

Lehman Brothers International (Europe) In Administration

Joint Administrators' progress report for the period
15 September 2009 to 14 March 2010

14 April 2010

Important notice

Creditors will note that this report provides data relating to estimated future recoveries, costs and creditor claim amounts. Please note that material facts, which may severely impact any, or all of these figures and, in turn, the dividend prospects for LBIE creditors are, in some instances, known to the Administrators but have not been disclosed to creditors in this report for reasons of commercial sensitivity and legal confidentiality.

Accordingly, very material uncertainties continue to exist regarding the ultimate value realised from assets, timing of asset recoveries and the eventual level of admissible creditors' claims. These will all have a significant effect on any interim or final dividends payable.

The Administrators therefore wish to caution creditors from using any data in this report to estimate the value of their claims or any likely dividend ranges as any such assessments are potentially materially misleading. LBIE, the Administrators, their staff and advisers accept no liability to any party for any reliance placed upon this report.

While amounts included in this report are stated in US Dollars a very material proportion of the assets and liabilities are in currencies other than US Dollars. The restatement of assets realised in currencies other than US Dollars and the distribution of assets and payment of costs in currencies other than US Dollars inhibits comparison with our earlier reports.

The Administrators have not analysed these exchange differences in this report but draw this important matter to your attention.

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Section 1

Purpose of the Joint Administrators' progress report

Introduction

This report has been prepared by the Joint Administrators (the "Administrators") of Lehman Brothers International (Europe) ("LBIE" or the "Company") under Rule 2.47(3)(a) of the Insolvency Rules 1986 (the "Insolvency Rules"). This is the third formal update to unsecured creditors.

This report provides details of progress in the Administration for the period 15 September 2009 to 14 March 2010.

The Administrators have not duplicated information disclosed to creditors in previous updates and reports. Creditors are advised to refer to the Administrators' previous progress reports for background information surrounding the objectives and processes for each of the specialist teams of LBIE. A copy of previous progress reports can be found at www.pwc.co.uk/lehman.

Objective of the Administration

As previously communicated to creditors, the Administrators are pursuing the objective of 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).

The specific aims of the Administration are to:

- Realise all assets, including cash, securities and in-the-money financial contracts on a managed basis;
- Mitigate and agree in principle the claims of all creditors; and
- Manage Client Assets and Client Monies, assess the claims to such assets and return all Trust Property to their rightful owners on a systematic basis.

Creditors' Committee

The Administrators continue to meet with the Creditors' Committee ("Committee") regularly to review progress and consult on major issues by way of physical meetings

and conference calls. Significant time and effort has been contributed by members of the Committee, who are unremunerated, to advance the objectives of the Administration and, in particular, to progress and finalise the terms of the Claim Resolution Agreement ("CRA"). The Administrators wish to express their gratitude to the Committee members for their contribution during the period.

Notice of proposed distribution

Under the provisions of the Insolvency Act 1986 (the "Insolvency Act"), an administrator cannot make a distribution to creditors subject to permission being granted by the court.

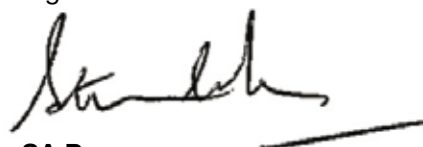
On 2 December 2009, the High Court of England and Wales (the "High Court") granted the Administrators an Order (the "Order") to convert the Administration of LBIE into a Distributing Administration to make a payment by way of distribution to unsecured creditors.

All creditors whose addresses were known to the Administrators were sent a notice dated 4 December 2009, pursuant to Rule 2.95 of the Insolvency Rules, informing them that the Administrators propose to make a distribution (by way of paying an interim dividend) to unsecured creditors. The notice specifies 31 December 2010 as the date up to which Proofs of Debt may be lodged, the effective bar date ("the Unsecured Bar Date").

Future Reports

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

Signed:



SA Pearson
Joint Administrator
Lehman Brothers International (Europe)

Section 2

Executive summary

Progress to date against the Administration objectives

The Administrators are pleased to report further significant progress in the six months to 14 March 2010 with considerable progress being achieved against the Administration objectives, specifically:

Objective	Progress
<p>Realise all assets, including all cash, securities and in-the-money financial contracts on a managed basis</p> <ul style="list-style-type: none">• Recovery and sale of House securities• Recovery of sums receivable under financial contracts• Recovery of amounts from Affiliate debtors	<ul style="list-style-type: none">• \$12.0bn of cash had been realised to 14 March 2010, relating to the sale of House assets and recoveries from financial contract settlements.• Material progress has been made in progressing financial contract receivables towards settlement. Further recoveries of \$0.8bn - \$3.3bn are anticipated. Steps have been taken to commence formal recovery proceedings against certain recalcitrant debtors.• Control has been obtained of an additional \$1.5bn of securities in the period. Currently, \$4.4bn of securities were held in House depots under LBIE's control at 14 March 2010 (of which \$3.7bn are subject to title risks).• A hearing is scheduled for October 2010 in the High Court to resolve an ongoing challenge by Affiliates to establish ownership of some of these assets.• \$217.3bn of claims have been filed against Affiliate entities to date and extensive activity is ongoing to progress and agree intercompany balances with Affiliates. A downward revision of \$24.0bn to these claims was made in January 2010.
<p>Mitigate and agree in principle the claims of all creditors</p> <ul style="list-style-type: none">• Determination of claim population• Valuation of creditor claims• Implementation of distribution framework	<ul style="list-style-type: none">• Comprehensive creditor valuation and population reconciliation processes have been implemented to determine claims against LBIE.• Options to simplify and accelerate the claim determination and asset distribution process are being explored. Further details will be provided to creditors over coming months.• An Order was obtained in December 2009 from the High Court to convert LBIE into a Distributing Administration. This allows unsecured claim determination to progress.• A Notice of Intended Dividend has been issued and the Unsecured Bar Date is set as 31 December 2010.• It is premature to provide an estimate of likely creditors' claims in the absence of further information from creditors. As such, it is not appropriate to provide an indicative dividend estimate at this time.

Objective	Progress
<p>Manage Client Assets and Client Monies, assess the claims to such assets and return all Trust Property to their rightful owners on a systematic basis</p> <ul style="list-style-type: none"> Recovery of securities and Client Money from third parties and Affiliates Identification of claimant population Implementation of claim agreement and distribution framework Distribution of assets to rightful owners 	<ul style="list-style-type: none"> Assets returned to clients increased by \$1.0bn, to \$14.3bn, by 14 March 2010 as further bilateral agreements were concluded. \$4.1bn of receipts have been recovered and deposited into Client accounts to date, of which \$1.9bn has been distributed or appropriated. The CRA, a highly innovative and practical claim resolution framework was designed, implemented and supported by over 90% of eligible creditors. This now governs the return of qualifying Client Assets. A bar date for claims to Client Assets was established, and has now lapsed. Some \$28m of cost contributions have been recovered from clients to date to meet the costs of managing and returning Client Assets. The first returns to clients have been made under the CRA (post 19 March 2010). \$9.4bn of Client Assets were held in LBIE controlled depots at 14 March 2010. Claims have been asserted by LBIE to a further \$4.7bn of Client Assets custodied with Affiliates (\$4.2bn) and third parties (\$0.5bn). LBIE's working relationship with Lehman Brothers, Inc ("LBI") continues to be constructive. LBI has established a target of 30 June 2010 to conclude the reconciliation process. A draft protocol to govern the recovery of Customer Property from LBI, subject to SIPA, is advanced. Following separate applications, the High Court handed down judgments for the determination of pre-Administration Client Money and post-Administration receipts. The pre-Administration Client Money judgment is subject to an appeal, expected to be heard during June 2010. A proposal was issued by the Administrators on 9 April 2010 to settle certain Client Money claimants' entitlements and reach finality in their claims, while at the same time materially reducing the administrative costs associated with those clients.

Summary progress to date

The Administrators have gained control of over **\$48.6bn** of securities and cash to date and distributed or released **\$17.2bn** as follows:

- \$16.1bn of cash has been collected and held in the Administrators' control:
 - \$12.0bn of House realisations;
 - \$1.0bn of pre-Administration Client Money; and
 - \$3.1bn of post-Administration Client related receipts, of which \$1.9bn has been distributed.
- \$7.8bn of non-segregated securities (14 March 2010 value) have been recovered, of which \$3.4bn have been realised.
- \$24.7bn of Client inventory (14 March 2010 value) has been managed, of which:
 - \$14.3bn has been returned to clients as cash and securities;
 - \$9.4bn of securities have been recovered, are segregated for clients and are held in LBIE controlled depots; and
 - \$1.0bn of collateral held by third parties has been released to LBIE clients.

Summary progress since 15 September 2009

House Estate

- \$1.2bn of cash has been recovered from Street settlements since 15 September 2009, bringing total recoveries from Street counterparties to \$8.4bn to date.
- Litigation planning is underway against a number of high value counterparty debtor groups.
- The Administrators gained control of an additional \$1.5bn of securities during the period. A total of \$3.4bn has been realised from House securities to date, of which \$0.6bn has been ring-fenced for Affiliates.
- The total value of House securities held in controlled depots is \$4.4bn, including some \$3.2bn of assets subject to possible claims from Affiliates and \$0.5bn from third parties.
- Material progress has been made towards determining ownership of assets claimed by Affiliates. A collaborative approach involving court directions is progressing and a substantive hearing is scheduled for October 2010.

Affiliates

- \$217.3bn of gross claims have been filed against Affiliates to date. A number of these have since been revised downwards by LBIE to reflect subsequent information.
- Extensive activity and communications with Affiliates has taken place during the period to agree intercompany balances and deal with asset returns.
- A bilateral asset swap involving \$1.0bn of assets was concluded with Lehman Brothers Japan KK ("LBJ") in the period. LBJ is assisting LBIE with other matters.
- LBIE has begun discussions with Lehman Brothers Holdings, Inc ("LBHI") regarding the terms of its Plan of Reorganisation (the "Plan"). LBHI's Plan recognises LBIE as a creditor.
- Progress with the Hong Kong entities has been limited. The Hong Kong liquidators have yet to make any proposals for the return of LBIE House and Client Assets.

Unsecured Creditors

- LBIE is now able to agree claims and make distributions to creditors in accordance with the Order granted by the High Court on 2 December 2009.
- A Notice of Intended Dividend pursuant to Rule 2.95 of the Insolvency Rules dated 4 December 2009 was issued to all known counterparties and potential creditors which specified Proofs of Debt may be lodged up to 31 December 2010.

Unsecured creditor resolution framework

- The Administrators have identified certain options for progressing the determination of creditor claims and to ultimately expedite a cash dividend distribution to unsecured creditors.
- The initial proposals have been shared with your Committee on a confidential basis. Given the nascent nature of the work, it is premature to disclose further information at this time. Details of any proposal will be provided to creditors in due course.
- In the interim, comprehensive processes have been implemented to allow LBIE to value and reconcile creditors' claims.

Trust Estate

- \$14.3bn of assets have been returned to clients to date, a further \$1.0bn since 15 September 2009.
- Following the judgment of the High Court that it did not have the jurisdiction to sanction a Client Asset Scheme of Arrangement, the Administrators developed an alternative proposal, the CRA, to return assets to clients. The CRA was issued to LBIE clients in November 2009 and was followed by meetings with affected clients. The CRA received overwhelming support, with over 90% by value of clients with eligible Client Asset claims accepting the terms.
- Client Assets of \$14.1bn remain to be returned to clients, of which \$9.4bn of Client Asset securities are held in LBIE controlled depots. \$4.2bn of inventory is yet to be returned to LBIE by LBI and Hong Kong entities. A further \$0.5bn is currently held at a closed third party depot.
- A bar date of 19 March 2010 for Client Assets claimants was granted by the High Court. This allows the Administrators to obtain certainty as to the population of claimants to Client Assets.

Following the expiry of this bar date, work is ongoing to determine the extent of shortfalls. Preliminary estimates indicate shortfalls in controlled depots are less than \$300m.

- Since October 2009, the entire Trust Asset portfolio has been revalued twice with Updated Positions and Balance Statements ("UPBS") issued to clients on 23 November 2009 and during March 2010.
- An 11-day substantive hearing was held in November 2009 to determine the ownership of pre-Administration Client Money. Based on the judgment, c.54% of qualifying Client Money claims could be distributed to relevant clients. However, four respondents appealed the High Court judgment in January 2010. The matter is now subject to an appeal and scheduled to be heard in mid-June 2010.
- \$1.2bn of post-Administration cash held in Client accounts will be accounted for in accordance with the 21 October 2009 High Court judgment (the "5.2 Judgment"), which confirmed that derived income relating to securities should be remitted to the beneficial owner of such securities.
- The Administrators have initiated legal proceedings against Lehman Brothers Bankhaus AG ("Bankhaus") in Germany after LBIE's claim for the return of a \$1.0bn deposit for Client Money was rejected in October 2009. A hearing is scheduled for 6 July 2010 in Frankfurt.

Case management

- Targets have been defined for all teams within the Administration. To continue to ensure LBIE can operate optimally, a further operational restructuring was implemented in January 2010.
- Clear and congruent objectives for 2010 have been set by the Administrators. These targets have been embedded within the LBIE teams. Financial reward for all Lehman staff is linked to the achievement of personal and team objectives, which are reviewed quarterly. A deferred compensation scheme has been implemented for senior management to secure their continuing support.
- A steady headcount of Lehman staff and contractors was sustained throughout the period as recruitment mitigated resignations. Further recruitment of staff is ongoing to sustain the productivity and cost-effectiveness of the various teams.

Costs

- Total Administrators' costs paid to 14 March 2010 were \$315m. This represents 0.65% of the \$48.6bn assets recovered and controlled by LBIE to date.
- To date, some \$28m has been recovered by the House Estate from asset returns to clients. This serves to part-mitigate the costs of managing the Trust Estate.
- Payroll costs to date total \$321m and include \$150m in payroll related taxes (employees and employers NI and PAYE) paid to Her Majesty's Revenue and Customs ("HMRC"). In addition, some \$35m in irrecoverable VAT has been paid to HMRC.
- Property, IT and occupancy costs totalled \$170m for the 18-month period. An office relocation from Bank Street to Canada Square, London, was concluded in March 2010. The office move will result in annual cost savings of over \$73m.
- At 14 March 2010, LBIE held net cash and liquid investments in various currencies. The US dollar equivalent amount was \$13.1bn, including Client accounts totalling \$2.2bn.

Reporting currency

- In future reports, all financial information including claim amounts, payments, realisations and valuations, will be in Pounds Sterling ("Sterling"). This reflects Rule 2.86 of the Insolvency Rules, which requires claims to be proved in Sterling.

Creditors' claims

- Any creditors wishing to submit their claims may do so utilising the standard Proof of Debt form. Further information is available at www.pwc.co.uk/eng/issues/lehmans_stakeholder_creditors.html.
- If you have already completed a Statement of Claim or Proof of Debt, you do not need to do anything further at this stage. Creditors will be advised in due course when the Creditor Claims Portal facility is available for use.
- **In the meantime, the Administrators emphasise that every claimant in respect of a securities financing or over-the-counter ("OTC") derivative agreement must submit a valuation statement. If you have not already done so, this should be done as soon as possible to uk.terminationnoticesqueries@lbia-eu.com.**

Conclusion

- Very considerable progress has been made on all fronts in the six months to March 2010. Significant further funds have been realised for unsecured creditors and the asset distribution and claim determination framework will be materially advanced over the coming six months.

Section 3

Financial and management update

Introduction

This section sets out the manner in which the LBIE Administration is managed and provides a summary of the key financial elements of the estate.

The LBIE Operating Model

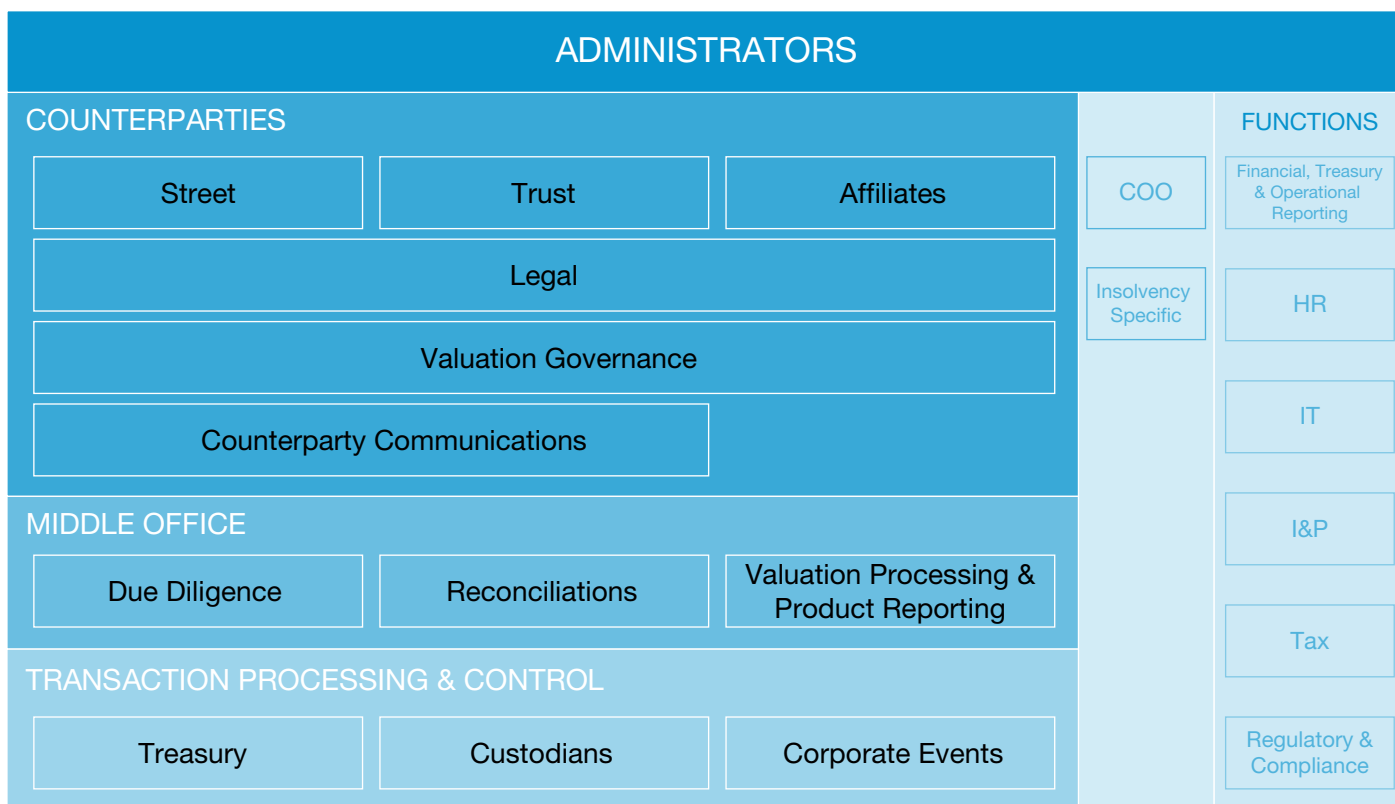
At the outset of the Administration, the operations of LBIE were radically reorganised to align activities with the identified objectives of the insolvency, i.e. to recover and realise all House assets, to recover and return Trust Property and to agree the claims of unsecured creditors.

