap, which included the \$777m dedicated LBIE reserve.

14 March 2015 position

Due to continuing uncertainties regarding the outcome of the litigation between BarCap and LBI, the LBIE Low case outcome assumed a \$777m receivable in respect of the LBI indemnity (c.£520m at 14 March 2015 US dollar exchange rate) and a Senior claim at the gross BarCap Proof of Debt value (c.\$928m converted to c.£520m at 15 September 2008 US dollar exchange rate).

In the High case outcome, it was assumed that either BarCap had no Senior claim or that it had a CME claim into the Client Money estate at a value less than the LBI indemnity.

In light of developments in the period, these assumptions have been amended.

14 September 2015 position

BarCap has lodged a Proof of Debt and has asserted an entitlement to Client Money protection, although no double recovery may be made by a claimant. BarCap is currently reserving its position as to the nature of the claim that it intends to pursue. Due to this uncertainty, and in order to reflect the wide range of possible outcomes, in our updated indicative financial outcome, we now assume:

- on a Low case outcome, BarCap pursues a CME claim, which is ultimately determined at c.\$590m based on the previously reported but yet to be reconciled and agreed estimate of the acquired LBI CME claim (c.\$1.37bn), less the LBI indemnity paid to BarCap (\$777m). This would have the impact of reducing the assumed Client Money benefit that would flow to the House Estate by c.£380m (c.\$590m converted at 14 September 2015 US dollar exchange rate) but would also assume withdrawal of the Senior claim that had been included in previous reports; and
- on a High case outcome, BarCap pursues a Senior claim of c.£80m (c.\$928m less \$777m equals c.\$150m/c.£80m at 15 September 2008 US dollar exchange rate), and the CME claim is either withdrawn or rejected. In this scenario, it would seem that BarCap could also claim Post-Administration Interest on the admitted Senior claim and CCC (subject to the Waterfall proceedings).

Elements of either scenario may require court directions to determine the ultimate position as:

- the c.\$1.37bn previously reported estimate of the acquired LBI CME claim was based on LBIE's incomplete accounting records as at 15 September 2008 and a set of simplifying assumptions. LBIE did not in fact generally segregate Client Money for Affiliates nor were there formal contractual arrangements between LBIE and LBI requiring LBIE to provide LBI with Client Money protection. If BarCap now pursues a CME claim, LBIE may need the court's assistance to determine whether the claim acquired by BarCap should be treated as a Client Money claim and, if so, how that entitlement is to be calculated; and
- if BarCap alternatively pursues a Senior claim against LBIE (the High case scenario), BarCap may seek somehow to assert a claim for Post-Administration Interest on the \$777m received from LBI.

Appendix E:

Surplus entitlements court process (Waterfall I and II)

Summary of Waterfall I Appeal UK Appeal Court process milestones in the current reporting period:

17 Mar. 2015	CVI GVF (Lux) Master Sarl filed replacement respondent's skeleton argument
23-27 Mar. 2015	5-day UK Appeal Court hearing
13 May 2015	LBIE, LBHI2, LBL and LBHI filed skeleton arguments in relation to the proposed order of the UK Appeal Court
14 May 2015	UK Appeal Court handed down judgment
18 May 2015	UK Appeal Court made order
20 May 2015	UK Appeal Court made amended order
9 Jun. 2015	LBL filed a notice of appeal seeking permission to appeal to the UK Supreme Court
10 Jun. 2015	LBHI and LBHI2 filed notices of appeal seeking permission to appeal to the UK Supreme Court
23 Jun. 2015	Administrators and CVI GVF (Lux) Master Sarl filed notices of objection to the applications for permission to appeal to the UK Supreme Court

Summary of Waterfall I Appeal UK Appeal Court process milestones expected in the next reporting period:

Autumn 2015	UK Supreme Court decision as to permission to appeal to UK Supreme Court expected to be handed down
Autumn 2015 - Mar. 2016	Date to be set for UK Supreme Court hearing (if applicable) - likely to be beyond next reporting period

Summary of Waterfall II UK High Court process milestones in the current reporting period:

