
Lehman Brothers International (Europe) In Administration

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

14 October 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 realisable from assets, the 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 Sterling, a proportion of the assets and liabilities are currently denominated in currencies other than Sterling. The restatement of assets realised in currencies other than Sterling and the return of assets and payment of costs in currencies other than Sterling inhibits comparison with our earlier reports. The Administrators have not sought to make this comparison in this report but draw this important matter to your attention.

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Section 1:

Purpose of the Administrators' progress report

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) of the Insolvency Rules 1986 (the "Insolvency Rules"). This is the fourth formal update to unsecured creditors.

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

Wherever possible, the Administrators have sought not to duplicate information disclosed to creditors in previous updates and reports. Creditors are advised to refer to the Administrators' previous progress reports for background information. A copy of previous progress reports can be found at www.pwc.co.uk/lehman.

Objective of the Administration

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 House (i.e. LBIE) assets, including cash, securities and in-the-money financial contracts on a managed basis;
- admit creditors' claims and make distributions to creditors; and
- manage Client Assets and Client Monies, assess the claims to such assets and return all such Trust Property to its rightful owners on a systematic basis.

Creditors' Committee and creditors

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

The Administrators recognise and appreciate the ongoing and valuable efforts contributed by the members of the Committee. During the period a considerable amount of time and effort has again been contributed by members of the Committee, particularly with regard to the development of a claims agreement mechanism for unsecured creditors.

Further, the Administrators have engaged in constructive dialogue with various individual creditors during the past six months. The Administrators are pleased to receive such engagement from LBIE's creditor community, which has significantly assisted the Administrators in the development of innovative frameworks for the pragmatic resolution of the Administration.

Future report

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

Signed:



AV Lomas

Joint Administrator
Lehman Brothers International (Europe)

Section 2:

Executive summary

Progress in the period against the Administration objectives

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

Objective	Progress
Realise all assets, including cash, securities and in-the-money financial contracts on a managed basis <ul style="list-style-type: none">• Recovery and sale of securities• Recovery of sums receivable under financial contracts• Recovery of amounts from Affiliate debtors	<ul style="list-style-type: none">• £11.9bn of cash had been realised in the 24 months to 14 September 2010, including the sale of House assets and recoveries from financial contract settlements (of which £1.6bn was recovered in the period). A significant amount of the accumulated House cash was converted to Sterling in the period in order to increase the predictability of outcome for unsecured creditors. This programme was halted following receipt of the pre-Administration Client Money Judgment (“Appeal Court Judgment”), out of concern regarding the risk of converting recoveries that may not ultimately be determined as being the property of the House.• Over 350 net debtor trading counterparties have settled to date, including 54 large debtor groups. Total estimated future realisations range from £0.4bn to £1.3bn, excluding any anticipated recoveries from litigation, securities held with legacy custodians or circumstances where there are disputed valuations.• A court hearing commenced on 11 October 2010 and is intended to progress resolution of Affiliate issues relating to RASCALS. Separate proceedings are expected to be scheduled for November 2010 to progress the issues around the Back-to-Back (“BTB”) derivative side letters.• Discussions are ongoing with LBHI and certain other US-based Lehman affiliates, with a view to determining whether LBIE will support or object to the currently filed Plan of Reorganisation (“Plan”) for each of the affected Chapter 11 estates.• The LBI Trustee has determined that the largest part of LBIE’s House “Customer Property” claim should be designated as a “General Property” claim in the LBI unsecured estate with the remainder of the claim being disallowed altogether. Significant further work will be required to resolve LBIE’s House claim in relation to LBI.

Objective	Progress
<p>Admit creditors' claims and make distributions to creditors</p> <ul style="list-style-type: none"> • Determination of claim population • Valuation of creditors' claims • Adjudicate Proof of Debt received from creditors • Implementation of dividend distribution framework 	<ul style="list-style-type: none"> • The current Notice of Proposed Distribution specifying the intention of the Administrators to pay a dividend by 28 February 2011 will be extended with permission from the UK High Court. This is a consequence of the Appeal Court Judgment received in the period. This raises major questions relating both to the division of claims between those with unsecured or trust status, and to the potential taint on assets and future "House" recoveries with tracing rights. • A framework has been developed (the "Consensual Approach") for the expedited resolution of the claims of financial trading counterparties without Client Assets. Eligible creditors will receive an offer to agree their claim (the "LBIE Determination") by applying LBIE's House valuation methodology that will be consistently applied. Further details will be provided to eligible creditors over the coming months. It is intended that the Consensual Approach will be optional and will not be imposed on creditors. • Material progress has been made in advancing the determination of non-financial trading claims and the claims of creditors who are bound by the CRA, involving the issuance of statements to 92% of those CRA signatories outlining each client's position, including its unsecured claim against LBIE (each a "Claim Agreement Notice" or "CAN"). • Material progress has been made in respect of the reconciliation and valuation of financial trading counterparty claims. • An online Creditors' Claims Portal ("Claims Portal") has been launched to facilitate the submission of Proof of Debt ("PoD") forms by unsecured creditors. • It remains premature for the Administrators to provide either an estimate of likely total unsecured creditors' claims or an indicative dividend range.

Objective	Progress
<p>Manage Client Assets and Client Monies, assess the claims to such assets and return all Trust Property to its rightful owners on a systematic basis</p> <ul style="list-style-type: none"> • Recovery of Trust Property from third parties and Affiliates • Identification of claimant population • Implementation of claim agreement and Trust Property distribution framework • Distribution of Trust Property to rightful owners 	<ul style="list-style-type: none"> • £2.3bn of assets were returned to clients in the period, a total of £10.7bn by 14 September 2010. £1.7bn of these returns were made under the CRA (post the 19 March 2010 bar date). • The Administrators have gained control of 98% of the remaining Client Assets held in third party (i.e. non-Affiliate) custodians. • The LBI Trustee has issued a Letter of Determination (“LBI Determination”) of LBIE’s Client omnibus claim relating to securities but the related cash claim determination is still awaited. The Administrators’ ability to complete the reconciliation with LBIE’s clients’ underlying books and records is therefore hindered. As a result, the quantum and timing of the return of the related Client Assets remains unclear. • The impact of the Appeal Court Judgment has been to change the quantum and potentially delay until further notice the originally intended Client Money distribution of c.54% of qualifying claims. • The Administrators have sought permission to appeal to the UK Supreme Court in response to the Appeal Court Judgment and are awaiting the outcome. If granted, the appeal is unlikely to be heard before Q2 2011 at the earliest.

Summary of progress

Significant further information relating to the major activities of the Administration during the period is contained in the body of this report. A high level summary only, is provided here, covering the following:

- House and Trust Estates combined;
- House Estate;
- Trust Estate; and
- Case management.

House and Trust Estates combined

The Administrators have gained control of over £28.8bn of cash and securities to date and distributed or released £12.1bn as follows:

- £11.9bn of cash has been recovered by the Administrators:
 - £9.1bn of House realisations;
 - £0.6bn of pre-Administration Client Money; and
 - £2.2bn of post-Administration client-related receipts, of which £1.4bn has been distributed or appropriated.
- £5.0bn of non-segregated securities (14 September 2010 value) has been recovered, of which £2.4bn has been realised and included in the House realisations above.
- £14.3bn of client inventory (14 September 2010 value) has been managed, of which:
 - £10.7bn has been returned to clients as cash and securities, including £0.6bn of collateral held by third parties which has been released to LBIE clients; and
 - £3.6bn of securities has been segregated for clients in LBIE-controlled depots.

House Estate

Recoveries

- A further £0.4bn of cash and collateral has been recovered during the period bringing total recoveries from Street counterparties to £4.3bn.
- Litigation proceedings have commenced against four debtor groups and preparation is underway to commence proceedings against certain other counterparties, if necessary.
- £0.6bn of House asset disposals has been processed and settled in the period. The total to date is £2.4bn, including £0.5bn realised in respect of assets which are currently subject to Affiliate claims.
- The total value of House securities held in the Administrators' control is £2.6bn, £0.4bn of which has been taken under control during the period. Currently, £2.2bn of securities are ring-fenced for potential Affiliate and third party claims.
- Claim admission discussions are underway with LBHI and its US affiliates (excluding LBI), following the filing of their Plan on 15 March 2010. LBIE has filed claims against each of these debtor companies' estates.
- The LBI Determination has been received from the LBI Trustee for LBIE's House Customer Property claim. The Customer Property status of the claim has been rejected and the claim is therefore deemed by LBI to be an unsecured (i.e. General Property) claim. Further, a significant element of the claim was denied in its entirety. No explanation has yet been provided. LBIE will formally object to the determination and expects to have to spend some significant time pursuing the matter with the LBI Trustee, with any eventually unresolved dispute being adjudicated in the US Bankruptcy Court in due course.
- A UK High Court hearing commenced on 11 October 2010 to determine the ownership of £0.7bn of depot assets subject to ownership claims under RASCALS agreements.

Unsecured creditors

- Many of LBIE's unsecured creditors also have the benefit of a Client Asset claim, and many of these have entered into the CRA with LBIE. As part of the negotiated settlement with Client Asset claimants who are signatories to the CRA, the agreement makes provision for the calculation of a signatory's unsecured claim against LBIE, where applicable. For a small number of counterparties, it has been possible to quantify asset shortfalls and as a result, LBIE has agreed the value of unsecured claims for such parties. For the majority of CRA signatories, however, the value of asset shortfalls is currently uncertain and therefore the quantum of unsecured claim is not yet agreed.
- During the period, the Administrators have worked to develop a framework (the "Consensual Approach") for the expedient resolution of the claims of financial trading counterparties without Client Assets.
- The Administrators believe the Consensual Approach will enable eligible creditors to achieve finality in relation to the quantum of their claim and may assist with transferability, where appropriate. In due course, the Administrators believe that it will also expedite distributions to unsecured creditors.
- LBIE plans to offer to agree the claims of all eligible creditors by using a value determined by LBIE, derived from its own methodology.
- Significant progress has been made in the period in relation to the reconciliation of third party creditor trade populations and valuations. Further significant engagement with LBIE's largest and most complex third party creditors has been undertaken to gauge response to the Consensual Approach with predominantly positive feedback.
- In the coming weeks, the Administrators will announce further details of the Consensual Approach, including LBIE's valuation methodologies.
- Other non-financial trading creditor claims continue to be received and will be reviewed and agreed in a conventional manner. Similarly, the claims of financial trading creditors who do not eventually opt to accept the claim value determined by LBIE will also be agreed in a conventional manner, although that conventional review and agreement process with those parties is certain to take some considerable time to conclude.

Currency

- The Administrators are required to convert the claims of all unsecured creditors into Sterling using the exchange rates which prevailed at 15 September 2008 by application of the provisions of Rule 2.86 of the Insolvency Rules and general principles of UK insolvency law.
- Using specialist external advice, during the period a significant exercise began, to convert the House Estate funds currently under the Administrators' control to Sterling. However, the Appeal Court Judgment has resulted in suspension of this activity.
- There is a pervasive, potential impact arising from the Appeal Court Judgment that some part of House funds may eventually need to be segregated as client funds. Unless client funds are also held in Sterling in the future, this results in an ongoing currency translation issue. The Administrators are consulting with the Committee and others to ascertain whether there is any practical way to hedge or remove the problem.
- Until a detailed forensic analysis of the House funds potentially impacted by tracing claims has been conducted, the currency conversion exercise has been halted.

Dividend prospects

- The Administrators are currently unable to estimate the quantum or timing of any future dividend distribution. Due primarily to the impact of the Appeal Court Judgment and ongoing issues with Affiliates, very material uncertainties exist regarding the ultimate amount of funds available and the eventual level of admissible creditors' claims.
- Further, it is difficult to quantify with any degree of certainty the level of future recoveries that may be achieved and the timing of these.
- The Administrators intend to make an application to the UK High Court to extend the Notice of Proposed Distribution for a further two years. Further details will be provided to creditors in due course. In consultation with the Committee, the Administrators will continue to seek ways to expedite the resolution of the very complex issues that remain to be resolved, in order to be in a position to pay a first interim dividend to unsecured creditors as soon as possible within the extension period.

Trust Estate

Client Assets

- Considerable progress has been made during the period in facilitating the return of Client Assets following the 19 March 2010 bar date.
- £2.3bn of assets has been returned to clients in the period, including £1.7bn to CRA signatories. £10.7bn of assets has been returned to clients to date.
- 92% of CRA signatories with assets under LBIE control have now been issued with a CAN.
- An LBI Determination has been received from the LBI Trustee for LBIE's omnibus claim in relation to securities claimed on behalf of LBIE clients initially valued at £4.2bn, but subject to reconciliation. The LBI Determination was unexpectedly received, prior to a complete list of underlying securities reconciliations being received.
- A determination for cash claims has not yet been received. Therefore, the agreement, quantum and timing of the return of LBIE's client securities and cash currently held by LBI remain uncertain.
- Whilst a bar date has now been set by LBHK in relation to Client Asset claims into its estate, the prospects for recovery remain uncertain.

Client Money

- The Appeal Court Judgment was provided by the court in August 2010.
- Subject to an appeal to the UK Supreme Court, being (i) allowed and (ii) successful, the Appeal Court Judgment as it stands has the following significant impact:
 - Client Money held by LBIE at the time of Administration outside segregated accounts is now to be pooled with Client Money held inside segregated accounts;

- the Administrators now have obligations to seek to establish whether assets recovered by the estate are in fact subject to tracing claims by unsegregated Client Money claimants, a duty which the court's judgment at first instance did not impose on the Administrators; and
- both segregated Client Money claimants and unsegregated Client Money claimants (which may include certain LBIE Affiliates) are now entitled to claim against the single Client Money pool.
- A major consequence of the Appeal Court Judgment is that the estimated return of c.54% of qualifying claims, against the Client Money pool based on the court's finding at first instance, could not begin in the period, nor will it be possible in the foreseeable future, pending a UK Supreme Court appeal. The Administrators now need to embark on a complex exercise to identify:
 - counterparties who may have held contractual entitlements to Client Money, irrespective of whether such parties previously claimed, or were overtly given Client Money protection; and
 - assets within LBIE's House Estate which may have to be regarded as Trust Property through the mechanism of tracing and which would have to be added to the pre-Administration Client Money pool that was previously segregated by LBIE.
- The Appeal Court Judgment has a significant timing impact for both Client Money claimants and unsecured creditors. The onus on the Administrators to undertake the tracing exercise of identifying both claimants and funds to add to the Client Money pool, is expected to result in very significant delay and additional costs.
- The Administrators have made an application for permission to appeal the judgment to the UK Supreme Court. It is unknown at this stage whether the Administrators will be granted permission to appeal.
- On 7 October 2010, the Frankfurt court handed down its judgment, rejecting LBIE's \$1.0bn Client Money claim against Bankhaus, resulting in it being subordinated in status. The detailed judgment has not yet been received, but the Administrators will consider appealing against the court's finding.
- Also, Bankhaus has notified LBIE of a counterclaim for the return of \$1.0bn which was repaid to LBIE immediately prior to 15 September 2008. The Administrators will reject that claim outright.

Currency

- The majority of the currently segregated Client Money is denominated in US Dollars and the majority of identified Client Money claims are also denominated in US Dollars.
- In his judgment at first instance on the Client Money matter, Mr Justice Briggs consented to the Administrators using a single currency to determine respective claimants' shares of the Client Money pool, translating their claims into the single chosen currency at the rate prevailing on the date of Administration. Consent was also provided to pay funds out of the Client Money pool, in a currency considered to be appropriate by the Administrators. As a result of the Appeal Court Judgment, the amount and currency composition of Client Money claims may alter, as may the amount and currency composition of what is, ultimately, the Client Money pool and the Administrators are considering how best to address this issue.