The Administrators' previous reports outlined how the business operations were reorganised to meet these objectives. During 2009, the Administrators' priorities were focused primarily on realising value from LBIE's market positions, settling Client receivables, developing and implementing a mechanism for the return of Trust Property to clients. Very significant progress was made on all of these fronts, as set out in this and previous reports.

To progress the process of making a distribution to unsecured creditors, increased emphasis has been placed on progressing the determination of creditors' claims and, with effect from January 2010, a further reorganisation was implemented to reflect the progress made to the end of 2009 and to rebalance Administration activities towards the agreement of creditors' claims.

The 2010 Operating Model, as set out overleaf, has further evolved to allow the Administrators to refocus specialist skills, resources and activities on agreeing creditor claims and resolving the remaining complex issues across the LBIE teams.

This report provides an update on progress in the estate by each of the teams set out graphically above for the six-month period to 14 March 2010.



The teams comprise:

Chief Operating Officers (“COO”)

The joint COOs are responsible for managing the operations of the organisation, allocating resources and supporting the three business activities: Counterparties, Middle Office and Transaction Processing and Control. They also co-ordinate the support Functions.

Counterparties

The Counterparties team comprises specialist resource whose objective is to realise assets and agree the claims of the various debtors, creditors and trust claimants in the estate. The team is organised on a counterparty-by-counterparty basis:

- Street;
- Affiliates; and
- Trust.

The team is supported by specialist resource from the following areas:

- Valuation Governance;
- In-house Legal; and
- Counterparty Communications.

Middle Office

These teams provide technical and operations support to the Counterparties team and are critical to the operations and dealings with all LBIE stakeholders. The teams provide support and processes, organised on a product-by-product basis. Key processes include:

- Due Diligence;
- Reconciliations; and
- Valuations Processing and Product Reporting.

Transaction Processing and Control

These teams handle the effective management and processing of transactions necessary to assist the Administrators and teams to control the estate's cash and assets. They are responsible for the management, accounting and control of movements, i.e.:

- Custodians – securities holdings;
- Treasury – cash and liquid funds; and
- Corporate Events – cash and securities events resulting from security holdings.

Functions

The Functions provide key infrastructure support to the above teams. Certain functions are provided by Lehman Brothers Limited (in Administration) (“LBL”) in its legacy capacity as the service company for the UK Lehman Group. These costs are recharged to LBIE. The Functions include:

- Financial, Treasury and Operational Reporting;
- Human Resources;
- Information Technology;
- Infrastructure and Property;
- Tax; and
- Regulatory and Compliance.

Insolvency specific

This team provides specialist input and support, to ensure the Administrators satisfy their statutory obligations set out in the Insolvency Act, including, *inter alia*, the preparation and production of these reports.

Focus for 2010

In conjunction with the revisions to the LBIE Operating Model, the teams have been set demanding targets against which they are measured and rewarded. This has been key to ensuring continued focus and productivity in the estate and is central to delivering sustained and consistent progress across all areas of the estate.

Targets for the forthcoming months centre around enhanced concentration on mechanisms to return Trust Property, agreeing creditor claims and debtor settlements.

For commercially sensitive reasons, detailed targets are not set out in this report, but have been shared with your Committee.

In summary, the target objectives across the LBIE team for 2010 include:

- **Street:** Targets have been defined to achieve full and final settlement of a significant portion of remaining Street debtors and commence litigation where necessary;
- **Trust Property:** Target to return significant proportion of Client Assets and work with key Affiliates, particularly LBI, to recover and return Client Assets.

In addition, to defend the Client Money judgment and action a rapid distribution of Client Money upon the conclusion of the Client Money appeal(s);
- **Affiliates:** Target to resolve key issues of RASCALS, Back-to-Back (“BTB”) derivative side-letters, Guarantee issues and claim details with key Affiliates. To actively work with Affiliates in the agreement of inbound and outbound claims; and
- **Middle Office:** Target to agree defined amounts of unsecured creditor claims. To provide support to the Street and Affiliate teams in meeting their objectives.

These target objectives are underpinned by the need for efficient processing and control to progress the resolution of issues being dealt with by the teams.

All of the c.440 remaining Lehman employees and contractors have defined objectives directly linked to the teams' objectives. Individual and team compensation is linked to meeting these clearly defined targets. This has provided critical leadership and guidance for all staff in their daily activities.

Further changes to the current targets of the Administration are planned over coming months to further refine the focus of the teams as priorities change.

Financial summary

Set out below is a summary of LBIE's assets and liabilities in respect of the House Estate.

In addition, the financial position of the Trust Estate is summarised and provides an overview of Client securities and proprietary claims, more fully set out in [Section 7](#). The Administrators anticipate a shortfall in relation to Client Assets and Client Money; however, the quantum of shortfalls is not certain at this stage. It is envisaged that Trust Property claimants will participate in the unsecured estate to the extent of any shortfall claim.

The summary assets and liabilities are categorised as:

Filed SoA: Value disclosed in the LBIE redacted Statement of Affairs ("SoA") filed in July 2009.

Revised SoA: Revised position reflecting certain revisions to the SoA figures from information and facts arising since the filing of the SoA.

For the avoidance of any doubt, the financial information contained within this report is based on LBIE books and records and has not been subject to an audit.

Cash realised: This is amounts collected from the commencement of the case to 14 March 2010.

House Estate (\$bn)

Report Section	No. of counterparties	Type	Filed SoA	Revised SoA	Cash realised to 14 March 2010*
Assets					
4.1	1,618	Street	21.9	17.4	8.4
6	96	Affiliates	9.7	18.1	-
4.2	n/a	House depot securities	15.9	12.9	3.4*
-	106	Trust debtors	-	0.5	-
Appendix A		Other	1.2	1.9	0.2
	1,820	Total Assets / Cash realised	48.7	50.8	12.0
Liabilities					
5	3,813	Ordinary unsecured creditors	19.3	10.7	
5	504	Trust unsecured creditors	-	10.2	
6	111	Affiliates	11.1	11.2	
-		Other*	1.8	2.4	
	4,428	Total unsecured claims	32.2	34.5	
-	1	Subordinated debt	2.2	2.2	
	4,429	Total Liabilities	34.4	36.7	

* \$0.6bn of funds in the House accounts arise from the sale of securities to which Affiliates have asserted claims

Trust Estate (\$bn)

Report Section	No. of counterparties	Asset Type	Book value at 15 September 2008	Recovered to 14 March 2010	Returned to 14 March 2010
7.1	570	Client depot securities*	35.2	24.7	(15.3) **
7.2	1,517	Pre-Administration Client Money*	2.1	1.0	-
7.2	-	Post-Administration Client Money	-	3.1	(1.9)
2,087 Total			37.3	28.8	(17.2)

*Items relating to Client depot securities and Client Money were not included in SoA as they are not assets of LBIE.

**Included collateral released not held by LBIE of \$1.0bn.

Section 4

House Estate

Introduction

In this section, an update is provided on the progress of the teams negotiating settlements with Street counterparties and realising House securities.

This section details:

- **Section 4.1 – Street:** The activities of the teams which co-ordinate dealings with debtor counterparties, including derivative exchanges.
- **Section 4.2 – House depot securities:** The activities of the teams which manage the control and realisation of securities.

Section 4.1 Street

Highlights

- Collected a further \$1.2bn in the period from Street settlements, bringing total realisations from Street settlements and exchange traded derivatives to \$8.4bn.
- Considerable progress made with other material debtors.
- Extensive shortfalls likely from remaining receivables. These reflect valuation differences, asserted replacement costs and bad debts.
- LBIE's work has concluded that a modest difference in valuation applied to counterparty debtor positions eliminates the receivable and, in certain instances, results in a creditor claim.
- Additional \$0.9bn realised from the sale of various House securities.
- Procured the release of a further \$1.5bn of securities – ownership between LBIE and various Affiliates is being determined.
- Obtained an Order from the High Court which has enabled LBIE to reject set-off asserted by certain counterparties.
- Litigation preparations progressed with the intention of commencing proceedings against LBIE's single largest debtor group.
- Further litigation likely to commence against debtor groups during 2010.

Overview

The Street team manages LBIE's relationships with all counterparties that are LBIE's debtors, other than Affiliates and those with assets held as Trust Property.

The objective is to recover amounts from such counterparties with sums payable to LBIE and to agree claims with those to whom LBIE is indebted.

The Street debtor population covers counterparties that had relationships across a wide range of product types, including derivatives, financing transactions, prime brokerage accounts, securities trading and exchange traded derivatives. There are over 1,800 counterparties in the portfolio.

Negotiations are undertaken at a consolidated group level, as this is generally the most efficient approach for both parties. In certain cases, a net debtor group may include individual creditor entities, for example, where there is a valid contractual right of set-off or where there is a commercial advantage to the estate to consider claims of related creditor counterparties.

There are over 1,000 net debtor groups in the Street population, with the largest 150 of these groups by value being addressed as a priority.

\$bn	No. of CPs	Revised 15 Sep 08 SoA	LBIE mid-market val'n
Top 150 – debtor entities	397	13.0	13.5
Top 150 – creditor entities	224	-	(0.5)
Sub-total	621	13.0	13.0
Other debtors in net debtor groups	986	0.6	1.1
Other debtors in net creditor groups	204	0.3	0.6
Total Street debtors	1,811	13.9	14.7

The LBIE mid-market valuation represents LBIE's current view of the mid-market value as at the termination date, where agreements have been terminated, or an estimate of the value as at 14 March 2010 in respect of live positions.

This value excludes:

- Differences between mid-market values and counterparty replacement values (e.g. bid-offer spreads and credit charges);
- Pricing differences between LBIE and counterparties (e.g. due to intra-day timing differences);
- Provisions for bad and doubtful debts; and
- Other legal or commercial adjustments to valuations that LBIE considers to be necessary to accept in order to collect debts due to it.

Focus

The Street team's activity is focused in two key areas:

- Realisation of the largest unsettled cash balances; and
- Agreement of final settlement amounts with debtor counterparties where on-account payments have been received.

Of the largest balances remaining to be collected, the top 15 counterparty groups represent \$2.8bn. This excludes any anticipated recoveries from litigation.

The primary objective for 2010 is to conclude settlements or commence litigation in respect of a material proportion of debtor groups measured by reference to LBIE's view of current valuation. The proportion is commercially sensitive, but has been shared with your Committee.

In addition to progression of the largest and most complex debtor positions, resources are also committed to:

- Finalisation of settlements for "simple" cases where there are no material valuation breaks between the positions asserted by the counterparty and LBIE;
- Collection of cash where the counterparty valuation statement indicates an amount due to the estate; and
- Resolution of securities trades which had failed or were pending at the date of Administration, and subsequently failed.

Progress

In the six months since the previous progress report, further material progress has been made.

Of the aggregate Street debtors of \$14.7bn, cumulative cash recoveries to 14 March 2010 were \$5.9bn, of which \$1.2bn was received in the six-month period since 15 September 2009.

Of this \$5.9bn, \$2.8bn relates to full and final settlements with Street debtors (c.140 counterparties) and the remaining \$3.1bn represents on-account payments from debtor counterparties where negotiations regarding final settlement have yet to be concluded.

Of the residual \$8.8bn of book value, \$7.9bn is accounted for by the top 150 groups. The focus is on reaching settlement with these parties. Against this amount, LBIE estimates that recoveries could be between \$0.8bn and \$3.3bn. These estimates have been developed on a client-by-client basis.

The primary reason for such a significant potential loss when compared to the LBIE valuation reflects a relatively small difference in valuation metrics applied to the very substantial gross positions. Creditors will recall that LBIE's gross balance sheet, as reported at the time of the meeting of unsecured creditors in November 2008 (bringing all collateral received and posted into account) was some \$1.2 trillion at 15 September 2008. Applying a modest (but acceptable) valuation difference between a counterparty valuation and LBIE's valuation has a very material effect on the net receivable sum.

Selective highlights during the period include:

- Conclusion of settlement agreements with 11 of the top 150 priority groups;
- Preparation for litigation against a counterparty which, if settled in LBIE's favour, would result in recoveries exceeding \$2.0bn, comprising derivatives and securities financing receivables, cash balances held on LBIE's behalf, mark-to-market ("MTM") movements on failed trades and significant custody positions in numerous jurisdictions. The counterparty has asserted a number of arguments, which LBIE is challenging, including a cross-Lehman Group set-off assertion;
- Conclusion of a settlement agreement with a German insurance company;
- Recovery of further sums following the successful challenge by LBIE of intercompany set-off asserted by a counterparty in respect of one of LBIE's Affiliates;
- Substantial progress made on negotiations with one of LBIE's largest financing counterparties, comprising financing positions and custodial positions held under

a tri-party long box arrangement. Agreement has been reached on the principles of settlement for the return of all cash, securities and other assets. These returns have now commenced and are expected to be concluded in Q2 2010;

- Establishing principles of settlement with a further five counterparties (subject only to countersignature by the debtor), and reaching the final stages of negotiations with a further six out of the top 15 debtor groups; and
- In December 2009, LBIE obtained an Order from the High Court to convert the LBIE Administration into a Distributing Administration. A concomitant benefit of this order was to allow LBIE to reject amounts invalidly set-off by counterparties against payables to LBIE. Since obtaining the Order, LBIE has successfully defeated a number of invalid set-off claims, and is currently working through a pipeline of similar cases. Refusal to pay will, in many cases, lead to litigation against the counterparty.

Issues

The main challenges affecting the rate of progress made by the Street team include:

- **Complexity of relationships:** including multiple entities, products and/or jurisdictions. In particular, the assertion of set-off against positions with LBIE Affiliates and/or cross-entity netting leads to delays in the negotiation process and the requirement for significant legal analysis. This is particularly challenging where the counterparty has positions in many jurisdictions where various property rights are relevant to the ultimate resolution of the position.
- **Failure of counterparties to provide valuation statements:** without counterparty valuation statements and related underlying details from counterparties, a definitive reconciliation and, ultimately, resolution cannot be concluded. The team has leveraged relationships with senior LBIE staff and their counterparts at debtor entities to accelerate this in certain cases, but it continues to inhibit progress. The Administrators will revert to formal proceedings where previous efforts are thwarted.
- **Agency relationships:** complications often arise from agency relationships, such as provision of detailed position data, identification and reconciliation of underlying principal positions, allocation of collateral, cross-principal netting and the existence of other transactions with LBIE beyond the agency trades at the principal level. This inhibits the bilateral resolution of such positions with the principal.

Summary

The primary focus continues to be on the largest net debtors to the estate, which are generally the most complex. In parallel, specific groups within the Street team are in active discussions with a number of counterparties with smaller net receivable balances as the team pursues the objective of achieving full and final settlement in an efficient manner.

Over the next six months, the team is targeting settlement with a further c.200 legal entities, with priority given to those where LBIE will realise incremental cash. Specific cash targets and final settlement targets have been agreed with the team for the coming six months.

Where an acceptable negotiated settlement proves to be unachievable, LBIE will consider using the courts to drive settlement. Whilst this is a relatively slow and expensive process, it is likely to be necessary particularly with recalcitrant counterparties.

The Administrators will make the decision to commence formal proceedings after litigation analysis is performed. Such analysis includes precedent benefits (and risks) from a formal determination, litigation outcome risk assessment, cost/benefit review, jurisdictional risk assessment in addition to time and resources required to litigate.

Creditors are assured that the Administrators intend to use all options available to pursue debtors for the benefit of the estate.

Additional areas of activity

Revisions to the Operating Model led to the exchange traded derivatives team and the House securities sales team being subsumed into the Street team. The activities in these areas are discussed below.

EXCHANGE TRADED DERIVATIVES

Overview

Since September 2008, \$2.5bn of cash and collateral has been recovered (SoA value \$3.1bn), from clearing houses and clearing brokers, mostly in Europe. This largely relates to exchange margins deposited by LBIE to secure House and Client positions on the various exchanges.

Focus

There remains in excess of \$200m still held by various third party exchanges and counterparties around the world.

In addition, LBI was the exchange member for various US exchanges and LBIE placed margin with LBI in conjunction with activities undertaken for LBIE and its clients in the US. A claim against LBI for House margin has been lodged for c.\$2.0bn.

As LBI is subject to a SIPA liquidation process, any recovery will be determined by ultimate adjudication of this claim by the SIPA trustee. Discussions are ongoing with LBI regarding this claim but at this stage, it is premature to anticipate the level of recovery (if any) from these claims.

In addition, work has focused upon finalising reconciliations and establishing Client and Affiliate entitlements to exchange margin. This has encompassed:

- Completing analysis of the House and Affiliate entitlements and the associated realised gains and losses;
- Gathering position and close-out price data for those exchanges where LBI (rather than LBIE) was the exchange member;
- Completing the reconciliation of cash received from exchanges to the cash entitlement movements for all positions;
- Working with the Trust Property team to refine Client Money entitlements and strategies for the recovery of residual Client Money amounts from third party exchanges/clearing houses;
- Pursuing clearing houses for further details of auctioned positions;
- Ensuring that LBIE's internal books and records are reconciled and that cash and collateral is appropriately recorded; and
- Completing the team's understanding of the status of the LBI brokered trades and recovering House funds and Client Money from the US.

Progress

Since the last report, further sums have been recovered from clearing houses across Europe.

Funds trapped in Asia (including Taiwan and Korea) amount to c.\$180m. In Taiwan, the Administrators have continued to defend LBIE against litigation brought by local banks to attach to locally-held funds. Branch representatives in Korea have worked with local regulators to progress matters on which the recovery of funds is dependent.

An additional \$34m resulting from the liquidation of LBIE positions in Brazil has been identified and is being pursued. These monies are held by a counterparty asserting set-off.

Entitlements

- The last of the required data and statements from exchanges where LBIE was the exchange member has recently been obtained, including details of auctioned positions and associated costs.
- Good progress has now been made in reconciling remaining cash and positions with exchange statements and this exercise is nearing completion.
- An approach to allocating the cost of auctioned positions to Affiliates has been devised. This method has been shared with LBI.
- Engagement with LBI has progressed. Background information on the status of cash balances it holds for LBIE, post-Administration events and details of the impact of close-out costs at US exchanges has been received.

Issues

Challenges in repatriation of the remaining funds in certain jurisdictions continue.

The method for allocating auction prices to Affiliate positions requires confirmation by the Affiliates if it is to be applied to the various intercompany claims. There are varying degrees of engagement from the various Affiliates on this issue. Ultimately, the resolution of the Affiliates' estate cannot be concluded until agreement is reached on these matters.

Conclusion

In conclusion, good progress has been made in finalising the balances and amounts outstanding for collection related to exchange traded derivatives:

- Continued to progress the repatriation of cash, albeit the remaining debtors pose significant challenges;
- Obtained the outstanding data from European exchanges to enable reconciliation of cash received; and
- Engaged selected Affiliates to exchange information with a view to determining respective entitlements.

The most significant area of work to be completed now is in respect of those positions where LBI was LBIE's clearing broker. The team's constructive dialogue with LBI should allow this to progress over coming months.

HOUSE ASSET SALES

In this section, the Administrators have distinguished between sales activity in the period and securities held. The latter is discussed in [Section 4.2](#).

Overview

The House team's objective is to maximise the value to creditors through an orderly disposal of House securities. Experienced equity and fixed income traders have been retained to provide execution services to the Administration, dealing directly with various brokers and counterparties in the market in order to maximise value to creditors through an orderly disposal of House-owned securities.

The team includes FSA approved persons, who are subject to the relevant rules regarding compliance and best execution principles.

Focus

As tranches of assets are recovered from Street counterparties, the securities released to LBIE's custody are subject to a review to establish whether there are competing claims to their title. Once LBIE has concluded that their title is unencumbered, the LBIE traders formulate and implement a disposal strategy.