7 Apr. 2015	Notification given to creditors in respect of parties' proposal to adjourn issues 31-33
10 Apr. 2015	Senior Creditor Group filed supplemental position paper and statement of relevant facts in relation to issue 36A (tranche B)
15 Apr. 2015	Wentworth filed supplemental position paper and statement of relevant facts in relation to issue 36A (tranche B)
21 Apr. 2015	Senior Creditor Group filed a revised supplemental position paper and statement of relevant facts in relation to issue 36A (tranche B)
21 Apr. 2015	Pre-trial review hearing before Mr Justice David Richards on procedural steps regarding tranche B issues
22 Apr. 2015	Directions order following pre-trial review for tranche B issues
24 Apr. 2015	Administrators filed supplemental position paper and statement of relevant facts in relation to issue 36A (tranche B)
24 Apr. 2015	Senior Creditor Group, Wentworth and the Administrators filed statements of agreed facts in relation to issues 34, 35 and 36A (tranche B)
27 Apr. 2015	Senior Creditor Group and Wentworth filed statements of disputed facts in relation to issues 34, 35 and 36A (tranche B)
30 Apr. 2015	Administrators filed statement of disputed facts in relation to issues 34, 35 and 36A (tranche B)
1 May 2015	Senior Creditor Group and Wentworth filed skeleton arguments in advance of the tranche B hearing
7 May 2015	Directions Order arising from the third case management conference on 9 March 2015
7 May 2015	Wentworth filed supplemental position paper in relation to issues 11, 12 and 13 (tranche C)
8 May 2015	Goldman Sachs International's application to be joined as the sixth respondent in respect of issues 11-14 and 27 only served (the "Joinder Application") with first witness statement of Jonathan Kelly filed in support (tranche C)
8 May 2015	Administrators filed skeleton argument in respect of the tranche B hearing
13 May 2015	Wentworth filed reply skeleton argument in respect of the tranche B hearing
13 May 2015	Amended application notice served to reflect amendments pursuant to the Directions Order of the 9 March 2015 case management conference
18 - 21 May 2015	4-day hearing of the tranche B issues
18 Jun. 2015	Goldman Sachs International served skeleton argument in respect of its Joinder Application (tranche C)
19 Jun. 2015	Senior Creditor Group filed a revised position paper in respect of issues 11 and 12 (tranche C)
19 Jun. 2015	Senior Creditor Group filed skeleton argument in respect of Goldman Sachs International's Joinder Application (tranche C)
19 Jun. 2015	Wentworth, the Senior Creditor Group and the Administrators filed skeleton arguments in respect of Goldman Sachs International's Joinder Application (tranche C)
22 Jun. 2015	Goldman Sachs International served the second witness statement of Jonathan Kelly in support of its Joinder Application (tranche C)
23 Jun. 2015	Joinder Application hearing at which Mr Justice David Richards joined Goldman Sachs International as the sixth respondent to the Waterfall II Application in respect of issues 11-14 and 27 (tranche C)
26 Jun. 2015	Order of Mr Justice David Richards in relation to the Joinder Application of Goldman Sachs International sealed by Court (tranche C)
26 Jun. 2015	Expert opinion as to matters of New York law filed on behalf of Wentworth (tranche C)
10 Jul. 2015	Expert opinions as to matters of French law and German law filed on behalf of Wentworth and the Senior Creditor Group, respectively (tranche C)
23 Jul. 2015	Goldman Sachs International filed position paper on issues 11-14 and 27 (tranche C)
24 Jul. 2015	Reply expert opinion as to matters of New York law filed on behalf of the Senior Creditor Group (tranche C)
31 Jul. 2015	Approved judgments of Mr Justice David Richards handed down on tranche A and B issues
31 Jul. 2015	Reply expert opinions as to matters of French law and German law filed on behalf of Wentworth and the Senior Creditor Group, respectively (tranche C)
6 Aug. 2015	Wentworth filed position paper in reply to Goldman Sachs International's position paper of 23 July 2015 (tranche C)
14 Aug. 2015	Response expert opinion as to matters of New York law filed on behalf of Wentworth (tranche C)
20 Aug. 2015	Administrators filed position paper in reply on issues 11-13 (tranche C)
20 Aug. 2015	Twelfth witness statement of Anthony Victor Lomas filed by the Administrators in respect of issues 11-13 (tranche C)
27 Aug. 2015	Goldman Sachs International filed position paper in reply in respect of issues 11-14 and 27 (tranche C)
1 Sept. 2015	Senior Creditor Group filed a revised position paper in respect of issues 11, 12 and 20 (tranche C)
7 Sept. 2015	Goldman Sachs International filed a position paper in respect of issues 11-13 (tranche C)
14 Sept. 2015	Wentworth filed a revised position paper in respect of tranche C hearing, to reflect its revised position on issues 20 and 21