Case management

- The Operating Model (as restructured in early 2010) has not required further adjustment in the period. The Administrators' 2010 high level objectives remain the same. Targets toward those objectives are defined and reviewed on a quarterly basis. These targets are embedded within all work streams and financial reward for all Lehman staff is linked to their achievement. A deferred compensation scheme has now been rolled out across all ongoing Lehman staff.
- Headcount levels of Lehman staff and contractors have again been sustained in the period and proactive recruitment continues. A detailed analysis of 2011 headcount has been undertaken and no redundancies are planned for that period.
- Over 480 Lehman staff and contractors continue to support the LBIE Administration. Their ongoing efforts and commitment have contributed enormously to the considerable progress achieved to date.
- £46m was paid during the period in respect of Administrators' fees (£257m total to date).
- Approximately £23m (including £8m in the period) of costs has been recovered by the House Estate from the value of Client Assets that have been returned, in part mitigating the costs of managing the Trust Estate.
- Payroll costs to date total c.£228m (c.£24m in the period) and include c.£106m (c.£11m in the period) in payroll-related taxes (employees and employer's NI and PAYE) paid to HMRC. In addition, some £33m (c.£10m in the period) in irrecoverable VAT has been paid to HMRC.
- Extensive communication has continued to be provided to LBIE counterparties and to the market generally during the period under review on www.pwc.co.uk/lehman.

Focus

- Continued focus over the coming period will be on:
 - achieving final settlements with remaining third party debtors, through negotiation or litigation. One major North American counterparty has already reached a settlement with the Administrators with the expected release of substantial cash and securities in the coming weeks. Progress has also been made towards settlement with the largest remaining third party debtor and negotiations are continuing;
 - progressing the bilateral claims admission discussions with LBHI, responding to the outcome of the RASCALS court hearing and focusing on establishing control over Client Assets held by LBI;
 - progressing the mechanism for the determination of creditor claims through the Consensual Approach;
 - addressing the impact of the Appeal Court Judgment on currency management for both the House and Trust Estates;
 - preparing for the pre-Administration Client Money UK Supreme Court appeal hearing (should the Administrators be granted permission to appeal) and a Client Money tracing exercise; and
 - continuing progress on the return of Client Assets to claimants – bilateral agreement has already been reached to return c.£2.0bn of Client Assets within the next few months.

Section 3:

Financial update

Financial summary

Set out overleaf, for illustrative purposes, is a summary of the estimated financial position of the House and Trust Estates gross of the costs of the Administration. Material facts which may severely impact any or all of these figures and, in turn, the dividend prospects for LBIE's creditors and Trust Property claimants, have not been reflected for reasons of commercial sensitivity or legal confidentiality.

The Administrators continue to anticipate a shortfall in relation to Client Assets and Client Money. Although the extent of the shortfall is not certain at this stage, it is envisaged that Trust Property claimants will participate in the unsecured estate to the extent of any agreed 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: Position reflecting certain revisions to the SoA figures driven by information and facts arising since the filing of the SoA.

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

Cash realised: This is the amount collected from the commencement of the Administration to 14 September 2010.

At this stage, the Administrators consider it imprudent to provide any indication of the potential interim and final dividends payable to unsecured creditors given the uncertainty and complexity remaining in the House Estate. This includes the impact of the Court Appeal Judgment, ongoing negotiation with key Affiliates, and material and complex unsettled third party debtors and creditors.

House Estate £bn

Report Section	No. of cparties	Type	Filed SoA	Revised SoA	Cash realised to 14 Sept 2010
Assets					
4	1,565	Street	13.8	11.1	(5.6)
5	94	Affiliates	5.4	3.9	-
4	-	House depot securities	7.3	8.5	(1.9)*
7	96	Trust debtors	-	1.5	-
-	1	Other	0.7	0.8	(1.1)**
	1,756	Total Assets / Cash realised	27.2	25.8	(8.6)
Liabilities					
6	3,490	Ordinary unsecured creditors	8.8	3.1	
6	805	Trust unsecured creditors	-	4.7	
5	112	Affiliates	6.3	6.1	
-	1,310	Other	1.2	0.6	
	5,717	Total unsecured claims	16.3	14.5	
		Subordinated debt	1.2	1.2	
	5,717	Total Liabilities	17.5	15.7	

* £0.5bn of funds in the House accounts arising from the sale of securities under IMAs and redemptions on assets held subject to ownership claims is not included in the above.

** Includes derived income relating to assets held subject to ownership claims.

Trust Estate £bn

Report Section	No. of cparties	Asset type	Book Value at 15 Sept 2008	Recovered to 14 Sept 2010	Returned to 14 Sept 2010
7.1	570	Client depot securities*	19.6	13.7**	(10.1)**
7.2	1,500	Pre-Administration Client Money*	1.2	0.6	-
7.2	365	Post-Administration Client Money	-	2.2	(1.4)
	2,435	Total	20.8	16.5	(11.5)

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

** Excludes collateral released not held by LBIE of £0.6bn.

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.

Further areas of the House Estate are also discussed in Section 5: Affiliates and Section 6: Unsecured creditors.

STREET DEBTORS

Highlights

- Recoveries of a further £0.4bn in cash and other collateral during the period, bringing total recoveries to £4.3bn.
- Considerable progress made with the most significant debtors – another 24 of the top 150 debtor groups settled in the period.
- Completion of a further 59 smaller debtors, bringing the total number of completed accounts to over 350.
- Achievement of settlement with a large UK commercial bank, avoiding litigation.
- Commencement of litigation against four debtor groups where negotiations proved inconclusive.
- Litigation preparation is underway in respect of a number of other debtors, with further legal action anticipated in the coming months.

Overview

The Street debtors team manages negotiations and settlements with all LBIE debtor counterparties, with the exception of Affiliate relationships and those with claims against the Trust Estate. The team's objectives are the recovery of amounts due to LBIE, and agreement of final settlement terms with counterparties where appropriate.

Debtor negotiations are generally conducted with groups of related entities, whether legally affiliated or, for example, connected by an agent or asset manager

relationship. This is considered on a case-by-case basis to optimise efficiency for both LBIE and its counterparties.

There are over 1,000 debtor groups in the Street population, comprising c.1,500 individual entities. The team's focus continues to be on the largest 150 groups by value, which together represent over 90% of the gross debtor value.

£bn	No. of cparties	Revised SoA	LBIE mid-
			market valuation
Top 150 groups	463	7.0	8.7
Other	1,046	0.6	0.6
Total	1,509	7.6	9.3

Please note that the top 150 groups include 208 creditor entities (c.£0.6bn LBIE Revised SoA value) which have been netted with affiliated debtor entities, for commercial or legal reasons.

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

This value excludes bid/offer spreads, credit charges, pricing differences, bad debt provisions and any other commercial adjustments arising during negotiations, and therefore does not reflect the amount necessarily recoverable by LBIE.

Progress

As at 14 September 2010, £4.3bn has been recovered from Street debtors, including £0.4bn collected in the period, as follows:

- £2.9bn of cash / other collateral from counterparties with whom full and final settlement of positions has been agreed; and
- £1.4bn of cash from counterparties who have only made on-account payments.

Total estimated future recoveries range from £0.4bn to £1.3bn, excluding any anticipated recoveries from litigation, securities held with legacy custodians or circumstances where there are disputed valuations.

Significant highlights during the past six months include:

- finalisation of settlement terms with a Southern European commercial bank, resulting in the return of cash and other collateral in the form of securities;
- settlement of a dispute with a large UK commercial bank, thus avoiding litigation;
- conclusion of settlements with two large US financing counterparties;
- repatriation of cash and securities held by one of LBIE's largest financing counterparties under a tri-party long box arrangement, following agreement in principle as reported in March 2010;
- agreement of a settlement framework with a UK derivative asset manager representing c.80 principals, and subsequent agreement of terms of settlement and receipt of cash from a quarter of the underlying principals;
- conclusion of a settlement agreement with a large UK insurance company, comprising 40 individual legal entities;
- commencement of litigation proceedings against a Middle Eastern entity in order to resolve a valuation dispute;
- submission of an application to the UK High Court for directions in respect of three groups with live derivative positions who are asserting that they have no obligation to pay any amounts to LBIE due to its insolvency;
- agreement with a UK real estate SPV to recover value from a live derivative, which avoided litigation of the nature outlined above; and
- conclusion of a settlement agreement with the UK subsidiary of a Japanese bank following LBIE's successful challenge of intercompany set-off.

Alongside the team members who are progressing the largest, most complex debtor positions, other groups within the Street team have completed work on 59 smaller debtor counterparties, and a work programme is in place to continue the recovery and settlement of smaller amounts (typically under £2m).

Issues

The key challenges to LBIE in respect of debtor recoveries and settlements continue to revolve around the complexity of relationships, lack of detailed information / inadequate quality of information provided by counterparties and complications arising from agency relationships. The Street debtors team continues to address these issues through engagement with senior representatives of the debtor counterparties or, failing that, via legal routes.

Conclusion

The priority for the Street debtors team for the remainder of 2010 and into 2011 is to pursue settlement with the remaining top 150 groups, with a particular focus on those with the largest amounts owing to the estate (the 10 largest groups account for up to £1.0bn of the estimated future recoveries).

Whilst it remains the Administrators' preference to reach negotiated settlements with all debtors, in some cases it is anticipated that this will not be achievable, due to the significance of valuation, legal or other differences between LBIE and certain counterparties. Given that two years have now elapsed since LBIE's insolvency, it is expected that an increasing number of remaining cases will be progressed via legal routes in the coming months, in order to bring closure to issues that cannot be agreed consensually.

Additional areas of activity

As reported previously, the House Asset Sales and the Exchange Traded Derivatives teams reside within the Street team. The activities in these areas are discussed below.

HOUSE ASSET SALES

Overview

The House Asset Sales team's objective is to undertake an orderly disposal of House securities leveraging experienced Lehman traders retained to provide research and execution services for the Administration.

Progress

The team has realised a further £0.6bn in the period for the House Estate (£1.9bn to date).

Financial movements across the House depot since Administration are outlined as follows:

	£bn
Value at 15 September 2008	8.5
Asset recovery from Trust Property debtors	1.5
Disposals	(1.9)
Market events	(1.3)
MTM revisions	(0.7)
House Depot at 14 September 2010	6.1

The Revised SoA value of £8.5bn is after certain pricing revisions and inventory reclassifications subsequent to filing the SoA.

Disposals include sales of securities and redemptions.

Market events relate to realised profits and losses on asset disposals and forced liquidations undertaken by third party custodians to extinguish custodian liabilities.

MTM revisions relate to unrealised profits and losses on the remaining securities, based on LBIE's pricing methodologies.

The remaining £6.1bn of House securities are analysed as follows:

	£bn
Available for sale	0.4
Held subject to title disputes	0.9
Held by Affiliates	3.7
Frozen by custodians	1.1
House Depot at 14 September 2010	6.1

The above excludes £1.3bn held under LBIE's control and which is subject to ownership claims from Affiliates.

The team has developed disposal strategies for the £0.4bn of securities available for sale, which have no ownership issues and are held within the Administrators' control.

In certain cases, LBIE has agreed with Affiliates that, whilst issues regarding disputed ownership persist, LBIE and the Affiliates will co-operate to realise the securities and hold the proceeds until title is resolved. A further £0.1bn has been realised under such Interim Management Agreements ("IMA") in the period.

Given the experience of the senior individuals within the team, a significant proportion of their time in the period has been spent supporting the finalisation of the House valuations for OTC derivative and financing positions relating to the creditors and debtors portfolio.

Issues

The team continues to face restrictions on its scope to execute transactions pending:

- the release of assets from frozen legacy custodians and Affiliates; and
- legal confirmation of ownership rights where competing claims have been received.

Conclusion

The continued execution capability of the team is key to procuring the best value for the assets. As further tranches of assets are recovered or ownership is clarified, the team will continue to realise value for LBIE.

EXCHANGE TRADED DERIVATIVES

Overview

To date, £1.4bn of cash and collateral has been recovered (Revised SoA value £1.5bn), 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

The team's focus remains two-fold. Currently c.£0.1bn is still held by various third party exchanges and counterparties around the world. LBIE is actively pursuing recovery of these funds.

In addition, work continues to finalise reconciliations and establish House, Client and Affiliate entitlements to exchange margin.

Progress

Since the last report, the team has continued its efforts to recover funds from locations around the world. However the main focus of effort has been on analysis of the information received and determination of House, Client and Affiliate entitlements.

Funds which remain trapped in Asia (including Taiwan, Hong Kong and Korea) amount to c.£0.1bn. 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.

In Hong Kong, agreement of the close-out costs of LBIE's positions has been achieved, with £36m to be returned. This will be possible once the Hong Kong entities have reached a similar agreement with LBI and allocated outstanding fees and commission.

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.£1.3bn within the LBI SIPA House Customer Property claim.

The recent LBI Determination by the LBI Trustee resulted in the Client Money claim being denied and the claim which included LBIE's margin account (£0.8bn) has been determined to be unsecured. LBIE is presently considering its position in this regard.

Entitlements

- All the required data and statements from exchanges where LBIE was the exchange member have been obtained, including details of auctioned positions and associated costs.
- Reconciling remaining cash and positions with exchange statements is now complete.
- The approach to allocating the cost of auctioned positions to Affiliates has been applied and the impact on Affiliates determined.
- Engagement with LBI and Barclays Capital ("BarCap") has progressed and the information BarCap provided has been sufficient for the Administrators to move forward.

Issues

Challenges to repatriation of the remaining funds in certain jurisdictions continue, albeit progress is being made.

A number of prime brokerage clients traded listed options in the US. A number of these did not have a standard futures trading agreement in place and work is ongoing to determine the impact of this situation with respect to the losses sustained by these clients and LBIE's ability to recover those losses.

Conclusion

Good progress has been made in finalising the balances and amounts outstanding for recovery of exchange traded derivatives.

Section 5:

Affiliates

Highlights

- Discussions are underway with LBHI and other US Chapter 11 entities to determine whether LBIE will support or object to their Plan.
- The RASCALS court hearing commenced on 11 October 2010 and is expected to last for approximately three weeks. The pre-trial review was held on 15 July 2010 and LBIE's skeleton argument was served on 31 August 2010.
- LBIE revised and resubmitted its SIPA Customer Property House claim to LBI, setting out a current estimated balance of £9.0bn and a SIPA Customer Property client omnibus claim of £10.6bn. For more details of the client omnibus claim, please see Section 7.1.
- LBI issued a determination on the LBIE House claim in September 2010.
- Bar date of December 2010 was set by LBHK for Client and House asset claims.
- A portal for the agreement of Affiliates is planned to be launched by Q1 2011.

Overview

LBIE had highly integrated trading and non-trading relationships with its Affiliates, resulting in significant intercompany balances.

LBIE has over 200 intercompany debtor and creditor ledger balances. LBIE's current estimate of the total balances is £10.0bn of debtors and £5.9bn of creditors, before accounting for specific BTB derivative side-letters and the various parent company Guarantees.

As previously reported, there are additional factors which will influence the final agreed value of the Affiliate balances. These include:

- the terms of industry standard and bespoke agreements, which govern valuation and ownership;
- market movements between different insolvency and termination dates;

- local legislation and rulings of regulators and other authorities;
- 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.

A portal for the agreement of Affiliates is planned to be launched by Q1 2011.

Progress

LBHI and other US Chapter 11 entities

- The Plan was filed on 15 March 2010 and the Disclosure statement on 14 April 2010.
- The LBHI Plan proposes significant compromises on intercompany claims. As a result, the Administrators have engaged in discussions with LBHI's representatives, in order to consider the appropriateness of the proposed compromise and therefore, whether to vote in favour of the currently proposed Plan, or to object to it.
- In response to LBHI requests, LBIE has provided detailed information to LBHI and both parties have continued detailed reconciliation work. Trade populations for most relationships have now been agreed and discussions are underway to determine valuations.
- LBIE and LBHI have also developed a working protocol to assist in dealing with client transactions which appear to have been mis-booked within the Lehman systems. This protocol is allowing both parties to progress with client settlements in an efficient manner where the legacy Lehman systems differ from the client's understanding of a particular transaction.
- The recent Appeal Court Judgment may affect any LBIE claims agreement with LBHI and is currently being considered in this regard.