The 2010 focus continues to support the overall objective through the following:

- Implementation of a formal strategy to limit market risk whilst realising the best value reasonably possible;

- Identification of quality assets to be transferred to an investment portfolio and held in accordance with investment policies;
- Identification of certain assets, typically structured fixed income securities, which are transferred to LBIE's hold strategy portfolio until either maturity occurs or until the return of greater market liquidity; and
- Execution activity under Interim Management Agreements ("IMA") with Affiliates to manage market risk on portfolios where competing ownership claims exist.

Progress

The team has realised \$3.4bn to date for the House Estate, which represents a further \$0.9bn in the period.

A further \$0.6bn is held in LBIE's House account for ring-fenced assets.

Detailed analysis of the remaining securities has resulted in clear disposal strategies.

The traders also provide assistance and support in the negotiation of acceptable valuations for final settlement of debtors where the counterparty valuations differ from the House valuation.

The team also performs a key role in the development of the House valuations for all OTC derivative and securities financing positions, specifically in relation to complex derivatives.

Issues

The ability of the team to execute transactions is highly dependent on the release of assets from frozen legacy custodians and Affiliates.

Further, before the team can sell assets, confirmation of clean ownership rights by LBIE is required. The legal analysis of competing claims must be concluded before release. Further details of depot holdings and ring-fenced assets are set out in [Section 4.2](#).

Conclusion

The execution capability of the team is integral to procuring the best value for the assets. As further tranches of assets are recovered and released from ring-fencing, the team will continue to realise the best value for LBIE.

Section 4.2 House depot securities

Highlights

- LBIE reported \$15.9bn in House depot securities at 15 September 2008. \$2.8bn of House securities have been realised to date.
- The team has successfully processed \$1.5bn of collateral returned from tri-party agents since our last report. A further \$4.4bn remains to be recovered from third parties and Affiliates.
- Returned collateral has been reconciled and subjected to title ownership analysis.
- \$4.4bn was in LBIE custody at 14 March 2010, including \$3.7bn ring-fenced.
- Processed and settled an additional \$0.9bn of securities sales and redemptions, including House and Affiliate claimed assets.
- \$0.3bn of assets in the non-controlled custodian network have been sold. Cash is held in the legacy network, including amounts in China.
- Extensive support has been provided to RASCALS proceedings in the High Court which, in due course, should address certain Affiliate title claims.

Overview

The focus of the House depot securities team is to ensure that various classes of securities that are recovered and held by LBIE are valued and provided to the respective teams to manage the sale of securities or resolve ownership.

As detailed above, the Street team identifies appropriate market sale transactions and utilises the information to monetise assets. The Affiliate team liaises with relevant Affiliates on the resolution of securities related issues on amounts ring-fenced for such parties.

House depot financial summary

At 15 September 2008, the SoA recorded \$15.9bn in House securities. At 14 March 2010, the position of the House depot is as follows:

	\$bn
Value at 15 September 2008	15.9
SoA adjustments	(3.1)
Disposals	(2.8)
Market events	(2.8)
MTM revisions	(1.7)
House depot at 14 March 2010	5.5

Adjustments to the SoA include:

- Pricing revisions and adjustments between depots and debtor counterparties which act as custodians; and
- Assets not held in House depots but in the segregated depots. Such assets may be transferred to the House depots once the related Client positions and claims are reconciled and agreed.

Market events includes:

- Losses on assets liquidated by the sub-custodians, primarily in September 2008, to cover their open commitments. A significant amount of securities was sold by LBIE's custodians in the days immediately following the Administration of LBIE to cover their various exposures. These disposals were effected at a time when markets declined very significantly and were relatively illiquid. Substantial losses were recorded by LBIE;
- Asset realisations where the cash is currently held locally at the legacy custodians and action by LBIE has yet to result in any recovery; and
- Profits or losses realised by LBIE on asset disposals post-Administration.

The MTM revisions reflect the write down of residual securities to market value based on currently available pricing. Included in this write down are a number of Lehman issued securities.

The residual \$5.5bn of House securities are analysed further as follows:

	\$bn
Available for sale	0.6
Held subject to title dispute	0.5
Held by Affiliates (LBI, LBHK entities)	2.5
Other – frozen custodians	1.9*
Total	5.5

* Excludes \$0.6bn held by custodians subject to title claims.

The Administrators are attempting to work with the Affiliates to recover the value of the securities recorded as held by them at the date of insolvency. LBIE has filed a House claim in the SIPA liquidation for the return/recovery of value for amounts recorded as held by LBI and has had very extensive and continuing dialogue with the LBI trustee.

Conversely, despite the Administrators' many repeated requests, the liquidators of the Hong Kong-based entities have yet to formulate any proposals at all for the return of securities claimed by LBIE.

Focus

The key objectives for 2010 are as follows:

- Work with the Affiliates to recover value from these holdings;
- Finalise reconciling post-Administration events undertaken by custodians on House securities to determine whether LBIE has any recourse against these custodians;
- Make further agreements with Affiliates to manage the sale of securities held in LBIE depots that are currently ring-fenced pending determination of the title claims;
- Operationalise processing of sales and corporate events for Affiliate held assets subject to ownership claims; and
- Continue to review ownership claims of ring-fenced assets to enable additional securities be released to the House for sale.

Progress

To date, the team has gained control of \$7.8bn of assets. Since the last report:

- \$1.5bn was released under tri-party agency arrangements;
- \$0.1bn was realised from the sale of LBIE's assets and redemptions;
- \$0.6bn was ring-fenced from the sale and redemption assets;
- \$0.2bn of transfers were made from Client accounts to House accounts; and
- \$0.3bn of cash is held at the legacy custodians.

A review was undertaken in the period to identify whether cash deposited by the Administrators into the post-Administration Client accounts relating to involuntary liquidations by custodians should, in fact, be attributed to House securities. \$0.2bn was identified and has been transferred to the House accounts.

LBIE operated as the European depot agent for many of its Affiliates. As a result, all assets are categorised as ring-fenced until the ownership can be resolved. This represents \$3.7bn of securities (of which \$3.1bn is under LBIE's control). LBIE asserts a lien over many of these securities to secure obligations Affiliates have to LBIE. These are likely take some time to resolve as they are material to both the Affiliates' estate and the outcome for LBIE's creditors.

From a review of ownership claims in the period, up to \$1.0bn may be released to the House depot holdings over coming months.

Since the previous report, a process for management of assets potentially held for Affiliates within the LBIE custodian network has been established via the use of IMAs.

Through implementation of this process, market risk can be appropriately managed through the realisation of assets and/or corporate event opportunities being instructed where appropriate.

In the period, \$0.6bn has been monetised from assets managed under these arrangements or from ring-fenced assets.

Asset migrations, front office executions and Client returns have resulted in the processing of c.3,150 market events since the last report, comprising:

- c.350 market sell transactions; and
- c.2,800 securities being migrated to the new global master custodian.

As at 12 September 2008, LBIE operated over 40 custodian relationships through 80 markets, operating 743 securities accounts.

Through successfully migrating securities to the post-Administration global custodian, the team has been able to close 553 security accounts, with a further 85 instructed for closure. This has both reduced costs and complexity for the management of the estate.

Issues

Some \$1.6bn of House assets continue to be held by two North American custodians. Over 2,000 lines of stock are held across a number of jurisdictions. In addition, a tri-party agent holds some \$0.4bn (221 lines) of stock.

LBIE is also seeking to recover \$0.6bn of stock from these custodians, which may ultimately be claimed by Affiliates.

Further asset realisation is dependent upon continued progress in securing the release of these assets. As referred to elsewhere in this report, this is expected to take some time to resolve.

Particular issues include:

- One custodian is asserting security interest/set-off rights across Affiliates at its group level and has yet to release some \$0.5bn of Client Assets. Discussions are ongoing with the counterparty but it is likely that litigation will be necessary to obtain redelivery;
- The release of the House assets held by this custodian is subject to a series of complex counterclaims relating to LBIE and LBIE Affiliate matters. The Administrators are attempting to resolve these during Q2 2010, failing which the Administrators may revert to formal proceedings; and
- Negotiations are advanced with the remaining tri-party depot custodian. The Administrators are optimistic that these securities should become available over the coming month.

The assets held by LBI form part of LBIE's asserted "Customer Property" claim against LBI. LBIE's current assessment of the prospects of recovery remains uncertain as the LBI trustee has yet to issue a determination of LBIE's claim or set out a timetable for the resolution and distribution of assets. The exercise of reconciling amounts relating to these claims is ongoing in conjunction with the LBI trustee.

Conclusion

Significant progress has been made in the period regarding the release, management, recording and valuation of House depot securities.

Progressing the analysis of ring-fenced assets and implementing the IMA with Affiliates has enabled further analysis of assets that may be returned to the House once ownership claims are resolved.

Enhancements to the processing environment have also resulted in more efficient reporting and analysis of relevant information.

The \$4.4bn of securities in LBIE's control will continue to need comprehensive management and resolution of title over coming months.

Section 5

Unsecured creditors

Highlights

- A key 2010 objective is the development of a framework to expedite claim agreement and subsequent distribution to unsecured creditors.
- An Order from the High Court was obtained in December 2009 granting LBIE permission to make distributions to unsecured creditors.
- A Notice of Intended Dividend was issued and a bar date for unsecured claims set as 31 December 2010.
- A number of options for expediting distribution to unsecured creditors have been identified.
- An Unsecured Creditors' Resolution Working Group has been established to assist the Administrators in assessing a number of creditor resolution options.
- Extensive resources have been dedicated to the process of reconciling and valuing creditor claims. Clear objectives have been defined for the relevant teams.
- Enhancements are being developed to the Creditor Claims Portal, which will shortly be available for online claim progression.
- Creditors are encouraged to submit their valuation statements without delay to ensure the claim determination process can progress.

Introduction

At the commencement of the Administration, the stated priority of the Administrators was to create a stable operating environment, which would facilitate the recovery of value from debtors to the estate, and to capture, record and value the claims of unsecured creditors.

The implementation of the initial Operating Model and its subsequent evolution has ensured that considerable value has been realised and it is now appropriate to advance the determination of creditors' claims.

Volume of claims

The reorganisation of the Operating Model was driven, in part, by the need to focus increased resources on managing creditors' claims. LBIE has some 11,000 identified counterparties which could be potential creditors and with which the Administrators correspond. Of these 11,000, the company's records identify that some 6,300 counterparties had open positions with LBIE and approximately 4,500 are likely to be creditors. Up to 1,517 of these counterparties will also be claimants to the Client Money pool.

To manage this quantum of actual and potential claimants, a number of core processes have been designed and implemented. These should enable the Administrators to manage, assess and admit the valid claims of creditors in due course.

The investment in the management, valuation and validation processes should enable LBIE to form an initial view on the value of in-bound claims. A claim valuation process which is fair, transparent and recognises market principles sits at the heart of the approach.

Bar date

As creditors will be aware, a bar date for unsecured claims has been set as 31 December 2010. Despite the fact that this date is some months away, creditors are strongly encouraged to submit their valuation statements in advance of that date. The sooner the Administrators have creditor details, the sooner they are able to form a view on the value and population of claimants.

To optimise the claim submission and agreement process, the Creditor Claims Portal is in the process of being updated and, in due course, creditors will be invited to submit claims via the portal from July 2010.

There are likely to be major benefits to those who engage in the reconciliation process early, including the ability to have a claim determined in the LBIE estate ahead of the Unsecured Bar Date.

Claims determination process

The core elements of LBIE's claims determination and agreement processes to assess the ultimate claims of creditors are comprehensive and include the following three key elements:

- House valuation of counterparty positions;
- Obtaining counterparty positions and valuations; and
- Analysis of filed claims.

These are detailed below.

House valuation of counterparty positions

- Identifying, by counterparty, the population of all trades across all product types.
- Determining whether positions have been terminated or expired and the date of such termination.
- Sourcing market data to allow a comprehensive and systematic valuation of the portfolio of trades.
- Using pre-existing and newly developed models to prepare a House valuation of each trade.
- Subjecting resulting valuations to quality assurance review.

Obtaining counterparty position valuations

- Communicating with all known counterparties to advise of the insolvency and a request to submit valuation statements and Proof of Debt.
- Establishing of a data management framework to allow claims and valuation statements to be effectively collated and aggregated, including an online Creditor Claims Portal to allow creditors to submit claims electronically.
- Transferring all known paper claims, together with electronically filed claims to a data platform to allow their aggregation, analysis and management.
- Undertaking a high level comparative analysis of filed valuation statements.

Analysis of filed claims

- Verifying the asserted termination date and asserted effect thereof.
- Undertaking a legal review of positions.
- Performing a comparative analysis of claims and valuation statements to the House valuations.
- Classifying valuation statements/claims by reference to the difference to House valuations.
- Subjecting valuation statements/claims to appropriate levels of review.

These processes were designed during 2009 and have been embedded in the Operating Model implemented during 2010. They ensure that the ongoing process of evaluating and ultimately admitting claims is undertaken on a consistent, cost-efficient and objective basis.

While these process are embedded in the operations of LBIE, it is apparent that the value of filed claims is in many instances materially different to LBIE's valuation. The process of reviewing the thousands of claims and hundreds of thousands of transactions could take a very considerable time. Given the wide variety of approaches adopted by the creditor community to valuation, the substantive validation and review of each claim is required to ensure consistency between similar claimants.

At this stage the Administrators are unable to provide creditors with any certainty as to the timing of this exercise, save to acknowledge that it is both complex (requiring detailed markets knowledge and the skilful use of market data) and time-consuming. A typical claim could take many man days to agree and as such the agreement of the submitted claims could, potentially take some years if undertaken on a substantive basis.

Financial profile

Introduction

The profile of claims against LBIE has developed since the Administrators' last report. The claims, as valued by LBIE in the revised SoA, are summarised below:

\$bn	Total
Trust Counterparties	10.2
Street creditors	10.7
Other third party liabilities	2.4
Payable to Affiliates	11.2
Total	34.5

Claims arise under the various contractual relationships which LBIE was party to and, accordingly, counterparties may submit claims which could be materially different. These claims can be further analysed as follows:

Trust counterparties

Claims under prime broker arrangements, as valued at 12 September 2008 are:

\$bn	Total	CRA	Non-CRA
Rehypothecated securities	8.0	6.4	1.6
Sums payable under financial contracts*	0.6	0.4	0.2
Potential Client Asset / Client Money shortfalls	1.6	1.2	0.4
Total	10.2	8.0	2.2

* Includes amounts payable under OTC derivatives (e.g. ISDA) and financing arrangements (e.g. GMRA and OSLA) etc.

The bar date of 19 March 2010 for Client Asset claimants related only to the submission of proprietary claims, but has also led to progress in dealing with their unsecured claims.

The determination of sums referred to as "CRA" relate to unsecured amounts payable to parties which have been acceded to the CRA. This does not include the proprietary claims that such creditors may have to assets held in segregated depots. The determination and agreement of these unsecured claims is governed by the terms of the CRA.

The Administrators are presently reviewing the claims filed by CRA claimants and should form a view on their asserted unsecured claims over coming months.

Non-CRA claims relate to those counterparties which had Client Assets held by LBIE but were either not eligible for the CRA or elected not to be bound by the CRA. These parties will have their unsecured claims determined by the specific contractual arrangements between the parties. Many such trust claimants have yet to submit their unsecured claims.

Street creditors

This category of liabilities relates to dealings with a wide spectrum of counterparties, ranging from banks, corporate clients, financial intermediaries, insurance companies and investment banking clients, etc. LBIE had only a very modest number of private clients.

The liabilities, by the nature of the underlying contract, are summarised below:

Underlying contract	Total (\$bn)	Valuation statement received
OTC derivatives	6.3	89%
Securities financing	3.0	81%
Other	1.4	-
Total	10.7	

OTC derivatives

These amounts relate to the House valuation of OTC derivative claims, by reference to the counterparty asserted termination date. Asserted claims, as reflected in the received valuation statements, are, in many instances, materially higher than amounts determined by LBIE.

Securities financing

These claims relate to financing transactions including repos, reverse repos, stock loans and borrows, etc. under varying agreements, including OSLA, GMRA, GMSLA, etc. The valuations set out above are the amounts determined by LBIE following a valuation of each position, i.e. the asset and the related collateral, at the termination date. Where valuations have yet to be concluded, the 15 September 2008 book values have been used.

In common with the observations in the Street debtors section, it is observed that a modest difference in the valuation of each of the legs of these securities financing trades can result in a very material increase in liabilities. Creditors are advised not to rely on these illustrations as a proxy for the final level of claims.

The team's ongoing work has identified that LBIE has limited visibility into a large number of securities financing trades that were conducted via a number of agents. Ultimately, LBIE will need to establish the obligations it has with each of the underlying principals in order to form a definitive view on its liabilities. This will require considerable co-operation and input from the agent institutions, which has been somewhat less than optimal to date.

Other

This category includes all other Client claims, namely cash margin claims, unsecured claims of prime brokerage clients which had no assets held by LBIE (e.g. rehypothecated securities), exchange margin for exchange traded derivatives, amounts relating to failed trades and miscellaneous other trading related matters.

Work is ongoing to compare filed claims against House valuations, but it should be noted that claims range from slightly below House valuations to some multiples of House valuations.

The Administrators have concluded at this stage that due to the material risk of misstatement of creditor liabilities, it is imprudent to incorporate these valuations into any form of indication of the final level of liabilities.

Section 5.1 Unsecured creditors' agreement and distribution strategy

Major issues

Progressing the reconciliation, valuation and determination of unsecured claims is a key priority for 2010. Further resources have been recruited and deployed to ensure material progress is made in the current year.

Clear objectives have been set for the teams managing the claims processing and reconciliation functions. Up to 14 March 2010, approximately \$1.5bn of valuation statements have been reconciled to LBIE valuations.

A number of material issues remain to be resolved in the claims agreement process. These fall into the following categories:

- Receipt of formal claims from counterparties;
- Population reconciliation;
- Valuation;
- Set off; and
- Dispute resolution.

Receipt of formal claims from counterparties

Given that the final date for submission of unsecured claims, the Unsecured Bar Date, will not pass until 31 December 2010, the number of formal claims received to date has been limited (approximately 400 clients have submitted claims; approximately 10% of expected claims). The quality and completeness of submitted claims has varied. As a result, the ability to be confident that LBIE has received the entirety of a client's claim is limited. The Administrators consider it potentially misleading to draw conclusions from claims received to date.

To optimise claim processing efficiency, a Creditor Claims Portal to manage claims will be used. A revised version of the Creditor Claims Portal should be available for creditors over the coming months. In the meantime, submitted valuation statements are being used as a proxy for formal claims and creditors should submit their claims with sufficient trade level information to allow a comprehensive reconciliation to be undertaken with LBIE's own valuations.

Valuation

The nature of LBIE's financial contracts with Street counterparties provides scope for counterparties to formulate claims on their interpretation of the terms of the various master agreements, but which may not reflect the actual loss resulting from LBIE's insolvency. As a result, the difference between LBIE's valuations, and the counterparty valuation can be very considerable. This has a number of material consequences which affect LBIE's ability to agree claims and, ultimately, to make distributions from the LBIE estate.

In some cases the spread between the House valuation and the counterparty valuation takes the counterparty from being a debtor to LBIE to being a creditor. This dynamic necessitates LBIE valuing all debtor positions as well as all creditor positions and communicating with all counterparties to ensure that the entire population of potential claimants is identified. In many instances, the counterparty has selected the optimal time to form a valuation, which maximises their claim against LBIE. In addition, many clients have sought to levy considerable costs and charges on LBIE.