Summary of Waterfall II Application UK High Court process milestones expected in the next reporting period:

30 Sept. 2015	New York law experts to file a joint statement for the UK High Court showing: (a) those issues on which they are agreed; and (b) those issues on which they disagree and a summary of their reasons for disagreeing
5 Oct. 2015	Wentworth and the Senior Creditor Group to file further expert reports addressing new arguments in respect of German law
7 Oct. 2015	Parties to file short supplemental expert reports of New York law, if necessary (tranche C)
9 Oct. 2015	Consequential matters hearing regarding approved judgments on tranche A and B issues
9 Oct. 2015	Pre-trial review regarding tranche C issues
12 Oct. 2015	French law and German law experts to file joint statement for the UK High Court showing: (a) those issues on which they are agreed; and (b) those issues on which they disagree and a summary of their reasons for disagreeing (tranche C)
16 Oct. 2015	Respondents to file skeleton arguments in relation to the tranche C issues
19 Oct. 2015	Parties to file short supplemental expert reports of French law and German law (tranche C)
23 Oct. 2015	Administrators to file skeleton argument in relation to the tranche C issues
30 Oct. 2015	Respondents' supplemental skeleton arguments in relation to the tranche C issues to be filed
9 - 20 Nov. 2015	7-10 day UK High Court hearing of the tranche C issues

The timings of the above milestones are subject to change.

Appendix F:

Administrators' remuneration

Analysis of Administrators' remuneration by grade and work activity

The table below provides an analysis of the Administrators' total hours incurred and the associated cost by staff grade and work activity for the previous time reporting period (to 31 December 2014) and the current period (to 30 June 2015), together with the forecast for the current and next period (to 31 December 2015).

	Prior actual		Current actual		Current forecast		Future forecast	
	1 July 2014 to 31 December 2014		1 January 2015 to 30 June 2015		1 January 2015 to 30 June 2015		1 July 2015 to 31 December 2015	
	Hours	£'000	Hours	£'000	Hours	£'000	Hours	£'000
By grade								
Partner	4,642	3,771	4,123	3,347	3,939	3,165	3,151	2,747
Director	12,013	7,726	10,641	6,926	10,714	6,929	8,930	6,009
Senior Manager	32,268	15,801	23,566	11,884	25,412	12,579	19,462	10,415
Manager	38,914	14,229	28,277	10,585	27,496	10,176	21,938	8,728
Senior Associate	42,850	10,825	22,234	5,863	20,801	5,410	16,176	4,353
Associate	16,345	2,606	10,235	1,684	8,901	1,456	3,102	516
Total	147,032	54,958	99,076	40,289	97,263	39,715	72,759	32,768
Average hourly rate		£374		£407		£408		£450
By work activity								
Counterparty resolution	21,369	7,862	11,952	3,962	10,765	3,751		
Transaction processing & control	19,959	6,607	11,145	4,364	10,713	4,160		
Middle office	15,124	5,293	6,962	2,931	6,932	2,859		
Surplus	11,228	4,394	7,534	3,993	9,547	4,223		
Valuations	9,135	3,799	3,882	1,700	4,876	1,993		
Simplification/data governance	11,035	3,766	7,958	2,649	8,579	3,208		
Information technology	20,130	6,590	16,740	6,205	16,859	6,365		Note 1
Insolvency	15,181	5,208	12,749	4,363	12,274	4,421		
Tax, VAT & pensions	7,203	4,655	6,926	4,586	4,653	3,322		
Other back office functions	16,668	6,784	13,228	5,536	12,065	5,413		
Total other support functions	59,182	23,237	49,643	20,690	45,851	19,521		
Total	147,032	54,958	99,076	40,289	97,263	39,715		

- The LBIE operating model is being simplified to meet the changing needs of the Administration. In the next reporting period, new work activity categories will be reported upon, aligned to the new operating model with the prior period time (6 months to 30 June 2015) being restated in the new format.

