
Lehman Brothers International (Europe) – In Administration

Joint Administrators' progress report
for the period 15 September 2010
to 14 March 2011

14 April 2011

Important Notice

Creditors will note that this report provides data relating to costs of the Administration process, certain estimated future recoveries 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 Lehman Brothers International (Europe) 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, future costs of the process and the eventual level of admissible creditors' claims. These will all have a significant effect on the timing and quantum of any interim or final dividends payable.

The Administrators therefore wish to caution creditors from using any data in this report to estimate comprehensively the value of their claims or any likely dividend ranges as any such assessments are potentially materially misleading. LBIE, the Administrators, their firm, its members, partners and staff and its 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.

This report encloses various defined terms as set out in the glossary of terms in Appendix A.

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Section 1:

Purpose of the Administrators' progress report

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

This report provides details of progress for the six month period 15 September 2010 to 14 March 2011. The statutory receipts and payments accounts are attached at Appendix B.

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 continue to pursue 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:

- recover and/or realise all House (i.e. LBIE) assets, including cash, securities and in-the-money financial contracts on a managed basis;
- admit unsecured 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

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 telepresence or audio conference calls.

The Administrators remain grateful to the members of the Committee for their continuing engagement and commitment to the Administration.

Future report

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

In the meantime, relevant contact details are set out at Appendix C.

Signed:



AV Lomas

Joint Administrator
Lehman Brothers International (Europe)

Section 2:

Executive summary

Significant developments

Some of the most significant developments in the six month period ending 14 March 2011 have been:

- a further c.£2.1bn of Client Assets has been returned to claimants (c.£12.8bn returns and collateral releases to date);
- a further c.£1.6bn of House assets has been realised (c.£10.7bn to date);
- a Consensual Approach for the agreement of unsecured claims has been launched and we are close to having issued the first 100 Claims Determination Deeds to creditors (c.£1.1bn aggregate claims value), in respect of which some c.£0.4bn claims have now been formally agreed;
- our legal action to confirm the ownership of various assets held by LBIE but claimed by Affiliates (the RASCALS litigation) was found in favour of LBIE at first instance. Appeals have been lodged by certain respondents and will be heard in October 2011;
- LBI has further extended to 30 June 2011 LBIE's deadline for objection to its House and Omnibus claims determinations. Since September 2010, LBIE has been able to materially increase the frequency of its dealings with LBI. Despite this, we still have little visibility on how LBI will eventually decide to treat the many different aspects of LBIE's claims. No further or amended determinations have been received to date;
- LBHI and certain of its US debtor affiliates filed an amended Plan of Reorganisation. LBIE continues to seek a consensual binding agreement with LBHI and its US debtor affiliates;
- permission was granted for an appeal to the UK Supreme Court of the Appeal Court Judgment in relation to pre-Administration Client Money. The appeal hearing is scheduled for October 2011;
- a UK High Court directions application will be filed imminently, seeking court directions in respect of various aspects of the Client Money Tracing exercise that is being undertaken pursuant to the UK Appeal Court ruling;
- we have concluded a major change programme to achieve full independence of the Information Technology and Infrastructure service provisions from BarCap and Nomura in the period. The related TSAs have been concluded ahead of schedule, resulting in annual cost savings of c.£15m; and
- the Notice of Proposed Distribution, specifying LBIE's intention to pay a dividend to unsecured creditors by 28 February 2011 was extended for two years. Assuming that planned progress is in fact achieved in the critical Administration work streams during 2011, and that no new and material unforeseen issues arise, we expect to be able to make a first interim distribution during 2012.

\$1 billion+ issues

The Administrators are working to resolve ten major business issues summarised below. All of these issues have an individual impact of greater than \$1 billion. The resolution of these issues is critical to winding down LBIE and therefore to the final outcome of the House Estate. In summary, these issues are:

Issue 1 – recovery of securities, House cash and Client Money from a major international financial institution.

Issue 2 – agreement of a very significant number of unresolved financial trading positions with a second major international financial institution.

Issue 3 – resolution of Over-Claims and other third party and Affiliate claims to ring-fenced assets and cash recoveries.

Issue 4 – recovery of securities and House cash from certain third party custodians in Asia.

Issue 5 – recovery of Client Money from and agreement of claims against Bankhaus.

Issue 6 – resolution of Affiliate disputes relating to BTB, Extended Liens, and RASCALS all of which have, or are likely to become the subject of court proceedings.

Issue 7 – recovery of Trust Property, House cash and securities currently held by Affiliates (LBHK, LBI, and LBJ).

Issue 8 – resolution of claims between LBIE and its Affiliates (Bankhaus, LBF, LBHI, LBHK, LBI, LB Lux, and LBSF).

Issue 9 – quantification of any Client Money taint on House recoveries and the extent of Client Money entitlements to a share in the Client Money pool.

Issue 10 – resolution of contingent claims against the House Estate.

Financial update

Subject to suitable caveats, we have previously presented the financial position of the House and Trust Estates by reference both to the Revised SoA, and to the value of cash recovered to date. In the current report, with the benefit of additional information and insight gained in the period, we have adopted an amended approach to providing an indication of the likely financial outcome for creditors. Subject to certain material assumptions and uncertainties, we have provided indicative low and high case estimates for certain asset recoveries and unsecured claims in the House Estate. In presenting this information, we have been mindful of the various litigation and negotiations that continue with third parties, and have sought not to prejudice these. **For the purpose of presenting financial information in this report only**, the following are some of the material simplifying assumptions that have been made:

Affiliates – the net claim balance with each of LBIE's Affiliates will be zero. The actual current position regarding our dealings with Affiliates is discussed in Section 5.

Trust Property – future amounts receivable from and shortfalls suffered by Client Asset and Client Money claimants will be zero. These issues are referred to in Sections 6 and 7. We have included amounts owed to Trust Property claimants in respect of other financial trading contracts, as detailed in Section 8.

Client Money – the taint on House recoveries will be zero. The work being undertaken to address this is further described in Section 7.

Contingent liabilities – no major liabilities will crystallise.

For the avoidance of doubt, it is highly unlikely that these assumptions will hold true in due course. They are made simply for the purpose of this report, because the aggregate effect of certain combinations of favourable or adverse outcomes for these matters could be so material to the House Estate, as to make the range between the two extremes very large, which would produce dividend estimates that were so wide as to be of little use to readers.

Whilst this report contains further information relating to the subject matter of these simplifying assumptions, the Administrators caution readers with regard to using this information to further evaluate the eventual likely outcome for creditors. **The Administrators accept no responsibility to any party in this regard.**

In summary, subject to the above and other simplifying assumptions and before future and accrued costs (but after priority claims), the potential range of House recoveries is between c.£7.5bn and c.£10bn and the potential range of unsecured claims is between c.£13.3bn and c.£15.7bn. For the avoidance of doubt, there remains upside and downside sensitivity to these ranges. Additionally, the eventual impact on these ranges arising from Affiliate and Trust claims resolution is likely to be material in due course.

Critical Administration work streams

As agreed with the Creditors' Committee, the focus for 2011 Administration activities will be in the three most critical work streams, where the most significant potential impediments to a first interim distribution lie. The Administration objectives for each of these work streams are as follows:

Creditors' claims agreement – procuring Proofs of Debt from, and “agreeing” a material proportion of, all third party claims against LBIE and “admitting” the eventual unsecured element of these in preparation for a first interim distribution.

Client Money – considering alternative commercial solutions to overcome Client Money as an impediment to a first interim distribution to unsecured creditors, at the same time as establishing Tracing rights and claims entitlement together with participation in the UK Supreme Court appeal, in order to quantify (i) any “Client Money taint” on House Estate recoveries and (ii) any “Client Money entitlement” in addition to that already identified by LBIE's accounting systems.

Affiliates – materially progressing agreement of secured and unsecured claims, set-offs and liens, between LBIE and its Affiliates, where the nominal value of the unresolved differences are currently so large and the potential for delay is so great, that the consequential effect on creditor returns in each estate could be very material.

Court update

A number of the more material, disputed matters in the Administration will be the subject of court proceedings, in the UK and overseas, during the course of 2011, with their outcomes known towards the end of the year or early in 2012. Subject to further appeal where relevant, the Administrators hope that these legal proceedings will bring substantially more clarity to the financial position of the House Estate, and help remove the major impediments to making a first interim distribution to unsecured creditors. An outline timetable of current and imminent legal proceedings is contained at Appendix D to this report.

Currencies

The Administrators have continued to defer the further conversion of House recoveries into Sterling, following the UK Appeal Court ruling on pre-Administration Client Money, handed down in August last year. Significant amounts are still being held in US Dollars and Euros as well as Sterling. Identified Client Money has continued to be held in the currencies in which it has been recovered, which is primarily US Dollars.

Human resources

Lehman staff and contractor headcount levels have increased slightly in the period, with the current combined headcount of 495 compared with 480 at the date of our last report. Employee related costs in the period totalled c.£43m (c.£286m total to date).

A High Court hearing relating to the status of a pension fund deficit liability, which is likely to become the subject of a Financial Support Direction, took place in November 2010. The judgment on 10 December 2010 held that a liability eventually derived from a Financial Support Direction would constitute an expense of the Administration. The Administrators have submitted an appeal which will be heard by the UK Appeal Court in July 2011.

Administrators' remuneration and expenses

c.£66m was paid during the period in respect of Administrators' fees and expenses relating to the current and prior periods (c.£325m paid to date).

Section 3

Financial update

Financial summary

As progress has been made in the Administration, multiple, extremely complex, and often interrelated issues have arisen, some of which individually and others collectively, will have a material impact on the outcome for LBIE's unsecured creditors.

These issues generally relate to:

- the quantification of claims into and out of the House Estate;
- asset valuations;
- proprietary rights; and
- contractual obligations.

A significant proportion of the largest of these issues relate to Affiliates and Trust Property claimants. Because the impact of their eventual resolution could swing between materially beneficial and materially adverse, a very wide range of potential outcomes for creditors is possible. For this reason, and in order not to prejudice the Administrators' negotiation or litigation efforts, we do not provide a comprehensive estimated final outcome statement for LBIE in this report.

For the purpose of presenting an update of LBIE's financial position in this report, we have provided indicative outcome ranges only in respect of categories of assets and liabilities that do not primarily relate to Affiliates or Trust Property claimants, as we have more visibility of the potential range of outcome in these areas, albeit there remains material upside and downside sensitivity taking this narrower insight. Please see the table on page 9 for a summary of this potential range of outcomes.

Affiliates

This report (page 11) highlights those Affiliates with which LBIE had the most significant financial interdependencies, and the recorded position between the parties according to the Revised SoA (which continues to be updated as an Administration accounting routine). Material matters, such as guarantees and other contractual entitlements, give rise to additional, substantial financial obligations between the parties.

This report highlights the nature of some of the more material unresolved issues that exist between LBIE and various key Affiliates, along with the Administrators' view regarding whether each Affiliate entity is likely to ultimately be a debtor or creditor in the House Estate. There is presently no agreement between LBIE and these Affiliates over the validity and quantum of claims. As a result, the Administrators are unable to provide creditors with any reasonable estimate of the quantum or timing of the eventual outcome at this stage.