LBIE House claim against LBI

- The SIPA process governing the LBI liquidation provides that assets are divided into two pools: Customer Property and the General Estate.
- LBIE originally filed a SIPA House Customer Property claim (the “House claim”) in January 2009, followed by a revised House claim in May 2009 of £7.9bn.
- Following a detailed analysis of each element of the House claim, a status update was provided to LBI on 23 July 2010, containing a breakdown of LBIE’s current estimated House balance, and a detailed narrative setting out progress and suggested next steps for reconciling and agreeing balances in each business area.
- In late August 2010, LBI indicated that a determination on the LBIE House claim would be issued in September 2010. In order to protect LBIE’s interests, LBIE formally submitted an updated claim to LBI on 10 September 2010, which set out an estimated balance of £9.0bn. The LBI Determination was issued on 16 September 2010.
- LBI rejected the House claim as Customer Property and instead deemed it an unsecured claim. Additionally, £1.3bn of the House claim, relating to a substantial transaction immediately prior to Administration was rejected as both a Customer Property and General Estate unsecured claim.
- No information was provided as part of the LBI Determination as to the reasons for rejection of the claim or its constituent parts. LBIE is currently working with its legal team to prepare an objection to LBI’s Determination.
- In respect of the securities element of the House claim, LBI has provided LBIE with individual security line detail regarding its view of LBIE House positions held in the LBI DTC depot. LBIE is in the process of reconciling this data to its books and records.
- For some parts of LBIE’s claim (e.g. financing and general intercompany), there has been limited focus or response from LBI.

- In many areas, LBIE is dependent on delivery of data from LBI to progress analysis further. There is regular communication regarding prioritisation and provision of open requirements. Due to the significant volume of business activity between LBIE and LBI, and high volumes of data requiring review, in order to maintain momentum it will be important to receive further co-operation from the LBI Trustee to ensure provision of data is timely and of a suitable quality.

Other major Affiliates

LBHK

- LBIE has continued dialogue with LBHK on the subject of the return of LBIE House and Client assets. LBHK recently applied to the Hong Kong courts for a claims bar date and this has been set for 10 December 2010.
- Reconciliation of the claim submitted to LBHK for the return of LBIE House assets is underway. At present c.70% of the securities claimed for have been agreed with LBHK, and progress is underway to reconcile the balance.
- Progress has also been made in reconciling each of the various trading balances and those relating to stock loans / borrows and exchange traded derivatives are substantially complete.
- Pursuant to the extended lien clause in a client agreement between LBHK and LBIE, LBIE understands that LBHK is investigating the assets to which the lien may apply and the process it will need to follow to ensure that its obligations under the lien are discharged before any potential distribution is made to LBIE. This may include seeking court directions in Hong Kong.
- LBIE continues to engage with the liquidators with the objective of securing a return of its assets shortly after the expiry of the bar date. The Hong Kong liquidators have limited access to legacy Lehman staff and data and LBIE will continue to co-operate with LBHK to assist where appropriate.

LBF

- A formal application to the UK High Court is in progress to obtain directions on the pre-Administration BTB side letters which affects certain aspects of intercompany derivatives between LBIE and LBF.
- The majority of the financing population and OTC derivatives have been reconciled. LBIE has also entered into data sharing agreements with LBF to facilitate reconciliation efforts.
- LBIE will attempt to finalise all outstanding reconciliations once the upcoming court case has been resolved, so that the valuation stage of the claims agreement process can begin.

LBJ

- Since the last report, the Administrators have established that the balance between LBJ and LBIE is an overall net claim by LBJ against LBIE. As a result, LBIE's previously submitted claim against LBJ was formally withdrawn on 24 August 2010.
- LBIE's primary focus now is to secure the return of stock lending assets held by LBJ on behalf of LBIE, and the estimated value of these assets is c.£0.1bn. Although the asset population has been reconciled, LBJ has requested that LBIE procure certain third party confirmations that they have no claim on certain of these assets. LBIE is currently seeking these confirmations.
- In the interim, LBIE continues to press for the return of the remaining assets and final amendments to the agreement for their return are being negotiated. Derived income from these assets will be returned separately. All asset returns require the approval of the Japanese court supervisor.
- Following the return of these assets, negotiations will once again resume to agree the remaining balance components.

LB Lux

- Work has continued in relation to the extraction, collation and explanation of data provided (or to be provided) to the LB Lux liquidators.
- The LB Lux liquidators have requested further data in relation to fees and rebates relating to financing transactions. LBIE has been collating and analysing further reports generated from source systems with a view to discussing these at a forthcoming meeting.
- LBIE wrote to the LB Lux liquidators on 23 July 2010 setting out the formal arrangements under which LBIE would be prepared to provide reasonable assistance to LB Lux in relation to the provision and explanation of further data. LBIE has subsequently provided all supplementary data and assistance requested.
- LBIE has drafted instructions to establish which court has jurisdiction to hear any proceedings and how best to secure an enforceable ruling regarding termination of financing agreements between LBIE and LB Lux, and to identify any other remedies that may be available to LBIE.

Bankhaus

- The general intercompany and financing populations have been almost reconciled.
- The intention is to complete the final stages of the population reconciliation and move on to the valuation stage of the process. Currently, LBIE's Client Money claim against Bankhaus is subordinated to other creditors in the Bankhaus estate pursuant to a judgment in the Frankfurt court on 7 October 2010, accordingly the level of recovery is highly uncertain. LBIE is working with its legal advisors in Germany to preserve the claim value and to challenge the subordination of the LBIE Client Money claim.
- Bankhaus recently indicated that it intends to pursue a claim against LBIE of \$1.0bn relating to the payment of \$1.0bn to LBIE on 12 September 2008, which was then re-deposited with Bankhaus on the same day and is also the subject of the subordination referred to above. Bankhaus is suggesting that it has rights to pursue recovery of this sum for the benefit of the Bankhaus creditors. This claim will be vigorously defended if pursued.

Lehman Administration Companies

- LBIE's relationship with Lehman Companies which are in UK Administration mainly arises through the provision of staff and services.
- A small number of the UK companies used LBIE's depot to hold securities and there are competing claims to the ownership of some of those securities. LBIE is reviewing these ownership claims and has recently negotiated agreement for the management of a significant number of these securities pending resolution of ownership disputes.

Issues

Ownership of assets held by LBIE (£2.2bn)

Certain assets in LBIE's House depots are the subject of ownership claims from Affiliates. Extensive work continues in order to determine the outcome.

The current estimated value of £2.2bn represents the securities in both the Administrator controlled and non-controlled depots together with any cash proceeds arising from the disposal of such securities.

RASCALS securities (£0.7bn)

There are numerous legal agreements that govern the basis on which assets were being held by LBIE, including the "RASCALS" agreement covering assets related to LBF, LBSF, LBI, LBAH and LBCCA.

During the period, extensive work has continued in order to determine the ownership of the RASCALS assets, in advance of the court hearing which has recently begun, including preparing and submitting:

- LBIE's further position paper, skeleton arguments, statement of agreed facts and list of issues to court;
- further LBIE evidence, including additional witness statements to respondents; and
- responses to requests for further information from each of the respondents, and reviewing approximately 20 witness statements from respondents to refute inaccuracies, highlight inconsistencies and dispute legal analysis by submitting LBIE requests for further information.

Judgment on RASCALS is expected before the end of the year.

Other securities (£1.5bn)

Work undertaken in the period:

- briefings held with LBHI and LBF on extended liens;
- drafting an initial witness statement for a court application on extended liens; and
- completing a detailed review of LBIE-held securities which had potential ownership claims, which led to a further release of nearly £0.3bn of securities for disposal.

Amongst the many different types of intercompany legal agreements governing the basis on which assets were held by LBIE, some include a provision granting LBIE a lien over the assets if the relevant Affiliate is a debtor of LBIE. As LBIE has significant sums receivable from many of its Affiliates, it intends to assert these liens to cover such obligations should it be determined that the assets do, in fact, belong to the relevant Affiliate.

BTB derivative side letters

BTB derivative side letters were put in place with 12 separate Affiliate entities to provide LBIE with credit protection. The application of the side letters has a significant impact on the valuation of intercompany derivative balances.

LBF has differing views from LBIE as to the financial impact of the BTB derivative side letters. LBIE has held briefings with its legal adviser, LBF and LBF's legal counsel to agree matters on which LBIE should seek court directions. LBIE has also held briefings with other Affiliates but no other party currently wishes to join the proceedings.

LBIE expects to file the BTB derivative side letters application shortly with a view to holding the substantive court hearing in 2011.

A draft application notice and witness statement (on matters related to the application of the BTB derivative side letters) has been produced in preparation for filing with the court.

An analysis of the BTB derivative booking processes for the various product types has been undertaken by LBIE. This has been documented along with examples to support the application.

OTC derivative claims against LBSF, LBCC and LBF have been updated based on the latest valuations, and the financial impact of the BTB derivative side letters has been revalued to take into account the latest third party settlement information.

Detailed trade level analysis has been shared with LBHI to support the BTB derivative side letters claims in the current settlement discussions.

Conclusion

Significant progress has been achieved during the last six months. The main focus for the remainder of 2010 and into 2011 remains on resolving items in litigation (RASCALS, BTB derivative side letters, extended liens), recovery of assets from LBJ and LBHK, preparing an appropriate objection to LBI's Determination and continuing dialogue with LBHI, its fellow affiliates in Chapter 11 and other major Affiliates around the world, with a view to agreeing LBIE's claims that will be admitted in their respective insolvency proceedings.

Section 6:

Unsecured creditors

Highlights

- A key objective of the Administrators in the period has been to begin to expedite the agreement of unsecured creditors' claims.
- The introduction in June 2010 of the idea of a Consensual Approach appears to have been well received by creditors. The Administrators intend to continue to develop the concept.
- Previously a Notice of Proposed Distribution was issued and a bar date for unsecured claims set as 31 December 2010 (with the relevant distribution being paid within two months of this date). Given the impact of the recent Appeal Court Judgment, the Administrators cannot now make a distribution in early 2011 as previously anticipated. Consequently, LBIE needs to address this by applying to court for an extension.
- To date the number of formal unsecured claims received has been limited – as at 14 September 2010 only 821 creditors have formally submitted claims. An online Claims Portal has been developed and launched to assist in efficient claims submission and processing.
- The Administrators intend to commence agreeing claims in the immediate future. To enable claims agreement to progress, creditors are encouraged to submit their PoD as soon as possible through the online Claims Portal.

Overview

Fundamental to resolving the estate is the need to record, validate and admit the claims of unsecured creditors.

Since the last report, the Administrators have revised internal processes to improve claims processing and enhance LBIE's claim valuation methodologies.

This section provides creditors with details of progress to date; an update of the Administrators' strategy for determining unsecured creditors' claims; and certain other matters (such as currency

considerations) which affect claims determination.

In addition, the Administrators explain in this section that, given the impact of the recent Appeal Court Judgment (see Section 7.2), the Administrators need to apply to court to extend the date for payment of a distribution pursuant to the Administrators' Notice of Proposed Distribution. Whilst the Administrators will strive to bring the timeline forward as much as possible, in order not to have to seek subsequent extensions in the event that resolution of this matter becomes extraordinarily protracted, an extension of 24 months will be requested.

As at 14 September 2010, for illustrative purposes, the current estimated value of LBIE's unsecured liabilities is summarised below:

No. of cparties	Unsecured claimants	Revised 15 Sept 2008 position (SoA) £bn	LBIE mid-market valuation £bn
3,490	Street Creditors	3.1	4.8
805	Trust creditors	4.7	5.6
112	Affiliates	6.1	6.2
1,310	Other third party	0.6	0.1
5,717	Total	14.5	16.7

The above table highlights the estimated number of potential creditors by counterparty type. Further analysis of the underlying books and records, in particular in relation to agent / principal break-out, will likely change the number of counterparties that is currently reported above.

The relevance of the LBIE mid-market valuation is that it represents LBIE's current view of the mid-market valuation as at the termination date (where agreements have been terminated) or an estimate of the value as at 14 September 2010 in respect of live positions. This value does not include bid/offer spreads, charges, pricing differences and other adjustments made by creditors.

Because there are sometimes major differences between LBIE's mid-market valuation and a creditor's own claim, it would be imprudent at this stage to use the analysis above for the purpose of estimating eventual dividends payable to unsecured creditors.

The above summary does not reflect the potential impact of the Appeal Court Judgment on the classification of LBIE's liabilities as either unsecured or subject to Client Money protection. Furthermore, the Administrators have not reflected the impact of any cash which LBIE may need to re-designate as Client Money. These issues are explained further in Section 7.2.

Claims submission

Under UK insolvency legislation, a creditor wishing to claim against an insolvent estate must submit a compliant PoD. Until such time as a creditor submits a compliant PoD, their claim cannot be agreed and admitted for participation in any distribution. Accordingly, the Administrators encourage creditors to submit their PoD at their earliest convenience in order that the Administrators can reconcile it with LBIE's records and begin the claims agreement process for that creditor.

To assist creditors in submitting their claims, an online Claims Portal was developed and launched in July 2010.

The Claims Portal is a web-based system which allows creditors to enter details of their claims against LBIE, provide supporting information (including valuation statements) and to submit a PoD.

As at 14 September 2010, the number and value of known claims submitted (excluding CRA signatories) are:

No. of parties	Claimants	£'bn
477	Street Creditors	2.9
97	Non-CRA trust creditors (including certain Client Money claimants)	0.1
20	Affiliates	4.6
227	Other third party	0.1
821	Total	7.7

LBIE's records indicate that there may be up to 5,700 creditors. This suggests that numerous counterparties are yet to submit their claims.

Early submission of creditor claims has benefits for both the individual creditor and the estate in that it allows LBIE to:

- capture asserted claims and better reflect the extent of LBIE's liabilities (and therefore dividend rate) when reporting to creditors; and
- accelerate the agreement of an individual creditor's claim, which will assist it in accounting for its claim.

When a dividend is declared, only creditors who have submitted a PoD in accordance with UK insolvency law and have an admitted claim, will be eligible to be paid.

Please note that:

- if creditors have previously submitted information regarding their unsecured claim through the Client Claims and Information website (launched in October 2008), whilst the claim has been logged, creditors are also required to submit a formal PoD through the Claims Portal; and
- valuation statements or other informal communications do not in themselves constitute a compliant PoD.

Section 6.1:

Consensual Approach - unsecured claim agreement

Highlights

- The Consensual Approach is designed to accelerate the agreement of unsecured claims with a view, ultimately, to expediting distribution payments.
- LBIE's valuation methodologies have been improved in order to generate creditor valuations which are in line with market practice and will be universally applied when LBIE Determinations are provided to creditors in due course.
- Robust creditor valuation and reconciliation processes have been designed and implemented in the period.
- The Appeal Court Judgment impacts the Administrators' ability to formally **admit** claims for dividend (required in order to commence distributions). The immediate focus is therefore on **agreeing** balances provable.
- Claims agreement based on LBIE Determinations is expected to commence over the coming months. Subject to the impact of the Appeal Court Judgment, in the event that a creditor accepts the LBIE Determination, no further work needs to be done by either party in order to agree the claim.
- Alternatively, creditors can elect to have their claims reviewed in detail, albeit this will take significant time to conclude and, in exceptional cases, may require court adjudication.

Introduction

Complexity of claims

In many cases, the nature of LBIE's financial trading contracts allowed for a wide range of potentially compliant valuation outcomes upon their termination. Consequently, the value of some claims filed by creditors is materially different to LBIE's valuation.

In order to simplify and accelerate the claims determination process, the Administrators, together

with the Committee, have developed a framework for the expedited resolution of the claims of financial trading counterparties without trust assets ("Street Creditors") on a consistent basis.

This section provides creditors with details of the Administrators' current strategy to progress the determination of such creditors' unsecured claims, recognising the challenges posed by the recent Client Money ruling.

It is currently envisaged that LBIE will review and agree claims bilaterally with non-Street Creditors (such as trust asset claimants, employees and Affiliates) or in accordance with the terms of the CRA if the trust creditor has acceded to the CRA (and it is still possible for trust creditors to apply to join the CRA). These processes are being undertaken by separate teams within LBIE, in parallel with the Consensual Approach. See Section 7.1 for an update on CRA progress.

For further detail on the position as regards Affiliates, please see Section 5.