As part of the claims review process, those counterparties with wide valuation variances to the House valuations and those which have levied further costs are the subject of detailed scrutiny at a trade level and, in certain instances, may have their claims rejected. To address such issues, LBIE may subject the manner in which counterparties have arrived at submitted claims under the various master agreements and contracts to the determination of the court. Where common issues are identified, such actions may help to ensure that all claimants with common rights are treated in a uniform manner. In the absence of a consensual arrangement between LBIE and such counterparties, the prospect of referring to the court for a determination on the application of the various provisions of the different master agreements is high.

The Administrators are exploring with other Affiliate office-holders the manner in which claims under the various master agreements are formulated and submitted in order to establish whether a global approach can be adopted for the treatment of creditor claims. Such an approach is likely to result in an equitable and relatively consistent approach to claim determination and resolution.

Resolution process

A key aspect of the case, which will be materially progressed over coming months, is the process for formally admitting unsecured claims and the mechanics that can be implemented to simplify and accelerate claim admission and asset distribution.

Whilst it is now possible for the formal process of claim agreement to progress, the Administrators believe that scope may exist to accelerate the claim admission and asset distribution process and are exploring how a more rapid distribution can be achieved under alternative mechanisms.

The Administrators have identified a number of options and these are in the process of being explored. A representative cross-section of counterparties have been consulted to ascertain their views on certain matters. A number of discussions on this subject have since been held with your Committee.

Timing

Given the relatively early stage of work on these resolution options, it is inappropriate to set out further details at this stage. Further meetings are planned with your Committee to review our assessment of the options and to identify and explore various issues. Should it be concluded that the identified options may be feasible, meetings with the unsecured creditors will be held, in due course, to explain the concepts and to gauge creditors' views and support ahead of formalising any such proposals.

Next steps

It is envisaged that any creditors' meetings held will provide illustrations of the financial consequences for unsecured creditors as a whole of the various options, together with an illustration of the impact on the timing of a cash distribution. In the interim, and absent a compromise solution, the mechanics under the Insolvency Rules and Distributing Administration regime are available to determine the creditor claims process.

Creditors are encouraged to submit their valuation statements to the Administrators to ensure that the assessment of these options is based upon accurate creditors claims data.

Section 6

Affiliates

Highlights

- \$217.3bn of claims filed against Affiliates in 11 jurisdictions in the period. A downward revision of \$24.0bn to these claims was made in January 2010.
- \$96bn claim filed against LBHI. \$5.0bn claim relating to LBHI programme securities.
- Asset swap concluded with LBJ with over \$1.0bn of assets bilaterally returned/recovered.
- 2010 activities focused on balance agreement and resolution of issues requiring Court directions.
- LBIE's House claim on LBI has been filed with Customer Property status.
- Court hearing to determine ownership of depot assets subject to ownership claims under RASCAL agreements set for October 2010.
- IMA established to manage assets subject to ownership claims with Hong Kong and other entities under discussion.

Overview

The global nature of the Lehman business resulted in highly integrated trading and non-trading relationships across the Lehman Group. Affiliate activities gave rise to a variety of intercompany balances (both receivable and payable).

LBIE has over 200 intercompany debtor and creditor ledger balances, representing \$9.8bn of debtors and \$11.2bn of creditors at their 12 September 2008 book values. LBIE now values this as \$19.0bn of debtors and \$9.3bn of creditors, before accounting for specific derivative side-letters and the various parent company Guarantees.

Additional factors will influence the final agreed value of the Affiliate balances. These include:

- The terms of industry standard and bespoke agreements, which govern valuation;
- Market movements between different insolvency dates and termination dates;
- Local legislation and regulators' or other authorities' rulings;
- Decisions and actions taken by exchanges, custodians and agents through which LBIE and Affiliates dealt; and
- In respect of intercompany debtors, the likely level of any payout and timing thereof.

Focus

The focus for 2010 is to:

- Ensure estate claims against LBHI and debtors based in the US are optimised and synchronised with the Chapter 11 Plans proposed by those entities, including any amounts receivable by LBIE under the Guarantees;
- Progress the agreement of the LBIE House Customer Property claim against LBI;
- Progress resolution items requiring directions from the court (BTB derivative side-letters and RASCALS); and
- Progress resolution with LBIE's material Affiliate counterparties, Lehman Brothers Finance SA (Switzerland) ("LBF"), Lehman Brothers (Luxembourg) S.A ("LB Lux") and the Lehman Hong Kong ("LBHK") based entities.

Progress

Since the last report, LBIE has filed claims in 11 jurisdictions totalling \$217.3bn, including \$101.0bn (made up of \$96.0bn LBHI claims and a \$5.0bn Lehman Paper claim) under the LBHI Guarantees. A downward revision of \$24.0bn to these claims was made in January 2010.

Claims have now been filed against all major Affiliates outside of the UK group.

LBHI

LBHI issued a joint Chapter 11 Plan for LBHI and its affiliated debtors on 15 March 2010. As the disclosure statement related to the Plan has yet to be released, the Administrators have not comprehensively assessed the potential impact of the Plan.

The Administrators have met with LBHI and its advisers regarding the Plan to begin to understand the implications for LBIE. The Administrators will review the Plan with their lawyers and intend to work with LBHI to negotiate terms acceptable to LBIE.

LBIE is aware that a number of Affiliates have filed guarantee claims into the LBHI estate relating to their purported claims against LBIE. The asserted claims are very materially different from LBIE's valuations. As the claims have not been served on LBIE, the Administrators are unable to comment further on the Affiliates' claims recorded in the Plan.

The Administrators intend to discuss their response to the Plan with your Committee and consider further public comment not to be in LBIE's creditors' best interests.

LBIE House claim against LBI

The US Securities Investor Protection Act ("SIPA") governing the LBI liquidation provides that assets are divided into two pools: "Customer Property" and the "General Estate".

LBIE filed a Customer Property claim against LBI in May 2009 in accordance with advice from specialist US lawyers. While the LBI trustee has engaged in further work on LBIE's claim, LBI has yet to indicate whether it intends to admit the claim.

The LBI trustee filed a motion for an order approving the LBI trustee's allocation of property of the estate ("the Motion") to allocate approximately \$4.9bn of assets from the General Estate to Customer Property, in order to address a shortfall of assets to cover Customer Property.

This Motion initially included \$2.3bn claimed by LBIE in relation to certain transactions undertaken for LBIE clients. A number of General Estate creditors filed objections and as a result, an amended Motion to reallocate \$2.1bn assets to the General Estate was granted by the US bankruptcy court on 25 February 2010.

LBIE is working closely with the LBI trustee over the next two months to help with this ongoing investigation.

BTB derivative side-letters

As a rule, LBIE was not party to derivative agreements with clients due to the capital consequences of such transactions. However, in many instances LBIE's clients needed to contract with a regulated entity and LBIE accommodated such clients by contracting with them and concurrently entering into an identical transaction with various unregulated derivatives entities within the Lehman Group; LBF, Lehman Brothers Special Financing, Inc ("LBSF"), and Lehman Brothers Commercial Corporation ("LBCC") being the most significant. These identical transactions had the benefit of side agreements between LBIE and the relevant Affiliate (BTB agreements or BTBs) and the combined effect of these arrangements was to provide LBIE with protection against market risk and credit risk.

BTB were implemented with 12 unregulated entities and over 70,000 trades are covered under the arrangements.

Various contracting parties have yet to accept the effect of the BTB arrangements. LBIE has documented its view of the application of the BTB side-letter and this has been discussed with the major Affiliates.

In the absence of a consensual agreement as to the effect of these arrangements, LBIE will seek the directions of the High Court.

Assets held subject to Affiliate claims

Certain assets in LBIE's House depots are the subject of ownership claims from Affiliates. Over \$3.5bn of securities are affected by various title claims by Affiliates.

A significant number of legal agreements govern the basis on which certain assets were held by LBIE, many of which include provisions that grant LBIE a lien over the assets. As LBIE has significant sums receivable from many Affiliates, it intends to assert these liens to cover such obligations should it be determined that the assets do, in fact, belong to the Affiliates.

Extensive work is ongoing in order to determine the ownership of the assets, including a Court directions hearing scheduled for October 2010 for the assets subject to RASCALS arrangements.

Ahead of the Court determination of ownership, LBIE has been actively seeking to collaborate with its Affiliates in order to manage the market risks associated with the securities. However, at present, ongoing market risk exists as a number of Affiliates are unwilling to allow LBIE to convert the assets into cash at this time.

Issues

Issues impacting LBIE's ability to resolve matters with Affiliates include:

- The Affiliates' inability to source and reconcile data given the fragmented IT environment:
 - Many Affiliates are still seeking data and systems support from various third party vendors. This has considerably hindered progress;
 - Many Affiliates have few Lehman employees and their trustee's have minimal transactional knowledge; and
 - LBIE has provided bilateral support to Affiliates to ease these issues where it has been able to.
- Affiliates generally provide very little information to allow any reasonable assessment of recoveries from Affiliates or the timing thereof.

US Lehman Brothers examiner's report

The formal report of the LBHI examiner was released on 11 March 2010 following an order made by the US Department of Justice for an examiner to investigate the affairs and any possible misconduct by the LBHI estate and its US Affiliates under the US bankruptcy code.

It is important for LBIE creditors to recognise that this report was prepared as part of the US bankruptcy process enquiry into the affairs of LBHI.

The Administrators have reviewed the report and will take such actions as are consistent with their duties in relation to the matters raised in the report. Given the subject and context of the report it is inappropriate to comment further in public forum.

Major Affiliates

A summary of specific progress with the major Affiliates is provided below.

LBSF

- LBIE filed a claim of \$23.7bn against LBSF. This claim incorporated amounts for the BTB side-letter. This claim will be revised to reflect recoveries under the BTB.
- LBIE has a constructive working relationship with LBSF. LBSF and LBIE are party to a Transitional Services Agreement (the "TSA") under which extensive information has been shared.
- The OTC derivative population trade reconciliation is materially complete with less than 1% remaining to be agreed.
- Despite LBSF asserting a termination, it has yet to submit a valuation statement to LBIE. Accordingly, the agreement of derivatives and financing valuations cannot progress further at this stage.
- LBIE and LBSF have developed a protocol to assist in dealing with third party transactions that may have been mis-booked within the Lehman systems. It allows progression to third party debtor settlements prior to finalising the Affiliate party to the transaction.
- LBSF has yet to agree to the terms of the proposed IMA for the management of securities held by LBIE.

LBI

- LBIE filed a claim of \$12.1bn against LBI and is in the process of preparing a revalued claim.
- The LBI trustee filed a LBI House unsecured claim against LBIE of \$3.6bn in June 2009. However, a review of the claim filed by LBI indicates that it was significantly overstated. The Affiliates team continue to work with the trustee to reconcile both the inbound and outbound claims. As LBI is a material debtor of LBIE, any inbound claims from LBI will be netted from sums payable by LBI.
- LBIE is in ongoing discussions with the trustee regarding an arrangement that governs the manner in which LBIE Client Assets held by LBI are returned to LBIE customers.

LBF

- LBIE filed a claim of \$30.0bn in February 2009. This claim was prepared on a gross basis and no offset was calculated for collateral posted with LBIE. A revised claim of \$6.0bn was shared with LBF in January 2010.
- Progress has been made in reconciling trade populations for both the OTC derivatives and financing balances.
- LBF has disputed the operation of the BTB and provisionally agreed to resolve the matter via a court directions process. Preparation is underway to make a formal application for directions.
- LBF has not come to an agreement for the basis of continuing management of the assets. LBIE may therefore need to resort to a court application for directions on this matter also.

LB Lux

- LBIE has filed a claim of \$6.0bn.
- In December 2009, LB Lux signed a data provision agreement with LBIE and the Administrators provided a comprehensive presentation pack explaining the business and how the financial statements were compiled.
- LB Lux has informed LBIE that it is challenging the termination notice issued by LBIE. LBIE will vigorously defend this challenge should the need arise.

LBJ

- The Administrators have made significant progress negotiating with LBJ since the last report, providing benefit to both estates.
- The primary focus for LBJ was the return of custody assets held by LBIE and vice versa. Some \$1.0bn in assets have now been exchanged.
- LBJ is also assisting LBIE with procuring certain data required by LBIE to enable certain valuations to be concluded.

LBHK

- LBIE is engaged with six Hong Kong entities (all in liquidation) on a variety of matters, including balance negotiation, ownership of assets, management of assets and the return of assets held for clients. Total claims filed are \$9.7bn.
- LBIE and Lehman Brothers Commercial Corporation Asia Limited ("LBCCA")/LBAH have agreed an IMA dated 18 August 2009, to allow the management of some 65 illiquid RASCAL assets. In parallel with preparing a court application, LBIE is seeking directions for ownership.
- The Administrators attempt to engage with the LBHK liquidator on the subject of House and Client Asset return, but despite their repeated requests, the liquidators have failed to provide the Administrators with any proposals to date.

Bankhaus

- LBIE's principal claim against Bankhaus relates to a \$1.0bn Client Money deposit made pre-Administration.
- Bankhaus rejected all claims from Affiliates inbound as *pari passu* claims in its estate, granting them subordinated status. All LBIE claims into the Bankhaus estate (both House and Client Money) are ranked below unsecured creditor claims. Subordinated claims against Bankhaus are unlikely to make any recovery.
- LBIE has challenged this determination in relation to the Client Money claims and commenced proceedings against Bankhaus in December 2009. The hearing is expected to be heard in July 2010.
- In relation to the House claim, both parties have agreed to commence negotiations to informally agree trade populations and valuations ahead of LBIE's Unsecured Bar Date.
- Under Korean law, the LBIE Seoul and Bankhaus Seoul branches are treated as separate entities to the Bankhaus and LBIE estates. As a result, LBIE Seoul filed a separate claim against the Bankhaus Seoul branch and agreement has been reached for LBIE to receive a settlement sum in relation to this claim. The proceeds of this settlement have now been received and are held in Korea.

UK Group Companies

- LBIE's relationship with the other UK Affiliates which are in Administration mainly comprises of the provision of staff and services, primarily with Lehman Brothers Limited ("LBL"), Storm Funding Limited ("Storm") and LB UK RE Holdings Limited ("UK RE"). A limited amount of intercompany transaction balances exist between the various entities.
- It is anticipated that the agreement of balances will be relatively straightforward for entities with a service provision relationship.
- As with other Affiliates, the UK companies used LBIE's depot to House securities and there are therefore competing claims to the ownership of those securities. This is currently under review with a view to exploring whether a settlement can be reached.

Section 7

Trust Estate

Introduction

In this section, an update is provided on the progress of the Trust Estate, which includes all dealings that relate to Client Assets and Client Money.

This section is divided into two parts:

- **Section 7.1 – Client Assets:** Details the status of the Administrators' dealings with Client Assets.
- **Section 7.2 – Client Money:** Sets out the progress of the Administrators' dealings with Client Money as defined under FSA Client Asset Sourcebook ("CASS").

Section 7.1 Client Assets

Highlights

- Innovative CRA formulated, launched and approved by over 90% by value of qualifying clients.
- At 14 March 2010, 323 clients acceded into the CRA. Remaining clients will be dealt with on a bilateral basis. The first returns to clients were made after the Client Asset bar date period end.
- Further bilateral asset returns of \$1.0bn were made in the period, bringing total returns to \$14.3bn.
- Client Assets of \$14.1bn remain to be returned to clients, of which \$9.4bn is under LBIE control, \$4.2bn recoverable from Affiliates and \$0.5bn from third party custodians.
- The bar date for claims to Client Assets was determined and expired on 19 March 2010.
- 85% of clients have now submitted their Trust Property claim data through either the Client Information Portal or by email/post.
- UPBS were delivered via the Client Information Portal in March 2010.
- Client Assets were recovered from LBJ and other closed custodians in the period.

Overview

The identification, reconciliation and return of Client Assets are core objectives.

A team comprising in excess of 60 staff remains integral to the Administrators' work to return Client Assets as soon as possible. This team is focused on the return of \$9.4bn Client Assets currently under the Administrators' control to both CRA signatories and non-CRA claimants.

Financial Summary

570 clients have claims to assets held by LBIE at 15 September 2008. A summary of Client Assets is as follows:

	SoA \$bn
Value at 15 September 2008	35.2
Custody adjustment	(3.4)
Returned to clients	(14.1)
Redemptions held as cash	(0.4)
LBI settlement date adjustment	(2.4)
MTM revision	(0.5)
Estimated controlled shortfalls	(0.3)
Segregated Inventory at 14 March 2010	14.1

An additional \$0.2bn of derived coupon and dividend income has also been returned to clients since the date of Administration, bringing total returns to \$14.3bn.

The "Custody adjustment" of \$3.4bn reflects inventory recorded by LBIE as held by LBIE for clients but which was, in fact, custodied under a bilateral arrangement between the client and a third party custodian. As such it was never under LBIE's control and will not be recovered or distributed by LBIE. The Administrators understand that it is controlled by the client.

Client inventory was recorded as being held at the following depots at 14 March 2010:

	SoA \$bn
LBIE controlled depots	9.4
LBI	3.5
LBHK	0.7
Frozen by external custodians	0.5
Segregated Inventory at 14 March 2010	14.1

In the period LBIE has revised the basis on which LBI custodied securities have been included from a settlement date to a trade date basis, reducing the level of Client Assets by some \$2.4bn. This assumes that all pending trades in US securities settled in the 5 days between 15 September and 19 September 2008. As discussed later, LBIE continues to work with the LBI trustee and to use Client Asset claims to determine LBIE's clients' actual claims to securities custodied with LBI.

Estimated shortfalls on LBIE controlled segregated assets (i.e. before any LBI shortfalls) were c.\$300m, based on LBIE records. Following the Client Asset bar date of 19 March 2010, substantial data has been received from clients and this is being reviewed to identify any additional asset claims that may impact the shortfall estimate. Further information will be provided to clients as the process continues and the shortfall is finalised. The impact of the shortfall could reduce further for CRA claimants as they apply their shortfall to their indebtedness.

Focus

The Client Asset team's targets for 2010 are set out below:

- Reconcile all Client Asset claims. The Client Assets team is working closely with Client Asset claimants to expedite the resolution of reconciliation issues;
- Implement a strategy to progress the return of Client Assets to non-CRA claimants in parallel with the return of Client Assets to CRA signatories;
- Return a significant proportion by value (disclosed to your Committee) of Client Assets under the Administrators' control to CRA signatories and non-CRA claimants by September 2010; and
- Work closely with third party and Affiliates to identify options for the return of Client Assets outside of the Administrators' control.

Progress

The Client Assets team has made outstanding progress during the period in identifying solutions to facilitate the return of Client Assets, notably:

- c.40 asset cases have been released with a market value, as at 12 September 2008, of \$14.3bn;
- Designing and implementing the CRA. This involved very considerable development and solicitation time. It was ratified by over 90% of eligible claimants in December 2009;
- An order of the High Court in connection with the distribution and appropriation of assets held on trust by LBIE was granted in December 2009, confirming the bar date for Client Asset claims as 19 March 2010;
- UPBS have been issued to Client Asset claimants. The UPBS is an interactive statement that allows Client Asset claimants to reconcile, accept and request amendments to their positions with LBIE;
- Processes and procedures have been implemented to govern the return of Client Assets under the CRA. Non-CRA returns will continue to be treated on a bilateral basis;
- A bilateral exchange of certain custody assets, valued at c. \$1.0bn, was negotiated and completed in December 2009 between LBIE and LBJ. The ongoing exchange of derived income relating to these assets is due to be finalised by the end of April 2010. The exchange further increased the Client Assets under the Administrators' control; and
- Continued client communication momentum, particularly on www.pwc.co.uk/lehman, with regular FAQ postings and client updates and maintained a high level of support for client queries.