Trust Property claimants

With regard to Trust Property claimants, their potential impact on the House Estate derives from the unsecured claims that might eventually arise from shortfalls in claimants' recovery of both Client Assets and Client Money, and from the House Estate's recovery of debtor balances separately owed by certain individual Trust Property claimants. In many cases, such debtor balances are likely to be offset against Client Assets or, potentially, Client Money, within the Administrators' control or currently in the hands of a third party depot or bank.

In addition, in many cases, LBIE has unsecured liabilities owing to Trust Property claimants in respect of amounts due under financial trading contracts.

Pending the UK Supreme Court Client Money appeal outcome, the release of cash and securities by LBI and the negotiation of trading balances with certain Trust Property claimants, very significant uncertainty exists concerning their combined potential impact on the House Estate. Save for a provision for unsecured claims in respect of amounts due under financial trading contracts, the Administrators are therefore unable to provide creditors with an estimate of the impact on the House Estate at this stage.

Summary

Owing to the significant number of material outstanding matters which make the eventual outcome for unsecured creditors very uncertain, the Administrators caution creditors against reliance on the financial and other information contained in this report. Wherever possible though, we have endeavoured to give creditors further insight into LBIE's financial position based on recent developments.

Indicative financial outcome

Note that this summary takes no account of amounts that might be recovered from, or owed to, Affiliates and owed to Trust Property claimants in respect of shortfalls. It also takes no account of any potential third party proprietary rights that might arise from the Client Money Tracing exercise or of future and accrued costs in the Administration.

House Estate (note 1)	Low £bn	High £bn
Cash deposits and short dated government bonds (note 2)	8.0	8.0
Future recoveries		
Third party debtors (see Section 4)	0.1	0.5
Affiliates (see Section 5)	N/A	N/A
House depot securities (see Section 4)	0.6	1.6
Trust Property claimants (see Sections 6 and 7)	N/A	N/A
Other (note 3)	-	0.1
Total expected recoveries	8.7	10.2
Priority claimants (note 4)	(1.2)	(0.2)
Funds available for unsecured creditors	7.5	10.0

Creditors

Unsecured creditors (see Section 8)	(14.5)	(12.1)
Trust Property claimant shortfalls (see Sections 6 and 7)	N/A	N/A
Affiliates (see Section 5)	N/A	N/A
Total unsecured claims	(14.5)	(12.1)
Subordinated debt	(1.2)	(1.2)
Total creditors	(15.7)	(13.3)

Notes:

1. This is an indicative financial outcome, subject to change, and should be read in conjunction with the narrative and assumptions set out elsewhere in this report.
2. Cash deposits and short dated government bonds are stated net of c.£1.6bn of funds arising from the sale of securities together with their related income, against which certain Affiliates and Trust Property claimants may have proprietary claims. Please refer to Appendix B.
3. Other future recoveries represent, on a high outcome, an amount of £0.1bn in respect of potential further tax refunds.
4. Priority claimants include the potential pension fund deficit liability, indemnities and other claims.

Trust Property summary

Further significant progress has been made with Client Asset returns and the reconciliation of client positions, although the remaining population of outstanding claims is materially impacted by matters outside the Administrators' control such as assets still held by LBI and LBHK, Over-Claims, Affiliate liens and potential shortfalls.

Client Assets (see Section 6)	£bn
Client Assets at 15 September 2008 (note 1)	19.6
Prior period adjustments	(3.1)
Estimated shortfall on LBIE controlled assets (note 2)	(0.2)
	16.3
Prior period returns under CRA and other arrangements (note 1)	(10.1)
Returns under CRA and other arrangements in the period	(2.1)
Ring-fenced for Affiliates claims	(0.1)
Client Assets at 14 March 2011 (note 3)	4.0

Pre-Administration Client Money (see Section 7)	£bn
Value at 15 September 2008	1.2
Potential shortfall in cash on hand (note 2)	(0.6)
Remaining balance (note 3)	0.6

Post-Administration Client Money (see Section 7)	£bn
Prior period recoveries by LBIE	2.2
Recovered in period	0.2
Recoveries to 14 March 2011	2.4
Prior period distributions to Trust Property claimants	(1.4)
Distributed in period	(0.1)
Remaining balance (note 3)	0.9

Notes:

1. Excludes c.£0.6bn collateral pledged to LBIE by clients but held by third parties which was released with LBIE's agreement in prior periods.
2. This amount is included for illustrative purposes only and may change in due course. Any actual shortfalls are expected to become unsecured claims against LBIE in due course.
3. In certain circumstances, Client Assets or Client Money may be retained for the benefit of the House Estate to cover amounts owed to LBIE by Trust Property claimants.

Affiliates summary

<i>Revised SoA as at 15 September 2008 (note 1)</i>				
Affiliate	Debtor £bn	Creditor £bn	Material additional unresolved issues (note 2)	Target eventual status
LBB	0.3	-	Antecedent transactions / Client Money	Debtor
LBF	-	(0.6)	BTB / Client Money / Extended Liens / RASCALS / Valuations	Debtor
LBHI (note 3)	-	(3.7)	BTB / Extended Liens / Guarantees / RASCALS / Valuations	Debtor
LBHK (note 4)	-	(0.5)	Client Assets / Extended Liens / RASCALS	Debtor/Creditor
LBI (note 5)	2.9	-	Client Assets / Client Money / Extended Liens / House Customer Property claim status	Debtor
LBJ	-	(0.1)	Client liens	Creditor
LB Lux	-	-	Termination date	Debtor
Other	1.0	(1.0)	Various issues	Debtor/Creditor
Total	4.2	(5.9)		

Notes:

1. The positions above represent LBIE's view of the unsecured balances between LBIE and the relevant Affiliates from the Revised SoA. None of these balances has yet been reconciled and agreed in full with the respective Affiliate.
2. Various alleged rights and obligations arise from the post-Administration termination of certain contracts between LBIE and its Affiliates and from the impact of local insolvency legislation, resulting in a number of additional, material claims being made between Affiliates.
3. LBHI includes its US debtor affiliates, which are the subject of Plan discussions.
4. LBHK represents more than one legal entity as defined in Appendix A.
5. The Administrators are presently pursuing House Estate claims with a value of c.\$14bn against LBI, none of which currently is agreed by LBI to have Customer Property status.
6. Please refer to Section 5 of this report for further information regarding Affiliates.

Section 4

House Estate

Highlights

- Recovery of a further c.£0.5bn from Street debtors.
- Realisation of c.£0.5bn from the sale of House securities.
- Consensual disposal and redemption of c.£0.4bn of securities ring-fenced for Affiliates.
- Significant progress made with the top 150 debtor groups. Agreement reached with a further 20.
- Agreement of settlement terms with one of LBIE's largest non-Affiliate debtors, resulting in the recovery of c.£0.4bn of cash and securities.
- Realisation of c.£0.1bn on-account cash from a German financing agent.
- Finalisation of settlement agreement with a European state-sponsored pension fund.
- Progress towards a negotiated settlement with a major international financial institution.
- Settlement of six counterparties previously expected to require litigation to resolve.
- Completion of a further 34 smaller debtor groups. Positions with over 450 individual counterparties have now been finalised.
- Continued preparation for litigation in respect of a number of large and unresponsive counterparties.

Third party debtors (excluding Affiliates) within the House Estate comprise:

	No. of cpties	LBIE valuation £bn
Street debtors	1,530	9.0
Exchanges	33	1.6
Cash receivables from Trust Property claimants	90	0.2
Other debtors	-	0.6
Total	1,653	11.4

The LBIE valuations shown above reflect the gross amounts recorded in LBIE's books prior to any realisations. As at 14 March 2011, £6.6bn of cash and other collateral had been recovered against the aggregate balance of £11.4bn. Of the remaining £4.8bn, the net book value after provisions and other adjustments representing the high case indicative financial outcome is £0.5bn.

Debtors arising from Street counterparties and exchanges are addressed further below. Cash receivables from Trust Property claimants represent amounts potentially due to LBIE from counterparties who have claims in the Trust Estate. Other debtors represent coupons and dividends and taxation receivables and other sundry amounts (which are all fully provided for).

Street debtors

Focus

The primary focus in relation to Street debtors has been to pursue realisations, settlements and/or litigation in respect of the top 150 groups (which together represent over 95% of the gross Street debtor value), with a secondary focus on smaller groups. Negotiations are typically conducted with groups of related debtor entities, e.g. entities under common legal ownership or represented by the same agent or asset manager, as this is generally more efficient for both LBIE and its counterparties.

The population of debtors being progressed by the Street debtors work stream is:

	No. of cpties	£bn
Mid-market valuation		
Top 150 groups	523	8.6
Other Street debtors	1,007	0.4
	1,530	9.0
Less:		
Adjustments		(3.6)
Cash received		(5.1)
Indicative financial outcome (High)		0.3
Further potential adjustments		(0.2)
Indicative financial outcome (Low)		0.1

The mid-market valuation represents LBIE's current view of the mid-market as at the termination date (where terminated), or an estimate of the value as at 14 March 2011 in respect of any remaining live positions.

Adjustments represent deductions such as bid/offer spreads, credit charges, pricing variances, bad debt provisions and any other commercial differences arising during negotiations.

Progress

As at 14 March 2011, c.£5.1bn of cash and other collateral has been recovered from Street debtors, including c.£0.5bn in the period. Of this amount:

- c.£3.5bn has been realised in respect of positions that have been fully settled; and
- c.£1.6bn has been received on-account where negotiations to agree a final amount are ongoing.

Significant developments during the past six months include:

- agreement of settlement terms with one of LBIE's largest third party debtors, resulting in the realisation of c.£0.2bn cash (and the return of a further c.£0.2bn securities and cash accounts included in House assets below);

- realisation of c.£0.1bn on-account cash from a German financing agent. Work continues to move the counterparty to full and final settlement;
- material progress towards a negotiated settlement with a major international financial institution including the release of c.£0.2bn from one emerging market location;
- continued reconciliation activity with a second major international financial institution in relation to a significant number of financial trading contracts;
- finalisation of a settlement agreement with a European state-sponsored pension fund and recovery of a residual cash balance;
- agreement of final settlement terms with a German commercial bank and recovery of a residual cash balance;
- conclusion of a settlement with a large US based financing agent;
- settlement of positions with a Scandinavian national bank;
- finalisation of settlement terms with a large UK based insurance group, including agreement of a related creditor claim in order to reach commercial agreement;
- recovery of a first interim cash dividend in respect of a pre-Administration claim from the liquidators of a UK based fund;
- continued settlement of underlying principals linked to a UK derivative asset manager (c.80 counterparties). Approximately two thirds of the principals have been settled to date;
- settlement of six groups in the period which were expected to require litigation to resolve;
- continued work to prepare for litigation in respect of a number of large unresponsive counterparties; and
- preparation for submission of an application to the UK High Court for directions in respect of assertion of post-Administration non-mutual contractual set-off.

In addition, a further 34 counterparties (below the top 150 groups) have been completed during the period, and specialist teams continue to focus on recovery and settlement of smaller positions (typically under c.£2m).