Consensual Approach

The Administrators' experience suggests that the resolution of LBIE's unsecured creditor claims outside of the Consensual Approach is likely to take many years to conclude, requiring significant time and resources for both creditors and the insolvent estate. In cases of material disagreement, litigation may be necessary to resolve claims, with significant costs and delay.

To avoid this protracted agreement process, the Administrators announced to creditors that they were considering the establishment of a more expedient claims determination mechanism, the Consensual Approach.

The Administrators have since engaged with over 230 Street Creditors, including those with the largest unsecured claims and most complex financial trading positions, to gauge their response to the initiative. Based on the positive feedback to date, the Administrators consider that it is appropriate to continue to develop the Consensual Approach.

Overview

The Consensual Approach is an optional claims determination process available to Street Creditors (currently estimated to be up to 3,490 counterparties, the claims of which LBIE currently estimates to total c.£4.8bn), designed primarily to accelerate the agreement of creditor claims.

Under the Consensual Approach, LBIE will offer to agree each eligible Street Creditor's claim using LBIE's in-house valuation methodology.

The LBIE Determination has been established using a set of processes, data sources and valuation approaches in line with market practice and universally applied to determine Street Creditors' unsecured claims. Creditors should note that in offering a LBIE Determination, the Administrators are seeking to treat Street Creditors consistently, and are not simply imposing a discount or "haircut" to their claims.

Creditors with trust claims, Affiliates, any creditors with non-financial trading contract claims and certain other creditors (such as, say, those who have asserted set-off of debtor balances which LBIE disputes) will not be offered a LBIE Determination and instead will be dealt with separately.

Benefits

The Consensual Approach will (subject to certain Client Money issues described in more detail below) benefit eligible Street Creditors directly on the basis that it is designed to:

- provide finality and certainty regarding Street Creditors' financial claims against LBIE. That is, it allows creditors to agree, at this juncture, their total net claim against LBIE without the need for further substantial evidentiary documentation and interaction in support of their claim or to enter into what could become a protracted claims agreement process, especially with regard to the more complex claims;
- materially reduce the costs of claim determination

which creditors (and the estate) would otherwise incur; and

- assist in accelerating, where possible, the distribution process on the basis that more claims should be determined sooner than if the approach was not followed.

Where there are contractual restrictions on the assignability of claims against LBIE, the Administrators have received a number of enquiries regarding LBIE's willingness to permit such assignment. Although the Administrators are not in a position to advise creditors with regard to the potential assignment of their claim, creditors who avail themselves of the Consensual Approach should note that LBIE currently intends to permit agreed claims to be transferred (in whole) without requiring further consent.

Progress

Since the Consensual Approach was initially outlined to creditors in June 2010, significant progress has been made, in the following areas:

- development and implementation of further processes and procedures to enhance LBIE's valuation methodologies;
- extensive engagement with counterparties;
- robust claims valuation and population reconciliation processes have been implemented; and
- material progress in reviewing legal issues arising from over 250 of the largest and most complex claims.

At the time that the Consensual Approach was introduced, it was envisaged that:

- a creditor would need to submit a PoD by 17 September 2010 to be considered for participation; and
- a threshold for the minimum number of acceptances would be required for the Consensual Approach to be implemented.

During August and September 2010, as LBIE obtained feedback from counterparties, and as a significant number of these showed signs of not being ready to submit their PoD before the 17 September 2010 deadline, the deadline was withdrawn.

One of the reasons for introducing the Consensual Approach was to facilitate the determination of unsecured claims and pay an interim dividend as early as possible in 2011. Although the Appeal Court Judgment has adversely impacted LBIE's ability to pay a dividend to unsecured creditors in the short term, many creditors have indicated a desire to agree their claim now in any event, for various reasons. The Administrators have therefore withdrawn the requirement for a minimum threshold in order to provide all eligible Street Creditors with this option in due course. Given the length of time required for bilateral claim negotiation and agreement, any material number of creditors opting to accept the LBIE Determination will significantly shorten the life (and therefore cost to creditors) of the Administration.

Impact of Client Money Appeal Court Judgment

When the concept of the Consensual Approach was first announced, it was anticipated that a LBIE Determination, once accepted by the creditor, would constitute an **admitted** unsecured claim in the Administration.

The Appeal Court Judgment (see Section 7.2) means that there is now material uncertainty as to what constitutes an unsecured liability, and what constitutes a claim which is subject to Client Money protection. Furthermore, uncertainty now exists as to whether or not any House funds should in fact have Client Money status.

The Administrators and creditors could simply choose to wait until the legal landscape is clearer before progressing further the resolution of unsecured claims. However, the Administrators are very concerned that it could take some time (perhaps years) before a complete picture is formed and over

time it will become more difficult and costly to agree creditor balances.

In addition, whether or not a liability qualifies for Client Money protection or is simply an unsecured claim does not change a creditor's total overall claim against LBIE.

The Administrators have therefore decided to progress claim **agreement** (i.e. agreement of the net balance due to a creditor) and, if so agreed, the Administrators would later inform a creditor what portion of that net balance (if any) constitutes a Client Money claim. The residual balance (plus the shortfall, if any, on the Client Money portion) would then be **admitted** as an unsecured claim to rank for dividend.

Any creditors who would prefer not to adopt this approach and instead wish to wait to negotiate bilaterally may do so at a later date, albeit this is likely to take significantly longer to achieve.

Next steps

In the coming weeks, the Administrators intend to provide further detail around the Consensual Approach and, specifically, LBIE's valuation methodologies.

The Administrators also intend to commence providing LBIE Determinations to eligible Street Creditors who have submitted PoDs which are compliant with UK insolvency law.

It is anticipated that the LBIE Determination will be in the form of a single number and will take into account positions under all master agreements and other financial arrangements with each individual counterparty. Creditors should note that the LBIE Determination will be offered as a non-negotiable option (which creditors are free to accept or reject) and will incorporate provisions to address any entitlement that a claimant may eventually be determined to have to a Client Money claim.

Street Creditors who elect not to accept a LBIE Determination provided to them will have their

claims reviewed in detail on a bespoke, bilateral basis. Extensive further work, likely involving the need for substantial evidentiary documentation, may also be required in such circumstances.

The Administrators are unable to provide an estimate as to the length of time it may take to agree a claim on a bilateral basis although it is already clear that if a significant number of Street Creditors choose to follow this route, the process of agreeing their claims is going to take a very long time. In some cases, it is also possible that litigation may be required to resolve disputes.

In any event, it is the Administrators' current intention (subject to any compelling legal or commercial reasons otherwise) to provide LBIE Determinations to all eligible Street Creditors who have submitted compliant PoDs, prior to deploying significant LBIE specialist resource to agree Street Creditor claims in any other, bilaterally negotiated, way.

Unsecured claims arising from Trust Property, Affiliates and other third party creditors will be dealt with separately. In many cases, as such creditors will be aware, the Administrators' have already commenced this process and specific teams exist across the estate to interface with these counterparties. As regards to non-financial creditors, the Administrators will utilise conventional claims proving procedures as employed in a typical non-financial services insolvency.

Conclusion

The priority for the Administrators in respect of claims agreement for the remainder of 2010 and into 2011 is to focus on agreeing creditors' overall net claims based on:

- the CRA procedure;
- the Consensual Approach for Street Creditors; and
- routine proving procedures for non-financial creditors (where appropriate) where these creditors have submitted a compliant PoD.

Given the significant impact of the recent Client Money ruling and the known differences in valuation and legal interpretation between LBIE and certain counterparties, it is likely to take some considerable time before the Administrators have admitted all unsecured claims in the estate. Against this backdrop, the Administrators' preference is to engage with counterparties and reach a consensual agreement in respect of creditors' claims, where possible.

Finally, whatever currency that an individual creditor's claim is denominated, insofar as it represents an unsecured claim against LBIE, it will be translated into Sterling at the exchange rate arising on 15 September 2008 for the purpose of establishing the creditor's share in the estate. Any element of the claim that has Client Money protection will be dealt with in accordance with the currency policy to be adopted for the Client Money pool, in due course.

Section 6.2:

Currency matters and dividend prospects

Currency matters

Impact on creditor claims

In the last report to creditors, the Administrators explained that all unsecured claims would be proved in Sterling. Over the period, the Administrators have received a number of currency-related queries, which are addressed below. For the avoidance of doubt, the Administrators' comments below relate to all unsecured claims, including those of any CRA signatories.

On 2 December 2009 an order was granted by the UK High Court permitting the Administrators to make a distribution to LBIE's unsecured creditors. A Notice of Proposed Distribution was subsequently issued to all known counterparties.

The effect of this order was to convert LBIE's Administration into a Distributing Administration and it secured an efficient means of distributing assets without requiring another insolvency process. This order also meant that:

- the no-mutual set-off of payables and receivables was then indisputably prohibited (save in accordance with Rule 2.85 of the Insolvency Rules). At that time, the Administrators considered that there was a substantial risk that LBIE's asset base might be materially eroded by the unilateral action of certain counterparties in asserting non-mutual set-off; and
- it brought into effect the provisions of Rule 2.86 of the Insolvency Rules which stipulates that "for the purpose of proving a debt incurred or payable in a currency other than Sterling, the amount of the debt shall be converted into Sterling at the official exchange rate prevailing on the date when the company entered into administration" (in this case, 15 September 2008).

Accordingly, applying Rule 2.86 and general principles of UK insolvency law, all unsecured creditors claims (which include any unsecured claims relating to CRA signatories) are to be converted into Sterling as at 15 September 2008 for the purposes of

having a proven claim against LBIE. Specifically:

- for CRA claimants, under the CRA, any claim which is not already denominated in US Dollars is converted into US Dollars using the exchange rate as at 15 September 2008. In addition, any netting of claims and set-off, including of shortfalls, is calculated in US Dollars. Once this calculation has been made, any Ascertained Claim which is so derived (defined as an unsecured claim of a CRA counterparty and denominated in US Dollars) will then be converted into Sterling also using the exchange rate as at 15 September 2008 (in accordance with the provisions of UK insolvency law for the purposes of proving); and
- similarly, for all other unsecured creditors whose claims are derived from contracts in currencies other than Sterling, their unsecured claims are also converted to Sterling, using exchange rates as at 15 September 2008 (in accordance with UK insolvency law).

To assist creditors, the Claims Portal contains relevant exchange rates as at 15 September 2008 and automatically converts non-Sterling denominations. A list of the exchange rates as at 15 September 2008 can be found at Appendix C.

In order to be able to determine the entitlements of creditors to a share in the estate, all claims must be expressed in a single common currency and currency translation must be calculated at a common date. UK insolvency law requires the common date to be the date of the Administration. Although the law also prescribes that creditors' claims are to be converted into Sterling, the relative share that an individual creditor will have is unaffected either by which common currency is adopted, or the original currency denomination of the creditor's claim.

Dividend prospects and timing

As discussed earlier in this report, a major consequence of the Appeal Court Judgment is that the Administrators no longer have clarity either as to what property is subject to a trust and what is not, or as to which claims are subject to Client Money protection and which are unsecured. This means that estimating the quantum of potential unsecured dividends and paying an interim distribution is currently not possible.

Accordingly, the Administrators have no practical alternative but to apply to the UK High Court to extend the Notice of Proposed Distribution and the time for payment of a first dividend. In order not to subsequently have to seek further extension, and in view of the complexity of this matter and the time that it could take to resolve in a series of pessimistic scenarios, the Administrators' intention is to seek an extension for a further two years. More details will be provided to creditors in due course.

Clearly, the Administrators wish to shorten this timeline and will seek to agree claims in the interim. In particular, the Consensual Approach provides creditors with an early opportunity to agree their claims and a means by which LBIE can more accurately predict the total claims population.

Assuming the unsecured claims population can be more accurately determined, through further diligence on the Client Money issue, and assuming that a significant part of House assets can be declared free of potential trust taint, then the Administrators would seek to pay an earlier interim distribution.

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 the FSA's Client Asset Sourcebook ("CASS").

Section 7.1:

Client Assets

Highlights

- Asset returns of £1.7bn were made to CRA signatories in the period. An additional £0.6bn of returns to claimants under non-CRA bilateral arrangements was also made.
- All Client Asset claims received as a result of the 19 March 2010 bar date have been reviewed and processed within LBIE's systems. For those claims that have been fully matched, the process of CRA asset returns has commenced.
- 92% of CRA signatories with assets under LBIE's control have now been issued with CANs.
- Over-claims to date received from clients total £7.3bn. c.£2.9bn relates to assets under LBIE control, of which £0.4bn has been resolved to date.
- £0.3bn of Client Assets previously held by a North American custodian has been returned to LBIE.
- Client Asset returns to clients since the commencement of the Administration now total £10.7bn, including £0.6bn of collateral held by third parties.
- LBI Determination was issued on the LBIE client omnibus claim in September 2010.

Overview

The identification, reconciliation and return of Client Assets remains a core objective of the Administration.

The dedicated Client Assets team is focused on the:

- return of Client Assets currently under the Administrators' control;
- reconciliation and return of Client Assets under the control of Affiliates; and
- assessment of over-claims received from trust claimants.

To date, 457 clients have made claims to assets held by LBIE. A financial summary of Client Assets is as follows:

	£bn
Value at 15 September 2008	19.6
Prior period movements	(3.1)
Prior period returns	(7.8)
Returned to clients in period – CRA	(1.7)
Returned to clients in period – Non-CRA	(0.6)
Estimated shortfalls of controlled assets	(0.2)
Client inventory at 14 September 2010 (CRA value date 19 March 2010)	6.2

In addition to asset returns, a further £0.1bn of derived coupon and dividend income has also been paid to clients in the period.

The current estimate of asset shortfalls is £0.2bn. The impact of the shortfall for CRA claimants may be reduced by offsetting this against any outstanding indebtedness to LBIE.

At 14 September 2010 the analysis of the client inventory was as follows:

	£bn
In LBIE controlled depots	3.6
US – LBI controlled (estimate)	2.2
HK – LBHK (estimate)	0.4
Frozen by third party custodians	-
Client inventory at 14 September 2010 (CRA value date 19 March 2010)	6.2

The assets held by Affiliates represent c.40% of the total inventory and their return is dependent upon the progress of the LBI and LBHK liquidation processes as outlined below.

Progress

The Client Assets team has made significant progress during the period in facilitating the return of Client Assets, notably:

CRA

- securities with a value of £1.7bn have been returned to 52 clients in the period; and
- 92% of clients that have assets under LBIE control have received CANs. The total value of CANs issued is £2.4bn and represents 78% of the value of Client Assets under LBIE's control originally held for CRA signatories.

Non-CRA

- returns of £0.6bn have been made to non-CRA claimants in the period.
- bilateral negotiations are at an advanced stage for the return of a further £2.0bn of Client Assets relating to non-CRA claimants.
- non-CRA claimants continue to be dealt with by LBIE in a separate process requiring bespoke and time consuming negotiations.

Control of securities

£0.3bn of assets previously held in the Greek, Hungarian, Brazilian and Swiss sub-custodians of a North American custodian was returned to LBIE in the period. Negotiations continue for the release of securities in the remaining markets under the control of that same custodian (estimated value of less than £0.1bn).

Issues

There continue to be a number of legal and practical issues restricting the return of Client Assets.

Over-claims

Over-claims relate to claims asserted by trust claimants to Client Assets which exceed the amounts recorded by LBIE. These over-claims total c.£7.3bn.

A separate team has been established to investigate these claims, working alongside the Administrators' legal advisers to review each claim. In many cases, the over-claims relate to re-hypothecated assets where the amounts are considered by LBIE to be unsecured claims.

Since the bar date, £0.4bn of over-claims has been resolved with the claimants. The Administrators expect LBIE to be able to reject the majority of the remaining cases.

	£bn
Over-claims asserted for assets within LBIE's control	2.9
of which resolved to-date	(0.4)
Over-claims asserted for assets outside of LBIE's control	4.4
Total over-claims at 14 September 2010	6.9

Affiliate liens

LBIE continues to receive claims from Affiliates asserting liens over certain Client Assets. The Administrators have provided all key Affiliates with details of clients for which LBIE holds assets in trust. As at 14 September 2010, the value of asserted liens total £0.6bn.