Issues

There continues to be a number of legal and practical issues affecting LBIE's ability to return Client Assets that now predominantly relate to assets custodied with Affiliates.

LBIE

LBIE client claims to assets held by LBI

In our previous report, an estimate of LBIE Client Assets held by LBI of \$5.9bn was included. It is understood from LBI and various clients that significant assets were settled in the period from 15 September 2008 to 19 September 2008 and LBIE estimates of Client Assets held by LBI have been revised to \$3.5bn to reflect the projected settlement date position at 19 September 2008.

LBIE clients should also note that LBIE's definition of Client Assets differs materially from LBI's definition of Customer Property under SIPA. The former relates exclusively to securities and the post-Administration corporate events (e.g. redemptions, dividends and interest), whereas it is understood that the latter has a more extensive definition.

Regardless of these estimates, work is being done with LBI to agree a client-by-client claim to assets held by LBI at 19 September 2008. As both the LBI and LBIE bar dates for Client Asset claims have now passed, clients should have submitted their definitive claims to assets held by LBIE and LBI.

Proposed protocol

Over the coming months, the Administrators will work to agree client claims to US securities with LBI. In that regard, the Administrators are negotiating an agreement with LBI which is intended to govern the process of agreeing LBIE client Customer Property claims against LBI and the subsequent return of securities and/or cash to LBIE for its clients and for its own account.

It is noted that the LBI trustee has an exceptionally challenging task and is currently undertaking a process to reconcile LBI's entire client portfolio of claims, including the LBIE/LBI client omnibus claim. The LBI trustee has indicated that he is aspiring to substantially complete the estimate of client entitlements by 30 June 2010.

LBIE Distributions

Unfortunately, the LBI trustee is currently unable to predict when distributions will be made. The Administrators set out below their understanding of the various factors that impact the ultimate recovery by LBIE clients which have Customer Property claims. The Administrators advise affected clients not to rely on the summary provided below, but to review the report of the LBI trustee and related public filings in the US bankruptcy court.

LBIE Customer Property issues

The distribution of Customer Property to an LBI client is determined by reference to the qualifying Customer Property claim of that client and the ultimate pool of Customer Property determined by the LBI trustee. Clients receive a pro rata share of the Customer Property pool.

It is understood that there are currently pending substantial claims against LBI, including:

- BarCap which has advanced multi-billion dollar claims against LBI relating to its purchase in September 2008; and
- LBHI and LBIE which each have asserted multi-billion dollar proprietary customer status claims against LBI.

The aggregate amount of all Customer Property claims against LBI and the assets available for distribution by LBI therefore cannot currently be determined and may be subject to protracted litigation. Further, any final determinations will also be subject to approval of the US bankruptcy court.

At an allocation motion hearing on 25 February 2010 (at which the trustee sought to allocate certain recovered property from the General Estate to the Customer Property pool), the trustee was granted authority to move forward with certain allocation principles set out in the motion. The trustee has indicated that he may seek further augmentation of Customer Property as his investigations progress.

The resolution of these issues will affect both the amount and the timing of the return of LBI related Client Assets.

Hong Kong entities

\$0.7bn of Client Assets were held by Hong Kong Affiliates at the date of Administration. The reconciliation of LBIE's claim with the books and records of the Hong Kong entities is now substantially complete.

In contrast to the approach adopted by other Affiliates, our various requests to the Hong Kong entities have not resulted in any proposals for the return of Client (or LBIE) Assets. The Hong Kong liquidation process provides us with very limited transparency, with little public disclosure regarding the status of the estate.

At this stage it is regrettable that we have no indication whether LBIE will eventually recover Hong Kong held Client Assets

Affiliate Liens

Various arrangements under which Client Assets were custodied with LBIE purported to create a lien in favour of any Lehman entity to which the client was indebted. As such, there is a prospect that assets held for clients are, in some instances, held as security for claims by Affiliates against the respective clients. These liens and related obligations must be addressed by the client and the related Affiliate ahead of any asset return to the client. This is a term of the CRA.

The Administrators have provided all material Affiliates with details of the assets held for clients bound by the CRA. LBIE is in regular dialogue with relevant LBIE Affiliates and affected clients are encouraged to address their outstanding obligations to such Affiliates if they are to be assured of the return of assets held by LBIE.

Frozen by Custodians

At 14 March 2010, some \$0.5bn of Client Assets continued to be frozen by North American custodians. Despite efforts to release these assets, the custodian has yet to agree their return.

Data Quality

The timeliness and quality of claim data submissions by Client Asset claimants is vital in supporting the claims reconciliation process. There are 570 Client Asset claimants and more than 12,500 lines of stock owned by one or more claimants to validate, reconcile and distribute.

This is a volume-intensive exercise; therefore, the submission of clean and well-explained data will reduce the burden on the Client Asset team and expedite the reconciliation process. To date 85% of claims have been received.

Conclusion

Very significant progress has been made in the six-month period. The CRA was a landmark event in the resolution of Client Asset claims. This innovative approach should see further material asset returns over coming months.

Asset recoveries from LBJ have further reduced client uncertainty and the Administrators intend to increase their efforts to encourage the Hong Kong entities to address the issue of the return of Client Assets.

The position with LBI remains complex and relatively uncertain. By working constructively with the LBI trustee, the Administrators are confident that LBIE's client interests will be best protected.

Section 7.2 Client Money

Highlights

- Some \$4.1bn deposited into Client Money accounts to date. Total \$1.9bn transferred to clients and House from the post-Administration accounts.
- Judgment received in December 2009 on pre-Administration Client Money enabling progression in calculation of entitlement. This is subject to appeal in June 2010.
- If the pre-Administration Client Money judgment is upheld, it will result in a minimum 54% Client Money distribution.
- Judgment received in October 2009 on \$1.2bn of post-Administration Client Money confirming it should be returned to the owner of the underlying securities.
- Initiative for return of Client Money to large volume of low value entitlements is under active consideration.
- Administrators initiated legal proceedings against Bankhaus after claim for return of \$1.0bn of Client Monies was rejected.

Overview

The identification and return of pre-Administration and post-Administration Client Money remains a core objective of the Administrators.

Focus

The Client Money team's objectives for 2010 are set out below:

- Initiate an interim distribution to pre-Administration Client Money claimants, subject to the outcome of the appeal to the Client Money Application;
- Upload pre-Administration Client Money statements to the Client Information Portal to reflect pre-Administration Client Money claimants' revised entitlements in light of the December 2009 judgment;
- Obtain confirmation of clients' pre-Administration Client Money entitlements through the Client Information Portal;
- Initiate and progress legal action (where appropriate) to recover pre-Administration Client Money deposited with third party institutions and Lehman affiliated entities; and
- Allocate and return \$1.2bn post-Administration Client Money to claimants through an appropriate mechanism.

Progress

The Client Money team has continued to progress the identification and return of Client Money, notably:

- A judgment on the post-Administration Client Money application was handed down in October 2009. The determination has provided direction on a number of significant issues, allowing the Administrators to progress the calculation of pre-Administration Client Money entitlements;
- Pre-Administration entitlements have been recalculated based on the judgment, which indicates a potential distribution of c.54%, if the appeal is upheld;
- The Administrators filed a petition at the Frankfurt am Main regional court, Germany, claiming the \$1.0bn of pre-Administration Client Money deposited with Bankhaus plus interest be returned to LBIE;

- A proposal targeted at parties seeking an early resolution of the matter has recently been formulated and will shortly be circulated to pre-Administration Client Money claimants offering to distribute the lower of \$10k or the claimants' revised Client Money entitlement. This mechanism will allow settlement of claims in respect of pre-Administration Client Money held by LBIE and reduce the Client Money population and future administrative effort;
- Reconciliation work has been completed in relation to the c.\$3.0bn of receipts recorded in the post-Administration client account to date. At the outset, for the avoidance of doubt, the Administrators deposited many receipts into the client accounts where it was initially uncertain whether the monies related to the client or the House. Transfers have now been made to the House accounts, where appropriate; and
- Maintenance regular communication with clients through updates and postings on www.pwc.co.uk/lehman

Issues

There continue to be a number of legal and practical issues affecting LBIE's ability to return Client Money.

Client Money judgment appeal

Four representative respondents, including two Affiliates, appealed the Client Money judgment on 15 January 2010. The appeal hearing is scheduled to commence in June 2010.

The breadth of the issues subject to appeal is such that an appeal judgment on one or more of the issues, contrary to the initial judgment, could result in revised pre-Administration Client Money entitlements or even a revision of the number of eligible pre-Administration Client Money claimants.

Any further analysis resulting from the outcome of the appeal will take time to consider and evaluate. In addition, any appeal judgment could be further appealed to the Supreme Court.

The pervasive nature of the appeal hearing will impact on the Administrators' ability to make an interim distribution in the short-term other than the de minimis proposal referred to above.

Possible Bankhaus offset approach

Securing the return of \$1.0bn of pre-Administration Client Money held with Bankhaus remains an issue.

Evidence in support of the \$1.0bn deposit being linked to individual pre-Administration Client Money claims has been provided to the German administrator and the German Deposit Protection Fund. This has yielded minimal progress, as the German Deposit Protection Fund has asserted that it will not accept a claim from LBIE, and the claim against Bankhaus is subject to the German judicial process.

As a matter of recourse and to recapture some value for the LBIE estate, the Administrators are considering the options they might have with respect to offsetting the \$1.0bn against any inbound claim from Bankhaus. Should this be effective, any dividends otherwise payable to Bankhaus from LBIE's unsecured estate would be used to supplement the Client Money pool.

LBIE

The Administrators have engaged in a dialogue with the LBI trustee in respect of c.\$140m of pre-Administration Client Money relating to balances held in LBIE's client transaction account at LBI. Work is ongoing to establish how these monies are recognised under SIPA with a view to agreeing recovery.

Cost Application

Costs incurred in relation to Client Money will need to be met from the Client Money pool. The Administrators are currently considering making a court application as the best way to agree a sharing mechanism for costs between Client and House.

Section 8

Middle Office and Counterparties support

Introduction

This section reports on the progress of the Middle Office functions that support the client facing activities.

These operations are central to the effective processing and handling of dealings with clients, in meeting the Administration objectives.

The following activities are part of the Middle Office and counterparty support teams:

- **Valuation and Governance:** Responsible for providing independent reviews of valuations undertaken on portfolios for settlement of counterparty receivables.
- **In-house Legal:** Provide specialist legal advice on legacy LBIE financial contracts for close-out of counterparty and client positions.
- **Due Diligence:** Responsible for co-ordinating the collation and comprehensive review of all termination notices and valuation statements received.
- **Reconciliations:** Undertake the reconciliation of all trade populations for the settlement of counterparty receivables and agreement of creditor claims.
- **Valuation Processing and Product Reporting:** Responsible for performing valuations on counterparty portfolios to support settlement of counterparty receivables and agreement of creditor claims.
- **Counterparty Communications:** Responsible for consistent and transparent communications with LBIE stakeholders.

Highlights

- **Valuation and Governance team** has completed reviews of over c.95% of total valuations of all OTC derivatives, securities and failed trades. These have been valued and subject to comprehensive internal quality assurance reviews.
- **Senior in-house legal team** provides enhanced cost-effective support to the Street, Trust and Affiliate team's activities.
- **Due Diligence team** provides client facing teams with comprehensive interpretation of the specific issues on a counterparty basis.
- **Reconciliations team** has received statements detailing trade populations from 70% of counterparties and extracted positions to incorporate into House valuations.
- **Valuation processing and product reporting team** has advanced some \$1.5bn of creditors' claims to a stage where no further work is required.
- **Counterparty communications team** has responded to 1,100 counterparty queries in the period and developed comprehensive communications for all stakeholders. Over 37 updates and FAQs have been posted on www.pwc.co.uk/lehman in the period.

VALUATION AND GOVERNANCE

Overview

The Valuation and Governance team was revised in December 2009 in response to the changes in the Operating Model.

The team works independently from the Street, Middle Office, Affiliates and Trust Property teams to ensure that valuation methodologies are sufficiently robust, and to provide an independent review of portfolios prior to settlement or claim agreement.

Focus

Focus is placed on the quality and consistency of approach across the product classes, through the following methods:

- Compilation of market data for different valuation dates to ensure accuracy and transparency;
- Investigation of trade bookings to confirm validity of trades;
- Sample testing of valuations produced by risk engines and traders, and testing against approved methodologies; and
- Securities portfolio monitoring and validation of the automated securities pricing tool.

Where there are differing views of valuations arising from different teams, the Valuation and Governance team endeavours to resolve them.

Progress

OTC Derivatives

Over 95% of all third party OTC derivative valuations (c.120,000 legs) have been reviewed and approved.

Securities pricing

98% of the House and Client LBIE controlled portfolios are revalued on a bi-weekly basis.

97% of all failed (both House and Client) trades have been revalued.

Securities financing positions

211,000 securities financing trades require valuation at various dates (including Affiliates).

86% of the population has readily referable pricing data. Consensus and tradable data for both intra-day and closing pricing has been sourced from several external market data providers to supplement the pricing library for financing positions.

Exchange Traded Derivatives

The collation of pricing from exchanges for European exchange traded derivatives is now complete.

Such information will be used by the Street team in the finalisation of the reconciliation of close-out positions to internal margin and position accounts.

Issues

The main challenges to the progress made by the Valuation and Governance team include:

- Finalising the financing House valuations is dependent on ensuring agency/principal and collateral substitutions are appropriately reconciled and recorded. Approving the House valuations will progress significantly once populations are finalised;
- Certain trades booked by Affiliates, particularly equity derivatives, currently have insufficient trade data to enable valuations without considerable assistance from third parties;
- Some data is still required for multiple valuation dates given the various dates in 2008 that counterparties terminated their underlying agreements; and
- Trades may need to be revalued where dates have changed as a result of the in-house legal due diligence termination date review process, which may affect the House valuation.

IN-HOUSE LEGAL

Overview

The Legal team consists of Lehman's in-house legal staff. They provide guidance to the various Administration functions drawing on their historical knowledge of the LBIE businesses and co-ordinate the provision of specialist legal advice from external counsel.

Focus

The Legal team provides input on key legal complexities of the counterparty debtor settlements or creditor claim process, including:

- Drafting and negotiating legal settlement agreements for the prioritised 150 largest net debtor groups;
- Assessment of asserted set-off claims across various counterparties;
- Supporting the development of the legal framework for unsecured creditor claims resolution; and
- Supporting resolution of BTB, RASCALS and the LBHI Guarantees.

Progress

Key achievements in the period include:

- Negotiation of settlement agreements with counterparty debtors;
- Evaluation of instances in which counterparties have asserted contractual rights of set-off, across product agreements and across entities;
- Contribution to the production of witness statements and other court related documents; and
- Participation with outside counsel and the Administrators in developing strategies for pursuing debtors and valuing creditor claims.

Issues

In cases where LBIE and its counterparty are either in disagreement regarding the effect of various contractual provisions or the interpretation of the respective party's rights under applicable law, the Legal team will co-ordinate proceedings to recover amounts receivable by the estate, engaging external counsel in appropriate jurisdictions.

Substantial continuing work is likely for the Legal team, including considering the competing claims of Lehman Affiliates. A number of applications to court for directions are anticipated, and the in-house Legal team will be integral to these applications.

DUE DILIGENCE

Focus and progress

To agree debtor settlements and creditor claims, the review of the underlying contractual agreements relating to a counterparty's relationship is essential. The Due Diligence team is responsible for providing comprehensive support to the client facing teams with regard to recording and reviewing the termination notices and valuation statements.

There are c.3,000 legal agreements relating to LBIE trading activity.

The team has completed all due diligence review activity, identified for completion for all prioritised counterparties: Street (debtors), Middle Office (creditors), Affiliates and Trust.

A detailed review of termination notices has been undertaken since the last report to ensure the House valuation of terminated trades is based on appropriate reference dates.

RECONCILIATIONS

Overview and focus

The Reconciliation team's responsibility is to reconcile the trade population of third party submitted valuation statements to the LBIE House view. Where exceptions arise, the team communicates with the client and attempts to resolve reconciliation breaks.

This team is pursuing 100% of counterparty valuation statements.

There were c.120,000 OTC derivative legs and c.211,000 securities financing trades at 15 September 2008.

Progress

Over 70% of the expected valuation statements detailing trade populations have been received. 10% were received since the last report.

This represents 67% of the debtor population and 73% of the creditor population.

Where a valuation statement has been received, and is suitable for reconciliation, 55% of statements (based on trade volume) have been fully reconciled.

Issues

An ongoing and extensive contact programme is in place but it is dependent on the counterparty response.

Many creditors have not submitted valuation statements. Counterparties are encouraged to provide such data to ensure their information is expediently reviewed.

For agent/principal relationships, where data is required at the principal level, the team are reliant on the agent counterparty to disclose that information. Certain agency counterparties have been reluctant to date to engage at the underlying principal level.

VALUATION PROCESSING AND PRODUCT REPORTING

Overview

The Valuation Processing and Product Reporting team's primary responsibility is to compare the House and counterparty's valuation. The review is undertaken after the trade population reconciliation is complete.

This team is also responsible for all securities pricing.

Focus and progress

The key objective is to reconcile all valuations received from counterparties to LBIE valuations.

The team has completed all House valuations as requested by either the Valuation Governance team or client-facing teams.

To 14 March 2010, c.\$1.5bn of valuation statements asserting claims against LBIE have been reconciled to a stage where there are no outstanding disputes.

The team is currently in active dialogue with a number of counterparties which have submitted valuation statements to obtain the required information in order to reach a conclusion.

Issues

The key challenges faced by the team:

- Active counterparty engagement is required to ensure that the team concludes on valuation discrepancies; and
- Valuation of illiquid products continues to require manual, bespoke analysis.

COUNTERPARTY COMMUNICATIONS

Focus and progress

The Counterparty Communications and Management ("CCM") team is responsible for ensuring that consistent, transparent communications are provided to LBIE's counterparties.

The CCM team manages and responds to queries either directly by the CCM team or by appropriate teams. All queries are tracked. The CCM team also maintains the central repository for counterparty information.

During the past six months the team has responded to over 1,100 queries.

Since the last report, c.37 communication updates and FAQs have been issued relating to the CRA, the 19 March 2010 Client Asset bar date, various Client Money applications, court judgments and appeals, and the Unsecured Bar Date for unsecured creditor claims.

The team commissioned a creditor survey across 50 unsecured creditors to solicit feedback to help evaluate alternative frameworks for the resolution of unsecured creditor claims.

Section 9

Transaction Processing and Control

Overview

This section sets out an update on the progress of the teams that are responsible for the effective management and processing of financial transactions necessary to assist the Administrators' control of the estate's assets.

The core activities of the teams are:

- **Section 9.1 – Treasury:** Ensure all accounts with cash transactions held by LBIE are correctly recorded, sums are collected, allocated, reconciled and that funds are optimally invested in a low-risk manner.
- **Section 9.2 – Corporate Events:** Responsible for ensuring that all corporate actions, coupons and dividends relating to LBIE's House and Client securities are recovered and accounted for.