LBIE estimates that future recoveries in respect of the top 150 groups will be up to c.£0.3bn (excluding any amounts from litigation, where there are material valuation disputes and any securities due to be recovered). This amount principally relates to repatriation of amounts from counterparties in Asia where work is ongoing to resolve local, regulatory and other commercial issues. Work on the remaining groups is carried out with the objective of identifying and realising any residual amounts due and agreeing final settlement terms, or preparing for litigation in certain cases.

Challenges

Since the Appeal Court Judgment, the treatment of Client Money in debtor settlement deeds has been a cause of delays in finalising terms. LBIE continues to review actual or potential Client Money entitlements in order to ensure that these are reflected appropriately in settlement agreements, which should safeguard LBIE's interests at the same time as continuing to make progress with final debtor settlements.

Progress on several large debtor cases has been deferred pending the outcome of the set-off hearing in the High Court referred to above, which is not expected until later in 2011 or early 2012. In these cases, internal analysis is continuing in order to allow for swift action following the relevant legal determination.

On 21 December 2010, the UK High Court handed down its judgment in respect of LBIE's application for directions, upholding the entitlement asserted by three groups (four individual entities) not to pay amounts to LBIE in respect of certain derivative positions that were in-the-money at the date of insolvency and not subsequently terminated. LBIE has lodged an appeal which is expected to be heard later in the year.

Exchanges

To date, £1.5bn of cash and collateral originally held at clearing houses and brokers has been recovered, and remaining funds trapped in Asia (c.£0.1bn) continue to be actively pursued. LBIE continues to defend relevant assets against legal challenges by local banks, with some success to date.

Activity in respect of exchanges during the period has principally been associated with LBIE's relationships with certain of its Affiliates. This is covered in Section 5 of this report.

House assets

Focus

The House assets work stream is responsible for:

- realisation of available-for-sale securities held in LBIE's House depot;
- analysis of assets held by LBIE subject to ownership disputes in order to facilitate the disposals above; and
- repatriation of securities held by third party and Affiliate custodians.

Progress

Assets in the LBIE depot can be categorised as follows:

	£bn
Available-for-sale	0.6
Frozen accounts at third party custodians	1.1
Held subject to client disputes	0.7
Held subject to Affiliate disputes	1.6
Held by Affiliates	4.2
House depot at 14 March 2011	8.2

Realisations of House securities in the period were:

- c.£0.5bn (c.£2.4bn to date) principally relating to the release and subsequent sale of securities, previously held at a major international financial institution and LBJ; and
- ring-fenced cash realisations, including under IMAs, of c.£0.4bn (c.£0.8bn to date) which are potentially subject to Affiliate proprietary claims.

Assets held subject to client and Affiliate disputes are excluded from the indicative financial outcome range in Section 3. Insofar as these assets are eventually returned to those parties, their respective claims against LBIE will reduce.

Assets held by Affiliates are also excluded from the indicative financial outcome range, as discussed in the Affiliates section of this report (Section 5).

Challenges

Progress with asset sales continues to be inhibited by:

- potential Affiliate and client title to certain assets in LBIE's House depot;
- continuing negotiations with third party custodians to recover assets currently not under direct LBIE control, notably one major international financial institution; and
- limitations in LBIE's ability to recover assets held by Affiliates, notably LBI.

Section 5

Affiliates

Highlights

- UK High Court substantially agreed with the Administrators' position in respect of the RASCALS dispute. Appeal by certain Affiliates to be heard in the UK Appeal Court in Q4 2011.
- LB Lux rejection of LBIE claim challenged in Luxembourg court.
- LBF BTB UK High Court application for directions prepared.
- Extensive dialogue with LBHI and its US debtor affiliates in relation to LBIE's claims into their estates under their Plan.
- Increased dialogue with LBI and extension of LBI Determination objection deadline to 30 June 2011.
- c.£0.1bn LBJ assets recovered as part of settlement agreement reached previously.
- Launch of Affiliate Claims Portal in January 2011 and continued pursuit of significant outbound claims against Affiliates.

Focus

The resolution of Affiliate claims will have a very material impact on the overall outcome for unsecured creditors. For the purposes of this report, we have assumed the outcome on a net zero basis, although there are circumstances where the net outcome could result in a very material enhancement or dilution to unsecured creditor returns.

LBIE has a small number of major Affiliate relationships. These relationships are complex and multi-faceted in nature, giving rise to significant issues that need to be addressed. Court proceedings may be necessary in order to determine the actual legal and commercial nature of the relationships and, as a result, the timescale for resolution of these matters is protracted.

The current areas of focus are:

- endeavouring to reach satisfactory settlements with LBHI and its US debtor affiliates;
- seeking agreement with LBI of revised House and Omnibus Customer claims prior to 30 June 2011; or
- if appropriate, preparing and prosecuting an objection to the LBI Determination (in the event that it is not amended consensually or LBIE and LBI do not mutually agree to extend the deadline to file LBIE's objection beyond 30 June 2011);
- resolving outstanding litigation: the RASCALS appeal, BTB directions hearing, LB Lux claims and Extended Liens;
- recovering assets from LBJ and LBHK; and
- agreeing creditor claims received via the Affiliate Claims Portal.

Progress

LBHI and its US debtor affiliates

LBIE has continued to engage with LBHI with a view to:

- understanding the impact of the Plan on LBIE;
- reconciling and valuing trades and positions between LBIE and the US debtors (principally LBHI and LBSF); and
- exploring the possibility of reaching a binding, composite settlement of claims between LBIE and the US debtors.

LBIE continues to invest significant resource in developing its dialogue with the US debtors, with other third party creditor groups and fellow Affiliates, in order to ensure that appropriate recognition is given to LBIE's principal and guarantee claims, in any eventually confirmed Plan.

LBIE House claim against LBI

As previously reported, LBIE filed its original SIPA House Customer claim (the "House claim") in January 2009 and has subsequently filed two amended House claims with LBI (latest on 10 September 2010).

The LBI Determination of LBIE's House claim was issued on 16 September 2010. LBI:

- rejected LBIE's claim to have Customer Property status and deemed its status to be a General Estate unsecured claim; and
- rejected c.£1.4bn of the House claim as both a Customer Property and General Estate unsecured claim.

Pursuant to SIPA, LBIE was given 30 days to object to the LBI Determination. However, given the lack of information provided by LBI, the continued absence of the LBI cash element of the determination and the complexity of the relationship between LBI and LBIE, LBI has agreed to several extensions to this deadline. The latest extension to the time by which LBIE must object, if it is to do so, is to 30 June 2011.

Claims accepted by LBI as being Customer Property are likely to receive a substantially higher recovery than the General Estate unsecured claims.

LBI has not given any justification for the rejection of LBIE's claim as Customer Property. The Administrators and their legal team continue to assert Customer Property status to the majority, if not all, of their House claim of approximately \$14bn.

In light of the above, LBIE has expended significant effort in this period addressing two main areas, being:

- the reconciliation of balances and pending trades between LBI and LBIE; and
- providing information and analysis to LBIE's legal advisers to enable them to advise on the merits of its claim, should it be necessary to object formally to the LBI Determination in due course.

In addition, regular meetings are held with the advisers of LBI to enable them to progress these issues and facilitate efficient information flows. Comprehensive joint action plans have been agreed, which the Administrators are closely monitoring.

Other major Affiliates

LBHK

LBIE submitted claims to LBHK in the period for the return of House Estate assets and Client Assets in advance of the LBHK bar date of 10 December 2010.

The reconciliation of these claims is now substantially complete. LBIE is working with LBHK to resolve a small number of outstanding material differences.

LBHK maintains that it is unable to return House Estate assets and Client Assets to LBIE until issues regarding any potential Extended Liens claims are resolved. LBIE is working with LBHK and other Affiliates to attempt to resolve this.

In addition, two LBHK entities have appealed against the RASCALS judgment. The outcome of this appeal could have a material impact on the financial claims between LBIE and LBHK.

Separately, the reconciliation of the various trading balances continues, with the current focus on securities financing trades and OTC derivatives.

LBF

LBIE continues to work with LBF to complete the trade reconciliation process for all positions and thereafter their valuation. In this regard, assistance has been offered to LBF by LBIE because LBF currently has limited specialist resource and access to former Lehman systems.

LBF has also appealed against the RASCALS judgment and is a party to the UK Supreme Court pre-Administration Client Money appeal. The outcome of these appeals, and the BTB and Extended Liens directions hearings, could have a material impact on the financial claims between the two entities.

LBJ

LBIE has continued to focus on securing the return of the stock lending assets held by LBJ on LBIE's behalf. Following approval of an agreement by the Japanese court supervisor, a further c.£0.1bn of assets were returned in January 2011. Associated derived income is expected to be returned in Q2 2011.

LBIE continues to seek certain third party confirmations requested by LBJ for the remaining assets held. When received, LBIE will resume negotiations for the return of these remaining assets (less than c.£0.1bn).

LB Lux

LBIE has taken further legal advice on the interpretation of the relevant provisions in the agreements that govern LBIE's relationship with LB Lux, to confirm the approach taken to LBIE's valuation of its claim.

LBIE continued to discuss its claim with the LB Lux liquidators during the period.

In December 2010, LBIE received formal rejection from the LB Lux liquidators of LBIE's submitted claim.

Accordingly, LBIE commenced formal legal proceedings in the Luxembourg court. At the initial hearing in early February 2011, LBIE challenged the rejection and the Luxembourg court's jurisdiction to hear the claim.

The next Luxembourg court hearing is scheduled for May 2011 and LBIE will continue to pursue this matter vigorously.

Bankhaus

The reconciliation of all financing and OTC derivative trade populations has been completed.

The financing trades are now being valued by both parties and Bankhaus is expected to provide a valuation statement shortly.

An OTC derivatives valuation statement has been received from Bankhaus and is being reviewed by LBIE.

The current status of the legal proceedings in relation to pre-Administration Client Money is discussed in Section 7.

An inbound claim of £9bn has been received which includes c.£7bn of antecedent transactions relating to payments made to LBIE in the three months prior to Administration. This claim will be rejected by LBIE.

UK Affiliates

LBIE has commenced work to agree claims by:

- identifying and agreeing the trade populations; and
- valuing the general intercompany and financing balances.

Most of the UK companies no longer have the Lehman product and finance expertise to undertake the above, so LBIE is assisting where possible.

Exchanges

The vast majority of the Administration work done in the period in respect of exchanges has been in relation to Affiliate activity. LBF and LBI used LBIE for clearing trades in Europe and the Far East, with LBI clearing LBIE's trading in North America. These activities resulted in inbound and outbound claims with both House and client elements.

Work in the period has focused on:

- completing reconciliations and determining claims;
- engaging with Affiliates to establish the fact pattern surrounding transfers and liquidations of positions;
- assessing the legal position; and
- analysing and establishing the status of cash balances held by LBI on behalf of House or client.

Korean branch

In February 2011, the Seoul court in South Korea delivered its judgment in the matter of the credit-linked note of £0.2bn issued to Korea Investment and Securities Co. Limited (KIS) by a Lehman entity and guaranteed by LBHI. An assignee from KIS sued LBIE for the principal and interest of the credit-linked note.

The judgment was found in favour of LBIE on the basis that the assignee did not have the right to claim against LBIE under the credit-linked note as LBIE was not a party to any contract. The judgment is subject to appeal.

