
Lehman Brothers International (Europe) – In Administration

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

13 October 2011

Important Notice

Creditors will note that this report provides data relating to certain estimated future costs, recoveries and creditor claim amounts. Please note that material facts may severely impact any or all of these estimates and, in turn, the dividend prospects for Lehman Brothers International (Europe) creditors. In certain instances, the Administrators have not disclosed material matters to creditors in this report for reasons of commercial sensitivity, confidentiality and/or legal privilege.

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

The Administrators therefore caution creditors against using data in this report as the sole basis of an estimate of the value of their claims or any likely dividend ranges. 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.

LBIE expressly reserves all of its rights against third parties (including Affiliates) on all matters and no conclusion should be drawn by third parties as to LBIE's legal arguments on any such matters from references made to these in 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 sixth such formal update to unsecured creditors and it provides details of progress for the six month period 15 March 2011 to 14 September 2011. The statutory receipts and payments accounts for the same period 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 was to have been wound up without first being in Administration.

The specific aims of the Administration are to:

- recover and/or realise all House (i.e. LBIE owned) assets, including cash, securities and in-the-money financial contracts, on a managed basis;
- admit unsecured creditors' claims and make distributions to creditors; and
- recover Client Assets and Client Money, assess the claims to such property and return all such property to its rightful owners on a systematic basis.

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.

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

Future report and updates

The next formal progress report to creditors will be in six months' time. However, immediately prior to finalisation of this report, a key settlement was formally completed with LBHK, another settlement has recently been agreed in principle with LBHI and settlement agreements are at various stages of discussion with certain other Affiliates. Accordingly, status updates will be given on the website, or by other means, as and when these and other material developments occur.

Signed:



AV Lomas
Joint Administrator
Lehman Brothers International (Europe) –
in Administration

Section 2:

Executive summary

Significant developments

The most significant developments in the six month period ended 14 September 2011 have been:

- the resolution of one of the \$1 billion+ issues, with the conclusion of terms with Citibank, leading to a c.£2bn settlement;
- c.£1.8bn of cash has been realised from House assets (including certain of the assets recovered from Citibank), taking the total realised to date to c.£12.6bn;
- c.1,500 lines (£0.2bn) of Client Assets have been returned in the period (c.£13.0bn returns and collateral releases to date);
- a further 309 Claims Determination Deeds have been issued to creditors under the Consensual Approach with an aggregate value of c.£1.5bn (c.£2.6bn to date). c.£1.0bn of claims have been formally agreed in the period (c.£1.4bn to date);
- agreement in principle has been reached with LBHI and certain other US debtors on a comprehensive settlement which, when finalised, is intended to include LBIE committing its support to the US debtors amended Plan;
- our House claim of c.\$8.9bn has been denied by LBI, so LBIE filed a formal objection and a scheduling order for trial has been agreed. LBI also submitted a revised inbound claim of c.£8.8bn against LBIE and this is now under review;
- an increased LBI Determination of c.\$8.3bn was received in respect of LBIE's Omnibus Customer claim with a 31 October 2011 deadline for objection;
- settlement has been reached with LBHK with regard to substantially all matters;
- the BTB UK High Court application has been launched and a pre-trial review is expected by the end of 2011. The Extended Liens UK High Court directions process has also been commenced and the next hearing is expected in early 2012;
- there has been increased engagement with LBS concerning its inbound claim of c.£6.7bn, with the objective of achieving a settlement and withdrawal of the claim;
- preparation has continued for the UK Supreme Court appeal hearing on pre-Administration Client Money due in October 2011. The Administrators brought a UK High Court application in May 2011 to explore ways to expedite certain related matters, but the UK High Court ruled that progress should be deferred until after the appeal concludes; and
- activity has continued apace on the ongoing implementation of certain simplification projects for IT and data management.

Progress made has been in line with, and in some cases has exceeded, our expectations, enabling us to begin substantive planning for a first interim distribution in 2012 with increasing focus. Notwithstanding this, there remain a number of critical factors which need to be overcome before a first interim dividend can be declared.

Financial update

Given the progress made during the period, we have updated our indicative financial outcome to include illustrative claims and recoveries relating to Affiliates and certain (but not all) aspects of Trust Property which had previously been excluded. Pending the UK Supreme Court appeal, we have made no assessment of the impact on the House Estate arising from matters related to Client Money.

In summary and subject to the very important caveats and assumptions set out in this report, the potential range of House recoveries is between £7.5bn and £12.5bn (after estimated costs) and the potential range of unsecured claims is between £16.2bn and £52.3bn. Readers of this report should be aware that there remains material upside and downside sensitivity to these ranges, particularly arising from LBI and other Affiliate relationships.

Additionally, we would caution readers that the Low case indicative outcome does not represent the prospective value of a first interim dividend. In particular, there is presently no final bar date for claims and therefore other reserves may be necessary which could reduce the funds available for distribution. Furthermore, the indicative financial outcome includes estimates of realisable value for certain assets which have not yet been achieved.

Critical Administration work streams

The three most critical work streams as agreed with the Committee for 2011 are set out below.

Affiliates – materially progressing agreement of claims between LBIE and its Affiliates and, where possible, seeking to resolve these on an expedited basis, avoiding delay and adverse consequences for LBIE creditors generally.

Client Money – exploring alternative solutions to overcome the Client Money uncertainty as a potential impediment to a first interim distribution to unsecured creditors.

Creditors' claims agreement – continuing to seek Proofs of Debt and agree a material proportion of all non-Affiliate claims against LBIE.

We set out on page 8 the updated status of the \$1 billion+ issues which represent the most material matters outstanding in the Administration, the majority of which are addressed by one or more of the work streams above.

In the coming months, we will agree the priorities for 2012 with the Committee.

Court update

Litigation in the UK and certain overseas jurisdictions remains a key aspect of the Administration.

An outline timetable of major, current and imminent legal proceedings relating to LBIE is contained at Appendix D.

Currencies and investment policies

The financial markets have experienced significant volatility in the last six months. Given the material balances held in the House and Trust Estates, great care continues to be taken to ensure that our investment and treasury policies remain under regular review and are suitable in the current environment.

Our policies continue to reflect high caution and a low risk appetite. Our investment strategy has further evolved during the period, with a gradual, partial movement out of short-term bank deposits and into suitable short-dated government bonds.

Major currency holdings and a summary of the Administrators' investment policies are set out at Appendix B.

Human resources

Lehman staff and contractor headcount is currently 495.

Pension fund deficit liability

Following the previously reported December 2010 UK High Court judgment holding that a pension fund deficit liability under a Financial Support Direction would constitute an expense of the Administration, the appeal hearing took place in July 2011. Judgment has been reserved and is expected to be issued imminently.

Administrators' appointment

Application is to be made to the UK High Court in early November 2011 to extend the Administration for a further period, currently expected to be five years, and to substitute two of the named Administrators for operational efficiency purposes.

Route to a first interim distribution

Creditors will be aware that, in accordance with the currently issued notice (as varied in December 2010), the last date for creditors to prove their claims for the purposes of the Administrators making a first interim distribution, has been set at 31 December 2012, with a view to LBIE paying a dividend to unsecured creditors by 28 February 2013. Efforts to bring forward this timeline are continuing and creditors may expect to receive further communications during the first six months of 2012 outlining the Administrators' plans. The Administrators are working towards paying a first interim dividend before the end of 2012, although the timing will depend upon the progress that can be made in resolving the remaining \$1 billion+ issues, including there being no materially adverse and unexpected outcomes arising from the ongoing Client Money and RASCALS litigation, and upon no new material and unforeseen matters arising.

Please note that only creditors with admitted claims will qualify to receive a dividend at the time of the first interim distribution, and there is no prospect of any creditor being able to participate without having submitted a valid Proof of Debt in a timely fashion. If there is to be a first interim distribution in 2012, the final date for proving will need to be brought forward from the date already notified (i.e. 31 December 2012). **As a result, the Administrators recommend that creditors ensure that they submit their formal claims and Proof of Debt as soon as possible.**

The Administrators will provide a further specific update on the final date for proving in due course.

Creditors should also be aware that they will not be eligible to receive a LBIE Determination under the Consensual Approach until such time as their claim is correctly lodged.

Progress with the \$1 billion+ issues

A summary of the \$1 billion+ issues and the material progress made on each of these is set out below:

No.	Issue	Status as at 14 September 2011
1	Recovery of securities, House cash and Client Money from a major international financial institution (now disclosed as Citibank).	Settlement signed and majority of recoveries have been completed.
2	Agreement of a very significant number of unresolved financial trading positions with a second major international financial institution.	Active counterparty engagement continues.
3	Resolution of Over-Claims and other third party and Affiliate claims to ring-fenced assets and cash recoveries.	c.£1.4bn Over-Claims resolved in the period, c.£3.4bn remaining. Excess assets of c.£0.3bn released (previously ring-fenced) to the House Estate in the period, with other currently ring-fenced assets under review.
4	Recovery of securities and House cash from certain third party custodians in Asia.	Partial settlement proposal developed for the highest value constituent part and now with the counterparty for consideration.
5	Recovery of Client Money from and agreement of claims against LBB.	Client Money claim returned for hearing in lower German court.
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.	BTB and Extended Liens litigation commenced. LBHK has withdrawn from RASCALS and settled BTB.
7	Recovery of Trust Property, House cash and securities currently held by Affiliates (LBHK, LBI, and LBJ).	Customer Property status of House claim denied to which LBIE has objected. Revised, increased Omnibus claim determination received from LBI. Objection deadline extended to 31 October 2011 and more active phase of dialogue begun. Formal settlement reached with LBHK, but asset returns continue to be subject to Extended Liens uncertainties.
8	Resolution of claims between LBIE and its Affiliates (principally LBB, LBF, LBHI, LBHK, LBI, LB Lux, and LBSF).	Agreement in principle reached with LBHI, LBSF and their US debtor affiliates, subject to documentation and Plan approval. A c.£8.8bn claim received from LBI. Formal settlement with LBHK has been reached. Dialogue continues with all other material Affiliates.
9	Quantification of any Client Money taint on House recoveries and of the extent of Client Money entitlements to a share in the Client Money pool.	Significant further review conducted but Tracing exercise halted following May 2011 UK High Court directions, pending UK Supreme Court outcome.
10	Resolution of contingent claims against the House Estate.	Significant and ongoing progress made towards resolution of two separate and potentially material contingent claims.