Section 9.1 Treasury

Highlights

- \$13.1bn of cash and long-term investments are under the Administrators' control.
- All monies are invested in accordance with LBIE investment policies.
- Net increase of \$1.9bn of House monies in the period.
- Net reduction of \$0.3bn in monies held in Client accounts.
- Continuing re-assessment of currency policy.

Overview

\$13.1bn (net) cash and long-term investments are now under the Administrators' control.

The Treasury function is responsible for managing the funds realised in the Administration, repatriation of funds held in the pre-Administration agent bank network and ensuring that all accounts held by LBIE with cash balances as at the date of the Administration are reconciled.

Focus

The objectives of Treasury during 2010 include:

- Repatriation progress on remaining legacy amounts;
- Compliant investment policy whilst maximising returns to the estate;
- Operational efficiency in the release and reconciliation of monies under the CRA or other bilateral mechanisms;
- Operational efficiency in the receipt and reconciliation of debtor monies; and
- Review of the current currency policy.

Progress

Pre-Administration legacy and post-Administration network

- Since 15 September 2009, \$0.3bn of funds have been repatriated from the agent bank network;
- \$0.2bn of Treasury investments were redeemed in the period and have been reinvested; and
- Of the 1,563 pre-Administration bank accounts, a further 514 bank accounts have been closed during the period. 835 have been closed to date and an additional 207 have been instructed for closure.

Investment policy and investment status

The investment policy and dedicated investment team, established to manage the estate's cash with a primary strategy of protecting the funds whilst maximising returns, continue to operate effectively.

House Estate

As at 14 March 2010, LBIE held \$10.8bn of House monies in cash and investments, a \$1.9bn increase. All amounts are fully reconciled. The monies comprise:

- \$4.3bn invested in short-term deposits (one or two weeks) with an average return for the six months ending 14 March 2010 of EUR 0.17%, GBP 0.26% and USD 0.12%. LBIE currently has 16 banks with signed mandates currently within policy;
- \$515m held in interest bearing accounts, mostly in transition to short term deposits;
- \$94m AAA EUR government bond previously held by LBIE due to mature in July 2011 is designated as hold-to-maturity and included in House monies; and
- \$5.8bn of short-dated (less than one year) AAA government Bonds managed by two fund managers (see below).

Fund Managers

The investment policy for House monies allows investment in certain government issued AAA short-dated (< one year) debt instruments.

Average fees for fund managers are approximately 5bp p.a. Performance of the fund managers is measured against one year benchmarks.

To date, two fund managers have been appointed. LBIE is in negotiation with two other potential managers.

Trust Estate

As at 14 March 2010, LBIE held \$2.2bn net of Client Monies in cash and investments under LBIE control. The monies comprise:

- \$0.5bn held in interest bearing accounts
- \$1.8bn in short-term (one week) deposits in line with CASS guidelines; and
- Additional banks for short-term deposits have been identified and 10 dealing mandates for Client Monies have been established.

Issues

LBIE now holds a significant amount of liquid assets. The management and oversight of such funds requires an effective governance and investment policy. Whilst the amounts involved remain significant, compliant investment activity remains an ongoing focus.

LBIE currently undertakes its reporting in US dollars. Following the December 2009 conversion of LBIE into a Distributing Administration, it will be appropriate to report the UK estate in Sterling. Future reporting will adopt that principle and the currency investment policy will be subject to ongoing review.

The repatriation of the remaining legacy cash amounts are subject to complex jurisdictional issues. Ongoing negotiations with the local legal authorities and regulators continue.

Section 9.2 Corporate Events

Highlights

- \$1.4bn of cash from corporate actions and derived income has been processed in the period and allocated according to the underlying House or Client depot holding.
- A total of \$3.0bn of cash relating to corporate actions received to date is split equally between the House and Client depot holdings and represents 750 processed events.
- A total of \$1.7bn of derived income processed to date, represents c.16,000 events of which \$1.0bn relates to Client holdings and \$0.7bn relates to the House.

Overview

The asset servicing team which actions corporate events has two key activities:

- Processing the receipt of derived income i.e. coupons and dividends received on securities held on Client and House depot holdings; and
- Actioning House and Client requests relating to both voluntary and mandatory corporate actions on securities held in depots.

The team is responsible for managing the derived income and corporate actions relating to the c.20,000 securities that are included within the House and Client depot holdings.

Progress

\$4.7bn of corporate events have been processed on the House and Client depot holdings since the start of the Administration.

Funds received as a result of such events comprise of \$3.0bn from redemptions/corporate actions and \$1.7bn from derived income.

Of the total amount received for redemptions/corporate actions, which relates to c.750 corporate actions:

- c.\$1.5bn relates to Client depot holdings; and
- c.\$1.5bn relates to House depot holdings. This is further analysed as House (\$1.0bn) and ring-fenced for Affiliate ownership claims (\$0.5bn).

Of the \$1.5bn Client related actions, \$1.1bn has been returned to clients, including \$0.2bn in the period.

In respect of derived income, c.\$1.0bn relates to Client depot holdings and c.\$0.7bn relates to House depot holdings. This represents c.16,000 income events.

Of the \$1.0bn of derived income received for Client holdings \$0.2bn has been returned to clients since the last report.

As part of the LBJ asset exchange during the period, an additional \$0.2bn of derived income was also passed to LBJ for its clients.

Issues

The lack of visibility of House and Client securities held by Affiliates, and the manner in which they will ultimately account for such events continue to hinder the composite reconciliation of asset servicing activity for Affiliate-held House and Client Assets. Until certainty is provided on these matters, the team is unable to complete the processing, reconciliation and allocation of derived income and corporate actions.

Given the varying treatment of derived income in the insolvent estates of the custodian entities (primarily in the US and Hong Kong) there is a material risk that this income will not be recovered on either House or Client holdings. As such, the comprehensive reconciliation processes cannot be concluded for some time.

Asset servicing is a time-intensive process for the Administration given the fragmented nature of the underlying IT systems post-Administration. To address this issue an in-house corporate actions processing platform has been developed and implemented and this has significantly enhanced the processing environment. This will be extended for the derived income (coupons and dividends) environment over coming months.

Section 10

COO and Functions

Overview

This section provides an update on progress of the activities undertaken and infrastructure provided by the LBIE functions. Some functions are managed by LBL in its capacity as service entity for the Lehman Administration Companies and recharged to LBIE.

The following specialist areas support the Counterparties, Middle Office and COO teams to enable them to carry out their operations efficiently:

- **Section 10.1 – COO:** Responsible for managing and co-ordinating operations and allocating resources.
- **Section 10.2 – Financial, Treasury and Operational Reporting:** Responsible for reporting the progress of the Administration by reference to, *inter alia*, quarterly targets and the SoA. The team also prepares comprehensive and regular management information for the Administrators.
- **Section 10.3 – Information Technology:** Manages LBIE's extensive ongoing IT needs.
- **Section 10.4 – Infrastructure and Property:** Manages LBIE's office premises needs.
- **Section 10.5 – Human Resources:** Manages all matters relating to the retention, reward and day-to-day operations of the c.440 Lehman staff.
- **Section 10.6 – Regulatory and Compliance:** Ensures ongoing compliance with FSA and other regulatory requirements and handles investigations.
- **Section 10.7 – Tax:** Deals with all ongoing tax matters, including corporation tax, VAT and withholding tax.

Section 10.1 COO

Highlights

- Evolution of the Operating Model to reflect evolution of priorities.
- Governance committees restructured to manage strategic developments (Executive Committee) and operational prioritisation (Operating Committee).
- Overseen cost reduction processes, including restructuring of IT and infrastructure.
- Implemented further material reductions in annual operating costs (expected to decrease by 15% in 2010).
- Proactive management of Transitional Services Arrangements ("TSA"); active cost reduction negotiations in place.

Overview

The COOs are responsible for all the operational aspects of the activities. The joint COOs report directly to the Administrators.

The COOs effectively manage the activities of the Administration, hold team leaders accountable and ensure activities and teams are properly integrated. Teams include:

- Counterparties – those which interface with third parties, being Street, Trust or Affiliates;
- Middle Office – valuation and third party reconciliation teams and creditor claims control;
- Transaction Processing and Control – Treasury, asset servicing and custodian teams; and
- Functions – Financial reporting, HR, IT, Infrastructure and Property, Regulatory and Compliance and Tax teams.

Focus

The key objectives of the COO function are:

- Management and coordination of operational activities, including objective setting, monitoring, prioritisation and assessment;
- Provision of information to the Administrators in order to measure operational performance against objectives and targets;
- Management of the Lehman and Administrators' resource base;
- Oversight of TSAs with Affiliates and third party entities; and
- Monitoring and management of the overall cost profile of the operations of the LBIE Administration.

As outlined in previous reports, LBIE has strategically operated in three core Administration phases:

- **Phase I – Control and Assimilation**
Asserted control over the Company, its business processes and personnel. Identified key roles and individuals and set the primary objectives of the Administration.
- **Phase II – Systemisation**
LBIE's activities are reorganised into a new Operating Model to meet the objectives of the Administration providing a flexible and efficient operating structure.
- **Phase III – Run off**
Process of running off the LBIE balance sheet involving systematic realisation of assets and bilaterally negotiated return of Client Assets.

For 2010, the run off continues and the development of distribution mechanisms occurs:

- **Phase IV – Distribution**
The process of establishing unsecured creditors' claims, distribution of Client Assets under the CRA and agreement of pre-Administration Client Money claims.

Progress

An assessment of the LBIE Operating Model to support Phase IV was undertaken in Q4 2009 in order to ensure the activities of the Administration were optimally aligned.

As a result of this exercise, the LBIE Operating Model evolved into its current structure. Implementation of the revised Operating Model occurred in January 2010. The 2010 Operating Model is shown in [Section 3](#).

As part of that exercise, the strategic objectives of the Administration for 2010, specifically around Phase IV, were developed and agreed with the Administrators and rolled out to all teams.

In order to ensure all teams are proactively focusing on achieving their individual team objectives, and collectively the strategic objectives of the Administration, an Operating Committee ("OpCo") was set up.

Each area of the 2010 Operating Model is represented at the OpCo, which is chaired by the COOs. The function of the OpCo is to proactively monitor progress and prioritise activities and subsequent resource allocations based on agreed upon activities and timelines.

Further, the Management Information ("MI") prepared by individual teams to report progress, issues and key dependencies is collated and analysed by the COO function on behalf of the Administrators. A bi-weekly MI pack is prepared for the Administrators. This information is the basis for all reporting internally as well as externally.

The Executive Committee ("ExCo"), which comprises Administrators, COOs and activity leads, uses this MI as the primary tool to discuss strategic priorities, progress and decision-making. The ExCo meets weekly.

A key objective over the last six months has been further progress in stabilising both the resource and infrastructure environments that LBIE operates in during 2010.

This has resulted in significant changes to both the resource profile, property infrastructure and Affiliate and third party TSAs and is outlined below.

Resource profile

The COOs continue to focus on maintaining a skilled, highly utilised and cost-efficient team. The headcount model used to manage resource requirements has been further enhanced to provide a single source of headcount budget and actual data across all resources. Lehman staff and third party contractor resources have remained stable since the last report.

The 2010 headcount requirements have been approved by the COOs and are monitored jointly with HR.

Since September 2009, there have been 72 new hires and 68 leavers, of which five related to completed activities or underperformance issues. It is expected that up to an additional 100 resources could be hired during 2010, predominantly on fixed-term contract bases.

Resource reports are distributed to all teams bi-weekly with budget versus actual assessments performed on a monthly basis.

Property

As at the time of the last report, LBIE occupied approximately 137,000 sq ft at 25 Bank Street, London, its European Head Office. The lease is held by LBL.

Over the last six months significant effort has been expended to reduce property costs. From 3 March 2010, a new short term lease was entered into for premises at 25 Canada Square, London. LBIE occupies 73,376 sq ft in this new space. The move results in a \$73m p.a. cost saving to LBIE.

All staff were successfully relocated to the new premises over three weekends with no disruption to daily operations.

In addition, adequate space to accommodate the planned additional 2010 headcount has been factored in. The new lease has flexibility to allow for future restructuring, as required.

TSA Arrangements

Agreements implemented with other Lehman entities and third parties to assist in the provision of data and system access have continued over the last six months.

Further, LBIE and LBL continue to work with other Lehman entities and their insolvency office holders to provide support and assistance to them in gaining access to data and systems, where this is not prejudicial to the interests of LBIE's creditors.

The COOs provide oversight of the co-ordination of such service provisions to and from LBIE, and negotiation of various aspects of the TSAs.

Significant focus has been placed in the last six months on reducing reliance on such activities through the proactive development of the capture and storage of in-house data and separation of infrastructure across TSA entities. This has resulted in reduced costs as well as a greater self-controlled operating environment.

Overall cost profile

Overall, the operating cost profile of LBIE is managed through the COO budgeting process. For resourcing, infrastructure and IT, annual budgets have been agreed for 2010 and monthly budget versus actual are analysed.

The expected cost budget for 2010 represents a reduction of 15% compared to 2009. This reflects activities completed in 2009, reduced reliance on third parties, significant cost savings in property infrastructure and expected IT Infrastructure savings during 2010, balanced against an increase in headcount costs.

In addition, in 2010 the cost base has been attributed to specific teams based on headcount and system usage/ownership to assist the drive towards further accountability for costs across the Operating Model.

It is the COOs responsibility to ensure overall costs are managed through assessment with the team leaders of their activity and cost profiles.

Issues

Maintaining a stable resource base to enable the objectives of the Administration to be achieved is an ongoing critical issue for the COOs.

The 2010 compensation scheme has been developed with this in mind and aims to motivate the retained and recruited Lehman resource base. The scheme is a balance between competitive market salaries and retention awards designed to incentivise high performance and retain key staff.

The 2010 performance related awards are directly aligned to the overall achievement of the Administration objectives to positively influence the teams to work collectively toward the targets as well as achieve within their own specific areas.

A balanced scorecard methodology has been designed to report quarterly on the overall objectives of the Administration which is to be communicated to all current employees.

The ongoing reliance on data and systems from TSA arrangements is important to ensure that the effectiveness of LBIE's activities is maintained. This is balanced against reasonable cost considerations and remains a critical focal point for the COOs.

The inter-dependencies across each of the teams are considerable. The appropriate prioritisation of activities and the need for a dynamic process continues to result in a highly complex matrix of tasks that are controlled.

Summary

The operations, resource and IT infrastructure are a critical success factor for the Administration.

The COO function continues to monitor and manage the three components to ensure the strategic and tactical objectives of the Administration can be achieved.

Section 10.2 Financial, Treasury and Operational Reporting

Highlights

- Preparation of MI and key performance indicators for all parts of the Administration.
- MI is central to the optimal management of resources and priorities and to optimise cost management.
- Data used to prioritise strategic objectives and report to your Committee and creditors more generally.
- Continuous assurance that all outstanding transactions and counterparties are allocated to specific areas of the 2010 Operating Model.

Overview

The Reporting team is responsible for tracking and reporting progress on resolution of the estate against the positions included in the SoA.

This function enables the Administrators to manage LBIE's asset realisations and quantify LBIE's liability position. The team also produces regular MI to the Administrators and the LBIE management team, in addition to preparing information for the Committee and creditors generally.

The Reporting team ensures compliance with the Administrators' statutory obligations set out in the Insolvency Act.

Focus and Progress

Following the completion of the SoA, an exercise was undertaken to allocate, track and reconcile all counterparties, trades and securities positions to each of the LBIE teams, as defined in the Operating Model. The objective of this exercise is to control the close-out, valuation and realisation of the transactions to which LBIE is a party.

Bi-weekly MI is produced to enable analysis of asset and liability balances, cash recovered to date and remaining assets to be pursued. The elements of the financial reports have evolved as the needs of the case have changed.

Issues

A significant amount of resource and system support is required to enable the oversight and management of all data that constitutes the balance sheet of LBIE.

Given the ongoing issues in sourcing data from third party providers, the team deploys considerable effort into data integrity, accuracy and completeness checks.

Data is also subject to change at a counterparty and trade level whereby agent/principal issues continue to impact the disclosure of underlying principal information from agency relationships.

Further, until the House valuations are finalised, value attributed to specific trades may change.

Section 10.3 Information Technology

Highlights

- IT is central to the implementation of the Administration. It accounts for a significant proportion of costs and resources.
- Reduced dependency on third party providers, extensive application rationalisation, data capture and new data centre all achieved in the period.
- No major instances of system unavailability in the period.
- Development of strategic tools regarding central repositories of House valuations, counterparty contact evidence and client interactive portals has led to enhancements in data management.
- Focus on outsourcing activity as strategic options are currently being assessed.

Overview

The role of the Information Technology (“IT”) team is to provide LBIE with a secure, stable, cost effective and appropriate technology platform in order to facilitate the activities and financial objectives of the Administration.

Focus

The key tasks required to deliver the short-term objective of maintaining the operational technology platform include:

- Support of applications required by the business, including tools developed specifically to support the Administration;
- Delivering robust IT security;
- Managing the service delivery from Nomura Holdings, Inc (“Nomura”) and BarCap;
- Managing contracts with key external parties; and
- Supporting investigations/ad-hoc data needs.

The long-term objective to rationalise the technology footprint and reduce cost will be achieved during 2010. Core interdependent initiatives are:

- Forensic data capture;
- Application rationalisation and migration; and
- IT infrastructure rationalisation.

Progress

Specific progress in the period includes:

- Dependency under one third party arrangement for key applications has been reduced from over 130 to just 11;
- The capture of data for forensics is practically complete;
- The remainder of the forensics programme is now complete with data from all core applications secured in the UK;
- An independent data centre has been established and the migration of systems is underway. The first application in the new data centre went live in January 2010;
- All staff have been moved to the new office with full continuity of critical IT services;
- A team has been established to service the data needs of Affiliates. This team is operational and has commenced data deliveries; and
- Applications to capture and publish data from multiple retired applications were developed and put into production.

Administration tools

Various bespoke tools have been designed and implemented to enhance operational efficiency, including:

- The asset tracking system has been enhanced to include all derivative valuations and links to underlying financial contracts;
- The tool has been extended to support the return of Client Assets. Workflow has been developed, and functionality introduced to produce statements to allow Trust Property clients to view their positions;
- An improved on-line system for Trust Property clients to review and track changes to their inventory has been delivered;
- Implementation of an automated corporate events processing platform;
- An outsourced reconciliations system is now live and retirement of legacy reconciliation systems is almost complete; and
- 14 million critical reports and documents have been identified and are in the process of being consolidated into a new document management system.

IT infrastructure

- The dependency on IT services provided from the data centre located in Bank Street has been removed.
- Independent desktop support, telephones and data backup are in place.
- Application data storage is being transferred to a new stand-alone storage platform.

Summary

Without a stable and effective IT platform the ongoing activities of the Administration would be significantly impaired.

Significant change in the IT environment is planned over the next six months and focused effort will be required to maintain a reliable environment throughout this period.

Section 10.4 Infrastructure and Property

Highlights

- Successful office move from 25 Bank Street to 25 Canada Square, London. c.650 resources, applications and office equipment migrated within one month.
- Reduction in c.64,000 sq ft and associated cost savings of c.\$73m p.a.
- Ongoing management of reduced operations in Bank Street.

Overview

Infrastructure and Property (“I&P”) is a function provided by LBL to LBIE, specifically dedicated to manage the Bank Street premises.

The key focus of the I&P team has been to reduce the cost base through the relocation of LBIE from Bank Street to Canada Square, London.