Affiliate Claims Portal

In January 2011, LBIE launched its Affiliate Claims Portal, which is a sub portal of the Client Information Portal ("CIP"), which was developed to accelerate the claims submission process for Affiliate creditors.

The Affiliate Claims Portal enables electronic submission and efficient management of claims and is customised to meet the specific requirements of Affiliate relationships.

Affiliates have been notified of the Affiliate Claims Portal and LBIE encourages Affiliates to post their claims as soon as possible so that LBIE can review these and work with Affiliates to eliminate discrepancies and agree claims as appropriate.

As at 14 March 2011, we have received claims in excess of c.£20bn from 14 Affiliates and we are currently investigating the claims.

Challenges

LBHI and its US debtor affiliates

The principal challenges LBIE faces to achieve settlement with LBHI and its US debtor affiliates include:

- agreeing final valuations on the most material claims and complex products;
- LBHI achieving "confirmation" of any settlement which might be agreed by LBIE;
- achieving an acceptable position for LBIE within the complex multi-creditor environment in the US;
- dealing with the potentially extensive discovery requirements as part of the Plan process;
- preparing for potentially protracted litigation in a number of areas (particularly in regard to Guarantees) in the event that settlement is not achieved; and
- dealing with other issues arising from prosecuting claims in the Chapter 11 estates in the US Bankruptcy court.

LBIE House claim against LBI

There are a number of obstacles to overcome for LBIE relating to its House claim against LBI. These challenges include:

- prosecuting LBIE's claims in the US which give rise to a number of complex jurisdictional issues, not least of which is the 30 June 2011 deadline for filing an objection to the LBI Determination;
- demonstrating that LBIE's House claim should be considered as a Customer Property claim rather than a General Estate unsecured claim; and
- concluding the information gathering and sharing exercise which will enable LBI and LBIE to have an adequate understanding of the differences in the books and records.

In addition to the specific challenges referred to above, there are a number of very important areas which cut across all of the Affiliate relationships to a greater or lesser extent. Certain of these issues are explained in more detail below.

Ownership of assets held by LBIE

LBIE continues to work to resolve ownership and Extended Liens claims from Affiliates in relation to certain securities held by LBIE.

RASCALS securities

A hearing in the UK High Court in October 2010 resulted in a judgment handed down on 19 November 2010 (details available at www.pwc.co.uk/lehman).

The court found that while the Affiliates had acquired a beneficial interest in the securities upon their purchase from Street counterparties, the RASCALS process had the effect in the case of certain standard fact patterns of transferring that beneficial ownership in the securities to LBIE.

Three of the five respondents, LBF and two LBHK entities, have launched appeals to the judgment.

LBSF and LBI have chosen not to appeal the judgment. LBIE has cross-appealed on other issues.

Both LBIE and the appellants have filed skeleton arguments, and further skeleton arguments are expected in April 2011 from the appellants in response to LBIE's skeleton for the cross-appeal.

The appeal hearing is expected to take place in October 2011.

The outcome of this appeal could have a material impact on the asset returns and other balances between LBIE and its Affiliates.

Extended Liens

Discussions are underway with a number of Affiliates in an attempt to avoid the need for an application to the UK High Court and instead agree on a comprehensive mutual waiver of Extended Liens.

Discussions with some of the Affiliates have been protracted and the prospects of agreeing a consensual approach appear limited. As a result, LBIE has been focusing on:

- reviewing the relevant legal agreements between LBIE and Affiliate entities;
- preparing a UK High Court application and liaising with Affiliates; and
- obtaining consent from potential claimants to disclose information relating to the Extended Liens issue to the wider Lehman affiliate population.

The impact of Extended Liens on the assets held by LBIE in its or other Affiliates' depots could be material to the House Estate.

BTB

LBIE entered into back-to-back transactions and associated side letters with Affiliates to provide LBIE with certain protections.

The most significant side letters in both value and population impact are with LBSF, LBCC and LBF.

LBIE plans to deal with the LBSF and LBCC BTB issue as part of ongoing settlement negotiations with the US debtors.

LBF disputes the applicability of the side letter to the intercompany derivatives portfolio with LBIE. As a result, LBIE and LBF have agreed to go to the UK High Court for directions to resolve such issues.

The court application has now been finalised and it is intended it will be filed at court shortly, with a view to having a substantive hearing by Autumn 2011.

The resolution of the BTB issues will have a material impact on LBIE.

Section 6

Client Assets

Highlights

- Client Assets returns of c.£2.1bn were completed in the period. Total Client Asset returns and collateral releases since the beginning of the Administration are c.£12.8bn.
- Over-Claims with a value of c.£2.2bn were investigated and rejected in the period, facilitating the release of a range of Client Assets previously reserved because of competing claims.
- The remaining population of Client Assets within LBIE's control relate mainly to counterparties where there are a number of complex unresolved issues. Resolution of the issues requires significant assistance from Affiliates and clients themselves.
- Data exchange and reconciliation efforts with LBI in respect of the Omnibus Customer claim have improved during the period. The LBI determination for cash has not yet been received.
- LBI is not yet ready to engage in discussions regarding the key legal principles affecting the Omnibus claim and hence the timeframes for ultimate resolution and recovery remain uncertain.

Focus

The focus of the Client Assets team is:

- return of Client Assets through either the CRA mechanism or bilateral negotiations;
- resolution of the various restrictions that impact the addressable population of assets available for return, including Over-Claims and Affiliate liens;
- regular and intensive engagement with overseas Affiliates to recover Client Assets still held by them on behalf of LBIE; and
- recovery of any debts owed to the estate by Trust Property claimants.

In 2011, the Client Assets team has initiated a new stream of activity to accelerate progress in agreeing unsecured claims into the estate.

Client Assets analysis

Movements in the Client depot during the period are as follows:

	£bn
Reported at 15 September 2010	6.2
Returned to clients in the period	(2.1)
Ring-fenced for Affiliates in the period	(0.1)
Client Assets at 14 March 2011	4.0

Client Assets comprise:

	£bn
In LBIE controlled depots	1.4
LBI controlled (estimated)	2.2
LBHK and others (estimated)	0.4
Client Assets at 14 March 2011	4.0

Assets controlled by LBI and LBHK have been estimated after assuming perfect settlement of any open unsettled trades as at the date of LBIE's Administration. These estimates will be revised following the completion of reconciliation efforts with the office holders in those estates. In the case of LBI, no estimate has been included for the cash component arising from settlements in the week commencing 15 September 2008, pending receipt and reconciliation of the cash determination from LBI.

Progress

CRA

During the period, LBIE issued CANs for a further 1,840 security holdings with a value of c.£0.4bn. The programme of CAN issuance has now progressed substantially, with 89% by value and 81% by count of holdings having been issued since the implementation of the CRA.

Asset returns under the CRA in the period totalled c.£0.3bn and were distributed to 69 counterparties across 1,785 holdings.

Total CRA returns since its inception are c.£2bn to 116 counterparties and for 2,015 separate holdings.

In addition to the CRA returns, LBIE investigated c.£0.1bn of segregated assets previously attributed to CRA signatories which were confirmed as no longer eligible for return to those clients. Instead, these have now been separately ring-fenced for Affiliates pending resolution of their claims.

To accelerate the progress of future Client Asset returns, the Administrators have implemented a fast-track process, designed to operate within the parameters of the CRA, for lower value asset holdings that meet the criteria for low risk returns.

Non-CRA

The Administrators continue to make progress on Client Asset returns to non-CRA signatories in parallel with addressing the CRA population.

Client Assets returns under bilateral arrangements in the period have totalled c.£1.8bn. Total bilateral returns since the start of the Administration total c.£10.2bn.

The majority of the remaining value of Client Assets currently under LBIE's control for non-CRA counterparties is heavily linked to LBI-related issues and thus cannot yet be returned. In a number of cases, LBI continues to make a competing claim for the underlying assets held for these Trust claimants, asserting that the underlying clients are clients of LBI rather than LBIE. We are seeking to work with LBI and the claimants affected to resolve these matters in the near term.

Over-Claims

An analysis of Over-Claims is shown in the table below:

	£bn
Over-Claims as at 15 September 2010	6.9
New Over-Claims identified	0.1
Over-Claims resolved in the period	(2.2)
Total Over-Claims at 14 March 2011	4.8
This comprises:	
Over-Claims asserted for assets within LBIE's control	1.5
Over-Claims asserted for assets outside LBIE's control	3.3

In a significant number of cases, LBIE has received multiple claims for the same Client Asset holdings leading to multiple restrictions on the release of these assets to valid claimants. Moreover, the vast majority of the Over-Claims appear to be for liabilities already recognised by LBIE, albeit with unsecured status, including claims for re-hypothecated assets.

During the period, our efforts to expedite the overall asset return programme have largely focused on the investigation and resolution of Over-Claims pertaining to Client Assets already within the Administrators' control. Of the c.£2.2bn of resolved Over-Claims in the period, c.£1.5bn relates to securities nominally under LBIE's control.

Formal claim rejection notices have been issued for these Over-Claims and the impacted assets have been recategorised as eligible for return to other clients, subject to certain other conditions also being met.

The Administrators continue to take a prudent approach to the remaining population of Over-Claims. To the extent that LBIE holds equivalent assets which are subject to unresolved Over-Claims, as a precaution these have been fully ring-fenced and have been excluded from the House Estate.

Affiliate liens

As previously reported, the Administrators have received claims from Affiliates asserting liens over certain Client Assets. The total value of asserted Affiliate liens as at the date of this report is c.£0.5bn.

The Administrators have notified certain counterparties that their Client Asset claims may be affected by Affiliate liens. The Administrators encourage any such claimants who are affected in this way to contact the Affiliates concerned directly, in order to resolve the asserted indebtedness, release any liens and ultimately expedite the process of LBIE asset returns to them.

LBI – Omnibus Customer claim

The Administrators received the initial LBI Determination of the Omnibus Customer claim (the “Omnibus claim”) on 16 September 2010. During the period since then the Client Assets team has continued to work with LBI to:

- reconcile the securities balances and pending trades in the LBI Determination to LBIE’s records;
- respond to further information requests from LBI, particularly with reference to the LBIE Omnibus cash claim for which no determination has yet been received; and
- develop a joint action plan with LBI to improve the co-ordination between the LBI and LBIE estates and accelerate our joint progress in the first half of 2011.

Reflecting a commitment to continue to co-operate in the reconciliation of LBIE’s Omnibus claim, LBI has extended the deadline for objection to the LBI Determination until the end of June 2011.

Whilst progress has been made on securities reconciliations and the exchange of data between LBI and LBIE, LBI is not yet ready to engage with the Administrators on the core legal principles affecting the different components of the Omnibus claim. Separately, LBI has raised certain information requests relating to the level of financing that may have been provided by LBIE to the Omnibus clients pre-Administration. These requests have been made in the context of the cash determination which is still outstanding from LBI. LBIE has expressed to LBI the Administrators’ concern that such requests will unnecessarily delay the overall Omnibus claim reconciliation process and the response of LBI is awaited.

The Administrators continue to press LBI to open a substantive dialogue on legal principles as soon as possible, with a view to accelerating the overall timeframe for resolution of the Omnibus claim.