Section 3

Financial update

Financial summary

In our last report, we provided indicative outcome ranges for the House Estate in respect of certain categories of assets and liabilities. Amounts relating to Affiliates and to Trust Property claimants were excluded, given the extremely uncertain and very wide range of potential outcomes.

For the purposes of this report, whilst there still remain many material uncertainties, with the exception of a currently unquantifiable impact relating to Client Money, we have now included an illustrative range of values for these previously excluded items.

The table on page 11 provides a summary of the indicative financial outcome. Based on current information, and subject to the various material cautions and caveats set out in this report, the indicative range of financial outcomes suggests that available funds eventually will amount to between £7.5bn and £12.5bn and *pari passu* ranking unsecured claims will fall between £15.0bn and £51.1bn.

In accordance with convention, the indicative financial outcome has been prepared on a generally prudent basis. There are however, three particularly significant issues that are likely to have a defining impact on the timing and value of the eventual recovery that unsecured creditors will make.

1. LBI

The impact may be material in two respects:

Firstly, the amount ultimately recovered in respect of the Omnibus claim: this will be a function of:

- i. the final LBI Determination (either agreed consensually or adjudicated by the US Bankruptcy Court); and
- ii. the level of payout afforded to LBI customers with an admitted claim against its fund of Customer Property.

Until LBI's estate is substantially further advanced, particularly with regard to valuation issues, net equity deductions and the finalisation of other (non-LBIE) claims for Customer Property, our Low and High case scenarios contain a range of partial recoveries. In both scenarios, we have made an estimate in respect of LBIE's obligations

to its underlying clients which will be offset by any recoveries made from LBI in due course.

Secondly, finalisation of the net claim between LBI and LBIE:

- i. in our Low case scenario, we have fully reserved for the inbound LBI claim, without deduction or adjustments for amounts that we believe are overstated. We have assumed no set-off and that our House claim against LBI is ultimately determined to be a General Estate claim with an assumed zero recovery; and
- ii. in our High case scenario, we have assumed a reduction in the LBI inbound claim and partial set-off.

2. Other Affiliates

We highlight on page 12 those other Affiliates with which LBIE had significant interactions and a summary of major unresolved issues. A detailed update on these issues including BTB, Extended Liens and RASCALS is disclosed in Section 5.

With a handful of Affiliates to date having filed significant inbound claims, we have assumed in our Low case that these claims succeed. Inbound claims filed to date, which have yet to be agreed, are summarised by entity, and our indicative assessment of eventual inbound and outbound claims is presented on an aggregate basis. Until such time as an Affiliate claim (or any other creditor claim) is resolved, a full reserving approach (i.e. provision for the maximum possible claim) will be made for the purposes of making a first interim distribution. In the High case scenario, we have made a range of assumptions regarding the levels of claim that might remain outstanding following settlement discussions or litigation.

The illustrative range of potential financial outcomes on page 11 includes, as recoveries, an estimate of outbound claim recoveries assuming a 25% blended recovery rate in the High case scenario. LBIE's recoveries from Affiliates remain dependent on the resolution of material litigation, exercising of liens and other appropriation of custodied assets as well as the eventual dividend payments that will be made in respect of unsecured balances in the relevant Affiliate's own insolvency process.

3. Client Money

No assessment of the impact of matters relating to Client Money has been made, pending further clarification of these matters resulting from the forthcoming UK Supreme Court proceedings.

Summary

Wherever possible, we have endeavoured to give creditors further insight into LBIE's financial position based on developments over the six month period.

We caution that the Low and High case scenarios should not be seen as worst and best outcomes for unsecured creditors. Uncertainties remain that could drive the eventual recovery below or above the boundaries of this range.

Furthermore, the Low indicative financial outcome is not representative of a first interim dividend because all unresolved issues will need to be fully reserved at the date of that first interim distribution.

We repeat the warning given elsewhere in this report that creditors should not use this information alone as a basis of valuing their claim for recovery purposes.

Indicative financial outcome

Note that this summary takes no account of the impact of matters relating to Client Money (denoted as “n/a” in the table below and explained further in note 3 below).

House Estate (note 1)	Low £bn	High £bn
Cash deposits and short-dated government bonds (note 2)	9.3	9.3
Client Money impact (note 3)	n/a	n/a
Projected future recoveries		
Third party debtors	0.1	0.5
Affiliates (see page 12)	-	2.2
House depot securities	0.5	1.4
Client Assets claimants (note 4)	0.1	0.3
Other (note 5)	-	0.1
Total projected recoveries	10.0	13.8
Priority claimants (note 6)	(1.0)	(0.3)
Future estimated costs	(1.5)	(1.0)
Funds available for unsecured creditors	7.5	12.5
Creditors		
Unsecured creditors	(15.2)	(12.4)
Client Assets claimant shortfalls (note 7)	(2.5)	(1.2)
Affiliates (see page 12)	(33.4)	(1.4)
Client Money impact (note 3)	n/a	n/a
Total unsecured claims	(51.1)	(15.0)
Subordinated debt (note 8)	(1.2)	(1.2)
Total creditors	(52.3)	(16.2)

Notes:

1. This is an indicative financial outcome, subject to change, and should be read in conjunction with the narrative and assumptions set out in this report.
2. The indicative financial outcome above excludes £1.5bn of securities and £1.7bn of funds realised from securities held subject to disputes in relation to asserted or potential proprietary claims from Affiliates. No account of these items is included within the Low case scenario above. On their eventual resolution, these items will have a positive impact either by reducing total unsecured claims or by increasing funds available to unsecured creditors.
3. The Client Money impact relates to: (i) potential transfer of House funds to the Client Money pool that might be required as a consequence of the future UK Supreme Court ruling; (ii) House debtors that could be recovered from Client Money claimants by beneficial assignment; (iii) reduction in unsecured creditors that would arise from Client Money entitlement status being awarded following the future UK Supreme Court ruling; and (iv) unsecured claims that could arise from shortfalls in claimants' recovery of Client Money.
4. Potential House recoveries from Client Assets claimants and from excess segregated Client Assets.
5. Other future recoveries represent, on a High case outcome, an amount of £0.1bn in respect of potential further tax refunds.
6. Priority claimants include the potential pension fund deficit liability, certain indemnities given and other potential claims.
7. Relates to unsecured claims that could potentially arise from shortfalls in claimants' recovery of Client Assets from LBIE depots, including assets currently controlled by LBI.
8. Relates to amounts owed to LBIE's majority shareholder, LB Holdings Intermediate 2 Limited.

Affiliate summary

As at 14 September 2011				
Affiliate	Inbound claim received (note 1)	Net estimated claims		Material unresolved issues (note 2)
	£bn	Low £bn	High £bn	
LBB	(9.2)	Commercially sensitive – details withheld		Antecedent transactions / Client Money
LBF	n/a			BTB / Client Money / Extended Liens / RASCALS / Valuations
LBHI (note 3)	(4.5)			Settlement of substantially all matters agreed in principle
LBHK	n/a			Substantially all matters now formally settled
LBI (note 4)	(8.8)			Client Assets / Client Money / Extended Liens / House Customer claim status
LBJ	n/a			Client liens
LB Lux	n/a			Termination date of agreements
LBS	(6.7)			Return of securities by LBIE to LBS
Other	(0.1)			Various issues
Total	(29.3)	(33.4)	7.3*	

* c.£7.3bn is a net balance comprising c.£1.4bn of inbound claims and c.£8.7bn of outbound claims. For illustrative purposes, outbound claims are assumed to benefit from a blended recovery rate of 25%, generating a High case indicative outcome of c.£2.2bn for inclusion in the indicative financial outcome set out on page 11 to this report.

Notes:

1. Certain Affiliates have formally filed claims as noted above, whilst others have not (denoted “n/a” above). LBIE keeps actual and potential Affiliate claims under constant review and reserves its rights thereto. Inbound claim balances in currencies other than Sterling are translated at exchange rates as at 15 September 2008.
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 material claims being made between Affiliates which were not reflected in the Lehman group’s accounting records at the time of the group’s collapse.
3. For the purposes of the table above, LBHI includes its US debtor affiliates which are also in Chapter 11 or which are otherwise directly controlled by it.
4. The Administrators are presently pursuing Customer Property status for House Estate claims with a value of c.\$8.9bn against LBI included above, whereas the Omnibus claim is excluded from this analysis.

Section 4

House Estate

Highlights

- Signed settlement agreement with Citibank, covering all positions with Citibank entities globally (total value c.£2.0bn). Recovered c.£1.3bn of cash and securities post-settlement from Citibank entities across 17 jurisdictions.
- Recovered a further c.£0.3bn in cash and other collateral, bringing total realisations from Street debtors to c.£5.4bn.
- Agreement reached with a further five top 150 debtor groups, and progress made on negotiations and litigation activity with the remaining top 150 groups.
- Completion of a further 44 smaller debtor groups, bringing the total number of completed counterparties to 535.
- Realised c.£0.8bn from the sale of House securities, which include certain securities recovered from Citibank.

House third party debtors

The House third party debtor balances (which exclude Affiliates) comprise:

	No. of cpties	Recoveries to date £bn	Indicative financial outcome (High) £bn
Street debtors	1,626	5.4	0.3
Exchanges	29	1.5	0.1
Receivables from Trust Property claimants	88	0.1	0.1
Total	1,743	7.0	0.5

Street debtors are discussed below.