As a result, recharges from LBL to LBIE for usage of office space declined.

Focus

Elements of the LBL I&P team relevant to LBIE include:

- Managing the ongoing operations in Canada Square;
- The lock-down of vacated floors in Bank Street;
- Managing the ongoing operations in Bank Street;
- Negotiating required IT software and application licenses; and
- Continue essential IT and property services.

Progress

The key highlights in the period regarding I&P cost reduction were:

- The relocation of LBIE to Canada Square at a significantly reduced cost;
- Generating additional revenue by hosting a number of external events at Bank Street;
- Negotiating IT software and application contracts on commercial terms with current and new vendors;
- Disposal of assets across LBIE offices in Europe transferred to Nomura; and
- Renegotiation of contracts for the ongoing operations in Bank Street.

Section 10.5 Human Resources

Highlights

- Ongoing HR support for c.440 Lehman employees and fixed-term contractors engaged by LBIE in Administration activities.
- Targeted recruitment of 72 hires in the period against a leaver profile of 68 individuals. Expected hires of a further 100 individuals over 2010.
- Development of 2010 compensation approach, including implementation of the 2010 retention unit award programme.
- Designed and implemented the 2009 performance review process and the implementation of a 2010 Leadership and Development programme available to all staff.

Overview

Human Resources (“HR”) is responsible for all matters relating to retention, resourcing, reward and restructuring of LBIE’s employee base.

The retention and management of the core staff is critical to the Administrators achieving the objectives of the Administration in the most efficient and effective manner.

Focus

The focus of the HR team is to:

- Provide day-to-day support for the c.440 employees and fixed-term contractors engaged, including handling all HR related issues for the Administration:
 - Pension;
 - Benefits;
 - Statutory employee requirements;
 - Mitigation of employee risk; and
 - Employee claims.
- Complete all required monthly tax reporting relating to employees;
- Manage day-to-day employee issues in a “business as usual” environment;
- Drive the performance management process, including the completion of all year-end reviews;
- Undertake a robust year-end performance award process;
- Develop and implement a training and development programme for all employees; and
- Support the future resource planning, recruitment, leaver and retention strategies.

The Administrators expect to be able to continue to retain a significant proportion of the Lehman employees for an on-going period.

Progress

HR helped to maintain a stable employee population with a manageable level of turnover and focused replacement hiring and deployment. Notable areas of progress in the period are:

- Targeted recruitment where necessary resulting in 72 hires in the period. c.100 hires are anticipated over coming months. In support of the recruitment initiatives:
 - Introduction of an employee referral scheme to aid low fee hiring; and
 - Introduction of additional recruitment firms to reduce the time taken to hire, and to be able to hire specialist staff.
- Designed and led the 2009 rigorous year-end performance management process to ensure that individual performances were measured against agreed objectives – the process was completed with 100% compliance;
- Determination, communication, and delivery of 2009 performance awards, taking into account employee actual performance, employee relative performance to peer group and overall performance of the Administration;
- Launched the 2010 performance management process which incorporated key competencies for all employees and key standard objectives for all managing directors and executive directors;
- Development of the 2010 compensation approach to ensure the right balance is achieved between reward for individual performances and reward as part of the Administration reaching its objectives in 2010;
- Implementation of the 2010 retention unit award programme, which aligns individual performance with the overall performance of the Administration and will reward employees who remain committed to achieving the overall objectives of the Administration via a deferred compensation element;
- Working with HMRC to resolve pre-Administration and post-Administration PAYE reconciliations. To date, some \$150m has been paid to HMRC in respect of HR related tax, including \$40m in the period;
- On-going activity regarding employee related debt recovery; and
- Introduction of a leadership and development programme to support performance and retention and to improve the quality of people management to maximise employee contribution.

Summary

Retained employees and fixed-term contractors are critical to the success and cost effectiveness of the Administration.

HR is central to ensure that the contractual, reward and developmental aspects for the employees are appropriate for the activities and environment they operate in.

Whilst an effective wind down of the LBIE balance sheet ultimately ends with the distribution to creditors and Trust Property claimants, the extensive reach and complexity of LBIE's pre-Administration activities means there is still significant work to be undertaken.

Whilst activities continue to be undertaken by the retained employees and fixed-term contractors, the Administration is committed to providing those individuals with an appropriate environment to operate in, including training, development and reward.

Section 10.6 Regulatory and Compliance

Highlights

- Continued engagement with FSA on a wide range of regulatory issues, including historic market dealings and disclosure requests.
- Worked with FSA to remove regulatory waivers no longer required for the Administration activities.
- Reduction in FSA approved persons to reflect nature of Administration activities.
- Business as usual compliance activities including counterparty screenings, personal account dealings and specific trade reviews have not identified any issues in the period.

Overview

The Regulatory & Compliance (“R&C”) team comprises regulatory specialist staff to ensure ongoing compliance with FSA and other regulatory requirements in addition to undertaking investigations.

LBIE continues to have FSA authorisation and various other authorisations outside the UK.

Focus

- Running the compliance infrastructure in “business as usual” mode.
- Advising on transactions and other unwind activities.
- Maintaining an appropriate level of awareness of regulatory risks within the Administration.
- Ensuring proper communication continues with FSA, including responding promptly to FSA’s requests.
- Closing down regulated entities and branches, and resigning exchange memberships where achievable.
- Handling other ad-hoc regulatory issues, including regulatory enquiries and investigations.

Progress

- Ongoing support to the Administration in the process of closing down LBIE branches in Europe and the Middle East, including liaising with FSA and local regulators in terminating branch licences.
- Finalised process for ongoing monitoring of regulatory risks to the Administration and related controls.
- Engaged with FSA on a wide range of issues, including a number of regulatory investigations into historic market dealings and other business activities.
- Worked with FSA to wind down regulatory waivers no longer deemed necessary for the effective operation of the Administration.
- Reduced FSA approved persons numbers and regulatory licences.

In addition to the above, the R&C team continued to:

- Respond to mandatory position disclosure requests;
- Review trading activity to ensure relevant large position disclosures are made;
- Respond to factual regulatory references for former LBIE FSA approved persons;
- Review counterparty and payment screening monitoring alerts against international sanctions lists; and
- Process and review personal account dealing requests and outside business interests, to manage possible conflicts and potential market abuse.

Section 10.7 Tax

Highlights

- Agreement reached with relevant stakeholders on manner and terms in which losses will be surrendered between group companies for the Group Payment Arrangement (“GPA”). \$170m repayment expected to LBIE.
- Ongoing HMRC negotiations have led to agreement for basis to support 2008 corporation tax return. Agreed c.\$27m HMRC repayment relating to accounting periods 1998 to 2003.
- Post-Administration VAT second filing occurred indicating £5m refund expected and specific branch VAT repayments of €3m received.
- Ongoing tax audits in Holland and Germany progressing.

Overview

The primary role of the Tax team is to consider the obligations and opportunities that exist in relation to various taxes and ensure that a clear strategy is set out and procedures are in place to maximise value for the LBIE estate and minimise exposures.

Focus

The ongoing focus of the Tax team is summarised by the following goals:

- Securing the repayment of corporation tax, VAT and withholding taxes;
- Fulfilling ongoing compliance obligations in an efficient manner;
- Minimise tax costs going forward; and
- Undertaking such operational processes and procedures as are required by law or which are of benefit to the estate.

The Tax function is working towards optimising the tax position of the UK Lehman Group with the purpose of securing a repayment of c.\$250m of UK corporation tax for LBIE during 2010.

Progress

- The basis for preparing the accounting information to support LBIE's tax return for the period ended 30 November 2008 and the basis for determining and sharing losses between Lehman entities was agreed with HMRC.
- A loss sharing agreement has been implemented between various Lehman entities.
- An imminent cash tax repayment of c.\$40m has been negotiated with HMRC in respect of accounting periods from 30 November 1998 to 30 November 2003.
- The team continues to pursue tax reclaims and secure relief at source in relation to coupons and dividends received by LBIE. To date, the team has successfully reclaimed in excess of \$7m.
- The team has compiled and filed a return to HMRC in the required format as required by the European Union Savings Directive.
- Received corporate tax and VAT repayment for LBIE-Madrid branch totalling c.€1m and LBIE-Paris branch VAT refund of c.€1m.
- Since the date of Administration, some 208 tax returns have been filed in total. The preparation and filing of these tax returns is important to LBIE as their submission is critical to establishing the repayment that LBIE will benefit from.

Issues

The most pressing issue at this time is to obtain HMRC agreement to repay corporation tax paid in prior years, to agree the formal mechanism for making those payments and to pay the amounts due to LBIE.

Ongoing correspondence and dialogue with HMRC has identified the issues which need to be addressed and the team is working through these issues. It is inappropriate at this stage to disclose our dealings any further.

LBIE is alert to the challenge of ensuring that tax leakage is minimised going forward. In particular, given substantial cash balances held by LBIE, there is a risk that any interest earned could be subject to UK corporation tax.

Section 11

Statutory and other information

Section 11.1 Statutory information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court - case 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
Company directors at the date of insolvency:	Mr JM Isaacs, Mr PR Sherratt, Mr R Magnoni, Mr WT John, Mr AJ Rush, Mr A Wright, Mr JP Phizackerley, Mr IM Jameson, Mr D Gibb
Company secretaries at the date of insolvency:	Ms M Smith, Ms P Dave, Ms ES Upton
Shareholdings held by the directors and secretary:	None of the directors own shares in LBIE
Date of the Administrators' appointment:	15 September 2008
Administrators' names and addresses:	SA Pearson, AV Lomas, DY Schwarzmann, MJA Jervis and DA Howell of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointer's name and address:	High Court of Justice, Chancery Division, Companies Court
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)
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 Joint Administrators may be done by any or one or more of the persons for the time being holding that office.
Details of any extensions for the initial period of appointment:	The Court has granted an extension of the Administration to 30 November 2011.
Proposed end of the Administration:	Please see Section 5.1 of this report.
Estimated dividend for unsecured creditors:	The Administrators are unable to provide an estimate at this time due to material uncertainties regarding the quantum of asset recoveries and the level of unsecured creditors' claims.
Estimated values of the prescribed part and LBIE's net property:	The value of the prescribed part is £600,000, which will be met in full.
Whether and why the Administrators intend to apply to court under Section 176A(5) of the Insolvency Act:	Such an application is considered unlikely.
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.

Section 11.2 Administrators' remuneration

Background

Creditors are referred to previous progress reports for detailed information regarding the statutory framework for the approval of the Administrators' remuneration and the review process undertaken by the Committee.

Information regarding the Administrators' remuneration is provided to the Committee in accordance with Statement of Insolvency Practice No 9 ("SIP 9"). The Committee continues to receive a comprehensive analysis, of Administrators' costs, which is in excess of 50 pages of information and includes disclosures and analysis beyond the requirements of SIP 9. The Administrators provide this at each Committee meeting - approximately every eight weeks.

Since the last report to creditors, the Committee has retained an adviser ("the Adviser") to assist it in the exercise of reviewing and approving the Administrators' remuneration. The Adviser, a retired former senior UK insolvency practitioner, has extensive experience in handling complex UK and international insolvency cases.

Resolutions of the Creditors' Committee

Approved time costs for the six-month period to 14 March 2010 amount to £57,673,774, comprising of 189,470 hours at an average hourly rate of £304. Further details of these costs are set out in the tables in this section. In addition, an adjustment of £7,738 was applied in respect of exchange rates and category 2 disbursements for the period to 14 March 2010.

6 month period to:	Average weekly cost (£) millions	Average hourly rate (£)
14 March 2009	3.3	329
14 September 2009	2.7	302
14 March 2010	2.4	304

As at 14 March 2010, total approved Administrators' remuneration was £210,867,150. Total remuneration drawn, included in the receipts and payments account in Appendix A, is £204m (\$315m). The difference paid and authorised arises through timing differences between resolutions passed by the Committee and payment of remuneration. The balance has subsequently been drawn.

Analysis of time costs

The volume of hours worked by the Administrators' staff has declined by some 25% when compared to the six months to September 2009. While Administrators' resource has reduced in the period, the demands of the case continue to be significant and will require considerable ongoing resources. The reduction in

Administrators' resourcing has been achieved through a number of measures, including:

- Further restructuring of the LBIE Operating Model in 2010;
- Ensuring turnover of PwC resource is minimised;
- Increasing opportunities for delegation balanced by effective supervision and coaching; and
- The benefit of experience and "economies of scale", being achieved by the specialist teams over time as they yield increasing efficiencies.

Context

Creditors are reminded that the Administrators have full executive responsibility for the leadership and execution of this highly complex case, in accordance with the Insolvency Act. When considering each of the Administrators' remuneration requests in the period, the Committee has taken relevant advice from the retained specialist Adviser, and has taken into account the scale, complexity and risks associated with the case, and the achievements made to date. In this context, the following factors are relevant:

- A coherent, co-ordinated and cost-effective strategy for the realisation of assets has been developed and implemented;
- The Administrators have gained control of over \$48.6bn of securities and cash to date and distributed or released \$17.2bn;
- A highly innovative and practical claim resolution framework has been designed, implemented and supported by over 90% of eligible Client Asset claimants;
- Gross claims of \$217.3bn have been filed by LBIE against Affiliates and extensive activity has taken place to progress intercompany balances;
- A framework for the determination and distribution of unsecured claims has been identified and is progressing;
- Costs have been managed down, through a combination of rebalancing headcount, IT rationalisation, property relocation, process redesign and robust cost reduction; and
- A cost recovery framework agreed with Client Asset claimants has resulted in cash contributions to date of \$28m, which serve to part-mitigate the costs of managing this extensive estate.

Total Administrators' costs up to 14 March 2010 represent 0.65% of the assets recovered and controlled by the Administrators to date.

Additional analysis of the Administrators' remuneration

The tables below provide an analysis of the total hours and cost by grade for remuneration resolutions approved from 15 September 2009 to 14 March 2010.

The Administrators' ongoing costs are projected to remain at the current levels for the coming six months (the current planning period).

Global Grade	Period 15 September 2009 to 14 March 2010		Total from 15 September 2008 to 14 March 2010
	Hours	£ 000's	£ 000's
Partner	8,979	5,836	24,487
Director	10,703	5,904	25,370
Senior Manager	36,705	13,222	49,823
Manager	48,148	14,961	43,526
Senior Associate	56,856	13,478	51,055
Associate	28,079	4,273	16,606
Total	189,470	57,674	210,867

The following table provides an analysis of the total hours and costs incurred by activity.

LBIE Operating Model		Period 15 September 2009 to 14 March 2010		Total from 15 September 2008 to 14 March 2010
		Hours	£ 000's	£ 000's
Counterparties	Street	35,237	12,371	44,035
	Trust	34,923	10,178	21,634
	Affiliates	3,215	1,041	2,073
	Valuation Governance	1,965	597	14,918
	Branches	10,445	3,215	12,975
Middle Office	Middle Office	7,624	2,126	8,589
Transaction Processing and Control	Custodians	8,485	2,940	6,796
	Corporate Events	1,458	545	1,993
	Treasury	10,081	3,238	14,772
COO	Operations	10,174	4,047	24,130
Insolvency specific	Insolvency specific	1,023	372	372
	Forensic investigations	2,734	628	628
Functions	Tax	1,518	731	4,090
	Regulatory & Compliance	745	273	3,188
	LBL Recharges (see below)	59,843	15,372	50,674
Total		189,470	57,674	210,867

LBL Recharges	Hours	£ 000's
Employees	3,099	1,366
Estate accounting	2,599	845
Group liquidations	94	44
Group services management	5,091	1,279
Information Technology	40,163	9,040
Intercompany	4,218	1,191
Interdependencies	2,225	817
Property issues	2,354	790
	59,843	15,372

Section 11.3 Other statutory matters

Appointment of an additional Administrator

On 30 November 2009, the Administrators made an application to the High Court and were granted an order that an additional Administrator, Derek Anthony Howell, be appointed as Joint Administrator to the Company.

The appointment of an additional Administrator was instigated for administrative efficiency. The appointment of Mr Howell benefits the day-to-day management of LBIE.

Formal notification of the additional appointment was sent to creditors on 7 December 2009.

Change of registered office

The registered office of LBIE changed in March 2010, following the relocation of premises from 25 Bank Street, London to 25 Canada Square, London.

The required notification has been provided to Companies House.

Please note that all future correspondence should be addressed to:

Joint Administrators
For Lehman Brothers International (Europe) (in Administration)
Level 23
25 Canada Square
London
E14 5LQ
United Kingdom

Appendices

Appendix A Receipts and payments to 14 March 2010

House receipts and payments to 14 March 2010

	Note	Total (USD \$ Equivalent) at 14 March 2010 (millions)	Total (USD \$ Equivalent) at 14 September 2009 (millions)	Movement (USD \$ Equivalent) (millions)
Receipts				
Counterparties	1	8,358	6,472	1,886
Depot securities		3,399**	2,472	927
Other	2	223	940	(717)
Total receipts for period		11,980	9,884	2,096
Payments				
Payroll and employee costs	3	(321)	(247)	(74)
Administrators' remuneration	4	(315)	(238)	(77)
Building, IT and occupancy costs	5	(170)	(113)	(57)
Legal costs	6	(160)	(112)	(48)
Other	7	(251)	(310)	59
Total payments for period	8	(1,217)	(1,020)	(197)
Net position		10,763	8,864	1,899
Bank balances				
Bank of England		1	1	0
Other institutions / investments		10,762	8,863	1,899
Total balance		10,763*	8,864~	1,899

*excludes Treasury investments of \$128.3m (at par) transferred from House Depot.

~excludes Treasury investments of \$317.9m (at par) transferred from House Depot.

**includes \$0.6bn funds arising from the sale of securities to which Affiliates have asserted claims

Client receipts and payments to 14 March 2010

	Total (USD \$ Equivalent) at 14 March 2010 (millions)	Total (USD \$ Equivalent) at 14 September 2009 (millions)	Movement (USD \$ Equivalent) (millions)
Receipts			
Pre-Administration Client Monies	958	932	26
Collateral received in connection with asset returns	258	0	258
Redemptions, coupons, dividends & investment income	2,850	2,619	231
Total receipts for period	4,066	3,551	515
Payments			
Transfers to clients and appropriations to House accounts	(1,881)	(1,052)	(829)
Net position	2,185	2,499	(314)
Bank balances			
Bank of England	208	946	(738)
Other institutions / investments	1,977	1,553	424
Total balance	2,185	2,499	(314)

Notes to Receipts and Payments accounts

General

As previously reported, the transactions within the LBIE estate are reported to creditors on a cash receipts and payments basis in accordance with the Insolvency Act and Insolvency Rules. With the exception of accruals for interest earned (see Section 2 below) the statements in this section reflect transactions in cleared funds in accounts established and controlled by the Administrators.

Separate accounts are held for handling realisations from House assets and Client Assets.

Realisations are held in a number of currencies and solely for the purpose of reporting. The receipts and payments accounts have been aggregated into a single currency, US Dollars. The table below shows the breakdown of the receipts and payments and balances of funds on the House accounts at 14 March 2010 in the three main currencies and other small currency balances are translated into US dollar equivalent ("USD").

	GBP £mil	EUR €mil	USD \$mil	Various currencies \$mil*
Receipts	990.1	4,412.7	3,903.7	496.7
Payments	(682.8)	(4.6)	(132.7)	(3.5)
Currency transfers	47.1	(25.0)	329.4	(414.1)
Net position	354.4	4,383.1	4,100.4	79.1

* USD equivalent

1. Counterparties

Comprises of Street and Financing, Prime Brokerage, OTC derivatives and Derivative Exchanges settlements, totalling \$1.2bn for the period. See [Section 4.1](#).