LBHK

The Administrators submitted an updated claim to the Hong Kong liquidators to meet the LBHK bar date of 10 December 2010. Since then, LBIE has continued to work co-operatively with the liquidators to reconcile and generally progress the Client Asset claim, although the timing and quantum of the release of Client Assets remains uncertain.

Challenges

Since the LBIE asset return programme commenced, significant progress has been made in returning assets to a large number of claimants. However, a number of important challenges remain. In order of significance these are:

- recovery of further assets is heavily dependent on the progress of insolvent Affiliate estates outside LBIE’s control – specifically LBI and LBHK;
- in many cases, LBIE is unable to return controlled assets because the net financial exposure to the underlying Client Asset claimants is dependent on the outcome of the Omnibus claim against LBI and is therefore uncertain;
- the Administrators need to decide by 30 June 2011 as to whether to object to the LBI Determination of the Omnibus claim;
- claims from Affiliates asserting liens over Client Assets remain outstanding and are only capable of being resolved directly between the impacted clients and Affiliates;
- levels of engagement from outstanding claimants are variable and in some cases this is expected to delay returns; and
- the profile of the remaining LBIE controlled Client Asset population is skewed towards much larger numbers of lower value holdings.

The above challenges mean that the timing of future material releases of Client Assets will fall increasingly outside the direct control of the Administrators, and quantification of any eventual shortfalls giving rise to unsecured claims against the LBIE estate is uncertain.

Section 7

Client Money

Highlights

- Permission to appeal the Appeal Court Judgment in relation to pre-Administration Client Money has been granted to GLG Investments Plc (“GLG”), refused to LBI, and held over for the Administrators. The resulting UK Supreme Court hearing is scheduled for 31 October 2011.
- The impact assessment to quantify potential Client Money protection entitlements and identify Client Money in non-segregated accounts has been significantly progressed. The Administrators are preparing to make an application for directions to the UK High Court regarding the Tracing principles to be applied.
- The Administrators have filed an appeal in the Frankfurt court in respect of the claim for the return of \$1bn of Client Money from Bankhaus. On 16 December 2010, the Frankfurt court rejected Bankhaus’ counterclaim made against LBIE (although this has been appealed).
- c.£2.4bn has been recovered into the post-Administration Client Money account to date, of which c.£1.5bn has already been returned to counterparties as part of settlement activities.

Focus

As previously reported, the Appeal Court Judgment handed down in August 2010 created significant uncertainty around both the size of the Client Money pool and the number and identity of clients with entitlements to a share of the pool.

One consequence of the Appeal Court Judgment is that the Administrators are required to retrospectively evaluate possible Client Money entitlements that were not evident at the point of Administration and were not recognised as such in LBIE’s books and records. In addition, all unsegregated Client Money (or its proceeds) held by LBIE must be identified by the Administrators and added to the pool. These are highly complex exercises.

The uncertainty that the Appeal Court Judgment creates has delayed distributions from the Client Money pool.

The focus of the Client Money team in the period has been on:

- a detailed impact assessment to analyse the potential quantum of identifiable Client Money held in non-segregated accounts;
- a high level risk-based contract review to determine whether previously unidentified clients have an entitlement to claim against the pool;
- preparation of an application to the High Court for directions on the nature and extent of the Tracing work that is required to trace Client Money (or its proceeds); and
- preparation of an application to the UK High Court for directions on the treatment of the costs associated with the Client Money pool.

The Administrators believe that the consequences of the Appeal Court Judgment were not intended by CASS and MiFID. As such, the Administrators sought permission to appeal the Appeal Court Judgment to the UK Supreme Court. GLG and LBI also sought leave to appeal.

The UK Supreme Court has granted leave to appeal to GLG, but refused LBI’s appeal. The Administrators’ appeal has been held over. For as long as this situation persists, LBIE remains a participant in the proceedings but is not an appellant. The UK Supreme Court hearing is scheduled for 31 October 2011. Judgment is not likely until 2012.

In parallel with making preparations for the UK Supreme Court hearing, LBIE continues to work on identifying unsegregated Client Money (or its proceeds) and counterparties who might have an entitlement to share in the Client Money pool. The Administrators’ objective is to have conducted sufficient investigation and analysis, such that there will be as little further delay as reasonably possible to the distribution of Client Money, following receipt of the UK Supreme Court ruling.

The Administrators also continue to focus on the legal actions necessary (where appropriate) to recover pre-Administration Client Money deposited with third party institutions and Affiliates.

Progress

The Administrators have made significant progress in the last six months in addressing the various complex issues raised by the Appeal Court Judgment.

UK Supreme Court

The appeal to the UK Supreme Court has been set in motion. A four day UK Supreme Court hearing is scheduled to take place starting on 31 October 2011.

Tracing

The Administrators expect to make an application for UK High Court directions regarding the Tracing principles imminently, and it is anticipated that the hearing will be in early 2012.

Bank and transaction accounts

The Appeal Court Judgment held that identifiable Client Money in LBIE's non-segregated accounts should be added to the Client Money pool. As a result, the Administrators are working through an impact analysis of LBIE's entire bank and exchange transaction accounts to assess if any of them contained Client Money.

The analysis involves a review of c.800 bank accounts to assess vulnerability to Tracing. Transactions in these bank accounts are undergoing review, to establish whether client-related payments passed through the accounts.

Work is also underway to establish if Client Money (or its proceeds) was held in various Exchange and Clearing House transaction accounts, which related to LBIE's futures and options business.

The results of these reviews will be used to develop an assessment of the potential identifiable Client Money in non-segregated accounts. Analysis is ongoing and has been developed using a methodology and Tracing principles that will be tested in the UK High Court.

Liquidity management process

We have completed a high level review of the liquidity management process in operation pre-Administration. This process managed the movement of money around the Lehman organisation and understanding this process and these movements is a fundamental component of the Tracing exercise.

The results of these reviews have been discussed with counsel and form the basis of our application to the UK High Court for directions on the Tracing principles to be applied.

Debtors

The Administrators have commenced a review of cash recovered from debtors post-Administration to determine the extent to which this may be subject to Tracing claims.

A process and methodology to review the recoveries has been developed and agreed with our legal advisers. If the recoveries are determined to be free from a Tracing taint, this will allow the funds to remain available to the House Estate.

Entitlements

The Appeal Court Judgment held that any client with a contractual entitlement to Client Money protection should share in the Client Money pool in the amount that should have been segregated for it under CASS.

To better understand which clients may have a potential entitlement to a distribution from the pool, the Administrators and their legal advisers have completed a legal review of each standard trading contract type to determine which contract types may confer Client Money entitlement. This has involved a review of more than c.50 contract types in relation to c.3,700 clients. Work has also been undertaken on how these contract types relate to CASS.

Cost application

Potential representative respondents to the Administrators' intended application to the UK High Court for directions on the treatment of costs incurred in managing the Client Money pool have been identified and have agreed to participate.

The Administrators are currently in discussions with the representative respondents regarding the most appropriate approach to the application. If a pragmatic approach can be agreed between the parties, the Administrators intend to launch the application imminently. A preliminary hearing is then likely to take place in Q3 2011.

Bankhaus

The Administrators have filed an appeal against the Frankfurt court's decision to dismiss LBIE's claim against Bankhaus. The appeal process is expected to take a number of months and will require additional submissions to court by LBIE and Bankhaus.

On 16 December 2010, the Frankfurt court dismissed the separate \$1bn Bankhaus counterclaim against LBIE. The administrator of Bankhaus has appealed this judgment.

LBI/BarCap recovery

The previous progress report explained the uncertainty around whether c.\$140m of LBIE Client Money was transferred to BarCap as part of the sale of LBI's business in September 2008. The Administrators have continued their dialogue with both LBI and BarCap in order to resolve the allocation of customer accounts and the associated Client Money.

Both BarCap and LBI agree that BarCap acquired the LBIE Client Money accounts.

The Administrators continue their efforts to recover the Client Money from BarCap and believe the recent US court ruling relating to the dispute between BarCap, LBI, LBHI and others, does not impact LBIE's position in respect of seeking the return of funds from BarCap.

Korean recovery

At the time LBIE entered administration, the Korean regulator imposed a moratorium on LBIE's entity in Korea to prevent the Administrators repatriating c.\$26m of Client Money to the UK. During the period, the Administrators have continued their dialogue with the Korean regulator, with the support of the FSA, with the aim of gaining recognition of the customer status of the money, to enable repatriation to the UK.

Post-Administration Client Money

c.£2.4bn has been recovered in to the Administrators' post-Administration Client Money account as at 14 March 2011, with c.£1.5bn of post-Administration cash being returned to clients to date.

Challenges

The Administrators continue to be unable to agree entitlements or make a distribution of pre-Administration Client Money for a significant period of time due to the impact of the Appeal Court Judgment. As a result, the quantification of any eventual shortfall giving rise to unsecured claims against the LBIE estate is uncertain.

The Administrators have faced significant challenges in responding to the Appeal Court Judgment, due to the lack of clarity around the practical application of the legal principles set out by it and the volume and complexity of data that needs to be investigated.

Over the next reporting period, the Administrators intend to:

- apply to the UK High Court for directions on Tracing Client Money;
- engage with a cross section of clients and Affiliates to better understand their view of their claims to having Client Money entitlements against the pool;
- conclude a client-by-client contract review to establish which clients may have a Client Money entitlement against the pool; and
- marry up any Client Money identified as a result of the Tracing work performed so far, to the entitlements identified through the contract review.

Section 8

Unsecured creditors

Highlights

- LBIE has started to issue claims determinations to financial trading creditors using the Consensual Approach, initially focusing on the largest, most complex creditors.
- As at 14 March 2011, aggregate LBIE Determinations of c.£1.1bn had been provided to some 100 Street Creditors, of which claims totalling c.£0.4bn (21 counterparties) had been formally agreed.
- Two additional large unsecured claims have been agreed with Trust Property claimants, totalling c.£0.3bn.
- Significant progress has been made on the reconciliation and valuation of creditors' positions, such that LBIE Determinations have been finalised (but not yet offered) for a further c.£1.6bn of claims (146 counterparties).
- Submissions of Proofs of Debt remain relatively low. As at 14 March 2011, 1,620 unsecured creditors (excluding Affiliates) had submitted Proofs of Debt, out of an estimated population of c.5,800 counterparties.
- The bar date for lodging claims and the subsequent date for payment of a dividend (not more than two months thereafter) have been extended by two years, although the Administrators are working to shorten this timetable and therefore encourage creditors to continue to submit Proofs of Debt as soon as possible.

Focus

A key priority for 2011 is to progress the reconciliation, valuation and determination of unsecured claims.

As at 14 March 2011, the current low case estimated value of LBIE's unsecured liabilities (excluding Affiliates' claims and Client Asset shortfalls) is c.£14.5bn, after provisions which take account of certain differences between LBIE's assessment of its liabilities and the amounts claimed by counterparties, as follows:

Unsecured claimants	No. of cpties	Indicative financial outcome (Low) £bn
Street Creditors	3,712	8.6
Client Asset claimants *	771	5.5
Financial trading counterparties	4,483	14.1
Non-financial trading counterparties	1,313	0.4
Total	5,796	14.5

* This relates solely to estimated unsecured claims from counterparties with Client Assets and excludes additional unsecured claims arising from Client Asset shortfalls.