Staff headcount profile

The table below provides a summary of the actual staff headcount profile for the previous and current time reporting periods and the forecast for the current and next time reporting periods.

	Actual		Forecast	
	Prior period ended 31 Dec 2014	Current period ended 30 Jun 2015	Current period ended 30 Jun 2015	Future period ending 31 Dec 2015
Staff profile				
LBIE staff (including contractors)	259	196	201	150
PwC staff ¹	143	100	98	71
Ratio of LBIE to PwC staff	1.8	2.0	2.0	2.1

1. PwC staff numbers are calculated on the basis of 8 worked man-hours being equal to 1 full-time equivalent man-day.

We estimate that in the period ending 31 December 2015 the LBIE headcount will reduce by 23%. In the corresponding period, the PwC staff will have reduced by 29%.

The fluctuating ratio of LBIE to PwC staff reflects PwC staff being released at shorter notice than LBIE staff as workload reduces.

Administrators' remuneration movements between the current period and the prior period

In the current time reporting period to 30 June 2015, total hours reduced by 33% compared to the period ended 31 December 2014, with a corresponding reduction in total costs of 27%.

All work activities have experienced reduced activity in the period, with significant reductions in:

- counterparty resolution, as the unresolved non-litigation debtor and creditor populations have been significantly completed;
- middle office and the associated valuations work stream, as the progress in settling outstanding claims has further reduced the associated claims agreement and valuation workloads; and
- transaction processing and control, as the remaining volume of assets held in the House and client depots and associated income have continued to fall as positions are resolved.

Administrators' remuneration movements between the current period actual and forecast

The total actual hours and costs are broadly in line with the forecast.

Principal activity variances relate to:

- simplification and governance, with actual hours at c.90% and costs at c.80% of forecast, as the success in winding down activities ahead of forecast allowed a reduction in senior staff time; offset by
- tax, VAT and pensions, with actual hours at c.150% and costs at c.140% of forecast, due to additional pension specialist advice being necessary to implement the settlement agreement with the Pension Fund.

Administrators' remuneration forecast for the next period

The forecast 6-monthly time reporting period to 31 December 2015 indicates a 27% reduction in hours and a 19% reduction in costs compared with the current period. This reflects the activity across the majority of work streams continuing to reduce in line with future expected workloads.

The increase of c.10% in the average hourly rate predominantly reflects a grade mix change, with more junior, process-driven roles expected to end in the forecast period and a 3% increase in hourly charging rates, agreed with the Committee and effective from 1 July 2015.

Administrators' remuneration approval

Details of the statutory framework for the approval of the Administrators' remuneration, the role of the Creditors' Committee Adviser and the level and detail of disclosure provided by the Administrators are set out in our earlier reports.

We continue to provide the Committee and its Adviser with detailed information relating to our remuneration and to Category 2 disbursements, in accordance with SIP 9.

Approvals by the Creditors' Committee

As previously reported, the Committee has approved remuneration arrangements for 2015, which require deferral of a significant proportion of the Administrators' 2015 time costs to be considered for approval in early 2016, enabling the Committee to consider the Administrators' performance across the whole of the 2015 calendar year.

The Committee has been provided with Category 2 disbursement information relating to the 6-month period to 30 June 2015 amounting to £1,027,308, with disbursements of £540,084 being approved for payment in the period.

Cumulative time costs accrued to 30 June 2015 are c.£925m. Total Administrators' remuneration and disbursements paid to 14 September 2015 are c.£959m.