Receivables from exchanges principally relate to funds retained in a specific Asian market.

Receivables from Trust Property claimants represent amounts due to LBIE from counterparties who have claims in the Trust Estate. In the period, recoveries of c.£0.1bn were achieved (discussed in Section 6).

Street debtors

Focus

The Street debtor population comprises c.1,626 individual entities. For many of these, negotiations are conducted with groups of entities, related through legal affiliation or through having a common agent or asset manager. This population changes over time, as the Administrators' view of what constitutes a receivable changes (for example, as a result of refining valuation methodologies). Recoveries to date and indicative future recoveries from the Street debtor population are as follows:

	No. of cpties	Mid-market value £bn
Top 150 groups	491	9.6
Other Street debtors	1,135	0.5
Total	1,626	10.1
Less:		
Cash and collateral received		(5.4)
Identified adjustments		(4.4)
Indicative future recoveries (High)		0.3
Further potential adjustments		(0.2)
Indicative future recoveries (Low)		0.1

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

During the period, the Administrators revised the valuation basis for a specific potentially material receivable. The receivable increased (on a mid-

market basis) by £0.8bn. This remains the subject of a dispute and no future recoveries have been included for this counterparty.

Identified adjustments comprise bid / offer spreads, credit charges, pricing variances, bad debt provisions and other commercial differences that have arisen during negotiation.

The main focus of activity in relation to Street debtors continues to be the resolution of the top 150 groups, which represent 95% of the gross mid-market value in aggregate. As at 14 September 2011, this population can be analysed as follows:

	No. of groups	Mid-market value £bn
Completed	79	4.7
In progress	71	4.9
Total	150	9.6

Progress also continues to be achieved on the smaller groups. These are prioritised primarily according to mid-market valuation in order to target resources in areas likely to realise the greatest financial benefit for the estate.

Progress

Citibank settlement

On 28 June 2011, LBIE signed a settlement deed with Citibank covering all positions between LBIE and a number of different Citibank entities around the world. These positions included custody cash and securities, agency financing positions, derivatives, repos, stock loans and failed securities trades as follows:

	£bn
Custody cash and securities	1.7
Agency financing positions	0.3
Derivatives, repos, stock loans and failed security trades (net)	-
Citibank settlement	2.0
Amounts recovered pre-settlement	(0.3)
To collect post-settlement	1.7

Post-settlement, c.£1.3bn of assets have been transferred to LBIE's control from Citibank entities in 17 jurisdictions. The remaining assets are likely to take longer to be released, in particular due to local jurisdiction regulatory issues in a certain Asian territory. Custody cash and securities include an element of Client Money, with the House element being accounted for within House securities.

Other progress

Recovery of cash and other collateral amounted to c.£0.3bn in the period, bringing total Street debtor realisations as at 14 September 2011 to c.£5.4bn. This includes:

- c.£3.9bn cash / other collateral recovered from counterparties with which settlements have been agreed; and
- c.£1.5bn cash from counterparties that have made on-account payments, where final settlement negotiations are ongoing.

Settlements were reached with a further three top 150 groups during the period in addition to Citibank (as principal and agent) as follows:

- settlement with a large complex prime brokerage client;
- settlement with a Canadian pension fund; and
- settlement with the Irish arm of a large Asian retail bank.

Other key developments during the past six months include:

- receipt of £0.1bn from a German bank in respect of disputed securities financing transactions, about which settlement discussions are continuing;
- agreement of settlement terms with a major financial institution in South Africa;
- finalisation of settlement deeds with four funds managed by a major European investment management group;
- continued progress with a major Asian bank regarding recovery of LBIE's largest outstanding receivable. Regulatory issues have been substantially progressed and commercial negotiations are ongoing;

- commencement of litigation against DWS (a Deutsche Bank entity) regarding a dispute over set-off;
- commencement of litigation against First Commercial Bank (a Taiwan bank) to resolve disputes over non-mutual set-off, valuation methodologies and other commercial issues;
- finalisation of LBIE's litigation strategy for resolution of other issues relating to non-mutual set-off, and preparation for court proceedings against two significant counterparty groups; and
- procurement of third party valuation advice and identification of expert witnesses in respect of two large counterparty disputes that are likely to progress to litigation.

Settlements with a further 44 counterparties outside of the top 150 groups were completed during the period (312 such counterparties to date).

We estimate that further realisations of up to c.£0.3bn might be achieved from the top 150 groups (which excludes recoveries from litigation and other currently disputed balances), primarily related to amounts expected to be recovered from counterparties in Asia, after deduction of potential creditor claims which we have prudently included in respect of counterparties LBIE views as debtors.

Challenges

We previously reported that a UK High Court decision in December 2010 upheld the entitlement asserted by JFB Firth Rixson, Inc and others (four separate entities) to withhold payment in respect of certain live derivative positions that the relevant counterparties had declined to terminate. The UK Appeal Court is scheduled to hear LBIE's appeal of this judgment in December 2011, although the appeal is now to be linked to a number of other appeals (not involving LBIE) on the same legal issues, which may result in some delay. Progress on certain other debtors has been deferred pending resolution of this case and obtaining legal clarity on the underlying dispute.

For the majority of the top 150 debtor groups that have not yet been completed, significant legal, regulatory, valuation or other commercial issues remain to be addressed. In general, these are the most complex cases and a number of these are likely to require litigation or alternative dispute resolution to resolve.

House securities

Focus

LBIE's primary objective in respect of House securities continues to be the orderly realisation of available for sale securities and, wherever possible, the risk management of securities portfolios that are held subject to client or Affiliate title disputes.

Progress

As at 14 September 2011, securities that continue to be held in the House depot are summarised as follows:

	£bn
Available for sale	0.5
Held subject to client disputes	0.8
Held subject to Affiliate disputes	1.5
Residual assets at Citibank	0.2
Held by Affiliates	3.7
House depot at 14 September 2011	6.7

Following the Citibank settlement, the majority of the custody assets previously held at Citibank were repatriated to depots under the control of the Administrators. The balance remaining at Citibank largely represents accounts in one Asian jurisdiction as noted above.

During the period, a further £0.8bn was realised from the sale or redemption of available for sale securities (£3.2bn to date). In the same period, £0.1bn was realised from securities subject to Affiliate title disputes, and those proceeds continue to be ring-fenced. Other movements in the House depot balance are due principally to changes in the market value of relevant securities between reporting period ends.

The majority of "Held by Affiliates" of £3.7bn relates to our House claim against LBI and securities at LBHK.

Challenges

The key issues impacting the liquidation of House depot securities continue to be:

- resolution of potential client and Affiliate title disputes;
- recovery of assets that are blocked at Affiliate custodians, principally LBI;
- market volatility; and
- the need to manage carefully the disposal of a large number of illiquid securities.

Section 5

Affiliates

Highlights

- Settlement agreed in principle with LBHI and its US debtor affiliates in Chapter 11 subject to documentation and Plan approval.
- LBI maintained its rejection of LBIE's c.\$8.9bn House Customer claim. LBIE objected to the US Bankruptcy Court in August 2011. At around the same time, LBIE received a revised inbound LBI claim of c.£8.8bn, which is now under investigation.
- BTB, RASCALS and Extended Liens legal actions are being progressed with UK court applications, notwithstanding continuing attempts to resolve disputes consensually.
- Discussions ongoing with LBS to eliminate the overwhelming majority of its inbound claim of c.£6.7bn against LBIE.

Focus

For financial outcome purposes (discussed in Section 3), we have included an illustrative range of aggregate net claims that LBIE might make against all other Affiliates, or aggregate net claims that might be made against LBIE by all other Affiliates. The eventual actual net outcome from Affiliates could result in a material enhancement or dilution to unsecured creditor returns and the illustrative range of outcomes given in this report is subject to material adjustment in extreme circumstances.

LBIE continues to prioritise the Affiliate relationships with unresolved material value issues, but has also made progress with the pool of smaller claims received from other UK and overseas Affiliates.

The current areas of focus are:

- completing the settlement with LBHI and its US debtor affiliates in Chapter 11, whilst concurrently preparing for potential litigation in the event settlement is not achieved;
- managing the litigation of the House Customer claim following LBIE's objection to the US

Bankruptcy Court, and reviewing the recent £8.8bn revised inbound claim filed by LBI;

- preparing for the RASCALS appeal hearing, although agreement reached with LBHK to withdraw from these proceedings immediately prior to finalisation of this report;
- continuing the interaction with LBF in respect of RASCALS, Client Money, Extended Liens and BTB whilst at the same time ensuring the ongoing advancement of the formal legal processes;
- engaging with LBB and LBS, both of which have filed significant inbound claims;
- progressing the underlying diligence concerning ring-fenced and custodied assets in anticipation of resolution of specific Affiliate positions; and
- reviewing other Affiliate claims received via the Affiliate Claims Portal and their subsequent agreement.

Activity to support this work falls into three areas:

- financial diligence of LBIE's and the relevant Affiliate's books and records so that consensus may be reached on what adjustments need to be made to their respective records to reach a common understanding;
- legal diligence to understand the legal environment that governs that particular aspect of the Affiliate relationship; and
- engagement to explore if compromise may be reached, thereby avoiding the need for UK or overseas court intervention and facilitating resolution on an expedited basis.

Progress

LBHI and its US debtor affiliates in Chapter 11

LBHI and its US debtor affiliates in Chapter 11 filed their third amended Plan and disclosure statement in September 2011 (following a second amended Plan in July 2011), which included a significant number of plan support agreements. The Chapter 11 entities are now moving towards a Plan confirmation hearing currently scheduled for December 2011.