The LBIE valuation used for the low case indicative financial outcome above incorporates LBIE's current view of the valuation as at the termination date (where terminated), or an estimate of the value as at 14 March 2011 in respect of any remaining live positions, together with provisions to take account of certain claims which exceed LBIE valuations.

The high case indicative financial outcome is currently estimated to be c.£12.1bn (a reduction of c.16%).

The overall number of creditors is estimated to be c.5,800, although this number will continue to change as LBIE engages further with its creditor population and undertakes additional analysis of its underlying books and records. The above analysis does not reflect any impact of the Appeal Court Judgment on the classification of LBIE's liabilities as either unsecured or entitled to Client Money protection (see Section 7 for further information).

During the past six months, the main focus of the unsecured creditors work stream has been the analysis and agreement of financial trading creditors' claims under the Consensual Approach described in the Administrators' previous progress report. The main developments relating to the Consensual Approach are set out below. Unless there is a compelling legal or commercial reason to the contrary, it is the Administrators' current intention to deal with all Street Creditors under the Consensual Approach, before deploying resources to agree financial trading creditor claims in any other way (such as via bilateral negotiations).

The Administrators are also considering how the Consensual Approach may be adapted to deal with the unsecured claims arising from other creditors, such as Client Asset claimants.

Unsecured claims arising from Affiliates are dealt with separately; further information in this regard is provided in Section 5.

A more conventional claims agreement process may be adopted in respect of other third party creditors in due course, although this is not an area of focus at the present time in view of the fact that a first interim distribution is unlikely before 2012.

Progress

Since the last report, the Administrators have made significant progress in improving claims processing, enhancing LBIE's valuation methodologies and commencing the agreement of creditors' claims under the Consensual Approach. In addition, the Administrators obtained court approval to extend the claims bar date. Further detail on these areas is set out below.

Claims processing

During the period, key achievements in respect of claim reconciliation and valuation under the Consensual Approach include:

- extensive engagement with counterparties, notably in respect of the c.250 largest and most complex claims;
- completion of the detailed reviews of contracts and termination notices for c.1,200 counterparties;
- completion of the review of prime brokerage contracts and assessment of the impact on c.700 Street Creditors;
- processing of c.1,300 amendments to LBIE's records to take account of changes in the trade population, claims assignments, agent/principal mapping issues and counterparty name changes;
- completion of substantially all of the trade population reconciliations in respect of LBIE's OTC derivatives and financing counterparties that have submitted valuation statements; and

- further development of LBIE's valuation methodologies in order to derive LBIE's House view for c.£2.7bn of Street Creditors such that LBIE Determinations can be issued in due course (in the absence of specific legal, commercial or other reasons to the contrary).

Valuation methodologies

Over the last six months, LBIE's valuation methodologies have been improved in order to generate creditor valuations which are in line with market practice and are universally applied to LBIE's Street Creditor population.

LBIE has spent considerable time and resource reconciling and pricing creditors' trading positions, reviewing legal documentation and creating a standardised claims agreement template to expedite the production of LBIE Determinations.

Specific focus has been in respect of generating valuations across multiple asset classes, including OTC derivatives (credit, rates, foreign exchange and equity trades), securities financing, prime brokerage positions, exchange traded derivatives and failed trades.

LBIE's valuation methodologies and processes have undergone significant review and challenge to ensure that they are robust and reflect market practice. Additionally, data inputs have been reviewed to ensure where appropriate they are derived from market sources and/or based on standard industry-recognised pricing models.

Claims agreement

LBIE Determination

In December 2010, LBIE formally commenced the communication of LBIE Determinations to creditors, with each determination being a single amount for each creditor which takes into account positions under all master agreements and other financial trading arrangements between that creditor and LBIE.

In order to be eligible for receipt of a LBIE Determination, the Administrators require that the relevant creditor has submitted a Proof of Debt that is compliant with UK insolvency legislation. Certain creditors, however, are currently excluded from consideration under the Consensual Approach for specific legal or commercial reasons, such as assertion of non-mutual set-off against LBIE receivables that LBIE intends to challenge.

The communication of LBIE Determinations was initially on a trial basis, but has since broadened to the c.250 largest or most complex eligible Street Creditor claims ("Tier 1"), and more recently, to smaller, less complex claims ("Tier 2").

Claims Determination Deed

Since the date of the Administrators' last progress report, LBIE has also developed a standardised legal agreement, the Claims Determination Deed (the "Deed"), which is designed to preserve a creditor's potential entitlement to Client Money, notwithstanding its agreement of a single claim figure in respect of the LBIE estate, potentially incorporating both unsecured and Client Money elements.

In recognition of creditors' desire for flexibility, the Deed allows creditors to freely trade agreed claims without the need for LBIE's consent.

Offers to creditors

Any offer to a creditor under the Consensual Approach comprises the issue of a Deed alongside the LBIE Determination. The offer is non-negotiable, but creditors are free to accept or reject it. Any creditors who choose not to accept the LBIE offer will have their claims reviewed in detail on a bilateral basis at a later date. Only four creditors (totalling £24m) to whom offers have been made have formally notified LBIE of their rejection.

The table below summarises the progress made in the past six months with respect to agreement of claims:

Unsecured claimants	Total population*		Offers made*		Claims agreed*	
	No.	£bn	No.	£bn	No.	£bn
Tier 1	242	5.8	78	1.1	21	0.4
Tier 2	3,470	2.8	8	-	-	-
Total Street Creditors	3,712	8.6	86	1.1	21	0.4
Client Asset claimants	771	5.5	2	0.3	2	0.3
Total	4,483	14.1	88	1.4	23	0.7

* The value of the total population is after including provisions for claims in excess of LBIE's valuations. In the majority of cases, offers made represent LBIE's valuations without additional provisions.

As shown, in addition to the c.£0.4bn of claims agreed with Street Creditors, a further c.£0.3bn has been agreed in respect of the unsecured components of two Trust Property claimants, agreed as part of asset returns in late 2010.

Claims agreed above predominantly relate to claims agreed in quantum but not yet admitted for unsecured dividend purposes, owing to the uncertainty as to Client Money entitlements caused by the Appeal Court Judgment.

Extension of claims bar date

In December 2010, the Administrators applied to the UK High Court to extend the date by which claims must be lodged, and the subsequent date for making a distribution, by two years, due to the impact of the Appeal Court Judgment with respect to Client Money, as set out in the progress report dated 14 October 2010. The Administrators' request was granted by the court, such that the current date by which claims must be lodged is 31 December 2012 (with the latest date for payment of a distribution being 28 February 2013).

Challenges

Limited number of Proof of Debt submissions

UK insolvency legislation requires any creditor wishing to claim against an insolvent estate to submit its claim in the form of a compliant Proof of Debt in order that their position can be considered for agreement and admission for dividend purposes.

During the past six months, a further 813 Proofs of Debt have been received by the Administrators via the online LBIE Creditors Portal launched in July 2010.

As at 14 March 2011, the number and value of known claims submitted (excluding Affiliates) were as follows:

Unsecured claimants	No. of cpties	Claims £bn
Street Creditors	1,301	7.4
Client Asset claimants	70	1.2
Other third party	249	0.1
Total	1,620	8.7

The above summary is after an initial review of claims and the removal of duplicate Proofs of Debt, non-LBIE counterparties, Client Money-only claimants and other non-compliant claims.

Given that the overall number of unsecured creditors is estimated to be up to c.5,800, it appears that a significant number of potential creditors are yet to submit Proofs of Debt. This is likely to impair progress of the unsecured creditors work stream as LBIE's ability to complete the reconciliation and valuation of claims depends on the receipt of these.

The Administrators continue to encourage creditors to submit their Proofs of Debt (accompanied by supporting valuation statements as appropriate) as soon as possible in order that they can be considered by the unsecured creditors work stream.

Assignments

Assignment of creditor claims (in full or in part) hinders progress, as resource is then focused on determining what specifically has been assigned and ensuring that LBIE's records accurately reflect this. Given that there have been c.400 assignments to date, LBIE has focused on improving the rigour and automation of the assignment process.

Client Money

As highlighted in the previous progress report, a major consequence of the Appeal Court Judgment is that the Administrators are currently unable to determine definitively which liabilities constitute unsecured claims and which are entitled to Client Money protection. Given that this distinction does not impact a creditor's overall claim, the Administrators have largely progressed with the agreement of total claim amounts, preserving potential Client Money entitlements by way of language included in the Deed, as outlined above.

However, as work continues in assessing the risks and implications of the Appeal Court Judgment, the Administrators will increasingly seek to admit more unsecured claims, as opposed to merely agreeing the quantum of a creditor's claim. This approach will extinguish any potential Client Money rights, and ahead of the UK Supreme Court judgment will therefore only be adopted where the Administrators consider it appropriate to do so, and where the counterparty provides its consent.

Complexities of creditor positions

Whilst the Consensual Approach was developed in order to accelerate the agreement of unsecured claims, the Administrators are aware that, given the complexities of LBIE's counterparty positions, certain creditors may choose to reject the offer and have their claims reviewed in detail on a bilateral basis at a later date.

In such cases, it is likely that substantial further documentation will be required to support the claims of such creditors and agree the amounts of such liabilities (and, ultimately, the amounts to be admitted for dividend purposes). Depending on the complexities of individual creditor claims and the number of counterparties that may opt for this route, any claims dealt with via a bilateral approach may take a significant amount of time to conclude and, in exceptional cases, may require court adjudication. In any event, it is likely that this process would continue well beyond the first unsecured distribution date and so the Administrators intend to prudently reserve for such claims at the relevant point in time.

Section 9

Statutory and other information

Statutory information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court. Court case number 7942 of 2008.
Full name:	Lehman Brothers International (Europe)
Trading name:	Lehman Brothers International (Europe)
Registered number:	02538254
Registered address:	Level 23, 25 Canada Square, London E14 5LQ
Date of the Administration appointment:	15 September 2008
Administrators' names and addresses:	AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis (all appointed 15 September 2008) and DA Howell (appointed 30 November 2009) of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT.
Appointor's name and address:	High Court of Justice, Chancery Division, Companies Court on the application of LBIE's directors.
Objective being pursued by the Administrators:	Achieving a better result for LBIE's creditors as a whole than would be likely if LBIE were wound up (without first being in Administration).
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) of Schedule B1 to the Insolvency Act, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators may be done by any or one or more of the persons for the time being holding that office.
Details of any extensions for the initial period of appointment:	The court has granted an extension of the Administration to 30 November 2011.
Proposed end of the Administration:	The Administrators have yet to determine the most appropriate exit route due to material uncertainties highlighted in the report. A further extension to the Administration is expected to be required.
Estimated dividend for unsecured creditors:	The Administrators are unable to provide an estimate at this time due to material uncertainties regarding the quantum of asset recoveries and the level of unsecured creditors' claims.
Estimated values of the prescribed part and LBIE's net property:	The estimated value of LBIE's net property is uncertain, but is expected to exceed the maximum threshold for the prescribed part. Accordingly, the value of the prescribed part is estimated at £600,000.
Whether and why the Administrators intend to apply to court under Section 176A(5) of the Insolvency Act:	Such an application is considered unlikely.
The European Regulation on Insolvency Proceedings (Council Regulation (EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings does not apply to this Administration as LBIE is an investment undertaking.