Appendix G:

Statutory and other information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court Court case number 7942 of 2008
Full name:	Lehman Brothers International (Europe)
Trading name:	Lehman Brothers International (Europe)
Registered number:	02538254
Registered address:	Level 23, 25 Canada Square, London E14 5LQ
Date of the Administration appointment:	15 September 2008
Administrators' names and addresses:	AV Lomas, SA Pearson (both appointed 15 September 2008), PD Copley and R Downs (both appointed 2 November 2011) and JG Parr (appointed 22 March 2013) of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT. MJA Jarvis and DY Schwarzmans ceased to act on 2 November 2011. DA Howell ceased to act on 22 March 2013
Appointor's name and address:	High Court of Justice, Chancery Division, Companies Court on the application of LBIE's directors
Objective being pursued by the Administrators:	Achieving a better result for LBIE's creditors as a whole than would be likely if LBIE were wound up (without first being in Administration)
Aims of the Administration:	Recover and/or realise all House assets, including cash, securities and in-the-money financial contracts, on a managed basis Admit unsecured creditors' claims and make distributions to creditors Recover Client Assets and Client Money, assess the claims to such property and return all such property to its rightful owners on a systematic basis
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) of Schedule B1 to the Insolvency Act, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Administrators may be done by any one or more of the persons for the time being holding that office
Details of any extensions for the initial period of appointment:	The UK High Court on 2 November 2011 granted an extension of the Administration to 30 November 2016
Proposed end of the Administration:	The Administrators have yet to determine the most appropriate exit
Estimated dividend for unsecured creditors:	Interim dividends paid to date at a cumulative rate of 100p/£1
Estimated values of the prescribed part and LBIE's net property:	The prescribed part is not considered to be relevant as all Senior admitted creditors have been paid or reserved for at a rate of 100p/£1
Whether and why the Administrators intend to apply to court under Section 176A(5) of the Insolvency Act:	Not applicable
The European Regulation on Insolvency Proceedings (Council Regulation (EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings does not apply to this Administration as LBIE is an investment undertaking
Creditors' Committee members:	Lehman Commercial Paper Inc. Ramius LLC Lehman Brothers Commercial Corporation Asia Limited During the period, Lehman Brothers Asia Holdings Limited was replaced by Lehman Brothers Commercial Corporation Asia Limited as a Committee member

Appendix H:

Glossary of terms

Abbreviation	Term	Definition
Administration	Administration	UK corporate insolvency process governed by the Insolvency Act 1986 applicable to LBIE following the granting of an administration order dated 15 September 2008
Administrators	Joint Administrators	AV Lomas and SA Pearson were appointed as Joint Administrators of LBIE on 15 September 2008. PD Copley and R Downs were appointed on 2 November 2011. JG Parr was appointed on 22 March 2013. All are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales and are partners of PricewaterhouseCoopers LLP
Adviser	Adviser	An adviser retained to assist the Committee in considering the Administrators' remuneration requests
Affiliates	Affiliate entities	Various subsidiaries and affiliates of Lehman Brothers Holdings Inc.
AGR	AG Financial Products Inc.	A US-based affiliate of Assured Guaranty Corp. which provided credit protection to counterparties under credit default swaps
BarCap	Barclays Capital Inc.	Investment banking business of Barclays Bank PLC
Best Claim value	Best Claim value	A customer's claim for the purposes of the Consensual Proposal is the higher of either: the value of the accepting customer's claim on 19 September 2008 (and, for the avoidance of doubt, excluding income accruing after 19 September 2008); and the market value of an accepting customer's claim, including income, on 30 November 2012
Catch-up distribution	Catch-up distribution	Deferred Omnibus Trust distribution to consenting beneficiaries who now satisfy the eligibility criteria but did not participate in one or more of the previous Common Terms distributions
Category 2 disbursements	Administrators' Category 2 disbursements	Costs that are directly referable to the Administration but not to a payment to an independent third party. They may include shared or allocated costs that can be allocated to the Administration on a proper and reasonable basis
Claims Determination Deed (also referred to as CDD)	Claims Determination Deed	A standardised legal document for agreeing claims under the Consensual Approach
Client Assets	Client Assets	Client securities which LBIE should have held as at 15 September 2008
Client Money	Client Money	Client cash balances held by LBIE as at 15 September 2008 or received thereafter by LBIE and which are in each case subject to the UK Financial Conduct Authority's client money rules and/or applicable client money distribution rules
CME	Client Money Entitlement	The entitlement to receive a distribution from the pre-Administration Client Money pool
Committee	Creditors' Committee	Creditors voted to represent the general body of creditors of LBIE to assist the Administrators in discharging their functions set out in the Insolvency Act 1986
Common Terms	Common Terms	Common terms between LBIE and consenting beneficiaries to the Consensual Proposal
Consensual Approach	Consensual Approach	A framework developed for the expedient resolution of the unsecured claims of financial trading counterparties
Consensual Proposal	Consensual Proposal	Proposal to Omnibus Trust claimants to settle on a consensual basis their claims in respect of securities and/or cash positions under the Common Terms. In settlement of the claims, each customer which is a party to the Common Terms is entitled to have allocated to it a share of the proceeds of the securities and cash received by LBIE from LBI
CRA	Claim Resolution Agreement	The claim resolution framework which governs the return of Client Assets. The CRA was proposed by the Administrators to clients in November 2009 and was accepted by over 90% of eligible Client Assets claimants
Currency Conversion Claim (also referred to as CCC)	Currency Conversion Claim	Non-provable claim derived from contractual rights to be paid in a currency other than sterling, where the value of sterling has declined as against the currency of the claim between the date of Administration and the date(s) of payment of distributions in respect of the claim
Customer Property	Customer Property as defined in SIPA	A combination of claims to securities and certain cash amounts relating to securities, as defined in SIPA
FINMA	FINMA	Swiss Financial Market Supervisory Authority FINMA
HMRC	HM Revenue & Customs	Organisation of the UK government primarily responsible for the collection of taxes
House Estate (also referred to as House)	House Estate	Dealings that relate to LBIE's general unsecured estate
Insolvency Act	Insolvency Act 1986	Statutory legislation that provides the legal platform for matters relating to personal and corporate insolvency in the UK
Insolvency Rules	Insolvency Rules 1986	Statutory rules that provide the legal platform for matters relating to personal and corporate insolvency in the UK