Extensive engagement has continued with the US debtors in the period to progress settlement

discussions, recognising the advantages to all parties of an appropriate consensual agreement compared with expensive, prolonged litigation. In this period, LBIE has continued its engagement on many levels.

This continued engagement highlighted further new issues important to the US debtors in a settlement in addition to the challenges set out in the last progress report including:

- agreeing those items that will be excluded from the settlement compromise; and
- working with the UK Affiliate group to procure their support for the settlement.

LBIE has closely followed how creditor support has grown for the second (and now third) amended Plan. LBIE has been actively involved in negotiation with the US debtors over the treatment of all parts of its claim. Both sides continued to explore possible solutions on a constructive basis, which culminated on 15 September 2011, with an agreement in principle that would enable LBIE to formally support the third amended Plan. This is subject to formal legal documentation and relevant approvals.

In parallel, LBIE has commenced extensive preparations for litigation of its position in the event that formal settlement is not eventually concluded, in order to ensure both its principal and guarantee claims are given the best possible treatment in any eventually confirmed Plan in such circumstances.

House claim against LBI

As previously reported, LBIE had filed its second amended House Customer claim (totalling c.\$8.9bn) in September 2010. LBI issued an initial determination in September 2010 denying LBIE's House claim of having Customer Property status.

LBI agreed an extension of the date by which LBIE could object to the determination to 30 June 2011. Throughout this period LBIE progressed further analysis, held regular meetings and exchanged detailed information with LBI.

LBI did not revise its determination but did offer a further extension to the objection deadline to 1 August 2011. As advised in our web update of 2 August 2011, LBIE objected to the US Bankruptcy

Court against the determination. The process is now at a pre-trial discovery stage, but a hearing is not expected to take place prior to early 2013.

In June 2011, LBI submitted a significantly increased claim of c.£8.8bn against LBIE, a material element of which is claimed to be subject to Client Money protection. The parties have commenced a work programme to ascertain what the appropriate balances are and in particular what sums, if any, should be set off against LBIE's continuing House claim against LBI.

The Administrators remain of the view that there continues to be an overall net balance due to LBIE from LBI. This assessment remains under constant review to ensure the continuing objection to LBI's House Customer claim rejection is appropriate.

Omnibus Customer claim against LBI

The Omnibus Customer claim is discussed in Section 6.

Other major Affiliates

LBHK

Settlement with LBHK was formally concluded immediately before finalisation of this report, enabling agreement both of balances owed between the parties and of title to assets claimed by each of the parties.

LBHK needs to await the UK High Court Extended Liens application outcome before finalising its own local legal proceedings regarding the same matter.

LBF

Further progress has been made towards resolving the amounts owed which arise from the complex relationship between LBIE and LBF. All positions have been materially reconciled and the focus has moved to valuation issues.

The frequency of contact with LBF has increased significantly within the period and a material commitment of resource has been made to complete outstanding financial diligence. This has enabled the parties to work constructively to explore differences in their respective financial and legal assessment of the components of their claims and explore how items may be resolved consensually.

LBF is a party to the UK Supreme Court pre-Administration Client Money Appeal (discussed in Section 7), RASCALS, Extended Liens and BTB applications.

LBJ

LBIE continues to focus on securing the return from LBJ of the remaining stock lending assets (less than c.£0.1bn). LBIE has received the third party confirmations required by LBJ in the period in relation to the remaining assets held. Suitable undertakings to LBJ to secure their return are now under discussion. LBIE continues to work with LBJ to agree the value of its inbound claim against LBIE.

LB Lux

The ongoing litigation relating to LBIE's claim rejection by LB Lux has continued, with significant work in the period to progress the legal action and prepare evidence. The interim court hearing in Luxembourg, expected in May 2011, was postponed until 22 June 2011 when submissions from LB Lux were presented to the court, setting out the reasons for LB Lux rejecting LBIE's claim.

A further court hearing is scheduled for 26 October 2011 and LBIE is currently working on its response to LB Lux.

LBB

LBIE has continued its engagement with LBB with a view to LBB's acceptance of LBIE's outbound claims (discussed in Section 7) and, as importantly, eliminating the significant inbound LBB claims of c.£9.2bn. The relationship is complicated by the existence of potentially material balances between LBB and certain other UK Affiliates.

In the period, further financial information has been exchanged and the parties have explored the basis upon which the LBB claim may be amended without the need for legal action. These discussions continue and the rejection of its claim is a likely outcome in the absence of a consensual resolution.

LBS

LBS has filed a c.£6.7bn claim which represents the full nominal value of certain certificates and warrants issued by LBS outstanding at the date of Administration and principally held by LBIE as custodian.

Through lengthy engagement with LBS a basis for settlement is under review, which should enable substantially the whole of the claim to be eliminated. In the alternative, action is likely to be taken to reject this claim.

UK Affiliates

LBIE has continued to work with the other main UK estates, particularly those for which LBIE may hold assets.

Reconciling the populations of assets has been significantly advanced in the period, with further work ongoing.

Korean branch

The appeal in the Seoul court referred to in the last progress report was scheduled to commence on 11 October 2011. LBIE has been working on submissions in the period to be lodged as part of the appeal process.

Other Affiliate claims

In addition to the general communications sent to Affiliates, LBIE is now contacting those Affiliates which, according to its records, appear to be creditors, to ascertain whether or not the Affiliates intend to submit a claim.

LBIE continues to encourage Affiliates to submit their claims on the Affiliate Claims Portal as soon as possible. To date, 67 Affiliates have accessed the Affiliate Claim Portal, with only one claim being formally lodged through the portal.

Challenges

LBHI and its US debtor affiliates in Chapter 11

The focus of the Administrators is to conclude a formal legal settlement based on the principles agreed by the parties on 15 September 2011.

The key challenges are:

- finalising legal documentation; and
- working with the other UK-based Affiliates to procure their support for the settlement.

Assuming a definitive agreement is reached, this will then be subject to Plan confirmation for which a hearing is scheduled in December 2011. We will update creditors via our website on progress on this issue.

House claim against LBI

Developments in the period have highlighted a number of major issues to overcome relating to the LBIE House claim against LBI including:

- a lengthy US litigation process involving comprehensive discovery, arguments and other pre-trial activity;
- maintaining an open dialogue with LBI to ensure a continuing exchange of data to support ongoing analysis against a background of litigation; and
- potential differences in claim calculation methodology between LBI and LBIE. Differences in numbers between the respective LBI and LBIE claims indicate that a markedly different approach has been taken in claim preparation. The impact of this issue will become clear on review of further supporting documentation recently supplied by LBI.

Ownership of assets held by LBIE

Certain securities held by LBIE are subject to ownership challenges from Affiliates. LBIE has commenced UK High Court applications to clarify the position as detailed below.

RASCALS securities

Following a 2010 UK High Court ruling that beneficial ownership in RASCALS securities transferred to LBIE, the judgment was appealed by LBF and two LBHK entities. By virtue of the formal settlement reached with LBHK immediately prior to finalisation of this report, LBHK has withdrawn from these proceedings. The UK Appeal Court hearing was scheduled to commence on or around 11 October 2011.

Extended Liens

LBIE actively continues to pursue the possibility of a consensual and comprehensive mutual waiver of Extended Liens with relevant Affiliates.

In parallel, LBIE sought a UK High Court directions hearing on 15 July 2011, as advised in our web update of 27 July 2011. The UK High Court ruled that, subject to certain conditions, LBIE may now deal with securities where the Administrators are not aware of any agreements containing provisions which may give rise to an extended lien.

As regards securities where Administrators are aware of relevant agreements, a further directions hearing is expected to be listed in early 2012, with a substantive hearing to take place later in 2012.

BTB

During the period, LBIE filed a UK High Court application for directions and continued to develop its legal arguments. Supporting witness statements and case management hearings have been progressed.

A substantive hearing has been delayed as a result of UK High Court scheduling issues. A pre-trial review is expected in the UK High Court by the end of 2011.

Section 6

Client Assets

Highlights

- Client Assets returns of c.£0.2bn were completed in the period, comprising c.1,500 individual client holdings. This returns profile reflects the composition of the remaining client entitlements which typically include a higher count of lines but a lower average value than returned in previous periods.
- Total Client Assets returns since the beginning of the Administration are now c.£13bn, comprising over 3,500 individual holdings.
- Over-Claims of c.£1.4bn relating to securities outside of Administrator control were investigated and rejected in the period and c.£0.3bn of excess segregated assets were transferred to the House Estate in the period.
- LBI issued a revised letter of determination for the Omnibus Customer claim for a value of c.\$8.3bn. The determination includes for the first time certain cash components but remains subject to significant conditions. The revised deadline for any objection to the determination is 31 October 2011.

- return Client Assets through either the CRA mechanism or bilateral negotiation;
- recover debts owed to the estate by Client Assets claimants; and
- identify any over-segregated securities held in the client depot and release these to the House Estate, for sale in due course.

Client Assets analysis

The analysis of the remaining Client Assets portfolio is set out below. Movements in the client depot during the period are as follows:

	£bn
Reported as at 15 March 2011 (bar date values)*	4.0 [^]
Returned to clients in the period	(0.2)
Revaluation and exchange rate movements	(0.1)
Redemptions	(0.1)
Client Assets as at 14 September 2011*	3.6[^]

* excludes potential asset excesses held in the client depot.

[^] net of estimated c.£0.2bn shortfalls on assets within LBIE's control.

Client Assets comprise:

	£bn
In LBIE-controlled depots:	
CRA	0.6
Non-CRA	0.6
Total	1.2
LBIE-controlled (estimated)	2.1
LBHK and others controlled (estimated)	0.3
Client Assets as at 14 September 2011	3.6

LBIE-controlled assets are valued as at 14 September 2011. Other assets are valued as at 19 September 2008 (in respect to LBI) and 19 March 2010 (for assets controlled by other entities).