The Administrators are reviewing these claims in detail. Unless these claims are withdrawn by the relevant Affiliate, the Administrators may be unable to return the impacted assets to clients.

All affected clients are encouraged to address their outstanding obligations to such Affiliates in order to assist with the release of Client Assets from Affiliate lien claims.

LBI

The Administrators continue to work with the LBI Trustee to agree LBIE's Customer Property omnibus claim held by LBI as sub-custodian.

LBIE and LBI teams have been working in parallel to reconcile the client positions shown in LBIE's records with the securities positions shown in LBI's records and clients' own submissions made via the Client Portal.

As previously reported, LBIE initially estimated that there were £2.2bn of Client Assets held by LBI. This figure assumed that all pending trades in US securities settled between 15 and 19 September 2008. The reconciliations completed to date demonstrate that this was often not the case.

As the LBI Trustee is reconciling the omnibus claim on a security by security basis, the final number of securities in the omnibus claim will only be known once a complete analysis of the trading activity between 15 and 19 September 2008 is provided by LBI and reconciled by LBIE.

It is currently estimated that over 5,900 individual securities require reconciliation. To date, LBIE has received reconciliation templates for 5,638 of these securities. Substantial progress has been made in the period to process the templates received to date, however, more than 75% of securities notified to LBIE do not fully reconcile to LBIE's records.

The Administrators received LBI's Determination for its omnibus claim on 16 September 2010, before receiving the complete set of information on all individual securities and therefore completion of the aforementioned reconciliation. This represented a significantly different approach to that previously envisaged.

The LBI Determination contained quantities for 5,059 of the expected c.5,900 individual securities and did not assign values to these securities. An initial valuation of these securities is £4.2bn, although this estimate must be viewed with considerable caution.

As previously noted, the reconciliation process with LBI has not yet been completed. Moreover, the cash impact of the security transactions processed by LBI in the week ended 19 September 2008, has not yet been established.

The LBI Trustee deferred determination in respect of cash balances owed to LBIE clients for a minimum of 30 days. It is unclear when this will finally be received. The omnibus claim for commodities and futures was denied.

A very substantial amount of work will be required to be undertaken by LBIE in order to complete the reconciliation of the omnibus claim with the LBI Determination and the underlying reconciliation templates received to date (and those still outstanding).

The LBI Trustee has advised the Administrators that the SIPC 30-day objection period to the LBI Determination will be extended to 90 days, without prejudice to further requests for extensions of time.

The Administrators will continue to work as closely as possible with the LBI Trustee during this objection period. However it will be essential that further co-operation be provided directly by the LBI Trustee and his advisers, if material progress is to be made. This is due to the significant complexity and value involved and the critical need for LBIE to understand the principles being applied by the LBI Trustee in determining LBIE's claim on behalf of its clients and the physical return of assets to clients still appears to be unlikely to occur in the near future.

The Administrators will work with their legal advisors to prepare a formal objection where appropriate once the cash determination is received.

Discussions regarding the bilateral protocol between LBI and LBIE to govern the process of agreeing the allocation of LBIE's Client Customer Property claims and the subsequent return of assets are continuing. Once agreed, the allocation process will involve further detailed work.

Additional LBI Customer Property complexity

As mentioned in the previous report, a number of other issues exist which will affect the timing and value of any distribution from LBI. These issues include the following:

- BarCap has advanced multi-billion dollar claims against LBI relating to its purchase of certain LBI activities in September 2008; and
- LBHI has asserted multi-billion dollar proprietary customer status claims against LBI.

These issues are ongoing and resolution is outside of LBIE's control. However, the Administrators continue to monitor publicly available information in relation to these matters.

LBHK

LBIE's records show £0.4bn of Client Assets were held by LBHK at the date of Administration.

In August 2010, the Hong Kong liquidators announced a bar date of 10 December 2010 for claims to Client Assets which they hold. The Administrators are required to resubmit LBIE's claims to assets held in accordance with this bar date.

However, there remains significant uncertainty regarding the quantum and timing of release of any Client Assets within LBHK's control and, as previously reported, the Administrators still have no clear indication from the Hong Kong liquidators as to whether LBIE will eventually recover Client Assets held by LBHK.

Unsecured claims

It should be noted that the process by which CRA signatories will agree their unsecured claim against the House estate is governed by the CRA rather than the Consensual Approach proposals outlined in Section 6. Unsecured claims made by Client Asset claimants who do not become CRA signatories will be agreed bilaterally and therefore are likely to take longer to agree.

Conclusion

Progress has been sustained in the six month period. Client Asset claims continue to be resolved through the CRA process and through bilateral negotiations. The continued efforts of the dedicated CRA and bilateral Client Asset teams should see a significant volume of assets returned to the majority of counterparties over the coming months.

The position with Affiliates remains uncertain. The Administrators are focusing on resolving issues with LBI and LBHK as a priority.

Section 7.2:

Client Money

Highlights

- The Appeal Court Judgment received in August 2010, in relation to pre-Administration Client Money, has a significant impact on the timing of any pre-Administration Client Money distribution. The Administrators need to undertake significant further diligence on what constitutes a Client Money asset and what unsecured liabilities actually should have had Client Money protection.
- The Administrators have sought leave to appeal to the UK Supreme Court.
- On 7 October 2010, the Frankfurt court rejected the Administrators' claim for the return of \$1.0bn of Client Money from Bankhaus.
- An initiative to settle claims in respect of pre-Administration Client Money to a large volume of low value entitlements has been implemented and completed, on an expedited basis.
- £2.2bn has been deposited into the post-Administration Client Money accounts to date.

Overview

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

The focus during the period was to:

- manage and progress the appeals process regarding the Client Money directions application, including its outcome;
- initiate and progress legal action (where appropriate) to recover pre-Administration Client Money deposited with third party institutions and Affiliates;
- allocate and return post-Administration Client Money to claimants through the appropriate mechanism; and
- initiate and complete an expedited process allowing the Administrators to settle claims with respect to low value pre-Administration Client Money claims.

Progress

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

- following the UK High Court judgment received in December 2009 on pre-Administration Client Money (the "Briggs Judgment"), the Administrators completed the work revising the Client Money entitlements required by the Briggs Judgment. Significant progress was made in confirming the revised entitlements with clients for whom Client Money was segregated as part of the Client Money pool. Had the Briggs Judgment been upheld, the Administrators would have been in a position to make an interim distribution before the end of 2010;
- a proposal was circulated to low-value pre-Administration Client Money claimants offering to distribute the lower of \$10k or the claimants' revised Client Money entitlement. The proposal allowed the Administrators to settle a significant number of claims (the claims being settled out of the general estate) and thereby materially reduce the Client Money population and resultant future administrative cost. 240 clients took part in the proposal, with payments totalling \$1.4m; and
- reconciliation work has been completed in relation to the c.£2.2bn of receipts recorded in the post-Administration Client Money account to date. The team has established a process for returning amounts due to clients through the CRA arrangements and through bilateral negotiations.

Issues

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

Appeal Court Judgment

As noted in the previous report, four parties to the Client Money directions applications, including three Affiliates, appealed the Briggs Judgment. Following a five day hearing in June 2010, judgment on the appeal was handed down by the Court of Appeal on 2 August 2010.

Significantly, the Appeal Court Judgment has overturned the Briggs Judgment on the following two issues:

- the Client Money pool created by the FSA's Client Money rules is now deemed to comprise the Client Money held in LBIE's segregated accounts and any identifiable Client Money held by LBIE (at the time of Administration) outside its segregated accounts. The Briggs Judgment had held that (a) the Client Money pool comprised only the Client Money in LBIE's segregated accounts, and (b) identifiable Client Money held outside such accounts should be returned to the specific clients for whom it was held; and
- all clients who ought to have had Client Money segregated for them by LBIE prior to the Administration are now entitled to share in the Client Money pool, regardless of whether or not LBIE did in fact segregate Client Money for them. In other words, both segregated Client Money claimants and unsegregated Client Money claimants (which may include certain of LBIE's Affiliates) are entitled to claim against the Client Money pool. The Briggs Judgment had held that only segregated Client Money claimants were entitled to claim against the Client Money pool.

The Appeal Court Judgment has created significant challenges for the Administrators and will have a significant impact on the timing and amount of any Client Money and unsecured distributions. Significant uncertainty now exists with regard to the:

- size of the Client Money pool;
- number and identity of counterparties now entitled to claim Client Money protection; and
- quantum of any shortfall.

In addition to the impact on Client Money claimants, there will also be a material impact on the unsecured estate. This is discussed further in Section 6.

In light of the Appeal Court Judgment, it is likely that further directions will be required from the court with regard to the nature and extent of work that the

Administrators will need to carry out in pursuing tracing claims. The work required of the Administrators in order to assess precisely which counterparties have Client Money entitlements will also likely need testing in court.

The Administrators plan to move forward as quickly as possible in responding to the Appeal Court Judgment, but the issues to be dealt with are complex and provide significant practical difficulties. The Administrators have commenced construction of a bespoke IT application designed to capture relevant data and information relating to individual contractual arrangements governing the claims of c.3,500 creditors. The objective is then to seek court directions as necessary in order to determine whether any of the individual balances may be the potential subject of Client Money protection. An important consequence of the Appeal Court Judgment is that it has become the responsibility of the Administrators to determine whether or not a creditor's claim has the benefit of Client Money protection, rather than to await receipt of and respond to any Client Money protection claims that are received.

In addition, a database containing the balances and underlying transactional data relating to all LBIE legacy bank accounts is being developed to enable work to be done to investigate whether or not there may be grounds to consider that monies therein might be subject to third party rights.

These databases will facilitate further analytical and legal work which is expected to take a significant period of time to complete. Creditors are reminded that it took some 18 months of effort to calculate the entitlements based on the Briggs Judgment.

In the meantime, the Administrators have sought leave to appeal to the UK Supreme Court. It is unusual for an administrator, rather than a third party respondent, to appeal the Appeal Court's finding in a matter of dispute. The Administrators carefully considered their decision to appeal and posted a note explaining the rationale on the PwC Lehman website www.pwc.co.uk/lehman on 27 September 2010.

Bankhaus

Securing the return of \$1.0bn of pre-Administration Client Money held with Bankhaus remains a major problem.

The Administrators attended the first oral hearing at the Frankfurt court on 6 July 2010. Bankhaus was granted a deadline of eight weeks to 31 August 2010 in which to submit further written arguments. A second hearing was scheduled for 7 October 2010, at which the Frankfurt court handed down its judgment dismissing the petition made by the Administrators, declaring LBIE's claim subordinated in status. The Administrators are disappointed with the court's decision and expect to make an appeal upon receipt of the written grounds for the judgment. Without a successful appeal there is a low likelihood of any financial recovery. The Administrators posted further information regarding the impact of this judgment on the PwC Lehman website www.pwc.co.uk/lehman on 7 October 2010.

During the court hearing on 6 July 2010, the administrator of Bankhaus also announced that he would initiate proceedings for a counterclaim for the return of \$1.0bn which had been repaid to LBIE (on 12 September 2008) under provisions of the German insolvency law relating to preferential payments. The German courts separated that counterclaim from LBIE's claim and noted that jurisdiction of the claim would have to be separately determined. The Administrators are preparing a robust defence to this claim and consider that the claim is based on a number of factual inaccuracies.

LBI

The Administrators continue to engage in a dialogue with the LBI Trustee in respect of c.\$140m of pre-Administration Client Money balances held in LBIE's client transaction account at LBI. LBIE now understands that these balances may have been part of LBI's business which was transferred to BarCap in September 2008. The Administrators have engaged with BarCap in relation to these monies. It is currently not known whether the ongoing dispute between LBI and BarCap (as noted in Section 7.1) will have any impact on this.

Cost application

In light of the Appeal Court Judgment, significant costs will continue to be incurred in relation to pre-Administration Client Money. The Administrators currently intend to ask the court for directions regarding how those costs should be allocated between the Client Money pool and the general estate. The Administrators are keen to engage with relevant stakeholders on this matter. The intention is to make this court application as quickly as possible.

Currency

The majority of the currently segregated Client Money is denominated in US Dollars and the majority of identified Client Money claims is also denominated in US Dollars.

In his judgment at first instance on the Client Money matter, Mr Justice Briggs consented to the Administrators using a single currency to determine respective claimants' shares of the Client Money pool, translating their claims into the single chosen currency at the rate prevailing on the date of Administration. Consent was also provided to pay funds out of the Client Money pool, in a currency considered to be appropriate by the Administrators. As a result of the Appeal Court Judgment, the amount and currency composition of Client Money claims may alter, as may the amount and currency composition of what is, ultimately, the Client Money pool and the Administrators are considering how best to address this issue.

Conclusion

The Administrators continue to work to understand the extent of the impact of the Appeal Court Judgment on Client Money entitlements and the timing of any interim distributions. External court timelines and dependency on resulting directions indicate that the Administrators will not be in a position to agree entitlements or consider any interim distributions for a significant period of time.

Section 8:

Infrastructure

Introduction

This section provides an update on the functions that support the rest of the Administration in the following areas:

- **Section 8.1: Middle office and counterparty support**
Reconciliation, valuation and legal support to third party and Affiliate activities.
- **Section 8.2: Transaction processing and control**
Management and processing of all financial transactions relating to Treasury, Custodians and Corporate Events.
- **Section 8.3: Functions**
Management and coordination of operations and resource allocation, providing specialist support services.

Section 8.1:

Middle office and counterparty support

Highlights

- **Valuation and governance:** Completed reviews of all third party OTC derivative valuations. 99% of failed trades valued in line with approved methodologies.
- **In-house legal:** Provided enhanced cost-effective support to the Street, Trust and Affiliate teams' activities, including the review of 250 complex unsecured creditors and 150 largest debtor groups.
- **Due diligence:** Completed forensic reviews of legal documents and termination notices for c.3,000 counterparties across Street, Middle Office, Affiliates and Trust.
- **Claims submission:** Launched the Claims Portal on 8 July 2010.
- **Reconciliations:** Fully reconciled over 75% of statements received (based on trade volume) compared to 55% previously reported. Significant progress has also been made on c.700 prime broker relationships.
- **Valuation processing and product reporting:** Fully reconciled c.£3.1bn of creditor valuation statements received (based on valuations) compared to £0.9bn previously reported.
- **Counterparty communications management:** 18 new updates on the PwC website, c.1,400 inbound queries managed and four major calling campaigns to c.3,000 counterparties undertaken in the period on various Administration matters.

VALUATION AND GOVERNANCE

Progress

OTC derivatives

LBIE's valuations of all OTC derivatives with third parties (c.120,000 legs) have now been reviewed and approved. 75% (c.75,000 legs) of LBIE's valuations of OTC derivatives with Affiliates have also been approved.

Securities pricing

98% of the House and Client Administrator controlled portfolios are revalued on a bi-weekly basis and 99% of all securities failed trades have now been revalued in line with approved methodologies.

Securities financing positions

Over 200,000 securities financing trades relating to third parties and Affiliates require valuation at various dates.

The pricing data and valuation of 99% of the third party financing population has been completed, and the remaining 1% is due for completion shortly.

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 and available for the Street team to use in the finalisation of the reconciliation of close-out positions to internal margin and position accounts.

Issues

The main challenges to progress include:

- some data is still required for multiple valuation dates for Affiliates OTC derivative and financing valuations; and
- trades may need to be revalued where dates have changed as a result of further legal due diligence on termination dates.

IN-HOUSE LEGAL

Progress

Key achievements in the period include:

- legal negotiation of settlement agreements with counterparty debtors (see Section 4);
- completed legal review of the 250 most complex unsecured creditors across all products and contracts for the purposes of developing the Consensual Approach;
- contribution to the review of the Appeal Court Judgment;
- contribution to the production of witness statements and other court-related documents; and
- contribution to the development of strategies for pursuing debtors and evaluating creditor claims.

Issues

There are 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. In these circumstances, the team helps coordinate proceedings to recover amounts receivable by the estate, including engaging external counsel in appropriate jurisdictions.