Abbreviation	Term	Definition
IRS	Internal Revenue Service	A bureau of the Department of the Treasury of the United States federal government with responsibility for collecting taxes and the interpretation and enforcement of the internal revenue code
ISDA (also referred to as ISDA Master Agreement)	International Swaps and Derivatives Association Master Agreement	Global trade association for over-the-counter derivatives standard documentation
Laurifer	Laurifer Limited	Special purpose vehicle registered in Jersey set up for the purposes of the Trust Estate property return scheme
LBB	Lehman Brothers Bankhaus A.G.	Affiliate entity subject to insolvency proceedings in Germany
LBF	Lehman Brothers Finance S.A. (Switzerland)	Affiliate entity subject to insolvency proceedings in Switzerland
LBHI	Lehman Brothers Holdings Inc.	Ultimate parent of the Lehman group, incorporated in the USA and formerly subject to Chapter 11 bankruptcy protection from 15 September 2008. The plan of reorganisation became effective on 6 March 2012
LBHI2	LB Holdings Intermediate 2 Limited	Affiliate entity subject to insolvency proceedings in the UK
LBHK	Lehman Brothers Hong Kong	Collective group of affiliate entities subject to insolvency proceedings in Hong Kong: Lehman Brothers Asia Holdings Ltd, Lehman Brothers Commercial Corporation Asia Ltd, Lehman Brothers Asia Capital Company Ltd, Lehman Brothers Securities Asia Ltd, Lehman Brothers Futures Asia Ltd, Lehman Brothers Asia Ltd and Lehman Brothers Nominees (H.K.) Ltd
LB	Lehman Brothers Inc.	US broker-dealer affiliate entity, incorporated in the USA which entered SIPA trusteeship on 19 September 2008
LBIE	Lehman Brothers International (Europe) – In Administration	Private unlimited UK subsidiary of LBHI, acting as its main European broker dealer, subject to an administration order dated 15 September 2008
LBL	Lehman Brothers Limited	UK service entity for the Lehman Administration Companies. LBL was placed into Administration on 15 September 2008
LBSF	Lehman Brothers Special Financing Inc.	Affiliate entity subject to insolvency proceedings in the USA
MCF	Mable Commercial Funding Limited	Affiliate entity subject to insolvency proceedings in the UK
Omnibus Trust	Omnibus Trust	Trust under which the asset returns to LBIE by LBI of SIPA Customer Property relating to LBIE client positions are held and the assets constituting the trust property thereof
Pension Fund	Lehman Brothers Pension Scheme	Group pension scheme for employees of UK Lehman entities
Post-Administration Interest	Post-Administration Interest	Statutory interest payable pursuant to Rule 2.88(7) of the Insolvency Rules
Proof of Debt (also referred to as POD)	Proof of Debt or Statement of Claim	A formal document prescribed by the Insolvency Rules submitted to the Administrators by a creditor wishing to prove their claim. The form is made in writing or electronically under the responsibility of a creditor and signed by an authorised person
SCSO	Small Claims Settlement Offer	An initiative under which creditors with agreed claims up to £150,000 were offered a one-off payment of 90% of their agreed claim in full and final settlement
Senior	Senior unsecured creditor	Unsecured, non-preferential, non-Shareholder, not subordinated creditor
Senior Creditor Group	Senior Creditor Group	Collectively 3 respondents to the Waterfall II Application: Burlington Loan Management Limited, CVI GVF (Lux) Master SARL and Hutchinson Investors, LLC
Shareholder(s)	Shareholder(s) of LBIE	LBL and/or LBHI2
SIP 9	Statement of Insolvency Practice 9	Rules issued by the Joint Insolvency Committee which provide guidance to insolvency practitioners and creditors' committees in relation to the remuneration of, <i>inter alios</i> , administrators
SIPA	Securities Investor Protection Act 1970	A US legal proceeding for handling the liquidation of a broker-dealer
Street	Street counterparties	Third party counterparties consisting of financial institutions, including asset managers, custodians and banks; and non-banking financial institutions, including pension funds and corporate entities
Street Creditors	Street Creditors	Senior creditors with financial trading claims without Client Assets
Subordinated Debt	Subordinated Debt	The subordinated liabilities arising pursuant to 3 intercompany loan agreements entered into between LBIE and LBHI2, each dated 1 November 2006, and which have been assigned by LBHI2 to the Wentworth joint venture companies