Focus

We have included for financial outcome purposes (see Section 3) an estimate of the recoveries to the House Estate from asset excesses and debts recoverable from Client Assets claimants. An assessment of the unsecured claims relating to potential Client Assets shortfalls has also been made. Creditors are reminded that significant uncertainties remain regarding the actual outcomes, as highlighted below.

The focus for the Client Assets team is to:

- progress the agreement of unsecured claims for Client Assets claimants (see Section 8);
- recover Client Assets still held by overseas Affiliates on behalf of LBIE;
- resolve the various restrictions that impact the addressable population of Client Assets available for return, including Over-Claims and Extended Liens;

Progress

Client Assets returns

In the six month period, a total of 1,503 separate client holdings were returned to CRA counterparties for a total value of c.£0.2bn. This included the return of securities previously released from LBJ, with 640 lines of Japanese securities returned in the period. In addition, 166 lines were returned via the small claims process. Since the bar date, a total of over 3,500 lines have been returned to CRA counterparties.

As outlined in the previous progress report, the overwhelming majority of the remaining non-CRA Client Assets remain blocked by LBI-related issues. For a sizeable sub-component of these assets, LBI has made a competing claim, asserting that these assets form part of the LBI estate and should be dealt with through the US SIPA process. LBIE continues to work with LBI to resolve this claim consensually, however it may ultimately be necessary for this to be adjudicated in court, for which preparation has commenced.

Debtor recovery

A number of counterparties that hold Client Assets are also debtors of the House Estate. A total recovery of c.£0.1bn was secured in the period from this source.

Further debtor recoveries will be delayed by the uncertainties surrounding the return of remaining Client Assets. In particular, many debtors have deferred the settlement of obligations to LBIE until any shortfall of LBI-controlled assets, which may be subject to a right of set-off, can be reasonably estimated.

Over-Claims and ring-fencing

In a significant number of cases, LBIE has received multiple claims for the same Client Assets holdings. Pending resolution, these Over-Claims delay the release of the impacted assets to valid claimants. As previously reported, the vast majority of Over-Claims appear to be for amounts already provided for by LBIE, albeit as unsecured claims and typically for rehypothecated assets.

To the extent that LBIE holds equivalent assets which are subject to any unresolved Over-Claims, these are fully ring-fenced and have been excluded from the House Estate.

An analysis of Over-Claims is set out below.

	£bn
Over-Claims at 14 March 2011	4.8
Over-Claims resolved in the period	(1.4)
Total Over-Claims at 14 September 2011	3.4
Comprising:	
Over-Claims asserted for assets within LBIE's control	1.5
Over-Claims asserted for assets outside LBIE's control	1.9

Significant progress in resolving Over-Claims against assets held within LBIE control was achieved in prior periods. The remaining c.£1.5bn substantially comprises (by value) a small number of claimants, with unique circumstances.

In addition, c.£1.4bn of Over-Claims relating to Client Assets held outside of LBIE's control have been resolved in the period. In the main, this reduction was achieved through the securities reconciliation exercise conducted with LBI, which allowed both LBIE and its clients to update their records for actual settlements. The majority of the balance of Over-Claims asserted for assets outside of LBIE's control remains subject to resolution of the LBI Omnibus Customer claim.

Asset excesses

As part of the ongoing oversight and control of the client depot, a detailed review has been performed on those securities that appeared to have been over-segregated. Where the Administrators are satisfied that the cause of the over-segregation is fully understood, and that there is no valid and unsatisfied client entitlement to the equivalent securities, these excess holdings have been transferred to the House Estate for its benefit. During the period, transfers totalling c.£0.3bn were made.

Further work is ongoing in this area.

Asset shortfalls

The current provision for shortfalls on Client Assets within LBIE's control is c.£0.2bn which represents a relatively small proportion of total

Client Assets entitlements. For assets still held by Affiliates, the potential shortfall amounts remain uncertain given the numerous factors affecting those estates, particularly LBI.

Unsecured claims agreement

In common with other areas of the Administration, the Client Assets team has accelerated efforts supporting the agreement of unsecured creditor claims for Client Assets claimants. Details of progress on claims agreement is set out in Section 8 of this report.

Key issues and developments in the period include:

- the typical profile of the Client Assets claimant population introduces certain complex issues affecting the value of their unsecured claims. In particular, the uncertainties surrounding potential shortfalls of Client Assets controlled by overseas Affiliates are significant;
- a range of Claims Determination Deeds have been adapted to cater for the additional requirements of Client Assets claimants – both CRA and non-CRA; and
- a Proof of Debt portal for CRA counterparties was launched in June 2011.

LBI – Omnibus Customer claim

During the period LBIE has continued its efforts to complete the reconciliation of settled and failed client transactions with LBI. This process is largely complete although the implications of the results remain uncertain.

LBIE continues to provide this LBI trade settlement information to clients as and when it is received and checked.

On 19 May 2011, LBI delivered to LBIE a revised LBI Determination for c.\$8.3bn for the Omnibus claim, as compared to c.\$6.2bn previously. The revised LBI Determination remains subject to significant conditions including receipt of specific releases from underlying clients. Additionally, once the LBI Determination is allocated between the underlying Client Assets claimants, LBI may make certain deductions for amounts owed to the LBI estate by those claimants.

The revised LBI Determination also included amounts for cash not previously provided, although certain differences remain with the LBIE computation of expected amounts. Nevertheless, these differences have now been reconciled to a point where the cash data can now be prepared for onward communication to clients.

LBIE has completed its evaluation of the \$8.3bn revised LBI Determination and has highlighted a number of critical issues to LBI. These need to be resolved in order for agreement to be reached between LBI, LBIE and LBIE's clients. The following issues have the greatest potential impact:

- the mix of securities and cash in the revised LBI Determination differs materially from the LBIE calculation and the amounts asserted by the underlying LBIE clients;
- explanations are still needed from LBI on the core underlying principles used by it in compiling the revised LBI Determination; and
- the valuation of individual security lines has not been provided by LBI and represents a further material uncertainty that may delay client agreement.

As previously reported, the revised LBI Determination does not provide any confirmation that the underlying assets remain under the control of LBI. Moreover the form, timing and amount of any LBI distribution is uncertain.

The deadline for any objection to the revised LBI Determination has been extended to 31 October 2011.

LBHK

Pending the results of the Extended Liens UK High Court directions hearing (see Section 5) and further legal proceedings in Hong Kong, LBHK will not be in a position to release any Client Assets held to LBIE. Any eventual decision may be subject to appeal.

LBIE has completed its reconciliation of Client Assets entitlement with LBHK and it is expected that any shortfall will be minimal.

Challenges

Whilst progress has continued in the return of Client Assets and determining unsecured creditor claims for Client Assets claimants, the major challenges set out in the last progress report remain, together with new issues arising in the period, as follows:

- reconciliation of the population and agreement of valuation principles with LBI in respect of the revised LBI Determination;
- the risk of LBI asset shortfalls to Client Assets claimants introduces uncertainty in the quantification of any unsecured creditor claims;
- by 31 October 2011 agreement needs to be reached with LBI regarding the revised LBI Determination or alternatively a formal objection will need to be filed;
- claims from Affiliates asserting liens over Client Assets remain outstanding to be resolved;
- a significant number of non-CRA trust claimants still have live, unterminated master agreements, which means LBIE and the client still have live market risk, which complicates the claim agreement process; and
- the profile of the remaining LBIE-controlled Client Assets population comprises larger numbers of lower value holdings.

Due to the above factors, the ongoing return of Client Assets is not expected to accelerate and the determination of unsecured claims of Client Assets claimants remains very challenging.

Section 7

Client Money

Highlights

- An initial assessment of the impact of the Appeal Court Judgment on Client Money entitlements and the Client Money pool was conducted.
- A Tracing application to the UK High Court was launched seeking directions on the legal tests to be applied, in order to identify and trace pre-Administration Client Money (if any) held in LBIE's House accounts. The application was adjourned by the UK High Court until after the UK Supreme Court hearing.
- At the appeal hearing in June 2011 against the Frankfurt court rejection of LBIE's claim for the return of \$1bn from LBB, the appeal court referred the matter back to the Frankfurt court for re-consideration.
- Our ongoing review of c.£1bn of post-Administration Client Money confirmed that there are complex legal issues preventing return to clients. Actions to resolve these issues are ongoing.
- A further c.£0.1bn of post-Administration Client Money has been recovered in the period.

Focus

The focus of the Client Money team has been on:

- conducting an initial impact assessment of the Appeal Court Judgment on entitlements and the Client Money pool;
- seeking guidance from the UK High Court on the nature and extent of the identification and Tracing exercise that may be required;
- making preparations and drafting submissions for the UK Supreme Court appeal hearing on pre-Administration Client Money which will commence on 31 October 2011;
- recovery of Client Money, including as a result of the Citibank settlement; and
- reviewing and resolving, where possible, the complex legal issues preventing the return of post-Administration Client Money.

Progress

Pre-Administration Client Money

Tracing application

The legal tests to be applied in order to identify and trace Client Money are complex and the collapse of LBIE poses difficult questions in this context.

If a Tracing exercise is ultimately required, the Administrators will likely require guidance from the UK High Court as to the correct legal principles to be applied.

A major factor affecting the Administrators' ability to make a first interim distribution to all or a portion of LBIE's unsecured creditors is establishing whether or not certain funds currently credited to LBIE's House accounts constitute Client Money.

The Administrators were concerned that the progress of the Administration could be delayed if no steps were taken to advance the identification analysis. Accordingly, the Administrators decided to launch an application for directions prior to receiving the UK Supreme Court judgment, to allow for progress to be made pending the appeal outcome.