DUE DILIGENCE

Progress

Key progress during the last six months include:

- completing review of contracts and termination notices for c.3,000 counterparties across Street, Middle office, Affiliates and Trust (including 800 prime brokerage relationships);
- processing of c.2,400 amendments to source data repositories as a result of assignments, counterparty name changes, mergers and principal/agency re-mappings; and
- reviewing termination dates of c.900 financing agreements to ensure that the House valuation for the Consensual Approach is based on appropriate reference dates.

Issues

The identity of LBIE's creditors continues to change as counterparties assign their claims. A process has been established in the period for reviewing assignment notifications received from counterparties and for updating LBIE's records to reflect the new claim holder. To date, c.400 assignment notices have been received. CRA related claims assignments are requiring significantly more work than others.

CLAIMS SUBMISSIONS

Progress

There has been a week-on-week increase in PoD submissions via the Claims Portal since its launch on 8 July 2010 and a corresponding reduction in the receipt of paper claims.

See Section 6 for a summary of claims received as at 14 September 2010.

Issues

The quality of submitted claims has varied and c.90 claims to date are likely to be rejected with the creditor being requested to re-submit as they are not compliant with UK insolvency legislation requirements.

As outlined in Section 6, for unsecured claims (excluding CRA signatories) to be agreed, a compliant PoD is required via the Claims Portal. Any creditor who has not submitted a PoD is recommended to do so in a timely manner to enable the Administrators to progress their claim. For further details please go to www.pwc.co.uk/lehman.

It is important that all PoDs are submitted in line with the guidance provided in the user guide for the Claims Portal such that all claims can be progressed in a timely manner.

RECONCILIATIONS

Progress

OTC derivatives and financing

Over 90% of the expected valuation statements detailing trade populations have been received, compared to c.70% in the last report.

Where a valuation statement has been received, and is suitable for reconciliation, over 75% of statements (based on trade volume) have been fully reconciled compared to 55% in the last report. This includes c.£4.0bn of creditor claims representing c.750 counterparties.

Prime brokerage

Of the c.700 non-trust prime brokerage relationships LBIE held with counterparties, 55 had inventory positions. Of these 55, 34 have submitted a valuation statement or PoD, and for 12 of these, the reconciliation is materially complete (c.£0.3bn).

For those relationships with no inventory positions (c.645 counterparties), LBIE will endeavour to reconcile the client's cash position with their PoD or valuation statement to LBIE's underlying books and records.

Issues

LBIE will seek to engage with counterparties who have yet to submit valuation statements, or where there are outstanding queries on the statements submitted.

For agent/principal relationships, where data is required at the principal level, LBIE is reliant on the agent counterparty to disclose that information.

Whilst the required analysis has generally been forthcoming, in certain cases a number of agency counterparties have been either reluctant or unable to engage at the underlying principal level.

LBIE remains reliant on clients and Affiliates to assist in resolving differences. The Administrators wish to encourage all counterparties to submit PoDs and valuation statements to LBIE if they have not already done so, in order to progress claim agreement as soon as possible.

VALUATION PROCESSING AND PRODUCT REPORTING

Progress

Finalisation of the majority of LBIE House valuation methodologies has enabled the team to complete a significant portion of the valuation comparisons.

Issues

Active counterparty engagement is required to ensure that the team concludes on valuation discrepancies which are often not forthcoming, thereby slowing progress.

COUNTERPARTY COMMUNICATIONS MANAGEMENT (“CCM”)

Progress

The CCM team has managed four large-scale calling campaigns during the period.

During these campaigns over 10,700 calls were made reaching more than 3,000 counterparties to convey messages for the Client Money proposal and submission of statements, PoD submissions, agent/principal relationships and client contact verification.

Since the last report, 18 communication updates have been issued on the PwC Lehman website (www.pwc.co.uk/lehman) and over 16,000 pro-active outbound pieces of communication have been emailed and posted to creditors.

The CCM team has also managed c.1,400 specific queries from counterparties over this period.

The team has progressed its client contact data cleansing programme, resulting in verification of over 70% of all Administration counterparty contact data.

Issues

As the Administration progresses, it is expected that communication campaigns will continue. The successful execution of these is dependent upon the Administrators having the correct contact details for counterparties which LBIE is reliant on the counterparty providing.

For counterparties who have not yet received any information from the Administration, please send your contact data to CounterpartyContacts@lbie-eu.com for verification and inclusion in the CCM databases.

Section 8.2:

Transaction processing and control

TREASURY

Highlights

- £9.5bn of cash and long-term investments are under the Administrators' control and are invested in accordance with LBIE's investment policies.
- Net increase of £1.4bn of House monies in the period.
- Net reduction of £0.05bn in monies held in Client accounts.
- The Appeal Court Judgment on Client Money has had a material impact on LBIE's currency policy.

Progress

Currency strategy

Consistent with the need to admit unsecured claims in Sterling, the Administrators have begun to report and convert the assets of the House Estate to Sterling.

Given the very significant non-Sterling sums accumulated by the Administrators, external professional advice was obtained to develop a strategy to achieve conversion within the Administration's strict investment risk policy.

The current reporting period has seen the following progress on implementation of the conversion strategy:

- setting up the contractual framework for managing currency conversions within risk limits; and
- conversion of a substantial proportion of the non-Sterling House estate into Sterling, as reflected in the Receipts and Payments (see Appendix A).

Issues

Following the Appeal Court Judgment, the Administrators have suspended further conversion into Sterling, because funds that are currently assumed to be House monies may in fact be required to be re-classified as Client Money in due course.

To the extent that they are not eventually reclassified as Client Money, the remaining non-Sterling currency holdings expose the House estate to exchange rate movements, principally Sterling-Euro and Sterling-US Dollar.

Given the substantial uncertainty as to the extent of the re-classification between House and Client that may be required eventually, effective conventional currency hedging is currently considered to be prohibitively expensive. The Administrators will continue to review this situation as the legal issues with respect to Client Money become clearer, and to discuss with the Committee the alternative strategies that might be adopted.

House Estate

As at 14 September 2010, LBIE held £8.1bn equivalent of House monies in cash and investments. This comprises:

- £3.6bn equivalent invested in short-term deposits (one or two weeks) with an average return for the year ending 31 August 2010 of 0.33% (GBP denominated funds), 0.18% (EUR), and 0.15% (USD). LBIE currently has investment mandates with 15 banks;
- £0.6bn equivalent held in interest bearing accounts, mostly in transition to short term deposits;
- £0.1bn equivalent AAA-rated Government Eurobond maturing in July 2011, which was held by LBIE pre-Administration; and
- £3.8bn equivalent of short-dated (less than one year) AAA Government Bonds managed by three separate independent fund managers (see overleaf).

Fund managers

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

Average fees for fund managers are approximately 5bps per annum for the reporting period.

Performance of the fund managers is measured against one year yield benchmarks.

LBIE is expecting to appoint a fourth fund manager before the end of 2010, pending appropriate due diligence.

Trust Estate

As at 14 September 2010, £1.4bn equivalent of Client Monies in cash and investments was under the Administrators' control. The monies comprise:

- £0.2bn equivalent held in interest bearing accounts; and
- £1.2bn equivalent in short-term (one week) deposits in line with CASS guidelines.

There are ten banks with dealing mandates for Client Monies for short term deposits, and the majority of Client Monies are currently maintained in US Dollars.

Legacy and post-Administration bank network

Of the 1,563 pre-Administration bank accounts, a further 123 bank accounts have been closed during the period. 958 have been closed to date and an additional 184 have been instructed for closure.

Reconciliation on a daily basis of all legacy and post-Administration bank accounts continues.

Intensive work continues on the repatriation of the funds held in cash at a major Chinese counterparty. During the period, agreement was reached and signed with a UK based asset manager which has a shared interest in the funds being released. Following exhaustion of all other possible approaches to dealing with a significant local tax demand, using some of the

funds that are otherwise currently restricted in China, the Administrators have agreed to pay the demanded sum. This became a pre-requisite to foreign exchange control approval and ultimate repatriation. The potential proceeds from this counterparty are in the region of c.£0.4bn, following receipt of which efforts will be made to recover the tax paid.

Other Issues

The management and oversight of LBIE's funds requires an effective governance and investment policy. Compliant investment management remains an ongoing focus.

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

HOUSE CUSTODIANS

Highlights

- Gained control of a further £0.2bn of assets from third-party custodians and the remaining £0.2bn from tri-party agents.
- Significant further analysis of the portfolio resulted in an additional £0.4bn of assets available for sale in the period.
- Completed the analysis and reconciliation of the forced liquidation activity of major third-party custodians.

Progress

To date the team has gained control of £4.5bn of assets. This represents 53% of the total House depot as at the date of Administration.

£2.6bn of depot securities are now under LBIE control, of which £2.2bn is ring-fenced for potential Affiliates and/or client claims.

During the period, progress has been made in the following areas:

- gaining control of £0.4bn of assets from third party custodians, including £0.2bn from the remaining tri-party financing agents;
- releasing £0.3bn of assets from ring-fencing, making them available for sale following extensive research and analysis;
- releasing £0.1bn relating to Treasury bonds previously held to maturity and now available for sale; and
- increasing the House claim for securities in the LBI SIPA liquidation process by £2.3bn to £3.4bn following confirmation from LBIE's customers that certain transactions had settled.

The above asset migrations and disposals have resulted in the processing of c.1,100 market events since the last report.

A detailed analysis has been completed in the period of the forced liquidations undertaken by third-party custodians to extinguish their settlement activity liabilities with LBIE. This included the analysis of:

- 29 agent banks/markets;
- c.6,800 lines of securities;
- c.5,200 liquidated/buy-in related events; and
- c.100,000 post-Administration settlement related events.

The purpose was to ensure these activities were within the contractual rights of the relevant custodian agreements and undertaken in line with the prices obtained in the market at the time of liquidation. No material issues were identified.

Issues

Further asset realisations are dependent upon continued progress in securing the release of assets held at third party legacy and Affiliate custodians and resolution of ownership claims.

LBIE has filed a House claim in the LBI SIPA liquidation process for the return of £3.4bn of assets recorded as held by LBI.

The liquidators of Hong Kong-based entities have yet to formulate any proposals for the return of £0.2bn of securities claimed by LBIE for the House Estate; although a bar date has been set for December 2010.

The remaining £0.1bn of LBIE assets held by LBJ is expected to be received in the House depot in due course.

Negotiations are in progress in respect of frozen assets which are held by two North American custodians.

CORPORATE EVENTS

Highlights

- £2.1bn of cash relating to corporate actions has been credited to LBIE accounts since the beginning of the Administration.
- £2.0bn of these funds are under the Administrators' control and £0.1bn currently remains within legacy accounts.
- £1.2bn of cash relating to derived income has been credited to LBIE accounts since the beginning of the Administration.
- £1.1bn of these funds are under the Administrators' control and a further £0.1bn currently remains within legacy accounts.
- The in-house corporate actions processing platform implemented in the prior period has been enhanced to include derived income.

LBIE is now tracking over 46,000 events within the system across both corporate actions and income that have occurred since Administration.

LBIE is also now able to calculate any entitlements due at an individual client level, allowing for a more accurate and controlled distribution of corporate events across all clients and products.

It is expected that by the end of 2010 all events since Administration will have been fully processed.

Issues

A key issue continues to be the lack of visibility of House and client securities held by Affiliates, and the uncertainty with regard to the manner in which these Affiliates will ultimately account for corporate events.

Progress

£3.3bn of corporate events has now been processed on the House and Client depot holdings since the start of the Administration:

- c.£1.9bn relates to House depot holdings. This is further currently analysed as House cash of £1.5bn (including £0.4bn received in the period) and ring-fenced for Affiliate ownership claims of £0.4bn; and
- £1.4bn relates to Client Assets of which approximately £1.0bn has already been returned, (including £0.1bn in the period):
 - £0.9bn to clients to date (£0.8bn of corporate action cash and £0.1bn of derived income); and
 - £0.1bn to an Affiliate as part of a wider exchange agreement in a prior period.

Enhancement of the in-house corporate actions processing platform has improved the efficiency of processing corporate events to support derived income.

Section 8.3:

Functions

CHIEF OPERATING OFFICERS (“COO”)

Highlights

- Oversight of governance committees to manage strategic developments - Executive Committee (“ExCo”) and operational prioritisation Operating Committee (“OpCo”).
- Oversight of cost reduction processes, achieving further material reductions in annual operating costs (expected to decrease by 15% in 2010).
- Strategic review of 2011 resource requirements.
- Proactive management of Transitional Services Arrangements (“TSA”).

Progress

A key objective over the last six months has been to preserve stability in the resource and infrastructure environments in which LBIE operates.

Resource profile

The COO continue to focus on maintaining a skilled, highly-utilised and cost-efficient resource pool.

An exercise has been undertaken in the period to assess the strategic resource requirements for 2011. As a result no major redundancy programme will be initiated in 2011. All LBIE ongoing resource has been provided with a 2011 retention letter. An exercise to review the resource requirements for fixed-term contractors is currently underway.

Since 15 March 2010, there have been 95 new hires and 87 leavers, of which seven related to completed activities or underperformance issues. It is expected that up to an additional 100 hires could be required during the remainder of 2010 and through 2011, predominantly on fixed-term contract bases.

Governance

The continued operation of the OpCo and ExCo enables the COO office and Administrators to manage the day-to-day activities of the Administration, and align those activities to the Administrators’ strategic objectives.

The quarterly target setting and balance scorecard governed by the ExCo is used to drive the operational activities within each quarter allowing a dynamic and transparent response to the strategic considerations of the Administrators.

TSAs

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.

LBIE has continued 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 COO have continued to 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 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 with the removal of reliance on BarCap in September 2010 and the planned closure of the Nomura TSA in October 2010.

Overall cost profile

The operating cost profile of LBIE is managed through the COO budgeting process and current forecasts show costs for 2010 continue to be in line with budget.

Issues

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

Inter-dependencies across each of the teams are considerable. Effective governance mechanisms enabling the dynamic prioritisation of activities and transparent assessment of progress in a highly complex matrix of tasks is key to stability and success in the Administration and consultation with the COO is required to achieve this.

FINANCIAL, TREASURY AND OPERATIONAL REPORTING

Highlights

- Preparation of MI and key performance indicators for all parts of the Administration.
- Provision of financial and operational data used in the Committee meetings and creditor communications.
- Continuous assessment of how responsibility for transactions and counterparties is allocated between the appropriate areas of the Operating Model.

Progress

Bi-weekly MI continues to be produced to analyse asset and liability balances, cash recovered, remaining assets to be pursued and assets/cash returned to clients. The elements of the financial reports have evolved over the period as the needs of the Administrators have continued to change.

Development work is currently underway to refine the foreign exchange calculation methodology to take contractual currency data into account in a systematic manner.

Further progress has been made to improve the process by which underlying product valuation data is collated and aggregated to enhance the efficiency and quality of the central reporting function.

Issues

A significant amount of expert resource and system support continues to be required to enable the oversight and management of all data that constitutes the balance sheet of LBIE. The retention of this resource is critical.

The programme of communication with creditors has included a focus on identifying undisclosed principals and related positions underlying agency relationships, separating these in LBIE's records and restating the company's assets and liabilities. This remains a significant on-going activity.

Further, until the House valuations are finalised, value attributed to specific trades may change impacting the current LBIE balance sheet.

INFORMATION TECHNOLOGY (“IT”)

Highlights

- Information Technology remains central to enabling the Administrators to achieve their objectives. It accounts for a significant proportion of costs and resources.
- The primary objective is to provide a stable and secure technology platform aligned with the Administrators’ strategy. This has continued to be achieved in this period, although ongoing maintenance and development is still required.
- There has been significant effort in removing the Administration’s dependency in preparation of the Nomura TSA expiring in the next period.
- Removed the dependency on BarCap for IT services saving the Administration c.£20m in annualised costs.
- Completed initiative to capture and store data for forensic purposes.