Other statutory matters

Change to the constitution of the Committee

The members of the Committee at 15 September 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. Société Générale

During the period, Oceanwood Global Opportunities Master Fund resigned from the Committee.

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 relating to their requested remuneration in accordance with Statement of Insolvency Practice No.9 ("SIP 9").

Up until 31 December 2010, approval of remuneration by the Committee has been sought on a quarterly basis, in order to reduce the complexity and cost of collation of data. Time costs for the period to 31 December 2010 have been provided to and approved by the Committee.

Resolutions of the Creditors' Committee

In the period since our last report, the Committee has approved a further £65,321,556 of time costs, totalling 213,364 hours at an average hourly rate of £306 (previously reported £302) relating to work done in the period 1 July 2010 to 31 December 2010.

The Committee has also approved remuneration arrangements for 2011 which require that its consideration of a significant proportion of the Administrators' requested time costs in the year will be deferred until early 2012, in order that the Committee can judge the Administrators' performance against medium-term as well as short-term objectives.

Analysis of time costs

The flexible resourcing model, utilising combined teams of PwC, Lehman and contract staff, enables the Administrators to deal with the changing demands of the Administration, effectively and efficiently, ensuring that maximum possible progress is made in all work streams. The cost-effective balance of resources between these three pools is a matter which is monitored by the Creditors' Committee when considering the appropriateness of the Administrators' remuneration requests.

It is anticipated that the Administrators' time costs for Q1 2011 will increase compared with Q4 2010 as additional PwC staffing has been required to support:

- the claims agreement process;
- the Client Money Tracing and entitlements investigations; and
- the Affiliates team in supplementing the claims and reconciliation efforts.

Additional analysis of Administrators' remuneration

The table below provides an analysis of the total hours and cost by grade for remuneration resolutions approved by the Committee in respect of the period 1 July 2010 to 31 December 2010.

Grade	Period 1 July 2010 to 31 December 2010		Total from 15 September 2008 to 31 December 2010
	Hours	£ 000's	£ 000's
Partner	9,565	6,538	35,889
Director	10,193	6,050	35,552
Senior Manager	33,995	14,295	74,606
Manager	51,032	17,090	72,129
Senior Associate	76,644	16,575	79,314
Associate	31,935	4,773	24,932
Total	213,364	65,321	322,422

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

		Period 1 July 2010 to 31 December 2010		Total from 15 September 2008 to 31 December 2010
		Hours	£ 000's	£ 000's
Counterparties	Street	21,144	8,100	59,358
	Trust	49,676	13,263	58,660*
	Affiliates	11,244	3,723	8,042
	Valuation Governance	10,542	3,053	5,192*
	Branches	5,619	1,987	16,476
Middle Office	Middle Office	12,089	3,181	14,531
Transaction Processing and Control	Transaction Processing and Control	26,909	7,775	35,713
COO	Operations	16,067	5,762	33,843
Functions	Tax	1,483	727	5,317
	Regulatory & Compliance	1,206	449	3,825
	LBL Recharges (see overleaf)	44,800	13,592	74,252
Insolvency specific	Insolvency specific	7,292	2,330	4,182
	Forensic investigations	5,293	1,379	3,031
Total		213,364	65,321	322,422

* Reclassification of £14.3m from Valuation Governance to Trust relating to prior periods.

LBL Recharges	Period 1 July 2010 to 31 December 2010	
	Hours	£ 000's
Employees	2,457	1,155
Estate accounting	1,875	586
Group services management	7,599	2,223
Information Technology ("IT")*	28,420	8,013
Intercompany	79	20
Interdependencies	1,661	681
Property issues	2,709	914
Total	44,800	13,592

* Time spent relating to IT matters included activities in the following subsidiary work streams:

- governance – strategic roadmap for systems development, programme of work to validate and protect the long-term data needs of LBIE, and negotiation of the IT infrastructure outsourcing contract;
- application development – delivery of important new core applications and changes to existing applications to enable the progress of the Administration (e.g. pre-Administration Client Money, stock record system, roll-forward balance sheet);
- systems separation and independence – a significant change programme providing full independence of service provision from BarCap and Nomura was completed in the period, with separation of data from Nomura following cessation of the shared infrastructure;
- security – managing and maintaining a stable and secure IT environment, including cataloguing of the most critical data sources to enable the data to be protected in a single location; and
- TSA management – TSAs related to BarCap and Nomura were concluded ahead of schedule, resulting in annual cost savings of c.£15m.

The current Lehman headcount of 495 includes c.164 dedicated to IT, working together with the PwC specialists across each of these subsidiary work streams.

Appendices

Appendix A:

Glossary of terms

Abbreviation	Term	Definition
AAA	AAA	The highest credit rating given by the two main US rating agencies, Standard & Poor's and Moody's
Administration	Administration	UK corporate insolvency process governed by the Insolvency Act 1986
Administrators	Joint Administrators	AV Lomas, SA Pearson, DY Schwarzmann, and MJA Jervis were appointed as Joint Administrators of LBIE on 15 September 2008. DA Howell was appointed on 30 November 2009. All are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales and are partners of PricewaterhouseCoopers LLP
Adviser	Adviser	An adviser retained to assist the Committee in considering the Administrators' remuneration requests
Affiliate Claims Portal	Affiliate Claims Portal	A secure, structured framework for Affiliates to electronically submit details of their claims against LBIE accessible through the CIP
Affiliates	Affiliate entities	Various subsidiaries and affiliates of Lehman Brothers Holdings, Inc
Appeal Court Judgment	Pre-Administration Client Money Appeal Judgment	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 (also referred to as LBB)	Lehman Brothers Bankhaus A.G.	Affiliate entity subject to insolvency proceedings in Germany
BarCap	Barclays Capital, Inc	Investment banking business of Barclays Bank PLC
BTB	Back-to-Back derivative side letters	Intercompany derivative side-letters which provide hedges to LBIE
CAN	Claim Agreement Notice	Notices issued by the Administrators to CRA signatories confirming an asset entitlement at a security level
CASS	Client Asset Sourcebook	Requirements issued by the Financial Services Authority relating to holding of Client Assets and Client Money
CIP	Client Information Portal	A secure, structured framework that provides access for counterparties to relevant LBIE sub portals (Affiliate Claims Portal and LBIE Creditors Portal). Access is provided by a unique user name and password only
Client Assets	Client Assets	Client securities which LBIE should have held as at 15 September 2008
Client Money	Client Money	Client cash balances managed by LBIE pursuant to the UK FSA's Client Money Rules as at 15 September 2008

Abbreviation	Term	Definition
Committee	Creditors' Committee	Creditors voted to represent the general body of creditors of LBIE to assist the Administrators in discharging their functions set out in the Insolvency Act 1986
Consensual Approach	Consensual Approach	A framework developed for the expedient resolution of the claims of financial trading counterparties without Client Assets
COO	Chief Operating Officers	Responsible for managing the operations of the organisation, allocating resources and supporting the other teams within the operating model
CRA	Claim Resolution Agreement	An innovative and practical claim resolution framework which governs the return of Client Assets. The CRA was proposed by the Administrators to clients in November 2009 and was accepted by over 90% of eligible Client Asset claimants
Customer Property	Customer Property as defined in SIPA	A combination of claims to securities and certain cash amounts relating to securities, as defined in SIPA
Deed	Claims Determination Deed	A standardised legal document for agreeing claims under the Consensual Approach
Extended Liens	Extended Liens	Assertion by certain Affiliate claimants to benefit from the rights conferred on LBIE to assert lien and other security entitlements over securities held by LBIE on behalf of other Affiliates, in order for the Affiliate claimants to recover debts owed to them by other Affiliates
Financial Support Direction	Financial Support Direction	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
FSA	Financial Services Authority	Regulator of all providers of financial services in the UK
General Estate	General Estate as defined in SIPA	Claims to a certain pool of assets available to satisfy general non-Customer Property creditors' claims, including any potential deficiencies in Customer Property claims
Guarantees	LBHI Guarantees	Various forms of guarantees provided by LBHI relating to, <i>inter alia</i> , contracts and financing transactions, derivative contracts and other payment performance guarantees
HMRC	Her Majesty's Revenue & Customs	Organisation of the British Government primarily responsible for the collection of taxes
House Customer claim (also referred to as the House claim)	House Customer claim	Element of LBI SIPA Customer claim relating to LBIE House positions

Abbreviation	Term	Definition
House or House Estate	House or House Estate	Dealings that relate to LBIE's general unsecured estate
IMA	Interim Management Agreement	Agreement between LBIE and certain Affiliates regarding the management of securities over which uncertainty of ownership exists
Insolvency Act	Insolvency Act 1986	Statutory legislation that provides the legal platform for matters relating to personal and corporate insolvency in the UK
Insolvency Rules	Insolvency Rules 1986	Statutory rules that provide the legal platform for matters relating to personal and corporate insolvency in the UK
LB Lux	Lehman Brothers (Luxembourg) S.A.	Affiliate entity subject to insolvency proceedings in Luxembourg
LBCC	Lehman Brothers Commercial Corporation	Affiliate entity subject to insolvency proceedings in the US
LBF	Lehman Brothers Finance S.A. (Switzerland)	Affiliate entity subject to insolvency proceedings in Switzerland
LBHI	Lehman Brothers Holdings, Inc	Ultimate parent of the Lehman group, incorporated in the US and subject to Chapter 11 bankruptcy protection on 15 September 2008
LBHK	Lehman Brothers Hong Kong	Collective group of affiliate entities subject to insolvency proceedings in Hong Kong
LBI	Lehman Brothers, Inc	US broker-dealer affiliate entity, incorporated in the US which entered SIPA trusteeship on 19 September 2008
LBI Determination	Letters of Determination	Letters of Determination issued on 16 September 2010 in respect of LBIE's House and Omnibus Customer claims against LBI
LBIE (also referred to as the Company)	Lehman Brothers International (Europe) - In Administration	Private unlimited UK subsidiary of LBHI, acting as its main European broker dealer, subject to an administration order dated 15 September 2008
LBIE Creditors Portal	LBIE Creditors Portal, previously referred in earlier progress reports as Claims Portal	A secure, structured framework for counterparties to submit details of their unsecured claims against LBIE accessible through the CIP
LBIE Determination	LBIE Determination	Agreement of eligible claims using a value determined by LBIE, derived from LBIE's own valuation methodology
LBJ	Lehman Brothers Japan KK	Affiliate entity subject to insolvency proceedings in Japan
LBL	Lehman Brothers Limited	UK service entity for the Lehman Administration Companies. LBL was placed into Administration on 15 September 2008