The application was made on 8 April 2011 and at a hearing on 11 May 2011, the UK High Court considered the Administrators' proposed timetable for the filing of further evidence and for the appointment of respondents to the application. The UK High Court subsequently ordered that the application be adjourned, and that no further work be done in respect of the matters raised, until the UK Supreme Court hands down its judgment.

The UK High Court indicated that it had sympathy with the Administrators' desire to do everything reasonably possible to progress the Administration. However, given that certain related issues were still to be considered by the UK Supreme Court, it ruled that the majority of all Client Money Tracing-related work should cease.

The UK High Court was particularly concerned that the UK Supreme Court's eventual decision may impact upon the nature of certain of the issues to be determined in the application, and may render unnecessary some or all of the work contemplated in the application.

In order to comply with the UK High Court ruling, work on the impact assessment has ceased.

Costs application

As a result of the Tracing application ruling, the costs application, which had been prepared in order to seek directions on the treatment of costs incurred in managing the Client Money pool, was also deferred.

Entitlements

Certain LBIE counterparties have been contacted in order to collect their views on their possible pre-Administration Client Money entitlements (following the Appeal Court Judgment). These discussions have proved valuable in that the counterparties have generally concurred with the views of the Administrators as to how contractual entitlement may be interpreted.

Meetings have also been held with certain Affiliates to understand their position as to Client Money entitlement. Further engagement with key Affiliates is planned over the next six months.

UK Supreme Court

At the UK Supreme Court procedural hearing on 21 July 2011, the Administrators were granted permission to make submissions at the substantive hearing, which commences on 31 October 2011. The Administrators will be acting in a neutral capacity, but have been given leave to present arguments on behalf of the House Estate, should it be required.

The Administrators have considered the practical consequences of the Appeal Court Judgment for LBIE and their submissions will include information in this regard.

The Administrators remain hopeful that the UK Supreme Court judgment will provide sufficient clarity in order to materially progress the resolution of Client Money in early 2012.

Recoveries and returns

LBB

After a German appeal court hearing in May 2011, the judgment in June 2011 referred the case back to the Frankfurt court for re-consideration. The judgment made a number of supportive comments regarding LBIE's case, but emphasised

that the issues need to be considered in light of the relevant matters of fact. A new hearing date is awaited.

In respect of the \$1bn LBB counterclaim against LBIE, which was previously dismissed by the Frankfurt court, the Administrators have responded to the appeal brought by LBB. No date has yet been set by the German appeal court for the appeal hearing on this matter.

In parallel with the legal actions, the Administrators are engaging with LBB to seek a consensual resolution to the issues.

LBI / BarCap recovery

As previously reported, LBI and BarCap agreed that BarCap holds pre-Administration Client Money due to LBIE. BarCap and LBIE have substantively agreed the form of an agreement to facilitate the return of the funds. The document is being reviewed by the remaining interested parties, before approval is sought from the US Bankruptcy Court. Recovery of the funds is expected within the next six months.

Post-Administration Client Money recoveries and returns

c.£0.1bn further cash was received in the period (c.£2.5bn recovered to date of which c.£1.5bn has been returned), including funds received from Citibank. Approximately c.£1bn remains to be returned to Trust Property claimants and/or to be transferred to the House Estate.

A further review of the yet-to-be-returned post-Administration Client Money has been completed in the period. This confirmed that approximately 75% of the balance cannot be returned due to a variety of complex legal issues. Efforts to resolve these issues continue.

Unsecured claims submission and agreement

Assistance has been provided to other work streams relating to the agreement of unsecured claims by Street and Trust Estate creditors. This has involved the analysis of a significant number of clients in relation to pre- and post-Administration Client Money.

Challenges

Over the next reporting period, the Administrators' plans include:

- preparing for the UK Supreme Court judgment, including further enhancement of the infrastructure, so that the Administration can move forward quickly once the judgment is received;
- continuing to engage with clients and Affiliates to better understand their views on Client Money entitlements;
- progressing the recovery of pre-Administration Client Money, including preparing for the Frankfurt court appeals with LBB (expected at the earliest in Q4 2011) if required, LBI / BarCap and other smaller amounts; and
- continuing to focus on the return of post-Administration Client Money and unresolved legal issues.

Section 8

Unsecured creditors

Highlights

- The Administrators have made significant progress in the period in reconciling, valuing and determining creditors' claims.
- During the period, under the Consensual Approach:
 - LBIE Determinations totalling c.£1.5bn have been provided to 309 counterparties, largely Street Creditors;
 - 85 claims totalling c.£1.0bn have been formally agreed; and
 - further LBIE Determinations totalling c.£1.1bn are in the final stages of preparation to be offered to an additional 253 claimants.
- Proofs of Debt submissions remain low relative to the total potential unsecured creditor population, particularly from Client Assets claimants. This is hampering the Administrators' ability to determine the total extent of LBIE's unsecured liabilities:
 - as at 14 September 2011, only 1,987 unsecured creditors (excluding Affiliates) had formally submitted details of their unsecured claims (compared with an estimated population of c.5,800 counterparties).
- **Whilst the current bar date for lodging unsecured claims has been set at 31 December 2012, the Administrators are working towards shortening this timeline and therefore strongly encourage unsecured creditors to lodge their unsecured claims as soon as possible in order that they might qualify to participate in the first interim distribution.**

Focus

A key objective of the Administration is to expedite the agreement of creditors' unsecured claims.

As at 14 September 2011, the current estimated value of LBIE's unsecured liabilities is c.£15.2bn (excluding Affiliates' claims, and including a provision to take account of potential differences between LBIE's assessment of its liabilities and the amounts which might be claimed by counterparties). This estimate comprises:

Unsecured claimants	No. of cpties	Indicative financial outcome (Low) £bn
Street Creditors	3,682	10.0
Client Assets claimants*	758	4.8
Financial trading counterparties	4,440	14.8
Non-financial trading counterparties	1,313	0.4
Total	5,753	15.2

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

The above summary does not take account of the impact of the UK Appeal Court ruling on the classification of LBIE's liabilities as either unsecured or subject to Client Money protection.

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 of the relevant contract (where terminated), or an estimate of the value as at 14 September 2011 in respect of any remaining live positions, together with provisions to take account of certain claims which exceed LBIE valuations.

The current High case indicative financial outcome for unsecured claimants is estimated to be c.£12.4bn.

The increase in unsecured liabilities to £15.2bn (compared with £14.5bn in the Administrators' previous report) is largely due to additional provisions to reflect further claims received, or expected to be received, in amounts in excess of that recorded in LBIE's underlying books and records.

As the Administrators continue to engage with counterparties and further analyse LBIE's books and records, the number (and value) of creditor claims will continue to change.

In the period, the main areas of focus have been on:

- progressing agreement of Street Creditors' claims under the Consensual Approach, dealing with the largest, most complex claims ("Tier 1") as well as those creditors with smaller, less complex positions ("Tier 2"); and
- adapting the Consensual Approach (and associated Claims Determination Deeds) to deal with certain unsecured claims made by Client Assets claimants.

Progress

LBIE Determinations

Pursuant to the Consensual Approach (as previously reported), the Administrators have continued to reconcile creditors' trading positions, and generate for each eligible creditor a LBIE Determination (a single amount which incorporates claims arising from all underlying master agreements and other financial trading arrangements between LBIE and that creditor).

To be eligible to receive a LBIE Determination, the Administrators require that a creditor submits a Proof of Debt which is compliant with UK insolvency legislation, and that there are no legal, commercial or other reasons which might exclude such a creditor from participating in the Consensual Approach.

Key achievements in the period include:

- finalisation of LBIE Determinations for 416 counterparties (totalling c.£1.0bn), including sourcing additional market data to support LBIE's valuation methodologies;
- compliance review in respect of c.600 Proofs of Debt including detailed review of underlying master agreements and termination notices;
- processing of over 1,300 amendments to LBIE's records to take account of changes in the trade population / creditor of record, including mapping of assigned claims and associated master agreements;

- diligence around c.350 agent / principal accounts, particularly in respect of trade leg mappings; and
- extensive engagement across both Tier 1 and Tier 2 Street Creditors, in particular dealing with certain creditors with large and complex trade portfolios across multiple asset classes.

In respect of Client Assets claimants, whilst there may be specific issues which prevent a counterparty determining its total unsecured claim (for example, due to uncertainties relating to the return of Client Assets and potential shortfall claims), the Administrators are nevertheless seeking to progress claims agreement by attempting to quantify and agree specific aspects of Client Assets claimants' positions.

Claims Determination Deeds

The Administrators have continued to develop a range of legal agreements to deal with the specific complexities of each creditor's claim.

Whilst the initial focus has been on eligible Street Creditors, more recently following detailed legal reviews relating to 22 large Client Assets claimants, attention has been given to adapting the deeds to deal with specific issues relating to this category of claimant (including preserving their rights under the CRA, where applicable).

Recognising counterparties' desire for flexibility, all deeds provide creditors with the ability to freely trade agreed claims.

Offers to creditors

Any offer to agree a creditor's claim under the Consensual Approach is non-negotiable, with creditors being free to accept or reject it.

During the six months:

- the Administrators have issued further LBIE Determinations totalling c.£1.5bn to 309 counterparties, predominantly Street Creditors; and
- 85 creditors have accepted LBIE's offer resulting in an additional c.£1.0bn of Street Creditor claims having been agreed.

As shown below, as at 14 September 2011 the Administrators have agreed a cumulative 108 claims against the estate totalling £1.7bn:

Unsecured claimants	Total population*		Offers made*		Claims agreed*	
	No.	£bn	No.	£bn	No.	£bn
Tier 1	256	5.9	169	2.5	76	1.4
Tier 2	3,426	4.1	222	0.1	30	-
Total Street Creditors	3,682	10.0	391	2.6	106	1.4
Client Assets claimants	758	4.8	6	0.3	2	0.3
Total	4,440	14.8	397	2.9	108	1.7

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

The above analysis predominantly relates to claims which have been **agreed** in quantum but where, due to uncertainties around Client Money entitlements, the respective claims have not yet been admitted for the purpose of payment of a first interim dividend.