Progress

Key progress in the period includes:

- dependency on BarCap IT infrastructure and applications has been removed;
- dependency on Nomura for provision of IT services has been removed except for some low levels of support of legacy infrastructure;
- the network that has been shared with Nomura since the sale of the business was separated in September 2010;
- the majority of applications has either been retired or migrated to an independent data centre. The remaining applications will be migrated during the next period;
- the strategic systems that are central to the Administration have been further developed to support the CRA and Consensual Approach initiatives;
- 13 million reports and documents held on BarCap and Nomura systems have been transferred to the post-Administration IT environment; and
- forensic data identified as critical to support investigations and litigation has been captured and stored.

INFRASTRUCTURE AND PROPERTY (“I&P”)

Highlights

- Reduced service at 25 Bank Street to minimum operating levels and effected contractual cancellations from 30 September 2010.
- Continued negotiation with critical IT software and application suppliers to provide a standalone data centre.
- Cost efficiencies achieved through the conversion of fixed costs to variable costs.
- Connected with Global Switch and commenced negotiations to resolve the long term future for the data centre space.

Progress

Key highlights in the period were:

- minimised LBIE’s landlord services at 25 Bank Street, significantly reducing management costs;
- effected cancellation of 25 Bank Street landlord services from the Nomura lease break date of 30 September 2010;
- successfully removed IT dependency on LBIE’s former offices at 25 Bank Street, Canary Wharf;
- rationalised the two legacy data centres to a single data centre in readiness for independence from Nomura’s support in October 2010; and
- initiated future data centre provisioning discussions with Global Switch.

HUMAN RESOURCES (“HR”)

Highlights

- Ongoing HR support for c.480 Lehman employees and contractors.
- Targeted recruitment of 95 hires in the period against a leaver profile of 87 individuals. Close, ongoing management of resource pool.
- Continued focus on maintaining an attractive employment offer – introduction of childcare vouchers, life assurance, and on-going leadership and development opportunities.
- Development and implementation of 2011 retention strategy.
- A court application has been made, to be heard in November 2010, to determine the status of any liability imposed by the Pensions Regulator on LBIE regarding the Lehman Brothers Pension Scheme.

Progress

The overall employee population has continued to be relatively stable in this period, with a manageable level of turnover and focused replacement hiring.

Notable areas of progress are:

- targeted recruitment continues where necessary, with 95 hires in this period. Achieved 73% low-fee hiring with c. £500k savings in recruitment costs through direct hiring. Agreed a list of approved additional resources for focused hiring;
- rigorous mid-year performance review process. Employees were reviewed against individual objectives as well as the newly introduced key competencies for all senior staff;
- development of the 2011 retention strategy with the implementation of the 2011 retention unit award programme. This programme aligns individual performance with the overall performance of the Administration and will reward employees who remain committed to achieving the Administration objectives;
- continued progress with HMRC to resolve pre and post-Administration PAYE reconciliations;
- preparation of all year-end reporting requirements to HMRC;
- ongoing communication with employees around various benefit issues including the re-introduction of the life assurance scheme and child care voucher scheme;
- continued development of a leadership and development programme to support performance and retention, and to improve the quality of people management to maximise employee contribution; and
- interaction with the Pensions Regulator on the subject of a potential Financial Support Direction (“FSD”) under the Pensions Act 2004 and preparations for LBIE’s defence in the event one is issued to it.

Issues

The principal employer under the Lehman Brothers Pension Scheme was Lehman Brothers Limited (“LBL”). The Pensions Regulator has powers to impose liability under an FSD on other group entities. The FSD requires financial support to be provided to the pension scheme, in relation to the scheme’s deficit. The deficit in the scheme on a winding-up basis has been estimated at £148m, but the final figure could be materially higher.

On 13 September 2010 the Pensions Regulator’s determinations panel decided to issue an FSD against LBIE and five other entities. LBIE is appealing against this decision.

An FSD does not create a debt due from the targeted company (LBIE) to the pension scheme, but such a debt can be imposed by the Pensions Regulator at a later stage of the process. At present it is not clear how the liability will be divided among the targeted entities.

Any debt would come into existence after the date of Administration, and this creates uncertainty as to its legal status.

An application has been made to the UK High Court by LBIE to resolve this uncertainty. The case is expected to be heard in late November 2010.

REGULATORY AND COMPLIANCE (“R&C”)

Highlights

- LBIE continues to perform regulated activities, and therefore remains FSA-authorised by the FSA as well as by various other regulators outside the UK.
- Ongoing review of activities to identify regulatory risks and ensure related controls and compliance are put in place as required.
- Ongoing support of the data migration / separation project setting out compliance requirements and assisting in user testing, to ensure integrity of LBIE data is maintained.
- “Business as usual” compliance activities, including counterparty screenings, personal account dealings and specific trade reviews, have not identified any issues in the period.

Progress

Progress in the period includes:

- provided regulatory and compliance overview to the data migration / separation project;
- continued roll-out of compliance training to all LBIE staff to enhance compliance awareness across LBIE and to meet the FSA’s requirements;
- engaged with the FSA on a wide range of issues, including a number of regulatory investigations into historic market dealings and other business activities; and
- ongoing support to the Administration in the orderly wind down of LBIE and its associated branches. Further, ensuring that LBIE is not burdened by unnecessary regulatory fees.

In addition to the above, the R&C team continued to respond to various “business as usual” activities including position disclosure assessments, monitoring of international sanctions lists and review of possible conflicts and potential market abuse.

TAX

Highlights

- A key objective of the UK Lehman group tax function is to secure the repayment of c.£460m (plus interest) of corporation tax paid from 2004 to 2008. c.£150m of this is attributable to LBIE. LBIE has secured recovery of a further c.£20m plus interest in respect of pre-2004 periods.
- Methodology for maximising the value for LBIE has been agreed, in conjunction with, other UK Lehman entities. This sets out the basis on which losses will be claimed and surrendered between UK companies that are subject to the Group Payment Arrangement ("GPA").
- Legal agreements to support the GPA proposal were circulated to LBIE and other stakeholders in mid August 2010.
- Agreements will be executed and submitted to HMRC, together with the relevant joint amended returns in respect of the UK Lehman group position for 2004-2007, by 15 October 2010.
- LBIE has secured the repayment of £5m of withholding taxes, and is pursuing further significant recoveries.
- Negotiations with Dutch tax authorities are progressing in order to recover tax of c.£10m in relation to the Dutch branch.
- VAT returns have been submitted for the LBL VAT group (which includes LBIE) to the period ending May 2010.
- To date, £33m in irrecoverable VAT has been paid to HMRC (c.£10m in the period).

Progress

- The team has compiled and filed 2009 and 2010 returns to HMRC in the required format as required by the European Union Savings Directive.
- Since the date of Administration, in excess of 300 UK Lehman entities tax returns have been filed. 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.
- 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 £5m of withholding taxes.
- Significant progress has been made towards branch closure for Spain and Italy and towards recovery of c.£10m from Dutch tax authorities.

Issues

The most pressing issue at this time is to obtain HMRC agreement to repay corporation tax paid in prior years, agree the formal mechanism for making those payments and collect the amounts due to LBIE. However, set off is likely to be a key issue.

Ongoing correspondence and dialogue with HMRC has identified some of the issues which need to be addressed and the team is systematically working through these.

Section 9:

Statutory and other information

Section 9.1:

Statutory information

<i>Court details for the Administration:</i>	UK High Court, Chancery Division, Companies Court. Court case number 7942 of 2008.
<i>Full name:</i>	Lehman Brothers International (Europe)
<i>Trading name:</i>	Lehman Brothers International (Europe)
<i>Registered number:</i>	02538254
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ.
<i>Company directors at the date of insolvency:</i>	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
<i>Company secretaries at the date of insolvency:</i>	Ms M Smith, Mr P Dave, Ms ES Upton
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in LBIE.
<i>Date of the Administration appointment:</i>	15 September 2008
<i>Administrators' names and addresses:</i>	AV Lomas, SA Pearson, DY Schwarzmman, MJA Jervis and DA Howell of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT.
<i>Appointer's name and address:</i>	UK High Court of Justice, Chancery Division, Companies Court.
<i>Objective being pursued by the Administrators:</i>	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).
<i>Division of the Administrators' responsibilities:</i>	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.
<i>Details of any extensions for the initial period of appointment:</i>	The court has granted an extension of the Administration to 30 November 2011.
<i>Proposed end of the Administration:</i>	Please see Section 6.1 of this report.
<i>Estimated dividend for unsecured creditors:</i>	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.
<i>Estimated values of the prescribed part and LBIE's net property:</i>	The value of the prescribed part is £600,000, which will be met in full.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) of the Insolvency Act:</i>	Such an application is considered unlikely.
<i>The European Regulation on Insolvency Proceedings (Council Regulation (EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings does not apply to this Administration as LBIE is an investment undertaking.

Section 9.2:

Other statutory matters

Change to the constitution of the Committee

The members of the Committee at 14 March 2010 consisted of:

1. Lehman Commercial Paper Inc.
2. Ramius Credit Opportunities Master Fund Limited
3. GLG European Long Short Fund
4. Oceanwood Global Opportunities Master Fund
5. Legal and General Pensions Limited

During the period, Legal and General Pensions Limited resigned from the Committee and was replaced by Société Générale.

Section 9.3:

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.

The Administrators continue to provide the Committee and its adviser (the "Adviser") with detailed information of their remuneration in accordance with Statement of Insolvency Practice No.9 ("SIP 9").

Time costs for the period up to 30 June 2010 have been provided to the Committee for its approval.

Resolutions of the Creditors' Committee

The Committee has approved a further £46,233,642 of time costs, totalling 152,848 hours at an average hourly rate of £302 for the period 15 March 2010 to 30 June 2010. Other costs approved include £260 of category 2 disbursements.

Analysis of time costs

The main focus of the Administrators' time spent on the estate continues to be around the return of Client Assets, the recovery of House assets into the estate and the development of the process to manage and agree unsecured creditors' claims. In order to put the costs into perspective, listed below are some of the highlights that are reflective of the six months period from 15 March 2010 to 14 September 2010:

- returned £2.3bn of assets to CRA signatories and non-CRA claimants combined and started the reconciliation of over £7.3bn of over-claims which have been submitted, in order to maintain progress on asset return;
- responded to the Appeal Court Judgment by seeking permission to appeal and thereafter developing a programme of analysis and enquiry to deal with the multiple consequences of the judgment;
- realised £0.4bn from Street debtors and settled with 24 of the top 150 debtor groups, avoiding litigation in some cases;
- submitted a revised claim against LBI and continued reconciliation of underlying securities data as and when received from LBI;
- held extensive discussions with LBHI and its US debtor affiliates, with a view to determining whether to participate in or object to the currently filed Plan;
- developed and announced the Consensual Approach to deal with unsecured creditors claims and engaged with creditors to obtain feedback; and
- managed the House and Trust Estates and the LBIE infrastructure necessary to support them.

The progress made in the Administration continues to be driven by a combination of PwC and Lehman staff. The Administrators have adopted a flexible resource model that encourages the efficient utilisation of every level of staff. This has allowed the Administrators to maintain a consistent average hourly charging rate over the past 12 months while continuing to achieve significant progress throughout this very complex and challenging Administration.

It is anticipated that the time costs for the next six month reporting period will remain largely in line with the past six months. Time costs for Q3 2010 will be provided to the Committee and the Adviser for consideration at the next Committee meeting.

Additional analysis of Administrators' remuneration

The tables below provide an analysis of the total hours and cost by grade for remuneration resolutions approved by the Committee for the period 15 March 2010 to 30 June 2010.

Grade	Period 15 March 2010 to 30 June 2010		Total from 15 September 2008 to 30 June 2010
	Hours	£ 000's	£ 000's
Partner	7,366	4,864	29,351
Director	7,313	4,132	29,502
Senior Manager	27,688	10,488	60,311
Manager	35,155	11,513	55,039
Senior Associate	50,809	11,684	62,739
Associate	24,517	3,553	20,159
Total	152,848	46,234	257,101

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

		Period 15 March 2010 to 30 June 2010		Total from 15 September 2008 to 30 June 2010
		Hours	£ 000's	£ 000's
Counterparties	Street	19,019	7,223	51,258
	Trust	35,220	9,442	31,076
	Affiliates	6,668	2,245	4,319
	Valuation Governance	4,809	1,542	16,460
	Branches	4,385	1,514	14,489
Middle office	Middle Office	11,363	2,762	11,350
Transaction Processing and Control	Transaction Processing and Control	13,174	4,377	27,938
COO	Operations	10,836	3,951	28,081
Functions	Tax	1,125	500	4,590
	Regulatory & Compliance	533	188	3,376
	LBL Recharges (see below)	36,309	9,986	60,660
Insolvency specific	Insolvency specific	4,521	1,480	1,852
	Forensic investigations	4,886	1,024	1,652
Total		152,848	46,234	257,101

LBL Recharges	Hours	£ 000's
Employees	1,858	888
Estate accounting	1,467	490
Group liquidations	23	10
Group services management	4,910	1,313
Information Technology	24,339	6,075
Intercompany	554	89
Interdependencies	1,461	531
Property issues	1,697	590
Total	36,309	9,986

Appendices

Appendix A:

Receipts and payments:
six months to 14 September 2010

Appendix A:

House receipts and payments: six months to 14 September 2010

	Notes	GBP	EUR	USD	Various currencies	Total (GBP equivalent) at 14 Sept 2010
		£m	€m	\$m	£m	£m
Receipts						
Counterparties	1	204	211	89	1	438
Depot securities	2	125	236	734	165	964**
Client Monies for onward distribution	3	23	24	57	2	81
Other income	4	27	53	15	-	81
Total Receipts for the period		379	524	895	168	1,564
Payments						
Payroll and employee costs	5	(24)	-	-	-	(24)
Administrators' remuneration	6	(52)	-	-	-	(52)
Building and occupancy costs	7	(12)	-	(11)	-	(20)
Legal costs	8	(14)	-	(1)	-	(15)
Other payments	9	(16)	(41)	(5)	-	(52)
Distribution of Client Monies	10	(23)	(24)	(57)	(1)	(81)
Total Payments for the period		(141)	(65)	(74)	(1)	(244)
Net movement in the period		238	459	821	167	1,320
Balance at bank as at 14 March 2010 as previously reported		354	4,383	4,100	53*	6,722*~
Net inter-currency transfers for six month period to 14 Sept 2010		4,222	(2,298)	(3,230)	(167)	43
Total balances as at 14 September 2010		4,814	2,544	1,691	53	8,085***

* see 'Notes to Receipts and Payments accounts' in previous progress report. Balances for 'Various currencies' and 'GBP equivalent' above are translated as at 14 September 2010. Balances would have been £52m and £7,101m respectively had they been translated using 14 March 2010 exchange rates.

** includes £62m of funds arising from sale of securities to which Affiliates have asserted claims in the six months to 14 September 2010.

*** excludes Treasury investments of €89m (at par) transferred from House Depot.

~ excludes Treasury investments of €94m (at par) transferred from House Depot.

Appendix A:

Client receipts and payments: six months to 14 September 2010

	GBP	EUR	USD	Various currencies	Total (GBP equivalent) at 14 Sept 2010
	£m	€m	\$m	£m	£m
Receipts					
Pre-Administration Client Monies	-	-	17	-	11
Redemptions, coupons, dividends and investment income	14	108	70	39	189
Total Receipts for the period	14	108	87	39	200
Payments					
Return of Collateral	-	-	(161)	-	(105)
Transfers to clients	(29)	(80)	(60)	(2)	(137)
Total Payments for the period	(29)	(80)	(221)	(2)	(242)
Net movement in the period	(15)	28	(134)	37	(42)
Balance at bank as at 14 March 2010 as previously reported	121	319	1,270	196*	1,407*
Total balance as at 14 September 2010	106	347	1,136	233	1,365

* balances for 'Various currencies' and 'GBP equivalent' above are translated as at 14 September 2010. Balances would have been £193m and £1,442m respectively had they been translated using 14 March 2010 exchange rates.

Notes to the 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 note 4 below), the statements in this section reflect transactions completed in the period, in cleared funds, in accounts established and controlled by the Administrators.

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

As stated in the previous progress report, following the December 2009 conversion of LBIE into a Distributing Administration it is now appropriate to report in Sterling.