2. Other receipts

Includes the following:

- \$28m retained from client returns as a contribution towards costs;
- \$100m loan now repaid in full;
- \$46m interest received and accruals on bond interest;
- Various recharge receipts from TSAs;
- \$13m of funds under dispute with Affiliates; and
- Other sundry receipts.

The majority of the movement in the period (c.93%) represents a reallocation to specific counterparties.

3. Payroll and employee costs

Relates to payroll costs of Lehman staff in the period and includes taxes and national insurance costs of \$150m. This amount also includes payment of salaries and costs for the month of September 2008 for c.5,500 staff.

Annual payroll costs are currently estimated at \$160 million.

4. Administrators' remuneration

Payments include remuneration and expenses in accordance with the Insolvency Rules and SIP 9 detailed in [Section 11.2](#).

5. Building, IT and occupancy costs

This reflects LBIE's share of the occupancy, IT and infrastructure costs.

The Administrators' building and occupancy costs are detailed in [Section 10.4](#).

6. Legal costs

Includes costs of legal advisers and counsel in providing advice with regard to various issues across the Administration.

These costs include dealing with the design and implementation of the CRA, various directions hearings, including RASCALS, Client Money and 5.2 Judgment, application for conversion to a Distributing Administration, litigation specific costs and general advisory costs incurred by the Administrators. Over 30 law firms are retained in various capacities and in various geographies.

7. Other costs

Included in other costs is loan repayment referred to in Note 2, loan and transfers to the Lehman Administration Companies and VAT paid for the period.

8. Total payments for the period

Certain payments made for the period up to 14 September 2009 have been reclassified, consequently, certain opening balances as at 15 September 2009 have been altered.

Appendix B Affiliate background information

A summary of the background information of key Affiliates and their pre-Administration core activities affecting LBIE are summarised below.

LBHI

LBHI filed for Chapter 11 bankruptcy protection on 15 September 2008.

LBHI was a Delaware incorporated company, which was the ultimate parent company of the Lehman Group. It was listed on the NYSE. Its primary purpose was as a vehicle to source long-term funding for the Lehman Group and to provide funding for the daily working capital needs of the unregulated subsidiaries within the Lehman Group. In that capacity, LBHI served as a clearing house for internally and externally generated funds.

A bar date order was entered by the bankruptcy court on 2 July 2009. A direct claim was filed by LBIE on 21 September 2009 for \$12.0bn. Additional claims were filed in relation to amounts owed by 22 Affiliates which were guaranteed by LBHI, amounting to \$101.0bn.

LBSF

LBSF filed for Chapter 11 bankruptcy protection on 15 September 2008.

LBSF was a wholly owned, Delaware incorporated subsidiary of LBI and is ultimately owned by LBHI. LBSF was a principal dealer in a broad range of OTC derivative products including interest rate, currency, credit, and mortgage derivatives. It was neither regulated by the SEC nor CFTC, benefiting from an exemption under the Securities and Exchange Act and the Commodity Trading Act. It traded extensively with clients of the Lehman Group directly, as well as Affiliates and market counterparties.

LBI

LBI entered SIPA trusteeship on 19 September 2008.

LBI was a fully regulated US broker-dealer and the major dealing and settlement hub within the Global Lehman Group. LBI was a member of a number of exchanges within the US. LBI undertook a wide range of business activities with LBIE, including securities dealing, financing transactions, and exchange traded derivatives.

LBF

LBF filed for insolvency protection on 25 September 2008 and subsequently entered liquidation on 29 October 2008.

LBF was an OTC equity derivatives trading entity of the Lehman Group. It is a subsidiary of LBHI and is based in Switzerland. LBF's counterparties comprised institutional clients of the broader Lehman Group, as well as direct trading relationships with a few Affiliates (e.g. LBJ, LBIE). Many institutional clients preferred to trade with a regulated entity, which meant that LBIE fronted a great deal of LBF equity derivative trades by booking BTB trades (where LBIE faced both LBF and either a Street counterparty or another Affiliate).

LB Lux

LB Lux was placed into administration on 3 October 2008 and subsequently entered liquidation on 1 April 2009.

LB Lux was a wholly owned Luxembourg incorporated subsidiary of LBI. LBHI provided a Guarantee for LB Lux.

LB Lux borrowed international securities (equities and bonds) from LBI and from Street counterparties, and entered into stock lending arrangements with LBIE. The lending arrangements were executed under OSLAs, GMRA's or standard repo agreements. LBIE terminated the financing agreements with LB Lux on 30 April 2009.

LBHK

LBIE had a trading relationship with six LBHK entities, all of which are currently in liquidation. LBHK provided LBIE access to Asian markets outside of Japan:

- Lehman Brothers Asia Capital Company Limited ("LBACC") entered into provisional liquidation on 29 September 2008 and a winding up order was made on 19 November 2008. LBACC traded proprietary fixed income and equity instruments. Typically, it only dealt with Affiliates;
- LBCCA entered into provisional liquidation on 19 September 2008 and a winding up order was made on 26 November 2008. LBCCA traded fixed income and equity instruments and derivatives with non-Hong Kong based clients;

- Lehman Brothers Futures Asia Limited (“LBFA”) entered into provisional liquidation on 17 September 2008 and a winding up order was made on 19 November 2008. LBFA is a clearing member of the Hong Kong Futures Exchange and licensed to deal in futures. LBFA’s only counterparties were LBIE and LBI;
- Lehman Brothers Asia Holdings Limited (“LBAH”) entered into provisional liquidation on 19 September 2008 and a winding up order was made on 19 November 2008. LBAH was a holding company for regulated subsidiaries and principal non-Japan Asian funding vehicle, relying on both internal and external funding sources;
- Lehman Brothers Securities Asia Limited (“LBSA”) entered into provisional liquidation on 17 September 2008 and a winding up order was made on 19 November 2008. LBSA was licensed by the Hong Kong Securities and Futures Commission to deal in securities and was a trading member of the Hong Kong Stock Exchange dealing in Hong Kong equities; and
- Lehman Brothers Asia Limited (“LBAL”) entered into provisional liquidation on 19 September 2008 and a winding up order was made on 19 November 2008. LBAL was licensed by the Hong Kong Securities and Futures Commission for various regulated activities: dealing in securities and futures and advising on corporate finance. LBAL was also recognised by the Hong Kong Stock Exchange as an IPO sponsor.

Bankhaus

Bankhaus was placed under a moratorium on 15 September 2008 and entered into insolvency proceedings on 13 November 2008.

Bankhaus was a German based regulated bank with branches in London, Seoul and Milan. Historically, it issued Schuldscheine and circulated that funding around the Lehman Group to facilitate investment in real estate (retail mortgages in UK) and syndicated commercial whole loans together with other Lehman entities and repo financing.

LBJ

LBJ entered a Civil Rehabilitation Procedure plan (“CRP”) on 19 September 2008 and entered into full liquidation on 29 November 2008.

LBJ was the fully regulated Japanese broker-dealer. As such, it entered into securities trading with LBIE. Securities financing transactions were covered under industry standard OSLA, GMRA and other agreements. OSLA transactions were terminated on 12 September 2008 and Gensaki agreements were terminated on 17 September 2008.

There is no prospect of LBJ continuing as a going concern once distributions are made pursuant to the CRP.

LBJ has close court oversight and is required to report to the Japanese court on a regular basis.

Appendix C LBIE contact details

General enquiries

enquiries.lehmanbrothers@uk.pwc.com

Counterparty contact information

Termination notices and Valuation statements	uk.terminationnoticesqueries@lbia-eu.com
Counterparty contact information	counterpartycontacts@lbia-eu.com
Unsecured creditors queries	unsecuredcreditors@lbia-eu.com

Trust Property claimants

Client Assets (CRA and Non-CRA clients)	claimresolutionagreement@lbia-eu.com
Client Money	clientpositionresponses@lbia-eu.com

Appendix D Glossary of terms

Abbreviation	Term	Definition
5.2 Judgment	5.2 Judgment	Judgment handed down by the High Court in October 2009 which confirmed that post-Administration cash held in the Client accounts, comprising derived income relating to securities, should be remitted to the beneficial owner of such securities
AAA	AAA	The highest credit rating given by the two main US rating agencies, Standard & Poor's and Moody's
Administrators	Joint Administrators	AV Lomas, SA Pearson, DY Schwarzmman, MJA Jervis and DA Howell were appointed as Joint Administrators of Lehman Brothers International (Europe) AV Lomas, SA Pearson, DY Schwarzmman, MJA Jervis and DA Howell are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. AV Lomas, SA Pearson, DY Schwarzmman, MJA Jervis and DA Howell are also partners of PricewaterhouseCoopers LLP
Adviser	Adviser	An adviser retained to assist the Committee in considering the Administrators' future remuneration requests
Affiliates	Affiliate entities	Various subsidiaries and Affiliates of Lehman Brothers Holdings, Inc
Bankhaus	Lehman Brothers Bankhaus A.G.	Affiliate entity subject to insolvency proceedings in Germany
BarCap	Barclays Capital, Inc	Investment banking business of Barclays Bank PLC
BTB	Back-to-Back derivative side letters	Intercompany derivative side-letters which provide credit and market hedges to LBIE
CASS	Client Asset Sourcebook	Requirements issued by the Financial Services Authority relating to holding of Client Assets and Client Money
CCM	Counterparty Communications team	Team which is responsible for communications with LBIE stakeholders, including clients, counterparties and creditors
CFTC	Commodity Futures Trading Commission	Federal US agency which regulates futures trading under the Commodities Exchange Act
Client	Client	Dealings that relate to segregated Client Assets and Client Money for the benefit of clients
Client Assets	Client Assets	Client securities which LBIE should have held as at 15 September 2008
Client Information Portal	Client Information Portal	Secure database where LBIE clients can access information about their Trust Property positions with LBIE. The portal is accessible by a unique user ID and password. Access details can be obtained from clientpositionresponses@lbia-eu.com
Client Money	Client Money	Client cash balances managed by LBIE pursuant to the UK FSA's Client Money Rules as at 15 September 2008
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
COO	Chief Operating Officers	Responsible for managing the operations of the organisation, allocating resources and supporting the teams within the Operating Model

Abbreviation	Term	Definition
CRA	Claim Resolution Agreement	An innovative and practical 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 Asset claimants
Creditor Claims Portal	Creditor Claims Portal, also known as the Client Information and Claims website	A database which allows creditors to enter their exposures to LBIE and valuations as well as gain access to confidential creditor communications accessible by a unique user ID and password. The Creditor Claims Portal is being redeveloped and creditors will be invited to submit claims via the Creditor Claims Portal in due course
CRP	Civil Rehabilitation Procedure	Procedure in Japan which is a debtor-in-possession type reorganisation similar to US Chapter 11 proceedings
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
Distributing Administration	Distributing Administration	Permission granted by the High Court in December 2009 by which the Administrators can make a distribution to creditors pursuant to Paragraph 65 of Schedule B1 of the Insolvency Act 1986
ExCo	Executive Committee	Leads of each of the specialist LBIE teams, comprising of the Administrators, PricewaterhouseCoopers LLP partners, and various senior Lehman personnel
FSA	Financial Services Authority	Regulator of all providers of financial services in the UK
General Estate	General Estate as defined in SIPA	Claims to a certain pool of assets available to satisfy general non-Customer Property creditors claims including any potential deficiencies in Customer Property claims
German Deposit Protection Fund	German Deposit Protection Fund	German fund which fully secures the deposits of customers at private commercial banks up to a specified limit
GMRA	Global Master Repurchase Agreement	Most commonly used standard master agreement for repurchase transactions in the cross-border market
GMSLA	Global Master Securities Lending Agreement	A revised industry-standard lending agreement developed by the International Securities Lending Association
GPA	Group Payment Arrangement	Allows groups of companies to make joint payments of corporation tax
Guarantees	LBHI Guarantees	Various forms of guarantees provided by LBHI relating to, inter alia, contracts and financing transactions, derivative contracts and other payment performance guarantees
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
HMRC	Her Majesty's Revenue and Customs	Organisation of the British Government primarily responsible for the collection of taxes
House	House Estate	Dealings that relate to LBIE's general unsecured estate
IMA	Interim Management Agreement	Agreement between LBIE and certain Affiliates regarding the management of securities over which uncertainty of ownership exists
Insolvency Act	Insolvency Act 1986	Statutory legislation that provides the legal platform for matters relating to personal and corporate insolvency in the UK

Abbreviation	Term	Definition
Insolvency Rules	Insolvency Rules 1986	Statutory rules that provide the legal platform for matters relating to personal and corporate insolvency in the UK
ISDA	International Swaps and Derivatives Association	Global trade association for OTC derivatives, and maintainers of the industry-standard ISDA documentation
LB Lux	Lehman Brothers (Luxembourg) S.A.	Affiliate entity subject to insolvency proceedings in Luxembourg
LBACC	Lehman Brothers Asia Capital Company Limited	Affiliate entity subject to insolvency proceedings in Hong Kong
LBAH	Lehman Brothers Asia Holdings Limited	Affiliate entity subject to insolvency proceedings in Hong Kong
LBAL	Lehman Brothers Asia Limited	Affiliate entity subject to insolvency proceedings in Hong Kong
LBCC	Lehman Brothers Commercial Corporation	Affiliate entity subject to insolvency proceedings in the US
LBCCA	Lehman Brothers Capital Company Asia	Affiliate entity subject to insolvency proceedings in Hong Kong
LBF	Lehman Brothers Finance S.A. (Switzerland)	Affiliate entity subject to insolvency proceedings in Switzerland
LBFA	Lehman Brothers Futures Asia Limited	Affiliate entity subject to insolvency proceedings in Hong Kong
LBHI	Lehman Brothers Holdings, Inc	Ultimate parent of the Lehman Group, incorporated in the US and subject to Chapter 11 bankruptcy protection on 15 September 2008
LBI	Lehman Brothers, Inc	US broker-dealer affiliate entity, incorporated in the US which entered SIPA trusteeship on 19 September 2008
LBIE (also referred to as the Company or Administration)	Lehman Brothers International (Europe) - In Administration	AV Lomas, SA Pearson, DY Schwarzmans, MJA Jervis and DA Howell were appointed as Joint Administrators of Lehman Brothers International (Europe). AV Lomas, SA Pearson, DY Schwarzmans, MJA Jervis and DA Howell are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales
LBJ	Lehman Brothers Japan KK	Affiliate entity subject to insolvency proceedings in Japan
LBL	Lehman Brothers Limited	UK service entity for the Lehman Administration Companies. LBL was placed into Administration on 15 September 2009
LBSA	Lehman Brothers Securities Asia Limited	Affiliate entity subject to insolvency proceedings in Hong Kong
LBSF	Lehman Brothers Special Financing, Inc	Affiliate entity subject to insolvency proceedings in the US
Lehman Administration Companies	Lehman Administration Companies	UK Lehman entities in Administration
Lehman Group	Lehman Group	Global Lehman Brothers group of companies
MI	Management information	Internal management information provided to the Administrators and ExCo to assist in leading, monitoring and controlling progress of LBIE
MTM	Mark-to-market	Recording the price or value of a security, portfolio or account at current market value

Abbreviation	Term	Definition
NI	National Insurance	Payroll tax contributions levied on income from employment in the UK
Nomura	Nomura Holdings, Inc	An investment and financial services business. LBIE's equities business was acquired by Nomura shortly after the Administrators' appointment
Notice of Intended Dividend	Notice of Intended Dividend	A formal notice by the Administrators issued to creditors pursuant to Rule 2.95 of the Insolvency Rules 1986, specifying the last date creditors may prove claims
Operating Model	LBIE Operating Model	Management framework based on LBIE's activities in the Administration structured to assist meeting the objectives of the Administration
OpCo	Operating Committee	Internal committee chaired by the joint COOs which proactively monitors progress in addition to prioritising activities and resources of LBIE
Order	Order	Order pursuant to Paragraph 65 of Schedule B of the Insolvency Act 1986 which was granted by the High Court on 2 December 2009 to convert the Administration into a Distributing Administration. The Order grants the Administrator power to make distributions to unsecured creditors
OSLA	Overseas Securities Lending Agreement	A securities lending agreement which has now been superseded by the GMSLA
OTC	Over-the-counter	A market in which securities, or other financial products, are traded by direct dealer-to-dealer communications
PAYE	Pay As You Earn	A type of withholding tax in the UK, collected by employers on behalf of the government from employees as provisional payment of income tax on earnings
Plan	Plan of Reorganisation	Document filed by the LBHI and its subsidiary debtors to the US bankruptcy court, proposing an economic solution for creditors designed to achieve resolution of the Chapter 11 proceedings
Proof of Debt or Statement of Claim	Proof of Debt or Statement of Claim	A formal document prescribed by the Insolvency Rules 1986 submitted to the Administrators by a creditor wishing to prove their claim. The form is made in writing under the responsibility of a creditor and signed by an authorised person
RASCALS	Regulation and Administration of Safe Custody and Local Settlement	A process that involved the making of accounting entries in the books and records of LBIE and Affiliates to record the existence of repo arrangements between various Affiliate entities
SEC	Securities and Exchange Commission	An independent agency responsible for enforcing the federal securities laws and regulating the securities industry in the US
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 alia</i> , administrators
SIPA	Securities Investor Protection Act 1970	A US legal proceeding for handling the liquidation of a broker-dealer

Abbreviation	Term	Definition
SIPC	Securities Investor Protection Corporation	A US non-profit corporation established by US government which insures securities and cash in customer accounts up to \$500,000 (up to \$100,000 for cash) in the event of the brokerage bankruptcy
SoA	Statement of Affairs	Statutory document which company directors are bound to submit to the insolvency office holders, in accordance with the Insolvency Act 1986 which sets out the financial position of a company as at the date of insolvency
Sterling	Pounds Sterling	Currency of the UK
Storm	Storm Funding Limited	Storm entered Administration on 22 September 2008. Storm held residential and commercial Mortgage-backed securities issued by special purpose vehicles
Street	Street counterparties	Team which manages dealings with third party counterparties consisting of asset managers, custodians, pension funds, corporate entities, banks, and other non-banking financial institutions
Supreme Court	Supreme Court	The Supreme Court is the final court of appeal in the UK for civil cases
Trust Estate	Trust Estate	Refers to both Client Assets and Client Money
Trust Property	Trust Property	Refers to both Client Assets and Client Money
TSA	Transitional Services Agreement	Service agreements between LBIE and various entities for the provision of certain services
UK RE	LB UK RE Holdings Limited	UK RE entered Administration on 15 September 2008 and managed sole and joint venture investments in real estate, funds and portfolios of performing, sub-performing and non-performing loans
Unsecured Bar Date	Bar date	Refers to 31 December 2010, the date up to which Proofs of Debt may be lodged as specified in the Notice of Intended Dividend issued to creditors dated 4 December 2009. This is subject to Rule 2.96(2) of the Insolvency Rules 1986
Unsecured Creditors' Resolution Working Group	Unsecured Creditors' Resolution Working Group	Informal working group consisting of a representative group of creditors and your Committee members who are assisting to develop an unsecured creditor resolution framework
UPBS	Updated Position and Balance Statements	An interactive statement located on the Client Information Portal that allows Client Asset claimants to reconcile, accept and request amendments to their positions with LBIE
VAT	Value Added Tax	A consumption tax levied on the sale of goods and services in the UK