Having undertaken certain detailed analysis around the implications of the Appeal Court Judgment, the Administrators are increasingly seeking to **admit** unsecured claims rather than preserve any Client Money entitlements (where the Administrators consider it appropriate to do so and where the counterparty provides its consent).

In respect of (generally materially less complex) non-financial trading counterparties and Affiliates, a conventional claims agreement process is being deployed with specific teams dedicated to agreeing these claims.

Challenges

Limited number of Proof of Debt submissions

During the six months, a further 367 Proofs of Debt were received (totalling c.£1.1bn). Consequently, as at 14 September 2011, the number and value of known submitted claims (excluding Affiliates) were as follows:

Unsecured claimants	No. of cpties	Claims £bn
Street Creditors	1,638	8.5
Client Assets claimants	86	1.2
Other third party	263	0.1
Total	1,987	9.8

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

As LBIE's books and records suggest that there may be up to 5,800 unsecured creditors, it appears that a substantial number of counterparties are yet to submit their claims. Whilst we anticipate that a significant proportion of these are low value claims, we cannot be certain until we receive proofs from each of the relevant counterparties.

Under UK insolvency legislation, any unsecured creditor wishing to claim against an insolvent estate must submit a statutorily compliant Proof of Debt.

Only those creditors that have submitted a compliant Proof of Debt and have an admitted unsecured claim will be eligible to be paid in due course. Specifically, any creditor that does not have an admitted unsecured claim when a distribution is announced will not be able to participate in such a distribution.

Consequently, the Administrators strongly encourage unsecured creditors to submit their formal Proofs of Debt as soon as possible, and caution that there may not be an extended period of time between announcement of a first interim dividend and payment thereof.

Client Money

The Appeal Court Judgment created significant uncertainty around which aspects of a creditor's claim constitute an unsecured liability and which aspects are entitled to Client Money protection.

As noted in the Administrators' progress report dated 14 April 2011, rather than wait until the legal outcome has been finally determined, the Administrators decided to progress the estate by starting to agree the quantum of creditors' total claims (i.e. unsecured plus Client Money).

Whilst in certain situations (based on specific analysis of the Appeal Court Judgment) the Administrators have started to **admit** unsecured claims, until such time as the legal position is clearer, the Administrators are unable in many cases to determine which elements of a creditor's claim, if any, attract Client Money protection.

Client Assets shortfalls

As explained in Section 6, the Administrators continue to progress the reconciliation of Client Assets claims, but there remains significant uncertainty as to the potential recoveries that will eventually be made from assets held by LBIE's Affiliates, most notably LBI. For many clients with assets held at LBI, there may be unsecured claims for Client Assets shortfalls in due course. The Administrators are exploring ways to agree other unsecured claim amounts owed to such creditors, thereby allowing those other unsecured claims to participate, where appropriate, in a first interim distribution, whilst preserving contingent Client Assets shortfall claims (if any) until the situation becomes clearer.

Complexities of claims

The Consensual Approach was designed to materially expedite the agreement of creditors' claims, without the need for further substantial evidentiary documentation and extensive discussion in support of each element of a creditor's claim.

Given the progress made to date, it is the Administrators' continuing intention to deal with all eligible financial trading counterparties under the Consensual Approach, before seeking to agree creditor claims in any other way. As we have previously reported to creditors, where

creditors elect not to agree their claim under the Consensual Approach, its resolution by other means could take a significant further amount of time, potentially extending beyond the first interim distribution date, dependent upon when that date is set and on the volume and complexity of such claims.

Any creditor that would prefer not to accept the LBIE Determination and instead wait to negotiate bilaterally may do so, albeit this may take significantly longer to conclude than the potential timeline to a first interim distribution.

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), DA Howell (appointed 30 November 2009), of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
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 Administrators may be done by any one or more of the persons for the time being holding that office.
Details of any extensions for the initial period of appointment:	The UK High Court has granted an extension of the Administration to 30 November 2011. A further extension application will shortly be made to the UK High Court.
Proposed end of the Administration:	The Administrators have yet to determine the most appropriate exit route due to material uncertainties highlighted in the report.
Estimated dividend for unsecured creditors:	The Administrators are unable to provide an estimate at this time due to material uncertainties regarding the quantum of asset recoveries and the level of unsecured creditors' claims but hope to be able to make a first interim distribution some time in 2012.
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

Constitution of the Committee

The members of the Committee at 15 March 2011 consisted of:

1. Lehman Commercial Paper Inc.
2. Ramius Credit Opportunities Master Fund Limited
3. GLG European Long Short Fund
4. Société Générale

The members listed above all remained in place at 14 September 2011.

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 with detailed information relating to their remuneration in accordance with Statement of Insolvency Practice No.9 ("SIP 9") on a quarterly basis.

Approval of the Creditors' Committee

The Committee has been provided with time cost information for the six month period to 30 June 2011 as at the date of this report. As previously reported, remuneration arrangements for 2011 have been revised by the Committee such that its approval for payment of a significant proportion of the Administrators' requested time costs in the year will be deferred until early 2012. This is to allow the Committee to judge the Administrators' performance against medium-term as well as short-term objectives.

The Committee has also been provided with disbursement information relating to the period since appointment and has approved payment of £1,396,149 of Category 2 disbursements to date.

Analysis of time costs

In the six months to 30 June 2011, time costs of £75,539,543 have accrued, totalling 258,993 hours at an average hourly rate of £292 (previously reported £306).

As anticipated, the Administrators' time costs for the first half of 2011 have increased compared with the second half of 2010 due to materially increased activity with regard to:

- the claims agreement process;
- the Client Money Tracing and entitlements investigations; and
- the progress of claims agreement and settlement negotiations with certain major Affiliates.

Cumulative time costs accrued to 30 June 2011 are c.£399m. Total Administrators' remuneration and disbursements paid to 14 September 2011 are c.£403m.

Additional analysis of Administrators' remuneration

The table below provides an analysis of the Administrators' total hours incurred and associated cost, by staff grade, in respect of the period 1 January 2011 to 30 June 2011.

Grade	Period 1 January 2011 to 30 June 2011	
	Hours	£'000
Partner	10,594	7,336
Director	12,956	7,633
Senior Manager	32,393	13,875
Manager	59,051	19,235
Senior Associate	97,219	20,523
Associate	46,780	6,938
Total	258,993	75,540

The following tables provide an analysis of the total hours incurred and associated costs by activity.

		Period 1 January 2011 to 30 June 2011	
Activity		Hours	£'000
Counterparties	Street	27,918	9,595
	Trust	64,064	16,710
	Affiliates	16,854	5,283
	Valuations	14,395	4,179
	Branches	4,935	1,674
Middle office	Middle office	15,679	4,433
Transaction processing and control	Transaction processing and control	30,415	7,810
COO	Operations	20,790	7,896
Functions	Tax	2,477	1,152
	Regulatory and compliance	1,184	311
	LBL recharges (see below)	51,274	13,696
Insolvency specific	Insolvency specific	2,857	1,199
	Forensic investigations	6,151	1,602
Total		258,993	75,540

		Period 1 January 2011 to 30 June 2011	
LBL recharges		Hours	£'000
Employees		2,458	1,025
Estate accounting		1,954	552
Group services management		8,523	2,059
Information technology		34,856	8,788
Intercompany		26	9
Interdependencies		1,202	514
Property issues		2,255	749
Total		51,274	13,696

Appendices

Appendix A:

Glossary of terms

Abbreviation	Term	Definition
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
Affiliates	Affiliate entities	Various subsidiaries and affiliates of Lehman Brothers Holdings, Inc.
Affiliate Claims Portal	Affiliate Claims Portal	A secure, structured system for Affiliates to electronically submit details of their claims against LBIE accessible through the CIP
Appeal Court Judgment	Pre-Administration Client Money Appeal Judgment	Judgment handed down by the UK Appeal Court on 2 August 2010 which overturned a previous judgment regarding the composition of the Client Money pool and Client Money claimants
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
CIP	Client Information Portal	A secure, structured framework that provides access for counterparties to relevant LBIE sub portals (Affiliate Claims Portal, LBIE Creditors Portal and CRA creditors portal). Access is provided by a unique user name and password only
Citibank	Citibank, N.A.	Subsidiary of Citigroup Inc., a LBIE counterparty with significant business relationships governed by various trading and custody agreements
Claims Determination Deed	Claims Determination Deed	A standardised legal document for agreeing claims under the Consensual Approach
Client Assets	Client Assets	Client securities which LBIE should have held as at 15 September 2008
Client Money	Client Money	Client cash balances 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 unsecured 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 Assets 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
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 and Customs	Organisation of the British Government primarily responsible for the collection of taxes

Abbreviation	Term	Definition
House Customer claim (also referred to as the House claim)	House Customer claim	Element of LBI SIPA Customer claim relating to LBIE House positions
House Estate (also referred to as House)	House Estate	Dealings that relate to LBIE's general unsecured estate
Insolvency Act	Insolvency Act 1986	Statutory legislation that provides the legal platform for matters relating to personal and corporate insolvency in the UK
Insolvency Rules	Insolvency Rules 1986	Statutory rules that provide the legal platform for matters relating to personal and corporate insolvency in the UK
LB Lux	Lehman Brothers (Luxembourg) S.A.	Affiliate entity subject to insolvency proceedings in Luxembourg
LBB (also referred to as Bankhaus)	Lehman Brothers Bankhaus A.G.	Affiliate entity subject to insolvency proceedings in Germany
LBF	Lehman Brothers Finance S.A. (Switzerland)	Affiliate entity subject to insolvency proceedings in Switzerland
LBHI	Lehman Brothers Holdings Inc.	Ultimate parent of the Lehman group, incorporated in the 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: Lehman Brothers Asia Holdings Ltd, Lehman Brothers Commercial Corporation Asia Ltd, Lehman Brothers Asia Capital Company Ltd, Lehman Brothers Securities Asia Ltd and Lehman Brothers Futures Asia Ltd
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 by LBI on 16 September 2010 and subsequent revisions 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 system for counterparties to submit details of their unsecured claims against LBIE accessible through the CIP