1. Counterparty receipts

Comprises financing, prime brokerage, OTC derivatives and exchange traded derivatives recoveries totalling £0.4bn for the period.

2. Depot security sales and related income

Comprises £0.9bn of cash realisations on the disposal or redemptions of securities and derived income on depot holdings.

3. Client Monies for onward distribution in the period

Relates to cash transferred from the Client accounts for onward distribution as part of the Trust Property return scheme.

The CRA and certain bilateral counterparty arrangements provide that the counterparty will, in specified circumstances, make certain assignments and payments to a company name "Laurifer Limited" in respect of certain claims to Trust Property. Notwithstanding the assignment of claims to Laurifer Limited, the original claimants will continue to deal with LBIE in order to realise value in respect of their assigned claims.

An amount equivalent to the net value of the claims in Laurifer Limited after deduction of the fees and expenses due to Laurifer Limited will either be applied in meeting LBIE's liabilities under the CRA (hence reducing House liabilities) or will flow back to the House pool and be distributed to creditors in due course.

4. Other income in the period

Includes the following:

- £15m retained from Client Asset returns as a contribution towards costs;
- £12m of interest received and accruals on bond interest;
- £13m of VAT received from HMRC;
- £20m ring-fenced in House accounts, which have been repatriated or redirected after investigation;
- £8m of asset realisations; and
- £14m of other receipts and items under investigation as at 14 September 2010.

5. Payroll and employee costs in the period

Relates to payroll costs of LBIE staff in the period and includes taxes and National Insurance costs.

Annual payroll costs are currently estimated at c.£93m.

6. Administrators' remuneration

Payments include remuneration and expenses paid in accordance with the Insolvency Rules and SIP 9 detailed in Section 9.3.

7. Building and occupancy costs

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

8. Legal costs

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

These costs include fees related to advice contributed to the design and implementation of the Consensual Approach, CRA, various directions hearings, including RASCALS and BTB derivative side letters, Client Money appeal, litigation specific costs and general advisory costs incurred by the Administrators. Over 30 law firms are retained in various capacities and in various geographies.

9. Other costs

Includes the following:

- £36m of repatriated or redirected funds which were mistakenly paid into House accounts (see Other receipts);
- £14m of VAT paid on invoices; and
- £3m of other sundry payments.

10. Distribution of Client Monies

Relates to returns to clients under the asset return scheme (see note 3 above).

Appendix B:

LBIE contact details

General enquiries

enquiries.lehmanbrothers@uk.pwc.com

Counterparty contact information

Termination notices and valuation statements	<i>uk.terminationnoticesqueries@lbia-eu.com</i>
Counterparty contact information	<i>counterpartycontacts@lbia-eu.com</i>
Unsecured creditors queries	<i>unsecuredcreditors@lbia-eu.com</i>
Claim Portal access requests	<i>logons@lbia-eu.com</i>

Trust Property claimants

Client Assets (CRA signatories and Non-CRA clients)	<i>claimresolutionagreement@lbia-eu.com</i>
Client Money	<i>clientpositionresponses@lbia-eu.com</i>

Appendix C:

Foreign exchange rates

as at 15 September 2008

Rule 2.86 of the Insolvency Rules stipulates that

“for the purposes of proving a debt incurred or payable in a currency other than Sterling, the amount of the debt shall be converted into Sterling at the official exchange rate prevailing on the date when the company entered into administration”.

The table below provides details of the official exchange rates as at 15 September 2008.

Currency	Abbreviation	As at 15 Sept 2008 £1 =	Currency	Abbreviation	As at 15 Sept 2008 £1 =
Argentine Peso	ARS	5.53956	New Zealand Dollar	NZD	2.71280
Australian Dollar	AUD	2.21420	Nigerian Naira	NGN	210.96044
Brazilian Real	BRL	3.23211	Norwegian Krone	NOK	10.36440
Canadian Dollar	CAD	1.91600	Peruvian Nuevo Sol	PEN	5.32977
Chinese Yuan	CNY	12.28360	Philippine Peso	PHP	84.28980
Cyprus Pound	CYP	0.73990	Polish Zloty	PLN	4.22760
Czech Koruna	CZK	30.54090	Romanian New Leu	RON	4.57774
Danish Krone	DKK	9.42630	Russian Ruble	RUB	45.84030
Egyptian Pound	EGP	9.74713	Saudi Riyal	SAR	6.72730
Estonian Kroon	EEK	19.77810	Serbian Dinar	RSD	96.27133
Euro	EUR	1.26410	Singapore Dollar	SGD	2.56050
Hong Kong Dollar	HKD	13.98010	Slovakian Koruna	SKK	38.23931
Hungarian Forint	HUF	304.32230	South African Rand	ZAR	14.52360
Icelandic Krona	ISK	163.11876	South Korean Won	KRW	1985.17750
Indian Rupee	INR	82.43850	Swedish Krona	SEK	12.09330
Indonesian Rupiah	IDR	16947.63000	Swiss Franc	CHF	2.01040
Israeli Shekel	ILS	6.38700	Taiwan Dollar	TWD	57.48450
Japanese Yen	JPY	190.56270	Thai Baht	THB	62.02610
Kuwaiti Dinar	KWD	0.48031	Turkish Lira	TRY	2.26360
Latvian Lats	LVL	0.89080	UAE Dirham	AED	6.58743
Lithuanian Litas	LTL	4.36440	Ukrainian Hryvnia	UAH	8.57245
Malaysian Ringgit	MYR	6.19720	Uruguayan Peso	UYU	36.58536
Maltese Lira	MTL	0.54350	US Dollar	USD	1.79370
Mexican Peso	MXN	19.20328	Venezuelan Bolivar	VEF	3.85097
Moroccan Dirham	MAD	14.26542			

Appendix D:

Glossary of terms

Abbreviation	Term	Definition
AAA	<i>AAA</i>	The highest credit rating given by the two main US rating agencies, Standard & Poor's and Moody's
Administrators	<i>Joint Administrators</i>	<p>AV Lomas, SA Pearson, DY Schwarzmenn, MJA Jervis and DA Howell were appointed as Joint Administrators of Lehman Brothers International (Europe)</p> <p>AV Lomas, SA Pearson, DY Schwarzmenn, 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 Schwarzmenn, MJA Jervis and DA Howell are also partners of PricewaterhouseCoopers LLP</p>
Adviser	<i>Adviser</i>	An adviser retained to assist the Committee in considering the Administrators' remuneration requests
Affiliates	<i>Affiliate entities</i>	Various subsidiaries and Affiliates of Lehman Brothers Holdings, Inc.
Appeal Court	<i>Appeal Court of England and Wales</i>	The second most senior court in the English legal system for civil cases. Permission to appeal is required, either from the lower court or the Court of Appeal itself
Appeal Court Judgment	<i>Pre-Administration Client Money Appeal Judgment</i>	Judgment handed down by the Court of Appeal on 2 August 2010 which overturned a previous judgment regarding the composition of the Client Money pool and Client Money claimants
Bankhaus	<i>Lehman Brothers Bankhaus A.G.</i>	Affiliate entity subject to insolvency proceedings in Germany
BarCap	<i>Barclays Capital, Inc</i>	Investment banking business of Barclays Bank PLC
Briggs Judgment	<i>Briggs Judgment</i>	Client Money application judgment handed down by Mr Justice Briggs in the UK High Court on 15 December 2009
BTB	<i>Back-to-Back derivative side letters</i>	Intercompany derivative side-letters which provide credit and market hedges to LBIE
CAN	<i>Claim Agreement Notice</i>	Notices issued by the Administrators to CRA signatories outlining each client's position, including their unsecured claim against LBIE
CASS	<i>Client Asset Sourcebook</i>	Requirements issued by the Financial Services Authority relating to holding of Client Assets and Client Money
CCM	<i>Counterparty Communications team</i>	Team which is responsible for communications with LBIE stakeholders, including clients, counterparties and creditors
Claims Portal	<i>Creditors' Claims Portal, previously known as the Client Information and Claims website</i>	A structured framework for counterparties to submit details of their unsecured claims against LBIE, accessible by a unique user ID and password. Access details can be obtained from logons@lbia-eu.com
Client	<i>Client</i>	Dealings that relate to segregated Client Assets and/or Client Money for the benefit of clients
Client Assets	<i>Client Assets</i>	Client securities which LBIE should have held as at 15 September 2008

Abbreviation	Term	Definition
Client Money	<i>Client Money</i>	Client cash balances managed by LBIE pursuant to the UK FSA's Client Money Rules as at 15 September 2008
Client Portal	<i>Client Information Portal</i>	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
Committee	<i>Creditors' Committee</i>	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
Consensual Approach	<i>Consensual Approach</i>	A framework developed for the expedient resolution of the claims of financial trading counterparties without Client Assets
COO	<i>Chief Operating Officers</i>	Responsible for managing the operations of the organisation, allocating resources and supporting the other teams within the Operating Model
CRA	<i>Claim Resolution Agreement</i>	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
Customer Property	<i>Customer Property as defined in SIPA</i>	A combination of claims to securities and certain cash amounts relating to securities, as defined in SIPA
Distributing Administration	<i>Distributing Administration</i>	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
DTC	<i>The Depository Trust Company</i>	US custodian which provides securities movements, settlement for institutional traders and money market instruments
ExCo	<i>Executive Committee</i>	Leads of each of the specialist LBIE teams, comprising of the Administrators, PricewaterhouseCoopers LLP partners, and various senior Lehman personnel
FSA	<i>Financial Services Authority</i>	Regulator of all providers of financial services in the UK
FSD	<i>Financial Support Direction</i>	Direction determined by the Pensions Regulator requiring financial support to be put in place for the purpose of maintaining the solvency of a defined benefit scheme in accordance with the Pensions Act 2004
General Estate	<i>General Estate as defined in SIPA</i>	Claims to a certain pool of assets available to satisfy general non-Customer Property creditors claims including any potential deficiencies in Customer Property claims
GPA	<i>Group Payment Arrangement</i>	Allows groups of companies to make joint payments of corporation tax
Guarantees	<i>LBHI Guarantees</i>	Various forms of guarantees provided by LBHI relating to, inter alia, contracts and financing transactions, derivative contracts and other payment performance guarantees

Abbreviation	Term	Definition
HMRC	<i>Her Majesty's Revenue and Customs</i>	Organisation of the British Government primarily responsible for the collection of taxes
House or House Estate	<i>House or House Estate</i>	Dealings that relate to LBIE's general unsecured estate
IMA	<i>Interim Management Agreement</i>	Agreement between LBIE and certain Affiliates regarding the management of securities over which uncertainty of ownership exists
Insolvency Act	<i>Insolvency Act 1986</i>	Statutory legislation that provides the legal platform for matters relating to personal and corporate insolvency in the UK
Insolvency Rules	<i>Insolvency Rules 1986</i>	Statutory rules that provide the legal platform for matters relating to personal and corporate insolvency in the UK
LB Lux	<i>Lehman Brothers (Luxembourg) S.A.</i>	Affiliate entity subject to insolvency proceedings in Luxembourg
LBAH	<i>Lehman Brothers Asia Holdings Limited</i>	Affiliate entity subject to insolvency proceedings in Hong Kong
LBCC	<i>Lehman Brothers Commercial Corporation</i>	Affiliate entity subject to insolvency proceedings in the US
LBCCA	<i>Lehman Brothers Capital Company Asia</i>	Affiliate entity subject to insolvency proceedings in Hong Kong
LBF	<i>Lehman Brothers Finance S.A. (Switzerland)</i>	Affiliate entity subject to insolvency proceedings in Switzerland
LBHI	<i>Lehman Brothers Holdings, Inc</i>	Ultimate parent of the Lehman Group, incorporated in the US and subject to Chapter 11 bankruptcy protection on 15 September 2008
LBHK	<i>Lehman Brothers Hong Kong</i>	Collective group of affiliate entities subject to insolvency proceedings in Hong Kong
LBI	<i>Lehman Brothers, Inc</i>	US broker-dealer affiliate entity, incorporated in the US which entered SIPA trusteeship on 19 September 2008
LBI Determination	<i>Letters of Determination</i>	Letters of Determination issued on 16 September 2010 in respect of LBIE's Customer Property claim against LBI for House and Client
LBIE (also referred to as the Company or Administration)	<i>Lehman Brothers International (Europe) - In Administration</i>	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
LBIE Determination	<i>LBIE Determination</i>	Agreement of eligible claims using a value determined by LBIE, derived from LBIE's own valuation methodology
LBJ	<i>Lehman Brothers Japan KK</i>	Affiliate entity subject to insolvency proceedings in Japan

Abbreviation	Term	Definition
LBL	<i>Lehman Brothers Limited</i>	UK service entity for the Lehman Administration Companies. LBL was placed into Administration on 15 September 2009
LBSF	<i>Lehman Brothers Special Financing, Inc</i>	Affiliate entity subject to insolvency proceedings in the US
Lehman Administration Companies	<i>Lehman Administration Companies</i>	UK Lehman entities in Administration
MI	<i>Management information</i>	Internal management information provided to the Administrators and ExCo to assist in leading, monitoring and controlling progress of LBIE
MTM	<i>Mark-to-market</i>	Recording the price or value of a security, portfolio or account at current market value
NI	<i>National Insurance</i>	Payroll tax contributions levied on income from employment in the UK
Nomura	<i>Nomura Holdings, Inc</i>	An investment and financial services business. LBIE's equities business was acquired by Nomura shortly after the Administrators' appointment
Notice of Proposed Distribution	<i>Notice of Proposed Distribution</i>	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
OpCo	<i>Operating Committee</i>	Internal committee chaired by the joint COO which proactively monitors progress in addition to prioritising activities and resources of LBIE
Operating Model	<i>LBIE Operating Model</i>	Management framework based on LBIE's activities in the Administration structured to assist meeting the objectives of the Administration
OTC	<i>Over-the-counter</i>	A market in which securities, or other financial products, are traded by direct dealer-to-dealer communications
PAYE	<i>Pay As You Earn</i>	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
Pensions Regulator	<i>Pensions Regulator</i>	Regulator of work-based pension schemes in the UK
Plan	<i>Plan of Reorganisation</i>	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
PoD	<i>Proof of Debt or Statement of Claim</i>	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. A Proof of Debt form is generated by the Claims Portal for creditors to review and submit to the Administrators electronically

Abbreviation	Term	Definition
RASCALS	<i>Regulation and Administration of Safe Custody and Local Settlement</i>	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
SIP 9	<i>Statement of Insolvency Practice 9</i>	Rules issued by the Joint Insolvency Committee which provide guidance to insolvency practitioners and creditors' committees in relation to the remuneration of, inter alia, administrators
Revised SoA	<i>Revised SoA</i>	Position reflecting certain revisions to the SoA figures filed in July 2009 driven by information and facts arising since the filing of the SoA
SIPA	<i>Securities Investor Protection Act 1970</i>	A US legal proceeding for handling the liquidation of a broker-dealer
SIPC	<i>Securities Investor Protection Corporation</i>	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	<i>Statement of Affairs</i>	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
Street	<i>Street counterparties</i>	Team which manages dealings with third party counterparties consisting of asset managers, custodians, pension funds, corporate entities, banks, and other non-banking financial institutions
Street Creditors	<i>Street Creditors</i>	Creditors with financial trading claims without Client Assets
the Lehman Group	<i>Lehman Group</i>	Global Lehman Brothers group of companies
Trust Estate	<i>Trust Estate</i>	Refers to both Client Assets and Client Money
Trust Property	<i>Trust Property</i>	Refers to both Client Assets and Client Money
TSA	<i>Transitional Services Agreement</i>	Service agreements between LBIE and various entities for the provision of certain services
UK High Court	<i>High Court of England and Wales</i>	Court of England and Wales which deals with all high value and high importance cases, and also has a supervisory jurisdiction over all subordinate courts
UK Supreme Court	<i>Supreme Court of the United Kingdom</i>	This is the court of last resort and highest appellate court in the United Kingdom for civil cases
VAT	<i>Value Added Tax</i>	A consumption tax levied on the sale of goods and services in the UK

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