Abbreviation	Term	Definition
Surplus	Surplus	Assets remaining after the payment in full of Senior creditor claims and before Post-Administration Interest, non-provable claims, the Subordinated Debt and Shareholder claims
True-up distribution	True-up distribution	Release of funds to those consenting beneficiaries who participated in previous Common Terms distributions and for whom attributable reserves were made in respect of US federal income tax liabilities
Trust Estate	Trust Estate	Client Assets, Client Money and Omnibus Trust
UK Appeal Court	Court of Appeal of England and Wales	The second most senior court in the English legal system for civil cases. Permission to appeal is required, either from the lower court or the Court of Appeal itself
UK High Court	High Court of England and Wales	Court of England and Wales which deals with all high value and high importance cases, and also has a supervisory jurisdiction over all subordinate courts
UK Supreme Court	Supreme Court of the United Kingdom	This is the court of last resort and highest appellate court in the United Kingdom for civil cases
VAT	Value Added Tax	A consumption tax levied on the sale of goods and services in the UK
Waterfall	Waterfall	Waterfall I and II legal proceedings
Waterfall I Appeal	Waterfall I Appeal	Appeal proceedings of all issues in respect of the Waterfall I Application judgment given by the UK High Court on 19 May 2014
Waterfall I Application (also referred to as Waterfall I)	Waterfall I Application	A joint application by LBIE, LBL and LBHI2 to the UK High Court issued on 14 February 2013 seeking a determination on statutory interest priority, contribution rights and other issues relating to LBIE and its Shareholders
Waterfall II Application (also referred to as Waterfall II)	Waterfall II Application	An application to the UK High Court issued on 12 June 2014 seeking a further determination on issues that impact the rights of creditors to payment from the Surplus and the distribution of that Surplus in a timely manner
Wentworth	Wentworth	Wentworth Sons Sub-Debt SARL, a respondent to the Waterfall II Application

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