Abbreviation	Term	Definition
LBSF	Lehman Brothers Special Financing, Inc	Affiliate entity subject to insolvency proceedings in the US
MiFID	Markets in Financial Instruments Directive	EU Directive setting out basic high-level provisions governing the internal organisational and conduct of business requirements for investment service firms
MTM	Mark-to-market	Recording the price or value of a security, portfolio or account at current market value
Nomura	Nomura Holdings, Inc	An investment and financial services business. LBIE's equities business was acquired by Nomura shortly after the Administrators' appointment
Notice of Proposed Distribution	Notice of Proposed Distribution	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
Omnibus Customer claim (also referred to as the Omnibus claim)	Omnibus Customer claim	Element of LBI SIPA Customer claim relating to LBIE Client positions
OTC	Over-the-counter	A market in which securities, or other financial products, are traded by direct dealer-to-dealer communications
Over-Claims	Over-Claims	Proprietary claims made for or in respect of securities in an amount which exceeds the amount which appears as the claim entitlement to securities of that type as documented in LBIE's books and records
Plan	Plan of Reorganisation	Document filed by LBHI and its US debtor affiliates with the US bankruptcy court, proposing an economic solution for creditors designed to achieve resolution of the Chapter 11 proceedings
Proof of Debt	Proof of Debt or Statement of Claim	A formal document prescribed by the Insolvency Rules 1986 submitted to the Administrators by a creditor wishing to prove their claim. The form is made in writing or electronically under the responsibility of a creditor and signed by an authorised person
RASCALS	Regulation and Administration of Safe Custody and Local Settlement	A series of securities finance transactions between LBIE and certain Affiliates as recorded in Lehman books and records
Revised SoA	Revised SoA	Position reflecting certain revisions to the SoA figures filed in July 2009 driven by information and facts arising since the filing of the SoA, as amended from time to time
SIP 9	Statement of Insolvency Practice 9	Rules issued by the Joint Insolvency Committee which provide guidance to insolvency practitioners and creditors' committees in relation to the remuneration of, <i>inter alia</i> , administrators

Abbreviation	Term	Definition
SIPA	Securities Investor Protection Act 1970	A US legal proceeding for handling the liquidation of a broker-dealer
SoA	Statement of Affairs	Statutory document which company directors are bound to submit to the insolvency office holders, in accordance with the Insolvency Act 1986 which sets out the financial position of a company as at the date of insolvency
Street	Street counterparties	Third party counterparties consisting of financial institutions, including asset managers, custodians and banks, and non-banking financial institutions, including pension funds and corporate entities
Street Creditors	Street Creditors	Creditors with financial trading claims without Client Assets
Tracing	Tracing	Identification of unsegregated Client Money
Trust Estate	Trust Estate	Refers to both Client Assets and Client Money
Trust Property	Trust Property	Refers to both Client Assets and Client Money
TSA	Transitional Services Agreement	Service agreements between LBIE and various entities for the provision of certain services
UK Affiliates	Lehman Administration Companies	UK Lehman entities in Administration
UK Appeal Court	Appeal Court of England and Wales	The second most senior court in the English legal system for civil cases. Permission to appeal is required, either from the lower court or the Court of Appeal itself
UK High Court	High Court of England and Wales	Court of England and Wales which deals with all high value and high importance cases, and also has a supervisory jurisdiction over all subordinate courts
UK Supreme Court	Supreme Court of the United Kingdom	This is the court of last resort and highest appellate court in the United Kingdom for civil cases
VAT	Value Added Tax	A consumption tax levied on the sale of goods and services in the UK

Appendix B:

Receipts and payments: six months to 14 March 2011

House receipts and payments: six months to 14 March 2011

	Notes	GBP £m	EUR €m	USD \$m	Various currencies £m	Total (GBP equivalent) at 14 March 2011 £m
Receipts						
Counterparties	1	63	182	499	-	530
Depot securities	2	160	130	336	455	936**
Client Monies for onward distribution	3	3	18	29	8	46
Other income	4	58	24	6	12	95
Total Receipts for the period		284	354	870	475	1,607
Payments						
Payroll and employee costs	5	(41)	(9)	(3)	-	(51)
Administrators' remuneration and expenses	6	(66)	-	-	-	(66)
Building and occupancy costs	7	(28)	(1)	(7)	-	(33)
Legal costs	8	(29)	-	(9)	-	(35)
Other payments	9	(35)	(4)	(2)	(12)	(51)
Distribution of Client Monies	10	(3)	(18)	(29)	(8)	(46)
Total Payments for the period		(202)	(32)	(50)	(20)	(282)
Net movement in the period		82	322	820	455	1,325
Balance at bank as at 14 September 2010 as previously reported		4,814	2,544	1,691	52*	8,122*
Net inter-currency transfers for six month period to 14 March 2011		71	(5)	286	(245)	(1)
Total balances as at 14 March 2011	11	4,967	2,861	2,797*	262	9,446
Add: Treasury investments (at par)						77
Less: Funds arising from securities with potential third party claims						(1,559)
Total cash and bonds (see Section 3)						7,964

* balances for 'Various currencies' and 'GBP equivalent' above are translated as at 14 March 2011. Balances would have been £53m and £8,085m respectively had they been translated using 14 September 2010 exchange rates.

** includes £358m of funds arising from sale of securities to which Affiliates and third parties have asserted claims in the six months to 14 March 2011.

Notes to the House receipts and payments accounts

General

The transactions in the period are reported to creditors on a cash receipts and payments basis in accordance with the Insolvency Act and Insolvency Rules. With the exceptions of accruals for interest earned (note 4) and LBIE branch payroll costs for prior periods (note 5), 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.

1. Counterparty receipts

Recoveries of c.£0.5bn achieved in the period relate to financing, prime brokerage and OTC derivatives.

2. Depot security sales and related income

Realisations of c.£0.9bn relate to the disposal or redemptions of securities and derived income on depot holdings.

3. Client Monies for onward distribution

Under some client agreements, certain Trust Property is transferred from the client account to a special purpose vehicle ("SPV"). Under a separate agreement, funds are transferred from the SPV to the House account. The House makes a separate payment to the client to give value for its Trust Property under the client agreements (see note 10).

4. Other income

Other income includes:

- c.£32m of corporation tax repayments received in the period. LBIE continues to actively pursue the remainder of the c.£150m of refunds from HMRC relating to group loss surrenders for 2004 to 2007. This follows agreement of the Group Payment Arrangement between UK Lehman entities. HMRC has also agreed in principle to the repayment of c.£32m of income tax due in respect of tax suffered on certain structured transactions. Dialogue continues with HMRC, but the timing and quantum of further repayments is uncertain;
- c.£25m ring-fenced in House accounts, which have been repatriated or redirected after investigation;
- c.£17m of bank and bond interest;
- c.£9m recovered from a pre-Administration bank account;
- c.£5m of other receipts and items under investigation as at 14 March 2011;
- c.£3m retained from Client Asset returns as a contribution towards costs; and
- c.£4m of other realisations.

5. Payroll and employee costs

During the period, previously unreported payroll costs of c.£9m for prior periods relating to overseas branches were recognised.

6. Administrators' remuneration and expenses

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

The Administrators' time costs for the current reporting period are in line with the previous period. Payment timing differences, on bases agreed with the Committee, account for fluctuations between periods.

7. Building and occupancy costs

This reflects occupancy and infrastructure costs, primarily related to the offices currently occupied by LBIE at Canary Wharf.

8. Legal costs

International legal advisers' costs relate to advice given and litigation conducted, in connection with various complex issues across the Administration, including Client Monies, Affiliates and Trust Asset matters.

Over 30 law firms are retained in various capacities and in various geographies.

9. Other payments

Include the following:

- c.£24m of repatriated or redirected funds which were mistakenly paid into House accounts (see other income);
- c.£19m of VAT paid on invoices; and
- c.£8m of other sundry payments.

10. Distribution of Client Monies

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

11. Investment profile

House Estate	Notes	GBP equivalent £m
Short-term deposits	1, 2	4,264
Interest bearing accounts		94
AAA government bonds – short dated	3	5,088
Total		9,446

1. Average rate of return for six months ending 14 March 2011 of EUR 0.39%, GBP 0.39% and USD 0.17%.

2. LBIE currently has investment mandates with 15 banks.

3. Managed by four independent fund managers.

**Client Monies receipts and payments:
six months to 14 March 2011**

	GBP £m	EUR €m	USD \$m	Various currencies £m	Total (GBP equivalent) at 14 March 2011 £m
Receipts					
Pre-Administration Client Monies	-	-	1	-	1
Redemptions, coupons, dividends and investment income	8	18	177	65	199
Total Receipts for the period	8	18	178	65	200
Payments					
Return of collateral	(12)	(43)	(3)	-	(51)
Transfers to clients	(3)	(18)	(31)	(8)	(47)
Total Payments for the period	(15)	(61)	(34)	(8)	(98)
Net movement in the period	(7)	(43)	144	57	102
Balance at bank as at 14 September 2010 as previously reported	106	347	1,136	237*	1,349*
Total balances as at 14 March 2011	99	304	1,280	294	1,451

* balances for 'Various currencies' and 'GBP equivalent' above are translated as at 14 March 2011.
Balances would have been £233m and £1,365m respectively had they been translated using
14 September 2010 exchange rates.

Investment profile

Trust Estate	Notes	GBP equivalent £m
Short-term deposits	1, 2	1,258
Interest bearing accounts	2	193
Total		1,451

1. LBIE currently has investment mandates with 12 banks.

2. Client monies are held in original currencies, the majority being USD.

Appendix C:

LBIE contact details

<i>General queries</i>	<i>generalqueries@lbia-eu.com</i>
<i>Employee claims queries</i>	<i>LBIEHRqueries@lbia-eu.com</i>
<i>Counterparty contact information</i>	
Counterparty contact*	<i>counterpartycontacts@lbia-eu.com</i>
Termination notices and valuation statements	<i>unsecuredcreditors@lbia-eu.com</i>
Unsecured creditors queries	<i>unsecuredcreditors@lbia-eu.com</i>
LBIE Creditors Portal access requests	<i>logons@lbia-eu.com</i>
<i>Trust Property claimants</i>	
Client Assets (CRA signatories and Non-CRA clients)	<i>claimresolutionagreement@lbia-eu.com</i>
Client Money	<i>clientpositionresponses@lbia-eu.com</i>

* Email is still the preferred method of communication and remains the most efficient manner to contact counterparties in terms of both time and accuracy. If you have not provided your email address, it is essential that you do so as soon as possible.

Appendix D: Court update

Below is a summary of the major court proceedings that LBIE expects to be involved in through 2011.

Q2 2011	UK High Court	BTB application launch
		Client Money Tracing application launch
		Extended Liens application launch
	Luxembourg Court	Affiliate claims interim hearing
	German Court	Client Money interim hearing
	US Bankruptcy Court	LBIE Determination objection deadline
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Q3 2011	UK High Court	Extended Liens application directions hearing
	UK Appeal Court	Pension fund deficit substantive hearing
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Q4 2011	UK High Court	BTB derivative side letters substantive hearing
	UK Appeal Court	RASCALS appeal substantive hearing
		ISDA s2(a)(iii) derivatives appeal substantive hearing
	UK Supreme Court	Client Money substantive hearing
	US Bankruptcy Court	LBHI current proposal for confirmation hearing of Debtor Plan of Reorganisation
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Q1 2012	UK High Court	Extended Liens application substantive hearing

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