Abbreviation	Term	Definition
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 Inc.	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
LBS	Lehman Brothers Securities N.V.	Affiliates subject to insolvency proceedings in Curacao, Kingdom of the Netherlands
LBSF	Lehman Brothers Special Financing Inc.	Affiliate entity subject to insolvency proceedings in the US
Omnibus Customer claim (also referred to as the Omnibus claim)	Omnibus Customer claim	Element of LBI SIPA Customer Property 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 in Chapter 11 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 secured financing transactions between LBIE and certain Affiliate as recorded in Lehman books and records
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
SPV	Special purpose vehicle	A legal entity set up for purposes of the Trust Property return scheme
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	Unsecured creditors with financial trading claims without Client Assets
Tracing	Tracing	Identification of unsegregated Client Money (or its substitute) within the House Estate
Trust Estate	Trust Estate	Refers to both Client Assets and Client Money
Trust Property	Trust Property	Refers to both Client Assets and Client Money
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 September 2011

House Estate receipts and payments: six months to 14 September 2011

	Notes	GBP £m	EUR €m	USD \$m	Various currencies £m	Total (GBP equivalent) at 14 Sept 2011 £m
Receipts						
Counterparties	1	99	74	180	29	307
Depot securities	2	117	227	347	801	1,335**
Client Money for onward distribution	3	-	2	12	3	12
Other income	4	78	23	44	14	141
Total receipts for the period		294	326	583	847	1,795
Payments						
Payroll and employee costs	5	(28)	-	(8)	-	(33)
Administrators' remuneration	6	(78)	-	-	-	(78)
Building and occupancy costs	7	(12)	-	(2)	-	(13)
Legal costs	8	(18)	-	(16)	-	(29)
Other payments	9	(21)	(3)	(17)	(92)	(127)
Distribution of Client Money	10	-	(2)	(12)	(3)	(12)
Total payments for the period		(157)	(5)	(55)	(95)	(292)
Net movement in the period		137	321	528	752	1,503
Balance at bank as at 14 March 2011 as previously reported		4,967	2,861	2,797	272*	9,495*
Net inter-currency transfers for six month period to 14 September 2011		36	-	420	(298)	4
Total balances as at 14 Sept 2011	11	5,140	3,182	3,745	726	11,002
Less: Funds arising from securities with potential third party claims						(1,732)
Total House Estate cash and bonds (see Section 3)						9,270^

* Balances for 'Various currencies' and 'GBP equivalent' above are translated as at 14 September 2011. Balances were £262m and £9,446m respectively, translated at 14 March 2011 exchange rates.

** Includes £173m of funds arising from sale of securities to which Affiliates and third parties have asserted claims.

^ Total House cash and bonds are subject to any Client Money Tracing rights that might exist, arising from ongoing or future Client Money litigation.

Notes to House Estate receipts and payments accounts

General

The transactions within the LBIE estate in the period:

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

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

1. Counterparties

Receipts of c.£0.3bn in the period relate to financing, prime brokerage and OTC derivatives, including c.£0.1bn relating to recoveries from Trust Property claimants (see Section 6).

2. Depot securities - sales and related income

Realisations of c.£1.3bn relate to the disposal or redemption of securities and derived income from depot holdings.

3. Client Money for onward distribution

Under some client agreements, certain Trust Property is transferred from the Client account to an 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.£61m of corporation tax and income tax repayments received from HMRC and European tax authorities in the period;
- c.£40m of recovered or redirected funds which were mistakenly paid (by third parties) into House accounts;
- c.£30m of bank and bond interest;
- c.£5m contribution to legal costs from Client Money based on a UK High Court ruling; and
- c.£5m of other sundry realisations.

5. Payroll and employee costs

Payments relate to salary and employee-related benefits for UK based employees and third party contractors.

6. Administrators' remuneration and expenses

The Administrators' time costs incurred in the current reporting period have increased for reasons set out in Section 9. Payment deferral terms, as agreed with the Committee, account for differences between costs incurred and payments made in a period.

Accumulated expenses of c.£5m were paid in the period.

7. Building and occupancy costs

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

8. Legal costs

International legal advisers' costs relate to advice given, court proceedings and litigation conducted in connection with various complex issues across the Administration.

Over 30 law firms continue to be retained in various geographies.

9. Other payments

Includes the following:

- c.£63m paid to Citibank relating to the return of £1.3bn of custody assets to LBIE;
- repayment of c.£40m of recovered or redirected funds which were mistakenly paid (by third parties) into House accounts (see other income);
- c.£21m of VAT paid on invoices; and
- c.£3m of other sundry payments.

10. Distribution of Client Money

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

11. Investment profile

House Estate	Notes	GBP equivalent £m
Government bonds – short-dated		6,184
Short-term deposit	1, 2	4,400
Interest-bearing accounts	3	418
Total		11,002

1. Average rate of return for six months ending 14 September 2011 of EUR 0.77%, GBP 0.43% and USD 0.11%.
2. \$1.5bn of this balance is currently in the process of being transferred to government bonds.
3. \$0.3bn of this balance is currently in the process of being transferred to government bonds.

Cash management and investment policy

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

- security for Administration funds;
- liquidity as required by the Administration; and
- appropriate returns.

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

Yields are measured against appropriate benchmarks.

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

Instruments allowed

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

Policy for interest-bearing accounts and short-term deposits

Permitted banks must meet three key criteria:

- be headquartered in North America, Western Europe or Australia;
- have an S&P long-term rating of AA- or above; and
- have a five year CDS price below a specified (prudent) threshold.

To ensure diversification, there are counterparty limits in place for monies invested, based on credit rating and market capitalisation for each of the banks used.

Short-term deposits are placed for a maximum duration of four weeks.

Policy for government bonds

Eligible investments for the bond portfolios are short-dated government debt issued by the UK, Germany, France, Netherlands and the USA.

Bond portfolios are managed on a day-to-day basis by independent fund managers on behalf of the Administrators.

Current investment strategy

Reflecting recent market developments, significant funds have been transferred from short-term deposits and interest-bearing accounts into short-dated government debt. This situation is kept under constant review.

**Trust Estate receipts and payments:
six months to 14 September 2011**

	GBP £m	EUR €m	USD \$m	Various currencies £m	Total (GBP equivalent) at 14 Sept 2011 £m
Receipts					
Redemptions, coupons, dividends and investment income	4	12	55	24	75 [^]
Client Money recoveries (Citibank)	1	1	4	69	73
Funds received in error	-	14	-	5	17
Total receipts for the period	5	27	59	98	165
Payments					
Payment of funds received in error	-	(14)	-	(5)	(17)
Transfers to clients	-	(2)	(12)	(3)	(12)
Other payments	(2)	-	-	(4)	(6)**
Total payments for the period	(2)	(16)	(12)	(12)	(35)
Net movement in the period	3	11	47	86	130
Balance at bank as at 14 March 2011 as previously reported	99	304	1,280	308*	1,481*
Total balances as at 14 Sept 2011	102	315	1,327	394	1,611
Comprising:					
Pre-Administration Client Money balance	9	3	906	8	588
Post-Administration Client Money balance	93	312	421	386	1,023
Total balances as at 14 Sept 2011	102	315	1,327	394	1,611

* Balances for 'Various currencies' and 'GBP equivalent' above are translated as at 14 September 2011. Balances were £294m and £1,451m respectively, translated at 14 March 2011 exchange rates.

The above receipts and payments in the period relate to post-Administration Client Money, except for items noted below which relate to pre-Administration Client Money:

[^] c.£0.3m of bank interest received.

** c.£1.4m of contribution to legal costs in relation to pre-Administration Client Money.

Cash management and investment policy

Trust Estate	GBP equivalent £m
Short-term deposit	1,391
Interest-bearing accounts	220
Total	1,611*

* Client money is held in original currencies, the majority being USD.

The Client Money investment policy for short-term deposits and interest-bearing accounts is identical to that used for the House Estate.

Client Money is not eligible for investment in government bonds.

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 both in terms of time and accuracy. If you have not provided your email address to the Administrators, it is essential that you do so as soon as possible.

Appendix D:

Court update

Summary of major court proceedings involving LBIE in the reporting period:

Q2 2011	UK High Court	BTB application launch
		Client Money Tracing application launch
		Extended Liens application launch
	US Bankruptcy Court	LBIE Determination objection deadline for House claim
	Luxembourg Court	LBIE claim interim hearing
	German Court	Client Money interim hearing

Q3 2011	UK Appeal Court	Pension fund deficit substantive hearing
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Summary of major court proceedings involving LBIE in future reporting periods:

Q4 2011	UK High Court	BTB pre-trial review
		Extension of Administration and substitution of Administrators 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 proposal for confirmation hearing of Plan
		Objection deadline for Omnibus Customer claim determination
	Luxembourg Court	Interim hearing re LBIE claim

Q1 2012	UK High Court	Extended Liens application further directions hearing
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Q2 2012	UK High Court	Depending on the outcome of the UK Supreme Court Judgment on Client Money – Possible actions for Q2 are (i) follow up application to court for further directions and/or (ii) re-launch of Tracing application
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2013	US Bankruptcy Court	House claim substantive hearing on LBI
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Note that the above tables exclude certain Street counterparty actual or potential litigation which is referred to in Section 4, on the basis that its timing is currently uncertain.

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